

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

Business Behaviour

CASE STUDY

**JUNE 2004**

**2873/CS**

May be opened and given to candidates upon receipt.

**INSTRUCTIONS TO CANDIDATES**

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

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**This case study consists of 5 printed pages and 3 blank pages.**

## BENSONHILL CREATIONS PLC

BensonHill Creations plc (BCP) began when two design students, Zoë Benson and Anita Hillman, founded the business in 1986 as a children's umbrella manufacturer. They transformed this market by introducing new designs. They licensed characters such as *Winnie the Pooh* to be painted on the umbrellas so that the average price of a typical umbrella was driven up from £1.99 to £4.99. In 1999 the business became a publicly quoted company on the AIM, with sales having risen to £2.5m. Zoë and Anita took the decision to move away from being a niche manufacturer to develop as a toy company. However, the highly volatile nature of the toy industry made it very difficult for a relatively small producer such as BCP to compete with the larger manufacturers.

BCP's future was dramatically changed in 2001 as a result of a new product that Zoë designed as birthday presents for her five-year-old twin daughters, Casey and Jenny. This was a bed, but an unusual one – an inflatable mattress made of brightly coloured canvas, with a built-in sleeping bag and decorated with *Bagpuss* images. The bed was named the EzzeSleep by Casey and Jenny and was popular with all their friends. Zoë, BCP's Creative Director, had the idea for the EzzeSleep after a trip to America where she had witnessed the craze for 'sleepover' parties. By September 2003 BCP had launched the EzzeSleep commercially, in many licensed designs, and was selling it to larger retailers such as Woolworths, Mothercare and Argos. Sales of over £1m in less than six months exceeded the company's forecasts by 100%. A forecast of £3m of sales just in the British market is being made for 2004-05.

Anita, BCP's Marketing Director, believes the bed has a wider potential than just a children's novelty. At a recent Board meeting, Anita made an impassioned plea to the other Directors about the future of the EzzeSleep. "Every house in the country should have an EzzeSleep," began Anita, "It will appeal to adults as a spare bed and to campers seeking an alternative to airbeds. But to exploit its potential we would have to sell into new markets. It will mean transforming our identity from a toy maker into a more broadly based product-design company."

However, Peter MacKellar, BCP's Sales Director was more cautious. "With nearly 20 years in business we have some well-established relationships with the top British buyers. But to become a more broadly based product-design company we will need to use new sales and marketing techniques. Should we approach the bedding buyer in Woolworths, for example, at the same time as the toy buyer? If so, should the bed be adapted for different markets, and sold at different prices within the same store? If a bed for the camping market is developed how should it be marketed and distributed? The other big unknown is America."

Anita was ready for this question. "Well as you know I have made regular trips back and forth to America in the last three months. I have already had some useful discussions with buyers at a number of the larger American stores. I reckon we could see annual sales of at least £12m within five years of entering the American market."

"That's all well and good," replied Peter, "but this all raises questions about how best to promote and price the product. There are also issues concerning distribution. We will need to carry out some highly detailed and specific market research before serious attempts are made to enter the American market. The leading competitors will have to be analysed thoroughly, as will quality standards and distribution channels."

Anita subsequently asked a marketing consultancy, Chiltern Marketing Consultants, to identify the best way to carry out the necessary market research. Hearing this, Peter also put forward his own in-house research option. A brief summary of the two proposed options is shown in Appendix 1. 50

The issues of physically making and distributing sufficient EzzeSleeps for the American market is already causing concern for Production Director, David Wong. “If trials are successful and we are suddenly expected to supply to retailers that have thousands of stores across America, we could find ourselves in difficulty. Such retailers often expect to order in small volumes until the scale of demand for a product is clear. This will put great pressure on the company if we aim to have sufficient back-up stock ready.” 55

Another change that David was already considering before the possibility of selling to America became an issue was the production method used. Presently the EzzeSleeps, like all of BCP’s other products, are made using batch production. Each batch of 50 starts by having the inflatable mattress attached to a base that also acts as a storage bag. There are only two differences in each batch of mattresses – the size, either adult or child, and the design of material used. Separate batches of sleeping bags are sewn and decorated. Each batch of mattresses is then matched up with an appropriate batch of sleeping bags, before the finished batch of EzzeSleeps is packaged and sent to the dispatch area. 60 65

David now thinks it is time to consider using a flow system just for the production of the EzzeSleeps, but also wonders whether there would be any benefit from using cell production. He feels that efficiencies could be gained by adopting some JIT techniques. Currently he sets production levels monthly, after discussions about likely demand with Anita and Peter. 70

The production site is located near Solihull in the West Midlands, and currently operates at about 85% capacity. It is close to Birmingham International Airport and at the heart of the UK’s motorway network. There is a ready supply of suitable labour. As part of BCP’s continued organic growth the Finance Director, Debbie Mant, is considering two alternative investment projects. One is the purchase of eight new “state-of-the-art” sewing machines costing £270,000 each that will allow the sleeping bag decorating process to be automated. This new production process will require considerably less labour input and will allow the rate of output to be significantly increased. 75 80

The second investment project is an expansion of the factory by 25%, building on land adjacent to the factory, currently used for staff car parking. The projected cost of building and fitting out this expansion is currently £2,000,000. The extension would increase capacity using existing technology and an increased workforce. Debbie is expected to produce her recommendation, using both quantitative and qualitative evidence, at the next Board meeting in June. She has decided to take a view over six years. 85

The employees of BCP are genuinely motivated in what they do and money is recognised by the management as only one part of the motivational package. Many of the employees have been with the company since its early days and a family atmosphere is retained. However, BCP’s Human Resources Director, Wei-Lyn Loh, is currently dealing with an isolated situation. One of the production line supervisors, Kelly Hassell, has dismissed a member of her team. The employee in question, Chris Welton, has worked for BCP for five years. Apart from two official verbal warnings for lateness, both of which were over 18 months ago, he has a good 90 95

work record. Kelly has only been a supervisor for the last two months, having been promoted internally after two years working for BCP. Wei-Lyn is concerned that the correct severance procedures have not been followed with regards to the dismissal of Chris Welton and so she has asked for an official report from Kelly about the incident (see Appendix 2). 100

**Table 1**

**BensonHill Creations plc**  
Balance Sheet extract, as at 31<sup>st</sup> March 2004

	<b>2004</b> <i>£000</i>	<b>2003</b> <i>£000</i>
Fixed assets	3,238	3,142
Stock	745	556
Debtors	302	249
Cash	131	194
Current liabilities	671	594
Long term liabilities	946	1,146

Profit and Loss Account extract, year ending 31<sup>st</sup> March 2004

	<b>2004</b> <i>£000</i>	<b>2003</b> <i>£000</i>
Sales turnover	4,293	2,865
Cost of sales	3,391	2,321
Gross profit	902	544
Net profit	294	206
Retained profit	198	142

## **Appendix 1 – Summary of proposed market research options**

### *Chiltern Marketing Consultants' proposal*

- ⇒ A stratified random sample of the 100 largest retail stores across America.
- ⇒ Interviews of the person(s) responsible for purchasing in each store.
- ⇒ Face-to-face interviews carried out by BCP's Marketing Director, or via Internet Video Conferencing.
- ⇒ Questions to include interest in the EzzeSleep product, indication of likely competition and relative price levels.
- ⇒ Chiltern Marketing Consultants to analyse all data and to produce a final report.
- ⇒ Proposed cost = £50,000.
- ⇒ Results available in 2-3 months.

### *Peter MacKellar's in-house proposal*

- ⇒ A quota sample of 20 retail stores across America.
- ⇒ A questionnaire to each of these retailers covering pricing, likely stock levels and general interest in the EzzeSleep product.
- ⇒ Questionnaires to be completed by post with a telephone follow up to those retailers who do not reply within the set time period.
- ⇒ A quantitative analysis of sales patterns of bed and related products across the American economy over the last 10 years. (This information is already commercially available.)
- ⇒ Proposed cost = £10,000.
- ⇒ Results available in 4-6 months.

## **Appendix 2**

### **INTERNAL MEMORANDUM**

**To: Wei-Lyn Loh  
Human Resources Director**

**From: Kelly Hassell  
Production Supervisor, Team 3**

**Date: Monday 15th March 2004**

**Re: Dismissal of Chris Welton**

Chris was not the best worker on my team. Since I was put in charge I have found him to be verbally aggressive towards me and the rest of the team. He seems to think that I am the token female supervisor in the firm and that is why I was promoted rather than him.

Over the last couple of months he has been absent rather a lot, with no apparent reason. However, the final straw came last Friday. Chris had rung in on Thursday to say he had a bad cold and so would not be in that day. On Friday, he came into work and appeared to be perfectly healthy. I overheard a couple of his mates asking him about how he had enjoyed his day off at Stratford, watching the horse racing, the day before.

I called Chris into my office and put what I had heard to him. He just laughed and said I couldn't prove anything. I asked him for a doctor's note which he said he hadn't got and so I told him he was sacked.

He thought I was joking until I called security to have him escorted off the premises.





