

# Business Admissions Test <sup>TM</sup>

Sample

## Leadership Evaluation

SECTION V

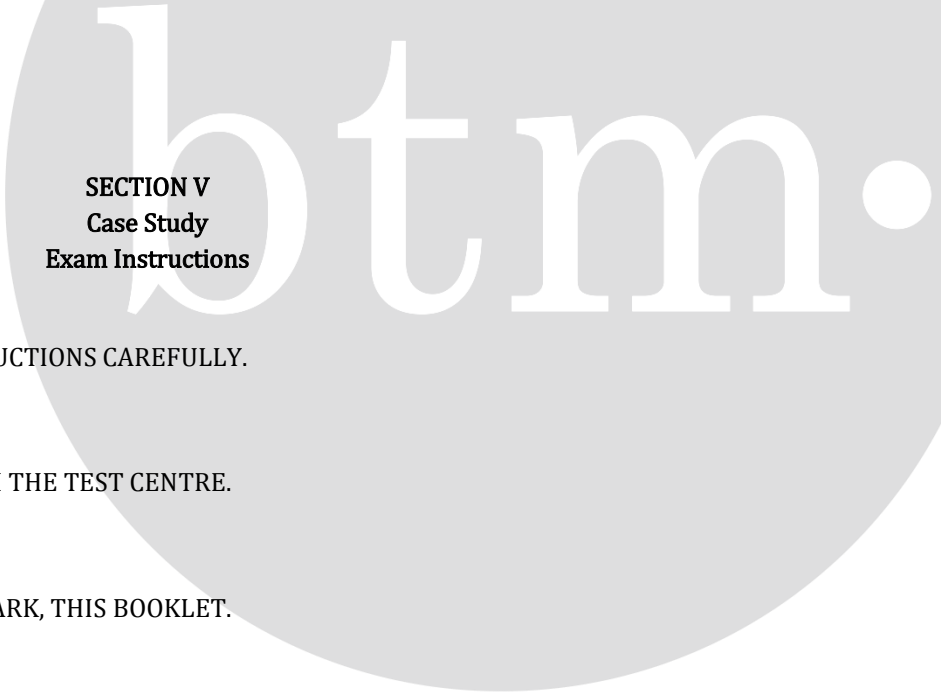
Case Study



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**SECTION V**  
**Case Study**  
**Exam Instructions**

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

DO NOT REMOVE THIS BOOKLET FROM THE TEST CENTRE.

DO NOT WRITE ON, OR OTHERWISE MARK, THIS BOOKLET.

YOU MAY MAKE NOTES ON SCRATCH PAPER PROVIDED BY THE SUPERVISOR.

THE CASE STUDY CONSISTS OF A BUSINESS SCENARIO DESCRIPTION AND INSTRUCTIONS TO ANSWER THREE QUESTIONS FOLLOWING THE CASE DESCRIPTION.

PLEASE USE THE MATERIAL PROVIDED TO ANSWER THE THREE QUESTIONS IN NOT MORE THAN 200 WORDS EACH.

YOU HAVE 30 MINUTES TO READ THE FOLLOWING CASE, AND ANSWER THE THREE QUESTIONS IN PARAGRAPH FORM. YOU MAY ALSO MAKE SIMPLE DIAGRAMS IF YOU CONSIDER APPROPRIATE.

**SECTION V**  
**Case Study**  
Time – 30 minutes

*Bluey McCool's Surf Shop*

*Background*

Gavin “Bluey” McCool is a surf shop entrepreneur based in the Cape Peninsula near Cape Town, South Africa. Surfing is one of South Africa’s fastest growing sports, and the Cape Peninsula region is home to a number of popular surf spots including Muizenberg, Llandudno, Glen Beach, Crayfish Factory, and internationally renowned Dungeons.

Bluey took up surfing at a young age, winning various amateur competitions while still in school. As a young man, he also studied the art of surfboard “shaping”. Working out of his parents’ garage, Bluey began by designing boards for his own use, but as word of his innovative designs spread, he gained respect as a shaper in the Cape Town surfing community. Friends (and friends of friends) began to place orders for boards, so what began as a hobby gradually evolved into a full-time occupation.

When the orders became too numerous for one person to fill, Bluey opened the first Bluey McCool’s Surf Shop in the coastal suburb of Muizenberg in 2005. With a workshop in the rear, this 200 sq. m. store sells customized surfboards along with accessories such as fins, leashes, and wax. Purchasing from a Chinese clothing supplier, the store began offering a small collection of board shorts and t-shirts under the Bluey McCool’s label in 2007. Although the mark-up on Bluey McCool’s apparel is about three times greater than that on customized surfboards, board sales remain the mainstay of the Muizenberg shop, accounting for about three quarters of total revenue. The shop also rents boards to tourists and casual surfers.

After five years at the original location, Bluey felt the time was right to target a wider demographic beyond the hard-core surfing fraternity. With the help of a loan from Wally de Bakker (a well-connected sports promoter and a friend of the McCool family), Bluey McCool’s

Superstore opened in City Bowl, a prime shopping district about 2 km from the coast in the heart of Cape Town. At 500 sq. m. the Superstore has more than twice as much retail floor space as does the shop in Muizenberg. The extra space is used to carry a wide range of surf wear from well-known brands such as Ripsilver and to stock boards from Quark Foam and other major board manufacturers. Many customers at the Superstore are casual surfers and the majority of sales to date have been on branded merchandise, where margins are lower than they are for Bluey McCool’s customized boards or Bluey McCool’s apparel.

Unfortunately, the Superstore has not reached the breakeven point after two years in business and Bluey is having second thoughts about this expansion strategy. If it is not possible to improve the execution of the Superstore concept, his plan is to close the City Bowl location, pay off Wally, and fall back on the business model successfully employed in Muizenberg. In this case an alternative would be to open a second shop about the same size as the original Bluey McCool’s on the opposite side of the Cape Peninsula in Camps Bay near several popular surf spots.

## Company Profile

### Staff

Bluey McCool's in Muizenberg employs two full-time board makers who execute Bluey's designs and two full-time sales assistants. Bluey manages the Muizenberg shop. The Superstore in City Bowl has nine full-time sales staff and one full-time manager. To free himself to focus on the creative design side of the business, Bluey hired his cousin Dennis 'Ziggy' McCool to manage the Superstore. Ziggy regularly offers freebies and informal discounts on Superstore merchandise to his many friends within Cape Town's surfing community, explaining to Bluey that such discounts are an investment that will generate long term goodwill for the Bluey McCool's brand.

### Sales and Marketing

The original Bluey McCool's relied on Bluey's reputation as a gifted shaper and did no advertising. With the opening of the Superstore, Bluey McCool's has launched a website but has not yet ventured into e-commerce by accepting orders online. Bluey McCool's also sponsors Muizenberg's surf lifesaver club. Many new customers of the Muizenberg shop are referred by lifeguards from the club.

### Seasonal Demand

The weather is conducive to surfing in Cape Town for most of the year with a bit of a downturn during the southern hemisphere winter from June to August. As Muizenberg is a popular beach for novice surfers, Bluey McCool's sponsors surfing lessons for beginners on the many fine winter days.

## Financials

ALL FIGURES BELOW IN SOUTH AFRICAN RAND (ZAR)

(NOTE: 1 USD IS EQUAL TO ABOUT 9 ZAR.)

### MUIZENBERG SHOP P&L 2011

Staff costs	950,000	Sales	3,150,000
Premises rental	240,000		
Restocking costs	1,550,000		
Utilities	6000		
Insurance	2000		
<b>Profit</b>	<b>402,000</b>		

### SUPERSTORE P&L 2011

Staff costs	2,250,000	Sales	7,500,000
Premises rental	1,200,000		
Restocking costs	4,350,000		
Utilities	15,000		
Insurance	5,000		
<b>Loss</b>	<b>320,000</b>		

### BLUEY McCOOL'S ASSETS AND LIABILITIES (BOTH STORES) AS OF 31/12/2011

Bank Cash Balance	750,000
Inventory	4,000,000
Tools and Board Making Equipment	60,000
Outstanding Loan Balance (owed to Wally de Bakker)	1,000,000

### *Main Competitors*

Bluey McCool's is one of about 20 surf shops around the Cape Peninsula. Most of these are heavily invested in major brand clothing and surfboards; some also carry designs from a local shaper. A handful of shops rely mainly on board sales, carrying a limited amount of apparel under a generic label or using their own name brands. (The second model is viable only if the shop is closely affiliated with a well-regarded local shaper.)

Roaring Forties is the largest surf shop chain in Cape Town, with four locations around the Peninsula. This chain offers the lowest prices in the metropolitan area for branded merchandise; its main supplier is Ripsilver, a major manufacturer of surfing equipment, accessories and apparel.

### **Presentation**

(NOTE: IN THE ACTUAL EXAM YOU WILL BE GIVEN 3 QUESTIONS TO ANSWER IN 30 MINS. FIND BELOW 6 SAMPLE QUESTIONS TO TEST YOURSELF)

1. Would you invest in this firm? Why?
2. How would you view the firm's strategy? What is its market positioning?
3. What are the firm's competitive advantages and disadvantages?
4. How would you characterise the firm's financial health? Back your comments up with numbers from the case.
5. If you had a choice of replacing one employee within the firm, who would it be and why?
6. Suggest a short term improvement that would help the firm grow over the next 6 months.