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1.1 Introduction

Cadbury Schweppes is the world largest confectionary business selling brands around the world they have a strong regional presence in beverages in the Americas and Australia with a lot of loyal customers. The business started in 1783 and over years has become more successful; as the business has expanded they have developed a whole range of new products and brands some of which being Cadbury, Schweppes, Halls, Trident, Dr Pepper, Snapple, and Trebor, Dentyne, Bubblicious, and Bassett. Cadburys products fulfil a wide range of needs, tries to diversify its products from those already on the market to give their consumers something new. Cadburys tries to make its products widely available to ensure that their within arms reach whether as an impulse or as a considered buy, to this they work with their customers in different trade channels and employing over 70,000 staff.

Cadbury Schweppes have expanded their business throughout the world by a programme of organic (growing from within) and acquisition (buying other companies) led growth. The business expanding from acquisition shows that the business is flourishing because they can buy out their rivals. Cadbury's confectionery business is organised into four different segments (regions) and six global functions, each region is focused on commercial operations in its geographical and product area. The four regions are: Britain Ireland, Middle East and Africa (BIMA); Europe; Americas and Asia pacific. The functions are global supply chain, global commercial, science & technology, human resources, finance and information technology. This structure allows Cadburys to centre their attention on each area and if there is a problem in one area they can sort it out without having to sort it out over all areas. Another advantage for Cadburys to set up regions is that they can easily distinguish what product is booming in what region.

1.2 Useful information for a manager

A manager of Cadbury Schweppes may consider the following information a important requirement which could aid them in their day to day running of the business; he/she would like to know what is their most profitable product and which product has the highest demand knowing this will allow them to increase the amount of volume produced and also they can charge a higher price. Which region is making the most profit? They would like to understand the behaviour of overhead costs and what particular product is consuming most overheads. A sales forecast would also aid managers, whether or not they should invest in a new product range, payback. Another important information requirement would be to have a pricing strategy

1.3 Activity based costing

One of the costing and management accounting methods/ techniques which will be useful is Activity based costing (ABC).

Activity based costing allocates indirect costs to products and services based on factors that most influence them. The basic idea behind activity based costing is that costs consume activities, activities consume resources, and the consumption of resources is what drives cost. How ABC works?

Stage 1 is where the activities/objects are identified e.g. set-up, machining, packing, receiving, labour etc. which are the major value adding activities, looks at which product is more machine intensive or labour intensive.

Stage 2 identify cost drivers, this is where you see what factors sway the cost of activities and how do the activities utilise resources, cost drivers are often associated with the outputs from activities; number of suppliers for purchases; number of machine set-ups

Stage 3 is where you create cost centres/cost pool this is where you calculate the cost of each activity; you create a cost centre/pool for each activity and ensure that costs can be easily traced to these cost centres/pools

Stage 4 is to trace the costs to the products and measure the benefit or use of each activity by each product. ABC illustration

product	Machine (MC) hours	Direct labour (DL) hours	Annual output	Total mc hours	Total DL hrs	Purchase orders	Set-ups
A	3	4	15,000	45,000	60000	200	95
B	3	4	1,500	4,500	6000	100	55
			16,500	49,500	66,000	300	150

Overhead costs; volume related costs £ 150,000

Purchasing related costs £ 160,000

Set-up related costs £ 245,000

£555,000

	Volume	**Purchasing**	**Set-up**	
Costs	150,000	160,000	245,000	Stage 1
Cost drivers	Direct labour hours 66,000	Purchase orders 300	Set-ups 150	Stage 2
Cost/cost drivers	£150,000/66,000 = £2.27per hour	160,000/300 =£533 per order	245,000/150 =£1,633per setup	Stage 3
Product A costs	60,000×2.27 =136,300	200×533 =106,650	95×1633 = £155,165	=398115
Product B costs	6000×2.27 =13700	100×533 =53350	55×1,633 =89835	=156885

Stage 4

Product A overhead cost per unit **398115/ 15000 = £26.54**

Product B overhead cost per unit **156885/ 1,500 = £104.59**

Cadburys could use activity based costing to plan, control and make decisions much easier. The benefits to Cadburys for using activity based costing is that the principle is easy to understand, it recognises the complexity of modern production processes, improves the effectiveness of budgeting by identifying cost/performance relationship of different service levels, it will allow Cadburys managers to improve pricing decisions that are based on cost that mirrors the manufacturing process, will give the managers a insight into the cost structures for making and selling diverse products and also provides more accurate product cost information and more detailed information on costs of activities and the drivers of those costs. The managers can use ABC systems to focus on cost reduction managers of Cadburys could set cost-reduction targets in terms of reducing the cost per unit of the cost allocation basis.

The main limitations of Activity based costing are the measurements necessary to implement, the systems require mangers to estimate costs of activity pools and to identify and measure cost drivers for these pools. Also activity cost rates need to be updated regularly. Detailed Activity based costing systems are costly to operate and difficult to understand.

1.4 Budgeting

A budget "*Is a plan expressed in money. It is prepared and approved prior to the budget period and may show income, expenditure and the capital to be employed*" (CIMA) in other words it is an itemised forecast of an companies income and expenses expected for some period in the future. The anagram below will show the purpose of budgeting;

C o-ordination of activities within the organisation
R esponsibilty given to the employees for different aspects of performance
U tilisation of resources reconsidered and adjustments made where necessary
M otivatoin of staff via the use of budgets as a target to aim for
P lanning of future activities and control of the business
E valuation of performance
T elling staff how they have performed and what implications there are

Cadburys could use budgeting to plan for the future e.g. sales budget could be produced to estimate the amount of expected sales. They could also use budgets to forecast costs and revenues which gives the advantage of knowing where there are likely to be future cash deficit so they can tackle the issues that need attention before they occur. Budgets can help provide direction for Cadbury to help them achieve their objectives by directing the budgets towards the organisations goals.

Budgets can be used by Cadbury Schweppes as a way of analysing the performance of different products by comparing the actual and the budgeted results at the end of the period and the differences between the planned and the actual outcomes can be investigated as to why the occurred.

One of the budgeting methods the manager of Cadbury Schweppes could use is Zero-based budgeting this is a technique of planning and decision making. Zero based budgeting starts from ‘Zero base’ and every department function within the organisation is analysed for it needs and costs. Zero base budgeting does not use the previous year’s budget or expenses in setting a new budget since the company’s circumstances and finances may have changed.

Cadbury Schweppes operating review for confectionery in 2007 shows a 4.8% rise in revenue with a 1.6% increase in operating profit since 2006. Using these figures Cadbury Schweppes could implement zero based budgeting to deal with their expenditure as their costs increased from £489 million to £521 million. Zero based budgeting would result in each budget starting from the beginning which would reduce inefficiency as it would look at the current position and not the position from pervious years. Zero based budgeting would reduce costs which can be done in the course of the Decision package approach; the decision package approach would allow Cadbury Schweppes to apportion its resources to where they are most needed.

The limitations of budgeting are that it is difficult to define decision units and decision packages, as it is time consuming, costs for training could be required, there uncertainty in the economy as the rate of inflation is fluctuating which makes it difficult to forecast sales and revenues and also at times budgets can be de-motivating for staff because of them being to ambitious and they feel pressurised to meet them so therefore productivity of Cadburys could suffer.

1.5 Payback

Payback is one of the easiest and most used methods of capital investment appraisal. It is the time it takes to recover the original costs from an investment. Payback could be used by Cadbury Schweppes to see whether it is worthwhile in investing in a new product, or they could use it to see the payback for various different products and which gives the most return and which product is the quickest to payback.

If an investment requires an initial amount of £80,000 and is expected to produce annual cash inflow of £20,000 per year for 6 years payback will be;

80,000/20,000 = **4 years payback**

The advantage of payback is that it gives a calculation of how risky an investment is. An investment that takes longer to payback will be riskier then one reaches payback quicker. This method would be useful to the managers because it gives a time period in which they can expect their investment to payback it also takes into account the time value of money.

The limitations of payback are that are that it does not take into account cash flows that are earned after the year the payback period there could be changes to cash inflow e.g bring in less money after the payback period therefore Cadburys would not make as much profit as they would have hoped for, and it also fails to take into account the differences in timing of the proceeds which are earned before the payback period.

1.6 Pricing

There are many ways to price a product and various pricing strategies may be used to aid managers in pricing the product. There are many pricing strategies some of which being;

Competitive pricing: this is where you use your competitor's retail price as a benchmark for your own prices.

Loss leader: this is an item you sell at or below cost in order to attract more customers, it's a good short-term promotion technique

The pricing strategies Cadbury Schweppes could adopt is cost plus pricing this looks at your own cost structure it takes the production cost of a product and adds certain mark-up percentage to reach a selling price. This will be useful to Cadburys when deciding the selling price for a product a simple technique would make it easier for managers.

A illustration of cost plus pricing would e.g. the total production cost of a Cadburys chocolate is 0.10p and the mark-up is 75% the selling price would be;

75% of 0.20= 0.20/100×75=0.15p, selling price =0.20(production cost) + 0.15(75%mark up) = **0.35p**

Cost plus pricing can be a benefit to Cadburys because it is a simple method and shows what costs are related to a product, it makes it easier for mangers to decide a suitable price with the desired profit.

A disadvantage of pricing would be if the product is priced to high it may affect sales on the other hand if priced to low may affect profit negatively. Mangers may be tempted to use higher mark-up then normal.

1.7 Bibliography

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