

**BUSINESS AND MANAGEMENT  
HIGHER LEVEL  
PAPER 2**

Tuesday 12 November 2002 (morning)

2 hours 30 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer four questions.

**1. Cadbury-Schweppes**

*Cadbury-Schweppes* has forecast intense competition in the confectionery market and has moved into beverages in order to provide opportunities for diversification. Its strategy is based on growth of market share, achieved by rising stars and the odd cash cow (the actual *Cadbury* milk-chocolate brand is the largest confectionery brand in the world). It has recently bought Dr Pepper and is famous for Schweppes, one of the most well known drink brands in the world. It has a presence throughout the world in both the confectionery and beverages sectors, with beverages accounting for just over half its total revenue. It continually looks for investment opportunities and has invested in China, Poland and Argentina – and has recently acquired Bim Bim in Egypt. Because markets become saturated relatively quickly, the company looks for productivity and efficiency improvements as well as marketing initiatives. These can be achieved through product development, inorganic (external) growth and the sale of non-core businesses.

**Figure 1**

**Company report summary for *Cadbury-Schweppes***

		<i>1997</i> (\$ 000s)	<i>1996</i> (\$ 000s)
Sales revenue		4220	5115
Cost of sales		2037	2712
Operating profit (ordinary activities)		608	702
Interest		65	110
Profit attributable to company		691	340
Dividends paid		182	171
Retained profit		509	169
Return on net assets	%	30.78	41.94
Profit margin	%	14.41	13.72
Asset turnover	times	2.14	3.06
Current ratio	times	1.03	0.75
Acid test	times	0.80	0.52
Debtor days	days	59.95	59.01
Stock days	days	75.08	58.68
Gearing	%	34.08	47.61
Interest cover	times	9.35	6.38
Earnings per share	cents	68.7	34.1
Dividends per share	cents	18	17
Dividend cover	times	3.80	1.99

[Source: [http://www.bized.ac.uk/dataserv/crp\\_cad.htm](http://www.bized.ac.uk/dataserv/crp_cad.htm)]

*(This question continues on the following page)*

*(Question 1 continued)*

- (a) Use the *Cadbury-Schweppes* company report summary to calculate the following. Ensure that you show your workings.
- (i) Gross profit for 1997.
  - (ii) Expenses for 1997.
  - (iii) Gross profit margin for 1997. *[3 marks]*
- (b) Using the ratios given in Figure 1 analyse *Cadbury-Schweppes*' performance and liquidity position. *[6 marks]*
- (c) (i) Define *gearing*. *[1 mark]*
- (ii) What are the advantages for *Cadbury-Schweppes* of a lower gearing ratio? *[3 marks]*
- (d) Evaluate the growth strategies adopted by *Cadbury-Schweppes*. *[7 marks]*

2. **Boots The Chemists**<sup>1</sup>

On the official website<sup>2</sup>, *Boots The Chemists* maintain that they are committed to safeguarding and enhancing their reputation as a well managed, ethical and socially responsible company. They believe that the relationship between the company, its staff and the wider community provides the firm foundation on which commercial success can be built and sustained.

Specifically, with regard to conditions of employment for the workers in the Far East who produce goods for sale in *Boots The Chemists* stores, the company insists on only doing business with those manufacturers which meet certain predetermined standards. For example, pay scales are monitored to see that they are above average and facilities, which are provided for workers who live on the premises – three nutritious meals a day, recreational amenities – are all based on competitive standards.

Systems have been put in place to check that employers are conforming to their local government labour laws and complying with the legal age of employment.

The website also states that no animal testing of any kind is undertaken or commissioned by *Boots The Chemists* Company or its subsidiary businesses. In addition, the company has a responsibility to take proper care of the environment on behalf of its shareholders, customers, staff and the communities in which they operate. Caring for the environment is an essential part of the way they run their business, and environmental audits and inspections are undertaken. By integrating environmental consideration into their everyday activities, the environment is managed alongside other business considerations such as safety, quality and value.

**Investor Information  
Five Year Summary**

Turnover £m	00	5,189
	99	5,045
	98	5,022
	97	4,578
	96	4,125
Operating profit before exceptional items £m	00	565
	99	562
	98	538
	97	492
	96	443
Dividend per share p (1997 excludes 44.2p special dividend)	00	25.2
	99	23.8
	98	22.3
	97	20.5
	96	18.5

<sup>1</sup>*Boots The Chemists* (BTC) is a pharmacy/drugstore and a retailer of health and beauty products.

<sup>2</sup>Website source: [http://www.boots-plc.com/environment/policy/policy2.htm]

(This question continues on the following page)

*(Question 2 continued)*

- (a) (i) What is meant by the term “an ethical and socially responsible company”? [2 marks]
- (ii) Explain **three** external factors that might have encouraged *Boots The Chemists* to adopt their ethical policies. [3 marks]
- (b) In a memorandum (memo) format: [1 mark]
- (i) Suggest and explain **three** ways in which *Boots The Chemists* can responsibly manage the physical environment. [3 marks]
- (ii) Assess **two** costs and **two** benefits to *Boots The Chemists* that result from your suggestions in (b)(i). [4 marks]
- (c) *Boots the Chemists* insists that their Far East suppliers offer competitive terms and conditions of employment. Evaluate payment and incentive systems to encourage and reward higher productivity and recommend the most suitable system, or systems, to put into practice in the Far East. [7 marks]

3. *L’Oreal* came to China in 1996 and launched all its principal brands, *L’Oreal Paris*, *Lancôme* and *Maybelline*, scoring some big successes.

*Maybelline* is the brand leader for lipsticks in China’s largest cities and *L’Oreal Excellence* is the number one hair-colouring product.

Sales are increasing rapidly and *L’Oreal* is expecting a 40 % increase in sales this year.

*L’Oreal* – an expert in brand development – is leaving nothing to chance. It spends massively on research and development, some £200 million a year (3 % of its annual sales).

In the highly competitive world of branded beauty products, *L’Oreal* has been able to segment the market. New products are launched by *Lancôme* – the up market brand – and then gradually extended into the mass-market brands. Extensive sales of these cover the costs of investment.

The corporate focus is on getting sales at every level by simultaneously pushing three brands. *L’Oreal Paris* sells French sophistication. *Maybelline* tries to capture the new generation of young, more affluent Chinese who want a bright American look and image. *Lancôme*, the top luxury brand, is available only in exclusive department stores.

*L’Oreal’s* targeted female customer spends more than 10 % of her pay on cosmetics. The *L’Oreal* slogan – “I am worth it” – suits this young female generation.

Chinese women have short eyelashes – so *L’Oreal* invented a special mascara brush to help sell its products. Also in China, a suntan is not a status symbol, the desirable woman is pale – so *L’Oreal* sells skin whiteners under the *Lancôme* brand.

In *L’Oreal*, it is claimed that everything is open to question. Decisions are based on constant feedback from consumers and retailers. The company reacts very quickly if a product is not doing well.

[Source: adapted from an article ‘Long march of *L’Oreal* sweeps into Shanghai’ by Carl Morlished, *The Independent* (London), 30 October 1999.]

- (a) (i) What is a multinational company (MNC)? [1 mark]
- (ii) Suggest **two** reasons why *L’Oreal* chose to enter the Chinese market. [2 marks]
- (b) Prepare a product position map for *L’Oreal* in China **and** identify a potential market opportunity. [5 marks]
- (c) Use relevant marketing concepts / theories to analyse the reasons for *L’Oreal’s* success in the Chinese market. [8 marks]
- (d) Explain **two** costs and **two** benefits for Chinese citizens of a MNC operating in their country. [4 marks]

4. *Top-taste* is a medium-sized food manufacturing company.

The company faces tough domestic competition.

The Chief Executive Officer (CEO) and the Senior Management Team have considered both short-term and long-term options so as to reduce costs and improve efficiency.

*Top-taste* is now considering a merger with a considerably larger overseas company that will inject much needed cash and expertise.

In an emergency meeting called by the management the employees were told that:

- a large injection of money into advanced technology will enable *Top-taste* to move from “batch” to “flow” production. Work groups will have to be dismantled.
- all employees have to take a 3 % wage cut with immediate effect.
- due to a restructuring and de-layering process, numbers of middle management will be cut by 5 %.
- some workers must take their annual leave immediately rather than when they choose.
- future increases in wages will be directly linked to increases in productivity.

The employees are currently very upset and considering their reaction.

- (a) Use Maslow’s hierarchy of needs to discuss why employees of *Top-taste* fear change. Consider the effects of such fear on motivation. [6 marks]
- (b) Describe **three** possible types of employee’s resistance to these changes and assess their effects on *Top-taste*. [5 marks]
- (c) In a report format addressed to the Senior Management Team: [2 marks]
- suggest and evaluate ways in which *Top-taste* could have managed organizational change more effectively. [7 marks]

5. *Buffer to Buffer* is a company that builds train carriages which are then leased by train operating companies throughout Europe. The company uses a batch production technique, with a typical batch size of about four units.

The following table shows the activities involved in the production of a typical carriage.

ACTIVITY	DURATION	PRECEDED BY
A	6	–
B	4	–
C	5	–
D	4	B
E	7	B
F	14	B
G	9	A, D
H	12	C, E
I	8	F, H
J	7	F
K	11	G, F
L	4	I, J, K

- (a) Draw the network and calculate both the earliest starting time and the latest finishing time. Identify the critical path on the network. [8 marks]
- (b) Due to staffing problems it becomes clear to the production manager that the following delays are going to occur with the latest batch:

activity F	2 days
activity K	2 days

The production manager is considering moving labour from activity C to both F and K, which will reduce the delay to both F and K to one day, but will delay C by five days.

Showing all calculations explain whether this strategy is appropriate. [4 marks]

- (c) With reference to other methods of production identify **two** advantages and **two** disadvantages of batch production. [4 marks]
- (d) Discuss the advantages for operating companies of leasing the carriages rather than purchasing them from *Buffer to Buffer*. [4 marks]



6. Mr Yin produces traditional Chinese medicines. He has established a successful family business within a single region of China. Mr Yin is thinking of expanding the company’s activities. This expansion may be within China – or, indeed, outside China so as to meet the needs of Chinese communities abroad.

The company’s success is likely to be dependent on regional economic growth. Mr Yin is currently considering the following options. The costs of individual options and expected profit (loss) for each option are:

Options:	Costs	Expected return (\$) from selected economic conditions and probability of conditions (%)		
		Improved 20 %	Unchanged 50 %	Worsened 30 %
1. Expansion into the European Union	\$ 2m	4.6m	2.4m	1m
2. Expansion into the USA	\$1.75m	5m	3m	(-1.5m)
3. Expansion into different region in China	\$ 0.5m	1m	0.5m	(-0.5 m)
(a) With no changes to its product portfolio	\$ 0.5m	1m	0.5m	(-0.5 m)
(b) With improved product range	Extra \$0.5 m	2m	1m	0.75m

- (a) Construct a decision tree and select the most desirable option for expansion of Mr Yin’s business on financial grounds. Show all your working. [8 marks]
- (b) Describe how Mr Yin may have gathered the information to produce the decision tree. [3 marks]
- (c) Explain **two** advantages and **two** disadvantages of using a decision tree. [4 marks]
- (d) Assess the difficulties that the organization may face selling its product abroad. [5 marks]