

New
Specification



Rewarding Learning

ADVANCED
General Certificate of Education
2010

Business Studies
Assessment Unit A2 2
assessing
The Changing Business Environment
[AT221]



TUESDAY 25 MAY, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer the **one** question.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

Study the information and answer the question that follows.

Clothes 4 U plc

Source 1: Extracts from the company website

- Clothes 4 U plc is a clothing retailer with 1500 outlets throughout the United Kingdom.
- Clothes 4 U plc's outlets can be found on many of the UK's high streets and in major shopping centres. Its e-commerce operation is significant and is rapidly expanding.
- The company was first listed on the London Stock Exchange in 1934, by which time it had 400 stores.
- The company was formed in 1903 under the name of The Good Tailoring Company.
- Clothes 4 U plc sells clothes to middle class males and females, mainly in the 16–30 age group.
- In recent years Clothes 4 U plc has been affected by the current UK recession and has sought ways to meet the changing needs of its customers.

Source 2: Financial information relating to Clothes 4 U plc

	2007	2008	2009
Sales	£92.1 million	£89.3 million	£70.3 million
Net Profit	£9.3 million	£7.4 million	£3.9 million
ROCE	6.1%	4.3%	2.1%
Current Ratio	2.3:1	1.9:1	1.2:1

What's Been happening in High Streets Across the UK?

1. Fewer Women's Clothes Shops

Nearly one in five women's and children's clothes shops across the UK have closed recently. "It's the one area which is very much a discretionary spend," says Matthew Hopkinson, Business Development Director at Local Data Company. "People are going to George at Asda, Primark or to other discount retailers."

2. More Empty Shops

The most visible evidence of the recession is noticed with a walk down any High Street. Vacancy rates are currently about 13.5% nationally, says Experian, which predicts this will increase to 15% by the end of 2009, before a partial recovery by June 2010 to 14.5%.

3. Rise of the Discount Store

There are 1423 discount stores in the UK, an increase of 60% since the start of the downturn. Shops like Poundland and 99p Stores have exploited the determination of consumers to save money where possible. They have also benefited from the excess of stock from places like China and the Philippines.

4. More Charity Shops

"The number of charity shops is not great for retailers as it puts them off from moving in with new shops," says Greg Hodge of Planet Retail. "They benefit from reduced rates and they have a flexible supply chain," he says. "They can act fast because they don't need to set up a fantastic store, implement IT software, tag their products or implement the back office to monitor their stock."

© From BBC News at <http://news.bbc.co.uk/1/hi/8318595.stm>

NI enduring "worst ever" slowdown

A report on the economy indicates that Northern Ireland is in the midst of its worst ever slowdown. The report, by accountants Ernst and Young, claims the all-island economy will shrink by 7% this year. It adds that Northern Ireland and the Republic could still be twelve months to two years away from economic growth.

One of the report's authors says that while there are some signs of recovery, there is a possibility of a 'double-dip' recession. A 'double-dip' recession occurs when the economy contracts after one quarter of economic growth. If that does happen, it is sometimes a sign of a deeper and more prolonged recession.

© From BBC News at http://news.bbc.co.uk/1/hi/northern_ireland/8351807.stm

Source 4: Newspaper Article on Z Factor Clothing

Criticism of Discount Retailer, Z Factor Clothing's Treatment of staff

Trade unions in Germany and other countries have repeatedly criticised the discount retailer, Z Factor Clothing, for mistreatment of workers. Many newspapers have reported that Z Factor Clothing spies on its workforce with cameras, makes extensive notes on employee behaviour, particularly focusing on attempting to sack female workers who might become pregnant, and also forces staff at warehouses to do piece-rate work which is now illegal in the EU. In Italy, in 2003, a judge sentenced Z Factor Clothing for anti-union policies, a crime in that country.

In March 2008 a German news magazine released a cover story reporting systematic surveillance of Z Factor Clothing workers, including most intimate details of their private affairs.

Source 5: Primark

Primark is a discount clothes retail company, whose core values include, taking care of people, being good neighbours and fostering ethical business relationships. They also have principles in relation to human rights, employment conditions, business practices, suppliers and other stakeholders.

As an international business with a global supply chain they accept that they have a responsibility to trade ethically. This includes ensuring that suppliers live up to values and behave well towards their employees.

Adapted from: <http://www.primark.co.uk/Ethical/Values>

Source 6: The Arcadia Group

The **Arcadia Group Limited** is a British retail company that owns the high street clothing retailers Burton, Dorothy Perkins, Evans, Miss Selfridge, Topman, Topshop, and Wallis. The group has more than 2500 outlets in the UK.

Financial highlights for the Arcadia Group 2008/2009

Pre tax profit of £213.6m, up 13.0% from £188.9m.

Total sales up 2.7% at £1897.7m. UK like-for-like sales were level on last year.

Continued capital investment in the business with expenditure of £81.2m.

© The Arcadia Group Ltd

Source 7: Background to Report

The directors of Clothes 4 U plc have recently had a board meeting and concerns have been raised about how the company can survive the current economic climate. It is obvious from the sales and profitability figures that the current strategy for the organisation is not succeeding. At the meeting, the Managing Director, Jim Saunders has presented research that he has commissioned. This includes the possibility of pursuing a franchise agreement with Z Factor Clothing, a German retailer which specialises in fashion clothing aimed at those on low incomes.

Jim believes that this franchise opportunity could help Clothes 4 U plc make enough profit to help the company survive. He believes that this could also result in economies of scale. Some directors agree, suggesting that the positive performance of clothes retailers such as Primark and George at Asda, who also target this market, is justification for pursuing the franchise.

However, other directors are worried that such a strategy might have a negative impact on the image of the company. Some feel that the UK economy is simply nearing the end of the downturn in the business cycle and that economic recovery is imminent. They have further highlighted the positive results from the Arcadia Group, who are Clothes 4 U plc's main competitors, and are concerned about the significant capital investment of £3.8 million that would be required for the franchise.

As a compromise, Jim has suggested that Clothes 4 U plc should open up a branch of Z Factor Clothing in Northern Ireland in order to test the market. He has stated that the Northern Ireland project will cost the organisation £100 000.

Question 1

You are a consultant employed by Clothes 4 U plc. You have been asked to prepare a formal report entitled "The Z Factor Clothing Franchise – the way forward?".

The aim of the report is to examine the problems currently faced by Clothes 4 U plc, analyse the issues surrounding the franchise and evaluate whether a decision to take up the franchise would be in the best interests of the shareholders and stakeholders.

Your report should be in an appropriate format and should include recommendations to the management team of Clothes 4 U plc.

(You **may** find it useful to address **some** of the following areas in your report; the financial implications of the franchise arrangement in Northern Ireland, the social responsibilities of Clothes 4 U plc, the impact on the corporate image of the franchise, business cycles, ethical issues relating to suppliers, economies of scale, SWOT analysis, effects of introducing new technology, managing change).

[80]

THIS IS THE END OF THE QUESTION PAPER

Permission to reproduce all copyright material has been applied for.
In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA
will be happy to rectify any omissions of acknowledgement in future if notified.