



A-LEVEL

Applied Business

BS11 The Marketing Environment

Mark scheme

8610
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Version 1.0: Final

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 students' 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 students' 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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 28 marks

1 (a) Using **Item A**, explain **one** way that a change in the marketing environment might have affected coffee shop sales.

[5 marks]

Level	Descriptor	Marks	Assessment Objective
2	Uses Item A to explain a link between the marketing environment and coffee shop sales.	5–3	AO2
1	Demonstrates a generic understanding of the marketing environment.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *marketing environment ranges across economic, technological, legal/regulatory and social/ethical*
- *range of factors covered by these groupings, eg income levels, internet technology, consumer protection, and attitudes towards consumption*
- in this context, the UK economy was stagnating and consumers might have had a reduced budget for spending
- in addition, apparent social trend towards consumption of coffee from coffee shops
- spending may well have fallen/stagnated for expensive luxury items, but coffee shops, such as Costa Coffee, were seen as an affordable luxury and spending increased, ie Costa Coffee's sales increased due to social trends towards coffee consumption at the expense of other luxury goods
- technological development – in terms of quality coffee vending machines – could also be used as an example given Costa Coffee's takeover of Coffee Nation
- rise in popularity of social media might have increased popularity of branded coffee shops and their sales.

1 (b) Using **Item A**, analyse how competition in the UK coffee shop market might affect Costa Coffee's ability to set prices for its products.

[8 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse how Costa Coffee's market position affects its ability to set prices.	8–7	AO3
2	Uses Item A when explaining how competition might affect price.	6–3	AO2/AO1
1	Demonstrates an understanding of competition/ability to set prices.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *competition defined by nature of product and number of businesses in relation to size of market. Definitions include monopoly, oligopoly, monopolistic competition and perfect competition; however, can also be described in terms of how many leaders within a market, strength of challengers and methods of competition*
- *price setting power depends on intensity of competition and the likely reaction of competitors to a change in price, eg if very little competition, then the business has strong price setting powers; if intense competition, then price setting becomes problematical and a range of factors can come into play (how to respond to competitor price changes and the use of price as a deliberate competitive tool)*
- coffee shop market appears to have many businesses operating within it – multiple opportunities for consumers to purchase coffee – consumers possibly looking for the best price, so price kept low
- vending machines – may be no alternative in the outlets they are located in, so price might be comparatively high
- Costa Coffee is the market leader, with a 'Nation's Favourite' status, within the branded segment and this might mean they can set a higher price
- a growing market, with the trend set for future growth, which might mean that prices could be put up without losing demand.

Analysis:

- complex market which Costa Coffee appears to be attempting to dominate and may well gain some price setting powers through a degree of brand loyalty and the takeover of Coffee Nation could certainly help here. Costa Coffee might be seen as having price setting powers, but this would depend on location and brand loyalty (voted favourite brand, so this could indicate price leadership) – consumers have a choice of non-branded businesses, representing two-thirds of outlets, so that price setting power may well be limited.

1 (c) *To what extent do you agree that **market penetration**, as opposed to other Ansoff competitive strategies, was responsible for Costa Coffee's leadership in the UK branded segment? Use **Item A** to justify your answer.*

[15 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the possible impact of competitive strategy(ies), including market penetration, on Costa Coffee's market position.	8–6	AO3
2	Uses Item A when explaining Costa Coffee's use of competitive strategy(ies), including market penetration.	5–3	AO2
1	Demonstrates an understanding of competitive strategy(ies).	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market penetration is one of Ansoff's competitive strategies including market development, product development and diversification*
- *market penetration occurs when a business uses an existing product to grow an existing market, ie by deepening the existing market without altering the basic product offer or target market through, for example, increased advertising or price competitiveness*
- advertising campaign (the first used by a UK coffee shop brand), the use of a loyalty card and the increase in store numbers are all examples of market penetration where the intention was simply to increase demand from the existing market using the existing product
- the takeover of Coffee Nation, and rebranding as Costa Express, is an example of how Costa Coffee has used market development – the product is broadly similar, but the market is now more generalised, eg petrol station as opposed to coffee shop
- product development– the 'flat white' and the difference between urban store layouts compared with other regions – with an attempt to maintain/grow the same target market through improved product offers.

Note: no evidence of diversification within Costa Coffee and this should not be rewarded beyond, at best, a very basic L1.

Analysis:

- given the growth in the market, acquisition of sites could be seen as something that all of the leading brands might pursue and this might stop Costa Coffee losing market share but does not necessarily lead to an increase in share, ie the product offer must have been superior in some way
- use of advertising and a loyalty card might have helped to establish an initial reason for new consumers to try the product or to encourage repeat purchases from existing customers, this might have contributed to increased share
- Costa Coffee's use of product and market development could have helped to increase market share through its impact on brand loyalty and creating a competitive advantage which would help to increase repeat custom and, possibly, attract new consumers.

For AO4, you should award marks using the scheme below.

Note: AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made on the significance of market penetration to market position. To access Level 3, judgement must be made on the relative significance of market penetration to Costa Coffee's market position, ie to consider the significance of product and/or market development.

Level	Descriptor	Marks	Assessment Objective
3	Offers judgement with weighted justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	7–5	AO4 and Quality of written communication
2	Offers judgement with supported justification. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4–3	
1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

Point for Evaluation:

- as Costa Coffee has been voted 'The Nation's Favourite Coffee Shop' for several years, it would seem that customer perception is possibly key to its market position – creating more opportunities for customers to purchase the product is of no use unless the customer experience is a positive one, ie the product offer has to meet perceived customer needs
- market penetration activities may well have allowed the momentum to build, but the initial impetus possibly came from the overall brand image which is closely related to product development, eg the quality of the coffee, related food products and the in store environment
- market development could also have assisted, ie by pushing the brand into a wider variety of locations
- however, overall, it would seem that the success of Costa Coffee comes from a combination of product development and market penetration – without both working in conjunction, the leadership position may well not have occurred.

2

Total for this question: 28 marks

2 (a) Using **Item B**, explain **one** marketing benefit to UK independent coffee shops of carrying out market research.

[5 marks]

Level	Descriptor	Marks	Assessment Objective
2	Uses Item B to explain a marketing benefit of carrying out market research.	5–3	AO2
1	Demonstrates an understanding of why businesses carry out market research.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market research is one of the ways in which a business can scan their marketing environment*
- *it is likely to research buyer behaviour and competition*
- *examples of market research include observation, surveys and interviews*
- *marketing benefits will relate to informing marketing strategy (eg competitive position) or tactics (ie marketing mix)*
- independent coffee shops might use customer opinion surveys, for example on customer satisfaction with waiting times on the take-away service and with comfort/seating arrangements for customers requiring table service; this information would then allow them to improve the quality of service/product and improve their marketing
- a start-up independent might use market research to identify a good location, eg observation of footfall, age groups etc, competitor and other business location; this information would help them to locate in an optimal position for their target market and in relation to competition (either in direct competition or deliberately located away from any major competition)
- they might also use customer surveys to identify information similar to that shown in the item, eg additional products/services which customers might want such as loyalty cards and free Wi-Fi; this could enhance the ability of the business to compete and improve its competitive position.

2 (b) Using **Item B**, analyse how the UK social marketing environment might help independent coffee shops to gain customer loyalty.

[8 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item B to analyse how the UK social marketing environment (ME) impacts on the ability of independent coffee shops to gain customer loyalty.	8–7	AO3
2	Uses Item B when explaining how the UK social ME affects independent coffee shop sales.	6–3	AO2/AO1
1	Demonstrates a generic understanding of how the social ME affects sales.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *the social marketing environment relates to buyers' attitudes towards the production and consumption of goods/services*
- *social marketing environment includes accessibility to products/services and quality of life expectations*
- *social marketing environment can shift demand to products meeting social needs, eg increased use of social media*
- 'artisan culture' which might increase the sales of independent coffee shops who focus on this; survey data indicating that 31% of consumers prefer local and this could be exploited by an independent coffee shop to increase sales
- 'consumer mobility' trend could be used by an independent when deciding on the layout of the shop and the intended customer experience leading to some increased sales by better meeting the needs of local consumers
- 'ageing population' trend could be exploited by providing an experience better suited to 65+ and contrasted to branded sector offer
- 'experience consumerism' trend could be exploited by providing themed/entertainment focused environment.

Analysis:

- customer loyalty implies that consumers carry out repeat purchases and consistently prefer one business's offer over those of competitors. Social marketing environment factors could be exploited by an independent coffee shop by positioning itself as local/bespoke – similar to the approach taken by Urban Coffee – so that customers make a very conscious decision to shop there. This might override the worrying statistic that, in one survey, 43% had no loyalty. This approach could be varied by target market, eg local but targeting 65s and over or, as in the case of Ziferblat, targeting the 'consumer mobility' social trend.

2 (c) *To what extent do you agree that, to be successful, UK independent coffee shops should use a market niche strategy? Use **Item B** to justify your answer.*

[15 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item B to analyse the factors affecting the possible success of a market niche strategy for independent coffee shops.	8–6	AO3
2	Uses Item B when explaining how independent coffee shops use/might use a market niche strategy.	5–3	AO2
1	Demonstrates an understanding of market niche strategy.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market niche strategy – one of the competitive position strategies which considers how a business might consider market position as an aim and how this might be achieved; other strategies include leader, follower and challenger*
- *market niche strategy aims to position the business so that it is, to varying degrees, isolated from the mass market, ie by offering unique products which the mass market does not offer due to their specialised nature and the currently limited size of the market*
- Urban Coffee could be seen as a business which is consciously using a market niche strategy – it has a ‘coffee connoisseurs tasting club’ and its staff remember your name
- in general, independent coffee shops could decide to focus exclusively on one of the social trends, eg artisan culture to the extent that it offers unique customer experiences or more exclusive coffees; targeting ‘consumer mobility’ to the extent that the shop becomes more of an office environment or an extension of the home, eg the approach taken by Ziferblat where it seems more like a place to meet than a place to purchase coffee.

Analysis:

- a market niche strategy could be seen as successful if it has a sufficiently large, and potentially loyal, target market to aim for. As an independent, this might not need to be a very large market, with location being a key factor, eg Ziferblat where a student/media professional target market exists. Both Urban Coffee and Ziferblat clearly differentiate themselves from the branded sector and have the chance of repeat customers ensuring survival
- alternatively, the location of the independent coffee shop might make a niche strategy impossible to adopt – a target market seeking alternatives might not exist in any sufficient numbers and convenience is really what the mass market is looking for. A niche strategy simply would not work for the vast majority of independents as they may well rely on ‘convenience’ sales.

See next page for Evaluation.

For **AO4**, you should award marks using the scheme below.

Note that AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made as to whether on the appropriateness of a market niche strategy for independent coffee shops. To access Level 3, judgement must be made on both an advantage and a disadvantage of the strategy.

Level	Descriptor	Marks	Assessment Objective
3	Offers judgement with weighted justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	7–5	AO4 and Quality of written communication
2	Offers judgement with supported justification. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4-3	
1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

Points for Evaluation:

- location and the strength of particular social trends would seem to be the key issues – in large urban markets, such as Birmingham and London, the force of social trends, such as 'artisan culture' and 'consumer mobility', may well be sufficient to support some independents following a market niche strategy
- however, the coffee shop market is inherently a mass market – this may well be reinforced by the social trend of 'experience consumerism' which can be easily met by Costa Coffee and other branded sector businesses
- independent coffee shops may have the best chance of survival/success by adopting a follower strategy – ie offer similar experiences but in convenient locations which have yet to be occupied by the branded sector, eg offer a mobile service. But to what extent can independents compete with the advertising/marketing budgets of the market leaders?
- overall, for some independents – who happen to have the opportunity and ability to meet niche needs or spot early trends – a market niche strategy may be the best way to gain loyal customers and grow. However, the vast majority of independents are selling a fast moving consumer good where quality of service/product is key and where location would seem to be the most significant consumer preference.

3

Total for this question: 24 marks

3 (a) Using **Item C** (lines 1 to 19), analyse the main strengths and weaknesses of Greggs' market position in August 2013.

[9 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse the strengths and/or weaknesses of Greggs' market position in relation to competitors and/or customers.	9–7	AO3
2	Uses Item C when explaining Greggs' possible strengths and/or weaknesses.	6–3	AO2
1	Demonstrates an understanding of business strengths and/or weaknesses.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *the first part of a SWOT analysis, the strengths and weaknesses of a business's current market position requires a 'health check' of this position in relation to its customers, competitors and its internal resources*
- *the results of this analysis can then be used to consider future opportunities and threats*
- *example of a weakness might be a poorer product offer compared with that of competitors*
- *example of a strength might be a high level of positive customer feedback*
- possible strengths:
 - market leader in the sale of freshly baked savoury products, so it has a successful core product
 - control of own supply chain, making the majority of products itself and, possibly, giving it greater control over quality and prices?
 - willingness to listen to customers/use social media could make marketing more efficient/effective?
- possible weaknesses:
 - possibly a 'tired' product range which might be seen as down market?
 - 'Greggs Moments' opened as separate outlets –what experience did Greggs have to support this move?
 - why 'Greggs the Bakery' and 'Greggs' food-on-the-go – trying to please everybody?

Analysis:

- in 2012, Greggs would seem to have been trying to focus on a number of different markets – across product types/quality – looking as though they were trying to diversify during a period of economic uncertainty. In the markets they were entering, competition was/may have been very intense. Greggs' competitive advantage would seem to relate to its fresh baking proposition and its control of the supply chain. The possible weaknesses appear to have resulted from the business over exploiting these strengths with the resulting actions ultimately turning into weaknesses which could be easily exploited by its competitors.

3 (b) *To what extent do you think that the revised strategy (lines 20 to 31) was an effective response to Greggs' market threats? Use **Item C** to justify your answer.*

[15 marks]

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse how food-on-the-go (FOTG) might or might not reduce/negate the impact of the possible market threat(s) on Greggs.	8–6	AO3
2	Uses Item C when explaining the impact of possible market threat(s) facing Greggs.	5–3	AO2
1	Demonstrates an understanding of market threat(s).	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market threats are identified by assessing internal strengths and weaknesses and marketing environment data. They are external to the business, eg a threat posed by the activities of a competitor*
- *threats are also potential actions which competitors might take and, consequently, their identification requires a degree of 'guesswork' – these threats 'could' impact on the business, but the extent to which they will is uncertain*
- market threats facing Greggs:
 - literal external environment, in the form of weather, apparently impacts on Greggs' sales – hot weather blamed for poor sales of its bakery products
 - 'new entrants' and existing competitors are continuing to threaten Greggs' food-on-the-go (FOTG) sales (eg coffee shops, supermarkets and sandwich shops)
 - 2013 may well have seen consumers becoming more confident and this could further impact on sales as they switch to more up-market offers, eg Pret-a-Manger
 - all of these threats could continue to eat into Greggs core product sales and profit margins may well continue to fall.

Analysis:

- FOTG strategy at least gets rid of the distractions introduced in previous years, ie market development (Greggs the Bakery) and borderline diversification (Greggs Moments). The consistent product offer (fresh products at an affordable price), the revamping of the stores (to bring it clearly in line with the FOTG market) and the product development/promotional activities (aimed at convincing customers that it offers a range of suitable FOTG products) may well be enough to reverse the decline in profits. Product development might also reduce the risk of sales declining due to 'extreme' weather variations?!
- the FOTG strategy, however, still proposes an offer which is focusing on price and the incorporation of the three stores within one store ('Greggs', 'Greggs the Bakery' and 'Greggs Moments') such that consumers may well regard Greggs as inferior to competitors either on price (supermarkets) or perceived quality (Pret-a-Manger), ie profits continue to be squeezed.

For **AO4**, you should award marks using the scheme below.

Note: AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Judgement is being made on the effectiveness of the revised strategy. To access Level 3, judgement must be made on both an advantage and disadvantage of the strategy.

Level	Descriptor	Marks	Assessment Objective
3	Offers judgement with weighted justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	7–5	AO4 and Quality of written communication
2	Offers judgement with supported justification. Ideas are communicated in a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	4–3	
1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	2–1	

Points for Evaluation:

- rationalising the store format and developing the product range has to be seen as sensible and, possibly, the only response open to Greggs
- this might help Greggs to fight off competition at the lower end of the market and, as such, ensure its survival – especially given its key strength of controlling the supply chain
- the real issue is the extent to which the FOTG market develops – if economic and social market environment forces do not change significantly, then this strategy may work. However, if incomes increase significantly, and social trends move customer expectations to a more up market product offer, then Greggs could struggle – the strategy might not deal with the real threat, ie Greggs' product offer could be past its sell by date.