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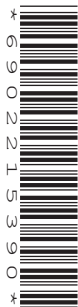
Monday 3 June 2019 – Afternoon

A Level Business

H431/02 The UK business environment

Resource Booklet

Time allowed: 2 hours



INSTRUCTIONS

- This is a Resource Booklet.
- You should refer to it when answering the examination questions in Section B, which are printed in a separate booklet.
- The business described in this Resource Booklet is a real business.

INFORMATION

- This document consists of **8** pages. Any blank pages are indicated.

HOTEL CHOCOLAT

Hotel Chocolat manufactures premium chocolate and cocoa products. It sells these direct to customers, both online and through its network of over 90 shops in the UK (15 of these shops contain cafés). Five more shops with cafés are planned to open soon. The directors of Hotel Chocolat believe that it is the UK's favourite premium chocolate brand, providing a differentiated, cocoa-rich taste at an accessible price. The business was founded in 1993 by Angus Thirlwell and Peter Harris. Average pre-tax profit margins have remained steady in 2016 and 2017, at about 10%.

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Extract A – Hotel Chocolat's London stock market flotation

The company floated on London's stock market in May 2016, raising £50m of new capital. The two founders retained two-thirds of the shares after the float.

"It seemed a good time to float," said one of the founders, Angus Thirlwell, who remains as Chief Executive of the company. "The flotation gives us access to more capital but Peter and I, as founders, can continue to protect the brand. We are determined to maintain the independence of Hotel Chocolat." This is in contrast to one of the company's main UK competitors, Thorntons, which was bought by the Italian company, Ferrero, in 2015.

10

Unlike its rival, which has suffered falling sales in recent years, Hotel Chocolat has not been affected by falling consumer confidence. In its first full year of trading since the flotation, the company announced annual turnover of £105.2m for the year ending July 2017, an increase of 12% on the year. The average customer spend was £16 and online revenues increased by 18%. Hotel Chocolate has a market share of the UK chocolate market of less than 2%.

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Since floating on the London stock market, Hotel Chocolat's directors have had to publish more regular information to comply with its 'regulatory requirements'. In 2017, this included:

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- Annual report & accounts – 9th October
- Notice of AGM – 9th October
- Preliminary results – 27th September
- Interim results – 22nd February
- Notification of major shareholding changes – 16th March, 24th May, 16th August
- Appointment of non-executive director – 21st April
- Trading updates – 17th January, 22nd February, 19th July

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Source: Adapted from <http://www.hotelchocolat.com/uk/investor-relations> (accessed 17/10/17), Hotel Chocolat – Annual Report & Accounts 2017 & "Sweet taste of success as Hotel Chocolat ready to float" by Jon Yeomans & Szu Ping Chan, Daily Telegraph (10/03/16).

Extract B – What makes our chocolate different

Right from the start, we have never played by the rules of what people said a chocolate company should be.

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We are one of the world's few chocolate makers to actually grow cocoa. Connecting cocoa-growing with luxury chocolate-making and retailing makes us unique in the UK.

When we first started making our Easter eggs more than a decade ago, we were advised by experts to make them as thin as possible and put the chocolates on the outside. We did the opposite – making very thick shells with all of our chocolates hidden inside, for extra excitement.

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Everybody said a slab of chocolate should be regular and divided into bite-sized pieces – instead we made our now famous 'Giant Slabs'. When you pour melted chocolate onto a cool marble table it naturally sets into a curvy, fluid shape. This was the inspiration behind the design of our Giant Slabs. 'Much admired, often copied, never equalled'.

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Our slogan has always been 'More Cocoa, Less Sugar'. The two standard types of milk chocolate we produce contain 40% and 50% cocoa and even our white chocolate is 36% cocoa, well above the industry average. A high cocoa content means that it takes a smaller portion to satisfy a chocolate desire. The smooth, creamy flavour lingers on while the cocoa makes you feel focused, energised and on top of the world.

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Over the years, the power of cocoa has been lost and milk chocolate has become sweeter and sweeter. In fact, most milk chocolate today contains twice as much sugar as cocoa. The fact that sugar is a tenth of the cost of cocoa could explain this.

Our cafés are yet another innovation: bringing together cocoa-growing, chocolate-making, drinks and food, we are reviving the tradition of drinking chocolate alongside a carefully designed menu of tea, coffee and snacks.

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Hotel Chocolat has won more than 30 awards for its products from 'The Academy of Chocolate' (a voluntary industry organisation monitoring quality standards) in the past two years.

Source: Adapted from <http://www.hotelchocolat.com/uk/about> (accessed 02/08/16)

Extract C – From cocoa bean to chocolate bar

Hotel Chocolat is different from its rivals. It is a vertically integrated business, owning its suppliers, including a cocoa plantation (the Rabot Estate in Saint Lucia), its manufacturing facilities in Saint Lucia and Cambridge (in the UK), as well as its shops and cafés.

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Angus Thirlwell wanted Hotel Chocolat, “To be involved at every stage from bean to customer. To grow, harvest, ship, manufacture and sell directly to the customer”. This has recently been achieved, with chocolate bars now on sale in the UK that can be traced back not only to the plantation they came from, but also to the specific area within the estate where the beans were grown.

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When the company bought the Rabot Estate in 2004, cocoa farming across Saint Lucia was in decline. Farmers were leaving the crop to rot, rather than harvesting, drying and transporting the beans without any guarantee that their costs would be covered by the market price.

Source: Adapted from “Hotel Chocolat: the saviour of St. Lucia’s cocoa industry?” by Katriona MacGregor, Daily Telegraph (12/03/15) & “Sweet taste of success as Hotel Chocolat ready to float” by Jon Yeomans & Szu Ping Chan, Daily Telegraph (10/03/16).

World price of cocoa – January 2015 to October 2017 (\$ per tonne)

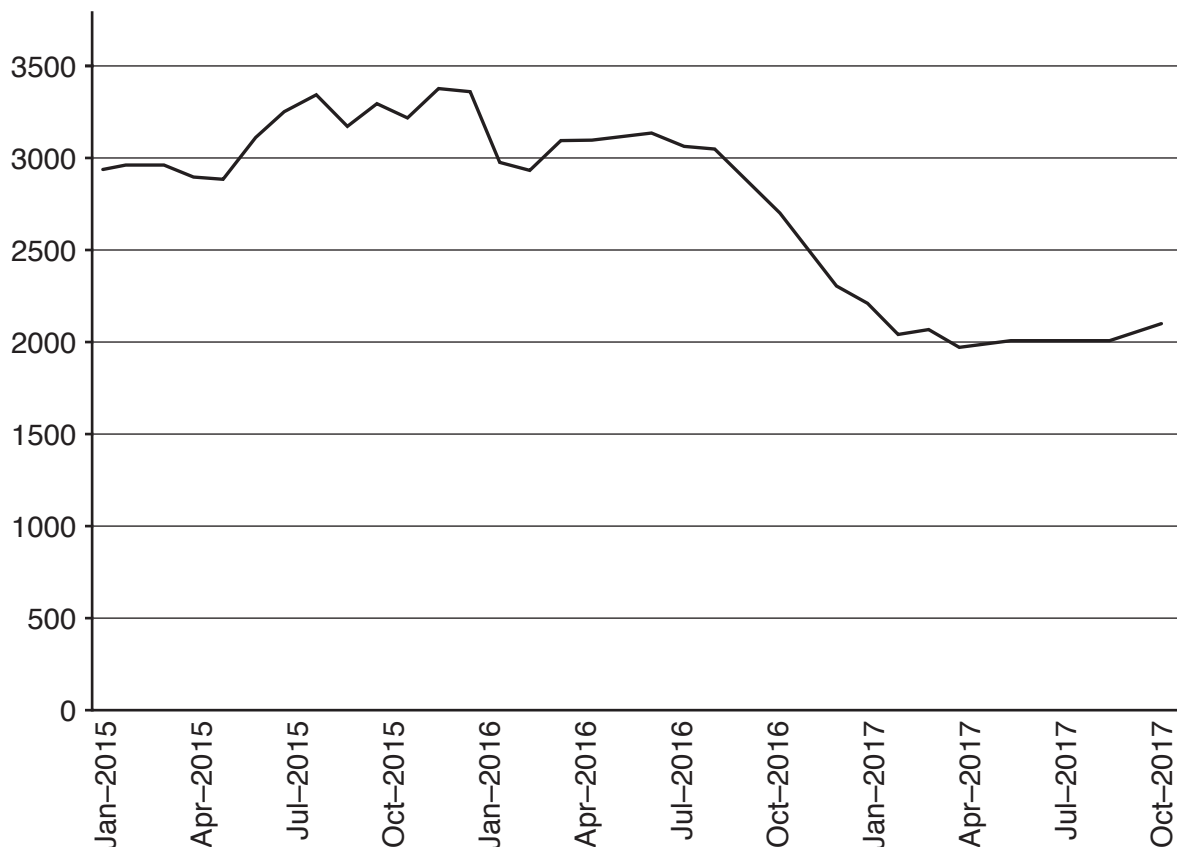


Fig. 1

Source: International Cocoa Organisation

Extract D – Hotel Chocolat opens its first Peterborough shop

Hotel Chocolat is set to open a shop in Peterborough at the Queensgate shopping centre and will be located opposite the premium jewellery store, Pandora.

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Hotel Chocolat co-founder, Peter Harris, said: “We are delighted to extend our presence amongst the impressive retail line-up at Queensgate. The continually strong performance of this regional destination, coupled with continued investment in the shopping centre, made this the ideal location for a new shop.”

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Meanwhile, fashion brand H&M is due to relocate to a larger shop at Queensgate, opposite to John Lewis.

Source: Adapted from “First Peterborough store for Hotel Chocolat” by Muhammad Aldalou, Insider Media (22/07/16)

Extract E – How to establish a promotional mix

You drive sales by promoting the benefits of your company’s product to potential buyers. The ways you promote your organisation will largely determine whether you successfully place the right messages in the minds of your target audience.

75

Even a premium product does not sell itself. Your customers need information about your product before they buy it.

When you promote your business, you are using persuasive communication. You want to convince others to buy from you and must select the right promotional strategy to:

- capture the attention of the right group of customers in a credible yet catchy way
- educate customers about your product
- influence customers to buy from you.

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How you integrate the elements of a promotional mix depends on what you are promoting, the preferences of the potential customers, general market conditions and your promotional budget.

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Source: Adapted from <http://edwardlowe.org/how-to-establish-a-promotional-mix> (accessed 02/03/17)

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