Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use

General Certificate of Education
January 2008
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

APPLIED BUSINESS **BS11**
Unit 11 The Marketing Environment

Friday 18 January 2008 9.00 am to 10.30 am

You will need no other materials.

Time allowed: 1 hour 30 minutes

For Examiner's Use			
Question	Mark	Question	Mark
1		3	
2			
Total (Column 1) →			
Total (Column 2) →			
TOTAL			
Examiner's Initials			

Instructions
- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

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

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

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

Item A

Competition in the UK market for recorded music

Recorded music is retailed in the UK through a variety of channels. These are described in **Figure 1**. In 2005, the UK market for recorded music generated sales of £1900 million.

In recent years, many specialist retailers, such as *HMV*, have experienced falling revenues and an increase in the cost of renting their stores. They have been affected by the following changes in the marketing environment.

- A change in shopping habits, with many consumers appreciating the convenience and savings offered by supermarkets and online retailers.
- An increasing willingness of consumers to illegally copy CDs or illegally download music tracks from file-sharing websites. For example, it has been estimated that illegal copying and downloading resulted in a loss of revenue equal to £278 million in 2003 and £376 million in 2004.

Figure 1 – How recorded music is retailed in the UK

Retail Channel	Description	2005 UK Market Share
Specialist retailers	Dominated by *HMV* and *Virgin*, each operating many retail outlets. These retailers sell a wide range of music titles. Also includes numerous independent specialist retailers, each operating a single store.	44%
Supermarkets	For example, *Tesco* and *Sainsbury*. These retailers tend to stock a limited range of music titles (eg top 100 albums) but sell these at heavily discounted prices.	26%
Online retailers	Several retailers, dominated by *Amazon*, stocking a wide range of music titles on CD. This retail channel includes *HMV*, which is also a specialist retailer.	14%
Retail chains	For example, *Woolworths* and *WHSmith*.	13%
Download	Consumers purchase music tracks online and download them onto their computers. Dominated by *Apple iTunes*.	3%

LEAVE MARGIN BLANK

(a) Using **Item A**, explain why the number of specialist retailers in the UK market for recorded music might have declined in recent years.

.....

.....

.....

.....

.....

.....

.....

.....

(4 marks)

Question 1 continues on the next page

LEAVE MARGIN BLANK

(b) Explain **two** ways in which *HMV* could respond to changes in the marketing environment (lines 7 to 12).

1 .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(5 marks)

2 .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(5 marks)

LEAVE MARGIN BLANK

(c) Using **Item A**, analyse how the degree of competition in the UK market for recorded music might affect the ability of specialist retailers to maintain customer loyalty.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(8 marks)

22

Turn over for the next question

LEAVE MARGIN BLANK

2 Read **Item B** and then answer the questions that follow.

Item B

HMV announces a recovery plan

At the beginning of 2007, the specialist retailer *HMV* announced that it had made a loss of £16.1 million in the first half of 2006. The company stated that it had been slow to recognise the changing nature of the UK market. Both supermarkets and online retailers continued to increase their sales of recorded music. In addition, increasing numbers of consumers were switching to purchasing music in an electronic format, by downloading from websites such as *Apple iTunes*, rather than purchasing CDs. Illegal copying of CDs and illegal downloading of music tracks continued to present a problem for the entire market.

In March 2007, *HMV* announced a three-year plan to improve its position in the UK market for recorded music. This focused on reducing costs, improving the appeal of *HMV*'s stores and finding new ways to earn revenue. This plan included the following actions.

- A commitment to increase the percentage of revenue received from *HMV*'s online retail site, www.hmv.co.uk, from 6% in 2007 to 20% in 2010.
- A new store format to be introduced to encourage customers to visit *HMV*'s retail stores and to browse products. These new stores would have a drinks area and a facility to pay to download music tracks, transferring them onto CDs.
- *HMV* stores would sell an enhanced range of portable digital music players from major suppliers, eg *Apple iPods* and MP3 players.

Source: Copyright Guardian News & Media Ltd 2007

(a) Using **Item B**, explain why *HMV* needed a recovery plan.

.....

.....

.....

.....

.....

.....

.....

.....

(4 marks)

LEAVE MARGIN BLANK

(b) Using **Item B**, analyse how *HMV* has used Ansoff's competitive strategies, such as market and product development.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(8 marks)

Question 2 continues on the next page

LEAVE MARGIN BLANK

(c) Discuss the possible reasons why *HMV*'s recovery plan might **not** improve its position in the UK market for recorded music.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(12 marks)

24

Turn over for the next question

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

Item C

The market for downloaded music

A 2007 report on the market for downloaded music identified the following trends.

UK market

- In 2005, the UK market for downloaded music was worth only 3% of the total market for recorded music.
- However, in 2006, the UK market for downloaded music was growing rapidly.
- Sales of downloaded singles had doubled in 2006.
- The UK had the highest proportion of regular online buyers for downloaded music in Europe (8% of Internet users).

World market

- Downloaded music was still at an early phase of development and sales had not offset the decline in sales of CDs.
- Annual sales of downloaded music had increased by almost 100% since 2005.
- There were nearly 500 download businesses operating in over 40 countries.
- Portable music player sales (eg *Apple iPods*) had increased by 43% compared with sales in 2005. Owners of these devices were more likely to buy music legally than general Internet users.
- In Europe the percentage of the population with broadband Internet connection increased from 21% in 2004 to 40% in 2006. Action against people sharing music illegally was beginning to have an effect – the percentage of people using illegal file-sharing software had fallen.

The use of the latest mobile phone technologies was beginning to drive the sales of downloaded music. UK mobile phone network operator '*3*' launched its music video jukebox service in 2004. A third of '*3*'s music sales were from customers between the ages of 18 and 24, demonstrating that young people would buy music if it was presented to them in the right way.

Source: IFPI

LEAVE MARGIN BLANK

(a) Using **Item C**, assess the significance of downloaded music to specialist retailers, such as *HMV*.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(14 marks)

Turn over ▶

LEAVE MARGIN BLANK

(b) Analyse how *HMV* might carry out additional research into the market for downloaded music.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(8 marks)

LEAVE MARGIN BLANK

(c) Propose and justify **one** marketing strategy that *HMV* could use to exploit the opportunities offered by the market for downloaded music.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(12 marks)

34

END OF QUESTIONS

LEAVE MARGIN BLANK

LEAVE MARGIN BLANK

LEAVE MARGIN BLANK

Copyright © 2008 AQA and its licensors. All rights reserved.