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BUSINESS **9609/32**

Paper 3 Case Study **October/November 2022**

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INFORMATION

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- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Alligator Pear Farms (APF)

Farming avocados

Vasco and Andrea founded APF in 2000 after they inherited their father's small farm in country P in South America. Andrea had studied Business Administration in the US and she had observed the increasing demand for avocados in the US from 1995 onwards. She persuaded her brother that the farm should change production from pears to avocados. Growing avocados is a water-intensive operation. The family farm has a good water supply from nearby mountains and the climate is perfect for growing fruit, such as avocados.

A vertically integrated producer

Guided by Andrea's long-term business plan, APF expanded by:

- purchasing land in country P and other South American countries
- increasing product range by growing blueberries, grapes and mangos in country P and other South American countries
- listing as a public limited company in 2010 to raise finance
- taking over fruit processing factories in several countries
- setting up distribution centres in several countries including the US
- taking over a small chain of retailers of fresh fruit and vegetables in country P.

APF is now a vertically integrated producer of branded, fresh fruit products for leading retailers and wholesalers.

Profits have increased every year except for:

- 2014 – 30% of APF's avocado crop was destroyed due to disease
- 2017 – torrential rain caused flooding in country P resulting in lower yields of APF's crops
- 2018 – international trade dispute affected exports of fruit from country P.

From farm to table

APF's vision statement is: 'To be the preferred supplier of fresh fruit products for families everywhere'. APF has developed a high-quality and diverse portfolio of branded, fresh fruit products. APF's marketing claims that the company uses sustainable farming methods. APF also claims that its business model ensures food safety and guarantees the source of all products.

APF's marketing has successfully increased sales in its key markets. In 2019, APF launched a multi-million-dollar marketing campaign called 'From farm to table'. This emphasised APF's control over its supply chain and that its products generate a positive impact on customers' health. The campaign aimed to promote direct sales to retailers in the US. The 2022 Annual Report noted that between 2019 and 2022 the proportion of sales direct to retailers had increased from 30% to 53%. Vasco, the Marketing Director, also highlighted that APF's effective situational analysis had enabled it to take advantage of changing consumer trends towards healthier foods. However, he also noted that sales of fresh fruit juices launched in 2020 were below target. Vasco identified that increased competition and difficult trading conditions in the US were the key reasons for lower-than-expected sales. Table 1 provides information on APF's sales of fresh fruit by geographic region and by product.

Table 1: APF's fresh fruit sales by geographic region and product 2022

Geographic region	% of sales	Product	% of sales
US	71	Avocados	35
South America	29	Blueberries	30
		Grapes	25
		Mangos	8
		Other	2

Adding value

APF's fresh fruit juices are produced in a factory costing $30m which opened in 2020. The factory processes fruits from APF's farms. Juice is sold both to retailers in country P and exported to the US under the APF brand. Capacity utilisation is increasing each year but is still below target. Labour turnover has been high and the HR Manager states the shortage of skilled technicians has caused disruption to output. Andrea has insisted on better workforce planning for the factory.

APF has been approached by a major retailer in the US wishing to expand its range of fresh juices. The proposed order is for 30 million litres of juice at a price of $0.65 per litre. This is $0.20 less than APF's usual selling price to retailers. The juice will be packaged under the retailer's own brand name. If the order is accepted, APF estimates that there will be no change to current average ingredient and labour costs. The retailer requires the juice to be delivered during the first quarter of 2023. Financial and capacity data for APF's juice factory is shown in Table 2.

Table 2: Financial and capacity data for APF's juice factory

Annual capacity (million litres)	120
Current (annual) output (million litres)	96
Total cost of fruit for current output ($m)	38.4
Direct labour cost for current output ($m)	8.64
Unit packaging and transportation cost for the retail order ($)	0.10
Annual fixed costs, including finance ($m)	12

Operational control

APF aims to control its agricultural inputs through:

- owning all farm land it uses
- research and development (R&D) to develop and introduce new seed varieties
- employing labour on full-time contracts where possible and offering training opportunities.

Harvesting fruit is labour intensive, the seasonal work is difficult, and hours are long. APF is not always able to recruit sufficient employees resulting in wasted fruit. During high production seasons, APF employs 7000 workers directly on its farms. Seasonal temporary workers are mostly from the local areas. Full-time permanent farm workers are loyal with a low labour turnover rate.

In the 2022 Annual Report, the Operations Director wrote: ‘Complex supply chains and APF’s increasingly diversified product range require investment in the latest technologies.’ Therefore, APF has decided to introduce the very latest enterprise resource planning (ERP) technology in 2023 at a cost of $10m. APF’s objectives are to make the business more sustainable and increase shareholder value. Table 3 provides further information that was used by the Board of Directors in assessing the decision to invest in ERP.

Table 3: ERP investment appraisal

Year	**Capital cost ($m)**
0	(10.0)
	Net cost savings ($m)
1	3.5
2	3.6
3	4.0
4	4.2
5	4.2

Financial efficiency

Despite high profits the Finance Director is worried about declining financial efficiency at APF. She has argued for increased focus on improving trade receivables and inventory turnover. She is worried about the expansion plans of APF (see strategic options below). However, she supported the decision to invest in ERP. Table 4 provides extracts from APF's latest financial statements.

Table 4: Extracts from APF's financial statements

	Year ending 31 August 2022 ($m)	**Year ending 31 August 2021 ($m)**
Revenue	255.6	202.7
Cost of sales	140.2	113.9
Operating profit	72.3	58.7
Finance cost	17.0	10.0
Profit for the year	36.6	35.7
	at 31 August 2022 ($m)	**at 31 August 2021 ($m)**
Inventory	25.8	18.3
Trade receivables	40.8	25.1
Cash	15.6	10.4
Current liabilities	78.4	61.7

Growth strategies for the future

Option 1 Almond production in the US
There is a growing market for dairy alternatives, such as almond milk, in the US. To enter this market APF would take over a large almond farm in the US. APF would build a factory to process the almonds into almond milk to sell under the APF brand. This strategy is favoured by Andrea. However, Vasco is concerned about the high level of competition in the market as there are many established suppliers of almond milk and brands selling almond products.

Option 2 Entry into country D in Asia
Country D has a large market. However, there is much lower consumption of avocados per head of population than in the US. Demand for avocados is positively income elastic and incomes are rising quickly in country D. There would be significant distribution and marketing costs. This strategy is favoured by Vasco. However, Andrea is concerned about the cultural differences between country D and APF's existing markets. She questions whether APF has sufficient market knowledge to manage the risks involved.

Appendix 1: Summary of data from strategic choice techniques

	Option 1 **Almond production in the US**	**Option 2** **Entry into country D in Asia**
Capital cost	$100m	$150m
Net present value (NPV)	$85m	$120m
Major driving forces	• Understanding of US market • Long-term increase in price of almonds	• Focus on core competency of APF • Long-term profit potential
Major restraining forces	• Pressure group concerns about sustainability of almond production • Competition	• Cost of setting up distribution and marketing • Country D government policies make foreign investment difficult
Probability of success	70%	55%
Expected monetary value over 5 years	$150m	$250m

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