6(a)	**Analyse <u>two</u> benefits to a business of using a Boston Matrix.** **Indicative content** Responses may include: **AO1 Knowledge and understanding** **1 mark for identifying ONE benefit (K)** • allows the business to analyse and assess the range of different products currently produced by a business • can see and review the allocation of resources between different products • can provide important information about the strengths/weaknesses of particular products • allows a business to measure how each product contributes to total business performance • could attract additional investment • compare their products to those of competitors • make decisions about the products in the portfolio • business planning for new product development • **AO2 Application** **1 mark for application of ONE benefit (APP)** • identifies question marks, stars, cash cows and dogs • analyses the market share and market growth of a business' products • identifies products which are at different stages of their product lifecycle • identify changes needed to operations and marketing (e.g. pricing) of current products, resources, expenditure, product development, strategies • lack of question marks/stars in the Boston Matrix suggests new product needed
6(a)	**AO3 Analysis** **up to 2 marks for analysis of each benefit – 2 marks for DEVELOPED analysis of each benefit (L2 AN) – 1 mark for LIMITED analysis of each benefit (L1 AN)** Aspects of the marketing mix may be applied to product types in the Boston Matrix e.g. • effective promotion of question marks to increase market share within the market – may need market research and a new promotional mix • decide pricing strategies to increase revenue, e.g. skimming/penetration/competitive, depending on the market • apply extension strategies for cash cows to maintain revenue and provide reliable funding to support other products • whether to remove a product (dog) from the portfolio or adjust the marketing mix – may depend on demand in the market • may need to carry out R&D which will need to be financed Accept all valid responses.

6(b)	**'Packaging is the most effective promotion method for a fast-food business.'** **Evaluate this view.** **Indicative content** ***NOTE**: the question is about promotion, not the other aspects of the marketing mix. Responses which discuss price, place and product without linking this to promotion are not answering the question and should not be rewarded.* Responses may include: **AO1 Knowledge and understanding** **2 marks for DEVELOPED knowledge and understanding (L2 K)** **1 mark for LIMITED knowledge and understanding (L1 K)** • role of packaging <u>in promotion</u> – information, colour, logo, competitions • advertising promotion • sales promotion • direct promotion • digital promotion • branding **AO2 Application** **2 marks for DEVELOPED application (L2 APP)** **1 mark for LIMITED application (L1 APP)** • use of promotion by a fast-food business e.g. McDonalds (golden arches on red background), Pizza Hut, Domino's, Burger King, Yo Sushi. • Taste, restaurants, menu, ingredients, types of fast food e.g. burgers/pizzas

6(b)	**AO3 Analysis** **2 marks for DEVELOPED analysis (L2 AN)** **1 mark for LIMITED analysis (L1 AN)** Benefits of the use of packaging as a means of promotion – • easily seen by many people, whether eating the food or not • a well-known business can reach a large number of potential consumers when packaging is carried around a busy area • a logo is easy to include on most types of food packaging e.g. trays, bags, cups • colours can be used to make the promotion eye-catching • there is no need for explanation of the business on the packaging as customers recognise the logo and/or colours • packaging is used anyway to carry and protect the food, so it is relatively cheap to use it for promotion Drawbacks of the use of packaging as a means of promotion – • packaging promotion may be ignored as it is the contents that are important to the customer • some fast-food businesses have their reputation damaged by customers who dispose of the packaging irresponsibly • plain packaging is cheaper to produce/buy than promotional packaging so increases costs • some customers eat the food and dispose of the packaging without anyone else seeing it • target market may include children who are not influenced by the packaging

6(b)	**AO4 Evaluation** **Up to 6 marks for EVALUATION – USE THE FOLLOWING TABLE:**

Developed/Supported judgement in context	L3 EVAL	6 marks
Developed/Reasonable evaluative comments in context	L3 EVAL	5 marks
Developed/Supported judgement without context	L2 EVAL	4 marks
Developed/Reasonable evaluative comments without context	L2 EVAL	3 marks
Limited supported judgement	L1 EVAL	2 marks
An attempt to balance the arguments/Weak attempt at evaluative comments	L1 EVAL	1 mark

A judgement/conclusion is made as to whether packaging is the most effective promotion method for a fast-food business. Such judgements/conclusions may be made at any point in the essay, not only in a concluding section.

- how effective is packaging for promoting this particular type of business?
- is promotion on packaging more effective for large businesses which already have an established brand?
- how effective are other types of promotion for a fast-food business?
- advertising using television, print media, social media and the business' own website are all effective at constantly reminding customers of existing and new types of food
- sales promotions/discounts/meal deals/toys/collectibles are effective as customers are often young and on limited incomes
- direct promotion to individuals is unlikely in this industry as the product is aimed at the mass-market, although leaflet drops are used
- digital promotion via websites and social media allows customers to interact with the business, place orders, give feedback, which can then promote the business to other customers, therefore is very effective given the target market
- older customers may still want to buy the food, for themselves or younger relatives, but are less likely to use digital media
- branding is very important as the fast-food market is competitive, but to maintain that brand image and a high market share a lot of different promotion methods are used together

6(b)

- all other types of promotion can be more expensive than promotion on the packaging, but large fast-food business can afford this
- judgement made as to which promotion method is likely to be the most effective in this context
- it is likely that all types of promotion will be carried out at some time and in some circumstances due to the nature of the market and the large budget available to many businesses in it.

Accept all valid responses.

6(a)	**Analyse <u>two</u> benefits to a business of product portfolio analysis.** **THERE ARE 8 MARKS IN TOTAL FOR Question 6(a) – 4 marks for each BENEFIT given – 1 mark for knowledge and understanding – 1 mark for application/context – 2 marks for analysis** **Question 6(a) should be annotated as follows:** **K put a tick in body of answer where a BENEFIT is given and annotate K in left hand margin** **APP put a tick in body of answer where the BENEFIT is applied/explained and annotate APP in left hand margin** **AN put up to 2 ticks in body of answer where a BENEFIT is analysed and annotate in left hand margin – L2 AN for DEVELOPED analysis or L1 AN for LIMITED analysis** **Indicative content** Responses may include: **AO1 Knowledge and understanding – 1 mark for each identified benefit – put ticks in body of script and annotate by putting K in left hand margin** • Allows the business to analyse and assess the range of different products currently produced by a business • Can see and review the allocation of resources between them. • Can provide important information about the strengths/weaknesses of particular products • Allows a business to measure how each product contributes to total business performance • Product portfolio information may well attract additional investment • Allows a business to adapt its products to different customer needs • Helps a business identify suitable target segments for its products • Reduces risk
6(a)	**AO2 Application – 1 mark for application/explanation of each identified benefit** • Provides information on each product, such as market growth, market share, growth prospects, profit margin drivers, income contributions, market leadership and operational risks and opportunities • This analysis is an informative tool giving insight into product operations and provides information and analysis for strategic decisions on the retention or change in the product portfolio • Can provide information relating to specific products and so indicate what changes may be required in pricing, marketing, composition. **AO3 Analysis – 2 marks for DEVELOPED analysis of each identified benefit** **– 1 mark for LIMITED analysis of each identified benefit** • It assists a business in deciding when to launch a new product, update an existing one, or stop producing a particular product – data provided for product portfolio management, e.g. use of Boston Matrix. • In combination with product life cycle, framework offers information and analysis for resource allocation decisions. • The pursuit of a balanced product portfolio is assisted by this analysis and a business can determine if its investment in products aligns with its business strategy. • It gives a business a measure of control over its cashflow – see which products generate most revenue – allowing focus on products that most help with the cashflow – ensures the business has money needed to operate the business and create more products. • Product portfolio analysis can generate ideas about new opportunities – generate innovation leading to a more diversified portfolio – spreading business risk. • Identifies gaps in the existing portfolio and reveal new business opportunities. • It can stimulate management to, for example, offer a wider array of products to various target markets and so earn a higher market share, increase sales, and contribute to brand awareness. • It may suggest that particular products need taking out of the current portfolio Accept all valid responses.

6(b)	**Evaluate whether branding is the most important factor in the successful promotion of a new health drink.** **Indicative content** Responses may include: **AO1 Knowledge and understanding – 2 marks for DEVELOPED knowledge L2 K and 1 mark for LIMITED knowledge L1 K – put ticks in body of answer and annotate in left hand margin,** • Branding – a set of associations customers make with a business, product or organisation – the establishment of an image that stimulates sustained customer buying behaviour. • Product promotion – a form of marketing to create interest, to capture a target audience's attention – a set of activities focused on spreading information about products among prospective buyers in a market. • Examples of promotional activities **AO2 Application – 2 marks for DEVELOPED application/context L2 APP, 1 mark for LIMITED application/context L1 APP, put ticks in body of answer and annotate in left hand margin.** • Identify and market the nutritional value of the new health drink • Emphasis on absence of certain ingredients – reduced level of salt, sugar, caffeine • Emphasis on ingredients such as fruit, antioxidants, vitamins, mineral proteins • Green tea, smoothies, coconut water, pomegranate juice • A drink that claims to be beneficial to health – e.g. with specific ingredients such as certain vitamins, or a drink that has a reduced amount of potentially harmful substances, such as too much sugar, energy drink • Appropriate market segments for health drinks, e.g. gym users, fitness addicts, elderly people.

6(b)	**AO3 Analysis – 2 marks for DEVELOPED analysis L2 AN, 1 mark for LIMITED analysis L1 AN, put ticks in body of answer and annotate in left hand margin.** Branding is said to be important for the promotion of all products for the following reasons: – • Branding provides visibility and leads to a strong connection between product and customer-buying behaviour. • A branded product promotes customer loyalty – when customers can put a name or logo with a product, they will often return to that product over and over again. • Once a product becomes recognisable through branding and a household name, trust is built and confidence in the product, which can make it easier to promote that product. • Branding motivates people to buy – when people see a brand they may well feel the product is well developed and put together, whereas they might shy away from a nameless generic-looking product. • To many, branding means reliability – such a recognised and expected brand culture supports effective promotion. • Branding can create an emotional connection with buyers – learnt over many years through socialisation. • Branding can give products a competitive edge – add value to an offer through an outstanding logo. • Analysis might well refer to brands such as Coca Cola – a global brand, youthful, refreshing, energetic – visual images such as red and white logo, corporate colours, unique shape of original bottle and its secret recipe.

6(b)	**AO4 Evaluation – Up to 6 marks for evaluation EVAL – USE THE FOLLOWING TABLE**

Developed/Supported judgement in context	L3 EVAL	6 marks
Developed/Reasonable evaluative comments in context	L3 EVAL	5 marks
Developed/Supported judgement without context	L2 EVAL	4 marks
Developed/Reasonable evaluative comments without context	L2 EVAL	3 marks
Limited supported judgement	L1 EVAL	2 marks
An attempt to balance the arguments/Weak attempt at evaluative comments	L1 EVAL	1 mark

- Judgements/conclusions/critical comments can be made at any point in an essay – not just in a concluding section.
- Branding can be very significant and important in promoting a product, but brands can have negative images, e.g. Coca Cola seen by many as an unhealthy drink and a global symbol of imperialism.
- A new health drink may well benefit significantly if developed or adopted by an established brand (in which there is confidence and trust).
- Developing and establishing a brand can be very expensive and a lengthy process – may well not be afforded by a new/developing product or company.
- Is price-led marketing breaking down the power and influence of a brand? – e.g., discount retailers such as Aldi and Lidl.
- Will the significance and importance of branding for the promotion of a new health drink vary in terms of whether it seeks to be a local or national or global product.
- Might the extent and strength of scientific or medical approval for a new health drink be more important than branding?

Accept all valid responses.

1(a)

Define the term *market growth*.

Indicative content

Responses may include:

AO1 Knowledge and understanding

CLEAR UNDERSTANDING (2 marks)
- The (percentage) increase in the size of a market over a period of time / using metrics such as number of customers, units sold, or revenue (2)
- Increase in size of market over a period of time (2)

Clear understanding of the term *market growth* is worth 2 marks. This is indicated by 2 ticks ✓✓.

PARTIAL UNDERSTANDING (1 mark)

- Change in the size of a market (1)

Partial understanding of the term *market growth* is worth 1 mark. This is indicated by 1 tick ✓.

Accept all valid responses.

1(b)	**Explain <u>one</u> pricing method.** **Indicative content** Responses may include: **AO1 Knowledge and understanding - 1 mark for identifying ONE pricing method.** • competitive • penetration • skimming • price discrimination • dynamic • cost-based • psychological **AO2 Application** **2 marks for a DEVELOPED application / explanation of ONE pricing method.** **1 mark for a LIMITED application / explanation of ONE pricing method.** • price is similar to competitors to avoid damaging / expensive levels of competition between businesses OR price set below competitors in markets where it is easy for customers to compare prices of different businesses • setting a relatively low price to enter a market, attract customers and gain market share quickly, price may rise later • setting a high price for a new product when it is unique or highly differentiated / has low price elasticity of demand / price is reduced over time • charging different prices for the same product at different times or to different customers to increase demand and/or revenue • selling at a price which changes according to the level of demand and the customer's ability to pay • setting a price which covers all the costs of producing/supplying the product plus an additional amount to give profit • takes account of the psychological effect of a price on customers e.g. just below a price level ($9.99 not $10) or a high price for luxury goods Accept all valid responses.

A-Level Business: **w25 21**

2(a)(i)	**Identify <u>one</u> internal stakeholder of a business.** **AO1 Knowledge and understanding** **Indicative content** Responses may include: • employees • owners • shareholders • managers • directors • investors Accept all valid responses.

2(a)(ii)	**Explain the term '*distribution channels*.**

AO1 Knowledge and understanding **1 mark**	**AO2 Application** **2 marks**
	2 marks Developed application of **one** relevant point to a business context.
1 mark Knowledge of **one** relevant point is used to answer the question.	**1 mark** Limited application of **one** relevant point to a business context.
0 marks No creditable response.	**0 marks** No creditable response.

Responses may include:

AO1 Knowledge and understanding (max 1 mark), including:
- stages/routes/path a good/service passes through to the final buyer/customer/consumer
- how a product or service gets from the producer to the final customer/from supplier to consumer

AO2 Application
Explanation of distribution channels (max 1 mark), including:
- can be direct/indirect/digital
- help businesses access wider markets
- efficient for getting products to customers
- convenient for customers
- reduce costs through specialisation
- help gain brand recognition

2(a)(ii)

Application for distribution channels (max 1 mark), including:
- vary according to business type
- business can use more than one channel such as selling through website and retail shop
- examples of distribution channels such as:
  producer sells direct to the consumer
  involves intermediaries such as wholesalers/retailers/agents
  digital platforms/websites/apps/social media
- example of a business distribution channel

Accept all valid responses

2(b)(i)

Refer to Table 2.1. Calculate the break-even level of output of the new face cream.

Indicative content

formula: break-even output = fixed costs / selling price-variable costs (contribution per unit) (1)

calculation of contribution per unit = $5 – $2 = $3 (1)

calculation of output = 12 000/3 (1) = 4000 units

Answer = **4000 (3)**

OFR applies

2(b)(ii)

Explain <u>one</u> limitation to NN of break-even analysis.

AO1 Knowledge and understanding **1 mark**	**AO2 Application** **2 marks**
	2 marks Developed application of **one** relevant point to a business context.
1 mark Knowledge of **one** relevant point is used to answer the question.	**1 mark** Limited application of **one** relevant point to a business context.
0 marks No creditable response.	**0 marks** No creditable response.

Responses may include:

AO1 Knowledge and understanding – Knowledge of a limitation (max 1 mark), including:
- may be based on unrealistic assumptions
- price can change
- fixed costs can change
- variable costs do not always stay the same
- some costs semi-fixed/variable
- sales not the same as output
- hard to calculate for a single product in a business.
- does not take account of changes in the external environment

2(b)(ii)

Dis **AO2 Application**

Explanation of a limitation (max 1 mark), including:
- leads to inaccurate analysis
- assumes all units produced are sold
- example of changing fixed costs such as rent/salaries/investments
- example of changing variable costs
- example of semi-fixed/variable costs
- example of difference between sales and output such as unsold inventory/returns/discounts
- products may have different profit margins

Context applied to a limitation (max 1 mark), including:
- answer to **2(b)(i)** (OFR)
- price of $5
- sells other products that contribute to fixed costs
- use of table 2.2
- rents workshop
- competitive market

Accept all valid response

2(c)

Analyse one advantage and one disadvantage to NN of being a small business.

Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 4 marks
2			**3–4 marks** **Developed analysis** • Developed analysis that identifies connections between causes, impacts and/or consequences of **two** points. • Developed analysis that identifies connections between causes, impacts and/or consequences of **one** point.
1	**1–2 marks** • Knowledge of **two** relevant points is used to answer the question. • Knowledge of **one** relevant point is used to answer the question.	**1–2 marks** • Application of **two** relevant points to a business context. • Application of **one** relevant point to a business context.	**1–2 marks** **Limited analysis** • Limited analysis that identifies connections between causes, impacts and/or consequences of **two** points. • Limited analysis that identifies connections between causes, impacts and/or consequences of **one** point.
0	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

Annotate the advantage in the left-hand margin and the disadvantage in the right-hand margin.

2(c)

Responses may include:

AO1 Knowledge and understanding
Knowledge of an advantage (max 1 mark), including:
- more flexible and adaptable to changing customer needs or market conditions
- more personal and responsive customer service
- lower overheads and operating costs
- easier to control and manage
- able to target niche markets or segments

Knowledge of a disadvantage (max 1 mark), including:
- lower economies of scale
- high unit costs.
- low bargaining power
- difficult to be competitive
- may not be able to fulfil all orders
- smaller customer base
- fewer distribution channels
- limited funding opportunities

AO2 Application *Max one for application to an advantage and Max one for application to a disadvantage*
- needs to sell 4000 units of new product to break even (OFR from **2(b)(i)**)
- high fixed costs of one product such as the new face cream $12 000
- niche market for natural ingredients in skincare
- competitive market with large chains/established brands
- can quickly adapt products for different skin types
- hand-made products
- Natalia manages all tasks/no employees
- Natalia works long hours/stressed and exhausted

2(c)	**AO3 Analysis** *Limited analysis – candidate shows one link in the chain of analysis.* *Developed analysis candidate shows two or more links in the chain of analysis or a two-sided analysis.* Advantages, including: • can be more flexible and adaptable as a small business – such as by being able to modify its products/prices/promotions/places quickly and easily according to customer feedback or market trends. • increase customer satisfaction – leading to customer loyalty/retention. • reduced fixed costs – more profit Disadvantages, including: • small market and high costs – lead to a lower profit margin • less potential for growth – limited access to capital • difficult to compete in the market – less brand recognition • limited sources of finance – difficult to attract investors/obtain loans **Accept all valid responses**

2(d) **Evaluate whether outsourcing is the most suitable way to increase NN's production capacity.**

Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 2 marks	AO4 Evaluation 6 marks
3				**5–6 marks** **Developed evaluation in context** • A developed judgement/conclusion is made in the business context. • Developed evaluative comments which balance some key arguments in the business context.
2	**2 marks** **Developed knowledge** of relevant key term(s) and/or factor(s) is used to answer the question.	**2 marks** **Developed application** of relevant point(s) to the business context.	**2 marks** **Developed analysis** that identifies connections between causes, impacts and/or consequences.	**3–4 marks** **Developed evaluation** • A developed judgement/conclusion is made. • Developed evaluative comments which balance some key arguments.
1	**1 mark** **Limited knowledge** of relevant key term(s) and/or factor(s) is used to answer the question.	**1 mark** **Limited application** of relevant point(s) to the business context.	**1 mark** **Limited analysis** that identifies connections between causes, impacts and/or consequences.	**1–2 marks** **Limited evaluation** • A judgement/conclusion is made with limited supporting comment/evidence. • An attempt is made to balance the arguments.
0	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.	**0 marks** No creditable response.

2(d)

Responses may include:

AO1 Knowledge and understanding – of outsourcing (ma K s), including:
- the process of contracting out a business activity or function to another business/organisation
- pay other businesses to take on some tasks
- can help reduce unit costs
- a business can concentrate on what it does best
- can reduce risks
- specialists skilled in function
- specialist facilities

AO2 Application
Limited application APP *applies knowledge of outsourcing to NN once.*
Developed application APP - APP *applies knowledge of outsourcing to NN twice.*
- growing demand for its products
- small business
- Natalia works long hours/stressed and exhausted
- NN's values/standards
- Natalia's passion and satisfaction as an entrepreneur
- competitive market
- loyal customer base
- narrow distribution channels
- organic ingredients
- natural, handmade products
- local suppliers
- small, rented workshop
- answer to **2(b)(i)**, required output/sales to break-even

2(d)

AO3 Analysis
Limited analysis AN *– candidate shows one link in the chain of analysis.*
Developed analysis DEV *candidate shows two or more links in the chain of analysis or a two-sided analysis.*

Arguments for outsourcing:
- outsourcing allows a business to scale up production – no need to invest in larger premises or equipment.
- would free up time to focus on other tasks – like product development/marketing.
- external manufacturers may have better equipment and processes – leading to improved efficiency/product consistency.
- this could enhance reputation – supporting growth/sales

Arguments against outsourcing:
- could compromise product quality – resulting on dissatisfied customers
- customers may perceive outsourced products as less personal – reducing demand
- may conflict with values – especially if the external firm does not share the same environmental standards.
- may involve high initial costs or long-term contracts- risky for a small business with limited financial resources.

AO4 Evaluation
Limited evaluation EVAL *– unsupported judgement and/or a weak attempt at evaluative comment*
Developed evaluation E *– supported judgement and/or reasonable evaluative comment*
Developed evaluation in context EE *– supported judgement in context and/or reasonable evaluative comment in context.*

Outsourcing could help NN expand production and reduce Natalia's workload, but it also poses risks to quality, brand identity, and cost control. A hybrid approach may be more suitable – Natalia could outsource part of the production while maintaining control over key processes. This would allow NN to grow sustainably while preserving its unique brand values.

Other points might include:
- depends on various factors – such as her objectives, resources, capabilities, market conditions
- judgement over the most important/influential factor affecting growth of NN
- elements that the judgement could depend upon, such as losing control over the quality and consistency of the products, compromising on the natural and organic ingredients used in the products, or damaging the reputation and image of NN
- judgement on the implications for cost and NN's ability to compete with big brands
- weighing up of the factors and their relative influence on NN's options

Accept all valid responses

2(a)	**Define the term *price discrimination.*** **Indicative content** Responses may include: **AO1 Knowledge and understanding** Clear understanding • The policy of selling the same product at different prices (1) to different buyers (1) Partial understanding • Selling a product at different prices (1) • Setting different prices for different people (1) Accept all valid responses.
2(b)	**Explain <u>one</u> disadvantage to a business of using competitive pricing.** There are 3 marks for this question**:** 1 mark for K 2 marks for APP **Indicative content** Responses may include: **AO1 Knowledge and understanding** 1 mark for identifying **one** disadvantage of using competitive pricing • Competitive pricing may mean a business makes a loss • Competitive pricing may force prices down/lower in the long turn • Could lead to business failure • Could lead to a price war • Could deflect a business from other objectives • May mean too much concern for competitor actions. • May lead to lower/less sales

2(b)	**AO2 Application** 2 marks for **developed** APP of the disadvantage given 1 mark for **limited** APP of the disadvantage given • A business that sets prices solely on competitor prices might risk selling at a loss as it may not be able to cover its manufacturing costs or business overhead expenses. • Competing using competitor prices (lower) might give a competitive edge in the short term, only as competitors fight back with lower prices. • Could lead to lower profit margins and increase the risk of failure, especially true of businesses with few financial resources. • May be difficult and costly to discover competitor prices – need to hire pricing teams or purchasing automated competitor pricing monitoring tool. • Could lead to a price war and even if a business can sustain low prices, customers may see the low-price product as an inferior product. • A sole focus on competitive pricing might deflect a business from concerns for quality and added value. • Too much focus on competitor's prices may also mean too much time spent on competitors, to the detriment of insufficient time spent on internal issues such as strengthening its USP and competitive edge (other than price points). Accept all valid responses.

4	**Analyse <u>one</u> reason why a business may use cost-based pricing.** There are 5 marks for this question**:** 1 mark for K 2 marks for APP 2 marks for AN **Note: no marks can be awarded if a relevant reason is not given** **Indicative content** Responses may include: **AO1 Knowledge and understanding** 1 mark for identifying **one reason** why a business may use cost-based pricing. A pricing method adopted by a business by which the selling price of a product is determined by adding a specific fixed percentage to the product's unit cost. • Especially useful to a new business – costs need to be covered with a small profit if possible • It is a simple method – simple to calculate and simple to implement • It ensures that all production costs are covered • It may ensure profitability • It may prevent loss • Transparent – easy for customers to understand • Easy to justify – make price adjustments to match cost increases, keeping prices low

4	**AO2 Application** 2 marks for **developed** APP of the chosen **reason** 1 mark for **limited** APP of the chosen **reason** • A business may have a choice of pricing methods at any particular time – given market conditions and the position of the business (in terms of scale of development, operational/survival objectives), a decision is made to choose cost-based pricing as the most appropriate pricing method Low-cost food retailers use this strategy to maintain their competitive position – they are obsessed with controlling their costs and add a small margin. **AO3 Analysis** 2 marks for **developed** AN of the chosen reason 1 mark for **limited** AN of the chosen reason The decision to adopt cost-based pricing may be taken for the following reasons: • A business can price products consistently without a lot of market research – a simple approach to pricing where the full costs of a product are calculated and a margin is added for a specific desired profit level – avoids need to spend time on nuanced pricing strategies – appealing for a small business. • It is a reliable pricing method – it ensures a business is covering all costs and generating the desired returns (assuming accurate cost calculations) – it assists estimates of revenue within a specific timeframe. • It is a pricing method that is easy to understand – it involves very few components – explanation of price increases to customers does not require a complicated explanation. • It requires little information relating to customer expectations, competitor pricing, or market demand – if a business has no competitors and no similar products in the market, cost-based pricing ensures a business prices according to company objectives and reflects the costs incurred to produce an item – the only data needed for cost-plus pricing are company costs and desired profit margins. Accept all valid responses