

Chapter 9: Exam practice question

Strong rumours that Kraft is looking to take over Cadbury

- 1 Define the term 'globalisation'. (2)

This is the free trade of goods, capital and labour in worldwide markets. It is unrestricted by trade barriers such as tariffs and quotas.

Use **Resources table 3a** mark bands.

- 2 Explain two potential advantages to Kraft of taking over Cadbury. (4)

Define takeover: this is when one business, usually the larger one, buys controlling interest of another business. This may often be as much as 100% of the company but may be as little as 51%.

Advantages may include:

- instant growth
- increased geographic spread
- simultaneously acquire local experts and supply chain contacts
- acquisition may be at lower than the market value of the assets if the acquired business is in difficulty
- spread risk, e.g. geographic or market
- any other relevant point.

Apply **Resources table 3b** mark band descriptors.

- 3 Analyse the problems Kraft might experience as it tries to enter the European chocolate market. (6)

- lack of understanding of local culture
- lack of local contacts and supply or distribution chains
- resistance to American brands
- difference in local tastes
- different languages
- time difference between Europe and the USA
- different European laws regarding product content, advertising, etc.

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

A conclusion is **not** required for this question.

- 4 Discuss how Ansoff's matrix model might have been useful to Kraft in making the decision to takeover Cadbury. (8)

Understanding of Ansoff's matrix should be evident, including identification and explanation of the strategies. Explanations of points made may refer to the following theoretical content:

Market penetration: existing products in existing markets (not applicable if have no existing presence in the European chocolate market)

- low-risk strategy
- may be achieved by improving marketing mix
- promotion can be focused on existing customers making more purchases
- Kraft may see opportunity to reposition some existing Cadbury brands/products

Market development: existing products in new markets

- medium-risk strategy – can be risky if have little knowledge of the new market
- new distribution channels to sell in new markets
- marketing changes – product/packaging/pricing may need to be adapted to new market

Product development: new products in existing markets

- medium-risk strategy – may be suitable if existing products have reached saturation or decline
- is often a reason why businesses acquire new businesses

Diversification: new products in new markets

- high-risk strategy
- can gain market share in existing markets
- spread risk
- is often a reason why businesses acquire new businesses

The question, however, requires analysis of **how** Ansoff's matrix is useful in making the decision to take over Cadbury.

Ways in which Ansoff's matrix is useful:

- helps businesses analyse market growth and product strategies
- provides a formal basis for logical and systematic analysis so that all options are considered
- encourages consideration of alternative strategic options
- any other relevant point

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.