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BUSINESS **9609/31**

Paper 3 Case Study **May/June 2019**

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Bright Stone Jewellery Ltd (BSJ)

When her father retired, Janice became the main shareholder of BSJ and promoted herself from Marketing Director to Managing Director. Four of the five shareholders are members of the same family and are also directors. The remaining shareholder is a bank.

BSJ produces luxury, expensive jewellery including rings, bracelets, necklaces and pendants. Some of the designs have been used for several years but 40 designers are employed to develop new products. BSJ employs 250 workers in its factory in the capital city. Their method of payment has recently been changed from a time based to a piece rate system. BSJ supplies well-known international brands and specialist jewellery stores (shops) in major world cities. It also has its own store near the factory aimed at the tourist market.

Ethical issues

Buyers employed by BSJ purchase precious stones, gold, silver and other raw materials from specialist suppliers. They are expected to keep costs as low as possible while meeting quality requirements. The buyers choose which suppliers they use. Pedro, BSJ's senior buyer, suspects that some of the revenue raised from the sale of raw materials is used to finance criminal activities. He also knows that some gold and silver is produced by exploited workers and children, often using methods that damage the environment.

Pedro has also become aware that BSJ's retail customers overseas increasingly want to check that their supplies are sourced ethically.

Communication

Janice looked at some key indicators for the last two years and was worried that productivity was falling and the percentage of rejects from the factory was increasing. Some retail customers stated they would buy elsewhere unless quality improved. She investigated what was happening at the factory and noted that:

- production employees are given little training and are expected to use drawings and material specifications to produce the items of jewellery.
- supervisors use notice boards to inform production employees of any changes to designs or working practices.
- each employee works at an individual workstation, using very old equipment.
- there is little contact between production employees, supervisors and the quality control inspectors.
- status is very important – managers give written instructions to supervisors and expect them to be carried out.
- the production workers gather in small groups outside the factory when work has finished.

Planning and producing new designs

Janice is worried that for the last two years, BSJ has not been able to get all its new jewellery designs ready in time to show them at the important jewellery trade fairs in New York, Hong Kong and London. She asked Anil, the factory manager, to produce some information to help avoid this happening again. Anil prepared Table 1, which shows the activities involved in producing new designs before they can be shown at trade fairs. Janice is certain some changes will have to be made to these activities to make sure the latest new designs are ready for the next trade fair in 20 weeks' time.

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Table 1: Activities for planning and producing new designs

Activity	Description	Duration in weeks	Sequence
A	New designs researched and prepared	12	–
B	Initial approval by directors	1	Must follow A
C	Costing of materials and labour	4	Must follow B
D	Preparation of detailed drawings for production employees	2	Must follow B
E	Obtaining materials for new designs	5	Must follow C
F	Producing samples of the new designs	2	Must follow D & E

A takeover offer

BSJ's Board of Directors has just received an offer from Gonfo, a much larger rival business. Gonfo has offered to buy 100% of the shares in BSJ for $50m plus $50m worth of Gonfo shares. There was no indication of what would happen to the employees and assets of BSJ. The initial reaction of the BSJ directors was divided. Some directors wanted to maintain the family culture of BSJ and continue working in the business they love. Others wanted to take the money. Appendix 1 shows some relevant financial information.

The future

The takeover offer has prompted the directors to consider the future of BSJ in more detail. At a recent meeting, the directors produced a simple SWOT analysis which indicated:

- BSJ still has a good reputation for quality and design. These factors are considered more important than price.
- BSJ operates in increasingly difficult market conditions.
- Artificial diamonds and gems used by some competitors are cheaper than genuine precious stones and are becoming more difficult to tell apart.
- BSJ benefits from no import tax on raw materials and the factory is in a tax free enterprise zone. These benefits are not guaranteed to continue and no other country offers them.

The directors agreed to set some clear objectives. They considered the information in Table 2, which was presented to them by the Marketing Director.

Table 2: Global luxury jewellery market data

	2017	2022 (forecast)
Total sales $bn	13	52
E-commerce sales as a proportion of total sales (%)	8	15
Market size: ranking (by value)	1. USA 2. China 3. Europe	1. China 2. USA 3. India

The directors then considered two proposals for future growth suggested by the Marketing Director:

Option A: Opening new BSJ stores in several countries

It is increasingly important for luxury jewellery manufacturers to keep control of their distribution and marketing to maintain profit margins. Opening new stores will enable BSJ to do this. It would make establishing the BSJ brand easier and would not reduce sales to existing retail customers who will continue to rebrand BSJ products as their own. It would be important to place the new stores in the countries where demand for luxury jewellery is high. BSJ would need to decide on the method of entry. Should BSJ:

- own and operate the stores?
- sell franchise licences to local entrepreneurs?
- set up joint ventures?
- buy out existing businesses?

Option B: Using the Internet for marketing

Expensive luxury jewellery is increasingly sold directly to individual consumers. In the last five years the Internet has increasingly been used by firms producing luxury jewellery. Industry forecasts show that by 2022 luxury jewellery internet sales are set to increase, while traditional store sales will fall. New small businesses are successfully entering the luxury jewellery market through e-commerce. This option is expensive but costs less than Option A.

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Appendix 1: BSJ's Financial information

Summary of statement of financial position for BSJ Ltd as at 30 April 2019

	$m
Non-current assets	50
Current assets	100
Total assets	**150**
Current liabilities	40
Non-current liabilities (bank loans)	60
Total liabilities	**100**
Net assets	50
Share capital (10m shares issued)	10
Reserves	40

Summary of income statement for BSJ Ltd for year ended 30 April 2019

	$m
Revenue	800
Cost of sales	500
Gross profit	300
Expenses	290
Operating profit	10

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