

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

**1951/7/CS  
1951/8/CS**

Paper 7 and Paper 8

**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 **12** printed pages.

## DIVA (FOOTWEAR) PLC

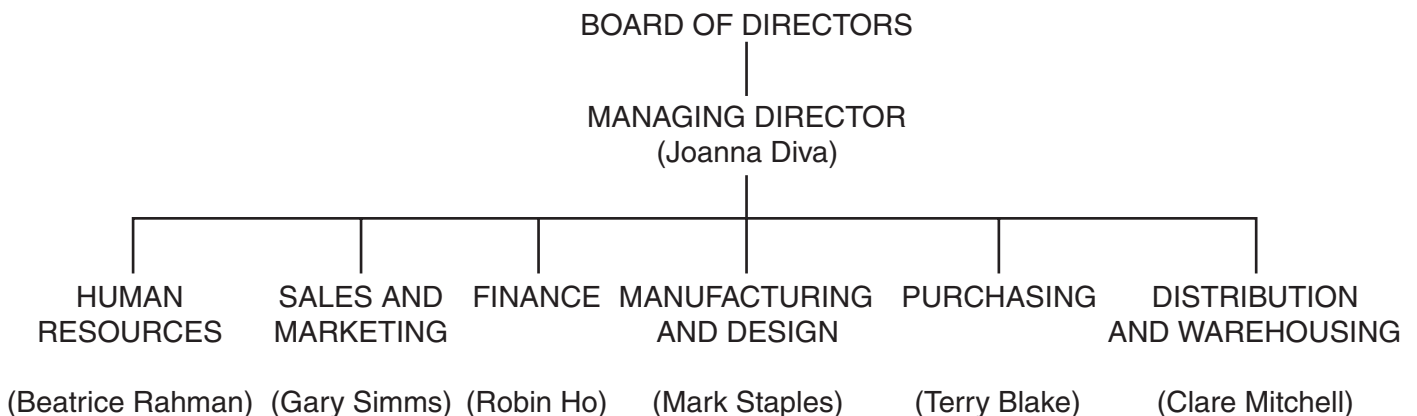
Diva (Footwear) plc is a successful manufacturer. Its factory, warehouse, distribution centre and offices are on an industrial estate on the outskirts of Brunham, a densely populated, industrial city.

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).

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.

Diva plc has always been based in Brunham and has maintained good relations with the local community. 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 granddaughter, Joanna Diva, is the Managing Director of the company and other members of the family still have a substantial minority shareholding in the company.

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.

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.

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

Terry Blake, the Purchasing Manager, has been asked to review the purchasing policy of the company in an attempt to cut costs. His findings will be reported to Joanna Diva, the Managing Director. Terry's main aim when buying supplies has always been to obtain value for money. Should he change this strategy? 35

As part of his review he is considering:

- should he be making more use of overseas suppliers?
- should he make use of recyclable materials?
- how might he take advantage of economies of scale?
- would finding another means of packaging to replace the traditional shoe box give the company a competitive edge? 40

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. 45

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 will be bringing suggestions on how to improve attendance at work and increase productivity to the next management meeting for discussion. 50

A week ago there was an accident in the warehouse. Some shelving was overloaded and toppled over. One of the storemen was trapped and broke his arm and two ribs. Clare Mitchell, the Distribution and Warehouse Manager, needs to look at health and safety issues in the warehouse as a matter of urgency. 55

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:

**UK MANUFACTURERS SQUEEZED BY INCREASED IMPORTS  
FROM ABROAD** 60

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: 65

<p><b>wide selection of styles and colour choices</b></p> <p><b>wide range of sizes (including half sizes) and fittings</b></p> <p><b>up-to-date styling using the finest materials</b></p> <p><b>telephone order-line open 7 days a week</b></p> <p><b>website offering on-line ordering</b></p> <p><b>replacement or full refund if not 100% satisfied</b></p> <p><b>despatch of in-stock items within 48 hours of ordering</b></p> <p><b>free return of unwanted shoes and boots</b></p>
---

**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:

70

- 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
- offering a voucher for £5 if an order is made within 14 days of receipt of catalogue.

75

The most recent promotion is shown in Resource Sheet 3. It has been a failure and produced very little response.

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

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

**Fig. 3**

The Sales and Marketing Manager, Gary Simms, has been asked to devise marketing strategies for each of these main market segments.

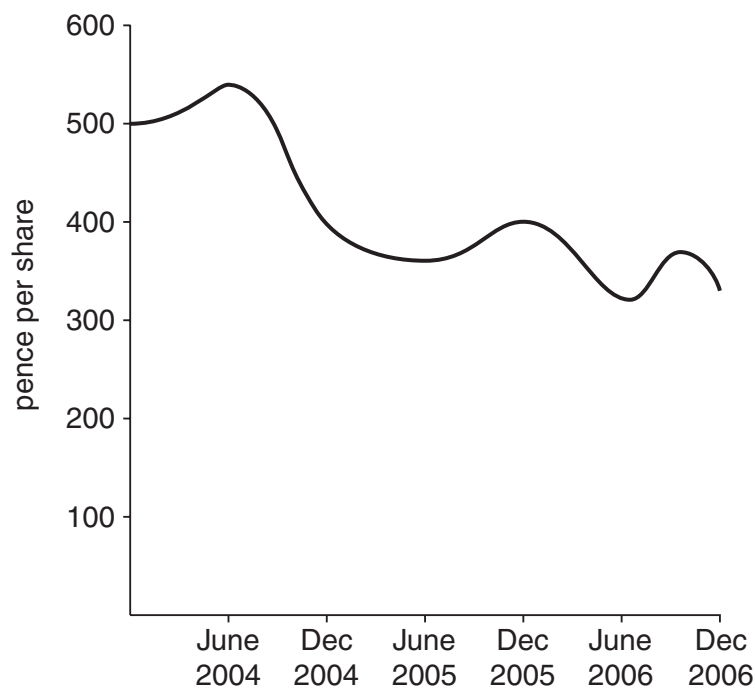
80

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.

Three possible sites for the factory shop are available around Brunham as shown in Resource Sheet 4 (a) and (b). The Finance Manager, Robin Ho, has prepared a cash flow forecast for the project (see Resource Sheet 5). 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.

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.

The Board of Directors is somewhat concerned about the fluctuating value of the company's share price as shown in Fig. 4.



**Fig. 4**

The Board of Directors is worried that a takeover bid for Diva plc may be launched by either a UK company or one of Diva plc's competitors abroad.

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

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



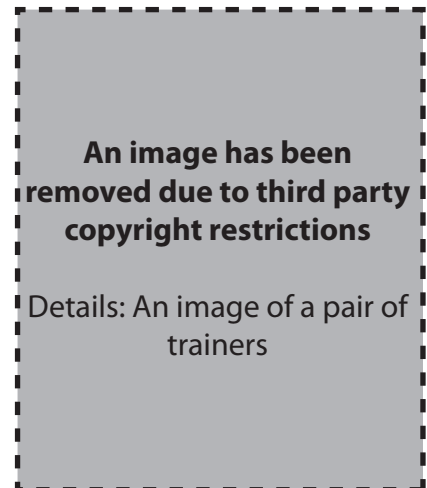
D  
price £65



E  
price £50



F  
price £55



G  
price £60

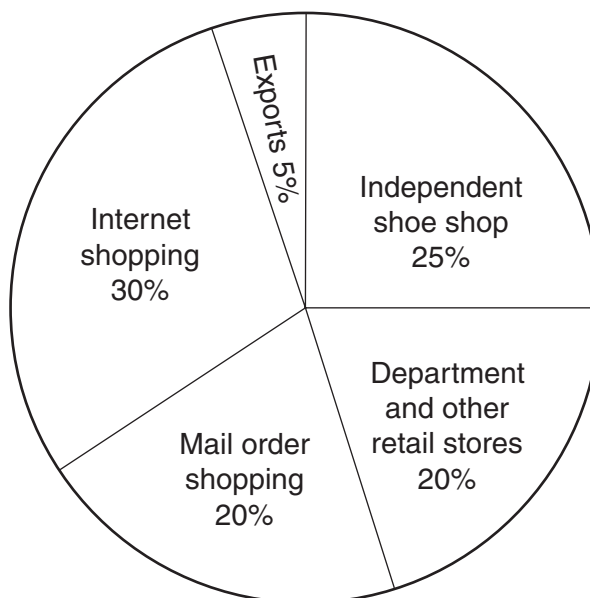


H  
price £35







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**

This promotion leaflet and scratch card were enclosed with catalogues sent to regular customers. Customers could then see if they had won one of the following prizes.

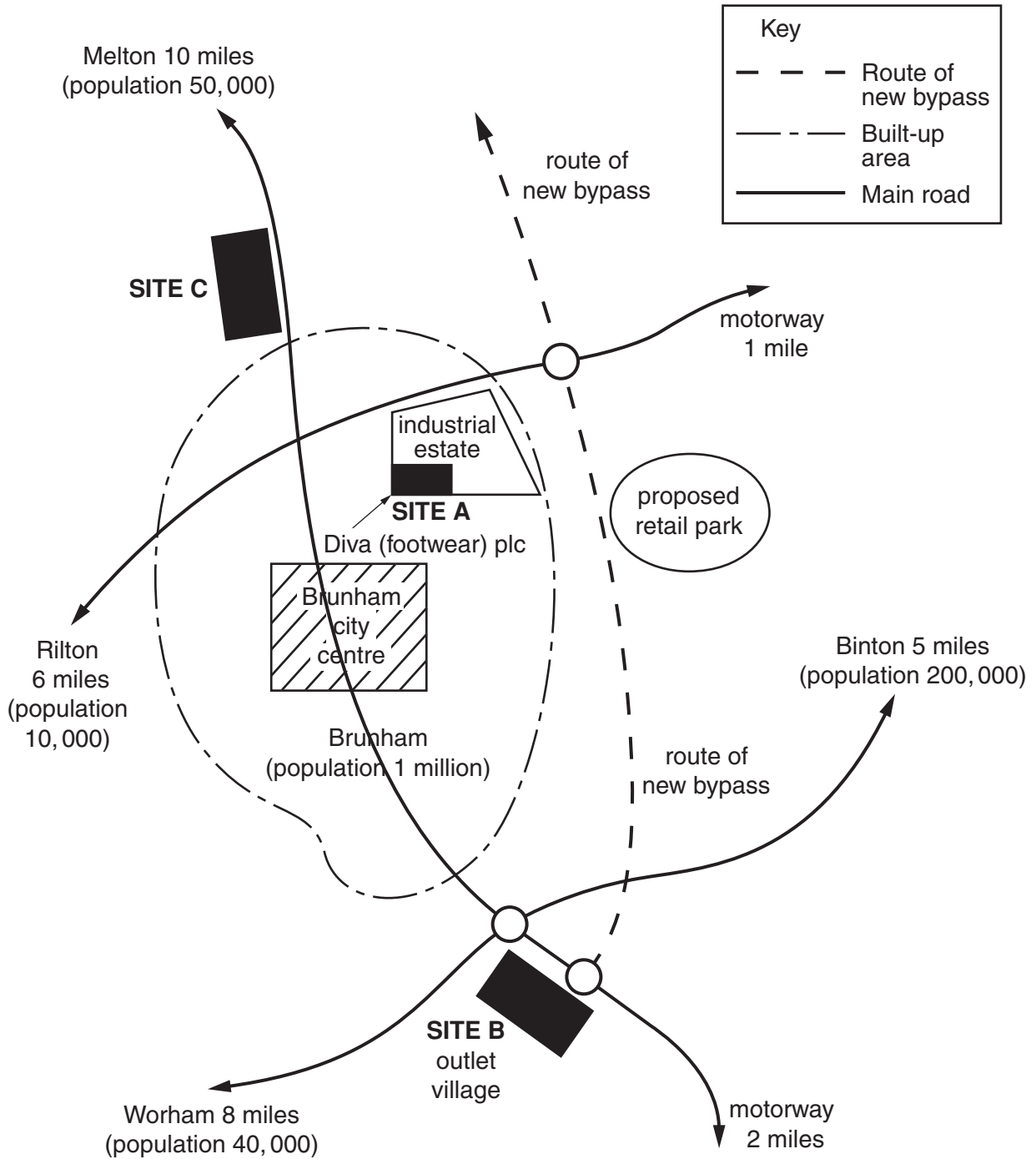
<b>COUNT THE SHOES COMPETITION</b>		
<b>ARE YOU A LUCKY WINNER IN OUR SCRATCH CARD GAME?</b>		
<b>PLATINUM</b> (2 prizes)		Be our guest for two days. Enjoy a city break in Brunham. Free travel and accommodation for you and a friend.
<b>GOLD</b> (10 prizes)		VIP tour of the Diva factory with free travel to and from factory.
<b>SILVER</b>		Order two pairs of shoes within days and deduct 10% from the total bill.
<b>BRONZE</b>		Free postage and packing on your next order if made within seven days.

Claim your prize by telephoning or e-mailing us by 31 May



RESOURCE SHEET 4 (a)

MAP SHOWING THE THREE POSSIBLE SITES FOR THE FACTORY SHOP



**RESOURCE SHEET 4 (b)****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 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 5

## CASH FLOW FORECAST FOR PROPOSED FACTORY SHOP (MAY 2008 – APRIL 2009)

	May £	June £	July £	Aug £	Sept £	Oct £	Nov £	Dec £	Jan £	Feb £	March £	April £
<b>Balance b/f</b>		(2500)	(1500)	500	2000	4500	4000	1000	3000	5000	5500	8500
<b>INCOME</b>												
<b>Sales Revenue</b>	6000	8000	10000	12000	12000	8000	7000	14000	13000	10000	12000	13000
<b>TOTAL INCOME</b>	6000	5500	8500	12500	14000	12500	11000	15000	16000	15000	17500	21500
<b>EXPENDITURE</b>												
<b>Goods for sale</b>	3500	3500	5000	5000	5000	4000	3500	6500	6000	4000	5000	5500
<b>Wages</b>	2000	2000	2000	3000	3000	3000	3000	4000	3500	3000	3000	3000
<b>Advertising</b>	1000	1000	500	500	1000	1000	1000	1000	1000	500	500	500
<b>Other Expenses</b>	2000	500	500	2000	500	500	2500	500	500	2000	500	500
<b>TOTAL EXPENDITURE</b>	8500	7000	8000	10500	9500	8500	10000	12000	11000	9500	9000	9500
<b>Balance c/f</b>	(2500)	(1500)	500	2000	4500	4000	1000	3000	5000	5500	8500	12000

**Notes**

- The Cash Flow Forecast excludes set-up costs of £75 000
- The Cash Flow Forecast excludes rent as only Site B would be rented
- The Cash Flow Forecast excludes interest payments on Site C if purchased
- Conversion costs for Site A would be £30 000

---

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.