Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Case study: Ducal Aspirateurs

For use in November 2020

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

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Ducal Aspirateurs

Ducal Aspirateurs (*DA*) is a French private limited company operating in the secondary sector. It was founded in 1912 by Jean and Marie Ablet and remains a family business. It is currently owned by two of the founders' grandchildren – Pierre, the chief executive officer (CEO), and Louise, the marketing director. Although *DA* originally only manufactured electric vacuum cleaners, sold under the brand name DuVac, it now manufactures a wide range of electrical household goods.

Pierre's leadership style was very different to that of his mother, Viv, the previous CEO. She was mostly autocratic and had strict control of the business. She demanded that directors made decisions without consulting their subordinates. Pierre, however, believes in consulting employees and managers and listening carefully to their views before making strategic decisions.

Pierre and Louise are preparing for a difficult board meeting with the other directors, who are not members of the Ablet family. Pierre knows that the other directors have different plans for the business and wonders how he should resolve their differences given present difficulties at the business and recent financial losses in 2018 and 2019. He decided to research *DA*'s past for some inspiration, hoping it would help him see the way forward.

The nature of the business

The business grew slowly, targeting niche markets. The DuVac vacuum cleaner started as – and remained – a niche, luxury item. As only the wealthiest families could afford electric vacuum cleaners, *DA* grew slowly for the first 20 years. In the 1930s, sales remained at only 10 000 units per annum. Today, *DA* still targets high-end niche markets for all its products.

DA was founded on the principle of caring for the wellbeing of its employees (social values). Jean and Marie were committed to social values. In 1911, they visited Port Sunlight in England, a model village* built by the Lever Brothers, and New Lanark, a similar development in Scotland. Jean and Marie used what they had learned from these visits when they founded *DA*, building Ville d'Ablet, a similar village, to ensure the welfare of their employees. This village had 300 houses for *DA*'s employees, a hospital, a school and an open-air swimming pool. Employees were not charged rent. *DA* continues to maintain this village, which still has a hospital, school and leisure facilities, and employees continue to live there paying subsidized rent. However, they now also have the option to buy the houses.

Jean and Marie knew how to keep the business going while still maintaining its social values. The 1930s was a difficult time for many businesses, and for *DA* the demand for DuVac vacuum cleaners fell significantly. However, the business remained committed to its employees and no employees lost their jobs. Employee numbers fell only through natural wastage. Today, *DA* continues to maintain a social commitment to its employees.

The business also successfully diversified in the 1930s. Viv, Marie's daughter, attended university in the United States, where, having seen how it transformed the lives of rich Americans, she purchased an electric washing machine. When she returned to France, she joined *DA* as a director. She convinced the board of directors that *DA* should manufacture electric washing machines for sale in France. In 1937, *DA* opened a factory to produce them and was the first company to sell them in France. They were sold in up-market department stores under the brand name DuWash.

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* model village: a type of mostly self-contained community built by landowners and business owners to house their workers in ideal conditions

Jean and Marie's crisis management strategies did not help when they were forced to flee from France in 1940, taking with them what little they could, including all of *DA*'s cash. They were able to return to France in 1945, and they rebuilt *DA* from almost nothing. Jean and Marie decided that Viv should become the chairperson and CEO, and Viv re-established *DA* as a manufacturer of vacuum cleaners and electric washing machines. She spent 10 years consolidating the position of the business, using marketing to rebuild the brands. Viv used an autocratic style of management to re-establish the business. Later, *DA* survived the global recession that started in 2008. Its profits fell to almost zero in 2014, but *DA* continued to maintain its social values.

Since the 1950s, when it was discovered that sales of vacuum cleaners and washing machines were not improving even though the French economy was growing rapidly, *DA* has managed successful diversification and product development. Viv saw an opportunity to expand *DA*'s product range, to which the board of directors agreed. The business began manufacturing electric kettles, toasters, microwaves and food mixers. Viv's initial vision was ambitious: she wanted every family in Europe to own at least one of *DA*'s electrical products. However, after consulting with *DA*'s managers, Viv decided to remain in French niche markets. Between 1990 and 2000, *DA* purchased three delivery lorries. It then expanded the fleet of lorries to form a transport business that delivers products for *DA* as well as several other companies.

DA minimizes risk where possible. It has generally kept to markets it knows with a family of related products, has financed growth internally and has no long-term borrowing.

Developments in the 1990s

By the end of the 20th century, sales of DuVac and DuWash products had declined. However, overall profits continued to grow as sales of other electrical products increased. Market research showed that customers regarded *DA* products as safe, well made and reliable.

The 21st century

Since 2000, *DA*'s expansion throughout Europe has been rapid. It is now one of the largest and, until recently, one of the most profitable producers of luxury consumer electrical products in Europe. Costs are carefully controlled.

Viv retired in 2005 and Pierre took over as chairperson/CEO. His first changes were to create a corporate social responsibility (CSR) division, led by Mia, and an innovation division, led by Salah.

The CSR division has several aims:
- To monitor, review and – where necessary – recommend changes to *DA*'s CSR practices, as well as those of other businesses, to ensure that *DA* is a leader in CSR for both its employees and the wider community.
- To explore ways for *DA* to reduce its carbon footprint.

The innovation division has two main aims:
- To continuously review existing products in order to improve them.
- To develop new products.

Salah has created a working atmosphere that is conducive to innovation. Employees in his division are given autonomy to complete product development, and can decide when and how they work. Even after the global recession in 2008, he redeployed and retrained staff from the production division and provided roles for them within the innovation division. Based on the work of this division, *DA*:

- became the first French company in the industry to use robots in its factories
- became one of the first French manufacturers to use rechargeable battery technology for cordless products.

In 2018 and 2019, *DA* had to absorb large cost increases and falling demand for its products due to economic uncertainties, which resulted in losses in 2018 and 2019. Dodi, *DA*'s finance director, warned that another bad year would mean the business will need significant cash injections. That is why Pierre, and the board, are searching for a way forward.

The future

The board meeting will discuss a proposal from a firm of management consultants on ways to improve profits by reducing employment costs.

The meeting will also discuss three proposals from *DA* directors to help the business recover:

- Louise's proposal (marketing director): Leave the niche market and become a mass producer for the household market.
- Salah's proposal (innovation director): Change *DA*'s product range to incorporate a "click and fix" model.
- Mia's proposal (CSR director): Redesign all products to contain less plastic and provide incentives to customers to recycle old appliances.

Pierre has made notes on these three proposals prior to the board meeting.

Option A: Louise's proposal – market development

Louise thinks that *DA* relies too much on niche markets and wants to target the mass market instead. Louise's plan to relaunch *DA*'s products into mass markets would require investment in product redesign, with the aim of using cheaper raw materials. Additional investment would be needed for mass production and mass marketing of the redesigned products. Some of the production would have to be outsourced.

Secondary market research has identified a large market for electrical products in some European countries. Using various techniques of primary market research and sampling methods, Louise found that *DA*'s brand name is instantly recognizable and that consumers would buy cheaper *DA* products if the business could produce them. *DA* used both focus groups and surveys in its primary research.

Salah and Mia objected to outsourcing production.

Option B: Salah's proposal – product development

Salah's innovation division has been working on a new design for *DA*'s products that allows consumers to easily replace broken or worn-out parts. Products will be designed with all key components as separate, interchangeable modules that can be easily removed and replaced by anybody. The modules "click" into place without the need for special skills or tools. All products would be equipped with an LED screen and sensors, which would identify faults by a code number. With the code and one click, the replacement part could be ordered online. This idea, to be called "click and fix", was tested by *DA* focus groups in five European countries and the responses were very positive. The marketing department already has a slogan: "No tools, no repair bills, one click – just click and it's fixed".

Salah believes that the modular design would increase sales and strengthen brand loyalty. The sales of spare parts would also become an important new income stream. However, Dodi objects to the plan because of high investment costs. He is also concerned that *DA* has limited sources of finance. Mia objects because the higher costs will lead to higher prices. Louise thinks that this approach is only a limited extension to the product life cycle.

Option C: Mia's proposal – improving the environment

Mia does not like the impact that *DA* has on the environment. There is a growing worldwide problem with plastic pollution, such as the Great Pacific garbage patch, an area of pollution at least the size of France. Mia is concerned that *DA*'s products contain a lot of plastic and consumers just throw products away to get a new model. She thinks that Salah's "click and fix" idea is too expensive and very risky and has proposed a simpler and cheaper solution: *DA* could manufacture its products with recyclable plastics and provide facilities at shops selling *DA* products to enable customers to return old products for recycling. Customers who used these facilities would get a 5 % discount on a replacement *DA* product. A *DA* factory facility would sort the returned product materials for recycling and send them to a third-party recycling centre. Mia is sure that *DA* would benefit from the green credentials it gained from this recycling programme.

Having briefly reviewed his notes on the three proposals, Pierre started the board meeting prepared for some strong arguments.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.