



Cambridge International AS & A Level

BUSINESS

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Paper 3 Business Decision-Making

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INSERT

1 hour 45 minutes



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.

Komate Tropical Juice (KTJ)

KTJ is a private limited company based in country B in Africa. It was set up in 2014 by Ada Hadebe who is the majority shareholder and Managing Director. KTJ specialises in producing tropical fruit juices. KTJ's mission statement is 'to bring the tropical taste of Africa to the world through ethical relationships with farmers by focusing on sustainability throughout the supply chain'.

Sourcing fruit

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KTJ's range of tropical fruit juices includes baobab, papaya and pineapple. Juices are produced from seasonal fruits without added sugar or colourings. Most fruits are sourced from local farm cooperatives in country B. The farms are chosen for their sustainable farming methods which KTJ has to regularly audit. Some fruits, not grown in country B, are imported from other countries in Africa.

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Employees

KTJ has a flat organisational structure. Ada encourages a 'soft' approach to human resource management (HRM) and believes in the benefits of delegation. Ada is proud that KTJ has won awards in country B for its substantial investment in employee training and development.

Plastic packaging

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Recently, one of KTJ's operations managers commissioned research into KTJ's use of plastic bottles for its fruit juices. After six months of research the final report recommended that KTJ should in future only use plastic bottles made entirely from recycled materials. Ada is considering whether to implement this change.

Expansion

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KTJ has an excellent reputation for the quality of its tropical fruit juices which are marketed as premium products. Export demand has increased significantly during the past two years, especially from other African countries. KTJ's factory in country B is nearing full capacity. Ada thinks that KTJ should expand by processing tropical fruit in a location outside of country B. Ada authorised Gudaf, a junior market analyst, to prepare a report identifying the two best locations for the additional new factory. Gudaf visited multiple locations and prepared an investment appraisal. Gudaf will present the report to the Board of Directors next week recommending a location in either country C or country D.

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Extracts from Gudaf's report are in Table 1.1, Table 1.2 and Table 1.3.

Table 1.1: Information about country C and country D

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Country C	Country D
<ul style="list-style-type: none"> • A low-income country • Many small farms produce tropical fruits • Unreliable electricity supply • Limited regulation of food and drink processing 	<ul style="list-style-type: none"> • A middle-income country • Large scale farms produce tropical fruits • Modern seaport near factory location • High levels of trade union membership

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Table 1.2: Investment data for country C location

Year	Net cashflow (\$m)	
0	(10)	Accounting rate of return (ARR) = 25%
1	0.5	
2	1.5	
3	3	
4	4	
5	4	
6	6 (including residual capital value of \$2m)	

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Table 1.3: Investment data for country D location

		\$m
Payback period 5 years	Capital cost	20
	Average profit	2.8
	Average investment	12

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Seasonal sales

Since 2018, KTJ has exported tropical fruit juices to the US. The US is one of the world's most competitive markets for food and drink products. Sales are increasing and have met targets. Ada believes that KTJ can increase its market share significantly. Ada instructed the US marketing manager to carry out a market analysis and then develop a new marketing plan. The marketing manager is using time series analysis to help make business decisions. Table 1.4 is an extract of KTJ sales data in the US.

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Table 1.4: KTJ tropical juice sales in the US by volume

Year	Quarter	Sales volume (million litres)	Four period centred moving average (million litres)
2023	4	4.9	5.34
2024	1	4.0	5.42
	2	6.0	5.55
	3	7.0	5.65
	4	5.5	5.725
2025	1	4.2	See Q4(a)
	2	6.4	
	3	7.6	

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Fluctuations in the exchange rate

Ada monitors the external environment carefully to identify changes that will impact KTJ. There have been fluctuations in the exchange rate of country B's currency in recent years. At the last Board Meeting Ada commented 'financial markets have been unsettled by the recent change of government in country B. This has led to an average 20% depreciation in the value of country B's currency. This presents both an opportunity for, and a threat to, KTJ.' 75

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