

ANGLO-CHINESE JUNIOR COLLEGE
2016 JC1 PROMOTIONAL EXAMINATIONS



ECONOMICS

9757/01

Higher 2

29 September 2016

Paper 1: Case Study

1 hour 10 minutes

Additional materials: Writing paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name on all the answer scripts you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any diagrams, graphs or rough working.

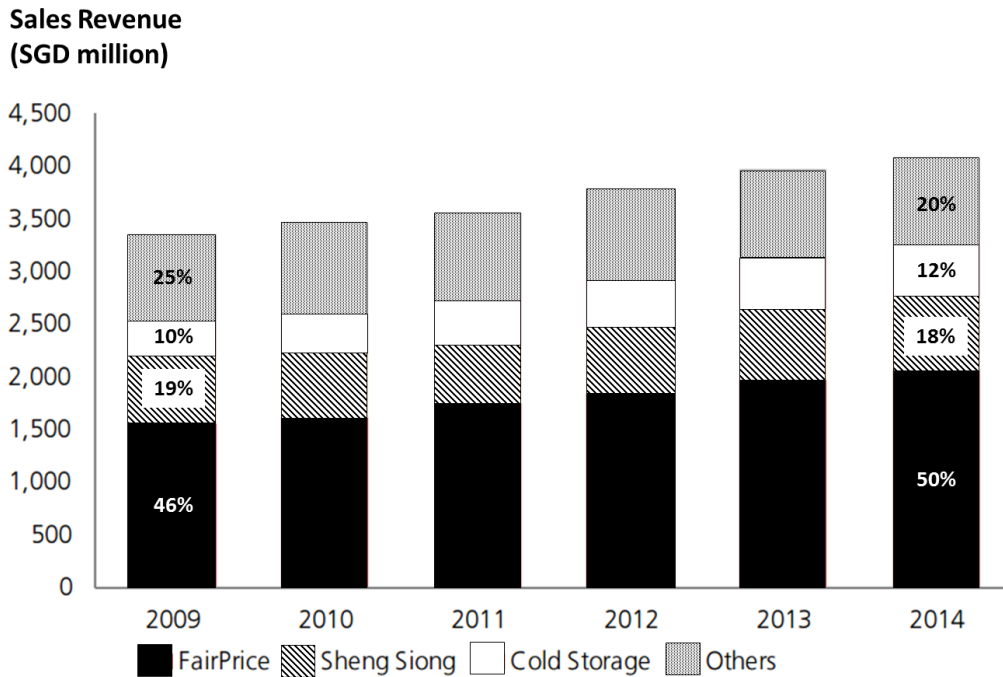
Do not use staples, paper clips, highlighters, glue or correction fluid/tape.

The number of marks is given in brackets [] at the end of each question or part question.

At the end of the examination, arrange your answers in order.

Fasten the cover sheet on top of all your answers.

Please check that your question paper is complete.
The document consists of **4** printed pages (including this page).

Question 1:**Figure 1: Market Share of Brick and Mortar Supermarkets in Singapore**

Source: Euromonitor, DBS Bank

Extract 1: Supermarket tills are ringing and jingling

People here are spending more than ever at supermarkets, despite a weaker economic climate and rising competition from online grocers. According to preliminary government figures, purchases from brick-and-mortar supermarket stores hit \$2.3 billion last year; nearly double the \$1.2 billion in 2005.

This is the highest spending in a decade, which experts say may be due to higher costs of goods, an increased willingness to spend on quality and a rising interest in home cooking. Many supermarkets reported positive sales in physical stores, which seem unaffected by online competition.

Even if prices go up, groceries are something people cannot live without. Demand remains stable despite ups and downs in the economic cycle, compared to items like jewellery and recreational goods.

Online grocers are also cashing in, with RedMart sales doubling every six months and SimplyFresh sales increasing by 15 per cent every month, according to their spokesmen.

The increasing number of online grocers has also spurred supermarkets to develop their online platforms to stay competitive, offering greater varieties of items and more exclusive brands. All supermarkets here already offer online purchase and delivery services, with FairPrice citing 20 per cent growth each year for its online platform since it started in 2002. It added that it also plans to double the number of products available online.

People are choosing to dine at home as eating out becomes more expensive. Cooking shows on TV and social media are also increasing in popularity, which has encouraged more home cooks.

Source: *The Straits Times*, 1 May 2016

Extract 2: Competition heats up from online retailers

Although there is opportunity for yet more growth in the online grocery market, analysts say competition is heating up quickly, exerting pressure on service providers to better their game.

Aside from Honestbee, which markets itself as providing on-demand personalised service from multiple stores in the same order, several other online grocery providers are carving out a niche for themselves.

There are many online grocers; some dedicated to selling only Indian products, French ingredients, organic food and halal items, among others.

There's also GoFresh, which seeks to provide gourmet items including crabs, lobsters, oysters, steaks and veal and partners directly with fishermen, farmers and artisans around the world. And PurelyFresh, which owns five wet markets in Singapore, and banks on supplying a larger range of fresh produce from their butchers and fishmongers.

Source: *Today Online*, 13 March 2016

Extract 3: Online grocers, Honestbee and RedMart

Honestbee:

The business model of Honestbee is simple. It enters into collaboration with the traditional brick-and-mortar stores such as Cold Storage, NTUC Fairprice, GNC and Watsons. Consumers would buy their goods at the same price through their online portal and make payment.

Honestbee would pick up the goods and send it to their delivery address within the 1 hour time slot. Honestbee does not own any of the groceries and picks them up at the outlet nearest to their clients.

Besides the headquarters staff, Honestbee does not have other employees. The people who pick up the goods and the people who deliver the goods (known as Bees) are freelancers who are paid based on an assignment basis. All that these 'Bees' need is a mobile phone and car – for those making the delivery.

This business model is low cost and highly scalable. All they need is a solid IT infrastructure for them to receive orders from their clients and to recruit and manage their Bees.

RedMart

RedMart sources for their grocery products from manufacturers all over world. This allows them to purchase in bulk and lower their price.

RedMart does not have any physical retail presence and they operate out of a large and modern warehouse in Jurong. They also own a fleet of delivery vans where they promise to deliver within a 2 hour window. RedMart employs significantly more employees than Honestbee.

Source: <http://www.techinasia.com/>, 4 December 2015

Extract 4: 'Healthier Choice' food options growing

Shopping for healthier options in the supermarket is much easier these days, thanks to the growing number of food products with the Healthier Choice Symbol (HCS).

Packaged food products that are tagged with the red pyramid-shaped symbol are generally lower in total fat, saturated fat, sodium or sugar. Some contain more dietary fibre and calcium, compared with similar products in the same food category.

For many consumers, it's difficult to understand the nutritional values on the label. With the HCS symbol, they are able to identify healthier products more easily. To help consumers spot Healthier Choice products more easily, the Health Promotion Board (HPB) is working with retailers, such as FairPrice, Cold Storage, Sheng Siong and Prime Supermarket, to make sure the items are prominently displayed on the shelves, among other initiatives.

Source: *The Straits Times*, 18 August 2015

Extract 5: Voluntary labelling may leave information gaps

Voluntary labelling is one of a food company's many advertising options. Companies may choose to add information about attributes of the food product to the label.

Economic theory predicts that voluntary labelling is not always sufficient for disclosing information on all attributes consumers value or for guaranteeing information accuracy. One limitation to voluntary labelling arises because manufacturers may provide only relative information. For example, a sausage label may boast "30 percent less fat than the leading brand" or a bacon label may brag "half the sodium." Although this type of information is valuable for deciding among competing brands of the same item, it is not complete. Lower fat sausage may still be a high-fat food. In many cases, consumers need information on absolute, not just relative values to make fully informed consumption decisions.

Source: *United States Department of Agriculture*, November 2007

Questions

- (a) (i) State and explain the price elasticity of demand for groceries. **[2]**
- (ii) Using demand and supply analysis, account for the trend in sales revenue from brick-and-mortar supermarkets from 2009 to 2014. **[4]**
- (b) Compare the change in market shares of the firms in the brick-and-mortar supermarket industry between 2009 and 2014. **[2]**
- (c) Compare the barriers of entry that exist in the brick-and-mortar supermarket and online grocery industry and explain the types of market structure they each operate in. **[6]**
- (d) With reference to extracts 4 and 5, explain the market failure that exists in the market for processed food. **[6]**
- (e) Discuss the view that the growth of the online grocery industry will benefit the different economic agents in Singapore. **[10]**

[Total: 30]