

The market

Level: Pearson Edexcel Level 3 Advanced GCE

Subject: Business (9BS0)

Exam Board: Edexcel A level Business students for all boards

Topic: The market

Type: Questionnaire

To be used by all students preparing for Pearson Edexcel Level 3
Advanced GCE Business (9BS0)

Questions

Q1.

Demand for healthy crisps grows

They may not be the healthiest snack, but potato crisps remain the UK's second most popular snack food. However, with healthier alternatives such as crisps made out of dried fruit becoming ever more popular, is the classic deep fried potato crisp under threat?

Market research organisation, Mintel, has stated that during the period of negative economic growth from 2008-2012, demand for UK potato crisps increased by 29%. However, a Mintel spokesperson highlighted that, 'at the end of the day crisps are an indulgent treat but consumers are not oblivious to their health credentials.

5

This has led to new firms entering the UK crisp market such as those owned by Charlie Fermor of Perry Court Farms. It produces a new air-dried crisp entirely out of apples. Charlie stated that 'our fruit crisps are completely natural. It's just apple. There's no oil, sugar or salt or any of that other horrible stuff! Perry Court Farms have recently signed contracts to export their air-dried apple crisps to China and Charlie expects revenue to increase by over 1 000% during 2013.

10

(Source: adapted from <http://www.dailymail.co.uk/news/article-2228633/Farmers-son-Charlie-Fermor-developed-fruit-crisps-begins-exporting-worldwide.html>)

Assess the consequences for UK crisp manufacturers of changing consumer preferences towards healthier snack foods.

(10)

Q2.

Extract C
Gym surge

Britons are trying to get fitter with a bigger than usual January rush this year to join gym chains, as people resolve to work off their Christmas overindulgence. The media focus on health and fitness has also helped encourage less active people to exercise more. Fitness First, a health club chain, stated that membership retention is at one of its highest levels. 5

A spokesman said: "Every day we are bombarded with messages in the media on how an hour of exercise, three times a week, can help boost overall life expectancy and wellbeing."

(Source: adapted from <http://www.express.co.uk/finance/city/633097/Gym-surge-Greggs-sales-UK-interest-rates-Arla>, 10 January 2016)

The average price elasticity of demand for clubs in the health and fitness market is estimated to be -2.

Assess the likely impact of media health campaigns on the price elasticity of demand for health and fitness clubs. (12)

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(Total for question = 12 marks)

Q3.

Extract A

UK holiday trends for 2017

Research by the Association of British Travel Agents (ABTA) shows an increase in bookings for all-inclusive holidays. For consumers seeking value for money, ease of travel and a stress-free break, all-inclusive holidays provide the best solution.

With the UK £ sterling exchange rate and its economy both remaining uncertain, all-inclusive holidays, to destinations such as Mexico and South Africa, are easier to budget for.

The income elasticity of demand for holidays has increased for some UK tourists. Some consumers are switching from two-week beach holidays in favour of short-term experiences, such as city breaks or staycations.

(Sources adapted from: <https://www.howardtravel.com/about-us/blog/item/58-travel-trends-2017> and https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/Culture_and_Heritage_Topic_Profile_Full.pdf)

Using the data in Extract A, assess **two** reasons why income elasticity of demand for holidays may be income elastic.

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Q5.

Extract A

Takeaway consumption and median income in the UK

	Average number of takeaway meals consumed per year, per person	Median annual income for full-time employees
2013	140	£27 000
2014	144	£27 195

(Sources: adapted from © Crown copyright, © 2017 RetailMeNot UK Limited and © Associated Newspapers Ltd)

Using the data in Extract A, calculate, to 2 decimal places, the income elasticity of demand for takeaway meals. You are advised to show your working.

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(Total for question = 4 marks)



Q6.

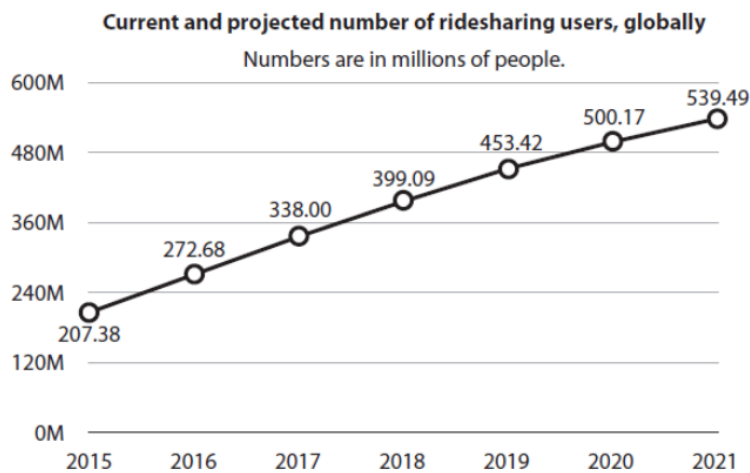
Extract D

Estimates of price elasticity of demand (PED) of car brands

Brand	PED
Audi	-4.63
Ford	-2.75
Land Rover	-6.75
Suzuki	-1.64
Toyota	-2.65
Volkswagen	-2.31

(Source: adapted from <https://repository.library.northeastern.edu/files/neu:349589/fulltext.pdf>)

Extract E



Ridesharing is an arrangement in which a passenger travels in a private vehicle driven by its owner for a fee by a means of a website or app.

(Source: from <https://www.statista.com/outlook/368/100/ride-hailing/worldwide#market-revenue>)

Extract F

Ridesharing businesses in India

Ola is an Indian ridesharing business. Its main competitor is American-owned Uber. Ola's strength is local knowledge; it has always accepted cash payments, while it took Uber nearly two years to do the same. Ola's app also supports nine regional languages for drivers, which is important as only 10% of Indians speak English. Ola offers three different services: premium, low-cost and car-pooling. Ola's auto rickshaws, which have their own safety standards, are successful in smaller cities where distances are shorter. 5

After its exit from China, Uber said it would divert a 'significant portion' of its planned \$1 billion marketing budget to India. This led to calls from Indian businesses for government laws to limit investment by non-Indian businesses into the market.

In one of Uber's other markets, the USA, a former Uber engineer alleged sexual harassment by her manager, and one of the founders of Uber was caught swearing at an Uber driver. Other questions about Uber's business practices have been raised: trade unions have requested drivers receive basic rights such as a living wage and unemployment insurance; Uber classifies its drivers as independent contractors and so they are not eligible for benefits such as overtime and health insurance. 10

Uber's pricing structure has also been criticised, after allegations it routinely overcharges customers. It was recently sued for not providing enough vehicles accessible to wheelchair users. 15

(Source: from <https://qz.com/1200878/with-uber-in-crisis-ola-zooms-ahead-in-indias-taxi-wars/> and <https://www.theverge.com/2017/6/30/15904510/uber-open-letter-board-ethical-recommendations>)

Extract G

Ford and Mahindra joint venture

Mahindra, an Indian-based car manufacturer, and Ford have signed a deal to develop a new Sports Utility Vehicle (SUV) for the Indian market. These will have a Ford body and badge, but will be based on a car chassis (frame) that will be made by Mahindra. 5

The deal will see Mahindra and Ford cooperate with each other for a period of three years. While Ford may gain economies of scale and a lower cost structure from Mahindra's new car chassis, Mahindra will get access to Ford's engineering knowledge. Mahindra will also get support in global emerging markets, including Ford's manufacturing and car distribution network. The Managing Director of Mahindra Ltd said, "Both teams are working together and building on mutual strengths. We are excited about the synergies unveiled through this joint venture and the potential opportunities it will bring." 10

(Source: adapted from <https://auto.ndtv.com/news/ford-and-mahindra-confirm-jointly-developed-suvs-electric-car-for-india-1827425>)

In 2019 the price of a Ford Endeavour rose from 30m Rupee to 30.9m Rupee. Using this data and the information from Extract D, calculate the percentage change in quantity demanded for the Ford Endeavour in 2019. State your answer to two decimal places.

You are advised to show your working.

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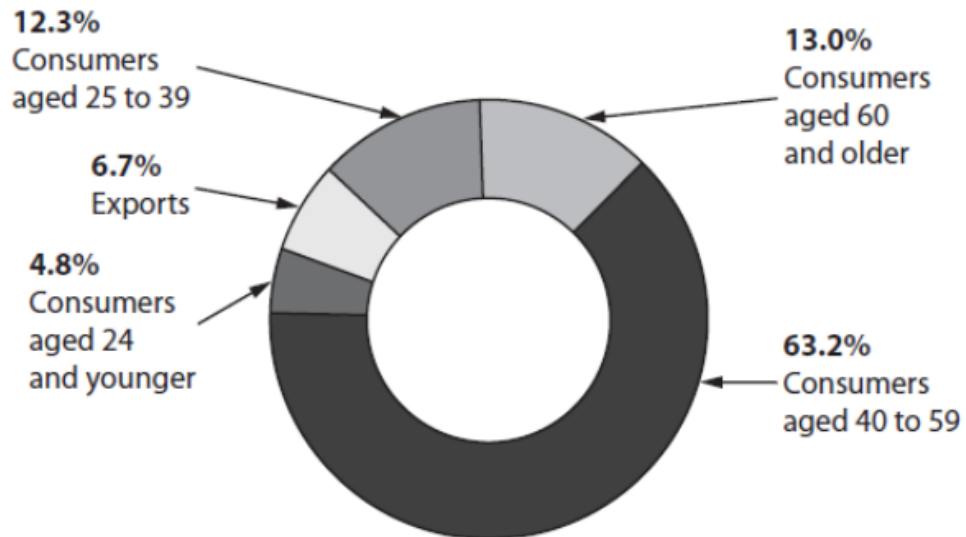
(Total for question = 4 marks)



Q7.

Extract D

The US coffee market 2016



(Source adapted from: Industry Insider Copyright © 2018)

Extract E

Estimated change in USA population by age group

Age (years)	Change (%) between 2020 and 2040
Under 24	-2.4
25 to 39	-1.3
40 to 59	-1.2
60 and over	4.9

(Source adapted from: <https://www.census.gov/>)

Extract F

Canadian coffee roaster sold to Lavazza

For more than 120 years, Lavazza has been a major business in Europe's coffee market. It focuses on selling coffee through small specialised outlets. Lavazza has recently bought an 80% stake in Canada's Kicking Horse Coffee. Lavazza stated 'we are interested in NAFTA. Kicking Horse has a strong presence in the fast-growing organic and fairtrade segments of the Canadian coffee market. It fits well in Lavazza's brand portfolio.

Under NAFTA, member states must treat each other's goods, services, and investors as they treat their own. Foreign investors can purchase any company incorporated in Canada, knowing they have secure access to markets in the USA and Mexico.

(Source based on: ©2018 CBC/Radio-Canada)

Extract G

Staffing approaches at Starbucks

North Star is a Starbucks initiative created to focus its North American employees on what makes a good Starbucks' customer experience.

Some employees are unhappy about how North Star has affected them. Their concerns include: workers struggling with high workloads; less support and reduced management; understaffing because organisational structures in stores and regions have been made flatter. One employee said: "They cut our labour in half last year, and often there'd only be one coffee server on at a time. Staff are simply treated as a cost".

Kris Engskov, new Head of US Retail, said: "Staff are our biggest asset; how we staff our stores is the most important thing we do. Our managers have great autonomy".

In the USA, Starbucks' baristas are paid \$9.50 an hour on average, compared to McDonald's employees who are paid \$8.49 an hour. Other Starbucks staff benefits include university tuition assistance, flexible working hours and Starbucks shares at a discounted price.

(Source adapted from: © 2018 Insider Inc)



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Consumers aged 40-59 years old are the largest age group in the USA coffee market.

Using the data in Extract E, draw a demand and supply diagram to show the likely effects of the estimated change in population for the 40-59 age group on the USA coffee market.

(4)

(Total for question = 4 marks)



Q8.

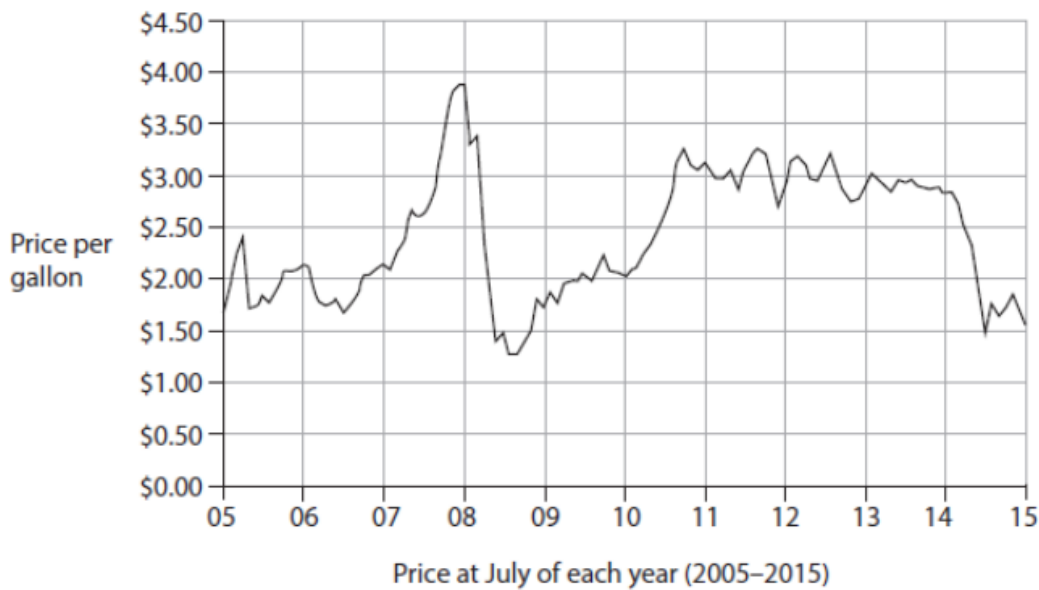
Using the data from Extract A, draw a supply and demand diagram to illustrate the likely effects of falling Smartphone prices on the market for network providers.

(4)

Q9.

Extract B

Jet fuel prices



(Source: adapted from <http://uk.businessinsider.com/cheap-oil-is-having-an-impact-on-air-travel-2015-8?r=US&IR=T>)

Using the data from Extract B, draw a supply and demand diagram for airline tickets to show the likely effects of the change in jet fuel prices between 2014 and 2015.

(4)

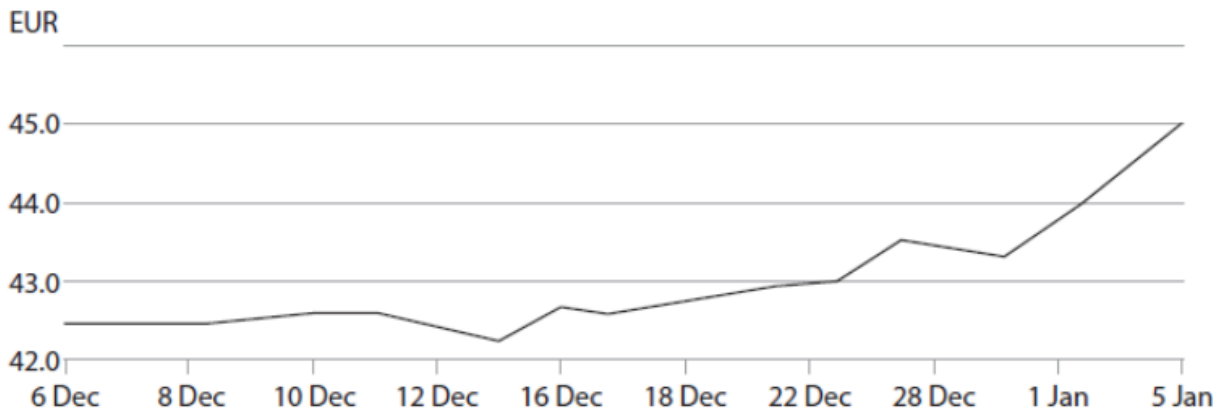
(Total for question = 4 marks)



Q10.

Extract A

The price of one gram of gold on world markets in euros (6 December 2019 to 5 January 2020)



Gold is one of the raw materials used in the manufacture of luxury watches.

(Source: adapted from <https://www.gold.org/goldhub/data/gold-prices>)

Using the data in Extract A, draw a supply and demand diagram to show the possible impact of the change in the price of gold, between 6 December 2019 and 5 January 2020, on the luxury watch market.

(4)

(Total for question = 4 marks)



Q11.

Percentage change in GDP

	2009	2010	2011	2012
China	9.2%	10.4%	9.3%	7.8%
India	8.5%	10.5%	6.3%	3.2%
United Kingdom	-5.2%	1.7%	1.1%	0.1%

GDP per capita in US\$

	2009	2010	2011	2012
China	3 749	4 433	5 447	6 093
India	1 147	1 417	1 540	1 503
United Kingdom	35 455	36 573	38 927	38 649

(Source: <http://data.worldbank.org/indicator/NY.GDPMKTP.KD.ZG>)

Using the data, evaluate the likely impact of economic growth on UK-based crisp manufacturers.

(20)

Q12.

UK car manufacturing is forecast to grow over the next few years (Extract C).

When aiming to grow, UK-based car manufacturers face a choice: continue to focus production in the UK, or expand production overseas.

Using the data in Extracts C and D and your own knowledge, evaluate these two options and recommend which one is more likely to be successful for a car company, such as Jaguar Land Rover.

(20)

Q13.

Extract A

UK's live entertainment industry revenue hits new highs in 2017

The West End, London debut of the hit Broadway musical Hamilton, mega concerts by U2 and Guns N' Roses and the return of Star Wars helped boost the UK's live entertainment sector to a record £17bn in revenues last year. Growth will continue this year as the UK's live entertainment economy - which ranges from cinema visits to attending music and arts festivals and live tours of TV shows including The X Factor - is forecast to surge by another £400m.

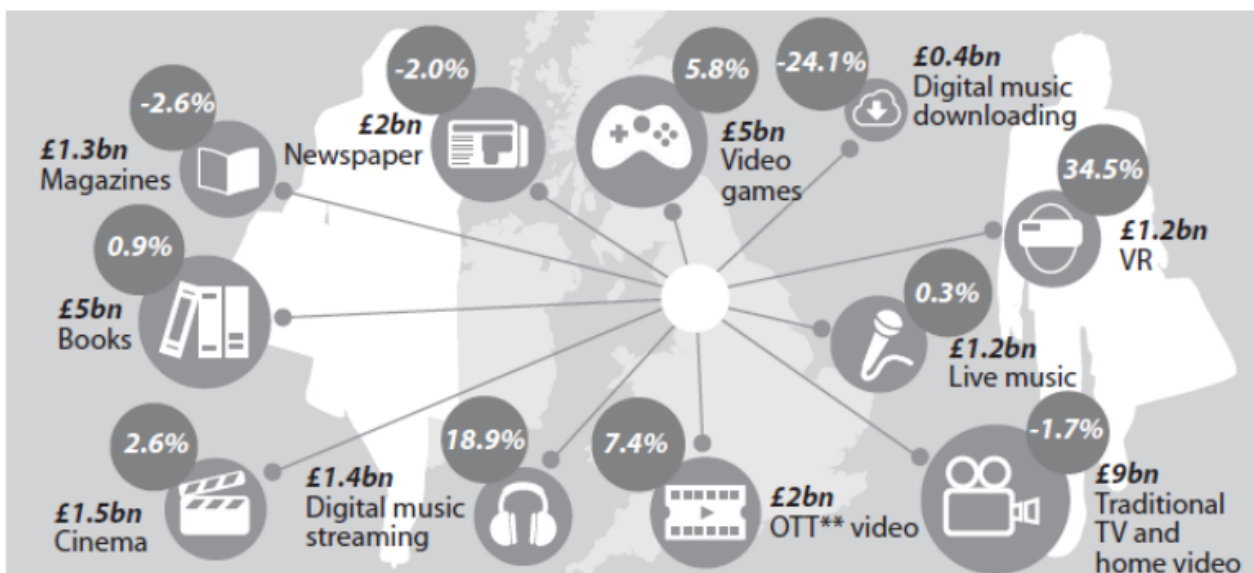
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Revenue from live performances, such as concerts or the theatre, reached £2.1bn last year and is expected to grow a further 7% in 2018, according to a report from Deloitte.

(Source: <https://www.theguardian.com/media/2018/jan/19/uks-live-entertainment-industry-hits-new-highs>)

Extract B

Forecast UK consumer spending habits in 2022*



*when compared to 2018

**OTT stands for 'over-the-top', the term used for the delivery of film and TV content through the internet with companies such as Netflix or Amazon Prime, without requiring users to subscribe to a traditional cable or satellite pay-TV service such as Sky or BT Vision.

(Source: <https://www.pwc.co.uk/industries/entertainment-media/insights/entertainment-media-outlook.html>)

Extract C

ITV Chief: Now is last chance to build British challenger to Netflix

The new Chief Executive of ITV, Carolyn McCall, declared that building a UK subscription video-on-demand service is a priority in order to compete with the US-based streaming superpowers Netflix and Amazon.

Netflix's core US market is close to saturation, so its international markets are driving growth. UK viewers are flocking to the US giant: Netflix has almost 10 million UK subscribers, compared to Sky's 9.6 million pay-TV and Amazon Prime Video's 7.3 million subscribers. 5

McCall said 'to provide the depth and breadth of programmes for an ITV subscription video-on-demand service, programmes that were previously licensed to Netflix must instead be kept by ITV. This means no more deals such as licensing Love Island, the ITV2 reality TV show, to Netflix. 10

'The best chance of creating a viable rival to Netflix is for the UK's public service broadcasters (PSBs) to join forces'. However, she conceded that a joint venture between the publicly-listed ITV, the licence fee funded BBC and state-owned commercially funded Channel 4 - is proving difficult. 15

'We all have different ownership structures and we all have slightly different objectives!

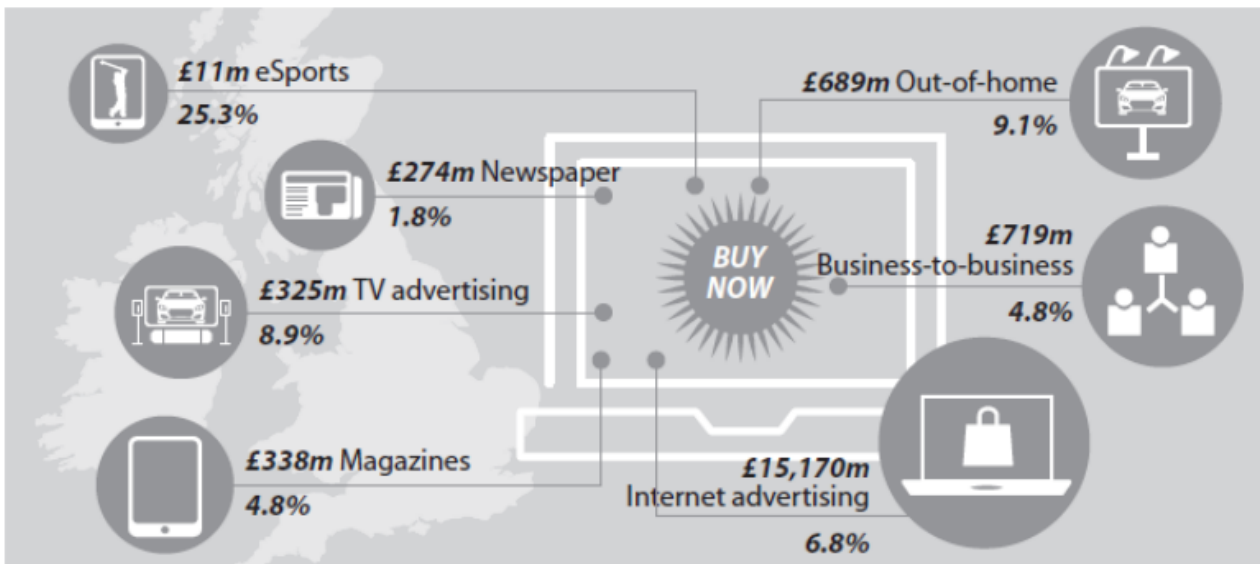
ITV has Britbox, a joint venture streaming service with the BBC. However, it is available only in the US. In 2007 the BBC, Channel 4 and ITV created the OTT service Kangaroo, but it was ultimately blocked by the UK competition regulator in 2009. 20

Netflix plans to raise \$2bn so it can invest in producing new programmes. The costs of its streaming services amount to \$30bn - higher than the annual revenue it expects to receive from its 130 million users in 190 countries across the world, with the US its largest market.

(Sources: <https://www.theguardian.com/business/2018/oct/21/itv-chief-now-is-last-chance-to-build-british-challenger-to-netflix?> and <https://www.theguardian.com/media/2018/oct/22/netflix-plans-to-raise-2bn-as-it-invests-in-new-content>)

Extract D

Forecast UK advertising expenditure in 2020*



*when compared to 2018.

(Source: <https://www.pwc.co.uk/industries/entertainment-media/insights/entertainment-media-outlook>)

Using a supply and demand diagram, assess **two** reasons why live entertainment business revenues in the UK might have increased in 2017.

(8)



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(Total for question = 8 marks)