



AQA Level 3 Technical Level Business Competitive business environment

Unit Number: K/506/6075

Mark Scheme

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the learners' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation, each associate analyses a number of learners' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

SECTION A

The following list indicates the correct answers used in marking learners' responses to the multiple choice questions:

KEY LIST

1	A	5	D
2	D	6	B
3	C	7	A
4	A	8	C

09 Explain **one** way in which an increase in indirect competition might reduce the sales of a business.

[3 marks]

1 mark for identifying **any** feature of indirect competition eg competitors outside of the business's market

1 mark for a valid impact of the **identified** feature on the business eg lose customers to that market

1 mark for a valid reason **from the question** eg alternative product might be more appealing to the businesses' customers

"Indirect competition comes outside of the business's market (1 mark) – eg their products might be more appealing than the business's products (1 mark). If this increases, then the business will lose customers (1 mark) and sales"

10 Explain **one** way in which a business might use Porter's cost leadership strategy to increase its sales.

[3 marks]

1 mark for identifying **any** valid feature of cost leadership eg get costs down

1 mark for a valid impact of the **identified** feature on business sales eg charge lower than competitors

1 mark for a valid reason **from the question** eg lower prices will attract budget conscious consumers

"Cost leadership means getting your costs down (1 mark) so that you can charge lower than your competitors (1 mark). This will help to increase sales in the budget market segment (1 mark)"

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

11	Use the data to analyse the importance to the business of setting objectives. [6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse the importance of the objectives to the aim	6–5
2	Explains the relevance of the data to the business aim	4–3
1	Demonstrates generic understanding of why businesses set aims and objectives	2–1

Possible responses include:

Knowledge and Application (Levels 1 and 2):

- *Objectives are set in order to achieve an aim – they are ‘stepping stones’ to the achievement of an overall goal and should be specific and measurable targets*
- *It is important to set objectives so a business can measure its progress towards achieving an aim*
- Total sales objective has not been achieved – targeted to increase but actually declined – which would not help to increase profits
- Where the business has achieved its objectives is in relation to sales through the website – achieving a higher proportion than targeted – and a reduction in cost of sales – reducing this by a higher percentage than targeted – and both of these outcomes would help to increase profits.

Analysis (Level 3):

- The aim of achieving a 10% increase in profits has not been achieved, with profits remaining constant (0% change) – looking at the target and actual values of the objectives will help to identify why this might have happened
- Sales performance, overall, is disappointing – perhaps the external environment caused sales to decline or perhaps the push for online sales didn’t work?
- A high proportion of sales have been achieved through the website which is something the business can be satisfied with
- Whilst the objective of reducing costs has been more than achieved, this might not have been the result of efficiency savings – sales have fallen, so cost of sales are also likely to fall?
- Whilst the business has been successful in establishing its e-commerce website, this might have been at the expense of its traditional sales method using a salesforce – so the objectives have been useful to identify potential problems such as the importance of a salesforce when the external environment might be impacting on total sales.

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

12	Use the data to analyse the importance to the leisure centre of managing physical and human resources.	[6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse how the management of physical and human resources can affect customers	6–5
2	Explains the relevance of the data to the management of physical and human resources	4–3
1	Demonstrates generic understanding of how businesses need to manage their physical and/or human resources	2–1

Possible responses include:

Knowledge and Application (Levels 1 and 2):

- *Physical resources relate to the equipment and facilities needed to operate a business eg machinery, buildings and IT equipment. Human resources relate to the type, number and skills level of staff employed within a business eg managers, supervisors and operatives.*
- *Both need to be managed because they set the capacity of a business to make/provide products and can impact on customer experience/satisfaction*
- Investment in equipment and facilities has been taking place over the three years – perhaps expanding capacity – but it has fallen in 2013 after a big increase in 2012 so members might have noticed this
- Staffing levels did increase in 2012 – increasing the capacity of the leisure centre – and was maintained in 2013 so this would hopefully improve customer satisfaction
- Member numbers have been increasing throughout the years, even though the membership fee has also increased – so this must be a popular leisure centre ie they are doing something right

Analysis (Level 3):

- The aim of achieving 95% customer satisfaction was exceeded in 2012 but was not met in 2013 – a significant decline in the rating from 98% to 85%. Something is wrong
- The centre has been investing in equipment and facilities, but maybe this is too low (about £1 million sales but only £50,000 investment), especially when members are paying more and the centre is having to cope with 50% more members in 2013 than 2011
- Staffing levels surely have to be related to membership level? But perhaps the extra 5 staff employed in 2012 is enough – maybe the real problem is that members got used to this level of staffing and the new equipment and expected investment and recruitment to continue – especially as they are paying more
- The importance to the leisure centre is that the manager needs to reflect on these issues and, perhaps, carry out further research to find out why customers are less satisfied – she can then respond, if money allows, by recruiting/training staff and/or increasing investment in equipment and facilities

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

13	Use the data to analyse where the business might best locate its new showroom. [6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse factor(s) affecting this location decision	6–5
2	Explains the relevance of the market data to the location decision	4–3
1	Demonstrates generic understanding of factor(s) affecting location decisions	2–1

Possible responses include:

Knowledge and Application (Levels 1 and 2):

- *Location decision affected by a range of factors: type of product, location of market, human resource requirements and transport links*
- *Businesses will choose locations according to their vision, aims and objectives eg if a business wants to increase profits then it should choose a location that will reduce costs and/or increase sales revenue*
- The data helps to define the size of the market – both in potential volume and value – which can be seen from the 2nd and 5th columns. This would indicate that location B might be the best choice.
- The data shows the profit the business could make on each kitchen by comparing price (5th column) to cost (3rd column). This would indicate that location B might be the best choice.
- The data shows the difficulty of getting into the market which can be seen from the 2nd and 4th columns. This would indicate that location A might be the best choice

Analysis (Level 3):

- Location A could be considered the least uncertain choice – not too many competitors to take away the potential sales and the profit per kitchen is not much less than Location C which has twice the competitors and only a quarter more potential sales
- Two of the values are expressed in means – we don't really know exactly what each competitor is charging – and the potential sales are exactly that ie the business **might** achieve these levels
- The business wants to achieve £250,000 additional profits from this new location. Location A won't achieve that target even if all of the potential sales are made, unless it charges a higher price and we don't know if that is acceptable
- Both locations B and C would achieve the target increase in profits, but B indicates a much higher level than this target and, even if it is highly competitive (14 businesses) it may well be the best location

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

14	Use the data to analyse the importance to multi-national businesses of average income levels within the countries in which they operate.	[6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse how income levels might alter multinationals' business activities	6–5
2	Explains the relevance of the income data to business activities	4–3
1	Demonstrates generic understanding of way(s) in which income levels affect business activities	2–1

Possible responses include:**Knowledge and Application (Levels 1 and 2):**

- *Average income levels can affect sales and indicate how much customers are willing to pay for products*
- *Higher income levels might indicate that sales could be increased*
- *Income levels could affect a range of business activities such as location, prices charged, product mix and sales capacity*
- The data is expressed in USA \$, so a genuine comparison can take place eg USA has almost 5 times the average income of Brazil
- Can identify trends in economies so that multinationals can select which regions provide the best opportunities for sales eg USA has continuing growth in incomes
- Data would be useful to multinationals thinking about potential sales, eg India has a long way to go to catch up the USA
- Can help to identify trends in spending eg worrying decline in Indian and Brazilian average incomes which result in a fall in demand
- Could help to identify low income but rapidly growing economies eg China

Analysis (Level 3):

- Information gained from researching income levels will help to determine multinationals' marketing activities/strategies by indicating which markets need to be/can be developed and how they might be developed, eg perhaps develop market in Brazil before India as its average income is almost eight times that of India
- Also indicates potential problems in developing economies ie declining incomes for both Brazil and India in 2012 might indicate that China is the preferred developing economy market. In addition, developed economies, such as USA and UK still offer much higher income levels and potentially higher sales

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

15	Use the data to analyse the importance to the department store of researching UK consumer spending.	[6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse how trends in consumer spending could affect the business activities of the department store	6–5
2	Explains the relevance of the consumer spending data to business activities	4–3
1	Demonstrates generic understanding of way(s) in which consumer spending affect business activities	2–1

Possible responses include:**Knowledge and Application (Levels 1 and 2):**

- *Consumer spending affects business activities through changes in demand for their products*
- *The pattern of demand can change, meaning that some businesses might benefit whilst others lose out; alternatively, a business might alter its product mix due to the change in patterns of spending*
- The data could be useful for deciding which products to stock eg increase stock of furniture and clothing and decrease small electric goods
- Could be useful for comparing the department store's sales with total UK consumer spending eg the business might be missing out on an increase in spending on some categories
- Could be used to determine how much stock/shop space should be used for each category eg check that you are not wasting efforts on small electric household appliances
- Could be useful for forecasting what might happen in 2014/15 ie identify some trends such as spending on furniture and furnishings seems to be on the increase and this might continue

Analysis (Level 3):

- The department store wants to increase its annual sales by 10%, so we could use the chart to analyse the growth in categories to identify potential trends capable of supporting that increase – it would seem that, between 2012 and 2013, furniture and fittings, has achieved that level of growth (as have carpets/major household appliances), so alter the amount of space/promote the sales of these categories eg increase sales capacity and alter product mix towards furniture and furnishings
- It would seem that total spending – across the product groups – has the capability of supporting a 10% increase in sales and the department store would want to compete for the growing areas of spending by being competitive in relation to furniture/carpets/major household appliances. This might have as much to do with staffing skills as anything else eg sales skills. But it could also be about store location or prices charged. So the data is important but the business will still have to consider its ability to compete in the market.

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

16	Use the data to analyse the importance of social trends to independent clothing retailers operating in a competitive environment.	[6 marks]
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Level	Descriptor	Marks
3	Uses the data to analyse how social trends could affect the business activities of an independent business in a competitive environment	6–5
2	Explains the relevance of social trends data to business activities	4–3
1	Demonstrates generic understanding of way(s) in which social trends affect business activities	2–1

Possible responses include:

Knowledge and Application (Levels 1 and 2):

- *Social trends cover a very wide range of forces influencing consumer behaviour, including: use of the internet to purchase goods, expectations consumers might have about their quality of life, environmental concerns and ethical issues consumers have about products*
- *These trends play a large part in determining spending patterns of consumers and can have a significant effect on business activities eg product mix, staff skills, location*
- The data comes from a survey published by 'Ethical Consumer' and we can get to understand what people's concerns are in relation to clothing eg how important is it that clothes are produced ethically and one question indicates that it's important (77%)
- The answers might provide information about which type of products consumers prefer eg 67% said they would definitely buy 'ethical' clothes from a high street shop; about half of those surveyed said they would definitely buy ethical clothing from a high street brand
- The question 'which is more important to you?' indicates that it is more important to consumers that the company making the clothes is ethical rather than the clothes themselves

Analysis (Level 3):

- Independent retailers operate in a very competitive market where major retailers such as supermarkets and high street brands create significant competition. The independents often just have one shop, so they will have to maximise their ability to appeal to consumers. Social trends cover a wide range of forces, but the data is focusing specifically on ethical concerns – about clothes producers and the clothes themselves. All of the data would appear to show that this is a significant issue – 77% of consumers believe it is important to buy ethically. In order to compete, independent retailers might want to alter their product mix and sales capacity for ethical clothing – they could make themselves appeal more to the 'ethical consumer' and create a kind of niche market for themselves
- It is useful to compare the responses to two of the questions – 67% of consumers would definitely buy clothing produced ethically, but that fell to 49% when asked if they would buy a high street brand which was being sold as ethically produced. This would seem to show that consumers might not trust high street brands and independent retailers could take advantage of that by appealing directly to these consumers.

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

SECTION B

Total for this section: 30 marks

17	To what extent do you think that L'Oréal's global competitive position depends on its use of innovation? Use Item A to justify your answer.	[15 marks]
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Level	Descriptor	Marks
5	Analyses key competing factors affecting the impact of innovation on L'Oréal's competitive position. Weighted evaluation supported by analysis. Uses Item A to develop a detailed analytical response.	15–13
4	Analyses some competing factors affecting the impact of innovation on L'Oréal's competitive position. Two-sided judgement supported by analysis. Uses Item A to develop a considered analytical response.	12–10
3	Analyses some factors affecting the impact of innovation on L'Oréal's competitive position. One-sided judgment supported by analysis. Uses Item A to develop an analytical response.	9–7
2	Explains how L'Oréal uses innovation. Basic supported judgment Uses Item A to support response.	6–4
1	Demonstrates generic understanding of how a business could use innovation. Limited unsupported judgment. No use of Item A to support response	3–1

Possible responses include:

Knowledge and Application:

- *Innovation related to the process of bringing new ideas/materials/products to the market*
- *Innovation can be used to establish a competitive advantage and to improve/protect a business' competitive position*
- In 2013, L'Oréal spent almost 4% of its sales revenue on research and innovation, resulting in 624 new product patents
- It has used R&I to develop products for specific markets eg India and 'Garnier Colour Naturals' – this became one of its most successful products, helping to increase sales
- Some of these locally developed products end up being suitable for other regional markets – what works in India might work in other Asian countries and Eastern Europe
- Its 'existing international range' might be enhanced by the 524 product patents and the money L'Oréal spends on R&I

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

- The Indian R&I centre carries out in depth consumer research – they talk to their customers and this probably helps them to innovate for the local market.

Analysis:

- It would seem that this is a highly competitive and valuable market, given the amount of sales and spending on R&I by L'Oréal. It faces significant competition from Unilever and Procter & Gamble, which means that L'Oréal will have to work hard to protect its market position. It can do this through innovation as, if successful, this can create significant competitive advantages and act as a defence in a market with a high degree of competitive rivalry. Successful innovations, like 'Garnier Colour Naturals', mean that it can increase its share of key markets like India
- It would seem that high profit margins can be gained – indicated by the price gap between Indian products and those in the USA and L'Oréal's focus on the luxury cosmetic market in India. Without an intensive R&I programme (and €857 million seems quite intensive), L'Oréal won't be able to develop a range of innovative products for **all** market segments – geographic, lifestyle and benefits. Given a highly competitive market, leadership possibly only comes from targeting a wide range of market segments. Possibly a high proportion of the €857 million is spent on focus group research around the world – only this way could L'Oréal sell successfully in diverse countries such as the USA, Brazil and India.

Evaluation:

- Competitive position depends on a range of forces and in this market, it would seem that a existing dominant businesses would have to set up barriers to stop new businesses entering the market - €857 million spend on R&I is a significant barrier
- Buyer power would seem to be less important – perhaps the product fits lifestyle/benefits segments and higher average income consumers are willing to pay high prices ie L'Oréal, Unilever and Procter & Gamble all possibly have price setting power
- L'Oréal's patents may well be significant, but we don't know the number of patents and R&I spending of the market challengers – if they are spending similar amounts, then any competitive advantage could be taken away
- May well depend on customer loyalty – consumers might perceive L'Oréal's product as superior, irrespective of innovation by market challengers
- Overall, the extent to which L'Oréal's global leadership depends on innovation is probably to a considerable extent – given the evidence of the amount of spending on R&I and the importance of local products, its leadership could only be achieved with this. However, in itself, innovation is not sufficient – other business activities (sales channels, pricing and physical/human resources) are necessary to achieve dominance. Identifying trends in the different countries in which it operates is also vital eg perhaps Unilever will gain dominance in other developing economies such as China – a potentially huge market. Ultimately, though, it would be difficult to see how Unilever could do this without using innovation and, possibly more important, establishing patents!

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

18	Using Item B , analyse L'Oréal's external opportunities and threats in Brazil. To what extent do you agree with L'Oréal's response to these opportunities and threats? Justify your answer.	[15 marks]
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Level	Descriptor	Marks
5	Analyses key competing factors affecting the suitability of L'Oréal's responses to its external opportunities/threats in Brazil. Weighted evaluation supported by analysis. Uses Item B to develop a detailed analytical response.	15–13
4	Analyses some competing factors affecting the suitability of L'Oréal's responses to its external opportunities/threats in Brazil. Two-sided judgement supported by analysis. Uses Item B to develop a considered analytical response.	12–10
3	Analyses some factors affecting the suitability of L'Oréal's responses to its external opportunities/threats in Brazil. One-sided judgment supported by analysis. Uses Item B to develop an analytical response.	9–7
2	Explains the external opportunities/threats faced by L'Oréal in Brazil. Basic supported judgment Uses Item B to support response.	6–4
1	Demonstrates generic understanding of external opportunities/threats. Limited unsupported judgment. No use of Item B to support response	3–1

Possible responses include:

Knowledge and Application:

- *External opportunities and threats relate to events outside of the business and beyond their direct control*
- *They include trends in the social and economic environment, advantages held by competing businesses, the ability to protect their own competitive advantages given the actions taken by competitors, etc*
- *An opportunity represents a potential advantage to businesses (eg new markets) whilst threats represent potential disadvantages (eg lost sales)*
- External opportunities:
 - Brazilian economy appears to be forecasted to continue to grow
 - Strong growth in spending on cosmetics
 - Brazilian consumers save a low proportion of their incomes, perhaps indicating a willingness to buy luxury items
- External threats:
 - Not market leaders and one of the dominant businesses is Brazilian, perhaps having a better understanding of customer needs
 - High market share already held by competitors

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

- Popularity of direct sales might continue into the next decade and Natura benefiting from this (profits growing)

Analysis:

- The dominant businesses are using direct sales – cultural expectation – so would seem odd that L'Oréal refuses to adopt this especially as CEO of Natura believes this trend will continue for at least another ten years.
- L'Oréal's 'personal beauty advisers' are of no use if people are not using the department stores to purchase make-up and skincare products
- With no experience of direct sales, attempting to do this might be damaging for L'Oréal, ie considerable expenditure with potentially little return given the experience and established presence of competitors in direct sales
- Planning to establish a chain of specialist stores to target gap between mass and luxury market might be a more effective way of gaining market share where, perhaps, the dominant firms have no presence and L'Oréal has expertise.
- The compromise seems to be its 'micro-distribution' system where a relationship between L'Oréal and Brazilian consumers might be developed and the mass-market targeted

Evaluation:

- How can L'Oréal develop its presence in the Brazilian market if it refuses to adapt to the social marketing environment?
- However, is there any point in attacking the dominant businesses head on? L'Oréal has no experience of direct sales, but it does have considerable experience of selling through retail outlets
- Establishing the 'affordable luxury' stores could be a way of creating its own market in Brazil – a long-term strategy which might be paying off, given the recent sales growth
- Does L'Oréal want to adopt a cost leadership, development or focus strategy? Given the nature of the market, different approaches would seem to be necessary ie how could L'Oréal sell even its existing mass market products to consumers living in Brazilian favelas?
- Overall – struggling in short term but potential market control in long term or continued failure by refusing to accept traditional sales channel? Possibly depends on social and economic development of the country. It would seem that L'Oréal has entered a market which has already been 'staked out' by a domestic business (Natura) and it will be extremely difficult to counteract this. The 'micro-distribution system' may well be part of the answer, but maybe it needs to think about product development in terms, similar to what it did in India?

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

Assessment outcomes coverage

Assessment Outcomes	Marks available in section A	Marks available in section B	Total Mark
AO1: Understand business organisation	20 marks 25%	0 marks 0%	20
AO2: Investigate trends in the economic environment	20 Marks 25%	0 marks 0%	20
AO3: Assess the impact of competition and innovation	5 Marks 6.25%	15 marks 18.75%	20
AO4: Assess business opportunities and threats	5 Marks 6.25%	15 marks 18.75%	20
Total	50 marks	30 marks	80

Question	Assessment Outcome 1	Assessment Outcome 2	Assessment Outcome 3	Assessment Outcome 4
1	1			
2	1			
3		1		
4		1		
5			1	
6			1	
7				1
8				1
9			3	
10				3
11	6			
12	6			
13	6			
14		6		
15		6		
16		6		
17			15	
18				15
Totals	20	20	20	20

SPECIMEN MARK SCHEME – COMPETITIVE BUSINESS ENVIRONMENT

Assessment objectives coverage

Question	Knowledge and Understanding	Application	Analysis and Evaluation	Total
1	1			1
2	1			1
3		1		1
4		1		1
5	1			1
6	1			1
7		1		1
8		1		1
9	1	2		3
10	1	2		3
11	2	2	2	6
12	2	2	2	6
13	2	2	2	6
14	2	2	2	6
15	2	2	2	6
16	2	2	2	6
17	3	3	9	15
18	3	3	9	15
Totals	24	26	30	80