



Examiners' Report

June 2018

GCE Business 9BS0 03

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.



Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus. Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2018

Publications Code 9BS0_03_1806_ER

All the material in this publication is copyright
© Pearson Education Ltd 2018

Introduction

This report is focused on the synoptic paper 9BS0-03 'Investigating business in a competitive environment' which accounts for a 30% subject weighting for A Level Business. It therefore tested candidates knowledge and understanding across themes 1 to 4 as well as their application, analytical and evaluative abilities. The latter is tested especially given that all eight questions on the paper are designed to encourage candidates to write coherent chains of reasoning, with balance, in response to questions which begin with the command words 'assess' or 'evaluate'.

The business context for the paper was the market for chocolate confectionery and the private businesses operating in this market, both in the UK and internationally. This was shared with centres in November 2017 to enable candidates to undertake research in the following areas:

- Trends in the number and size of manufacturers that operate in the global chocolate confectionery market over the last 20 years, including investment, business growth and takeovers
- Influences on the global market for chocolate confectionery over the last 20 years, such as the growth and development of emerging economies, corporate social responsibility, social trends, changing costs and prices
- Human resource management in the UK chocolate confectionery industry
- The competitive environment facing the producers and retailers in the UK chocolate confectionery market
- Marketing and promotions in the chocolate confectionery industry.

The four structured questions in Section A of the paper examined aspects of the chocolate industry as a whole, namely the benefits of branding, flexible working, cultural and social factors affecting sales and takeovers. The four structured questions in Section B examined the operations of one specific business, namely Cadbury, focussing upon quality control, CSR, investment decisions and growth strategies.

The paper was on the whole well tackled by candidates, with many able to use the evidence provided in order to answer most of the questions. More able candidates were also able to draw upon their own research findings in order to write balanced arguments with logical chains of reasoning, whilst making effective use of the evidence in the paper from both the chocolate industry and Cadbury.

However, some candidates were indeed challenged by the demands of the paper, sometimes struggling to assess but instead simply explain the benefits of branding. Likewise weaker candidates were let down by a lack of accurate knowledge and understanding, so described what was meant by quality assurance or TQM rather than assess the benefits of quality control to Cadbury.

Generally candidates performed better in response to the questions in Section A than in Section B. This was often down to making better use of the Extracts A to D provided in Section A and/or not being able to calculate the payback and net present values of Mondelēz's investment in Cadbury, let alone use these results to assess the modernisation project as a whole.

A minority of candidates appeared not to have finished the paper judging by the skeletal or lack of responses to question 2(d). By contrast a good proportion of candidates made effective use of the

examination time of two hours to write answer plans and continue into extra sheets, when necessary.

Question 1 (a)

Candidates were expected to use the data in Extract A to assess two possible benefits of branding to a chocolate manufacturer, present them with chains of reasoning and then balance their answers by explaining why branding might not always prove beneficial.

Firstly, despite the wealth of information in Extract A, a significant number of candidates did not use the data to support their Ideas. Better candidates pointed out that Mars UK Ltd in 2015 had 6 of the 10 top spots in terms of sales revenue which suggest that effective branding can boost sales.

More able candidates considered the short and long run, often explaining that whilst, for example, the branding of Maltesers might boost revenue and profits in the long term, this might not be the case in the short term given the associated costs of branding such as expensive advertising on commercial television.

Less able candidates failed to recognise that Mars UK Ltd is actually a manufacturer and a brand name and so did not recognise the 6 out of 10 top brands. Several candidates made assertions that being ethical always reduced profit. Being the first question on the paper, some candidates appeared to spend a lot more time on this question than was advisable.

This candidate answers the question directly, which is an encouraging start. The benefit of brand loyalty is explained and well contextualised and also there is an attempt at providing balance to the response because the candidate describes the effect of bad publicity.

- 1 (a) Using the data in Extract A, assess **two** benefits of branding for a chocolate manufacturer, such as Mars UK Ltd.

(8)

Branding can increase brand loyalty, this is especially useful to a firm like Mars as the chocolate industry is extremely competitive. Supermarkets can offer Mars like products for a cheaper price, but consumers continue to buy Mars as they are committed to the brand. This increases Mars' revenue as they get more sales, shown in extract A by ~~the~~ having 6 products in the top 10. However, having such a strong brand can mean that if something bad came out in the media about Mars they would likely see a great decrease in sales as ~~the~~ products they sell are greatly associated with them.

Another benefit is that a strong brand reduces the threat of new entrants as they can't cope with the strength of another brand, also they can't advertise as much as Mars as they can't afford it.



The response is incomplete because only one benefit of branding to Mars is discussed. The second benefit (reduces the threat of new entrants) is not fully explained, let alone assessed.



Assess 'two' means that candidates must assess two benefits to gain maximum marks. Candidates were required in this case to analyse two benefits of branding and then identify a counter argument for each. Consequently, this candidate gained Level 2-5 marks.

This candidate presents two benefits of branding, with clear chains of reasoning and refers to the data in Extract A.

- 1 (a) Using the data in Extract A, assess **two** benefits of branding for a chocolate manufacturer, such as Mars UK Ltd.

(8)

One benefit of branding for a chocolate manufacturer such as Mars is the fact that it creates strong and easily recognisable products which are then brought to the attention of the consumer when they are in shops etc. For example this strong brand image and products are going to give Mars a added revenue which means potentially higher profit margins or cheaper prices. As we can see from the data Mars owns 6 of the big Brands in the chocolate market, such as Maltinsers, Galaxy, Snickers, Mars bar etc.

There are ~~a~~ easily recognisable brands which consumers have loyalty to; this is shown by increases in revenue, for example maltinsers has risen from £47.1m to £49.7m and Galaxy has risen from £33.7m to £36.6m. However the Twix and Mars bar revenue has decreased, shown by a small amount showing that trend and tastes may be changing.

Another benefit for Mars of branding is the fact that it spreads risk across the

business, if something was to happen to one of Mars brands, then there is still other brands which can work effectively. This is potentially safe than have Mars just as the brand which can be susceptible to shocks externally and therefore get taken out if they have all their revenue in one place. For example if in 2015 tinix ~~cost~~ for whatever reasons stops operations, which would take away £22.9m in revenue. Mars still have £176m in revenue from its other brands, and this loss is only an 13% loss to revenue and not 100% which it would be if it was just Mars as the brand. However ~~if there~~ if there is an external ~~shock~~ for example to cocoa supply supplier for Mars it will affect all brands not just one.



Each benefit is assessed. The candidate argues that changes in consumer tastes may work against a brand and a business's brand is also subject to external threats.



The candidate uses the data well in the response, which should be expected when the question reads "Using the data in Extract..."

This candidate gained Level 3-8 marks.

Despite being asked to "Use the data in Extract A" a surprisingly large number of candidates did not. This question attracted 2 quantitative skills marks so although the candidate had in fact assessed two benefits of branding, the max mark allowed was 6.

- 1 (a) Using the data in Extract A, assess **two** benefits of branding for a chocolate manufacturer, such as Mars UK Ltd.

(8)

~~One benefit~~

Branding is defined as the characteristics, that distinguishes a company from another. This may be their logo or name etc.

One benefit of branding for a chocolate manufacturer such as Mars UK Ltd is that in the competitive chocolate market by having a strong brand image this allows consumers to differentiate Mars products from other chocolate products but also it helps Mars products to stand out. By Mars standing out, for example on supermarket shelves this will encourage consumers to purchase their products. As a result this increases revenue for Mars and increases their profit margin. From this, they can find new and innovative ways to further better their brand.

Another benefit of branding for a chocolate manufacturer, such as Mars UK Ltd is that your brand image can help to gain new customers. As well as customers being loyal to your brand, if Mars for example has a great logo this may attract ~~at~~ customers as they may purchase products just on aesthetic appeal or gratification. Therefore branding for a chocolate manufacturer will help to draw in sales. As a result these new customers then become loyal to the brand; Mars which will then increase their profit. However a drawback of branding for a chocolate manufacturer, such as Mars UK Ltd is that too much money may be getting spent on branding (an increase in cost) and not enough sales are happening for example this will be at a loss for the company as it decreases their profit margin.



Consumer loyalty and product differentiation are discussed.



Read the question carefully!

Question 1 (b)

Flexible working is essentially about businesses being able to offer flexible hours and flexible terms, such as part time hours, home-working. It is done in the interests of the business and/or the employee.

Many candidates were able to use the evidence in Extract B to describe how flexible working applies to Nestle and further explain the benefits of having a flexible workforce to Nestle.

e.g. so that workers could switch between departments providing that they had the transferable skills.

Better candidates recognised that Nestle being able to this may require more staff training and time out for employees if not trained on-the-job.

Stock answers tended to focus on the 'dog friendly office' example of flexible working at Nestle suggesting that this would motivate staff to work harder and so improve productivity.

A Level 4-8 mark response given that it shows chains of reasoning that are balanced.

(b) Assess the likely value of having a flexible workforce for a business, such as Nestlé.

(10)

A flexible workforce refers to a workforce that can cope with changes in demand, this may be through working part time, at home or choosing your own hours. Extract B states Nestlé have introduced measures such as "working from home and creating a dog friendly office".

Nestlé is a large MNC and has "339,000 employees worldwide", having a flexible workforce will enable Nestlé to cope with changing demand. For example in the chocolate industry there may be a lot of seasonal demand at times such as Christmas and Valentines day, where more employees are needed. The workforce is therefore able to expand and contract effectively.

Employees of Nestlé may feel more valued and motivated to work as they are able to fit work around other factors in their life. As a result productivity may increase due to higher motivation, which can lead to increased profits in the long run. Conversely the implementation of such schemes is likely to be expensive and time consuming. Nestlé operates in "197 countries" and has various

departments, in order to not discriminate amongst employees, it's likely it would have to implement this strategy throughout the business. This may be conducted by Human resources who may spend more time on sorting out the flexible workforce than other tasks, leading to a loss of productivity in the long run.

Therefore overall the use of flexible workforce has positives and negatives, I believe its positives outweigh the negatives if flexible workforce is used in some areas of the business as it will lead to increased productivity of certain individuals.



The candidate recognises that chocolate sales fluctuate because of seasonal demand and therefore companies like Nestle may benefit from being able to call upon employees for production as and when required.

The candidate also recognises the motivational benefits of valuing workers through the allowance of flexible working.

The candidate acknowledges the conflict this may cause and identifies the loss of productivity in the long run.



Chains of reasoning are not fully developed but there is balance in this response which is necessary for an 'assess' question. There is no overall judgement which is expected for a mark of 9-10 to be awarded, but instead only a summary of the arguments.

A level 4-7 mark response as it is balanced, with chains of reasoning on both sides but it could have used the context better and there was no overall judgement.

(b) Assess the likely value of having a flexible workforce for a business, such as Nestlé.

(10)

A flexible workforce is one which doesn't impose typical 9-5 job restrictions on employees in hope that they become better motivated and work more efficiently & effectively. ~~One~~ ^{The} ~~value~~ ^{value} of Nestlé having a flexible workforce could be seen through potential increased motivation. Allowing workers to work in areas that are more relaxed and delegate what hours fit their lifestyle could be a highly motivational factor, as they feel as if they have more freedom to complete work in their own environment of choice. This could improve job satisfaction, which would lead to ~~that~~ improved efficiency and improved quality of products. This would then lead to benefits for Nestlé as a whole, as it has the opportunity to become more competitive given its efficient body of employees, as well as saving money as tasks can be completed quicker. Thus a flexible workforce could be of high value to Nestlé.

Alternatively, if staff are not self-disciplined enough, a flexible workforce could counter the potential benefits it poses. If employees are working from home and lack self-motivation,

to work, productivity and efficiency levels could fall, having a damaging impact on the business. Some people may use home-working to complete tasks in their home & personal life as opposed to completing their work. Staff may need to be supervised by a manager to will them to do designated work. This would see productivity levels drop as tasks take longer to complete, thus ~~the~~ Nestle would be losing money. This depicts flexible working as only being applicable to trusted and self-determined employees.

Overall, though productivity & motivation levels may increase with flexible working, as well as overall job satisfaction, Nestle has to have the correct mindset in their employees or else no benefit can be gained.



The candidate explains the benefits through motivated workers to production and possible efficiency gains and explains that this requires self-discipline. Also they explain that whilst home working may be more productive, again this assumes that staff do not require close supervision.



Judgements are required for 10 mark and 12 mark assess questions. These judgements should not simply be a repeat summary of the preceding arguments for and against. They should bring in an overall decision which relates to the specific business situation, objectives, market or the nature of its products/service.

A Level 4-9 mark response which demonstrates sound understanding, effective chains of reasoning and use of the context and balance. The candidate does provide an overall judgement but the answer falls just short of 10/10 marks because the judgement is incomplete.

(b) Assess the likely value of having a flexible workforce for a business, such as Nestlé.

(10)

A flexible workforce is a ~~temp~~ workforce whereby employees work when they are only needed they don't have fixed contracts.

One benefit of using a flexible workforce for Nestlé is that it will reduce their costs in terms of wages as they are only paying for staff as and when they are needed. Due to the seasonality of many chocolate products, with demand being greatest ~~at~~ at times such as Christmas and Easter, means that more staff can be working then to ensure demand is met. Then, when demand has lowered ^{these} ~~the~~ workers are not needed. *

However, the issue with a flexible workforce is that the quality of their work may not be as high as those permanent staff. Because they do the work less frequently they may become out of practise and therefore make some errors in the department of which they are working in. * and therefore don't have to be paid therefore lowering costs.

Another likely value of having a flexible workforce is that employees may be more motivated. As they have flexible hours compared to normal hours eg 9-5 and the option of working from home many of the employees may feel less stressed are more relaxed about their job and therefore do it better resulting in higher productivity and efficiency. This will benefit Nestlé as less mistakes are likely to be made and more positive contributions may be made. However, the main issue with ~~a~~ employees being able to work from home is that

it's harder for their progress to be assessed and ~~their progress~~ ^{monitored} by managers. They are unable to just quickly check-up on them to see how they are getting on. In addition, communication will be more challenging if employees are working from home.

Overall, the likely value to Nestlé of having a flexible workforce is generally going to be good, as unlike with a non flexible workforce, costs won't be going out in terms of wages when employees aren't particularly needed, therefore keeping their variable costs to a minimum. It probably depends upon exactly which employees work from home and those who don't, for example it isn't suitable for an engineer to work from home.



The candidate explains, with developed chains of reasoning, why flexible working might reduce wage costs as employees are paid when needed for the seasonal product. The candidate then goes on to argue that the quality of work may be low when compared to permanent staff as 'they do the work less frequently'.

The candidate argues that workers may be motivated by flexible working as they can work flexi- hours which may improve productivity and efficiency, but home working in particular may cause communication problems.

The judgement offered rests on the nature of employment, suggesting that engineers could not work from home and so the candidate implies a flexible workforce is limited to certain occupations/duties, but the chain of reasoning is incomplete.



Here we can see a judgement. To gain the 10/10 mark available the candidate should have been more explicit in their explanation.

Question 1 (c)

Most candidates were able to explain the importance of cultural and social factors such as diet and religion on the sales of dark chocolate. The crux of the question which distinguished better candidates was how far being an emerging economy with a growth in real incomes of consumers might affect the sales of a luxury product. This question provided a mixed set of responses from candidates, with some tending to stray off the question by explaining the utmost benefits of effective marketing and advertising sometimes for new chocolate products. On the whole, however, it was encouraging to see some good, accurate contextual responses which made use of Evidence C and own research, shown by reference to the UK Government's 'Sugar Tax'. As with responses to question 1(d), in the most part candidates at least attempted an assessment which was validated, but there was lack of a judgement. In most cases when attempted the judgement was a repetition of what had been written already in the answer.

A succinct response which was awarded Level 2-6 marks

(c) Assess the importance of cultural and social factors that might affect the sales of dark chocolate in emerging economies, such as India.

(12)

Emerging economies such as BRICS economies (Brazil, Russia, India, China and South Africa), are economies that are growing fast, but still have a large level of poverty, and inequality. India are the fastest growing chocolate industry in the world, partly driven by dark chocolate. Due to urbanisation, India are considering healthier options, a new trend. Trends in emerging economies are usually brought on by developed country habits. The UK are eating healthier chocolate options, resulting in increased consumption from India's rising middle class. Meaning higher demand, and therefore more sales of dark chocolate. However, India are still largely in poverty, meaning that consumption of healthier foods isn't that important to the majority of the population, meaning they are more likely to eat the cheapest chocolate, rather than the healthiest option.



There is a definition of emerging economy and chains of reasoning as to why this might increase the sales of dark chocolate in India. The candidate also recognises the other social and cultural factors by mentioning the health benefits and the other driving force in India - urbanisation. It reads largely as a paraphrase of the Extract provided, so it was awarded 6 marks acknowledging analytical perspectives with chains of reasoning, an attempt at assessment and some use of the business context. The candidate brings nothing new to their response and, as such does not achieve more than a mid Level 3 mark.



Extracts like Evidence C should be treated as stimulus material and not as all the material required for a comprehension-type exercise. Often the compelling arguments are those a candidate brings to the response themselves, so candidates who fail to offer these are likely to be restricted to a low Level 3 mark for these type of questions.

A more rigorous candidate response which scored Level 4-11 marks

(c) Assess the importance of cultural and social factors that might affect the sales of dark chocolate in emerging economies, such as India.

(12)

Emerging economies may have different cultures ^{in terms of} ~~central~~ beliefs, values and attitudes and they may carry different social trends such as healthy eating or nutritious food.

^{Social} Cultural factors are important in ~~the~~ affecting the sales of dark chocolate, as the trends of the emerging economies, such as India may affect the popularity of it. For example, a social factor trend is that dark chocolate is becoming more in demand as a result of the new found health benefits, ~~in the economy this~~ is likely to ^{increase} ~~become~~ sales as it is becoming more popular in the market.

However, economic factors are also very influential. If the emerging economy has ~~increased~~ a rise in incomes, then spending ~~of it~~ ^{is} likely to ~~increase~~ ~~as~~ as people have more 'spare' money to spend on items such as dark chocolate. Therefore a change in incomes is also likely to affect the demand ~~in~~ and sale of dark chocolate therefore is an important factor to consider.

Changes in culture, such as eating habits will also affect ~~demand~~ sale of dark chocolate. ~~For~~ the Developing countries such as India, are 'changing eating habits with growing urbanisation'. This is likely to affect ~~demand~~ sale of dark chocolate, as it is now seen ~~as~~ better to be as the cultural norm to buy dark chocolate over any other type, India has taken a liking to Nestle's Kit Kat fencer-dark chocolate version therefore showing how culture change in emerging economies are influencing the sale of dark chocolate.

~~Impact~~

In conclusion, cultural and social factors such as changes in eating habits and discovery of health benefits of dark chocolate leading to social trend of buying dark chocolate (to reap its benefits like increased blood flow and better metabolism) are ~~very~~ important in affecting the sale of dark chocolate. However, within the emerging economies ^{such as India} must also look at the income, GDP and other wealth factors that may affect the demand of chocolate and sales ~~and~~ ~~only~~ ~~the~~ ~~responding~~.



Opens nicely to describe what is meant by culture and social trends. The candidate then goes on to explain how these factors have affected the demand for dark chocolate. Balance is provided by the candidate explaining why economic factors relating to consumer income given growth in GDP might have more of an impact. A judgement is at least attempted, but the chain of reasoning here is incomplete.



Look at the examples of judgement in the mark scheme. Something new rather than a summary repeat of previous arguments is what is required.

A borderline Level 3/4 response which scored 9 marks out of 12.

(c) Assess the importance of cultural and social factors that might affect the sales of dark chocolate in emerging economies, such as India.

(12)

Emerging economies, such as India, are having increased demand for dark chocolate goods. This is due to social and cultural factors. A cultural factor is changes in tastes and eating habits. This is increasing the sales of dark chocolate as people within that culture enjoy the rich taste of dark chocolate. This is important for chocolate companies such as Nestlé, who wish to maximise profits. Nestlé can adapt products to meet the demand of consumer tastes within the country. This has already been seen as a success with Nestlé's dark chocolate KitKat Senses which is having growing demand within India. The social factors behind the increase of sales of dark chocolate include the health benefits. Emerging economies are becoming smarter and people realise the importance of good health. Dark chocolate is seen to improve blood flow and better the metabolism. Countries such as India are having increased health care knowledge and the population will realise that dark

Chocolate will benefit from more than milk chocolate or white chocolate. AS a result the demand for this chocolate will rise and sales will increase.

However ^{Cultural} ~~Social~~ factors may have a negative impact within the sales of dark chocolate. Emerging economies do not have much disposable income and dark chocolate is more expensive than alternative chocolate. AS a result of this sales may not increase by as what technavio has predicted. This could have a negative impact on chocolate companies as they may lose money. They may have supplied the dark chocolate to reach the demand of predictions but if demand is less than expected revenue will fall and profits will be lost.

In conclusion, I believe cultural and social impacts will benefit sales of dark chocolate in emerging countries due to the health benefits and better economy. However, it will depend upon how quickly the economy grows and if consumer focus tend towards the ^{dark} chocolate market.



The candidate uses the evidence well and shows a good knowledge and understanding of emerging economies, culture and social factors. Effective use of the context, largely drawn from Extract C, with some good chains of reasoning. Attempts a judgement suggesting that economic growth rates can be critical.



An opportunity to bring in wider knowledge is always welcomed by examiners, when relevant. In this case the growing incidence of government taxes on confectionery and soft drinks to deter consumption could have been introduced in the judgement section of the answer.

Question 1 (d)

The question instruction with regard to the use of Extract D was clear and candidates did make use of this even if there were some misinterpretations, not least Thorntons having sales of £6billion, which might suggest not a full understanding of the fact that Thorntons was acquired by Ferrero International for just £112m.

A number of candidates did build up a useful argument for affecting the profits but may have not followed through with a developed counterargument so that answers were rarely balanced.

Quite a few answers did note that Thorntons had failed to revive its chocolate manufacturing business, though fewer noted that the £600m of turnover could be included in Ferrero International's income.

There was an attempt by quite a few candidates to provide a meaningful conclusion with reasoning behind the chosen takeover. As with Q2(d), there were a small number who may have provided some discussion as to why both options could be chosen but then still didn't come up with a clear choice of one.

The extracts are meant to be a stimulus not a basis for a comprehension exercise. So although candidates were given information about the two companies, Thorntons and Olton Group, to help them with their assessment, there was no information regarding other factors which candidates should have presented in their chains of reasoning. For example a 'model' approach might be:

Buying Olton Group would be backward vertical integration which would therefore 'cut out the middle man' and enable Ferrero International (FI) to reduce its average costs which should therefore support an improvement in profitability. Furthermore, this would enable FI to increase the prices charged to other chocolate manufacturers for a raw material (hazelnuts) and so might improve FI relative profitability (Olton Group does, afterall, supply 70% of world's supply)

However, the takeover of Olton might have dented FI's profits given the initial massive cost (short term reduction in FR profits) and some internal constraints (culture clashes, redundancies, etc)

Buying Thorntons might not benefit FI's profitability immediately given Thorntons' market position, but medium term would at least provide more access to another market (the UK) where total sales potential is £6bn since the UK is a well known nation of chocolate eaters. So longer term FI profits might escalate. Nonetheless, Thorntons is a relatively small company, so the impact on FI's profits would not be significant (look at data)

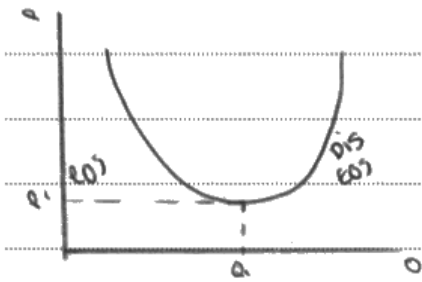
This response examines each of the takeovers and provides a conclusion and overall recommendation. In places it reads as theoretical and lacks effective use of the business context which is why it scored Level 4-16 marks.

In 2014 Ferrero International took over the Oltan Group. In 2015 it took over Thorntons. - Forward integration

(d) Using the data in Extract D, evaluate these two takeovers and recommend which **one** is most likely to have affected the profits of Ferrero International.

(20)

one benefit of Ferrero International taking over Oltan Group is that they are most likely to benefit from economies of scale. This is because as the Oltan Group are the worlds largest hazelnut processor and hazelnuts are one of the key commodities for Ferrero International, ~~this is~~ ~~this~~ they have control over the supply of hazelnuts for the chocolate industry. This means that they can get the hazelnuts cheaper to use in the production of chocolate which allows them to benefit from ~~long run~~ a decrease in the



average costs. As a result benefit from purchasing economies of scale and lower costs which can then mean ~~a decrease in~~ an increase in profit margins allowing Ferrero to

maximise profits.

However a disadvantage is that this embeds them deeper into the chocolate market. This is because as they have bought the supply of hazelnuts and are producing chocolate, they have invested a large sum of capital into this industry. This means that if there was a decrease in demand for chocolate such as Ferrero, and an increase in healthier options such as healthy fruit snack bars, there are increasing their risk if there was any sign of ~~market~~ business failure. As a result, ~~lose~~ capital they have ~~into~~ invested into the business.

due to sunk costs. This ~~does depend on the market~~ which will result in a significant decrease in profits. This does depend on the market as dark chocolate has multiple benefits such as improved blood flow, customers may opt for this instead.

A benefit of Ferrero International taking over Thorntons is that they ~~are~~ are able to expand operations in to the UK. This is because as Thorntons has a already set up in the UK with multiple stores. This allows Ferrero International to already have selling stores set up in the UK. This means that Ferrero International are able to ~~open up~~ expand into a market work effort which as a result, see an increase in revenues which with economies of scale see an increase in profits.

However a drawback was that Thorntons is a failing business in the UK. This is because as chocolate is overpriced in Thorntons, they saw a decrease in demand over the last few years. This means that since Ferrero bought all of Thorntons with its stores, there is a high risk that customers may stick to the social norm and go for more popular brands such as Cadburys. As a result, Ferrero International will have seen a decrease in profits due to a decrease in sales from consumers, resulting in a decrease in profits.

In conclusion, I would not recommend Ferrero taking over Thorntons due to the negative situation they are in. This means that as Thorntons are a failing business, Ferrero are taking a huge risk with purchasing Thorntons as if it fails completely

Ferrero will be kept paying the debt which will decrease profit margins as it is an outflow of capital.



The candidate explains, with use of the AC diagram, how and why Ferrero International might benefit from purchasing economies of scale if it takes over the Oltan Group. The response then goes into the downside of this decision identifying that such a costly investment into hazelnut production could be thwarted by changes in consumer taste towards healthier chocolate bars (implied without hazelnuts) but would involve sunk costs.

The benefit of the Thorntons takeover is explained - expand operations in the UK with readily available stores for effective sales, but would need to overcome the existing failures.



Provided each option is discussed, a conclusion is offered and a candidate makes a recommendation, then candidates should expect to be awarded a Level 4 mark. The specific mark within that level can be determined by how well the candidate expresses their ideas and, in particular, how well they make use of the business context.

This candidate makes much better use of the context and provides their own knowledge to support their ideas. It scored 20 marks.

In 2014 Ferrero International took over the Oltan Group. In 2015 it took over Thorntons.

(d) Using the data in Extract D, evaluate these two takeovers and recommend which **one** is most likely to have affected the profits of Ferrero International.

(20)

A takeover is the acquisition of one business by another, normally by buying a majority of shares.

By taking over Thornton's, Ferrero have the ability to organically grow to expand their market share, particularly in the UK industry. As the UK is estimated to be worth £6 billion in sales, the ability to expand their product portfolio and own chocolates which are already successful in the UK market, such as Kinder, is likely to boost Ferrero's already high revenue. This gives the potential for Ferrero to boost their competitiveness in a oligopolistic UK market, dominated by the big Mars, Nestle and Cadbury. As Thornton's already have established distribution channels through retailers such as supermarkets, Ferrero have the ability to distribute their products on a large scale. Furthermore, despite recent fluctuations in revenues, Thornton's have an outstanding brand image and reputation in the highly saturated chocolate market. This will provide an intangible benefit for Ferrero, as they avoid the necessity to spend vast amounts of capital, seeking a return on investment quickly. However, this method of inorganic growth is likely to be considered risky, as Thornton's have

a declining market share due to the failure to revive the product. As a result, the initial £112 million investment may be seen as a financial risk in the profit-oriented market, and may make the acquisition of Olten group more lucrative.

Alternatively, the takeover of Olten group can be considered backward vertical integration, that is purchasing a supplier one step behind in the production process. This will help Ferrero exploit financial economies of scale, as they reduce the bargaining power of suppliers, effectively eliminating this threat identified in Porter's Five Forces. As Olten is the world's largest hazelnut producer, a key ingredient for the Ferrero's products, such as Kinder, Lindt and Nubella, the purchase of a supplier will, in the long-term decrease average costs of production, and help to increase the profit margin. With an annual turnover of £600 million, the business can increase their product portfolio once more, and control prices of this supply, an essential ingredient in competitor's product, such as Cadbury's Fruit and Nut. As a result, as hazelnuts are one of Ferrero's key commodities, the acquisition of Olten may reduce long term costs and increase profitability, satisfying share holder. However, despite controlling a supplier, Ferrero are unlikely to be able to

reduce prices dramatically, as they will be reluctant to participate in a price war, as global competitors, such as Nestle, are likely able to exploit economies of scale and charge lower prices to a greater extent. Furthermore, as it was under family ownership, there is likely to be a conflict of interest, resulting in a hostile takeover.

To conclude, I would have recommended Ferrero take over Thorntons due to the brand name and reputation. Assuming there were no additional costs to the takeover, and that Thorntons could still be re-vitalised, it acts as an easier method of expansion in to the UK market than the takeover of Otter, as that is backwards integration. Despite the short-term expenses of Ferrero, they should make this back in the long term as, as an MNC, can afford it as they are desperate to expand in the UK market. Therefore, I would recommend taking over Thorntons.



A well written response with plenty of examples of appropriate business terms and judgements throughout this response which clearly suggests that the candidate is very comfortable with the subject matter, e.g. 'product portfolio', 'established distribution channels', 'highly saturated chocolate market', 'intangible benefit'.



This 'lives and breaths' the context - refers to the data from the extracts as well as providing own subject knowledge of the industry, e.g. oligopolistic market, Cadbury's Fruit and Nut, Lindt and Nutella.

A borderline Level 3/4 response which scored 15 marks.

In 2014 Ferrero International took over the Oltan Group. In 2015 it took over Thorntons.

(d) Using the data in Extract D, evaluate these two takeovers and recommend which **one** is most likely to have affected the profits of Ferrero International.

(20)

A takeover is when one business takes over and manages the other.

Its takeover of the Oltan Group in 2014 meant that they possibly reduced costs of sourcing not for production of their nut based chocolate products. This is because they do not have to pay as much for the raw material because they are responsible for the sourcing and production at the Oltan Group facilities as well. A reduction of cost of raw materials in this sector would lead to a further decrease in variable cost per unit of Ferrero's products. For example less money would go into the production of Nutella. This would allow for either an increase in ~~profit~~ operating profit or gross profit or ~~or~~ the ability to decrease the selling price of their products to attempt to increase demand depending on the price elasticity of their products. This would allow for a greater overall profit which may in turn allow for further expansion of their company through investment into other markets or products. However this depends on their ability

of managing the often group and how much input they have in sales and production. *

Its takeover of the Thorntons brand was in aid of increasing their sales to the UK. It would mean they have the chance to benefit from the UK's Eton sales. By taking over this company they not only gained expertise but they gained all previous research and development Thorntons had made in the markets Ferrero were yet to grasp. This was of great benefit as it enables them to have greater understanding of consumer demand and also benefit from a different transport line Thorntons have made previously. They would see greater sales with the benefits Thorntons brings and thus a possible increase in revenue which if other costs remain the same would see an increase in profit.

However it depends on the success of re-establishing this failing brand which may incur further investment which would increase costs meaning ~~sales~~ profits will fall regardless of sales. It also depends on whether costs of production and imports of raw materials increase given they may have further to travel.

In conclusion I believe the takeover of Olten Group would be a less risky option for increasing profits at Ferrero however the costs of the initial investment must be considered. It has an 'undisclosed sum' and so the amount they payed is uncertain. This may be high or low which would affect the option of this takeover. It also depends on whether there may be culture clashes within the companies which may affect motivation and thus impact production.

* It also depends on how sustainable their £600m turnover is and whether Ferrero could benefit



The candidate recognised the limitations of the data and identifies the 'undisclosed sum' paid for the Olten Group. This has a bearing on the recommendation, as does the potential for culture clashes between two businesses once they join together.



A good example of how a well considered recommendation can push a response into Level 4, despite it having less rigorous arguments in the preceding narrative.

Question 2 (a)

A short question but the issues here revolved around understanding of quality control. A number of candidates understood this clearly. Some went into discussions of quality assurance and also TQM, whilst some others seemed to be rather hazy about differentiating between the two concepts and it was only well into or even at the end of the response that it became apparent that the candidate had been referring to quality assurance.

As with question 1(a), it was a case of providing two counter arguments so that the answer had balance. Some candidates contextualised their responses by explaining that Cadbury manufactures in 10 countries and so quality control could be both complicated and expensive.

This response achieved Level 3-6 marks.

2 (a) Assess two benefits of quality control for a business, such as Cadbury.

(8)

Quality control refers to the checking of product quality at the end of production to ensure faulty products do not reach customers.

A benefit could be it maintains the high quality brand image of the company as "Cadburys has a history spanning nearly 200 years". Therefore customers are likely to continue buying Cadburys products. However this comes at the cost of high increased costs for the business to employ inspectors as well as maintain high production standards.

Cadburys produces various products "including Flake, wipac buttons..." these are sold in "40 countries and manufactured in 10", therefore quality control ensures there is no cross contamination or drop in quality when production is span amongst so many different products.

Therefore to conclude quality control is very beneficial to cadburys however has high implementation and maintenance costs.



The concept of quality control is clearly defined and two benefits are explained as maintaining the brand image and preventing cross contamination given the range of chocolate products. The evidence is well used, but the counter argument is relatively weak - maintenance costs.



Succinct appropriate definitions at the start of an answer can be useful but they are not always necessary. This candidate could have scored top marks by having a full discussion of two benefits of quality control without the opening paragraph.

Although well written and contextualised effectively, the response achieved only Level 2-5 marks as there was no balance.

2 (a) Assess **two** benefits of quality control for a business, such as Cadbury.

(8)

Quality control is ensuring that the quality of products are met to the standards after production. Therefore faulty products are thrown away after being produced.

Quality control is useful for a business such as Cadbury because they have a ~~long~~ history ~~of~~ of 200 years as mentioned in ~~the~~ source. This means that they have built up a good reputation. Therefore ensuring that they have high quality products is important because customers need to have a high perception of them when consuming Cadbury's products.

Another benefit of quality control is that it is quicker than other quality management techniques such as quality assurance because the quality of products is checked after production instead of each stage of production. Source E mentions that Cadbury is ~~is~~ manufactured in 10 countries and

Sold in 40 which ~~also~~ means they have demand in all over the world and have a small number of factories therefore quality control will ~~be~~ help with quick quality check.



The two benefits are outlined - maintain the reputation of Cadbury and quicker than quality assurance. Effective use of appropriate context - 200 years history and manufactures in 10 countries. However, there are no counter arguments. So max mark available is 5.

2 (a) Assess **two** benefits of quality control for a business, such as Cadbury.

(8)

Quality control is when a product is made and before it is sold to the public it's checked to ensure it meets specific quality standards in order to be sold.

One benefit of quality control for Cadbury is it ensures that their products are of a good quality, this is a benefit because consumers will be put off by Cadbury if they receive a damaged or low quality Dairy Milk bar so by using quality control this prevents consumers from purchasing a low quality bar of chocolate, therefore the consumer is delighted in all aspects and should be willing to make repeat purchases. However quality control requires a member of staff to be hired in order to do quality checks, this increases Cadbury's costs as variable costs rise due to higher wages so profits may fall as a result of quality control.

Another benefit of quality control for Cadbury is increased demand for Cadbury goods. Consumers in the chocolate market now view chocolate as a luxury and a treat, therefore by ensuring high quality, consumers will be delighted when they indulge in a Cadbury product, due to rising health concerns consumers no longer purchase high quantities of chocolate but they purchase small quantities of high quality, so by using quality control, Cadbury are ensuring their products meet the needs of consumers and keeps demand high for Cadbury goods. However, chocolate is primarily targetted at children

who may have no concern for the quality of the chocolate
they eat so by using quality control the additional cost isn't
benefiting their main demographic as children aren't likely to
consume chocolate based on it's quality.



A good response which shows an examination of two benefits of quality control to Cadbury and two counter arguments, so Level 3-8 marks was awarded.

Question 2 (b)

Many candidates had some knowledge and understanding of CSR. Whilst there was plenty of contextual information given in Extract F it was not always used well by candidates in their responses.

For example, whilst some candidates did use the information about Fairtrade in their answers they did not explain that Cadbury didn't, forsaking it for Cocoa Life which might prove less costly to Cadbury in terms of payments to farmers. Cadbury's support of the UK Government's voluntary obesity policies was used as evidence by a number of candidates but as with the other 10 and 12 mark questions, a supported judgement was not always presented by candidates.

A well contextualised balanced response with a supported judgement which scored Level 4-10 marks.

Yes = low calorie chocolate

NO = new scheme = cheaper low cost

(b) Assess the likely value of Corporate Social Responsibility to a business, such as Cadbury.

(10)

Corporate social responsibility is the responsibility businesses have to trade and operate in an ethical way.

Corporate social responsibility (CSR), will be valuable to Cadbury as it could allow them to increase sales. For example Mondelez, who own Cadbury, pledge that all their single serving chocolate bars will contain less than 250 calories. This means that Cadbury chocolate bars such as the Dairy Milk bar will be healthier for consumers, which is socially responsible as it complies with the government's new anti-obesity regulations and campaign. This could lead to higher sales as the government policy against high calorie and high sugar products is causing the social trend to lean towards healthier snacks. Therefore, by offering low calorie chocolate bars, Cadbury may appear more to consumers and have a competitive advantage over rivals such as Mars, which could lead to higher sales.

On the other hand, corporate social responsibility may not be valuable to Cadbury as it can increase their costs. For example, Cadbury have abandoned fairtrade for a new "cocoa life" scheme that does not apply the same price rules and does not apply to ingredients other than cocoa such as sugar and nuts. Therefore, Cadbury have sacrificed ethical sourcing of their ingredients for an

alternative that does not increase their ingredient costs. This shows that ~~greater~~ CSR is not valuable to Cadbury as they have ~~been able to~~ ^{sacrificed} it to introduce a new method that benefits them due to the lower costs.

Consequently, it is evident that CSR is not valuable to Cadbury as increased costs can cause them to have to drive up prices of chocolate bars which can make Cadbury less competitive.

Overall, CSR is valuable to Cadbury as it can increase sales by giving them a good reputation. This is because, by behaving in an ethical way Cadbury can attract consumers that are conscious of the ethics surrounding ~~the~~ chocolate manufacture and therefore Cadbury sales may increase by being socially responsible. Although it may not be valuable as it can be costly and therefore its value depends upon how it affects the competitiveness of Cadbury in relation to rivals such as Mars, it is still overall valuable as even though Cadbury have ~~and~~ removed Fairtrade, they have ~~replaced~~ it with a new scheme to help cocoa farmers which suggests ethics is important to the overall brand image of the business.



Mentions the Mondelez 250 calorie initiative, and how it may gain more customers. Provides a counter argument regarding the costs and explains that this is why Cadbury abandoned Fairtrade in favour of Cocoa Life.

The judgement provided is quite robust in that it explains the importance of having a good reputation and brand image in a highly competitive market against the likes of rivals such as Mars.



Planning an answer can be simple - look at the 'Yes' and 'No' comments at the top of this candidate's response. It worked!

(b) Assess the likely value of Corporate Social Responsibility to a business, such as Cadbury.

(10)

Corporate social responsibility is the idea that all stakeholders are taken into consideration, not just shareholders. Stakeholders are anyone who has an interest in the business.

By Cadbury acting in a corporate socially responsible way means that they are likely to be viewed as acting in an ethical way. If Cadbury were to be seen acting in a non-ethical way, this may damage their brand reputation e.g. if they were found to be paying cocoa farmers very little for what they produce. By having a fair trade agreement shows to customers that they are meeting particular obligations such as ethically sourcing materials e.g. work involving child labour. If consumers were to find they were working in an unethical way then they may look to more ethical other brands to purchase from.

The main issue with acting socially responsibly is that profits must be forfeited. Acting ethically and responsibly involves higher costs e.g. paying farmers a particular price. This therefore may not be too much value to Cadbury as it squeezes their profit margins considerably.

CSR is likely to add value to Cadbury as it may be seen as a USP and can differentiate them from competitors but shareholders don't want to be adversely affected by the business acting CSR as it may mean

that their dividends get reduced. Most shareholders want the business to be as profitable as possible so they can get a large return on their investment. Many businesses therefore create their own agreement such as COCO like as they can create their own obligations and so are less strict on what they do, ultimately reducing costs but so they will be seen as still acting ethically.



The candidate fails to balance their response with counter arguments, awarded Level 3 - 6 marks.

Question 2 (c)

This was a question which was either not attempted, where only the calculations of payback and NPV were carried out or where candidates were shy of doing any calculation but, instead, wrote about what payback and net present value investment appraisal techniques are and then used the narrative part of Extract G in their answers.

The few better responses came from those candidates who were able to calculate and then make use of the 3 years payback and the £13.81m NPV in their full assessment, having identified that for a £75m capital cost, 3 years is a relatively short time to recoup the outlay and that even with a high discount rate there is a high profit which makes the investment financially secure, not to mention the other benefits like improvement in production methods with 'state of the art' machinery, long term efficiency gains, growing demand for better quality chocolate products.

A balanced response which makes effective use of the correct calculations but does not provide a judgement, so this gained Level 4-10 marks.

(c) Using the data in Extract G, the Net Present Value (NPV) and Payback, assess Mondelēz International's investment in Cadbury's modernisation.

(12)

Payback period measures the time taken for a product to repay its initial investment. Net present value recognises that there ~~is a change in~~ is a change in the time value of money over time. ~~And~~ Mondelēz International invested £75m in modernisation to Cadbury. They have a payback period of 3 years which is good as it means they can quickly make their investments back and begin making profits. The NPV is +13.806m which indicates that Mondelēz ~~has not invested~~ did the right thing investing. However, these figures may not be accurate as it is difficult to ~~effort~~ calculate the appropriate discount rate and NPV is sensitive. Also payback period encourages short term thinking.

The investment will be used by Cadbury to meet the growing consumer demand for dairy milk, 'Marvellous Creations' and 'Oreo bars'. This means that if successful there is ~~high~~ high demand for Cadbury's product and ~~after~~ ^{after} profits ~~have been~~ investment costs have been paid back, Mondelēz will receive high profits from Cadbury sales. 'Over 200 people agreed to leave by ~~voluntary redundancy~~ voluntary redundancy' ~~Meaning~~ Meaning that there is less likely to be

pressure from employees such as strikers which therefore benefits Mandalez investment as the ~~but~~ the Cadbury public relations will not be effected. The 650 remaining staff will develop extra skills with appropriate ~~training~~ training for which there will be a 2% pay increase. This will improve productivity and efficiency which will reduce costs and may lead to higher ~~profits~~ profits for ~~in~~ Mandalez International. However, ~~the~~ workers will be training can be expensive and some workers may not be willing ^{to} ~~available~~ train. A 2% pay rise may not be considered a fair amount by workers who may demand more and higher wages also add to costs of production.

In conclusion, Mandalez International's investment has a payback period of 3 years, they have an NPV of +13.806. The investment will be used to meet growth demand which means Mandalez will receive greater profits in the future. ~~then~~ Employees will also receive higher greater training which improves productivity and efficiency.



Really good use of the evidence provided in extract G as well as effective use of the calculations in this response to provide balanced arguments.

However, there is no overall judgement given that the candidate simply summarises the NPV and payback outcomes and restates the benefits for efficiency.



Candidates are advised to make their overall judgements clear (see published mark scheme examples) and in doing so do not simply summarise preceding arguments.

Both payback and NPVs are calculated and limited commentary is provided, so Level 3-5 marks awarded.

(c) Using the data in Extract G, the Net Present Value (NPV) and Payback, assess Mondelez International's investment in Cadbury's modernisation.

(12)

75 million

			NPV
0	(75)	(75)	(75)
1	20	(55)	18.18
2	25	(30)	20.65
3	30	0 ←	22.53
4	22	22	15.026
5	20	42	12.42
			88.806
			- 75.000
			13.806

NPV

$$88.806 - 75 = 13.806 \text{ mm}$$

$$= \text{£}13806000$$

Mondelēz Internationals investment in Cadburys modernisation will be paid off within three years if there's no external shocks / ~~or~~ changes in the consumer trends.

And the net present value shows in real money terms within five years they'll be making a profit of £13 806 000

Therefore Cadburys modernisation would be worthwhile.

However 200 people leaving may be de-moralising for other workers and the extra training employees will need to do will be time consuming and costly.



Analysis is limited to 'if there's no external shocks' and '200 people leaving may be demoralising...' which could have both been better explained in order to access level 4. There was no overall judgement in this response which, in effect, limits the maximum mark to 10 rather than 12.



Chains of reasoning need to be fully developed, especially with 12 mark questions where more depth or breadth is expected than with 10 mark questions.

Response begins with correct calculations of PB and NPV and goes on to provide analytical comment, but chains of reasoning are not developed. Therefore this scored Level 3-7 marks

(c) Using the data in Extract G, the Net Present Value (NPV) and Payback, assess Mondelēz International's investment in Cadbury's modernisation.

(12)

Net present value shows the value of a company's investment at the present time taking into account changes in prices. Payback is the amount of time an initial investment takes to be recouped.

$$\text{NPV} = 13.806 \quad (-75 + 18.18 + 20.65 + 22.53 + 15.026 + 12.12 = 13.806)$$

$$\text{Payback} = 3 \text{ Years}$$

In the long run the modernisation program will be beneficial as it will improve productive efficiency with "State of the art production lines", therefore potential economies of scale. Also employees may feel more valued and motivated with new & improved working conditions. As well as allowing them to meet consumer demand.

On the other hand it will be a costly process with payback occurring after 3 years. "Some redundancy packages will be in excess of £100,000" and an "£75m" initial cost, as a result in the short run the firm Cadburys will be unprofitable.

However the overall advantages in the long run

outweigh the initial costs, for example improved efficiency and facilities.



A good example of a response with limited analysis or incomplete chains of reasoning:

What is meant by 'potential economies of scale'? How might these result for Cadbury?

What is meant by 'costly process'? In absolute terms at £75m may be costly, but why costly to a big company like Cadbury? Compared to what?



Whilst the candidate comments on the calculations, the response is incomplete given that readers are 'left hanging in the air' second guessing what the candidate meant to say. It would be good practice, given time, to read back through answers.

Question 2 (d)

Given this was the last question on the paper, there were not many short or unfinished answers. Possibly some candidates felt the 'relief' that this was a question they could at least attempt when compared with question 2(c). Indeed the diagram in Extract H may well have provided the scaffolding to write something quite readily. However, Evidence H was context free so it was expected that candidates would build a response by drawing from the evidence from across the paper contained in evidence A to G. Indeed the better candidates did just that as well as using their own knowledge and understanding and research findings on the chocolate industry.

Some candidates explained the four aspects of the differentiation growth strategy but in a generic sense. Most candidates, though, did have some reference to Cadbury operations and products.

It was interesting to see some candidates who seemed not want to make a decision with regard to the two Porter growth strategies and suggested both cost competitiveness and product differentiation, for example cost competitiveness in the shorter term and product differentiation in the long term which was acceptable. It was encouraging that quite a few candidates did move into Level 4 territory with answers that had some balance and a judgement and a clear supported recommendation.

A number of candidates automatically went for cost cutting and getting a low cost of production so that they can undercut other manufacturers in terms of chocolate prices. Nonetheless, a few candidates did not explain how this was going to be done simply stating 'so there'll be economies of scale' or 'improved productivity' without giving the appropriate chains of reasoning. Several candidates mentioned outsourcing and offshoring but few came up with actual examples with regard to Cadbury.

A Level 3-12 mark response which provides some limited chains of reasoning but little in the way of balance. The recommendation is simply based on a paraphrase of previous arguments.

Cost competitiveness and product differentiation are two key strategies to achieve global competitive advantage.

(d) Evaluate these two strategies and recommend which one would be better to achieve a global competitive advantage for a business, such as Cadbury.

(20)

Cost competitiveness as a strategy to achieve a global competitive advantage is essentially producing the good at the lowest cost. From the text we knew Cadbury chocolate is "manufactured in 10 countries" which shows Cadbury may benefit from lower labour costs depending on where the goods are produced. The advantage of a cost competitive strategy is that Cadbury can use lower prices to attract customers. The law of demand states that lower prices will stimulate demand. Because of low production costs Cadbury can charge lower prices than their competition which will allow Cadbury to gain market share. The increase in demand may allow Cadbury to increase their output which will possibly allow Cadbury to benefit from Economies of Scale allowing them to cut prices further as production costs will fall even more. However the drawback of a cost competitiveness strategy is that because production takes place at the lowest costs, Cadbury goods may become standardised and quality will fall therefore Cadbury won't be able to charge premium prices and will have smaller profit margins.

Product differentiation is an attempt by a company to distinguish its product from those of competitors. One way Cadbury can use product differentiation is through branding, Cadbury already has a ^{strong} brand name is this may be ^{the} reason why they have been able to successfully operate in many countries, this is emphasised in the text "Cadbury Chocolate is a well-known global business" and "Cadbury chocolate is sold in 40 countries". The strong brand name will reduce risks when Cadbury are looking to do a new venture. Furthermore Product differentiation will encourage brand loyalty allowing Cadbury to benefit from the advantages of having a price inelastic demand. However, to successfully differentiate their products will involve Cadbury investing a lot of money into their products, this will result in the finances of Cadbury being tight in the short run and this option may suit Cadbury more if their corporate timescale is negative.

Personally, I believe Cadbury should use a product differentiation strategy to achieve global competitive advantage. I think Cadbury are already doing this through strong branding, quality of products and the easily recognisable purple packaging. According to Porter's strategic mix I would place Cadbury in

the differentiation box. so if Cadbury try to use a cost competitive strategy then it could result in Cadbury becoming stuck in the middle and in the worse case scenario the collapse of Cadbury.

In conclusion, both strategies will benefit Cadbury but for me I recommend that Cadbury should use a product differentiation strategy as it will create inelastic demand and prevent them from getting stuck in the middle.



The candidate explains that lower production costs can manifest in lower priced products for Cadbury and so increase demand. The resulting increase in output could lead to economies of scale which will enable production costs to fall further, and counter argues the danger of 'standardised' goods and lower profit margins.

The candidate argues that using product differentiation through branding can lead to price inelastic demand for Cadbury chocolate and risk reduction for new products but that this approach involves investment, without explaining why.



Candidates should be prepared to plan 20 mark answers and take time to read back through them to ensure that chains of reasoning are complete.

A detailed response which examines both options with effective use of the business context but fails to offer a final judgement based on Cadbury's market, objectives, situation or nature of its products. Level 4 - 16 marks awarded.

Cost competitiveness and product differentiation are two key strategies to achieve global competitive advantage.

(d) Evaluate these two strategies and recommend which **one** would be better to achieve a global competitive advantage for a business, such as Cadbury.

(20)

Cost competitiveness is the idea of keeping costs low e.g. variable costs etc and maximise productivity at the same time. A benefit of cost competitiveness is you are able to decrease costs associated with production. For example, you could switch suppliers or move production to batch production. (In context for Cadbury's this allows for economies of scale to be achieved because Cadbury's can make a vast amount of product, this helps keep costs low because you mass produce. Furthermore, economies of scale also help you keep costs low and provide the business with a competitive advantage against rivals. Furthermore, economies of scale allows you to keep the cost of production low this can make Cadbury's more efficient because they could make more chocolate faster than Hershey's for example. Therefore, cost competitiveness is a better strategy to achieve a global competitive advantage for Cadbury's. The idea of costs being low overseas is a advantage because e.g. Poland has cheap labor which suggests you can get more productivity out of these workers. In effect, this could benefit as you can pay them minimum wage and get more hours out of them. This is reducing labor costs associated with production. However, cost competitiveness is a disadvantage to Cadbury's ^{trying to} ~~is~~ achieving a global competitive advantage because offshoring could be costly. For example, offshoring is when the business section off part of production overseas this can aid growth in

another country however, it is not guaranteed to be a successful
strategy. The country chosen to off shore to may have different (eg
wages and worker rights). For example child labor is allowed in
some countries (eg Cambodia) because it suggests you may not need to
pay them as much. You could get away with them working for free
for you. (Using Ghana and the Ivory Coast) are the largest cocoa
producers employing workers from these countries may demand more
pay for example, they are coming after the cocoa for you in their own
country they are responsible. This is a disadvantage because other
workers may get competitive and fight if one person gets more
wages than the others this caused conflict, which is not what you
want. In effect, this could slow down the cocoa growth if the
issue arguments over responsibility. Therefore, this suggests cost
competitiveness is not good for Cadbury's trying to achieve a global
competitive advantage. Also the idea of keeping maximizing producti-
vity could be difficult for Cadbury's in search of cost competitiveness.
This is because workers may be exhausted therefore unable to cope
with demand. ~~But~~ because this is always set back because goals are not
being met which is decreasing production sales. This suggests
employees may feel demotivated because there is no pay incentive they
may feel devalued. Therefore ^{cost competitiveness} productivity is not useful to
Cadbury's aiming to achieve a global competitive advantage.

Product differentiation, is the idea of differentiating products so that they
are distinguishable regarding consumers e.g. it may have built in fea-
tures or added value. Product differentiation, is a advantage to Cadbury's

Trying to achieve a global competitive advantage because customers can identify their favourite brands. Moreover, a advantage is Cadbury's can analyse the most popular brand which in effect may help them to focus on their product, to maximise sales as it's in demand and consumers love that specific chocolate. Also, product differentiation can be promoted by advertising because people will be able to identify this e.g. The Gorilla ad from Cadbury's showing their popular Dairy Milk. Another product was memorable because it was mainly purple. Purple is associated with Cadbury's Dairy Milk. This technique of using colour with chocolate bars is useful as it makes differentiation easy and against copies. It makes more sales.

On the other hand, product differentiation is not a good idea for Cadbury's because a lot of time and money will need to go into this. For example the idea of in house marketing as well as research and development is crucial to differentiation because it needs to stand out. Also, Cadbury's need to avoid copying other chocolate firms and keep their chocolate unique. This process is time consuming because it requires creativity and innovation a team of specialists that cost money. Therefore, product differentiation is not good for Cadbury's trying to achieve global competitiveness. To conclude, cost competitiveness is the best option for Cadbury's to achieve a global competitive advantage because, you can reduce variable cost which will enable you to maximise production, which ^{can lead} to the sales target being achieved, in context this is most useful.



The candidate explains how costs can be reduced, through use of cheaper labour in Poland, for example. But workers in offshoring countries may ending up costing more because of legislation, worker's rights and conflict. Workers motivation may be adversely affected and they may feel 'devalued' so cost competitiveness may not work for Cadbury.

The candidate argues that product differentiation adds value, through branding can make chocolates distinguishable, can make use of memorable effective adverts. But may be costly due to the need to use creativity, innovation and a team of specialists.



Clear judgements, possibly based on MOPS (see mark scheme) and recommendations are required to gain a good Level 4 mark, i.e. 17-20 marks

This response makes little use of context, the chains of reasoning are limited to the descriptive. The candidate only appears to have used the extract to answer the question.

Level 2-5 marks

Cost competitiveness and product differentiation are two key strategies to achieve global competitive advantage.

(d) Evaluate these two strategies and recommend which **one** would be better to achieve a global competitive advantage for a business, such as Cadbury.

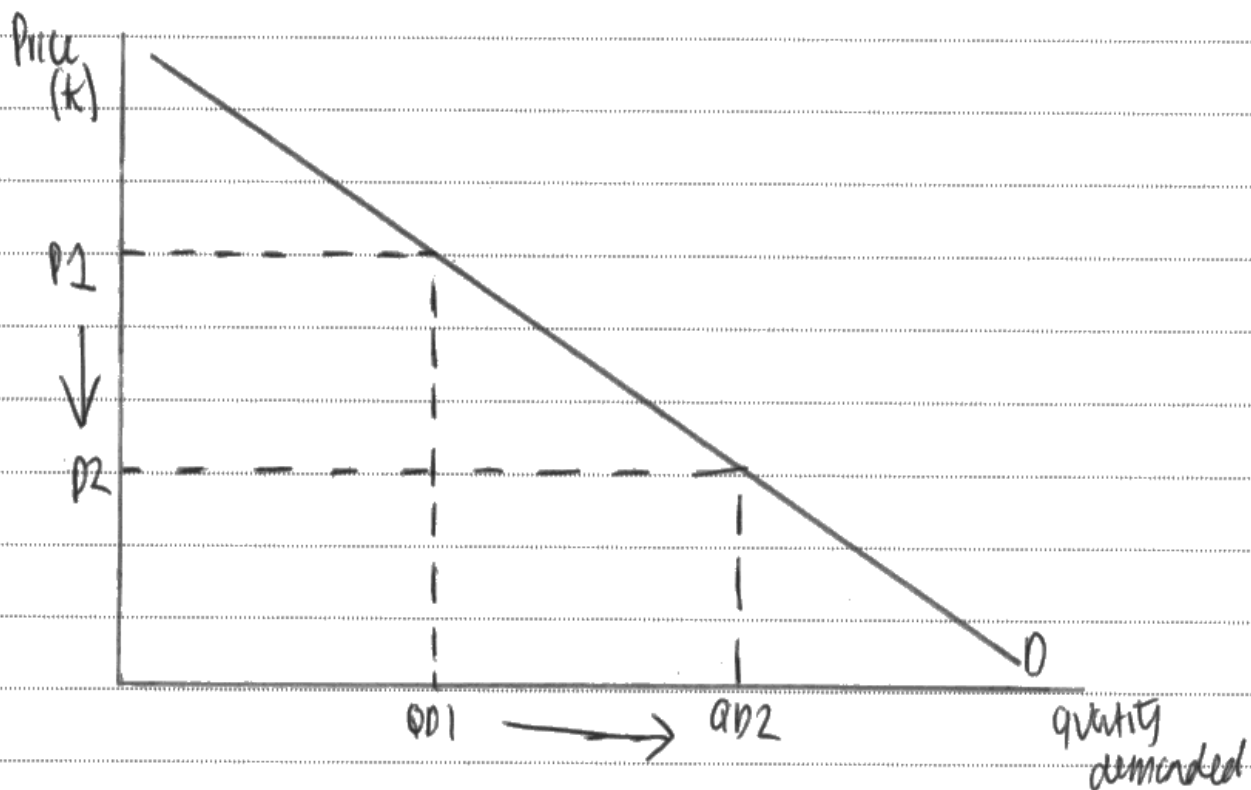
(20)

Cost competitiveness refers to a firm competing by having lower production costs as compared to its competitors whereas product differentiation is a firm trying to have a competitive advantage by differentiating its product to be unique.

It could be argued that cost competitiveness is a better strategy to achieve global competitive advantage for a business such as Cadbury. One way in which Cadbury could reduce production costs could be through outsourcing its production. By outsourcing, it allows Cadbury to save costs on items such as equipment and labour as they won't be doing any production themselves. Another way in which Cadbury is able to be cost competitive is by achieving economies of scale in its own production and they could do this by increasing productivity. By being cost competitive, Cadbury would be able to set lower prices for its chocolate products as their

costs would be lower and this would increase profits due to higher demand and would allow them to achieve global competitive advantage over its competitors.

The increase in demand can be shown in a demand diagram. As price falls, due to the lower production costs, from P_1 to P_2 , there is a movement along the curve as demand increases from Q_1 to Q_2 .



On the other hand, it could be argued that product differentiation is a better way to achieve global competitive advantage. Whether leading achieve product

differentiation through "Quality and design" or "Reliability and reputation" as well as "Advertising and branding" or "Packaging and distribution", it will allow them to have a unique chocolate product that no other chocolate manufacturer has. With this they are able to charge higher prices due to the product being unique and people will buy it as it would only be available from Caohing. This would result in huge profits for Caohing and will allow them to achieve global competitive advantage.

Overall, I believe that cost competitiveness is a better strategy for a business such as Caohing in achieving

global competitive advantage. By reducing costs through outsourcing or achieving economies of scale for example, they are able to set lower prices as compared to its competitors and achieve higher sales as well as higher profits and achieving global competitive advantage.

(Total for Question 2 = 50 marks)



Quite a weak response, which is not fully developed. Demand diagram does show appropriate knowledge and understanding, but is part of an answer with incomplete chains of reasoning and weak use of the business context.



Theory alone will rarely enable a candidate to access above the middle mark of Level 2.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice.

- stick closely to the requirements of the questions posed and apply these effectively to the relevant business in the evidence
- made sure you have a sound understanding across the specification content in Theme 1 to Theme 4 so you can apply this with more confidence to the questions - this is particularly the case with the quality control 2(a) and quantitative skills question 2(c) on investment appraisal
- pay attention to the command words and the respective mark allocations to be able to write appropriate and succinct responses
- do not give generic answers without context
- manage your time effectively, do not write overly long answers to 8 mark questions at the expense of 12 and 20 mark questions
- learn the specification terminology, specifically flexible working, quality control, payback and net present value. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

