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BUSINESS **9609/31**

Paper 3 Business Decision-Making **October/November 2025**

INSERT **1 hour 45 minutes**

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INFORMATION

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

This document has **4** pages. Any blank pages are indicated.

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Pedro's Perfect Pies (PPP)

Pedro left school without any formal qualifications. Pedro was given the opportunity to work in a pie factory. This was owned by an entrepreneur who wanted to help unqualified young people.

Pedro spent six years working at the factory. He was quickly promoted because he was conscientious and showed initiative. When the business owner retired, she offered Pedro the chance to buy the business. Pedro raised capital from his savings, friends and family and bought the business. PPP became a private limited company, with Pedro as Managing Director. PPP is based in country A.

PPP manufactures a wide range of pies in its factory. The pies are sold to retailers in country A and other countries in the region.

Growth

PPP has grown steadily over the last few years. Its revenue and profits have increased by an average of 8% per year. Production capacity has been increased to keep up with demand. Growth has been financed by retained earnings and bank loans. Recent accounting data is shown in Table 1.1.

Table 1.1: Accounting data

	2024
Revenue ($m)	15
Operating profit ($m)	0.9
Non-current liabilities ($m)	6
Gearing (%)	45

External influences

Real incomes in country A and other countries in the region have been falling due to high inflation and low economic growth. Trade between country A and other countries in the region has become more difficult, due to country A leaving an international trade agreement. Consumers are changing their eating habits, and many people are eating less meat.

Marketing

When Pedro bought the business, he identified an opportunity to develop a premium product. Pedro asked the marketing team to carry out market research. The results of this established that there was a market for high quality, higher priced pies. Pedro discussed this new product development with all of his marketing team because he valued their opinions.

Once the premium pies were launched, PPP branded its products as either classic or premium pies. Most pies PPP produces still contain meat. However, a newly developed premium no-meat vegan pie has started to sell very well. PPP is also planning to launch a new classic pie with a cheese filling especially for the export market.

Elasticity

Due to higher production costs PPP has increased its prices. Pedro has analysed some elasticity data for one type of classic pie and one type of premium pie, see Table 1.2.

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Table 1.2: Elasticity data

	Original price ($)	New price ($)	Monthly sales before price increase (units)	Monthly sales after price increase (units)	Estimated price elasticity of demand (PED)	Estimated income elasticity of demand (YED)
Classic pie	3	3.60	5000	See question **4(a)**	–1.5	–1.2
Premium pie	8	10	3000	2700	–0.4	+1.5

Human resources

Pedro has always been a self-confident innovator, both in terms of new product ideas and the way that PPP is organised and led. He is known for his social skills and is respected and trusted by his employees.

Pedro is also keen to help young unemployed people, in the same way as he was helped. PPP offers training apprenticeships in all areas of the factory. Trainees attend local colleges one day each week and are supervised by the department managers.

Pedro thinks employees are PPP's greatest asset. As well as training apprentices, he offers competitive wages and all employees have opportunities for career development and promotion within PPP. Pedro is also socially aware as he rewards employees for good ideas from weekly kaizen group discussions. Many employees have been with the company for more than five years.

Process innovation

PPP's current production process is labour intensive and pies are produced using batch production. All employees accept responsibility for product quality and are trained in quality assurance methods.

Pedro is considering investing in a new computer-controlled pie-making machine, see Table 1.3. This would increase production capacity in the factory. Factory employees would still need to complete the production process by adding the PPP pastry logo to the pies.

Table 1.3: Forecast net cash flow data for the proposed new machine

	$m
Year 0 (capital cost)	1.9
Year 1	0.5
Year 2	0.6
Year 3	0.8
Year 4	0.8
Average annual profit	0.2
Average investment	0.95

Pedro is undecided about increasing the use of machinery, especially as PPP will have to borrow the finance to purchase it.

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