

**Mark Schemes & Example Model Answers - SECTION A - SAMPLE MATERIAL**

- 1 (a) Assess **two** ways in which chocolate confectionery manufacturers might respond to the rising cost of raw materials (Extract A).

Question Number	Indicative content	Mark
1(a)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><i>Possible response:</i></p> <p><b>Raise prices.</b> Chocolate confectionery manufacturers could consider raising the price of their products in order to maintain profit margins. This is a simply strategy, which could be implemented with minimum cost. However, raising price could result in demand falling and, thus, falling sales revenues and, ultimately, falling overall profit. Whether or not a business can raise price without demand falling depends upon price elasticity of demand. This is largely affected by the nature of the product in question, ie whether it is a luxury or a necessity. Chocolate confectionery products are generally considered to be a 'treat' as opposed to a necessity, and so whilst raising price helps to maintain profit margins, overall profit might actually fall - as demand for the product falls.</p> <p><i>[Additional points that could be brought into the above answer: The market for chocolate confectionery is also highly competitive and so raising price might not be possible, if other chocolate confectionery manufacturers maintained prices. In such a market, where close substitutes exist, any rise in price risks falling sales.]</i></p> <p><b>Reduce portion size without changing price - 'shrinkflation'.</b> A chocolate confectionery manufacturer could consider reducing the size of its products, without changing prices, ie 'shrinkflation'. For example, Nestlé recently reduced the size of the Toblerone by 10% (from 400g to 360g) - with 11 peaks as opposed to 15 peaks, narrower triangles and larger spaces in between. Reducing the size of a product will incur some 'one-off' costs - to adjust machinery and re-design packaging (size and labelling eg weight). In the longer term, it could help to maintain profit margins - as it requires fewer quantities of ingredients and, thus, keeps down raw material costs, whilst price is maintained. There is a risk, however, that loyal customers will feel 'short-changed', which could negatively affect sales and, thus, profit overall.</p> <p><i>Other relevant responses / strategies that could be referred to:</i></p> <p><b>Move up-market - 'Premiumisation'.</b> There is growing demand for premium chocolate with a high cocoa content due to the potential health benefits, for which people may be willing to pay a higher price. Such a strategy could, therefore, help to maintain profit margins when faced with the rising cost of raw materials. This would, however, incur some one-off costs eg in recipe reformulation, packaging design, branding and promotion, as well as, potentially, higher ongoing costs arising from the higher quantity of cocoa and / or other more expensive ingredients (and packaging materials).</p>	<b>(8)</b>

	<p><b>Reduce the amount of cocoa and other expensive ingredients used to make each product</b>, whilst keeping prices the same. This could help to maintain profit margins. However, changing recipes, particularly long-standing ones, could not only incur significant research and development costs, but could also result in the loss of loyal customers and, thus, risks falling sales and profit overall.</p> <p><b>Invest in new technologies to cut costs.</b> For example, pigging technology can enable a chocolate confectionery manufacturer to recover residual liquids that remain in pipelines or tubing after liquid has been transferred from one location to another. This liquid can be re-used in the manufacturing process, which increases output and, thus, potential revenues, as well as reduces waste and, thus, waste processing costs. It can also reduce cleaning (materials and labour) costs, as well as speed up the cleaning process, thereby minimising downtime and maximising productivity. There is obviously a cost to purchase and install such technology but, as a result of the numerous benefits relating to increased output, productivity and efficiency, pigging systems can generate a high return on investment. The payback period is also short and a short payback minimises the cost and risk associated with the investment, especially when financed through bank borrowing (which incurs interest charges and has to be repaid at an agreed date).</p> <p><b>Invest in improving sustainability in the supply of raw materials.</b> Many of the leading global chocolate confectionery manufacturers, such as Mars, have done much to encourage more sustainable cocoa farming practices. Over the last 10 years this has included developing cocoa varieties that are higher yielding, more robust and resistant to drought and disease. This not only helps farmers to earn a better living, but helps to ensure continuity of supply, which is important in keeping down the price of cocoa and, thus, raw material costs for manufacturers like Mars. It also portrays Mars in a positive light - from a corporate social responsibility (CSR) perspective, which could be commercially beneficial eg helping to attract and retain customers and employees, and to secure finance - from 'ethical' investors.</p>	
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Level	Mark	Descriptor
	0	<ul style="list-style-type: none"> <li>• A completely inaccurate response.</li> </ul>
Level 1	1-2	<ul style="list-style-type: none"> <li>• Isolated elements of knowledge and understanding - recall based.</li> <li>• Weak or irrelevant application to business examples.</li> <li>• Generic assertions may be presented.</li> </ul>
Level 2	3-5	<ul style="list-style-type: none"> <li>• Accurate knowledge and understanding.</li> <li>• Accurate application to the business and its context.</li> <li>• Chains of reasoning are evident, showing cause(s) and / or effect (s), but may be assertions or incomplete.</li> <li>• An assessment is presented but it is unbalanced, and unlikely to show the significance of competing arguments.</li> </ul>
Level 3	6-8	<ul style="list-style-type: none"> <li>• Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour / context.</li> <li>• Logical chains of reasoning, showing cause(s) and / or effect(s).</li> <li>• Assessment is balanced, well contextualised, using quantitative and / or qualitative information, and shows awareness of competing arguments / factors leading to a supported judgement.</li> </ul>