GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Business Studies

International Advanced Level
Unit 3: Strategic Business Decisions

Thursday 19 January 2017 – Afternoon
Time: 2 hours

Paper Reference
WBS03/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- You should take care in your responses with your punctuation and grammar, as well as the clarity of expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL the questions in this section.

You should spend 60 minutes on this section.

Evidence A

DS Smith

DS Smith plc provides corrugated cardboard packaging for manufacturers of consumer goods throughout Europe as well as plastic packaging worldwide. In order to support its corrugated cardboard packaging operations the company has a recycling business that collects used paper and corrugated cardboard. From this, the company's paper manufacturing facilities make the recycled paper into corrugated packaging. *DS Smith* also design and manufacture certain types of plastic packaging.

The plastic packaging business in the US has had a very good year, delivering good profit growth. In *DS Smith's* European businesses, it has been a year of investment, with a substantial reorganisation in its European operations.

(Source: adapted from 'DS Smith plc 11.1% Potential Upside Implied by Jefferies International', Amilia Stone © DirectorsTalk Interviews, 2015)

Evidence B

***DS Smith* Corporate Social Responsibility**

We have taken steps, as a leading company, to demonstrate what our corporate values mean to the communities in which we operate and the wider world:

Be caring

We have held open days at 91 locations across the globe and invited friends, family and neighbours to visit our production sites to understand better what we do and to experience our corporate culture first hand.

Be responsive

We have been responsive to the major issue of youth unemployment in Europe by joining the 'Alliance for YOUth', initiated by Nestlé. As a partner in this Alliance we are increasing the level of support and opportunity by offering young people help with job applications and work experience.

Be challenging

We have been challenging to the way green spaces have been treated in our local communities. We have sponsored and supported volunteers as part of the Keep Britain Tidy 'Green Flag award'. This has resulted in recognising, clearing and maintaining green spaces whether urban or rural, especially those close to our own locations.

(Source: adapted from © DS Smith 2016)

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Evidence C

Risks and Our Business Model

DS Smith recognises it is subject to many general risks such as changes in socioeconomic conditions, political, financial, general regulatory and legislative changes including events that the company cannot influence. The effects of these changes can impact on *DS Smith*'s ability to deliver on its Corporate Plan.

(Source: adapted from © DS Smith 2016)

Evidence D

***DS Smith* completes *Duropack* takeover**

Packaging giant *DS Smith* has completed its takeover of *Duropack,* an Austria-based recycled corrugated cardboard packaging business.

This follows its takeovers of Spanish packaging business *Andopack* and the recycling division of the UK's *Middleton Paper*, last autumn.

DS Smith chief executive Miles Roberts said the latest takeover will strengthen the company's capabilities and enable it to access customers in new regions.

He said *Duropack* is a business that "is highly complementary to *DS Smith*'s geographic market and transforms our position in higher growth south-eastern European countries." *Duropack* has 14 corrugated packaging sites, two paper mills and 18 recycling sites across nine countries: Austria, Hungary, Bosnia, Bulgaria, Macedonia, Serbia, Slovakia, Croatia and Slovenia.

(Source: adapted from 'DS Smith completes Duropack acquisition', Richard Stuart-Turner © PrintWeek, 2015)

Evidence E

***DS Smith* posts 20% pre-tax profit rise and reveals new takeover**

DS Smith has announced a strong growth in profits, returns and dividends. It has also proposed a £135m takeover of the corrugated packaging division of Spanish business *Grupo Lantero*.

In its full-year results to April 2015, *DS Smith* reported a pre-tax profit of £200m, a 20% increase from the previous year.

The rise in profits came from a combination of increased sales, a focus on higher added-value products and services, and recent takeovers including *SCA Packaging*.

However, in the UK revenues fell by 3%. The drop was blamed on a highly competitive market and reflected reduced sales from recycled packaging. Capital expenditure in this period was £149m, of which 52% was invested in growth and efficiency.

DS Smith reported that the takeover of *Grupo Lantero* will strengthen its operations in Spain and build on its takeovers of *Andopack,* the recycling division of *Middleton Paper* and *Duropack*.

(Source: adapted from 'DS Smith posts 20% pre-tax profit rise, reveals new acquisition', Richard Stuart-Turner © PrintWeek, 2015)

1 (a) What is meant by the term investment? (Evidence A, line 11)

(2)

(b) What is meant by the term corporate social responsibility? (Evidence B)

(2)

(Total for Question 1 = 4 marks)

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2 Explain how contingency planning could reduce **one** of the risks outlined in Evidence C.

(Total for Question 2 = 6 marks)

3 Analyse the nature of company growth for *DS Smith* as described in Evidence D and E.

(Total for Question 3 = 8 marks)

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4 Assess whether Evidence B shows characteristics of a strong corporate culture.

(10)

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(Total for Question 4 = 10 marks)

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5 *DS Smith* has used takeovers as a strategy (Evidence D and E).

Assess this corporate strategy for *DS Smith*.

(12)

(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS

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SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence F



(Source: © DS Smith 2016)

Evidence G

DS Smith 5 Year Financial Statement

	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue £m	1 759	1 969	3 669	4 035	3 820
Operating profit £m	110	141	249	307	335
Profit before tax £m	74	19	82	167	200
Capital employed £m	964	986	2 040	2 361	2 294
Volume growth of corrugated cardboard	3.0%	2.0%	0.6%	2.2%	3.1%
Average number of employees	9,416	10,150	19,736	21,464	22,014

(Source: adapted from © DS Smith 2016)

Evidence H

Notice of Annual General Meeting 2015

You are invited to vote for each of the resolutions: "for", "against" or "vote withheld".

Resolution: Declaration of a final dividend

Final dividends paid to shareholders must not exceed the amount recommended by the Directors.

Resolution: Approval of the 2014/15 Annual Directors' Remuneration Report

This resolution seeks shareholder approval for the Directors' Remuneration Report (covering last year's pay). This comprises the Annual Statement by the Chairman of the Remuneration Committee. It also gives details of how the Company intends to apply the Directors' Remuneration Policy (covering pay for the next three years). This vote is advisory and will not affect the way in which the pay policy is implemented.

(Source: adapted from © DS Smith 2016)

Evidence I

Anger at *DS Smith* boss's £200k relocation allowance for 40-mile move

A £200 000 relocation allowance for a chief executive, Miles Roberts, who moved less than 40 miles has prompted a row over boardroom pay and a shareholder rebellion.

Miles Roberts, the boss of packaging and cardboard box firm *DS Smith*, was handed the relocation payment after the head office was moved to central London. Roberts, who was paid £3.4m last year, was given the payment to move from Hertfordshire to central London.

At the annual shareholders' meeting 40% of investors did not back the three votes on pay:

- the remuneration report (covering last year's pay)
- the remuneration policy (covering pay for the next three years)
- the performance share plan (a separate long-term plan)

In the annual report, the chair of the remuneration committee, Kathleen O'Donovan, said Roberts was paid 10% below the salary of similar chief executives and that the company had "listened carefully" to the debate on pay. The company had responded to previous requests from investors to increase the minimum number of shares directors should own.

The company said: "We understand remuneration is an important issue both for companies and shareholders. That is why we have conducted an extensive consultation exercise and we are pleased with the passing of all our resolutions, including on remuneration, by a significant majority in all cases."

(Source: adapted from 'Anger at DS Smith boss's £200k relocation allowance for 40-mile move', Jill Treanor © Guardian News and Media Limited, 2014)

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6 In June 2012, *DS Smith* paid £1.3bn for the takeover of *SCA Packaging*.

Using Evidence G, evaluate the extent to which this takeover was successful for *DS Smith*.

(20)

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(Total for Question 6 = 20 marks)

7 Assess the extent to which shareholder aims might conflict with those of the directors at *DS Smith*.

(20)

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(Total for Question 7 = 20 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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