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| For Examiner's Use  |      |
| Examiner's Initials |      |
| Question            | Mark |
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General Certificate of Education  
Advanced Level Examination  
January 2013

# Applied Business

# BS11

## Unit 11 The Marketing Environment

Thursday 17 January 2013 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 marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- 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.



J A N 1 3 B S 1 1 0 1

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

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

### Item A

#### The market for digital cameras

The market for digital cameras is highly competitive and the businesses operating in it manufacture a wide range of products. These range from simple 'point and shoot' cameras (eg for holiday pictures) to more complex cameras capable of taking professional quality photographs (eg for sporting events).

In 1995, *Kodak*, which had considerable expertise in traditional photographic processes, produced one of the earliest digital cameras to be sold to the public. It had carried out extensive research and development into digital photography and believed that a mass market for the product did not exist. *Kodak* wanted a return on its investment and so charged a high price for the camera. Shortly after the launch of *Kodak's* camera, *Casio*, a calculator manufacturer, sold the first digital camera to have a screen on the back of the camera. This showed a live image of the picture and made it easier for people to take photographs. In addition, *Casio's* camera was significantly less expensive and bulky than *Kodak's* product.

Other competitors soon entered the market and, as a result, the price of digital cameras fell whilst their capabilities improved. *Nikon*, in 1999, introduced a digital camera which was capable of taking far more detailed pictures than previous cameras. *Canon*, in 2003, introduced the first affordable digital camera capable of taking professional quality photographs. *Kodak* continued to produce digital cameras but gradually lost its share of the market because it failed to release products with any significantly new features or benefits compared with its competitors' latest products. In 2010, *Kodak* had a 7.4% share of the worldwide market, whilst five other businesses held a higher market share. *Canon*, the market leader, had a 19% share whilst *Nikon* held a 12.6% share of the market.

In 2011, market trends indicated that all of the businesses in the digital camera market might have to reconsider their marketing strategies.

- Consumers were increasingly choosing to take photographs using their mobile phones as the quality of 'camera phones' improved.
- Consumers in developed economies, such as Western Europe, wanted to share their photographs instantly with their friends and family and, whilst this was easy to do using a camera phone, it was not as easy to do using a digital camera.
- Emerging markets, such as China, were forecasted to rapidly increase their demand for lower priced digital cameras.

Some market analysts suggested that emerging markets represented the most significant opportunity for market leaders, such as *Canon*.



**1 (a)** Using **Item A**, explain **one** reason why manufacturing a wide range of products helps digital camera businesses to compete.

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**1 (b)** Using **Item A**, analyse why *Kodak* failed to establish a competitive advantage in the market for digital cameras.

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1 (c)

Do you agree that emerging markets, such as China, represented the most significant market opportunity for *Canon*? Use **Item A** to justify your answer.

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

### Item B

#### Jessops aims to regain brand loyalty

In 1935, *Jessops* was set up in Leicester as a specialist retailer targeting the 'keen amateur photographer'. At the time, photography was an expensive hobby for the general public. The family business had one store and grew at a steady rate. In 1975, it moved from its old store into a larger one in Leicester which was described as the world's largest photography store. It proved popular, with loyal customers travelling from various parts of the UK to shop at *Jessops*. By 1989, *Jessops* had expanded and established a chain of 50 stores. In 1996, the *Jessops* family sold the business to private investors. With the market for digital cameras growing, the new owners expanded the business and, by 2003, *Jessops* was operating a total of 250 stores.

In 2005, growth in the sales of digital cameras slowed and *Jessops* announced that its profit margins had fallen. Increasing competition from supermarkets and other discount stores, such as *Argos*, also meant that the price of digital cameras was falling. Furthermore, with a general slowdown in consumer spending, all retailers expected their sales growth to decline.

Despite these difficulties, *Jessops* was operating 315 stores at the beginning of 2007. However, in June 2007, *Jessops* announced that it had made a loss of £25.2 million in the first half of the year and planned to close 81 stores. Management blamed the loss on poor growth in the digital camera market but also accepted that it should have focused more on developing the business's website rather than opening more stores on the high street.

From 2009, *Jessops* started to implement a recovery plan. A major aspect of this plan was the refurbishment of some of its larger stores. Staff would no longer stand behind counters but would be on the shop floor helping customers and providing advice. Major brands, such as *Canon*, would have their own area within the store, and customers would be encouraged to pick up and try products. Staff, in all of *Jessops*' stores, would undergo training to improve their product knowledge, and mystery shoppers would be used. Staff bonuses would not be based solely on sales but also on scores received from these mystery shoppers. *Jessops* also planned to improve its website so that more sales would be generated either through the website or by encouraging visits to stores.

By 2011, sales had increased and *Jessops* was making a profit. The business also stated that a high percentage of its online customers were choosing to collect their internet orders from their local *Jessops* high street store.





**2 (a)** Explain **one** possible reason why *Jessops* originally targeted the 'keen amateur photographer' market segment.

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**2 (b)** Using **Item B**, analyse how *Jessops* found itself in a weak market position by 2007.

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

### Item C

#### PhotoBox merges with Moonpig

*PhotoBox* is an online photographic publishing business. Each customer uploads their digital photographs to *PhotoBox*, through the website, and completes an online order form detailing the size and quantity of prints required. *PhotoBox* then prints the photographs and posts them to the customer. *PhotoBox* offers a wide range of print products, including the ability to create albums ('Photo Books'), posters and calendars using the customers' own digital photographs. In 2010, *PhotoBox* was the UK market leader in online photographic publishing, with an annual sales growth of 30%.

Customer research is important to *PhotoBox*. As a growing business in a relatively new market, it needs to measure customer satisfaction to ensure that it retains its market leader position. *PhotoBox* monitors the number of repeat customer sales and the number of new customers who have heard of *PhotoBox* through 'word of mouth'. It also surveys a sample of new and repeat customers to ask them how likely they would be to recommend *PhotoBox* to a friend or a colleague on a scale of 0 to 10 (a score of 0 meaning 'definitely not' and a score of 10 meaning 'highly likely').

In 2011, *PhotoBox* merged with *Moonpig*, the online personalised greetings card business. *Moonpig* offers a similar service to *PhotoBox*. However, its customers choose a greetings card design (eg for a friend's birthday) and place their own digital photographs on the card. The finished card is then posted either to the customer or to the person to whom the customer wants the card to be sent.

In 2010, *PhotoBox* had a turnover of £72 million and *Moonpig* had a turnover of £38 million. In 2011, it was estimated that only 4% of greetings cards were purchased through online services, however, *Moonpig* was the leader in this market. It also has a modern printing facility, based in Guernsey, where the business produces between 25 000 and 100 000 greetings cards every day. *Moonpig* also uses this facility to package and dispatch personalised gifts such as flowers and mugs which are available on its website. *PhotoBox* operates in most European countries whilst *Moonpig*'s other markets, apart from the UK, are Australia and the United States of America (where sales had not been very significant).

Before the merger, *PhotoBox* had added personalised greetings cards to its product range. After the merger, there was no intention to close either website.



**3 (a)** Using **Item C**, explain how customer research could help *PhotoBox* to analyse the **strengths** of its market position.

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**END OF QUESTIONS**



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