Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/31**

Paper 3 Case Study **October/November 2018**

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Swish Umbrellas (SU)

Swish Umbrellas has been trading as a public limited company in country X for fifteen years. SU produces a range of large and small umbrellas, including golf, fashion and beach. Total sales are approximately two million units per year. SU's products are sold to other companies acting as retailers. These retailers arrange for the umbrellas to be printed with the final customer's own logo and words. 90% of SU's output is exported. The umbrella market is very competitive. There are over 100 companies producing umbrellas for export. Design, delivery time and especially price are all important factors for customers.

Production arrangements

SU employs 380 people to make the umbrellas. At the moment these employees work from home on flexible contracts. This is about to change. SU has decided to move all the production to a new factory. This process will be complete in six months. Many workers have not wanted to transfer to the factory. SU are finding that an increasing number of their employees are much more aware of the terms and conditions of their employment. 60% of them now belong to a trade union and this percentage is increasing. This means that more employees are becoming increasingly aware of conditions of employment in other businesses. The production department manager is resisting any recognition of or dealing with the trade union. This is beginning to cause a higher rate of labour turnover and difficulties in recruiting.

Organisation structure

SU has a number of departments: marketing, production, administration/IT, workforce planning, finance and research. Each department has a director and a department manager. Otto, the Chief Executive, is concerned that SU's organisation structure is not suited to the competitive market conditions in which it operates. He spends a lot of his time dealing with internal arguments between department managers, often about efficiency:

- The marketing manager and the production manager complain that departments dealing with staff functions never praise employees and make unreasonable demands of them.
- The finance manager and the workforce planning manager argue that their staff work well because they are controlled by being directed to carry out set tasks.
- Other departments say their advice is often ignored and all the department managers are becoming frustrated and confused.

Otto presented information about the current organisation structure to the Board of Directors (see Appendix 1). He stated: 'The new factory brings an opportunity to make some changes. We need to decide on company policy regarding delegation, trust and control, span of control and accountability. I can see little difference in the levels of efficiency between any of the departments. However, the constant disagreements are lowering our competitiveness. We need a new approach to the way SU is organised.'

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Producing in the new factory

Making umbrellas is a mixture of manufacture and assembly. SU buys cloth and cuts it to the correct shapes. The finished umbrella is assembled by fixing the cloth on to a frame using bought in components. An important part of controlling costs is sourcing and storing the cloth and components in the cheapest way. Whatever way this is done, the customers' requirements for quality must be met. The new factory is planned to open in six months. Not all the different workstations for the various product ranges have been installed and employees still have to be hired and trained. Table 1 shows some information from the administration/IT department. The IT manager is working on enterprise resource planning (ERP) and aims to fully implement this by the end of the first year.

Table 1: New factory production forecast data

Level of production	Monthly output (000s units)	Forecast unit cost production ($)
Maximum	300	2.40
First six months	100	3.20
Most efficient	260	2.20

Financial matters

SU appears financially secure. It has a good reputation and many regular and repeat orders for many of their products. The only exception is beach umbrellas. These account for 20% of total revenue. The market for these is extremely competitive. SU has already reduced the price of this product and it now barely covers production costs. The marketing department manager considers that the only way to increase sales is to spend more on promotion. He estimates that this will increase sales over the next year. He thinks that there will be no change to the total unit cost of production. Appendix 2 shows some relevant information about the proposal. Research shows that the increase in promotion is likely to increase sales by 15%. This makes him certain that higher promotional spending will increase profits. He has also looked at extracts from the company accounts (Appendix 3). However, he does not fully understand these as he is not a financial expert. He has yet to consult the finance department.

A new product

The research department has been working on making a photo-chromatic umbrella. Its material is black when the sun is shining (giving shade) and transparent in low light or rain (enabling clear vision). So far the idea has been explored with little thought to the cost of the research. A sales person, a production employee and the research department all claimed to have thought of this idea. SU is hoping that this new addition to their portfolio will give the company a real chance of significant additional profit. To achieve this there will need to be effective planning and coordination. The new factory is going to be open in six months if all goes according to plan. Before this happens changes to the organisation structure will have been decided. SU will then be in a good position to successfully sell photo-chromatic umbrellas in a competitive market place.

The new umbrella will be ready to manufacture within eighteen months. It will have to be sold at a premium price to recover the large development and manufacture costs. The high price means that it will be difficult to sell successfully using existing promotion and distribution channels. The marketing department has outlined two possible options for the distribution and sale of the photo-chromatic umbrella.

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Option 1: a joint venture for export

SU would identify a partner for a joint venture. This business would have access to existing export markets and customers, especially those wanting premium products. SU would supply the new umbrellas and the partner business would distribute them in appropriate packages using personal selling. Possible markets the partner operates in might include hotels, sporting venues and expensive up-market department stores. This option offers the possibility of high sales at minimum investment and risk.

Option 2: selling in Country X

SU would first sell the new product in their home market. The new product may not sell in large quantities and will require specialist marketing methods. SU would therefore treat Country X as a test market, using personal selling to existing customers and contacts. Various methods for increasing sales can be tried out. This option offers the possibility of gaining market experience with minimum investment and risk. However, sales volumes are likely to be small for some time.

Appendix 1: Organisation structure information

	Number of employees	Span of control	Level of delegation	Line or staff function
Marketing (including sales)	24	8	High	Line
Finance	13	3	Low	Staff
Administration/IT	20	6	Low	Staff
Workforce planning	12	2	Low	Staff
Production	380	10	Medium	Line
Research	8	0 (Matrix)	Very high	Staff or line?

Appendix 2: Beach umbrellas proposed promotion increase

Current promotional spending	$40 000
Proposed promotional spending	$44 000
Current price	$5.00
Current sales revenue	$2 m per year
Cost of sales per unit	$3.50
Current annual sales (units)	400 000

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Appendix 3: Extracts from SU company accounts

SU Income statement extract year ending November 2018, $m

	Current year end	Forecast for year with proposed beach umbrella promotion change
Sales revenue	10.00	10.30
Cost of sales	6.00	6.21
Gross profit	4.00	4.09
Expenses	2.20	2.20
Earnings before tax and interest	1.80	1.89
Tax and interest	0.80	0.80
Net profit	1.00	1.09

Income statement assumes no other changes

SU statement of financial position extract as at November 2018, $m

Non current assets	15.00
Current assets	3.00
Total assets	18.00
Non current liabilities	3.50
Current liabilities	2.00
Total liabilities	5.50
Net assets	12.50
Equity and reserves	12.50

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