

Intelligent Business

Before you read

A Discuss.

The current recession has hit manufacturing, service and retail businesses. Everywhere, businesses are looking for strategies to survive in these difficult times. This article considers the Spanish chain of department stores, El Corte Inglés.

Think about the different survival strategies which might be used by a large chain of department stores such as El Corte Inglés.

Reading Comprehension 1

B Read the first three paragraphs and answer the questions below.

1. Who owns El Corte Inglés?
 - a. It is a state owned company.
 - b. It is a franchise based company.
 - c. It is a family owned business.
2. Which department store chain is bigger than El Corte Inglés?
 - a. Sears
 - b. Carrefour
 - c. Tesco
3. The article says the Spanish economy is in a 'dire condition'. What does this mean?
 - a. It is quite bad.
 - b. It is extremely bad.
 - c. It is quite good.
4. By how much have sales in El Corte Inglés fallen in the year ending in February 2009?
 - a. 7.2%
 - b. 3.5%
 - c. 2.2%



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5. Which strategies has El Corte Inglés used to try to maintain sales?
 - a. Opening new branches.
 - b. Offering discounts and interest-free credit.
 - c. Increasing advertising budgets.
6. By how much has the net income of El Corte Inglés reduced?
 - a. By 50%
 - b. By seven out of ten.
 - c. By 2.2%

Reading Comprehension 2

C Read the remainder of the article and complete the tasks below.

1. Which of the following actions has been unsuccessful?
 - a. Having a generous policy on purchase returns.
 - b. Sending birthday cards from the chairman to customers.
 - c. Issuing its own credit cards.
 - d. Opening a travel agency.
 - e. Opening hypermarkets.
 - f. Opening a fashion chain, Sfera.
 - g. Opening supermarkets.
 - h. Expanding the business to the USA and Italy.
2. Which of the following actions has El Corte Inglés already taken?
 - a. Reduce its product range.
 - b. Employ executives from rival businesses.
 - c. Sack some its 100,000 employees.
 - d. Reduce staff wages.
 - e. Increase the working hours for the staff.



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3. What problems exist within the shareholders?
 - a. Family members have sold their shares in the company.
 - b. Family members are in legal disputes with the company.
 - c. Family members want to expand outside Spain and Portugal.
 - d. The company has large debts.
 - e. The company is regularly criticised in the Spanish press.

Vocabulary

D Look at the words in *italics* in the sentences below. Choose the correct option to complete the sentence.

1. If you are in a *vulnerable* position, you are ...
 - a. in a strong position.
 - b. in a weak position.
 - c. in a dangerous position.
2. If a new shirt *shrinks* when you wash it, it ...
 - a. gets bigger.
 - b. gets smaller.
 - c. loses its colour.
3. A *dollop* of ice cream is ...
 - a. a large portion.
 - b. a small portion.
 - c. a normal sized portion.
4. If someone tries to *lure* you, they try ...
 - a. attract you with the promise of favours.
 - b. keep you away.
 - c. stop you from moving.



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5. If you can return purchases with *no questions asked*, you ...
 - a. may receive a replacement or refund.
 - b. will definitely receive a replacement or refund.
 - c. will not receive a questionnaire.
6. If unemployment has *soared*, it has ...
 - a. decreased rapidly.
 - b. increased rapidly.
 - c. remained steady.
7. If you decide to *stick to* your present business model, you ...
 - a. plan to change it.
 - b. plan to continue using it.
 - c. plan to make it more efficient.
8. If you plan to *spruce up* your management team, you ...
 - a. plan to make it smaller.
 - b. plan to improve it with new members.
 - c. plan make it more powerful.
9. If you *poach* executives from your rivals, you ...
 - a. cook them in hot water.
 - b. encourage them to come and work for you.
 - c. steal all their money.
10. If *cracks are showing* in your shareholder base, ...
 - a. there are signs of future trouble.
 - b. there are too many shareholders.
 - c. there are not enough shareholders.



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11. A *sense of solidarity* is ...
- a. a belief that the company is static and will not develop.
 - b. a belief that the company is united in a common aim.
 - c. a belief that the company is in a dangerous position.
12. If you are *embroiled* in a legal battle, you are ...
- a. thinking about starting a legal battle.
 - b. thinking about ending a legal battle.
 - c. deeply involved in a legal battle.
13. If something *comes to naught*, it ...
- a. fails to start.
 - b. ends in failure.
 - c. is cancelled before it starts.
14. If you are *unaccustomed to scrutiny*, you are ...
- a. not used to difficult trading conditions.
 - b. not used to close inspection.
 - c. not used to criticism.
15. If you are *reluctant* to do something, you ...
- a. are eager to start it.
 - b. are eager to finish it quickly.
 - c. do not want to do it.

Discussion after reading

E Is the retail sector facing similar problems in your country? Discuss possible survival strategies and suggest reasonable strategies which might be used in your country.



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Trying times for El Corte Inglés

The English patient

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From The Economist print edition

Recession shakes the world's second-biggest department-store chain

FEW people outside Spain have heard of El Corte Inglés, a family-owned retail giant. With over €17.4 billion (\$25.5 billion) in annual sales, it is Europe's largest department-store chain and the second-biggest in the world after America's Sears. Yet the company operates almost exclusively in Spain, a market a fraction of the size. That has left it especially vulnerable to the dire condition of the Spanish economy, which is expected to shrink by around 4% this year.

For the first time in the chain's 70-year history, sales fell in the year ending in February by 3.5%. The wider retail industry did worse, with sales dropping 7.2% in the same period, says El Corte Inglés. Yet adjusted for new store openings, the numbers are probably less flattering.

Worse, El Corte Inglés has had to resort to heavy discounts and generous dollops of interest-free credit to lure customers. Seven out of ten Spaniards want to save money "at all costs", according to a recent survey by TNS, a market-research specialist. As a result, the firm's net income fell by half in the year, leaving it with a thin profit margin of 2.2%.

Competing mainly on price is not something the company is used to. Instead El Corte Inglés prides itself on offering better choice and service than rivals, even if it comes with slightly higher prices. Customers have been known to return half-eaten hams, no questions asked. Every year, each of its 10.8m cardholders receives a birthday card from Isidoro Álvarez, the company's chairman. This sort of service enabled the firm to fight off competitors such as Woolworths and Marks & Spencer to become the country's sole department-store chain, occupying prime commercial property in most big cities.



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Last year it financed nearly half its sales through its own credit cards. That made it the country's largest provider of consumer credit, ahead of Santander, the country's biggest bank, according to ASNEF, the local industry group for financial firms. Unemployment in Spain has soared to almost 20%, suggesting that a lot of those loans are likely to turn sour.

Even so, Mr Álvarez wants El Corte Inglés to stick to its present business model, which had brought it great success. He took over the firm in 1989, and promptly started expanding. Sales went through the roof, with store openings all over the country. Its only serious rival, Galerías Preciados, founded by another member of the family, went bankrupt and was bought out by El Corte Inglés in 1995. Last year the company invested a record €1.8 billion, mainly on new store openings. They are still continuing: the most recent took place earlier this month in Salamanca.

Over the years the firm has branched out into other businesses. But with the exception of a travel agency and hypermarkets, they have not been roaring successes. Its fashion chain, Sfera, and its supermarkets, for example, lose money. The department stores and hypermarkets bring in nearly three-quarters of the company's revenues.

Analysts say the firm's falling margins will force it to cut back its product range. It has already tried to spruce up its management by poaching executives from rivals Carrefour and Inditex. It is not the type of firm to resort to big lay-offs among its 100,000 employees. Indeed, wages went up 2% last year. But the company may change the working hours of many staff.

Meanwhile, cracks are showing in its shareholder base. About a quarter of the company's shares are now in the hands of the third or fourth generation, straining any sense of solidarity. Family members representing about 7% of the shares have recently sold their stakes. But others are embroiled in a legal battle with the firm over the value of their shares.



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Listing on the stock exchange would place a market value on those shares. It would also be a natural step for a family-owned firm of this size, bankers say. But El Corte Inglés does not need the cash, for now. It has low debt, and little desire to expand outside Spain and Portugal. Past efforts to grow in America—via a stake in Gottschalks, a bankrupt retailer—and in Italy came to naught.

More importantly, the company is unaccustomed to outside scrutiny. The local press is reluctant to write anything critical about one of Spain's biggest advertisers. Mr Álvarez is doubtless happy to keep it that way.

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Teacher's notes and key

- A Open answers
- B 1c, 2a, 3b, 4b, 5b, 6a
- C 1 f, g, h
2 b
3 a, b,
- D 1b, 2b, 3a, 4a, 5b, 6b, 7b, 8b, 9b, 10a, 11b, 12c, 13b, 14b, 15c
- E Open answers



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