



Revision questions

(74 marks; 1 hour 20 minutes)

- 1 In your own words, explain the meaning of the term 'marketing'. (3)
 - to identify and satisfy the needs and wants of consumers profitably.
- 2 Explain why some firms choose not to carry out market research. (3)
 - high cost
 - time-consuming
 - they believe their product is the next big thing.
- 3 Why do you think most firms decide to review their marketing strategy at fairly regular intervals? (3)
 - As the product goes through different stages of the product life cycle, the marketing needs will change and therefore it is only logical to review the strategy.
- 4 What is meant by the phrase 'target market'? (2)
 - the particular market segment to which a product is marketed (e.g. 11–15-year-old girls).
- 5 Outline two reasons why it is important for firms to be able to identify their target market. (4)

Possible answers include:

 - in order to research consumers' particular needs/wants/interests
 - in order to focus their advertising on those who will actually be interested in the product.
- 6a Distinguish between a production-orientated and a market-orientated approach to marketing. (3)
 - A production-orientated approach occurs when a firm focuses on developing a product and then seeks to find customers to buy that product, whereas a market-orientated approach starts by finding out what consumers want/need and then develops a product to satisfy those needs.
- 6b Outline whether a production-orientated or market-orientated approach would be better for *one* of the following companies: (4)
 - (a) Manchester United FC
 - production-orientated



(b) easyJet

- market-orientated

(c) Topshop

- market-orientated

7 Explain how market segmentation has helped companies such as BSkyB to improve their profitability. (4)

- By segmenting the market BSkyB has been able to create different packages for different target markets. This has allowed it to charge a premium on those packages as they are better focused on consumers' needs. Furthermore specialised channels aimed at particular types of customer also attract a premium, which again helps to increase profit.

8 What are the marketing advantages of not having a specialised marketing department? (4)

- If you can create a business culture in which marketing is everyone's job rather than just that of one department, this could lead to more ideas, greater creativity and increased motivation of staff (not a marketing advantage, but an advantage nonetheless). Furthermore if done well it could really make marketing the focus/strength of the organisation.

9 Explain how the use of a mystery shopper can help to maintain standards of customer service. (4)

- shopper can provide clear feedback on 'where the firm is now', spotting weaknesses and strengths for management to work on
- mystery element helps to keep all staff on their toes at all times

10 Briefly explain how the following businesses might benefit from providing excellent customer service: (9)

(a) a café

- Regular custom at a café may mean daily visits from loyal customers. This assists in building the customer base that is so crucial to success.

(b) a manufacturer of washing machines

- Manufacturers of white goods such as washing machines live or die by their reputation. Good customer service is likely to enhance a firm's reputation, through word-of-mouth recommendations to friends – priceless promotion probably linked with reduced second-phase costs.



(c) a bank

- Banks now offer a broad range of financial services. Happy customers who have experienced good customer service may prefer to stick with the same supplier for all their financial service needs, boosting the bank's revenue per customer.

11 Explain why a small local plumber might benefit from offering better customer service than all her local rivals. (4)

- Word of mouth is absolutely crucial for most tradesmen. Good customer service may be the most effective way of attracting new customers. Meanwhile happy customers, notoriously suspicious of 'cowboys', will be loyal.

12 Explain two benefits that an electricity supplier such as npower might find as a result of gaining a customer service quality standard such as the Charter Mark. (6)

- With increased shopping around for utility supplies, competitive advantage is vital. Price may not be the only route to an advantage, with many customers concerned about levels of service. A standard such as the Charter Mark can therefore feature strongly in promotional material.
- Assuming that gaining the standard has improved customer service there may well be reduced 'second-phase costs' for the company in terms of customer complaint lines.

13 Explain in your own words the difference between market size by volume and market size by value. (2)

- By volume means to measure the market by the number of products sold (1), whereas by value means to measure the market by the total value of sales (1).

14a Toyota's share of the UK car market is about 6%. If it continues with that share, how many UK car sales would that amount to in 2020; and how many would there be in China in 2020, assuming the same market share? (4)

- UK: $2,600,000 \times 6\% = 156,000$
- China: $20,000,000 \times 6\% = 1,200,000$

14b Outline two ways Toyota might respond to that sales difference. (4)

Possible answers include:

- speed up production of cars
- focus more on Chinese market
- start producing cars in China (to reduce transportation costs).



15 Why might a shoe shop focusing on 'Little Feet' be able to charge higher prices per pair than a general shoe shop? (2)

Possible answers include:

- because it is a niche market, a higher price can be charged
- because the product is differentiated.

16 Explain in your own words how the market for shoes could be segmented. (3)

The market for shoes could be segmented by:

- age
- sex
- income.

17 Look at Table 12.3. Discuss which business should be happier with its market position: Walkers or Pampers. (6)

2 marks should be allocated for any sensible answer, plus up to an additional 4 marks for development of the answer.

Possible answers include:

- Pampers, because it has a larger share of the market so can better control the market price
- Walkers, because the market it is operating in is huge and it is the market leader.

Revision exercises

B1 Discussion point

(Refer to questions on page 79 of the textbook.)

1 From your reading of the text, is it really true that all Morgan's success is down to luck?

Possible points include:

- There is no evidence that Morgan has ever carried out research to assess the extent of demand for its cars, or to obtain customer feedback (this, however, does not mean that the company has not done this) – was the decision to manufacture the cars based on a lucky hunch?



- The niche in which the company operates may be considered to be too small for larger companies to enter, helping it to retain its sales.
- The company has benefited from free publicity generated by continued media interest in a small, successful UK car manufacturer and the appeal of an iconic British brand worldwide.
- The consistently high standards of quality achieved by the workforce help promote the brand via its reputation – this is not a result of luck but of investing in a highly skilled workforce.

2 What marketing problems might the business face if it attempts to expand?

Possible answers include:

- The company may lack employees with the marketing skills needed to put together a successful marketing strategy.
- The company may find that attempts to expand sales may damage the car's exclusive image.
- The company may be forced to employ more capital-intensive methods in order that production meets higher sales levels – again, this could damage the image of the brand.

B2 Case study

(30 marks; 35 minutes)

(Refer to questions on page 79 of the textbook.)

- 1 According to Roger, 'Marketing is just a set of tools to sell more products.' Explain the possible drawbacks of this approach. (7)
 - This approach implies that marketing is just about increasing sales (which one could argue it ultimately is), however there are other goals. Marketing often seeks to improve brand loyalty and brand awareness – however, the ultimate goal of this is to increase sales.
 - The fundamental drawback of this approach is that marketing is quite a creative concept and this attitude is likely to have a negative impact on creativity. Marketing should be about creating an image, even if that image is ultimately created to sell more products.
- 2 How would you describe WQC's marketing philosophy? Is it production-orientated or is it market-orientated? (7)
 - There is some evidence that WQC is market-orientated as Roger's marketing mix is focused mainly on things that Roger believes customers want (e.g. a price of less than £2000).



- 3 Using the example of WQC, explain why an unethical approach towards marketing can often yield profitable results in the short term. (8)

Possible lines of argument include the following.

- Acting unethically may enable a firm to cut corners and thus reduce costs. In the short term revenue is unlikely to change significantly and therefore the cut in costs will result in an increase in profits in the short term.
- However, as time goes on and customers get wise to the unethical actions, demand is likely to fall and therefore profits will suffer in the end.

8 marks

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 4 Outline two internal and two external factors that might affect the effectiveness of WQC's marketing. (8)

Possible internal factors include:

- finance available
- product portfolio
- size of the business.

Possible external factors include:

- degree and type of competition
- social trends/consumer tastes.

Revision exercises

B3 Data response

(20 marks; 25 minutes)

(Refer to questions on page 80 of the textbook.)

- 1a Briefly explain how Brian's business seeks to identify customer expectations. (2)



- The customer satisfaction survey should allow Brian to identify customer expectations.

1b Explain two features of Brian's business that you consider may be vital elements of good customer service for medical practitioners. (4)

- Highly skilled staff are surely a must for a medical practitioner.
- A calming waiting area can help to settle any nerves customers may have before they meet the chiropractor.

2 Explain how Brian's business attempts to monitor and improve customer service levels within the business. (6)

- Monitoring will be down to the customer satisfaction survey, although other methods not mentioned in the case could be used, such as focus groups, mystery patients or informal conversations with patients.
- Improvement can come through the careful recruitment of staff mentioned in the case, the training offered to staff, especially with its focus on meeting customers' expectations, while the systems implemented in order to gain the ISO quality standard for customer complaints will also be aimed at continually improving customer service levels.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

3 Analyse two possible benefits to Brian of providing the highest levels of customer service. (8)

- word of mouth in the form of customer recommendations, leading to a growing business along with reduced marketing costs
- loyalty of existing customers means less need to continually attract new customers – an expensive business; in addition, customer loyalty may increase willingness of customers to take part in the survey, creating a virtuous circle.

8 marks

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

**Revision exercises****B4 Data response**

(15 marks; 15 minutes)

(Refer to question on page 80 of the textbook.)

- 1 Outline two reasons why a whole market may shrink in size, as happened to CD sales in the first half of 2007. (4)

Possible answers include:

- because of changes in technology – in this case downloading music has become more popular, which has reduced demand for CDs
- because of changes in consumer tastes (e.g. consumers are getting more health conscious, which may have caused a decline in the market for fast food such as burgers and kebabs)
- because of a change in income level – if income is in decline there will be a decline in demand for luxury products.

- 2 ChoicesUK collapsed as the market declined. Explain two ways in which it might have set about boosting its market share (to combat the decline in the market as a whole). (6)

Possible answers include:

- reducing the price of its products, although this would have squeezed its profit margins
- increasing its advertising, although this could also have a negative effect on profit if the extra revenue gained from increased market share didn't cover the extra costs involved
- targeting new markets to increase the product's potential market.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 3 In the past, more than half the annual sales of ChoicesUK have taken place in the three months before Christmas. Should the directors have kept the business going a few months more? (5)

Possible answers include:

- if their cash flow position allowed them to continue it may have been beneficial
- only if they were predicted to make a profit over the Christmas period (just because half the sales



occurred at Christmas does not mean they would have made a profit) – if a profit wasn't made, carrying on trading would only have increased debts.

B5 Data response

(30 marks; 35 minutes)

(Refer to questions on page 81 of the textbook.)

1a What was the grocery market size and market growth in 2007? (2)

- In 2007, the size of the UK grocery market (measured by value) was £128.2 billion. According to the figures, the market had grown by 4% between 2006 and 2007.

1b Identify three possible reasons why sales at Somerfield fell in 2007. (3)

- negative press
- reduction in advertising spend
- increase in competitors' advertising spend.

2a Show the workings to calculate that a 0.2% share of the UK grocery market equals £256.4 million. (3)

- $£128.2\text{bn} \times 0.2\% = £256.4\text{ million}$

2b Use the figures and the bar chart to work out the value of the UK 2007 sales of Lidl. (2)

- The value of Lidl's UK sales for 2007 (2.2% of £128.2bn) = £2.8204 billion

2c Examine two *possible* reasons why Lidl enjoyed the biggest sales growth within the grocery market in 2007. (6)

Possible answers include:

- High interest rates in 2007 led to a squeeze in disposable income, which may have resulted in consumers becoming more sensitive to price.
- Company expansion – Lidl planned to open 40 new stores in the UK in 2007, making the discount store more accessible to an increasing number of customers across the country.
- The introduction of wider product ranges, previously not associated with discount stores, such as fresh fruit and vegetables and Fairtrade products, increasing customer choice.



3a Outline two ways in which Tesco may benefit from being the grocery market leader. (4)

Possible answers include:

- it may be able to force down the prices of suppliers, enabling it to reduce average cost per unit and therefore reduce price
- it can benefit further from economies of scale.

3b Ten years ago, Sainsbury's was the UK grocery market leader. Discuss whether it could return to that position within the next ten years. (10)

Possible answers include:

- although ten years ago Sainsbury's was the market leader, which implies it is possible for it to regain this position, the market has changed considerably since then
- Tesco now has a much larger number of stores than Sainsbury's, so for Sainsbury's to gain significant market share it may need huge investment in opening new stores
- in order to surpass Tesco to be market leader, Sainsbury's would have to gain around an additional 15% in market share, which is quite a challenge
- a huge spend on advertising may enable Sainsbury's to gain some ground in market share, but it would take considerably more than just advertising to gain such a large market share within ten years
- it may also depend on external factors – for example, the change in income in the UK over the next few years; high economic growth and growing income levels would be beneficial for Sainsbury's, whereas a reduction in GDP resulting in a fall in disposable income would make it virtually impossible for Sainsbury's to gain this ground over Tesco.

10 marks

Level 4	Evaluation and judgement of information in context	(10-9)
Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(30 marks; 30 minutes)

- 1 Briefly outline each of the four ingredients of the marketing mix. (8)

2 marks for an outline of each of the four ingredients: product, promotion, price, place.

- Product – the features of the good or service produced by the business, e.g. sizes, colours, specification etc.
- Price – the amount charged to customers – will this be a premium price to reflect the product's superior quality or aimed at undercutting rivals?
- Promotion – the various methods used to communicate with the product's target audience, to present the product to them and persuade them to buy it, e.g. advertising, sales promotions.
- Place – the means by which the product will get to where customers are able to buy it, e.g. in a supermarket, on a website, etc.

- 2 Pick the marketing mix factor (the 'P') you think is of most importance in marketing any *two* of the following brands. Give a brief explanation of why you chose that factor. (6)

Suggestions include:

- (a) The *Sun* newspaper – price, due to the number of competing newspapers, such as the *Mirror* and the *Star*, aimed at the same target market.
- (b) The iPod – product, due to its reputation for innovation, unique features and aesthetics.
- (c) Cadbury's Creme Eggs – place, as a great deal of chocolate is built on impulse, it needs to be widely available.
- (d) A top-of-the-range BMW – product, as the company's reputation will mean that customers will expect outstanding quality in terms of design, performance and reliability.

1 mark for each relevant factor given for any two of the brands, 2 marks for each explanation.

- 3 Outline how the marketing mix for Mars bars may affect their level of impulse sales in a small corner shop. (4)

Possible answers include:

- well-known product brand may attract impulse purchaser
- price compared with other similar products



- location – product may be easy to see
- advertising may help to recall the product.

4 marks for identification and explanation of at least one element of the marketing mix; credit should be given for understanding of the nature of an impulse buy.

4 What is meant by a market segment? (3)

- A market segment is a distinct part of the main market.

2 marks; 1 mark for further explanation or an example of a market segment.

5 Explain why new products are so important to businesses. (3)

Reasons include:

- they can generate new markets/customers
- they help to keep a brand alive
- they generate new income when existing products are in the mature stage.

2 marks for explanation of the importance of new products; 1 mark for an example or further development.

6 List three different ways of promoting a product. (3)

Answers include:

- point of sale
- direct sales
- direct mailing
- advertising
- Web promotion.

1 mark for each method.

7 Explain why it might be difficult for a new, small firm to get distribution in a supermarket chain such as Sainsbury's. (3)



Answers include:

- limited shelf space means that new/small firms may not be able to negotiate shelf space
- small firms may be unable to meet quantity requirements
- small firms with limited marketing budgets may find it difficult to get their products seen by the supermarkets.

Revision exercises

B1 Case study

(30 marks; 35 minutes)

(Refer to questions on page 88 of the textbook.)

- 1 What is meant by 'the home market is saturated'? (2)

1 mark for a simple explanation such as 'too many suppliers'; 2 marks for a fuller explanation, such as 'too many suppliers fighting for a limited customer base'.

- 2 What are the marketing implications for a business in a saturated market? (6)

Relevant answers include the following.

- Constant competition for customers reduces margins as suppliers are forced to take marketing action such as additional promotion or pricing cuts.
- This often results in price/competitive wars that are counter-productive.
- Ways need to be found to differentiate the product(s), or new markets or customers need to be found.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 3 Why might expansion allow economies of scale? (4)

Relevant answers include the following.

- Purchasing power will be greater so can reduce purchasing costs.



- Distribution costs can be reduced by spreading over larger number of units.
- Fixed costs will be spread over larger sales volume, thereby reducing unit costs.

4 What problems might a British retailer have in marketing its service in India? (6)

Relevant answers include the following.

- Different cultures could mean that there is difficulty for the British firm in understanding the market.
- British firm may have difficulty in obtaining products and ensuring that usual levels of quality are maintained.
- Language difficulties.
- Possible staffing difficulties.
- As mentioned above, cost problems due to infrastructure and high cost of property.
- As in the case study, problems with competition from local stores.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

5 Using the marketing mix, analyse the existing market and evaluate the UK firm's chances of success. (12)

- A market is saturated when supply has reached a point where all of the demand within the market has been satisfied, there is little, if any, chance of attracting new customers to the market and the only way for firms to increase their individual sales is by poaching customers from rivals.

12 marks

Level 4	Evaluation and judgement of information in context	(10-12)
Level 3	Analysis of information in context	(9-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(40 marks; 40 minutes)

- 1 Outline two reasons that might explain the success of products such as Coca-Cola and Stella Artois. (4)

Possible answers include:

- prolific marketing campaigns
 - the actual product tastes good
 - consistent product
 - well-known brand
 - the brands are associated with a positive image
 - simple and identifiable packaging.
- 2 Analyse how training might be used to improve the quality of the product produced by a service-sector business such as a supermarket. (3)

Possible answers include:

- Increased training is likely to improve staff motivation which should, in turn, improve service (which is essentially the product).
 - Training should also mean that staff are more able to provide a good service to customers.
- 3 Explain how technological advances can influence the direction of new product development. (3)
 - 4 What is first-mover advantage? State two benefits firms receive if they can achieve first-mover advantage. (4)

First-mover advantage is the advantage gained from being first to the market. Benefits include:

- reputation as the original producer of X
- opportunity to gain high profits before competitors enter the market
- opportunity to penetrate the market and gain a high market share.



5 What is a me-too product and why do some firms choose to launch them? (4)

A me-too product is a new brand that is largely an imitation of an existing product. A firm may choose to launch them:

- because the original is hugely successful
- to gain another revenue stream
- to prevent a competitor from monopolising the market.

6 Explain the meaning of the term product differentiation, using your own example. (4)

- Product differentiation is the attempt to make a product more attractive by contrasting its unique qualities with other competing products. For example, Aero is a highly differentiated product as it is the only bubbly mint chocolate on the market.

7 Outline two ways in which a clothes shop might differentiate itself from its competitors. (6)

- buy in clothes from independent, exclusive designers
- offer a free personal shopper
- offer accompanying men a glass of beer while their girlfriends shop.

8 Explain two benefits a firm can gain from selling a differentiated product. (4)

- they can charge a higher price as their price elasticity of demand is likely to be lower
- they are less likely to have to compete on price
- they are likely to have fewer competitors or be more able to stave off competition.

9 Why is it particularly helpful to have a product that is differentiated by a USP? (4)

- it will make the company more competitive
- it will further enable them to charge a higher price.

10 Outline two examples of USPs in current products or services you buy. (4)

Student's own answer.

Any sensible answer should be credited with 1 mark plus up to an additional 3 marks for development.



Revision exercises

B1 Data response

(Refer to questions on page 92 of the textbook.)

(25 marks; 30 minutes)

1a Define the term 'unique selling point'. (2)

- A unique selling point is an aspect of your product or service which is highly differentiated.

1b Identify the original unique selling point that made San Paulo a successful business in South America. (2)

- The traditional Italian-style décor and ambience seems to be the key USP.

2 Using the data in the case as a starting point, discuss whether constant innovation is required to maintain product differentiation. (12)

- Constant innovation may help to maintain product differentiation but is not necessarily required. For example, products such as Aero have strong product differentiation and probably always will, even without innovation. However, constant innovation is more likely to strengthen their product differentiation.

12 marks

Level 4	Evaluation and judgement of information in context	(10-12)
Level 3	Analysis of information in context	(9-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

3 You have been hired to manage the new bar in Croydon. Despite your concerns about the strength of the competition locally, your English boss wants you to charge high prices. Outline three ways that could be used to create the high product differentiation required for your coffee bar. (9)

Student's own answer. Any sensible answer should be credited.

Possible answers include:

- good entertainment, e.g. live bands, karaoke, open mike nights
- opening until later than other bars
- excellent customer service, e.g. table service.



B2 Data response

(Refer to questions on page 93 of the textbook.)

(30 marks; 35 minutes)

- 1 What is a premium-priced product? (2)
 - A product for which a higher than 'normal' price can be charged.
- 2 Explain why product differentiation can create premium prices. (6)
 - It creates a reason for customers to choose that product over a competitor, which reduces the price elasticity of demand and therefore enables higher prices to be charged.
- 3 Outline two factors that might influence the direction of new product development in the alcoholic drinks industry. (6)

Possible answers include:

- Consumer tastes and trends, e.g. the current trend towards healthy eating has spurred a series of low-calorie alcoholic drinks.
- Technology – changes in technological processes may influence the direction of new product development.
- Product development of one company is likely to affect product development of another company. If one company is focusing on creating male-friendly alcopops, it may encourage other firms that the market for such a product exists and they may follow suit.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 4 Analyse two ways in which product differentiation was created for the Absolut brand. (6)

Possible answers include:

- creating a distinct image
 - creating a unique and recognisable bottle
 - creating an advertising campaign that would complement and promote the image.
- 5 Discuss the ethics of the marketing of Absolut vodka. (10)



Marketing mix: product

- Ultimately Vodka is a de-merit good (one that is bad for people) and therefore it could be argued that it is unethical to heavily market it.
- The marketing is aimed largely at adults who are legally allowed to drink alcohol and therefore it is not unethical.
- It may be unethical to promote or market drinking vodka in excessive quantities, however it is not unethical to promote its existence.

10 marks

Level 4	Evaluation and judgement of information in context	(10-9)
Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(35 marks; 35 minutes)

- 1 Identify the different stages of the product life cycle. Give an example of one product or service you consider to be at each stage of the life cycle. (4)
 - Introduction (digital TV); growth (washing tablets); maturity (fridges); decline (typewriters).
- 2 Explain what is meant by an 'extension strategy'. (4)
 - Medium- to long-term strategies for prolonging a product's profitable life cycle, e.g. modifying the product or repositioning it.
- 3 Outline the likely relationship between cash flow and the different stages of the life cycle. (4)
 - In the introduction stage, cash flow is likely to be negative due to the development and launch costs; as sales grow, cash flow should become positive.
- 4 How is it possible for products such as the Barbie doll to apparently defy the decline phase of the product cycle? (6)
 - Due to extension strategies – regular updating of the product, additional products. Also, some products seem to go beyond fashion and become part of growing up for every generation of children.
- 5 What is meant by 'product portfolio analysis'? (3)
 - An assessment of the existing position of a firm's products in terms of its market share and market growth.
- 6 Distinguish between a 'cash cow' and a 'rising star' in the Boston Matrix. (4)
 - Cash cow: high market share, low market growth.
 - Rising star: high market share, high market growth.
- 7 Explain how the Boston Matrix could be used by a business such as Cadbury? (4)
 - In the early stages of the life cycle, capacity utilisation is likely to be low; capacity utilisation will increase as sales grow. When full capacity is reached, the firm will have to decide whether to expand capacity or not.



- 8 Firms should never take decline (or growth) for granted. Therefore they should never take success (or failure) for granted. Explain why this advice is important if firms are to make the best use of product life cycle theory. (6)
- There is a danger that the life cycle is self-fulfilling; if managers believe sales will decline they may fail to promote the products effectively. If, however, they assume the life cycle could be prolonged they might adopt policies which do actually increase or maintain sales. They should not assume sales will fall. Similarly they should not assume sales will grow or they may fail to take the actions necessary to make this happen.

Revision exercises

B1 Data response

(30 marks; 35 minutes)

(Refer to questions on pages 101–102 of the textbook.)

- 1 What is meant by ‘market growth’? (2)
- the increase in the size of the market by value or by volume.
- 2 Outline the unique selling point of the Fire Angel, and explain how this can benefit the business. (6)
- The USP of the Fire Angel is that its energy supply is automatically recharged when the light is turned on, so the chance of the smoke detector failing to work due to flat batteries is significantly reduced.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 3 Analyse the possible benefits to Sam of undertaking market research before launching the Fire Angel. (7)

Possible benefits include:

- carrying out secondary market research into the size and nature of the market should help Sam estimate potential sales
- carrying out primary research regarding the price customers would be willing to pay may help to maximise revenue



- further primary research into the wants and needs of the customer may help Sam to develop/improve the product.
- 4 Explain why Sam might have had cash flow problems in the first few years of his business. (6)
- In the development stage of the product life cycle there would have been large cash outflows but little in the way of cash inflows.
- 5 At the moment the Fire Angel is still in its growth phase. Discuss the ways in which the marketing mix of the Fire Angel might change as it enters the maturity phase. (9)

Possible answers include the following.

- Fire Angel may choose to employ one or more extension strategies when the product reaches maturity.
 - Price: the price is likely to be reduced in order to increase demand.
 - Promotion: it may decide to increase the amount of advertising in order to increase demand.
 - Place: in the maturity phase of the life cycle, Fire Angel may decide to start selling its product in new markets in order to attract new customers.
 - Product: it may decide to extend the product range or create an improved version of the existing product.

B2 Data response

(30 marks; 35 minutes)

(Refer to questions on page 102 of the textbook.)

- 1 What is meant by the term 'market share'? (2)
- the percentage of the market held by a single firm.
- 2 Explain the factors that Mackie's might have considered before expanding its capacity. (5)
- The financial implication of expansion – impact on cash flow and impact on future revenues.
 - It would have considered how necessary this expansion was; if it increased capacity without increasing demand then it would become less productive and costs would rise.
 - It might also have considered how this increase in capacity might affect quality. Mackie's has a reputation as a high-quality product, which it would want to protect.



- 3 Explain how the promotion of a new Mackie's ice cream might vary at different stages in its life cycle. (5)
- At the beginning of the life cycle the promotion may focus on generating awareness. As the product moves through the later phases there may be more emphasis on persuasion than awareness.
- 4 Examine the possible benefits to Mackie's of having a portfolio of products. (8)

Possible answers include the following.

- Different products could benefit the business in different ways. For example, it could use the profits from the vanilla ice cream 'cash cow' to invest in the 'rising stars' or the 'question marks' in order to generate more revenue.

8 marks

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 5 Consider whether new product development is likely to be essential for success in the ice cream market. (10)

Possible answers include the following.

- The ice cream market has changed massively over the last few years, with a big shift towards luxury ice creams with inventive flavours. If this market continues to change significantly new product development will be hugely important to the success of any ice cream firm.

10 marks

Level 4	Evaluation and judgement of information in context	(10-9)
Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(35 marks; 35 minutes)

- 1 Explain why price 'is fundamental to a firm's revenues'. (3)
 - Revenue is calculated by price \times quantity and the quantity is affected by the price. Therefore price is fundamental to revenue.
- 2 Look at Figure 16.1. Outline two factors that would affect the 'psychologically right price range' for a new Nokia phone. (4)
 - the price of other similar phones on the market
 - the degree of differentiation of the new Nokia phone.
- 3 Explain how the actions of Nike might affect the footwear prices set by Adidas. (3)
 - As Nike is the market leader, if it reduces its prices, Adidas may be forced to do the same.
 - If Nike increases its advertising spend this may also put pressure on Adidas either to increase advertising spend or reduce price.
- 4 Look at Table 16.1, on the price sensitivity of products, brands and services. Think of two more examples of highly price-sensitive and two examples of not-very-price-sensitive products, services or brands. (4)

Examples include:

- flour, because it has virtually no differentiation
- Mars bars, as there are numerous competitors
- tabloid newspapers, as customers can just switch to another tabloid
- non-branded trainers
- drinks in Wetherspoons.

Examples of not-very-price-sensitive products include:

- the *Financial Times*
- tickets to the top theatre shows



- tickets to see U2 in concert
 - drinks in top restaurants.
- 5 Explain the difference between pricing strategy and pricing tactics. (3)
- A pricing strategy is when a price is set to achieve a long-term goal – for example, price penetration in order to increase market share in the long run – whereas a pricing tactic is a short-term attempt to increase sales.
- 6 For each of the following, decide whether the pricing strategy should be skimming or penetration. Briefly explain your reasoning.
- (a) Richard Branson's Virgin group launches the world's first space tourism service (you are launched in a rocket, spend time weightless in space, watch the world go round, then come back to earth). (4)
- skimming, as highly differentiated and little/no competition.
- (b) Kellogg's launches a new range of sliced breads for families in a hurry. (4)
- penetration, as little differentiation and high levels of competition; its goal will be to achieve a high level of market share.
- (c) The first Google phone is launched (called G-Fone) with free, instant WiFi access to Google. (4)
- Any sensible answer with justification should be credited. Possible lines of argument include:
- skimming, as it will be the first phone with free, instant WiFi access and therefore it will be able to charge a premium for this service
 - penetration, it is entering a new market and as such should aim to be highly competitive.
- 7 Is a cash cow likely to be a price maker or a price taker? Explain your reasoning. (3)
- Price maker, as it has a large share of the market and will therefore have an influence on the price.
- 8 Identify three circumstances in which a business might decide to use special offer pricing. (3)
- when launching a new product
 - when entering a new market
 - when reaching the maturity/decline stage of the product life cycle
 - if a rival firm is bringing out a competitive product.

**Revision exercises****B1 Data response**

(25 marks; 30 minutes)

(Refer to questions on page 108 of the textbook.)

- 1 Briefly explain why it might be fair to describe Elvive Anti-Dandruff shampoo as a price taker. (3)
 - Because it is not the market leader and is in a highly competitive market.
- 2 Neutrogena shampoo is priced at nearly 100 times the level of supermarket budget shampoos (per ml). Explain why customers might be willing to pay such a high price. (6)
 - Neutrogena is a big brand and can therefore enjoy high brand loyalty. The high brand loyalty means it is price inelastic.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 3 Examine the position of the long-established brand Pantene Pro-V within the UK market for shampoo. What pricing strategy does it seem to be using and why might it be able to use this approach? (7)

It is using a price-skimming strategy. It is able to do so for the following reasons.

- It is a highly differentiated product.
 - It is an established brand.
 - It has a celebrity endorsement in its advertising.
- 4 Discuss whether dogs should have 'better' shampoo than kids. (9)
 - Candidate's own answer. Answers should relate to the case and include some analysis of the meaning of the word 'better' within the context of the question. Student should make some judgement and justify his/her reasoning.



B2 Data response

(30 marks; 35 minutes)

(Refer to questions on page 110 of the textbook.)

1 Describe the objectives behind the pricing of the XO laptop. (4)

Possible answers include:

- to improve the corporate image of the organisation
- to improve education in the third world – possible in order to create and dominate the developing markets in the future
- to encourage government to invest in technology in the third world
- to create a USP
- to increase sales of related software.

2a Compare the ‘breakdown of costs’ pie chart in Figure 16.5 to the text to work out the recent profit per unit made on selling the XO laptop. (3)

- At a sale price of \$188 and unit cost of \$188, the company makes no profit per unit.

2b Given that level of profit, how could the company hope ‘to sell the machines for \$100’? (4)

- Possible reasons why the company might plan to go ahead and sell the laptops for \$100 is that, at higher production volumes of 3 million or more, unit costs may fall significantly. For example, fixed costs such as overheads and administration will be spread over a greater volume of production. The company may also be able to negotiate discounts for components from suppliers for buying in bulk.

3a Explain what is meant by an ‘early adopter’. (3)

- An early adopter is an early customer of a given company.

3b Why may early adopters be important to a business? (4)

Possible answers include the following.

- Early orders will help with cash flow, provided payment is up front.
- Pledges will assist the business in budgeting activities.



- It may also increase brand awareness and thus encourage other governments/businesses to purchase.
- 4 Some people see the XO laptop as a brave, charitable idea; others see it purely as a clever form of penetration pricing strategy. To what extent can you agree with either view? (12)

Possible support for the view that it is a charitable act includes:

- the huge investment in this project may never be recouped
- there seems to be little brand marketing or pushing sales of related items.

Possible support for the view that it is a clever penetration pricing strategy includes:

- it will only sell in large quantities, which implies that it is trying to penetrate the market with large sales
- the fact that it is available for only two weeks could also be a clever marketing strategy and prices may be pushed up after that. Also if it was truly charitable it would not want to restrict numbers (although the text does suggest there are supply-related issues).

12 marks

Level 4	Evaluation and judgement of information in context	(10-12)
Level 3	Analysis of information in context	(9-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(35 marks; 35 minutes)

- 1 Why is promotion an important element of the marketing mix? (4)

Reasons include:

- if customers do not know about the product they will not buy it
- customers need to be aware of the product's features to make informed choices
- customers need to know where the product is available in order to purchase it.

2 marks for understanding of the marketing mix; 2 marks for any reason.

- 2 Outline one advantage and one disadvantage of TV advertising. (4)

Possible advantages of TV advertising include:

- can reach a large number of people
- increases the prestige of the business
- can be targeted to viewer watching specific programmes.

Disadvantages include:

- expensive
- may not reach target audience
- viewers can skip the advert.

2 marks for an advantage; 2 marks for a disadvantage.

- 3 What is meant by the promotional mix? (2)

- The promotional mix is the mix of different forms of promotion used in a promotional campaign.

- 4 Explain what form of promotion you think would work best for marketing:

- (a) A new football game for the PS3. (3)



- advertising on TV, billboards, magazines aimed at men under 30, such as *FHM* and *Nuts*, in order to reach a mass audience.

(b) A small, family-focused seaside hotel. (3)

- leaflets at the local tourist office, establishing a hotel website; mail shots and sales promotions (e.g. discounts) for previous guests.

(c) Organic cosmetics for women. (3)

- advertising in women's magazines (choice would depend on target age); make-up parties using company agents as demonstrators, in-house promotions in department stores.

1 mark for suggested relevant method of promotion; 2 marks for the reason why the method was chosen.

5 Why is it important for businesses to monitor the effect of their promotional activity? (4)

Reasons include:

- to ensure that the promotion is working
- to compare the costs to the results
- to enable better planning in the future.

2 marks for each reason – up to two reasons.

6 What is meant by the phrase 'promotion needs to be effective'? (3)

- The phrase 'promotion needs to be effective' means that it needs to give value for money – cost versus response?

7 Explain why promotion is essential for new businesses. (4)

- New businesses need to make customers aware that they exist, and of the goods/services on offer.
- New businesses need to persuade customers to switch from existing suppliers in order to break into the market.

8 Discuss whether Pepsi-Cola would be wise to sponsor *The X Factor* TV programme. (5)

Points to consider include:

- wide coverage – *The X Factor* is a popular show
- can be expensive



- Pepsi would gain prestige from being associated with the event
- it is targeting an audience that would want the product
- hard to measure impact
- may not actually have any effect on sales.

2 marks for understanding of how sponsorship works; up to 6 marks for explanation of why it is a good/not so good idea.

Revision exercises

B1 Data response

(30 marks; 35 minutes)

(Refer to questions on page 117 of the textbook.)

- 1 Outline two possible explanations of why the 2005 biscuit launches failed. (6)

Possible reasons include:

- Insufficient promotion – customers may not have heard of the new range – if they were not aware of it, they would not have tried to buy it.
- Use of inappropriate methods of promotion – as an organic product, the methods used should have targeted customers with a particular interest in buying organic biscuits.
- Ineffective promotion – customers may not have been persuaded about the taste of the biscuit.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 2 Explain how the sales of the new biscuit varieties could be helped by a programme of in-store merchandising. (5)

Possible suggestions include:

- In-store merchandising will make the products more visible, eye-catching and more likely to attract customers' attention than if they are sitting on shelves next to lots of other brands. This should improve customer awareness and hopefully generate interest in them.



- Merchandising staff may encourage shoppers to taste the biscuits and cereal bars by offering free samples. This means that the customer avoids having to spend money in order to find out whether or not they like the product. If the taste experience is positive, the customer is much more likely to go ahead and buy a whole pack.
- 3 Discuss whether ‘sampling in-store’ is likely to be a sufficiently powerful form of promotion for the new biscuit range. (12)

Possible points include:

- In-store sampling can be an effective way of building brand awareness with the use of eye-catching displays and careful positioning.
- By actually getting shoppers to try out the new biscuit and cereal bar range, they can decide whether they like the product without buying it first. If the experience is a good one, this may encourage them to go ahead and make a purchase.
- The selling skills of the merchandising staff will have an important influence on customer reactions – an apparent lack of interest in the product or the customers may actually have a negative effect on sales.
- In-store sampling is relatively time consuming and likely to directly involve only a small number of potential customers.

Possible evaluation:

In-store sampling can be a very effective means of getting customers to actually experience a product but is unlikely to be sufficiently powerful to generate the number of sales required on its own. It is, therefore, likely to be backed up by a mass advertising campaign, e.g. on TV or in food magazines.

12 marks

Level 4	Evaluation and judgement of information in context	(10-12)
Level 3	Analysis of information in context	(9-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 4 Outline the other aspects of the marketing mix being used by Green & Black’s. (7)

Possible answers include:

- Product – a high-quality, ‘indulgence’ biscuit and cereal bar, made from organic ingredients and offering a range of flavours and seasonal varieties.
- Price – a premium price of £2.49 for a pack of three cereal bars, aimed at reflecting the product’s quality and high standard of ingredients.



- Distribution – the seasonal biscuit varieties will be available in ‘selected’ supermarkets – again, perhaps to support its ‘upmarket’ image.

B2 Data response

(46 marks; 60 minutes)

(Refer to questions on page 118 of the textbook.)

1a What is a corporate logo? (2)

A name or symbol that is associated solely with a particular company.

Student needs to relate to the company for full marks.

1b Why do companies have logos? (4)

- as a form of branding
- to make the company easy to recognise.

Marks could be given for a good example.

2 What is meant by ‘target market’? (4)

- groups or individuals that the marketing is aimed at
- group that you wish to sell to.

3 marks for understanding of ‘target market’; 1 mark for an example.

3 The initial promotional efforts did not reach the target market. Explain why this might have happened. (8)

Relevant answers include the following.

- Methods were too general so did not reach target market.
- Methods were not specific to business customers so attracted individual customers.
- Wording did not attract the right customers.
- The wrong media was used for the target market.
- Not enough research had been done to identify the correct method of promotion.

**8 marks**

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

4a Explain how promoting a unique product might differ from promoting a mass-market product. (4)

Possible points include:

- Promotion for a unique product is likely to focus on how product features meet customer needs precisely, whereas promotion for a mass-market product may focus on price or draw comparisons with rival products.
- A mass-market product will need to use mass-advertising methods, such as TV and newspaper advertising, to generate the volume of sales required. The methods used to promote unique products are likely to target the specific market segment(s) for which it is designed.

2 marks for understanding of the difference between a mass-market product and a unique product; 2 marks for suggesting different ways of promoting the products.

4b Discuss the advantages and disadvantages of two forms of promotion for a unique product such as Heaton & Jeremiah's. (12)

Possible answers include:

Direct selling – advantages:

- If appropriate market research is carried out, customers within the target market can be approached in a more cost-effective manner than by using mass advertising. Keeping costs down is likely to be particularly important to a relatively small business such as Heaton & Jeremiah.
- It will allow the business to communicate directly with customers, allowing it to assess customer needs more effectively and adapt products to these needs, leading to increased customer satisfaction and repeat sales in the future.

Direct selling – disadvantages:

- Can be very time-consuming and the response rate might be relatively low, especially if the firm does not have the means to carry out effective market research. This could lead to increased costs and disappointing sales.

Media advertising (in specialist magazines) – advantages:

- Likely to reach a relatively wide audience and could be cost-effective, leading to increased sales.



- Careful choice of magazines may improve the chances of reaching the firm’s target audience.

Media advertising – disadvantages:

- Can be expensive, especially for a small business.
- May not reach the target audience (as seems to have been the case previously), meaning that resources have been wasted.

Possible evaluation:

The methods of promotion chosen by Heaton & Jeremiah will depend on a number of factors, including its marketing objectives, the target audience that it is attempting to reach and the resources available. It is unlikely that the firm will depend on one particular method but with use a combination to maximise effectiveness.

Credit should be given for any promotional method selected. The application marks are awarded for the suggestions being relevant to the business. Analysis marks can be given even if the suggested methods are not relevant to the business. If the suggestions are not relevant, it is unlikely that the evaluation marks would be given.

12 marks

Level 4	Evaluation and judgement of information in context	(10-12)
Level 3	Analysis of information in context	(9-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 5 Discuss why word of mouth might be the best form of advertising for a new business. (12)

Relevant answers (which should be relevant to a new business) include the following.

- Word of mouth is cheaper than other forms of advertising.
- It means that a happy customer will do the promotion for the business.
- For a new business with limited resources, it is a good way to spread the word to its target market.
- If the product is also new it is a way of gradually building knowledge about the product.
- Other methods of promotion may be too expensive.
- Other methods may not reach the target market.
- A new business may find it difficult to find the best way of reaching its customers.



Revision questions

(30 marks; 30 minutes)

- 1 Outline the meaning of the term 'place'. (2)
 - Place refers to the availability of the product (i.e. how to get the product to the right place for customers to make their purchases).
- 2 Explain in your own words why it may be that 'place is the toughest of the 4Ps'. (4)
 - Obtaining distribution at large retail outlets may be difficult for small producers.
 - Furthermore, it can be expensive, thus preventing new firms with minimal finance from turning a goal into reality – until they have achieved a high level of brand awareness.
- 3 Outline what you think are appropriate distribution channels for:
 - (a) a new magazine aimed at 12–15-year-old boys. (3)
 - newsagents, WHSmith and, more recently, the internet has become an important distribution channel for magazines (especially those aimed at young people).
 - (b) a new adventure holiday company focusing on wealthy 19–32 year olds. (3)

Possible answers include:

- independent travel agents, which target high-income customers.
- 4 Retailers such as WHSmith charge manufacturers a rent on prime store space such as the shelving near to the cash tills.
 - (a) How might a firm work out whether it is worthwhile to pay the extra? (4)
 - A firm would need to carry out some research into the potential pay-offs in order to compare them with the additional cost.
 - (b) Why might new small firms find it hard to pay rents such as these? (4)
 - Because cash flow is almost always a problem for new small firms and until they have a high volume of sales and start to make a profit it will be difficult for them to finance such costs. Furthermore, even once profits are made it may take some time before they have the cash to actually pay for such 'unnecessary' costs.



- 5 Explain in your own words what is meant by the phrase 'a better mousetrap'. (4)
- a superior product.
- 6 Outline three reasons for the success of direct distribution over the internet in recent years. (6)

Possible answers include:

- high volume of customer use, which motivates businesses to distribute via the internet
- as distribution over the internet is more cost effective, there is a high level of supply, which further encourages customers to use this channel.

Revision exercises

B1 Data response

(20 marks; 25 minutes)

(Refer to questions on page 122 of the textbook.)

- 1 State the meaning of the term 'market size'. (2)
- the total value of a market measured by value or by volume.
- 2a The Year 1 sales target for Kitten Milk is £5 million. What share of the total market for cat food would that represent? (3)
- $\text{£}5\text{m}/\text{£}829\text{m} \times 100 = 0.6\%$.
- 2b Explain why it might be hard to persuade retailers to stock a product with that level of market share. (6)
- 0.6% is a very small market share and therefore there is little motivation for retailers to stock the product. Retailers aim to satisfy as many customers as possible and will therefore always be inclined to stock the most popular products.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



- 3 The marketing manager for Kitten Milk is planning to focus distribution efforts on getting the brand placed in pet shops. Discuss whether this seems wise. (9)

Possible answers include the following.

- The fact that 81% of cat owners purchase cat food in supermarkets suggests that this move would be unwise as they would reach only a maximum of 19% of the market.
- Furthermore, the information also tells us that shoppers tend to spend only 80% of their intended amount due to poor distribution. This implies that there is a gap in the market for a product – if it is the right product – and if Kitten Milk can convince the supermarkets of this it will considerably increase its potential sales.
- However, it may be wise to focus on pet shops initially and build up the brand name and the market share before embarking on the time-consuming and costly task of trying to get the product into the big supermarkets.

B2 Data response

(25 marks; 30 minutes)

(Refer to questions on page 123 of the textbook.)

- 1 Explain how a vending machine can be a ‘barrier to entry’ to new competitors. (5)

Possible answers include:

- other companies will not be able to stock their products in vending machines that are owned by Coke
 - the sheer quantity of Coke vending machines makes it a serious barrier.
- 2 Explain what the text means by the difference between ‘maximum availability’ and ‘maximum visibility’. (5)
- Maximum availability means that the product is as easily available to consumers as the market allows, whereas maximum visibility means that a product is as visible to consumers as the market allows.



- 3 Explain why ‘an arm’s length from desire’ might be less important for a business that does not rely upon impulse purchase. (7)

Possible answers include:

- if consumers are willing to travel to purchase the product it does not need to be right beside them
 - if, however, customers generally buy on a whim, if they do not see that product during that whim, they will not purchase it.
- 4 From all that you know about today’s Coke, Diet Coke and Coke Zero, discuss whether Coca-Cola’s distribution strategy was at the core of the firm’s marketing success. (8)

Possible answers include the following.

- After realising that Coke tended to be an impulse purchase, the company rightly decided to ensure the maximum possible distribution.
- The maximum availability and visibility served several purposes. It helped to increase brand awareness and brand loyalty, and to increase the number of impulse purchases.
- Although distribution was clearly an important part of the marketing success, other factors, such as promotion, were also integral.

8 marks

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)



Revision questions

(40 marks; 40 minutes)

1a If a product's sales have fallen by 21% following a price rise from £2 to £2.07, what is its price elasticity? (4)

- $21\%/3.5\% \times 100 = -6$.

1b Is the product price elastic or price inelastic? (1)

- price elastic, because the PED is above 1.

2 Outline two ways in which Nestlé might try to reduce the price elasticity of its Aero chocolate bars. (4)

Possible answers include:

- increase product differentiation
- increase advertising to improve brand loyalty.

3 A firm selling 20,000 units at £8 is considering a 4% price increase. It believes its price elasticity is -0.5 .

(a) What will be the effect upon revenue? (5)

- Old revenue = $20,000 \times £8 = £160,000$

New revenue = new price \times new quantity

New price = £8.32

Change in quantity = $+4 \times -0.5 = -2\%$

New quantity = 19,600

New revenue = £163,072

Change in revenue = $+\text{£}3,072$

(b) Give two reasons why the revenue may prove to be different from the firm's expectations. (2)

- Competitors may have changed their prices at the same time; there may be unexpected changes in consumer tastes.



- 4 Explain three ways a firm could make use of information about the price elasticity of its brands. (6)
- Pricing decisions – decide whether a price increase or decrease would boost profit.
 - Sales forecasting – anticipate the effect upon sales of a given price change.
 - Identifying brands with low product differentiation – and devise new strategies.
- 5 Identify three external factors that could increase the price elasticity of a brand of chocolate. (3)
- the competition launches a new product
 - end of the product's life cycle
 - competitors increase above-the-line support for their brands.
- 6 A firm has a sales target of 60,000 units per month. Current sales are 50,000 per month at a price of £1.50. If its products have a price elasticity of -2 , what price should the firm charge to meet the target sales volume? (4)
- Percentage change in sales required = 20%
- $$\frac{20}{-2} \% = 10\% \text{ price cut}$$
- $$£1.50 \times 0.9 = £1.35.$$
- 7 Why is price elasticity always negative? (2)
- There is a negative correlation between price and quantity demanded.
- 8 Explain why the manager of a product with a price elasticity of -2 may be reluctant to cut the price. (4)
- Demand might increase but does the necessary spare capacity exist? How will other firms respond? Will a price cut cause a price war?
- 9 When recession hit, a 3% fall in consumers' real incomes caused sales of brand X to rise from 40,000 to 44,800.
- (a) Calculate the income elasticity of brand x. (4)
- Income elasticity = $\frac{\% \text{ change in demand}}{\% \text{ change in real income}}$
- $$= \frac{(\text{change/original}) \times 100}{\% \text{ change in real income}}$$



$$\begin{aligned} &= \frac{((44,800-40,000)/40,000) \times 100}{-3\%} \\ &= \frac{12\%}{-3\%} \\ &= -4\% \end{aligned}$$

(b) Suggest what type of product it is. (1)

- an inferior goods – probably an essential, for example, bread or potatoes.

Revision exercises

B1 Data response

(20 marks; 25 minutes)

(Refer to questions on page 129 of the textbook.)

1 Given that the price elasticity of the product is believed to be -0.4 , calculate:

(a) the old and the new sales volume (3)

- Old volume $= -\frac{£500,000}{£10}$
 $= 50,000$ units

New volume $= +10\% \times -0.4$
 $= 4\%$ fall in sales

New sales $= 50,000 \times 0.96$
 $= 48,000$ units

(b) the new revenue (3)

- New revenue = new price \times new quantity

- New price $= £11$

- New revenue = $£11 \times 48,000$ units
 $= £528,000$



(c) the expected change in profit following the price increase. (6)

- Old profit = $(£10 - £4) \times 50,000$
= $£300,000 - £100,000$ (fixed costs)
= $£200,000$

New profit = $(£11 - £4) \times 48,000$
= $£336,000 - £100,000$
= $£236,000$

Change in profit = $+£36,000$

2 If the firm started producing mass-market white pillow cases, would their price elasticity be higher or lower than the Manchester United ones? Why is that? (8)

Relevant answers might include:

- price elasticity will be higher
- main USP lost
- reduced product differentiation
- increased product substitutability
- however, if the new pillow cases had a different USP, e.g. superior quality, PED might actually fall.

8 marks

Level 3	Analysis of information in context	(8-7)
Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

B2 Data response

(20 marks; 25 minutes)

(Refer to questions on page 130 of the textbook.)

1 Explain the likely logic behind Apple's decision to sign an exclusive deal with the O₂ network. (6)

- To enable it to reduce competition and have greater control over the price. If the other networks



had access to the iPhone there could have been a price war over the contracts, which Apple would not have wanted as it wants to keep the price high in order to maximise profits.

- This exclusive deal makes the iPhone in turn seem exclusive, which may appeal to its target market.

6 marks

Level 2	Application of knowledge in context	(6-4)
Level 1	Knowledge and understanding of business concepts	(3-1)

- 2 Use your understanding of price elasticity to discuss whether or not Apple was right to price the iPhone in this way. (14)

Possible answers include the following.

- The PED of the iPhone would have been very low at the beginning of its life as it was a highly differentiated and desirable product.
- Apple is right to want to squeeze as much profit out of the early stages while it is able to charge a high price. As the product moves through its life cycle, the PED will increase and it will need to reduce the price.

B3 Data response

(10 marks; 10 minutes)

(Refer to questions on page 130 of the textbook.)

- 1 Calculate the income elasticity demand for bread.

- $5/50 \times 100 = 10\%$ change in demand

$$\text{YED} = 10\%/10\% = 1$$

The income elasticity of demand for bread is 1

- 2 Using your answer to question 1, how important is it for bakers to take account of the result?

- This result means that any change in income will bring about a proportionately equal change in demand. It is important for bakers to have this information because it may enable them to more accurately forecast demand for bread. If they know that average income has risen by 8%, the baker will know to produce 8% more bread than previously. This knowledge will help bakers to cope with changes in demand before they occur, thus leading to more satisfied customers (in the case of increasing demand) or less wastage (in the case of falling demand).



B4 Data response

(35 marks; 45 minutes)

(Refer to questions on pages 130–131 of the textbook.)

1a Calculate the income elasticity of demand for:

(i) Boodles (4)

$$\begin{aligned}\text{Income elasticity} &= \frac{\% \text{ change in demand}}{\% \text{ change in real income}} \quad (1) \\ &= \frac{+28\% \quad (1)}{+2\% \quad (1)} \\ &= +14 \quad (1)\end{aligned}$$

Four marks for the correct answer

(ii) Harrods (4)

$$\begin{aligned}\text{Income elasticity} &= \frac{\% \text{ change in demand}}{\% \text{ change in real income}} \\ \% \text{ change in demand} &= \text{Change/Original} \times 100 \quad (1) \\ &= +£51\text{m}/£510\text{m} \times 100 = +10\% \quad (1) \\ &= \frac{+10\% \quad (1)}{+2\% \quad (1)} \\ &= +5 \quad (1)\end{aligned}$$

Four marks for the correct answer

1b Explain two reasons that might explain the differences between the income elasticities of these retailers. (4)

One mark per reason plus one mark for explanation:

- Harrods sells more than just posh jewellery; perhaps other Harrods products have a lower income elasticity, for example, food.
- There may be other factors at play, making the calculations unreliable, for example, if Boodles had spent a lot on advertising, the explanation for the 28% increase may be far more than just changing real incomes.
- Boodles may attract an even more upmarket clientele than Harrods.



2 Farepak's cash was being used as working capital for the whole EHR group.

(a) What is meant by 'working capital'? (2)

Two marks for a clear account, for example, finance for the day-to-day running of the business; one mark for a woolly account.

(b) Explain why working capital should not be used to make risky long-term decisions such as buying a new business. (4)

Possible answers include:

- Working capital funds the day-to-day transactions, such as paying the bills or the wages ...
- ... therefore it should not be used for long term investments, especially if they are risky.
- Long term, risky investments should be financed by people prepared to share in the risks, such as shareholders.

3 At an APR of 177% per year, someone taking out a £500 Provident loan would end up repaying many thousands of pounds. Presumably they would never fall into the trap again. Examine the implications for a company such as Provident of constantly needing new customers, because so few become loyal to the brand. (8)

Possible answers include:

- repeat purchases from loyal customers enable a firm to minimize marketing expenditure; costs are lowered when people come back without needing to be persuaded
- Provident is likely not only to create some very hostile, resentful customers, but also to affect others who hear of its awful reputation; this will be extremely difficult to overcome.
- Nevertheless, there will always be people in desperate need of ready cash; for as long as Provident can provide that, some will go on ignoring the personal cost.

4 Social pressures such as 'having a happy Christmas' provide companies with the opportunity to push parents to spend more than they should. Discuss whether the managers of Provident Personal Credit are right to place Farepak savers at the heart of their pre-Christmas target market. (9)

Possible answers include:

- It all depends on whether 'right' means morally or in relation to the self-interest of the company shareholders.
- Morally, it seems horrifying that any business would be willing to exploit these poor families for



a second time, though the families may feel they would rather have a reasonable Christmas now and hope for the best regarding the money.

- Of course, from a selfish point of view, targeting the Farepak families makes sense; all are in need of credit and all would need to find credit from a source that targets low-income families; HBOS may have been willing to lend to EHR, but you can be sure that they will not lend to many of its customers.