



Oxford Cambridge and RSA

## **A Level Business**

### **H431/02 The UK business environment**

Sample Resource Booklet

Version 1.1

Time allowed: 2 hours

#### **Instructions to candidates**

- This is a resource booklet.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- The business described in this Case Study is a real business.

#### **Information**

- This document consists of **4** pages. Any blank pages are indicated.

## Morrisons

<sup>1</sup>A price war has started between Britain's main supermarkets leading to a fall in share prices. These share price falls were prompted by Morrisons' commitment to cut prices aggressively and reduce its profit margin in order to stop a decline in sales. As well as wiping 12% off its own share price, it knocked 8.5% off Sainsbury's, 5% off Tesco's and 3% off Marks & Spencer's share prices.

<sup>1</sup>The results from Morrisons made it obvious that the most pessimistic predictions about food retailing could become true. Selling food in Britain is never going to be as profitable as it once was. Morrisons forecast that underlying profits in 2014 will be between £325m and £375m – less than half of what was achieved in 2013.

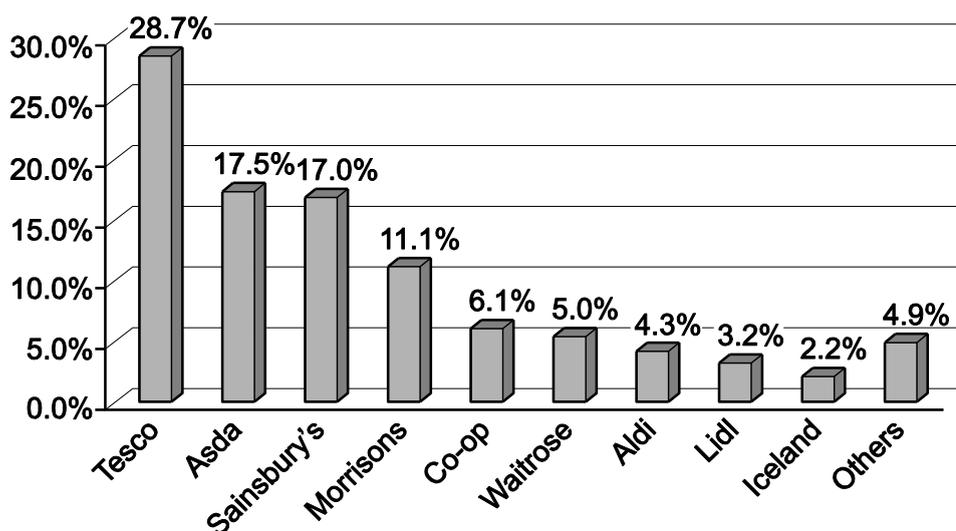
<sup>1</sup>This is partly because the company made a series of strategic mistakes – including investing in convenience stores and the Internet later than its rivals. It also focused on developing premium products when most of its northern customer base wanted lower prices.

<sup>1</sup>However, Morrisons is also reacting proactively to the dramatic changes taking place in how British families buy food. Morrisons says the growing popularity of the discounters, Aldi and Lidl, is to blame for the downward pressure on profit margins.

<sup>1</sup>These two discount chains have focused on improving the quality and reputation of their food, while also opening small stores in convenient locations. Their rise is similar to the emergence of low-cost airlines, such as EasyJet. Morrisons feels the need to act before it is too late. Morrisons' Chief Executive said: 'There is a new expectation on price...set by the discounters.'

<sup>1</sup>Aldi and Lidl control just 7.5% of the £26.1bn UK grocery market in 2014, compared with nearly 75% for the 'Big Four' (see Fig.1). Morrisons claims it is winning sales from Tesco, Asda and Sainsbury's, but losing even more to the discounters.

**Fig. 1 – UK Supermarket – Market Share 2014**



<sup>1</sup>But it is not just the discounters which are squeezing profit margins. The changing habits of families are also posing a problem for food retailers. When the self-service supermarket was launched in the 1950s, it was the most efficient way of distributing food ever created. However, encouraged by high fuel prices, the economic downturn and technological innovations, customers are switching their grocery spending from a weekly shop in an out-of-town supermarket to an online shop and a series of trips to local

convenience stores. Both these channels are seen as major growth opportunities for grocery retailers, although they put profit margins under pressure.

<sup>1</sup>As Ocado (an online-only supermarket) has shown, it is incredibly difficult to make online retailing as profitable as the out-of-town supermarket. A high proportion of the costs of selecting, packing and delivering the order to the customer is borne by the retailer.

<sup>1</sup>Not only that, but retailers are effectively encouraging customers away from a more profitable source of business, the out-of-town supermarkets. Out-of-town supermarkets have significant fixed costs, so this trend is damaging.

<sup>1</sup>It is a coincidence of the 21st century retail revolution that grocery shopping is moving to a less profitable form of business. It is a sure sign that the revolution is customer-led. Customers are likely to enjoy more price cuts and promotions, as retailers battle for sales.

<sup>2</sup>Even more frighteningly for the 'Big Four', the middle classes are moving their buying power. 25% of Lidl shoppers and 19% of Aldi's (up from 13% a year ago) are from the AB socio-economic groups, with new shops opening in affluent locations. Being seen with a discount carrier bag shows you know the value of a bargain – even if you do live in Chelsea.

<sup>3</sup>Aldi and Lidl have ambitious store opening plans for the UK, with Aldi opening 50 stores a year and Lidl looking to expand from 600 shops at present to as many as 1500. If this expansion is reflected in an increase in market share, then the UK grocery market will change dramatically over the next few years. IGD, the food and grocery industry body, has forecast that the discount sector will almost double in size, with sales growing from £9.5bn to £18.6bn between April 2013 and April 2018.

<sup>3</sup>Aldi and Lidl stores are also typically smaller than a traditional supermarket, with these retailers only stocking a limited range of products which allows them to keep prices low. Morrisons' idea of the future can be found in Preston.

<sup>2</sup>There, the company has built a new 'innovations' store with half of the range of products, compared to one of its traditional supermarkets. It offers an opportunity for customers to buy in bulk at 'warehouse prices' with quicker check-outs and TV screens advertising foods. It also has a new supply system which ensures availability of goods more of the time. However, Morrisons is playing catch-up. It has only recently launched an online delivery service, years after its main competitors. Too much of its business is still done by staff writing things down on bits of paper. Its data on its own customers is poor.

Adapted from the following sources:

<sup>1</sup>Supermarkets draw up battle lines to ward off the German invasion by Graham Ruddick (Daily Telegraph, 14 March 2014)

<sup>2</sup>Milk wars – a symptom of supermarkets in crisis by Kamal Ahmed (Daily Telegraph, 8 March 2014)

<sup>3</sup>Is Aldi doing to Tesco what Ryanair did to British Airways? by Graham Ruddick (SPECIMEN Daily Telegraph, 13 February 2014)

## Summary of updates

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Date	Version	Change
February 2021	1.1	Updated copyright acknowledgements.

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### Copyright Information:

Kantar Worldpanel.

Supermarkets draw up battle lines to ward off the German invasion by Graham Ruddick (Daily Telegraph, 14 March 2014)

Milk wars – a symptom of supermarkets in crisis by Kamal Ahmed (Daily Telegraph, 8 March 2014)

Is Aldi doing to Tesco what Ryanair did to British Airways? by Graham Ruddick (Daily Telegraph, 13 February 2014)

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Oxford Cambridge and RSA



# A Level in Business

## H431/02 The UK business environment

### Sample Question Paper

## Date – Morning/Afternoon

Time allowed: 2 hours



**You must have:**

- the Resource Booklet

**You may use:**

- a scientific or graphical calculator



<b>First name</b>										
<b>Last name</b>										
<b>Centre number</b>										
<b>Candidate number</b>										

### INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number and candidate number.
- Answer **all** the questions.
- Write your answer to each question in the space provided.
- If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.
- The Resource Booklet is required for Section B only.

### INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [ ].
- Quality of extended responses will be assessed in questions marked with an asterisk (\*).
- This document consists of **4** pages.

**Section A**

Answer **all** the questions.

1 Explain what is meant by the term ‘total quality management (TQM)’.

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[2]

2 Identify **two** reasons why a business may use a network analysis.

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[2]

3 Complete the unshaded boxes in the cash flow statement below.

Item	May (£)	June (£)
<b>Inflows</b>		
Sales revenue	230	210
<b>Outflows</b>		
Wages	128	120
Raw materials	84	
Other costs	22	25
Net cash flow		5
Opening balance	160	
Closing balance		

[4]

A business is considering purchasing a new piece of machinery at a cost of £80 000. The machinery is expected to last for five years and produce annual net cash flows as shown in the table below.

Year	Net cash flow (£)	Discount rate (5%)	Present value (£)
0	(80 000)	1.00	
1	20 000	0.95	
2	20 000	0.91	
3	20 000	0.86	
4	20 000	0.82	
5	20 000	0.78	
Total present value			
Net present value			

Complete the unshaded boxes in the table above to calculate the net present value (NPV) of this investment.

[4]

4 Outline **two** advantages to an entrepreneur of producing a business plan.

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[4]

5 Outline **two** ways in which benchmarking would help a business improve its customer service.

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[4]

**Section B**

Answer **all** the questions.

Please use the information provided in the **Resource Booklet** to answer the following questions.

- 6 Refer to lines 21 to 23 and Fig.1. Calculate the value of Morrisons' revenue in millions from the UK grocery market in 2014.

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**[4]**

- 7 (a) Analyse **one** suitable sampling method which Morrisons may use to quickly gain feedback from its customers about the new store in Preston.

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**[4]**

SPECIMEN





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.....[15]

SPECIMEN

- 10** Analyse how the fall in Morrisons' share price may affect the objectives of **one** of its stakeholders.

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**[4]**

SPECIMEN





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.....[15]

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