GCE A level

1083/01

BUSINESS STUDIES – BS3

A.M. TUESDAY, 15 January 2013

2 hours

1083
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:
- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

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 *Reckitt Benckiser plc* and answer the questions that follow.

Although the name of the company, Reckitt Benckiser, may not be a household name, those of its products certainly are. The company manufactures, amongst other brands, Dettol, Strepsils, Clearasil and Vanish. Its products are sold in 150 countries worldwide. The company was formed through a number of mergers, some of which are detailed below.

History

Isaac Reckitt started his business in Hull in 1840, making starch and other household products. When he died in 1862, his three sons took over the business and over the next 25 years expanded it worldwide, starting in Australia. The company was launched on the stock exchange in 1888. In 1913 Reckitt & Sons set up a joint venture in South America with J & J Colman and eventually merged with them in 1938 to become Reckitt and Colman Ltd. Meanwhile the company had continued to launch or acquire several new products, including Harpic lavatory cleaner, Dettol, Steradent and Air Wick. Acquisitions continued in the post-war period including two American businesses whose brands included Woolite, Old English and Lysol, the most famous household disinfectant brand in the USA.

Johann A. Benckiser founded his business making industrial chemicals in Germany in 1823. In 1956 the company diversified into consumer goods and industrial cleaning products. It developed many successful brands including Calgon water softener and Vanish stain remover, as well as medical products such as Gaviscon and Nurofen. During the 1980s Benckiser purchased a number of other leading companies in Italy, France and Spain in order to consolidate its position as a major European business. In 1990 Benckiser acquired the worldwide branded business of Beecham Household Products in the USA and Canada, and in 1991 it began to expand into Eastern Europe, Israel and China.

In 1999 the two companies merged to become Reckitt Benckiser and called itself "The world No. 1 in household cleaning". The merged business continued to expand worldwide, purchasing businesses in Korea, Indonesia, India and Sri Lanka. In 2005 the company launched Cillit Bang in 68 countries in one year.

In 2006 Reckitt Benckiser completed the acquisition of Boots Healthcare International for £1 926 million, gaining a new platform for growth in the attractive OTC (over the counter) healthcare market. Two years later it bought a large American company, Adams Respiratory Therapeutics, whose products included Mucinex, the most popular cough remedy in the USA.

In 2010 Reckitt Benckiser completed an acquisition of SSL International whose brands included Durex and Scholl. On 1 September 2011 Rakesh Kapoor was appointed as chief executive officer (CEO).

The following article appeared in The Times newspaper on 26 October 2011:

Reckitt Benckiser Catches a Cold in America

The new chief executive of Reckitt Benckiser delivered a blow to investors yesterday with a stark warning of slowing growth. Shares in the group, which has been one of the most reliable performers in the FTSE 100, fell 3 per cent after Rakesh Kapoor warned that growth in a key division would slow rapidly.

Analysts monitoring the company had become used to years of consistent growth and were disappointed to learn that regulatory changes in America are expected to hit the company's US pharmaceuticals business.

Mr Kapoor said that despite this the group would still meet full-year sales and profits targets. He added, though, that meeting the targets depended on a “normal” flu season, with winter colds boosting demand for Strepsils and Nurofen.

Mr Kapoor added that he had instructed teams in Europe and North America to spend more on advertising in the next three months. In the quarter to the end of September 2011, like-for-like sales in emerging markets rose by 12 per cent, offsetting a weaker performance in Europe, where sales fell 1 per cent. Like many other consumer product groups, Reckitt Benckiser has cut prices in Western Europe to attract increasingly cost-conscious customers and fight aggressive competition.

Fabric care products, the second largest category, have been worst hit, with sales down by 6 per cent, largely because of weakness in the sales of detergents in Southern Europe. Health and Personal Care, the largest division, enjoyed a better quarter, with turnover up 6 per cent, helped by the introduction of Dettol to emerging markets and its No Touch Hand Soap System in Europe.

marketingweek.co.uk

Examples of Reckitt Benckiser’s Powerbrands

One of the key features of Reckitt Benckiser’s sluggish performance in Europe has been the need to invest aggressively to protect against competitor launches and intensive promotional activity. A good example of this is Vanish, the lucrative stain remover, which has come up against stiff competition from Procter & Gamble, with the American giant introducing a rival product under the Ariel brand across Europe over the past year. Reckitt Benckiser has benefited in the past from focusing on categories that were often regarded as too niche by the likes of Procter & Gamble.

Reckitt Benckiser says that it has managed to retain its dominant market share in the category, believed to be as high as 79 per cent in Britain last summer, but at a cost. It has been forced to sell its products cheaper than it would like and increasingly on special offer. This, alongside a tough market for laundry detergents in austerity-hit Southern Europe, contributed to a 6 per cent fall in third-quarter fabric care sales.

Reckitt Benckiser's New Ten Year Strategy

In February 2012 Reckitt Benckiser announced its new strategy for 'continued outperformance' for the next ten years, along with a new vision and purpose. The company stated that "our vision is a world where people are healthier and live better. Our purpose is to make a difference by giving people innovative solutions for healthier lives and happier homes".

Outlining the strategy, Rakesh Kapoor said:

"Reckitt Benckiser has delivered a decade of superior growth and shareholder value. However, with slower market growth and increased competition, we need to reshape our strategy to enable us to continue our track record of outperformance.

In addition to our highly successful "Powerbrand" strategy, we have identified 16 "Powermarkets" for increased focus and investment, most of which are in emerging markets.

This new category and geographic focus will be driven by a new organisational structure. We will merge the European and North American area organisations to form one new area and we are splitting the emerging markets into two new area organisations. This will enable us to increase the speed, quality and consistency of our sales and marketing efforts as well as helping to reduce costs.

Reckitt Benckiser's relentless focus on building brands will continue. We will be increasing our investments in high rates of innovation and brand development. We aim to steadily increase our profit margins.

I firmly believe that our strong company culture of outperformance, entrepreneurship and innovation will enable us to fulfil the enormous potential of our brands and deliver on our vision and reshaped business strategy".

Details of the strategy were as follows:

- The company will concentrate more of its efforts and investment on health and hygiene powerbrands such as Nurofen, which have higher growth potential and are more profitable than 'home' products such as Finish.

- 16 faster growing "Powermarkets", mainly in emerging markets in South America, India and China are to be targeted for higher rates of investment.

- The North American and European markets, which used to have separate divisions within the company will now be merged into one area structure. Whereas the emerging markets, which used to consist of one division, will be split into two.

- There will be cost savings in some areas in order to free up additional investment of £100m in brand-equity building.

- The company will continue its strategy of increasing net profit margins over the medium term.

- In the medium term the company has set itself three targets: to increase its share of the market; to increase sales to emerging markets from 42% in 2011 to 50% by 2016 and to increase health and hygiene products share of total company sales from 67% to 72% over the same time period.

The following article by Peter Stiff appeared in The Times newspaper on 8 February 2012:

'Powerbrands' on fast track around world

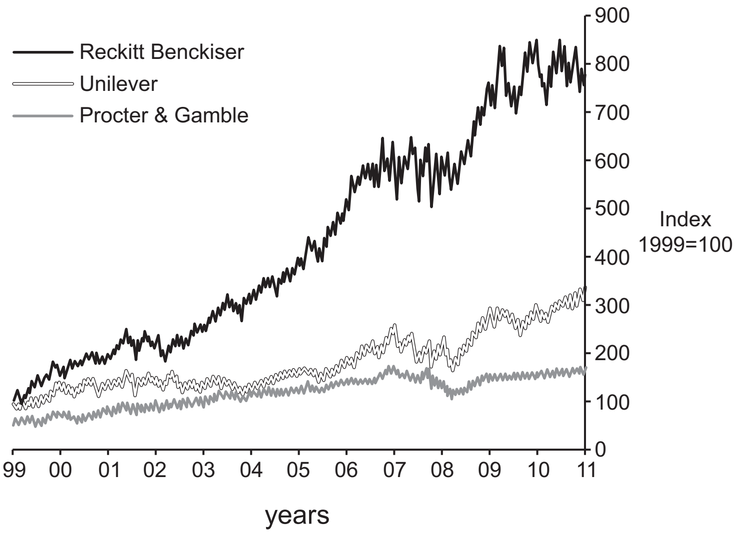
Reckitt Benckiser will cut jobs and investment in Europe and North America to fuel an expansion drive in the world's emerging markets. The shift is intended to reinvigorate the company's performance, which has waned from the position of market leader in the past two years.

Reckitt has 19 so-called "Powerbrands" that it wants to expand globally, including Dettol disinfectant, Nurofen painkillers and Cillit Bang bleach. Revealing the results of its strategic review, Rakesh Kapoor said yesterday that the group would become the first in the industry to merge its European and North American divisions – a move that will save £30 million a year and result in some job losses.

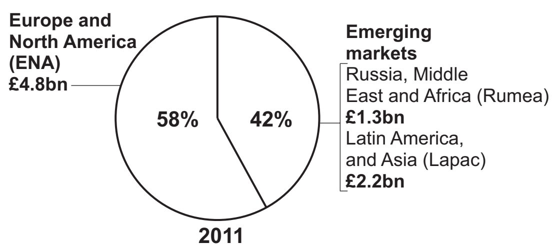
Its new Europe/North America (ENA) division, whose headquarters will be in Amsterdam, will sit alongside two new emerging market units broadly focused on Russia, the Middle East and Africa (Rumea) and Latin America and Asia (Lapac). Mr Kapoor hopes that the new organisation will improve the speed at which it brings new products to market. He argues that Europe and North America should be run as one because they are similar.

Reckitt Benckiser will also put a greater emphasis on its health and hygiene products, which have higher profit margins and greater growth potential in developing markets. "It's time to change the identity of this company," Mr Kapoor said. Its private label business, which supplies cleaning products for the likes of Aldi, will be closed to avoid providing "solutions for other people's brands", and the pharmaceuticals business will be reviewed in 18 months, with the possibility that it might be sold. Reckitt Benckiser will also move away from "outdated" advertising and promotions and devote more time and money to programmes that link its products to health initiatives.

Shareholders returns 1999-2011 % per annum



Geographical markets 2011



Growth in Company Sales 2010-2011	
Europe and North America (ENA)	+5%
Russia, Middle East and Africa (Rumea)	+31%
Latin America and Asia (Lapac)	+24%

Adapted from *The Times*, 8 Feb. 2012

RECKITT BENCKISER PLC'S FINANCIAL PERFORMANCE

Profit and Loss Account for the year ended 30 September

	2010 **£m**	**2009** **£m**
Revenue	8 453	7 753
Less Cost of Sales	3 332	3 089
Gross Profit	5 121	4 664
Less Expenses	2 991	2 773
Net Profit	2 130	1 891

Balance Sheet as at 30 September

	2010 **£m**	**2009** **£m**
Fixed Assets	10 700	6 891
Current Assets		
Stock	646	486
Debtors	1 363	928
Bank & Cash	588	351
Other	45	5
Total Current Assets	2 642	1 770
Current Liabilities		
Trade Creditors	2 616	2 286
Borrowings	2 641	132
Other	460	473
Total Current Liabilities	5 717	2 891
Long-term (non-current) Liabilities	2 496	1 756
Net Assets	5 129	4 014
Shareholders' Capital		
Share Capital	131	72
Reserves	4 998	3 942
Total Shareholders' Capital	5 129	4 014

Source: www.rb.com

1. Explain how Reckitt Benckiser plc's new ten-year strategy is likely to affect the various stakeholders of the business. [10]

2. Assess the importance of 'Powerbrands' to Reckitt Benckiser plc's success. [12]

3. Analyse and evaluate the financial performance of Reckitt Benckiser plc. [12]

4. How might Reckitt Benckiser plc's plans for the future be affected by macro-economic factors such as inflation, interest and exchange rate changes, and the business cycle? [12]

5. To what extent does the experience of Reckitt Benckiser plc indicate that only businesses that operate on a global scale will ultimately be successful? [14]