



GCE MARKING SCHEME

BUSINESS STUDIES (NEW) AS/Advanced

JANUARY 2010

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2010 examination in GCE BUSINESS STUDIES (NEW). They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

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BS1

BUSINESS STUDIES

MARK SCHEME

GENERAL MARKING GUIDANCE

It should be remembered that the candidates are writing under examination conditions and credit should be given for what the candidate writes rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for the less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Levels of Response

Questions are awarded marks on the basis of the levels of response. The purpose of this is to award the so-called higher level skills, particularly of analysis and evaluation. In practice, the good Business Studies candidate is likely to demonstrate a good grasp of the information presented to him/her, he/she will be able to weigh this up in the light of his/her theoretical understanding of the subject and will be able to suggest appropriate strategies to deal with the situation. Candidates who have a deficiency in their theoretical understanding or who are unable to analyse properly a situation, are unlikely to be able to synthesise or evaluate in a meaningful way.

In marking scripts reference should be made to the relevant part of the mark scheme and the candidate should be awarded a mark that corresponds to the highest level that he/she has demonstrated.

Quality of written communication

The QWC is assessed in question 5.

1. (a) With the aid of examples, distinguish between goods and services. [4]

Goods – items produced by the conversion of raw materials into finished products by the secondary sector. They are tangible/physical products e.g. a car, an apple. Not necessary but candidates may refer to consumer and capital goods.

Services – intangible, task performed in return for payment e.g. personal/direct services e.g. hairdresser/haircut and commercial services e.g. banking and insurance services. Reference to tertiary sector to help illustrate the answer.

Definition (1); example (1) x 2.

(b) Explain two advantages to British businesses of operating in a global economy. [4]

Answers may refer to:

- Access to a larger market for their products and services.
- Larger market share.
- Increasing reputation and awareness of the company.
- May be able to take advantage of favourable exchange rates.
- Open up business opportunities and increases revenue/profit through setting up subsidiaries in foreign countries.
- Can readily choose advantageous locations for their operations and reduce costs e.g. cheaper labour/raw materials costs has resulted in relocating manufacturing to the far east/call centres in India for the service sector.
- Opportunities to reap economies of scale from larger markets.
- Increasing opportunity to merge with other companies. Manufacturers may merge with another manufacturer in another country, thereby making products in the country in which they will be sold. Transportation costs would be reduced.

1 + 1 for development x 2

2. (a) Explain two problems that businesses in a niche market might face. [4]

Answers may refer to:

- Firms which successfully exploit a niche market often attract competition.
- By their nature niche markets are small and are often unable to sustain two or more competing firms.
- Cannot benefit from economies of scale.
- Large businesses joining the market may benefit from economies of scale which small firm are unable to achieve.
- Does not allow the spreading of risks – vulnerable to changes in taste, fashion, economic downturn.
- As they have a small number of customers they tend to face bigger and more frequent swings in consumer spending. Rapid growth in sales can often be followed by rapid decline in sales. Can be volatile.
- High prices charged in current economic climate could lead to switching purchases.

1 + 1 for development x 2

(b) What advantages does an asset-led marketing approach to the sale of Veg Pots have when compared with the market-orientated approach used by Innocent Ltd when launching the fruit smoothies? [6]

Level I	(1-2)	Candidate distinguishes between asset-led marketing and market-orientated marketing. Or outlines one or two possible advantages of asset-led marketing.
Level II	(3-4)	Candidate explains advantages of asset-led marketing.
Level III	(5-6)	Candidate fully explains the advantages of asset-led marketing when compared with the market-orientated approach used by Innocent Ltd when launching the fruit smoothies.

Answers may refer to:

Asset-led marketing – marketing based on the strength (core competencies) of the firm rather than simply what the customer wants. They are responsive to the needs of the market but equally they take into account their own strengths and weaknesses.

Market orientated – focusing on customer needs and wants – led by the market.

Innocent Ltd has built up its core competencies:

- Formidable brand – consumers trust the brand – willing to pay premium prices.
- Reputation for using healthy ingredients – vegetables perceived as healthy.
- Supporting eco-causes – more consumers are aware of these causes.
- Products widely available in supermarkets – extensive distribution network.

It intends to build on these strengths which customers now recognise. These strengths/advantages would not have been present when launching the fruit smoothies.

It is building on its reputation in the market.

It already has a presence in the market.

Distribution channels are already in place.

They are already working with supermarkets so it is easier to get their products placed in supermarkets.

Good reputation allows for easier financing if required.

When it launched the smoothies it had to use a market-orientated approach to marketing to establish itself and attract customers. It had 'no assets' in a marketing sense.

Maximum 4 if no application.

(c) **Discuss whether or not Innocent Ltd should become a public limited company (plc).** [8]

Level I	(1-2)	Candidate outlines one or two possible advantages or disadvantages of becoming a public limited company.
Level II	(3-5)	Candidate explains the advantages or disadvantages to Innocent Ltd of becoming a public limited company.
Level III	(6-8)	Candidate fully evaluates the advantages and disadvantages to Innocent Ltd of becoming a public limited company.

Answers may refer to:

Advantages:

- All shareholders maintain limited liability.
- More market power maybe enjoyed due to larger size.
- Huge amounts of money can be raised from the sale of shares to the public on the Stock Exchange – this can be used to expand the business.
- Economies of scale may be enjoyed as the company grows.
- May gain greater presence/dominance in the market.
- Often easier to raise finance – financial institutions, such as banks, are more willing to lend to plcs.

Disadvantages:

- It can be expensive – setting up costs can run into millions for some businesses.
- Outside interests could take control as shares are on sale to the public.
- Greater divorce of ownership and control than in a private limited company. Innocent’s board may lose control.
- Accounts can now be inspected by the public or competitors who could use them to their advantage.
- Have to publish more information than private limited companies.
- Greater size may lead to slower decision making.
- Can be time consuming to gain listing.
- If they grow too big they may become inflexible e.g. they may find change difficult to cope with.

3. Explain why Starbucks might have benefited from vertical integration. [6]

- Level I (1-2) Candidate outlines one or two possible benefits of vertical integration to Starbucks or outlines the concept of vertical integration.
- Level II (3-4) Candidate explains possible benefits of vertical integration to Starbucks.
- Level III (5-6) Candidate fully explains the possible benefits of vertical integration to Starbucks.

Answers may refer to:

- Vertical integration – the merging of two firms at different stages of production.
- Can be Forward Vertical Integration or Backward Vertical Integration.
- Security of supplies
- Improved supply chain
- Can guarantee the quality of its raw materials
- Guaranteed outlet for products
- Can determine standard of outlets/cafes
- Use of outlets to determine brand image
- Increased profit margins does not have to buy raw materials from a third party

Maximum 4 without application.

4. **Assess the likely impact, of the closure of the Fenland Foods factory, on the stakeholders of Northern Foods plc.** [8]

- Level I (1-2) Candidate identifies valid stakeholders affected by the closure of Fenland Foods (maximum of 2 marks) or outlines one or two effects of the closure.
- Level II (3-5) Candidate identifies valid stakeholders and explains how they are affected by the closure of Fenland Foods.
- Level III (6-8) Candidate identifies valid stakeholders and fully assesses how they are affected by the closure of Fenland Foods.

Answers may refer to:

- (-) **Employees** – these are concerned with job security and prospects of promotion – they are faced with job losses and may not get other work.
- (-) **Fenland's customers** – other customers relying on Fenland foods for their supplies will need to look elsewhere for their goods and this may result in higher costs, poorer trading terms, etc.
- (-) **Suppliers** of materials to Fenland Foods will be adversely affected e.g. loss of demand for their ingredients/raw materials will have a knock on effect on their profitability.
- (-) **Community** – loss of jobs. If a major employer closes down in the area it has a knock-on/multiplier effect with other businesses with the social environment adversely affected, e.g. areas can become depressed with fall in house prices and the general adverse impact on area associated with unemployment.
- (+) Closure of factory may have a positive impact on environment and community.
- (-) **Shareholders/investors/owners** – impact on share prices and dividends felt during a recession. Northern foods not immune share prices likely to fall and dividends reduced. Confidence in Northern Foods adversely affected.
- (-) **Government** – less revenues from taxation and increased benefit payments to be made.
- (+) **Competition** – Those firms who will replace Fenland Foods will benefit from increased sales.
- (-) **M+S Customers** – Italian ready-made meals may not be to the same standard as those made by Fenland.
- (+) **Local Employers** – Larger pool of unemployed to choose from – may be able to employ workers more cheaply.

N.B. The impact is largely negative but some stakeholders will benefit from the closure of Fenland Foods.

5. **To what extent are factors affecting location more important to the success of some types of businesses than others?** [10]

Level I	(1-3)	Candidate identifies factors affecting location decisions (maximum of 3 marks regardless of number of examples). The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.
Level II	(4-7)	Candidate explains how factors affecting location are important to the success of a business. The candidate can organise relevant information and express moderately complex ideas clearly in a coherent manner. There is good use of specialist terminology. Occasional errors in grammar, punctuation and spelling occur but they are not sufficient to suggest a weakness in these areas.
Level III	(8-10)	Candidate evaluates the importance of locational factors to the success of a business. The candidate can organise effectively relevant information and express complex ideas extremely clearly and fluently. There is very good use of specialist terminology. There are few, if any, errors of grammar, punctuation and spelling.

Candidates would be expected to consider a range of factors that influence location and draw a conclusion.

The major factor influencing location is the type of business: is it in primary production, manufacturing, retailing/distribution. Is it service or information related?

Manufacturing – often a need to be near raw materials/suppliers, good transport links and markets, size of land needed for operations.

Service industries – need to be near customers – retailing, insurance, banking, but even here development of internet means that business is generally less tied to centres of population. Some services can be in secondary locations e.g. hairdressing.

Online banking and insurance can be conducted using web based and telephone communications. Call centres that serve these service industries can be located anywhere where labour costs are low e.g. overseas India. Footloose industries – not tied down by particular location factors.

Method of distribution – firms selling via the internet need high quality transport links.

Closeness to market – vital if customer needs to visit the business to purchase the product – also important for firms supplying fresh produce.

Communication links – important in supporting access to raw materials and markets.

Closeness to raw materials – important if heavy and needed in large quantities – steel manufacture.

Labour quantity/quality – depending on nature of business availability of large pool of relatively unskilled labour or appropriately skilled labour.

Opportunity for waste disposal – important side effect of modern industrial processes.

Land – Availability of land for future expansion.

Government incentives – grants may be available.

Infrastructure – e.g. roads, services available e.g. school, hospitals, shops entertainment.

Weight-gaining and weight-losing industries – if products gain weight in the production process they need to be near markets. If products lose weight in production they tend to be near raw materials. Candidates may give examples.

BS2

GENERAL MARKING GUIDANCE

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Levels of Response

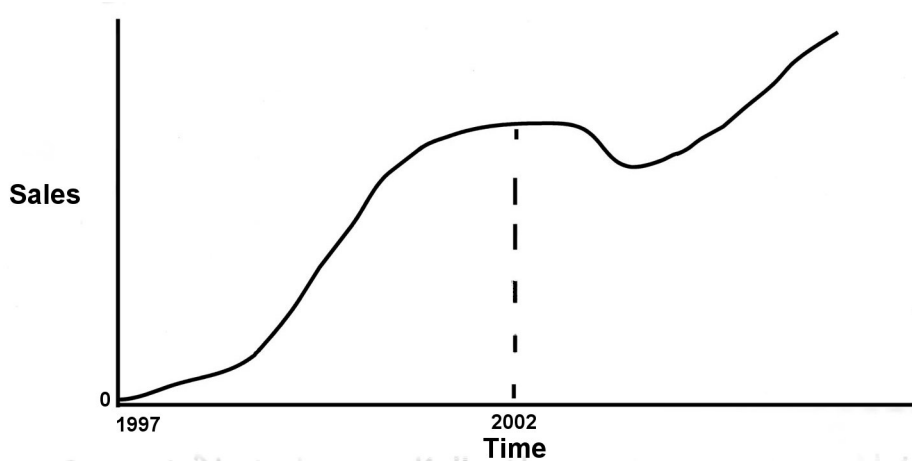
Questions are awarded marks on the basis of the levels of response. The purpose of this is to award the so-called higher level skills, particularly of analysis and evaluation. In practice, the good Business Studies candidate is likely to demonstrate a good grasp of the information presented to him/her, he/she will be able to weigh this up in the light of his/her theoretical understanding of the subject and will be able to suggest appropriate strategies to deal with the situation. Candidates who have a deficiency in their theoretical understanding or who are unable to analyse properly a situation, are unlikely to be able to synthesise or evaluate in a meaningful way.

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Quality of written communication

The QWC is assessed in question 3e.

1. (a) Describe, with the aid of a diagram, Nutri-Grain's product life cycle. [6]



Possible responses may include:

- Launched in 1997 and achieved rapid growth and continued growth.
- Reaches maturity in 2002 as sales peak.
- Enters decline phase.
- Growth continues strongly following the implementation of extension strategy.

Up to 4 marks for an accurate fully labelled diagram.

Up to 4 marks for description of diagram.

Maximum of 2 marks for description with no diagram.

Maximum of 6 marks

(b) Explain the changes to Nutri-Grain's marketing mix which Kellogg's might have considered when deciding on its extension strategy. [6]

- Level I (1-2) Candidate briefly outlines one or two possible changes to Nutri-Grain's marketing mix which Kellogg's might have considered when deciding on its extension strategy.
- Level II (3-4) Candidate attempts to explain possible changes to Nutri-Grain's marketing mix which Kellogg's might have considered when deciding on its extension strategy.
- Level III (5-6) Candidate fully explains possible changes to Nutri-Grain's marketing mix which Kellogg's might have considered when deciding on its extension strategy.

Possible responses may include:

- Develop a wider product range – reformulate the product – new flavours, new recipes etc.
- Aim at specific target markets which have not purchased the product before. New image promoted by revitalised advertising campaign.
- Change the appearance of the product – new packaging, new sizes, etc.
- Encourage more frequent use – not just a breakfast substitute but a snack to eat at any time.
- Re-position the price and image.
- Encourage new stockists.

2. (a) With reference to DGS, explain the terms:

Trade creditors: [3]

- Business to which Fred owes money.
 - These debts have to be paid within 12 months/short period of time.
 - Likely to be suppliers of wood, preservatives and fixings in this case.
- (3 x 1)

Drawings: [2]

- Money taken out of the business by the owner - a reduction of owners capital.
 - Represents the salary taken out of an unlimited liability firm.
 - As Frank is the proprietor, it represents his salary.
- (2 x 1)

(b) Using DGS as an example, explain the concept of adding value. [4]

- The difference between the cost of the raw materials and the selling price. (2)
- A brief example of how Fred adds value to the raw materials he purchases. Inputs – process – output. (2)

(c) From the Balance Sheet of DGS calculate the following:

(i)	Working capital	£1 630	[1]
(ii)	Net assets	£79 130	[1]
(iii)	Net profit	£47 630	[1]

(d) What is working capital and why might Fred's accountant be concerned about the amount on the balance sheet? [6]

Level I (1-2) Candidate attempts to define working capital.

Level II (3-4) Candidate defines working capital and attempts to explain why the accountant might have concerns.

Level III (5-6) Candidate defines working capital and clearly explains why the accountant may have concerns.

Possible responses may include:

- The day to day finance available for running a business.
- Formula: *current assets - current liabilities = working capital*.
- Fred does not have a great deal of working capital – £1 630
- Working capital is needed to pay for raw materials and it is coming up to a busy time for the business – although he does have £5 120 in stocks.
- Fred also owes £62 490 to trade creditors and will probably have to settle these debts fairly soon.
- He is owed £73 450, however; he needs to chase these debts urgently. One bad debt could threaten his liquidity position.

3. (a) **Explain the key features of a *human resources plan* for a business such as Pickering's.** [6]

Level I (1-2) Candidate identifies one or two features of a HRP.

Level II (3-4) Candidate attempts to explain at least one or two features of a HRP.

Level III (5-6) Candidate fully analyses the features of a HRP.

Possible responses may include:

- Matching up the right type of the employees to the needs of the business.
- Method by which a business forecasts demand for employees – How many? What type? Where are they needed? When are they needed?
- Analyses current employees. What characteristics? (age, qualifications, etc.)
- Planning internal supply – promotion, training, retirement
- Planning external supply – unemployment rates (local and national), government policy, skills, population trends.
- Can be both short term (e.g. maternity leave) and long term (e.g. strategic) in nature.

(b) **Explain how *agents* might have been useful to Pickering's when entering European markets.** [4]

Level I (1-2) Candidate attempts to explain possible reasons why using an agent may be useful.

Level II (3-4) Candidate attempts to explain possible reasons why using an agent may be useful and applies it to Pickering.

Possible responses may include:

- To negotiate sales on behalf of a seller.
- A link between those providing a good or service and those wishing to buy them.
- Can help Pickering's when they are unsure about the trading practices and legal requirements in the countries in which they hope to trade.
- Will reduce the risk Pickering's are taking when trading abroad.

(c) **How might *industrial marketing* differ from the type of marketing that Pickering's carries out when selling shoes to consumers through their retail stores in the UK?** [6]

- Level I (1-2) Candidate briefly outlines industrial marketing.
- Level II (3-4) Candidate explains industrial marketing and may attempt to explain the differences between industrial and retail marketing.
- Level III (5-6) Candidate analyses industrial marketing and distinguishes between industrial and retail marketing.

Possible responses may include:

- Offering the right product at the right price at the right place and at the right time to sell profitably to business customers.
- Selling goods and services that are not directly aimed at consumers.
- May sell finished goods, raw materials, components or services.
- Will require a finely targeted approach – homing in on the few people in any organisation whose responsibility it is to purchase goods and services from outside.
- Industrial marketing is more focussed and does not aim at mass markets.
- Trade fairs and exhibitions may be used to establish contacts and display goods.
- May involve highly specialised sales personnel.
- Trade magazines and journals may be used to advertise the goods or services.

(d) (i) **What is *capacity utilisation* and how is it measured?** [4]

- The use that a business makes of its resources.
- Measured by comparing actual output with potential output at full capacity.
- $CU = \text{current output}/\text{maximum output} \times 100$

Maximum of 2 for general description.

Maximum of 2 for formula only.

(ii) **Consider the advantages and disadvantages, to businesses such as Pickering's, of working at full capacity.** [8]

- | | | |
|-----------|-------|---|
| Level I | (1-3) | Candidate briefly outlines one or two advantages/disadvantages. |
| Level II | (4-6) | Candidate attempts to explain at least one or two advantages and disadvantages and may attempt some evaluation. |
| Level III | (7-8) | Candidate fully evaluates the issues related to operating at full capacity. |

Possible responses may include:

Advantages:

- Average costs minimised – fixed cost spread – helps raise profits.
- Workers may feel more secure in their jobs – motivation raised.
- Improves company image – busy business may encourage customers to place orders.

Disadvantages:

- Strain on resources if over worked.
- Too much overtime for workers may lead to stress, tiredness – absences and accidents may result.
- Machinery may be overworked and break down if insufficient time put aside for maintenance.
- Insufficient staff training if working all the time.
- Orders may be lost if no capacity available to accommodate new customers.

(e) **Evaluate Harry Pickering's view that: *Recruiting senior managers internally has more drawbacks than benefits.*** [12]

Level I (1-4) Candidate identifies one or two drawbacks or benefits associated with internal recruitment.

The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.

Level II (5-8) Candidate attempts to explain a number of drawbacks and benefits associated with internal recruitment.

The candidate can organise relevant information and express moderately complex ideas clearly in a coherent manner. There is good use of specialist terminology. Occasional errors in grammar, punctuation and spelling occur but they are not sufficient to suggest a weakness in these areas.

Level III (9-12) Candidate fully evaluates the statement.

The candidate can organise effectively relevant information and express complex ideas extremely clearly and fluently. There is very good use of specialist terminology. There are few, if any, errors of grammar, punctuation and spelling.

Possible responses may include:

Drawbacks:

- The number of applicants may be limited.
- Better quality external candidates may have been lost – the best person for the position may be overlooked.
- Promoting internally means that another post now has to be filled.
- Internal candidates may find it difficult to manage former colleagues/friends who are now subordinates. Prejudices may exist.
- The candidate may not bring an innovative or fresh approach to the position, especially if they have been with the organisation for any length of time.
- If no internal candidate proves suitable the business will have to advertise externally anyway.

Advantages:

- Employees within the organisation have a chance to develop their career – greater motivation.
- Familiarity with the organisation means that induction period will be much shorter.
- Internal candidates' abilities are well-known – less risk of appointing a candidate who may not prove suitable.
- The process will be quicker and less expensive.

BS3

BUSINESS STUDIES

MARK SCHEME

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In addition, candidates will be assessed on their Quality of Written Communication in questions 4 and 5.

1. **Identify the types of risk that Premier Foods plc faces in running its business and suggest steps that it can take to minimise them.** [8]

- Level 1 (1-2) The candidate identifies one or two of the risks faced by Premier Foods plc.
- Level 2 (3-5) The candidate identifies some of the risks faced by Premier Foods plc and suggests ways of minimising them.
- Level 3 (6-8) The candidate identifies some of the risks faced by Premier Foods plc and makes sensible suggestions as to how they might be minimised.

Quantifiable risks might include the following:

- The impact on costs of the “surging price of wheat”.
- The impact on costs of other “commodity price inflation”.
- Changes in the price of externally sourced goods.
- Currency fluctuations.
- The impact on production levels of a break in the supply chain.

Unquantifiable risks might include the following:

- The adverse effect on the company’s reputation if there is a major failure in quality control or if a major brand has to be withdrawn because it is affected by a health scare.
- Market rejection of one of its new proposed brands such as the Hovis rolls.
- The effect of external factors such as a recession.
- The impact on staff morale of rapid expansion.

(NB candidates do not have to specifically use the terms **quantifiable** and **unquantifiable** risks)

Steps that it could take to minimise the risks might include:

Look for alternative supplies of raw materials.
Hedge currencies.
Introduce rigorous quality control procedures.
Train the workforce to deal with anticipated problems, e.g. in health and safety procedures.
Any other sensible suggestions.

2. Explain how Premier Foods plc has benefited from its takeovers and brand acquisitions. [12]

- Level 1 (1-4) The candidate demonstrates some understanding of how Premier Foods has benefited from its takeovers and brand acquisitions.
- Level 2 (5-8) The candidate demonstrates good understanding of how Premier Foods has benefited from its takeovers and brand acquisitions.
- Level 3 (9-12) The candidate demonstrates excellent understanding of how Premier Foods has benefited from its takeovers and brand acquisitions.

Answers might refer to the following:

- Takeovers have helped Premier foods to grow in size. As a result it can benefit from economies of scale such as bulk purchasing (examples are given of milk, peas, etc); manufacturing economies; use of specialists and marketing economies of scale.
- By having a large market share they should be able to improve profitability.
- Having well-known brands such as Branston and Hovis helps them to boost profitability because they are able to command premium prices.
- Premier Foods will benefit from spreading their risks across several products and markets.
- Strong brands also are likely to attract a high degree of customer loyalty, which also reduces risk and allows for long-term planning.
- Control of supply chain.
- Reduce competition.
- Rapid growth.
- Increasing shareholder value.
- Benefit from synergy.
- Acquisition of technology, expertise.

Credit should be given for use of examples from the case study.

3. Assess the financial performance of Premier Foods plc.

[14]

- Level 1 (1-4) The candidate attempts some analysis of the financial performance of Premier Foods plc.
- Level 2 (5-9) The candidate makes a reasonable attempt to analyse and evaluate the financial performance of Premier Foods plc.
- Level 3 (10-14) The candidate makes a detailed and well-balanced analysis and evaluation of the financial performance of Premier Foods plc.

	2008	2007
Gross Profit Margin	$1045/2865 \times 100 = 36.47\%$	$879/2356 \times 100 = 37.31\%$
Net Profit Margin	$216/2865 \times 100 = 7.54\%$	$300/2356 \times 100 = 12.73\%$
RONA	$216/991 \times 100 = 21.80\%$	$300/1459 \times 100 = 20.56\%$
ROCE (fixed + current assets)	$216/4095 \times 100 = 5.27\%$	$300/4094 \times 100 = 7.33\%$
ROCE (shareholders' funds + long term liabilities)	$216/3023 \times 100 = 7.15\%$	$300/3339 \times 100 = 8.98\%$
Current ratio	$762/1072 = 0.71:1$	$600/755 = 0.79:1$
Acid test ratio	$399/1072 = 0.37:1$	$361/755 = 0.48:1$
Gearing (long term liabilities/shareholders funds)	$2032/991 \times 100 = 205.05\%$	$1880/1459 \times 100 = 128.86\%$
Gearing (long-term liabilities/shareholders funds + long term liabilities)	$2032/3023 \times 100 = 67.22\%$	$1880/3339 \times 100 = 56.30\%$
Debtor days	43	51
Stock turnover	5.0	6.17

The gross profit margin seems good at just below 40% although there was a slight deterioration between 2007 and 2008.

Net profit has fallen and the net profit margin has shown a marked deterioration, which is worrying. This appears to be because both the cost of sales and expenses have risen. The former could be a result of inflation in the cost of raw materials, which may improve in the future, but tighter control of expenses is essential.

The figures for RONA seem to be good and have actually improved over the period but this seems to have happened because current liabilities have increased! ROCE is less encouraging, but is nevertheless better than current interest rates. However as the company has large debts it may find it difficult to service them in the longer term. This is referred to in the passage and indeed debts have been rescheduled (see also gearing below).

The current ratio is worrying. The ideal figure is between 1.5 and 2:1. Not only that but the situation seems to have got worse. The acid test also paints a dire picture as it should ideally be around 1:1 and it is also getting worse. However, as Premier Foods is such an important purchaser of raw materials it can probably get away with paying its suppliers slowly (despite the fact that this is against their stated policy of corporate responsibility).

The figure for gearing shows a very high level of external debt that is a considerable burden for the business. Recently, as is stated in the passage, they have swapped some debt for equity. This means a slight loss of control and a dilution of profits available to existing shareholders. This high level of debt, despite being rescheduled, is likely to be a problem for the company in the future. The only silver lining is that, at the moment, interest rates are low.

4. To what extent is Premier Foods plc's commitment to social responsibility consistent with its other aims and objectives? [13]

- Level 1 (1-4) The candidate demonstrates some ability to analyse Premier Foods plc's commitment to social responsibility.
- Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
- Level 2 (5-8) The candidate demonstrates some sensible analysis and evaluation of Premier Foods plc's commitment to social responsibility / and its consistency with other aims and objectives.
- Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
- Level 3 (9-13) The candidate is able to analyse and evaluate, in a meaningful way, Premier Foods plc's commitment to social responsibility / and its consistency with other aims and objectives.
- Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary, with few, if any, errors in SPG.

Premier Foods plc claims to have the highest ethical standards and is concerned for the welfare of all its stakeholders, including its employees and the environment.

It also states that it has a clear strategy of increasing sales and reducing costs. Above all its aim is to improve competitiveness against other food manufacturers while at the same time delivering improved returns to shareholders. This strategy is unchanged and still forms the core of all that the company seeks to do.

Will the commitment to competitiveness and improving shareholders' returns conflict with commitment to social responsibility?

This commitment to social responsibility may have positive results:

Employees are likely to be motivated by a company that is concerned for their welfare and will therefore demonstrate loyalty to the business.

Consumers and pressure groups will be happy that the company has a commitment to look after the environment. This is especially true since it is such a large buyer of raw materials and so can have a significant impact.

However, Premier Foods plc is not in a strong financial position. Net profit has fallen and it has large debts. As a result there will be a lot of pressure on the management to reduce costs.

To cut the costs of raw materials they may feel pressurised into using less ethical sources of supply.

To cut administration expenses they may decide to cut their workforce.

All of these pressures are at odds with their commitment to social responsibility.

5. Using SWOT analysis, carry out an evaluation of Premier Foods plc. [13]

- Level 1 (1-4) The candidate makes some attempt to apply a SWOT analysis.
- Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
- Level 2 (5-8) The candidate makes a reasonable attempt at a SWOT analysis/ and evaluation of Premier Foods plc.
- Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
- Level 3 (9-13) The candidate makes a well-balanced evaluation of Premier Foods plc using a SWOT analysis.
- Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

Responses might include the following:

Strengths: Strong, well-established brands, a good product portfolio, increasing sales turnover, good work force, good ethical policy, potential for economies of scale

Weaknesses: Financial (see answer to question 3) especially the need to control expenses and the over-reliance on borrowing. Possible diseconomies scale, some weaker brands?

Opportunities: Premier Foods plc could add to its portfolio of top UK brands; it could develop new products based on its old brands, e.g. Hovis rolls and Branston baked beans; it could take advantage of the trend to eat healthier foods; it could expand overseas.

Threats: The recession may affect sales with consumers opting for cheaper alternatives to Premier Foods plc premium brands; possible quality problems may damage the company. External influences may work against the company e.g. higher interest rates, higher taxes.

In conclusion it could be argued that either the strengths outweigh the weaknesses and the opportunities outweigh the threats or vice versa, depending on what weight is attributed to all of these factors.

On balance it would seem that Premier Foods plc is successful, it has a clear idea of what it is doing, sales are increasing and it is acquiring more and more top-name brands. The recession may affect sales with customers going for cheaper alternatives; however, the business is to some extent insulated from this since it manufactures many own-brand products for supermarkets which customers may buy as an alternative to its premium brands. The problem with that is that they are likely to be sold at lower profit margins.



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