

**GCSE (FOUNDATION TIER/HIGHER TIER)
BUSINESS STUDIES A SHORT COURSE**

**1051/3/CS
1051/4/CS**

Paper 3 and Paper 4

CASE STUDY

PRE-RELEASED MATERIAL FOR EXAMINATION IN SUMMER 2007

JUNE 2007

**This material may be given to candidates at any
time after 1 January 2007**



INSTRUCTIONS TO TEACHERS

- The case study may be given to candidates at any time after 1 January 2007.

INSTRUCTIONS TO CANDIDATES

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

This document consists of **10** printed pages and **2** blank pages.

DIVA (FOOTWEAR) PLC

Diva (Footwear) plc is a successful manufacturer. Its factory, warehouse, distribution centre and offices are on an industrial estate on the outskirts of Brunham, a densely populated, industrial city.

Diva plc makes shoes and boots for both men and women using leather and man-made materials. It offers a range of styles and prices aimed at many different sections of the market for footwear (see Resource Sheet 1). 5

Using the brand name, Diva, the company sells its products to independent shoe shops, department stores and other retail outlets. It also operates a profitable mail order business selling through monthly catalogues and an Internet website. Diva plc has a very small export market. It is noticeable that, over the past two years, an increasing percentage of its sales are coming from customers shopping on the Internet (see Resource Sheet 2). This is likely to continue to increase. 10

Diva plc has always been based in Brunham. The business was founded by James Diva in 1907. He started his business in an old shed behind a row of shops. Now Diva plc is a public limited company. His great grand-daughter, Joanna Diva, is the Managing Director of the company and other members of the family still have a substantial minority shareholding in the company. 15

The company is organised into six departments as shown in Fig. 1.

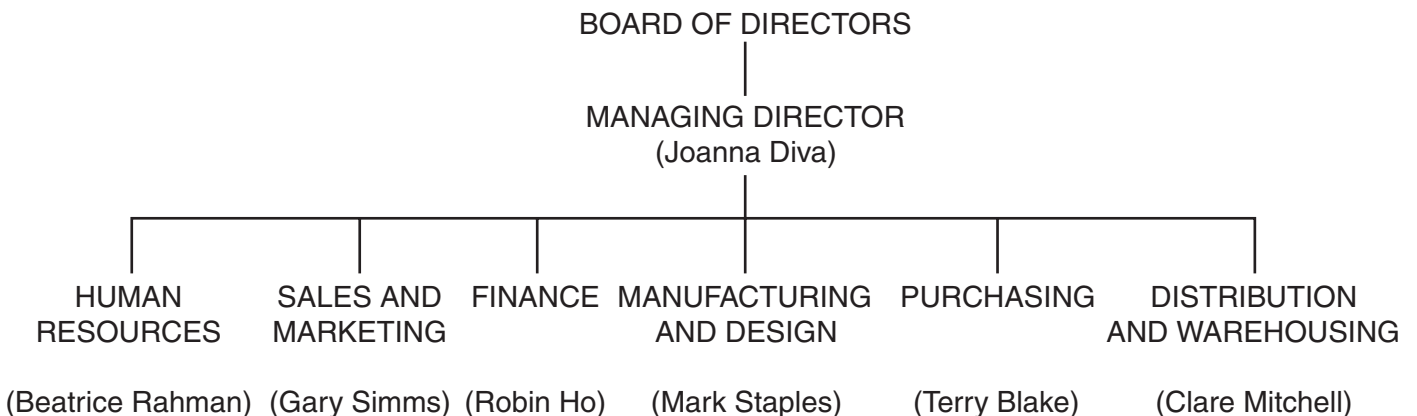


Fig. 1

Diva plc employs about 600 people, most of whom work in the manufacturing and distribution departments. It recruits employees from the local area. Most of its employees have worked for the company for many years. Diva plc has a reputation for being a caring and considerate employer. It has, however, recently undertaken a successful national recruitment drive to find two new designers. 20

The shoes and boots are made in batches. Some very popular traditional styles are made for several years. Other ranges, usually the more fashionable with a shorter product life cycle, are made in small quantities. Some styles are made only when orders are received from shops, and this is now causing problems for Diva plc. 25

The treated leather and other materials are bought in from a number of suppliers, often small businesses. Most of these suppliers are located in and around Brunham and some are in other European Union countries. Diva plc adds value to these raw materials in a number of different ways before the shoes and boots are sold to the shops and individual customers. 30

The new Manufacturing and Design Manager, Mark Staples, plans to introduce changes to working practices in the factory to cut costs. These involve training workers in a wider range of skills and the increased use of computers in the manufacturing process so that the workforce will become more flexible. Mark will need to think carefully about how to communicate these changes to the workforce. These changes are likely to meet with some opposition from the employees, most of whom belong to a trade union. 35

Recently there has been a marked increase in absenteeism in the factory resulting in a loss of production. The Human Resources Manager, Beatrice Rahman, is investigating the reasons for this problem. She thinks the causes are fear of change and the fixed working hours. She will be bringing suggestions on how to improve attendance at work and increase productivity to the next management meeting for discussion. 40

The UK market for shoes and boots is becoming more and more competitive. There is keen competition among UK manufacturers. Quality footwear made in Italy, Germany, Brazil, Spain and the USA is selling well in the UK. Many types of footwear are now being imported from Asia and Eastern Europe in increasing quantities. A recent newspaper headline read: 45

UK MANUFACTURERS SQUEEZED BY INCREASED IMPORTS FROM ABROAD

This has raised alarm among the managers of Diva plc who are wondering how much the company might be affected.

Diva plc has always prided itself on the quality of its footwear and its ability to provide good design and, at the same time, comfort. As part of its selling strategy, the company offers the following to its mail order and Internet customers: 50

wide selection of styles and colour choices

wide range of sizes (including half sizes) and fittings

up-to-date styling using the finest materials

telephone order-line open 7 days a week

website offering on-line ordering

replacement or full refund if not 100% satisfied

despatch of in-stock items within 48 hours of ordering

free return of unwanted shoes and boots

Fig. 2

Diva plc is wondering whether this strategy is sufficient to remain competitive in the footwear market.

The Sales and Marketing Department has used a number of promotional campaigns during the last two months to increase direct sales to individual customers. These have included: 55

- ordering any pair of men's and any pair of women's shoes and receiving £20 off the total order value
- giving a free leather wallet with every order
- ordering three pairs of shoes or boots and getting one pair free of charge 60
- offering a voucher for £5 if an order is made within 14 days of receipt of catalogue.

Market research has indicated that Diva plc's main market segments are:

Working women aged 20–40 who shop in department stores and shoe shops
Women of all ages who want comfortable boots at reasonable prices
Middle-aged women who want comfort and quality
Men between 40 and 70 who want comfortable shoes that last for years

Fig. 3

The Sales and Marketing Manager, Gary Simms, has called a meeting of his marketing team to discuss ways of advertising Diva plc's footwear.

As competition increases, the Board of Directors has been considering ways of maintaining Diva plc's UK market share. It has noticed the success of factory shops sited either on factory sites or close to the factory or in an 'outlet village'. It is making plans to open a factory shop in May 2008. 65

Three possible sites for the factory shop are available around Brunham as described in Resource Sheet 3. The Finance Manager, Robin Ho, has prepared some forecast sales revenue, expenditure and profit figures for the proposed factory shop (see Resource Sheet 4). The Board of Directors will need to decide on the site at its next Board meeting so that the shop can open on time. The Board of Directors will also have to decide on possible sources of finance if Site C is chosen. There may also be the need for some short-term finance to cover set-up costs of £75 000 whichever site is chosen. 70 75

The Managing Director of Diva plc, Joanna Diva, is soon to report on the viability of continuing to manufacture footwear in Brunham as costs increase. She has been considering the possibility of gradually reducing manufacturing on the Brunham site and moving the company's manufacturing to a factory in another European country where labour costs are cheaper. She is aware of the many problems such a move might bring. The Board of Directors will need to take this report into consideration when discussing the site of the factory shop. 80

In this, the centenary year of the company, the Board of Directors has been looking at the long-term prospects of Diva plc. The following proposals have been suggested to make sure that Diva plc is successful in the future:

- opening Diva retail shops in some major UK cities
- seeking an amalgamation or merger with another UK company
- moving the company's manufacturing to a factory in another European country

85

Are there other options that the Board of Directors might consider?

There are important decisions to make in the next few months.

RESOURCE SHEET 1

Some of the range of shoes and boots made by Diva plc with their retail prices.

A
price £28



B
price £40



C
price £70



D
price £65



E
price £50



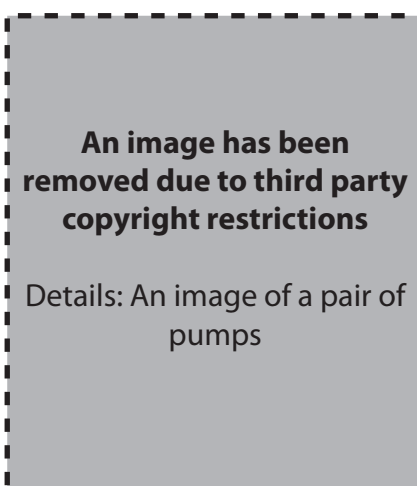
F
price £55



G
price £60

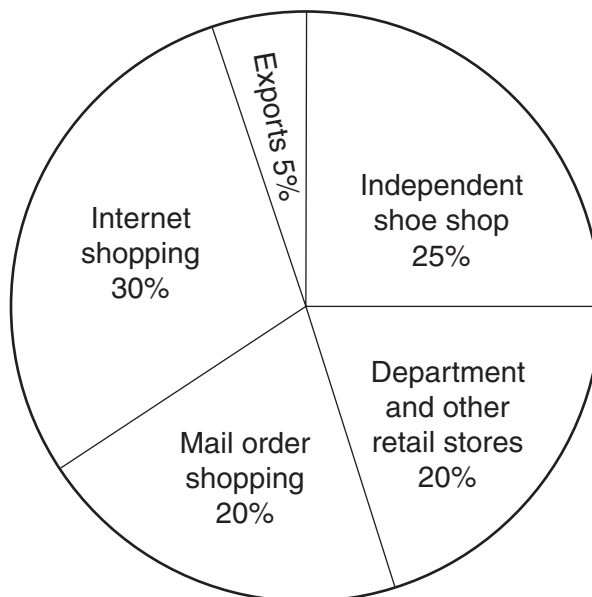


H
price £35



I
price £100



RESOURCE SHEET 2**Percentage Sales for the year ended 31 December 2004****TOTAL SALES REVENUE £24m****Percentage Sales for the year ended 31 December 2006****TOTAL SALES REVENUE £30m**

RESOURCE SHEET 3**NOTES ON EACH OF THE THREE POSSIBLE SITES****SITE A**

This site is owned by Diva plc. The cost of converting part of the distribution warehouse would be £30 000. Parking is limited. Clare Mitchell, the Distribution and Warehousing Manager, is unlikely to be pleased about using part of the warehouse when mail order and Internet sales are increasing.

SITE B

This site is part of an outlet village. A unit could be rented at a cost of £12 000 per year. The unit would provide a display area and storage. There is ample parking. Site B is six miles from the factory but the opening of the Brunham bypass in October 2008 would reduce the travel time between the unit and the factory.

SITE C

This is a small warehouse two miles from the factory. It is for sale at a purchase price of £800 000. To purchase the warehouse some borrowing would be needed. The warehouse would convert easily and there is some parking space.

RESOURCE SHEET 4

PROPOSED FACTORY SHOP

FORECAST SALES REVENUE, EXPENSES AND PROFIT
FOR YEAR 1

	SIX-MONTH PERIOD MAY 2008–OCTOBER 2008		SIX-MONTH PERIOD NOVEMBER 2008–APRIL 2009	
	£	£	£	£
Sales Revenue	56 000		69 000	
Less Cost of Goods Sold	26 000		30 500	
Gross Profit		30 000		38 500
Wages	15 000		19 500	
Advertising	6 000		3 500	
Heating, Lighting and Rates	4 000		4 000	
Other Expenses	2 000		2 500	
Total Expenses		27 000		29 500
Net Profit		£3 000		£9 000

Notes

The figures above exclude:

- set-up costs of £75 000
- rent as only Site B would be rented
- interest payments on Site C if purchased
- conversion costs of £30 000 for Site A.

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (OCR) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

OCR is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.