

**ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES**

2872

Business Decisions

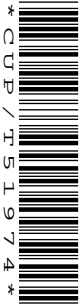
WEDNESDAY 9 JANUARY 2008

Morning

Time: 45 minutes

Additional materials (enclosed): Answer Booklet (4 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- If you use additional sheets of paper, fasten the sheets to the Answer Booklet.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **45**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This document consists of **4** printed pages.

Arla Foods Dairy and Bottling Facility

Dairy firm Arla Foods plc has over one third of the UK fresh milk market. It supplies milk to supermarkets and has its own brand of milk, *Cravendale*. Arla Foods plc is also well known for dairy brands such as Lurpak and Anchor butter.

Arla Foods plc's new Super Dairy milk processing and bottling plant is one of the largest in Europe. The investment in this Super Dairy was initially £50 million, creating a capacity of 250 million litres of milk per annum. The total UK fresh milk market is worth £2000 million per annum. In 2004 sales of *Cravendale* milk grew to account for 3% of this market.

In the same year, Arla Foods plc also completed a new £5 million chilled warehouse and distribution facility next door to its dairy. This not only handles liquid milk, but also dairy products including Lurpak and Anchor.

There are to be two new lines at this milk processing and bottling plant, each with an hourly capacity of 48000 litres of milk. Space is available for a further two lines so that production can easily be doubled. Different customers require a variety of milk products making frequent production changes necessary. Quick batch changeovers are possible because the production lines do not have to stop. While the packers at one end of the line are still processing the preceding order, the labelling system is already processing the next order.

Top 100 Grocery Brands, March 2006

Sales of *Cravendale* milk increased to £64 million in 2005. It was the first branded milk to enter the market in 1998 and it is now the number one milk brand. Its growth has been achieved through increased distribution and promotion. The brand is gaining penetration among its core market of mums with children. Introduced in September 2005, *Cravendale*'s range of wild strawberry and vanilla flavoured milks, 'Hint Of', has also boosted sales. Targeted at women, 'Hint Of' has been supported by television advertisements. New for 2006, *Cravendale* is launching mini milk bottles in both semi-skimmed and the two 'Hint Of' flavours – these target the 'on the go' and convenience markets. The mini bottles will appeal to consumers who are looking for healthy drink alternatives, such as smoothies, juices and water.

Comments from Staff

Cheryl – UK IT Service Manager

I first started working for Arla as a junior 25 years ago! I'm currently responsible for ensuring that service standards are met. I've had so many opportunities to move up the career ladder and try new challenges. It's been great fun and two days are never the same. It's very much a team-oriented environment – a 'can do' culture. And when you're surrounded by a great bunch of people, it makes your job a lot easier. So does the wide range of training opportunities on offer, all of it specific to my requirements. And the working environment is first-rate, with open plan offices making it a very friendly and sociable place to work (as well as making it easier to gossip about our regular nights out and team events!).

Stuart – Senior Brand Manager

Arla has a range of well-known brand names so there is plenty of scope for progression and experience in the company. I am responsible for achieving the business objectives of one particular brand. That means working closely with the sales teams, customer marketing teams, planning and forecasting teams and with the production teams. So it's safe to say I'm a team player! Arla's culture is very open, very friendly and communication is excellent across the whole company. More importantly, there's no feeling of hierarchy or barriers for progression and people want to stay. The training includes a comprehensive induction programme. Quite simply, you feel valued here and well looked after; the benefits are good too.

- 1 Outline **two** investment appraisal techniques which Arla Foods plc could have used in the decision to invest in the 'Super Dairy'. [4]
- 2 Discuss the advantages and disadvantages of Arla Foods plc's production methods. [10]
- 3 (a) Calculate the percentage increase in sales of *Cravendale* milk between 2004 and 2005. [5]
 (b) *Cravendale* milk is approaching the maturity stage of its product life cycle. Discuss the marketing implications of this for Arla Foods plc. [12]
- 4 Evaluate Arla Foods plc's non-financial methods of motivating its staff. [12]

Copyright Acknowledgements:

Text 1 Adapted from sources: www.packaging-technology.com/projects/arla and <http://news.bbc.co.uk>
Text 2 Adapted from source: *Cravendale is milking it* from Top 100 Grocery Brands Report March 2006, p. 20, www.talkingretail.com
Text 3 Adapted from: www.arlafoodsjobs.co.uk/testimonials.asp, © Arla Foods UK plc. All rights reserved.

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