General Certificate of Education
January 2007
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
Monday 30 October 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.

BUS2/3/PM

KIKI

A – Introduction

In the 1980s, *Kiki Ltd* was one of **the** leading names on the high street. Established by Sophie Burnham, the business had developed a reputation for fashionable, well-designed and good quality clothing, which was particularly popular amongst 30–44 year old women.

However, since those successful days, *Kiki* has struggled. It was hit badly by the downturn in the economy in the early 1990s and after Sophie retired in 1995, and handed over the control of the business to her three children, it had lost direction. *Kiki*'s existing customer base had remained loyal, but it was now aged mainly between 50 to 65. In an attempt to raise extra capital, the Burnham family had sold its majority shareholding.

However, *Kiki* was still losing sales and market share, and, in 2005, the company was subject to a takeover bid from the giant US-owned multinational retailer, XMart, which was readily accepted by *Kiki*'s disgruntled shareholders.

B – A new beginning

XMart appointed Hannah Jones as *Kiki*'s new Chief Executive. As part of the takeover agreement, the remaining members of the Burnham family retained their positions as Directors.

Since graduating from university in 1995, Hannah had been employed by Arcadia as a management trainee. She had made rapid progress at Arcadia before gaining senior management positions at both Next and Matalan.

On her appointment to *Kiki*, Hannah had been given a simple message from XMart, "As far as we are concerned, this is a totally fresh start. Your aim is to re-establish *Kiki* as one of the UK's leading fashion brands; the specific objectives and the strategy to achieve this is up to you and your Board of Directors."

C – The first few weeks

At her first Board meeting, Hannah announced that she intended to visit firstly the company's factory in Blackburn, Lancashire, and then all of the 30 *Kiki* stores in the UK, before deciding upon a strategy. Her fellow Directors listened politely but Hannah felt their attitude to be complacent and condescending – she suspected that there would be many battles ahead.

Hannah then spent a week at the company's factory in Blackburn. With many retailers outsourcing the manufacture of products, *Kiki* was unusual in that it manufactured its own products. The factory in Blackburn had been in existence for twenty five years and the company had developed close links with the town. It was one of the few remaining textile mills in the area and it represented a significant employer in a region of high unemployment.

Hannah noted a number of strengths and weaknesses. On the positive side, the workforce was skilled and its work was of good quality. Production of the garments was labour intensive and quality was constantly checked by a team of inspectors. The workforce was also loyal (many employees had worked there for over 20 years) and took great pride in its work.

On the negative side, Hannah considered a key weakness to be the laid-back style of the factory manager which resulted in a lack of urgency amongst the workforce. As a consequence, the productivity of the factory was poor and delivery deadlines were often missed. Also, because of falling sales, the factory was operating well below its full capacity. However, she was impressed by the factory manager's young deputy, Alan Gilzean, who had attempted to introduce a number of new initiatives but with little support.

Hannah then visited each of *Kiki*'s stores. Although the number of stores had declined in recent years, *Kiki* still retained a presence in many of the UK's major cities and towns. Hannah soon discovered a similar picture at each store she visited. She considered the store layout to be too regimented and lacking imagination. Stock levels were high, partly due to the fact that even on a Saturday there appeared to be few customers. Each store was identical in layout, as was the range of clothes on sale. Hannah thought that this was probably due to all decision-making being centralised at the company's head office in London.

Whilst she had been visiting the factory and stores, Hannah had commissioned a market research agency to investigate the general public's perception of *Kiki*. She was particularly interested in the views of the key 20–44 year old female market segment in the hope of spotting a profitable gap in the market. The agency conducted a focus group which had produced the following findings:

- *Kiki* had a reputation for good quality
- its clothes were 'boring' and 'old fashioned'
- younger people were put off by the 'middle-aged' image of the brand.

Finally, using her personal knowledge plus contacts in the fashion industry, Hannah compared *Kiki* against the industry leaders in both retail and manufacturing, using various benchmarks.

Table 1: Key benchmarks

	Kiki	**Industry Leaders Average**
Output per factory worker per day	30 garments	50 garments
Percentage of deliveries on time	70	95
Sales per store employee per day	£300	£500
New clothing ranges launched per year	5	20

Having gathered all the necessary data, Hannah was now in a position to propose a new strategy for *Kiki* at the next Board meeting.

D – The new strategy

Before announcing the new strategy to the Board of Directors, Hannah presented them with a SWOT analysis of *Kiki* based upon her findings.

Strengths	**Weaknesses**
Recognised name Reputation for quality Skilled and loyal workforce UK-based factory	‘Old fashioned’ image Poor product development High labour costs Complacent, ‘out of touch’ management Slow decision-making
Opportunities Growth in ‘fast fashion’ Positive economic forecasts	**Threats** Strong competition from both UK-owned and foreign-owned firms Rapidly changing consumer tastes

Some of the Directors expressed their discontent regarding her assessment of the weaknesses of the business but Hannah pressed on. “In my opinion, *Kiki* will die if we do nothing. I have studied the success of companies such as Zara and H&M, who have implemented the principles of ‘fast fashion’, and I believe that this is the way forward. ‘Fast fashion’ is all about getting the latest designs from the catwalk into the shops as quickly as possible. It is achieved by the effective use of time-based management. Our aim is to re-establish *Kiki* as the premier UK based fashion brand. In order to achieve this, we need to change the entire culture of the business.”

Based upon the SWOT analysis, Hannah then outlined the key elements of her proposed strategy:

- delayering of the existing organisation structure
- greater decentralisation of decision-making to store management level
- implementation of Total Quality Management (TQM) throughout the organisation
- an emphasis upon faster new product development and quicker lead times
- a move to more capital-intensive production methods.

Hannah concluded her presentation, “In my opinion, *Kiki* needs to capture the key 20–44 year old female market. ‘Fast fashion’ will enable us to provide our customers with fashionable clothes more quickly than the competition. Our major advantage over our competitors is that we manufacture all our clothes in the UK rather than importing them. This should enable us to get our products into the stores ahead of our competitors. However, in order to achieve this, we need an organisation that can respond quickly and where store managers are empowered to select which goods they believe will sell best.”

Christian Burnham, the Marketing Director, was the first to respond, “This strategy is far too radical. It will alienate our loyal existing customer base. Furthermore, how are we going to overcome our perceived image problem with younger customers?”

The HR Director, Andy Burnham, interjected, “Delayering may make us a leaner organisation, but have you considered the redundancy costs and the effect on motivation?”

Finally, Laura Burnham, the Operations Director, concluded, “I have two main concerns. Firstly, the problems associated with the move from labour to a more capital-intensive means of production, but more fundamentally, the long-term effect resulting from quality being sacrificed for speed of manufacture.”

After listening to the comments of her fellow Directors, Hannah came to the conclusion that she would have to assert her authority. "I appreciate that you have raised some valid concerns, but you are presenting me with problems not solutions. I believe that 'fast fashion' is the best solution to *Kiki*'s problems and, as your Chief Executive, I insist that this strategy be adopted."

The following day, Christian, Andy and Laura Burnham tendered their resignations.

E – Implementing the new strategy

The resignations gave Hannah the opportunity to bring some 'fresh blood' into the organisation.

She appointed an ex-colleague from her time at Arcadia to be the new Marketing Director and both the new HR and Operations Directors were recruited externally from the textile industry.

The following objectives were established:

- to be profitable within two years
- to increase sales by 25% per annum in each of the next five years
- to be the industry leader for launching new clothing ranges within seven years.

In order to ensure that all *Kiki*'s employees were committed to achieving these targets, Hannah adopted a Management by Objectives approach. Each employee would be interviewed by their immediate superior and an individual target would be agreed. Hannah also organised a series of off-the-job training seminars which every employee would attend. The purpose of these was to explain the new strategy and its importance to the company's future success.

The new Marketing Director appointed a design team whose remit was to monitor changes in fashion and to design new items in response to them as quickly as possible. The team was empowered to decide which designs would be produced, but it would be expected to be in constant communication with the store managers who would provide feedback on the most popular items.

In order to speed up communication and decision-making, the HR Director removed two management levels at *Kiki*'s head office.

Figure 1

Original head office organisation structure	**Revised head office structure**
Chief Executive Board of Directors (4) Department Managers (5) Section Leaders (10) Section Supervisors (20) Office Staff (100)	Chief Executive Board of Directors (4) Department Managers (6) Office Staff (60)

In the factory, Hannah had replaced the existing manager with his deputy, Alan Gilzean. He quickly implemented some new initiatives. Firstly, investment in new machinery enabled new designs to be manufactured quickly and efficiently. The aim was that it should take only four weeks from the initial design for the finished product to be available in the store. Although the move to a more capital-intensive means of production resulted in some redundancies, Alan was able to convince the rest of the workforce of the long-term benefits of this decision by holding group meetings with each section of the workforce.

Stock levels would be kept low in the factory by producing only to demand and, owing to the short lead times, the stores were also able to retain smaller buffer stock levels. Long-term contracts were negotiated with a few key suppliers who, in return, would provide stock on a 'Just-in-Time' basis. The improvements in productivity and the cost savings from lower stock levels would help *Kiki* to sell its products at more competitive prices. Store managers were empowered to monitor which items were the most popular and to order these directly from the factory. They were also allowed to change the layout of their stores in response to feedback from their customers.

To ensure that quality was not sacrificed for speed, a new TQM system was implemented. A quality chain was established from the design team to the factory and finally to the store, in which each individual was responsible for checking quality. Quality circles which included representatives from the design team, production, administration and stores, met regularly to discuss problems and implement solutions.

In theory, this new system would enable *Kiki* to provide its customers with new designs of good quality at affordable prices faster than the competition. Everything appeared to be in place but how would customers respond?

F – The rebirth of Kiki

Kiki was relaunched in September 2005 in time for the important autumn season. In order to finance the modernisation of the factory and the redundancy costs resulting from the reorganisation of the company, Hannah had decided to sell and lease back some of the 30 stores located in the major cities and towns.

A major new store was opened in Covent Garden in the centre of London, which would act as the flagship for the company.

Hannah believed that maintaining prestigious city centre sites where all *Kiki*'s competitors were also located would generate more business through passing trade.

Despite some favourable reviews of its first new clothing range from the fashion media, the company struggled to generate significant sales in the crucial months leading up to Christmas. This was mainly due to two key factors. Firstly, the Bank of England had raised interest rates by 0.5% in an attempt to curb house price inflation. Unfortunately, this had consequently depressed consumer confidence and retail spending. Secondly, *Kiki* was finding it difficult to shed its 'middle-aged' image amongst brand-conscious younger consumers.

Compared with the previous year, sales revenue had fallen significantly. This was of particular concern as the majority of *Kiki*'s annual turnover was generated between September and December. Furthermore, the poor sales performance meant that capacity utilisation in both the stores and the factory was low. Faced with falling sales revenue and rising costs, the company was facing a crisis. Morale throughout the company was falling as rumours spread of further redundancies. Thankfully, the new year would bring salvation from an unexpected source.

G – Rising up the charts

The 2005 'Pop Idol' had been the most popular ever, with the final programmes attracting record television ratings. The eventual winner, 'Chanteuse', became a household name and she became *Kiki*'s salvation. In the video which accompanied her first single, Chanteuse was featured wearing a *Kiki* outfit. Spotting an opportunity, *Kiki*'s Marketing Director contacted Chanteuse's management and proposed a contract for a complete range of clothing. In return for a percentage of the profits, they agreed to sign the contract with the proviso that the complete range of clothing would be ready for her forthcoming spring tour. This meant that *Kiki* had less than two months to design and manufacture the entire 'Chanteuse' range.

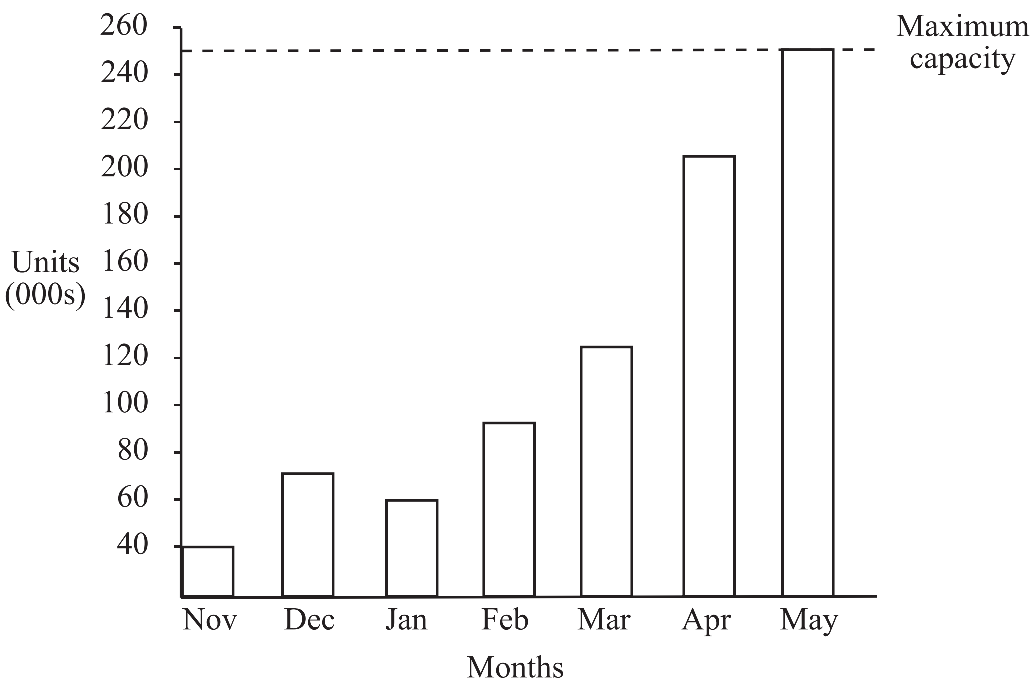
Hannah decided that the only way this could be achieved was through adopting simultaneous engineering. A team was established with representatives from marketing and design, manufacturing, HR and finance. This proved to be a wise decision and each *Kiki* store was able to display the new 'Chanteuse' range one week before the tour commenced.

In the following weeks, the stores were besieged by hordes of teenage girls desperate to dress like their idol. The factory in Blackburn was producing round the clock and Alan Gilzean had to employ an extra shift of workers. Sales turnover increased dramatically and the company looked set to achieve the objective of returning to profitability ahead of schedule.

The success of the 'Chanteuse' range did, however, bring certain drawbacks. *Kiki*'s 20–44 year old female target market was being increasingly marginalised by its appeal to teenagers. Although *Kiki* was still producing clothes for this market, these items were less prominently displayed in the stores. Also, owing to pressures on production, there had been some lapses in *Kiki*'s usual high quality standards, which had led to a rise in complaints. At head office, the extra workload on the existing managers was also beginning to take its toll leading to rising absenteeism levels.

At her annual performance review meeting with XMart's Board of Directors, Hannah received warm praise and a substantial bonus in reward for turning the company around. However, Hannah was still unsure whether *Kiki* was moving in the direction she intended. She was soon to be faced with a critical decision which would address this question.

Figure 2: Production levels at the Blackburn factory November 2005–May 2006



Turn over ▶

H – Should Kiki change focus?

In late August 2006, Hannah received a phone call from XMart's Chief Executive. "Hannah, I am in London next week and I would like to discuss an exciting new opportunity with you and your Board."

At the meeting, the Chief Executive informed *Kiki*'s Directors that he had been approached by Chanteuse's management, International Artists. Impressed by the success of the 'Chanteuse' clothing range, they wished to extend their association with *Kiki*. International Artists had a reputation for developing a seemingly continuous series of 'manufactured' pop music artists, whose product life cycles were usually spectacularly successful, but also short. They had recently signed an agreement with the producers of 'Pop Idol' whereby they would manage the winners of each series.

International Artists had proposed a contract similar to the 'Chanteuse' deal in which *Kiki* would design, produce and sell a clothing range for the 'Pop Idol' finalists. As 'Pop Idol' was now an international programme, this would entail producing clothing for artists throughout Europe as well as in Japan and the USA.

XMart's Chief Executive proposed the following to Hannah and her Board, "I believe this offer is too good to refuse. It fits perfectly with the idea of 'fast fashion'. Teenage kids want to copy their idols as quickly as possible but then move on to the next craze. It's time-based management that is important, not quality. Forget about chasing the 20–44 year olds, *Kiki* should instead focus on the teenage market. This contract will enable the business to operate on an international scale.

"We will rebrand XMart's existing European stores under the *Kiki* name to sell the new clothing ranges. Hannah, I want you and your Board to manage the European operation which will be based in Berlin. I'm afraid the London head office and the Blackburn factory will have to close; they simply lack the capacity to operate on the scale needed. We'll outsource production to larger factories in India where we can achieve greater economies of scale, plus lower labour costs. The economic data look promising, so I think we need to move on this as soon as possible."

Table 2: Macro-economic forecasts for the Eurozone January to June 2007

	GDP growth % for year ending	**Indian Rupees to the Euro**	**Euro interest rates %**	**Inflation %**	**Unemployment %**
January 2007	2.1	57	2.50	3.0	7.2
March 2007	2.5	60	2.75	2.5	7.0
June 2007	2.8	65	3.00	2.2	7.0

Hannah and her Board sat in stunned silence. The Marketing Director was the first to comment, "What you are proposing will mean the death of *Kiki*'s traditional image; it will mean the end of another famous British brand. I cannot agree to your proposal."

He was followed by the concerns raised by the HR Director, "Have you not considered the social costs? Surely we have a responsibility towards our loyal employees and suppliers, some of whom have been with the company from the beginning and who have contributed to turning this company around."

Hannah was the last to speak, "It seems to me that the aims XMart set for *Kiki* have simply been forgotten. However, this new direction does provide a great opportunity for us, as senior managers, and it will also please our shareholders. Before we make any decision, I think we must consider this in terms of all our stakeholders."

XMart's Chief Executive agreed to give Hannah and her fellow Directors a week to decide their futures. At their next meeting, the Board was split as to whether to accept XMart's proposal, but Hannah cast her deciding vote in favour of the move to India. Despite the seriousness of her situation, Hannah also recognised the irony – only a few months ago she was being hailed as the saviour of *Kiki*, would she now be remembered as its executioner?

END OF CASE STUDY

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