



Question 1.

Premier Foods, the owner of Branston Pickle, bought the Campbell Soup Company for £450 million (\$830 million) in 2006. Premier Foods said the purchase would give it control over well-known brands including Oxo, Batchelors, Homepride and Fray Bentos in the UK and Ireland. After the purchase, Premier Foods said it planned to continue its strategy of acquisitions. The purchase of these brands should help Premier Foods to further exploit economies of scale. 'The Campbell's UK business fits Premier like a glove,' said Robert Schofield, chief executive of Premier foods. 'This acquisition will bring an excellent portfolio of powerful and iconic brands which we intend to drive forward with increased resource and innovation,' he added. The cost of the transaction was met in large by issuing new shares to existing shareholders.

Source: adapted from <http://news.bbc.co.uk>.

- (a) Explain why Premier Foods may be able to exploit
 (i) marketing economies and (ii) purchasing economies
 as a result of the acquisition.



Question 2.

In the 1970s, it was argued that large companies could be very profitable if structures were crystal clear and rational. Through these means, human error or deviance could be minimised. But in the 1990s, a variety of studies were conducted which showed that around 1,000 employees in one location is about the maximum size for any company if it is to retain the advantages of economies of scale and minimise the human diseconomies arising from adding more people.

Take the case of IBM, the world's first large computer company. In the 1970s and 1980s, IBM came to symbolise the success of big business. It had pioneered the manufacture of large mainframe computers. But by 1993, it was in trouble, losing £5.6 billion in that year alone. It had failed to move with the times. Part of the business was saying that the future lay with cheap small personal computers. Part of the business was making a profit from computer software. Those at the top failed to listen and persisted in thinking that the future lay with expensive mainframes.

A new chief executive, Lou Gerstner, was appointed. He reduced IBM's workforce by 50 per cent. The company was refocused on providing e-business services and solutions, research and design and semiconductor architecture. Very importantly, the company was segmented into small operational units. IBM employees were reмотivated to develop services, discover solutions and be innovative.

Source: adapted from *The Financial Times*, 4.1.2002.

- (a) Explain what is meant by 'diseconomies of scale' and, using the example of IBM, explain why they occur.