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**Instructions to Candidates**

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## Privatisation Issue 2007

### The United Kingdom Perspective

The following information looks at just one view of privatisation in the United Kingdom (UK).

The nationalised industries which included railways, steelmaking, coalmining, gas and electricity had been private concerns that had needed to be regulated and subsidised. The Conservative government under Margaret Thatcher implemented a series of reforms in the United Kingdom to encourage efficiency and raise finance and so these industries were privatised during the period 1979 to 1990 eg the sale of British Gas in 1986 raised approximately £6.6 billion.

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Surprisingly, given the claimed success of privatisation, privatised businesses have not thrived in the private sector. Owning privatisation stocks was once a way in which anyone with a few hundred pounds to spare could be confident of adding a hundred or two to it: buying these shares at flotation was almost a guarantee of profit. Holding these shares for a long term was not. The performance of privatised business has fallen short of market averages by a very substantial margin.

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Even those companies which at first seemed to be clear successes of privatisation, like British Steel and British Airways, were ultimately disappointments. British Steel, now Corus, became one of the best managed and lowest cost steel producers in the world, but that has proved barely enough for viability in a world awash with low price steel. British Airways raced ahead of other European airlines by concentrating on cost control, marketing and above all customer service. But other airlines could also get things right as well and eventually did. Both did better after privatisation than as nationalised industries, only to discover better than before was still not good enough.

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All privatised companies start from behind. Anyone setting out to establish a successful private sector business would not begin with the water or electricity board or a government department. They would do better to start with nothing at all; Vodafone, which began operations at the same time as BT was privatised, is now bigger, more efficient and the quality of its management more highly regarded.

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Many of those who reached the top of privatised companies must have felt like lottery winners. Having joined the foot of an administrative ladder in one of the less glamorous divisions of a local authority or government department, they found themselves notable executives of large international companies with salaries and share options to match. It is not surprising that not all of them proved up to the job.

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Customers have, on balance, gained from privatisation but not hugely. An index of 'prices of privatised goods', since 1980 has generally tracked the movement of prices. Labour costs in all these industries have fallen, often substantially. Capital and other costs have risen. Each industry has its special factors. Technology has reduced the price of telecoms equipment; EU environmental directives have increased water supply and sewerage costs. Electricity and gas prices have fallen somewhat in real terms; rail and bus fares have risen.

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## A Swedish Perspective

In Sweden, the state still has a stake in 57 companies, which together employ 200 000 people. In March 2007, Sweden's centre-right government presented a bill to its parliament to sell state holdings in six companies. Three of the companies in which the government had a minority share were Telia Sonera, Nordea, and OMX stock exchange. The other three were 100 per cent state-owned: Vasakronan a real estate company, SBAB a mortgage lender and Vin & Sprit the makers of Absolut Vodka. The government hoped the sale of these companies would raise approximately £12.5 billion over the three years 2007 to 2009. The aim of the government's policy was to create the conditions to generate more jobs and expanding companies. The government believed that one way of achieving this was by having a clearer division of roles between the private and public sectors.

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Vin & Sprit had been owned by the Swedish government for 90 years. With a recognised brand image, an estimated value of between £2 billion to £3 billion and a growing sales volume for its vodka brand at that time of 7% per annum, it was the world's second best selling international vodka.

Absolut Vodka was gaining ground in the United States vodka market in 2007 having almost full distribution and 98 per cent brand awareness in the consumer market.

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Several large drinks companies expressed an interest at the time: France's Pernod Ricard, US group Fortune, Diageo the world's top Spirit producer and maker of top selling vodka Smirnoff and Bermuda-based Bacardi. The Chief Executive of Bacardi was quoted as saying "Vin & Sprit and Absolut especially would be a terrific fit for Bacardi. Of the few global brands that are really left to acquire Vin & Sprit and in particular Absolut obviously represents a jewel for a company like ours".

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The Swedish government took time over making the decision to sell, claiming that it would not be based on the price achieved alone. Factors such as preserving jobs would also be taken into account. For a firm employing 2 500 people, this was considered important.

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Following the successful sale of the six companies the Swedish government planned to sell state holdings in other companies such as Scandinavian Airlines System (SAS) as well as unlisted groups such as the electricity company Vattenfall. The Swedish government also plans to deregulate the country's 35-year-old pharmacy monopoly by January 2009.

### Sources:

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*Absolut Vodka Gaining US market share* – CEO, Reuters, March 2007

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