

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

**2873**

Business Behaviour

Thursday      **12 JANUARY 2006**      Afternoon      1 hour 15 minutes

Additional materials:  
8 page answer booklet

**Candidates may use calculators in this examination.**

**TIME**    1 hour 15 minutes

**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** the questions.
- If you use extra sheets of paper, fasten the sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

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**This question paper consists of 8 printed pages.**

Answer **all** questions.

- 1 (a) (i) Assuming that each of DFL's stores throughout the UK sells the same amount as the Tonbridge store, calculate the national monthly sales turnover of size 5 black knee-high boots. [2]
- (ii) A pair of size 5 black knee-high boots has a variable cost of £49. If £279 of monthly fixed costs at the Tonbridge store are allocated to this product, how many pairs a month will have to be sold to achieve break even at that store? [4]
- (b) Assess how knowledge of break even may be helpful to the managers of DFL in making decisions. [10]
- 2 Discuss how knowledge of market segmentation may assist DFL in developing its future marketing strategy. [16]
- 3 DFL is both a manufacturer and a retailer.  
Discuss the advantages and disadvantages to DFL of using lean production methods. [16]
- 4 Evaluate how greater decentralisation of management decisions may benefit DFL. [10]

### DAVENPORT FOOTWEAR Ltd. (DFL)

The Davenport family's shoe shop in London was one of the first to install electric lighting in 1856. This proved to be a shrewd marketing decision by Wilfred Davenport as crowds flocked to the store to marvel at this wonder of modern technology. 150 years on, and the company, now called Davenport Footwear Ltd. (DFL), is going through an equally enlightening revolution. The upmarket shoe manufacturer and retailer is in the process of transforming its typically English brand into something more modern. Perhaps it is fitting that the company's head office is in the seaside town of Great Yarmouth. However, DFL's Chief Executive and majority shareholder, Derren Jones, has been heard to say that no one in their right mind would have the head office of a national company in Great Yarmouth. Head office is currently responsible for all management decisions concerning recruitment, production, finance and marketing. 5 10

DFL employs 820 people in full- and part-time positions and has a reputation for selling quality branded and own-brand shoes. The decision as to which shoes to purchase from other manufacturers is the responsibility of DFL's product buyers, who are based in London. In fact, it is in the capital that DFL is strongest. Around a quarter of its 76 stores are in London, with the remainder mainly in affluent commuter towns in the south-east. With prices above the normal high street retailer, DFL's core customers are ABC1 professionals. 15

Women's shoes now account for significantly more than half of DFL's turnover, partly due to an increase in the total number of women employed in the UK, and consequently their spending power. Similarly, the move to a more informal business look among professionals has seen new shoe styles come in. DFL initially struggled to adapt to these changes. Derren Jones says that mistakes were made in buying policies, which saw DFL slow to respond to these growing trends. Recently, Derren has attended an 'Enterprise Network' conference organised by one of the leading Sunday newspapers. During a seminar for executives in the clothing and fashion industry, he jotted down some salient comments from leading experts (see Appendix 1). In particular, Derren paid close attention to a discussion about the relevance of using market segmentation in developing a marketing strategy. 20 25 30

DFL now stocks more than 200 styles. It is hoped that this expansion of the range sold will help to offset a general slowdown, particularly in the London market. Job cuts in the City, the congestion charge and worries about terrorist attacks have all been factors in recent years.

One aspect that remains relatively undeveloped is DFL's website, which is functional but unattractive. Despite this, online sales have grown by 300% a year to the point where they now bring in £300,000 of revenue. The Marketing Director, Phillip Tam, feels that website sales can grow quite a lot more as there are plenty of places in the country that are not near a DFL store. Phillip is currently leading a team collating information on who are DFL's online customers and there are also plans to market the website more aggressively. 35 40

DFL is also taking its first tentative steps into overseas markets. Dublin, Belfast and Paris are high on the list of potential store sites and Phillip also believes that DFL's 'very English brand' would fit well in the USA.

During 2005, DFL began revamping the look of its stores, refitting with modern furniture and soft lighting. At a recent board meeting, DFL's Chief Operations Director, Fiona West, gave an upbeat report on these improvements. 45

'The 11 stores we have already converted are delivering improved sales, with the Oxford store increasing revenue by 19% in the last six month period, with the same staff and similar stock. If these results are repeated across all the refitted stores, then it will enable us to accelerate our plans to open new stores in regional shopping centres and refit the existing ones over a much quicker period than the planned eight years. However, we must recognise that cash must first be generated as each store costs around £400,000 to refit.'

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The Finance Director, Natalie Stockton, was quick to rein in Fiona's ambitions. 'We have over £3 million of borrowings at the moment and my priority is for the business to be debt-free as soon as possible. However, I can see the attraction of the refits as our figures suggest that we could bring in an extra profit of at least £100,000 per store per year. One option could be to sell the freehold of some of our more prestigious stores. The two in the Channel Islands are probably worth a total of £4 million.'

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Fiona replied, 'Cutting stock levels in all our retail outlets could also strip out costs by £500,000. You can see from the figures for our Tonbridge store (Table 1) how stock levels are unsatisfactory, especially given the nature of our product. I could have picked any one of our stores and you would find a similar situation. The antiquated ordering system that each store uses, where supplies are ordered every month by phone, is not helping. But it's not just stocks of shoes in the stores but also at our manufacturing sites that is cause for concern. You would think all the recent developments in business practice, such as lean production, have been completely ignored by our production managers.'

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DFL used to sub-contract production of its own-brand footwear to another manufacturer. However, DFL purchased this company and its two factories in Leicestershire in 2004. Over the last two years, DFL has had to absorb nearly £1m of losses through the reorganisation of these factories. Much of the production was done by hand when DFL took over the factories, but as part of the reorganisation, modern technology has been used in the management of stock, the design of the shoes and the cutting of the materials (in most cases leather). However, a large part of the production process must still be carried out by skilled labour. A shortage of suitable staff in the area has meant that even workers who do not meet the necessary high standards have had to be kept on, and wages have increased in recent years at well above the rate of inflation. Reject rates are also considerably above the targets set by managers.

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As Fiona mentioned at the recent board meeting, high stock levels in DFL's factories are also giving cause for concern. This is mainly due to two factors. First, the factories need to maintain high stocks of finished products to be able to respond quickly to the retail stores' monthly orders. Second, the occasional late arrival of leather and other raw materials, much of which comes from South America, means that a large buffer stock of raw materials is necessary.

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The factories have become more cost-effective, although the acquisition has exacerbated an old problem for DFL. Wilfred Davenport was a typical Victorian autocrat. He expected total loyalty from his managers and employees. This organisational culture remains, with managers addressed by their surname and employees expected to do as they are told without question.

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Even though it is over a year since Derren Jones and his business partner, Tim Dawes, purchased DFL, they are finding it difficult to get employees, including managers, to take responsibility for decision-making. Tim is a self-employed

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management consultant and has been meeting with managers at all levels of the business to discuss the plans for the next five years.

'I have just had a meeting with the factory managers about the stock problem', mentioned Tim during a phone call to Derren. 'They cannot seem to come up with their own solutions to the problems we were talking about. When I mentioned empowerment they just looked at me blankly.' 100

'This is just part of the organisational culture problem that we knew existed when we bought the business. But, we have got to change it, and fast,' replied Derren. 'We need to move more control away from the centre of the organisation to speed up our response to market changes.' 105

After putting the telephone down, Derren wondered about the importance of Tim's attempts to increase the independence of the different parts of DFL to the currently secret plans to move some of the manufacture of shoes abroad.

**Table 1**

Excerpt from the stock records for the Tonbridge store (November 2005)

<b>Product</b>	<b>Size</b>	<b>Retail price (per pair)</b>	<b>Opening stock level</b>	<b>Monthly sales</b>	<b>Closing stock level</b>
Black patent dress shoe (womens)	4	£82	21	3	21
Black patent dress shoe (womens)	5	£82	18	8	14
Black patent dress shoe (womens)	6	£85	7	14	6
Black patent dress shoe (womens)	7	£85	12	7	5
Black knee-high boot (womens)	4	£80	10	22	10
Black knee-high boot (womens)	5	£80	2	14	1
Black knee-high boot (womens)	6	£80	5	10	5
Open-toed beige flat (womens)	4	£50	7	5	8
Open-toed beige flat (womens)	5	£50	11	9	6
Open-toed beige flat (womens)	6	£54	11	6	9
Open-toed beige flat (womens)	7	£54	8	0	10
Brown suede shoe (mens)	7	£75	28	9	22
Brown suede shoe (mens)	8	£75	20	12	18
Brown suede shoe (mens)	9	£75	8	7	8
Brown suede shoe (mens)	10	£78	12	3	12
Extra wide 'Windsor'-black (mens)	7	£85	12	15	8
Extra wide 'Windsor'-black (mens)	8	£85	18	13	5
Extra wide 'Windsor'-black (mens)	9	£85	10	12	7
Extra wide 'Windsor'-black (mens)	10	£90	12	8	12
Extra wide 'Windsor'-black (mens)	11	£90	10	0	12
Extra wide 'Windsor'-black (mens)	12	£90	8	2	6

**Appendix 1**

Comments made at a recent Clothing & Fashion industry seminar

'It will be interesting to see how the brand image of higher quality and longer lasting fashion products will fit alongside the increased disposable culture in today's society.'  
*(Jim Bannister – American Express)*

'Today's marketplace is all about speed, and businesses who are cautious may lose out.'  
*(Oscar Urbina – Prada)*

'The challenges and costs associated with selling overseas should not be underestimated.'  
*(Paddy Hughes – Barclays Bank)*

'Different brands for different customers... Branding in a consumer market is often the difference between success and failure. But a brand is no longer a singular thing. For example, Gap runs three major brands: GAP, Banana Republic and Old Navy. They are targeted at different market segments.'  
*(Patricia Butcher – Bhs)*

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