



GCE A level

1083/01

BUSINESS STUDIES

BS3

A.M. THURSDAY, 26 January 2012

2 hours

1083
010001

ADDITIONAL MATERIAL

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about Kingfisher plc and answer the questions that follow.



HISTORY

Kingfisher plc is Europe's leading home improvement retail group and the third largest in the world, with around 840 stores in eight countries in Europe and Asia. Its main retail brand in the UK is B&Q.

Kingfisher's roots go back to 1982 with the acquisition of FW Woolworth. With the deal came B&Q with 37 stores. The company had been founded in Southampton in 1969 by two brothers-in-law, Richard Block and David Quayle. It had been their idea to have a wide range of DIY tools and goods under one roof instead of in separate builders' merchants.

The 1980s were a decade of rapid expansion for Kingfisher, which created one of Europe's biggest and broadest retail conglomerates. The company bought the Comet electricals chain in 1984 and the Superdrug health and beauty stores in 1987. Meanwhile B&Q expanded its out-of-town presence to become the leading home improvement retailer in the UK.

In the 1990s Kingfisher continued to expand its broad mix of retail businesses. B&Q expanded rapidly with the opening of larger warehouse-style stores from 1994 and the decade also saw the start of the group's international expansion in the home improvement sector. In 1998 B&Q merged with Castorama, France's leading home improvement retailer and owner of the smaller, but fast-growing Brico Dépôt chain. In 1999 the first B&Q store opened in China. Other acquisitions in that decade saw Kingfisher buy Darty, the French electricals chain in 1993, and Screwfix, the e-commerce and catalogue seller of screws and fixings, in 1999.



One of Kingfisher's Castorama stores in Russia

By the turn of the millennium, Kingfisher took the decision to focus exclusively on its home improvement businesses, which were seen as having greater growth potential and more scope for international expansion. To this end, Woolworths was demerged in 2001 and Superdrug was sold in the same year. In 2002 the remaining stake in Castorama was acquired to create the leading home improvement retailer in Europe.

In 2005 its B&Q chain replaced its old slogan “You can do it if you B&Q it” to “B&Q: the real deal”. The reason for this was to change the emphasis from DIY to home improvement and thereby make the store more appealing to women. At the same time, it increased its range of electrical goods and home furnishings.

- 30 Kingfisher continued its international expansion in Europe and Asia, with the creation of new businesses in Turkey, Russia and Spain, and the development of its core businesses in the UK and France, as well as Poland. By the end of the decade, Kingfisher had 830 stores in eight markets in Europe and Asia, including China. With over 80 000 staff and five million square metres of selling space, the business was generating annual sales of more than £10 billion.

Table 1 - Kingfisher plc's Performance by Country

	Contribution to group sales	Retail profit	Households (m)	Market Size (£bn)	Market Position	% market share	GDP Growth (2010 estimate)
FRANCE	£4.3billion (41%)	£316million (48%)	27	20	1	21	2.0
UK	£4.4billion (42%)	£217million (33%)	25.7	31	1	14	1.5
IRELAND			1.5	2	-	5	-1.3
POLAND	£1.8billion (17%)	£125million (19%)	14	7	1	13	2.5
CHINA			383	29	1	2	9.6
SPAIN			16	6	2	3	-0.5
TURKEY			53	12	3	1.3	3.6
RUSSIA			16	5	1	5	4.5

35 KINGFISHER'S AIM

The company has the following aim: “To be the world’s leading local home improvement retailer”.

It hopes to achieve this by making it easier for people to have better and more sustainable homes. This means offering the best choice of the latest, high quality products and services in a way most convenient to its local customers.

- 40 It aims to embrace local cultures but also bring together its unique assets, international diversity and global buying scale, to innovate faster and to keep prices low for its local customers. The company aims to be a force for good in its local communities and minimise the impact of its business on the world.

- 45 It states that the reasons for this are that when local customers and their communities see the company as their first choice for home improvement, it will help to profitably grow the business, provide its shareholders with a very attractive return on their investment and give its people rewarding careers.

KINGFISHER'S "DELIVERING VALUE" PLAN

Kingfisher launched its 'Delivering Value' plan in 2008 with the aim of improving returns to shareholders. The plan's seven points were as follows:

1. Driving up B&Q's profitability in the UK & Ireland
2. Increasing sales in its UK businesses
3. Expanding its total French business
4. Rolling out its stores in Eastern Europe
- 55 5. Turning around the fortunes of B&Q in China
6. Improving Group sourcing, so that it can take advantage of economies of scale
7. Reducing working capital



RISKS

In its annual report the company identified a number of risks that faced the business, including the following:

1. its Chinese business may fail to deliver the desired return
2. the economic recovery may be fragile
3. the company may fail to take full advantage of its combined buying-power synergies and economies of scale
- 65 4. the company may fail to meet the on-going changes in consumer trends, particularly in relation to the development of Internet sales
5. there may be a major health and safety failure or a major ethical or environmental failure
6. it may not make the necessary investment in its people to ensure that it has the appropriate calibre of staff, skills and experience across the Group
- 70 7. the risk of penalties or punitive damages arising from failure to comply with new legislative or regulatory requirements.

SUPPLIERS

In January 2006 it was reported that B&Q, which had been paying suppliers within 49 days of receiving goods, had decided that over the following 12 months that would almost double to 90 days. The industry average, according to rivals, is 45 days. A company spokesman at the time said “I recognise that these changes will affect our suppliers’ cashflow”. Individual discussions with suppliers, which include Black and Decker and ICI, makers of Dulux paint are continuing.

A spokesman for Kingfisher, which owns B&Q, defended the new terms. “B&Q has been making a number of changes to its business in the past six months,” he said. “These changes are about making payments to suppliers when goods are sold, rather than when they are delivered to our store.”

INNOVATION

According to Ian Cheshire, the Chief Executive of Kingfisher plc, “driving sales growth is obviously difficult in the current economic climate, but we have been busy laying the foundations for future growth. At B&Q, for example, we recently launched a Dragon’s Den style panel to help us filter new ideas from staff. So far, more than 1000 ideas have been submitted and the first few ideas are being trialled by small groups in our stores. One of our French businesses has also been blazing the innovation trail. Castorama has been working on a series of innovations in products that people might have thought hard to invent, including click together tiles that need no grout and a space-saving eco loo. This single product accounts for 10% of Castorama’s toilet sales at a price of 299 euros. This shows that innovation is possible even in the most basic of products and that customers will always reward a good idea, even at a premium price”.



Closer to home, B&Q has been adding ecological shops within stores to try to make environmental and energy-saving products a category in their own right. Rather than buying insulation rolls from one end of the warehouse and trudging off to the lighting department for their energy-saving lightbulbs, shoppers will have one location with specialist staff. And, the theory goes, they will spend more.

Kingfisher has introduced self-service check-outs into many of its UK B&Q stores, enabling customers to speed up their shopping trip. They now typically account for around 40% of 100 transactions.

In 2009 B&Q UK trialled two DIY classes for the general public. Facilitated by trained individuals, the classes were free and included instruction on laying flooring, fixing leaking taps, putting up shelves and decorating behind radiators.

In February 2010 Castorama France launched a free iPhone application to help users carry out 105 successful DIY projects at home. Features include a surface area calculator to determine how much paint, wallpaper, flooring or tiles is required for particular jobs, a memo area which stores facts and figures, and a simple and practical spirit level.

A new trade offer called TradePoint will be rolled out across all larger B&Q UK stores in 2010. TradePoint combines Screwfix's know-how and specialist trade brands with the convenience of 110 B&Q's store location and long opening hours. It is specifically designed for trade customers, with over 12 000 trade-only products available. TradePoint will be open seven days a week, up to 15 hours a day with guaranteed stock availability, fast service and competitive prices. As a joint initiative between B&Q and Screwfix, TradePoint is a good example of Kingfisher's businesses working more closely together.

115 GLOBAL GROWTH

The owner of B&Q is planning a big global expansion drive in the hope that consumers in emerging markets become obsessed with DIY as Britons were in the 1980s. Kingfisher already has businesses in Poland and Russia, but said recently that its long-term ambition was to push into other markets. Ian Cheshire, the chief executive, said that India and Brazil were on a list 120 of long-term options, along with several Eastern European countries. He took part in David Cameron's recent trade mission to India.

Mr Cheshire said recently that given the short-term outlook for developed economies, especially Britain, it would be difficult to increase sales there. "International will be the main shift. In profit terms, it won't be as dramatic a change because a lot of the growth will be in early stages, 125 but you have to invest now to have that business in five years' time."

Kingfisher's global expansion has not been straightforward. Last year it announced a drastic restructuring of B&Q in China, in which a third of stores were closed and a further third reduced in size. Mr Cheshire said that the problems in China had been resolved and that the company was seeking to rebuild. It is expected to break even next year.

130 The attraction of foreign growth was underlined by the difficulties in Britain, which was responsible for 43 per cent of group sales in the six months to 31 July. "We see a flat market next year," he said. "[Spending] will be hit by a combination of the increase in VAT and public sector unemployment."

KINGFISHER PLC's FINANCES

Table 2 - The Profit and Loss Account (Income Statement) for the year ended 30 January

	2010 £ millions	2009 £ millions
Sales	10 503	10 026
<i>Less</i> Cost of Sales	6 706	6 525
Gross Profit	3 797	3 501
<i>Less</i> Expenses	3 174	3 328
Net (operating) Profit	623	173

Table 3 - The Balance Sheet as at 30 January

	2010 £ millions	2009 £ millions
Fixed (non-current) Assets		
Goodwill & other intangible assets	2 465	2 469
Property, plant and equipment	3 612	3 699
Other fixed assets	388	466
	6 465	6 634
Current Assets		
Stocks (inventories)	1 545	1 792
Debtors (trade and other receivables)	494	508
Cash and Bank	1 260	1 157
Other current assets	82	140
	3 381	3 597
Total Assets	9 846	10 231
Current Liabilities		
Creditors (trade & other payables)	2 374	2 362
Overdraft (borrowings)	647	389
Other current liabilities	409	313
	3 430	3 064
Long-term (non-current) Liabilities		
Loans (borrowings)	883	1 907
Other long-term liabilities	578	462
	1 461	2 369
Total Liabilities	4 891	5 433
Net Assets	4 955	4 798
Shareholders' Capital (Equity)		
Share capital	2 518	2 517
Retained Profit (earnings)	1 921	1 768
Other reserves	516	513
Total Shareholders' Capital	4 955	4 798

Sources: www.kingfisher.co.uk; www.retail-week.co.uk; www.timesonline.co.uk

1. Identify and explain the ways in which Kingfisher plc has responded to changes in the demands of its various customers. [10]
2. Explain ways in which Kingfisher plc might manage the quantifiable and unquantifiable risks that face the company. [10]
3. Analyse and evaluate the financial performance of Kingfisher plc. [14]
4. With reference to Porter's Five Forces Framework and the information given in the case study, comment on the competitiveness of Kingfisher plc. [14]
5. Evaluate Kingfisher plc's plan for global expansion. [12]