

Strategic Finance for Luxury Management Individual Coursework I

CASE STUDY OF GRACE® FASHION BRAND

Company background information

Grace® is a fashion brand owned by Graceland Fashion Limited, a private limited company. The company is a medium-size fashion design and tailoring business which was set up by Ms Grace Jackson in the Enfield area of North London in 2008 shortly after the global financial crisis, to serve middle- and upper-class clients in bridal wear, luxury fur, and leather overcoats. The business started as a sole proprietorship enterprise operating from Grace's personal garage until 2011 when profit was made for the first time. By 2012, Grace had registered the business as a limited liability company. Ms Grace Jackson remains the sole owner of Grace Fashion Limited. The number of employees has grown from 1 in 2011 to 16 in 2021 (see appendix 4). The company operates a flat span of control whereby all the employees directly report to Ms Grace Jackson. The business is divided into four units:

	<i>Unit/Department</i>	<i>Function/job description</i>	<i>No. of staff</i>
1	Procurement and storage	Raising & processing purchase orders, haulage, taking delivery of inventory, and issuing items to the production assembly.	3
2	Production & Design	Designing, assembling, tailoring and finishing	9
3	Selling	Retailing, taking sales orders, communicating with clients, after-sales services and customer delivery.	3
4	Administration	Office control, accounts, documentation	1
	TOTAL		16

Analysis of costs

Between 2008 and 2015, all the cotton raw materials were sourced from Uzbekistan and then shipped to Bangladesh where they are woven into styled fabrics before being shipped to the company's warehouse in London. Due to the relatively low cost of the raw materials and labour during the period, Grace brands® were able to achieve average gross profit ratio of 80%. However, with effect from 2016, cotton importation from the Asian Republic Uzbekistan was banned by the European Union due to the human right abuses of the oppressive regime of President Islam Karimov. According to the Environmental Justice Foundation, 'cotton production in the Central Asian Republic of Uzbekistan represents one of the most exploitative enterprises in the world'. Due to the low, centrally set prices paid to farmers for their quota, a large proportion of the profits generated by cotton exports is retained by regional governors and the state. Cotton farmers typically suffer due to low pay and poor working conditions. Reports from the foreign media and NGOs have identified a range of human rights violations in the industry, the most serious of which concern the use of forced and child labour. Due to the ban on the procurement of raw materials from Uzbekistan, the company has had to source raw materials elsewhere. The impact of this decision has reduced the gross profits earned significantly.

Analysis of sales

Grace Fashion Limited was solely involved in fashion designing and tailoring services until 2018 when a retail segment that trade in luxury wristwatches and jewelleries was launched. The new segment is relatively successful as it generates on average, 10% of the total sales in 2019, and it is projected to increase to 20% of total sales by 2022. Although other operators of relative size comparable to Grace Fashion Limited also operate retail fashion, and trade in wines & spirit as well as perfumes and cosmetics, the company is yet to consider these options. In terms of sales destination and percentage of turnover, most of the customers are based continental Europe, mainly in Germany, Netherlands and France. Most of the orders are placed via the company website and the delivery completed within an agreed number of days (*see* appendix 4), and the goods shipped to the clients. However, due to the effect of the covid-19 pandemic, the number of orders has plummeted significantly. Also, the pounds sterling has depreciated against the euro currency, thereby affecting the reported annual sales negatively.

Future expansion plans

Grace Fashion is at a crossroads on whether to continue with the existing luxury brand strategy, or to change the pricing policy to penetration pricing in order to maintain the company's market share. She is also considering the options of expanding into the other segments being operated by its competitors (*see* appendix 2) or outrightly diversifying into other sectors. For instance, Krugger Farms Ltd, a South Africa based company owned by Ms Grace Jackson's business associate, is considering joint venture whereby luxury furs branded with Grace® is made from exotic sources such as crocodile skin produced by Krugger Farms. This is likely to generate additional sales from Chinese, USA and the Middle East clients. There are also opportunities to expand the retailing arm dealing in watches and jewelleries to handle retail fashion, wines & spirit, and perfume & cosmetics. However, for any of the expansion plans mentioned above to be carried out, there is need for the injection of fresh capital into the business either in the form of short-term, medium-term or long-term capital, or a combination of all of them.

Working Capital Management

The main raw materials such as leather, wool, silk, cotton and bast fibres are now being sourced from producers from Japan, although Ms Grace Jackson recently learnt that she could source these items for less than half the current prices from Brazil, Bénin, Thailand, and Vietnam. The current lead time (the time lag between placing orders and receiving the goods) averaging 60 days could also be reduced significantly if purchases are not made from Japan. However, the main advantage of sourcing from Japanese suppliers is that they offer 30 days credit. Also, all the sales by Graceland Limited are made exclusively on cash basis.

The breakdown of the working capital of Graceland Limited for the period covering 2018 to 2021 is analysed below:

	2018 £'000	2019 £'000	2020 £'000	2021 (projected) £'000
Current assets	328	392	377	282
Current liabilities	<u>183</u>	<u>197</u>	<u>172</u>	<u>237</u>
Working capital	<u>145</u>	<u>195</u>	<u>205</u>	<u>45</u>

Appendix 1

Sales composition (%)	2018	2019	2020	2021 (projected)
London	17	10	14	34
Rest of England	5	6	8	16
Scotland	8	9	10	15
Rest of Europe	<u>70</u>	<u>75</u>	<u>68</u>	<u>35</u>
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Appendix 2

London Market share	2018	2019	2020	2021 (projected)
Fashion design & tailoring	2.00%	2.75%	1.20%	0.25%
Watches and jewellery	0.00%	0.01%	0.02%	0.03%
Wines & spirit	0.00%	0.03%	0.00%	0.00%
Perfumes and cosmetics	0.00%	0.03%	0.00%	0.00%
Retail Fashion	0.00%	0.00%	0.00%	0.00%

Appendix 3

Financial performance

	2018	2019	2020	2021 (projected)
Income Statement	£000	£000	£000	£000
Turnover	1,400	1,750	1,455	600
Cost of sales	<u>700</u>	<u>930</u>	<u>855</u>	<u>280</u>
Gross profit	700	820	600	320
Operating expenses	<u>-400</u>	<u>-448</u>	<u>-495</u>	<u>-495</u>
Profit before tax	300	372	105	-175
Taxation	<u>-57</u>	<u>-71</u>	<u>-19</u>	<u>+15</u>
Profit after tax	<u>243</u>	<u>301</u>	<u>86</u>	<u>-160</u>

Balance Sheet

Assets

Non-current assets	700	780	780	780
Working capital	<u>145</u>	<u>195</u>	<u>205</u>	<u>45</u>
NET ASSETS	<u>845</u>	<u>975</u>	<u>985</u>	<u>825</u>

Financed by

Equity shares	300	300	300	300
Reserves	<u>545</u>	<u>675</u>	<u>685</u>	<u>525</u>
Shareholders' Funds	<u>845</u>	<u>975</u>	<u>985</u>	<u>825</u>

Appendix 4

Non-financial information

	2018	2019	2020	2021 (projected)
Customers				
Number of website hits	5,000	6,000	7,000	N/A
Ratio of sales to website hits	10%	15%	18%	N/A
Customer satisfaction survey	69%	72%	82%	N/A
Number of new customers	11	13	18	N/A
Learning and Growth				
Error rate in jobs done	17%	11%	6%	N/A
Employee retention	82%	85%	89%	N/A
Average job completion time	15 days	11 days	8 days	N/A

<u>Employee</u>				
Number of employees	13	16	15	
Employee retention	82%	85%	89%	N/A
Number of CPDs attended				
Per employee per year	5	9	13	N/A

N/A: Not applicable

CPD: Continuing Professional Development

COURSEWORK QUESTIONS

As the Strategy Consultant, you are required to write a report addressed to the Managing Director of Grace Fashion Limited analysing:

1. The growth crisis facing Grace® brand and the company **(20 marks)**
 2. Profitability (using profitability ratios) **(20 marks)**
 3. Qualitative performance (using the Balanced Scorecard) **(20 marks)**
 4. Options available for managing the company's working capital **(20 marks)**
 5. Strategic recommendations on how to raise additional capital **(20 marks)**
- (Total: 100 marks)**

COURSEWORK INSTRUCTIONS

Description:	This is an individual report with a module weight of 50%
Maximum word count:	3,000 words (+/-10%)
Submission format:	Microsoft Word document
Submission deadline:	Friday 15 April 2022, 17.00 Hours
Submission procedure:	via GCU Learn/Turnitin
Module leader:	Dr Posi Olatubosun, <i>PhD, FCCA, FHEA.</i>

Note

1. You may apply appropriate theories to support your answers, especially (1) and (5), reflecting on the status and structural characteristics of the organisation, brand positioning, external market forces.
2. The assignment must be fully referenced, and the list of references supplied at the end of the report.
3. The calculated ratios should be in the appendix, and they do not form part of the word count. The appendix must follow the list of academic references.
4. Later submissions will be assessed based on the programme guideline.
5. All enquiries on this assignment should be directed to Dr Posi Olatubosun via Posi.Olatubosun@gcu.ac.uk

Marking scheme for the Individual Coursework I

	70% + Distinction	60 – 69% Merit	50-59% Pass	Fail less than 50%
Critical evaluation (75%)	<p>Highly analytical, coherent, balanced, well supported by research to inform and evidence arguments.</p> <p>Own arguments and interpretation of research is evident.</p> <p>Key areas have been addressed in discussion:</p> <ul style="list-style-type: none"> • Evaluation of the growth crisis based on the various challenges facing Grace® • Profitability analysis • Performance analysis • Working capital management • Raising capital <p>Conclusion and opinions are fully appropriate and flow logically from the material presented.</p>	<p>Overall, there are some/good attempts to offer analysis, well-argued, some good links to research to evidence arguments.</p> <p>Own arguments and interpretation of research is evident.</p> <p>Key areas have been largely included in discussion:</p> <ul style="list-style-type: none"> • Evaluation of the growth crisis based on the various challenges facing Grace® • Profitability analysis • Performance analysis • Working capital management • Raising capital <p>Conclusion and opinions are appropriate and flow from the material presented.</p>	<p>May be largely descriptive with some/little analysis. Arguments may be lacking coherence.</p> <p>Will be largely accurate. Evidence of sound understanding.</p> <p>Some /limited references to inform and evidence arguments.</p> <p>Own interpretation of research is less clear and less coherent.</p> <p>Key areas have been referred to in discussion:</p> <ul style="list-style-type: none"> • Evaluation of the growth crisis based on the various challenges facing Grace® • Profitability analysis • Performance analysis • Working capital management • Raising capital <p>Conclusion provided which is largely logical and flowing from previous arguments.</p>	<p>Discussion limited to descriptions and lacking in criticality, may be gaps or inaccuracies. Where references have been used, no or limited discussion to show own understanding has been provided. Major lack of coherence.</p> <p>Key areas have been incompletely referred to in discussion:</p> <ul style="list-style-type: none"> • Evaluation of the growth crisis based on the various challenges facing Grace® • Profitability analysis • Performance analysis • Working capital management • Raising capital <p>Limited / very limited referencing to inform and evidence arguments.</p> <p>May be lacking a recommendation or conclusion.</p>

				There may be inaccuracies contained within the discussion indicating little understanding.
Literature (15%)	<p>Literature should be properly cited with reference to articles/text books using Harvard referencing.</p> <p>Where literature is cited, this should be in support of your discussions, arguments, comparisons, evaluation and judgments.</p> <p>A wide range of relevant sources</p>	<p>Literature should be properly cited with reference to articles/text books using Harvard referencing.</p> <p>Where literature is cited, this should be in support of your discussions, arguments, comparisons, evaluation and judgments.</p> <p>Use of a good range of relevant sources</p>	<p>Limited literature is cited with reference to articles/text books using Harvard referencing.</p> <p>Where literature is cited, this should be in support of your discussions, arguments, comparisons, evaluation and judgments.</p> <p>Use a fair range of relevant sources</p>	No/very limited literature to support discussions
Presentation. This concerns the layout, communication and structure of your work (10%)	<p>Expresses opinions and ideas in a clear and concise manner with excellent structure and presentation.</p> <p>Your assignment synthesises the discussions/issue. It should be clear and effective in communicating your critique. Your recommendations should be clearly articulated and aligned to your discussions in your essay.</p> <p>Your assignment could carry headings, subheadings, with an introduction, main body and conclusion.</p>	<p>Opinions and ideas have a good degree of clarity.</p> <p>Your assignment should be clear and effective in communicating your critique. Your recommendations are fairly articulated and aligned to your discussions in your essay.</p> <p>Your assignment could carry headings, subheadings, with an introduction with body, conclusion.</p> <p>Good reference style.</p>	<p>Opinions and ideas have a reasonable degree of clarity.</p> <p>Your assignment should be clear and effective in communicating your critique. Limited recommendations are articulated and aligned to your discussions in your essay.</p> <p>Your assignment could carry headings, subheadings, with an introduction with body, conclusion and appendices.</p> <p>Adequate reference style.</p>	<p>Minimal or unclear expression of ideas.</p> <p>Poor spelling and grammar; format is hard to read and is incoherent.</p> <p>No recommendations are articulated in your discussions.</p> <p>Limited or no citations.</p>

	Excellent referencing.			
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