

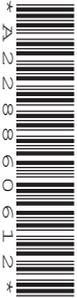
Wednesday 30 May 2012 – Morning

GCSE BUSINESS STUDIES

A293/01/CS Production, Finance and the External Business Environment

CASE STUDY

Duration: 1 hour 30 minutes



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INTRODUCTION TO THE BUSINESS

A&W plc is a national retail clothing business. A&W plc has 120 branches in major towns and cities in the UK. The national headquarters of the chain is responsible for marketing the clothing and for all major financial matters. It researches the market, decides what clothes will be sold, organises the production of the clothes by suppliers, determines the prices which will be charged and undertakes national advertising. The managers of each shop are responsible for the day to day operation. 5

The mass clothing market in the UK can be divided into two main segments:

- the value market led by companies such as Primark, and ASDA with its George range of clothing
- the midmarket sector which includes Marks and Spencer and the John Lewis department stores. 10

Midmarket retailers sell more expensive clothing than that sold by the value retailers. They target sales at middle income customers. A&W plc is classified as a midmarket retailer.

SECTION A – THE NATIONAL CHAIN, A&W plc

Introduction

This section includes reports by directors of A&W plc. There is also an amended extract from The Observer newspaper which raises issues which are relevant to A&W plc. 15

Report One – The Future of the Market – Annie Hicks, Managing Director

I expect to see the following trends in the near future.

- The clothing market has changed significantly in recent years. Ten or 15 years ago there were two distinct 'seasons' each year, a winter and a summer season. Each retailer would offer one range of clothes throughout each season. Now, there are 30 to 50 mini-seasons each year. This has changed the way in which our suppliers operate when producing the clothes which we sell. 20
- The value retailers will increasingly try to compete with midmarket retailers. This will increase the pressures on our costs.
- Other retailers are increasingly selling their clothing through the Internet. Although we no longer need to consider the marketing benefits which this might bring, perhaps we now need to consider how selling through the Internet could help us reduce our costs and improve our efficiency. 25
- Consumer confidence is at last showing some signs of improving after the slow growth of incomes during the recent recession.
- Other retailers in the midmarket range are expanding abroad. The European Union is one area for growth, particularly in Eastern Europe where employment and incomes are rising, though incomes are rising only slowly. Another possible area for sales abroad is the developing countries such as the BRIC economies – Brazil, Russia, India and China – which are experiencing very high rates of growth and where the size of the middle class is increasing. 30
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Report Two – The Supply Problem – Oliver Khan, Buying Director

- Currently 95% of the clothing we sell is made abroad. The production of clothes takes place using largely labour-intensive methods. The possibility of increasing production in the UK depends on developments in technology.
- India is the single largest producer of clothes sold in A&W plc shops.
- The increase in the number of clothes' 'seasons' in a year will affect producers and their workers. Once a mini-season starts, we need the new lines of clothing in the shops quickly. All of this may raise problems concerning quality control. One possibility is that new technology will have to be introduced. 40
- I do want to draw attention to an article which appeared in The Observer newspaper (see Fig. 1 below for an adapted extract). We need to be aware of what can happen in the factories that produce the goods which we sell. 45

Fig. 1 Newspaper Article – Adapted from The Observer

An Observer investigation found that workers at some Indian clothing factories were being forced to work 16 hour days which is beyond the legal limits in India. Marks and Spencer, Gap and Next all buy clothes made in India and they have systems for checking that their ethical production guidelines are not broken. Where proper overtime rates are not paid, the retailers can demand that the workers are paid what they are owed. There are also concerns that workers who refuse to work the long hours are being fired. In these cases, the retailers can ask that the workers are reinstated. 50

One worker claimed he had worked 133 hours overtime in a month and that he had only been paid his normal hourly rate for these extra hours. In total he earned about £83 for all this overtime. He said that some of the workers who refused to work this overtime were actually beaten before being sacked. The worker said that he needed the money to pay for rent, electricity, food and transport. He also had to pay fees to send his children to school, which he believed would help them to get better jobs, as well as helping the Indian economy to continue to develop. 55
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Report Three – Costs and Revenues, the A&W plc 'Grant polo shirt' range – Oliver Khan, Buying Director

I was asked to negotiate a deal with a manufacturer for the production of the new range of A&W plc 'Grant polo shirts'. I have completed some calculations of anticipated revenues and costs (see Fig. 2). The cost figures are based on the current wage costs of suppliers in India, but given the growth in demand for labour it is possible that wages in India may rise. Costs depend on how many shirts are bought. The anticipated revenues are based on an average selling price of £25 per shirt. 65

Fig. 2 Cost and Revenue Figures for the A&W plc 'Grant polo shirt' range

Number of shirts	Cost of shirts (£s)	Total revenue from sales (£s)
10,000	100,000	250,000
20,000	180,000	500,000
50,000	400,000	1,250,000
100,000	700,000	2,500,000

Business expenses per shirt are usually estimated to be 40% of the selling price. I have also spoken to the Finance Director about the following:

- wage costs in the UK have started to rise slowly.
- rents for high street retail space have started to rise as consumer demand has started to pick up. 70

Both the Finance Director and I are concerned about how A&W plc may respond to these changing external costs.

Report Four – Investment Costs – Bonnie Cookney, Finance Director

The planned increase in the number of shops in the chain will continue this year. Ten new shops are planned. These new shops mean that £8m will be required for refurbishment prior to opening as A&W plc shops. I am considering increasing our bank loans in order to finance the new shops, although one of my concerns is our current high level of borrowing from the banks. Possible rises in interest rates will probably affect us by more than our competitors. There are, however, other options for financing the shops which we might want to consider. 75

SECTION B – THE BOWTON SHOP

Introduction

This section contains information about the A&W plc shop in Bowton.

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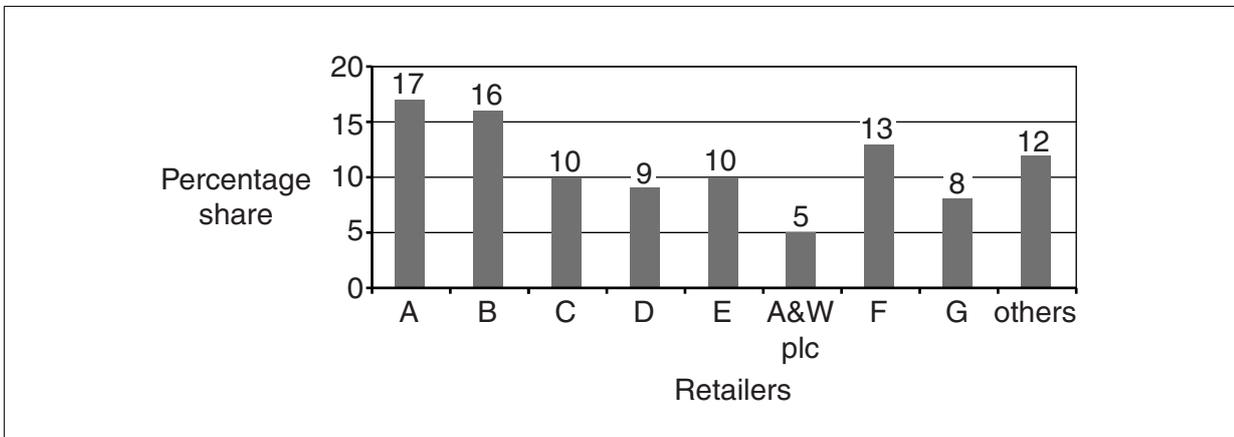
The Bowton shop is run by two senior managers, George Steinson and Faye Dean. Each has a specialist role in the management of the shop. George is the General Manager in charge of individual department managers – men’s, women’s and children’s clothing. Faye, a qualified human resources specialist, is in charge of all matters relating to staffing.

Report Five – The Retail Clothes Market in Bowton – George Steinson, General Manager

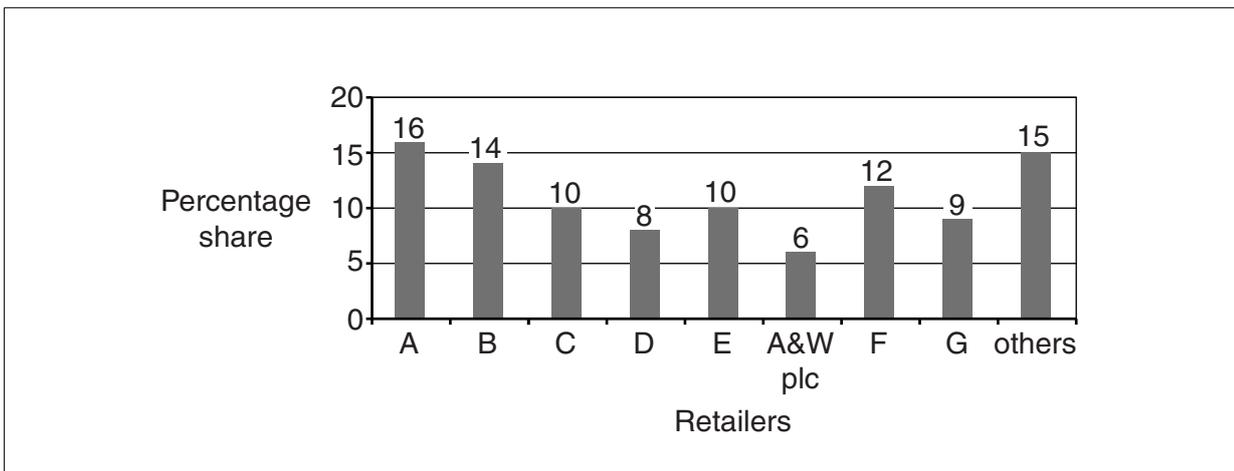
I have conducted some research into the retail clothing market in Bowton (see Figs. 3 and 4). The total value of the sales of clothes in Bowton rose from £60m in 2010 to £62m in 2011.

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**Fig. 3 Leading Bowton Retailers
Percentage Shares of the Retail Clothing Market, 2010**



**Fig. 4 Leading Bowton Retailers
Percentage Shares of the Retail Clothing Market, 2011**



Report Six – Some Local Issues – George Steinson, General Manager

I have been looking at ways of improving our Bowton branch sales for two reasons. The first is the current economic climate. The second is the possibility of A&W plc introducing Internet selling. Whilst this might help sales of A&W plc nationally, I think it might affect the sales of our Bowton branch.

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The slow growth of incomes in the UK after the recession of the late 2000s means that consumer confidence remains weak. However, the population of the town has grown in the last couple of years as Eastern Europeans are moving back to the UK. Whilst many of these migrants are only on low incomes, many are young people and are having larger than average families. I think this could increase sales, but I am not sure.

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Inward investment is also likely to help. The decision to locate a large car assembly plant just outside the town will be a real bonus to us in the future. The Japanese owners were looking for a location within the European Union and we must give credit to the UK government for its efforts in persuading the owners to choose the UK rather than the alternative site in northern Spain.

Our position in the old 'Heritage Quarter' of Bowton is a good one. It still remains the heart of the town centre shopping area and is also very popular with tourists. One downside is that there is no room for expansion and, even if there was, it would be unlikely that the local council would give planning permission for a new building as it is very protective about the appearance of the 'Heritage Quarter'.

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I also want to improve the image of the Bowton branch as an 'eco-friendly' business. To help achieve this, I have obtained estimates for the installation of solar panels. The best quotation which I have is, fortunately, from a local firm, Energylight. The cost of installing panels on our roof would be £100,000. The electricity generated can be used instead of buying electricity from an electricity supplier. Any electricity we do not use can be sold to the National Grid. The amount generated depends on the weather but, in a typical year, we could expect total savings on our energy bills of around £5,000. Our sloping roof and our situation looking down the high street could be a real positive, particularly in respect of the perspective adopted by groups such as environmentalists. I suspect, however, that not everyone will be in favour of solar panels on our roof and expect problems from groups such as conservationists.

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