Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/33**

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

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BKC Clothing

BKC is a public limited company with its Head Office in country X. It manufactures clothes in four factories in country X and two factories in country Y. One BKC factory in country X produces only work clothes and uniforms for police forces and the army. The other factories produce a large range of leisure clothing for men and women. BKC is well-known for clothes that are traditionally styled, of good quality and priced above the average level for similar clothing – but not at the highest premium prices.

BKC sells 70% of its leisure clothing through its own 360 shops in country X. The other 30% is sold to two of the largest retailers in country X. The clothing sold to these retailers carries these companies' brand names.

BKC does not sell online. The directors believe that customers prefer the personal service that shops can offer. Sales through its own shops gave the company a 32% share of the total market for leisure clothes in country X last year – down from 33% on the previous year. The clothing industry in country X is currently protected by strict quotas on all imported clothing. These have discouraged many famous international clothing brands from setting up retail operations in country X.

Factory operations

Two of the factories in country X are located near the centre of the capital city. The land value of these sites is high so BKC Directors have decided to sell these assets and invest some of the finance raised in building a new factory. BKC already owns the site for this factory which is on an industrial estate 60 kilometres from the capital city. The new factory will use the latest capital intensive production methods. Employees who remain in the company after the closure of the two existing factories will need to be retrained.

The existing factories are very noisy. Employees operate at individual cutting or sewing machines. Because of the noisy machinery, supervisors leave important messages for employees on the noticeboard in the canteen. Labour productivity is only average for the industry. The labour productivity of a recently established clothing business in country X is 35% higher than BKC's and it has very few production problems. This company attracts high quality recruits. Employees are well motivated and encouraged to provide constant feedback to management about any production issues.

Many current BKC employees in the factories that are being sold will be made redundant. BKC has not decided which workers to select for redundancy so it has denied rumours that the factories are closing. Terry, the Human Resources Director, told his fellow directors at today's Board meeting that: 'We will be ready to decide next week which workers to retain. We will then write to everyone employed in the two factories, announcing the plans to sell the sites and build the new factory. Each individual letter will make clear whether a job exists for the worker at the new factory.'

New factory – deadline for the project

After the closure announcement has been made, the Operations Director will start the 'new factory build' project. She will work closely with the construction firm which will be using a modular construction technique for the first time. The panels for the walls and roof will be built in country Y and assembled on the new site. The Operations Director is using network analysis to help plan the project. See Appendix 1. The time allocation for worker retraining assumes that there are no industrial relations problems as a result of the factory closure announcement. Based on this network analysis, the Operations Director is confident that the project can be completed in 23 weeks.

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Government policy in country X

A recent change of Government has led to some significant changes to policy. The Government is proposing changes to fiscal policy by increasing income tax rates and sales taxes and reducing expenditure on defence by cutting the size of the army.

The Government has also agreed to sign a major new free trade deal with 15 other countries in the region. A Government spokesperson announced that: 'We must accept that globalisation is here to stay and obtain as many benefits as possible from it. Some of our businesses will benefit greatly if they develop marketing plans that positively reflect the opportunities offered by globalisation and economic collaboration – for example with the BRICS countries.'

Financial efficiency at BKC

The Finance Director, Bill, is reviewing BKC's financial efficiency. He is using the accounting data shown in Table 1 to assist him. He thinks that BKC could improve some future key accounting ratio results. The warehouse manager and the manager responsible for accounts receivables have both recently been to see Bill to explain why some problems are occurring.

Table 1: Summary accounting data for BKC

	30 September 2017	30 September 2018
Inventories	$40m	$50m
Receivables	$36m	$40m
Cash	$1m	$0.5m
Revenue (for year ending)	$400m	$420m
Cost of goods sold (for year ending)	$200m	$210m
Current liabilities	$12m	$13m
Inventory turnover ratio	5	See Q4a(i)
Days' sales in receivables	32.85	See Q4a(ii)

'Who buys our clothes – and why?'

In 2010, BKC conducted a survey of its customers to find out their leisure clothing preferences and the main factors influencing their clothes purchasing decisions. The survey was conducted using a postal questionnaire. The survey results are still influencing BKC's design and pricing decisions in 2018. The Marketing Director feels that the company has lost touch with fashion trends and the buying habits of existing and potential customers. He wants to encourage more feedback from customers. He reported to the Board that: 'We do not even have a direct means of allowing customers to use IT to contact us.'

New objective requires new strategy

BKC's mission statement is 'Making quality clothing for everyone'. Until recently, the long term objective of the business was to 'maintain profit and market share in a changing clothing market'. Last year, two large active shareholder groups purchased a high proportion of BKC's shares. These investors put pressure on the directors to make BKC a much more profitable business. Earlier this year the directors responded by announcing a new long term objective: 'to maximise returns to our shareholders with a return on capital employed above the industry average'. The directors realise that to achieve this objective new strategies will be needed. They plan to make a choice between the following two strategic growth options at the next Board meeting. Finance is available for undertaking only one of these strategies.

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Strategy 1: Take over another clothing retailer in country X.
Strategy 2: Diversify into production and retailing of shoes and handbags.

Further details of these two strategies are shown in Appendix 2. *80*

Appendix 1: New factory project – Network analysis information

Activity	Preceding activities	Duration (weeks)
A – Gain planning permission	–	6
B – Dig foundations	A	2
C – Order machines and await delivery	A	6
D – Employee training	A	5
E – Build and erect walls	B	8
F – Fit roof	E	3
G – Fit machines	C and F	2
H – Test production operations	G and D	1

Appendix 2: Data on the two potential strategies for BKC

	Strategy 1	Strategy 2
Outline	Take over DSS. This family owned business is for sale. It sells low priced clothes in country X and has 10% of the clothing market	Use an external design agency to design shoes and handbags for BKC to manufacture and retail. Purchase specialist equipment and recruit trained employees
Major opportunity	Attract sales from other segments of the market to those currently targeted by BKC	Develop complementary products to BKC leisure clothing
Estimated capital cost and discounted payback period	$30m 3 years	$23m 5 years
Decision tree expected monetary value over first 10 years	$20m	$28m
Other issues:	Legal control: The combined market share will be 42%. This would make the expanded BKC a ‘legal monopoly’ in country X. Prices might be controlled by the Government.	Porter’s Five Forces model – barrier to entry: Several existing well known and heavily promoted brands of shoes and handbags are currently sold in country X

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