GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Thursday 21 May 2020

Afternoon (Time: 2 hours) | Paper Reference **WBS13/01**

Business

International Advanced Level
Unit 3: Business decisions and strategy

You must have:
Source Booklet (enclosed)

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 Sections A, B and C.
- 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.*
- 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.

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SECTION A

Read Extracts A–E in the Source Booklet before answering Question 1.

1 (a) Explain **one** aim of portfolio analysis for *Kellogg's*.

(4)

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(b) Using Extracts B and E, calculate, to two decimal places, the percentage of total sales revenue that came from Europe in 2017. You are advised to show your working.

(4)

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(c) Discuss the possible benefits for *Kellogg's* of operating the summer hours scheme.

(8)

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The UK Government has a policy to cut sugar in breakfast cereals by 20% before 2020.

(d) Assess the likely implications of this policy for *Kellogg's* corporate strategy.

(12)

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(e) Using Extract E, assess the financial performance of *Kellogg's* in 2017.

(12)

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(Total for Question 1 = 40 marks)

TOTAL FOR SECTION A = 40 MARKS

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SECTION B

Read Extracts F and G in the Source Booklet before answering Question 2.

2 Using Porter's Strategic Matrix, evaluate the best way *Under Armour* can compete with other sportswear businesses.

(20)

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(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS

SECTION C

Read Extracts H and I in the Source Booklet before answering Question 3.

3 Evaluate whether *Netflix* should fund its expansion by using long-term loans.

(20)

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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Source Booklet
Do not return this Source Booklet with the question paper.

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Sources for use with Section A

Extract A

Kellogg's Corporate Strategy

Founded in 1906 by W.K. Kellogg, *Kellogg's* started to produce breakfast cereals such as *Kellogg's* Corn Flakes but has since ventured into other food products. Its product portfolio today includes convenience foods such as snacks, biscuits, waffles, pastries, cookies and crackers.

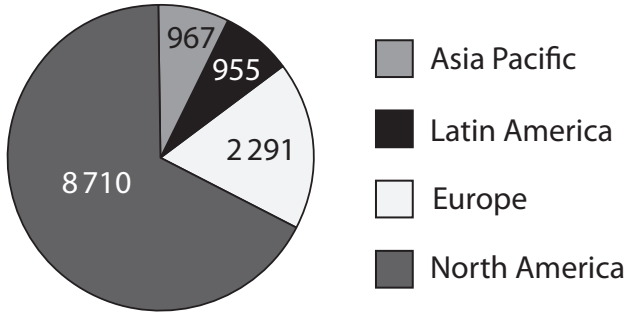
Kellogg's vision is simply to 'Enrich and delight the world through foods and brands that matter'. Its strategy ranges from being the best provider of breakfast products and global provider of snacks to doubling sales in emerging markets. *Kellogg's* spends more than 8% of its revenue building its brand that is helping the business to become a powerful name in some of the developing markets in the world.

Kellogg's uses a mix of demographic, geographic and psychographic segmentation to market its 1,600 food products that are produced in 21 countries and sold in more than 180 countries. It reinvests profits to produce more innovative food products and to improve its product mix.

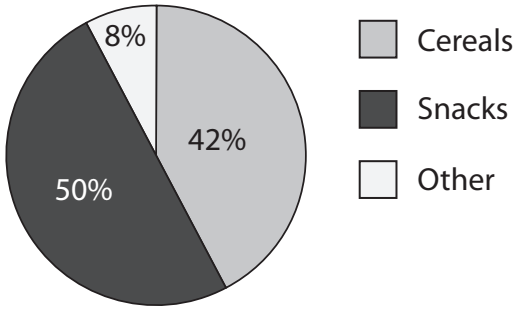
Extract B

Kellogg's in 2017

Sales Revenue ($m) per region



Main Products by sector (%)



Extract C

***Kellogg's* to run summer hours scheme for Manchester-based staff**

Kellogg's is running a summer hours scheme for its Manchester-based staff. The scheme, now in its 15th year, lets all 420 employees based at its headquarters in the UK finish work at 12.00 on a Friday provided they have done a full week's work.

The summer hours scheme is designed to boost productivity and give employees greater flexibility so they enjoy long weekends, pursue hobbies and spend extra time with friends and family.

The UK HR Director at *Kellogg's*, said: "Flexible working is something we take very seriously at *Kellogg's*. Research shows people who feel they have a good work-life balance work 21% harder than those who do not."

Extract D

***Kellogg's* cuts sugar levels in Coco Pops by 40% – and says they taste better**

Kellogg's says it has improved Coco Pops by reducing the amount of sugar in the cereal by 40% and adding more chocolate powder. The changed recipe, which also has 10% less salt, now has 17g of sugar per 100g rather than 30g.

The new recipe took three-and-a-half years to create and puts Coco Pops ahead of the UK Government's policy of cutting sugar in breakfast cereal by 20% before 2020.

Bridget Briggs, of *Kellogg's*, said: "We have listened to people who buy Coco Pops. We have reduced the total sugar content of the cereal without affecting its great chocolatey taste."

UK health campaigners urged other companies to follow *Kellogg's* as nearly two-thirds of adults and a third of children are overweight.

Professor Graham MacGregor, Chair of Action on Sugar, said: "We hope *Kellogg's* will change all of its cereals and set an example for all other food manufacturers. We need compulsory sugar-reduction targets with strict penalties for those who do not comply."

Extract E

***Kellogg's* statement of comprehensive income for the year ending 31st December 2017**

	2017 ($m)
Revenue	12 923
Cost of sales	7 901
Gross profit	5 022
Other operating expenses	3 076
Operating profit	1 946
Finance costs	272
Profit on ordinary activities before taxation	1 674
Tax on profit on ordinary activities	405
Profit for the financial year	1 269

Sources for use with Section B

Extract F

Gross profit margin improves as *Under Armour*'s turnaround takes hold

Under Armour is a major US manufacturer and retailer of sportswear. Its shares were on track for its best day in more than 2 years after *Under Armour* reported improved quarterly results from strong overseas sales.

However, competition from rivals such as *Adidas* and *Nike* have negatively affected *Under Armour* sales in the US. Its domestic sales began to slow down last year with revenues decreasing by 2% in the US to $1.1bn. To improve competitiveness in the US, *Under Armour* is introducing a major organisational restructuring. It is removing jobs, shortening the time taken to get products to customers and cutting costs by closing under-performing stores.

Extract G

***Under Armour*: 'We make people better'**

Speaking at the Drapers Fashion Forum in London, John Williams, Regional Director for *Under Armour*, made the case for the need to balance change with strong brand values to differentiate it in a competitive market.

Under Armour's recovery is something Williams attributes to its simple mission statement: "When you look at our vision, it speaks right to where we started as a business and it is what our customers love about *Under Armour*. We are here to make our consumers, our athletes, our people better. It does not matter by how much – even if it is just 1%."

Under Armour is innovative, both with product and business strategy. Last year it launched its Recovery range, which features infra-red technology to help restore muscle tissue, while other sports brands are still focused on preparation and performance.

Under Armour's new approach in Europe is to focus on targeting specific consumer groups across all countries rather than focusing on the markets in each country. Williams said this "will enhance the customer experience with *Under Armour* and bring us closer to our consumer. We have to balance changing to meet the needs of the consumer and doing what we have always done: making sure that we are giving people something that they never knew they needed and cannot imagine living without."

Sources for use with Section C

Extract H

Netflix plans to raise $2bn in long-term loans as it invests in new content

Netflix announced plans in October 2018 to raise a further $2bn in long-term loans, adding to its higher long-term liabilities. The US streaming service said the money raised will be used for a range of general purposes, from buying new programmes and films to acquisitions. Shares in *Netflix* closed down 0.94% at 329.54 on Monday, after the announcement of the additional long-term borrowing.

The firm told shareholders that debt levels are 'quite modest' in the context of the value of the business. *Netflix*'s stock market capitalisation was over $180bn in June 2018 and the business is popular with investors for its high growth rate.

Netflix expects to spend $8bn on developing original content this year, up from $6bn in 2017, alongside another $2bn on marketing. It will also invest around $1.3bn in technology and development. It is investing heavily in content as it battles for subscribers against rivals such as *Amazon*, *Walt Disney* and *Apple* who are all set to launch their own online TV and movie services in 2019.

Netflix has focused on gaining a lead in original content, with hits including the science fiction series Stranger Things and the royal family drama, The Crown. To fund new content, *Netflix* has been using debt rather than equity markets even though its shares increased in value by more than 73% in 2018.

Netflix has 130 million users in 190 countries, with the US being its largest market. While *Netflix* still has huge potential in emerging markets such as India, some stock broker firms have begun to draw attention to the high cost it is paying to gain more users. However, *Netflix*'s global expansion since 2016 has also required increased investment in local content to complement its English-language programming.

Extract I

Selected information from *Netflix* financial statements (2018)

	Nine Months Ended 30 Sept 2018 ($000)
Revenue	11 607 500
Profit for the financial year	1 077 308
Non-current liabilities	12 058 336
Net assets	23 366 229

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Acknowledgements

Extract A adapted from: https://www.marketing91.com/marketing-strategy-kelloggs/

Extract B adapted from: https://investor.kelloggs.com/Cache/1001238131.PDF?O=PDF&T=&Y=&D=&FID=1001238131&iid=4133514

Extract C adapted from: https://www.employeebenefits.co.uk/issues/may-2018/kelloggs-summer-hours/

Extract D adapted from: https://www.chroniclelive.co.uk/whats-on/shopping/kelloggs-slashes-sugar-levels-coco-14926846

Extract E adapted from: https://investor.kelloggs.com/Cache/1001238131.PDF?O=PDF&T=&Y=&D=&FID=1001238131&iid=4133514

Extract F adapted from: https://www.ft.com/content/4064835c-dc46-11e8-8f50-cbae5495d92b

Extract G adapted from: https://www.drapersonline.com/news/under-armour-we-make-people-better/7032566.article

Extract H adapted from: nick.shackleford@guardian.co.uk

Extract I adapted from: https://www.netflixinvestor.com/financials/financial-statements/default.aspx

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