

General Certificate of Secondary Education
June 2003



**BUSINESS STUDIES SPECIFICATION A
Higher Tier**

3132/H

Thursday 12 June 2003 9.00 am to 11.00 am

H

In addition to this paper you will require:

- a clean copy of the Case Study (enclosed);
- a 12-page answer book.

You may use a calculator.

Time allowed: 2 hours

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *paper reference* is 3132/H.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105.
- Mark allocations are shown in brackets.
- You will be awarded up to 5 marks for the quality of your written communication, including spelling, punctuation and grammar.

Advice

- You are advised to spend no more than 35 minutes on **Section A**.

SECTION A

Answer **all** questions from this Section.

1**Total for this question: 12 marks**

Explain briefly the meaning of the following Business Studies terms and give an example of each. Your examples may be drawn from the Case Study or from any other source.

- (a) Public limited company *(3 marks)*
- (b) Brand name *(3 marks)*
- (c) Niche market *(3 marks)*
- (d) Horizontal integration *(3 marks)*

2**Total for this question: 6 marks**

- (a) Give **two** ways industry might harm the environment. *(2 marks)*
- (b) Briefly explain **two** reasons why businesses often try to reduce the harm they do to the environment. *(4 marks)*

3**Total for this question: 6 marks**

- (a) Describe **one** method of sampling used in market research. *(2 marks)*
- (b) Briefly explain **two** ways market research can help a business like Cadbury Schweppes. *(4 marks)*

4**Total for this question: 6 marks**

- (a) Describe **one** problem a business might have if it buys its raw materials from abroad. *(2 marks)*
- (b) Briefly explain **two** reasons why Cadbury Schweppes might have chosen to manufacture in countries with emerging economies, such as Poland and China. *(4 marks)*

SECTION B

Answer **all** questions from this Section.

5**Total for this question: 14 marks**

We are told on page 7 of the Case Study that Cadbury Schweppes has an “open and inclusive” relationship with its employees. The Company also encourages its employees to develop skills, such as learning a foreign language, even when these skills have little to do with their jobs.

- (a) Explain **two** benefits this “open and inclusive” relationship might bring to Cadbury Schweppes. *(6 marks)*
- (b) Discuss whether you believe that Cadbury Schweppes should encourage its employees to develop skills that are not directly related to their jobs. *(8 marks)*

6**Total for this question: 14 marks**

Cadbury Schweppes uses batch production methods (see page 11 of the Case Study). The Case Study also states that Cadbury Schweppes tries to be efficient when manufacturing its products.

- (a) Describe the benefits to Cadbury Schweppes of using batch, rather than flow, production methods. *(6 marks)*
- (b) Choose **one** aspect of production from the list below. Discuss how useful this method might be in increasing Cadbury Schweppes’ efficiency.
- Benchmarking
 - Just in time (JIT) stock control
 - Quality Circles
- (8 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

7

Total for this question: 14 marks

Marketing is very important to Cadbury Schweppes. Details about the company's marketing can be found on pages 9 to 10 in the Case Study.

- (a) (i) Using the information found in Table 1 on page 6, calculate the percentage of its turnover Cadbury Schweppes spent on marketing in 1999 and 2000. *(3 marks)*
- (ii) Outline **one** reason why Cadbury Schweppes might consider it necessary to spend such a large percentage of its turnover on marketing. *(3 marks)*
- (b) Discuss how Cadbury Schweppes might change its marketing to respond to UK consumers becoming more wealthy. *(8 marks)*

8

Total for this question: 14 marks

Table 1 on page 6 of the Case Study shows Cadbury Schweppes' financial position between 1999 and 2001. It can be seen that the Company's trading profits increased from £685 million to £930 million; a rise of about 36%.

- (a) Explain **two** possible causes for the increase in trading profits. *(6 marks)*
- (b) Despite trading profits rising, the dividend per share only went up by 1 penny between 1999 and 2001. Discuss how shareholders might have responded to this. *(8 marks)*

9

Total for this question: 14 marks

Cadbury Schweppes' main objective is to increase shareholder value. If Cadbury Schweppes decided to try to earn the highest profit it could for its shareholders, this may affect other stakeholders. (A list of Cadbury Schweppes' stakeholders can be found on page 6 of the Case Study.)

You are required to write a report to the Company's Board of Directors.

Your report should:

- be written in a suitable format;
- analyse two or three effects that the decision to increase profits might have on other stakeholders;
- make a clear recommendation whether you feel this decision would be good for Cadbury Schweppes. *(14 marks)*

END OF QUESTIONS

General Certificate of Secondary Education
June 2003



**BUSINESS STUDIES
FOUNDATION AND HIGHER TIERS**

3132/PM

Case Study

F&H

To be distributed to candidates no sooner than Monday 10 March 2003

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

DO NOT ASK THE COMPANY ITSELF FOR MORE INFORMATION.

Your teacher is encouraged to give assistance and advice as required.

Case Study: Cadbury Schweppes



BACKGROUND

Cadbury Schweppes is a multinational soft drinks (beverages) and confectionery business that is based in the UK. The business is a public limited company. It is involved in the manufacture, marketing and distribution of its many branded products. Cadbury Schweppes now employs over 40 000 people and its products are available in almost 200 countries.

The Company's products can be divided into:

Beverages:

- carbonated soft drinks
- non-carbonated soft drinks (waters and fruit juices)

Confectionery:

- chocolate products
- sugar products
- chewing gum



Much of Cadbury Schweppes' manufacturing still takes place in the UK, Australia and North America. However, in the 1990s the Company moved some of its production to Poland, Russia, Argentina and China, countries with emerging economies.



The business has a website at www.cadburyschweppes.com.

Turn over ►

The pie charts show from which parts of the world the Company receives its turnover (Chart 1) and trading profit (Chart 2).

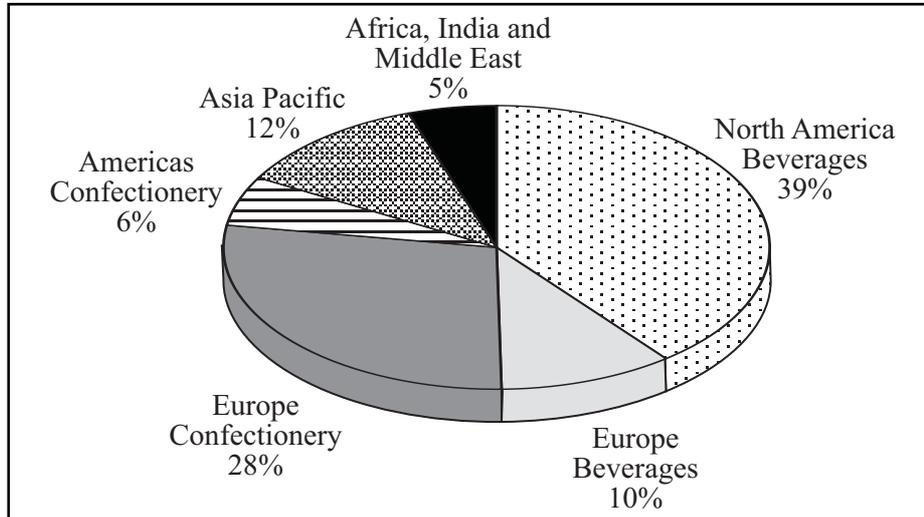


Chart 1: Areas of the world from which Cadbury Schweppes receives its turnover (2001)

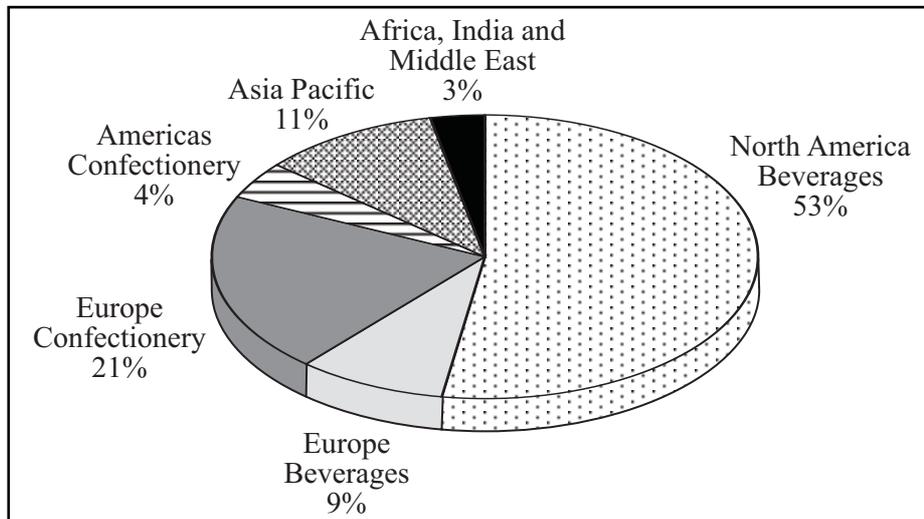


Chart 2: Areas of the world from which Cadbury Schweppes receives its trading profit (2001)
(Total percentages do not add to 100 because of rounding.)

HISTORY OF THE COMPANY

The Company's history goes back more than 200 years. In 1783, Jacob Schweppe invented an efficient system for carbonating mineral water. Ten years later he set up a mineral water factory in Drury Lane, London. John Cadbury started a tea and coffee shop in Bull Street, Birmingham in 1824. As a sideline, he started to sell drinking chocolate and cocoa.

During the 19th century, both Cadbury's and Schweppes flourished. During this period, many people in Britain drank large amounts of alcohol and the authorities made efforts to reduce this consumption. By providing alternatives to alcoholic drinks, both companies were able to take advantage of what became known as the temperance market. It became very fashionable to drink coffee, hot chocolate and other soft drinks.

In 1969, the two businesses merged to form Cadbury Schweppes. The Company has tried to maintain the reputation of being caring and responsible.

COMPANY OBJECTIVE

Cadbury Schweppes' stated objective is to achieve growth in shareholder value.

Shareholders can obtain value from their shares in two ways:

- from the dividends paid to them each year as their share of the Company's profits;
- through increases in the value of shares, as the price rises on the stock market.

The Company has set itself targets, which include:

- to increase earnings per share by at least 10% each year;
- to deliver consistently high returns to shareholders;
- to generate substantial cash flow every year.

The value of Cadbury Schweppes shares and the amount of the dividend paid will depend upon how well the business is doing. To satisfy most of its shareholders, the business needs to be profitable and it has set out a strategy to help it achieve its objective.

This strategy consists of:

- creating strong regional positions through organic growth, acquisitions and disposals;
- developing strong brands through marketing;
- expanding its market share through innovation in products and packaging;
- regularly updating its product portfolio.

Turn over ►

FINANCE

A summary of the financial details for 2001, 2000 and 1999 is found in Table 1. These figures show that trading profit has increased by about 36% between 1999 and 2001. The Company, therefore, appears to have been successful in achieving its objective.

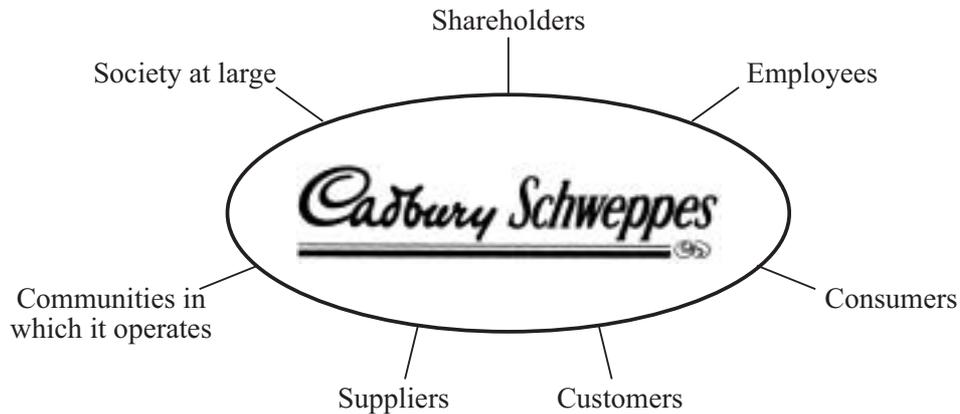
Table 1: Financial Information for 2001, 2000 and 1999

	2001	2000	1999
Turnover	£5 519 million	£4 575 million	£4 234 million
Trading profit	£930 million	£775 million	£685 million
Trading profit margin	16.9%	16.9%	16.2%
Earnings per share	27.0p	24.1p	19.5p
Dividend per share	11.0p	10.5p	10.0p
Marketing expenditure	£1 081 million	£887 million	£767 million
Number of employees	38 489	36 460	37 425

Source: Cadbury Schweppes Annual Report 2001

STAKEHOLDERS

Despite only mentioning its shareholders in its objective, Cadbury Schweppes says that it is concerned about all of the Company's stakeholders. The business identifies its stakeholders as:



Suppliers

Cadbury Schweppes does not produce any of the raw materials needed to make its products. Instead, it buys its supplies from the world market. One of the most important ingredients needed for making chocolate is cocoa.

Cadbury Schweppes buys most of its cocoa from Ghana in West Africa. Sometimes large western businesses are accused of taking advantage of their powerful position by putting pressure on developing countries to lower prices. Cadbury Schweppes believes that it conducts its business with Ghana in a responsible manner. The Company says that it has always supported Ghanaian farmers by providing technology and advice. Cadbury Schweppes argues that Ghanaian cocoa is of high quality because of this help. Cadbury Schweppes is happy to pay a higher price to be able to use good quality cocoa in its chocolate.

Cadbury Schweppes' policy is to refuse to trade with countries in which there is evidence of suppliers using enforced child labour. Cadbury Schweppes believes that it has a responsibility to use its influence to stamp out such practices. The Company is playing a leading role in tackling these issues worldwide.

Employees

Cadbury Schweppes has a long history of looking after the welfare of its employees. In 1879, Cadbury's moved from the polluted centre of Birmingham to a greenfield site. The village of Bournville was created around the factory. The housing was of a high standard because the Cadbury family believed that its workers would function better in a pleasant and healthy environment.

Cadbury Schweppes still recognises the importance of its employees to the business. The Company encourages team working because it believes that this is better than having employees working in isolation. It operates what it calls 'an open and inclusive culture'. This means employees are encouraged to voice their views on matters to do with the business.

Cadbury Schweppes also has an equal opportunity policy. The business tries to recruit employees from different ethnic backgrounds. Cadbury Schweppes says it does not discriminate on grounds of gender, race, colour or religion.

Cadbury Schweppes recognises the importance of having a well-trained workforce. Employees meet with their managers on a regular basis to discuss how well they are performing. Individual training plans are agreed, so that each employee's personal development targets can be reached. However, training is not just about learning how to do their jobs. The Company also believes that its employees would benefit from developing other skills, such as learning a foreign language. Cadbury Schweppes considers training to be a way of creating a partnership between each employee and the Company.

Cadbury Schweppes UK business has gained Investors in People status.



An old photograph showing workers' houses on the Bournville estate.

Local Communities

Cadbury Schweppes considers itself to be a good neighbour to the local communities in which it operates. In the UK, it runs the Cadbury Schweppes Foundation that provides money for education, enterprise and employment projects. These funds are made available particularly in economically and socially deprived areas.

The Company encourages its employees to become involved in worthwhile activities in local communities, such as coaching junior sports teams, helping out in local schools, mentoring and providing citizenship skills to young people. Its managers also provide business and management advice to young entrepreneurs.

ENVIRONMENT

The Company is aware of the environmental harm caused by industrial production. To show its commitment to environmental issues, Cadbury Schweppes has published environmental objectives, which are to:

- minimise its harmful impact on the environment worldwide;
- find opportunities to improve the local environment in the communities in which it operates;
- look after the health and safety interest of its employees by providing safe working conditions.

ACQUISITIONS AND DISPOSALS

Cadbury Schweppes believes that it is important to review continually its brands. Brands are at the heart of its business and Cadbury Schweppes will look for products or companies that it can buy to strengthen its own brand portfolio. Similarly, if a brand is not performing as well as it should Cadbury Schweppes will consider disposing of it.

Despite several of its brands being many years old, Cadbury Schweppes will not keep a brand indefinitely just for the sake of it. Even the brand name Schweppes was sold in 1999; although this was in certain markets only.

Examples of recent Cadbury Schweppes' acquisitions and disposals

<p>Acquisitions</p> <p>Dandy (Chewing gum) 2002</p> <p>Orangina (2001)</p> <p>Snapple (2000)</p> <p>Dr Pepper and 7 UP (1995)</p>
<p>Disposals</p> <p>Beverage Brands (Schweppes, Dr Pepper, etc.) in 160 markets (1999)</p> <p>Coca-Cola Schweppes Beverages (Bottling) (1997)</p>

MARKETING

Much of Cadbury Schweppes' strength lies in its brands. Besides the brand of Cadbury's, the Company also owns Trebor, Bassett, 7 UP and Snapple. It is important that the brands are maintained through careful marketing. Consumers have been buying some of Cadbury Schweppes' branded products for over 100 years.

Table 2: Examples of Cadbury Schweppes brands

Brand	Year first produced
Dr Pepper	1885
Canada Dry	1904
Cadbury's Dairy Milk	1905
Cadbury's Milk Tray	1915
7 UP	1929
Trebor Mints	1935
Orangina	1936
Cadbury's Roses	1938

Product

Cadbury Schweppes has introduced many strategies to maintain the demand for its products. One challenge it faces is seasonal demand for chocolate products. More chocolate is bought in colder months and on special occasions, such as Christmas and Easter. The lower demand for chocolate in warm weather, however, is balanced by an increase in the sales of soft drinks. Cadbury Schweppes has, nevertheless, tried to influence demand by changing the packaging of its products. For instance, Cadbury's Dairy Milk can be bought in special gift wrappers for mothers' and fathers' days and Valentine's Day. Strategies such as these have helped to prolong Cadbury's Dairy Milk's product life cycle.



An example of how demand for Cadbury's Dairy Milk was increased.

The Company also tries to tap into niche markets. For instance, in 1965 Schweppes was the first company to introduce low calorie beverages. The Slimline range was produced for those consumers who wanted a fizzy drink, but without high levels of sugar.

Cadbury Schweppes pays careful attention to what consumers want. For instance, the Fuse bar was developed over many months after market research showed that consumers wanted a chocolate snack that did not crumble so much. Many people eat chocolate in cars or watching television and they do not want to get their clothing messy with a crumbly snack.

Promotion

Cadbury Schweppes promotes its products extensively. Table 1 on page 6 shows that the business spends a large proportion of its turnover on marketing. The Company uses most advertising media, including peak time television, to promote its products. It uses other promotional methods besides direct advertising. For example, Cadbury Schweppes sponsors the popular television programme *Coronation Street*.

Turn over ►

Place

Most of Cadbury Schweppes' products are sold to wholesalers, its customers, which in turn sell them to retailers. The most popular retail outlets are supermarkets, convenience stores, garage forecourts and confectionery shops and kiosks. A small, but increasing, number of Cadbury Schweppes products are sold through vending machines. Research has shown that about 70% of confectionery is bought on impulse. It is important, therefore, that the products are easily available to consumers.

The Company has investigated ways of reducing the number of journeys to transport its goods to its customers. This is intended to reduce costs and harmful effects on the environment.

Price

Cadbury Schweppes products are sold in competitive markets. As a result, the prices it charges will be influenced by those charged by other businesses.

The introduction of the euro as a common currency on 1 January 2002 was something for which Cadbury Schweppes had to prepare. The euro made it much easier for its customers (wholesalers) to compare prices of products in euro-zone countries. This was because there were no longer exchange rate movements to alter prices. To avoid confusing customers, in common with many other FMCG (fast moving consumer goods) manufacturers, Cadbury Schweppes froze prices for a few months either side of the euro introduction date.



PRODUCTION

Despite manufacturing its goods in large quantities, Cadbury Schweppes uses batch rather than flow production methods.

The Company must ensure the products are of high quality. Not only are there strict laws about how foodstuff is made, but also Cadbury Schweppes would not want to damage its reputation by allowing inferior products to be sold.

Cadbury Schweppes undertakes extensive research and development (R&D) to develop new products and to find ways of manufacturing existing brands more efficiently. Cadbury Schweppes uses the services of a specialist R&D business based at Reading for its UK confectionery business.

EUROPE

The UK's membership of the European Union (EU) has brought both benefits and challenges to Cadbury Schweppes. The creation of a single market has made it easier for the Company to sell to a much larger number of customers. This has helped it to become more profitable.

The EU caused difficulties for the business when European courts challenged how Cadbury Schweppes described its chocolate. In 1996, the European Commission wanted to pass a law that laid out the exact ingredients from which chocolate could be made. The purpose of this law was to create a single EU market for chocolate products, so that chocolate was more or less the same throughout Europe.

Cadbury Schweppes complained because its chocolate could no longer be called 'milk chocolate' as it contained too much vegetable fat. After a campaign to change this law, a compromise was reached with the European lawmakers. Cadbury Schweppes and other UK chocolate manufacturers could continue to label their products 'milk chocolate', but they had to draw attention to the ingredients on the wrappers.

THE FUTURE

As with other businesses, there are many pressures acting upon Cadbury Schweppes.

The Company needs to respond to these pressures if it is to thrive in the future. Some of the issues facing Cadbury Schweppes are:

- UK consumers are becoming better off and want to buy more luxury products, such as chocolate. However, people are increasingly concerned about having a healthier diet.
- The opening up of European markets has been a benefit for Cadbury Schweppes. However, it has also allowed foreign chocolate-makers access to UK markets and increased the levels of competition the Company faces.
- Cadbury Schweppes has recognised the potential market within emerging economies. However, the Company wants to behave ethically and does not want to appear to be exploiting employees and customers in these countries.
- The Company attempts to behave fairly towards all of its stakeholders. Cadbury Schweppes' objective is to increase shareholder value, but it also wants to ensure that the interests of its other stakeholders are met.

END OF CASE STUDY