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Practice exam questions

The confectionery market

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Check your answer to the question on pp. 27–29 of the magazine. This question relates to the AQA specification.

Sample answer

Profitability is the ability of a business to generate a surplus from its activities, calculated as total revenue minus total costs. Faced with rising variable costs, specifically the cost of raw materials like cocoa, businesses must adjust their marketing mix to protect their profit margins. Whether shrinking the product is a 'better' strategy than raising prices depends on the price elasticity of demand and the actions of competitors.

One strong argument that shrinking the product is a better strategy is that it allows the business to maintain psychological price points, which can protect sales volume. The article notes that the global cocoa price hit US\$9.74 per kilo in 2024, a massive increase from the previous year. If a company like Cadbury were to pass this full cost on to consumers by raising prices, the new price might break a psychological barrier (such as a bar costing over £2.00), leading to a sharp fall in demand if the product is price elastic. By keeping the price the same but reducing the weight ('shrinking'), the business reduces its variable costs per unit. This maintains the contribution per unit without shocking the consumer with a higher sticker price. If customers are less sensitive to size changes than price changes, this strategy effectively protects revenue and maintains profitability in the short term.

However, the historical evidence in the article suggests that shrinking the product is a dangerous strategy that can lead to a long-term loss of market share. The text cites the example of the 1970s, where Cadbury responded to a 600% cocoa price rise by making bars thinner. This damaged the brand's value proposition. Competitor Rowntree exploited this by launching the 'chunky Yorkie', which led to Cadbury's market share collapsing from 80% to 35%. This demonstrates that customers eventually notice poor value for money. If the product is seen as inferior, brand loyalty erodes. In an oligopoly like the confectionery market, losing such a massive chunk of market share is devastating for long-term profitability, far outweighing the short-term cost savings of using less chocolate.

On the other hand, raising prices (or a combination of price rises and slight shrinking) might be the better option, provided the brand is strong enough. The article states that in 2024/25, despite significant price rises of about 13–16%, the volume of chocolate sales was 'remarkably steady'. This implies that the demand for established heritage brands like Cadbury Dairy Milk is relatively price inelastic. Customers who grew up with these brands are loyal and willing to pay more rather than accept a degraded product. Therefore, raising the price allows the business to cover the rising cocoa costs without compromising the quality or size of the product (the 'product' element of the marketing mix), thereby preserving the brand integrity that supports long-term sales.

In conclusion, reducing the size of the product is not the better strategy; raising prices is superior, or alternatively, product reformulation. The lesson from the 1970s is clear: shrinking the product

(‘shrinkflation’) makes the business vulnerable to competitors who offer larger products. While shrinking protects margins in the very short term, it destroys the product’s value. The cleverest strategy identified in the article is actually reformulation – replacing expensive cocoa with cheaper sugar (at US\$0.50 per kilo), as seen with the Cadbury Creme Egg. This lowers unit costs without necessarily shrinking the physical size or raising the price, offering a sustainable way to maintain profitability that neither purely shrinking nor purely price-raising can achieve.

Sample examiner comment

16/16 (Level 4 – an excellent response, fully focused on the question)

Knowledge and understanding (AO1): The student accurately defines profitability and demonstrates a clear understanding of the relationship between variable costs, contribution and price elasticity of demand.

Application (AO2): The response makes excellent use of the case study data. It contrasts the US\$9.74 cocoa price with the US\$0.50 sugar price and uses the historical 80% to 35% market share collapse to prove the risks of shrinking. The reference to Yorkie and Creme Egg shows full integration of the text.

Analysis (AO3): The logical chains are strong. The student explains *why* shrinking works (psychological pricing protecting volume) and *why* it fails (competitor response leading to market share loss). The analysis of the 2024/25 data to infer price inelasticity is sophisticated.

Evaluation (AO4): The judgment is clear and supported. The student rejects the premise of the question (shrinking) based on the historical evidence provided in the text, and offers a nuanced alternative (reformulation), which is also grounded in the article. This demonstrates the ability to weigh strategic options and select the most viable one for the long term.

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