EZY BUSINESS

THE WEEKLY 5

22/03/19

Here are the five business stories which have caught our eye this week:

Quality Never Goes Out of Style

This week has been a seismic week for Levi Strauss (what you and I refer to as Levi's) as the firm has come full circle and released its stock back onto the public markets.

The American company is one of the most iconic brands in the world. Go back to the ancient days of the 1970s and you would struggle to find a young adult that did not own a pair of the 166 year-old company's stone-washed jeans or jackets. Levi's became a fashion powerhouse and a marketing phenomenon with celebrity cameos regularly featuring in its advertising campaigns and materials. The company's revenue shot through the roof and it became immediately clear that financial restrictions from its private company structure would hold back its growth potential. The company decided to go public and float in 1971.

However, as the firm grew larger and more investors became exposed to Levi shares, the scrutiny on the firm grew. The pressure to release regular quarterly earnings results encouraged short-termism within the business and created a divergence away from the firm's long-term strategy. The founding family of the business decided to take the firm back into private hands in 1985 to shield the company's corporate results from the public to avoid forensic style scrutiny.

On Wednesday this week the firm became a public company once again as it looks to secure the financial capital required to combat challenges from online retailers and navigate around the changing trends in the fashion market. The firm floated 36.7m shares at an initial price of $17 per share on its first day of trading. The firm is looking to revive its own fashion fortunes after four consecutive years of falling demand in denim clothing sales around the world by adapting it owns business model away from over-the-counter sales towards online sales.

Calculate the initial market capitalisation of Levi's after the first day of public trading.

In reference to the shareholder concept, discuss how short-termism within a business can disrupt a company's performance and strategy.

Ford's Electric Investment Surge

Until 2012, "One Ford" was the famous slogan associated with the American car giant Ford. This slogan was chosen to reflect the company's global strategy to sell a universal car model with a consistent brand image, whilst maintaining a commitment internally to integrate and unify the carmaker's operation plants.

However, since then, the motor company has attempted to alter its marketing DNA and follow in the footsteps of MNCs like Nike and McDonalds which have adapted and crafted a brand image around their slogan. The main slogan used since 2012 has been "Go Further" to help launch new vehicles into existing markets around the world.

The relevance of this is that the carmaker has announced that is planning to expand its production of all types of electric vehicles after witnessing significant market change. In 2017, a record number of 1.1 million electric vehicles were sold and this is projected to increase to 30 million in 2030. The big market opportunity to tap into will be China – it will become the largest electric vehicle market in the world – accounting for 50% of the entire market.

The company is investing just shy of $1bn of increasing its existing capacity at its main Michigan car plant. This will complement the firm's long-term strategy to commit $11bn to establish an electric vehicle model line-up of 40 by 2022.

Discuss the impact that this investment is likely to have on Ford's capacity utilisation rate at its Michigan plant.

Using the framework from Ansoff's Matrix, discuss what type of strategy the carmaker is pursuing with this investment into developing electric vehicles.

EZY BUSINESS

22/03/19

JD Acquisition Afoot

Terms of Acquisition Deal

JD Sports	Footasylum
	
Founded in 1981	Founded in 2005
610 UK Stores	70 UK Stores
32,125 Employees	2,270 Employees
£3.2bn Revenue	£200m Revenue

It was announced this week that the UK sports-fashion retail company JD Sports has agreed to purchase the remaining shares in Footasylum, the company that specialises in selling branded footwear, for £90m after purchasing an 8% stake in the firm at the start of the year.

JD represents a rare breed amongst UK retailers over the last few years with sales rising by 30% thanks to the growing 'athleisure' fashion trend in the UK. This is the fashion trend associated with purchasing clothes that are designed for a gym workout or any other casual setting.

There is no doubt that branded trainers fit nicely into the overall strategic direction of JD and the athleisure fashion trends, but the deal may actually turn out to be more complementary than what the deal appears on paper.

Footasylum was founded in 2005 by the co-founder of JD and the other co-founder was most recently the CEO of footasylum. This means the operational and strategic synergies the company can source from this move are likely to be significant.

What type of business growth would this deal be contribute to for JD Sports?

Define the term 'economies of scale' and explain how acquisition deals such as this can help drive down unit costs for JD.

A Dress for all Seasons

Bonmarché

Shares in clothing retailer Bonmarché collapsed by 14% earlier this week after the firm released an eerily familiar profit warning, the third in six months.

The firm that specialises in selling low priced women's clothing items, forecasted that their annual loss up to March would widen by at least 25% to £6m. Investors are becoming all to accustomed to UK retailers warning about the deteriorating retail trading environment. The chief executive of the company stated that trading conditions at the firm were worse than that of the financial crisis 2008-09.

The firm blamed the unusually mild weather during the third and fourth quarter of 2018 for its subdued trading performance. This resulted in the firm building up idle stock which then had to be sold-off in large chunks at heavily discounted rates.

The firm did however provide some hope for investors as the company revealed they have adapted their business model to reduce stock levels by 40% compared to last year to prevent a repeat of the same problems.

Define each of the following terms in relation to stock control systems

Inventories	Work-In-Progress Goods	Finished Goods

Describe how a firm can use an inventory control chart to maintain stock levels.

Assess the benefits of a firm using a Just-In-Time production system. Could this production model be applied to Bonmarché 's business model?

Digging a Hole for Themselves

Cadbury

The confectionary company Cadbury's landed themselves in a bit of hot water earlier this week after their latest marketing campaign backfired and was eventually taken offline.

The firm always invests heavily in promotion around Easter time to promote its latest range of egg delicacies, but this year has been forced to retract one of its advertising campaigns from circulation after it was claimed that it encouraged children to "break the law".

The campaign was titled 'Cadbury's Treasure Island' and it encouraged children to go out and explore their local area by digging in certain archaeological hotspots in the UK. The campaign was engineered to place a marketing spin on the traditional Easter Egg hunts that children up and down the country participate in around this time of year.

However, the backlash the company received came from aggrieved archaeologists who claimed that this campaign was "intensely stupid" as it would encourage individuals to dig on sites and grounds that are protected without any permission. This could see many children and families break the law and face possible prosecution.

Cadbury's has now taken the page down on their website and has pledged that in the future they will focus on directing families to museums and exhibits rather than finding their own artefacts.

To what extent do you agree with the view that marketing campaigns that go wrong can actually help raise awareness of the brand?