National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

# Exemplar for Internal Achievement Standard

# Economics Level 1

This exemplar supports assessment against:

Achievement Standard 90984

Demonstrate understanding of decisions a producer makes about production

An annotated exemplar is an extract of student evidence, with a commentary, to explain key aspects of the standard. It assists teachers to make assessment judgements at the grade boundaries.

New Zealand Qualifications Authority

To support internal assessment

| | Grade Boundary: Low Excellence |
|---|---|
| 1. | For Excellence, the student needs to demonstrate comprehensive understanding of decisions a producer makes about production.<br><br>This would typically involve:<br><br>• linking detailed explanations of production decisions with detailed explanations of the consequences for the producer and/or society<br>• integrating supporting data or information into explanations of producer decisions.<br><br>The student has demonstrated comprehensive understanding, by integrating data into a detailed explanation of producer decisions around productivity for McDonald's Restaurants (NZ) Ltd. The explanation linked production decisions to the consequences for the producer.<br><br>The student explained product variation and product differentiation, and incorporated examples, explaining how consumer demand increases, and why non-price competition increases a producer's costs of production (1).<br><br>The student has also recognised the short term nature of price competition due to profit maximisation (i.e. in order to avoid a 'price war') (2). The student has integrated McDonald's' pricing information into the explanation of how and why price marketing decisions affect the producer, and how such decisions can increase market share (3).<br><br>The student has also integrated McDonald's' marketing information into the explanation of how non-price marketing decisions affect consumer demand. This was linked to the explanation of why these marketing decisions can advantage the producer in the longer term (4).<br><br>For a more secure Excellence, the student would include more explanation of non-price marketing, e.g. how and why McDonald's' decisions around location, branding, sponsorship and quality of service would also have consequences for the producer and/or advantages and disadvantages for society. |

McDonalds use a wide range of both price and non-price competition. Price competition is where a firm changes the price of a product without changing it physically to compete with its competition. Non-price competition is where a firm makes its product or products seem different. Non-price competition can be broken up into two branches, product variation and product differentiation.
Product variation is a type of non-price competition where a firm makes actual physical changes to its product; a firm does this to make a product better or to make it healthier for you. The other type of non-price competition is product differentiation where a firm makes the product more attractive by only making it seem different without any physical changes like buying coffee beans that are “fair trade” and have the “Rainforest Alliance Group” seal of approval. They do it to gain a reputation as a “fair trade” company or product, and so increase consumer demand for their products. This is an effective way for firms to increase sales because they do not have to change the price or product itself, but they pay for the advertising costs. 1
The addition of “Free Wi-Fi” to every McDonalds store in New Zealand (NZ) is another example of differentiation. Through bulk buying and negotiating a lower price through the purchase of many internet connections throughout all their stores around NZ, McDonalds would have been able to increase sales without the need for very expensive costs involved with a major advertising campaign.

There is only one type of price competition used regularly by McDonalds NZ. Price competition involves the firm reducing the price of a product or products by a percentage or by a certain number of dollars to gain an advantage over its competitors and to gain customers. This usually happens if a firm is able to make cutbacks or is able to increase its productivity. Alternatively they could take the costs on board in order to gain customer loyalty or a short term increase in sales, but they cannot afford to do this longer term as they want to maximise profits. Also undercutting a competitor’s price could result in a price war so is not a sustainable option. 2

McDonalds has price advertising campaigns such as: “$20 family boxes” or “The dollar menu”. By doing these deals they reduce the price of the products in order to make them more attractive. This leads to an increase in sales as more people come through their doors, aiming to increase their market share of the fast food industry.
Price competition is a very short term form of advertisement, as the company does not gain very many longer term benefits from the campaign apart from a short term increase in income over the period. It is aimed at “getting people through the door” as quoted by Mr P to increase sales and maybe profit. 3
Campaigns such as “spend $9 and get a cheese burger for $1” bring a short term increase in sales to the firm. McDonalds probably makes a loss on the cheese burgers in order to encourage people to spend $9 or to gain more customers.

Non-price competition is the opposite; it provides a longer term and often lasting impression for the firm. The benefits are longer term because when people get a good image of McDonalds it often sticks. This is very common in advertising strategies which use product differentiation. By differentiating their product McDonalds doesn’t need to make major changes to its products. McDonald’s constant endeavour to improve New Zealanders’ opinion has caused them to switch to free range eggs and so create for themselves a lasting image as a company that considers animal welfare to be important. 4
McDonald’s is also trying to create a healthier image by advertising their healthy options range on TV, adding variation to their products and when they reduce the price or differentiate them to seem better people are more likely to purchase these products rather than the traditional fatty burgers. They do this with their “wraps” which have less fat and less calories per serve and are cheaper and take up a whole advertising space in the McDonalds stores. This does not mean that customers will buy the healthier options. As more people come through the store from advertising some will still choose to buy the other unhealthy products like burgers and fries.

| | Grade Boundary: High Merit |
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| 2. | For Merit, the student needs to demonstrate in-depth understanding of decisions a producer makes about production.<br><br>This would typically involve:<br>• providing a detailed explanation of production decisions<br>• providing a detailed explanation of the consequences of those decisions for the producer and/or society<br>• using data or information to support explanations of producer decisions.<br><br>The student has demonstrated in-depth understanding by using supporting data in a detailed explanation of producer decisions around productivity for McDonald's Restaurants (NZ) Ltd. The explanation linked production decisions to consequences for the producer.<br><br>The student mentioned market share, explained how and why consumer demand increases using non-price competition (5), and described price competition using two pricing examples (6).<br><br>In the student's explanations for both price competition (7) and for non-price competition (8), they explain the links between the marketing decisions made by McDonald's and the consequent advantages and disadvantages for society, integrating pricing and marketing information.<br><br>To reach Excellence, the student would include more explanation of production decisions, e.g. how or why non-price competition could increase market share, and how or why non-price competition increases a producer's costs of production (5).<br><br>Additionally, how price competition affects producers would be explained, e.g. undercutting competitors on price can result in 'price wars'; and why price discounts '*cannot be held forever*' would be explained (7). The student would also explain why marketing strategies based around price could have negative consequences for the producer (9). |

As a large and multi-national company in a very competitive market, McDonalds relies heavily on the success of its marketing. The strategies can be split into two categories: price and non-price competition. Non-price competition involves a company trying to increase consumer demand and market share by making the product appear different as in product differentiation or making a different product in product variation. Strategies like loyalty programmes, free gifts, celebrity endorsements, sponsorship are good ways to make yourself appear well respected throughout a community without actually cutting your prices at all. 5

Price competition occurs when a company actually decreases the price of their good or service. This is used to undercut a competitor's price. These are seen as discounts and "2 for 1" deals. McDonalds uses a mixture of these two strategies to effectively market their products. 6

McDonalds' price competition strategies have a much quicker impact on sales than non-price competition. A discount on a burger can bring a lot of people in a short amount of time but cannot be held forever. The main price marketing strategy employed by McDonalds is the combo or "McValue" meals. Before this meal people would come in and order separate single items, but adding in the combos McDonalds has made people buy at least a burger, chips and a drink with every meal deal and this is only discounted slightly. The idea has been very successful and almost no-one goes into a McDonalds and doesn't get a combo. McDonalds also brought in the "Loose Change Menu" range designed for people with loose change and people with little disposable income. At most restaurants a single meal can cost $20 to $30 but at McDonalds a family meal deal can be bought for between $20-$30 and when money is tight like in a recession many people will go for cheaper fast food options like McDonalds. 7

McDonalds' non-price competition is all about marketing their brand. The McDonalds' "Golden Arches" brand is one of the most well-known brands around the world. They have also worked hard to create for themselves an image and have things in their company that help attract young people. These things involve the playgrounds that are seen at every McDonalds in New Zealand (NZ) and allow kids to become excited by the prospect of going to McDonalds. This has been a large success and the "Happy Meal" toys have a similar purpose and effect. They too have created the image of kids having a relationship with McDonalds. In more recent years McDonalds has begun to add more product variety like McCafé and the healthy food options to their product range to address the obesity problem associated with fast foods in NZ. Widening the product range offers healthy choices to more health conscious consumers and gives kids the option of apples instead of fries or a "snack wrap" or salad instead of a burger. Because their image and brand is so important to them they are constantly thinking about their consumers and the consequences to society. They brought in McCafé to accommodate parents and others who just want a decent coffee and the kids can get what they want as well and use the playground, and this keeps them out of their parent's hair for a while. They also support and donate to the Ronald McDonald House Charities NZ which was set up to help sick kids and their families have somewhere to stay if they have to travel to a different city for surgery. McDonalds want their company to be well trusted, respected and like by the community, this is why they also spend a lot of money sponsoring junior sport in NZ. If you go to a soccer or rugby tournament in NZ at a junior level you're almost guaranteed to see a McDonalds' banner somewhere in the vicinity. This shows they are putting money back into society but are also showing that they support exercise to address the obesity issue in NZ. It also gives McDonalds a chance to advertise their healthy food options. There is also a price strategy used which is a coupon for the player of the day which gives them half-price on either a cheeseburger or a sundae. 8 8

Example: The "Loose Change Menu" could result in many people coming in and only ordering cheap items that still require the same amount of processing/handling time for workers as the more expensive items on the menu. This can tie up valuable human resource time, resulting in more cost if more workers are needed and lower returns per hour for the producer. 9

| | Grade Boundary: Low Merit |
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| 3. | For Merit, the student needs to demonstrate in-depth understanding of decisions a producer makes about production.<br><br>This would typically involve:<br><br>• providing a detailed explanation of production decisions<br>• providing a detailed explanation of the consequences of those decisions for the producer and/or society<br>• using data or information to support explanations of producer decisions.<br><br>The student has demonstrated an in-depth understanding by using marketing information from McDonald's Restaurants (NZ) Ltd. to support a detailed explanation of producer decisions around price and non-price marketing. The consequences for society were explained in detail.<br><br>The student presented production and productivity data in a table (10), and some of this data was used to support an explanation of how and why production and labour figures changed between 2007 and 2009 (11).<br><br>The producer decisions that played a part in these changes were also explained, and the consequences for the producer were explained in terms of how and why these production decisions would provide future advantages (12).<br><br>For a more secure Merit, the productivity data would be used in an explanation of how producer decisions affect productivity, and why there were changes in productivity (13). |

| Year | Production of Top 8 Burgers | Percentage Change | Labour Employed | Productivity/output per worker | Percentage Change |
|---|---|---|---|---|---|
| 2007 | 46,241,971 | % | 7500 | 6166 | % |
| 2008 | 47,915,640 | 3.62% | 8000 | 5989 | -2.87% |
| 2009 | 46,965,170 | -1.98% | 9000 | 5218 | -12.87% |

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The national production graph shows us that the production of the top 8 burgers has decreased in 2009 by 1.98%. I believe that this is because of the recession that hit early in that year and people could not afford to eat out at McDonalds' restaurants or any restaurant at that point in time. The labour employed in that year has increased by 1000 jobs and productivity has decreased. I think that the main reason the labour has increased so much in two years was because the McDonalds franchising on a national level was increasing and making new stores in other parts of New Zealand (NZ) to have a wider market share. In 2009 McDonalds was also starting to make a new range of burgers such as the 'Angus' range and the 'Selections' range, these burgers may not have been in the top 8 at the end of the year resulting in them not being counted for this table. These new burgers may have also caused some problems for workers, slowing them down until they got used to making them and may have been another reason for lower productivity. 11

The producer decisions that may have played a part in these changes were made by entrepreneurial influences in the business. There was a big risk displayed in years 2007-2009 and this was because the business was being expanded. You can see that this was present in the graph as throughout those three years an extra 1500 staff was employed. Because most McDonalds' outlets in NZ have about 100 staff employed this shows that maybe another 15 restaurants were put in place around the country. This would be a longer term decision made by their entrepreneurial team as it will pay off in later years as they have gained a larger market share of the fast food industry, gaining more sales and maximising profits longer term. Another decision that McDonalds made to improve production and productivity was employing more capital goods in branches that takes over from some labour and assists workers making things more efficient and improving productivity by cutting costs of production longer term. 12

Example: In 2008 McDonalds had an increase in production of 3.62% of the top 8 burgers, but productivity decreased by 2.87% because 500 workers were employed. Many would be inexperienced and maybe there was a lack of training in some of the restaurants. 13

Productivity decreased in 2009 from the previous year by 12.87%, because even though the number of burgers produced increased it was not as much of an increase percentage wise as between 2007 and 2008, and 1000 more people were employed…

| | Grade Boundary: High Achieved |
|---|---|
| 4. | For Achieved, the student needs to demonstrate understanding of decisions a producer makes about production.<br><br>This would typically involve:<br><br>• defining, identifying, describing or providing an explanation of production decisions<br>• identifying, describing or providing an explanation of consequences of those decisions for the producer and/or society<br>• presenting data or information related to producer decisions.<br><br>The student has demonstrated understanding by using marketing information from McDonald's Restaurants (NZ) Ltd. to support an explanation of producer decisions around price and non-price marketing. The consequences for society were explained in detail.<br><br>The student presented production and productivity data in a table (14), and provided reasons for the changes in the production figures between 2007 and 2009 (15).<br><br>The producer decisions that played a part in changes to productivity were also explained (16). The consequences for the producer were explained in terms of how and why these production decisions would help to maximise profit (17).<br><br>To reach Merit, the student would use the production and productivity data in an explanation of how these decisions affect productivity, and why there were changes in productivity and production (18). |

| Year | Production of Burgers | Productivity* | Productivity Changes |
|---|---|---|---|
| 2007 | 46,241,971 | 5780.25 | 0% |
| 2008 | 47,915,640 | 5989.46 | 3.62% |
| 2009 | 46,965,170 | 5870.65 | -1.98% |

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*Approximate staff total of 8000

McDonalds are constantly upgrading and reshaping their method of production to increase the amount of burgers produced. They can achieve this by using better capital, division of labour and in theory if McDonalds can increase the amount of burgers supplied they can increase their turnover. This is a good theory but only applies when the customers have an unlimited want for a McDonald's product. If the customers cannot afford McDonalds or is no longer satisfied by what products McDonalds offers it will led to a drop in production as McDonalds doesn't have to supply as many burgers because consumer demand has decreased. 15

In addition to giving customers healthier food choices the warmer trays were removed and now food is prepared when it is ordered. These producer decisions may have lowered productivity as this means that McDonalds has to prepare burgers when ordered and can't pre-prepare burgers and put them in a warmer. If McDonalds increases its productivity by upgrading capital and diversifying labour they can supply customers with their food much faster than before, meaning that they are a 'fast food' restaurant. 16

There are disadvantages to increasing production this way as machinery is being used 24/7 and at a faster rate so is prone to breaking down. Workers can become bored with diversified labour as the job is monotonous, so to remedy these problems the machinery is regularly maintained and repairs made quickly and workers jobs are rotated to keep them interested. Increased production may mean that supply exceeds customer wants, meaning you are left with a surplus so this creates waste and less profit. McDonalds remedies this problem by making food to order meaning there are no extras and so no wasted food and maximised profits. 17

Example: These production decisions made changes to both the product and to the method of production in 2007 and 2008 and could have led to the increase in productivity of 3.62% because…and an increase in consumer demand for burgers as 1,673,669 more were produced in 2008… 18
Production dropped in 2009, this may have been due to the global recession as people had less money to spend on fast food restaurants like McDonalds so production decreased by 950,470 in New Zealand…

| | Grade Boundary: Low Achieved |
|---|---|
| 5. | For Achieved, the student needs to demonstrate understanding of decisions a producer makes about production.<br><br>This would typically involve:<br><br>• defining, identifying, describing or providing an explanation of production decisions<br>• identifying, describing or providing an explanation of consequences of those decisions for the producer and/or society<br>• presenting data or information related to producer decisions.<br><br>The student has demonstrated understanding by using marketing information from McDonald's Restaurants (NZ) Ltd. to support an explanation of producer decisions around price and non-price marketing. The consequences for society were explained.<br><br>The student presented production and productivity data in a table (19), providing reasons for changes in the production and productivity figures between 2007 and 2009 (20).<br><br>The consequences for society were also explained in terms of how or why these production decisions could have positive consequences (22).<br><br>For a more secure Achieved, other relevant consequences would be included (23). Additionally, the student would include specialisation, division of labour and technology, rather than non-price marketing strategies, when explaining productivity (21). |

| Year | Production of Top 8 Burgers | Percentage Change | Labour Employed | Productivity/output per worker |
|---|---|---|---|---|
| 2007 | 46,241,971 | % | 7500 | 6165.6 |
| 2008 | 47,915,640 | +3.6% | 8000 | 5989.5 |
| 2009 | 46,965,170 | -2% | 9000 | 5218.4 |

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The reason for the production of top 8 burgers increasing from '07 to '08 is because McDonalds had more customers in '08. Because of this they employed more staff to keep the speed of service up. This resulted in labour productivity going down because they probably employed too much labour.
McDonalds has a specialised grill staff to produce grilled food. Orders are computerised from order on screen to kitchen to maximise productivity so they don't need to go to the kitchen to tell the kitchen staff what each order is. Everyone has a specialised job (e.g. cashier, drive-thru operator) to maximise productivity because everybody knows what they're doing. 20
Another way they improve productivity is by wearing headsets, so they can communicate with the kitchen crew about orders. The busiest times for production are the breakfast period around about 9am to 10am and lunchtime around 12 till 1pm.

In March 2004 McDonalds began producing fruit bags as a 'Happy meal' option. And in December cereals were added to the breakfast menu. In February 2004 they launched a 'Salads Plus' menu when they produced a range of meals with less grams of fat per average serve, all of these options designed to appeal to people who want to eat healthier food and so increase consumer demand for their products. 21

There are positive and negative consequences to society of decisions made by McDonalds aimed at improving productivity and production. Positive consequences include: faster service (because McDonalds try to increase their productivity by serving people faster), consistent quality of food (because McDonalds mass produce their burger buns and freeze them). A negative consequence: not everything is of a high quality (because they're making their food fast for higher productivity). 22

Example: Negative consequences include: specialised jobs may mean the workers get bored and so slow down and lower productivity. Technology may replace the need for human labour and so many workers may be laid off. 23

| | Grade Boundary: High Not Achieved |
|---|---|
| 6. | For Achieved, the student needs to demonstrate understanding of decisions a producer makes about production.<br><br>This would typically involve:<br><br>• defining, identifying, describing or providing an explanation of production decisions<br>• identifying, describing or providing an explanation of consequences of those decisions for the producer and/or society<br>• presenting data or information related to producer decisions.<br><br>The student has demonstrated partial understanding by presenting production and productivity data about McDonald's Restaurants (NZ) Ltd. in a table, explaining decisions made by the producer to improve productivity. The consequences for the producer were described.<br><br>The student identified non-price marketing strategies (24), and explained how and why non-price marketing strategies increase consumer demand, using information from McDonald's (25). The consequences were also explained in terms of why these strategies can disadvantage society (26).<br><br>To reach Achieved, the student would also need to define price and non-price marketing using economic terminology, e.g. price and non-price competition. Additionally, the student would describe some price marketing strategies used by McDonald's, and the consequences of price marketing for the producer or society would also be explained. |

Price and non-price marketing strategies used by McDonalds are combos, free toys, longer opening hours, breakfasts and McCafé and these are used in many ways. 24

The free toy with every 'Happy meal' will cost around 80-90 cents, which will be included into the price margin. The toys are not made in New Zealand (NZ) so they can vary. The free toys are to get children to want to come to McDonalds more often so they can get a free toy to play with. 25
The combo meal was introduced in the mid-1990s; NZ was the first to use this strategy which became one of the most effective non-price strategies in the world. The combo is successful because people buy them more often because they are getting more food for less money as buying items separately is more expensive.
The addition of the breakfast menu allowed McDonalds restaurants to serve food throughout the day to match customer's needs. This menu was first offered in NZ in 1991.
The McCafé concept allowed McDonalds to expand their appeal to a wider range of customers. 25
They did this by investing in more comfortable surroundings serving a more expensive menu and espresso coffee.

With free toys there are certainly consequences, as children would learn to go to McDonalds rather than have home cooked meals, which would be healthier for them. This can lead to obesity later in life as the children will think eating at McDonalds is normal and not a treat and go there more often. Problems also arise with combos as people get more food than they need but eat it because it is there, therefore gaining weight and becoming obese. 26