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Practice exam questions

Marketing revision – with soft drinks

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Check your answer to the question on pp. 26–28 of the magazine. This question relates to the AQA specification.

Sample answer

Product differentiation is the process of distinguishing a product or service from others, to make it more attractive to a target market. M&S has created a range of food of high quality and innovation to give it a unique selling point (USP). Its 1,300 new products may have included dishes that competitors such as Waitrose did not have in their line up and consequently this may have tempted customers to buy M&S food. As a result, M&S may have been able to maintain its brand image in the grocery market, allowing it to charge premium prices for its unique food offering and ultimately growing its customer base. This would lead to a higher market share and, in the longer term, an increase in profits above the £522 million of 2022.

M&S must have also found ways to compete with its competitors to retain its existing customers. M&S uses its advertising slogan to help it stand out from other grocery competitors. This may give the perception of superior food quality and may attract new customers. Customers who shop at Aldi, for example, may decide to shop at M&S for special-occasion food, such as Christmas party food, as they may perceive it to be of superior quality to competitors such as Tesco. This attracts a new area of the market that may not have normally shopped at M&S, and these customers are likely to have a comparatively large spend on food because events such as Christmas often mean higher spending. It is also likely that these M&S food ranges have an even greater profit margin than other food items. As a consequence, shoppers are not only tempted to spend big at M&S but are also prepared to pay a significant amount for the premium items. M&S can therefore increase its market share for special occasion food offerings while also increasing its revenue by more than its 3.6% 2022 figure.

However, it is important that the 1,300 newly created food products and meals meet the expectations of customers. If these products are not sufficiently different from the competition, they will not encourage repeat purchases and brand loyalty. This could lead to customers switching to Tesco's Finest range, meaning a significant increase in unsold food on M&S's shelves, leading to increased costs in food wastage. This would ultimately lead to lower revenue, reducing profit margins and ultimately falling profit levels.

Differentiating its products by using high-quality ingredients is also likely to increase the production costs and increase prices. This may lead to a decrease in demand, particularly when consumers' disposable income is low. Much larger competitors may be able to be more price competitive on similar luxury food products, due to greater economies of scale such as bulk buying. This may act as a pull factor to customers who cannot stretch their budget to M&S food but still want luxury products at a

slightly lower price. This would result in M&S either having a reduction in market share and revenues to maintain profit margins, or for the retailer to reduce profit margins in order to compete with competitors like Tesco on price. Due to Tesco's dominant position in the grocery market it is unlikely that M&S would win such a price war.

There are many other factors that will contribute to the success of M&S's food sales. Customer service may also be as important to its success. This could include having smaller stores with staff who are trained to offer a much more personal service in helping customers to choose various food items. Product differentiation clearly plays a key role in giving M&S a first mover advantage in introducing innovative products that tempt customers away from larger competitors such as Tesco. However, maintain this USP requires significant investment in research and innovation, which leads to higher costs. This approach also requires a significant amount of market research and expertise to ensure that new food offerings have a high demand from customers, while also consistently meeting quality expectations. So far M&S has a proven track record in consistently meeting the needs of its customers but such differentiation has significant ongoing risks that could easily cause problems in the future.

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 of the importance to a niche market business of maintaining its success through the use of product differentiation.

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 a niche businesses' ability to maintain its success through the use of product differentiation. The answer shows a balance of competing arguments and a clear focus on answering the question throughout.

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