Cambridge Assessment International Education

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BUSINESS STUDIES **0450/22**

Paper 2 Case Study **October/November 2022**

INSERT **1 hour 30 minutes**

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INFORMATION
- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **4** pages.

Cherished Chocolates (CC)

CC is a public limited company. It employs 4000 workers in country X and many are members of a trade union. CC has manufactured chocolate bars in country X for 50 years. It imports most of its raw materials, such as cocoa beans. Over the last 10 years CC has expanded and now sells in other countries. Many of these countries have no trade restrictions. The Directors of CC know that globalisation has opportunities and threats for CC.

CC produces a number of brands of chocolate bars, such as Tiabar, in country X. Its most popular chocolate bar, Choco, has the highest market share. The total market for chocolate bars is no longer growing in country X. CC plans to reduce the number of brands it sells in country X. It has to decide which of the two brands shown in Appendix 1 to stop selling.

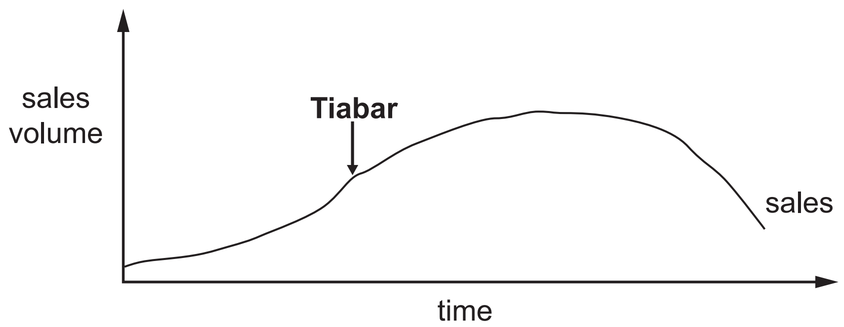
NM operates in country Z and sells its own brands of chocolate bars, including Nuttybar. NM employs 500 workers. In country Z chocolate bars are distributed through small retail outlets. The wage rates in country Z are lower than in country X. However, incomes in country Z are starting to rise.

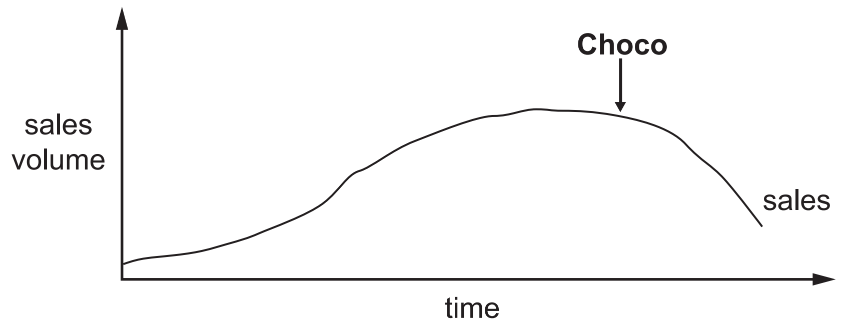
The Directors of CC are planning to take over NM to expand into this market rather than setting up a factory. The takeover will cost $35 million, some of which will be financed by a bank loan. The shareholders of NM are being offered CC shares in exchange for NM shares.

The Directors of CC know there might be diseconomies of scale after the takeover. They also have to decide who will be the Operations Manager for NM's factory in country Z. They could keep NM's existing Operations Manager or move CC's Operations Manager from country X. Information about the two managers is shown in Appendix 2.

Appendix 1

The product life cycles of two of CC's brands of chocolate bars in country X





Option 1 – stop producing Tiabar

A brand aimed at young children which is a new target market for CC. The market research at the development stage showed positive results from test marketing and sales have been growing steadily. There are many multinational chocolate bar companies targeting this age group.

Option 2 – stop producing Choco

The market leader in country X. It is a well established brand targeting adults. Sales are high but have not been increasing for several years. No new competitors have entered this market in the last two years.

Appendix 2

Information about the two Operations Managers for NM's factory in country Z

	Samuel **CC's Operations Manager**	**Ritesh** **NM's Operations Manager**
Qualifications/Skills	8 IGCSEs On-the-job training in the production of chocolate bars	5 IGCSEs and 2 A levels Degree in Business Management
Experience	10 years as the Operations Manager for CC Worked for CC for 20 years and knows the production and warehouse storage requirements for all of its brands Has links with all CC's suppliers of high-quality ingredients such as cocoa beans and milk	2 years as the Operations Manager for NM Purchased all the ingredients, including nuts, for NM's products Previously worked for 5 years for a chocolate bar manufacturing business in country Z Worked for 5 years for a small retailer in country Z

Appendix 3

Selected information from the financial statements for CC and NM for 2021

	CC	NM
Long-term bank loan	$10m	$5m
Total shareholders’ equity	$200m	$30m
Current ratio	2	1
Acid test ratio	1.2	0.33
Profit for the year	$42m	$3.5m
Profit margin	25%	15%
Return on Capital Employed (ROCE)	20%	10%