

Thursday 19 January 2012 – Morning

AS GCE BUSINESS STUDIES

F292/01/CS Business Functions

CASE STUDY

Duration: 2 hours



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Suits You Ltd (SYL)

Suits You Ltd (SYL) is a leading online men's clothing retailer, specialising in men's eveningwear, business suits and accessories. It was set up in the autumn of 2008 by two brothers, Jonny and Warren Devereux. During his gap year, Jonny had spent time in India and was impressed with the quality and price of the bespoke suits which were available in nearly every city which he visited. At the end of his first year at university, Jonny found it impossible to buy a good quality hand-made suit, at an affordable price, for the summer ball and remembered his experiences in India. Within six months, Jonny had dropped out of university and teamed up with his brother, who had just graduated with a degree in Computer Science, and SYL was born. Within three years, the business has achieved annual sales of nearly £3 million and made a pre-tax profit of £491,500 in the last financial year. 5 10

The way in which SYL's bespoke service works is very simple. The customer chooses a style of suit from over 50 available on, or designs their own using, SYL's website. Then, following guidance on the website, the customer has to take up to 60 different body measurements and enter them into their online profile. Once payment has been made, the suit is produced. This work is sub-contracted to a firm in India which uses a team of 60 experienced tailors. The suit is then delivered direct to the customer within eight weeks of the order being placed. The average price of a suit is just over £300, which is about 10% of the price paid for a similar product from a bespoke tailor in London. 15

In addition, SYL also sells men's tuxedos, wedding suits and morning suits, along with the necessary accessories such as shoes, waistcoats, dress shirts, cummerbunds and cravats. Although most of these products are uniquely produced for SYL, they are sold 'off the peg'. SYL holds a stock of over 300 different items (many of them in a variety of sizes) sourced from a number of suppliers mainly located in India, Nepal and Thailand, although a growing number of suppliers are in Eastern and Central Europe. SYL sets a buffer stock level for each of the items, although this has to be kept quite high given that the lead time on most of its supplies from South-East Asia is six weeks. (See Appendix 1 for an extract from SYL's stock records for some of its top selling lines.) If there is an urgent large order or stock levels unexpectedly drop too low, then products can be made and air freighted in seven days, although this has a significant effect on profit margins. 20 25

SYL is currently located in a large warehouse on an industrial estate in South London. Most of the space is used for storing 'off the peg' items, and packing orders for these items as they are received from customers. In addition, there is some office space used by the company's administration staff, a small meeting room and a recreation area with vending machines for staff use. SYL employs seven full-time salaried supervisory, administration and IT staff, as well as three full-time and one part-time hourly-paid packing staff. At the busier times of the year (November and December for Christmas and May to August for weddings) the permanent staff are supplemented by temporary workers, usually friends and family of Jonny and Warren, or students from the local university. 30 35

Having grown so quickly in the last year or so, SYL is currently struggling with a lack of space in its current location. This has led to problems with the storage of SYL's 'off the peg' stock. With an ever-growing range of items which SYL stocks, the firm is quite literally running out of space to the extent that Jonny and Warren have had to resort to keeping some of the stock at their homes, as well as at their parents' house. There has been a 14% increase in damage to stock over the last six months which has led to rising waste levels; and there has been an increase in the average time taken by staff to pack orders, as they are spending more and more time actually finding stock. This has had a knock-on effect in terms of costs due to SYL's prompt dispatch guarantee (see Appendix 2). To ensure that this guarantee is achieved, there is a regular need to pay overtime to the packing staff. Jonny is currently spending most of his time trying to find the best solution to these stock control issues. 40 45

Warren's focus is currently on a different aspect of the business. The bespoke tailoring service has shown little growth in the last 12 months, compared to the phenomenal growth in the 'off the peg' products. Given that the profit margins on bespoke items can be as much as 10 times greater than on 'off the peg' items, Warren is keen to expand in this area. However, although SYL has the advantage of being an Internet-based business and with the potential customer base this provides, the nature of the product means that few new customers are willing to risk that first order solely online. In addition, the sort of customer ordering a made-to-measure outfit expects a personal touch. 50 55

Given the large number of measurements which the customer has to record and the accuracy needed, it is common for the customer to find that their suit does not fit perfectly when it is received. SYL does offer a "Full Fit Guarantee" for a payment of £50. This means that if the customer is not happy with the fit of the suit on delivery, he can have alterations made. This is done by the customer visiting SYL's office in South London, where a qualified local tailor is paid by SYL to come in and carry out the work. However, this service does not help to attract customers from outside the south-east and is generally loss-making. To try and overcome this problem and to help the bespoke service to grow, Warren has proposed an addition to SYL's ordering process – local measurement and consultation centres. 60

Warren is proposing to open four measurement and consultation centres, in addition to the one already at SYL's current location. There would be one in Canary Wharf, as well as one each in Manchester, Birmingham and Edinburgh. Each of these centres would be open for limited hours, five days a week and customers would have to book an appointment via the SYL website. There would be a £30 appointment fee for this service undertaken by a local tailor. 65

"This seems a good idea," commented Jonny when told of Warren's proposal. "However, there are a lot of potential customers out there who would still find a long trip to one of these centres quite off-putting. We need even more centres around the country, so that nobody is more than an hour's drive away from a measurement centre." 70

"There's no way we can afford to set up more than four of these at the moment," replied Warren. "We could end up with empty offices on which we are paying rent, if not enough customers take up this option." 75

"I have been considering the viability of a different option. What if we were to open a series of concessions in retail chain stores, such as shoe shops and specialist wedding shops," suggested Jonny. "Existing staff in those stores would act as SYL consultants. We would provide them with access to our software for ordering the garments. In addition to taking the customer's measurements, the staff in these stores could help with style advice and any other customer queries." 80

"Sounds a workable idea and probably better than mine, if not for one problem," said Warren. "We are an online business. Moving into the 'high street' is a completely different channel of distribution, with completely different problems. We would need to look at our marketing mix." 85

While thinking through the implications of Jonny's idea, Warren realised that SYL's organisational structure would also need changing. This is something which the brothers had already discussed in the last few months as the company grew and became ever more complicated. At present, the business has a very simple structure with decision-making being highly centralised (see Fig. 1). In effect, although Jonny and Warren do not have job titles or specific areas of responsibility they make all the major decisions. They had already begun to map out a possible new structure even before the proposed changes to the channel of distribution. Now, Warren has begun to incorporate these proposals into his plans (see Fig. 2).

Fig. 1 – Current organisational structure at SYL

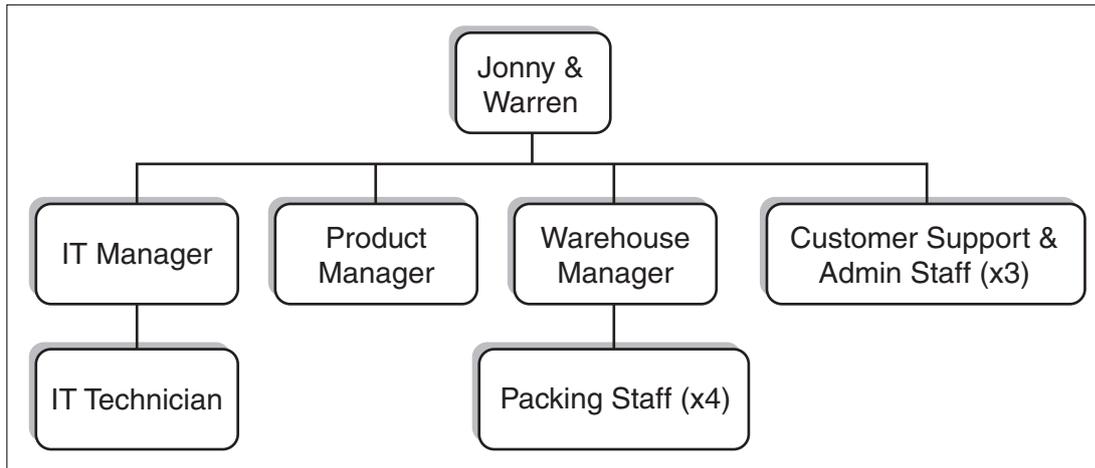
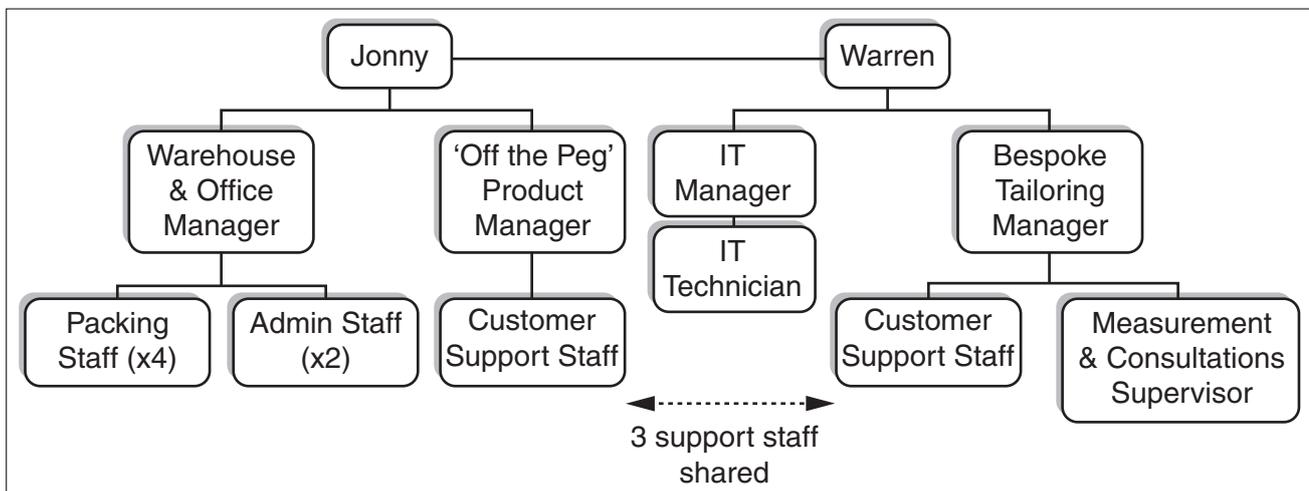


Fig. 2 – Proposed new organisational structure at SYL



Jonny and Warren will continue to have overall control of strategic issues as well as responsibility for all financial and accounting matters. The other three current managers have now been shown this new planned structure and two of them were discussing it amongst themselves during a coffee break one morning.

"I'm not sure how this is going to work, or if it is going to work," commented Holly Curry, the Product Manager. "We know how Jonny and Warren are always sticking their noses into everything. There's no way that they are going to leave us alone to make decisions. It's not their philosophy. Just look how they overruled me the other day about that new supplier of cravats I had found."

“Well, I think it will be great for me,” said Freddy Biggs, Warehouse Manager. “You know how I have constantly said that we need more control over the admin and support staff. They do their own thing at the moment, and not very well if I may say! It’s always a problem getting them to do what we think is the priority. Between you and me, Holly, we can knock them into line. It looks like we will be working closely together.” 105

“You’re assuming I will be taking the ‘off the peg job”, replied Holly. “I’m not so sure. Given the amount of time and effort I have put into setting up the bespoke service, I’m not too keen on letting go of the responsibility for that. I might prefer the bespoke manager’s job, or maybe it’s time for a complete change somewhere else...” 110

Before any of these planned changes to SYL’s distribution process could go ahead, Jonny and Warren need to gain the support of the bank, as there would be additional demands on SYL’s long-term liabilities and cash-flow. Given the strong revenue growth and healthy working capital of SYL, they were expecting the meeting with the Small Business Adviser at the bank to be a formality. They were, therefore, surprised when the adviser, Frank Mooney, appeared to be less than enthusiastic about SYL’s plans. 115

“Now the business is quite large and continuing to grow, you really need to improve the quality and accuracy of your accounting,” began Frank. “Although your financial accounts are adequate, if a little brief, it is the poor quality of your management accounts which is a cause for concern.”

“But our auditors are happy and we are satisfying our legal obligations,” replied Jonny. 120

“Yes you are,” said Frank. “However, what I am trying to say is that there are very good reasons for producing better quality internal accounts. Your cash-flow forecasts are superficial and your budgets appear to be a work of fiction. These documents are supposed to be part of your business planning and help you to set and achieve objectives, especially as SYL grows. At the moment they are doing nothing of the sort. Just look at this most recent budget data” (see Table 1). 125

Table 1 – Budget data for SYL 2010–2011

	November 2010–April 2011		May 2011–October 2011	
	Budget (£)	Actual (£)	Budget (£)	Actual (£)
Turnover	1,400,000	1,193,830	1,400,000	1,725,142
Cost of goods sold	770,000	687,500	770,000	908,319
Employment costs	170,000	186,410	170,000	215,900
Pre-tax profit	240,000	220,400	240,000	271,100

NB: Not all costs are listed

“I really can’t see a problem,” argued Warren. “We have exceeded our turnover and profit forecasts over the whole year, so everything’s fine.”

“A budget is more than just something to keep score against,” replied an exasperated looking Frank. “The variances in the first half of the year should have been responded to. There are fundamental problems in how you are putting the budgets together and unless you improve them this bank will not be extending your lending facility, no matter how much profit you are making.” 130

Appendix 1 – Extract from SYL's stock records of top selling lines

	Buffer Stock	Maximum Stock	Retail Price
Black herringbone morning suit (Size 40R)	25	50	£280
Brown herringbone morning suit (Size 40R)	20	50	£280
Grey herringbone morning suit (Size 40R)	20	50	£290
5-button traditional waistcoat (Size 38)	5	10	£55
Velvet peak lapel black tuxedo jacket (Size 40R)	10	100	£175
Cream tuxedo jacket (Size 40)	10	100	£92
Wing collar dress shirt with pleated front (15½ inch)	20	200	£34
Black silk cummerbund	40	200	£15
Paisley silk cummerbund	40	200	£17

NB: All lines have a standard six week lead time

Appendix 2 – SYL's prompt dispatch guarantee for 'off the peg' items (published on its website)

We will normally process your order on the same business day, unless products are ordered after 5pm or on a public holiday. If this occurs the order will be picked and shipped the next working day.

If you require delivery of your goods urgently, then we have a next day delivery service available. (A supplementary postage charge of £10 will apply.)

If your item is not in stock, it will be placed on back order for you. You will always be emailed with the option to cancel your order if you would rather not wait.

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