

WORKBOOK ANSWERS

Pearson Edexcel A-level Business

- Theme 1 Marketing and people
- Theme 4 Global business

Including revised answers to material updated in 2021

Theme 1

Marketing and people

1.1 Meeting customer needs

Practice questions

- 1 Mass market refers to a large market of customers with widely different backgrounds that a business will not try to distinguish between. It is said to be undifferentiated.
- 2 Primary market research is data gathered first hand, such as customer interviews, probably using specifically designed questionnaires and carried out for a specific business. Secondary market research is data collected by someone else that has not been designed specifically for the business requiring the information.
- 3 Market segmentation involves dividing a market into smaller sets of customers — segments — that have similar needs and interests. For example, a bank might segment its potential customers into different age groups, such as those aged 18–24, in order to look at the needs and wants of these customers in terms of offering bank accounts.
- 4 A change in price has not had a negative effect on sales volume.
- 5 Answer in workbook.
- 6 Bias in market research is where the findings do not give a true reflection of the views of the target audience for the product or service. Dyson may have undertaken too small a

sample of its target market, which did not reflect the needs and wants of those wishing to purchase electric vehicles, e.g. the research underestimated the problem of range anxiety, which led to development of a product that was not market orientated.

7 Answer in workbook.

8 Online surveys are an ICT method of asking customers questions about a product or service through the use of a range of websites such as social media or a specific question and answer website. Sony can ask a large group of customers questions for a relatively low cost and on a regular basis, ensuring its products consistently adapt to customers' changing needs and preferences, e.g. identifying that customers require an external speaker socket for a compact camera.

9 Answer in workbook.

10 A gap in the market is a need or want that is not currently covered by products in the market which can be exploited by the business.

11 Market mapping uses a diagram to identify all the products in a market.

Market segmentation divides the market into smaller segments with similar needs and interests.

12 Added value is the difference between the selling price and the cost of bought-in goods and services. The more exciting and original the features, the higher the value may be to the customer.

$$\begin{aligned}
 \text{13 percentage difference} &= \frac{\text{Mars sales} - \text{Pladis sales}}{\text{Mars sales}} \times 100 \text{ (1)} \\
 &= \frac{18 - 4.5 \text{ (2)}}{18 \text{ (3)}} \times 100 \\
 &= 75.00\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the Mars and Pladis sales.

(3) AO2: 1 mark for correctly calculating the Mars sales.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

14 Louis Vuitton handbag

15 Product differentiation is actual or perceived features of a product or service that the business uses to convince customers to buy their product instead of those of other competitors in the market. Huawei has included superior cameras on its smartphones to lure customers from Apple and Samsung to purchase its products, with a rise from 8 to 12% market share in the UK in 2018.

- 16** Market mapping means creating a diagram that identifies all the products in the market using two key features, e.g. price of potatoes and quality of potatoes. Aldi can then analyse the range of potatoes offered by supermarkets such as Morrisons and Tesco, helping it to spot any gap in the market for its products. Aldi could therefore launch a more premium-type potato at a lower price point, increasing sales. Aldi can also look at what competitors such as Lidl are offering in terms of discount products and decide whether it is able to offer products such as own-brand washing powder that are price competitive. Aldi can therefore choose to offer types of washing powder such as that with fabric softener that Lidl does not offer, thus increasing the chances of gaining customers and increasing market share.
- 17** Tesco can offer free online shopping deliveries which may entice customers from rivals such as Morrisons, as this allows for customers to have the convenience of internet shopping with no added cost. As a consequence, Tesco may increase its market share of those who prefer online shopping, leading to increased sales revenue.

18

Indicative content:

- Added value is the increase in value that a business creates by undertaking the production process.

Arguments for Dyson using innovative technology to add value:

- Perception of better quality hair dryer due to ability to dry hair at cooler temperatures.
- Cyclone bag-free vacuums provide better suction, allowing premium pricing.
- Vacuum cleaners with motors that are more reliable reduce Dyson's warranty costs.

Possible counterbalance:

- A significant investment of \$31.4m was needed to create the Dyson Airwrap, which increases the costs and reduces the potential to add value.
- As products require significant investment in research, a selling price of £400 for the Airwrap may not add sufficient value to recoup the costs, leading to low or no profits.

Potential judgement:

- Innovative products can provide a competitive advantage to Dyson by offering unique features to products that allow Dyson to charge significantly higher prices than competitors, while reducing elasticity of demand.
- Care needs to be taken as to the amount of investment made in innovation, as such costs can force Dyson to set prices that customers are unwilling to pay, leading to losses.

Exam-style questions

- 1** A niche market is the smaller section of a larger market on which a business focuses its product or service. The products tend to have unique characteristics. (1)

One disadvantage of Cravendale operating in a niche market is that with fewer potential customers compared to a mass market, product costs in making the product will be higher, hence the higher sale price of £1.15 per litre. (2) As a consequence, Tesco selling a similar product at a cheaper price of £0.95 (3) per litre will mean Cravendale loses customers in what is already a potentially small market. (4)

(1) AO1: 1 mark for giving a reason why Cravendale could be disadvantaged by Tesco introducing its own niche market milk product.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3: 1 mark for briefly explaining a negative consequence for Cravendale of Tesco's introduction of its own niche market milk product.

Total: 4 marks

2 percentage change =

$$\frac{\text{new costs } (0.50 + 0.10 + 0.05 + 0.30 = 0.95) - \text{old costs } (1.05)}{\text{old costs}} \times 100 \text{ (1)}$$

$$= \frac{0.95 - 1.05 \text{ (2)}}{1.05 \text{ (3)}} \times 100$$

$$= -9.52\% \text{ (4)}$$

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the change in costs.

(3) AO2: 1 mark for correctly calculating the original costs.

(4) AO2: 1 mark for correctly calculating the percentage change in costs.

Total: 4 marks

3 Market orientation is where a business chooses to provide a product or service to meet the customers' desires, wants or needs. (1) Cravendale milk seeks to meet customer needs by selling milk that has a 3-week shelf life. (3) One advantage of Cravendale milk using a market orientation is that the product will closely match customer expectations. As a consequence, Cravendale has differentiated its product from regular milk by making it last longer, meaning it can charge a higher price of £1.15 per litre compared to normal milk at £0.75 per litre. (5)

However, a disadvantage of market orientation is that a lot of time needs to be spent on market research to ensure customers' needs are always reflected in the development of the product. (2) Tesco introducing lower-priced filtered milk at £0.95 per litre appears to suggest that Cravendale has not done enough market research on the correct price of its product, (4) potentially resulting in lower profits. Cravendale needs to make sure that if it is to use market orientation, it invests more time and money in market research such as focus groups to ask customers about issues such as the correct selling price of the product. (6) This way it can anticipate customer needs and drop the price of its filtered milk

before competitors such as Tesco gain this competitive advantage, ensuring profits of £8.3m are maintained in future years. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit/disadvantage to Cravendale of being market orientated.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Cravendale being market orientated, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the benefits/drawbacks to Cravendale of being market orientated.

Total: 10 marks (Level 4 response)

4 Indicative content:

- A market map shows the position a product can take in a market based on two dimensions such as price and quality.

Arguments for usefulness:

- Helps Alpro to determine where it should market its almond-based milk products.
- Alpro can see where other products from Tesco and other milk alternatives are positioned.
- Alpro can undertake detailed market research to help it set a pricing strategy that maximises sales revenue, e.g. price skimming.

Possible counterbalance:

- A gap identified does not mean there is further demand for Alpro products and sales revenue may have peaked.
- Market research on which the map is based is notoriously unreliable with Alpro making decisions on pricing strategies that may actually reduce sales revenue.

Potential judgement:

- Alpro has seen large success in almond milk sales growth and market mapping may allow it to fine tune its marketing strategy to increase sales revenue further, e.g. different flavours or pricing.
- As Alpro is likely to sell to supermarkets, the market map may be of limited use when compared to a business selling to customers. Alpro will have to look at other strategies to market its products to bulk buyers such as Tesco, which may be much more important.

5 Indicative content:

- Primary market research is data gathered first hand, such as customer interviews.

- Secondary market research is data collected by someone else that has not been designed specifically for the business requiring the information.

Primary market research — arguments for:

- Alpro can gain up-to-date data from customers which can enhance its almond milk products to encourage increased sales and sales revenue.
- As the data gathered are not available to competitors, Alpro can gain a competitive advantage when looking to meet customers' needs, such as lunch-size Almond milk products.

Secondary market research — arguments for:

- It is time and cost effective as the data already exist, meaning Alpro can access reports such as Mintel and implement improvements in its product offering quickly, to gain a competitive advantage over other milk alternative providers.
- Alpro can use its own sales data to look at the effects of different pricing strategies in order to maximise sales revenue, e.g. demand may rise at Christmas and be less price elastic.

Potential judgement:

- Primary market research offers Alpro the ability to have data which competitors may not have access to, but at a comparatively large cost and with the risk of bias.
- However, it may offer a competitive advantage to Alpro in offering enhanced or new product offerings.
- Secondary market research can allow quick gains in providing data that can instantly allow Alpro to increase its sales revenue through increasing its output at its expanded factory.

Possible recommendations:

- Alpro has seen a 13.5% rise in sales and it may be that it needs to adopt a short- and long-term approach to market research.
- Sales data through secondary research is unique to the business and allows dynamic changes to the £1.80 price of its almond milk, which can be monitored so that it can be set at a level that gains the greatest sales revenue.
- Face-to-face surveys can be used to look at the larger market of alternative milk products to enhance Alpro's almond milk or create new products that allow it to have first-mover advantage and operate price skimming, maximising sales revenue.

Market — market for alternative milk appears to be premium, niche and growing

Objectives — Alpro's main objective appears to be increasing sales/market share.

Product — Alpro is able to take advantage of the growth in environmentally friendly/healthy products.

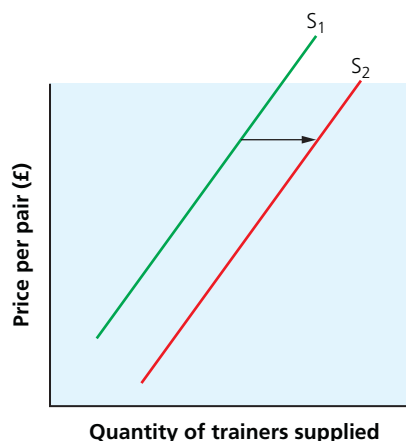
Situation — Alpro has spotted a niche market product for which customers have increasing demand.

1.2 The market

Practice questions

- 1 Substitutes are two goods that can be used for the same purpose, e.g. Cadbury's Dairy Milk and Galaxy chocolate.
- 2 A rise in disposable income will result in an increase in demand. As a result, the supply of the product will also increase as businesses want to produce more at a higher price.
- 3 Government subsidies are where the government gives money to a business to reduce its costs, normally of production.
- 4 An example of an external shock that may have a negative impact on supply and demand for cars is a pandemic, such as coronavirus. As the government severely restricted the selling of new and used cars this reduced supply, and with customers unable to purchase vehicles this severely reduced demand.

5



- 6 Premium ready meals
- 7 An increase in disposable income
- 8 This will allow Tesco to attract customers with both high and low disposable incomes, e.g. those who can only afford basic rice and those who can afford Tesco Finest rice. As a result, Tesco can ensure its levels of demand can be maintained even if there are external shocks such as a recession, which may result in reductions of disposable income. Tesco can also tempt shoppers to move from basic products to Tesco Finest, perhaps through meal deals, in order to increase the overall spend of shoppers on substitute premium products. As a result, Tesco may encourage customers to switch from more premium supermarkets such as M&S to doing their whole shop at Tesco, thus benefiting from increased profit margins and overall market share.

- 9** By the government subsidising the cost of energy, British Steel's costs of producing cold roll steel may be reduced, encouraging an increase in the supply. As a consequence, British Steel may be able to reduce the selling price of its steel on the world market, to a level that is much more competitive compared to China, while maintaining its profit margins.

10 Indicative content:

- Demand is the amount of a good or service which customers buy at a given price and within a given time period.

Positive impact on demand for merchandise:

- A shift to the right of the demand curve for Liverpool merchandise as the brand may be perceived as much more successful.
- Merchandise may become more fashionable to a wider global audience, further moving the demand curve to the right, increasing the level of demand and sales revenue.
- Liverpool may be able to increase the prices on its replica strips as demand may have become more inelastic and less affected by increases in prices.

Possible counterbalance:

- If Liverpool is unable to satisfy demand, fans may look for substitute merchandise such as that offered by Chelsea or Everton, leading to lost sales.
- If winning the Champions League is not part of a sustained period of success then there is likely to be little positive effect on branding, with either no or only a small move in the demand curve, and little opportunity to increase the demand for replica strips.

Potential judgement:

- A one-off success in Liverpool's football championship may result in a short-term increase in demand.
- However, to move the demand curve to the right Liverpool needs to be perceived as successful across a number of championships and matches, in order to affect demand for its merchandise significantly.

- 11** See workbook.

- 12** Price inelastic means that demand for a product or service will be less sensitive to fluctuations in the price charged to consumers. Price inelasticity means a product or service has a value between 0 and 1, meaning the percentage change in demand will be smaller than any percentage change in price.

- 13** Inferior goods have a negative income elasticity of demand so that as income rises demand reduces, e.g. demand for Tesco basic bread reduces in favour of Tesco Finest bread as income rises.

- 14** See workbook.

15 The product is an inferior good.

16 Downloads are a normal good.

17 See workbook.

18 By advertising its own-brand products with similar packaging to premium substitutes, Aldi can charge slightly higher prices for its goods which customers may perceive as higher quality, therefore making products such as own-brand muesli less sensitive to changes in price.

19 Indicative content:

- The price elasticity of demand (PED) is the responsiveness of the quantity demanded of a product to a change in price.

Factors that positively impact Brompton Cycles' PED:

- As going to gyms and taking part in team sports have been banned under lockdown the demand for bikes has increased, meaning that Brompton Superlight and other models have seen a 20% increase in demand even though such products cost at least £1,000, suggesting that PED is likely to have become more inelastic.
- With cheaper bikes being out of stock due to a large upsurge in demand this is also likely to increase demand for Brompton's bikes, leading to the product having a PED of 0 and -1, price inelastic, even with Brompton increasing its output to 100,000 per annum.
- With the government's recent announcement of up to £2bn of investment in new cycle lanes this is likely to increase demand for Brompton bikes further, particularly with workers being told to avoid public transport, leading to demand for Brompton's products possibly outstripping supply, and an increase in inelasticity.

Possible counterbalance:

- Increases in demand at home have been offset by a significant reduction in orders from abroad, meaning Brompton may be left with stock which cannot be sold without discounting, leading to a more price elastic product.
- Brompton may already be at 100% capacity utilisation for producing cycles and may not be able to take full advantage of the demand and the high levels of profit from a more price inelastic product.

20 See workbook.

Exam-style questions

- 1** One reason why under-24s may be unaffected by increasing prices of ethical goods is that they appear to prefer a premium price on products, e.g. eco-friendly household cleaning products, (2) rather than buying cheaper products that have a negative impact on the environment. (1) Even though eco-friendly cleaning products may be price elastic for the under-24 sector, demand for such goods is likely to be much less responsive to increases in price. As a consequence, manufacturers may be able to pass on the higher costs

involved in producing eco-friendly products such as washing powder (3) to the under-24 market through premium pricing, meaning increasing ranges of ethical products becoming available for purchase. (4)

(1) AO1: 1 mark for giving a reason why under-24s may be unaffected by increasing prices of ethical goods.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3: 1 mark for briefly explaining a positive consequence of under-24s being unaffected by increasing prices of ethical goods.

Total: 4 marks

- 2 price elasticity of demand = $\frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$ (1)

$$\text{percentage change in quantity demanded} = \frac{2,000 - 1,900}{2,000} \times 100 = 5\% \text{ (2)}$$

$$\text{percentage change in price} = \frac{£4 - £3}{£3} \times 100 = 33.33\% \text{ (3)}$$

$$\text{price elasticity of demand} = 0.15 \text{ (4)}$$

AO1: 1 mark for correctly stating the formula for price elasticity of demand.

AO2: 1 mark for correctly calculating the percentage change in quantity demanded.

AO2: 1 mark for correctly calculating the percentage change in price.

AO2: 1 mark for correctly calculating the price elasticity of demand.

Total: 4 marks

- 3 One benefit of Natural Weigh (NW) deciding to increase the prices of its products to finance growth is that, as it appears to sell items that are price inelastic, it may be able to increase prices with little drop in demand. (1) For example, having put the price of muesli up by approximately 33% in 2018, to £4 per 500g, demand dropped by a comparatively small amount of 5%. (2) If the other products sold by Natural Weigh, e.g. bamboo toothbrushes, have the same level of PED then Robin may be confident that NW's profit margins will increase by around 33% with only a small reduction in demand. As PED is calculated to be 0.15, (3) demand may be said to be inelastic to changes in price, leading to greater overall profits. Such premium pricing will help finance growth of the business without significant increases in fixed costs, such as having to increase the size of the premises. (5)

However, it may be that other products sold by NW, e.g. fair trade coffee, (4) are more price elastic than muesli and that increases in price cause a large decrease in demand. (2) For example, a majority of other products sold by NW may have a PED greater than 1, meaning that, e.g., a 5% increase in the price of coffee may actually result in a 30% drop in demand — a highly elastic product. As a consequence, profit margins across all

products may reduce significantly and may even result in fixed and variable costs not being covered by sales revenue, causing an inability to break even — a loss. This may mean that not only would price increases fail to finance any further growth for NW, but also none of the £40,000 initial set-up costs could be recouped as the business may fail to make any profit. (6)

According to Extract A the market for ethical household goods has grown significantly (£1,238 per year in 2017) (4) and it is clear from NW's PED for muesli that it is taking advantage of this trend to sell more environmentally friendly products. As it is unlikely that NW has any current competitors in the 'small Welsh' town it operates in, its product range may have first-mover advantage. As long as prices are raised at a slow pace, NW should be able to test which products are inelastic to price increases, therefore allowing the business to increase profits to fund growth in the medium term. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit of the decision to increase prices to finance growth.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Natural Weigh increasing prices to finance growth, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the decision of Natural Weigh to increase prices to finance growth.

Total mark: 10 marks (Level 4 response)

- 4 One reason why Tesco stocking more ethically sourced dairy produce may increase demand is that there appears to be a growing trend for consumers to purchase such goods. (1) According to Extract A, annual household spending on such products has increased from £542 in 2007 to £1,238 in 2017. (3) For Tesco this is further shown by the success of the Tesco Finest range, which is ethically sourced and reported to have made £1.2bn profits in 2018. 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 dairy products such as butter. (4) 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 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. (5)

However, it may be that Tesco's competitors such as Aldi and Lidl already have a wide range of ethically sourced dairy products, meaning Tesco is simply a market follower rather than a market leader, in adding such products to its range. (2) This may mean 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 Tesco suffering losses on its new products with little chance of gaining new customers. (6)

Regardless of whether or not Tesco would be market leaders or followers in increasing the number of ethically sourced dairy products, Extract A makes it clear that consumers are increasingly seeing ethical goods as a key to their purchasing decisions, with the market being worth £83bn in 2018. It would appear that Tesco has no choice but to vigorously adopt a more ethical approach not only to dairy products but to all its 25,000 product 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. (7)

(1) (2) Knowledge and understanding are shown through a benefit of the decision to stock more ethically sourced produce.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Tesco's decision to stock more ethically sourced produce, using context-based qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about Tesco's decision to stock more ethically sourced produce.

Total: 12 marks (Level 4 response)

$$5 \text{ price elasticity of demand} = \frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$$

Premium brands:

$$\text{percentage change in quantity demanded} = \frac{(330 - 350)}{350} \times 100 = -5.71\%$$

$$\text{percentage change in price} = \frac{(\pounds 6 - \pounds 5)}{5} \times 100 = 20\%$$

$$\text{price elasticity of demand} = \frac{-5.71}{20} = -0.29$$

Jack's brands:

$$\text{percentage change in quantity demanded} = \frac{(50 - 40)}{40} \times 100 = 25\%$$

$$\text{percentage change in price} = \frac{(\pounds 0.70 - \pounds 0.75)}{\pounds 0.75} \times 100 = -6.67\%$$

$$\text{price elasticity of demand} = \frac{25}{-6.67} = -3.75$$

Tesco's objective is to increase sales and from the PED forecasts for Jack's brand a reduction in price of 5p on average in 2020 may increase sales by 10 million per year. (1)

However, Jack's predicted sales in 2020 are still significantly lower than those forecast for the Tesco Finest brand, even though this shows a 20 million reduction in sales in 2020, due to a £1 average price rise. (3)

The Jack's brand is largely unproven, having only been launched recently and with just two discount stores. The ability to increase sales may be hampered by Tesco's ability to open new stores quickly compared to its Tesco Finest brand already being sold in Tesco stores throughout the UK. The premium brand market is also enjoying healthy profits, contributing significantly to Tesco's overall profits of £1.2bn in 2018, (4) clearly showing a proven track record compared to competitors such as Waitrose and M&S. With a PED of -0.29 forecast Tesco is able to increase premium prices by 20% with a relatively low reduction in demand of 5.71%. (2) Due to the large number of stores at which Tesco Finest is sold, even with the drop in sales as a result of the forecast PED, the total number of sales across Tesco stores is still increasing and larger than sales predicted at Jack's. Not only is the objective of increased sales achieved but as prices are increasing by 20% on a product already described as a premium product, profit margins will increase on each dish sold, leading to a significant increase in the profits achieved in 2018. In the longer term Tesco could claim further market share from Waitrose and M&S, leading to increased customer loyalty, sales and profits. (6)

However, predicted sales for the new brand, Jack's, are increasing due to Tesco understanding that the own-brand products are particularly sensitive to price, i.e. a PED of -3.75 . (5) Not only has Tesco decided to win back shoppers from Aldi by aiming to undercut competitors on prices by up to 15%, but it is also able to take advantage of the growth in own-brand sales of 4.7% in 2018. Tesco appears to have decided to adopt a strategy of penetration pricing, supported by the predictions of increased demand when reducing average product price by £0.05 in 2020. Entering the discount segment of the market may tap into potential sales as currently such customers are unlikely to shop at Tesco and focus their spend on Aldi. With only 2,600 products in Jack's stores compared to the 25,000 in a Tesco store, Tesco may be able to adopt a penetration pricing strategy as it can take advantage of significant economies of scale available through its current suppliers. (7) As Tesco is the dominant supermarket in the UK, this is likely to allow it to gain cost advantages over Aldi and Lidl, thus tempting price-conscious consumers to Jack's. This would tap into a set of customers that are new to the overall Tesco brand, unlike Tesco Finest, which is mainly focused on getting current customers to indulge in a luxury product instead of a cheaper range at the same store. As a consequence, not only could Tesco increase sales, it could also gain a new demographic of customers who can become brand loyal to Jack's, due to the cheaper own-brand prices. In the longer term this could weaken Lidl and Aldi's market share, particularly if Jack's was able to sustain near predatory pricing, allowing Tesco potentially to dominate this sector of the grocery market. (8)

Jack's faces fierce competition from Aldi and Lidl, which already have suppliers that can deliver products that are keenly priced and with an established track record. Jack's is very new to the market and will take time to become sufficiently established to challenge other discounters, even with Tesco's ability to undercut on price by up to 15%. Tesco Finest is already a successful brand, generating significant sales and gaining in market share. In the short term, I would therefore recommend that a market penetration strategy, selling Tesco Finest to its existing market, is continued, which should increase market share, sales and profits. (9)

In the medium to long term, Tesco should expand Jack's as quickly as possible while maintaining its penetration pricing strategy, which would be close to a market development strategy. This would not only increase sales but also attempt to gain back market share from discounters and lead to a more diversified offering in the grocery market. (10) Tesco could ultimately benefit from boom situations in the economic cycle as a result of increased sales of Tesco Finest, and also benefit from periods of recession as a result of the own-brand offering at Jack's, leading to a business model which is much more resilient to external factors.

(1) (2) Knowledge and understanding are shown through a benefit of Tesco choosing to expand either its niche market or mass market brands.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of each option in increasing Tesco sales, using context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation as to which option is the likeliest to increase sales for Tesco.

(10) The conclusion looks at the situation Tesco finds itself in, reflecting a recommendation that takes into account the fierce competition in the market from discounters, and suggests a logical course of action to assist in achieving a short- to long-term increase in sales through either/both options.

Total: 20 marks (Level 4 response)

1.3 The marketing mix and strategy

Practice questions

1 Aesthetics are how the product appeals to the subjective views of customers in terms of how it looks, feels or smells.

2 New technology, new manufacturing techniques.

$$\begin{aligned}
 3 \quad \text{percentage of selling price} &= \frac{\text{total costs}}{\text{selling price}} \times 100 \quad (1) \\
 &= \frac{64.50 + 80.50 + 298 \quad (2)}{1,249 \quad (3)} \times 100 \\
 &= 35.47\% \quad (4)
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage of selling price.

(2) AO2: 1 mark for correctly calculating the total costs.

(3) AO2: 1 mark for correctly calculating the selling price.

(4) AO2: 1 mark for correctly calculating the percentage costs represent.

Total: 4 marks

4 Aesthetics

- 5** By Primark reducing its costs of manufacturing men's jeans by outsourcing to low-cost centres of production, e.g. Bangladesh, wage rates are significantly reduced, lowering unit costs and adding value to each pair of jeans sold. Primark may also be able to take advantage of so-called fast fashion, translating cat walk trends in dresses and skirts to the shop floor quickly, meaning fashion-conscious customers are more likely to purchase a replica of Rhianna's latest garment. Aesthetics that are perceived as the latest trends may encourage increased sales and revenue, particularly if this is combined with a low cost of manufacture.
- 6** By Hotel Chocolat growing and supplying its own cocoa beans, the quality of the basic ingredient for high-quality chocolate products offered in its shops can be guaranteed as sustainable and reliable. This is likely to encourage increased repeat purchases from customers who value Chocolat products that have the least impact on the environment, allowing premium pricing to have a reduced impact on the elasticity of Hotel Chocolat's offering.

7 Indicative content:

- The design mix consists of the function, aesthetics (looks) and costs of creating and manufacturing the product.

Factors that positively impact Pizza Express's design mix:

- Making pizza bases at a central location to take advantage of economies of scale and a reduction in the cost of manufacturing pizzas, thus adding value.
- Creating unique pizza toppings, e.g. a turkey and cranberry pizza for Christmas, that encourage customers to switch from Pizza Hut to Pizza Express, increasing market share.
- Using authentic Italian ingredients such as Mozzarella sourced from Italy to enhance the taste of its pizzas, encouraging repeat visits and purchases.

Possible counterbalance:

- Reducing manufacturing costs may be difficult as the restaurant's reputation may be reduced if the food is seen as overly processed.
- Unique and new products may require an investment in food research and development that cannot be recouped through the number of sales.

- 8** Promotion is the way a business makes its products known to its current and potential customers, with branding being part of this approach. Branding is the process involved in creating a unique name and image for a product in the customer's mind, mainly through advertising campaigns with a consistent theme.

- 9** The combination of methods used to promote the product, e.g. TV advertising and sponsorship.

$$\begin{aligned}
 \text{10 percentage change} &= \frac{\text{Apple (2019)} - \text{Apple (2018)}}{\text{Apple 2018}} \times 100 \text{ (1)} \\
 &= \frac{206 - 182.8 \text{ (2)}}{182.8 \text{ (3)}} \times 100 \\
 &= 12.69\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the difference between the old and new numbers.

(3) AO2: 1 mark for correctly calculating the old brand value.

(4) AO2: 1 mark for correctly calculating the percentage change in brand value.

Total: 4 marks

- 11** By investing in more high-profile promotion, such as celebrity endorsement of products by Dwayne Johnson, Microsoft may be able to increase the perception of quality and trendiness of its surface range of laptops, which may then encourage customers to switch from Apple products. As a result Microsoft may also be able to increase the inelasticity of its laptops to a rise in price, thus closing the gap on the value of its brand from the 39.08% difference with Apple in 2019.
- 12** A benefit to Aldi of sponsoring the British Olympic team is that customers may perceive the brand as being British, encouraging those customers who want to purchase groceries from a local provider to switch from Lidl. As a consequence, Aldi may increase its market share compared to Lidl, advancing its strategy of quickly growing the number of shops it has in the UK. With more customers, investment in new stores is likely to be recouped more quickly while increasing sales revenue and profits. Aldi may also improve the perceptions of customers if the Olympic team is perceived as successful, e.g. coming second in the medal table in 2016. Such success may have a halo effect on customers' perception of the quality of Aldi meat and vegetable products, encouraging further repeat purchases and customer loyalty.
- 13** If Louis Vuitton markets the lifestyle of celebrities such as Kim Kardashian, who would be seen using Louis Vuitton purses and luggage on television and social media, Louis Vuitton may tap into a new source of potential customers such as Kim's 62.3m twitter followers. As Kim is seen as a social media influencer, many of her followers are likely to wish to emulate her lifestyle and purchase Louis Vuitton products. As a result, personal branding may tap into a new market segment for Louis Vuitton goods, thus increasing sales and profits.

14 Indicative content:

- Emotional marketing is any advertising that aims to appeal directly to the customers' needs and aspirations, suggesting how a product can their enhance self-esteem and/or happiness.

Arguments for emotional branding:

- By using adverts of Usain Bolt wearing Nike Air, customers may purchase to emulate his success.
- Maintains an emotional link between Nike and its loyal customers by continually emphasising the aspirational qualities of purchasing Nike products.
- Increases the effectiveness of marketing campaigns where Nike sells a lifestyle rather than a product.

Possible counterbalance:

- May be seen as unethical as it manipulates human emotions simply to encourage people to purchase a product.
- Requires significant investment in celebrity endorsements to establish the aspirational links between their success and the products promoted.

Potential judgement:

- Nike has already established a brand that customers see as playing to their aspirations, thus initial investment costs have already been made to establish Nike as an aspirational brand.
- Emotional marketing has allowed Nike to adopt a premium pricing strategy and make its products more price inelastic, though there may be a risk of this approach causing long-term damage to the brand if celebrities are found to have negative qualities, e.g. Lance Armstrong.

15 Penetration pricing means the business is setting a relatively low initial price to attract new customers. Price skimming means the business sets a high price before other competitors come into the market or when the new product is believed to be superior to others on the market.

16 The market is fiercely competitive and the product being launched is significantly more innovative than those in the market.

$$\begin{aligned}
 \text{17 percentage difference} &= \frac{\text{Tesco sugar price} - \text{Aldi sugar price}}{\text{Tesco sugar price}} \times 100 \text{ (1)} \\
 &= \frac{1.60 - 0.64 \text{ (2)}}{1.60 \text{ (3)}} \times 100 \\
 &= 60\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the Tesco and Aldi sugar price.

(3) AO2: 1 mark for correctly calculating the Tesco sugar price.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

18 Price skimming

19 It is likely that customers will perceive that the price of Aldi special buys such as electric drills is significantly cheaper than is actually the case. For example, customers may perceive £19.99 as nearer £10 instead of actually being nearer £20. As a result, customers are more likely to perceive Aldi drills as being better value for money than those offered by Argos, increasing the number of sales, while Aldi only effectively loses 1p per sale compared to a £20 drill at Argos. The strategy also allows Aldi to further promote its product range as being much cheaper and greater value for money than competitors such as Tesco or Morrisons. As a result, customers may continue to repeat purchase Aldi groceries even though the actual price difference between Tesco value beans and Aldi beans could be only 1p. This allows Aldi to maintain its competitive advantage with customers who perceive the brand as offering the greatest value in the discount grocery market, thus increasing sales revenue with little impact on actual profits, as price differentials are more than made up by repeat purchases.

20 As Dyson spent \$31.4m on research and development for its unique Dyson Airwrap, price skimming allows the business to charge a significant premium price of £399 to take advantage of earlier adopters of its new technology. As a consequence, Dyson's profit margins may be comparatively high, allowing it to recoup its investment and achieve profitability more quickly than other pricing strategies.

21 Indicative content:

- Price skimming means the business sets a high price before other competitors come into the market or when the new product is believed to be superior to others on the market.

Arguments for the strategy

- Can take advantage of early adopters who want the new S5 processor and will pay premium prices.
- Allows Apple quickly to recoup the costs of research and development on fitting 32gb of memory to the watch.
- Contributes more to Apple's ability to add value at lower costs than the selling price of the watch.

Possible counterbalance:

- Due to the dynamic nature of the market for watches, premium pricing may be short-lived as Samsung offers the Gear watch with the same or better features.
- Emerging markets, e.g. China, may not be able to afford the Watch 5 if a price skimming strategy is adopted.

22 A wholesaler is a business that acts as a link between the producer and retailer, buying in bulk and selling to resellers rather than to customers. A retailer is a business that sells goods or services directly to the customer.

23 A producer is a business that makes, grows, or supplies goods or commodities for sale, e.g. a farmer.

$$\begin{aligned}
 \text{24 percentage difference} &= \frac{\text{internet sales 2019} - \text{internet sales 2015}}{\text{internet sales 2015}} \times 100 \text{ (1)} \\
 &= \frac{1,406 - 758.9 \text{ (2)}}{758.9 \text{ (3)}} \times 100 \\
 &= 85.27\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between internet sales in 2019 and 2015.

(3) AO2: 1 mark for correctly calculating internet sales 2015.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

25 Social trends and customer choice

26 As book retailers had higher costs, due to having to pay extra expenses such as business rates and rent for shop space, Amazon has been able to offer books at significantly lower prices. As a consequence, retail book stores such as Borders were unable to make sufficient profits on each sale to cover their costs, resulting in many business failures. This has allowed Amazon to further consolidate its position as a leading bookseller. Another effect has been that those booksellers left on the high street, such as Waterstones, have had to consolidate and merge with or take over other chains to lower their cost base sufficiently to be able to maintain sufficient profit margins to cover their extra costs. Due to the global impact of Amazon on high street booksellers, this consolidation has cut across national markets with Waterstones recently taking over Barnes and Noble for \$683m. As a consequence, Waterstones has been able to develop unique selling points in its stores, e.g. book readings and devolving power to purchase books to local managers, which have allowed the business to compete on non-price factors, thus increasing profit margins, market share and profits.

27 Heck Food can take advantage of direct selling, meaning it can keep all the profits from each heart-shaped sausage it sells online, rather than having to give part of this profit to retailers, in the form of a lower selling price to such intermediaries. As a consequence, Heck will be able to make a greater profit on each unit sold while maintaining a low cost base as it has no need to pay shop rent and business rates.

28 See workbook.

29 See workbook.

30 New product development is the methods used to research, develop and introduce a product that meets the needs and wants of customers, e.g. the Nintendo Switch Lite was developed to be totally portable and cheaper to purchase.

31 See workbook.

32 Cash cow.

33 See workbook.

34 The Boston Matrix can assist both types of business to analyse their product portfolio of products in terms of their market share and growth. For example, as Tesco operates as a technical monopoly with 27% of the retail grocery market, it can look at the actual share of its premium ready meals, Tesco Finest, compared to competitors such as M&S. If Tesco Finest products are shown to be cash cows, with high market share but low growth, Tesco may decide, as it is in a monopoly position, to raise prices without the risk of a significant reduction in demand. As a consequence, Tesco can make a greater profit margin from its Finest range without losing significant sales to M&S.

For a business operating in a fiercely competitive market, such as Direct Line selling car insurance, the Boston Matrix may help it to establish which offering is a problem child, an insurance product in a potentially high growth market but with low market share. Direct Line could add features to the product, e.g. cheaper rates for younger drivers, that may make it more competitive and therefore increase its market growth, resulting in increased sales revenue.

35 Indicative content:

- Market share is the amount of a market that a product has control over.

Arguments for developing a loyal customer base:

- Encourage repeat purchases of Nike Airs with a lower risk of losing customers to competitors.
- A positive effect on market share as other potential customers may be lured to purchase Nike Drift by loyal customers' positive reviews.
- Acts as a barrier to entry to businesses looking to take market share from Nike through the use of innovative designs for trainers.

Possible counterbalance:

- In order to keep loyal customers and maintain market share, Nike may incur more costs due to meeting ever higher customer wants and needs.
- Loyal customers may be more sensitive to even tiny issues with customer service that have an exaggerated effect on repeat purchases.

Potential judgement:

- Loyal customers can act as a method of promotion that could increase market share through positive word of mouth and social media activity.
- However, such customers may gain so much influence over Nike's ability to gain new customers that the costs of maintaining loyalty may outweigh the extra market share gained.

Exam-style questions

- 1 One reason why Oliver Cabell's approach to introducing new trainers may encourage customer loyalty is that this may portray the brand as being innovative and creative. (1) As Cabell's trainers appear to be relatively low volume (2) and designed using 3D printing (3) to meet individual customer needs, target customers are likely to feel that regular changes in design provide them with an innovative product that few others will have. As a consequence, there is likely to be a high level of customer satisfaction, encouraging further repeat purchases each week and resulting in increased sales. (4)

(1) AO1: 1 mark for giving a reason why new products may encourage customer loyalty.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3: 1 mark for briefly explaining a positive consequence of introducing new trainers in terms of customer loyalty.

Total: 4 marks

- 2 percentage change = $\frac{\text{new sales (2019)} - \text{old sales (2017)}}{\text{old sales}} \times 100$ (1)
- = $\frac{454.4 - 290.6 \text{ (2)}}{290.6 \text{ (3)}} \times 100$
- = 56.37% (4)

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the change in sales.

(3) AO2: 1 mark for correctly calculating the original sales.

(4) AO2: 1 mark for correctly calculating the percentage change in sales.

Total: 4 marks

- 3 One benefit of the product portfolio to Oliver Cabell's decision to expand his footwear business is that it spreads risk. Cabell's shoes are described as the finest design and materials with a clear focus on innovation in the sourcing of resources to make and produce the \$95 (3) shoes. (1) With a greater range of bespoke trainers, if one design starts to decline, newly introduced trainers may offset any loss of sales. As Cabell is introducing new styles each week, this regular updating of trainers may provide the lowest-risk approach to maintaining and increasing sales, thus aiding in the successful expansion of the business. (5) Regularly changing innovative designs may also encourage customer loyalty and repeat purchases, further aiding in the expansion of the internet business and perhaps the purchase of more 3D printing technology (4) to keep a competitive advantage.

However, a greater range of products may risk expansion as resources are being constantly used to create new products. (2) This may mean Cabell using some of the \$1.2m recently secured for expansion simply to support the weekly introduction of new styles. It may also lead to an increase in the costs of marketing the new products, which

may mean much lower profit margins and ultimately less profit to aid in the expansion. If the business fails to expand quickly enough to satisfy Scott Gabrielson and other investors, having a large product portfolio may not only dilute profits but risk losing longer-term investment to aid expansion. (6)

Overall as Cabell's footwear is a niche market product with the ability to produce tailored designs of footwear using 3D printing, it is likely that a large product portfolio will not significantly raise costs as the technology allows for infinite product changes with comparatively small cost increases. The costs of a wider range of products may also be offset by the use of recycled bottles in production. In conclusion, a wide-ranging product portfolio is likely to enhance Cabell's unique selling point and provide sufficient profits to meet the expansion aims of the business. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit/risk of using the product portfolio for expansion.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of using the product portfolio, with context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the usefulness of using the product portfolio to help expansion.

Total: 10 marks (Level 4 response)

- 4 One benefit of Dr Martens' decision to stock 'vegan' boots is that this may enhance the ethical credentials of the brand, attracting a new range of customers. (1) The promotional focus of Dr Martens is likely to have been on a different market segment from its more traditional boots range, which may lead to a halo effect on the product life cycle of other products. As a consequence, the 'vegan' boots may also act as an extension strategy for some of Dr Martens' other product range that are currently in the maturity or decline stage. For boots such as the 1460 range, the new (3) market segment aimed at through the advertising of 'vegan' boots may encourage such customers to make repeat purchases of other products, leading to increased market share and the continuing profitability of products that would otherwise be seeing a decline in sales. If such sales continue in the medium term as products such as the 1460 boot have already recouped most of their research and development costs, the profit margins on each sale are likely to be higher than the 'vegan' boots, leading to a further increase of profits above the 70% (4) rise posted in 2018. (5)

But the potential new customer purchasing 'vegan' boots may be regarded as so different in terms of wants and needs from Dr Martens' other customers that the success of such products may have little or no impact on the product life cycle of its other products. (2) The 1460 boot range appears to attract customers who are more interested in celebrity endorsement, which may not entice 'vegan' boots customers to purchase other products in the range, who are more interested in ethical purchases. As a consequence, this new product may not enhance other products in the life cycle and Dr Martens may risk the decline of the 1460 boots if this is its only strategy for maintaining sales, ultimately resulting in revenues reducing from the March 2019 figure of £454.4m. (6)

However, Extract C makes it clear that the 'vegan' range of boots is only one factor that has helped produce the 70% increase in profits. Dr Martens has adopted extension strategies for other products such as designs by Cardi B, which have helped extend the life of products that have reached maturity. In fact, by further innovating by selling in new markets, such as the growth of its internet sales, Dr Martens' overall marketing strategy appears to be enhancing products across its range, incorporating both the potential halo effect of the 'vegan' boots with those of other market segments, and allowing for the maximum enhancement of all products, regardless of where they currently sit in the product life cycle. (7)

(1) (2) Knowledge and understanding are shown through a benefit/disadvantage of a decision to stock vegan boots to enhance the product life cycle of other products.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Dr Martens' decision to enhance the product life cycle of all its products by stocking vegan boots, using context-based qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the likelihood of stocking vegan boots enhancing the product life cycle of its other products.

Total: 12 marks (Level 4 response)

- 5** The Boston Matrix may help Dr Martens to maximise sales as it can help identify which products may require the greatest investment and which may require little. For example, Dr Martens appears to be spending significant amounts of money promoting the 1460 boot through product endorsement by celebrities such as Kanye West. (1) The 1460 boot may therefore be a cash cow, with high market share but low growth, meaning that the marketing expenditure may actually add little to the sales of this product and is expenditure that could actually be better invested in products such as the 'vegan' boot, (3) which appears to be a rising star, with a strong share in the high-growth market of ethical products. Targeting promotional expenditure this way may maximise sales better than focusing on products with little chance of further market growth, leading to a greater increase in profits than the 2018 figure of 70%. (4) (6)

The ability of the Boston Matrix to show the whole of Dr Martens' product portfolio in terms of market share and growth gives it a significant advantage as an analytical tool over the product life cycle. (2) It is able to help Dr Martens focus its expenditure on marketing and product development as all the products are shown, whereas the product life cycle is only able to show one product in terms of sales. Dr Martens can use research such as that shown in Extract A to see that there is significant potential growth for its products in China. (5) This information can be incorporated into the Boston Matrix but cannot be easily used in the product life cycle. Dr Martens can see that expenditure on the 'vegan' boot and other innovative products has the potential to gain market share whereas the product life cycle can only allow for actual or predicted levels of sale of the product. Using the product life cycle to help maximise sales risks failing to incorporate the key external factors related to the shoe market and could possibly result in Dr Martens investing in marketing activities for boots such as the 1460 that give little return in increasing sales. (7)

However, the product life cycle can help maximise sales by identifying when a product may have reached maturity or perhaps has started in decline. The model encourages Dr Marten to pay careful attention to the sales of its products and to watch out for rises or falls as well as being able to be linked to sales forecasting. The more accurate the sales forecasting for products such as the 'vegan' boot, the more accurate the prediction of each stage of the product life cycle, allowing Dr Marten to budget and plan for individual promotional activities to suit each product. Dr Martens' 70% increase in profits and 2019 rise in revenues appear to suggest that its promotional strategies such as celebrity endorsement are helping mature products such as the 1460 boot to extend their sales growth. The Boston Matrix can be said to oversimplify the placement of products in terms of market share and cannot act as an early warning system linked to sales forecasting, in the way the product lifecycle can. This may mean the Boston Matrix encourages products to be placed in the wrong area, perhaps identifying the 1460 boot as a cash cow when, looking at actual sales, it is a dog. This could result in investment in products that fails to maximise sales and could in the longer term reduce profits below the 70% shown in 2018. (8)

Both the Boston Matrix and the product life cycle have strengths and weaknesses in creating an effective marketing strategy for Dr Martens' product portfolio. On their own they both carry significant risks that are likely to jeopardise rather than enhance Dr Martens' significantly higher sales of £454m in 2019. As both tools are focused on products, they both tend to oversimplify the overall situation Dr Martens finds itself in: for example, neither allows the business to recognise and plan for sales growth of 8% in the trainers market. (9) Neither do these analytical tools take into account where products are being sold, which is increasingly through an online presence. Dr Martens should therefore use both tools and a range of other analytical tools to ensure the marketing mix is focused on a strategy that makes the most efficient use of resources to provide products that maximise sales. (10)

(1) (2) Knowledge and understanding are shown through a benefit of a decision to maximise sales using the Boston Matrix/product life cycle.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of using each option in maximising sales, with context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation about which option is more likely to increase sales for Dr Martens.

(10) The conclusion looks at the situation in which Dr Martens finds itself, reflecting a recommendation that takes into account the risks of using only one of the two options.

Total: 20 marks (Level 4 response)

1.4 Managing people

Practice questions

- 1 Zero-hours contracts are where the business does not guarantee any work to the employee until they can see that the demand is there to need them. Outsourcing is where the business finds another business to supply components or services that employees may have undertaken in the past.
- 2 See workbook.
- 3 See workbook.
- 4 Aldi may need more managers as its prices for sugar are lower than those of competitors, by at least 1p, in order gain more customers and increase market share. This may help Aldi meet its current targets to increase the number of stores in the UK, thus needing to recruit more managers.
- 5 A benefit of using internal recruitment may be a reduction in costs as the club does not need to use external advertising methods, e.g. job websites for positions such as head grounds keeper. Even though there may be some costs to advertising internally, e.g. posters produced and internal emails sent to staff, these will be significantly less than having either to advertise in newspapers such as the *Manchester Evening News* or to employ recruitment agencies. As a consequence, the club is able to keep down its recruitment costs, resulting in higher profit margins. Internal recruitment may also mean an improvement in staff motivation as they may feel more valued and that their aspirations to get promoted are more likely to be satisfied. For example, groundsmen who have been working at Old Trafford for some years may cut the grass more effectively as they may feel that they can show managers that they are the most experienced and effective person for the role of head grounds keeper. As a consequence, productivity amongst staff together with the quality of their work may increase, reducing average costs for the club.
- 6 On-the-job training may save costs at Primark as experienced shopfloor staff will be able to train new staff in how to stack shelves with new jumpers while still being productive in selling clothes to customers. As a consequence, the costs of training new staff may be reduced and experienced staff may be able to show new staff more effective ways of dealing with customer queries about products such as socks, compared to a theoretical approach taken in classroom training.
- 7 **Indicative content:**
 - Flexible hours are where staff vary the hours they work to meet the needs of the business and to some extent their own personal needs.

Arguments for flexible working hours at Tesco:

- Allows Tesco to match customer demand to the level of staffing, e.g. all staff required to work around the Christmas period.
- Act as a motivator for staff, who perceive they have some control over when they work their hours, thereby increasing productivity.

- May encourage less staff absenteeism and reduced costs for Tesco.

Possible counterbalance:

- Staff may not be available to meet customer demand, resulting in lost sales.
- Staff may take advantage of flexible working hours and avoid working at busy or unsociable periods, e.g. late night opening, resulting in staffing shortages.

Potential judgement:

- Tesco can avoid staff shortages by having clear rules and guidelines on when staff can work flexibly, e.g. for the busy Christmas period staff are required to work specific hours.
- If Tesco can get the balance right between matching demand and staff numbers while convincing staff that they have flexibility to meet their own family and personal needs, it is likely to have a positive impact on retention, productivity and satisfying customer demand.

- 8 Recruitment is where a business searches for and employs new staff to fill vacancies. Selection is the process by which appropriate staff are found to fill vacancies in a business.
- 9 The importance of the member of staff needed for the role, e.g. a chief executive will require a significantly more detailed selection process as they will be expected to manage a large number of staff and amount of resources.

The amount of money a business has available to invest in the selection process.

$$\begin{aligned}
 10 \text{ percentage difference} &= \frac{\text{low skilled 2017} - \text{low skilled 2001}}{\text{low skilled 2017}} \times 100 \text{ (1)} \\
 &= \frac{183 - 254 \text{ (2)}}{183 \text{ (3)}} \times 100 \\
 &= -38.80\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between 2017 and 2001.

(3) AO2: 1 mark for correctly calculating 2017.

(4) AO2: 1 mark for correctly calculating the percentage difference.

- 11 As those remaining in low-skilled jobs have decreased by 38.8% between 2001 and 2017, there may be more competition between supermarkets to employ workers on checkouts. As a consequence, Tesco may need to offer greater rewards, e.g. a higher pay rate or discounts for staff, to ensure it meets its requirements for shop assistants.
- 12 On-the-job training may increase McDonald's productivity as new staff are engaged with customer orders of Big Macs as soon as they start in their role, leading to increased sales, lower costs and increased profits. New staff may also have the benefit of the expertise of

experienced staff who may be able to show them more effective methods of cleaning the shake machine and McFlurry maker than they could learn in a theoretical classroom setting. As a result, not only does McDonald's save costs from not having to pay for classroom training of new staff, but it is more likely to become efficient and effective more quickly, increasing production and productivity, and ultimately leading to higher revenues and profits.

- 13** H&M could introduce an online series of scenarios where applicants have to choose the correct approach in a number of difficult customer service situations, e.g. handling customer complaints when a dress size is not available in store. As a consequence, H&M can identify the applicants who are more likely to deal with customers in a way that meets the objectives of the business, thus decreasing the costs of poor customer service and increasing profits.
- 14** See workbook.
- 15** A tall organisational structure has many levels of hierarchy, while a flat structure has few levels of hierarchy. The span of control in a tall organisational structure is narrow, whereas the span of control in a flat structure is wide.
- 16** Centralisation of an organisation means that decision making is kept at the centre – not passed down to individual outlets/stores or individuals.
- 17** percentage change =
$$\frac{2019 \text{ sales} - 2018 \text{ sales}}{2018 \text{ sales}} \times 100 \text{ (1)}$$

 =
$$\frac{24,339.90 - 23,232.37 \text{ (2)}}{23,232.37 \text{ (3)}} \times 100$$

 = 4.76% (4)
- (1) AO1: 1 mark for correctly showing the formula for percentage change.
- (2) AO2: 1 mark for correctly calculating the difference between the old and new numbers.
- (3) AO2: 1 mark for correctly calculating the old sales figure.
- (4) AO2: 1 mark for correctly calculating the percentage change in sales.
- Total: 4 marks
- 18** BAE wants to improve creativity and communication across departments.
- 19** Foster and Partners may be able to allocate resources more effectively to different projects, e.g. those architects who have more skills in creating a structure like the Reichstag building rather than bridges, such as the Millennium Bridge. As a consequence, Norman Foster can offer potential customers teams that have much more relevant skills for creating the designs bid for and therefore have a significantly higher chance of winning contracts. This could result in gaining higher-profile buildings to design and ultimately make greater profits. A matrix structure will also allow Foster and Partners to keep the same team of architects, human resources specialists and other relevant team members throughout the life of the project. Customers such as Apple may find this particularly important to realising their complex building requirements such as the Apple Park, with

Norman Foster able to provide the same staff on the project from its inception in 2006 to its completion in 2017. This builds up strong customer relations, potentially gaining a competitive advantage over other architects, bringing increased customer satisfaction and customer loyalty.

20 H&M may be able to increase sales of clothing by allowing store managers a greater say in what clothing lines are stocked to meet local customer needs. For example, a store in London may decide to stock clothes that are novel and innovative, such as tighter jeans, which more closely meet the needs and wants of international visitors. As a consequence of being more local market orientated, H&M is more likely to attract customers, resulting in greater sales revenue and sales growth.

21 Indicative content:

- A centralised organisational structure means that decision making is kept at the centre — not passed down to individual outlets/stores or individuals.

Arguments for a centralised organisational structure:

- Senior managers can make standardised decisions, e.g. purchasing Thomas Cook's retail business.
- Centralised purchasing of holidays across the Hays and Thomas Cook retail shops, reducing unit costs due to economies of scale.
- Clear and consistent communication across the 450 new Thomas Cook shops, meaning new methods of working, e.g. how and when to buy holiday currency, are embedded quickly.

Possible counterbalance:

- Little flexibility to incorporate different working patterns, e.g. some Thomas Cook shops may have more efficient approaches to selling currency than Hays.
- Risks stunting creativity and intrapreneurship with more junior staff.

22 One difference between Taylor's and Herzberg's theory of motivating employees is that Taylor believed that pay was a critical motivator to encourage productivity but Herzberg felt it had a neutral effect. Another difference is that Herzberg believed the most important issue for motivation was employee wellbeing, but this is not considered in Taylor's theory at all.

23 Laissez-faire is where indecision or absence at the top creates a decision-making vacuum which is filled by more junior staff.

$$\begin{aligned}
 \text{24 percentage change} &= \frac{\text{chief executive officer} - \text{bar staff}}{\text{bar staff}} \times 100 \text{ (1)} \\
 &= \frac{97,083 - 15,072 \text{ (2)}}{15,072 \text{ (3)}} \times 100 \\
 &= 544.13\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the difference between the chief executive officer and bar staff average salaries.

(3) AO2: 1 mark for correctly calculating the bar staff salary.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total 4 marks

$$\begin{aligned}
 \text{25 percentage change} &= \frac{\text{April 2020} - \text{March 2020}}{\text{March 2020}} \times 100 \text{ (1)} \\
 &= \frac{2.1 - 1.24 \text{ (2)}}{1.24 \text{ (3)}} \times 100 \\
 &= 69.03\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the change between April and March unemployment benefit claims.

(3) AO2: 1 mark for correctly calculating March 2020 unemployment benefit claims.

(4) AO2: 1 mark for correctly calculating the percentage change in unemployment benefit claims.

Total: 4 marks

26 Autocratic style

27 See workbook.

28 As the manager may be more experienced at making Big Macs than staff who cook them, this leadership style means quality of the burgers may improve as staff will have to listen to direct instructions about how to cook the burgers rather than using their own discretion. As a consequence, Big Macs may be cooked better and meet customer needs in terms of their texture, resulting in increased customer satisfaction and repeat purchasers.

29 Indicative content:

- Paternalistic leadership is where more attention is given to the social needs and views of workers.

Arguments for paternalistic leadership:

- Production-line staff feel their views are recognised, resulting in increased motivation and productivity in making Toyota Corollas.
- More time invested by managers explaining and gaining buy-in regarding decisions when changing the production process of the RAV4, increasing staff motivation.
- Managers take an active role in workers' family situations, e.g. allowing for time off for family emergencies, increasing employee loyalty and retention.

Possible counterbalance:

- Even though staff are listened to, decisions are still taken independently of employee views, resulting in employee dissatisfaction and lower productivity, e.g. changing team make-up on the factory floor.
- Employees become negatively competitive as they are vying for the leader's attention and affection, possibly leading to reductions in overall quality of RAV4s produced.

Potential judgement:

- If staff on production lines have a limited set of skills, e.g. just putting windows in doors, paternalistic leadership may motivate staff to increase productivity as a listening manager may encourage staff to suggest innovative ways of speeding up the process.
- However, Toyota pioneered Kaizen, continuous improvement, which paternalistic leadership does not allow for as it does not directly encourage staff creativity, thus quality improvements in the production process may not be identified.

Exam-style questions

- 1 One reason why Heck Food does not use recruitment agencies to recruit new staff is that this would represent a large expense for an organisation with a relatively small number of staff. (1) Currently Heck only has 30 employees, (2) many of whom are family members or friends. (3) Recruitment agencies would go through a complicated method of recruiting new staff, e.g. advertising in newspapers, which not only is an extra expense but represents an additional cost that a job requiring little skill or training does not warrant. As a consequence, Heck Food appears to have been successful in running its own recruitment process, not only dispensing with the cost of an agency but ensuring Andrew and Debbie have complete control in recruiting employees who will fit in well at the family business. (4)

(1) AO1: 1 mark for correctly stating a reason for not using a recruitment agency.

(2) AO2: 1 mark for using appropriate context to answer the question.

(3) AO2: 1 mark for using appropriate context to answer the question.

(4) AO3: 1 mark for analysing the benefit of not using a recruitment agency.

Total: 4 marks

- 2 percentage change =
$$\frac{\text{new sales revenue (2019)} - \text{old sales revenue (2015)}}{\text{old sales revenue (2015)}} \times 100 \text{ (1)}$$
- =
$$\frac{\text{£50m} - \text{£7m (2)}}{\text{£7m (3)}} \times 100$$
- = 614.29% (4)

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the change in sales.

(3) AO2: 1 mark for correctly calculating the original sales.

(4) AO2: 1 mark for correctly calculating the percentage change in sales.

Total: 4 marks

- 3** One reason why Heck Food may benefit from a flat organisational structure is that it allows for faster decision making between the production staff and the owners, Andrew and Debbie. (1) With a flat structure there will be a short chain of command allowing Heck Food to be able to react very quickly to customer demands, (2) e.g. where a supermarket requests a further supply of the Valentine's Day sausages (3) due to unexpected demand. Faster decision making will enable Heck Food to inform employees to change the type of product they are making easily and quickly, which will help the business respond to rapidly changing market conditions, giving it a competitive advantage over large manufacturers with taller structures, leading to greater customer satisfaction and ultimately further increases in sales revenue. (5)

However, as there appears to be only one layer of management, Andrew and Debbie, who manage the 30 employees, (4) this may cause problems with future staff retention. As employees are under 25 and it is often their first job, they may soon grow bored of repetitively making sausages. As there appears to be little scope for promotion or increasing job satisfaction, employees are likely to become demotivated, leading to lower levels of productivity and a reduction in Heck Food's ability to satisfy customer demands quickly. Not only may this reduce Heck's levels of customer satisfaction, but employees may decide to leave and find more satisfying jobs, leading to potential problems in staffing the production line for 7 days a week. As a consequence, capacity utilisation may go down, increasing the unit costs of sausages and resulting in lower profit margins. (6)

Overall, the flat organisational structure appears to have been a special feature of Heck Food that has contributed to its success, as can be seen by the 200% rise in sales revenue from 2015 to 2018. As employees are mainly friends and family, it is likely the risk of staff becoming demotivated is low as Debbie and Andrew are likely to have good relations with all 30 employees. Heck Food may also use other methods of motivating the employees, e.g. job rotation and profit sharing, to counter the negative effects of lack of promotion. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit of having a flat organisational structure.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of having a flat organisational structure, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the decision of Heck Food to have a flat organisational structure.

Total: 10 marks (Level 4 response)

- 4** One benefit of Booths' decision to decentralise its organisational structure is that managers may be able to make much quicker decisions in the area where the store operates. (1) For example, managers may be given delegated responsibility for deciding

whether or not to introduce deliveries of online groceries in their area. If the store is located in an area which has a high demographic of people aged 25–34, (3) who appear to be more willing to shop online (61%), a manager may decide to introduce online ordering and deliveries. This may attract new customers both to purchase online and also to visit the store, not only increasing sales online but potentially gaining new customers in store. As a consequence, the cost of introducing online groceries will be targeted to the Booths stores that have the demand for this service, increasing sales and ultimately reducing the losses of £14.8m. (4) Decentralisation would allow for a much more targeted approach to meeting customer needs. (5)

However, a risk with decentralising Booths' structure is that the local managers of stores are only looking at a small element of the overall business. (2) If a manager of one of the 28 stores decides to stock a particular type of cheese, based on local customer needs, the Booths chain will miss out on the cost savings from buying the cheese in bulk. It may also be the case that some or all of the other stores may also have a demand for the same product but are unaware of this, leading to a failure to take an opportunity to provide customers with novel products. This may result in missing out on sales revenue that the business desperately needs while also incurring much higher unit costs by only ordering a comparatively low volume of cheese. (6)

Clearly Booths needs to take steps to improve its sales and turn the £14.8m loss of 2018 into a profit. As long as decentralisation operates in a structured way, with managers communicating with senior managers about potential products or services that may increase sales revenue, combined with a process to share successes and ensure the business benefits from economies of scale, this approach may help regain the 'Waitrose of the North's' competitive edge in selling premium products. (7)

(1) (2) Knowledge and understanding are shown through a benefit/risk of a decision by Booths to decentralise its organisational structure to enhance its competitive advantage.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Booths decentralising its organisational structure to enhance its competitive advantage, using context-based qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about Booths' decision to decentralise its organisational structure to enhance its competitive advantage.

Total: 12 marks (Level 4 response)

- 5 Using financial rewards may maximise profits better than non-financial rewards as it may give employees a higher standard of living, encouraging more employee satisfaction. (1) As a consequence of paying the living wage to shop assistants instead of the minimum wage, employees may be much more motivated to offer a high level of customer service when promoting Booths' premium products. This may encourage customers to increase their average weekly shopping spend and also choose more expensive products from Booths' range. Sales may therefore increase, reversing the dip of £3.3m in sales in 2018. (3) With customers being given a better service than by other supermarkets such as Tesco, they are more likely to return as repeat customers, further enhancing sales revenue

and increasing profits. If the service were to continue to be enhanced by more motivated staff, the payment of a living wage would not only be covered by the rise in sales revenue but in the longer term, Booths could return to substantial profitability after its loss of £14.8m in 2018. (6)

However, financial rewards under the Taylor theory of motivation, the so-called 'carrot and stick' approach, where employees are treated as an asset rather than a part of the team at Booths, may be seen by some employees as demotivating, particularly if Booths decides to adopt bonuses related to sales targets. If Booths tries to maximise sales of more premium products by asking staff to 'upsell' products to customers, this may act as a barrier to motivating staff who do not get the option to undertake this type of sales activity, e.g. those simply employed serving on the tills. (4) Financial motivational tools such as piece rate, e.g. the number of shelves stacked, may also be regarded as demotivating by many staff, who would agree with theorists such as Mayo, who criticised Taylor's theory of simply motivating staff through financial means. Mayo believed that to truly motivate employees, managers need to consult employees and take into account and act on their opinions. For example, Booths may ask staff for suggestions as to what products customers are asking for and then stock the products. This type of interaction, the 'human relations theory', may motivate staff much more than financial rewards and lead to personal satisfaction, resulting in raised levels of customer service as well as the greater stocking of products that meet the needs of customers. Using bonuses and/or piece rate could leave staff feeling Booths is treating them like machines, with some staff having lower motivational levels. It may also result in an overly competitive environment between workers, trying to sell more cans of beans than other staff to gain the greatest bonus. Financial rewards therefore risk demotivating all or at least part of Booths' workforce, leading to poor levels of customer service and alienating customers. This could lead to an even greater reduction in sales than the £3.3m dip in 2018. (5) (7)

Non-financial rewards may actually be a better fit with Booths' family-owned premium ethos. It is likely that the 'Waitrose of the North' wants to encourage staff and managers to work as a team as the supermarket aims to provide the best 'customer service', a USP compared to larger competitors such as Tesco. (2) Therefore, Herzberg's theory on motivation is more likely to enhance Booths' employee performance by treating financial methods of motivation as important but not the key to motivating staff, the so-called hygiene factors. Booths would still benefit from paying staff the living wage as this would ensure there are no blockages to enhancing their motivational levels through so-called motivators. For example, Booths could encourage empowerment among both managers and staff, giving staff stacking shelves more power to decide when certain types of food should be stocked. Booths could further enhance staff motivation by using job rotation where those stacking shelves would then undertake till roles together with delegating more tasks, e.g. allowing staff to decide on certain refunds. With increases in staff decision making, further training and skills development, staff may become self-actualised, realising their personal and professional development aims, and enhancing their self-esteem. This could result in a much more cohesive team of staff working at Booths, resulting in enhanced customer service and increased productivity, such as faster restocking of shelves. Booths may also benefit from team meetings that encourage staff ideas to improve productivity and sales. This could lead to greater sales revenue, increased customer loyalty due to the higher level of service and a return to profitability. (8)

However, staff in supermarkets tend to be young and/or lower paid with fewer educational qualifications. Alternatively, they may include staff who see the job as short term, e.g.

students working while at university. Non-financial aspects may not be the main reason such staff work at Booths on the checkout or stacking shelves. They may be much more interested in bonus-related pay or higher hourly rates and have little interest in being given greater responsibility or coming up with ideas for new premium products for Booths' customers. Non-financial methods such as training shelf stackers to work the tills may have a significant cost, but actually result in little increase in staff motivation. Booths will therefore have incurred costs which fail to enhance sales and maximise profits, actually leading to greater losses than the 2018 figure of £14.8m. (9)

The key to maximising profits is identifying the staff who will actually benefit from financial and non-financial methods of motivation. Managers may actually benefit from both as they are more likely to share the goals and long-term aims of Booths, feel more trusted by being trained and given more empowerment and delegation to make decisions in local stores that are more likely to meet local grocery needs. Staff in more transient situations, e.g. part-time shelf stackers, are unlikely to be interested in significant investment in empowerment training, but may become more motivated if they are allowed to rotate certain roles together with receiving a higher rate of hourly pay, which may encourage higher-skilled staff. As Booths has struggled to compete and has incurred recent losses, it may be that motivating staff is only one of the issues that must be resolved to turn the business around. For example, it may already have identified that a tie-up with Waitrose to benefit from the cheaper unit costs of bulk purchases is a key issue to reducing the price of its premium goods and encouraging increased sales. However, as a premium supermarket, customer service and therefore the motivation of staff are a key differentiating USP that may in the longer term be the most important factor in maximising profits. Booths may therefore need to ensure that it hires staff who are motivated by a more team-working, creative approach. (10)

(1) (2) Knowledge and understanding are shown through a benefit of maximising profits through financial or non-financial methods of motivating employees.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of each option for maximising profits, using context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation as to which option is the likeliest to increase profits for Booths.

(10) The conclusion looks at the situation in which Booths finds itself, reflecting a recommendation that takes into account the risks of using just one of the two options.

Total: 20 marks (Level 4 response)

1.5 Entrepreneurs and leaders

Practice questions

- 1 An entrepreneur is an individual who starts a business and takes risks in order to make a profit. An intrapreneur is someone within a business who takes risks in an effort to solve a given problem.
- 2 See workbook.
- 3 See workbook.
- 4 Ethical stance
- 5 See workbook.
- 6 By having an ethical stance on cosmetics, Mark Constantine, the founder of Lush, was able to sell his first products to The Body Shop, which eventually became a major customer. As a consequence, Lush was able to expand its vegan and vegetarian bath bombs into its own shop and brand, eventually creating a brand with sales of £524 million in 2018.
- 7 See workbook.
- 8 Social objectives are where the business tries to ensure it has the maximum positive impact on society and/or the environment. Profit maximisation involves producing a level of output of the product or service which generates the most profit for the business.
- 9 Survival is where the business wants to ensure its continuing existence, e.g. by reducing staff costs.

$$\begin{aligned}
 \text{10 percentage difference} &= \frac{\text{sales revenue 2019} - \text{sales revenue 2018}}{\text{sales revenue 2018}} \times 100 \text{ (1)} \\
 &= \frac{\text{£4.2m} - \text{£3.5m (2)}}{3.5 \text{ (3)}} \times 100 \\
 &= 20\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the 2019 and 2018 sales revenue.

(3) AO2: 1 mark for correctly calculating the 2018 sales revenue.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

- 11 Singapore is likely to have much lower production costs than the UK, e.g. lower minimum wage rates of £683pm compared to £1,273pm. As a consequence, Dyson has a better chance of achieving its reduction of 15% in manufacturing costs in the next 2 years.

- 12** Losing its UK West Coast rail franchise is likely to have a significant negative impact on Virgin's ability to maximise market share. As this was Virgin's main source of growth, not only has market share been significantly reduced since it lost the franchise on 8 December 2019, but revenues will be significantly reduced, impacting on profits. Virgin Trains may also find it more difficult to bid for new franchises due to its inability to resolve the staff pension fund problems. As a consequence, Virgin Trains may not be able to increase its market share with successful bids for other franchises such as the East Coast line, leaving it to pursue limited potential growth on its Virgin Cross Country routes.
- 13** By focusing on social objectives Lush may gain more customers from the current trend for more environmentally sustainable cosmetic products, e.g. by none of its products using palm oil. As a consequence, customers may be more willing to pay premium prices due to the company's ethical stance on sustainable cosmetic products, increasing sales revenue and customer loyalty.

14 Indicative content:

- An objective is the goal a business wants to achieve. This will depend on the stakeholders who are involved in the business.

Positive impact on objectives of ASOS:

- Sales maximisation may be achieved ahead of target due to taking four clothing brands from Arcadia Group.
- Market share may increase much higher than the 14% growth seen in 2020 as Arcadia Group held 8% of market share.
- Cost efficiency, as ASOS can benefit from significant economies of scale by purchasing more fabrics such as denim and cotton at a lower price.

Possible counterbalance:

- Profit maximisation may be more important to investors who helped fund the takeover of the Arcadia's brands and the pay needs of the 300 staff.
- There will be a greater pressure on ASOS's ability to sell clothing online in order to cover the higher total costs of relaunching and marketing the new brands.

Potential judgement:

- As a public company, part of the objectives for ASOS in taking over the Arcadia brands was increasing market share, rather than protecting the jobs of the staff of Arcadia stores, which is likely to negatively impact on the company's brand image.
- With a significantly larger network of brands online, ASOS may need to increase its targets in terms of achieving cost savings and profit maximisation while it ensures the new brands are operating in a way that uses current business methods.

- 15** A public limited company is defined as a business that is able to offer its shares to the public, normally through the stock market. With a private limited company the shares are not traded publicly and the owner can choose whom to sell them to.

16 Opportunity cost measures the cost of any choice in terms of the next best alternative forgone. Trade-offs arise where having more of one thing potentially results in having less of another.

$$\begin{aligned}
 \text{17 percentage difference} &= \frac{2019 \text{ private businesses} - 2015 \text{ private businesses}}{2015 \text{ private businesses}} \times 100 \text{ (1)} \\
 &= \frac{5.9\text{m} - 5.4 \text{ m (2)}}{5.4 \text{ m (3)}} \times 100 \\
 &= 9.25\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the number of businesses in 2019 and 2015.

(3) AO2: 1 mark for correctly calculating the number of private businesses in 2019.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

18 Partnerships

19 Uber may lose its ability to have complete control over its objectives, e.g. expanding into markets such as taxi fares in London, in order to gain a significant injection of capital from a stock market flotation. As a consequence, Uber may need to decide if it prefers slower growth as a result of lower levels of capital from staying a private limited company or higher levels of growth but with a loss of control over the strategic direction of the business. Travis Kalanik may decide to sell only a partial share in his business, in order to keep the 51% stake needed to retain control on becoming a public limited company, thus allowing a trade-off between gaining greater capital to fund faster growth into emerging markets and keeping overall control of the business.

20 Heck may be able to access an increase in capital from a stock market flotation in order to fund larger premises and improved sausage-making equipment, as it has indicated it wishes to add 25% further capacity. As a consequence, Heck may be able to grow at a quicker rate than by using current retained profits, increasing its growth from its current rate of 20% per year, to take advantage of increasing demand for its products from supermarkets such as Tesco.

21 Indicative content:

- A public limited company is defined as a business that is able to offer its shares to the public, normally through the stock market.

Arguments for Airbnb becoming a public limited company:

- Access to capital from a stock market flotation that will allow it to offer accommodation to the estimated 1 billion visitors to emerging economies such as India.
- Airbnb can more easily complete mergers and takeovers by offering shares instead of cash for competitors such as HomeToGo.

- Gives Airbnb a much more prestigious profile to customers, helping to counteract poor publicity generated from hosts who cancel reservations at short notice.

Possible counterbalance:

- Founder Brian Chesky could lose control over the direction in which Airbnb wishes to develop, e.g. entering more traditional markets such as hotels.
- Due to the higher level of public scrutiny and access to shares, objectives are likely to become much more focused on profit maximisation rather than social objectives, e.g. providing customers with a cheap way to see the world.

Potential judgement:

- Becoming a plc is a trade-off for the founders in terms of how much control they are willing to divest for the creation of funds to deliver faster expansion.
- It may be that Airbnb has grown so far beyond Chesky's skill set that to ensure the success of Airbnb the business now needs the framework and expertise that becoming a plc allows.

22 An entrepreneur is an individual who starts a business and takes risks in order to make a profit. Leadership is meant to inspire creativity and risk taking in others within the organisation in order to achieve the business's objectives.

23 Moving from control of all decisions to delegation to staff.

Moving to a more processed form of decision making as the risks and the business increase in size.

24 Due to Cowell being able to make all the decisions as a record producer, he was used to getting his own way. With the *X Factor*, Cowell then had to motivate a large number of staff to achieve a set of goals that may have been set by other individuals or organisations such as ITV, which might have made him move from an autocratic to a more democratic style of leadership.

25 Dyson has set up the Dyson Institute, specifically to encourage the training of young engineers in the UK. The emphasis is on a degree that develops the creativity and skills of undergraduates to tackle real problems. Places are highly sought after, partly due to Dyson funding the degrees and offering students £18,000 per year while studying.

26 Indicative content:

- An entrepreneur is an individual who starts a business and takes risks in order to make a profit. Leadership is meant to inspire creativity and risk-taking in others within the organisation in order to achieve the business's objectives.

Difficulties for Gordon Ramsay moving from an entrepreneur to leader:

- As a chef he was used to taking an autocratic approach to achieving objectives, but as a leader he has had to move to encouraging others in his 38 restaurants to achieve success.

- A lack of skills required to move to more process-made decision making in his Michelin-starred restaurants, e.g. pricing strategies and quality control.
- An inability to inspire the staff employed at his restaurants, possibly resulting in poor motivation to create high-quality dishes, may have contributed to the £6.4 million loss in 2018.

Possible counterbalance:

- Having spent some time encouraging developing a range of 38 restaurants with senior managers may have helped him move to a more democratic style of leadership.
- Ramsay is expanding into overseas locations, so perhaps he has now overcome a lot of his difficulties in moving to a more successful leadership style.

Exam-style questions

- 1 AO1: 1 mark for one reason why Umbro may decide to use franchising to expand its market share, e.g.:

- Allows for quick growth of the brand.
- Reduced financial risk.

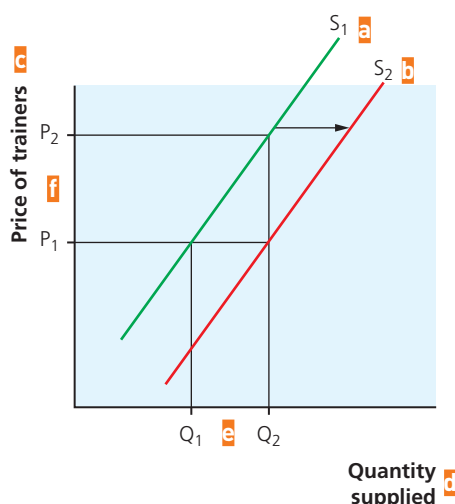
AO2: 2 marks for two uses of context that answer the question, e.g.:

- Expand its brand into new markets above the 90 already entered, e.g. Brazil.
- Brazilian franchisor will carry most of the financial risks in the set-up and development of its Umbro franchise

AO3: 1 mark for analysis, e.g.:

- Increased presence of the brand across developing markets may mean large growth in sales.
- Therefore, Umbro may regain market share lost to Adidas while making a percentage of profits on each item sold by the franchisor.

2



AO1: 1 mark for correctly constructing the two supply curves (a and b).

AO2: 1 mark for correctly labelling the axes 'Price' and 'Quantity' (c and d).

AO2: 1 mark for correctly interpreting the shift in the supply curve to the right (e and f).

AO2: 1 mark for correctly drawing the effect on price and quantity of a shift in the supply curve to the right.

Total: 4 marks

- 3 An intrapreneur is someone within a business who takes risks in an effort to solve a given problem. This means that managers and staff are allowed to take risks in order to help Umbro become more successful. (1) The extract states that Umbro has few managers and encourages staff to be creative. Umbro could improve its brand image by allowing staff to look at innovative ways to advertise its products, e.g. using viral marketing. Viral marketing is a way of advertising on social media using catchy adverts that Umbro customers would see as trendy. (3) Intrapreneurship would allow staff to use this type of marketing in a way that suits customers as Umbro has customers in over 90 countries. Staff in these countries could use different viral marketing campaigns to meet the needs of customers in individual countries and this USP would give Umbro a competitive advantage against competitors such as Nike in terms of brand awareness. (5) As a consequence, intrapreneurship would allow Umbro to become much more market orientated in each country it operates in, improving brand awareness with customers, tempting them to buy more sportswear and capturing more market share.

However, a risk with intrapreneurship is that Umbro might give too much power to local staff to make decisions, which means that decisions in one country about the marketing of the product may be in conflict with what is being done in another country. (2) For example, Umbro's sponsorship of PSV Eindhoven could cost a lot more than sponsoring West Ham in the UK. (4) As a consequence, gaining sponsorship deals will become more difficult and will cost more money as clubs learn there are better deals to be had. Umbro would gain more clubs but at too big a cost. (6)

Umbro should encourage intrapreneurship as it will help the company to benefit from the local knowledge of employees when marketing the product. But the risks need to be controlled by giving employees clear boundaries as to what creative ideas they can put

into practice and which ideas need to be discussed by senior managers of Umbro. This would create a balanced trade-off between using the creativity of the workforce to improve profits through intrapreneurship and not losing profit in the longer term. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit/risk to Umbro of encouraging greater intrapreneurship.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results to Umbro of encouraging greater intrapreneurship, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the decision to encourage greater intrapreneurship at Umbro.

Total: 10 marks (Level 4 response)

4 Indicative content:

- Entrepreneurial motives are the reasons that drive a person or people to set up in business.

Positive impacts of entrepreneurial motives on the success of Ineos:

- Jim Ratcliffe mortgaged his house to fulfil his motive to launch his technical business and make profits/satisfice.
- Social entrepreneurship in setting up the Grenadier factory to support the regeneration of the area and create 500 jobs in Wales.
- Independence has allowed Ratcliffe to make risky acquisitions and build his business to be worth \$60bn.

Possible counterbalance:

- Satisficing has meant taking risks, e.g. selling his house and taking over businesses that might have led to the failure of Ineos.
- His investing £600m in the building of the Grenadier may end in disaster as it may not be a product that can compete with the likes of Porsche or Land Rover, meaning his social motives would actually end in a loss of jobs and an unsustainable business.

Potential judgement:

- Ratcliffe's motives have clearly helped Ineos to success in terms of allowing him the ability to pursue non-profit motives such as sponsoring the Ineos UK cycling team and pursuing projects that would otherwise be inaccessible to less successful companies.
- Without listening carefully to his close team of managers, the risk is that his quest for satisficing and/or social entrepreneurship may result in decisions that are too risky and start to lose Ineos money.

5 Indicative content:

- A private limited company is a business which is a separate legal entity to the entrepreneur and has limited liability.
- A public limited company is a business that is able to offer its shares to the public, normally through the stock market.

Private limited company — arguments for:

- Ratcliffe can have a greater control over the buying and selling of shares, protecting his £600m investment.
- Ratcliffe can have a much greater level of control over decisions made due to the ability to restrict shareholders and directorships, thus being able to be more hands-on, e.g. deciding on the selling price of the Grenadier, currently £30,000.
- Ratcliffe still benefits from the ability of a limited company to be able to raise capital compared to a sole trader, which may have been a factor in the Welsh government's investment in the factory in Wales.

Public limited company — arguments for:

- Ratcliffe may be able to raise substantially greater capital for his £600m project through public share offering, something a private limited company cannot access.
- Higher status than a private limited company, so Ratcliffe may be able to gain access to other types of funding, e.g. from banks that are interested in profiting from the launch of a Land Rover successor.
- Due to the higher profile of a public limited company, Ratcliffe may attract better staff, e.g. ex-Land Rover engineers who could possess the knowledge and technical skills to produce 25,000 vehicles within the 4-year target.

Potential judgement:

- As Ratcliffe's expertise is in the chemical industry, key to the success of the new Grenadier will be ensuring that the significant investment of £600m is quickly attained, which is much more likely through a public share offering that only a plc can make.
- Key to success in generating the capital is to recruit key experts who can bring the Grenadier to mass production at the price of £30,000. Gaining such staff may need the confidence levels afforded by a plc.

Possible recommendations:

- To maximise the chances of success of the Grenadier and the investment of £600m, a plc appears to be the option which has the greatest chance of affording success.
- The market for 4×4s is already extremely competitive with Porsche and Jaguar Land Rover being long established and potential barriers to entry. A plc will afford Ratcliffe the best access to funding and personnel to fill what appears to be a gap in the 4×4 market, which grew by 7.6% in 2018.

Market — Market for 4×4s is mainly dominated by premium models such as Porsche and it is extremely competitive.

Objectives — Ratcliffe wants to introduce a utility vehicle to fill a gap in the 4×4 market for a comparatively cheap product.

Product — To bring the Grenadier to market Ratcliffe needs to ensure he has a team with appropriate skills and experience to create a cheap but reliable 4×4.

Situation — Ratcliffe has spotted a gap in the 4×4 market but lacks the technical skills to mass produce a utility vehicle that is cost effective.

Theme 4

Global business

4.1 Globalisation

Practice questions

- 1 A multinational corporation is a business that has offices and/or production facilities in at least one country other than its domestic market. A subsidiary company is one that is controlled, usually through shareholding and/or management, by a parent company.
- 2 See workbook.
- 3 See workbook.
- 4 Many global car manufacturers have moved production of their cars to China to take advantage of low costs, e.g. low minimum wages of \$322 per month, and also to access a burgeoning middle class who wish to purchase cars. As a consequence of the high potential demand and growth in passenger car use, China's production has maintained its dominant manufacturing position, even though production reduced by 3.42 million units from 2018 to 2020.
- 5 Jaguar Land Rover (JLR) may be able to take advantage of the rising number of middle- and upper-class customers who wish to purchase a luxury car, such as the Land Rover Evoque. JLR sales increased by 16.23% in 2018, allowing JLR to increase its market share of this emerging market, resulting in greater sales revenue and profits. JLR can further reduce its costs and increase its profit margins by basing production of its cars in India, avoiding 60% import tariffs on cars built in Halewood. As a consequence, this further increases the profits that can be generated from Indian sales, helping to counter a slowdown in European markets due to issues such as the uncertainty of Brexit.
- 6 See workbook.
- 7 **Indicative content:**
 - Offshoring means a business getting work done in a different country.

Arguments for retained profits/possible effects/usefulness:

- Lower unit costs of M&S underwear, allowing for greater profit margins.
- Significant savings in wage costs with Vietnam hourly minimum wage at £0.14 in 2018.
- Economies of scale in completing all production of clothing ranges such as Per Una and Autograph in one centre, allowing for purchasing of raw materials at lower unit costs.

Possible counterbalance:

- Added costs of training staff and ensuring quality meets customer expectations.
- Possible negative impact on M&S branding if customer perception is that Vietnamese staff are being exploited, e.g. are not paid wage rates that are more similar to the UK minimum wage of £8.21 for those 25+.

Potential judgement:

- M&S can potentially make significant cost savings that could give it a competitive advantage over other brands, e.g. Debenhams.
 - This needs to be balanced against possible negative effects on brand image, the added costs of training and setting up, and customers who are increasingly concerned about the environmental impact of products made abroad and transported to the UK.
- 8 Inward FDI involves a foreign business investing in the local economy. Outward FDI is where a domestic business expands its operations to a foreign country.
- 9 The UK agrees a trade agreement with the European Union.

The UK economy goes into recession.

$$\begin{aligned}
 10 \text{ percentage difference} &= \frac{\text{vehicles 2020} - \text{vehicles 2019}}{\text{vehicles 2019}} \times 100 \text{ (1)} \\
 &= \frac{\$36.4\text{bn} - \$50.7\text{bn (2)}}{\$50.7\text{bn (3)}} \times 100 \\
 &= -28.20\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the 2020 and 2019 vehicle exports to the USA.

(3) AO2: 1 mark for correctly calculating the 2019 exports.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

$$\begin{aligned}
 11 \text{ total value of 2019 exports in £s} &= \frac{\text{total value of 2019 exports in \$}}{\text{£/\$ exchange rate 2019 (1)}} \\
 &= \frac{73.3 + 42.2 + 50.7 \text{ (2)}}{1.347 \text{ (3)}} \\
 &= £123.39 \text{ bn (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula.

(2) AO2: 1 mark for correctly calculating the total exports in \$s.

(3) AO2: 1 mark for correctly calculating the exchange rate.

(4) AO2: 1 mark for correctly calculating total exports in £s.

Total: 4 marks

12 Rolex watches would become more expensive for retailers to import, e.g. a Rolex Submariner currently costing £8,000 to retailers in the UK may now cost £8,500 as the Swiss franc is worth more pounds than it was 12 months ago. As a consequence, if the retailer maintains the same retail price of £10,500, it would need to bear the extra cost of a 6.25% increase in import costs. This may mean UK retailers decide to import fewer Rolex watches, resulting in lower demand for Rolex's luxury watches. In order to ensure UK demand for Rolex is not affected by a depreciation in the pound, the business may decide to guarantee the selling price to retailers in pounds, regardless of the exchange rate. As a consequence, UK retailers are more likely to continue purchasing Rolex Submariner watches as their current profit margins are not affected by any depreciation in the pound, resulting in demand for Rolex being sustained. This may also result in greater brand loyalty and act as a barrier to entry against competitors such as Phillip Patek.

13 Nissan can create a competitive advantage in the UK electric vehicle market by concentrating its production on creating the most efficient Nissan Leaf. For example, concentrating greater resources on producing electric vehicle batteries may improve the productivity and efficiency of the Sunderland plant and therefore reduce the unit costs of each car battery, allowing Nissan to reflect this in reduced vehicle costs. This may result in buyers switching from VW and Renault, increasing market share and sales revenues.

14 Indicative content:

- Outward FDI is where a domestic business expands its operations to a foreign country.

Arguments for outward FDI:

- Ability to trade its fuel additives within the EU with no tariffs, e.g. with French oil company Total.
- Reduces the costs of transporting agrochemical products to European customers, e.g. those that produce tomatoes in Spain.
- Greater access to funding of the factory from European investment institutions, potentially reducing costs such as interest payments on loans to build the factory.

Possible counterbalance:

- Significant increase in production costs to meet the laws and requirements for producing agrochemical products in the EU.
- Ineos may end up paying more in tariffs for exporting its fuel additives outside the EU free trade zone.

15 Trade barriers are the costs associated with producing and getting products to the final consumer. Trade liberalisation is the removal or reduction of restrictions or barriers to the free exchange of goods between nations.

16 A drop in the price of oil.

Transporting greater quantities of products at once, e.g. using larger shipping containers.

$$\begin{aligned}
 \text{17 \% difference} &= \frac{\text{immigration EU 2019} - \text{immigration EU 2018}}{\text{immigration EU 2018}} \times 100 \text{ (1)} \\
 &= \frac{49 - 75 \text{ (2)}}{75 \text{ (3)}} \times 100 \\
 &= -34.67\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between immigration in 2018 and 2019.

(3) AO2: 1 mark for correctly calculating immigration in 2018.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

18 Uncertainty over Brexit

19 Amazon is able to expand into markets where traditional retailers find it difficult to operate, e.g. the Canadian Arctic territory of Nunavut, where locally sold products are up to 14 times more expensive than those purchased through Amazon. As a consequence, Amazon is still able to make profitable sales in remote markets and enhance its customer loyalty and reputation, leading to increased sales revenues. Amazon is also able to reduce the average unit costs of all its products due to the bulk transporting of products to large conurbations such as London. As a consequence, Amazon can offer ever more competitive delivery charges, e.g. offering free delivery for one annual payment of £79. Not only does this allow Amazon to make an overall profit from customers, even where individual deliveries are free under the scheme, but Amazon Prime also encourages subscribers to make more purchases of goods, creating increased customer loyalty and competitive advantage over other retailers, which still charge. This results in increased repeat purchases and increased sales revenue and profits.

20 Uber may be able to take advantage of much more competitive interest rates to obtain finance to expand into emerging markets such as India. For example, interest rates in the UK are currently at a historic low of 0.75%, meaning Uber could ask banks such as Barclays UK to finance Indian expansion at a much-reduced interest rate cost than Australia's, which in December 2019 was 4.32%. As a consequence, costs associated with Indian expansion would be lower, allowing Uber to repay the loan more quickly.

21 Indicative content:

- Globalisation is the process by which the world is becoming increasingly interconnected as a result of massively increased trade and cultural exchange.

Arguments for maximising profits due to increased globalisation:

- Trade liberalisation, e.g. free trade areas such as ASEAN, allow Dyson to sell its products with a lower tariff from a manufacturing base in Singapore.
- Increased investment flows allow Dyson to access capital to undertake investment in capital intensive manufacturing across stock markets such as the London or Singapore stock exchanges, allowing access to cheaper interest rates, reducing manufacturing costs in the growing Asian market.
- The UK may have shortages of skilled workers, whereas lucrative tax incentives and benefits offered by Singapore allow Dyson to access better skills for its high-tech factory, increasing overall productivity and efficiency.

Possible counterbalance:

- Singapore has significant cultural differences in its approach to business such as preferring tall hierarchies in manufacturing operations, increasing costs.
- Dyson may incur greater costs from exporting its products to other markets from Singapore due to a lack of free trade agreements with markets such as the USA and the EU, making manufacturing in Singapore a net disadvantage to its global competitiveness.

Potential judgement:

- As Dyson only sources 2–3% of its components and raw materials from Europe and the rest from Asia, basing its manufacturing in Asia appears to provide significant cost savings, e.g. transporting motors for the DCV10 from China to Singapore.
- With almost 75% growth in sales in Asia and a relatively saturated market in the EU, the trade-offs appear to be relatively minor.

22 A tariff is a tax or duty that raises the price of imported products. Quotas are quantitative (volume) limits on the level of imports allowed or a limit to the value of imports permitted into a country in a given time period.

23 A tariff wall is a tariff that is intended to stop imports of a good. External tariff walls aim to insulate domestic businesses from competition from foreign businesses.

$$\begin{aligned}
 \text{24 value of tariffs on EU car imports} &= \text{EU to US car imports} \times \text{percentage US tariff (1)} \\
 &= \$31\text{bn (2)} \times 2.5\% \text{ (3)} \\
 &= \$0.775\text{bn (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for calculating value of tariff on EU car imports.

(2) AO2: 1 mark for correctly calculating the total EU to US car imports.

(3) AO2: 1 mark for correctly calculating the percentage tariff on EU car imports.

(4) AO2: 1 mark for correctly calculating the tariffs on car imports.

Total: 4 marks

- 25** BMW can avoid the 2.5% tariff on each car it sells in the USA by basing production in the USA. As a consequence, BMW cars produced and sold in the USA are able to be sold at a more competitive price compared to US premium makes such as Lincolns and Teslas. As a result, US buyers may be more likely to purchase BMWs, increasing sales revenue and profits.
- 26** Chinese textile manufacturers may not be able to sell all their production of bras and dressing gowns that would normally be exported to the USA, resulting in potentially wasted stock. As a consequence, textile manufacturers may attempt to sell their excess stock in other markets such as Canada or Australia, potentially at a much reduced price. This could result in reduced profit margins. Quotas of 9.63 million tonnes of wheat per year may mean farmers in China have to sell their commodity on the open global market rather than making more lucrative exports to the USA. As a consequence, farmers may have an excess of wheat that they may attempt to dump on other markets, such as the UK. As a consequence, they are likely to have to sell the wheat at a much lower price, leading to lower sales revenue and little or no profit.
- 27** As there is currently tariff-free movement of Elveden crops such as corn across all EU states, the business has fewer costs to add to its products. As a consequence, it can remain more competitive against businesses in Spain also wishing to sell their corn to manufacturers of cereal, such as Kellogg's. Combined with the cost savings of being a larger farmer, this may allow Elveden a competitive advantage against smaller farmers in the EU.
- 28** See workbook.

Exam-style questions

- 1** AO1: 1 mark for one reason why British Steel has suffered increased losses, e.g.:

- UK tariffs on steel are not high enough to make British steel competitive.
- Chinese steel is significantly cheaper for manufacturers to buy than British steel.

AO2: 2 marks for two uses of context that answer the question, e.g.:

- Very high energy costs.
- Income has reduced from £60m in 2018 to £4m in 2019.

AO3: 1 mark for analysis, e.g.:

- Means that UK steel has higher fixed costs than Chinese steel.
- Therefore, to make a profit British Steel has to sell its product at an uncompetitive price, losing out on orders from customers in the EU.

$$\begin{aligned}
 \text{2 percentage difference} &= \frac{\text{UK price} - \text{Chinese price}}{\text{Chinese price}} \times 100 \text{ (1)} \\
 &= \frac{531 - 350 \text{ (2)}}{350 \text{ (3)}} \times 100 \\
 &= 51.71\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference in price.

(3) AO2: 1 mark for correctly calculating the Chinese price.

(4) AO2: 1 mark for correctly calculating the percentage difference in price.

Total: 4 marks

3 Indicative content:

- A takeover is the amalgamation of two businesses into one larger business.
- The dominant business normally purchases most or all of the other business's assets or shares.

Arguments for Jingye taking over British Steel:

- Specialisation due to British Steel's advanced metal production facilities, gaining Jingye a global competitive advantage.
- Able to produce steel which has no tariffs, e.g. the 200% tariffs on Chinese steel.
- Market development strategy allowing Jingye easier access to the UK market for its existing steel products.

Possible counterbalance:

- British Steel has a significant amount of overheads and uncompetitive areas of its business which may not compensate for the competitive advantage brought by advanced metal production.
- Unless Jingye can make the production of steel in the UK efficient, it will still be uncompetitive.

Potential judgement:

- Specialisation alone may not be sufficient to make Jingye's takeover of British Steel a long-term benefit, due to high overheads including its 4,000 employees.
- If Jingye can reduce costs and pass on economies of scale, in terms of raw materials, to its British Steel subsidiary in the longer term, costs could reduce sufficiently for the business to become much more profitable.

4 Indicative content:

- A depreciation in the currency used by an exporter makes its goods more competitive in the global market.

Benefits of a depreciation in the pound:

- British Steel's price of \$531 per metric tonne would be 15.7% cheaper in 2019, meaning it could increase its sales of global steel.

- The advanced steel metals would become even more competitive or British Steel could put up the price by as much as 15% without affecting its current level of demand.
- With the 74% tariffs imposed on Chinese steel imports, British Steel may be able to regain sales in the euro zone, assuming the pound has also depreciated against the euro.

Possible counterbalance:

- Raw materials to make steel may cost up to 15% more to import, losing any benefits of the depreciation in the selling price.
- British Steel's price per ton is 51.71% more expensive than Chinese steel, so a 15% depreciation in the pound may do little to increase its global competitiveness.

Potential judgement:

- The depreciation in the pound may allow British Steel to become more competitive in its price per ton in the global market.
- Other costs, e.g. wages and the price of energy used to create steel, are significantly higher than those of Chinese competitors, meaning sales are unlikely to increase sufficiently to improve the 2018 profits of £4m.

5 Indicative content:

- Foreign direct investment (FDI) flows are the transfer of funds by an MNC to purchase and acquire physical capital, e.g. factories and machines.
- Offshoring means a business getting work done in a different country.

FDI/offshoring to reduce costs — arguments for:

- Avoids the extra costs associated with Brexit.
- Tariffs will apply to car imports regardless of whether the factory is in the UK or India, and India is likely to be a market with significant market growth opportunities.
- India is likely to offer significant cost savings in terms of wages, power and raw material costs, which could allow Nissan to more than offset any tariffs it faces on selling its cars in the EU or the USA.

Investing in its UK car plan — arguments for:

- The Sunderland plant is already one of the most productive with new investment improving productivity further, reducing costs.
- The UK government has offered £80m of subsidies that reduce the cost of producing cars if invested wisely by Nissan, e.g. more capital investment and a reduction in the 7,000 workforce.
- The UK is the sixth largest market and continued production will avoid any tariffs imposed by the UK on Nissan imports — a reduction in costs.

Potential judgement:

- Manufacturers such as Ford are still investing significantly in the UK, suggesting manufacturing in the UK is sufficiently specialised to offer Nissan a competitive advantage in terms of skills and costs.
- Investment in an Indian factory would in the short term cost significantly more as Nissan would have to establish a new factory and train staff, which would mean a loss of its competitive advantage initially.

Possible recommendations:

- UK car sales appear to be suffering a contraction in 2019 and this may be a Europe-wide problem, leading to Nissan's UK plant being unable to sell all of its 440,000 cars, increasing costs due to the potential requirement for discounting.
- The EU market is now tariff-free due to the EU–Japan free trade deal, so production in the UK is less attractive than before this deal.
- India is an emerging market which Nissan would be well placed to sell to with car production based in that country.
- In the short term the UK factory could be made more cost effective with a longer-term strategy of offshoring to India to reduce costs and increase Nissan's global market share.

Market — The market for cars is competitive and suffering from a downward trend in 2019.

Objectives — Cost cutting could be achieved by more mechanisation in the UK.

Product — There is still significant demand for cars in the UK but there are significant uncertainties in the EU market.

Situation — The EU–Japan free trade deal means the Nissan plant loses its competitive advantage in terms of being tariff-free for Nissan, particularly with the uncertainty of Brexit.

4.2 Global markets and business expansion

Practice questions

- 1 See workbook.
- 2 It is able to achieve cost savings as the business it is outsourcing to is more productive and efficient.

The business can take advantage of lower costs from outsourcing to countries with low wage rates.
- 3 See workbook.
- 4 Very low labour costs

5 See workbook.

6 As the Chinese economy has grown, it now accounts for a significant number of wealthy individuals, e.g. having one in five of the world's billionaires. As this is a market that has not been exploited by luxury car markets, Rolls-Royce may be able to increase its sales and gain a competitive advantage in terms of customer loyalty, before others, e.g. Mercedes, move into the market. As a consequence, Rolls-Royce could increase its sales growth higher than the 43% increase in China in 2018.

7 Indicative content:

- Offshoring means a business getting work done in a different country.

Arguments for production continuing in Brazil:

- Pull factors such as being able to continue to make sales of the Beetle in an emerging market where the technology is still seen as competitive.
- Push factors such as the German/EU market is saturated with cars from Ford and Fiat.
- The Beetle may not be cost effective to build in the EU due to safety and environmental standards, which are not a barrier in Brazil.

Possible counterbalance:

- The costs of offshoring production to Brazil may be high due to the need to purchase factory equipment and train staff, leading to low profit margins.
- The investment needs to be balanced with the risk of Brazil's market developing more quickly in terms of new car technology, which may mean the Beetle makes little or no return on the investment.

8 GDP is the market value of all the goods and services produced in a country in a particular time period. Disposable income is household income after the deduction of taxes and the addition of benefits.

9 Levels of growth and disposable income.

How easy it is to set up a business.

$$\begin{aligned}
 10 \text{ percentage difference} &= \frac{\text{Hungary days to start business} - \text{Poland}}{\text{Poland days to start business}} \times 100 \text{ (1)} \\
 &= \frac{7 - 37 \text{ (2)}}{7 \text{ (3)}} \times 100 \\
 &= -428.57\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the Hungary and Poland days to start a business.

(3) AO2: 1 mark for correctly calculating the Poland days to start business.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

- 11** As it takes 428.57% longer to set up a business in Poland than in Hungary, choosing Hungary will allow Dacia to establish its showrooms much more quickly. As a consequence, Dacia's investment in building a showroom with space for displaying Dusters can be repaid much more quickly as sales can start within a shorter time, leading to lower levels of interest payable on loans.
- 12** As the Chinese government is keen to reduce pollution in cities, it may offer BP cash incentives to introduce electric charging points. As a consequence, the cost of installing the points will be lower, allowing BP to break even on its investment much more quickly. This may also encourage BP to expand its network more quickly in Beijing, leading to higher growth in this area of its business. As China's GDP growth has slowed significantly from 14.2% in 2007 to 2.3% in 2020, BP may find demand for electric vehicle charging is significantly lower than anticipated as there is a drop in demand for such vehicles. As a result, BP may not recoup its investment in charging points quickly, leading to investor dissatisfaction and a lower share price due to poorer returns than anticipated.
- 13** As air pollution in Indian cities is up to 10 times the WHO safe limit, air purifiers are likely to be in great demand. As a consequence, Blueair is likely to have a high level of demand for its products, as long as they are priced competitively. It can therefore increase its levels of production to satisfy increasing demand, leading to higher sales revenue and increased profits.
- 14** See workbook.
- 15** Infrastructure is the physical structures that are needed for a business to produce, move and sell goods, e.g. roads, internet and electricity supply. Natural resources are the materials in the ground, sea or air that a country has and that can be exploited by businesses.
- 16** The level of growth in disposable incomes.

The number of competitors in the market being entered.

$$\begin{aligned}
 \text{17 percentage difference} &= \frac{\text{Brazil 2014} - \text{Taiwan 2014}}{\text{Taiwan 2014}} \times 100 \text{ (1)} \\
 &= \frac{123.6 - 97.2 \text{ (2)}}{97.2 \text{ (3)}} \times 100 \\
 &= 27.16\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the Brazil and Taiwan manufacturing costs.

(3) AO2: 1 mark for correctly calculating the Taiwan manufacturing costs.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

- 18** As manufacturing costs in Taiwan are 27.16% cheaper than in Brazil, this may be a cheaper place to produce clothes, e.g. having low minimum wage rates. As a consequence, Primark may be able to pass on the savings to UK shoppers through cheaper prices for jeans and t-shirts, potentially gaining new customers from higher-priced competitors such as M&S.
- 19** Ford's manufacturing costs may reduce as an increase in supply of skilled workers to make its Ford Rangers may mean workers can be hired at a cheaper pay rate. As a consequence, unit cost per car produced is lower, allowing Ford to increase its profit margins and recoup its investment in its production facilities more quickly. Staff may also be more motivated on production lines due to having to beat off competition for the job, due to the increased number of skilled workers competing for each role. As a consequence, Ford may see an increase in productivity at its Irapuato transmission plant, further reducing unit costs of its cars and allowing Ford to gain a cost advantage compared to competitors such as Nissan.
- 20** BP may have first-mover advantage as Nigeria may be an untapped country in terms of oil exploration. As a consequence, BP may spend less money in finding the 22-billion-barrel oil reserves predicted to exist in Nigeria, meaning the costs of exploration may be cheaper than if there were a number of other oil companies competing. BP may therefore be able to provide a quicker and higher return on capital invested in Nigerian oil exploration, leading to higher profits.

21 Indicative content:

- Production is defined as the total amount of output produced in a time period.

Arguments for retained profits/possible effects/usefulness:

- The investment in Tesla's new factory in Shanghai will allow cheaper production costs and being able to discount its prices by up to 20%.
- Avoids paying import tariffs set by China, allowing cars to be about 2% cheaper for customers.
- Allows Tesla easier access to Asian markets such as Taiwan and South Korea.

Possible counterbalance:

- The new factory may not make the projected returns on the \$2bn cost of its investment due to slower economic growth in China.
- The US trade war with China may mean extra costs for Tesla or the potential for legislative blocks to technology transfers.

Potential judgement:

- Production in China allows Tesla to scale up its production levels at comparatively low unit costs, enabling it to become a true mass market seller of EVs.

- Risks of political and economic instability in China may be reduced by Tesla's push to use any underutilised production in other Asian markets.

22 A global merger is an agreement between two companies from different countries to join forces permanently. A joint venture is a separate business entity created by two or more parties, involving shared ownership, returns and risks.

23 See workbook.

$$\begin{aligned}
 \text{24 percentage difference} &= \frac{\text{AT\&T} - \text{Takeaway.com}}{\text{Takeaway.com}} \times 100 \text{ (1)} \\
 &= \frac{85 - 11 \text{ (2)}}{11 \text{ (3)}} \times 100 \\
 &= 672.73\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the AT&T and Takeaway.com takeovers.

(3) AO2: 1 mark for correctly calculating the Takeaway.com takeover.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

25 Entering new markets

26 Immediate access to the luxury car market.

27 Amazon will gain immediate market share in the \$700bn US grocery market by taking over Whole Foods. As a consequence, Amazon may be able to gain specialist knowledge and skills from the 450-store chain and use this to make its online grocery offering more effective. This may result in Amazon being able to create online grocery offerings that have a competitive advantage over competitors such as Walmart, encouraging customers to switch to Amazon and further increase market share and revenues. Amazon may also be able to offer unique features to the Whole Foods grocery business, such as its pilot program offering Prime members weekly discounts and an extra 10% off grocery sale items. As a result, Prime members may be lured to switching loyalties to the Whole Food supermarket experience due to the convenience and value for money it is now seen to offer. As a consequence, Whole Foods sales are projected to increase by approximately \$1bn due to its unique selling points, opening up a new area of growth for Amazon.

28 M&S is able to offer a delivery service immediately rather than having to make a significant investment in infrastructure, such as delivery vans and staff. As Ocado already has a successful record in online food deliveries, there is less chance that there will be problems or customers dissatisfied with the new service, allowing M&S to grow its market share in online deliveries more quickly. As a consequence, M&S may increase the sales revenue of its Gastropub range and profits from this high-growth method of grocery shopping.

29 Offshoring means a business getting work done in a different country. Product differentiation is where the global business aims to make a product more attractive by

contrasting its unique qualities in terms of price, quality or service with other competing products.

30 Cost competitiveness means the differences in unit costs between competitors. The key to competitive advantage is to ensure unit costs are lower than those of competitors, achieving cost leadership.

$$\begin{aligned}
 \text{31 price of Chinese steel in £s} &= \text{price of Chinese steel in \$s} \times \text{US\$/£ exchange rate (1)} \\
 &= 438 (2) \times 0.80 (3) \\
 &= \text{£384 (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for exchange rates.

(2) AO2: 1 mark for correctly calculating the selling price.

(3) AO2: 1 mark for correctly calculating the exchange rate in £s.

(4) AO2: 1 mark for correctly calculating the selling price in £s.

Total: 4 marks

32 As a main raw material to make JLR's Land Rover is steel, by basing production in China it is able to cut costs by \$191 per ton compared to US steel prices. As a consequence, unit costs of each Evoque made are lower, allowing exports to the USA to be more competitively priced than US-manufactured rivals such as Jeep. This may encourage US customers to switch brands, increasing JLR's market share in the USA.

33 Johnnie Walker may be able to gain an increase in sales as customers are likely to value so-called authentic whisky, sourced from Mortlach distillery since 1923. As a consequence, US buyers may prefer to purchase Johnnie Walker rather than cheaper whiskies from Japan, resulting in an increase in market share and sales. Johnnie Walker may also benefit from a product that is perceived as a higher quality than that of competitors, allowing it to raise prices with little effect on US demand. As a result of having a brand that is more price inelastic Johnnie Walker may be able to make higher profit margins on each bottle sold while maintaining customer loyalty and repeat purchases.

34 As the Indian workforce are both English-speaking and specialised in IT skills, Vodafone can outsource call centres and broadband technical support to India and gain from the much lower costs of skilled labour. As a consequence, customers are likely to be more satisfied with the level of expertise offered by better-trained staff, increasing repeat purchases of broadband and mobile phone services.

35 Indicative content:

- A competitive advantage is a benefit gained over competitors by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justify higher prices.

Arguments for offshoring production to Brazil:

- Cost leadership due to the lower production costs of making JCB diggers in an emerging economy.

- Lower costs, e.g. transport to South American markets.
- Avoids tariffs of up to 35% on JCB diggers imported into the Brazilian market.

Possible counterbalance:

- Higher costs from having to train workers.
- Poor legal protection for patented technology in an emerging market for JCB's innovative machines such as all-electric mini diggers.

Potential judgement:

- JCB may see moving some of its production to Brazil as a way of lowering unit costs and benefiting from cheaper raw materials to which Brazil has access, e.g. iron ore.
- In the short term the returns on producing in Brazil may be low because of the need to gain a skilled workforce, but in the longer term the site may act as a gateway to free trade within Mercosur, increasing sales growth in markets that are likely to be less saturated than Europe.

Exam-style questions

- 1 One reason why Tencent has decided to undertake a joint venture with Lego is that it will gain access to expertise without needing to hire new staff. (1) Lego has 80 years' experience of creating building bricks for children (2) which can be combined with Tencent's knowledge of creating internet games. (3) As a consequence, the joint social network Lego and Tencent are launching in China is much more likely to encourage parents to pay the 88 yuan per month subscription, leading to market growth that may offer a competitive advantage over Mattel and Alibaba. Tencent's joint venture should offer the USP to make the children's social network the market leader, increasing its stock market value from its current position of \$537bn. (4)

(1) AO1: 1 mark for giving a reason why Tencent has decided to undertake a joint venture with Lego.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3: 1 mark for briefly explaining a positive consequence of Tencent undertaking a joint venture with Lego.

Total: 4 marks

- 2 subscription value in kroner = $\frac{\text{subscription value in yuan per month (1)}}{\text{Krone exchange rate}}$
- = $\frac{176,000,000 (2)}{1.33 (3)}$
- = 132,330,827.07 kroner (4)

(1) AO1 = 1 mark for correctly stating the formula.

(2) AO2 = 1 mark for correctly showing the figures required to perform the calculation.

(3) AO2 = 1 mark for correctly showing the figures required to perform the calculation.

(4) AO2 = 1 mark for calculating the correct selling price in Danish kroner.

Total: 4 marks

- 3** One pull factor that may have influenced Lego in expanding into the Chinese market is the 'upsurge in demand for its bricks in developing markets'. (1) The Chinese market is likely to have an increasing number of 5–9-year-old children whose parents are enjoying higher levels of disposable income. (3) As a result, Lego can gain significant market growth from its current 3% of the Chinese market by being able to promote products that are linked to famous global brands such as Star Wars, giving Lego a USP over toys from Mattel. However, selling its toys in China may risk other Chinese businesses selling similar or counterfeited products at much cheaper prices, due to China's poor record of protecting brands. As a consequence, Chinese consumers may prefer to buy imitation products that are significantly cheaper, meaning that Lego not only gains little in sales but also loses the competitive advantage gained from its investment in innovative Lego bricks. This could reduce the revenue made from the Chinese market, which rose by 40% in 2015. (5)

Another pull factor that may have influenced Lego is the comparatively cheap cost of producing its bricks in China. (2) According to Extract D, Denmark's average income is \$57,470, which is likely to be significantly greater than that of Chinese workers. By producing Lego at the Chinese factory, the business can take advantage of significantly lower labour costs compared to a factory with 1,200 workers in Denmark. (4) As a consequence, unit costs can be kept very low together with Lego being able to avoid paying any tariffs on exporting bricks to China. This means that with much lower costs Lego can offer its toys at much lower prices to consumers, allowing it to undercut the competition such as Mattel, increasing its sales revenue from 3% in 2018. (6) In the longer term this could act as an effective barrier to entry to other toy manufacturers, allowing Lego to become the dominant manufacturer in China. However, Mattel and other western toy manufacturers are also likely to have spotted the potential to grow their sales in the verdant Chinese market. They may have also invested heavily in producing their toys in China, meaning that Lego may lose any cost advantages gained from its investment in China. Lego may therefore be unable to gain market growth simply from offering toys at a low price as competitors are likely to follow suit. Unless Lego can use non-price strategies to create a USP, it risks losing market share to Mattel, reversing its 40% growth in revenues. (7)

(1) (2) Knowledge and understanding are shown through a pull factor that influenced Lego to expand into the Chinese market.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of pull factors that influenced Lego to expand into the Chinese market.

(7) An evaluation of competing arguments with context is used to support a judgement as to Lego's decision to be influenced by pull factors to expand into the Chinese market.

Total: 10 marks (Level 4 response)

- 4 One benefit of Lego's decision to manufacture in China is that it can avoid any tariffs that China may have imposed on importing of Lego bricks into the market. (1) If other western manufacturers such as Mattel (3) have not based their manufacturing in China, this immediately gives Lego an effective barrier to them entering the growing Chinese market. Together with Lego's significantly lower unit cost base, due to the 1,200 workers being paid much lower wage rates than western workers, unit costs of Lego may be much lower than Mattel's toys. This may mean that Lego can price its products much lower than Mattel's, increasing sales growth from the 4% increase in 2018. With lower costs the profit margins on each Lego set sold may mean Lego is able to make increased profits on the revenues of \$36.4bn, allowing for more retained profits to reinvest into other developing markets, such as South America. (5)

However, Lego may have been able to gain bigger profits by establishing its factory in another emerging market such as South America. (2) Brazil is said to be the 'largest emerging economy' in the region and is part of the free trade area, Mercosur. Lego could have taken advantage of Brazil's low average income of \$15,800 (4) to build a factory with lower costs than China but with the added benefit of being able to sell tariff-free bricks not only in Brazil but also across Mercosur free trade area countries such as Argentina. As a consequence, Lego could have been the first western toy maker to enter the Mercosur market, allowing it to gain a significant first-mover advantage over competitors such as Mattel. This may have allowed Lego much greater sales revenue than the \$36.4bn in 2018 while still being able to take advantage of economies of scale from the bulk buying of raw materials to make the bricks. With even lower unit costs and higher sales revenue, profits could have been maximised further than those gained from manufacturing in China. (6)

With Lego's traditional American and European markets becoming increasingly competitive, it is clear that the business has found it increasingly difficult to maximise its profits due to having to adopt a competitive pricing strategy against other toy makers such as Mattel. With factories in the Czech Republic and Hungary, it is clear that Lego has been keen to reduce costs by moving production to economies with low labour costs. However, it is also likely that competitors will have adopted a similar strategy and hence Lego has looked for emerging markets. The choice between manufacturing in China or Brazil may have been based on opportunity cost. Both manufacturing bases are likely to have strengths and weaknesses, though being first to manufacture and gain a foothold in the market may have been the key to Lego's ability to maximise its profits through gaining a large market share and thus maximising its economies of scale and profit margins. If a factory in Brazil could have achieved a greater than 40% increase in revenue, this might have been the better choice for maximising sales, due to its membership of a tariff-free area with four countries rather than just one. (7)

(1) (2) Knowledge and understanding of the benefits/disadvantages of Lego's decision to manufacture in China in maximising its profits.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Lego's decision to manufacture in China in maximising its profits.

(7) An evaluation of competing arguments with context is used to support a judgement about Lego's decision to manufacture in China in order to maximise profits.

- 5 Offshoring may be better than outsourcing to reduce Lego's costs as this allows the business to take advantage of lower labour costs and favourable economic conditions in another country. (1) For example, the average income in Brazil is \$15,800 compared to a worker's average wage in Denmark of \$57,470. (3) Moving production from Danish factories to Latvia would see a more than 50% reduction in average labour costs while Lego would still continue to benefit from producing goods in the free trade area of the European Union, which is likely to be one of Lego's biggest markets. In contrast with outsourcing Lego would still be in control of the factory and therefore able to ensure the bricks are still manufactured to the same high quality. (2) Not only does Lego continue to have direct control over production under offshoring, but also it can specialise its production process across many centres of production. For example, it could undertake work in a Brazilian factory that requires less skill, e.g. making basic bricks. As 25% of Brazil's under-25s are unemployed and may have poor educational standards, Lego can take advantage of these factors and possible access to much cheaper raw materials to make basic products. (4) In Latvia, where 86% of the workforce have secondary education or above, Lego can produce much more sophisticated toys but still benefit from much lower labour costs. As Lego still controls all its offshored factories, the business may be able to significantly reduce its overall cost base globally, allowing it to operate pricing strategies such as penetration pricing. (5) Offshoring could therefore give Lego a competitive edge in America and Europe, thus halting its fall in toy sales, regaining market share and increasing sales by more than the 4% achieved in 2018. (6)

However, unlike with outsourcing, where a supplier would have responsibility for bearing the costs of its own factories, Lego would need to invest significantly in creating each offshored factory, such as the \$354m spent in 2013/14. Simply offshoring production of Lego bricks to the cheapest countries means the Danish business would shoulder all the risks associated with moving from established manufacturing plants. For example, offshoring to Latvia means that Lego would be trying to start a business venture in a country ranked 24th and Brazil appears to carry even greater risks, being ranked 140th in ease of starting a business. Producing Lego bricks would require a consistent electricity supply, but Brazil and Latvia are also ranked lower than Denmark in accessing electricity. Therefore, if Lego experiences difficulties both in setting up and running factories in lower-cost economies, this may mean higher rather than lower costs of production. (7) Unit costs for bricks may therefore increase, meaning Lego may have to sell its products with very low profit margins or at a higher cost to consumers. This may result in offshoring making Lego unable to remain competitive in America and Europe, resulting in a further fall in toy sales and unsold stock. This may lead to increasing costs as staff and other contracts at each factory will still have to be paid, regardless of the number of products sold. Offshoring could, in the long term, result in costs outstripping the \$36.4bn revenues achieved in 2018, resulting in losses for Lego. (8)

As it has factories in the Czech Republic and Hungary, it is clear that Lego has been keen to reduce its costs by moving production to economies with low labour costs. However, it is also likely that competitors will have adopted a similar strategy and hence Lego has looked for emerging markets. Choosing between manufacturing in China instead of Brazil may have been an opportunity cost. Both manufacturing bases are likely to have strengths and weaknesses, though being first to manufacture and gain a foothold in the market may have been the key to Lego's ability to maximise its profits through gaining a large market share and thus maximising its economies of scale and profit margins. If a factory in Brazil could achieve a greater than 40% increase in revenue then this might have been the better

choice for maximising sales, due to its membership of a tariff-free area with four countries rather than just one.

Offshoring may still be the best option as long as Lego ensures production moves to countries that carry the least risks but the greatest benefits in terms of costs. It may be that Lego prefers to keep its 80 years' worth of product knowledge and expertise within the business, which outsourcing may not allow. However, outsourcing may be the best choice for less sensitive areas of the business or areas, such as the development of digital media, in which Lego might not have expertise. (9) Outsourcing could be used in a similar way to the joint venture with Tencent, experts in the IT field. Offshoring relies on Lego having the skills and resources to create an element of a business in a new market. According to Extract B, Lego has 'struggled' with digital products so it may be that to reduce costs and harness expertise Lego would be better to use outsourcing for this type of business situation. Lego will therefore bear fewer risks as a supplier such as Tencent would pay for the costs of staff and production. Lego would pay a contracted rate for creating the product, such as Lego online games, meaning it could reduce costs by going with the IT supplier offering the best value for money and expertise. By combining outsourcing and offshoring, Lego is able to strike the most effective balance between global risks and cost savings. (10)

(1) (2) Knowledge and understanding are shown through a benefit of reducing costs through offshoring or outsourcing.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of each option in reducing costs, using context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation as to which option is more likely to reduce costs for Lego.

(10) The conclusion looks at the situation in which Lego finds itself, reflecting a recommendation that takes into account the risks of using just one of the two options.

Total: 20 marks (Level 4 response)

4.3 Global marketing

Practice questions

- 1 Globalisation is where a business in a global market customises a product or service to the locality and/or culture so that it is more likely to sell products. Global brands use exactly the same global marketing strategies in each market they operate in, which has the advantage of economies of scale across global markets.
- 2 See workbook.
- 3 The ability to reduce costs by offering the same promotional strategies across markets.

Whether the product has the same market orientation across all the countries it intends to operate in, e.g. Rolls-Royce satisfies a need for luxury cars.

4 See workbook.

$$\begin{aligned}
 5 \text{ percentage difference} &= \frac{\text{Nike} - \text{Under Armour}}{\text{Under Armour}} \times 100 \text{ (1)} \\
 &= \frac{49.96 - 2.59 \text{ (2)}}{2.59 \text{ (3)}} \times 100 \\
 &= 1,828.96\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the Nike and Under Armour brand values.

(3) AO2: 1 mark for correctly calculating the Under Armour brand value.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

6 Cultural and lifestyle factors

7 See workbook.

8 As Bentley is considered to be a global brand, it can take advantage of economies of scale in producing the same promotional activities, e.g. celebrity endorsements by David Beckham, across its markets. As David Beckham is well known in Asia, the USA and the UK, his endorsement of the Bentley Continental convertible can be used across all global markets, reducing the unit costs of promotional activities for the brand. This could result in higher net profit margins and increased retained profits for expansion into emerging markets.

9 See workbook.

10 Social factors are the issues that affect customers' lifestyles, e.g. wealth or educational level. Cultural factors are customers' beliefs and moral values, e.g. that people who work hard deserve financial rewards.

11 Subcultures are groups of people who share a common interest, e.g. supporters of Manchester United FC.

$$\begin{aligned}
 12 \text{ number of cars sold} &= \frac{\text{number of Tesla cars}}{\text{Tesla \% market share}} \times \text{VW \% market share} \text{ (1)} \\
 &= \frac{499,550 \text{ (2)} \times 6 \text{ (3)}}{18} \\
 &= 166,517 \text{ cars (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for number of cars sold.

(2) AO2: 1 mark for correctly calculating the number of Tesla cars sold.

(3) AO2: 1 mark for correctly calculating the VW percentage share of the market.

(4) AO2: 1 mark for correctly calculating the number of cars VW sold.

Total: 4 marks

13 Tesla's products appear to have uniform appeal across different cultures and markets, so it is able to take advantage of economies of scale and operate as a global brand. As a consequence, Tesla can bulk purchase raw materials for its Model 3, reducing unit costs and passing this on to customers in different markets, thus maintaining its 18% market share.

14 Cultural diversity means football is a relatively small part of the market.

15 Louis Vuitton is able to offer the same products across its global markets, meaning it can offshore production in the economy with the lowest costs and also benefit from economies of scale when bulk buying raw materials, such as LV-labelled leather for its monogrammed bags. As a consequence, unit costs can be kept low compared to the selling price of its Locky bag of £1,210, as even in culturally diverse markets such as Japan or Saudi Arabia the niche market bags have universal demand. As Louis Vuitton's products are aspirational and uncontroversial to its global market's different cultures, it is able to benefit from savings in having the same layouts of its stores. As a result, this further allows for the bulk purchasing of materials such as monogrammed wallpaper for its 460 stores worldwide, allowing it to offer a premium shopping experience while benefiting from comparatively low costs of set-up.

16 Rolex can improve customer loyalty by reinforcing its brand image by using the same advertising campaigns globally, e.g. Daniel Craig wearing the Submariner in TV advertising. As the James Bond franchise is globally popular, this is likely to reinforce the quality, reliability and aspirational qualities of Rolex watches, leading to enhanced brand loyalty and repeat purchases.

17 Indicative content:

- Globalisation is where a business in a global market customises a product or service to the locality and/or culture so that it is more likely to sell products.

Arguments for globalisation of Coca-Cola products:

- To ensure its products penetrate local markets by taking into account cultural factors, e.g. Coca-Cola Blak launched in France to take advantage of demand for coffee drinks.
- To take market share from local drinks producers, e.g. the sale of Citra, sold in the Indian market to compete with local manufacturers.
- To act as a way of moving local soft drinks tastes towards more global drinks offered by Coca-Cola.

Possible counterbalance:

- Increases the costs of launching and maintaining its products due to higher unit costs resulting from comparatively low levels of production.
- Local customers may still prefer authentic domestic offerings, e.g. the failure of Dasani bottled water in the UK.

Exam-style questions

- 1 One reason why global brands are in large demand by Indian consumers is the increase in consumers with higher disposable income. (1) For example, as disposable income for 90 million Indian consumers has risen seven-fold (2) and they also have increasing access to the internet, consumers are likely to be aware of substitute premium goods such as Louis Vuitton products. (3) Wealthy Indian consumers are therefore more likely to purchase substitute global brands with their increased incomes, as they perceive these as being of better quality than local products, thus enhancing their status and westernisation of their culture. (4)

(1) AO1: 1 mark for giving a reason why global brands are in large demand in India.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3 1 mark for briefly explaining a positive consequence for India's consumers of having a large demand for global brands.

Total: 4 marks

- 2 percentage change =
$$\frac{\text{new sales revenue (2018)} - \text{old sales revenue (2010)}}{\text{old sales revenue}} \times 100 \text{ (1)}$$
- $$= \frac{(3\% \text{ of } \$15.4\text{bn}) - (0.5\% \text{ of } \$11.2\text{bn}) \text{ (2)}}{\$56,000,000 \text{ (3)}} \times 100$$
- $$= \frac{\$462,000,000 - \$56,000,000 \text{ (2)}}{\$56,000,000 \text{ (3)}} \times 100$$
- $$= 825\% \text{ (4)}$$

(1) AO1: 1 mark for correctly showing the formula for percentage change.

(2) AO2: 1 mark for correctly calculating the change in sales.

(3) AO2: 1 mark for correctly calculating the original sales.

(4) AO2: 1 mark for correctly calculating the percentage change in sales.

Total: 4 marks

- 3 One reason why focusing on the product element of the marketing mix may help to increase SharkNinja's (SN's) market share is that it can design products that more effectively meet the needs of its target audience. (1) Investing £150m over 3 years and employing 100 UK engineers means that SN can look at the function element of the design mix to create a vacuum cleaner that is sufficiently innovative to meet the needs of

customers. (3) By adding value to the product, e.g. creating greater suction without increasing manufacturing costs, SN is more likely to gain market share from other innovative competitors such as Dyson. As a consequence, it may be able to increase its market share both in Europe and globally, from the current level of 3%. (4) By being market orientated the £150m is more likely to increase sales and market share at a quicker rate, providing a quick return on the investment and enabling SN to reinvest in product innovation, thus creating a competitive advantage. (5)

However, with market leaders such as Dyson being already established with significant research and development facilities in Europe and being able to spend a significantly greater amount per year (£416m) on innovation, SN may find that solely focusing on product development may not be sufficient to increase its market share in Europe or globally. (2) SN may also find itself becoming product rather than market orientated, focusing too much on the quality and innovation of its vacuum cleaners rather than meeting the needs of customers. The risk is that SN's products may be unable to meet customer expectations in terms of either features or price compared to those on offer from other competitors. As a result of focusing simply on product, SN's target of achieving £500m sales in Europe may stall due to products that overlook the costs of innovation, meaning vacuum cleaners may be overpriced compared to better-known brands. This could result in a failure to meet its target and increase its market share. (6)

Looking at SN's rise from 0.5% global market share in 2010 to 3% in 2018, it is likely that SN has maintained a more balanced approach to the marketing mix, offering products that meet the needs and price expectations of customers. As a new entrant to the European market, SN's product is important to increasing market share. However, so are the other three elements of the marketing mix, such as perhaps adopting a penetration pricing strategy to kick-start sales among otherwise loyal Dyson customers. (7)

(1) (2) Thorough knowledge and understanding are shown through a benefit/disadvantage to SharkNinja of focusing on the product element of the marketing mix.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results for SharkNinja of focusing on the product element of the marketing mix, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement as to whether focusing on the product element of the marketing mix will increase market share for SharkNinja.

Total: 10 marks (Level 4 response)

- 4 One reason why cultural and social factors may be important to Dyson's expansion into the Chinese market is that customers may have different values and tastes that could affect the purchasing of vacuum cleaners. (1) For example, Chinese customers may need to be educated regarding Dyson's innovative vacuum cleaner designs, as they may be loyal to more traditional plug-in designs. (3) As a consequence, the product Dyson offers may need to focus on designs that can be plugged into wall sockets rather than the battery-operated models offered in Europe. Dyson may need to spend a significant sum on advertising these products to Chinese customers so that they understand the benefits of

the product, e.g. more powerful suction and not having to empty a bag, the promotion element of the marketing mix. (4) As a consequence, Dyson may experience much slower initial growth in its sales and market share in China, with the risk of not making any profits until promotion has sufficiently opened up Chinese traditional values to the prospect of buying a much more innovative product. However, if Chinese customers remain loyal to traditional designs of vacuum cleaners and local manufacturers, Dyson may find that in the short term it ends up making a loss due to poorer than forecast sales and low sales revenue, together with high costs. (5)

Another reason why cultural and social factors may impact on Dyson's expansion into the Chinese market is the potential barrier of inappropriate or inaccurate translations of its product name or features. (2) For example, it may be that Dyson translated into Mandarin becomes a phrase that is a swear word or something that customers find displeasing or confusing. This happened when Coca-Cola mistakenly chose a Chinese translation that sounded like 'Coca-Cola' but in fact translated as 'bite wax tadpole'. If this were to happen to Dyson in terms of its product name or to its promotional messages, Chinese customers might be put off purchasing Dyson vacuum cleaners as they either do not understand how the product meets their needs or find it insulting. As a consequence, Dyson's strong growth in China, which helped to increase revenues by 300% in 2017, would be likely to decrease significantly. Dyson might have to operate a penetration pricing strategy to overcome the social and cultural issue in the short term. This might mean lower profit margins while Dyson resolves problems such as changing the promotional adverts to locally acceptable translations that enhance customer perceptions of the bagless vacuum cleaner. However, as Dyson has achieved strong growth in China with the country accounting for half of its profits, it is likely that Dyson has already resolved any cultural social factors in promoting its products. For example, it may already have used experts in Mandarin to check its adverts in newspapers and on Chinese TV to ensure the adverts send the right message to promote the products. Therefore, investment in promotional material will encourage sales of Dyson's products, leading to higher market share and an increase in revenues from the £4.4bn achieved in 2017. (6)

It would appear that vacuum cleaners have already become a significant global product, with a market value of \$15.4bn. As the products appear to be easily transferred and promoted in new and emerging markets, Dyson may not need to make many changes to its product in order to be successful in further expansion in China. Dyson's USP of no loss of suction and bagless cleaning appear to have gained strong market share not just in China but globally, the company being ranked third in the vacuum cleaner market. However, cultural and social factors are likely to be a constant risk to the continued success of products in China, particularly in terms of language barriers and the constantly changing social trends and wealth of customers. Investment in promotion needs to be maintained in order to reduce the risk of social and cultural issues having an adverse impact on the Dyson brand, and to maintain its continued growth. (7)

(1) (2) Knowledge and understanding of the importance of cultural and social factors for Dyson's expansion in the Chinese market.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of cultural and social factors on Dyson's expansion in the Chinese market.

(7) An evaluation of competing arguments with context is used to support a judgement about the importance of cultural and social factors for Dyson's expansion in the Chinese market.

Total: 12 marks (Level 4 response)

- 5** Dyson may be better continuing to invest further in its current Asian markets, known by Ansoff's matrix as market penetration, because Extract C states the business has had strong growth since 2017. (1) As Dyson may have already spent considerable money on investing in the marketing mix in China and Malaysia, such as tailoring the vacuum cleaners to the aesthetic expectations of local culture and tastes, this can be more quickly recouped than having to reinvest significant funds into development of a new marketing mix for India. (3) As a consequence, Dyson's 300% increase in revenues in Asia can act as a springboard to convert new customers into repeat loyal customers without having to make as much investment in marketing. This may mean that Dyson can create further barriers to entry in the Asian market through its USP of battery-powered vacuum cleaners, giving the business the ability to increase its market share further. (4) As this can be achieved with lower costs, market penetration will add to market growth, adding further to the £4.4bn revenue of the business in 2018, with the Asian revenue offering greater profit margins due to the lower cost base of possibly reduced market research expenditure. (6) However, continuing with a strategy of simply trying to ensure dominance in the Asian market means Dyson may run the risk of being more exposed to fluctuations in external factors in these markets. For example, with the current trade war between the USA and China, GDP growth is likely to be less than in previous years, risking consumer spending reductions on premium products such as Dyson vacuum cleaners. As Dyson generates half of its profits from the Asian market, a market penetration strategy means that such a fall in consumer spending may see Chinese customers switching to substitute vacuum cleaners with a resulting drop in market share. (7)

With expansion into the Indian market, Dyson is able to spread the risks of different market turbulence further across its global operations, offering some insulation to countries where the economic cycle or other external forces, such as US trade tariffs, are a factor. With a so-called market development approach, Dyson can apply a similar formula to that successfully used in its other Asian markets, to its marketing strategy in India. According to Extract A, GDP in India grew by 7.5% in 2018 and the country was currently ranked as the highest-performing world economy in 2019. It has a burgeoning consumer base with a seven-fold rise to 90 million of those Indian households that are classed as having higher disposable income. According to Extract D, spending on floor cleaners such as vacuum cleaners has shown a slight spending increase. Dyson's air conditioners and purifiers may be in even greater demand as they show high spending trends for Indian consumers' disposable income. On top of this 30% of Indian consumers appear willing to pay a premium for UK goods such as Dyson's, which are perceived to be of better quality than those supplied by local providers. (8)

With such market potential Dyson can aim for first-mover advantage by launching its cleaners and air purifiers in the Indian market. (2) It may be able to make significant cost savings by launching an India-based e-retail operation as this is a method of distribution which is predicted to grow to \$130bn by 2025. (5) Although market development will require much greater initial investment in localising product design and promotional activities, to ensure the brand meets the needs and expectations of Indian consumers, there are 90 million high-income citizens who are potential customers for Dyson's premium

products. The company's potential to increase its market share in India, and therefore its global market share, may be much higher than simply concentrating on market penetration in its current Asian markets. By being an early entrant to the Indian market, Dyson can build up customer loyalty and brand acceptance and use this as a barrier to other multinational companies such as SharkNinja gaining market share. In the medium to long term, Dyson's approach should not only increase its revenues and profits but significantly increase its global market share from the 7% currently attained.

However, in order for market penetration to be successful Dyson may have to invest significant amounts in its marketing mix and strategy. For example, products may need some level of localisation, e.g. altering instructions to use Indian languages, and Dyson may have to operate a penetration pricing strategy, setting prices lower than in other markets. This may be necessary for Dyson to encourage customers to switch from local brands. As a consequence, increasing market share may take a significant amount of time and expenditure, eating into Dyson's profits of £1.1bn. There are also many more risks to developing its products in the new market, such as badly received promotional campaigns and the extra costs of transporting its vacuum cleaners to the Indian market.

Dyson needs to take into account many global factors other than just using a market penetration or development approach when deciding whether to consolidate the Asian market or develop into the Indian market. There are political issues to consider, such as Trump's trade war issues with China and India's escalation of tensions with its neighbour Pakistan. Ansoff's matrix does not allow for these issues to be considered using the strategic marketing tool. (9) However, Dyson's products appear to be in high demand across a range of markets with varied cultural and social differences. Dyson also appears to be spreading the risks associated with making only a limited number of products by investing in research and development to the tune of £8m per week, clearly a diversification strategy, e.g. its electric car program. As Dyson is the third largest seller of vacuum cleaners globally, it should have sufficient resources and expertise to continue its global growth by simultaneously using both a market penetration strategy in its current Asian markets and a market development approach in India. By using its £1.1bn profits to undertake both strategies, Dyson will significantly reduce the risks associated with both approaches. Dyson will also be less susceptible to external economic and other issues negatively impacting on its medium- to long-term growth in market share. This way Dyson has the best chance to jump from third to first in the vacuum cleaner market. (10)

(1) (2) Knowledge and understanding are shown through a benefit of increasing its global market share either through further investment in current Asian markets or investing in the new market of India.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of each option in increasing global market share, using context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation as to which option is the likeliest to increase global market share for Dyson.

(10) The conclusion looks at the situation in which Dyson finds itself, with a recommendation that takes into account the risks of using just one of the two options.

Total: 20 marks (Level 4 response)

4.4 Global industries and companies (multinational corporations)

Practice questions

- 1 Job creation is a benefit of multinational companies expanding into new markets, helping to improve local standards of living. Skills transfer is the passing of key skills and technical know-how from an MNC to local workers and the host country.
- 2 See workbook.
- 3 Improve the skills and training of the local workforce.
Create jobs.
- 4 See workbook.
- 5 As China's growth level has fallen from 14.2% in 2007 to 6.6% in 2018, the amount of products exported to economies such as the USA has been more than offset by a greater demand for imported goods, such as Land Rover Evoques. As a consequence, there has been a reduction of \$188.72bn in China's balance of payments surplus between 2010 and 2018, though this still means China makes more from its exports than it spends on imports.
- 6 The MNC offers better pay and provides more competitive products.
- 7 Investment in technology start-ups may increase the level of innovative technology that UK businesses are able to develop, such as the Uniti three-seater electric vehicle. As a consequence, such developments may create new jobs and skills for UK workers, increasing the level of disposable income across the economy and ultimately increasing GDP per capita. Investment in technology may also allow the UK to specialise in new technologies such as the application of graphene in the development of solid-state battery technology. As a result, UK businesses may gain a competitive advantage in creating batteries for electric vehicles that are more efficient and cheaper to produce, increasing the levels of UK exports and decreasing the balance of payments deficit.
- 8 See workbook.

9 Indicative content:

- Offshoring means a business getting work done in a different country.

Arguments for retained profits/possible effects/usefulness:

- Increase employment levels and GDP per capita higher than the 2020 level of \$2,188.
- Improve Ghana's productivity and create skills transfer.

- Improve the local infrastructure which could help increase the number of domestic businesses, e.g. roads and electricity.

Possible counterbalance:

- Reduce the number of skilled workers available to local businesses, causing business failure.
- Ford may bring its own engineers and focus on capital-intensive production of Ford Fiestas, resulting in few opportunities for the local economy to improve.

10 Misleading product labelling is an ethical issue that businesses need to consider, such as a supermarket's low-calorie ready meals actually having more salt and fat content than normal products. Inappropriate promotional activities encourage customers to purchase products using questionable ethics, such as McDonald's 'supersize me' approach to selling fast food, where staff were instructed to ask the customer if they wanted to buy a bigger portion than ordered.

11 Lobbying is the act of attempting to influence business and government leaders to create legislation or conduct an activity that will help a particular organisation.

12 Environmental pressure groups opposed to plastic bag usage in Morrisons supermarkets could use bad publicity to force the business to switch to the use of sustainable paper bags. The highlighting of very low pay rates by the media might force M&S to introduce a higher rate of pay than the minimum wage, e.g. the 'real living wage' (£9.30 per hour in 2019).

$$\begin{aligned}
 \text{13 percentage difference} &= \frac{2019 \text{ emissions} - 2010 \text{ emissions}}{2010 \text{ emissions}} \times 100 \text{ (1)} \\
 &= \frac{2,700 - 1,393 \text{ (2)}}{1,393 \text{ (3)}} \times 100 \\
 &= 93.83\% \text{ (4)}
 \end{aligned}$$

(1) AO1: 1 mark for correctly showing the formula for percentage difference.

(2) AO2: 1 mark for correctly calculating the difference between the 2010 and 2019 Indian emissions.

(3) AO2: 1 mark for correctly calculating the 2010 emissions.

(4) AO2: 1 mark for correctly calculating the percentage difference.

Total: 4 marks

14 India's carbon emissions have increased by 93.83% since 2010 because of the increasing industrial output of the economy with average growth rates of GDP from 2010 to 2019 of 6.18%. As a consequence, India's factories have had increasing demands for energy, with 55% coming from coal, which causes a significant amount of carbon emissions.

15 Increased prices and reduced choice for consumers

- 16** Local fishermen in the Gulf suffered significant losses due to the Deep Water Horizon oil spill causing damage to fish stock. As a consequence, 9,315 fishing jobs were lost as fishermen were unable to catch shrimp, lobster and other fish. Standards of employee health and safety on BP oil rigs have been significantly improved, with over 100,000 staff trained on a bespoke 4-hour course in how to deal with the risks of fires. As a result, staff may feel much safer working on BP oil rigs, increasing their levels of motivation and satisfaction with their jobs.
- 17** The campaign group Forest was able to run a campaign and petition in the UK that led to the government making it a legal requirement that British American Tobacco's cigarette packaging had to be plain. Evidence suggests that plain packaging may discourage up to 200,000 children from smoking each year. As a consequence of this type of pressure on BAT, it has announced job cuts of 2,300 and investment in alternatives such as vaping, which may be less harmful to those who habitually smoke cigarettes.
- 18** See workbook.

Exam-style questions

- 1** One benefit of specialisation for Antofagasta is that it is able to benefit from economies of scale to try and minimize costs. (1) According the extract, Antofagasta has suffered a 24% reduction in the price paid for its copper in 2015, which means the amount of profit it makes has significantly reduced. (2) By being an MNC that specialises in copper mining, costs such as for extracting the copper on a very large scale will be reduced compared to competitors who have not specialised. As a consequence, Antofagasta may be able to price its copper more cheaply than other producers, helping to sell more and hopefully make up for the 24% (3) reduction in price through higher sales volumes. (4)

(1) AO1: 1 mark for giving a benefit of specialisation to Antofagasta.

(2) AO2: 1 mark for using an appropriate piece of context to answer the question.

(3) AO2: 1 mark for using an appropriate piece of context to answer the question.

(4) AO3: 1 mark for briefly explaining a positive consequence for Antofagasta of specialisation.

Total: 4 marks

- 2** unit cost of extracted copper = $1,800 + 900 + 100 + 100 = \text{CLP}2,900$ (1)

Antofagasta mark-up price = $2,900 + 324.8 = \text{CLP}3,224.8$ (2)

conversion from CLP price to UK £s = $\frac{3,224.8}{1,758.84}$ (3)

UK retail price = £1.83 per half kilo (4)

(1) AO1: 1 mark for correctly calculating the cost of extracted copper.

(2) AO2: 1 mark for correctly calculating the mark-up price.

(3) AO2: 1 mark for correctly calculating the exchange rate in UK £s.

(4) AO2: 1 mark for correctly calculating the retail price in UK £s.

Total: 4 marks

- 3 One negative impact Antofagasta could have on Chile is the environmental damage mining appears to be causing in the region. (1) According to Extract C, companies such as Antofagasta cause £1.4 trillion damage through pollution each year, and with the company's copper operations causing water shortages this is clearly a cost to the country, through workers falling ill and clean-up operations. (2) As a consequence, not only will the local population be unable to work, reversing some of the 21.1 million jobs MNCs have created, but this will also have a knock-on effect on the wealth of Chile. If many people are unable to work through ill health, they cannot pay taxes and the Chilean government cannot put money into education and health. (5)

However, Antofagasta seems to be trying to invest more for the benefit of Chile, with free healthcare for workers and their families, which may go some way to making up for its environmental damage. This will ensure workers are able to return to work quickly, maintaining their income and the tax the government is able to gain from it. Also, even though Antofagasta seems to have caused damage to the environment and Chile's local population, it is the ninth biggest producer of copper in the world with \$2.14 billion sales in 2019, (3) which means that Chile will be able to gain significant taxes to help pay for local services such as hospitals, more than offsetting the negative impacts.

Another negative impact on Chile may be the fact that Antofagasta has seen a 24% reduction in the price it gets for copper, which may mean the company decides to make workers redundant. (2) As it employs more than 19,000 workers in Chile, a large reduction in the workforce could have a negative impact on the country's GDP, as production will reduce. (4) A large reduction will also affect the profitability of local businesses that rely on mine workers, as they are unlikely to be able to afford the same standard of living when they have been made redundant. (6) However, Antofagasta appears to be spending more money in Chile on mining with a 50% stake in another mine, and this might offset the loss of jobs as the business appears to be expanding in other areas. This means that any redundancy may be small and therefore the effect on the economy will not be sufficient to cause a significant fall in living standards or local business activity. (7)

(1) (2) Thorough knowledge and understanding are shown of a negative impact of Antofagasta's operations.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Antofagasta's operations, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about the positive/negative impacts of Antofagasta's operations.

Total: 10 marks (Level 4 response)

- 4 One possible trade-off between ethical behaviour and profit for Antofagasta is the potential to cut back on environmental and community projects such as the \$20m housing project. (1) Such projects have the benefit of improving Antofagasta's reputation, but they clearly cost a significant amount of money, which reduces the corporation's ability to invest in new

machinery to ensure sales revenue expands sufficiently to reverse the 83% reduction in profits. (3) On the other hand, with a workforce of 19,200 staff, morale would clearly decline if workers felt this trade-off was not socially acceptable, possibly hitting the productivity levels of the mine and, as a result, possibly costing Antofagasta much more money than is spent on housing. (5)

Another possible trade-off between ethical behaviour and profit is the possibility of moving Antofagasta's headquarters from Chile to Ireland to save 50% tax. (2) This appears to be a method of transfer pricing, where two companies, (4) Antofagasta and the subsidiaries mentioned, would act like a supplier and customer in order to reduce the cost of corporation tax. Shareholders may be very pleased with this type of trade-off, as their dividend payments are likely to increase and this could also allow the corporation to have much more retained profit so as to purchase new machinery that increases productivity and reduces unit costs. (6)

However, the government of Chile and Antofagasta's customers may see this as unethical behaviour and the adverse publicity could cause customers to stop purchasing the company's copper and go to another supplier. In the longer term, the Chilean government may try and force tax payments from Antofagasta, leaving it with a large tax bill and a poor trade-off.

Antofagasta is already having problems with questionable ethical behaviour in Chile and with a reduction of 24% in the price of copper the corporation will have to weigh up very carefully whether short-term gains such as more profit might turn into significant losses through unethical behaviour. Certainly the effect on staff morale of cutting investment in the housing project is likely to impact on productivity and have the opposite effect to the short-term cost savings it may bring. As the corporation has other businesses as customers, other trade-offs such as tax bill reduction and moving production to Peru are less likely to have an adverse effect than if the company were a high-profile brand selling direct to customers. Trade-offs need to be carefully chosen to ensure the right balance between profits needed to survive and ethical behaviour to different stakeholders. (7)

(1) (2) Thorough knowledge and understanding are shown of possible types of trade-off between ethics and profits.

(3) (4) Application is shown through the use of appropriate context applied to the question.

(5) (6) Coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of Antofagasta's decision to trade off ethics for profits, using context-based quantitative and qualitative data for competing arguments.

(7) An evaluation of competing arguments with context is used to support a judgement about Antofagasta's decision to trade off ethics for profits.

Total: 12 marks (Level 4 response)

- 5** A benefit of outsourcing to Antofagasta is that it can take advantage of both the new technology that has been invested in the Bhubaneswari mine of £50m and also the expertise of Essel mining. (1) Looking at Extract A, even though Antofagasta is the ninth largest mining company, its profits in 2015 dropped massively by 83%. (3) As a consequence, just opening new mines under its own control may not be enough to turn this situation around. By hiring in the expertise of Essel, it can take advantage of more

mechanised production in Peru which should help to cut costs and maximise profits. (4) However, outsourcing would mean Antofagasta would have to pay the large fees of Essel and agree to an extraction contract that may not allow flexibility in the supply of copper. This may mean that it has to get Essel to extract 20m tonnes of copper per annum from the Bhubaneswari mine but may not be able to sell this at the best price. (6) If copper is not required by the global economy, Antofagasta will have large costs and excess stock, and profit maximisation will not be possible. This could ultimately lead to a drop in its current increased profits of 44% in 2019.

Offshoring, on the other hand, would not entail some of the disadvantages of outsourcing, as Antofagasta would keep total control of its operations in Peru and would be able to produce only sufficient copper for the demand of the current global market. (2) The extraction costs are significantly reduced in Peru, so Antofagasta could buy a copper field such as Kaniha and use local staff and its own expertise and equipment to run the mine. (5) If it reduced the number of staff in Chile, it could take advantage of the 44% reduction in wages for copper extraction in Peru, which would help it maximise profits on all copper produced, by being able to sell at a lower price than competitors. The Peruvian government is also offering subsidies on this mine of 25%, which also allows for further profit maximisation by passing this on as a price reduction to customers. (7) However, offshoring has significantly more risks than outsourcing, as the Bhubaneswari mine is already up and running whereas the Kaniha mine will need significant investment before it becomes profitable. Offshoring may therefore end up costing Antofagasta more in the short term, so this would reduce the ability of the business to profit maximise in this period of time. (8)

Clearly a move of extraction to Peru will help Antofagasta reduce costs and achieve prices for copper that are more competitive, leading to profit maximisation. The issue is whether Antofagasta feels it can wait for the Kaniha mine to be ready for extraction, so as to keep control of the whole operation and be more able to control production to meet demand, or whether it feels the productivity and significant cost gains of the Bhubaneswari mine represent the better approach. (9) The trade-off is speed in getting to market with less control over production compared to slowness in getting to market but more control over production. Antofagasta will need to consider these choices carefully, perhaps using investment appraisal techniques before making a choice, in order to reduce risk and maximise profits. (10)

(1) (2) Knowledge and understanding are shown through a benefit of a decision to offshore or outsource production.

(3) (4) (5) Application is shown through the use of appropriate context applied to the question.

(6) (7) (8) Well-developed, coherent and logical analysis is linked together, giving cause and effect of the positive and negative results of each option in increasing Antofagasta's profits, using context-based qualitative and quantitative data.

(9) An evaluation of the most important competing arguments with context is used to support a judgement and recommendation as to which option is more likely to maximise profits for Antofagasta.

(10) The conclusion looks at the situation in which Antofagasta finds itself, reflecting a recommendation that takes into account the market conditions and suggests a logical course of action to aid in the appraisal of each option.

Total: 20 marks (Level 4 response)