

326/01

BUSINESS STUDIES

BS6

P.M. THURSDAY, 22 June 2006

(1³/₄ hours)

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **all** the questions.

INFORMATION FOR CANDIDATES

This paper is a synoptic paper. It is designed to test candidates on the connections between different aspects of the subject and requires the integration of knowledge, understanding and skills acquired from different parts of the subject content.

Mark allocations are shown in brackets.

Candidates will be assessed on their quality of written communication i.e. the structure and presentation of ideas; the clarity of expression; grammar, punctuation and spelling. Up to three marks will be awarded for written communication.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

Study the information provided about Boots the Chemist and answer the questions that follow.

BOOTS THE CHEMIST



COMPANY HISTORY

Boots' first store was opened by John Boot at 6 Goose Gate in Nottingham in 1849, selling herbal remedies to the needy. It was John's son Jesse Boot who drove the early expansion and made the firm one of Nottingham's top employers. In 1883 he established it as a private company, Boot & Company Ltd, with himself as chairman and managing director. By 1900 Boots had 250 stores across the country, and continued to add factory and warehouse capacity, as well as research centres, in the City.

THE PRESENT

Today Boots plc has nearly 1 400 shops in the UK and the Republic of Ireland as well as 300 Boots Opticians. In terms of the number of outlets, Boots is the country's largest retailer. It sells enough toothbrushes a year to stretch from Nottingham to Glasgow and enough Essentials bubble bath in a year to fill 10 Olympic-sized swimming pools. Boots processes over 550 million photographs each year and its own-brand film is one of the two largest in the UK. As well as its retailing, Boots has international sales and marketing operations and also develops and markets its own brands - Boots No.7 is the largest retail brand in the UK cosmetics market. The company now employs 75 000 people in 130 countries world-wide.

In recent years the company has experienced severe pricing pressure from supermarket chains in the UK. According to stock market analysts, Boots has "previously failed at various efforts to diversify beyond its core chemist operations. Most shoppers now buy their healthcare products when they do their food shopping. The company has in recent years seen the supermarkets move in on its patch and gnaw away at its profit margins in toiletries, cosmetics and over-the-counter medicines. Further deregulation of prescription medicines will prompt the likes of Tesco to increase their number of in-store pharmacies. This is likely to further reduce footfall at Boots."

The company's latest half-year results (October 2005) have disappointed the stock market. A £45 million increase in the cost of refurbishing the high street chain left profits before tax down 9.6 per cent to £163 million for the first half of the year on sales just 0.8 per cent up at £2 590 million. With like-for-like sales down 1.3 per cent, and profit margins falling, the talk at Boots is of investing in infrastructure amid a tough retail environment, relaunching proprietary ranges such as No.7 make-up, and revamping old shops. Seven new "edge-of-town" stores were opened during the last six months and the prices of 700 lines were cut by an average of 11 per cent in an effort to stay competitive.

CURRENT STRATEGY

The company describes its current strategy as follows: “We’ve been working to ‘put the chemists back in Boots’ - a recognition that healthcare has always been at the heart of our business and will continue to be. We’ve cut prices on our lines, changed opening hours, put more stores in places where customers want to shop and relaunched key lines. We’re in the process of ‘Building a better Boots’; one that is true to its heritage, a company trusted by successive generations because it is ‘The Health and Beauty Expert’.” The company’s mission statement says: “Boots aims to be the place for health and beauty customers. We want to secure market leadership in the UK and build on our brands’ growing success internationally.” Boots, however, has recently sold some of its well-known brands such as Nurofen, Clearasil and Strepsils to another company, Reckitt Benckiser, for £1.9bn.

The Advantage Card

Boots operates the most widely subscribed customer loyalty card in the United Kingdom. Boots Advantage Card was launched in September 1997 using smart-card technology and offers a 4p in the pound benefit to cardholders. The company claims that there are now over 11 million active users of the card and that half of all women over the age of 16 have one. In fact, 91% of Advantage Card holders are women.

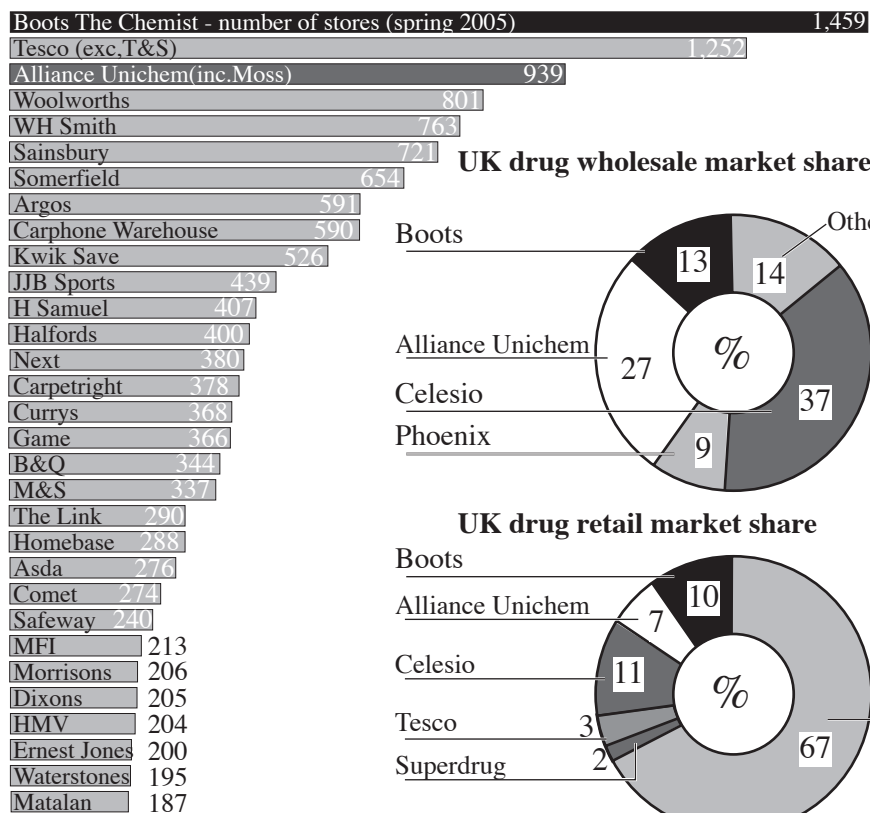
Through the Advantage Card, Boots is able to gather valuable data on the individual: how often they shop, where they shop, the products they buy, the products they spend their points on, the promotions and benefits they are attracted to, how much they spend on average. The card also records their personal details, e.g., name, age and gender. The card uses Smart Chip technology so that it can be used in any Boots’ store. When an application is processed, all of the customer’s collected points, their unique identification number and their name are recorded onto the personal card via the chip.

Despite these advantages, one independent report stated that “the Advantage Card has failed to attract new customers to Boots in any significant numbers. Indeed, because Boots has concentrated its promotional efforts through the card (with ‘double points days’ and the like), it has driven away some of the company’s less loyal customers. They have been attracted by more traditional ‘money off’ promotions elsewhere. However, spending by card users has increased.”

MERGER WITH ALLIANCE UNICHEM

Boots is now planning a £6.7bn merger with Alliance Unichem which has 939 UK shops as well as a 27% share of the drugs wholesale market. The Boots chief executive, Richard Baker, will run the new company, to be known as Alliance Boots, with Sir Nigel Rudd continuing as chairman. Subject to approval from shareholders and competition regulators - and barring any other bids - the merger will create a 2 600-store healthcare giant, four times as large as its nearest competitor, with sales of more than £13bn.

Table 1 - Number of retail outlets owned by leading chain stores



SOURCE: MORGAN STANLEY, LEHMAN BROTHERS, OFT, DEPARTMENT OF HEALTH

The merger will see the Boots brand allied with the distribution expertise and network of Alliance UniChem, Europe's second-largest pharmacy distributor, with operations throughout Western Europe and the Middle East.

In terms of turnover, Alliance Boots will rank third in the retail league behind Tesco and Great Universal Stores (GUS). The combined company will enjoy increased bargaining power with suppliers, enabling it to drive down prices and compete better with supermarkets, which have eaten away at Boots' market share.

Alliance Unichem's deputy chairman and large shareholder, Stefano Pessina, is listed as the world's 387th richest person with a \$1.7 billion (£965m) fortune. Pessina has considerable dealmaking skills - in 1998 he merged Alliance Santé with Unichem. By 2010 he wants half of the group's revenues to come from outside Britain, compared to a quarter at the moment. "I am convinced we will truly be able to be the best healthcare company in the world," he said.

Boots has struggled in recent years against tough competition from supermarkets and, more recently, a slowdown in consumer spending. "Both companies will expand more quickly than either can do independently," said Boots chief executive, Richard Baker, who would retain that title in the merged group.

SHAREHOLDERS AND MANAGERS

Sir Nigel Rudd, the chairman of Boots, will have to work hard to sell his deal to shareholders: shareholder reaction to the proposed deal has been described as being a bit like trying to force cabbage on your children. “No matter how good you tell them it is for their health, they will not be tempted.”

- 85 Last week, managers from Boots’ largest 300 stores gathered in Nottingham for their annual pre-Christmas conference. In sharp contrast to sceptical investors in the City, Boots’ managers were upbeat. “It is great news. It gives us loads of opportunities”, said Paul Smith, an area manager who joined Boots from Asda in February. “It makes real commercial sense”, said another area manager.

THE WORKFORCE AND SOCIAL RESPONSIBILITY

- 90 “We see around 1,000 job losses emanating from the merger with Alliance UniChem”, the Boots chairman Nigel Rudd told reporters, adding this was “not a significant number” set against the combined group’s 100 000 employees.

- The shopworkers’ union USDAW said it was seeking urgent talks with managers at both firms on the implications of the deal. John Hannett, the USDAW general secretary, said: “We have long standing
95 agreements with both companies which is good news for our members as we will be able to use those positive relationships to protect the interests of our members.”

Stephen Lehane, the HR director, is optimistic about the future and says that “the overall reaction” to the merger announcements has been positive. “We don’t see the impact of the merger as being a big downsizing exercise; it’s more about creating . . . new opportunities.”

- 100 Boots has an enlightened approach to the treatment of its employees and has received praise for its workforce diversity, its positive team culture and its support of flexible working. It was also the first company to run a job-share scheme. Boots recruits more pharmacy graduates than any other UK employer, and its one-year pre-registration programme (the pharmacist’s equivalent of a doctor’s internship) is very well regarded.

- 105 Boots were nominated for a Business in the Community Award in 2003. It was amongst the first businesses to support family-friendly policies for its employees. In 2001, Boots was the first organisation to offer staff formal accreditation for their work in the community. The company started a ‘Skills for Life’ scheme that offered employees the chance to be involved in community activities during company time. In 2002, Boots’ employees spent 50 000 hours on voluntary activities, which
110 equates to £500 000.

The company also supports and develops health promotion messages in the community. It has teamed up with NHS hospital trusts to execute its many projects. One scheme provides free workshops for women with cancer. Another promotes health and beauty treatments aimed particularly at elderly patients and wider community groups including those who have mental health problems.

- 115 According to the company “Running business in a socially responsible way is at the very heart of Boots. For more than 100 years we have recognised that the interests of Boots and all its stakeholders are mutually dependent. In 1919, Jesse Boot, wrote: ‘Fellowship in recreation, fellowship in ideals, common sympathies and common humanity bind us together and whatever fosters this happy union is valuable.’ Today’s Boots feels exactly the same. Caring is part of our heritage. It will always be part of
120 our future.”

THE COMPANY'S FINANCES

Table 2 - Boots' Sales and Operating Profit for the 12 months to 31 March

12 months to 31 March	2005 £m	2004 £m
Sales	4 651	4 479
Net Profit before tax	470	533

Table 3 - Boots' Balance Sheet at 31 March

	2005 £m	2004 £m
Fixed assets	1 876	1 781
Current assets		
Stocks	714	691
Debtors	733	682
Cash at Bank and in Hand	129	350
Total Current Assets	1 576	1 723
Less Current Liabilities	1 074	1 135
Net Current Assets	502	588
Total Assets less Current Liabilities	2 378	2 369
Less Long-term Liabilities	768	561
Net Assets	1 610	1 808
Shareholders funds		
Share Capital	765	766
Retained Profit	845	1 042
Total Shareholders funds	1 610	1 808

Adapted from: www.guardian.co.uk, www.timesonline.co.uk, www.pharmj.com, www.boots.co.uk

1. Explain the advantages **and** disadvantages to a business of a loyalty card, such as the Advantage Card, compared with other methods of sales promotion. [10]
2. Explain how Boots' enlightened approach to the treatment of its employees (line 100) is likely to affect their motivation. [10]
3. Analyse and evaluate Boots' financial performance. [10]
4. Discuss the possible reasons why the management of Boots is in favour of the proposed merger with Alliance Unichem. [10]
5. "Caring is part of our heritage. It will always be part of our future." (Lines 119 and 120.)
To what extent can a business, such as Boots, afford to have such an ethical stance in today's competitive business environment? [10]