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Pre-release material

To be opened on receipt

Advice to Centre Staff and Candidates

Candidates are expected to be familiar with the evidence provided here for the Unit 4 question paper before entering the examination room.

A copy of this pre-release material will be included in the question paper, together with some new evidence, which should be studied carefully before answering the questions.

Candidates will not be allowed to take copies of this pre-release material into the examination.

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Evidence A

The UK Chocolate Market

UK consumers have a choice of over 5,000 chocolate lines available from 150,000 outlets. All over the world you will find prominent brands first developed in the UK, e.g. Smarties, Dairy Milk and Kit Kat.

The confectionery market appears to be one of those special markets which is protected from economic downturn. During the recession of 2001, Cadbury Schweppes saw pre-tax profits increase by 14%. Chocolate is seen as a comfort good when times are tough. The income elasticity of demand for chocolate in the UK is 0.44. It is, therefore, an attractive stock for investors seeking protection from market uncertainty. Boxed chocolates such as Quality Street make up 15% of the confectionery market. Block bars of chocolate like Kit Kat and Yorkie make up 65% of the chocolate market. Bitesize chocolates such as Smarties and Rolo account for 10% of the market.

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Three producers dominate the chocolate market: Cadbury, Mars and Nestlé creating a tight oligopoly which may act to the detriment of consumers.

UK Market Share

Producers	UK Market Share (%)
Cadbury	28
Mars	24
Nestlé	24
Terry's	5
Others	19

Segmentation of chocolate market

Market breakdown	UK Market Share (%)
Blocks and bars of chocolate	65
Boxed chocolates	15
Bitesize chocolates	10
Easter Eggs	5
Others	5

(Source: adapted from www.nestle.com and www.bbc.co.uk, September 2005)

Evidence B

Nestlé

Nestlé is the world's largest food manufacturer, with 500 factories in 85 countries. It spends over \$1.7 billion on global advertising. The company has expanded aggressively through takeovers of leading brands creating a diversified business employing 253,000 people. Nestlé seeks to build a relationship with suppliers in order to ensure quality and fairness. Nestlé is concerned with the problem of child labour.

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Nestlé's global confectionery product range includes:

Nestlé	Quality Street	Aero
Crunch	Smarties	Polo
Cailler	Baci	
Galak	After Eight	
Milkybar	Baby Ruth	
Kit Kat	Butterfinger	
Rolo	Lion	

Not all of Nestlé's product range is available in the UK. Nestlé has a broad product portfolio covering a range of food and non-food sectors. Nestlé's portfolio is in contrast to that of Cadbury which has disposed of peripheral brands and focused on food and soft drinks.

Nestlé's Core Activities

Mineral water	Ice cream
Pet care	Cosmetics
Baby foods	Coffee and confectionery
	Cereals

(Source: adapted from www.nestle.com and www.bbc.co.uk, September 2005)

Evidence C

Swiss chocolate manufacturer cuts costs

Leading Swiss chocolate manufacturer Chocolat Frey has installed a high-speed robotic packaging line, as part of an ongoing attempt to consolidate product quality and productivity amidst a declining Swiss chocolate market.

Chocolat Frey commissioned Sigpack Systems to install the equipment line at its Buchs factory – the largest in Switzerland. Chocolat Frey chose Sigpack Systems because it was a local company and could provide the appropriate post-installation support. 5

The new machinery line will load chocolate into an assortment of up to 40 different plastic packaging formats each day, and is designed to reduce manual handling.

The project manager who oversaw the installation at Chocolat Frey, told **ConfectioneryNews.com** that the new equipment line “operates at two and a half times the speed of the machinery it replaced” and will “increase productivity by up to 30 per cent.” 10

Although the new equipment line replaces a number of preceding equipment lines, it still operates alongside existing cartoners and closers. It will also allow the handling of so-called blister packs – favoured by confectioners because of their aesthetic and practical appeal to consumers.

The project manager denied suggestions that the robotic machinery would replace the need for manual labour, adding that “we currently manufacture around 1,500 products, so it simply would not be economical to install automated equipment lines to manufacture something like a seasonal product with a run of just 5,000 items. In fact, we reverted back to using manual labour in our quality control systems, after finding that machinery could not provide 100 per cent accuracy.” 15 20

(Source: www.confectionerynews.com/productnews/news.asp?id=56520&k=chocolat-frey-picks)

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Evidence D

Fat profits: Choc tactics



Brits are amongst the biggest consumers of chocolate in Europe – munching their way every year through 10 kilos each.

But these are tough times for the chocolate business.

In an industry dominated by multinational companies such as Cadbury and Nestlé, the competition is fierce.

Both the chocolate giants are fighting to keep hold of their lucrative chunks of this £4bn market.

At the moment, market leader Cadbury is increasing its lead. Nearly a third of all the chocolate the British eat is made by Cadbury, and the jewel in the crown is its Dairy Milk brand – worth about £250m every year.

Recently the company came up with the idea of re-packaging all its major chocolate products and labelling them as part of the Dairy Milk brand – what it calls “Masterbranding”. Cadbury believes this is why the brand has grown by 13% in the last year. “It’s made a bigger, stronger platform upon which to grow our brand and buy growth for the future,” said managing director Simon Baldry.

In contrast, Nestlé’s sales have fallen by 1.7%, or £10m in the last year. “I think we’ve let ourselves down a little bit in the last couple of years,” said marketing director Sam Hunter. Nestlé’s major weapon in the fight is Kit Kat, described by Mr Hunter as a “design icon, just like the Coke bottle, just like the Ferrari.”

Like Cadbury, Nestlé has chosen to exploit the strength of its key brand by offering it in a number of new varieties, such as chunky, cubed and even orange flavour. Consumer loyalty to such brands has been built up over generations, and nine of the top-selling ten brands have been around since the first half of the twentieth century.

Cadbury’s Dairy Milk was introduced in 1905, Kit Kat in 1935. This makes launching a new brand into the chocolate market quite an undertaking. Nestlé chose to launch a direct competitor to Cadbury’s Dairy Milk, called Nestlé Double Cream, in 2002. The chocolate bar is made from Ecuadorian cocoa beans and double cream and is marketed as a premium chocolate.

“I think Double Cream has got a tough task,” said Chris Cleaver, director of the branding agency Brandsmiths. “Cadbury’s killer blow is that they are directly linked to our hearts and Double Cream has got to work hard to get there,” he said.

Launching new brands is not the only challenge facing the industry. The size of the chocolate market has been fairly static for the last decade, and now the industry is facing challenges from the health lobby over the question of obesity.

There has been talk of advertising bans, clearer labelling of fat and sugar content, and even a fat tax, all of which would hit the chocolate producers hard. There have been rumours within the industry about the possibility of low fat, low sugar chocolate as a more healthy alternative. 35

But, as yet, none of the big manufacturers has come up with anything concrete.

The other major threat is that British consumers are developing a more discerning palate. Just as many have learnt to appreciate better wines and may now choose a cappuccino over an instant coffee, some are also beginning to appreciate the taste of so-called premium chocolate. 40

British high streets have seen more and more exclusive chocolate shops spring up over the last decade, and premium chocolate has now become the fastest-growing part of the market. This has always been a highly competitive industry. It looks like things are just about to get even tougher. 45

(Source: adapted from www.bbc.co.uk, September 2005)

Evidence E

Closure ‘will hit cities’

Parent company Kraft Foods announced the decision on Monday to close its factory in York, ending Terry’s 237-year association with the city. More than 300 jobs will be lost when production is switched to other parts of Europe in the second half of 2005.

The GMB Union said it would try to fight the decision.

The York plant produces confectionery products for the domestic and international market including Terry’s Chocolate Orange, Terry’s All Gold and Twilight. Future production is expected to be transferred to Kraft’s existing facilities in Sweden, Belgium, Poland and Slovakia. 5

The company said on Monday the closure reflected a decline in “export volumes that, together with the size and configuration of the site, has resulted in a cost structure that is unsustainable”. 10

The City of York Council said it had prepared a support package for the staff who face redundancy and would be discussing the issue with management at the factory.

Chocolate firm to cut more jobs

Nestlé’s decision to axe 270 jobs at its factory in Halifax will have a “devastating” effect on the local area, a union has warned. The food giant announced on Monday that the jobs will go over an 18-month period at the plant, which makes Easter eggs and Quality Street. The move will turn the Halifax factory into a “high performing” site, the company said. 15

The Transport and General Workers’ Union (T&G) opposes the cuts. National officer Brian Revell said the announcement raised concerns over Nestlé’s future intentions. “It seems clear that Nestlé is working to a clear strategy of cutbacks and job losses in the UK.”

Nestlé has announced more than 400 job losses in the UK in the past few weeks. 20

Factory manager Paul Graddon said, “The proposed changes are about transforming the Halifax site into a high-performing factory, making it a better place to work for everyone and building its long-term future. The Halifax factory is responsible for some of the world’s best loved confectionery brands.”

The factory, which was opened in 1964, produces more than a million tins of Quality Street and 25 million Easter eggs every year. It currently employs 607 people on the shop floor and 88 in other roles. Nestlé said it would be creating up to 200 seasonal posts at the site. 25

(Source: adapted from www.bbc.co.uk, 30 March 2004 and 20 April 2004)