To compete with new businesses, such as Urban Outfitters, Jonathan Trumbull Ltd is considering either improving its physical stores in Norwich or expanding its online sales.

(d) Using the data in Extracts D to G, evaluate these **two** options and recommend which one will help Jonathan Trumbull Ltd compete effectively.

(20)

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SECTION A

Read the following extracts (A to C) before answering Question 1.

Extract A

Vinted Ltd: A growing clothing business

Vinted Ltd was founded in Lithuania in 2008 by Milda Mitkute and Justas Janauskas, who remain major shareholders. It operates across Europe and the USA, and recently raised €250m in share capital to help fund expansion into new markets.

Vinted currently has 45 million users who buy and sell clothes on its platform. Sellers pay no fees until the items are sold and then Vinted receives a percentage of the selling price.

Vinted utilises several trends, such as affordable fashion, and the use of online channels. Vinted is part of the circular economy which describes how goods, such as clothing, are recycled and re-sold, helping to prolong usage in a sustainable way.

In the future Vinted plans to make it easier for people to sell goods on the platform for charity. In the UK, charity shops are a significant channel for used goods, where people donate clothes to help organisations such as the British Heart Foundation, which sell them in physical stores to raise funds. Vinted is working to give sellers the option to sell for a charity of their choice.

(Source: adapted from https://techcrunch.com/2021/05/11/vinted-raises-303m-for-its-2nd-hand-clothes-marketplace-used-by-45m-and-now-valued-at-4-5b)

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Level	Mark	Descriptor
	0	• A completely inaccurate response.
Level 1	1–4	• Isolated elements of knowledge and understanding. • Weak or no relevant application of business examples. • An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5–8	• Elements of knowledge and understanding • Which are applied to the business example. • Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/ effect(s) are incomplete. Attempts to address the question. • A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	• Accurate and thorough knowledge and understanding • Supported throughout by use of the business behaviour/context. • Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are developed. • Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	• Accurate and thorough knowledge and understanding • Supported throughout by use of relevant and effective use of the business behaviour/context. • Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. • Quantitative and/or qualitative information are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).

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<tr><th>Question Number</th><th>Indicative content</th><th>Mark</th></tr>
<tr><td>2(c)</td><td>

Knowledge 2, Application 2, Analysis 4, Evaluation 4

Marks for application and analysis include up to 6 marks for quantitative skills.

Quantitative skills assessed:

QS1: calculate, use and understand ratios, averages and fractions.
QS8: use and interpret quantitative and non-quantitative information in order to make decisions.

- Liquidity measures the ease with which assets can be turned into cash and used immediately

- Current ratio = Current assets/Current liabilities
- Acid Test ratio = (Current assets-stock)/Current liabilities
- Current ratio in 2022 = 1 144 702/345 824 = 3.31
- Current ratio in 2021 = 1 032 463/417 974 = 2.47
- Acid test in 2022 = 505 362/345 824 = 1.46
- Acid test in 2021 = 344 903/417 974 = 0.83

Liquidity position has improved
- The current ratio has improved from 2.47 in 2021 to 3.31 in 2022, which shows that Jonathan Trumbull Ltd's liquidity has improved
- The acid test ratio has also improved from a dangerous level of 0.83 in 2021 to 1.46 in 2022. In 2021, it relied on stock, the least liquid current asset to meet its liabilities.

Possible counterbalance

- Although the current ratio has improved, in both 2021 and 2022 being above 2 suggests that Jonathan Trumbull Ltd has a higher level of stock than is optimal, which may not regain its cash value if it remains unsold, especially as fashion clothing may go out of trend quickly
- Jonathan Trumbull Ltd is holding a high level of cash in 2022 (£491 844), which could gain a higher reward elsewhere, such as an interest bearing account
- No data from previous years is provided, or information about competitors in the same market, to be able to interpret these figures accurately.

Potential judgement

- In terms of the current ratio, and acid test, the liquidity position of Jonathan Trumbull Ltd has improved between 2021 and 2022. This is because it has managed to reduce its payables (current liabilities) and increase its cash holding.
- It is unclear if Jonathan Trumbull Ltd's liquidity position has improved relative to previous years of the business and similar retail businesses in this market. Its stock

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Knowledge 4, Application 4, Analysis 6, Evaluation 6

Physical stores are those that customers visit in person and purchase from directly, whilst online sales involve customers purchasing from a website or application and having the products delivered

Option 1 – Developing physical stores

Jonathan Trumbull Ltd’s three stores provide the opportunity to give face to face customer service, which may increase sales. This model has been successful for over 50 years
Developing the stores allows customers to see and try before they buy clothes. This is identified in research as being important, and is also cited as a reason for competitors such as Urban Outfitters opening more stores
Developing one of the stores could cost between £25 000 and £30 000, but this is a small investment relative to the value of its cash (£491 844 in 2022), which could be used to fund these plans
Displays of the clothing on sale can be an effective example of point of sale marketing, and one which encourages customers to make more purchases
Jonathan Trumbull Ltd already has a presence of three separate stores in Norwich, and this has proven successful in targeting different market segments, such as men’s and women’s clothing
The re-opening of Ginger in Timber Hill has shown the importance of face-to-face custom and being located in an area customers want to visit. These benefits could be exploited further with extended or expanded stores
Norwich is considered a regional retail destination, so it is important that Jonathan Trumbull Ltd has a presence of retail outlets in order to compete effectively

Option 2 – Expanding online sales

Online sales have been a growth area for Urban Outfitters, as it meets customer needs for convenience and increased choice of clothing, such as shoes, hats and bags
Jonathan Trumbull Ltd already sells a wider range of products not available in its store, online, so it would be a case of expanding its current capabilities
Further expansion of its online sales would only cost approximately £2 600, which is only a small proportion (approx. 5%) of Trumbull’s cash deposits. The investment is small compared to the potential for increased online sales
Jonathan Trumbull Ltd could sell to more customers outside the Norwich area with an increased online presence, as clothing orders could be delivered anywhere

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