

Case study 14

Chapter 32: Break-even analysis

Chapter 33: Quality assurance

Chapter 34: Location

Chapter 36: Production planning

Chang's Made-to-Measure Suits

Tony Chang grew up in Hong Kong and moved to Switzerland with his parents when he was in his early teens. His family back in Hong Kong ran a custom-made suit business for the cruise ship trade using high-quality locally sourced luxury materials. Within 24 hours of measuring a client, the factory could produce a suit for delivery to the ship. When he left university, Tony had the idea that he could measure clients in Geneva in a rented shop and email measurements to Hong Kong. There are no other Geneva suppliers of custom suits. He set up his own factory there and custom suits were flown in within one week of orders being placed. The suits could be sold in Geneva for eight times the Hong Kong selling price of \$94. The business thus had the potential for big profits, selling to the rich bankers and businessmen of the Geneva financial district.

Variable costs in Hong Kong for the suits were \$36, and fixed costs there were \$340,000 per annum. In addition to this, Tony had to consider Geneva variable and fixed costs. He estimated that variable costs were around only \$12 per suit. He budgeted \$400,000 Geneva fixed costs, which included marketing and rental costs as well as his salary and the salary of an assistant. For a while, he operated the business out of a Geneva hotel room, but as the business grew he urgently needed to find a permanent shop.

He relied on the suits being of premium quality. He put an experienced manager in place in Hong Kong and suggested using quality assurance methods to support JIT and TQM production. As land in Hong Kong was extremely expensive, it was important to carry minimal stocks in order to avoid the need for a warehouse. The manager also suggested that Tony should investigate something called 'Kaizen' in order to support lean production methods.

SL questions: 20 marks, 35 minutes

- 1 Define the term 'JIT'. (2)
- 2 Suggest **two** factors which could influence Tony's choice of a location for his Geneva shop. (4)
- 3 Explain the difference between quality assurance and quality control for a clothing producer such as Chang's Made-to-Measure Suits. (4)
- 4 Calculate the break-even point for Chang's Made-to-Measure Suits. (4)
- 5 Analyse internal factors that could influence Chang's Made-to-Measure Suits' chance of success. (6)

HL questions: 25 marks, 45 minutes

- 1 Define the term 'JIT'. (2)
- 2 Suggest **two** factors that could influence Tony's choice of location for his Geneva shop. (2)
- 3
 - a Calculate the break-even point for Chang's Made-to-Measure Suits. (3)
 - b How many suits would Chang's have to sell to make an annual profit before interest and tax of \$100,000? (3)
- 4 Tony is using off-shoring as a basis for his business. Analyse **two** reasons why it may be an advantage for Tony to do this rather than to make suits in Geneva. (6)
- 5 Evaluate whether use of Kaizen principles is likely to help improve TQM. (9)