

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma in Management
Professional Level

CASE STUDY

4180/01

4253/01

Core Module

Valid between 1 January 2004 and 31 December 2004

READ THESE INSTRUCTIONS FIRST

You should read the assignment carefully

It is important to complete the **Assignment Cover Sheet** when you have finished your work. You must complete the details and sign the declaration to confirm that the assignment is all your own work and your tutor must sign to verify that it is your own work.

The length of the assignment must be between 4000 and 5000 words.

This document consists of **5** printed pages.



“The Ceramics Centre”

The small family firm of “The Ceramics Centre” has operated from its town centre shop and small warehouse for 32 years, selling tiles and accessories. The founder and general manager, Hassan, has recently retired and handed the business over to his daughter, Susan, who is returning to the family business after completing her university programme.

Although she is looking forward to running the business, in which she has been working for most of her life (helping out as a young girl, working in the offices, the warehouse and the shop as she grew older), she realises what a challenge it will be to modernise the business, as very little has changed during the past thirty years.

The operation

The shop specialises in selling ceramic floor and wall tiles to local tradesmen and the general public. These are often in relatively small quantities at any one time and there are 118 trade accounts, with local plumbers, tilers and builders. The tiles are sold by unit measurements of a square metre. An average floor tile order is 16 units, a wall tile order is 5 units.

The tiles are ordered both to stock and to order. Stock tiles are mostly the cheaper brands, used by builders and tradesmen for standard house building or renovation. These are often ordered in larger unit quantities, up to 160 units for floor and 100 units for wall tiles.

The shop carries some more expensive and unusual tiles in stock, but the local market for these is limited. There are also samples of these tiles, which are for order only: again, these are more expensive or unusual in design and this is a market that the shop has been moving into for the past two years or so.

The tiles are stored in the small warehouse and collected by tradesmen, or delivered by the shop’s truck free of charge within 3 days of purchase. All non-trade tiles are collected on or after purchase.

As well as Hassan and his wife, there is one full-time and one part-time staff member, excluding Susan, both having been with the business for many years.

The tiles are ordered from a range of manufacturers, both at home and abroad, including the cheaper and more expensive designs.

Finance

The shop property is owned by the business. The building used to be a bakery, and consists of a number of small rooms connected by passageways. There has been little or no modernisation of the building, although it has been attractively decorated to show the tiles in a number of settings, mostly on large boards.

The warehouse is leased from a private landlord at a rent of 75% of the average rate for the area. The lease has 3 years left to run.

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The truck is leased on a two-year contract.

Wages are paid to the two members of staff at the average for shopworkers in the area.

Hassan and his wife draw a salary and some profit. The business works at an average of 25% g.p. per unit, with the annual net profit figure running at an average of €13,500. Hassan and his wife draw about half this to pay for their cars and other family needs, as their salary is relatively modest. The rest of the annual profit is usually taken up by ongoing repairs to the building. Susan expects to draw 2/3rds of her father's salary for the first two years.

There is generally a debtor account of €30,000 at any one time through the trade accounts. There is a small bank business loan of €15,000, repayable over 5 years of which there is just over 1 year left.

The shop is open 6½ days per week, from 8.00 until 17.00 (12.00 on Sunday) although Hassan and his family do not work on Sunday.

Now that he and his wife have retired, they will not be drawing a salary, but they will be given a share of the annual profits as they remain non-executive shareholders in the business.

Susan is an intelligent woman with a good knowledge of the trade and of business generally. She is aware that, owing to a number of factors outlined below, the business will have to change or it will almost certainly fail within the next three years. She understands the business world and has a working knowledge of IT and marketing. She is prepared to work hard over the next 12 months or so on all aspects of the business, although she would like to concentrate on the strategic planning and its implementation.

The Issues

The issues uppermost in her mind are as follows:

- There are more cut-price and discount tile retailers opening up, selling tiles as a loss leader or as third or fourth lines. "The Ceramics Centre" is not under direct threat at the moment as they have a well-established customer base. However, with the trend towards higher levels of competition, the business cannot afford to lose many of its trade account customers to the discount retailers.
- The market for tiles and the number and range of tiles is also becoming larger, and it is difficult to identify the best market sector in which to operate. The warehouse is half full of ends of line, cancelled orders, and general stock tiles, of all types, sizes, quality and price. It is a real jumbled collection, which is difficult to inventory and control.
- The shop premises are becoming something of a millstone, as it requires constant upkeep and, with its large number of small rooms, does not lend itself to large displays of the sort that the competitors are creating. These include room displays: bathrooms, kitchens and outdoor areas - large displays in which to promote the tiles.
- The business is not cost effective. There is money tied up in the premises which could be released; there is a high level of money owed to the business at any one time; capital is being under-used; there is a high level of inventory, some of which is now obsolete.

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- There is no IT supporting the operation. The staff have no desire to bring in computers for stock control, sales, ordering or financial management and all these are still carried out manually. While some of the long-standing customers see this as part of the charm of the business, Susan knows it will be difficult to attract new customers without introducing modern business systems.
- Susan has agreed a business development loan facility with the bank at preferential rates, as long as the money is used to modernise the business. The loan facility is €300,000 in the first instance, with a further €150,000 in three years' time, if the business is modernising. The premises act as collateral.
- The shop and the warehouse are not ideal for the type of modernisation Susan has in mind. There is a short lease on the warehouse and the shop/showroom is the collateral for the loan. However, there is a new retail park being built on the outskirts of town, with warehouse/showroom premises to let. The rent and rates for the first two years will be offered at a discount to encourage businesses to move. Susan is aware of one tiling discount company who is making enquiries about moving onto this site and establishing a presence in the town.
- Susan is quite keen to break into the market for large building contractors: those who build hotels, office blocks and so on. Such contractors order in thousands of units at a time, thus providing, as Susan sees it, financial security for the business.

The Task

Susan has come to you as a respected business analyst for some guidance on her thinking. She has asked you to prepare an outline strategy for the next three years which will help her.

You are asked for this Case Study to prepare a suggested business strategy for Susan which takes into account the information above. This should be an outline strategy, which should present a range of options for the business, taking into consideration the option of moving to the new retail park.

You should address at least the following:

- Operational strategies which maintain and build upon the existing reputation for reliability, integrity and customer satisfaction. These strategies should consider (at least) market share, market sector, expertise, capacity, and profitability.
- Information management strategies which will help the company rationalize the inventory and produce appropriate sales, customer, financial and other management information.
- Quality strategies which allow the company to promote quality as a key unique selling point within their marketing
- HR strategies which consider current staff skill levels, optimize current human resource capability and prepare staff for change.
- Financial strategies which improve overall profitability, look to optimizing investment and ensure long term stability.

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Please note the following:

Information about the company which is not given may be assumed, and all such assumptions should be justified.

You may provide a number of alternative strategies, depending upon the level of assumption and risk analysis you make.

All suggestions should be supportable through reference to calculation, research, examples and/or theoretical models.

Your report, which should be in the form of a professional consultancy document, should be addressed to Susan, as suggested recommendations for change.