Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **May/June 2015**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Section A
Answer **all** questions.
Section B
Answer **one** question.
You are advised to spend 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages and **2** blank pages.

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Lemonfizz (LF)

A passion for chemistry

After a long career working in the pharmaceutical industry Tony Brown was made redundant. He used his redundancy pay to develop a refreshing fizzy drink. He experimented with different flavourings and sugars before finally settling on a unique combination. He tested his product on the public through a market stall that he operated. His research revealed that the product appealed to teenagers and young adults, most of whom preferred it to the drinks available from other businesses. Tony named his drink Lemonfizz.

Market leadership

Now 20 years on he is the CEO and majority shareholder in Lemonfizz (LF). Lemonfizz is the number one brand in country Y, which is a small and relatively wealthy country. Market leadership came as a result of producing a consistently high quality product and innovative marketing. Tony's marketing team had commissioned innovative television advertising that appealed to its young target audience. However, controversy was never far away; a number of adverts had been banned by country Y's Organisation for Advertising Standards (OAS). Following complaints from members of the public the OAS had demanded the adverts be withdrawn. The OAS concluded that the adverts might encourage young people to engage in anti-social behaviour. However, Tony felt that the ban had benefited LF as it increased interest in the brand on the Internet.

As sales increased Tony developed a brand image that focused on Lemonfizz as being fun and refreshing. To support TV advertising LF supported promotion through school sponsorship, public relations and celebrity endorsement. LF also expanded its product range to three varieties: Original, Diet and Excess.

A family firm

In 20 years Tony Brown has never made a worker redundant. All workers belong to a trade union and he pays above the industry average. He believes that communication with workers is vital. The company produces a weekly newsletter that is distributed to all workers. There is a company website where employees can check training opportunities, company news, job vacancies and find out how much holiday they have left. This also provides valuable feedback from employees. LF's HR Director meets frequently with union representatives. Production targets are discussed and set with supervisors and then communicated to workers on the production line.

Growing social problems

Despite rising incomes in country Y, there is increasing concern about the number of health related problems of its citizens due to their poor diet and lack of exercise. In 2014 a pressure group started a campaign for companies in the soft drinks market to take greater responsibility for the impact of their products. The group also demanded Government action to:

- Regulate product labelling to highlight the sugar content of drinks
- Limit television advertising of fizzy drinks aimed at consumers under the age of 21
- Prohibit ingredients of fizzy drinks that are thought to increase the risk of developing health problems.

Working near capacity

Lemonfizz sells its products in aluminium cans, glass or plastic bottles distributed to retailers and wholesalers in country Y. The production process is highly automated and, although the factory operates 24 hours a day, there are fewer than 200 workers operating the five production lines. Current capacity is 300 million litres per annum. The process is water intensive. The factory uses 1.4 litres of water for every litre of drink produced, although there is a target to reduce that ratio to 1.2 litres by 2018.

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The factory is currently working at 90% capacity utilisation. The Operations Director is considering improving one of the production lines to increase efficiency. The change to the production line will increase its capacity by 10% from the current level of 60 million litres. He would like to start work in July 2015 and complete the work within 20 weeks. He has prepared a critical path analysis (CPA) for the project (see Appendix A).

Market growth opportunity

The Marketing Director has been in negotiations with 3D, a large chain of cinemas that currently stocks a rival drinks brand. 3D is interested in adding Lemonfizz to its offering on a trial basis. Lemonfizz charges retailers $0.60 per can but 3D is only offering $0.50. Further details of the proposed contract are contained in Appendix B.

An increasingly competitive market

Market conditions in country Y have been challenging. Competition from two global brands has been intense. They have launched multi-million dollar national advertising campaigns. So far, LF sales have not decreased. However Tony thinks that his company should increase its marketing effort and consider extending its promotional campaigns. He has asked his marketing department to produce estimates of promotional elasticity and price elasticity of demand for Lemonfizz. Further details are in Appendix C.

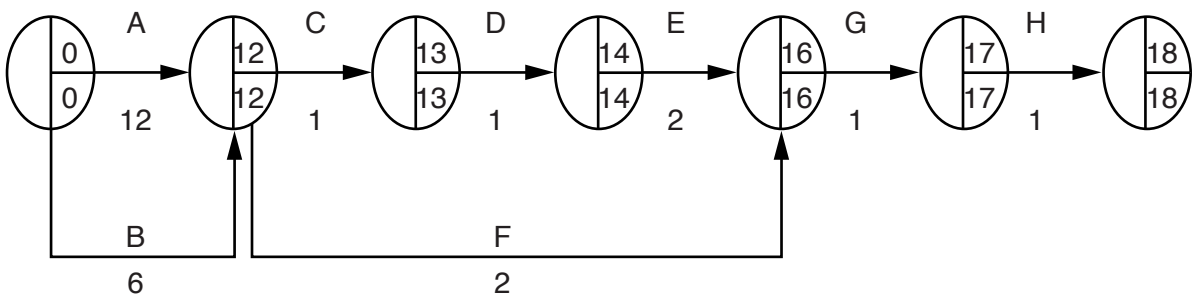
The future

After 20 years of hard work and leading the business Tony is considering his future as CEO and is currently updating the business plan. In recent months there have been detailed meetings with other directors to discuss the long term objectives of the business. Tony believes that LF should consider foreign markets for future growth. He is considering country Z – a market in which no individual brand has a market share of more than 10%. Tony favours franchising production abroad but would consider raising finance through converting to a public limited company and then building capacity abroad. Economic forecasts for countries Y and Z are contained in Appendix D. When Tony decides to retire he would like his successor to come from within the company. Continuity is vital in his opinion.

Appendix A: Project activities

Activity	Description
A	Run all lines at full capacity to build inventory for changeover
B	Order new production machinery
C	Remove old machinery
D	Prepare factory floor
E	Install new machinery
F	Update computer software
G	Train production line workers
H	Test production line

CPA diagram



Appendix B: Details of the proposed contract with 3D

Two month trial period
Order volume per month 100 000 units (330ml cans)
Price $0.50
Variable costs of production including delivery $0.35

Appendix C: Marketing data for Lemonfizz

Price Elasticity of Demand		Promotional Elasticity of Demand	
Action	Reduce price to retailers from $0.60 to $0.58	Action	Increase promotional spending by $1m to $11m
Outcome	Sales increase by 5%	Outcome	Sales increase by 5%

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Appendix D: Forecast economic data to be used in business planning

	Country Y			Country Z		
	2016	2017	2018	2016	2017	2018
Annual GDP growth %	3	2.5	2.5	3	5	5
Market sales (by volume) index for fizzy drinks (2015 = 100)	105	109	113	106	111	117
Exchange rate index against other currencies (2015 = 100)	96	94	90	101	102	102
Interest rates %	4	4	3	3	3	4

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[Turn over

Section A

Answer **all** questions in this section.

1 Analyse the possible benefits to LF of effective internal communication. [10]

2 **(a)** Refer to Appendix A. Calculate the total float for activity F. [4]

(b) Evaluate the usefulness to LF of critical path analysis when managing the change in the production line. [12]

3 **(a)** Refer to Appendix B. Calculate the total contribution of the proposed 3D contract. [4]

(b) Recommend whether LF should accept the proposed 3D contract. Justify your answer using your results from **(a)** and any other relevant information. [14]

4 **(a)** Using the data in Appendix C, calculate:

(i) promotional elasticity of demand for Lemonfizz [3]

(ii) price elasticity of demand for Lemonfizz. [3]

(b) Discuss whether LF should reduce price or increase promotional expenditure in order to increase sales of Lemonfizz. Refer to your results from **(a)** and any other relevant information. [14]

5 Discuss the extent to which LF should consider corporate social responsibility in its decision making. [16]

Section B

Answer **one** question in this section.

6 Evaluate whether the data in Appendix D is sufficient to enable LF to develop an effective strategic plan for the business. [20]

7 Evaluate the importance of the effective management of change for the future success of LF. [20]

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