General Certificate of Education
June 2008
Advanced Level Examination

BUSINESS STUDIES **BUS6**
Unit 6

Tuesday 17 June 2008 1.30 pm to 3.00 pm

For this paper you must have:
- a 12-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS6.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information
- The maximum mark for this paper is 84. Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- This unit assesses your understanding of the relationship between the different aspects of Business Studies.

Read the Case Study and answer **all** the questions that follow.

Cadbury Schweppes

Cadbury Schweppes is a multinational business based in the UK, with markets throughout the world. It is the world's largest chocolate manufacturer, with a 10% global market share, and the third largest soft drinks company, behind Coca-Cola and Pepsi.

The company's confectionery brands include Cadbury's Dairy Milk, Creme Egg and Roses. It directly employs over 70 000 people throughout the world, with many more employed indirectly in subsidiary and supplier companies. Although based in the UK, over 80% of its sales and profits are generated elsewhere. UK sales and profits are static, and the company has seen most growth in emerging markets such as Thailand and Malaysia, which now account for about 33% of confectionery revenue.

In the past, the success and growth of Cadbury Schweppes were achieved through mergers and takeovers of confectionery and soft drinks companies in different parts of the world. This enabled it to enjoy economies of scale and to access markets throughout the world. Mergers allowed Cadbury Schweppes to reduce unit costs in raw materials and distribution and to share Research and Development costs between different operations. Using the same distribution networks for confectionery and soft drinks allows the company to sell new products, such as chewing gum, through its established distribution channels.

However, the process of growth through merger and takeover looks to be coming to an end. Recently, Cadbury Schweppes has sold a number of its companies, particularly in soft drinks. Between 1999 and 2006, Cadbury Schweppes sold all of its UK and European drinks operations. Most significantly of all, in March 2007, it announced plans to separate its confectionery business from its USA soft drinks operations, which own Seven Up and Dr Pepper.

Senior management at Cadbury Schweppes believe that the time is right to separate the soft drinks business from confectionery. They believe that it will allow both management teams to focus on their core activities. Todd Stitzer, Chief Executive Officer, said, "We have strengthened the position of our confectionery and beverages businesses through a series of acquisitions and disposals. We have acquired faster growing, higher return businesses, and disposed of those which were slower growing." A key reason for the separation of confectionery and soft drinks, according to Stitzer, is to allow both companies to enjoy the "benefits of focus" as separate businesses. This appears to contradict the traditional view that mergers benefit from economies of scale.

There are other reasons for the separation. Recently, Cadbury Schweppes has been hit by production and quality problems and by external shocks. In 2006, the company had to remove more than one million chocolate bars from UK shops after traces of salmonella were discovered in a number of products. The company claimed that the level of contamination was low, and that they had fixed the problem immediately. The company placed adverts in national newspapers explaining what it had done and offering to give refunds to customers and retailers. A helpline was set up to advise customers. This problem cost the company more than £30m. Critics pointed out, however, that it was five months after the initial problem was discovered before customers were informed and the product recalled.

In 2007, thousands of Easter Eggs had to be withdrawn because of faulty labelling which did not contain warnings that they may be unsuitable for customers with nut allergies. Cadbury withdrew the products immediately the problem was discovered. The company said that the products may be relabelled and resold.

There have been a number of other production difficulties. Sales of and profits from chocolate are vulnerable to external factors such as weather and commodity prices. A particularly hot summer can hit chocolate sales and cause surpluses. Similarly, surges in demand can cause capacity shortages. In 2006, Cadbury Schweppes was forced to move production of some chocolate overseas. The factory in Bournville, Birmingham, could not meet demand so Cadbury Schweppes licensed some production to a French company. A £40m investment at Bournville has now increased capacity.

Changes in commodity prices affect the profit margins of Cadbury Schweppes. Between 2004 and 2006, world sugar prices trebled, and the price of corn syrup (used in soft drinks) rose by 30%. Changes in fuel prices over the past few years have impacted on distribution costs.

Senior management at Cadbury Schweppes believe that the company needs to focus on confectionery if it is to continue to succeed. As part of this strategy, in late 2006, the company announced that it was launching its Trident chewing gum into the UK market to compete directly with Wrigley, the world and UK market leader. Trident is already taking market share from Wrigley in other parts of the world. In the USA, Trident's market share has grown from 27% to 31% since 2003. Cadbury Schweppes' chewing gum sales revenue grew by nearly 10% in 2006, more than double the increase in other product ranges. The product will be manufactured for the UK market in Denmark, Turkey and at a brand new plant in Poland. Cadbury Schweppes hopes to use its existing confectionery distribution networks in the UK to compete against Wrigley. However, with a 95% share of the £400m UK chewing gum market, Wrigley is in a strong position to resist Cadbury Schweppes' attack.

A greater focus on confectionery might be needed if the company is to succeed in emerging markets, because success in established markets does not guarantee success elsewhere. Problems can arise from operating in unfamiliar cultures and in markets spread around the world.

Cadbury Schweppes faces a number of strategic issues. Senior management believe that the separation of soft drinks and confectionery will allow them to focus more effectively on the confectionery business, improving quality, driving down costs and competing against rivals in existing and emerging markets. They believe that it will be easier to manage and to point to the "benefits of focus" of separated companies. But a separation will lose the benefits of economies of scale enjoyed by a company manufacturing and selling confectionery and soft drinks on a global scale. Also, a smaller Cadbury Schweppes could itself be vulnerable to a takeover.

For the future success of Cadbury Schweppes, is big beautiful, or is smaller better?

Turn over for appendices and questions

Appendix A: Selected financial information from Cadbury Schweppes' report on performance for the year ended 31 December 2006

Profit and sales	
Total company sales revenue	£7.4bn
Total company profit (before taxation)	£931m
USA soft drinks sales revenue	£2.6bn
USA soft drinks profit (before taxation)	£584m
Change from previous year	
Total sales revenue for whole company	+4%
Confectionery sales revenue	+4%
Soft drinks sales revenue	+4%
Proportion of total revenue	
Confectionery	60%
Soft drinks	40%

Appendix B: Analysts' estimates of stock market value of company

Current stock market value of Cadbury Schweppes business as a whole	£12.6bn
Estimated stock market value of Cadbury Schweppes confectionery business once separated	£9bn
Estimated stock market value of USA soft drinks business once separated	£7bn

1 To what extent could contingency planning remove the uncertainties faced by Cadbury Schweppes? *(14 marks)*

2 To what extent did Cadbury Schweppes' actions in response to its quality problems suggest that it was meeting its social responsibilities to all of its stakeholders? *(16 marks)*

3 Assess the likely success of Cadbury Schweppes' strategy of product development through the UK launch of Trident chewing gum. *(16 marks)*

4 Discuss the possible difficulties that Cadbury Schweppes might face when expanding into emerging markets such as Thailand and Malaysia. *(16 marks)*

5 Do you think that Cadbury Schweppes' future success will be increased by its decision to separate its confectionery and soft drinks businesses? Use the text, **Appendices A and B**, and any other relevant information to help to justify your answer. *(18 marks)*

END OF QUESTIONS