

# THE EDUCATIONAL COMPANY OF IRELAND

## Leaving Certificate – Business Solutions to Additional Business Questions Exam year 2008

### Southern Farmers Co-Op/SFC plc

#### **A.**

- i. To prove that there is a consumer need for the product.
- ii. To establish that there is a large potential market for the product (Jim conducted market research to identify the product areas that have real growth potential..).
- iii. To learn about competitors in the marketplace.
- iv. To prove there is a consumer need for the product (Jim committed a substantial budget to researching new consumer focused products...).
- v. To select a brand name that consumers will respond well to and identify readily (market research established that the brand name 'ICO' has international appeal).
- vi. To identify marketing strengths or unique selling points for the product. Confirm consumer demand for the product concept.
- vii. To do market research taste testing of the product at an early stage to confirm customer approval.
- viii. To identify why changing trends in the market for the products which should be responded to, e.g. demand for recyclable packaging, low fat products, natural flavours.
- ix. Market research can assist in decisions on marketing strategies, e.g. type of advertising and promotional methods used.
- x. To confirm pricing strategy is acceptable to consumers.
- xi. Test marketing of the final product combined with consumer feedback research can confirm the correct product and marketing mix before a full launch of a product.
- xii. To confirm the appeal of the products in new and foreign markets before selling into these markets.

#### **B.**

- i. Allows the business to raise capital from the general public and not just from farmer members.
- ii. Being a plc allows the business access to capital on a much greater scale.
- iii. Allows the business to access finance internationally through registration on stock exchanges in other countries, e.g. London, New York stock exchanges.
- iv. Being a plc gives the firm a much higher business profile (publicity) to help it to expand its business.
- v. Formation of a plc allows former investors the opportunity to sell their shares at any time if they wish.
- vi. The business can pay for the take over of the other firms with shares in the plc instead of having to pay only in cash.

#### **C.**

- i. Each foreign market is different and market research must be done on each new market to ensure successful marketing planning.
- ii. Existing brands may need to be adapted or changed to suit particular international markets.
- iii. Difficult decisions have to be made on how to sell the products in each market, e.g. selling from Ireland, setting up subsidiary companies in each country, selling through local agents, franchising to local companies, etc.
- iv. It is difficult to win market share starting from nothing against established suppliers in foreign markets.
- v. There is a high level of foreign competition on price and quality in new markets.
- vi. There is a difficulty of working across language barriers.
- vii. New markets may have different traditions, tastes and preferences which must be allowed for.
- viii. Exporting from Ireland, an island on the west of Europe, may incur additional transport costs to be covered.
- ix. Exporting outside the Euro zone will involve currency exchange and the danger of exchange fluctuation.

## Blue Dragon Transport Ltd

### A.

- i. Government spending on road and port infrastructures are of benefit to the firm (government spending on road infrastructure has improved their business operations as has the improvement of the ferry port at Rosslare).
- ii. Government grants to industry through agencies like Enterprise Ireland can reduce the cost of capital investments (a large government grant allowed them to part finance the building of a new repair, maintenance and transshipment depot).
- iii. Government attraction of transnational corporations to set up in Ireland provides more business opportunities for firms like Blue Dragon Transport Ltd. (many of their haulage contracts are with foreign multinationals producing in Ireland and exporting to European destinations).
- iv. Government budgetary decisions such as increased taxes on fuel would have an adverse affect on Blue Dragon Transport Ltd. (they watch each years budget carefully to see the impact on their business, they are particularly concerned that taxes on fuel do not increase as this would make them less competitive with foreign firms).
- v. Low levels of general taxation set by government produces growth in the economy and more opportunities for firms like Blue Dragon Transport Ltd.
- vi. Higher levels of government spending indirectly create an increased demand for transport services particularly for imported goods.
- vii. Traffic restrictions and controls on heavy vehicles such as those introduced in Dublin recently cause costly delays for haulage firms.
- viii. Increased levels of tolls charged on roads, bridges and tunnels in Ireland increase costs for Blue Dragon Transport Ltd.
- ix. National agreements which control the level of pay increases over a period of years help firms to control their wage costs and to plan with more certainty.

### B.

#### **Short term sources of finance**

- i. The firm could negotiate with its bank to have an *overdraft facility* on its current account allowing them to borrow money on a short term basis up to a certain money limit set by the bank. There is an interest cost for this service. This source of finance can be used to fund the payment of wages or for the purchase of fuel or other short term expenses. It is convenient as you can borrow exactly the amount of money you require.
- ii. Invoice discounting can also be used to get cash in the short term. The firm can take invoices which have been issued to debtors but which are not due for payment for a period of time and sell them to a bank for cash payable immediately. The bank will pay less than the full value of the invoice to Blue Dragon Transport Ltd. and will collect the full value of the invoices when they are due for payment, thus making a profit. This short term finance method of raising finance can ensure that there are no cash shortages caused by waiting for debtors to pay.

#### **Medium term sources of finance**

- i. The firm could acquire its trucks by *leasing* them from banks over a period of up to five years. The firm knows how much it will have to pay on a monthly basis and can plan its cash flow. This source of finance is relatively cheap because the banks who own the assets (trucks) can claim large tax reductions and thus can charge relatively low rates by leasing the trucks. However, the company do not own the trucks during the lease period but may have an option to purchase at the end of the lease period.
- ii. Blue Dragon Transport Ltd. could purchase its vehicles by taking out term loans from banks for up to five years. These loans must be repaid with interest in instalments over the loan period. These regular payments can be easily budgeted for by the firm. Having cash available to purchase its trucks allows the firm to negotiate low prices as a cash buyer and also has the benefit of them owning the asset from the purchase date.

### C.

#### **Opportunities**

- i. The firm can be very competitive because it has empty trucks returning to Ireland (this involves collecting goods in Europe to fill empty vehicles on their return journeys to Ireland).
- ii. The firm has an advantage as it has a lot of knowledge and experience in the Irish transport market.
- iii. The EU markets are very large and offer great potential for new business.
- iv. With the growth in the Irish economy the demand in Europe for transport services into Ireland is growing.

#### **Threats**

- i. There is a high level of competition from many transport firms operating in the EU markets.
- ii. Very large transport companies may be able to offer lower prices due to lower costs resulting from economies of scale.
- iii. Blue Dragon Transport Ltd. will have to overcome a lack of knowledge of other EU markets and may need to spend money on market research to identify suitable customers.
- iv. There may be difficulties doing business in a range of different languages in different countries in Europe.

## M.C. Chemicals

### A.

- i. The *Single European Market* (SEM) created a free and open market which allows M.C. Chemicals access to a large market (the advantage of locating close to EU markets).
- ii. The *SEM* has also eliminated delays and bureaucracy in shipping goods across borders and reduced the costs of distribution within the EU.
- iii. *EU Structural Policy* has provided grant aid for the development of transport infrastructure which makes it much easier for firms like M.C. Chemicals to export their products from Ireland to mainland Europe.
- iv. *EU competition policy* has ensured that there is a high degree of open competition in EU markets making it easier for new firms to enter the market (Mike sees an opportunity to make a similar product in Ireland for sale in the European market).
- v. The *European Monetary Union* (EMU) has created a common currency which most EU member states are part of. The Euro reduces currency exchange costs and risk for companies like M.C. Chemicals when trading within the Eurozone.
- vi. EU environmental policies have ensured that firms who damage the environment will be penalised and will not gain financial advantage (they incurred substantial fines and environmental restoration costs when they were found to be responsible for pollution).

### B.

#### **M.C. Chemicals Business Plan**

##### **The business**

M.C. Chemicals Ltd., Faheen Industrial Estate, Faheen, Co. Roscommon

The firm will manufacture a range of specialised chemical additives for use in the petroleum and plastics industries.

##### **Ownership**

The company is owned in equal shareholdings by Mike Collins, Joseph Cochrane, Leone Kuhner and Marion Baker

##### **Management**

Mike Collins      Chief Executive officer

Joseph Cochrane      Production and Research Director

Leone Kuhner      Marketing Director

Marion Baker      Finance Director

##### **Production Plan**

Production plant will operate in County Roscommon. Machinery is installed and approved ready for production. The production of some products will be contracted out to other firms until our plant is fully operational. We hold adequate land for the extension of the factory in time. Twenty qualified staff have been employed and are in training at present.

##### **Marketing Plan**

Products will be sold direct to customers throughout the EU by a sales and marketing team of four graduates.

Products will also be promoted at specialist trade exhibitions for the industry. Direct marketing through the internet will also be a key element of marketing our products.

##### **Finance Plan**

Long term capital investment required			€2,400,000
Financed by	Grant Aid	€600,000	
	Owners Capital	€800,000	
	Long Term Loans	€1,000,000	€2,400,000

Medium term finance is required for vehicles, office furniture and equipment of €400,000 will be funded by leasing arrangements.

Bank overdraft facility of €500,000 has been agreed with the bank to cover short term finance needs.

##### **Importance of sections of the plan to the success of the business**

**The Business:** This section sets out clearly the identity of the business and its objectives. Gives the business a clear focus.

**Ownership:** This indicates who the owners of the business are so that other stakeholders will be encouraged to get involved in making the business a success.

**Management:** The quality, experience and training of the management team will have a great effect on the success of the business.

**Production Plan:** Having the correct production facilities in place with a qualified and trained workforce is critical to producing a quality product.

**Marketing Plan:** This shows that the firm knows how to market its products effectively and has the staff in place to do the work.

**Financial Plan:** This plan ensures that the correct sources of finance are used for long, medium and short term financing. This will keep the cost of finance as low as possible and will ensure that the firm will not have any cash flow or liquidity problems.

## **C.**

### **Costs**

- i. Giving workers fair pay and conditions may cost the firm more than competitors who do not do so.
- ii. Setting up production systems which fully protect the environment can be very expensive.
- iii. Purchasing raw materials that are less damaging to the environment or to customers may be dearer than other raw materials available.
- iv. By operating in a non exploitative way, the company may give up the opportunity of making higher levels of profit.

### **Benefits**

- i. Ethical and socially responsible firms have performed very well when compared to other competing firms (Mike is determined to be proactive in relation to ethical standards and the social responsibilities of his new company).
- ii. By operating in an environmentally friendly way, the firm can avoid legal costs or fines associated with court cases (but they (Nortons) incurred substantial fines and environmental restoration costs when they were found to be responsible for pollution in the area near their plant).
- iii. Ethical firms produce higher quality products and earn greater loyalty from their customers (poor quality standards applied by the firm (Nortons) also led to customers taking successful court cases for losses caused by inferior products).
- iv. Companies with an openly ethical approach have a distinct marketing advantage over their rival firms. Unethical firms can suffer bad publicity (the firm's image (Norton's) was also badly affected by the media publicity).

## Corrabawn Region

### A.

- i. A community enterprises centre has been established.
- ii. Jobs have been created in the area (the community enterprise centre now has four businesses operating in it which employ forty people).
- iii. The area has been able to attract a foreign company to set up in the region (since the location in the town, two years ago, of a French plastics factory employing thirty people).
- iv. People are being attracted into the area to live (the population has started to increase).
- v. Local businesses have benefited from the increased spending in the area (the additional wages have given a boost to the local businesses).
- vi. The community has been brought together (a group of twenty farmers is developing tourism locally to supplement their incomes).
- vii. New enterprising ideas are being developed (on farm tourist accommodation, traditional crafts, dying wool and weaving of shawls, sea caves and walking trails, craft shop and tourism centre).

### B.

- i. Make contact with other farmers in Ireland who may be affected by the decision and *form a group* to work together.
- ii. The farmers should work closely with the *national farm organisations* to try to influence any decisions that are to be made.
- iii. The farmers could set up a *website* to create awareness about the issue with the general public and the EU decision makers.
- iv. They should contact their local *Member of the European Parliament (MEP)* and get them to represent their case in the Parliament.
- v. They should *lobby* the offices of the *European institutions* in Ireland about the issue.
- vi. They should ask the *Irish Agriculture Minister* to take up their case with the European Commissioner for Agriculture to try to influence the decision.
- vii. They should seek *media attention* for the issue so that the general public will become aware of the issue.
- viii. They should plan an *information campaign* and put on a public protest to bring attention to their cause.
- ix. Send a *deputation to Europe* to meet the decision-makers to argue their case.

### C.

- i. A co-op is suitable to a situation where a number of people share a common interest in developing a business, in this case (to set up a craft shop and tourism centre in the town of Corrabawn).
- ii. The various members of the co-op can invest varying amounts of capital depending on their financial resources.
- iii. The business would be run democratically with each member having one vote when decisions are being made.
- iv. The members of the co-op all have limited liability for the debts of the business which makes it less risky for people to invest in the business.
- v. New investors can join the co-op as it expands.
- vi. The profits or benefits of the business are shared proportionally among the members.

## Audio Devices Ltd.

### A.

- i. The *organisation structure* of the firm may change – it may be more product, or more geographically, based depending on the effects of the growth of the firm.
- ii. The company will most likely change to being a *public limited company* registered on several international stock exchanges such as London, New York and Tokyo to allow it raise the finance needed for its global operations.
- iii. The firm will enter into *business alliances* with other companies around the world to allow it to carry out its plans (and another is being built in South Korea in a strategic alliance with a local electronics company).
- iv. Global production in three or more locations around the world will make planning production and delivery of products much more complicated. For instance, the firm may use *production sharing* where it produces different parts of products in different locations and then ships them all to one location for assembly.
- v. The firm will have to change its management approach to a global one with a head office in Ireland and managers who have experience of running a business operating in a number of different countries.
- vi. The firm will have to apply a global marketing approach with a global marketing mix to its rapidly expanding world market.

### B.

#### Equity finance

##### Benefits

- i. Equity finance does not have to be paid back and so helps the firm's cash flow position.
- ii. There is no interest to be paid on equity finance
- iii. The firm can pay a dividend to the shareholders if it wishes but does not have to do so every year.
- iv. By listing its shares on world stock exchanges the firm will have access to very large amounts of share capital.
- v. The firm can use equity capital to fund the acquisition of other firms by paying in shares, rather than cash.
- vi. The firm can use shares and share options to pay and reward its management team to motivate them to achieve its growth objectives.

##### Drawbacks

- i. The issuing of shares to new owners dilutes the control of the business for the original shareholders.
- ii. The firm will need to be profitable so that it can pay out a dividend to the shareholders each year to keep them happy with their investment.
- iii. It costs a lot of money to raise finance through the issuing of shares

#### Loan finance

##### Benefits

- i. Loan finance does not affect the control of the business for the shareholders.
- ii. Loans are easy to get for a firm that is growing and profitable.
- iii. Raising loan finance is relatively cheap.
- iv. Loan finance does not affect the sharing out of the profits of the firm.

##### Drawbacks

- i. There is an annual interest cost which must be paid on the loan.
- ii. The assets of the company may be given as security for the loan which means that the firm has not got control over disposal of the assets.
- iii. The firm must repay the loan over a period of time which is a burden on its cash flow.

### C.

- i. The growth of large transnational companies and global business means that Audio Devices Ltd. will face strong competition.
- ii. World trade agreements are reducing barriers to international trade and this will favour the firm.
- iii. The development of trading blocs such as the European Union create free trade areas. The firm may need to have a production unit inside each large trading bloc in the world.
- iv. Rapid changes and improvements in communications technology make it easier and cheaper for firms like Audio Devices Ltd. to operate on a global basis.
- v. World transport infrastructure is improving so that firms can produce in different parts of the world and ship their products to other countries relatively easily.
- vi. New emerging markets in Asia, Africa and Eastern Europe are major targets for future markets for Audio Devices Ltd.

## Sun Products Ltd.

### A.

- i. The government provided grant aid to new firms setting up to help them create jobs (with grant aid from the Irish government).
- ii. To help Irish firms to expand their market the government provided marketing assistance for exporting (further marketing assistance from state agencies helped the business to develop export markets).
- iii. Government commitment to membership of the EU created great opportunities for Irish firms to sell their products in European countries.
- iv. Environmental controls and regulations set by governments of different countries influences where firms choose to locate their business (new production locations have been influenced by local environmental controls).
- v. Differences in rates of taxes between countries also has a big effect on how firms like Sun Products Ltd. choose the location of their production units (production locations have been influenced by the taxation schemes in different countries).

### B.

- i. Set up a website advertising the products and giving advice on skin protection.
- ii. Joint product promotions, e.g. with sale of sunglasses.
- iii. Giving out small free samples of the products for consumers to try out.
- iv. Giving money off coupons for future purchases of the product.
- v. Using label space on one product to advertise and promote another product in the range.
- vi. Run competitions for consumers as an incentive for them to purchase the product.
- vii. The firm could develop new point of sale promotional displays for the products to encourage consumers to pick the products in the store.

### C.

#### Benefits

- i. The firm can gain economies of scale (cost reductions) from producing a standardised product for all world markets.
- ii. The firm can benefit from having global brand names which are recognised in all markets and which are cheaper to create than a number of different brands in different markets.
- iii. The firm can save a lot of money by production sharing where components of products can be produced in different locations and then shipped to another location for final production.
- iv. With global brands the firm can develop a global marketing mix for its products which can be more effective and less costly.
- v. Huge amounts can be spent on research and development of new products as these costs can be spread over huge quantities of products being sold.
- vi. Global firms can save huge amounts money in taxes by manipulating where they earn their profits and ensuring that they pay the least amount of tax.

#### Drawbacks

- i. Going global involves the investment of huge amounts of capital in production, marketing and distribution on a global basis which involves some level of risk of failure.
- ii. By producing one standardised product and marketing one brand the firm is taking a greater risk by 'putting all its eggs in one basket'.
- iii. Managing a world wide business on a twenty four hour a day basis places very heavy demands on the management team.
- iv. There is always a degree of resistance among consumers to global companies as they are seen as dominating the market and exploiting the consumer.