

**ADVANCED SUBSIDIARY GCE UNIT
APPLIED BUSINESS**

F242/CS

UNIT 3: Understanding the Business Environment

CASE STUDY

PRE-RELEASE MATERIAL FOR JUNE 2007 EXAMINATION

JUNE 2007

To be opened on receipt



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INSTRUCTIONS TO TEACHERS

- This case study **must** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- You **must** make yourself familiar with the case study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

This insert consists of **7** printed pages and **1** blank page.

Starsailor Fashions Ltd

Bob Fletcher has worked in the textiles industry all his life. He had started, he recalled, with a brush in hand, sweeping up the remnants and off-cuts from a shop floor as machinists turned out garment after garment to suit all sorts of fashions and purposes in the UK and beyond.



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This was a story that Bob often recounts to his friends and his grandchildren. He often states that this is the reason he will always keep his feet on the ground and this will help him to stay in touch with his workforce. Bob had been there. He had seen it all; fashions change, businesses open and shut down and governments come and go.



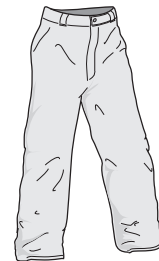
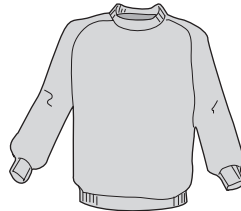
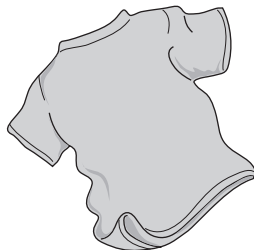
Bob is the owner of, and only shareholder in, Starsailor Fashions Ltd, a small UK-based clothing manufacturer located in a village on the Cornwall-Devon border. Bob spent many holidays in his youth in this area surfing day-in-day-out. Even as a 52 year old, Bob still has the beach bug inside him and this has been behind much of his motivation to move to the area permanently and open his business.

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Starsailor Fashions Ltd produces all kinds of surfing apparel. It had, at one time, dabbled in the wet suit market but its core business has always been surf-oriented fashions of a casual nature. Sweatshirts, sweat pants, T-shirts, borders (shorts) and hats are amongst the Starsailor portfolio. The business has been successfully trading for 11 years and it has built up a large, loyal customer base through supplying independent surf shops in the south west of England.

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During the summer of 2006, Bob noticed what he called 'a shifting of the sands' in the market in which he traded. He had been to the 16th birthday of his twin grandchildren who lived on the outskirts of London. He found that not only his grandchildren, Richard and Judith, were wearing Starsailor clothing, but so were others. Many more were sporting similar fashion clothes.

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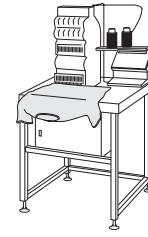
This was the start of a strange month for Bob. He returned to his factory following the party. He stood, as he always did, watching his 60 strong workforce arrive for their 8am start and considered what he believed would be a new opportunity. How could he expand his customer base to further geographical regions, to customers who lived hundreds of miles from the sea, and who had probably never even stood on a surf board? Bob chuckled to himself as he decided that he would call this new segment of the market, 'city surfers'.

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Later that month, Bob received a phone call from Jim Smith, who introduced himself as the Managing Director of a national clothing chain Board Stupid plc. Board Stupid plc was offering Bob a huge contract to produce and sell his clothing range through its national chain of stores – a potentially lucrative deal for Starsailor Fashions Ltd.

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A few days later, as Bob stood in the window of his office, overlooking the shop floor where 40 machinists produced his clothing range, he considered the enormity of the steps he was considering and their likely impact on the business as a whole. The size of the order from Board Stupid plc was going to mean some radical changes to the way he conducted his business, his production processes and, above all, his staff.



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Bob decided that the only way to accept the order was to modernise his production processes, something he had considered before. New, more efficient, automated machines would enable him to meet the production levels demanded for the new order, whilst maintaining his current customer base. This was something Bob had always wanted to do. However, the downside would be a reduction in his staffing levels by 25%. This weighed heavily on Bob's conscience.

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As Bob costed out the financial implications of the proposed change to the business, he realised that some additional finance would be required. He was not in a position to provide these funds. One alternative would be to seek a bank loan and, in order to obtain such finance, Bob would need to devise a detailed business plan. Bob also realised that he would need to consider the implications of expansion on the cash flow, the annual budgets and forecast final accounts of Starsailor Fashions Ltd. It might also be useful to consider

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the increase in output which would be required in order to, at least, break even on the order from Board Stupid plc. The remainder of Bob's analysis centred around what he called 'the bottom line' financial requirements, but he did recognise that further analysis of the market, its conditions and the social implications of the decision would be necessary.

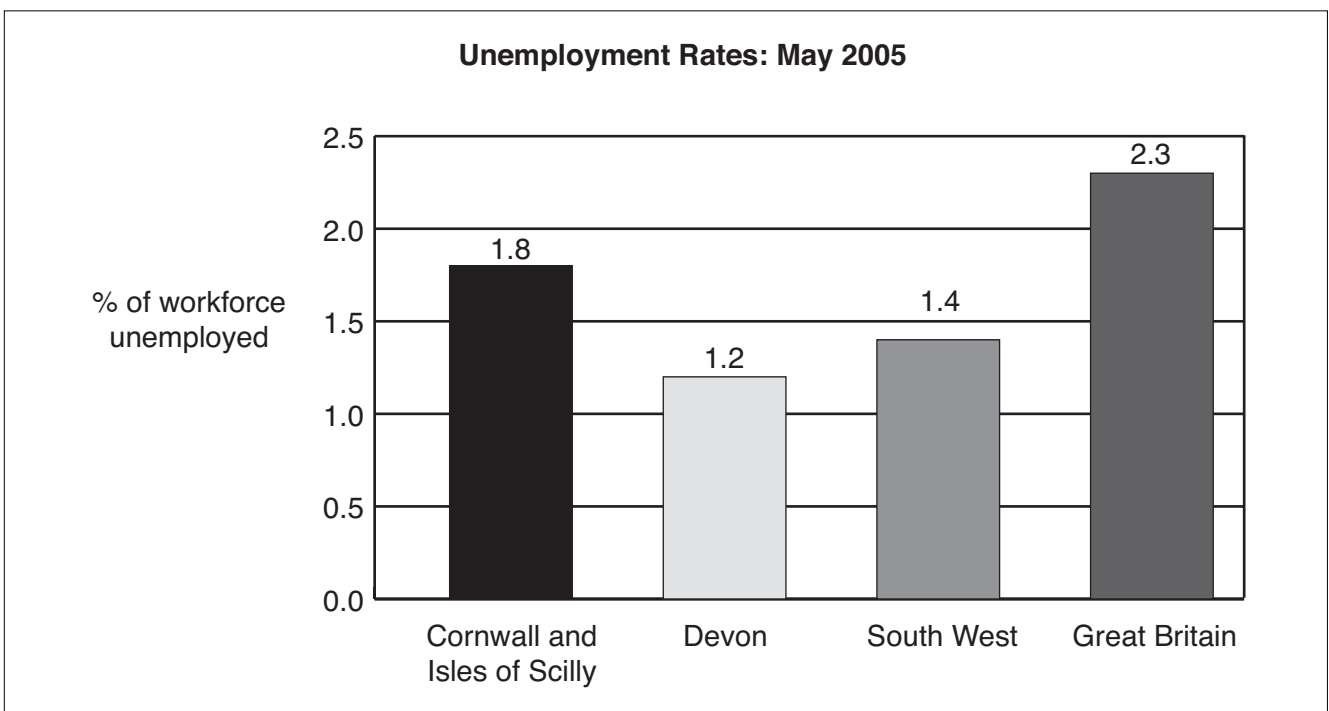
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Additional Information:**Cornwall's surfing beaches**

Surf's up and everybody's going board crazy as Cornwall's long relationship with surfing continues to go from strength to strength. Not since the early 1980s, when the county boasted its own English and British champions, has the sport attracted such large numbers eager to ride the waves which pound the county's beaches.



With a coastline as diverse as its landscape, Cornwall has waves to suit all abilities.

Fig. 1**Fig. 2**

Unemployment Rates: May 2005					
	May 2004		May 2005		% Change in Total Unemployment 2004–2005
	TOTAL	% RATE	TOTAL	% RATE	
Cornwall	5 244	1.7	5 409	1.8	3.15
Devon	5 221	1.3	5 088	1.2	-2.55
South West	41 790	1.4	42 279	1.4	1.17
Great Britain	839 239	2.3	839 547	2.3	0.04

Fig. 3

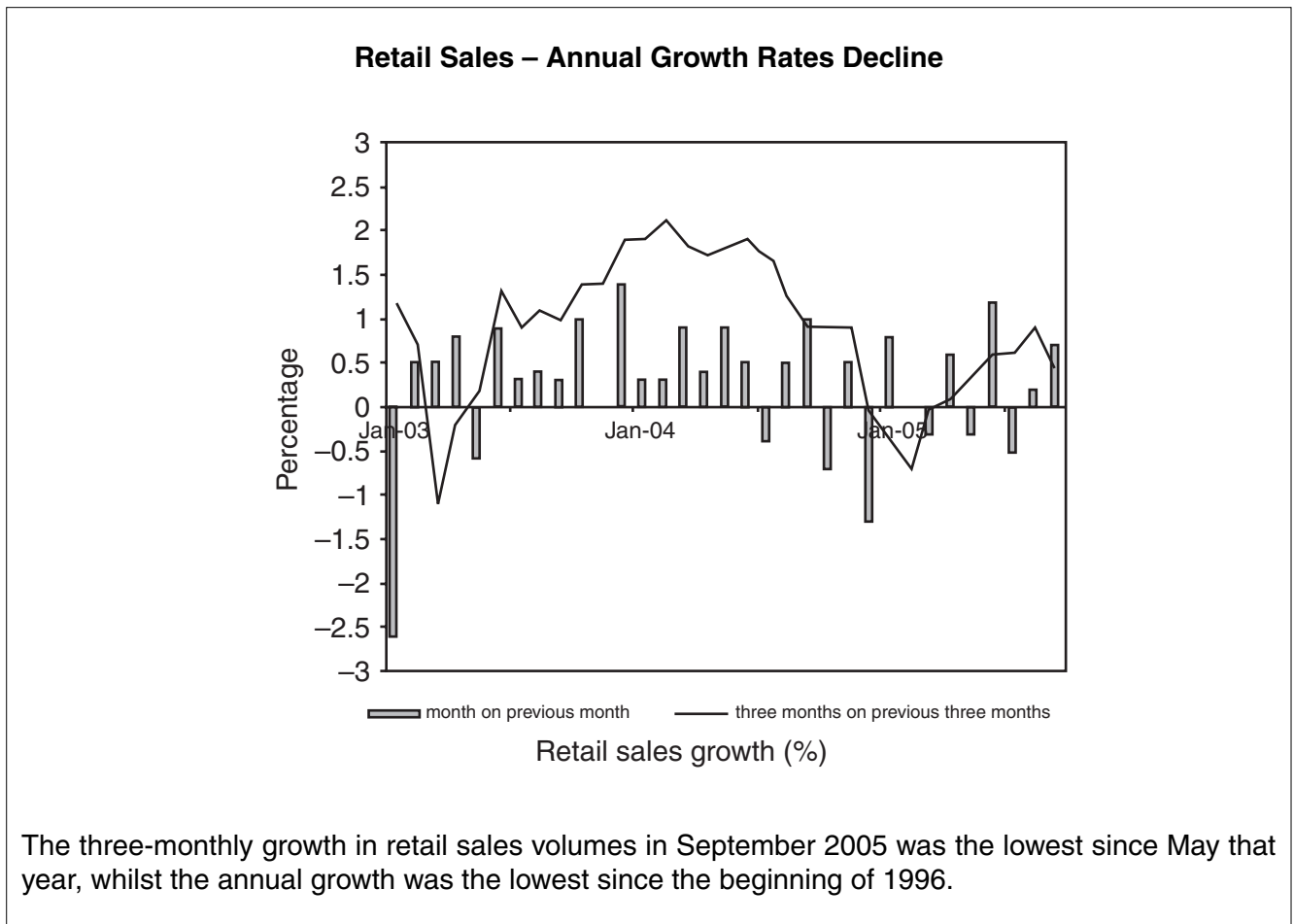


Fig. 4

Clothing Retailers Market Assessment

Faced by declining real prices and soft demand patterns, UK clothing retailers have been forced to re-examine their consumer positioning very closely. UK clothes shoppers have noted that out-of-town discount stores seem able to supply clothing in styles and at a quality, which, although not the equal of mid-range high street clothes, is acceptable at the price.

Market sectors

Beyond the split by male and female clothing or the style of retail operation, it is possible to look at the market in terms of consumer perception. Broadly, the market can be split between everyday wear, clothes which have a fashion quotient (high street fashion) and clothing at the top end of the fashionable ready to wear market.

Value and growth

The growth sector of the market in recent years has undoubtedly been the discount clothing market, which still has considerable opportunities to take sales away from the 'standard' clothing market.

Regulatory factors

The main regulation that has impacted across the textile and fashion business has been the minimum wage. Textiles and clothing manufacture have historically been poorly paid businesses, which in turn impacted on wholesale prices and margins through the industry. Labour costs are a major element of costing and this has been a key reason why manufacture is moving out of the UK.

However, this is becoming a matter of public concern since British jobs are being replaced by potentially exploitative manufacturing elsewhere. Several newspapers reported in late 1999 that 'Conditions in a number of clothing factories in eastern Europe, being used by British high street retailers, are shameful. Workers are being paid starvation wages and are having to work in environments which are damaging to their health. In Hirlau, Romania, 900 women are producing clothes for British stores with some only being paid 20 pence an hour' (Sunday Times, September 1999).

The changes to the Multi-Fibre Agreement, which will phase in over the next couple of years, will open the UK market to even more low priced imports, in a market which is already estimated to be almost 70% imported. Eastern Europe and increasingly China have become an important source of tailored articles and the future for UK-sourced goods appears to be shrinking rapidly into sectors such as high specification fabrics (e.g. cashmere) or tailoring.

By 2006, the benefits of an increase in the volume of sales had been cancelled out by the decrease in the real price of fashion clothing. Sales of men's and boyswear are expected to grow slightly more rapidly than women's and girlsweat due to the increasing interest in sports clothing, which is becoming part of mainstream clothing fashions.

Fig. 5

Copyright Acknowledgements:

- Fig. 1 text Adapted from Simon Alexander, *Devon's Surfing Beaches*, BBC Devon online, 01 September 2006, www.bbc.co.uk/devon
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