

Cambridge International AS & A Level

BUSINESS 9609

Paper 3 Business Decision-Making — Practice Paper Set 1

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- *This Insert contains the case study material for use with Paper 3 Practice Paper Set 1.*
 - *Read this Insert carefully before answering the questions.*
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MERIDIAN TECHNOLOGIES (MT)

Background

Meridian Technologies (MT) is a private limited company based in country K. It designs and manufactures smart home devices, including wireless speakers, smart thermostats, and home security systems.

MT was founded 12 years ago by entrepreneur Hana Park and has grown to employ 850 workers across two manufacturing facilities in country K.

MT sells its products domestically and exports to several countries in Asia and Europe. Competition in the smart home device market is intense. MT faces growing pressure from several large multinational companies (MNCs) that compete aggressively on price and brand recognition.

Organisational Change

Until two years ago, MT operated with a flat organisational structure in which considerable authority was delegated to regional managers. Following a period of rapid growth, Hana decided to restructure the business, reducing the number of management levels and centralising all major decision-making at head office.

The restructuring has not been universally welcomed. A recent internal employee survey found that 64% of workers felt less motivated since the change was introduced. Three experienced regional managers left the business within six months of the restructuring being implemented.

Expansion Plans

MT is planning to expand its production capacity and is evaluating two investment projects. Table 1 shows data for Project A. Table 2 shows the projected annual net cash flows for Project B.

Table 1: Project A — Automated Production Line

Initial investment (\$)	600,000
Useful life	5 years
Residual value at end of useful life (\$)	0
Estimated annual profit (\$)	120,000

Table 2: Project B — Expansion of Existing Facility

Year	Net cash flow (\$)
1	80,000
2	100,000
3	120,000
4	150,000
5	100,000
Initial investment	400,000

Export Markets and Exchange Rates

MT currently generates 40% of its revenue from exports. Approximately 60% of MT's export revenue is earned in euros (€). In the past 12 months, country K's currency has strengthened significantly against the euro, rising in value by 15%.

Table 3 shows MT's revenue by market for the year ended December 2023.

Table 3: MT Revenue by Market (year ended December 2023)

Market	Revenue (\$000)
Country K (domestic)	6,200
Europe	2,800
Asia	1,300
Total	10,300

Pricing Strategy

MT's Finance Director has suggested reducing the selling price of the smart thermostat in order to increase market share and compete more effectively against MNC rivals. Table 4 shows the relevant pricing and demand data.

Table 4: Smart Thermostat — Pricing and Demand Data

Current selling price (\$)	80
Current annual sales (units)	50,000
Proposed new selling price (\$)	72
Forecast annual sales at new price (units)	57,500

Corporate Social Responsibility

MT sources many of its components from suppliers based in country L, where labour costs are significantly lower than in country K. A pressure group called EthicsWatch has recently published a report claiming that some of MT's suppliers in country L use poor working conditions and pay employees below the minimum wage. The report has received widespread media coverage in country K and has been shared extensively on social media.

Hana is considering whether to introduce a formal corporate social responsibility (CSR) strategy. This would include auditing all of MT's suppliers in country L and switching to certified ethical suppliers where necessary. MT's operations director estimates that this would increase raw material costs by approximately 12%.