

Cambridge International AS & A Level

BUSINESS 9609

Paper 3 Business Decision-Making — Practice Paper Set 2

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This Insert contains the case study material for use with Paper 3. Read this Insert carefully before answering the questions.

KOPARA BEVERAGES (KB)

Background

Kopara Beverages (KB) is a private limited company based in country P. It manufactures and sells premium fruit juices and plant-based drinks, including cold-pressed juices, coconut water blends, and protein smoothies. Founded 15 years ago by entrepreneur Lily Sato, KB now employs 400 workers in one large production facility in country P.

KB sells its products domestically and has recently begun exporting to country Q, where demand for healthy, natural drinks is growing rapidly. KB's mission is 'to bring nutritious, sustainably produced beverages to customers across the world'.

Organisational Structure

Two years ago, KB moved from a centralised management structure to a decentralised one, giving production and marketing managers greater autonomy over day-to-day decisions. Lily believes the change has increased innovation and improved employee morale.

However, KB's Finance Director has raised concerns about inconsistent financial decisions being made across departments and a lack of coordinated budgeting.

Investment Projects

To meet growing demand from country Q, KB is evaluating two investment projects. Table 1 shows data for Project A. Table 2 shows projected annual net cash flows and discount factors for Project B.

Table 1: Project A — New Production Line

Initial investment (\$000)	500
Useful life	4 years
Residual value at end of useful life (\$000)	0
Estimated annual profit (\$000)	80

Table 2: Project B — Automated Bottling System

Year	Net Cash Flow (\$000)	Discount Factor (10%)	Present Value (\$000)
1	100	0.909	90.9
2	120	0.826	99.1
3	150	0.751	112.7
4	80	0.683	54.6
Total present value (\$000)			
Initial investment (\$000)			340
Net present value (NPV) (\$000)			

Financial Performance

KB's Finance Director has produced financial data for 2022 and 2023 to allow comparison of the business's performance. Table 3 shows selected financial data.

Table 3: KB selected financial data

	2023 (\$000)	2022 (\$000)
Revenue	8,500	7,200
Net profit	510	576
Share capital	1,500	1,500
Retained earnings	700	600
Long-term borrowings	800	300

Competitive Pressures

The domestic market for beverages in country P has become increasingly competitive. Several large multinational companies (MNCs) have entered the market with similar healthy drink products, often at significantly lower prices than KB. KB's share of the domestic market has fallen from 18% to 14% over the past two years.

KB's Marketing Director is recommending that KB invests in product innovation — developing new flavours, new formats, and stronger branding — to differentiate its products from MNC rivals and justify its premium price.

The Finance Director disagrees, believing that KB must reduce prices to remain competitive and maintain market share.

KB's export revenue from country Q has grown by 35% in the past year. Country Q has a growing middle-class population with rising health awareness and disposable income. Lily is considering whether KB should seek additional long-term finance to accelerate its expansion into country Q.