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INFORMATION

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- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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BF Bicycles (BFB)

Aela Gagnon had been a professional cyclist and then worked in the marketing department of a large bicycle manufacturer. In 2014 she realised there was a gap in the market when looking for a bicycle for her young daughter. Most bicycles for children were heavy and poorly designed. She was sure there would be a demand from parents for something better. So, she and her husband John, a product designer, started to design a range of bicycles using lightweight frames and child-specific components.

Aela and John obtained a long-term loan, secured on their house. They set up BFB in 2015 as a private limited company in country C. It sells BFB branded bicycles for children. The company outsources the assembly of the bicycles to a business in South East Asia. BFB leased a warehouse for storing and distributing finished bicycles in country C.

Growth and recognition

BFB's mission is to provide lightweight and colourful bicycles for children. Aela uses social media to target parent groups and BFB also benefits from publicity about the brand in numerous magazine articles. From 2015, sales increased rapidly.

BFB uses a skimming pricing strategy as it is one of few child-specific bicycle brands in the market. BFB has been profitable since its second year of operations. In 2018, Aela and John won the Entrepreneur of the Year Award. BFB now has a 30% share of the market for children's bicycles in country C. It exports 10% of its output.

Sales growth has slowed recently. Aela is keen to ensure that BFB continues to grow. She has conducted a SWOT analysis of the business. This analysis is shown in Table 1.

Table 1: SWOT Analysis 2021

Strengths	**Weaknesses**
• brand reputation and awareness • award winning designs • high consumer satisfaction	• delays in meeting customer orders • cash flow constraints • reliance on debt finance
Opportunities	**Threats**
• growing market for bicycle accessories • rising income in country C • export markets • target alternative market segments with new products	• falling birth rate • new competitors • possible increase in tariffs on imported goods into country C

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A dynamic external environment

Country C is a high-income country. However, government debt has increased and the inflation rate is rising. The government has stated that it will target these two problems. Aela is also worried that the existing free trade agreement between country C and two other countries may end soon. Most of BFB's exports are to these two countries and sales are growing. Details of some external influences which might impact BFB's future decisions are shown in Table 2.

Table 2: External influences data for BFB in country C including forecasts for 2021–2023

	2019	2020	2021	2022	2023
Index of real GDP	96	100	104	107	110
Inflation rate (%)	3.5	4	5	5.2	5.3
Unemployment rate (%)	9	7.5	6.7	6.3	6
Exchange rate index	102	100	94	90	90
BFB's market share (%)	24	28	30	–	–
Number of BFB's direct competitors	4	4	5	–	–

A successful business

BFB has been more successful than Aela and John had forecast. The current range of bicycles has received excellent reviews from parents and on cycling websites. Profits have been reinvested to develop the product range. The owners have not yet taken a dividend as they are ambitious to develop the company brand. Recent financial data is shown in Appendix 1.

TT's offer

BFB has been approached by TT, a leading bicycle manufacturer. TT has offered to buy 55% of the shares in BFB for $7m. This would provide the finance BFB requires for further expansion. Aela and John would remain as directors of the business with responsibility for major strategic decisions.

Bringing manufacturing home

Despite success, there have also been difficulties for BFB. Sales forecasts have often been inaccurate. Lead times from the assembly factory in South East Asia are long. To cope with growing demand BFB holds a large inventory of finished bicycles. In 2020 Aela took the decision to move assembly from South East Asia to country C. The new factory will open in April 2021. Each bicycle will be assembled from many imported components.

The factory will employ 80 workers and assemble 400 bicycles per day at full capacity. The factory will operate 5 days per week, 50 weeks of the year. A new operations manager has just been appointed. She recently left university with a business degree. She plans to operate the factory using lean production techniques. BFB has invested $3m in the factory using loan finance.

Market opportunities

Aela has decided to target a new market segment. She has researched the market for bicycles and identified that there are no bicycles aimed at consumers aged over 60. John has been designing a range of bicycles targeted at this market segment. The bicycles will be lightweight and include features such as easy to change tyres and a lower bar on the frame. The new range of bicycles will launch in June. Aela is finishing details of the marketing plan including the budget for promotion.

Continue with a centralised structure?

Decision-making and control in BFB are currently centralised. Product managers and managers of functional departments have very limited influence on decision-making. Aela and John are unsure whether centralisation will be efficient as BFB grows in a dynamic bicycle market. BFB is increasing its product range, more export markets are being developed and the new factory is about to open. Aela and John are considering changes to the organisational structure including decentralisation.

Further options for growth

Aela is currently developing a strategic business plan for the next five years and has identified two further options for growth. She is confident that the business can progress with one of these. She recognises the importance of making the right investment choice. Either option will have important implications for finance.

Option 1: Cycling accessories
Develop a range of cycling clothing and safety equipment for children.

Option 2: Develop a range of mountain bicycles (bicycles for cycling off-road)
These mountain bicycles would be targeted at adults. This is a large market segment in country C and other countries. Although it is a mature market, sales are still growing.

Aela has used strategic choice techniques to compare these options. Aela prefers option 2 based on her Force Field Analysis. Further information is provided in Appendix 2.

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Appendix 1: BFB's financial information

Summary of statement of financial position for BFB at 28 February 2021

	$m
Non-current assets	10
Current assets of which: liquid assets	1.4 0.6
Total assets	11.4
Current liabilities	1.3
Non-current liabilities (bank loans)	6
Total liabilities	7.3
Share capital	1
Reserves	3.1

Summary of income statement for the year ended 28 February 2021

	$m
Revenue	13.2
Cost of sales	10
Expenses	2.4

Appendix 2: Summary of data from strategic choice techniques

	Option 1: Cycling accessories	Option 2: Mountain bicycles
Driving forces	• rapidly growing market • high profit margins • limited competition	• design and quality are BFB's core competencies • large established market • capacity exists in new factory • product launch within a year
Restraining forces	• no experience in the market • product launch in two years • need to comply with product safety laws	• competitive market
Accounting Rate of Return	20%	10%
Capital cost	$3m	$2m
Probability of success	65%	75%

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