

SPECIMEN MATERIAL – COMPETITIVE BUSINESS ENVIRONMENT

Section A


Answer **all** questions in this section


Total for this section: 50 marks

In the multiple choice questions, only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD  WRONG METHODS    

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1

A business might be affected by uncertainty because it could:

- A Result in sales falling
- B Help its staff to demonstrate enterprising behaviour
- C Make it easier to predict how much profit will be made
- D Encourage the business to grow

[1 mark]

0 2

Which of the following is an example of a business objective?

- A An employee wants to increase her wages
- B A social enterprise wants to benefit the local community
- C A sole trader wants to receive enough profit to support his family
- D A social enterprise wants to increase sales by 10%

[1 mark]

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0 3

A country's annual rate of inflation declines. Businesses in that country will benefit from this because:

- A Their costs will increase
- B Imported products will be more expensive
- C They will have less pressure to increase staff pay
- D It will be more expensive to borrow money

[1 mark]

0 4

UK businesses are most likely to react to a change in the UK to USA currency exchange rate, from £1:\$1.45 to £1:\$1.55, by:

- A Selling fewer products to the USA
- B Buying fewer products from the USA
- C Selling more products to the USA
- D Selling fewer products in the UK

[1 mark]

0 5

A business that has gained a competitive advantage is most likely to:

- A Charge prices similar to those of competitors
- B Reduce the quality of products sold
- C Reduce the number of staff it employs
- D Sell products not offered by competitors

[1 mark]

0 6

Market nichers are more likely to survive in a competitive market if they:

- A Sell products similar to those sold by the market leader
- B Meet the needs of a specific target market
- C Challenge the market leader
- D Charge prices 10% higher than the market average

[1 mark]

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0 7

A business believes that the quality of its products is inferior to one of its competitors. This could be seen as a **minor** internal weakness of the business if:

- A Customers have been complaining about its own products
- B The competitor is facing declining sales
- C The competitor is the market leader
- D The competitor has a competitive advantage

[1 mark]

0 8

A UK business is planning to sell its existing products to consumers living in China. This is an example of:

- A Market penetration
- B Differentiation
- C Market development
- D An internal strength

[1 mark]

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0 9

Explain **one** way in which an increase in indirect competition might reduce the sales of a business.

[3 marks]

1 0

Explain **one** way in which a business might use Porter's cost leadership strategy to increase its sales.

[3 marks]

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1 2

A leisure centre aims to achieve a customer satisfaction rating of 95% from its members. The manager has reviewed the latest ratings and is concerned to find that this has declined from an average of 98% in 2012 to 85% in 2013. They have the following data available to them.

Year	Investment in equipment and facilities	Number of staff employed	Number of members	Annual membership fee
2011	£20 000	30	2 000	£300
2012	£70 000	35	2 400	£320
2013	£50 000	35	3 000	£330

Use the data to analyse the importance to the leisure centre of managing physical and human resources.

[6 marks]

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1 4

The average annual income, per person in selected countries, is shown below.

Average annual income per person, 2010 to 2012 (USA \$)

	2010	2011	2012
USA	\$48 358	\$49 854	\$51 749
United Kingdom	\$36 425	\$39 186	\$38 920
Brazil	\$10 978	\$12 576	\$11 340
China	\$4 433	\$5 447	\$6 091
India	\$1 417	\$1 540	\$1 503

Use the data to analyse the importance to multi-national businesses of average income levels within the countries in which they operate.

[6 marks]

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1 6

Independent clothing retailers operate on a small scale, often from a single retail outlet. They face significant competition from large scale retailers, such as supermarkets (eg Tesco) and high street brands (eg Topshop).

The following survey results were published by ‘Ethical Consumer’ in 2014.



Note: ‘garments’ means clothing

Use the data to analyse the importance of social trends to independent clothing retailers operating in a competitive environment.

[6 marks]

**DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED**

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Section B

Answer **both** questions in this section

Total for this section: 30 marks

Read **Item A** and then answer question 17.

Item A

L'Oréal and two billion customers

The market for cosmetics includes products ranging from basic soap to luxury perfume. In 2013, L'Oréal achieved global sales of €23 billion. The French-based business received more revenues worldwide than any other business in the cosmetic market, making it the global market leader. However, it faces significant competition from global market challengers, including Unilever, Procter & Gamble and Avon. In 2013, L'Oréal spent €857 million on research and innovation and registered 624 patents.

L'Oréal has a vision of doubling its number of customers from 1 billion to 2 billion. This is seen as being achievable because of the potential for new customers in several developing economies such as India, Brazil and China.

Although entering the market later than Unilever, L'Oréal has achieved rapid sales growth in India. It has a research and innovation (R&I) centre based in India. In addition to employing scientists to develop new products, L'Oréal regularly carries out in depth 'focus-group' interviews with panels of consumers at this centre.

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. For example, one of L'Oréal's most successful products in this market is 'Garnier Colour Naturals'. Developed for the Indian market, the hair dye product added a new benefit for consumers: it could be stored after opening and did not have to be used in one go. In addition, the price of this product is significantly less than that charged for similar products in developed economies, such as the USA. Some of L'Oréal's more successful products, developed in India, are exported to neighbouring countries in Asia and also to Eastern European countries.

Recently, L'Oréal has been focussing on the luxury cosmetics market segment in India, developing its presence in beauty spas and department stores. India's highest earning 10% of the population have increasing incomes and want to buy luxury products. These high earners prefer foreign products, such as L'Oréal's existing international range, as they are seen as offering superior quality.

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Read **Item B** and then answer question **18**.

Item B

Can L'Oréal break into the Brazilian market?

The Brazilian economy is one of the largest in the world. Brazilians save a relatively low proportion of their incomes and, between 2006 and 2011, spending on cosmetics grew by 281%.

Make-up and skincare products have a history of direct sales in Brazil. The two dominant businesses, Natura and Avon, built up a strong market position through this sales channel. Natura, a Brazilian business, employs 'consultants', who sell directly to customers and earn a commission from each sale. In 2010, Natura employed 1.2 million consultants.

In 2010, Natura and Avon jointly accounted for 50% of make-up sales and 42% of skincare sales in Brazil. 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. In 2012, Natura's profits grew by 10% to \$2.8 billion.

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 prefers not to use direct sales and believes that, as the Brazilian economy develops, the importance of direct sales will decline. However, it 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 retail outlets 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 creating almost 60 stores by 2016.

In 2013, L'Oréal achieved a sales growth of 13.3% in Brazil. It had also established a 'micro-distribution system'. This system uses more than 50 distributors to sell L'Oréal's products to the many small scale hair salons operating in Brazil's 'favelas' (slum areas, located within Brazil's major cities, with low levels of average income). These distributors lived in the favelas and received financial funding and training from L'Oréal.

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