

Examiners' Report
June 2013

GCE Business Studies 6BS04 01

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Introduction

This was the second paper based on the pre-release featuring SuperGroup, the UK based fashion retailer. This business has received a lot of press interest due to its rapid growth and success in gaining a number of celebrity supporters. The pre-release material covered a wide range of specification areas, lending itself to a breadth of discussion areas for teachers and students to explore in lessons.

The paper followed the established format of shorter knowledge and application based questions at the start of section A, progressing to an evaluation question at the end of the first half of the paper. This section contained the main calculation question and with quantitative decision-making techniques so important in this unit, it gave students an opportunity to demonstrate their numerical understanding early on in the paper.

Section B, as ever, asked more open-ended questions intended to prompt students to explore broad issues of corporate strategy in their answers. The intention in both questions (7(a) and (b)) was to prompt candidates to make links across the pre-release material and the specification content, thus allowing a more in-depth evaluation of the business decisions in question.

Successful candidates in this paper:

- Stuck closely to the requirements of the question posed - there is a danger with examinations based on pre-release material that candidates are tempted to answer questions that they practised before the examination, or had been prepared for by teachers.
- Answered in the context of SuperGroup and its markets. They were able to recognise the fast-changing nature of the fashion industry and the rapid growth of SuperGroup and how these features influence SuperGroup's culture and mode of operations.
- Made sure they had a sound understanding of the specification content so they could apply it confidently to the questions - this is particularly the case with the numerical/calculation question.

Less successful candidates in this paper:

- Did not show secure enough understanding of specification content and terminology. Specifically: 'Corporate objectives'; 'Diseconomies of scale'; 'Porter's Strategic Matrix'. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination.
- Did not read the wording of the question carefully enough, resulting in answers that related to a very different question.

Question 1

This question returned to the major specification theme of stakeholders. Candidates were simply asked to define the term - and knowledge without an example was sufficient here to gain two marks. However, a good example would help to lift the mark to two if the explanation was not clear enough.

Question 2

This was a short question on a smaller concept in the unit - tactical decisions. Again, strong responses without examples were sufficient to achieve the full marks.

Question 3

This is another question that draws on information presented in the additional evidence. In this case it is taken from a decision by SuperGroup to offer an online promotion for a limited time. This is an interesting example because, for this business which does not usually offer discounts to customers, it was an interesting change in approach.

This question asks candidates to make the link between a decision made by SuperGroup and their overall corporate objectives. The key to this question is that it is looking for one link only - hence the instruction in bold notation.

3 Explain **one** way in which the decision to offer the 20% discount (Additional Evidence J) might fit with SuperGroup's corporate objectives (Evidence B).

With SuperDry changing their policy in a brief period of pressure and offering online customers 20% off everything in-store, it may help gain new or pre-existing customers which have purchased rivalry clothing due to the premium prices and non-sale rule imposed by SuperDry to buy products from them again from locations all around the globe. This will contribute into growing not just in the UK and internationally, but attract more female customers too. The offer of a tactical decision works hand in hand with developing an internet offering as stated is one of the SMART objectives in evidence B, which again would target a wider customer base (as a majority of the shopping population, now purchase from online sites).

(Total for Question 3 = 4 marks)



ResultsPlus Examiner Comments

The candidate defines corporate objectives towards the end of this response, making the link to specific SMART (Specific, Measurable, Achievable, Relevant, Time-specific) targets. This is crucial in separating general aims from specific objectives. The response identifies one of the objectives: 'to develop the internet offering' and clearly explains how the 20% discount will help to achieve the overall objective.



ResultsPlus Examiner Tip

Take the time to define key terms such as 'corporate objectives', so that we are aware of your understanding in this specification area. Use the information from the question, in this case the '20% discount' and then follow this link through to the possible effects on the business and its objectives.

Question 4

The rapid expansion of Superdry has been an enduring theme for the business and as a result this case study. This expansion has been achieved through internal growth (expansion of concessions and stand-alone stores) and through external growth (through the acquisition of CNC in Europe).

This specific question requires candidates to make the link between the rapid growth of the business and the possible problems this can cause in the shape of diseconomies of scale. Only one way is required, so it is important that candidates explain in detail how the two could be linked.

4 Explain **one** way in which Superdry's expansion (Evidence C) might lead to diseconomies of scale.

Diseconomies of scale is when Superdry's rapid growth - 12 to 60 stand alone stores from 2007 - 2011 - could lead to the ~~the~~ increase in cost per unit, moving beyond the benefits of ~~diseconomies~~ economies of scale. Their rapid, international expansion could lead to difficulties in communication between staff, and so the loss of understanding of Superdry's vision, causing demotivation among staff which will lead to lower labour productivity and lower standards of quality and customer service, which can reduce profitability through diseconomies of scale.

(Total for Question 4 = 4 marks)



ResultsPlus
Examiner Comments

This response identifies how Superdry has grown, quoting the number of stores that have been added and the timescale. The candidate explains how the growth can cause communication problems and thus an increase in costs per unit (a definition of diseconomies of scale). There is a link to other factors eg lower standards of quality, but this is clearly related to the original communication problems.



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Examiner Tip

Again, show that you understand the specification area in your answer - in this case diseconomies of scale. Use the information from the pre-release, in this case the growth in stores, to show your understanding of the business situation.

Question 5

The financial information published in the pre-release provides a rich source of information about the performance of SuperGroup. As this is the 'Making business decisions' unit, the testing of quantitative decision-making tools, of which ratio analysis is one, is likely to be an important feature of each paper.

This question focuses specifically on the acid test ratio and so the liquidity position of SuperGroup. The acid test ratio, which removes stock from the current assets equation, provides an interesting focus for a business that is expanding rapidly and doing so by adding more stores requiring the holding of stock.

5 (a) Using Evidence H, calculate SuperGroup's Acid Test Ratios for 2010 and 2011.

(4)

$$\frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$$

$$2011: \frac{120.2 - 52.3}{42.7} = 1.6 : 1$$

$$2010: \frac{67.0 - 21.1}{24.0} = 1.9 : 1$$

(b) Assuming the industry average Acid Test Ratio is 1.2, use your results from 5(a) to comment on SuperGroup's liquidity position.

(4)

Liquidity is how easily a business is able to pay of short term debts immediately. The acid test ratio is higher than the average of 1.2 in 2010 and 2011. A high acid test ratio suggests Superdry has too much stock which isn't being sold quickly enough. Even though it suggests Superdry are able to pay of any liabilities, we could also infer that all these extra ~~stocks~~^{assets} could be being used elsewhere in order to expand further and increase profits whereas at the moment it is capital ~~is~~ being unused in the business.

(Total for Question 5 = 8 marks)



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Examiner Comments

In part (a), the candidate shows clearly their understanding of the acid test ratio. They have shown the formula (a good habit, but not necessary to gain full marks) and then used the appropriate figures to make the calculation. In this case the answers are rounded to one decimal place, which is perfectly acceptable to show understanding.

In part (b), the candidate shows a good understanding of what 'liquidity' means and explains this. The response compares the calculations from part (a) with the industry average and then interprets these from the perspective of Superdry's liquidity position. It shows a good understanding of the components of Superdry's liabilities and what this means for the business.



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Examiner Tip

Make sure you are commenting on the correct information - in this case what the acid test ratios show about the liquidity position of the business. This can be done by defining liquidity and then interpreting Superdry's position in terms of the change between the two years, and also in comparison to the industry average. Remember: for ratio calculations to be meaningful they need to be compared to historical data and that of other businesses (preferably in the same industry).

Question 6

Corporate culture is an important feature of the unit and one that provides an interesting point of discussion for any business. As the Superdry brand is relatively young, the impact of history on its culture was posed as a discussion point here. This is the first question on the paper requiring candidates to evaluate and as such the highest marks are reserved for those that show this skill.

The question has a stem that states the role of history in shaping Superdry's culture. Candidates were then expected to compare the importance of company history with other influences such as the market in which they operate, the staff they employ and recent changes in business size and ownership. The highest marks were reserved for those who were able to clearly express a judgement as to how important history might be in shaping the business culture.

Superdry's history (Evidence A, lines 7 – 16) is one influence on the corporate culture of the company.

6 Assess the likely impact of company history in shaping Superdry's corporate culture.

The corporate culture of a company are the beliefs and traditions. A company's history would influence the culture as it is often a reflection of the owners vision and ~~is~~ their past would ~~see~~ make them develop certain tastes and ways of thinking and operating. Superdry's history ~~shows~~ shows how Julian Dunkerton became the Chief Executive Director of the brand once ~~owning~~ already owning ~~the~~ vintage-looking clothing brand 'Cult'. This would connote how the owner would ~~have~~ like vintage clothing as well as skater-ish, hence shaping Superdry's corporate culture of selling quality clothing with a vintage appearance. Moreover, the company's history also explains how Dunkerton came together with the designer, James Holder, of another skater brand (Bench) to work together. Their unity led to Superdry being born. This would demonstrate the culture of Superdry ~~being~~ ~~also~~ focusing also on working as a team and looking at creative designs for Superdry's logo which ~~was~~ are influenced by a skater theme, and being that the reason of Holder and Dunkerton having similar beliefs. However, not

always the history of a company impacts on the corporate culture as Superdry, for instance might decide to operate more socially responsible and looking at Fair-Trade without actually having ethics as an issue of importance since it would be focusing on the idea of vintage clothing. Although its history ~~is~~ ^{does} lead to a certain type of leadership.

(Total for Question 6 = 10 marks)

TOTAL FOR SECTION A = 30 MARKS



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Examiner Comments

This response shows good knowledge of corporate culture and this is applied to the history of Superdry very clearly. The candidate analyses the role of culture well, before moving on to look at other factors - in this case Corporate Social Responsibility - and explaining how this might have influenced culture. In this case there is no overall conclusion/judgement, so the response did not achieve the maximum marks.



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Examiner Tip

Although question 6 is the first question in the paper where candidates are required to evaluate, the space and time available means that this is unlikely to be in detail. Make sure you address the question: this one does not require you to decide what sort of culture (power, role etc) the company has, but asks for the factors that have influenced the culture.

Question 7(a)

This question examines the concept of Porter's strategic matrix, applied to Superdry's strategy. Porter's matrix is an important decision-making tool for analysis, and although this is the first time a question has been directly linked to it, it is one of the important tools for candidates to use and understand. The question was looking for candidates to make a judgement about Superdry's strategy through the 'lens' of Porter's Matrix.

To succeed in this question, responses needed to show a good understanding of Porter's matrix and apply it to Superdry's strategy. It was not required that candidates 'know' whether Superdry's approach is 'cost leadership' or 'differentiated focus', as this cannot be known for sure. What was expected is that they apply some of Superdry's recent decisions to the model and use this to suggest whether the strategy is likely to succeed or not.

SECTION B

Decision-making report

Using ALL the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

7 *(a) Assess Superdry's corporate strategy with the aid of Porter's strategic matrix.

(20)

Porter developed the strategic matrix to get a competitive advantage over competitors, there are 4 sections, cost leadership, cost focus, differentiation and differentiated focus. These are all used to assess where a competitor is in the market. A corporate strategy is the decisions made which affect the business in short term and long term. Superdry target the youth and have mainly vintage clothing, they use premium pricing so students are able to afford this as Superdry believe in value for money and also quality clothing. Having premium pricing does mean Superdry are not cost focus as cost focus achieves the lowest price in the market; this would refer to primark. They want fall into cost leadership either as this is a niche market targeted with low cost but this is risky as they will need to work out their profit margin. Superdry aren't differentiated as this is developing new products for low prices which require differentiated focus where Superdry have high prices but also target a segment of the market such as the skate look. As Superdry have never changed their prices even during

recession or Christmas sales; it has shown no effect as the sales have increased this shows Superdry have targeted a niche segment; wealthy students. These students look for good quality clothing which can last for a while. As Superdry are placed in the differentiation focus strategy which is for niche and Superdry aim to be exclusive; this is not happening as there are many people who can purchase the product; this may have been due to celebrity endorsement as the public saw celebrities wearing the product and Cheryl Cole's boyfriend at the time paid for his clothing even though other celebrities get it as a 'gift'. This shows Superdry do have many consumers all over the world and the target segment is in fact most of the population.

Superdry have developed and created new products in order to gain a competitive advantage over their rivals such as H&M; they did take a store from them where they wanted to be placed but did get a flagship store on Regent Street. These products range from luggage, fragrances, t-shirts. These products help to target most of the consumers so goes against their target market as most consumers would be interested in looking good and wearing the top label. These products are rarely seen in other shops and are mainly in their stand alone stores they have over the world, so Superdry

have differentiated as they have to look for and make sure fashion taste and preferences are the same all over or they will have to differentiate which they have done. There is also 400 logos Superdry use so the brand doesn't see a face, having different logos show the difference they have and the different designs is a promotion to renew the brand; this ~~can~~^{can} be seen as a unique selling point as none of the competitors do this. But as it has been said Superdry use to be exclusive but these products have been seen in the Sports Direct stores where prices are cheaper and more affordable, this shows Superdry is becoming more common and premium pricing hasn't been used so if Superdry products are sold in other shops, then Superdry position could move to Differentiation instead where the prices are lower but still offer new products but this may only be in other stores as Superdry wouldn't have a sale but it is been shown on their online store they do have a sale which attracts consumers all over the world.

As Superdry target the youth and have premium pricing, Superdry are relevant in staying in the differentiation focus as they offer new products and keep prices high even though it is affordable they don't get affected by it, this shows their corporate strategy has worked as sales are still booming.



ResultsPlus Examiner Comments

This candidate immediately signals a knowledge and understanding of Porter's Matrix. The terminology is accurate and they go on to apply this to the Superdry example. They pick out information about Superdry's pricing strategy to suggest that the business is not following a strategy of cost leadership. Towards the end there is a suggestion that Superdry's strategy might be losing its 'focus', which as Porter suggested, can be dangerous for the success of a strategy. The response does not quite achieve full marks because the assessment of the overall strategy is not quite focused enough on the overall structure and what Porter can tell us about it.



ResultsPlus Examiner Tip

Make sure you are familiar with all the decision-making models in the unit specification (Ansoff, Boston Matrix and Porter's strategic matrix). Even if these are not explicitly examined, they are important tools to use, particularly in question 7(a) and 7(b).

Question 7(b)

This 30 mark question can make a big difference to candidate's overall mark due to the large number of marks available. The intention is that these questions will promote a wide-ranging discussion of an important specification area, in the context of the business in the pre-release. Corporate Social Responsibility (CSR) and stakeholders are over-lapping areas of the unit specification that provide a rich source of discussion for candidate's answers. The pre-release material provided a good source of information on these areas, with the intention being that candidates could add their own knowledge and understanding of stakeholders' power and interest in order to assess CSR's importance in shaping SuperGroup's strategy.

The question is explicitly directed at the possible importance of Corporate Social Responsibility (CSR) to SuperGroup's stakeholders. This is not asking about the importance to SuperGroup as a whole (although the owners, managers, or employees could be legitimate groups to discuss). We cannot know for sure how important CSR might be to these groups, but the question is posed for candidates to explore the issues based on the interests that different stakeholders might have.

* (b) Evaluate the importance of **Corporate Social Responsibility** to SuperGroup's stakeholders.

(30)

Corporate Social Responsibility ^(CSR) means going beyond the minimum legal requirements. SuperGroup's CSR, in evidence G, shows that it is very into the ~~ethics~~ ^{ethics} of the business working with the SEDEX system to ensure the suppliers are ethical, the suppliers are one of SuperGroup's stakeholders and therefore the CSR is important to them as it involves SuperGroup explaining how they care about their supply chain. By becoming a part of SEDEX, this will make suppliers happy as the four pillars of SEDEX are labour standards, health and safety, environment and business integrity. The CSR is of importance to SuperGroup's suppliers as it informs them that they are going to be taken care of and respected by SuperGroup. However, it also shows that they are going to be watched carefully to ensure that the suppliers are supplying the goods ethically correct. Another ~~ethical~~ reason why CSR is important to stakeholders is that it lets the customers know how they produce their clothes and products at Superdry. It also good for the staff and the customers as it informs the stakeholders of how staff are treated. "Respecting line 19-28 in evidence G shows how SuperGroup respect the fundamental rights of their employees."

CSR is of importance to the stakeholders of the Supergroup. This is because it allows them to see what the company are doing to exceed the minimal requirements of the law. With their CSR policy it allows customers, staff and suppliers to make a decision on whether they are happy shopping or working at Superdry as they are able to see what Supergroup are wanting to do and what they have done to become more ethical, what they are doing to ensure a safe and happy environment for staff to work in. Lines 5-9 in evidence C, show that Superdry have a very serious and responsible approach to CSR and take a 'hands-on' approach to make it work. This is important for the stakeholders to see as they want to be a part of a determined company that wants to please both its employees and its customers. The CSR is especially important to the staff at Supergroup as they are able to use the CSR policy to know the aims and objectives in the company & that they can all stick by them and all have the same aim and understand the aim of the company. This is good as it also makes the culture stronger within the company making them stronger as a whole meaning they are more likely to succeed in their aims to grow if they all stick together.

However on the other hand the CSR may not be as important to other stakeholders in the company such as shareholders. The shareholders main concern with the company is whether they are making profit or not and whether they are going to receive any return on their investment or not. The CSR policy for supergroup does not contain any details about their strategy to grow or how they are going to be making profit or how much profit they have made. This therefore may imply that the shareholders will not care about the CSR of the company as it does not contain any information that they would like to know about. However they may be concerned with the serious attitude of the company in lines 1-3 in evidence G where it mentions how the group prides itself on maintaining high standards. This is good for the shareholders as they will want to be associated with high end company that is doing well and looks good to the public rather than a low end, not caring or non-ethical company.

Overall I feel that the Corporate Social Responsibility is ~~an~~ of importance to stakeholders however it is not important to all stakeholders in the same way as some, like staff and customers may care more about what it has to say than the shareholders of the company do. It is important to have a

Good CSR policy to keep customers, the local community suppliers, staff and shareholders in the loop of how and what the company are doing and how it may affect them as stakeholders in the company in the long term and the short term.

CSR importance is both good and bad, however it depends on the stakeholder that is using it to whether it is of good importance to them or whether it does not matter to them. For example in Supergroups CSR policy is evidence G, the suppliers will take their CSR policy as great importance to them due to the information about SEDEX, and the importance of ethical suppliers to Superdry. Also the staff will find it of good importance due to lines 18 to 23 in evidence G whereas it does not say anything

(Total for Question 7 = 50 marks)

personal to the customers and their local community, are

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 80 MARKS

Supergroup doing any charity work to help the local community that they operate in and so therefore the local community may not think it is that important to them and does not put Superdry in their good books necessarily.



ResultsPlus Examiner Comments

This response clearly identifies SuperGroup's membership of SEDEX as a key component of their CSR strategy. The response goes on to discuss the importance of CSR to each stakeholder group and, importantly, makes judgements about the relative importance for different groups: one section suggests that CSR is particularly important to the staff of the business as they (in supplier businesses) might benefit from improved working conditions. This is contrasted with Shareholders who might be either unaware of the CSR strategy or at least caring little as their focus is more on the financial success of SuperGroup. The conclusion makes the case that CSR is of varying importance to different stakeholder groups, but also that there can be variations in views between the different groups.



ResultsPlus Examiner Tip

Reading and understanding what the question is asking is crucial. This question is intended to examine how the interests of different stakeholder groups differ and often clash over the conflict between ethical aims and profit maximisation. The 'evaluate' command word suggests that there needs to be a two-sided argument, in this case assessing the groups in favour of a CSR policy and those against, or not interested in such an approach. The judgement comes from which groups are most affected and why - in the context of the SuperGroup business and its recent context.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Make sure that they are fully aware of the content of the pre-release material and have a secure understanding of all the business terminology within it, particularly those that appear in the specification as well.
- Read the additional evidence carefully. By its nature it is intended to give you additional information and raise additional issues that are likely to be examined. As you will not have seen this information before the examination, careful reading of it at the start of the exam is time well spent.
- Practise writing in context. This means showing an understanding of the business and its wider situation: its market, objectives, products or services, and the situation it currently finds itself in. Simply writing 'SuperGroup' at this level is not sufficient; candidates need to show an understanding that it is a relatively new, rapidly growing, popular business, which is expanding quickly through internal and external growth, but may be facing some problems from growing in such a way. This is all evident in the case study, but understanding can be deepened through wider reading of the financial press and news articles to understand current developments.
- Aim to write balanced, evaluative answers to questions: 6, 7(a) and 7(b) - this means writing two-sided answers with a conclusion that answers the question directly and brings in wider contextual points that support the overall judgement.
- Practise time-management so that the last questions in particular can be given sufficient time to be answered in depth and detail. Together, these questions are worth 62.50% of the paper's marks, so performance on these will have a big effect on a candidate's overall mark.
- Look for the command words in each question and structure answers accordingly - this avoids writing answers that are either too short or too detailed, and should help with overall time management.
- Ensure that you are writing answers to the question posed: it will state clearly the perspective from which to answer eg stakeholders - answers clearly focused in this way are likely to achieve the higher level marks.

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