



ADVANCED
General Certificate of Education
2009

GCE Applied Business

Assessment Unit A2 12

assessing

The Global Market

[A6B61]



WEDNESDAY 10 JUNE, MORNING

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **all six** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in questions **3, 4 and 6**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question in allocating the available examination time.

Case Study

Study the information below and answer ALL the questions that follow.

Gallaher Group plc

The Gallaher Group plc currently operates in business as a tobacco processor. The company's plant located in Lisnafillan (near Ballymena, County Antrim) concentrates on the production of cigarettes, enabling it to take advantage of economies of scale, and in turn, produce tobacco products at competitive prices for the global market.

In 1968, the company accepted a takeover offer from American Tobacco Inc, thus placing the firm in American ownership, enabling it to take advantage of both trans-Atlantic and North American markets for its products. The company's established brand names include: Silk Cut, Benson & Hedges, Ronson and Mayfair in terms of cigarette products; Hamlet in terms of cigar products; Amber Leaf and Old Holborn in terms of hand-rolling tobacco products and in terms of branded pipe tobacco products, Condor.

Gallaher Group plc has a diversified trading base, achieved through the strategic acquisition of businesses such as Dolland & Aitchison (producer of spectacles), the Marshall Group (producers of tobacco and sweets), Vendpac (producers of vending machines) and Whyte and Mackay (a whiskey distiller).

In the late 1990s, Gallaher plc faced new business challenges, not least, the threat of litigation from customers of its tobacco products. The Gallaher Group plc embarked on a stock market flotation in 1997. The aim was to minimise potential claims for negligence from customers claiming that the company's tobacco products damaged their health.

Within the UK, a substantial health-conscious lobby has recently emerged against the consumption of tobacco products. Successive governments at national and European level have imposed regulations upon tobacco processors in recent times, including the publication of health warnings on cigarette packets, the minimum sizes of such warnings and the prohibition of smoking in working environments as per health and safety legislation (particularly in clubs, pubs and public buildings).

UK legislation does not currently permit the sale of tobacco products to young people, nor does it permit prominent advertising of tobacco products, for example, sponsorship of major sporting events such as national snooker tournaments and Formula One motor racing. In addition, tobacco products in the UK remain one of the most highly taxed products (in terms of tobacco duty) per pound of revenue, taxable by national governments throughout the western world.

The Gallaher Group plc currently employs 10 000 employees (globally), and has successfully increased sales revenues and profits during the most recent 5-year trading period. Indeed, the total sales revenues reported for the financial year 2006 were £8401m, an increase of 2.3% compared to the previous financial year. The company reported an average profit margin of 7% in the financial year 2006. The company also reported that cigarette sales volumes in international markets totalled 163.6bn, an increase of 6% (upon the previous financial year), whilst in the UK, cigarette sales volume was reported at 18.8bn, a decrease of 3.4% upon the previous financial year. This data would suggest that the UK market accounts for approximately 11.5% of global market sales volume for the Gallaher Group plc.

It could be suggested that the above results reflect the Gallaher Group plc's strategy of expanding into international markets via takeovers. This has enabled the company to gain a competitive advantage, benefit from enhanced channels of distribution and take advantage of less stringent legislation in relation to the marketing of the entire product range. Examples of such business activities can be seen from the takeover of businesses such as Liggett-Ducat (2000) – Russia's largest tobacco manufacturer – and Cita Tabacos de Canarias (2006) located in Spain.

The Gallaher Group plc's website indicates that the company itself was taken over during 2007 by Japan Tobacco Inc, who had bid a total of £7.5bn or approximately 1140p per share.

Sources: (i) www.gallaher-group.com; (ii) *Stock Market Magazine* (p26, Page 7 Media, Dublin); (iii) http://ir.gallaher-group.com/ir/statistics/group_market_share/2006_full_year.asp.

- 1 Outline **four** reasons why the Gallaher Group plc would conduct trading operations on a global scale. [8]
- 2 Using the information in the case study, explain **four** ways in which global trading activities have affected the performance of the Gallaher Group plc. [8]
- 3 Analyse **four** different regulations and barriers to global trade which the Gallaher Group plc faces when conducting global trading operations. [12]
- 4 Evaluate the ways in which the World Trade Organisation (WTO) and the North American Free Trade Association (NAFTA) have influenced the growth of global trade for the Gallaher Group plc. [16]
- 5 Prepare a SWOT analysis for the Gallaher Group plc as it continues to participate in global trade. [16]
- 6 Advise the Gallaher Group plc on the advantages and disadvantages of using air and sea transport to distribute its products from Northern Ireland, considering speed, cost, reliability and handling characteristics. [20]

THIS IS THE END OF THE QUESTION PAPER
