



**General Certificate of Education (A-level) Applied
June 2013**

Applied Business

BS11

**(Specification
8611/8613/8616/8617/8619)**

**Unit 11: The Marketing Environment (External
Test)**

Final

Mark Scheme

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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: 29 marks

1 (a) Using **Item A**, explain **two** reasons why cosmetics businesses segment their markets. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A when explaining two marketing benefits of market segmentation.	6–5	AO2
2	Uses Item A when explaining one marketing benefit of market segmentation.	4–3	
1	Demonstrates generic understanding of market segmentation.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market segmentation considers ways in which a business might categorise customers into groups in order to target them with a specific marketing mix*
- benefit segments – different product areas, so could specialise on one or two product areas and establish larger market share
- luxury segment – could allow for higher prices and higher margins
- mass market – allow for larger sales volumes with lower unit costs so higher profits
- possible niche marketing through professional route – maybe less competition or at least an opportunity to gain market share
- geographical segments – probably require different range/quality in each region to increase demand.

1 (b) Using **Item A**, analyse why *L'Oréal* makes extensive use of promotional activities. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the possible impact of extensive promotional activities on <i>L'Oréal's</i> competitive position.	8–7	AO3
2	Uses Item A when explaining the purpose of <i>L'Oréal's</i> promotional activities.	6–4	AO2
1	Demonstrates generic understanding of the purpose of promotional activities.	3–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *promotional activities – part of the marketing mix to support a variety of marketing strategies to include advertising, personal selling and sales promotion*
- *helps to inform and/or persuade target customers, communicating benefits of the product, and compete with rival businesses*
- 'significant competition from other multi-national businesses' – so a way in which *L'Oréal* can communicate superiority of products
- luxury items possibly require advertising to create brand image/loyalty
- sells across the globe, each region may well require different styles/types of advertising so increasing the advertising spend.

Analysis:

- *L'Oréal* faces 'significant competition' so, even though it is the global leader, it could be under threat in different regions and for particular products. Possibly describe market as monopolistic competition/oligopoly, so need to differentiate product and advertising is one way to do this and protect its market leading position. Promotional activities are a way of meeting the needs of specific market segments, strengthening *L'Oréal's* competitive position.

1 (c) Do you think that L'Oréal would have had to reduce the prices of its products, in **all** of its markets, in 2012? Use **Item A** to justify your answer. (15 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item A to analyse the factors affecting L'Oréal's ability to set prices.	8–6	AO3
2	Uses Item A when explaining why prices might or might not be reduced.	5–3	AO2
1	Demonstrates generic understanding of factors affecting prices.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- degree of competition/level of demand affects ability of businesses to set prices for their products
- increase in competition/reduction in demand can force a business to reduce its prices
- L'Oréal's overall sales going up – no reason to reduce prices, especially on luxury products
- sales in Europe – especially East – struggling (falling in East Europe) so this could be a reason to reduce prices due to falling or stagnant demand
- sales in other parts of the world – especially Latin America and Asia – are increasing so no reason to reduce prices here
- economic growth forecasted to slow in 2012, this might be a reason to reduce prices (falling demand or increased competition).

Analysis:

- complex market – price plays a different role depending on which segments you are considering, eg mass market – possible significant price competition; luxury – high price possibly not an issue
- economic factors might indicate that pressure could be put on prices, yet it is only in the Eurozone that GDP is falling and other evidence indicates that prices can be maintained/increased
- Western and Eastern European regions are not performing well – possibly losing market share as well as demand as shown by comparison of market and L'Oréal sales growths. Opposite happening in the other regions, especially Asia, where L'Oréal is outperforming market growth and may well be establishing price setting powers.

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 on the extent to which *L'Oréal* has the ability to maintain its prices. To access E3, judgement must be made on the relative need to reduce prices across regions and/or products.

Level	Descriptor	Marks	Assessment Objective
E3	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
E2	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	
E1	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:

- situation likely to vary according to geographic and product types (luxury/mass market), so in some markets price cutting might be necessary but in others the pressure will not be as severe
- depends on the extent to which global economic growth slows down
- overall, no immediate pressure to *have* to cut prices other than within Europe and then maybe just on mass market or selected product groups; perhaps also in reaction to competitor actions.

2

Total for this question: 28 marks

2 (a) Using **Item B**, explain **one** way in which product development could help L'Oréal to achieve its long-term aim of doubling its number of customers. (5 marks)

Level	Descriptor	Marks	Assessment Objective
2	Uses Item B when explaining how product development can increase demand.	5–3	AO2
1	Demonstrates generic understanding of product development.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- product development as a part of Ansoff's competitive strategies (existing market/new product) or developing new products to meet specific customer needs
- developing economies offer the possibility of gaining these additional customers and product development could help to attract customers in the face of competition from, for example, *Unilever*
- locally developed products has been a strategy used by *L'Oréal* in India and to good effect – 30% growth rate
- spin-offs, ie successful products can be exported to nearby regions which might have the same socio-economic conditions
- local development allows the business to identify local trends, eg mass market for men's cosmetics.

2 (b) Using **Item B**, analyse the importance to *L'Oréal* of researching income levels within the countries in which it operates. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item B to analyse the possible impact of income levels on <i>L'Oréal's</i> marketing activities.	8–7	AO3
2	Uses Item B when explaining how <i>L'Oréal</i> might use the information gained.	6–4	AO2
1	Demonstrates generic understanding of why businesses research income levels.	3–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- market environment data – such as income levels – researched in order to predict future changes and assess state of particular markets
- forecasts of higher income levels might indicate that sales could be increased
- can identify trends in economies so that *L'Oréal* can select which regions provide the best opportunities for sales
- **Figure 2** provides data that would be useful to *L'Oréal*, eg India has a long way to go to catch up the USA
- data on income distribution very useful – could influence which types of products you can sell (mass market v luxury).

Analysis:

- information gained from researching income levels will help to determine *L'Oréal's* marketing activities/strategies by indicating which markets need to be/can be developed and how they might be developed, eg perhaps develop luxury market in Brazil before India as its average income is almost eight times that of India and is forecasted to grow even faster in 2013
- income inequality data helps to decide whether a market for luxury products exists even though average incomes might be low, eg in India that a market does exist for luxury products where the average income is comparatively very low, but the richest 10% (earning 12 times the income of the poorest 10% might still be able to afford luxury products).

2 (c) *To what extent do you think that L'Oréal should continue to develop the Indian luxury cosmetics market segment? Use **Item B** to justify your answer. (15 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Uses Item B to analyse the possible impact of developing the luxury or mass market segment on L'Oréal's market position in India.	8–6	AO3
2	Uses Item B when explaining the marketing advantage(s) or disadvantage(s) of focusing on the luxury segment.	5–3	AO2
1	Demonstrates generic understanding of how segmentation can affect market position.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *targeting a luxury segment could mean that a business can get ahead of competitors and gain dominance within a profitable segment. Able to charge a higher price in a luxury segment.*
- Advantages:
 - richest 10% have increased disposable income – sales could be made
 - richest 10% prefer foreign products – L'Oréal products could be popular
- Disadvantages:
 - still low incomes in the country and 70% of sales currently come from mass-market products – why not continue to develop these products?
 - Indian consumers not willing to pay high prices – might fail to sell enough luxury products.

Analysis:

- **Figure 2** shows average incomes in India forecasted to rise between 8% and 10% – high compared to USA rate of around 3.5% – means that the luxury market segment could be increasing in size significantly (although some way to go to catch up, even with Brazil)
- price sensitive, so would have to take a cut in margin or maybe sell in smaller quantities, meaning that a continued focus on mass-market might be a better strategy to maintain/increase overall market share in the short run
- income inequality could be seen as offering a potential to focus more on luxury products and, coupled with a preference for foreign products, L'Oréal could establish a significant market share in the luxury product segment in the long run and receive higher profit margins once consumers are accustomed to paying a high price.

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 on the relative importance of the luxury segment to *L'Oréal's* competitive position. To access E3, judgement must be made on the extent to which the luxury segment is important.

Level	Descriptor	Marks	Assessment Objective
E3	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
E2	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	
E1	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:

- as Indian income levels are significantly below even Brazil's, let alone the USA, it is not surprising that a higher proportion of sales are achieved through mass market products
- would seem to be a longer term strategy that has more to do with higher margins than total customer base, ie adopt sometime in the future but socio-economic conditions perhaps not right yet?
- overall, could create aspiration for *L'Oréal's* brands and might be seen as an effective immediate strategy to eventually increase the amount spent on *L'Oréal's* products – with average income forecasted to grow at around 8% to 10% per year (a comparatively high rate compared to the USA), Indian consumers might eventually be willing to pay a high price for *L'Oréal's* luxury products.

3

Total for this question: 23 marks

3 (a) Using **Item C**, analyse **one** way in which the social and ethical marketing environment affects L'Oréal's market position in Brazil. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse an impact of the social and ethical environment on L'Oréal's market position in Brazil.	8–6	AO3
2	Uses Item C when demonstrating an understanding of the Brazilian social and ethical marketing environment.	5–3	AO2
1	Demonstrates generic understanding of the social and ethical marketing environment.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- social and ethical marketing environment concerns attitudes consumers have towards products and the way they are produced and sold, eg availability of products, environmental issues and ethical concerns regarding animal testing
- Brazilian social and ethical environment:
 - low savings (social)
 - preference for door-to-door sales (social)
 - use 'ordinary women' in advertising campaigns (social/ethical)
 - use of natural ingredients and recyclable packaging in products (ethical)

Analysis:

- focus on direct sales (door-to-door), which is possibly preferred by consumers, and this is not in line with L'Oréal's method of retailing – possibly limiting its ability to gain market share
- low savings ratio, ie a high preference for spending – a potential opportunity for L'Oréal, eg introducing the new stores and gaining a stronger market position
- possible preference for 'natural' products shown by Natura's use of natural ingredients, but also the use of ordinary women in advertising perhaps limiting L'Oréal's ability to gain market share
- use of websites to develop online communities could be an opportunity or a weakness – does L'Oréal also do this? In line with direct sales approach, ie social/community aspect and could be a way that L'Oréal can gain market share.

3 (b) Do you think that L'Oréal was right to **avoid** using direct sales when carrying out market development in Brazil? Use **Item C** to justify your answer. (15 marks)

Level	Descriptor	Marks	Assessment Objective
3	Uses Item C to analyse the possible impact of the decision on L'Oréal's ability to develop the market.	8–6	AO3
2	Uses Item C when explaining the marketing advantage(s) or disadvantage(s) of the decision.	5–3	AO2
1	Demonstrates generic understanding of the purpose of market development.	2–1	AO1

Relevant answers might include the following:

Knowledge and Application:

- *market development – part of Ansoff's competitive strategies – involves developing new markets for existing products*
- advantages:
 - no experience of using direct sales so might be difficult for them to use this method
 - setting up a chain of specialist stores could attract consumers as it might be something different for them to 'try out'
- disadvantages:
 - needs to do something different as relying on 'personal beauty advisers' does not seem to have worked
 - direct sales in line with what Brazilians seem to prefer – avoiding this seems to be going against what consumers want.

Analysis:

- dominant businesses using direct sales – cultural expectation – so would seem odd that L'Oréal refuses to adopt this especially as CEO of *Natura* believes that 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.

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 on the appropriateness of direct sales. To access E3, judgement must be made on the relative importance of direct sales.

Level	Descriptor	Marks	Assessment Objective
E3	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
E2	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	
E1	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:

- 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
- 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.