

Volume 31, Number 2, November 2024

Practice exam questions

Ethics in business

Mark Hage

Check your answer to the question on pp. 2–4 of the magazine. This question relates to the AQA specification.

Sample answer

One reason why Tesco's stocking of more ethically sourced dairy produce may increase demand is that there appears to be a growing trend for consumers to purchase such goods. Annual spending on such products has increased from £4,223 million per year in 2020 to £12,080 million in 2022. For Tesco this is further shown by the success of the Tesco Finest range, which is ethically sourced and reported to have made £2 billion in profits to the year ending July 2024. As a consequence, even though such products are described as attracting a premium price, this does not appear to 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 pay such premium prices on ethically sourced products such as milk.

As a consequence of such products 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 maintain healthy profit margins for Tesco, but it could improve brand image, encouraging customer brand loyalty and enticing customers from potentially less ethically focused supermarkets such as Lidl and Aldi. In the medium to longer term, there may be an increase in demand, 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 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. This may result in increasing unit costs that Tesco may have to bear, due to giving farmers and producers a fair price for their products, which could result in Tesco being unable to break even on each product sold. As a consequence, this may result in Tesco suffering losses on its new products with little chance of gaining increased demand.

Regardless of whether or not Tesco would be a market leader or follower in increasing the number of ethically sourced products, the evidence makes it clear that consumers are increasingly seeing ethical goods as a key factor in their purchasing decisions, with the market growing by over £7 million from 2020 to 2022. It would appear that Tesco has no choice but to vigorously adopt a more ethical approach to a large proportion of its 25,000 products. Adopting this approach may mean short-term losses on products that other supermarkets have already introduced as ethical, but in the longer term it may see Tesco regain its competitive advantage and ultimately increase demand across its entire product range.

Sample examiner comment

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

A depth and range of knowledge and understanding are shown on the importance to Tesco of increasing the number of ethically sourced products it sells, in order to increase demand.

Application is applied effectively throughout the answer.

Analysis is well developed throughout the answer and considers a balanced range of issues appropriate to answering the question.

The answer makes judgments as to the importance to Tesco of increasing the number of ethically sourced products it sells, in order to increase demand. The answer shows a balance of competing arguments and a clear focus on answering the question throughout.

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