

Paper Reference(s)

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Unit 4: Competitiveness (Module 4)

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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Turn over

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Evidence A

The UK Clothing Market

According to Retail Rankings 2001 (Corporate Intelligence Group) the total spending in 1999 on garments was worth £22 billion (excluding garment purchases outside clothing specialists) and the total spending on shoes was £3.4 billion. KeyNote, the market research company, reports the women's clothing market (including girls' and infants' clothing) to have been worth £18.4 billion in 2001 and the total footwear market to have been worth £4.9 billion. 5

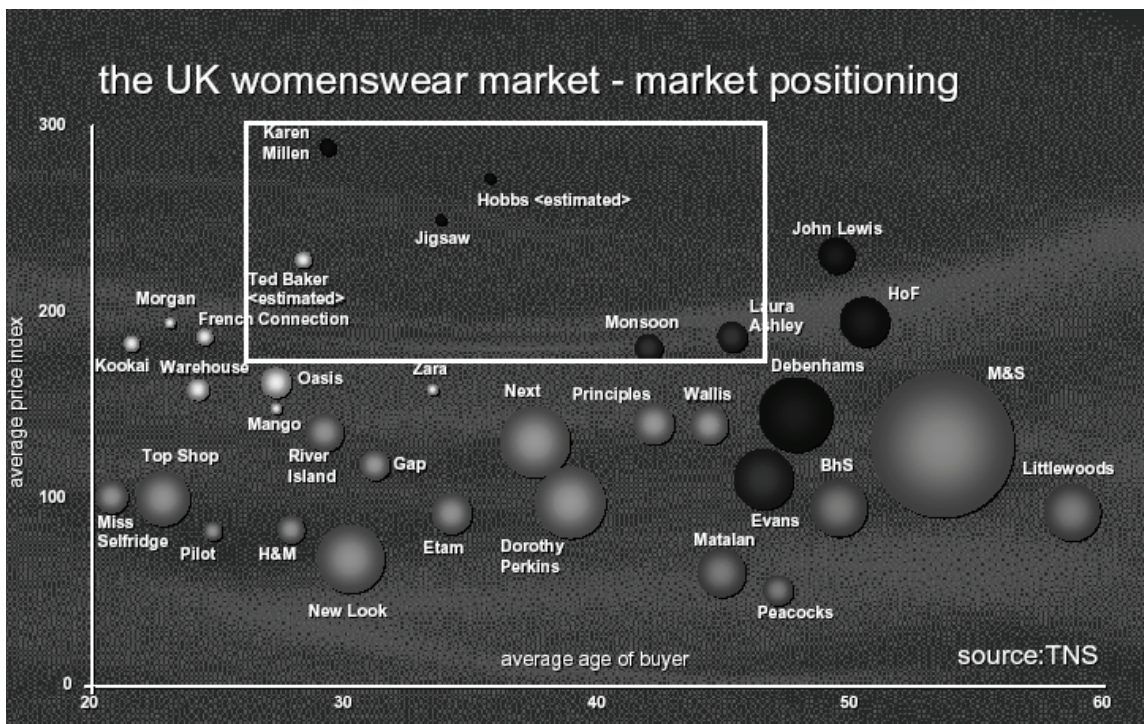
The UK women's outerwear market is competitive, fuelled by:

- the presence of quality retailers, such as Karen Millen and Jigsaw;
 - the arrival of new retailers such as Matalan, Zara, etc;
 - changing customer attitudes and habits;
 - cost increases outstripping sales growth.
- 10

The net effect has been:

- polarization – between the “value retailers” and the “niche retail brands”;
 - the re-definition of the middle market with Next emerging as the benchmark in place of Marks & Spencer and Gap;
 - consolidation and fall-out of those retailers without a compelling and consistent customer proposition.
- 15

The market-positioning map (TNS/Management) below highlights the relative positioning of the major retailers according to average age of buyer and relative price.



(Source: adapted from http://www.competition-commission.org.uk/inquiries/completed/2006/storecard/pdf/initial_sub_retailers_hobbs.pdf as viewed 2/10/07)

Evidence B

Wheeler has the market buttoned up after putting his shirt on it

Nick Charles Tyrwhitt Wheeler is the managing director and chairman. He set up Charles Tyrwhitt in 1986. It has grown from a single shirt sold from his student bedroom to annual sales of £50 million without needing to borrow much outside capital.

Tyrwhitt has expanded from its mail order beginnings through the internet and on to the high street, with nine stores, two of them in Manhattan. Mr Wheeler is keen to add to the chain in Scotland and in America. It may seem odd to move against the prevailing trend in retail and away from the internet. Currently 65 per cent of sales are online, encouraged by mailed-out brochures, and 20 per cent are in the shops, the rest being pure mail order. 5

“For retailing in general, shops still account for 90 per cent of all sales. Some people still won’t buy by mail order. If a mail order business has no retail presence at all, just a funny address in W12,” – Tyrwhitt’s warehouse is in White City, West London – “then you lack credibility.” 10

Mr Wheeler had a couple of small business ventures, one photographic and one involving the supply of not terribly reliable Christmas trees, before hitting on the idea of selling shirts. He went to the trouble of obtaining the address books of an upmarket rowing club and of the 17/21st Regiment of Lancers, because both were full of the sort of prospective customers he hoped for. 15

Shirt fabric is sourced from Italy – “Italian weavers are the best in the world” – and the shirts are mainly made in Romania or Egypt. “We stopped making shirts in England three years ago. Making shirts here is pretty much impossible,” he says with regret. “We always got let down on delivery. They never arrived when they said they would. The quality wasn’t that great either.” 20

At Tyrwhitt, the problem now is how to fund growth, mainly on the high street. Expansion of the range from its core of shirts, ties and cufflinks into areas such as women’s wear and children’s clothes was unsuccessful. It is back to the core business. For the first time he could do with outside growth capital, and with it some inevitable loss of control by Mr Wheeler, who still has 95 per cent of the shares. “It’s a real dilemma. In the US, there’s great potential for the brand. I think I will seek fresh capital at some stage but not immediately.” One possibility is a flotation. 25

Any number of niche retail businesses in the past have over-expanded just as hard times hit the high street. One thinks of Sophie Mirman’s Sock Shop, or Tie Rack, or Jessops, the photographic chain. The venture capitalists or the stock market breathing down your neck, saying go on, go for it, and then pulling the rug away when the going gets tough. 30

Mr Wheeler is aware of the dangers of expanding at this stage in the economic cycle but he says: “There are always going to be good and bad times. But we’re living now.”

(Source: adapted from ‘Wheeler has the market buttoned up after putting his shirt on it’ by Martin Waller
The Times, October 6, 2007)

Evidence C

Stores expecting ‘chill wind’ at Christmas

Shoppers – and their credit cards – have helped the economy perform so strongly in recent years. There are increasing concerns that the credit crunch will hit millions of shoppers’ wallets as consumers faced higher mortgage payments, lower bonuses or even the prospect of losing their jobs.

If this scenario develops, department stores and out-of-town shopping centres predict a chill wind this Christmas, which could lead to job losses. 5

Kevin Hawkins, director general of the British Retail Consortium, said: “The credit crunch couldn’t have come at a worse time; consumer confidence was already weakened.”

Charlie Mayfield, the chairman of John Lewis Partnership, said: “The outlook in the market is more challenging than has been experienced for some time and we expect a tougher trading environment in the coming months.” 10

British citizens are the most personally indebted in the world and total UK personal debt, including mortgages, has been estimated at £1.3 trillion. But over the past 18 months, credit card debt has been falling steadily as consumers rely more heavily on rising house prices to fuel their insatiable spending habits. 15

Many have remortgaged their houses or taken out loans to fund large projects. If, as expected, house prices stall, consumer spending will almost certainly follow. DIY merchants and department stores would experience a slowdown as shoppers cut back on spending. In the short term, consumers may benefit from some good deals in the run-up to Christmas, especially in clothes shops. 20

The wet summer has meant many stores have piles of unsold stock.

Cash-conscious shoppers flocked to Primark stores over Christmas, making the discount fashion retailers one of the high street’s biggest festive winners. Rivals such as Marks & Spencer and Next suffered sales declines, the cut-price retailer said today it had enjoyed strong underlying sales growth and that trading over Christmas had exceeded its expectations. 25

Chief executive George Weston believes the recent gloom surrounding the value retail sector has been overdone. While there is clearly a squeeze on consumer spending, he is confident about the year ahead. “People that have the best goods at the best prices will win,” he said.

(Source: adapted from Stores expecting ‘chill wind’ at Christmas, *The Daily Telegraph*, September 2007
Partywear and cashmere help Primark beat the gloom, *The Guardian*, January 2008)

Evidence D

The Arcadia Group

With over 2000 outlets throughout the country, Arcadia Group is the UK's largest clothing retailer, reaching customers through seven brands in the UK and a growing number of international stores. There is hardly a high street or shopping centre across the land that isn't host to one or more of Arcadia's eight celebrated brands – Burton, Dorothy Perkins, Evans, Miss Selfridge, Outfit, TOPSHOP, TOPMAN and Wallis.

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As a reputable company, we have a long-term commitment to the many people we touch – our employees, our customers and consumers, the workers who make our product and their communities, the suppliers who partner with us, as well as the global community. We recognise that these people and their representatives are our biggest asset and our partners. We have long-term relationships with our suppliers. We work with them to make lasting improvements to working, social and environmental conditions. We seek to address issues important to our stakeholders, such as working conditions, livelihoods of the people who make our products, community involvement and the reduction of the environmental impact resulting from the manufacture, distribution and sale of our products. When customers buy our goods we want them to be confident that they have been produced under acceptable conditions. That means the goods must have been produced:

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- lawfully, through fair and honest dealing;
- without exploiting the people who made them;
- in decent working conditions;
- without damaging the environment.

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Focus on Topshop

Topshop was established in 1964 within a Sheffield department store called Peter Robinson, however, a year later, the same store allocated Topshop space in the basement of its Oxford Circus store in London. In 1974, Topshop was taken out of Peter Robinson and set up as a standalone retailer. When Jane Shepherdson became Brand Director in 1999 her vision was to establish the brand as a fashion authority. Since then, Topshop has gone on to become one of fashion's major success stories with over 309 fashion stores nationwide, including the world's largest fashion store at Oxford Circus, which attracts over 200,000 shoppers each week!

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Topshop has forged exclusive partnerships with international boutiques 'Opening Ceremony' in New York, 'Colette' in Paris and Tokyo's '10 Corso Como Comme des Garcons'. During summer 2006 'Barneys' in the US began retailing Topshop's best selling Baxter jean in its flagship stores. Plans to expand internationally are also underway with stores in Moscow and St. Petersburg due to open in 2008.

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Topshop sells on average, 30 pairs of knickers a minute, 6,000 pairs of jeans a day and 35,000 pairs of shoes every week, it's an unrivalled, iconic brand. Blending cutting edge style with purse-friendly prices, Topshop attracts women from their teens to the 40s searching for a weekly fashion fix.

35

Topshop has a number of charitable partnerships we work with on an ongoing basis. Most recently working with Women's Aid and Refuge to support their 24 hour National Domestic Violence Helpline, Fashion Targets Breast Cancer, Terrence Higgins Trust and Peta Education and Research Foundation. 40

As well as the main product range, Topshop offers a number of more specialist collections:

Maternity
Mini Topshop
Vintage
Tall and Petite 45
Unique and Boutique
Sno by Topshop

At Topshop service is paramount, with the experience of shopping being as important as the garment you pick up. Topshop pioneers personal shopping on the high street with a team of Topshop Style Advisors. 50

The Topshop Style Advisor is an expert store assistant with a fashion related background, hand picked to provide customers with VIP assistance for free. You get to use the VIP fitting rooms, to queue jump and refreshments while you shop.

There is now a personal shopping service that brings Topshop straight to you. The Topshop Style Advisors will now visit you in the privacy of your home, office, hotel room – wherever – armed with all the latest temptations that Topshop has to offer. Whether you have a spare couple of hours or a manic 30 minutes, it's the ultimate luxury shopping service for girls on the go. 55

Topshop Express offers the ultimate solution for fashion emergencies. Send our Style Advisors a text of what you need and they'll endeavour to find you the perfect thing, and courier it to you within the same day. This service is currently available from the Oxford Circus store to customers within the M25. 60

(Source: adapted from <http://www.arcadiagroup.co.uk/> as viewed October 2007)

Evidence E

Marks & Spencer's Financial Data

Group financial record

The figures for 2005 to 2007 are prepared under IFRS. The figures for 2004 and 2003 are UK GAAP figures presented in the same format as the 2005 to 2007 figures.

	IFRS 2007 52 weeks £m	IFRS 2006 52 weeks £m	IFRS 2005 52 weeks £m	UK GAAP 2004 53 weeks £m	UK GAAP 2003 52 weeks £m
Income statement					
Revenue – continuing operations	8,588.1	7,797.7	7,490.5	7,728.1	7,399.0
Operating profit – continuing operations					
United Kingdom	956.7	784.5	528.0	738.6	601.5
Overseas	89.2	65.6	70.1	45.0	34.9
Total operating profit	1,045.9	850.1	598.1	783.6	636.4
Analysed as					
Before exceptional operating charges	1,045.9	850.1	648.7	825.7	680.3
Exceptional operating charges	–	–	(50.6)	(42.1)	(43.9)
Net interest payable ¹	(130.0)	(121.9)	(104.4)	(45.7)	(40.6)
Pension finance income/(charge)	20.8	17.5	11.4	(15.2)	27.0
Profit before taxation – continuing operations	936.7	745.7	505.1	722.7	622.8
Taxation on ordinary activities	(277.5)	(225.1)	(150.1)	(225.1)	(182.1)
Profit after taxation	659.2	520.6	355.0	497.6	440.7
Profit from discontinued operations	0.7	2.5	231.2	54.7	66.2
Minority interests	–	–	–	–	0.4
Profit attributable to shareholders	659.9	523.1	586.2	552.3	507.3

¹ For 2007 includes £30.4m of exceptional finance costs which arose on the early redemption of £317.2m of secured bonds (see note 5).

	IFRS 2007 £m	IFRS ¹ 2006 £m	IFRS ¹ 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m
Balance sheet					
Non-current assets					
Intangible non-current assets	194.1	163.5	165.4	–	–
Property, plant and equipment (including investment properties)	4,069.6	3,614.3	3,624.8	3,497.6	3,435.1
Trade and other receivables	247.0	242.8	211.2	1,779.3	1,559.5
Joint venture and other financial assets	12.3	12.3	9.0	10.0	29.7
Deferred tax assets	11.6	83.9	73.0	203.5	277.1
Non-current assets	4,534.6	4,116.8	4,083.4	5,490.4	5,301.4
Current assets	846.4	1,142.1	832.3	2,086.7	1,686.8
Total assets	5,381.0	5,258.9	4,915.7	7,577.1	6,988.2
Current liabilities	(1,606.2)	(2,017.0)	(1,237.4)	(1,919.9)	(1,769.4)
Non-current liabilities					
Retirement benefit deficit	(283.3)	(794.9)	(676.0)	(669.5)	(1,278.2)
Other non-current liabilities	(1,843.3)	(1,243.3)	(2,044.7)	(2,533.7)	(1,832.3)
Total liabilities	(3,732.8)	(4,055.2)	(3,958.1)	(5,123.1)	(4,879.9)
Net assets	1,648.2	1,203.7	957.6	2,454.0	2,108.3

(Source: adapted from http://annualreport.marksandspencer.com/financials/g_income_statement.html)

(Source: adapted from http://annualreport.marksandspencer.com/financials/g_balance_sheet.html)

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