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Centre number

Candidate number

Surname \_\_\_\_\_

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# Level 3 Technical Level BUSINESS: MARKETING

## Unit 1 Competitive Business Environment

Monday 3 June 2019

Afternoon

Time allowed: 2 hours

### Materials

You will need no other materials.

### 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. There are 50 marks for **Section A** and 30 marks for **Section B**.
- There are two sections to this paper.
- Both sections should be attempted.
- You should spend approximately 60 minutes on **Section A** and 60 minutes on **Section B**.

For Examiner's Use	
Question	Mark
1–8	
9	
10	
11	
12	
13	
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15	
16	
17	
18	
<b>TOTAL</b>	

### Advice

Please read each question carefully before starting.



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**Section A**Answer **all** questions in this section.**Total for this section: 50 marks**Tick (✓) the box next to the correct answer for questions **01** to **08**.**0 1****Liability** is a factor that can determine the choice of business ownership because**[1 mark]****A** LTDs can sell shares on the stock exchange.**B** partners might have to sell their own assets.**C** PLCs have unlimited liability.**D** sole traders make their own decisions.**0 2**A business could face **uncertainty** because it**[1 mark]****A** does not know if sales will fall.**B** has a 10% chance of failure.**C** knows that costs will not rise.**D** wants to make a profit.

0 3

The table below shows annual gross domestic product (GDP) for a country.

	2016	2017	2018
Annual GDP (£million)	100 000	110 000	115 000

The table shows that annual **economic growth** in 2017 and 2018 was

[1 mark]

**A** at least 10% in both years.

**B** highest in 2018.

**C** lower in 2018 than 2017.

**D** never higher than 5%.

0 4

More consumers are shopping online. A retail chain, with several high street shops, might best react to this **social trend** by

[1 mark]

**A** hiring more staff to work in its high street shops.

**B** increasing the number of shops on the high street.

**C** offering lower prices than online competitors.

**D** offering the same products as online competitors.

0 5

**Markets** are defined by their different

[1 mark]

**A** manufacturing costs.

**B** products and locations.

**C** profits made.

**D** sales volumes.

Turn over ►



0 6

Manufacturers often use **technological development to support innovation**.

An example of this for a mobile phone manufacturer is when it

[1 mark]

**A** invests in more efficient transportation to retailers.

**B** makes use of social media to help segment the market.

**C** uses cheaper components to reduce the cost of its mobile phones.

**D** uses the latest high-resolution screens in its mobile phones.

0 7

The **internal strengths and weaknesses** of a business would **not** include its

[1 mark]

**A** competitive advantage.

**B** competitors' innovations.

**C** product patents.

**D** workforce efficiency.

0 8

A business has a limited budget to invest in operations and marketing.

Which **Ansoff's competitive strategy** should it use to increase its sales revenue?

[1 mark]

**A** Diversification

**B** Market development

**C** Market penetration

**D** Product development

8



0 9

A business wants to innovate.

Explain **one** benefit to this business of creating a **culture of enterprising behaviour**.

[3 marks]

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1 0

A business wants to increase the prices it charges but it is operating in a competitive market.

Explain **one** benefit to this business of using **Porter's differentiation strategy**.

[3 marks]

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Turn over ►



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**1** | **1**

Catalyst Electronics (CE) is a Canadian business that is establishing a UK research and development (R&D) facility in the Midlands.

A total of 200 technical, administrative and operational employees will be recruited. All employees will live in the local area and CE will purchase some materials from local suppliers. The average annual salary of the employees will be £40 000, and it is estimated that 25% of earnings would be spent locally.

Use the information above to analyse the benefits to **external stakeholders** of CE establishing an R&D facility in the Midlands.

[6 marks]

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1 2

Bilal worked as a garage mechanic before starting his own business in 2016. He now goes to customers' houses to repair their cars. Bilal earned £35 000 a year as a garage mechanic but had to work 54 hours a week, often including Saturdays, to achieve this. He has a partner and two young children.

Bilal's vision statement is to "offer a great service satisfying customers' needs and giving my family a better quality of life."

The table below shows Bilal's objectives and achievements for his business.

Objectives	Measured by	Achievements		
		2016	2017	2018
10% growth in annual profits	Annual profit	£25 000	£30 000	£32 000
80% of customers 'highly satisfied'	Customer satisfaction	90%	80%	70%
Fewer hours worked per week	Hours worked per week	60 hours	50 hours	45 hours

Use the information above to analyse the achievement of Bilal's **vision statement**.

**[6 marks]**

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**1 3**

Best Bargains (BB) Ltd sells a range of household goods at budget prices. It has three stores. Each store has four checkouts, which are fully staffed when customer waiting times are above 120 seconds. The table below shows average staffing levels, weekly sales and customer waiting times for 2019.

	Store		
	A	B	C
Staff	15	20	25
Weekly sales	£15 000	£22 000	£30 000
Waiting times	50 seconds	220 seconds	130 seconds

BB Ltd wants to reduce its total staff from 60 to 57 and also make better use of staff. Staff can be moved between stores. Each store has space to add one checkout.

Use the information above to analyse how BB Ltd might **manage its human and physical resources** across its stores.

[6 marks]

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1 4

The distribution of average UK household income (before tax and benefits), for the lowest earning 20% and the highest earning 20%, is shown below for 2015 and 2017.

UK household income	2015	2017
Lowest 20%	£6 146	£7 383
Highest 20%	£83 830	£88 776

This data can be used to measure income inequality and how it is changing.

Use the information above to analyse the **trend in the distribution of UK household income** between 2015 and 2017.

**[6 marks]**

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**1 6**

TellTek (TT), a manufacturer of smartphones, is based in country X and relies on having a source of low-wage labour to make a profit. It is considering relocating to neighbouring country Y.

TT sells 90% of its products to countries **other** than X and Y. It can sell its factories and have more than enough finance to buy similar factories in neighbouring country Y. Both countries have the same quality of road and rail networks.

TT has been reviewing economic data for 2018.

	Average rate of unemployment	Annual inflation
Country X	3.5%	7.3%
Country Y	18.9%	0.5%

Use the information above to analyse TT's **location decision**.

**[6 marks]**

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**6**

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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****Competitive rivalry and success**

Total market demand for health and fitness clubs (HFCs) in the UK increased by £0.3 billion to £4.7 billion in 2017. Approximately 40% of HFCs are public sector organisations partly funded by government. However, their numbers fell in 2017 due to reduced government funds.

The private sector accounted for approximately 60% of HFCs in 2017. This sector can be split into segments:

- **Premium** – businesses operating multiple clubs and requiring customers to agree to 12-month contracts. They:
  - charge high monthly fees (eg Virgin Active £89 per month for over 18s)
  - offer a wide range of equipment and facilities (eg tennis courts and swimming pools)
  - are staffed by highly trained professionals.
- **Mid-market** – local businesses owning a small number of clubs and, in order to survive, focusing on a particular theme (eg group exercise). This segment also contains nationwide businesses, for example, Anytime Fitness, which offers:
  - small and convenient local gyms
  - 24 hour/7 day a week access
  - 12-month contracts for £39.95 a month.
- **Low-cost** – these businesses represent the smallest segment (less than 10% of clubs) but experienced the highest growth in demand in 2017. The top two businesses, PureGym and The Gym, accounted for 56% of the segment's total revenues in 2017. They have:
  - the lowest monthly fees (eg £24.99)
  - no long-term contracts but still offer 24/7 access
  - fewer staff, keeping costs low and focussing on basics.

In 2015 PureGym bought LA Fitness, a failing mid-market HFC business. In 2017, PureGym's profits increased by 51% and it operated 192 clubs. The Gym increased its profits by 23% and operated 128 clubs in 2017. By this time, Virgin Active had already sold 35 of its clubs to a premium segment competitor (Nuffield Health) and had invested in its remaining 61 clubs to enhance their premium status.







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

### **Item B**

#### **The best response?**

BlastFit is owned by Jenny Borwick. She started the business in 2016, opening three BlastFit clubs by the end of 2018. Targeting people looking for rapid improvement in fitness, BlastFit offers an intensive programme, called the 'boot camp', designed to burn calories and tone muscles.

Customers initially pay £230 for 20 sessions, each lasting 1 hour, over a 2-week period. After this, customers can buy sessions to be used within a year, eg 10 sessions for £180 and 20 sessions for £340.

When Jenny started the business, competition was limited in her area and the business was very successful. However, in 2018, two competitors opened nearby. FitNow offers low prices, at £30 a month, and basic gym facilities. Burn offers a similar service to BlastFit. However, Burn does not offer the initial boot camp experience but sells sessions at a lower price, eg 10 sessions for £160 and 20 sessions for £300. These sessions have to be used within 6 months of purchase.

Some of Jenny's customers have stopped using BlastFit, deciding to try out the competition. She also noticed a 20% decline in new customers compared with previous years. Sales for the first 3 months of 2019 were down 10%. Jenny was worried that her competitors would threaten the survival of her business.

In May 2019, Jenny transformed one of her BlastFit clubs into a general health and fitness club, similar to FitNow, and rebranded it as Fit4U. She would charge customers £25 a month. Jenny thought that the opportunity to benefit from the growing demand for budget health and fitness clubs was too good for her to ignore. She also closed the club located closest to Burn. This left her with one BlastFit club and she planned to open a new BlastFit club in an area with little competition.

Although she had informed all of her existing customers of her plans, Jenny was concerned about their possible reactions. She also wondered what her competitors would do.









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