

**“To what extent are the school uniform providers at  
UWCSEA operating in a contestable market?”**

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To what extent are the school uniform providers at UWCSEA operating in a contestable market?

### **Abstract**

In this essay I shall be responding to the **research question:**

**“To what extent are the school uniform providers at UWCSEA operating in a contestable market?”**

I shall be evaluating the contestability of the school uniform market, that functions as a duopoly, and gauge whether or not the absence of actual competition is compensated for by the *threat of potential* competition.

The **scope** for this essay is to examine the central assumptions and implications of the contestable market theory and apply them to the market for uniform provision at my school, UWCSEA. In this essay the assumptions of low barriers to entry and exit, absence of sunk costs and perfect knowledge are covered and correlated with the broader industry structure for uniform polo shirts. Furthermore, I investigate the probability of normal profits and competitive practice, and assess the extent to which the behaviour of the current providers to UWCSEA reflects these implications. I analyze the factors that may undermine contestability, including natural and artificial barriers, in order to reach conclusions about the degree of the market’s contestability.

I have reached the **conclusion** that although the industry for school uniform provision appears inherently contestable, with low marketing and cost barriers, minimal sunk costs and perfect knowledge, freedom of entry is undermined by the presence of contracts and the management’s established relationships with current providers. The identification of abnormal profits further suggests a lack of competitive pressure, allowing me to conclude that the providers at UWCSEA are not operating in a truly contestable market.

Word Count: 252

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## **Introduction**

United World College of SE Asia is an international school of approximately 2700 students aged 4-18 years.<sup>1</sup> All students have a prescribed uniform consisting of a polo shirt and pants or skirt, with varying colours for different sections of the school. Upper School, comprised of 600 students wears the official 'White Polo Shirt' available from the school's two contracted uniform providers Bibi & Baba and Children's Party Dress (CPD).<sup>2</sup> The school holds established relationships with both providers, Bibi and Baba extending over 20 years, and CPD nearing 8 years. Both firms, in addition to providing uniforms to UWCSEA, provide attire for a wide range of other schools, hospitals and institutions across South East Asia.

I shall be concentrating for the purpose of this essay solely upon the sub-market for the 'Upper School White Polo Shirt' as a representation of the broader school uniform. The circumscription of my investigation to a *single* product catered for a *particular* section of the school populous, allows me to reduce the number of variables I must consider, in terms of design, colour and type of consumer, and help me focus my research.

The central assumption of the theory of contestable markets is the "freedom of entry and exit from the market"<sup>3</sup>; I will respond to my research question "**To what extent are the school uniform providers at UWCSEA operating in a contestable market?**" by studying the components of this assumption and its implications with regard to the two current suppliers.

### **Why I chose this topic:**

I became interested in the school uniform industry due to my eagerness to investigate the behavior of a duopoly in my *own* school and apply economics to an environment I am directly concerned with. I was curious and excited to grasp the contestable market theory due to its clear divergence from the conventional neo-classical judgments, and enthused by the chance to apply the theory of the firm to a market I can readily access.

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<sup>1</sup> United World College of SE Asia: <http://www.uwcsea.edu.sg> (Last Accessed: September 28, 2006)

<sup>2</sup> United World College of SE Asia: <http://www.uwcsea.edu.sg/brochure/uwcseauniform.pdf> (Last Accessed: September 28, 2006)

<sup>3</sup> Alain Anderton. *Economics: Third Edition* (Ormskirk, Lancs: Causeway Press Limited, 2000), p 372

## **Approach**

In assessing the extent to which the providers are operating in a contestable market I will outline the assumptions and implications of the **theory of contestable markets**. I will examine *both* the behaviour of the current providers, and the general characteristics of the school uniform industry in Singapore.

I will conduct a range of both primary and secondary research to address the question. I will **survey** a proportion of the Upper School student body and take the **initiative to conduct interviews** with the Head of College and Manager of Contracts at UWCSEA in order to understand the viewpoint of the management. I will also **acquire data on prices** of the shirts and approach other uniform manufacturers to obtain **information on costs** in the broader industry. Therefore, I will **engage with the concerned authorities, consumers and providers**. My secondary sources will be in the form of textbooks and Internet articles from where I will derive the content of the theory.

In interpreting the contestability of the school uniform market I will apply the assumptions of low barriers to entry, low sunk costs and perfect knowledge. Additionally, I will explore the tendency for normal profits, and any behaviour representative of competitive practice. My method will involve an evaluation of the *degree* of contestability.

To what extent are the school uniform providers at UWCSEA operating in a contestable market?

## Theory

The theory of contestable markets invalidates the neo-classical approach that a firm's behaviour is a result of the number of existing firms in the market. In a contestable market, it is the "threat of *potential entry*"<sup>4</sup> and *latent* competition that governs behaviour and not pre-existing competition. The diagram below serves to illustrate this; a contestable market may be present with any number of firms, and does not fit with the neo-classical categorization.

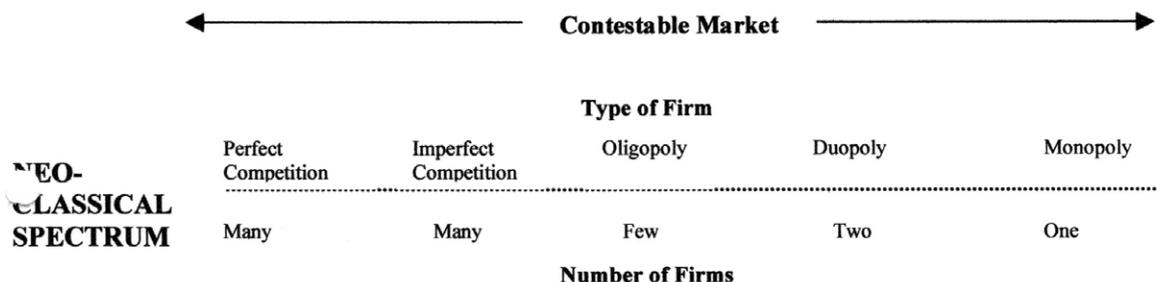


Diagram 1<sup>5</sup>

### A. ASSUMPTIONS OF THEORY

The chief assumption of the Theory of Contestable markets is that there is "freedom of entry and exit"<sup>6</sup> from the industry. This "accessib[ility] to potential entrants" can be achieved on the basis of three further premises: "no significant barriers to entry", absence of "sunk costs" and perfect knowledge of the market.<sup>7</sup>

#### 1) Barriers to Entry

Barriers to entry are factors that make it difficult or impossible for "potential firms to enter an industry and compete with existing producers".<sup>8</sup> Therefore, barriers to entry determine the *threat* of competition. Barriers to entry may be present in the form of: legal constraints, marketing barriers, restrictively high set-up costs, or natural monopolization.<sup>9</sup>

The ownership of exclusive rights by incumbent firms such as contractual requirements makes it more difficult for a firm to enter an industry. High fixed costs, generally in the form of large capital expenditure on necessary technology reduces the

<sup>4</sup> Tutor2U. *Monopoly – Contestable Markets*: [http://www.tutor2u.net/economics/content/topics/monopoly/contestable\\_markets.htm](http://www.tutor2u.net/economics/content/topics/monopoly/contestable_markets.htm) (Last Accessed: September 28, 2006).

<sup>5</sup> Bized. *Market Structure*: <http://www.bized.co.uk/learn/economics/firms/structure/index.htm> (Last Accessed: August 18, 2006).

<sup>6</sup> Alain Anderton. *Economics: Third Edition* (Ormskirk, Lancs: Causeway Press Limited, 2000), p 372.

<sup>7</sup> William J. Baumol, John C. Panzar and Robert D. Willig. *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, Inc., 1982), p 3-5.

<sup>8</sup> Alain Anderton, 332.

<sup>9</sup> Alain Anderton, 332.

potential for competition as less firms will be willing and/or able to afford entrance. The presence of high brand loyalty for the incumbent's product is a deterrent to entrance due to the significant expenditure required on advertising and difficulty in drawing consumers. Lastly, some industries only reap the benefits of economies of scale, "reductions in long run average costs of production as the scale of output increases"<sup>10</sup>, with very few, potentially only one firm— known as a "natural monopoly"<sup>11</sup>, presenting a natural barrier to entry.

A contestable market requires barriers to entry to be very low, increasing the accessibility of the market to potential entrants by making entrance widely feasible.

## 2) Sunk Costs

Sunk costs are costs that are "not recoverable" in event of exit from the industry.<sup>12</sup> High sunk costs would discourage a potential firm from entering due to the high losses incurred should the firm leave. Costs that cannot be regained include "investment in research and development" that is rarely transferable, the "time and ability used in organizing new operation"<sup>13</sup>, the purchase of capital equipment that cannot easily be "resold or transferred to other markets"<sup>14</sup> and advertising costs that are, by their nature, irretrievable.

Although a perfectly contestable market would assume that entry is only fully "reversible" when exit is "absolutely costless"<sup>15</sup>, I will presume a contestable market where sunk costs are merely negligible, to the point where they do not function as a disincentive to enter.

## 3) Perfect Knowledge of the Market

Perfect Knowledge denotes that any prospective entrants have an awareness of the necessary "production techniques" and information on "quality relative to the incumbent".<sup>16</sup> Should a potential firm be fully informed of the manufacturing process, pricing strategies, profit margins etc. of the incumbents, it would be able to match them easily and not be disadvantaged upon entrance. Perfect knowledge hence increases the threat of potential entry and contestability, as prospective firms are able to approximate the behaviour of incumbents easily.

<sup>10</sup> Alain Anderton. *Economics: Third Edition* (Ormskirk, Lancs: Causeway Press Limited, 2000), p 116.

<sup>11</sup> Alain Anderton, 333.

<sup>12</sup> William J. Baumol, John C. Panzar and Robert D. Willig. *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, Inc., 1982), p 7.

<sup>13</sup> Stephen Martin. *The Theory of Contestable Markets* (2000, July) University of Purdue, Department of Economics: <http://www.mgmt.purdue.edu/faculty/smartin/aie2/contestbk.pdf> p 18 (Last Accessed: July 31, 2006).

<sup>14</sup> Stephen Martin, 15.

<sup>15</sup> William J. Baumol, John C. Panzar and Robert D. Willig, 3-5.

<sup>16</sup> William J. Baumol, John C. Panzar and Robert D. Willig, 3.

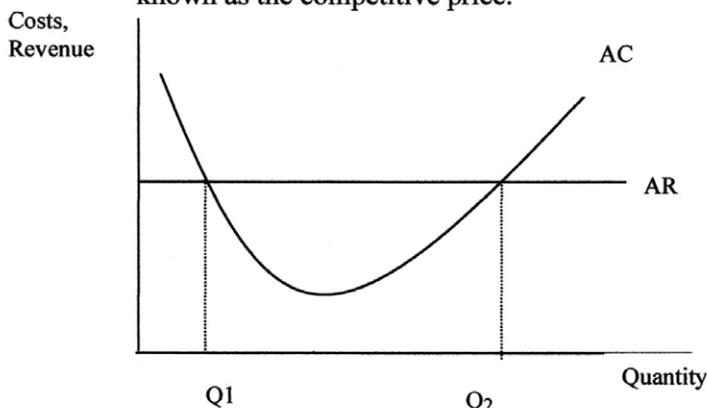
To what extent are the school uniform providers at UWCSEA operating in a contestable market?

## **B. IMPLICATIONS OF THEORY**

The ability of firms to enter and leave a contestable market easily, resulting from the three assumptions explained above has implications for the behaviour of firms operating in the industry. Most critically, “in the long run, only normal profits can be made”<sup>17</sup>. Furthermore, firms will maintain competitive procedure, regardless of whether actual competition is present.

### **1) Normal Profits**

Normal Profit may be defined as the “minimum profit a firm must make to keep its economic resources in the production of the concerned good”<sup>18</sup>. Therefore it is the minimum profit required to keep existing firms in production, but not enough to attract *new* entrants. The condition for normal profit is the point at which average cost, “cost per unit of output”, equals average revenue, “revenue per unit”<sup>19</sup>, also known as the competitive price.



As indicated in the diagram on the left, at values  $Q_1$  and  $Q_2$  where  $AC=AR$  (unit cost equals revenue per unit), the firm is producing at the competitive price. At all values where  $AC > AR$ , the firm is making a loss. At any value where  $AR > AC$ , the firm is making abnormal profits. Both these latter situations are infeasible in a contestable market, where a firm in the long run will only produce at either  $Q_1$  or  $Q_2$ .

**Diagram 2**<sup>20</sup>

The assumptions of freedom of entry and exit means that it is possible for other firms to enter *should* there be an *incentive* to do so. The existence of abnormal profit, (“profit which is greater than normal profit”<sup>21</sup>) would be inviting to firms who may consider entering the market to reap the benefits of “supernormal profit.”<sup>22</sup> Incumbent firms therefore, in order to deter external firms from entering and “eroding their market share”<sup>23</sup>, accept normal profits.

Conclusively, the threat of competition imposes a downward pressure on prices; instead of the producing at the profit maximizing output (where  $MC=MR$ ; marginal costs – the cost of producing one extra unit of output, equals marginal revenue – the

<sup>17</sup> Matt McGee. *Economics – In terms of The Good, The Bad and The Economist* (Victoria, Australia: IBID Press, 2005), p 259.

<sup>18</sup> Alain Anderton. *Economics: Third Edition* (Ormskirk, Lancs: Causeway Press Limited, 2000), p 108

<sup>19</sup> McGee 186.

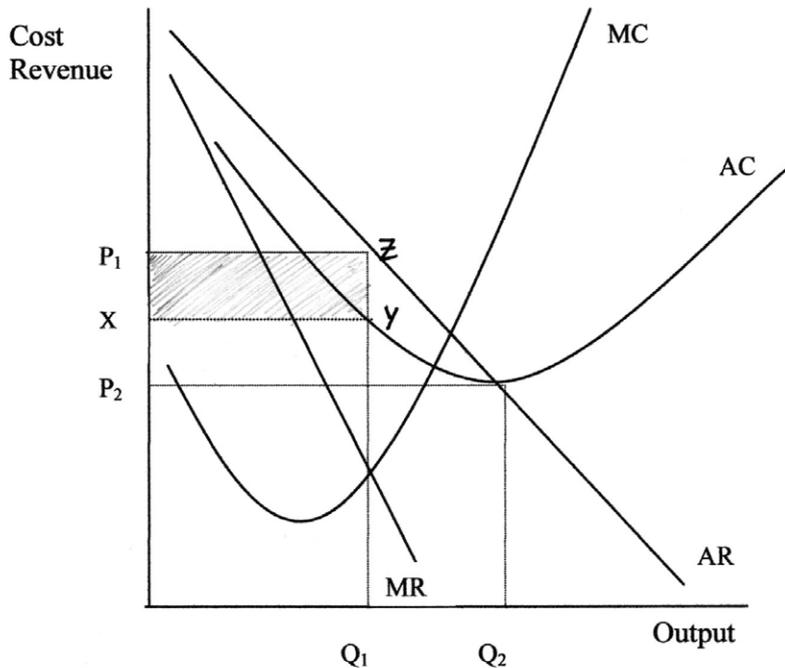
<sup>20</sup> Tutor2U. *Measuring Business Profits: Profits*: <http://www.tutor2u.net/economics/content/topics/buseconomics/profits.htm>(Last Accessed: August 22, 2006).

<sup>21</sup> Alain Anderton, 108.

<sup>22</sup> Alain Anderton, 373.

<sup>23</sup> McGee, 259.

revenue gained from producing this extra unit), firms chose to produce at the level of output where only normal profit is made ( $AC=AR$ ). This choice is illustrated in the diagram below; should a firm chose to produce at the profit maximizing level of output,  $Q_1$ , the corresponding price for such a level of output would be  $P_1$ , rendering the creation of abnormal profit equivalent to the shaded area  $P_1XYZ$ . In a contestable market, firms would opt against the earning of abnormal profit and adopt the normal profit level, illustrated below as  $Q_2$  with the corresponding price  $P_2$ .



**Diagram 3**<sup>24</sup>

## 2) “Competition – not collusion”<sup>25</sup>

This secondary implication denotes that firms operating in contestable conditions engage in competitive practice; price fixing does not occur, collusion – such as an absence of advertising and abnormal profits is “not an option for incumbent firms”<sup>26</sup>. Firms behave as though they are subject to intensive competition, regardless of whether it is presently the case.

<sup>24</sup> Tutor2U. *Plan on Contestable Markets*: <http://www.tutor2u.net/newsmanager/templates/default.aspx?a=1426&z=1> (Last Accessed: October 01, 2006).

<sup>25</sup> Matt McGee. *Economics – In terms of The Good, The Bad and The Economist* (Victoria, Australia: IBID Press, 2005), p 258.

<sup>26</sup> Matt McGee, 258.

## **Analysis of the ‘Uniform Polo Shirt Market’ at UWCSEA**

The contestability of the school uniform market in which Bibi & Baba and CPD operate can be measured by examining the following: Firstly, the *overall* industry for white polo shirts in Singapore must correspond with the assumptions of low entry barriers, negligible sunk costs and perfect knowledge. Secondly, the behaviour of Bibi & Baba and CPD *within* this industry must be consistent with the implications of a contestable environment, such as normal profit and competitive practice.

### **i. Freedom of Entry into Market for UWC Polo Shirts**

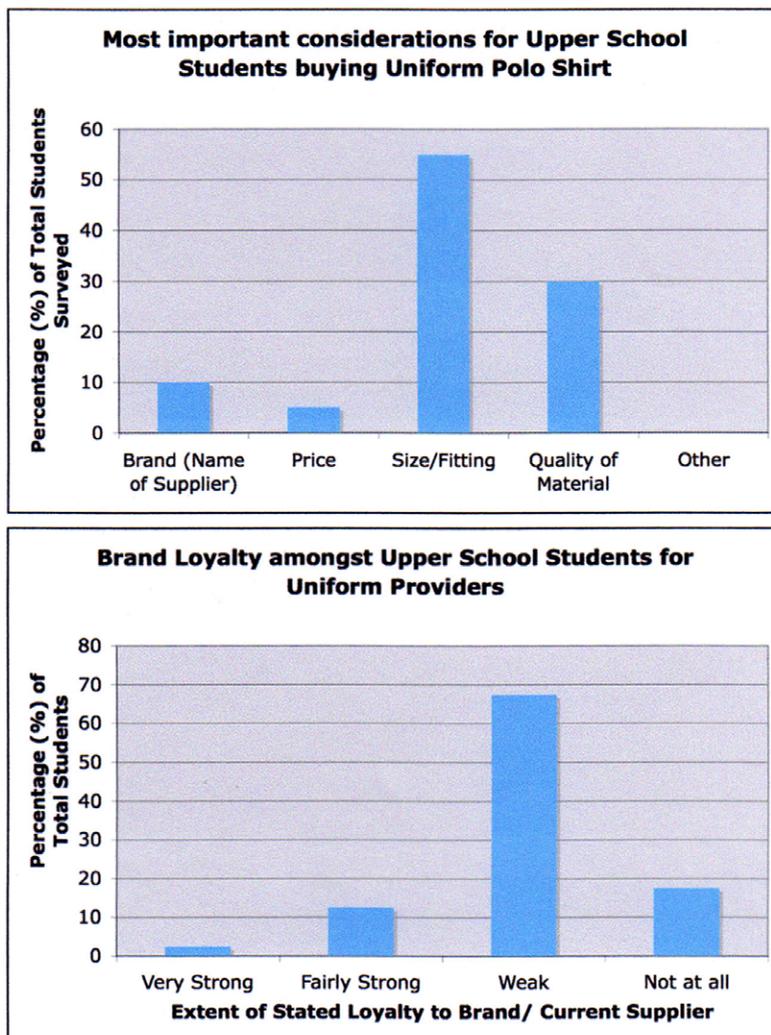
The openness of the industry for school uniform provision to UWCSEA can be determined by examining the inherent *and* the constructed barriers to entry.

Firstly, it is critical to note that the potential competitors being considered will not be novices to the uniform industry at large; in fact the threat of competition for Bibi & Baba and CPD comes from firms *already* in the market for polo shirts or school uniform, and simply providing to other international schools or institutions. A start-up tailor or a firm currently engaged in the production of anything outside of textile manufacture does *not* represent the pool of potential entrants. There are various reasons for making this assumption: firstly UWCSEA would only look to firms with an established expertise. Secondly the cost of moving from one type of garment to the UWC polo shirt is substantially lower than the cost of setting up in the textile industry as a whole. The cost advantage that a firm already in the garment industry would have over a firm new to the clothing industry (and therefore requiring expenditure on start-up capital) would deter entirely new firms from considering entrance.

Based on this assumption, the set-up costs for such firms can be assumed to be minor. These firms will already possess the required technology and capital needed to undertake the production of polo shirts or merely expand their current production to UWCSEA’s demands. For example, a firm producing polo shirts for universities in Singapore will already have the necessary trained labour and requisite capital. The marginal cost of producing a UWC polo shirt for such a firm would be minimal. Furthermore, it is unlikely that such prospective entrants will need to invest in any additional research, based on the fact that the polo shirt is a homogenous product and one that they generally already produce. Therefore, since both additional capital expenditure and research expenditure needed by these prospective entrants are negligible; the set-up costs, a critical entry barrier, can be concluded to be low.

Marketing barriers also pose an impediment for possible new entrants; consumer loyalty to a particular supplier or a need for a new firm to advertise heavily upon entry to attract consumers inevitably deters prospective entrants from joining the market. However, in the case of the market for polo shirts at UWC, brand loyalty does not appear significantly present.

To what extent are the school uniform providers at UWCSEA operating in a contestable market?



**Chart 1**<sup>27</sup>

As the results from a survey (shown above) on 40 Upper School students (assumed to be the relevant consumers), the name of the supplier is not an influential feature in consumer choice. Only 10% of students surveyed saw the brand of the supplier as the most important consideration when purchasing uniform and 85% stated that their loyalty to a supplier was either weak or non-existent. The primary concerns of the consumers were size, fitting and quality.

This lack of brand loyalty can be attributed to the fact that the product is a homogenous one, as there appears to be no significant difference between the shirts provided by the suppliers. The school asserts the need for homogeneity in terms of quality, design and material and therefore the consumer is not compelled to differentiate and identify with one of them. Therefore should a new entrant be able to provide an identical product, it would not be disadvantaged upon entrance.

<sup>27</sup> Appendix 1

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Furthermore, no prominent advertising exists between Bibi & Baba and CPD. Both providers are fully endorsed by the school, which hosts the sale of the uniforms on campus in order to ensure equal levels of accessibility to each provider's shirts, and a 'level playing field'.<sup>28</sup> Likewise, a new entrant would be granted the same level of endorsement making advertising a dispensable expense.

The only critical entry barrier that exists is the intentionally constructed contractual requirement. Upon interviewing the Head of College and the Manager of Contracts I gained insight into the details of the contracts and the significance of the restrictions they pose to prospective entrants. Both the existing providers are on contracts that are "reviewed every two years by the management and Parent's Association"<sup>29</sup> with regard to price and quality. However, the contracts are *not* re-tendered, indicating that potential entrants are denied the platform upon which to make an offer. The management has specified that *only* in event of "complaints about quality or service"<sup>30</sup> would they consider changing supplier. Clearly, contracts are essential for the stability of the market, and for the school to keep control over prices, standards and be assured continuity of the product; however they also represent a fundamental entry barrier that is both highly regulated and closed to new offers, thus curtailing contestability. Although the market inherently appears to have low entry barriers, the presence of inflexible contracts may override all those factors.

## ii. Costs of Exit from UWC Polo Shirt Market

The sunk costs, those irretrievable upon exit, essentially represent a risk to any firm considering entering the industry. Should the sunk costs be extremely high, the risk of exit and incurring the costs would deter entrants. In the market for school uniform at UWCSEA however, noting that the potential entrants being considered are those that are *already* based elsewhere in the uniform industry, sunk costs appear to be fairly low.

Capital costs that cannot be transferred to other uses or sold represent a sunk cost. However, in the market for polo shirts, factor mobility is high as capital is transferable within the larger industry for garment manufacture. Should a firm withdraw from provision to UWCSEA, its resources can readily be applied to provide the same product to other institutions and the same capital used to produce alternative garments. Furthermore, for the existing providers, the UWCSEA market only represents a small segment of their total consumer market, for they provide to many other organizations. Bibi and Baba supplies to other local schools, hotels, hospitals, factories, airlines etc. in Singapore and across the South East Asia.<sup>31</sup> Any capital that would be unemployed by a potential withdrawal from the UWCSEA market could easily be absorbed by their other production responsibilities.

<sup>28</sup> Mrs. Ivy Lee (2006). Interview with Manager of Contracts at UWCSEA on 13 June 2006.

<sup>29</sup> Mrs. Ivy Lee.

<sup>30</sup> Mrs. Ivy Lee.

<sup>31</sup> Bibi and Baba Commercial Webpage: <http://www.uniformsmart.com> (Last Accessed: 10 October, 2006).

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As previously explored, the advertising costs required upon entering the UWCSEA polo shirt market would be minimal. Advertising costs are irrecoverable; should a firm spend on advertising a product that it later ceases to produce, no reimbursement can feasibly be claimed. However, because the polo shirt is a necessity for students, the school distributes knowledge of the products and sales are conducted fairly on campus, advertising is avertable. Furthermore, since consumers, as illustrated in survey results above, are far less mindful of the brand than they are of quality, firms would rationally not spend on trying to build a brand name. Lastly, judging from the fact that in an international school, student turnover is frequent, any advertising would not benefit the firm in the long term.

Therefore, we can conclude that the contestability of the market is enhanced by the fact that sunk costs, in the form of capital and advertising, appear negligible.

### iii. Knowledge of Market

The knowledge of the market for potential entrants can also be inferred to be high contributing to higher levels of contestability. The polo shirt is a basic product where manufacturing processes are fairly standard across the industry; since the *potential* firms being considered are also engaged in garment manufacture, they would be informed of the requisite production techniques.

### iv. Competitive Practice

The extent to which the current suppliers are forced to maintain competitive practice is determined by how high they *feel* the threat of new entrants or replacement is *should* they fail to meet certain standards.

The school is essentially providing a service to the students; therefore pressure applied from these ‘consumers’ would be the decisive factor in determining which suppliers continue provision. The schools commitment to acting on complaints about quality, service or price suggest that it is indirect assent of the parents and students that allows the renewal of contracts. Therefore, the market’s contestability also relies upon how vocal the students are about their concerns with the suppliers. As results from the survey below show, 70% of students would approach the management should they be unhappy with any aspect of the uniform suggesting that firms *are* susceptible to the fear of competition.

If you were unhappy about the quality/service/price would you approach the management (i.e. Student Council, Parent’s Association) to investigate and potentially find a new supplier?

	No. Of Students	Percentage (%) of Total Students Surveyed
<b>Definitely</b>	28	70
<b>Possibly</b>	6	15
<b>Never</b>	6	15

**Table 1** <sup>32</sup>

<sup>32</sup> Appendix 1

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Therefore, although the current providers are protected through the term of the contract from further competition or replacement, they may still be required maintain practice such as appropriate quality, moderate pricing etc. that resembles a market where competition is intense, due to the fear of competition that may arise *should* they fail to do so.

#### v. Normal Profits

In order to ascertain an approximate level of profit I needed to gather information on costs and revenue. I first contacted the current providers to obtain the retail price of the shirts, which was a standard \$15.75. I then contacted four other firms that produced polo shirts and/or school uniforms, which corresponded with the UWC design, quality and material and requested price quotations for 2400 shirts (the assumed number of shirts provided to Upper School students annually, presuming that each of the 600 students purchase 4 shirts per year).

Company	Quoted Price of Manufacture (per shirt)
Avenue Apparels	\$6.60
Cotton Pro Apparels & Premiums	\$8.00
Chan Kwang Weng Tailor	\$7.00
T-Shirt Specialists	\$6.80
<b>Average</b>	<b>\$7.10</b>

**Table 2**<sup>33</sup>

The above quoted price of \$7.10 is an average estimate of the price at which potential competitors could sell a polo shirt, similar to the one provided to UWCSEA. At the approximate price of \$7.10 that various other companies are willing to supply a similar shirt, we can assume that the average fixed costs and average variable costs of producing the shirt are included, *as well as* an allowance for a level of profit. Interestingly, Bibi & Baba and CPD are both supplying such a shirt for more than *double* that price. Although Bibi & Baba and CPD have additional costs of packaging, logo attachment, distribution and retail to cover, which are not factored into the quoted price of \$7.10 that the various other companies may sell for, such additional costs do not explain the large disparity of \$8.65 in price. Although one can not ascertain what the level for normal profit for Bibi & Baba and CPD truly *is*, the fact that the current suppliers are charging a price that is more than double the level where the majority of their costs can be covered, suggests that they must be making a profit in excess of the normal profit level.

The presence of abnormal profit indicates that the market is not truly contestable as the competitive threat is not strong enough to force prices down to a normal profit level.

<sup>33</sup> Appendix 5

#### **vi. Curtailments to Contestability**

In addition to the presence of contracts, there are other features of the UWCSEA school uniform market that undermine contestability.

The relationship between management and the suppliers is more than simply a legal bond. Bibi & Baba has provided to UWC for over 20 years and is hence familiar with demands of the management and flexible when changes in colour or style are requested. A relationship extending to such a long period of time invokes the possibility of a reluctance to change supplier.

Economies of Scale represent possibly the largest natural entry barrier. Should the market be divided further, between more than two suppliers, it is likely that the benefits of economies of scale may diminish, reducing the incentive of existing providers to continue supplying and new firms to enter.

Lastly, the difficulty in completely standardizing uniform, when two or more producers are engaged in provision reduces the will of the management to contract out to new firms. According to the manager of contracts, “standardization of quality, of the dye, material and cut becomes extremely testing” as the firms have “slightly different manufacturing processes” that makes fully “homogenizing the shirt” difficult.<sup>34</sup>

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<sup>34</sup> Ivy Lee (2006). Interview with Manager of Contracts at UWCSEA on 13 June 2006

## **Conclusions**

In responding to the question “**To what extent are the school uniform providers operating in a contestable market?**” I can only deduce a *degree* of contestability. The broader industry for school uniform provision *does* conform to the base assumptions of low entry barriers where marketing and cost barriers are minimal, sunk costs are negligible and perfect knowledge is present; however various factors, including certain *constructed* barriers undermine this contestability.

The long-standing relationship between suppliers and the management and the management’s reluctance to contract out to more firms citing issues of standardization, diminishes the contestability of the market. Most critically, the need for contracts that appear rigid and inaccessible to potential entrants hugely decreases contestability, reducing the fear of competition for the incumbents who are safeguarded from new entrants. The detection of abnormal profits reinforces the notion that the current providers are not subject to competitive pressures, as outlined in the contestable market theory. Therefore, although the industry appears *inherently* contestable, constructed barriers and the presence of abnormal profits suggest that this is not the case, and the school uniform providers Bibi & Baba and CPD are not operating in a truly contestable market.

Arising from this study are various **unresolved and new questions**. What truly constitutes a normal level of profit was not fully identified and may be further investigated. The structure of other school uniform markets may be compared to the one in UWCSEA. I would also have liked to investigate whether the management receives speculative offers from other suppliers to provide uniform, and the extent to which these are considered.

## **Evaluation**

A central assumption of this essay was to consider students as the consumers; it is possible that the parents as the ones who pay for the uniform, or the management who demand provision are the rightful consumers.

Abnormal profits may be feasible not only due to supposed incontestability, but due to the fact that consumers do not notice or pay heed to the ‘higher’ price of the polo shirts, as the cost of uniform is insignificant in relation to the tuition fees that exceed \$25,000/year.

Greater correspondence with the suppliers themselves may have been necessary to gauge the true nature and amount of profit in order to better assess the presence or absence of abnormal profit.

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## **APPENDICES**

**APPENDIX 1:****STUDENT SURVEY**  
**QUESTIONS AND RESULTS (INTEGRATED)**

Participant Details: 40 Upper School Students

**Please circle the answer that best represents your views:****1. I buy my Uniform Polo Shirts from**

- A. Bibi and Baba
- B. Children's Party Dress (CPD)
- C. Both

	<b>No. Of Students</b>	<b>Percentage (%) of Total Students Surveyed</b>
<b>Bibi and Baba</b>	22	55.0
<b>Children's Party Dress (CPD)</b>	17	42.5
<b>Both</b>	1	2.5

**2. Do you feel there is any difference between the shirts of the two providers?**

- A. Yes, notable differences
- B. Yes, minor differences
- C. No

	<b>No. Of Students</b>	<b>Percentage (%) of Total Students Surveyed</b>
<b>Yes, notable differences</b>	2	5
<b>Yes, minor differences</b>	12	30
<b>No</b>	26	65

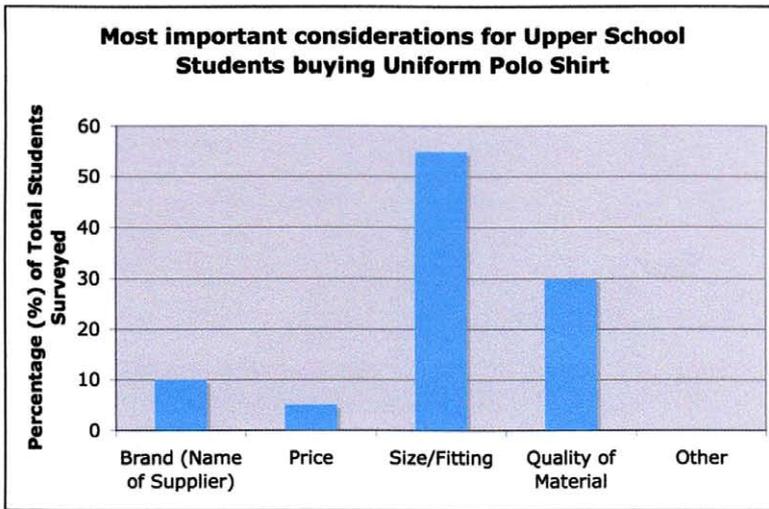
**3. My most important consideration when I buy my uniform is**

- A. Brand (Name of Supplier)
- B. Price
- C. Size/Fitting
- D. Quality of Material
- E. Other

**Primary considerations for Upper School Students buying Uniform Polo Shirt**

	<b>No. Of Students</b>	<b>Percentage (%) of Total Students Surveyed</b>
<b>Brand (Name of Supplier)</b>	4	10
<b>Price</b>	2	5
<b>Size/Fitting</b>	22	55
<b>Quality of Material</b>	12	30
<b>Other</b>	0	0

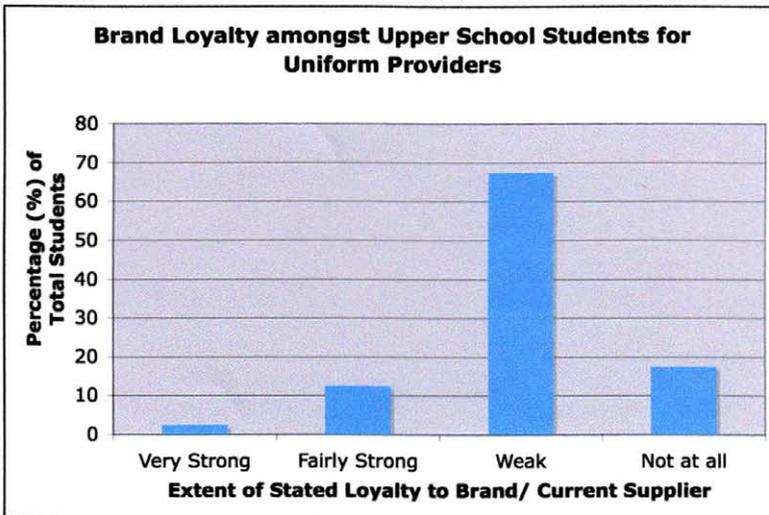
To what extent are the school uniform providers at UWCSEA operating in a contestable market?



4. The Brand/ My Loyalty to the Supplier I currently buy my uniform from is
- A. Very Strong
  - B. Fairly Strong
  - C. Weak
  - D. None at all

Brand Loyalty amongst Upper School Students for Uniform Providers

Extent of Stated Loyalty to Brand/ Current Supplier	No. Of Students	Percentage (%) of Total Students Surveyed
Very Strong	1	2.5
Fairly Strong	5	12.5
Weak	27	67.5
Not at all	7	17.5



To what extent are the school uniform providers at UWCSEA operating in a contestable market?

**5. If I were unhappy about the price I would pressurize the management (i.e. Student Council) to investigate and potentially find a new supplier?**

- A. Definitely
- B. Possibly
- C. Never

	<b>No. Of Students</b>	<b>Percentage (%) of Total Students Surveyed</b>
<b>Definitely</b>	28	70
<b>Possibly</b>	6	15
<b>Never</b>	6	15

**APPENDIX 2:**

**STUDENT SURVEY (SAMPLE)**

**Please circle the answer that best represents your views:**

**1. I buy my Uniform Polo Shirts from**

- A. Bibi and Baba
- B. Children's Party Dress (CPD)
- C. Both

**2. Do you feel there is any difference between the shirts of the two providers?**

- A. Yes, notable differences
- B. Yes, minor differences
- C. No

**3. My most important consideration when I buy my uniform is**

- A. Brand (Name of Supplier)
- B. Price
- C. Size/Fitting
- D. Quality of Material
- E. Other \_\_\_\_\_

**4. The Brand/ My Loyalty to the Supplier I currently buy my uniform from is**

- A. Very Strong
- B. Fairly Strong
- C. Weak
- D. None at all

**5. If I was unhappy about the price I would pressurize the management (i.e Student Council) to investigate and potentially find a new supplier?**

- A. Definitely
- B. Possibly
- C. Never

**APPENDIX 3:****Interview with Mr. Julian Whitely: Head of College (Tuesday, 6<sup>th</sup> June 2006)**

1. Are the uniform providers, Bibi & Baba and Children's Party Dress on contracts? If so, what are the details of these agreements?

*Yes, the providers are on contracts. Ms. Ivy Lee who will be able to provide you with details manages the contracts.*

2. Why are there 2 uniform providers? Why not only 1? Why not more than 2? Are there any specific advantages to having 2?

*Well the school does not want a monopoly and wants to provide some competition and choice for the students. On the matter of having more than two, there has to be an incentive for the provider themselves to produce the shirts – should we divide the market further, the providers would benefit less from Economies of Scale. Ultimately, the firms also need some incentive to provide to us.*

3. How committed is the management of the school to continuity with the existing providers?

*Only to the period of the contracts: Changes in trends, unreasonable changes in price or complaints from parents or students will prompt a change.*

4. How committed is the school to this particular style of polo shirt?

*Very committed, personally I am fond of the casual style of the polo. There are not many schools where such a versatile uniform is offered, and we, the PA and I'm sure the students intend to keep the balance between formal and informal.*

5. Does the school in any way help make the market more equitable or promote competition between the providers? For example in the form of advertising?

*The Parents Association may have something to do with the reviewing of the providers. Anything that the school does would be to make the market as equitable in terms of market share. Accessibility to the shops/ selling outlets may feature as a determinant for students when buying their uniform and therefore to counter this, the uniforms are sold here at the college prior to the beginning of each academic year. Since both are sold at the same time, in the same place, a fair environment is promoted.*

#### **APPENDIX 4:**

##### **Interview with Ms. Ivy Lee: Manager of Contracts (Tuesday, 13<sup>th</sup> June 2006)**

1. Are the uniform providers on contracts? If so, what are the details of these agreements?

*Yes, both the providers are on contracts. The price is agreed upon after negotiation at the start of each contract and remains fixed through the course of the two-year contract.*

2. How are the contracts negotiated? Are tenders used?

*Contracts are reviewed every two years by the management and specifically the Parent's Association. It is not necessarily re-tendered; if we feel the need to change we will carry out a tender. But the contract is certainly reviewed and renegotiated.*

3. What does the school consider to be a fair price for the school polo shirt?

*The current \$15.00, for the quality the school sees this as a very reasonable price.*

4. What is the background of the supplier's relationship with the school?

*Initially uniforms were provided through individual tailors; then Bibi and Baba was introduced as the first provider through an acquaintance with the school's governor. In 1999, came the addition of CPD; the school thought it would be good to have increased competition, CPD had been providing to Tanglin and we liked the design of their sweaters and so we invited them.*

5. How committed is the school to continuity with Bibi & Baba and CPD? Is there any reluctance to change provider at this stage?

*No comments*

6. How committed is the school to this particular style of polo shirt?

*It is practical, neat, so we are committed to this style*

6. Why are there two uniform providers? Why not only one? Why not more than two? Are there any specific advantages to having only two?

*Two is more than enough; it becomes a real hassle having more than two. Standardization of quality, of the dye, material becomes extremely difficult. Even now after 7 years, people stay say they are differences. Due to the different manufacturing processes of the different companies, it becomes difficult to homogenize the shirt.*

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To what extent are the school uniform providers at UWCSEA operating in a contestable market?

7. What sort of market share does each supplier possess?

*A fairly even 50-50 spread.*

8. Does the school on behalf of the providers carry out the any advertising?

*No, any advertising is independent of the school. We do however sell both suppliers' uniforms on campus at the same time. There was one occasion, 2-3 years ago when Bibi and Baba was placed in the room behind CPD for sales and they apparently lost out on 30% share that year.*

9. Under what circumstances would the school change providers?

*If we got complaints about quality or service.*

10. Does the school receive speculative offers to change supplier, or any information regarding bids by other providers?

To what extent are the school uniform providers at UWCSEA operating in a contestable market?

### **APPENDIX 5:**

**Table to show the prices of manufacturing a polo shirt, as quoted by various firms engaged in garment manufacture and considered potential competitors to Bibi & Baba and CPD with regard to provision to UWCSEA**

<b>Company</b>	<b>Quoted Price of Manufacture (per shirt)</b>	<b>Notes</b>
Avenue Apparels	\$6.60	Provides to Canadian International School and Child Care Centres
Cotton Pro Apparels & Premiums	\$8.00	27 years in production Provide to NUS and NTU
Chan Kwang Weng Tailor	\$7.00	Made-to-measure uniform expertise
T-Shirt Specialists	\$6.80	Specialise purely in T-shirts, caters largely to staff uniforms
<b>Average</b>	<b>\$7.10</b>	-