Quality Foods Ltd

Established in 2002 by Raymond Hogan, this Castlebar-based business produced and supplied agri-products – e.g. vegetables and dairy products – to markets and retail outlets nationwide. Even though the market is competitive, with importers benefiting if there is a rise in the value of the euro, Quality Foods Ltd is a profitable business. They have built up a great reputation with the trade due to the quality and freshness of their products, alternative trading terms (their discounts are higher than import suppliers'), competitive prices and a reliable distribution service.

The supermarkets encouraged Quality Foods to widen their range of products. After doing research with customers, they decided to supply a new range of pre-packed foods and drinks at a selling price 25 per cent cheaper than the imported range currently available to consumers. Management are confident of a sales increase of 20 per cent and a profit increase of 10 per cent. The wider product range will give the business many economies of scale and enable it to resist any currency problems that may arise.

However, expanding the business has many implications. Capital expenditure requirements, including premises, fittings and machinery, will cost €400,000. Additional staff and insurance costs will be €100,000 annually. A net profit margin of 20 per cent is required on sales for the business to meet all its financial requirements and earn dividends for its shareholders.

The policy of recent years to build up Quality Foods retained earnings reserve fund means that €200,000 from this fund is available to meet capital expenditure costs. The balance of the funding will come from a bank term loan of €80,000 and a share issue to new shareholders of €120,000. The company can increase its overdraft limit by €40,000 to meet its working capital requirements. A special marketing budget of €30,000 is allocated to launch the new products onto the market.

Raymond Hogan was very satisfied that the small business he started in 2002 was now a success story. The business employed 35 people. The weekly wage bill was €20,000. There was a united workforce and great teamwork, with everyone accepting their role in ensuring that the firm met its social responsibilities to the different stakeholders.

But unexpectedly a problem has arisen. A supermarket chain with which the company has sales of €250,000 each year has contacted the business demanding the following:

(a) an additional discount of 10 per cent on all purchases
(b) exclusivity on the sale of the new fruit juice the firm is launching.

Questions

(A) Outline five stages involved in the development of the wider range of products as referred to in the above text. (30 marks)

(B) (i) Distinguish between capital expenditure and working capital.

(ii) Describe two suitable short term and two suitable long term sources of finance suitable for funding the expansion of the business. Refer to the text. (30 marks)

(C) Explain what is meant by the social responsibilities of the business. What impact could the demand for improved trading terms for the supermarket chain have for the business? (20 marks)

Total 80 marks