WJEC CBAC

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12 PAGE ANSWER BOOK

Grade A

For examiner use
49
Examiner's initials: AB

Centre number	6	4	3	9	5	Candidate number	2				
Subject/Unit title	Business Studies - BS3										
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- Use black ink or ball-point pen.
- Write the information required in the spaces above.
- Use both sides of the paper.
- Write the question number in the left-hand margin.
- Rule a line across the page after each answer.
- Do all your rough work in this answer book and cross out any work you do not want marked. Do not tear out any part of this book. All work must be handed in.
- Write the numbers of the questions you answer in the order attempted in the left-hand column of the boxes opposite.

Question number	Mark
1	9
2	8
3	12
4	8
5	12
Total	49

Write here how many answer books you have used. If you have used two or more books, please insert all additional books inside the first book.	1

Question number

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1.) ~~Ten~~ Stakeholders

pressure groups
↳ may put pressure on due to pharmaceuticals

Local community/economy.
↳ gain from

Shareholders
↳ likely ↑ in value

Competitors

Employees
↓
Job cuts

new jobs in emerging m.

Managers

Customers.
↳

A stakeholder is anyone who is affected by ~~Benckiser~~ business actions. Employees are likely to be affected as they have announced various cost saving strategies, this could lead to closing of loss making production factories leading to redundancies. Therefore demotivating existing staff in fear of lower wages & decreased standard of living. However some employees may be motivated by increased competition and being part of global expansion — making them feel empowered.

Customers are going to be affected by new strategy, consumers in developing countries such as India & China will benefit from increased choice due to powerbrands. The increased competition will also lead to lower prices for consumer.

Shareholders may see an increase in value of shares as Reckitt has identified most ~~and~~ profitable powerbrands and ~~has~~ plans to focus on these, therefore increasing ~~profits~~ ~~margins~~ for Reckitt. Brand ~~equity~~ building will increase the value of the firm and increase value of shares & likely to receive high dividends.

Local community of emerging countries likely to largely benefit due to the transfer of capital, increased jobs and health ~~and~~ of knowledge brought by multinational company Reckitt. Also local people will see an increase in quality of life as health & hygiene increases

However Reckitt may ~~on~~ encounter resistance from pressure groups as they may disagree with ~~their~~ methods used to test new innovative pharmaceutical products.

L III Managers ~~with~~ ~~sees~~ a of powerbrands in emerging market may be empowered by the potential for massive profit & gain vast experience in this field. 9

~~Rock~~

2. importance of Powerbrands – success

important
- creates ~~st~~ customer loyalty
- needed to compete with powerbrands of other companies such as P&G
- brands are intangible assets – create value
- Global scale → economies

"Power market"

Other factors
- Quality management
- adapt to domestic market

Powerbrands such as Strepsils & Dettol have laid the foundation of Reckitt Benckisers business & play a fundamental role in its success.

~~Pow~~ Reckitts powerbrands create a strong customer loyalty especially the pharmaceutical & health care powerbrands as consumers want to be able to trust they are safe ~~and~~ This increased customer loyalty in turn leads to repeat sales as consumers see them as the best in the market.

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~~This~~ A brand is an intangible asset & increases the value of the business. Powerbrands therefore make up considerable amount of the firms value. This then creates customer loyalty and increases competitiveness against main rivals Procter & Gamble.

Powerbrands are also known accross the globe and often become household names in their own right. Therefore by creating a global presence, assuming products are ~~not~~ not adapted, this can lead to marketing economies of scale
↳ also decreases risk as profits of successful brands *
However, although powerbrands are vital to R.B's success, ~~they also need other~~ other external & internal factors determine success of power brands. The ~~powerbrands~~ need to be in a 'powermarket' with high growth and relatively low competition, or they will not achieve high sales or profit. E.G if they only based powerbrands in ~~UK mark~~ Europe & N. America market they would suffer due to the lack of growth (only +5%). ~~Whereas~~

The quality of management of the powerbrands & management of product portfolio is also key. If the ~~employee~~ management ~~neglect~~ poorly manage the growth into new markets to exploit powerbrands, they can end with large burden of debts and cash flow problems. This could then lead to demerging and selling of the power brands, leading to decrease in market share & could prove costly.

* can compensate for underperforming brands.

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They ~~may at~~ also need to be sensitive to the domestic market and may need to adapt the powerbrands. If they fail to adapt, they may be insensitive to local culture, therefore ruining the chances of exporting emerging markets & lose out to competition of domestic brands.

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3. 2010 2009.

GPI

GPM $\frac{5121}{8453} \times 100 = 60.58\%$ $\frac{4664}{7753} \times 100 = 60.16\%$

NPM $\frac{2130}{8453} \times 100 = 25.19\%$ $\frac{1891}{7753} \times 100 = 24.39\%$

ROCE $\frac{2130}{(5129 + 2496)} \times 100 = 27.93\%$ $\frac{1891}{(4014 + 1756)} = 32.77\%$

RONA $\frac{2130}{5129} \times 100 = 41.52\%$ $\frac{1891}{4014} = 47.11$

CR = $\frac{2642}{5717} = 0.46:1$ $\frac{1770}{2891} = 0.612:1$

AT $\frac{2642 - 646}{5717} = 0.35:1$ $\frac{1770 - 486}{2891} = 0.44:1$

Gearing $\frac{2496}{(5129 + 2496)} \times 100 = 32.73\%$ $\frac{1756}{(4014 + 1756)} = 30.43\%$

→ $\frac{2496}{5129} \times 100 = 48.66\%$ $\frac{1756}{4014} \times 100 = 43.74\%$

Excellent.

RB have a very high GPM ~~of~~ for a retailer of 60.58%. Although not by much, GPM have increased by 0.42% showing increases still. This indicates that due to economies

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of sale, RB have achieved a low unit cost & low cost of sale. However higher the better.

RB's NPM has also increased by around 1% over the years '09 - '11 and is high at 25%. This shows the firm are managing their overheads well. Although higher the better so there is room for improvement

Return on capital employed has decreased by around 5% over the year which is ~~slight~~ a move in the wrong direction this could be due to the lack of growth and therefore lack of investment in European & N. American market. It could ~~also be~~ also show that the capital invested has been ~~$~~ funding expansion & investment into new markets - therefore has not been able to make instant ~~pot~~ returns. However saying this, ROCE is very high at 27% and therefore is well above the base rate. therefore attracting investors.

The figures on liquidity pose a worrying problem at the firm current ratio is only 0.46:1 and has decreased by around 0.2:1 ~~showing firms~~ Current ratio shows the firms ability to pay he short term debts. This can be explained by the loans needed to fund investment into 'power market' ~~however~~ - therefore RB will need to be careful to maintain healthy cash flow. the ideal is around 1.5:1, however RB have a high sales turnover and are likely to deal mainly in cash ~~which~~ so this could be accounted for. Acid test excludes stock and shows a ~~more~~ worse ratio of 0.35:1. this is ~~a~~ usually a truer

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liquidity ratio as stock is the hardest asset to turn to cash, however RB have a high stock turnover and find it easier to dispose of stock so therefore ~~the~~ the acid test ~~is~~ can be accounted for. The ideal is around 1:1.

The gearing ratio shows an increase of 5% over the year at around 48%. This is around the ideal as the firm wants to make best use of available funds in order to exploit opportunities, however does not want to be overly geared as this would lead to threat of takeover & loss of control.

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4. inflation
↳ ↑ demand in emerging markets ⇒ firms charge ↑ prices → ↑ inflation. → ↑ wage pressure
↳

interest & Exchange Rates
↳ Exchange rates fluctuate → RB have to
↳ IR ↑ → cost of investment ↑ / ↓ IR → + cheap growth
Business Cycle.
↳ Recession → can lead to exploiting cheap assets however reduced disposable income

4. Reckitt Benckiser's business is highly subject to the external forces that influence the global market, for example macro-economic factors such as inflation, interest & exchange rate and the business cycle.

Inflation is the general increase in prices of an economy. Reckitt Beckner are likely to encounter inflation in emerging markets if the market grows too rapidly. An aggregate increase in demand will allow firm's such as Reckitt to increase prices ~~of~~ of products whilst

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Still retaining sales (however depends on price sensitivity) and therefore inflationary pressure arises. This in turn then creates pressure from employees and trade union of RB to increase wages to match the cost of living. Therefore HR costs to RB increases, reducing profit margins and limiting the ability to exploit the market. This can then stunt RBs plans for r. future growth.

~~If interest rates increase in the economy RB's headquarters & main production operate in, then~~ Interest rates affect the cost of saving & cost of borrowing. ~~& Exchange rates are the~~ If interest rates increase in the economy that Benckisers headquaters and main production perates, then they will be adversely affected. An increase of interest rates means the cost of saving will decrease - therefore attracting customers to save. This will lead to a decrease in sales as customer confidence to spend narrows. However Benckisers products are not luxury goods and therefore they will have to focus operations on the core parts of Recketts business. However if interest rates decrease it could benefit Recketts future goals as the cost of investment decreases and therefore the cost to exploit investment in power markets will be lower, leading to higher profit margins.

Strong Exchange rates fluctuate constantly and RB
P£ will have to regulate spending & investment to
Imports compensate for this fluctuation. If the £ is
Cheap Strong and exchange rate ~~that~~ increases in
Exports UK, then the cost of export becomes expensive,
Dear meaning ~~for~~ consumers in foreign markets
~~will food at~~ will buy the cheaper domestic goods which decreases demands for exports.

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the business cycle has 4 Stages, including a recession. If RB enter a recession then future growth may be put on hold as consumer confidence to spend decreases, due to decrease in disposable income

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5) Globalisation advantages

- Cheap labour
- Transfer of Capital
- Economies of scale
  - marketing
  - risk bearing
  - tech.
  - financial
- Transfer of wealth & knowledge
- Jobs.
- Customer loyalty
- tax
- Power brand ↳ global identity

disadvantages

- tariffs Quotas.
- Barrier 2 entry
- single currency
- Ruins local culture
- Become unaccountable ↳ may avoid tax.
- Loss of contact with consumer

- Innovation
- large global product portfolio

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5. Reckitt Benckiser is a prime example of how a multinational operating on a global scale can be very successful. ~~However not~~
By operating on a global scale, RB can invest ~~of~~ expansion into new emerging markets with high GDP and large levels of growth. For example only a globalised firm would be able to enter a 'power market' in Russia or Middle east and be able to take advantage of the high levels of growth therefore enabling them to make high return on investment, increase market share and gain economies of scale. This also allows them to please shareholders by ~~o~~ reimbursing high dividends & increasing share price. Exploiting new markets also allows them to take advantage of lack of competition and can establish themselves as brand leader. / market leader.

~~By~~ operating globally, Reckitt can achieve many different economies of scale. By implementing a global strategy and creating brands with household names across the world, RB can achieve marketing economies of scale. This in turn increases ~~the~~ customer loyalty for brands and increases repeat sales. Multinationals ~~are also~~ such as RB are also at forefront of innovation and can raise large amounts of capital to finance innovation. This benefits various stakeholders including customers giving them an increased choice.

Multinationals also increase competition in domestic markets, ~~reducing~~ forcing complacent firms to react to consumer demands therefore increasing quality of goods, after sales care, reducing costs

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Reckitt can also achieve financial economies of scale, reducing unit cost due to the size of the firm. This allows for better distribution links, ~~better~~ reduced prices. Large product global portfolio allows them to achieve risk bearing economies of scale.

However, there are many disadvantages of multinationals and businesses that don't operate on a global scale can also be succesful ~~There~~

When operating outside of EU - encounter tariffs & quotas & protectionist barriers which increase costs and

Multinationals lose 'touch' with consumer and may become unethical. Consumers with ethical concious will support smaller firms as they provide friendly service.

Multinationals may ruin local culture & harmonisation of standards leads to merging of national identity. Smaller firms.

Smaller firms can still generate economies of scale w/o operating on global scale. By targetting right market w/ & controlling overheads well.

Although multinationals that operate globally are key to the global market & economy, as they provide knowledge, innovation, competition and global brands. This does not mean that nation operating firms cannot be succesful.

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- tariffs quotes increase costs for global firms & ~~[illegible]~~

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