



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. Any blank pages are indicated.

Reeta Roy (RR)

RR is a manufacturer and retailer of luxury beauty products. Reeta Roy started RR in 2016 after managing several small enterprises with limited success.

Using her creativity, Reeta produced the first batch of soap in her kitchen. Reeta used fresh ingredients from her home region of country X. Customer feedback was positive and Reeta decided to form a private limited company. RR rented a local factory to start production. The location of the factory was important as Reeta's business plan was to work with local farmers who could supply fresh ingredients. RR decided not to use machines and instead recruited skilled workers to hand-make its products.

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Reeta believes the culture of RR is essential in creating a luxury product. Reeta expects employees to share her pride in RR's products whether they work in manufacturing or have face-to-face contact with the final consumer.

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RR's first retail store opened in 2017 selling only RR products. By 2026, RR had opened 22 retail stores in country X, with more planned.

Reeta's leadership

Though employees admire Reeta's determination, energy and charisma, RR has a high labour turnover of graduate level managers due to limited promotion opportunities and training. Reeta believes that leaders are born with the traits and abilities to lead.

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Supply issues

The success of RR's brand is built on using local ingredients. Sourcing quality ingredients to meet demand is a constant problem. RR occasionally has to accept a variation in the standard of ingredients. Some of RR's products made using these ingredients have to be rejected after quality control. The operations manager has suggested that RR should introduce lean production.

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Country X's economic performance

Since 2016, there has been rapid economic growth in country X, see Table 1.1.

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Table 1.1 Country X economic data

	2016	2025
unemployment (%)	8.2	4.3
exports (\$bn)	309	528
inflation (%)	1.6	4.1
average annual income (\$ per person) adjusted for inflation	5100	9550
average annual luxury beauty products demand (\$ per person) adjusted for inflation	49.4	143.2
income elasticity of demand for luxury beauty products	1.2	Q3(b)

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International expansion

RR plans to expand internationally. Reeta wants RR to expand by opening retail units in other countries. However, the marketing team believes that RR should start selling its products using information technology (IT), for example, by using RR's website and social media. Reeta believes that selling online will have a negative impact on RR's luxury brand. Reeta thinks that the consumer's positive interaction with the retail staff is important.

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Table 1.2 shows some information about the sales of luxury beauty products in country X.

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Table 1.2 Sales of luxury beauty products in country X (\$m)

	2025	2030 (forecast)
total market online sales	260	584
total market retail store sales	763	800
RR sales	30	32

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A survey of RR's consumers found that 60% said visiting an RR store was a key factor in their purchase decisions and that 45% would consider buying RR products online.

The marketing team has produced an investment appraisal for its IT proposal, see Table 1.3.

Table 1.3 Investment appraisal for the marketing team's IT proposal

year	annual net cash flow (\$m)	discount factors @ 15%
initial investment	−8.0	1.000
1	2.0	0.870
2	3.0	0.756
3	4.0	0.658
4	5.0	0.572
The IT proposal investment has zero residual value.		

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FSA

FSA is a multinational company and the market leader in beauty products. FSA is aiming to add to its portfolio of luxury brands. RR's growing reputation has come to the attention of FSA's Chief Executive, Gabriel Laurent. Gabriel met with Reeta to discuss purchasing 20% of RR's share capital. Gabriel was impressed by Reeta's vision for RR and her leadership values. Reeta has placed a high financial value on RR's shares which is far greater than shown by RR's latest published accounts. FSA's Chief Financial Officer (CFO) is concerned by RR's lack of detailed accounting data including financial ratios. However, Gabriel is convinced that buying 20% of RR's shares at the value proposed by Reeta is a unique investment opportunity for FSA.

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