Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/31**

Paper 3 Business Decision-Making **October/November 2023**

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.

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ColorPaints (CP)

ColorPaints is a public limited company set up in 2001 in country Q to manufacture paint. The paint is only sold using CP's brand name. Since 2013, CP has extended its product portfolio and now has paints for internal use, paints for external use and specialist products for the aircraft industry. CP has three factories, a research and development (R&D) centre and its head office, all located in country Q.

Organisational structure

CP is organised into functional departments: Marketing, Finance, Operations, Human Resources, and Administration. Centralised decision-making and communication difficulties between departments have led to rising costs and customer dissatisfaction. Production techniques, product development and marketing strategies are very different for each of the three product ranges. Competition is increasing as competitors develop new products and distribution channels which are increasingly innovative. The directors are considering changing to a product-based organisational structure.

Technological change

CP's R&D centre is using new technologies to develop two new paints with brighter colours and a longer life. These are a plastic-based paint and a paint that uses nanotechnology (very small chemical particles). The particles enable the paint to be scratch-resistant and less likely to fade. Initially, producing and marketing the new paints will involve high costs. CP is currently a leader in these technologies, but universities are also researching them. Competitors are therefore likely to be using these technologies soon.

A new production line

The factory that produces paint for external use is being updated with a new production line. CP has chosen a contractor to supply and install the production line based on the lowest price quoted. One of CP's objectives is to minimise interruption to production to enable continuous supply to retailers. The contractor produced a network diagram to help CP achieve its objective. The contract to install the new production line has been agreed on the basis that the information in Table 1.1 and Fig. 1.1 is accurate and reliable.

Table 1.1 Information for new production line

Activity	Description	Duration (weeks)
A	Design new production line components	4
B	Remove old production line	1
C	Manufacture components	5
D	Prepare installation diagrams	1
E	Deliver components	1
F	Install new production line	2
G	Test new production line	1

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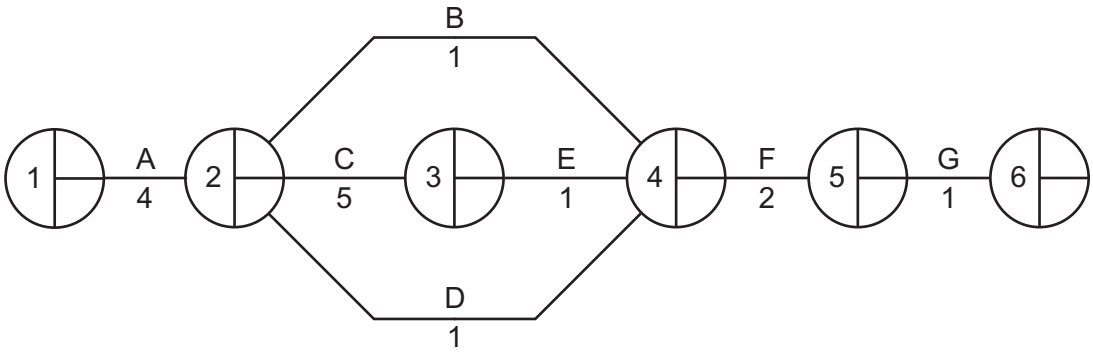


Fig. 1.1 Network diagram for new production line

Financial position

The CEO's statement in CP's annual report for the year ending 30 September 2023 is very optimistic. It includes: *40*

- a detailed analysis of CP's markets
- the positive impact of planned activities on CP's finance and employees
- technological advances in products and production equipment.

Some major shareholders doubt the CEO's optimism. They are considering selling shares as they are concerned that continuing to hold CP shares may not meet their objectives. For example, many shareholders are focusing on CP's latest accounts which appear in the annual report. *45*

Table 1.2 shows extracts from CP's latest accounts which include forecast financial data for the year ending September 2024.

Table 1.2: Extract of accounting data from CP's 2023 annual report *50*

	Forecast year ended 30 September 2024	Year ended 30 September 2023
Revenue	$92m	$90m
Profit from operations	$0.24m	$0.42m
Profit for the year	$0.2m	$1.0m
Earnings per share	$0.15	$0.35
Return on capital employed (ROCE)	0.43%	1%
Gearing ratio	53.7%	33.3%
Annual dividend	$0.05m	$0.2m

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Entering an international market

Asif, the Marketing Director, is considering whether CP should enter the market in country D. CP's products are currently promoted as good quality and value for money. CP has a strong brand image and its paints are priced higher than the industry average. Asif thinks that CP can sell its products in country D using its existing marketing strategy, despite the different culture and market conditions. Asif has identified two methods CP could use to enter the market in country D: exporting directly to country D's retailers or setting up a joint venture with a wholesaler in country D. CP has limited financial resources and would not choose a high-risk entry strategy. *65*

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