

X234/701

NATIONAL
QUALIFICATIONS
2010

FRIDAY, 14 MAY
1.00 PM – 3.45 PM

BUSINESS
MANAGEMENT
ADVANCED HIGHER

100 marks are allocated to this paper.

Candidates should spend 15 minutes reading the case study material and the questions.

Answer **all** questions in Section One (50 marks).

Answer **two** questions in Section Two (50 marks).

Note: The questions are printed on a separate sheet inserted inside the front cover of this paper.



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A G BARR plc

Background Information

A G Barr plc is based in Cumbernauld. Founded in 1875, it became a public limited company in 1965. It produces, distributes and markets a wide range of soft drinks under its own brands and under brands licensed from other companies. Its most famous brand is IRN-BRU.

The Soft Drinks Market

The soft drinks market consists of carbonated (or “fizzy”) drinks like IRN-BRU, juice drinks, water and more specialist products such as energy drinks. The market for all soft drinks is growing. It increased by almost 10% in the UK in 2007. Sales of carbonated drinks, however, are forecast to decline. More health-conscious attitudes among consumers, as well as changes in lifestyles, have led to increases in demand for other soft drinks and opportunities for new soft drinks products.

The market for soft drinks is highly competitive and contains major brands such as Coca Cola, Pepsi, Fanta and Tango which are owned by large international companies. Impulse purchases are an important aspect of consumer behaviour in this market. Advertising and promotion, therefore, are vitally important to develop buying habits among consumers, create brand awareness and make sure that products are visible in stores.

Efficient and cost-effective production and distribution systems are also necessary so that firms are not at a price disadvantage. Sales, particularly during the summer, can be considerably affected by the weather. Good weather can boost sales, and therefore revenue, while bad weather has the opposite effect.

Exhibit 1 gives information on Barrs brands.

Barrs Strategy

Compared to other companies in the soft drinks market, Barrs is small and its activities and the main markets for its products are concentrated in the UK, particularly in Scotland and the north of England. IRN-BRU is the top grocery brand name in Scotland but is less prominent elsewhere in the UK. Traditionally, Barrs products have been concentrated in the carbonates sector of the market. In 2006 IRN-BRU accounted for almost 5% by volume of the carbonates sector in the UK.

In order to remain successful, Barrs has to take into account its small size and conditions in the soft drinks market. Over the last few years it has pursued what it calls a “value based strategy”. The company does not intend to move outside the soft drinks market and the strategy aims to ensure that it will be capable of sustained growth in this market. The strategy has led to significant changes in the company.

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Re-organisation of Operations

A key part of Barrs strategy has been to improve efficiency and control costs. This has involved a significant restructuring of its operations which has centred on a new purpose-built facility in Cumbernauld. This has led to the closure of 6 sales and distribution sites in Scotland and its factory near Manchester, as well as a sales depot in Bristol.

Exhibit 2 gives more details of Barrs investment at Cumbernauld.

Acquisitions, Organic Growth and Partnerships

As part of its strategy, Barrs has attempted to diversify its product portfolio and to extend the geographical spread of its markets. To achieve this, it has used, and continues to use, a combination of organic growth, acquisitions and partnerships.

Exhibit 3 gives some examples of acquisitions and organic growth by Barrs.

Acquisitions

In the past, buying companies like Tizer and Mandora St Clements enabled Barrs to gain new brands and to expand from Scotland into northern England. It also obtained production and distribution facilities in this area. More recently, acquisitions such as Findlays Spring Water (2001) and Strathmore Mineral Water (2006), have helped Barrs to shift its emphasis away from carbonated drinks.

There was a flurry of acquisitions in 2007–2008. In 2008 Barrs bought a loss-making company, Taut International, to gain entry into the fast-growing sports drink category. Barrs saw it as a brand which, through its marketing and promotion, has established a credible position with consumers. Later in 2008 Barrs made its largest acquisition to date when it paid about £61 m for Rubicon. This company makes exotic fruit juices and has a customer base in London and South-East England, an area where Barrs has only a limited presence.

Organic growth

This has included launching new products, such as the energy drink IRN-BRU 32 in 2006. This drink is targeted at young people in Scotland and enabled Barrs to capitalise on its best-known brand and enter the energy sector of the soft drinks market. New products such as KA in London have also enabled it to appeal to local markets in the UK. Barrs regularly re-launches brands to respond to changes in the market.

Partnership agreements

Barrs has a history of developing strong partnerships with others (see Exhibit 1). This has helped it to diversify its portfolio. In 2007, for example, it signed an exclusive 5 year agreement with the US company, Rockster, to sell its double-size energy drinks in the UK.

Barrs has also used partnerships to develop sales of its own brands. In 2002 it agreed a 5-year partnership with the Pepsi Bottling Group (PBG), the largest franchise bottler for Pepsi-Cola in the world. PBG would produce and distribute IRN-BRU in Russia. In 2007 the deal was renewed for a further 6 years. Barrs exports IRN-BRU to Europe, particularly to Spain, and it has opened a business in Australia. However, Russia is by far its most important market outside the UK.

Partnerships are not always straightforward. There is no guarantee that they will be renewed and Barrs does not have full control over the brand. IRN-BRU was successfully trialled in Poland in 2006, but to date Barrs has been unable to find a suitable partner to take this forward.

Advertising and Other Promotional Activities

Promotion is undertaken separately for each brand. Barrs uses a range of promotional methods including advertising, pack design, pack size and sponsorship. The methods are designed to fit the profile of each brand as closely as possible. Sponsorship is one example. In 2008 IRN-BRU became the main sponsor of the Scottish Football League. This sponsorship is intended to reinforce the company's commitment to grass-roots sport in Scotland and maintain local and national awareness of the brand in Scotland.

Barrs has developed a reputation for distinctive radio and TV advertising. An example is the "Derek the Cuckoo" advertisement for IRN-BRU 32. As carbonated and energy drinks are predominantly bought by young people, Barrs advertisements are humorous and often poke fun at older people. Over the years there have been several complaints to the Advertising Standards Authority (ASA) about some of these. They have not usually been upheld.

Employee Relations

Barrs has a tradition of having a committed workforce. It achieves this in a number of ways including the following.

- Each employee has an agreed annual Personal Development Plan covering learning and development activities designed to help each person achieve their full potential and improve their skills.
- Explicit recognition is given for achievements like long service and for contributing to company schemes such as increasing health awareness.
- In 2008 Barrs began a partnership with the Prince's Trust, a charity which offers support and help to disadvantaged people between the ages of 14 and 30. Employees are encouraged to participate in fundraising and other projects. Strathmore Water will provide water at events run by the Trust.

Exhibit 4 gives information on Barrs performance.

[The above information is taken from A G Barr plc Annual Reports 2005–2008. Additional material came from company websites at www.agbarr.co.uk and www.irn-bru.co.uk and from the industry website www.fluidtrade.co.uk.

NB Unless stated otherwise, the above, and the accompanying exhibits, are current at 1 September 2008 and refer to the situation at that date.

Exhibit 1

Own Brands

<i>Carbonated drinks brands</i>	
IRN-BRU	This is Barrs main brand. It is aimed at young people (traditionally in Scotland) who are the main consumers of carbonated drinks. The brand includes Diet IRN-BRU, a sugar-free variety, targeted at 25–35 year old females and 30–40 year old males.
Tizer	Part of Barrs since 1972, it is aimed at younger family members. It has been re-launched several times, most recently in 2006, when the re-launch involved a “new original recipe” using real fruit juice with no artificial flavours, colours or sweeteners.
Red Kola	Barrs cola brand (Barrs also has its own brand of Cream Soda and produces its own Lemonade and other carbonated fruit flavoured drinks).
Barrs Originals	Launched in 2008, this range aims to be a “taste of the past for today” and is aimed at adult buyers.
<i>Fruit juice brands</i>	
Simply	A fruit juice brand, the varieties of which include Simply Fruity and Simply Pure. It is targeted at school markets.
St Clements	A range of juices and smoothies with a high juice content.
<i>Regional brands</i>	
KA	A Caribbean type carbonated drink available in several flavours, such as Black Grape and Pineapple. The brand is aimed at London and includes Abbot’s Ginger Beer, which was launched in 2007.
D ’N’ B	A carbonated drink aimed at consumers in the North of England.
Rubicon	A range of exotic fruit juices, such as mango and papaya, largely aimed at the Asian community in South East England.
<i>Water</i>	
Strathmore	Being developed as a premium retail bottled water brand.
Findlays Spring Water	Now focused on the water cooler market.
<i>Specialist drinks</i>	
IRN-BRU 32	An energy drink targeted at young people in Scotland, where the IRN-BRU brand is well-known. (Strictly this is part of the IRN-BRU brand.)
Vitsmart and Vitaminsmart	Two separate brands of vitamin-infused drinks, part of a new category of soft drinks known as functional waters.
Taut	A sports drink brand.

Exhibit 1 (continued)

Partnership Brands

Orangina	Since 1995 Barrs has held the UK manufacturing and distribution franchise for this fruit drink aimed at the adult market. The brand was formerly owned by the French company, Pernod Ricard, and Barrs now franchises it from Schweppes. A new long-term franchise agreement was signed in 2006.
Snapple	Another adult oriented fruit juice brand owned by Schweppes, which Barrs franchised through a long-term agreement in 2006.
Lipton Ice Tea	Also targeted at adults, this brand is owned by Unilever and Barrs first gained the franchise in 2001. In 2006 the deal was changed and Barrs involvement with the product was reduced. Its role now is to manage some of the distribution channels for this brand.
Rockster	The partnership with the US energy drinks company was launched at Christmas 2007 with standard, diet and juice varieties, targeted at young people throughout the UK. It has a wider target market than Barrs own energy product IRN-BRU 32 which is aimed at Scotland.

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Exhibit 2

Investment in Cumbernauld

Construction of the new facility began in 2005. It was completed in early 2007 after a delay of 4 months due to the main contractor going into receivership.

It consisted of a number of related developments.

An investment of £17 m in a new world-class sales and distribution facility

This will cover all of Scotland. The benefits are:

- automated storage and retrieval systems, which will enable Barrs to process orders more quickly and load lorries more efficiently;
- it is linked to Barrs new Customer Relationship Management system so that it will be able to meet the needs of customers, particularly retailers, more effectively;
- cost savings of £2.5 m a year.

It also meant that Barrs closed its other 6 sales/distribution sites in Scotland.

An investment of £6.5 m in a new canning facility

The benefits of this are:

- it makes use of the latest operations technology;
- it has a conveyor system that allows cans to go directly from the production line to the storage system or to waiting lorries.

However, the new facility replaced Barrs factory at Atherton near Manchester which was closed in July 2007 with the loss of 95 jobs. The announcement of job losses was made at an employee briefing at the Atherton factory in March 2006. A full consultation period followed and some employees were offered jobs in Cumbernauld. By spreading the consultation over a long period Barrs was able to prevent any significant dissatisfaction among employees. Prior to the closure Barrs was experiencing under-utilisation of capacity. Barrs will sell the factory site.

Relocation of Barrs Head Office

This moved from Glasgow to Cumbernauld in January 2007 without any significant disruption.

Exhibit 3

Acquisitions

Over the years, Barrs has made a number of acquisitions. Some examples are given below.

1954	Hollows, Bradford	First move into England.
1967	Stotherts, Manchester	This enabled Barrs to enter the canned drinks market. Barrs operated the factory at Atherton, Manchester until 2008 when it was closed.
1972	Tizer	Added a significant brand well-known in England.
1988	Mandora St Clements, Mansfield	Added new brands and more operations and distribution facilities in England.
1996	Findlays Spring Water, Dunbar	Added water to Barrs portfolio. Barrs bought a 40% stake in 1996 and the remaining 60% in 2001.
2006	Strathmore Mineral Water, Forfar	Barrs paid £15 m for the bottled water supplier.
2007	Vitsmart and Vitaminsmart	Bought from Chartered Brands for £350,000, these add vitamin-based drinks to Barrs portfolio.
2008	Taut International	Added a sports drink range to Barrs portfolio. Barrs paid a nominal £1 for a company with operating losses of about £1.3 m in 2006.
2008	Rubicon	Barrs paid about £61 m for the range of exotic fruit juices which added new products and increased Barrs presence in London.

Organic Growth

The following gives a few examples of how Barrs has grown organically.

- In 2006 Barrs redesigned its Simply brand range of products for schools. It was re-launched with no added sugar and with the addition of new varieties such as Simply Water, a pure spring water, and Simply Pure, a 100% fruit juice.
- In 2007 the Findlays water brand was focused on the water cooler market; Strathmore was targeted at the bottled water segment of the market.
- In 2008 it launched Barrs Originals, a new range of traditional carbonated drinks. It is aimed at adults and tries to recreate flavours they remember from childhood.

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Exhibit 4

This contains some information on the overall performance of A G Barr plc and some information on conditions in its markets.

Some financial data: 2004–2008

	2008	2007	2006	2005	2004
Revenue (£000)	148,377	141,876	128,760	127,222	125,235
Operating profit (£000)	19,921	15,573	16,940	15,629	13,198
Dividend per share (pence)	35.75	32.25	29.25	26.25	25.50

Barrs was able to buy Strathmore Water using its cash reserves. It obtained finance for the purchase of Rubicon from a combination of cash reserves and bank loans.

Some projections for the future

- The acquisition of Rubicon is expected to lead to an increase in Barrs profits of £1.3 m in 2010.
- The overall market for sports and energy drinks has been growing by over 20% and this high rate of growth is predicted to continue.

Some data on sales

- Barrs has been experiencing overall growth in sales — in 2008 sales grew by 2.7% on a like-for-like basis.
- During 2007–2008, sales of IRN-BRU in Russia rose by 20%. During the same period, sales of carbonated soft drinks in Russia increased by 7%.
- Five million cans of Rockster were sold in the first 6 months after its launch.
- Sales of Strathmore Water rose by 16% during 2007 despite a poor summer.
- Scotland is one of only two markets in the world where a locally produced drink, IRN-BRU, has sales that match Coca Cola and Pepsi. The other is Peru with a drink called Inca Cola.

[END OF CASE STUDY]

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QUESTIONS

You should spend fifteen minutes reading through the case study material on A G Barr plc and the questions.

You should note that, although the following questions are based on the case study material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.

SECTION ONE

Answer ALL questions.

- | | | |
|----|---|-------------|
| 1. | Assess the impact of changes in the soft drinks market on Barrs. | 8 |
| 2. | Using force field analysis, explain Barrs decision to construct a new facility in Cumbernauld. | 10 |
| 3. | Discuss ways in which Barrs employee relations policies may have helped it to develop a committed workforce. | 6 |
| 4. | Using evidence from the Case Study, explain how Barrs might measure its success. | 6 |
| 5. | (a) Analyse the costs and benefits to Barrs of taking over other companies, such as Taut International and Rubicon. | 8 |
| | (b) Explain how its use of partnership agreements might cause difficulties for Barrs. | 4 |
| 6. | Using examples, explore ways in which Barrs targets its products. | 8 |
| | | (50) |

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SECTION TWO

Answer any TWO of the following questions.

You may illustrate your answers with examples from the case study or from other firms with which you are familiar.

- | | | |
|---------|---|------------|
| 7. (a) | Assess the relevance of Scientific Management to organisations today. | 12 |
| (b) | Many organisations are beginning to realise the benefits of green initiatives. Explain how far environmental responsibility can help an organisation gain competitive advantage. | 13
(25) |
| 8. (a) | Discuss the benefits to both a multinational and a host country when the multinational establishes operations in that country. | 14 |
| (b) | Organisations are set up to achieve purposes that individuals cannot achieve on their own. Discuss how autonomous teams can influence the success of an organisation. | 11
(25) |
| 9. (a) | Discuss ways in which government economic policy and legislation might influence an organisation to change. | 13 |
| (b) | Using the ideas of at least 2 writers on management that you have studied, explain the role of managers in achieving organisational objectives. | 12
(25) |
| 10. (a) | Discuss what is meant by leadership style and explain the advantages and disadvantages of different styles of leadership. | 13 |
| (b) | Explain the importance of any 2 of the following for UK businesses. <ul style="list-style-type: none"> • The Social Chapter of the European Union • Quality Assurance • Time Management • Budgetary Control | 12
(25) |

[END OF QUESTIONS]

ACKNOWLEDGEMENTS

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