BUS.MK6 Place and distribution

AQA 8132 · Calculator allowed · about 65 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for every calculation: method marks are available even if your final answer is wrong. Larkspur Skincare, used throughout this pack, is a fictional business.

1 Which one of the following best describes a 'channel of distribution'?

- [ ] A) The route a product takes from the producer to the final customer
- [ ] B) The stages a product's sales pass through, from launch to decline
- [ ] C) The amount a business charges customers for a product
- [ ] D) The combination of product, price, place and promotion decisions

(Total for Question 1 is 1 mark)

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2 State the difference between a direct and an indirect distribution channel.

(Total for Question 2 is 2 marks)

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3 State two examples of intermediaries that can appear in a distribution channel.

(Total for Question 3 is 2 marks)

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4 Larkspur Skincare, a fictional skincare product company, sells its face cream both directly to customers through its own website and indirectly through retailers.
Explain one advantage to Larkspur Skincare of selling direct to customers online.

(Total for Question 4 is 3 marks)

5 Explain one advantage to Larkspur Skincare of selling via retailers instead.

(Total for Question 5 is 3 marks)

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6 Larkspur Skincare sells its face cream to customers at a retail price of 20.00 pounds. Selling direct online, the production cost is 6.00 pounds per unit and delivery costs a further 2.00 pounds per unit.
Calculate Larkspur Skincare's profit per unit when sold direct online. Show your working.

(Total for Question 6 is 2 marks)

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7 When sold via a retailer instead, Larkspur Skincare sells the face cream to the retailer at a wholesale price of 12.00 pounds per unit (the retailer then resells it to customers at the same 20.00-pound retail price, and the retailer covers delivery to its own stores). The production cost remains 6.00 pounds per unit.
Calculate Larkspur Skincare's profit per unit when sold via a retailer. Show your working.

(Total for Question 7 is 2 marks)

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8 In one month, Larkspur Skincare sells 3,000 units direct online and 7,000 units via retailers, a total of 10,000 units.
Calculate the percentage of Larkspur Skincare's total units sold through each channel.

(a) Calculate the percentage of total units sold direct online. Show your working. **(2)**

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(b) Calculate the percentage of total units sold via retailers, and confirm both percentages add up to 100%. Show your working. **(2)**

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(Total for Question 8 is 4 marks)

9 Using your answers to questions 6 and 8a, calculate Larkspur Skincare's total profit from direct online sales that month. Show your working.

(Total for Question 9 is 2 marks)

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10 Using your answers to questions 7 and 8b, calculate Larkspur Skincare's total profit from retailer sales that month. Show your working.

(Total for Question 10 is 2 marks)

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11 Using your answers to questions 9 and 10, calculate Larkspur Skincare's total profit across both channels that month. Show your working.

(Total for Question 11 is 2 marks)

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12 Calculate the total profit Larkspur Skincare would have made if all 10,000 units had instead been sold direct online at 12.00 pounds profit per unit, and calculate how much more profit this would represent compared with your answer to question 11. Show your working.

(Total for Question 12 is 3 marks)

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13 Given the extra profit potential calculated in question 12, explain one reason Larkspur Skincare might still choose to sell most of its units through retailers rather than shifting entirely to direct online sales.

(Total for Question 13 is 3 marks)

14 Explain one risk to Larkspur Skincare of relying only on direct online distribution.

(Total for Question 14 is 2 marks)

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15 Larkspur Skincare currently sells 30% of its units direct online and 70% via retailers (question 8), earning 78,000 pounds total profit (question 11). It is deciding whether to invest in marketing to shift more of its sales toward the more profitable direct channel (12.00 pounds profit per unit, question 6) and away from retailers (6.00 pounds profit per unit, question 7). Recommend whether Larkspur Skincare should shift more of its sales toward the direct channel. Justify your answer using the figures calculated in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.MK6 Place and distribution

Question 1

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

Question 2

- **B1** a direct channel sells straight from the producer to the customer, with no intermediary
- **B1** an indirect channel uses one or more intermediaries (e.g. a wholesaler or retailer) between the producer and the customer
- **Answer: A direct channel sells straight from producer to customer with no intermediary; an indirect channel uses one or more intermediaries, such as a wholesaler or retailer.**

Question 3

- **B1** wholesaler
- **B1** retailer
- **Answer: Wholesaler and retailer.**

Question 4

- **B1** identifies an advantage, e.g. Larkspur Skincare keeps a larger share of the final selling price, since no intermediary takes a cut
- **B1** develops it, e.g. this means a higher profit margin per unit sold
- **B1** adds a further point, e.g. it also lets Larkspur Skincare control the full customer experience and collect direct customer data
- **Answer: Larkspur Skincare keeps a larger share of the final selling price since no intermediary takes a cut, giving a higher profit margin per unit, and it also lets Larkspur Skincare control the customer experience and collect direct customer data.**

Question 5

- **B1** identifies an advantage, e.g. retailers already have an established customer base and store network
- **B1** develops it, e.g. so Larkspur Skincare can reach far more customers than its own website alone could
- **B1** links to the outcome, e.g. increasing total sales volume even though the profit per unit is lower
- **Answer: Retailers already have an established customer base and store network, so Larkspur Skincare can reach far more customers than its own website alone, increasing total sales volume even though profit per unit is lower.**

Question 6

- **M1** 20.00 - 6.00 - 2.00 seen
- **A1** 12.00 pounds cao
- **Answer: 12.00 pounds.**

Question 7

- **M1** 12.00 - 6.00 seen
- **A1** 6.00 pounds cao
- **Answer: 6.00 pounds.**

Question 8

- (a) **M1** (3,000 / 10,000) x 100 seen
- (a) **A1** 30% cao
- **(a) Answer: 30%.**
- (b) **M1** (7,000 / 10,000) x 100 seen
- (b) **A1** 70% cao, with 30% + 70% = 100% confirmed
- **(b) Answer: 70%; 30% + 70% = 100%.**

Question 9

- **M1** 3,000 x 12.00 seen (ft from questions 6 and 8a)

Question 10

- **M1** 7,000 x 6.00 seen (ft from questions 7 and 8b)
- **A1** 42,000 pounds cao
- **Answer: 42,000 pounds.**

Question 11

- **M1** 36,000 + 42,000 seen (ft from questions 9 and 10)
- **A1** 78,000 pounds cao
- **Answer: 78,000 pounds.**

Question 12

- **M1** 10,000 x 12.00 = 120,000 seen
- **M1** 120,000 - 78,000 seen (ft from question 11)
- **A1** 42,000 pounds more profit cao
- **Answer: 120,000 pounds if all sold direct; 42,000 pounds more than the actual 78,000-pound total profit.**

Question 13

- **B1** identifies that Larkspur Skincare cannot assume it could sell all 10,000 units direct
- **B1** explains why, e.g. many customers only buy skincare from a physical shop or trusted retailer, and reaching all of them directly would need far more marketing spend and brand awareness than Larkspur Skincare currently has
- **B1** links to the consequence, e.g. so sales volume, not just profit per unit, would likely fall sharply without retailers, reducing the actual profit achieved well below the 120,000-pound theoretical figure
- **Answer: The 120,000-pound figure assumes all 10,000 units could still be sold direct, but many customers only buy from a physical shop or trusted retailer, so reaching them directly would need far more marketing spend; without retailers, sales volume would likely fall sharply, reducing actual profit well below 120,000 pounds.**

Question 14

- **B1** identifies a risk, e.g. Larkspur Skincare becomes fully dependent on its own website working and being found by customers
- **B1** develops the consequence, e.g. a technical fault, delivery problem, or low online visibility could mean lost sales with no retailer channel to fall back on
- **Answer: Larkspur Skincare would become fully dependent on its own website working and being found by customers, so a technical fault or low online visibility could mean lost sales with no retailer channel to fall back on.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the direct and retailer channels, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against shifting toward the direct channel, 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 shifting toward the direct channel, using the profit-per-unit and total profit figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
    - Direct sales earn double the profit per unit of retailer sales (12.00 pounds versus 6.00 pounds, questions 6 and 7), so even a modest shift from retailer to direct sales would raise total profit above the current 78,000 pounds.
    - The theoretical maximum of 120,000 pounds if all units were sold direct (question 12) shows the scale of profit potentially available, an extra 42,000 pounds over the current total.
    - However, question 13 showed this theoretical figure assumes unchanged sales volume, which is unrealistic: many customers currently buying via the 70% retailer channel may not switch to buying direct, so a large, sudden shift risks losing sales volume rather than just changing where profit comes from.
    - A moderate, gradual shift (for example investing in marketing to grow the direct share from 30% toward 40-50% over time) captures some of the higher direct margin while keeping the retailer channel's reach as a safety net.
    - Judgement: given the large profit-per-unit gap (12.00 pounds versus 6.00 pounds) but the real risk of losing sales volume if retailers are dropped too quickly (question 13), Larkspur Skincare should invest in marketing to grow the direct channel's share gradually rather than shifting all at once, reviewing sales volume at each stage to check that total profit is actually rising, not just profit per unit.