

ECONOMIES OF SCALE – PAST PAPER QUESTIONS

RECOVERY STRATEGY PAYS OFF FOR THORNTONS

It's chocolate season - Valentine's Day, Mother's Day, and Easter are all in close succession, and Thorntons has been innovating on products to lure chocolate lovers into its stores. Thorntons Moments, described as a family treat, are just hitting the shops shelves this week. Further work is also under way on design and layout, and the new look will be trialled at 10 stores this summer.

Mike Davies, the chief executive, joined Thorntons from Mars in October 2006, pledging to revive the fortunes of the company which began as a single shop in Sheffield in 1911. His recovery strategy appears to be paying off.

Yesterday, Thorntons reported a 14% jump in half-year profits as it notched its fifth successive quarter of sales growth. Revenues rose 13.9% to £126.7m in the 28 weeks to 12 January while profits increased to £11.9m from £10.5m. Thorntons trades from 378 owned stores and 252 franchises and its products are also available through supply deals with major supermarkets and retailers. Its website and catalogue service, Thorntons Direct is also making steady progress, enjoying revenue growth of 25.6% to £5.3m in the period.

Cliff Feltham, The Independent, 21 February 2008

(a) Outline **two** economies of scale that Thorntons will benefit from if it continues to be successful. [4]

(i)

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(ii)

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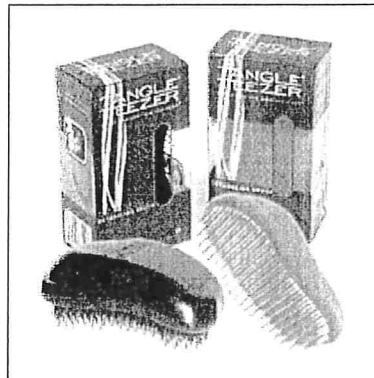
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DRAGONS GET IT WRONG WITH TANGLE TEEZER ENTREPRENEUR

The determined inventor of the Tangle Teezer, Shaun Pulfrey, didn't let rejection in the BBC's Dragons' Den in 2007 stop him. His product, which took him four years to perfect, is a flexible brush-comb that very effectively untangles long hair and is widely used by both hairdressers and the public. It is so good at what it does that sales turnover reached £11 million in 2012.



Undeterred by the Dragons' reluctance to offer him any of the £85 000 he was seeking, he remortgaged his flat and invested his own money in the business. Shaun took on **marketing** and sales staff with experience in professional hair-care to launch the brush at the Salon International hairdressing exhibition.

A deal with the UK's leading chemist chain (Boots) has dramatically increased Tangle Teezer's profile and online sales launched the product worldwide. There are now numerous different versions for sale on the business's very professional website – at very affordable prices.

Tangle Teezers, which are all manufactured in the UK, are now one of the best selling hair brushes in many countries. As the business has grown, Shaun has been able to take advantage of **internal economies of scale**, making the business even more competitive.

Another question over the page

(i) Define the term *internal economies of scale*.

[2]

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- (ii) Explain how Shaun Pulfrey's business may have benefited from *internal economies of scale*. [6]

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