

Case study 11: Mark scheme

Chapter 26: Product

Chapter 27: Price

Chapter 28: Promotion and place (distribution)

Chapter 29: International marketing and e-commerce

Costcut Cosmetics

In 2007 Kamran Khan bought a bulk purchase of end-of-line branded cosmetics from a well-known manufacturer. He rented a market stall in Birmingham market and, even when using a cost plus 210% pricing strategy, his business was an immediate success because he was still selling well below recommended retail price. Supplies were not keeping up with demand, so Kamran contacted other cosmetics manufacturers and was soon able to set up similar stalls on a variety of markets in the Midlands. Everywhere he went his stock was enthusiastically bought.

As Kamran built up his relationships with his suppliers, he realised that he could buy significant stocks of cosmetics that manufacturers were only too willing to sell at low prices, as new product lines arrived to fill their warehouses. He began to try to think of new ways to sell the cosmetics. One way would be to continue to open market stalls at markets throughout the UK. He was reluctant to do this because of the practical problems of control of stocks, cash and the need to employ and train a large workforce of sales staff willing to work for low wages. Another option was to open permanent shops. He then began to think of the possibilities of using the internet to sell.

In early 2009 he asked a friend to set up a basic website. He gave out flyers to his market customers and within weeks he had more orders than he and his wife could pack and post each evening from stock stored in their garage. News of the site seemed to have spread rapidly by word of mouth. Orders were being received from across the UK. In August 2009 the first orders from other countries in Europe were received. He soon realised that he needed to think of more appropriate promotional methods and advertising media.

SL questions: 20 marks, 35 minutes

- 1 Describe what is meant by ‘advertising media’. (2)

These are the means of communication with existing and/or potential customers used as part of an above-the-line promotional strategy, such as TV, radio, newspapers, magazines, internet, flyers and billboards.

Apply **Resources table 3a** mark band descriptors.

- 2 Explain **two** possible aims of Costcut’s advertising strategy. (4)

Possible aims could include:

- to persuade new customers to buy from Costcut and existing customers to order more
- to make new customers aware of Costcut and existing customers aware of any new promotional offers

- to remind existing customers of Costcut's products
- to inform new and existing customers of the products for sale and promotional offers
- to make people switch their supplier of cosmetics to Costcut.

Apply **Resources table 3b** mark band descriptors.

- 3** Suggest a suitable mix of **three** below-the-line promotional methods that could be used to market Costcut's online business. **(6)**

Three methods should be identified, explained and related to Costcut's specific situation and needs. They may include:

- special offers
- loyalty programmes
- money-off coupons with a code for the next online order enclosed in posted orders
- 'buy one get one free' (BOGOF)
- games and competitions online, with prizes
- sponsorship
- any other appropriate ideas.

SL: apply **Resources table 1** mark band descriptors.

- 4** Discuss potential disadvantages of e-commerce for Costcut. **(8)**

Define e-commerce: a sales medium in which customers buy products online using their credit or debit cards for payment. Goods are shipped by post or carrier, and are delivered directly to the customer. At least four ideas should be discussed, and may include the following:

- price competition from similar sites may be high, so profit margins may be lower than selling on market stalls
- customers may be wary of buying due to internet fraud
- lacks the personal contact appreciated by many customers
- different promotional strategies needed
- customers cannot touch/feel/smell product, so this may put them off buying
- cost/reliability of postal services may not be good in all areas
- effective websites need a lot of updating and so can be expensive
- there may be legal or import/export problems regarding cosmetics
- any other relevant idea.

SL: apply **Resources table 1** mark band descriptors.

HL questions: 25 marks, 45 minutes

- 1 **a** Calculate the selling price of a product that Costcut buys for 59 pence. (2)
- Selling price = cost price \times 3.10
 = £0.59 \times 3.10
 = £1.83
- b** Define the term ‘branded’. (2)
- These are products that use a name, logo or design, or a combination of these, to distinguish a company’s product range from competitive products. This enables customers to easily recognise the products, identify their image and develop brand loyalty and brand preference.

Award 1 mark for a basic definition and 2 marks for a detailed definition.

- 2 If Costcut opened some permanent shops, increased overheads could mean that they would have to reconsider their pricing structure. Discuss factors that may need to be taken into consideration before deciding on selling prices. (6)

Factors discussed may include the following:

- all direct and indirect costs
- sales volumes (so that the importance of overheads in pricing may be judged)
- competitive market conditions
- competitor prices
- price elasticity of demand
- any other relevant point.

Apply **Resources table 2** mark band descriptors.

At least **four** ideas should be stated and discussed for full marks.

- 3 Examine how above-the-line and below-the-line promotion could be used to support Costcut’s e-commerce strategy. (6)
- Above-the-line promotion is communication with consumers that is directly paid for, whereas below-the-line promotion is not directly paid for and is often short term in effect.
- Above-the-line:
- advertise in magazines or newspapers that market research shows many customers may read
 - use pop-ups on related websites
 - enclose flyers about new products with orders when they are sent out
 - advertise on comparison websites
 - any other relevant advertising idea in media appropriate for e-commerce sales

Below-the-line:

- special offers
- loyalty programmes
- money-off coupons with a code for the next online order enclosed in posted orders
- ‘buy one get one free’ (BOGOF)
- games and competitions online, with prizes
- sponsorship
- any other appropriate ideas

Apply **Resources table 2** mark band descriptors.

4 Evaluate whether Costcut should extend e-sales to the international market. **(9)**

Evaluation should include consideration of appropriate arguments for and against extending e-sales to the international market. All points should be linked to Costcut’s particular situation and products.

For:

- potential market and profits are huge
- avoids the need for international bases, shops or agents
- staff employed could be centralised and would therefore be under the direct control of Costcut managers
- takes advantage of large available supplies beyond the market boundaries and limitations of UK demand
- make-up colours that are out of fashion in the UK may be still popular elsewhere
- any other relevant point

Against:

- pricing strategies in different countries may be significantly different due to diverse and particular local trading conditions
- for big branded names, product lines ended in one country may be still being sold in others – this could bring Costcut into conflict with their suppliers
- different promotion strategies needed for different markets/cultures/countries
- cost/reliability of postal services may not be good in all countries
- long postal journeys could lead to product deterioration
- websites in different languages may be different
- website adaptations can be expensive
- different international laws regarding the import of cosmetics into different countries may exist
- any other relevant point

Apply **Resources table 2** mark band descriptors.

A justified conclusion is required.