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Exam-style question

Fashion's footprint

Mark Hage

Check your answer to the question on pp. 10–11 of the magazine. This question relates to the AQA specification.

Sample answer

One reason why a business such as Tesco may have decided to stock more ethically sourced dairy produce could be the anticipation of increased demand as spending on such products grew by 9.7% in 2022, a growing trend for consumers to purchase such goods. Annual spending on such products has increased by £1 billion in 2022 and clearly businesses such as Tesco hope to take advantage of an uplift in sales, particularly where spending on shopping is likely to be reducing due to the cost-of-living crisis. As a consequence, even though such products are described as being sold at a significant premium price, this may not affect the demand for such products adversely. In fact, based on the evidence it may be that customers in the under-24 segments are willing to purchase own-brand ethically sourced dairy products, regardless of premium prices, as this may convince them that it is worth paying extra on ethically sourced dairy products such as butter. As a consequence of such products possibly being more price inelastic, Tesco can offset any higher costs such as that spent on better animal welfare with higher prices, without a large decrease in demand. Not only will this help to maintain healthy profit margins for Tesco, but it could improve brand image, encouraging customer brand loyalty and enticing customers from less ethically focused supermarkets such as Lidl and Aldi. In the medium to longer term, there may be an increase in profits and creation of a competitive advantage, thus increasing Tesco's overall market share.

However, it may be that Tesco's competitors such as Aldi and Lidl already have a wide range of ethically sourced dairy products, meaning that Tesco is simply a market follower rather than a market leader in adding such products to its range. This may mean that it is unable to gain a competitive advantage from selling more ethically sourced products. It may also mean that Tesco has to adopt a competitive pricing strategy to match Lidl and Aldi's prices. Increasing unit costs that Tesco may have to bear, due to giving farmers a fair price for their products, could result in Tesco being unable to break even on each product sold. As a consequence, this may mean that Tesco suffers losses on its new products with little chance of gaining new customers.

Regardless of whether or not Tesco would be a market leader or follower in increasing the number of ethically sourced dairy products, consumers are increasingly seeing ethical goods as key to their purchasing decisions, with the market being worth £141.1 billion in 2021. It would appear that Tesco has no choice but to vigorously adopt a more ethical approach, not only to dairy products but to its whole own-brand range. Adopting this approach may mean short-term losses on products that other supermarkets have already introduced as ethical, but in the longer term may see Tesco regain its competitive advantage and ultimately its profitability across the entire product range.

Sample examiner comment

Mark: 16/16 (Level 4 — an excellent response, fully focused on the question)

Thorough knowledge and understanding are shown of the benefits of Tesco stocking more ethically sourced dairy products.

Application is shown through the use of appropriate context applied to the question.

Coherent and logical analysis is linked together, looking at the relevant importance of internal and external causes of business failure to a range of business situations, using context-based quantitative and qualitative data for competing arguments.

An evaluation of competing arguments, with context, is used to support a judgement about the relative benefits of Tesco stocking more ethically sourced dairy products.

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