Pearson Edexcel
International Advanced Level

Business

International Advanced Level
Unit 3: Business decisions and strategy

Sample assessment materials for first teaching September 2018
Source Booklet

Paper Reference
WBS13/01

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Sources for use with Section A

Extract A - Kraft's takeover of *Cadbury*

In 2009, US food company *Kraft Food Inc (Kraft)* made a takeover bid for *Cadbury*, the UK chocolate maker. *Cadbury* was the last acquisition that enabled *Kraft* to be restructured and split into two companies: a grocery business worth $16bn; and a global snacks business worth $32bn. *Kraft* needed *Cadbury* to add to its product range, especially in emerging markets such as India.

Kraft is a typical multinational corporation, which has its origins in manufacturing processed cheese in the US. Its growth is the result of decades of profit-driven mergers and demergers. Until 2001 it was part of the tobacco and consumer goods conglomerate Philip Morris.

Extract B - *Kraft* divides

In 2012 *Kraft* divided into two separate major public companies: a high-growth global snacks business; *Mondelēz International (Mondelēz)* and a profitable North American grocery business: *Kraft Foods Group*.

Mondelēz has an annual revenue of about $30bn and operates in approximately 165 countries. Its portfolio contains many well-known brand names, including nine that are each worth over a billion dollars: Cadbury, Cadbury Dairy Milk and Milka chocolate, Jacobs coffee, LU, Nabisco and Oreo biscuits, Tang powdered beverages and Trident gum.

Extract C - Selected figures from *Mondelēz* statement of financial position, 31 Dec 2015

	$US millions
Cash	1 870
Trade receivables	3 846
Inventory	2 609
Current assets	8 325
Current liabilities	10 922

Extract D - Risk Factors affecting *Mondelēz*

The following risks could adversely affect our business. While we have identified the risks below, there may be additional risks that we have not considered:

- we operate in a highly competitive industry
- we are subject to risks from operating globally
- our operations in certain emerging markets expose us to political, economic and regulatory risks
- we are subject to currency exchange rate fluctuations
- commodity and other input prices are liable to sudden change
- our intellectual property rights are valuable, and our failure to protect them could reduce the value of our products and brands.

Source for use with Section B

Extract E - *BP* shareholder revolt

At the annual general meeting (AGM) of *British Petroleum (BP)* in 2016, almost 60% of shareholders voted against a £14m pay package for Bob Dudley, the chief executive. This followed a year in which *BP* reported record losses, cut thousands of jobs and did not give any pay increases to its employees.

The results of the vote do not have to be accepted by *BP's* board of directors. This followed criticism from shareholders, who accused executives of not understanding ordinary people.

The huge payout in cash, shares and pension contributions to Dudley and other board members came during a year when the company ran up its largest ever losses of $6.5bn. These losses were due to a collapse in oil prices and huge fines for the Deepwater Horizon accident and oil spill in 2011.

Many small shareholders came to the AGM to criticise the *BP* board for rewarding themselves so inappropriately – as well as to ask why it was continuing to invest heavily in fossil fuels after promising to take climate change into account in all its operations.

Ann Dowling, the chair of *BP*'s remuneration committee, attempted to answer the criticism. She defended the pay levels of *BP*'s senior board, saying it was 'somewhere in the middle' of what other companies of a similar nature paid. "We have to reward people appropriately to attract the talented employees who are important for the future success of the company," she said.

Sources for use with Section C

Extract F - Clothes designer Paul Smith makes big changes to his troubled fashion empire

Sir Paul Smith has launched a re-organisation of his fashion empire after annual profits fell significantly in what is the group's worst performance in its 40-year history.

The designer, who controls one of Britain's most famous privately owned fashion groups, said drastic action needed to be taken. He has spent the past year reducing its clothing ranges, shutting two outlets, and making a few managers redundant.

Sales fell as it suffered fierce competition from rivals and the largest part of the business, the wholesale operation, had sales reduced by 11.3% from £107m to £95m. This was because of problems at small independent clothing stores that stocked the Paul Smith brand in Italy and other European countries. Many of these went into administration as shoppers flocked to large department stores.

This in turn hit profit margins as the bigger department stores were able to negotiate better terms from Paul Smith, whereas the smaller independents had less bargaining power.

Extract G - *Paul Smith Ltd* - statement of comprehensive income for the year ending 30 June 2015

	2015 £'000	2014 £'000
Revenue	171 418	187 854
Cost of sales	(75 112)	(84 342)
Gross profit	96 306	103 512
Other operating expenses	(95 327)	(86 786)
Operating profit	979	16 726
Investment revenues/finance income	330 (300)	306 (296)
Finance costs		
Profit on ordinary activities before taxation	1 009	16 736
Tax on profit	(2 831)	(4 733)
(Loss)/Profit for the financial year	(1 822)	12 003