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# A-level BUSINESS

Paper 3 Business 3

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## Insert

Source 1: Sunport PLC

## Background

Sunport PLC is a multinational company, manufacturing and selling various consumer goods, focused on household cleaning, personal care and foods. The business has manufacturing facilities in 85 countries and it sells in nearly 200 international markets, with its Head Office in the UK. The business has seen great success under Chief Executive Martin Smith. This included fighting off a takeover bid from a major rival. Success was recognised with substantial bonus payments to the senior managers in the form of shares in the business.

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## A socially responsible PLC

During his 10 years in charge, Martin committed the business to a socially responsible approach. He championed the need to act responsibly to all stakeholder groups, arguing that forming effective long-term relationships would increase profits. Martin was particularly keen to encourage relationships with suppliers who shared Sunport PLC's values. This allowed a joint approach to new product development and reliable deliveries from loyal suppliers.

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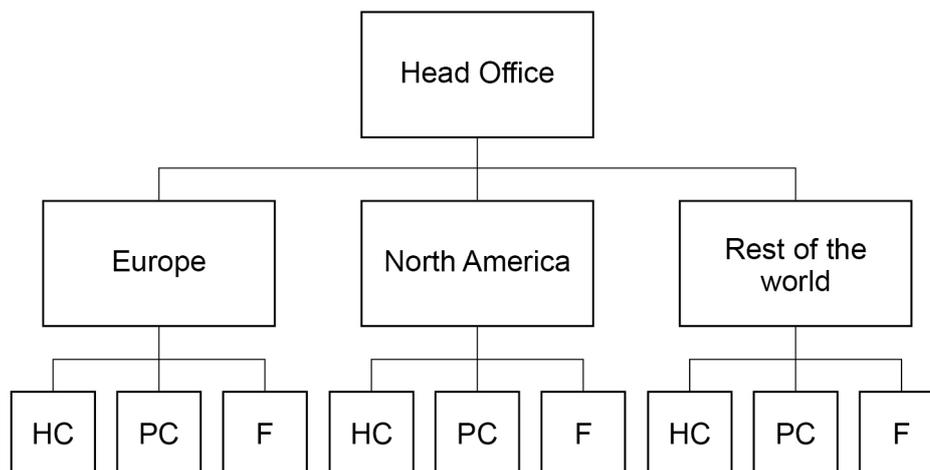
Some shareholders questioned Martin's approach, claiming he spent more time attending conferences about climate change than increasing profit for the business. Although dividend payments fluctuated, the company's share price rose consistently. Recent financial results are shown in **Appendix A**.

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## Organisational structure

The company's organisational structure is split into three regions. Each of these regions is then split according to three product-based divisions of Household Cleaning (HC), Personal Care (PC) and Food (F).

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This structure is designed to allow regional variations to be addressed as the company's market research (see **Appendix B**) has shown major differences between the global regions. Martin's leadership style involved delegating decision-making to a local level. This allowed staff, within each region, to select the right suppliers and develop their own marketing mix. Head Office has always provided a clear mission for the company as a whole, allowing Martin to spread his vision of a socially responsible business throughout the organisation.

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### Balanced Scorecard

The company's use of Kaplan and Norton's Balanced Scorecard has been credited with contributing to its success. The performance of every business division is assessed from four perspectives (see **Appendix D**). This has allowed the business to avoid short-termism in its approach to decision-making.

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### A new boss

Martin Smith retired at the end of 2019. He has been replaced by Elaine Filer, Sunport PLC's former Chief Finance Officer. Elaine has a reputation as a leader who makes decisions herself and then tells managers what to do. She is expected to drive through a strategic change focused on increasing profit margins throughout the business. Her view is that personal care is the most successful division in Europe. Elaine wants every division in the business to achieve an operating profit margin of 12%. This should help to please a small group of unhappy shareholders who are concerned that the company's returns could be higher if the senior managers prioritised profit over other social responsibilities.

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### A strategy for the future

Although the company is not expected to abandon its socially responsible approach, Elaine has announced her intention to introduce cost reduction measures including:

- centralising decision-making at Head Office, which would remove some duplicated activities, such as the selection of suppliers
- changing to cheaper suppliers
- reducing spending on initiatives designed to improve the company's environmental performance, including abandoning the company's current aim of only using recyclable materials in its packaging.

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### Appendix A Sunport PLC selected financial results

|                        | 2016 | 2017 | 2018 | 2019 |
|------------------------|------|------|------|------|
| Sales turnover (£bn)   | 48   | 51   | 52   | 54   |
| Operating profit (£bn) | 4.6  | 4.5  | 4.8  | 5.1  |

Average operating profit margin of major rivals in 2019 = 12%

**Appendix B** Sunport PLC market research data on food buying in various regions (2020)

|                   | Three most important issues for food shoppers |                      |                 | Index of Sunport PLC's food prices (Europe = 100) |
|-------------------|---|----------------------|-----------------|---|
|                   | First   | Second               | Third           |   |
| Europe            | Taste   | Recyclable packaging | Value for money | 100   |
| North America     | Branding                                      | Speed of preparation | Taste           | 118   |
| Rest of the world | Value for money                               | Taste                | Branding        | 84  |

**Appendix C** Quotes from a recent article on the global food industry in a business magazine

'food manufacturers who have centralised manufacturing facilities have found any economies of scale in production are cancelled out by increased transport costs'

'transporting food products long distances is very expensive as products can be bulky, fragile, perishable or require refrigeration'

**Appendix D** Selected data for Sunport PLC – European region, 2019

| Perspective         | Measure   | Household cleaning | Personal care | Food |
|---------------------|---|--------------------|---------------|------|
| Financial           | Operating profit margin (%)   | 9.7                | 12.2          | 8.8  |
| Learning and growth | Staff retention (%)   | 88                 | 74            | 76   |
|                     | % of employees who are proud to work for Sunport PLC                | 90                 | 65            | 85   |
| Internal processes  | % of recyclable materials used in packaging                         | 100                | 55            | 85   |
|                     | New products in development   | 12                 | 10            | 12   |
| Customers           | % of customers who would recommend Sunport PLC products to a friend | 90                 | 80            | 75   |

**END OF SOURCE**