

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES

9707/03

Paper 3 Case Study

May/June 2006

3 hours

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions.

Section B

Answer **one** question.

The businesses described in this question paper are entirely fictitious.
Candidates are advised to spend 40 minutes on Section B.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages and **3** blank pages.



RAVE CONFECTIONERY

Company background

Rave Confectionery is a privately owned company based in Country X. It produces a range of sweets and chocolates. The company is owned and controlled by the Ladoja family that established the business 25 years ago. Although Rave is still a profitable business, sales have not increased for the past two years and profits have fallen (see Appendix A). Lack of sales growth has led to declining market share and this is a real worry for the directors of the company. 5

Chocolate products

The company has a reputation for high quality chocolates. These are produced in small batches to meet seasonal demand patterns. Chocolates are mainly purchased in Country X during the three main festival periods each year as gifts. Rave Confectionery sell 50% of their total chocolate output during these three festival periods. 10

The most expensive chocolate products are hand finished – this means that skilled workers use old fashioned methods to decorate and shape the chocolate gifts. Sometimes, customers order unusual shapes and sizes and these goods are then produced individually. 15

Other sweet products

Other sweets made by Rave do not contain chocolate. These sweets are demanded regularly throughout the year. They are relatively cheap and usually consumed by children. There are four main ranges of sweets. Each range is produced in 25 different flavours using semi-automated equipment. Each sweet range and flavour is produced in a large batch before the machinery is switched to making another range or flavour. This system of production results in a substantial build up of stocks. 20

Market trends for sweets in Country X

Total sales of sweets and other confectionery products in Country X have increased by 5% a year for the last three years. This sales growth is due to two factors. A high birth rate in recent years has increased the population under 10 years old. Secondly, the great success of the foreign confectionery company “Sweets4U” in promoting their new range of sweets in the country has led to this company increasing its sales greatly. It is now market leader. The growth in sales of sweets in Country X has been widely reported. It has also led to the National Dentists Association asking the government to put taxes on sweets to “prevent a tooth decay crisis resulting from increased sweet consumption”. A pressure group known as AAAC (Action Against Advertising to Children) has also organised protests outside the main offices of both Rave and Sweets4U to try to force both companies to stop advertising sweets to children. A member of AAAC told newspapers that: “It is unethical for sweet manufacturers to advertise, directly to children, products that can damage their health”. 30 35

The future for Rave

The Board of Directors is determined to make the company more competitive and profitable. The directors are divided on how these aims should be achieved. These are the views of three of the directors, expressed at the last board meeting:

Marketing Director: “Our objective should be sales growth. The 2006 and 2007 sales forecasts for two of our four main product ranges are disappointing (see Appendix B). These sweets should be discontinued and production staff switched to other products if there are vacancies. I 40

believe that we need innovative products to make us more competitive. As you know, our Research and Development team have created a new style of chocolate bar that contains both rich chocolate and juicy fruit pieces. When extra sugar was added to the first trial batch, the market research results with a focus group of children seemed very positive. I am certain that if we invest heavily in promoting this product we can achieve high annual sales. However, if there is an economic recession, and economists forecast a 60% chance of this, a loss might be made. I have estimated annual cost and revenue figures for this product, which would be called Fruit Choc Delight". (See Appendix C).

Operations Manager: "We should focus on reducing our revenue expenditure to become more competitive and to increase profit margins. One option would be to sub-contract production to another country which has no laws to protect the rights of workers. This would reduce our costs considerably. We would need to keep this decision secret until the last minute to avoid industrial action from our existing workers. Alternatively, if we invest in the latest automatic and computer controlled manufacturing machines we could lower stock holding and labour costs as well as reduce the time taken to switch production from one product to another. These machines are much more flexible than our existing ones. They can even make chocolate products that look just like hand made ones. The company must become leaner and fitter even though there will be a capital cost".

Managing Director: "In response to increased competition, our objective should be to survive as a private limited company and satisfy the needs of all of our stakeholders. Whatever decisions we take we must agree on our objectives for the company. However, one thing is clear, if we do nothing we will continue to lose market share and profits will continue to fall."

Appendix A

Sales, cost and profit summary for Rave Confectionery. \$m

	2004	2005
Sales revenue	65	65
Cost of sales	41	43
Promotion costs	1	3
Management expenses	3	4
Other expenses / overheads	10	10
Net profit	10	5

Appendix B**Rave Confectionery: Forecasted sales and market share of four main (non chocolate) sweet ranges.**

75

Sweet range	2006 Sales \$m	2006 % share of this market segment	2007 Sales \$m	2007 % share of this market segment
Fruit chews	14	5	13	5
Mints	15	52	16	55
Fruit bars	11	40	15	40
Candy bars	7	8	6	5

80

Appendix C**Expected annual costs and revenues from Fruit Choc Delight. \$m**

	If economy in recession	No economic Recession
Annual revenue	6	18
Annual costs including promotion	9	7

85

Economists predict that the chance of an economic recession in any one year is 60%.

Section A

Answer **all** questions in this section.

- 1 (a) Assess the usefulness of market research methods, other than those referred to in the case, that Rave could use before deciding whether to launch “Fruit Choc Delight”. [10]
- (b) Using Appendix B and other information, evaluate the usefulness of product portfolio analysis techniques, such as the Boston Matrix, to Rave. [12]
- 2 Would you recommend the introduction of lean production methods at Rave? Justify your answer. [14]
- 3 Using Appendix A and appropriate accounting ratios, analyse the likely reasons for declining profitability at Rave over the period shown. [14]
- 4 (a) Refer to Appendix C. Draw a decision tree to represent the decision of whether or not to market the “Fruit Choc Delight” product. [4]
- (b) Calculate the expected monetary value of the decision to market the “Fruit Choc Delight” product. [4]
- (c) Briefly assess the usefulness of the decision tree technique to Rave’s directors. [6]
- 5 Discuss how the directors might encourage staff involvement and cooperation in helping to solve the problems faced by Rave. [16]

Section B

Answer **either** Question 6 **or** Question 7 in this section.

- 6 Discuss how a consumer product business such as Rave could try to ensure survival when faced with increased competition. [20]
- 7 To what extent would you advise businesses such as Rave to consider the interests of all stakeholder groups when taking major decisions? [20]

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