General Certificate of Education
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Advanced Subsidiary Examination

BUSINESS STUDIES **BUS2/3/PM**
Unit 2 and Unit 3

ASSESSMENT and QUALIFICATIONS ALLIANCE

Case Study

To be distributed to candidates no sooner than 1 March 2006

NOTICE TO CANDIDATES

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

Your teacher is encouraged to give assistance and advice as required.

S4U

Section A – A lucky break?

"Who would have thought that rupturing my Achilles tendon would be the best thing that ever happened in my career?" mused Billy Fisher.

Billy had enjoyed a successful career as a professional footballer, playing mainly in the lower divisions of the Coca-Cola championship. Unfortunately, it was ended prematurely when he severely damaged his Achilles tendon during the 2000 – 01 season. Thankfully, the insurance policy that Billy's club had taken out provided him with a lump sum of £200 000. Billy's problem was to decide what to do next.

Section B – An opportunity beckons

During his rehabilitation, Billy had befriended a young physiotherapist, Michelle Pigford. Michelle had undertaken a research project into sports injuries at the local university. In her opinion, many injuries were caused by poorly designed footwear. In collaboration with a friend who was studying IT, Michelle had developed a prototype scanning system which analysed each client's foot. From the scan, a specific shoe could be designed which matched the individual requirements of each athlete.

Her initial trial had yielded encouraging results, but Michelle lacked the necessary funding and contacts to take the idea further.

Billy quickly realised the potential of this system and suggested that he and Michelle should set up a business together. He conducted some secondary research into sports clothing which yielded the promising results shown in **Table 1**.

Table 1: UK Consumer Spending on Sports Clothing

Table 1 has been removed due to third-party copyright constraints.

From her records of her physiotherapy clients, Michelle found that 40% of the injuries she treated were either foot or leg related. She decided to survey a sample of these clients. An analysis of the responses produced the following:

- 70% bought sports footwear at least once a year
- typically, they would spend between £70 – £90 on a single pair of sports shoes
- 20% of her sample would 'definitely' be interested in buying custom-made footwear and a further 25% would 'probably' be interested.

Billy and Michelle believed that they had spotted a gap in the sports footwear market. The intention was for each customer to have an individual foot scan, and a pair of shoes would then be manufactured to his or her individual specifications.

They set up the business as a private limited company in the summer of 2001. Billy invested £150 000 of his lump sum which gave him a 75% shareholding, whilst Michelle sold her physiotherapy practice for £50 000 which represented the remaining 25%.

A patent was quickly taken out on the scanning system which was to be called ‘Pegasus’. ‘Pegasus’ was to be used to help to design custom-made shoes for as wide a range of different athletes as possible. To reflect this, Billy and Michelle’s business was to be called *S4U (Sport shoes for You).*

Section C – Starting out

As luck would have it, a sports footwear manufacturing business in Huddersfield, West Yorkshire, had recently ceased trading. Billy offered £100 000 to buy the business, which was readily accepted by the receivers.

It was quickly apparent why Billy had been able to acquire the footwear manufacturing business at such a low price. The building was in a poor state of repair and the equipment was at least 20 years old. Out of the original workforce of 50, 10 had been kept on but, understandably, their morale was low. One consequence of the ‘Theory X’ leadership style of the previous management was that although the workers were relieved to have kept their jobs, they were not interested in much else.

Billy and Michelle considered themselves as ‘Theory Y’ managers. They held a meeting with the workforce and explained that *S4U* would be focusing on providing handmade shoes designed for each individual customer’s needs. The emphasis would be upon craftsmanship and customer service. Each customer would be assigned a specific worker who would be responsible for the entire process; from the initial scan to the final despatch of the shoes. There would be regular team meetings to discuss improvements and the company intended to invest in new equipment and training. “We are all in this together; if the company does well, so will you,” Billy told the workforce. To emphasise this, Michelle informed the staff that they would be implementing a single status policy.

Whilst Billy and Michelle firmly believed that their management approach would produce positive results, they also appreciated that they had to be pragmatic, especially during the first precarious months. With only £100 000 remaining of their original budget, they appreciated that cash would be tight. Consequently, their primary objective for the first year was simply to break even. Because of this, they decided to keep the staff on temporary contracts and to pay only an hourly rate at minimum wage levels. To provide an incentive, bonuses would be paid for reaching quality and productivity targets.

After some initial doubts, the workforce responded positively to the changes. Billy’s contacts had yielded some initial orders and customer feedback was positive regarding the quality and performance of the footwear. However, the company was finding it difficult to build up a customer base. Then came their first big break.

Section D – Expansion

A promising sprinter in her early twenties, Amy Rowling's recent career had been plagued by injury. Michelle knew Amy's physiotherapist and was convinced that 'Pegasus' designed footwear could help to solve her problems. She negotiated a contract with Amy's agent to provide her with running shoes for the 2002 season.

This proved to be the opportunity for which *S4U* had been waiting. Amy escaped injury and enjoyed a terrific season which resulted in her being selected for the UK Athletics team. In an interview with 'Runners World' magazine, Amy publicly acknowledged the role that *S4U* had played in her success.

In the following weeks, *S4U* was besieged with orders from other athletes. The business took on five extra staff and bought more machinery. Business was booming, with orders more than doubling from the usual 500 to 1100 pairs a month.

However, the extra demand had taken them by surprise and the factory was struggling to cope. All the staff were working overtime and the old machinery would often break down. Worryingly, customers were beginning to complain about the length of time that they were having to wait for their orders.

At the end of a particularly hectic week, the Production Manager requested a meeting with Billy and Michelle. "The factory simply can't manage this level of demand. We are working to full capacity but our efficiency is falling. There simply isn't enough space to accommodate all the staff and equipment and I'm finding it increasingly difficult to communicate with and coordinate everyone. Take a look at these latest cost figures **(Table 2)**, our profits will suffer if we don't address the issue soon."

Table 2: Monthly Production Costs

Units of output	Total costs £	Unit costs £
0	10 000	
500	31 000	62
700	35 700	51
900	46 800	52
1100	70 400	64

Billy realised that they had reached a crucial stage in *S4U's* development. The potential for sustained success was there, but only if the expansion could be managed carefully.

There was a pressing need to operate a bigger, more organised business. Billy and Michelle put together a business plan and approached their bank for extra finance. Impressed by *S4U's* full order book and encouraging profit projections, the bank agreed a £4 million loan over a period of five years at a variable interest rate, which provided 80% of the finance for a bigger factory. The remaining 20% was to be raised internally through retained profits and the sale of the existing factory.

The new factory, located in Bradford, opened in the Spring of 2003. The workforce had now expanded to 30 staff employed in production and administration. They were organised into specific functional departments, each run by a manager who reported directly to Billy and Michelle. This meant that Billy and Michelle could now concentrate on more strategic issues. After some initial teething problems, the factory settled down again and was able to manage the increased demand.

S4U now had an established customer base, predominantly from athletics, but it was gaining interest from sports such as football, hockey and rugby.

Section E – Aiming high

Two years later (Spring 2005), *S4U* was an established business and making steady profits. Although proud of what had been achieved so far, Billy felt that the business could do more. He recognised the limitations of operating in a niche market and the vulnerability of the company if any of the big multinationals threatened to enter this market. After a discussion with Michelle, the following objectives were set for the company:

1 to increase turnover by 25% in the next 12 months

2 to develop at least three new products in the next two years

3 to achieve a target market share of between 2% and 5% in each of the rugby, hockey and football boot markets in the next three years.

Whilst out shopping with his children, Billy spotted a new opportunity. His daughter needed some new school shoes so they went to the local branch of a national specialist footwear retailer. Billy was impressed by the technology used to measure accurately his daughter's shoe size, combined with the expert care and attention of the shop assistant. Although the shoes were not cheap, Billy noticed the long queue of parents happy to pay these prices.

Billy then took his son to buy some football boots from a sports shop. In marked contrast to the first shop, the assistant simply asked Billy what shoe size he required and then pointed out where the football boots could be found. They were then left on their own before paying the premium price charged for the latest branded offering.

At work the next day, Billy called a meeting with Michelle and the Marketing Manager. "Surely, if parents are prepared to pay high prices for well-fitted school shoes, they would also do the same for custom-made sports footwear. I think this is a strategy we can adopt." Michelle was not so sure, "We can't compete with the big multinationals. It's 'pester power' that persuades parents to buy the branded boots and trainers. Our brand isn't established enough to enter this market."

The Marketing Manager supported Billy's ideas. "I know there are threats and we are only a small company, but we have established a reputable name. There is a great opportunity here if we can convince parents of our superior quality. Think of the hundreds of junior sports teams out there. If we can catch them young and establish some brand loyalty, the long-term success of *S4U* could be guaranteed."

Billy was convinced that this was the way forward. He put together a project team, based upon a matrix structure, with representatives from each department. For a project as important as this, Billy wanted to ensure that all aspects were fully covered. Each member of the team was given two weeks to research their particular area and to report back their findings.

The contribution from Marketing was first. "Sports footwear is as much about fashion as function. I think we can learn from the leading fashion retailers who utilise the principles of simultaneous engineering to constantly bring out new ranges."

The representative from Production agreed. "I think we should adopt the principles used in car manufacturing. By using new technology, we can offer a modular design, but the customer can select from a range of colours and materials. For example, kids could have boots in the same colour as their team shirts."

The input from HRM was more cautious. "These changes will have a major impact on the culture of the business. Furthermore, this will involve moving from labour intensive to a more capital intensive means of production, which could result in some staff being made redundant. I am worried about the effect upon the morale of the existing workforce as the business gets larger."

The Finance representative also raised concerns. "This project will require major investment. We will have to consider whether it is wise to extend our current level of borrowing. I am concerned also about the cash flow implications, particularly in the early days. Before we proceed, I think it is vital that we analyse the latest predictions for the UK economy." **(Table 3)**

Table 3: Economic Data: Mid-year Forecasts for the UK Economy (Spring 2005)

Indicator	**2005**	**2006**	**2007**	**2008**
GDP growth (%)	2.3	2.7	2.9	2.1
Interest rates (%)	4.5	5.0	5.5	5.25
Inflation (%)	2.5	3.0	3.5	3.2
Euros to the £	1.35	1.40	1.55	1.60
Unemployment (%)	4.0	3.75	3.5	3.5

Billy concluded the meeting, "I appreciate that there are valid concerns regarding this venture, but I believe they can be overcome. This could be the opportunity we have been waiting for to join the 'premier league' of sports footwear manufacturers."

Section F – Ambitions

Following the meeting, Billy approached a national sports chain retailer. Its initial response was enthusiastic. It had established a presence providing ‘own brand’ sportswear to amateur teams and viewed this as a way to make further inroads into this market.

They agreed upon a joint venture. Each store would have a ‘Pegasus’ scanner and each customer’s specific size and colour/material requirements would be stored on the retailer’s central database. These details would then be sent electronically to a purpose-built factory, where the shoes would be manufactured, primarily by robots. The retailer agreed to pay for the cost of each ‘Pegasus’ scanner and for the training of the staff on how to use it.

The £10 million new factory was to be financed by *S4U*. It was to be run using the principles of time-based management. In order to maximise efficiency, flow production methods were to be used. However, as a result of the investment in new technology, it would be possible to produce specific designs of footwear for each customer.

Billy appreciated that it would be important that *S4U* established a reputation for constantly bringing out new footwear models. To achieve this, a new design department would be established with an emphasis on employing simultaneous engineering principles.

By employing Just in Time (JIT) techniques, the necessary stock required would be obtained from suppliers once the daily orders from each store had been received.

The intention was that the lead time between a customer placing an order and receiving it back from the factory would be three working days. In order for this to be feasible, it was necessary to build the factory in an easily accessible location. A greenfield site near Leeds, which had the advantage of being close to the M62 motorway, was chosen. Despite objections from some local residents, Billy persuaded the local council to grant the new factory planning permission, on the grounds of the economic benefits that it would bring to the area.

Conscious of HRM’s concerns, Billy informed the staff that they would be offered permanent contracts if they agreed to move to the new factory and to accept the new production methods. The hourly wage rate would be scrapped and be replaced by a competitive salary. The company would also establish a pension scheme and an extra five days’ paid holiday.

The existing factory in Bradford was closed and replaced by the new Leeds site in January 2006. Billy’s initial hunch proved to be correct. By carefully targeting school and youth sports teams, a presence was established in a wide range of sports. The name of *S4U* was becoming well known and attracted the interest of a French sports retailer. When it offered an initial contract which would increase sales turnover by 10%, Billy and Michelle jumped at the chance.

Section G – They think it's all over

Everything seemed to be going smoothly when the business was hit by a major blow. *S4U* had become a victim of its own success. The big multinationals were feeling increasingly threatened as they saw their sales of footwear fall and decided to take retaliatory action.

One morning, Billy received a phone call from the Managing Director of the UK sports retailer, "Billy I'm afraid we're going to have to pull out from our joint venture. The big sportswear firms are threatening to boycott us unless I agree to stop selling your products. I realise this venture has been good for both of us, but *S4U* products provide only a small percentage of our turnover. If we can't sell the big brands, our business will collapse. Our contract with you requires that we give two months' notice but after that, I'm afraid, you're on your own."

Billy was sure that this threat was breaking competition laws, but he doubted whether he had the time and resources to take on the big multinationals. The reality of a purpose-built factory with few orders began to sink in. *S4U* had invested heavily in the new factory, but as the orders began to dry up, it was faced with the problems of poor capacity utilisation. Furthermore, the morale of the workforce, already weakened by the move to capital intensive production, plummeted further as rumours of the falling order book spread.

Although Billy was proud of what had been achieved, he missed the early days when everyone was pulling together. Nowadays, he struggled to remember the names of his staff, let alone having enough time to talk to them. Michelle also felt that the business had become too impersonal and was beginning to reminisce about her time as a physiotherapist.

As news spread in the business press of the end of the joint venture and of *S4U's* difficulties, many rumours circulated about the company's future. One day, Billy received an offer from the French sports retailer who was keen to enter the UK market. It offered Billy and Michelle £20 million for the business which represented a substantial return on their initial investment. However, Billy was conscious of the responsibility he had to his employees and he was convinced that *S4U* could succeed again. Billy had a decision to make.

END OF CASE STUDY