

Centre Number						Candidate Number				
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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 2013

Applied Business

BS11

Unit 11 The Marketing Environment

Wednesday 12 June 2013 1.30 pm to 3.00 pm

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 U N 1 3 B S 1 1 0 1

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

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

Item A is not reproduced here due to third-party copyright constraints. The complete paper is available from Publications.



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

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

Item B

L'Oréal and two billion customers

In its 2010 annual report, *L'Oréal* set itself the long-term aim of doubling its number of customers from 1 billion to 2 billion. This was seen as being achievable because of the potential for new customers in several developing economies such as India and Brazil. If the incomes of consumers in these developing economies increase, then *L'Oréal's* sales of mass market and, perhaps, luxury cosmetics market segments might also grow. **Figure 2** indicates the actual and forecasted average annual income per person in selected countries.

Figure 2: Average annual income per person, 2011 to 2013 (USA \$)

	Actual	Forecasted	
	2011	2012	2013
USA	\$ 47 992	\$ 49 778	\$ 51 555
Brazil	\$ 12 322	\$ 12 169	\$ 13 448
India	\$ 1 441	\$ 1 568	\$ 1 715

L'Oréal entered the Indian cosmetics market relatively late. *Procter and Gamble* and *Unilever* had already established a market presence in India when *L'Oréal* entered the market in 1996. However, *L'Oréal* experienced rapid sales growth of 30% per annum between 2000 and 2010. This was partly as a result of developing new products for the local Indian market. In 2011, over two-thirds of *L'Oréal's* product launches in India were locally designed and developed, with the remainder coming from its existing international product ranges. Some of the more successful locally developed products were exported to neighbouring countries in Asia and also to Eastern European countries.

Whilst *L'Oréal* receives, on average, approximately 50% of its revenues from the mass market segment, within India the figure is higher and was at 70% in 2010. *L'Oréal's* range of skincare and haircare products for men was particularly successful in the country's mass market segment.

In 2011, *L'Oréal* focused on the Indian luxury cosmetics market segment and developed its presence in beauty spas and department stores. At the time, India's highest earning 10% of the population, whose income was approximately 12 times that of the poorest 10%, had increased disposable income and were looking to purchase luxury products. These high earners preferred foreign products, such as *L'Oréal's* existing international range, as they were seen as offering superior quality. However, Indian consumers were price sensitive – they wanted the best but were often not willing to pay high prices.

Source: www.worldbank.org



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.

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

Item C

Breaking into the Brazilian market

In 2011, the Brazilian economy was one of the largest in the world and average incomes were 8.5 times those of India. Brazilians saved a relatively low proportion of their disposable incomes, even as their incomes continued to grow.

Make-up and skincare products have a history of being sold door-to-door in Brazil, this is known as direct sales. The two market leaders, *Natura* and *Avon*, built up a strong market position through direct sales. For example, *Natura*, a Brazilian business, employed 1.2 million 'consultants' in 2010 who sell directly to customers and earn a commission from each sale. In 2010, *Natura* and *Avon* jointly accounted for 50% of make-up sales and 42% of skincare sales in Brazil. In 2011, the Chief Executive Officer of *Natura* predicted that direct sales would remain popular with Brazilian consumers for at least another ten years. He said that Brazilians liked the 'cultural side' of direct sales.

Natura places an emphasis on using natural ingredients in its cosmetics. It also aims to use recyclable packaging whenever possible. It portrays ordinary women, rather than the 'supermodels' and celebrities used by *L'Oréal*, in its advertising. *Natura* has established internet sites designed to encourage 'online communities' of consumers. For example, it has a website called 'I Love Make-Up' which encourages visitors to exchange their views about *Natura's* products.

L'Oréal has struggled to establish itself in the Brazilian market for make-up and skincare products. For example, in 2010, only 15% of *L'Oréal's* Brazilian revenues came from the sale of these products compared with its global total of 50%. *L'Oréal* does not use direct sales and prefers to use retail outlets. It also believes that, as the Brazilian economy develops, the importance of direct sales will decline. However, *L'Oréal* does use 'personal beauty advisers' in its sales areas within department stores in Brazil.

In 2012, *L'Oréal* announced that it planned to establish a chain of specialist stores in Brazil. These retail stores would sell a range of cosmetics somewhere between the mass market and luxury market. Described by *L'Oréal* as 'affordable luxury', the products sold through the stores would hopefully encourage Brazilian consumers to break their habit of purchasing cosmetics through direct sales. Seven stores would be opened by the end of 2012, with the intention of adding 50 more stores by 2016.



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