



**GCE A level**

1083/01



S16-1083-01

**BUSINESS STUDIES – BS3**

P.M. TUESDAY, 14 June 2016

2 hours

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010001

### **ADDITIONAL MATERIALS**

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**

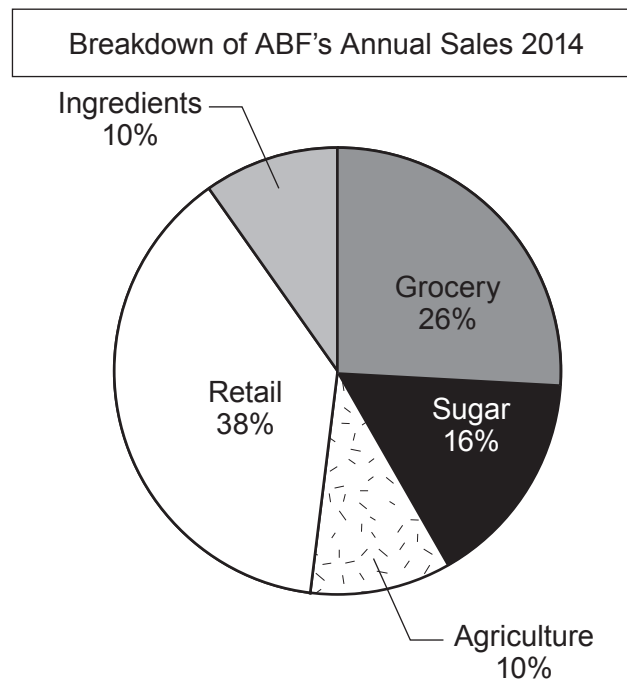
The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve 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 Associated British Foods plc and answer the questions that follow.

Associated British Foods plc (ABF) is one of Europe's largest conglomerate food companies with a wide range of well-known branded and non-branded grocery products sold internationally, an increasingly strong presence in advanced research and technology and a highly successful European retail textile business. The company originated in 1935 as Allied Bakeries, eventually becoming ABF in 1960. It is now a **diversified group of businesses** grouped into five business segments: Sugar; Agriculture; Retail; Grocery; and Ingredients.



ABF owns many famous brands including Primark, Twinings tea, Kingsmill bread, Silver Spoon sugar, Ryvita, Patak's Indian food and Ovaltine. ABF has annual sales of nearly £13 billion and has over 118 000 employees, it sells into over 100 countries and it has operations in 47 countries across Europe, southern Africa, the Americas, Asia and Australia. ABF has grown to its present size through both acquisition and organic growth.

#### Associated British Foods' Operations 2013/2014

Operating segments	Revenue £m		Profit £m	
	2014	2013	2014	2013
Grocery	3337	3568	269	224
Sugar	2083	2677	189	434
Agriculture	1312	1410	50	47
Ingredients	1261	1360	41	5
Retail	4950	4273	662	513
<b>Geographical information</b>				
United Kingdom	5631	5728	602	710
Europe and Africa	3924	3790	393	386
The Americas	1211	1282	127	103
Asia Pacific	2177	2488	40	(27)

According to the company: “At the heart of the way we operate is a principle of ‘value together’ – the benefit that the group gains from each of the businesses being part of the larger organisation. This is shown in the way that the corporate centre provides support to its operations and in the advantages that individual businesses gain from collaboration with each other. Our businesses benefit from working alongside other group operations in related markets – allowing them to share knowledge, skills and best practice.

The model also allows them, for example, to make joint investments, which would otherwise deliver insufficient returns. The businesses also work with each other to provide practical support such as making introductions in new countries and markets, hiring and developing people and sharing office space, to name but a few.”

The following article by Andrew Clark appeared in The Times newspaper on 5 November 2014.

### Life is sweet for Primark owner ABF despite huge fall in sugar profits.

Would you like one lump or two in your tea? Associated British Foods would prefer you to have three after it suffered a spectacular collapse in sugar profits because of a worldwide plunge in the price of the commodity.

As recently as 2012, AB Foods was making half a billion pounds in profits from its sugar processing operation, which operates thirty-one plants in ten countries, churning out production of five million tonnes a year. However, a decision in Brussels by the European Commission to dismantle European sugar quotas has contributed to a glut in global supply. As a result, AB Foods’ sugar profit slumped by 56 per cent to £189 million during the year to September and the company warned that a “further large reduction” would be likely this year.

“All agricultural sectors have been supported within the EU, including cereals and milk, as well as sugar,” George Weston, the company’s chief executive, said. “Sugar was just one of many where demand and supply were regulated by Brussels, and those controls have been taken apart.”

The global commodity price of sugar stood at €750 per tonne in early 2013, but it has dropped to €420. However, Mr Weston insisted that AB Foods was well prepared for change: “It’s not like we’re sitting here going: ‘Oh, those wretched bureaucrats in Brussels.’”

One analyst said: “The pain, on the sugar front, has been worse than expected. It’s worrying when the most efficient sugar player in Europe isn’t making any money out of it.”

AB Foods’ unusual mixture of businesses has shielded the group from the worst of the sugar slump. Its groceries business delivered a 24 per cent increase in profits to £269 million, aided by rising demand for green tea in Britain.

On top of that, Primark’s seemingly unstoppable momentum continued. The low-cost clothes chain, generated revenue of £4.95 billion, a 16 per cent increase on last year, as orange maxi dresses, grey jogging bottoms and over-the-knee boots proved popular over the summer. “Our fashion ranges all sold really, really well throughout the year,” Mr Weston said.

AB Foods is asked frequently about the logic of keeping Primark within the same corporate family as an odd mixture of food and ingredients businesses. The Weston family, who control 55 per cent of AB Foods’ shares, have long resisted change, however, arguing that smart investment by AB Foods has been a key contributor to Primark’s success.

Mr Weston said: “AB Foods has been a great home for Primark. Primark hasn’t done well despite AB Foods, it’s been helped to do well by AB Foods.”

55 Another analyst said that investors cared far more about the volume of clothes sold by Primark than about the health of AB Foods’ sugar operation. “Primark is approaching 70 per cent of group profits, but it accounts for 90 per cent of the sentiment in the stock market.”

## Primark



Primark was founded in June 1969 in the Republic of Ireland. It is now one of the largest clothing retailers in Europe. It has 278 stores and employs 54 000 people in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium, Austria and France.

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Sportswear is one of the biggest growth areas of the business. The introduction of more technical fabrics and products means that it now offers a credible sports range that stands up well against the competition, at the same time maintaining its credentials for fashionable street-wear alternatives at low entry price points, with

70 co-ordinated ranges consisting of matching clothing, footwear, accessories, underwear and hosiery. Following the success of the ladies’ and men’s ranges, Primark will soon be introducing a childrenswear range.

According to the company, Primark offers great value for money which it achieves by: incurring no advertising costs, instead relying on its customers ‘doing the talking’ about its products; buying in vast quantities and passing on the cost savings to customers; keeping overheads to a minimum but investing in state-of-the-art logistics to enable its stores to replenish stocks quickly; and by not compromising its high quality standards, rigorously testing products at the various stages of production. In the world of fashion it is critical that once a style is seen on the fashion show catwalk it reaches the stores as quickly as possible. It can take as little as six weeks from initial design concept to being available in store, and merchandise is sourced from all corners of the globe. Although Primark does not own the companies or factories that produce its merchandise, it recognises its responsibility to the workers in those factories, and to its customers, to ensure that its products are made in good working conditions.

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Primark’s organic growth has been achieved through a combination of like-for-like growth and increasing selling space. The like-for-like growth reflects investment in buying, merchandising and its success in constantly refreshing the stores to ensure they remain exciting places to shop. The increase in selling space has been driven by capital investment in freehold and leasehold properties as they have become available, first on the high streets of the UK and Ireland, and more recently on the high streets and in the shopping centres of continental Europe.

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## 90 Primark's overseas stores

2006 saw Primark's first venture into continental Europe with the opening of a store in Madrid and it now operates from more than 10 million sq ft of selling space across nine countries. With a unique combination of the latest fashion and lean operations, Primark offers customers quality, up-to-the-minute designs at value-for-money prices. Buying and merchandising teams travel internationally to source and buy garments that best reflect each season's key fashion trends. Primark's range includes womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homeware.

Number of stores

	UK	Republic of Ireland	Rest of Europe	Total
September 2013	161	38	58	257
Change in year	3	-1	19	21
September 2014	164	37	77	278

Primark has announced that, after extensive research, it has decided to open stores in the north-east of the US. It has chosen stores which are located close to areas of high urban density and which benefit from high levels of existing customer footfall. Its strategy is to generate interest in, and awareness of, the Primark brand. The business intends that all eight stores will be trading from 0.5 million sq ft by late 2016.

## Primark online

Primark.com was launched in October 2013 and has since been rolled out in local languages to each of its countries of operation. The site now reaches almost one million people and is a showcase for the brand, its price message and its fashion credentials. Primark has also embraced social media – the environment that many of its customers live and breathe – sharing campaign imagery and videos with a fan base of over four million followers, generating huge engagement and awareness.

## 110 Changes in Primark's working environment

Over the past three years Primark has transformed its working environment. Following a pilot in its Leeds Trinity store in December 2013, it is now investing in creating a motivating work environment. And the effect has been dramatic. Scores in staff feedback surveys are up to 24% higher on areas like 'Communication' and 'Teamwork' compared with the Primark average. The impact has also improved productivity. For example:

- wi-fi throughout has made it easier for key tasks to be carried out 'on-the-go';
- paid absence levels are markedly lower;
- the new open-plan environment means more efficiency and collaboration, with staff briefings and inductions taking a third less time – meaning more time on the shop floor.

## 120 Primark and business ethics

Primark was implicated in the Rana Plaza disaster in Bangladesh in April 2013 when over 1100 workers died and thousands more were injured when the building they were working in collapsed. On the previous day cracks had been observed in the walls of the building but the workers were ordered to go to work or lose a month's pay. One of the factories inside the building made clothes for Primark as well as several other well-known businesses including Mango, Matalan, Monsoon and Accessorize.

Primark committed itself to meeting its responsibilities in full and to paying long-term compensation to the workers employed by its supplier or their dependants. It began making these long-term payments in March 2014 and also paid short-term aid to the families of all the workers employed at Rana Plaza, most of whom were making clothes for its competitors. Primark's total commitment amounted to over £7.5 million. The company states that the safety of the staff employed by its suppliers is a high priority. It has now undertaken structural assessments of all of its supplier factories in developing countries, including Bangladesh, and has further strengthened its in-country teams of ethical trading specialists who are critical in supporting sustainable improvements within supplier factories, and providing greater visibility across the supply chain.

### Associated British Foods plc financial results

#### Associated British Foods plc Profit and Loss Account (Income Statement) for the year ended 13 September

	2014	2013
	£m	£m
Revenue	12 943	13 315
Operating Costs	<u>11 863</u>	<u>12 227</u>
Net (operating) Profit	1 080	1 088

#### Associated British Foods plc Balance Sheet at 13 September

	2014	2013
	£m	£m
<b>Fixed (non-current) Assets</b>	6 846	6 950
<b>Current Assets</b>		
Stock (inventories)	1 740	1 693
Debtors (trade and other receivables)	1 293	1 342
Cash and Bank	<u>593</u>	<u>389</u>
<b>Total Current Assets</b>	<b>3 626</b>	<b>3 424</b>
<b>Current Liabilities</b>		
Loans and overdraft	358	394
Creditors (trade and other payables)	2 046	1 881
Other current liabilities	<u>280</u>	<u>251</u>
<b>Total Current Liabilities</b>	<b>2 684</b>	<b>2 526</b>
<b>Net Current Assets</b>	<b><u>942</u></b>	<b><u>898</u></b>
<b>Total Assets minus Current Liabilities</b>	<b>7 788</b>	<b>7 848</b>
<b>Long-Term (non-current) Liabilities</b>	<b><u>1 035</u></b>	<b><u>1 329</u></b>
<b>Net Assets</b>	<b>6 753</b>	<b>6 519</b>
<b>Shareholders' Funds (equity)</b>		
Capital and reserves	803	1 011
Retained Profit	<u>5 950</u>	<u>5 508</u>
<b>Total Shareholders' Funds</b>	<b>6 753</b>	<b>6 519</b>

1. Explain the advantages and disadvantages to Associated British Foods plc of operating as a diversified group of businesses (line 5). [10]
2. Analyse and evaluate the financial performance of Associated British Foods plc. [14]
3. With the aid of Porter's five forces framework, analyse and evaluate the current position of Primark. [12]
4. Evaluate the impact on Primark's stakeholders of having its products made in developing countries. [12]
5. Assess Primark's decision to increase the number of its overseas stores. [12]

**END OF PAPER**