



## **GCE AS/A LEVEL**

322/01

## **BUSINESS STUDIES**

**BS2**

A.M. THURSDAY, 22 May 2008

1 hour

### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- an 8 page answer book.

### **INSTRUCTIONS TO CANDIDATES**

Answer **both** questions.

### **INFORMATION FOR CANDIDATES**

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.

1. Study the information below and then answer the questions that follow.

### Chewing gum wars in the UK market

Chewing gum is at the centre of a retail battle between Wrigley, the dominant player in the UK market for decades, and Cadbury Schweppes, the world's biggest confectionery company. Six years ago, Cadbury bought an American gum company called Adams. The attraction to Cadbury was that global gum sales were growing at three times the rate of chocolate, and sales forecasters indicated that this trend was likely to continue. One of the products in the Adams' portfolio – Trident – had grown by 20% in 2005. Cadbury's own market **forecasting** suggests that such growth could happen in the UK gum market, where minimal innovation had taken place for many years.

With 'Trident Splash' (a flavoured, liquid-centre pellet gum) and 'Trident Soft' (a soft-chew gum with longer-lasting flavour) Cadbury had two highly innovative products. Following extensive **qualitative market research** in the UK, the brand was launched and they appeared on newsagents' shelves alongside the 32 gum products sold by Wrigley. The launch was accompanied by a **£10 million multi-media advertising campaign** calling upon consumers to 'join the gum revolution'.

The launch has proved to be a great success with in-roads being made into Wrigley's dominant market position. Wrigley has responded to the threat of Trident by setting up a research programme under the title of 'The Wrigley Science Institute', looking to promote the health benefits of its chewing gum products.

**Total value of UK gum market in 2006 = £250 million**

Percentage Market Share

|         |       |
|---------|-------|
| Wrigley | 86.3% |
| Cadbury | 12.5% |
| Others  | 1.2%  |

The growth of global gum is being fuelled by innovation, product quality and new formats, flavourings and packaging. The focus on innovation has broadened chewing gum's appeal to consumers, especially adults.  
(*Jim Cali – Cadbury's Director of Global Gum*)

- (a) Calculate the value of Cadbury's share of the chewing gum market in the UK in 2006. [2]
- (b) (i) What is qualitative market research? [2]
- (ii) Explain **one** benefit and **one** drawback of using qualitative market research. [4]
- (c) Explain why accurate sales forecasting is important to firms such as Cadbury Schweppes and Wrigley. [4]
- (d) Consider the view that Cadbury Schweppes' £10 million multi-media advertising campaign is the most important element of its marketing mix in the 'chewing gum war' with Wrigley. [8]

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2. Study the information below and then answer the questions that follow.

### Expansion for CareBeds Ltd?

Following a recent trip to research the hospital beds' market in the USA, Gareth Palmer, CareBeds Sales Director, had reported his findings to the rest of the Board of Directors. He believed they should try and compete for a share of the huge American market. To do so, he felt that the company needed to expand by investing in a factory extension as well as new machinery. Gareth had done some preliminary costing and anticipated a cost of around £8 million to £10 million.

Lucy Cartwright, the Financial Director, felt it necessary to point out that both the US and UK economies were facing difficulties and that interest rates were fairly high at present. In addition, she pointed out that the business was experiencing some bad debts at present and the **working capital** situation was a matter of some concern. She felt the proposals needed very careful consideration and asked for another meeting in two weeks' time. By then, every member of the Board could have given some consideration as to how such a significant investment might be financed.

#### Summary of the Balance Sheet of CareBeds Ltd – 01 May 2008

|  | £000s         | £000s    |
|--|---------------|----------|
| <b>Fixed Assets:</b>                         |               |          |
| Factory                                      | 16 000        |          |
| Machinery                                    | 10 000        |          |
| Equipment                                    | <u>4 000</u>  |          |
|  |               | 30 000   |
| <b>Current assets:</b>                       |               |          |
| Stocks                                       | 3 000         |          |
| Debtors                                      | 7 000         |          |
| Cash at bank                                 | <u>1 000</u>  |          |
|  | 11 000        |          |
| <b>Current liabilities:</b>                  |               |          |
| Trade creditors                              | 4 000         |          |
| Other liabilities                            | <u>6 000</u>  |          |
|  | 10 000        |          |
| <b>Net current assets (working capital)</b>  |               | <u>?</u> |
| <b>Total assets less current liabilities</b> |               | <u>?</u> |
| <b>Long term liabilities</b>                 |               |          |
| Mortgage                                     | 2 000         |          |
| Bank loan                                    | <u>2 000</u>  |          |
| <b>Net assets</b>                            |               | <u>?</u> |
| <b>Capital and reserves:</b>                 |               |          |
| Share capital                                | 16 000        |          |
| Retained profit                              | <u>11 000</u> |          |
|  |               | <u>?</u> |

- (a) (i) What is meant by the term ‘liabilities’ when used on a balance sheet? [1]
- (ii) Suggest **one** example of a current liability, **other than** trade creditors, that a business like CareBeds might have. [1]
- (iii) Explain why the ‘debtors’ is shown as an asset on the balance sheet of CareBeds Ltd. [2]
- (b) Using the information provided in the balance sheet of CareBeds Ltd., calculate:
- (i) net current assets (working capital); [1]
- (ii) total assets less current liabilities; [1]
- (iii) net assets; [1]
- (iv) capital and reserves. [1]
- (c) Explain why *net current assets (working capital)* is such an important figure on a company’s balance sheet. [4]
- (d) Evaluate the various sources of finance that CareBeds Ltd. might use in order to pay for the proposed investment in the factory extension and in the new machinery. [8]