# BUS.IN6 The competitive environment

AQA 8132 · Calculator allowed · about 60 minutes

Total Marks

Name: _______________________________ Date: ____ / ____ / ______

**Answer ALL questions in the spaces provided. Show your working for any calculation: method marks are available even if your final answer is wrong. Millbrook Bakery and Oakhill Bakes, used throughout this pack, are fictional businesses.**

**1** Which one of the following best describes a business's 'market share'?

- ☐ A) The percentage of total sales in a market that one business makes
- ☐ B) The total number of products a business sells in a year
- ☐ C) The number of shops a business owns
- ☐ D) The percentage profit margin a business makes on each sale

**(Total for Question 1 is 1 mark)**

**2** Which one of the following is an example of non-price competition?

- ☐ A) Cutting the price of a product to undercut a rival
- ☐ B) Improving product quality and customer service instead of cutting price
- ☐ C) Offering a large discount for a limited time only
- ☐ D) Matching a competitor's price exactly

**(Total for Question 2 is 1 mark)**

**3** State three ways a new competitor entering a local market could affect an existing business.

**(Total for Question 3 is 3 marks)**

**4** Before a new competitor, Oakhill Bakes, opened nearby, the total local bakery market was worth 40,000 pounds a month in sales, and Millbrook Bakery's own monthly sales were 20,000 pounds. Calculate Millbrook's market share at this time. Show your working.

**(Total for Question 4 is 2 marks)**

**5** After Oakhill Bakes opened, the total local bakery market grew to 44,000 pounds a month, but Millbrook's own monthly sales fell to 15,400 pounds. Calculate Millbrook's new market share. Show your working.

**(Total for Question 5 is 2 marks)**

---

**6** Using your answers to question 4 and question 5, calculate the fall in Millbrook's market share, in percentage points. Show your working.

**(Total for Question 6 is 2 marks)**

---

**7** Using the sales figures given in question 4 and question 5, calculate the fall in Millbrook's monthly revenue since Oakhill Bakes opened. Show your working.

**(Total for Question 7 is 2 marks)**

---

**8** Using your answer to question 7, calculate the fall in Millbrook's annual revenue, if the monthly fall stays the same for a full year. Show your working.

**(Total for Question 8 is 2 marks)**

---

**9** Explain one reason Millbrook's market share fell after Oakhill Bakes opened, even though the total local market (question 5) actually grew.

**(Total for Question 9 is 3 marks)**

**10** Explain one way the fall in market share identified in question 6 could affect Millbrook's employees.

**(Total for Question 10 is 3 marks)**

---

**11** Millbrook is considering cutting its average price per transaction by 10% to try to win customers back. Its current average transaction value is 8 pounds.

**(a)** Calculate Millbrook's new average transaction value after a 10% price cut. **(2)**

..............................................................................................

**(b)** Millbrook forecasts that the lower price would attract 2,800 transactions a month, up from its current level. Using your answer to part a, calculate the forecast monthly revenue at this new price. **(2)**

..............................................................................................

**(Total for Question 11 is 4 marks)**

---

**12** Using your answer to question 11b, calculate how much extra monthly revenue the price cut would generate compared with Millbrook's current (post-Oakhill) monthly revenue of 15,400 pounds (question 5). Show your working.

**(Total for Question 12 is 2 marks)**

---

**13** Explain one risk to Millbrook of competing with Oakhill Bakes by cutting its prices by 10%.

**(Total for Question 13 is 3 marks)**

**14** Explain one way Millbrook could compete with Oakhill Bakes without cutting its prices.

**(Total for Question 14 is 3 marks)**

---

**15** State three factors, other than price, that could affect a customer's choice between Millbrook Bakery and Oakhill Bakes.

**(Total for Question 15 is 3 marks)**

---

**16** Oakhill Bakes opening nearby has cost Millbrook 4,600 pounds a month in lost revenue and 15 percentage points of market share (questions 6 and 7). Cutting prices by 10% could recover 4,760 pounds a month compared with current revenue (question 12), but question 13 shows this carries real risks, while question 14 shows Millbrook could instead compete on quality, service or other non-price factors.

Recommend whether Millbrook Bakery should respond to Oakhill Bakes by cutting its prices by 10%, or by competing on non-price factors instead. Justify your answer using the figures and points made earlier in this pack.

**(Total for Question 16 is 9 marks)**

# Mark scheme · BUS.IN6 The competitive environment

### Question 1

- **B1** A cao
- **Answer: A**

### Question 2

- **B1** B cao
- **Answer: B**

### Question 3

- **B1** one acceptable effect, e.g. lower sales or market share for the existing business
- **B1** a second acceptable effect, e.g. pressure to cut prices to keep customers
- **B1** a third acceptable effect, e.g. a need to improve quality, service or marketing to stand out from the new rival
- **Answer: Any three, e.g. lower sales/market share; pressure to cut prices; a need to improve quality, service or marketing.**

### Question 4

- **M1** (20,000 / 40,000) x 100 seen
- **A1** 50% cao
- **Answer: 50%.**

### Question 5

- **M1** (15,400 / 44,000) x 100 seen
- **A1** 35% cao
- **Answer: 35%.**

### Question 6

- **M1** 50 - 35 seen (ft from questions 4 and 5)
- **A1** 15 percentage points cao
- **Answer: 15 percentage points.**

### Question 7

- **M1** 20,000 - 15,400 seen
- **A1** 4,600 pounds cao
- **Answer: 4,600 pounds.**

### Question 8

- **M1** 4,600 x 12 seen (ft from question 7)
- **A1** 55,200 pounds cao
- **Answer: 55,200 pounds.**

### Question 9

- **B1** identifies the point, e.g. customers now have an alternative bakery nearby, so some of Millbrook's regular customers have switched to Oakhill Bakes
- **B1** develops the point, e.g. a new business often attracts customers with novelty, promotional offers, or simply by giving customers a choice they did not have before
- **B1** links clearly to an outcome, e.g. even though total local spending on bakery goods increased, question 6 shows Millbrook's own share of it fell by 15 percentage points
- **Answer: Customers now have an alternative bakery nearby, and some of Millbrook's regular customers have switched to Oakhill Bakes, attracted by novelty or offers, so even though total local spending grew, Millbrook's own share of it fell by 15 percentage points (question 6).**

### Question 10

- **B1** identifies the point, e.g. lower sales, a fall of 4,600 pounds a month (question 7), may mean Millbrook needs fewer staff hours to serve customers
- **B1** develops the point, e.g. this could mean reduced hours, a pay freeze, or job losses for some employees
- **B1** links clearly to an outcome, e.g. this could reduce staff morale and make it harder for Millbrook to retain experienced employees
- **Answer: Lower sales, a fall of 4,600 pounds a month (question 7), may mean Millbrook needs fewer staff hours, leading to reduced hours, a pay freeze or job losses, which could reduce morale and make it harder to retain experienced employees.**

### Question 11

- (a) **M1** 8 x 0.90 seen
- (a) **A1** 7.20 pounds cao
- **(a) Answer: 7.20 pounds.**
- (b) **M1** 2,800 x 7.20 seen (ft from part a)
- (b) **A1** 20,160 pounds cao
- **(b) Answer: 20,160 pounds.**

### Question 12

- **M1** 20,160 - 15,400 seen (ft from question 11b)
- **A1** 4,760 pounds cao
- **Answer: 4,760 pounds.**

### Question 13

- **B1** identifies the point, e.g. even though question 12 shows revenue could rise, Millbrook's profit margin on each transaction is now lower
- **B1** develops the point, e.g. if Oakhill Bakes responds by cutting its own prices too, both businesses could be drawn into a price war that reduces both their profits
- **B1** links clearly to an outcome, e.g. customers may also start to associate Millbrook with cheaper, lower-quality products, damaging its reputation
- **Answer: Even though revenue could rise (question 12), Millbrook's profit margin per transaction is now lower, and if Oakhill Bakes cuts its own prices too, a price war could reduce both businesses' profits, while customers may start to see Millbrook as cheaper and lower quality.**

### Question 14

- **B1** identifies the point, e.g. Millbrook could introduce a loyalty scheme, launch unique products Oakhill Bakes does not offer, or improve customer service
- **B1** develops the point, e.g. this gives customers a reason to stay loyal to Millbrook that is not based on price alone
- **B1** links clearly to an outcome, e.g. this could help Millbrook protect or recover some of the market share lost in question 6, without accepting the lower profit margin identified in question 13
- **Answer: Millbrook could introduce a loyalty scheme, unique products, or better customer service, giving customers a reason to stay loyal that is not based on price, helping protect or recover the market share lost in question 6 without the lower margin identified in question 13.**

### Question 15

- **B1** one acceptable factor, e.g. the quality or taste of the products
- **B1** a second acceptable factor, e.g. customer service
- **B1** a third acceptable factor, e.g. opening hours/location convenience, range of products, or reputation/reviews
- **Answer: Any three, e.g. product quality/taste; customer service; opening hours or location; range of products; reputation/reviews.**

### Question 16

- **Level 1** (1-3): Makes simple, undeveloped comments about how Millbrook should respond, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for price cutting or for non-price competition, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against each strategy, using the revenue, market share and risk figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - For cutting prices: question 12 shows the price cut could generate 4,760 pounds more revenue a month than Millbrook currently earns, more than fully recovering the 4,600 pound monthly fall identified in question 7.
  - For cutting prices: a quick, visible response could stop further customers switching to Oakhill Bakes while Millbrook develops a longer-term strategy.
  - Against cutting prices: question 13 shows the lower price cuts Millbrook's profit margin, risks a price war with Oakhill Bakes, and could damage its reputation for quality.
  - For non-price competition: question 14 shows this protects Millbrook's margins and could build more lasting customer loyalty than a price cut, addressing the reasons customers switched in question 9 rather than only their spending.
  - Judgement: given that question 13 shows real risks to a price war and question 14 offers a way to compete without sacrificing margin, a reasonable recommendation is that Millbrook should focus mainly on non-price competition such as loyalty and quality, using only a small, temporary price incentive if needed, rather than committing to the full 10% price cut; a recommendation to cut prices is also creditable if it properly weighs the recovery figure in question 12 against the risks in question 13.