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Candidate surname <i>StemUp Model Solution</i>		Other names	
Pearson Edexcel		Centre Number	Candidate Number
Level 3 GCE			
Time 2 hours	Paper reference	9EB0/01	
Economics B Advanced PAPER 1: Markets and how they work			
You do not need any other materials.			Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.
- Good luck with your examination.

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Answer ALL questions.

SECTION A

Read the following extracts (A–E) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Boo who?

It has no high street shops and few people over the age of 40 will have even heard of it. However, online fashion retailer *Boohoo* is instantly recognisable to teenagers and twentysomethings. Thanks to its remarkable ability to copy celebrity fashion trends in a matter of days, it is one of the most extraordinary British success stories of recent times.

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The rags to riches story of *Boohoo* started with Mahmud Kamani. The Kamani family began selling handbags on a market stall and later sourced garments from India for a wholesale textile business. By the early 2000s, the company was selling £50m worth of garments a year to high street shops such as *Topshop* and *Primark*.

Entrepreneur Mahmud spotted the astonishing opportunities that were created by the growth of the internet. In 2006, he and designer Carol Kane – now joint Chief Executive – set up *Boohoo* as an online retailer that would deliver their own branded fashion at rock-bottom prices. They started small, with just three staff in a Manchester warehouse. Their big advantage was that they could use local contacts – more than half of their garments are still made in Britain – to rush the latest fashion trends on to their website in weeks rather than the months it takes for garments from overseas.

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In 2014, *Boohoo* was floated on the stock exchange. The *Boohoo* company is now worth £3.7bn, employs nearly 2,000 people and has sponsored ITV2 reality show *Love Island*. It uses hundreds of bloggers and celebrity influencers to advertise the brand on *Instagram*, *Twitter* and *Snapchat*. *Boohoo* uploads as many as 120 new garments on to its website every day. It sells 50 dresses every minute.

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(Source adapted from: <https://www.dailymail.co.uk/femail/article-4678284/Boohoo-billionaires-built-2bn-fashion-empire.html>)

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Extract B

Selected financial information from *Boohoo UK Limited's* statement of comprehensive income for year ending 28 February 2019

	2019 £000	2018 £000
Revenue	434 565	374 114
Cost of sales	204 474	182 441
Gross profit	230 091	191 673
Operating profit	32 490	34 555
Profit for the year	24 719	28 591

(Source adapted from: <http://www.boohooplc.com/~media/Files/B/Boohoo/reports-and-presentations/4412-boohoo-ar-2019.pdf>)



Extract C**The story of a £4 Boohoo dress: cheap clothes at a high cost**

The *Boohoo* minidress comes in red, mustard and black, in sizes 6 to 16. It is not so much the styling and colour, but the price of £4 that attracts thousands of *Boohoo*'s 5 million UK customers. Products and prices like these have boosted *Boohoo*'s profits, going against the trend of struggling high street fashion stores.

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Made in the UK at factories in Leicester and Manchester, the £4 dress symbolises a fast fashion industry that pumps hundreds of new collections on to the market in a short time at low prices. On average, such dresses and other products are discarded by consumers after five weeks. *Missguided*, an online rival to *Boohoo*, took the low pricing even further by promoting a £1 bikini, which proved so popular with customers that the website crashed.

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Behind the price tag there is an environmental and social cost not contained on the label of such products. "The hidden price tag is the cost people in the supply chain and the environment itself pay," said Sass Brown, a lecturer at the Manchester Fashion Institute. "The price is just too good to be true."

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Carol Kane, the co-founder of *Boohoo*, told MPs the £4 dress was a 'loss leader' drawing people to the website. She said as part of its Corporate Social Responsibility (CSR) policy the company employs three people in Manchester, three in Leicester, and 10 in China. They carry out audits each month at their producer factories to ensure proper working practices. *Boohoo* said it was also looking to form a partnership with the sustainable fashion initiative, Sustainable Clothing Action Plan (SCAP), to help reduce the carbon, water and waste footprint of its supply chain.

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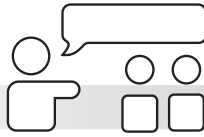
(Source adapted from: https://www.theguardian.com/business/2019/jun/22/cost-cheap-fast-fashion-workers-planet?CMP=share_btn_link)



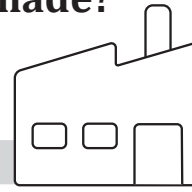
Extract D

The life cycle of a fast fashion dress

1. How is the dress made?

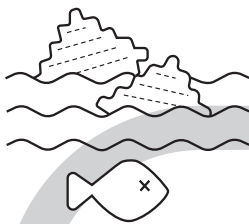


Fast-fashion brands engage producers and encourage them to undercut each other

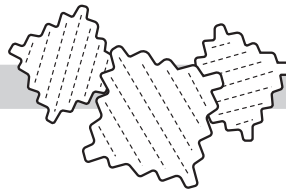


Manufacturers in the UK are typically paid as little as £2.50 to £3 a dress

2. What is it made of?

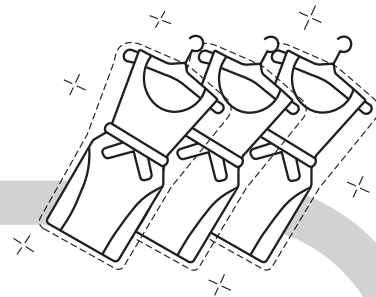


Synthetic fibres from clothing make up 35% of microplastics in the ocean



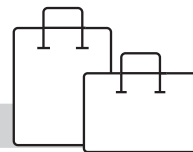
A dress is often made of 100% polyester

3. Fast fashion



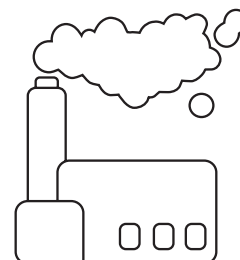
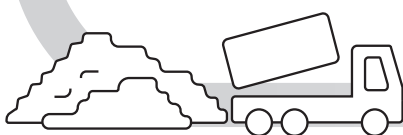
Garments are sold in stores having already created huge amounts of waste

A dress like this will often be wrapped in plastic on three separate occasions, each time with new packaging and hangers



4. Unsold garments

Thousands of dresses remain unsold, or are thrown away after an average of five weeks' use



They are incinerated, polluting the air

(Source adapted from: <https://www.theguardian.com/business/2019/jun/22/cost-cheap-fast-fashion-workers-planet>)



P 6 6 1 9 9 A 0 5 3 2

Extract E**A 1p Tax on Fast Fashion**

Fast fashion retailers should be made to pay a 1p tax on every garment sold in order to help fund clothing collection and recycling schemes, MPs on the Environmental Audit Committee suggested. The report said that taxation should be reformed to reward companies that offer clothing repairs and reduce the environmental footprint of their products.

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"Fashion shouldn't cost the earth. Our insatiable appetite for clothes comes with a huge social and environmental price tag: carbon emissions, water use, chemical and plastic pollution are all destroying our environment," commented Committee Chair Mary Creagh.

"In the UK we buy more clothes per person than any other country in Europe. Fast fashion means we overconsume and underuse clothes. As a result, we get rid of more than a million tonnes of clothes every year, with £140m worth going to landfill," she added.

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(Source adapted from: <https://www.vogue.co.uk/article/penny-tax-fast-fashion>)



- 1 (a) Explain **one** way creative destruction might have affected the clothing market.

(4)

Creative destruction is the process by which innovation and new technology create new products, firms and markets while destroying old ones. In the clothing market, the growth of the internet created online shopping. Online retailers such as Boohoo, set up in 2006 with no high street shops, have grown rapidly and are now worth £3.7bn. As a result, consumers have switched from shops to buying online, so traditional high street clothing stores are struggling and many are closing. The online clothing market has grown at the expense of high street fashion retailers.



(b) Using Extract B, calculate, to 2 decimal places, *Boohoo's* gross profit margin for 2019. You are advised to show your working.

(4)

Gross profit margin = (gross profit ÷ revenue) × 100

Gross profit 2019 = £230 091 000

Revenue 2019 = £434 565 000

(£230 091 000 ÷ £434 565 000) × 100 = 52.947...%

Gross profit margin = 52.95%

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In 2019, *Boohoo* sold 10,501,813 items. This included low cost clothing and more expensive clothing, coats, shoes and jewellery.

- (c) Using Extract B, calculate, to two decimal places, the average revenue per item sold in 2019. You are advised to show your working.

(4)

Average revenue = total revenue ÷ number of units sold

Total revenue 2019 = £434 565 000

Units sold 2019 = 10 501 813 items

£434 565 000 ÷ 10 501 813 = £41.3799...

Average revenue per item = £41.38



- (d) Analyse **two** advantages of division of labour to manufacturers in the clothing industry.

(6)

Division of labour is where the production process is broken down into separate tasks, with each worker specialising in one task, such as cutting fabric, sewing or finishing.

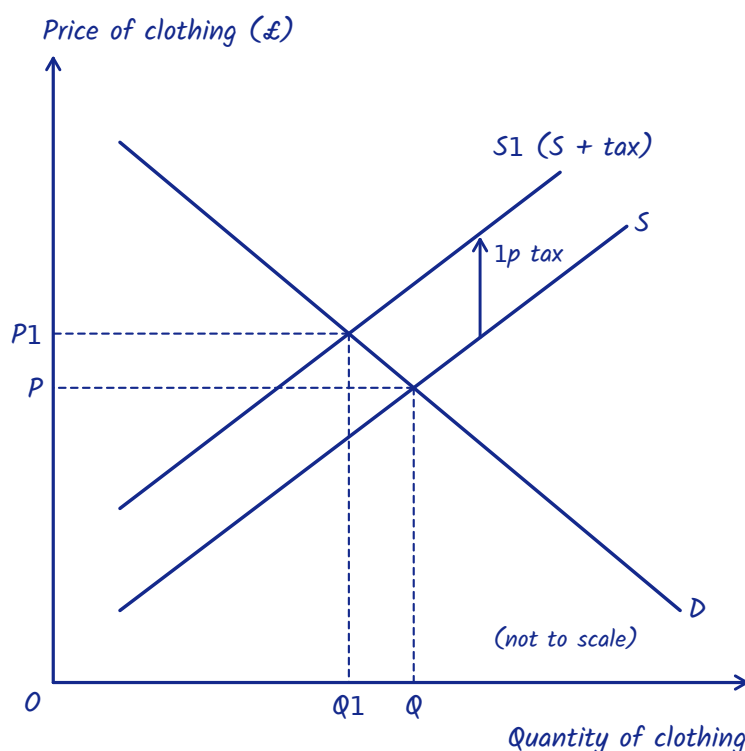
Firstly, it increases productivity, the output per worker. A worker who repeats the same task becomes skilled and quick at it, and no time is lost moving between tasks. This means dresses can be made more rapidly by specialised labour, so a larger quantity of clothing can reach retailers such as Boohoo quickly, which matters in fast fashion where new trends must be on the website in weeks rather than months.

Secondly, it reduces the average cost per unit. Higher output from the same workers spreads labour costs over more garments, and workers need less training because each only learns one task. This is vital because UK manufacturers are typically paid as little as £2.50 to £3 per dress. Lower unit costs allow manufacturers to stay profitable at these low prices, win more orders and sell a larger quantity, helping to boost their revenue and profits.



- (e) Using a supply and demand diagram, discuss the likely effect on the UK clothing market of a 1p tax on clothing.

(8)



A 1p tax on every garment sold is an indirect tax, which increases the costs of production for clothing firms. As my diagram shows, the supply curve shifts upwards (left) from S to S_1 , where the vertical distance between S and S_1 is the 1p tax per garment. The equilibrium price rises from P to P_1 and the quantity of clothing bought and sold falls from Q to Q_1 .

Fewer fast fashion garments would therefore be manufactured and bought. This could reduce the negative impact of clothing on the environment, such as carbon emissions, water use, plastic pollution and the more than a million tonnes of clothes thrown away each year, with £140m worth going to landfill. The tax revenue could also be used to fund clothing collection and recycling schemes, as the MPs on the Environmental Audit Committee suggest.

However, the effect on the market is likely to be very small. The 1p tax is tiny compared



with prices: it is only 0.25% of the price of a £4 dress, and the average revenue per Boohoo item is about £41.38. In practice the shift in supply would be negligible and would have little or no effect on the amount of fast fashion purchased, especially if demand is price inelastic, as consumers may hardly notice a 1p rise.

Retailers such as Boohoo, with a gross profit margin of about 53%, could simply absorb the 1p tax rather than pass it on to consumers, so price and quantity may not change at all. Furthermore, the tax is only a suggestion by MPs, so as it stands any shift in supply is unlikely.

Overall, the 1p tax would raise some revenue for recycling but would barely reduce fast fashion consumption. It would only have a significant effect if it were set much higher or combined with other policies, such as rewarding firms that offer clothing repairs.



- (f) Assess the likely implications of using share capital to fund expansion for a firm such as Boohoo.

(10)

Share capital is the money invested in a company by its shareholders. It is a long-term, external source of finance, and in return for their investment shareholders gain a share in the ownership of the company. Boohoo raised share capital when it was floated on the stock exchange in 2014, becoming a public limited company, and it is now worth £3.7bn.

One implication is that share capital does not have to be paid back, and unlike a long-term bank loan it does not incur any interest. This keeps Boohoo's costs down and protects its cash flow, so there is less risk of insolvency during expansion. Because shares in Boohoo can be bought and sold on the Stock Exchange, a wide range of investors is encouraged to invest, so a large sum can be raised, which is necessary for major expansion. This capital could be used to build new warehouses, buy new technology, upload more new garments each day or enter new overseas markets, helping Boohoo to grow quickly and benefit from economies of scale.

However, there are drawbacks. The Kamani family will have to give up some control over Boohoo, because external shareholders have voting rights and must be consulted on major decisions. As a public company, Boohoo is also at risk of a takeover if someone buys a majority of the shares. In addition, shareholders will expect dividends as a reward for buying shares. In 2019 Boohoo made £24 719 000 profit for the year, so the Kamani family will receive a lower proportion of this profit, and paying dividends reduces retained profit available for reinvestment. If profit falls, as it did from £28 591 000 in 2018, shareholders may sell their shares, lowering the share price.

Boohoo could have raised capital in other ways, such as long-term loans or mortgages, which would have kept full control within the family. However, these methods have disadvantages: interest must be paid even when profits fall, and lenders require collateral, which a fast-growing online firm with few physical assets may lack. Retained profit alone



of around £25m would also be too small to fund rapid expansion.

Overall, using share capital has been beneficial for Boohoo, as it has enabled the firm to increase the number of investors and grow quickly without the burden of interest payments. The main cost is the loss of control and the need to share profit. How significant this is depends on how much of the company the Kamani family still own: if they keep a majority of shares, they retain control, so the benefits clearly outweigh the drawbacks.



- (g) Assess the extent to which enterprise is the most important factor of production for the success of Boohoo.

(12)

Factors of production are the inputs used in various combinations to produce goods and services: land, labour, capital and enterprise. Enterprise is the willingness and ability of an entrepreneur to organise the other factors of production and take risks in return for profit. Enterprise can be seen as fundamental to the organisation of economic activity, because without it no firm would exist. Mahmud Kamani has been willing to take risks in return for profit throughout. He combined enterprise with the other factors of production to start his initial business selling handbags on a market stall, then expanded into a wholesale textile business, selling £50m worth of garments a year to Topshop and Primark.

He was also one of the first entrepreneurs to spot the astonishing opportunities created by the growth of the internet. In 2006 he set up Boohoo with Carol Kane as an online retailer selling its own branded fashion at rock-bottom prices, starting with just three staff in a Manchester warehouse. He created a well-organised business that has tapped into the growth of online retailing by quickly copying celebrity fashion trends, using local contacts to get garments to the website in weeks rather than months. As a result, Boohoo has grown to be worth £3.7bn in just 15 years, which shows the importance of enterprise to its success.

However, although enterprise is important to any firm, enterprise on its own will not guarantee success. Many new business start-ups fail within the first few years due to a lack of capital, land or labour. Boohoo's continued success could be because of its flotation in 2014, which gave it access to a large amount of capital that has been used to expand the firm, for example on warehouses, its website and marketing such as sponsoring Love Island.

Labour is also vital. Boohoo employs nearly 2,000 people, and its designers must successfully design clothing that is in demand by UK consumers, uploading as many as



120 new garments every day. It also relies on the labour of UK manufacturers in Leicester and Manchester, who produce dresses quickly and cheaply, and on hundreds of bloggers and influencers who promote the brand. Without this skilled and flexible labour, Kamani's ideas could not have been turned into sales of 50 dresses every minute.

In conclusion, enterprise was the most important factor when Boohoo was started, as Kamani's vision and risk taking created the business and spotted the online opportunity.

However, as the firm has grown, capital and labour have become just as important to its continued success. For a firm to be successful an entrepreneur needs to combine all four factors of production, so no single factor can be the most important for long-term success; enterprise is best seen as the factor that makes the others work together.



- (h) Assess the extent to which there is a trade-off between Corporate Social Responsibility (CSR) and profitability for a firm such as Boohoo.

(12)

Corporate Social Responsibility (CSR) involves a firm behaving in an ethical way and accepting responsibility for its effects on all its stakeholders, such as workers, suppliers, the community and the environment. CSR involves improving issues such as environmental protection, fair wages and working conditions, responsible sourcing and sustainability.

Boohoo has been criticised for its £4 dress because of the hidden environmental and social costs of making fast fashion. Manufacturers are typically paid only £2.50 to £3 a dress, dresses are often made of 100% polyester, and garments are discarded after an average of five weeks. There is often a negative trade-off between ethical behaviour and profitability.

As part of its CSR policy, Boohoo employs six people in the UK and 10 in China to carry out monthly audits to ensure proper working conditions in its producer factories, and it is forming a partnership with SCAP to reduce the carbon, water and waste footprint of its supply chain.

These measures will result in higher costs of production, from staff salaries, audits and paying suppliers more for better wages or sustainable materials, which may negatively affect profitability in the short term. Boohoo's operating profit has already fallen from £34 555 000 in 2018 to £32 490 000 in 2019, despite revenue rising. If higher costs translate into higher prices, its competitiveness and sales may suffer. There are plenty of other fast fashion retailers, such as Missguided with its £1 bikini, willing to undercut Boohoo, which could result in a loss of market share. Many of Boohoo's young customers may not care about its environmental claims and may be more concerned with the final selling price of the clothes.

However, the trade-off may be limited or even non-existent. Employing 16 auditors is a very small cost for a firm with revenue of £434.6m, so the effect on profit is minimal.

Having a CSR policy may also mean that costly scandals and environmental damage can



be avoided, particularly as the impact of fast fashion on the environment is becoming an increasingly important issue for consumers, the media and MPs, who have even suggested a 1p tax on fast fashion. Firms such as Boohoo can gain a competitive advantage by following an ethical policy, which enhances their reputation and desirability in the eyes of consumers, increasing brand loyalty and allowing higher prices.

In conclusion, there is likely to be a trade-off in the short term, as it may be costly to ensure these standards are kept. In the longer term, however, Boohoo may see its sales and profits increase as its reputation improves. Much depends on the additional costs involved in implementing its values and on how much its price-sensitive customers value ethical clothing.

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS



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SECTION B

Read the following extracts (F and G) before answering Question 2.

Write your answer in the space provided.

Extract F

UK will be left underwater in 80 years' time

A chilling new map has revealed how parts of the UK will be left underwater in a matter of decades as climate change causes sea levels to rise. Major areas such as Liverpool, London and Humberside could be left completely submerged as early as 2100, according to research from Climate Central.

5

Most scientists agree that climate change is melting polar ice sheets, adding significant amounts of water to the world's oceans. A detailed new study has revealed how low-lying coastal areas across the world are now at risk of being completely flooded.

Vast areas of Britain could be wiped out by the encroaching waters. Cardiff, Swansea and North Wales, East Yorkshire and Hull, Peterborough and Norfolk, and the coast from Lancaster to Liverpool could be submerged in just 80 years' time – unless urgent action is taken immediately.

10

Some 5.4 million people in Britain would face annual flooding by 2100 if carbon emissions continue unchecked. Coastal defences would need developing at great cost to protect householders from floods. Dr Scott Kulp, a senior scientist at Climate Central and lead author of the study, says it is not too late to take action to prevent this 'doomsday' scenario.

15

(Source adapted from: <https://www.mirror.co.uk/news/uk-news/chilling-doomsday-map-shows-how-20803818>)

Extract G

Climate talks break up with no agreement on carbon trading

The UN climate talks in Madrid ended in stalemate on Sunday 15th December 2019, with the negotiations running two days over time as countries squabbled over rules for a new global carbon trading market. The talks, known as COP25, ran for 14 days and set a record for the longest-ever climate negotiations, but failed to produce any agreement on trading in carbon credits.

5

This year global carbon dioxide emissions rose to record levels, millions of students marched in protest against climate change and leading economies adopted new net zero emissions targets. But none of that translated into measurable results at the negotiations.

Jennifer Morgan, executive director of Greenpeace International, said the outcome was totally unacceptable. "It is not adequate to just come back next year and say you are going to do more," she said. "Governments need to completely rethink how they do this."

10

(Source adapted from: <https://www.ft.com/content/33f5d282-1f3f-11ea-92da-f0c92e957a96>)

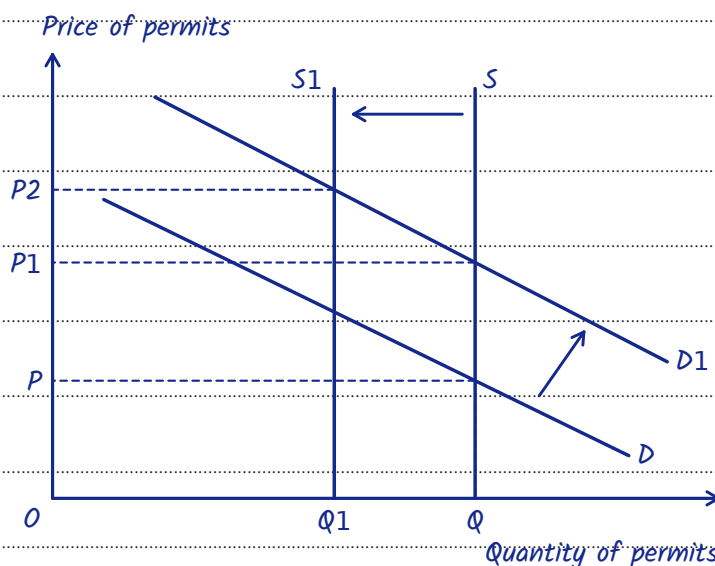


- 2 Using a suitable diagram, evaluate the extent to which tradable pollution permits are the most effective way to reduce environmental damage in the UK.

(20)

Tradable pollution permits are a system of limiting carbon emissions by granting firms permits to emit a certain amount of carbon dioxide. The government decides the total number of permits, a cap on emissions, and they are given or auctioned to firms depending on criteria such as how much output each firm produces. Firms can then buy and sell these permits in an open market.

The supply of permits is fixed by the government, so it is perfectly inelastic, shown by the vertical S in my diagram. If a firm wants to emit more pollution it must buy more permits, but if it reduces its emissions through better technology or renewable energy it



can sell its surplus permits. If demand for permits increases from D to $D1$, the price of permits rises from P to $P1$.

Firms will then either pay more for the right to pollute, internalising the negative externality, or they will be incentivised to reduce pollution by investing in cleaner production and reducing their CO_2 output. Pollution permits therefore provide both a reward and a penalty: clean firms gain revenue by selling permits and polluting firms face higher costs. This combination is more likely to be effective than alternative methods such as



indirect taxation. Emissions are cut by the firms that can reduce pollution most cheaply, so the target is met at the lowest cost to the economy. In the long run, this feeds innovation and drives down the price of new green technologies.

Most importantly, the quantity of pollution is controlled directly. To reduce CO_2 emissions, the UK government can gradually reduce the number of permits it issues, shifting supply from S to S_1 and raising the price from P_1 to P_2 , as shown. This gives certainty that emissions will fall, which is essential given Extract F's warning that 5.4 million people in Britain would face annual flooding by 2100 if carbon emissions continue unchecked, and that areas such as Liverpool, London and Hull could be submerged.

However, tradable pollution permits are very complex to administer. It is difficult for the government to decide how many permits to issue in the first place: too many and the price falls so low that there is no incentive to cut pollution, too few and costs rise sharply for firms and consumers. There are also costs of buying and selling permits. It is difficult to measure how much a firm is actually polluting, so monitoring is expensive and firms may cheat. Permits also still allow some carbon emissions, so negative externalities remain.

If permits are introduced in one country but not others, production may shift to countries without the scheme, so global emissions are not reduced and UK jobs are lost. Richer, more developed countries can simply buy additional permits from less developed countries, which does not reduce pollution but moves it to poorer countries. Extract G shows the difficulty of agreeing rules: the COP25 talks in Madrid ran for a record 14 days but failed to produce any agreement on a global carbon trading market, even though global CO_2 emissions rose to record levels in 2019.

There are alternatives. A carbon tax may be more simple, transparent and easy to administer, as it gives a clear price for each tonne of carbon and raises revenue that can fund coastal defences, which Extract F says would need developing at great cost.



Regulation, such as banning the most polluting activities, gives certainty, while subsidies for renewable energy and electric vehicles reward cleaner choices directly. However, a tax does not guarantee how much pollution falls, because it depends on the price elasticity of demand.

In conclusion, tradable pollution permits are an effective way to reduce environmental damage in the UK because they cap the total amount of pollution and use the market to cut emissions at the lowest cost. Their effectiveness depends on the government setting the right number of permits, accurate monitoring and international agreement, which COP25 shows is hard to achieve. Permits mainly target large industrial polluters, not households, transport or fast fashion waste. Therefore permits alone are not the most effective method: a range of measures, including carbon taxes, regulation and subsidies, needs to be used by the UK government to reduce overall CO₂ emissions.

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS



SECTION C

Read the following extracts (H and I) before answering Question 3.

Write your answer in the space provided.

Extract H

Leading social networks' market share of website visits in the UK in December 2019

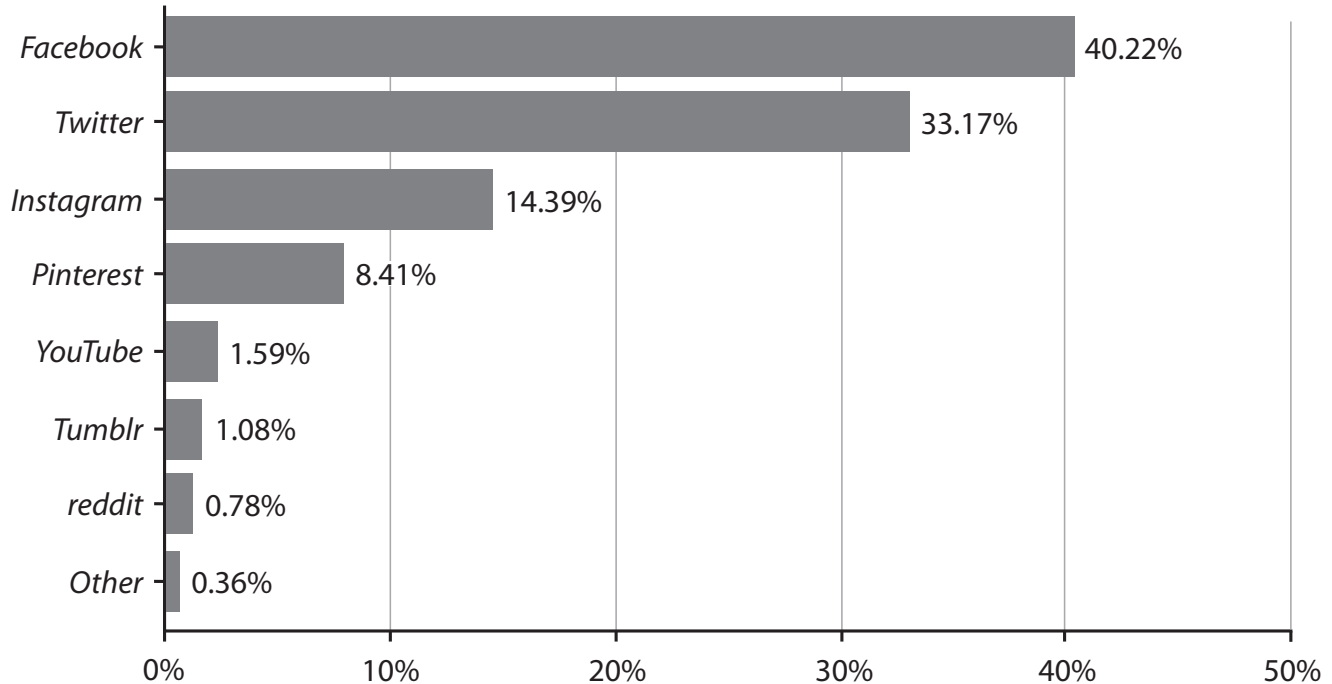


Figure 1

Figure 1 shows the leading social media platforms in the UK ranked by market share as of December 2019. Throughout recent years, *Facebook* has held a steady dominance over the social network market. The age group with the highest number of *Facebook* users in the UK is 20–29-year olds with approximately 5.3 million female and 5.4 million male *Facebook* users. The total number of *Facebook* users in the UK is forecast to rise to around 41.37 million users by 2021.

(Source adapted from: <https://www.statista.com/statistics/280295/market-share-held-by-the-leading-social-networks-in-the-united-kingdom-uk/>)

<https://gs.statcounter.com/social-media-stats/all/united-kingdom/#monthly-201912-201912-bar>)

5



Extract I**The Anti-Facebook: Wikipedia co-founder launches advert-free social media platform**

Fed up with *Facebook* and *Twitter*? If so, *Wikipedia* co-founder Jimmy Wales hopes you will join *WT.Social*, a new social media platform that promises not to run advertisements or sell user data.

WT.Social simply shows a *Facebook*-like feed on which users can share news or other content. But unlike *Facebook*, whose algorithms prioritise content that is sponsored or receiving a lot of engagement, *WT.Social* simply shows new content first. This content comes from various sections of the platform (called subwikis) that users choose to join. The platform will allow users to directly edit misleading headlines, or flag problem posts.

5

About 160,000 people have signed up for *WT.Social* since it launched in October 2019. The platform is free to join, but new users are put on a waiting list, which can be instantly bypassed if you donate money. *WT.Social* hopes to survive only on donations.

10

Wikipedia co-founder Jimmy Wales said he was inspired to create *WT.Social* because advertising had allowed low-quality content to dominate *Facebook* and *Twitter*.

(Source adapted from: <https://bigthink.com/technology-innovation/wt-social?rebelltitem=1#rebelltitem1>)



3 Evaluate the extent to which WT.Social will be able to successfully enter the UK social media market.

(20)

Barriers to entry are factors that make it difficult for new firms to enter a market, such as brand loyalty, economies of scale, network effects and high start-up costs. The UK social media market is an oligopoly dominated by a few large firms: Figure 1 shows Facebook had 40.22% and Twitter 33.17% of UK social network website visits in December 2019, a combined share of 73.39%.

WT.Social has several advantages that may help it to enter successfully. It was set up by Jimmy Wales, co-founder of Wikipedia, which is already well known and has an established online presence, with experience of the technology required to run a successful online platform. This reputation gives WT.Social credibility and free publicity, reducing the cost of attracting users.

WT.Social offers a different social media experience, providing advert-free content and promising not to sell user data. Many social media users dislike adverts and are concerned about privacy, so this unique selling point could be used to differentiate WT.Social from platforms such as Facebook and Twitter, which use adverts and sell data to fund themselves. Its feed shows new content first rather than sponsored content, and users can edit misleading headlines, which could appeal to people fed up with low-quality content and fake news.

WT.Social might be successful if it can appeal to a particular niche group of users. The largest group of Facebook users in the UK is 20 to 29-year-olds, with about 5.3 million female and 5.4 million male users, and if WT.Social can target this group it might be able to gain market share. The total number of Facebook users in the UK is forecast to rise to around 41.37 million by 2021, indicating there are many potential customers. Many people have several social media accounts, so WT.Social does not need users to leave Facebook; it could still be successful in a market dominated by Facebook and Twitter. It has already



signed up about 160,000 people since October 2019, showing there is demand.

However, it would be hard to displace Facebook from its position of dominance. Being the first firm helps create brand loyalty and a framework that is difficult for new firms to break into. Social media has strong network effects: people want to join the platforms with the most users, where their friends already are. Facebook's 40.22% share compares with tiny shares for established rivals such as Tumblr at 1.08% and reddit at 0.78%, which shows how difficult it is to gain market share. WT.Social currently has only 160,000 users globally, compared with tens of millions of Facebook users in the UK alone, which could restrict how successful it will be.

Its business model is also a weakness. Other social media platforms are free to join and use, whereas WT.Social places new users on a waiting list unless they donate money, which could restrict the number of potential users and deter young people with low incomes. Hoping to survive only on donations is risky: without advertising revenue it may not be able to fund servers, staff, marketing and new features, so it may fail to cover its costs in the long run. Facebook can also respond, for example by offering more privacy controls, or could even buy WT.Social, as it did with Instagram.

In conclusion, WT.Social may be able to enter the UK market successfully as a niche platform, using its Wikipedia link and advert-free model to attract users concerned about privacy and fake news, especially as many people use several platforms. However, it is unlikely to challenge Facebook and Twitter's dominance in the short run because of strong brand loyalty, network effects and its limited funding. Its success will depend on how the new platform is marketed, whether it can raise enough donations, and whether users prefer the new format enough to keep using it.



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