

General Certificate of Education
January 2008
Advanced Level Examination



BUSINESS STUDIES
Unit 6

BUS6

Friday 25 January 2008 9.00 am to 10.30 am

For this paper you must have:

- a 12-page answer book.
- You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS6.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- This unit assesses your understanding of the relationship between the different aspects of Business Studies.

Read the Case Study and answer **all** the questions that follow.

Primark

Primark, the clothing retailer, has recently experienced rapid growth and is in the middle of a major strategic change from ‘pile it high and sell it cheap’ discount retailer to mid-market brand with celebrity status. It has gained market share at the expense of established clothing retailers such as Next and Marks and Spencer (M&S). It has also battled effectively against supermarkets, such as Asda and Tesco, which offer low-cost clothing lines. Primark’s success has been most apparent in the growing UK womenswear sector which, in 2006, had total sales of £18bn. It has set itself the objective of overtaking M&S and becoming the UK market leader in womenswear.

Primark’s recent growth has been rapid. In 2006, it increased its number of outlets by 22 %, and its total selling space by 40 %. Originally, Primark tended to locate in cheap, out-of-town sites in areas of low income. These locations kept costs down and meant that the company was close to its target market. Recently, however, it decided to take its discount approach into the mainstream market. It has begun targeting middle income customers and competing more directly with M&S, Debenhams and Next.

Primark has achieved this in a number of ways including moving into town centre, high street sites in larger, more affluent locations. It no longer targets exclusively the low income customer, and now says that its primary target market is “young, fashion conscious under 35s” who want fashionable clothing at competitive prices. It helps that people are no longer embarrassed to be seen wearing low-cost clothing brands. Primark has been featured in fashion magazine “Vogue”, and celebrities have been seen wearing Primark clothing.

As Primark’s strategic direction changes, and the company moves into the mid-market sector, it has realised that low prices alone will not be enough for success against established companies. Fast product design and innovation, effective brand differentiation, excellent customer service and a positive shopping experience are all essential. The company’s organisational culture will have to change if it is to change from discount to mainstream retailer. Primark’s new strategy is built on a number of key elements:

- continued rapid growth through careful selection of locations in prime sites in the right towns
- improved store layouts that are more attractive and shopper friendly
- buying the latest fashion goods at competitive prices from suppliers all over the world
- an organisational culture that places a much greater emphasis on good customer service
- attracting high quality staff with a range of retailing skills and experience
- achieving economies of scale as volumes of supplies increase
- publicity featuring celebrities wearing Primark clothing.

Getting good locations is very difficult owing to the shortage and cost of retail space in town centres, so Primark’s purchase of a number of high street stores from two large retailers, who recently went out of business, was crucial in boosting growth, as well as in acquiring the prime sites necessary for the move to the mid-market. When Primark acquires a new location, the company works with the local community to promote its shops as a good place to both work and shop. Primark builds links with local colleges, Job Centres and community groups to recruit the best people.

Before the opening of a new store, employees undergo a three-week induction and training programme designed to communicate its organisational culture and to build team spirit. The intention is to motivate and to train staff to maximise sales per employee and sales per square foot of retail space. The organisational culture attempts to create dynamic people who can thrive in a fast moving fashion industry and who enjoy putting the customer first. This is crucial if the company's present growth rate is to continue and if Primark is to be successful in its new strategy of taking market share from competitors such as M&S.

Attracting the right people to work for the company is crucial. But falling unemployment and skill shortages together with more competition for staff amongst a growing number of retailers means that Primark might find it harder to recruit and retain good workers.

The company has recently faced criticism from pressure groups who claim that it exploits cheap labour in low-wage economies, with no regard for workers' conditions, so that it can drive down costs. Primark is accused of allowing its suppliers to exploit their workers by failing to pay them a decent wage, denying them the right to trade union membership and by forcing them to work long hours in poor conditions. Primark claims that it is being more ethical in its decision-making and that it is attempting to ensure that all suppliers along its supply chain follow its independently audited ethical code of conduct. Critics argue that the existence of a code of conduct is not enough and that Primark needs to do more to ensure that the code of conduct is implemented all along its supply chain. However, Primark also points out that it buys its goods from the same range of suppliers and countries as its competitors.

Some analysts believe that the cost savings created by buying overseas are essential if Primark is to continue to be successful. Others believe that Primark needs to be seen to be acting ethically if the company is to capture more of the mid-market. However, ethical decision-making often means that costs rise.

Primark has been very successful as a discount retailer. Can it overcome the challenges facing it to become a real competitor to established retailers such as M&S?

Turn over for appendix and questions

Appendix A: Selected Performance Data for Primark and Marks and Spencer 2006

	Primark	Marks and Spencer
Total number of outlets	170	451
New outlets opened in 2006	30	29
Total UK sales area (sq ft)	4 m	15 m
Profit before tax (£m)	140	745
Annual increase in total clothing sales (%) on a like-for-like basis	3	0
Position in UK womenswear market	4th	1st
Market share in UK womenswear (%)	3.6	10.5
% of company's UK sales accounted for by womenswear	50	31
Change in womenswear market share 2005–2006 (%)	+0.9	–0.2

Source: Various Industry Sources

- 1 Assess the difficulties for Primark of changing its organisational culture to one better suited to competing in the mainstream clothing market. *(14 marks)*
- 2 Assess the likely impact of falling levels of unemployment on the success of Primark's strategy to move into mainstream clothing retailing. *(16 marks)*
- 3 Primark has grown rapidly in recent years through internal growth. To what extent do you think that Primark should now grow through take-overs and mergers rather than internally? *(16 marks)*
- 4 Do you think that being more ethical in its decision-making will help or hinder Primark's attempts to capture market share from competitors? Justify your answer. *(16 marks)*
- 5 To what extent do you think that Primark is likely to succeed in its objective to become the UK market leader in womenswear? Use **Appendix A** and the text to justify your answer. *(18 marks)*

END OF QUESTIONS