

Unit 3 - Marketing

1 Pamela is a sole trader. She started her successful photography business 30 years ago. She specialises in taking pictures of people and places for use in posters, calendars and fashion magazines. It is a niche market. Pamela uses cost-plus pricing as part of her marketing mix. Offering a high quality service is important to Pamela and her 2 employees.

(a) Define 'cost-plus pricing'.

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(b) Define 'marketing mix'.

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(c) Outline **two** reasons why offering a high quality service might be important for Pamela's business.

Reason 1:
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Reason 2:
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(d) Explain **two** advantages to Pamela of operating as a sole trader.

Advantage 1:

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Explanation:

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Advantage 2:.....

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Explanation:

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(e) Do you think operating in a niche market will help a small business have a better chance of success than operating in a mass market? Justify your answer.

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1 WYP is a business partnership. Greg and his 3 friends started the business 7 years ago. WYP make eyeglasses (spectacles) which are only sold through its website. The price of each pair of glasses is \$95. This is \$200 cheaper than its main competitor. Greg said: 'It was difficult at the start as we could not get trade credit. We also knew it would take time to develop customer loyalty.' Greg thinks choosing the right method of promotion is important to the success of any new product.

(a) Define 'partnership'.

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(b) Define 'customer loyalty'.

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(c) Outline **two** possible reasons why WYP could not get trade credit.

Reason 1:
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Reason 2:
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(d) Explain **two** possible problems for WYP of selling products at low prices.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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(e) Do you think promotion is more important than product for a new business? Justify your answer.

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1 SRB is a bank which provides loans to business customers. SRB plans to make 100 managers' jobs redundant from its 80 branches. This would remove one level of hierarchy. This is part of its plan to save \$1m in costs over the next 2 years. The Managing Director said: 'SRB is working with the trade union about this plan. SRB will make more use of delegation. The bank has to respond to increased competition from online banks. SRB could either advertise more or develop new products and services.'

(e) Do you think that more advertising is a better way for a business to respond to increased competition than introducing new products and services? Justify your answer.

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- 2 Samira owns a successful business selling takeaway fried food. She employs 2 part-time workers. Last year revenue fell for the first time in 10 years. This was because of increased competition from a well-known franchise. To respond to this, Samira could lower her prices, as shown in Table 1. Another option is to start a delivery service. Samira plans to do some market research. She has to decide whether to use secondary research or set up a focus group with some of her customers.

Table 1: Price and variable cost information for Samira's business

	Current price	New price
Average price per item	\$4	\$3
Average variable cost per item	\$2	\$2
Forecast average number of customers per week	200	300

- (d) Identify and explain **two** factors Samira should consider before starting a delivery service.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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(e) Do you think Samira should use secondary research or a focus group to gather market research information? Justify your answer.

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3 LBM is an online fashion clothing retailer. LBM's target market is 18-35 year olds. Last year revenue increased by 25% to \$600m. The Marketing Director said: 'All businesses have to satisfy customer needs. Customer service is important which is why all employees receive induction training. LBM offers customers a wider range of products than its competitors. Promotion is through social media networks. Is there any reason to open our own shops?' LBM plans to add 3500 new styles each week and will need to arrange finance for the additional inventory.

(a) What is meant by 'induction training'?

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(b) Identify **two** reasons why it is important for LBM to satisfy customer needs.

Reason 1:
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Reason 2:
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(c) Identify and explain **two** problems for LBM of having a wide range of products available to customers.

Problem 1:
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Explanation:
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Problem 2:
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Explanation:
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(d) Identify and explain **one** advantage and **one** disadvantage to LBM of opening its own shops.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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- 1 Mercy and Ayo are entrepreneurs. They plan to open a shop selling homemade ice cream. Mercy wants the business to be ethical and only buy high quality organic milk from local farms. Ayo used sampling to help him carry out some primary market research. An extract of the results from the 300 people in the sample is shown in Table 1.1. Ayo thinks a new business has a better chance of success if it is located where there is no competition.

Table 1.1

Results from a market research question	
What price are you willing to pay for a pot of ice cream?	% of sample
\$0.50 - \$1.50	90%
\$1.51 to \$2.50	55%
\$2.51 - \$3.50	20%
Over \$3.50	5%

- (a) Define 'entrepreneur'.

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- (b) State **two** reasons why sampling is used when carrying out market research.

Reason 1:.....

 Reason 2:.....
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- (c) Outline **two** ways in which being ethical could help Mercy and Ayo's business.

Way 1:.....

 Way 2:.....

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(d) Explain **two** ways in which market research results can help Mercy and Ayo's business.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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(e) Do you think a new business has a better chance of success if it locates where there is no competition? Justify your answer.

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- 2 RVC uses batch production to manufacture a large range of products including soap and shampoo. Many of the products are at different stages of the product life cycle. The Marketing Director has been reviewing some data for one brand of soap, as shown in Table 2.1. She said: ‘Last year sales were 80 000 units a week. I want to know the current level of profit and margin of safety.’ The Marketing Director has to decide on a suitable extension strategy. The choice is between new packaging or targeting new markets.

Table 2.1

Cost, price and sales data for one brand of RVC's soap	
Selling price	\$2.50
Fixed costs per week	\$20 000
Average variable costs	\$0.90
Number of sales per week	40 000

- (e) Do you think targeting new markets is a better extension strategy than new packaging for a manufacturing business ? Justify your answer.

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- 4 LXA is a private limited company based in country Z. It makes children’s clothing. LXA sells its products in competitive markets in several countries. LXA’s directors are considering different ways for the business to grow. The Finance Director has prepared some financial information before meeting with some of LXA’s stakeholders. An extract is shown in Table 4.1. The Marketing Director wants LXA to start producing clothing for adults.

Table 4.1

Extract of LXA’s financial data		
	2019	2018
Working capital (\$000)	180	200
Acid test ratio	0.5	0.7
Return on Capital Employed (ROCE)	6%	8%
Gross profit margin	20%	25%

- (e) Do you think a business should use the same marketing mix to sell its products to different age groups? Justify your answer.

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1 Kara's business makes wax candles. She sells them to retailers at low prices. She gives retailers 60 days to pay. Kara has to pay her suppliers when raw materials are delivered. Kara used crowd-funding to set up her business. The bank would not give Kara a loan as she did not have a business plan. Last year revenue was \$50 000. Demand is increasing but Kara is not yet able to benefit from economies of scale. She said: 'Cash-flow is a problem. All cash inflows are used to buy inventory.'

(d) Explain **two** factors Kara should consider when deciding whether to increase prices.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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