

# WORKBOOK

PEARSON EDEXCEL A-LEVEL

# Business

1

THEMES 1 and 4

- Marketing and people
- Global business

- ✓ Build confidence with practice questions and worked examples
- ✓ Prepare for assessment with exam-style questions



Mark Hage

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# About this book

- 1** This workbook will help you to prepare for the Edexcel A-level Business Paper 1, Marketing, people and global businesses, and Paper 3, Investigating business in a competitive environment.
- 2** Each exam is 2 hours long and includes a range of questions. All three exams are divided into two sections. In Papers 1 and 2, Sections A and B will require you to answer five questions in each section. In Paper 3, Sections A and B will require you to answer four questions in each section.
- 3** The questions in this workbook are divided by assessment objective, starting with AO1 (knowledge and understanding) and progressing to AO2 (application), AO3 (analysis) and AO4 (evaluation). Each section ends with some exam-style questions to test that what you have learnt can be applied effectively.
- 4** Worked answers are included throughout the practice questions to help you understand how to gain the most marks.
- 5** Icons next to the question will help you to identify:
  -  where your calculations skills are tested
  -  where questions draw on synoptic knowledge, i.e. content from more than one topic
  -  how long this question should take you
- 6** You still need to read your textbook and refer to your revision guides and lesson notes.
- 7** Marks are indicated for all questions so that you can gauge the detail required in your answers.
- 8** Timings are given for the exam-style questions to make your practice as realistic as possible.
- 9** Answers are available at: [www.hoddereducation.co.uk/workbookanswers](http://www.hoddereducation.co.uk/workbookanswers)

# Theme 1 Marketing and people

## 1.1 Meeting customer needs

### The market *and* Market research

Markets can be split into mass and niche markets. Some markets are open to a high level of change — these are called dynamic markets. Competition is where rival businesses in the same market try to win customers from each other.

Market research involves gathering information about customers' attitudes, behaviour and wants in relation to a product or service. It consists of primary and secondary market research.

#### Practice questions



#### AO1: Knowledge and understanding

1 Define the term 'mass market'.

2 marks

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2 State two differences between primary and secondary market research.

2 marks

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3 Define the term 'market segmentation'.

2 marks

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#### AO2: Application

**Table 1** Lindt chocolate sales data: UK, 2019–20

	2019	2020
Sales volume	11.5 million	11.8 million
Average price of product	£6.90	£7.20

4 Using the data in Table 1, tick the most appropriate interpretation of the effect of price on the sales volume of Lindt chocolate between 2019 and 2020.

1 mark

- ☐ The demand is price elastic.
- ☐ A change in price has not had a negative effect on sales volume.
- ☐ A change in price has had a negative effect on sales volume.
- ☐ The product is an inferior good.



- 5 Using the data in Table 1, calculate the percentage change in sales volume, to two decimal places, between 2019 and 2020.

4 marks

### Worked example

$$\begin{aligned}\text{Percentage change} &= \frac{2020 \text{ sales} - 2019 \text{ sales}}{2019 \text{ sales}} \times 100 \\ &= \frac{11.8\text{m} - 11.5\text{m}}{11.5} \times 100 \\ &= 2.61\%\end{aligned}$$

A01: Credit for correctly showing the formula for percentage difference.

A02: Credit for correctly calculating the difference between 2019 and 2020 sales.

A02: Credit for correctly calculating the 2019 sales.

A02: Credit for correctly calculating the percentage difference.

- 6 Dyson has decided to stop its research into creating an electric vehicle, as it may have underestimated target customers' concerns about poor range of such vehicles. Explain why bias may be a problem in research undertaken by Dyson for the launch of its new electric vehicle.

4 marks

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### AO3: Analysis



- 7 Analyse the benefits of having a niche market product for a business such as Rolls-Royce cars.

8 marks

The worked example below shows two model paragraphs from a possible response to this question. Study this closely and then attempt to answer the question fully on a piece of paper. Keep this with your workbook.

### Worked example

One benefit of having a niche market product for Rolls-Royce is that it is able to tailor-make its cars to meet the specific needs of individual customers. For example, a Silver Dawn can be built with different types and colours of leather upholstery. This level of customisation creates a unique selling point for Rolls-Royce and higher levels of customer satisfaction. As a consequence, customers are more likely to pay the premium prices for the Silver Dawn, allowing Rolls-Royce to achieve higher profit margins than would be possible on mass market cars such as a Ford Mondeo.

However, as such levels of customisation mean Rolls-Royce is unlikely to benefit from economies of scale in the purchase of bespoke leather, the price of raw materials is likely to be significantly higher for each car made. This means the margins of safety per car sold need to be set higher as a percentage than mass market cars, meaning that Rolls-Royce risks being unable to break even if it misses selling even a small number of cars compared to its sales forecast.

A01: Credit for a benefit of having a niche market product for Rolls-Royce cars.

A02: Credit for using an appropriate piece of context to answer the question.

A03: Credit for briefly explaining a positive and negative consequence for Rolls-Royce cars of having a niche market product.

- 8** Analyse one way in which a business such as Sony can benefit from using online surveys.

**4 marks**

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### AO4: Evaluation



- 9** Assess the impact of LG lowering the price of its mass market televisions.

**10 marks**

*The worked example below shows two model paragraphs from a possible response to this question. Study this closely and then attempt to answer the question fully on a piece of paper. Keep this with your workbook.*

### Worked example

One impact of LG lowering the price of its mass market televisions is that it is likely to increase demand. If the price of a TV goes down from £500 to £400, potential purchasers in the mass market are likely to respond positively to a lowering of the price compared to competitor models and switch to purchasing the LG brand rather than a more expensive Samsung TV with the same functions. As a consequence, LG is likely to increase the number of TVs it sells, which may increase its overall sales revenue.

However, a mass market is undifferentiated so it is likely that LG has had to make significant cost savings already in order to compete on price with competitors, as customers are less likely to be brand loyal. A reduction of £100 in the purchase price of LG sets risks losing any profit on each TV LG had, and even though sales revenue may increase, the profit on sets is likely to reduce significantly or even cause a loss due to selling below the cost price. As a short-term strategy to win over customers, this may be the trade-off LG decides to make in order to gain longer-term customer loyalty from those who upgrade to more premium TVs. However, few businesses even in a mass market are able to compete purely on offering the lowest price and LG may need to offer some other non-price feature on its TVs in order to maintain loyalty and still make a profit.

**A01:** Credit for an impact of LG lowering its price on mass market TVs.

**A02:** Credit for using an appropriate piece of context to answer the question.

**A03:** Credit for briefly explaining a positive and negative consequence for Rolls-Royce cars of having a niche market product.

**A04:** Credit for a brief evaluation of the effects on LG of lowering its price on TVs in the short term, with a short recommendation.

## Market positioning

Market mapping means creating a diagram that identifies all the products in the market using two key features, such as price and quality. Competitive advantage is a sustainable way to keep ahead of your competitors in the long term. Product differentiation is actual or perceived features of a product or service that a business uses to convince customers to buy its product instead of those of its competitors in the market.



## AO1: Knowledge and understanding

**10** Define the phrase 'gap in the market'.

**2 marks**

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**11** State two differences between market mapping and market segmentation.

**2 marks**

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**12** Define the term 'added value'.

**2 marks**

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## AO2: Application



**13** Using the data in Table 2, calculate the percentage difference between the net sales of Mars and Pladis, to two decimal places.

**4 marks**

**Table 2** Largest global chocolate companies, 2019

	Net sales (\$bn)
Mars Wrigley	18.0
Ferrero Group	13.0
Mondelez International	11.8
Meiji Co Ltd	9.7
Pladis (UK)	4.5

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**14** Tick which product is likely to have the highest level of added value.

**1 mark**

☐ BMW car

☐ Louis Vuitton handbag

☐ McDonald's burger

☐ Next clothing

**15** Huawei has used very high quality cameras in its smartphones to tempt customers away from other competitor phones, resulting in a rise of UK market share from 8% to 12% in 2018. Explain why product differentiation may have helped Huawei increase its market share in smartphones.

**4 marks**

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**AO3: Analysis**

- 16** Aldi has been able to spot a gap in the market for premium quality but low price potatoes as a way of increasing sales. It has also used its own-brand products to drive down prices, while still offering premium quality, such as with its washing powder, resulting in increased customer numbers. Analyse the benefits of market mapping to the supermarket Aldi.

**8 marks**

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- 17** Tesco has increased its market share over rivals by offering online shopping, with home deliveries at little or no cost, resulting in sales revenue increases of 2%. Analyse one way in which a business such as Tesco can create a competitive advantage over other supermarkets.

**4 marks**

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**AO4: Evaluation**

- 18** Dyson has used its innovative solutions to create products such as the Airwrap. With an investment of \$31.4 million in the Airwrap, it has marketed the product at a selling price of around £400. It remains to be seen if customers are willing to pay a significant premium for this technology. Assess the likely impact on Dyson of using innovative technology to add value to its products.

**10 marks**

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**Data-response questions****Extract A The UK milk market**

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In 2020 the milk market was worth £3.66 billion per year in the UK. Milk is sold in cheap, clear plastic containers in litres at supermarkets, such as Tesco or Aldi, and little attention is generally paid to the packaging other than stating the name and type of milk. 1 litre of milk typically sells for £0.80 across most shops and has a shelf life of 2–3 days. Spending on milk has increased by 7% according to data from 2020.

**Extract B Cravendale — bestselling premium milk**

Cravendale is a brand of milk launched by UK company Arla in 2004 and uses a special type of filtering to remove more impurities than happens with ordinary milk. With its white plastic bottles and labels that stand out, Cravendale milk has a shelf life of up to 3 weeks. The company has a sophisticated marketing campaign using television adverts and social media to raise awareness of its product, spending £5 million on advertising per year. Cravendale is sold in supermarkets at a premium price of £1.15 per litre. Arla posted profits of £296 million in 2020.

Arla Foods has decided to try and reduce the costs of Cravendale milk to customers by moving production to Latvia. The mark-up per 1 litre bottle of milk is 10.5%. The filtering process allows the milk to stay fresh for up to 45 days unopened at 7°C while it is transported to the UK for sale in supermarkets.

**Extract C Costs of manufacturing Cravendale milk in Latvia**

Component of costs	Cost (€)
Filtered milk cost per litre	0.50
1 litre plastic bottle	0.10
Label cost per bottle	0.05
Transport costs	0.30

**Extract D Alpro UK sales revenue climbs to new heights**

Sales revenue at the plant-based food and drink manufacturer Alpro is showing further growth as the success of its almond-based milk products continues. Sales grew in 2018 by 13.5% to 47,000 units. Profits have been steadily rising as consumers look for healthier alternatives to cow's milk. With revenues of over £160 million in 2018, the 36-year-old business has been expanding capacity at its factory. Alpro is investing in further promotion of its products in 2019 using the slogan 'Go Big On Plants' and has kept its premium price static at £1.80 per litre.

- 1** Explain one reason why Cravendale could be disadvantaged by Tesco introducing its own niche market milk product.

**4 marks**

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Costs for manufacturing Cravendale in the UK are €1.05 per litre.

- 2** Using the data in Extract D, calculate the percentage change in costs, for the Cravendale manufactured in Latvia, to two decimal places. You are advised to show your workings.

**4 marks**

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Tesco has decided to increase its ethically sourced dairy products based on the success of selling milk that guarantees farmers a fair price.

- 3** Assess the possible benefits to Cravendale milk of being market orientated.

**10 marks**

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12 marks

This image shows a full page of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page, providing a template for handwriting practice or general writing. There are no margins, text, or other markings on the page.

Alpro wishes to increase its sales revenue and is considering researching new plant-based products by either using primary or secondary market research.

**5** Using non-financial information, evaluate these two options. Recommend which one of the two options Alpro should choose in order to increase its sales revenue. **20 marks**

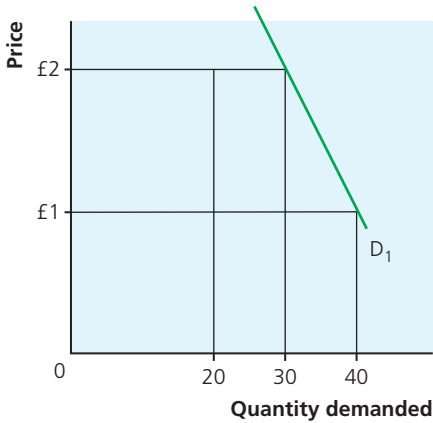
Write your answer to this question on a separate sheet of paper and keep it with your workbook.

## 1.2 The market

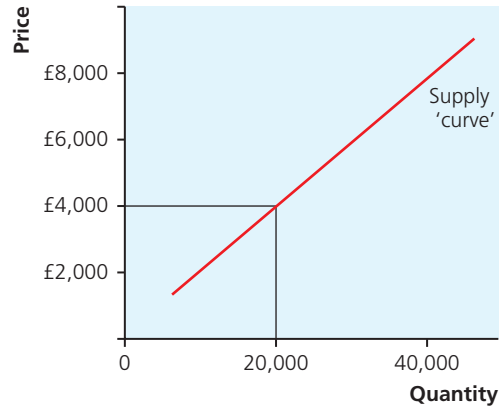
### Demand and Supply and Markets

Demand is the amount of a good or service which customers buy at a given price and within a given time period. A demand curve is shown in Figure 1.

Supply is the amount of goods or services provided at a given price by all the companies within a market. A supply curve is shown in Figure 2.



**Figure 1** Demand curve



**Figure 2** Supply curve

A diagram can be drawn that includes both supply and demand. The price at which the quantity demanded by customers is equal to the quantity supplied by businesses is called equilibrium.

#### Practice questions



#### AO1: Knowledge and understanding

**1** Define the phrase 'substitute goods'.

**2 marks**

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**2** Give an example of a factor that can affect both demand and supply.

**2 marks**

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**3** Define the term 'government subsidies'.

**2 marks**

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**4** Give an example of an external shock that may have a negative impact on both supply and demand for cars.

**2 marks**

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## AO2: Application

In order to try and cut costs Umbro has moved its manufacturing of trainers from Taiwan to China. The forecasted saving in production is 10%.

- 5 Using data from Table 3, construct a supply diagram to illustrate the general shift that would take place in the supply curve, based on Umbro's decision to move manufacturing of trainers to China.

4 marks

**Table 3** Supply schedule for Umbro trainers manufactured in Taiwan

Price per pair (£)	Quantity supplied
5	20
10	40
15	60
20	80
25	100

- 6 Tick which product is likeliest to increase in demand after a rise in consumer incomes.

1 mark

- ☐ Petrol
- ☐ Premium ready meals
- ☐ Primark clothing
- ☐ Aldi groceries

- 7 Tick which factor is likely to lead to a positive change in equilibrium for cinema tickets.

1 mark

- ☐ A recession
- ☐ Cinema outings becoming more fashionable
- ☐ An increase in disposable income
- ☐ An increase in government subsidies to cinemas

### AO3: Analysis



- 8** In addition to its range of low-cost products, Tesco has developed a strategy of offering premium ready meals to increase its market share and sales revenue. Its Tesco Finest range has been extremely successful at encouraging shoppers to replace lower-cost items with premium products in their weekly shop, even tempting customers away from premium supermarkets such as Marks & Spencer. Analyse the benefits of Tesco offering premium ready meals and 'basic' groceries. **8 marks**

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- 9** The UK government has given British Steel a significant boost in producing cold roll steel, by subsidising its huge energy bills. British Steel may now be able to compete with Chinese producers in international markets. Analyse one way in which a business such as British Steel can increase its supply through the granting of government subsidies. **4 marks**

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# WORKBOOK

PEARSON EDEXCEL A-LEVEL

## Business **1**

### THEMES 1 and 4

Improve key skills and reinforce understanding with this write-in workbook, providing extra guidance, practice and scaffolding to support you in Pearson Edexcel A-level Business.

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