



GCE A level

1083/01

New A2

BUSINESS STUDIES

BS3

P.M. MONDAY, 25 January 2010

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Premier Foods Plc* and answer the questions that follow.

1 Premier Foods plc manufactures some of the nation's favourite food brands including:

- Hovis bread
- Mr Kipling cakes
- Sharwood's Asian foods
- 5 • Batchelor's soups
- Loyd Grossman sauces
- Bisto gravy
- Quorn meat-free products
- Ambrosia custard and rice pudding
- 10 • Branston pickle
- Hartley's jams, marmalades and jellies



More than 99% of all UK households have one of its branded food products in their home and 43 million people eat a Premier Foods plc branded product every two weeks. The company's top ten brands alone have retail sales of over £1.2 billion annually.

- 15 As well as owning and making some of the UK's most popular food brands, it also manufactures hundreds of products that cater for the food-service industry, supplies ingredients to other food producers and is trusted to supply own-label products to the UK's major food retailers. Overall, it manufactures and markets numerous products across many food categories including bread, cakes, preserves, convenience foods, desserts, meat-free foods, cooking sauces, stocks, gravies, flour, chilled ready meals, meat pies and chilled desserts. The company is now the largest food manufacturer in the UK.
- 20

Premier Foods plc spends around £1.5 billion on externally sourced goods and services every year. This expenditure covers three main areas: raw materials (£900m), non-production goods and services (£450m) and wheat (£150m).

25 Every year the company buys:

- 62 million litres of milk (enough to fill 248 Olympic swimming pools)
- 11,500 tonnes of peas (the equivalent weight of 17,692 minis)
- 1.2 billion cans (which if placed end-to-end would stretch to the Moon and back 148 times)
- 513,275,435 kw hours of electricity (enough to run 34 central hospitals)
- 30 • 8.5% of the UK wheat crop (that is one in every four fields of bread-making wheat grown in the UK and is equivalent to over one third of the area of Wales).

Background

In 1999, a company called Hillsdown Holdings was acquired by four businessmen who later changed the name to Premier Foods. The business was under private ownership and initiated a strategy to
35 acquire leading British food brands.

The acquisition of part of Nestlé's food business in 2002 brought favourites like Branston, Crosse & Blackwell, Sarson's and Sun Pat into the fold and established Premier Foods plc as one of the country's leading food manufacturers.

In July 2004, Premier Foods plc was floated on the London Stock Exchange, with an initial market
40 capitalisation of £526 million. Since the flotation, it has pursued a strategy of organic growth of branded goods combined with improved operating efficiency and further acquisitions. In 2005 it acquired Bird's Custard and Angel Delight to re-shape its desserts' portfolio. In the same year, it became leader in the meat-free market following the acquisition of the meat-alternative brand Quorn.

In 2006, the business made its most ambitious acquisitions up to that point. In August it completed
45 the £460 million acquisition of Campbell's UK & Irish business, adding Oxo, Batchelors, Homepride and Fray Bentos to the product range.

The latest piece of the jigsaw fell into place in March 2007 when Premier Food plc completed the £1.2 billion acquisition of Rank Hovis McDougall (RHM) along with many of the UK's best-known food brands including Hovis, Sharwoods, Cadbury Cakes, Bisto and Mr Kipling.

50 The Market

Premier Food's plc customers are primarily major UK food retailers which stock its brands and their own-branded products. It also supplies smaller convenience stores, cash & carry, catering and food manufacturing businesses in the UK.

The food retail market is highly competitive, demanding consistent product quality and reliable
55 supply whilst seeking more competitive pricing and innovative new products. The company looks to generate economies of scale to reduce production costs in order to support promotional activity, investment in building brand awareness with the consumer and new product development.

Strategy

Premier Foods plc states that it has a clear strategy of increasing sales and reducing costs.

60 It plans to acquire great British brands and integrate them quickly to further contribute to its strategies based on scale. Above all, its aim is to improve competitiveness against other food manufacturers, while at the same time delivering improved returns to shareholders. This strategy still forms the core of all that the company seeks to do.

An Interview with the Chief Executive

65 In a recent interview Robert Schofield, the chief executive of Premier Foods plc, said he was such a fan of the rich history of Hovis bread, Bisto gravy and Oxo, that he plans to open a museum dedicated to them.

But, the article continued, during the past six months Schofield would have been forgiven for wondering if the company he runs was also heading for a museum, as shareholders fretted whether
70 Premier Foods plc would collapse under debts of £1.8 billion. However, such depressing thoughts were banished when Premier Foods plc announced a refinancing in which a buy-out firm will take a stake of at least 10% in the group, while the 40 lenders to Premier Foods plc agreed to renegotiate the terms of the company's borrowings.

Most of the debt was taken on when Premier Foods plc acquired its bigger rival RHM in 2007. The
75 credit crunch, coupled with the surging price of wheat last year, created a twin threat to Premier Foods plc, and the need to sort out the finances became ever more pressing. Despite this, Schofield, has no regrets about the RHM deal.

Some comfort comes from a slowdown in commodity price inflation. "At one point it was running at
80 17%. It is now running at 5% or 6%," said Schofield. "Some prices are still going up, but on balance they are coming down."

Sales are increasing. There is a simple explanation for this; consumers are eating out less. "The flipside to that is that they are eating in more and they are buying trusted brands," said Schofield, adding that they are not switching to budget labels.

Having sorted out the finances, Schofield's attention will switch back to reinvigorating his brands.
85 Hovis had a £15m relaunch last year and there are plans to create Hovis rolls. Branston Pickle, which has already diversified into baked beans, will move into mayonnaise.

Premier Foods plc's financial position

Table 1 Profit and Loss Account (in £ millions)

	2008	2007
	(£m)	(£m)
Sales revenue	2 865	2 356
Cost of sales	1 820	1 477
Gross Profit	1 045	879
Less Expenses	829	579
Net Profit	216	300
Less Tax and Interest	114	79
Net Profit after tax and interest	102	221

Table 2 Balance Sheet (in £ millions)

	2008	2007
	(£m)	(£m)
Fixed Assets	3 333	3 494
Current Assets		
Stock	363	239
Debtors	337	329
Cash and Bank	62	32
Total Current Assets	762	600
Current Liabilities		
Creditors	596	539
Overdraft	476	216
Total Current Liabilities	1 072	755
Net Current Liabilities	(310)	(155)
Long Term Liabilities	2 032	1 880
Net Assets	991	1 459
Shareholders' Funds		
Shares	769	769
Reserves	222	690
Total Shareholders' Funds	991	1 459

The following comments have been extracted from the 2008 Annual Report of Premier Foods plc.

Premier Foods plc's Responsibilities

90 In today's grocery marketplace, all of our stakeholders - particularly our employees, customers, suppliers and consumers - are concerned with the quality and 'healthiness' of our products, the ethical way in which we interact with our supply chain and the effect that the production and transport of our products has on the environment.

95 Premier Foods plc is committed to managing our business with due consideration to the efficient use of precious natural resources in a socially responsible manner in order to meet, and exceed, our customer expectations. We believe strongly that corporate responsibility is one of our key strategic priorities.

100 We aim to create a culture of awareness of the cost and impact of environmental issues across the business, including assessing the environmental impact of capital projects. The company considers the environmental impact of the products that it makes and the raw materials it sources, taking care to minimise the use of materials that deplete natural resources, and recognising its responsibility with regard to the use of agro-chemicals in the supply chain.

Turn over.

The Ethical Trade Initiative (ETI)

Premier Foods plc is the largest food manufacturing company in the UK. We are a founding member of the Ethical Trading Initiative (ETI) which is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations.

The ETI exists to promote, and improve, the implementation of supply chain ‘corporate codes of practice’ to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards.

The ETI base code, which is based upon International Labour Organisation (ILO) standards, states that:

- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practised
- No harsh or inhumane treatment is allowed

Quality Control

The Premier Foods plc is responsible for protecting the quality of all its products. All suppliers are required to comply with raw material specifications supplied by Premier Foods plc. As well as checking on suppliers, ingredients have been risk-assessed against known contaminants. For example 100% of all spices at risk of contamination with illegal colours are tested at accredited laboratories.

Premier Foods plc also tests incoming honey and peanuts and has an extensive annual screening programme for pesticide and trace-contaminants such as heavy metals. The testing regimes are under constant review.

1. Identify the types of risk that face Premier Foods plc in running its business and suggest steps that it can take to minimise them. [8]
2. Explain how Premier Foods plc has benefited from its takeovers and brand acquisitions. [12]
3. Assess the financial performance of Premier Foods plc. [14]
4. To what extent is Premier Foods plc’s commitment to social responsibility consistent with its other aims and objectives? [13]
5. Using SWOT analysis, carry out an evaluation of Premier Foods plc. [13]

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