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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	



General Certificate of Education
Advanced Level Examination
June 2015

Applied Business

BS11

Unit 11 The Marketing Environment

Wednesday 10 June 2015 9.00 am to 10.30 am

You will need no other materials.

Time allowed

- 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 1(c), 2(c) and 3(b) should be answered in continuous prose. In these questions you will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.



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BS11

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

Item A

The UK coffee shop market

The coffee shop market is divided into branded and non-branded segments. The branded segment includes specialist chains such as Costa Coffee, Starbucks, Nero and several other retailers. The non-branded segment includes general retailers (eg supermarket cafes) and independent coffee shops. In 2013, there were approximately 16 500 coffee shop outlets in the UK and a third of these were branded.

Figure 1 UK coffee shop sales by market segment, 2011–2013 and 2018

Market segment	Actual sales (£ billion)			Forecasted sales (£ billion)
	2011	2012	2013	2018
Branded	2.1	2.3	2.6	4.1
Non-branded	3.3	3.5	3.6	4.6
Total	5.4	5.8	6.2	8.7

The expansion of the market, between 2011 and 2013, occurred during a period of slow economic growth in the UK (0.2% in 2012 and 1.9% in 2013). However, visiting a coffee shop was seen as an ‘affordable luxury’ and a convenient place to socialise.

Costa, with its Costa Coffee brand, leads the UK branded market segment. In 2013, it had 1670 coffee shops – approximately 30% of the total number of shops in this segment. Costa has taken advantage of the changes in the UK economic and social marketing environment by:

- being the first coffee shop chain to launch a UK TV advertising campaign
- being the first coffee shop chain to sell the ‘Flat White’ (a coffee popular in Australia and New Zealand)
- introducing a customer loyalty scheme – the Coffee Club – integrated with Costa’s Facebook page and providing members with information on selected promotions
- taking over a quality coffee vending machine business (‘Coffee Nation’), rebranding the product as Costa Express and placing an increased number of these machines in supermarkets, petrol and railway stations, hospitals and other public areas
- introducing a ‘metropolitan’ shop format, located in major cities (eg London), focusing on a faster take-away service and improved breakfast menu
- continuously opening additional Costa Coffee shops.

In 2013, Costa Coffee was voted the ‘Nation’s Favourite Coffee Shop’, with 48% of consumers surveyed naming it as their favourite brand. This was the fourth year in a row it had achieved this award.



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

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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.

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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.

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2

Read **Item B** and then answer the questions that follow.**Item B****Independent coffee shops**

Independent coffee shops face various marketing decisions including choosing the right location, whether to focus on take-away or table service, the layout of the shop and the level of customer service offered (such as offering a loyalty card or free Wi-Fi). Some independents might choose to operate as a mobile service.

All independent coffee shops need to carry out market research if they are to be successful. **Figure 2** shows potential consumer segments for coffee shops, indicating important aspects of the UK social marketing environment in 2013.

Figure 2 The social marketing environment and coffee shop consumer segments

<p>Artisan culture Consumers who want coffee and food that has been prepared to the highest standards, using the best ingredients.</p>	<p>Consumer mobility Consumers looking for a place between work and home. They are never without their smartphones/tablets and demand Wi-Fi!</p>
<p>Ageing population Consumers over 65 who want coffee shops to recognise that they are alive and kicking! They eat out less than other age groups, but spend more.</p>	<p>Experience consumerism Consumers under 30 who are entertainment seekers. Part of the social media generation who might be described as busy, outspoken and impatient.</p>

Other research carried out in 2013 found that:

- when given a list of statements, 43% of those surveyed agreed that they used whichever coffee shop was nearest to them and 31% agreed that they preferred to use local independent coffee shops
- when consumers were asked to name coffee shops that sprung to mind, only 1% surveyed named an independent and 80% named Costa Coffee.

To make themselves stand out from the crowd, independent coffee shops could use a market niche strategy. Urban Coffee, based in Birmingham, operated three shops in 2013. Its website described the consumer experience as 'wine tasting for coffee'. Customers were greeted by staff who remembered their names and favourite coffee. It also ran a 'Coffee Connoisseurs Tasting Club', where a different specialist coffee was delivered to customers' homes each month, so that they could brew their own perfect coffee.

Ziferblat opened its coffee shop in 2014. Located in London, it offered free coffee and food. Customers did not pay for the coffee they drank, nor the food they ate, but were charged 3 pence for every minute they were in the shop. New customers were shown the kitchen area, how to use the coffee making machine and encouraged to consider Ziferblat as a social space to be treated like your home. Customers could bring their own meals or make one using food in Ziferblat's cupboards. The coffee shop was popular with local university students as well as the many arts and media professionals who lived in the area.



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

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2 (b)

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

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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.

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3 Read **Item C** and then answer the questions that follow.**Item C****Greggs**

In 2012, Greggs was the market leader in the sale of freshly baked savoury products, such as sausage rolls, pasties and pizza slices. As it had its own efficient bakery and distribution systems, it was confident of its ability to make, distribute and sell quality products at affordable prices. It had made good use of social media sites, such as Twitter, to promote meal deals.

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In 2012, Greggs announced a strategy to grow its brand. This included:

- continuing to change Greggs from a bakery to a retailer of food-on-the-go, eg to compete with sandwich shops such as Pret-a-Manger
- developing three shop formats – ‘Greggs’ (for customers wanting food-on-the-go), ‘Greggs the Bakery’ (for customers wanting a local bakery) and ‘Greggs Moment’ (to take advantage of the growing UK coffee shop market).

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By August 2013, Greggs’ strategy appeared to be failing. It had experienced a 29% drop in profit for the first half of 2013. Although Greggs blamed part of the decline on extremely hot weather which reduced demand for bakery products, it accepted that it had underperformed in the food-on-the-go market segment. This segment had proved to be extremely competitive, with new and existing businesses continuing to threaten sales, eg supermarkets, coffee shops and sandwich shops. In addition, the UK economy was improving and consumers were moving to more up-market retailers such as Pret-a-Manger.

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In response, Greggs announced a revised strategy to improve its ability to compete in the food-on-the-go market:

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- merge the shop formats, over 2 to 3 years, to a single format – ‘Greggs’ (food-on-the-go) would become the only format, whilst ‘Greggs the Bakery’ and ‘Greggs Moment’ would be ended
- the new shop format would have a changed layout, including a seating area for customers to eat in
- expand its pizza, sandwich and breakfast product ranges, continuing to focus on fresh food at an affordable price
- introduce a cashless payment system, using a smartphone app, where customers pre-pay into their Greggs account and receive rewards such as ‘buy seven coffees and get the eighth on us’.

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

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

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END OF QUESTIONS



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