Solutions

Marking: **K** = knowledge, **App** = applying it to the business in the case, **An** = analysis (explaining causes and effects step by step), **Ev** = evaluation (a judgement with reasons, for this business). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs analysis applied to the business **and** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- 8×1.4
- $\mathbf{\$11.20}$

2.2

- $-25 \div 10$
- $\mathbf{-2.5}$

2.3

- rising quickly: growth
- falling steadily: decline

3.1

- skimming: a high price at launch, lowered later; suits new, unique products such as new technology (K)
- penetration: a low price at launch to win market share quickly, raised later (K)
- skimming earns high profit per unit from early buyers; penetration builds sales volume and loyalty (An)

3.2

- the matrix places products by market share and market growth (K)
- cash cows (high share, low growth) earn cash that can fund other products (An)
- question marks may need investment to become stars, or be dropped (An)
- dogs may be removed, so the business keeps a balanced range for the future (An)

3.3

(a) sales fall 6%: 47 000; revenue $660 \times 47\,000 = \mathbf{\$31.02}$m

(b) any two extension strategies, each analysed (3 marks each):

- add new features or colours, so the phone appeals again (K, App, An)
- cut the price for older models to reach price-sensitive buyers (K, App, An)
- sell in new markets, e.g. other countries (K, App, An)
- new promotion, such as bundles with a network contract (K, App, An)

Levels: **top** (5–6) two points, each analysed step by step and applied to this business; **middle** (3–4) analysis of one point, or two points with little development; **bottom** (1–2) relevant points, little explanation.

(c) points to include:

- demand is price inelastic, so revenue rises from \$30m to about \$31.02m a month (App)
- profit rises further, as fewer phones are made, cutting costs (An)
- but the PED is only an estimate; rivals may keep prices low and buyers may switch (An)
- a higher price may harm the brand's image of value, or speed up the decline stage (An)
- judgement: raise the price if rivals are not cutting theirs and the model is still in growth; test the effect in one market first (Ev)

Levels: **top** (8–10) analysis applied to this business, and a justified judgement that answers the question; **middle** (4–7) some analysis applied to the business; judgement weak or missing; **bottom** (1–3) relevant points, little explanation or application.