

**Monday 14 May 2012 – Afternoon**

**AS GCE APPLIED BUSINESS**

**F242/01/CS** Understanding the Business Environment

**CASE STUDY**

**Duration:** 1 hour 30 minutes



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## OrganicCherubs.com

### Introduction

Nina Aruna, the chief executive of *OrganicCherubs.com*, is currently on a flight bound for Mumbai. She travels first class nowadays; a far cry from the numerous trips which she made on the same route as a child with her parents. Nina still finds it difficult to believe that she has everything a young person her age could usually only dream about. At the age of 25, she is currently ranked 49<sup>th</sup> on Birmingham's 'rich list'. She runs a highly profitable online business which she founded when she was 16 years old and is soon to set up a factory producing organic nappies in Mumbai.

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### A humble beginning

Nina can still remember her school days when she had to help her parents at their stall, Fabulous Fabrics, in Birmingham's Bullring market. Although reluctant at the time, Nina not only managed to learn about the different materials which her parents sold at Fabulous Fabrics, but also about how to sew by watching her mother alter garments as part of the service offered by the business. Her parents worked long hours six days a week. Sundays were usually spent at home organising the week ahead.

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During a survey carried out as part of her Year 10 project in one of her favourite subjects, Textiles, Nina found that there was an increasing demand for organic materials and garments. With a little help from her father, Nina was able to obtain some organic fabrics from India. Determined to be more self-reliant at the tender age of 15, Nina made her first tentative attempt at 'funding' her independence by designing and making organic bibs and selling them on her parents' market stall. Due to the low overheads, she was able to sell them at very competitive prices. The organic bibs were an instant success. This prompted Nina to increase her product range to simple baby garments which she designed and her mother helped to sew. Sales continued to grow. Nina realised that she had tapped into a niche market with a huge potential for growth (**see Appendix 1**); a growth which could be attributed to the changing trend in consumer preference.

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Nina's real break came when she won the support of a highly successful retail entrepreneur in a local competition. With expert advice, financial support and a ready-made distribution network, she was able to expand her business very rapidly. By the time she celebrated her 17<sup>th</sup> birthday, she was the managing director of *OrganicCherubs.com* which, at that time, had an annual turnover of £1.5m.

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### *OrganicCherubs.com* today

*OrganicCherubs.com* is a multi-million pound company employing 500 machinists in a factory in Turkey. The success of the business can be attributed to two major factors – its competitive prices and its ethical ethos, both of which are reflected in its mission statement. Nina is keen to preserve the ethical values of the business but she wonders how long it will be able to keep trading as an ethical organisation following *OrganicCherubs'* recent flotation on the Stock Exchange. It is a constant balancing act between maximising the return for shareholders and looking after the ethical interests of other stakeholders of the business. A factory in Mumbai could be the answer to this balancing act – if *OrganicCherubs.com* can maintain high ethical standards within its human resource policy and the way in which it sources raw materials. Mumbai has been chosen because of various incentives offered by the Indian government to foreign investors (**see Appendix 2**). The most important factors being low start-up and running costs and an abundant supply of the materials *OrganicCherubs.com* uses.

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### Organic nappies

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After careful consideration, it was decided that the most suitable form of ownership for the new factory would be a partnership between *OrganicCherubs.com* and an uncle of Nina's who has been running his own business in India for many years. The factory in Mumbai would produce organic nappies which have recently seen a rapid growth in demand as the market has moved away from disposable nappies and towards re-usable nappies (**see Appendix 3**). To begin with, the factory would produce three types of nappies – bamboo nappies, cotton nappies and microfibre nappies. All varieties are fully washable and reusable, features which are increasingly preferred by parents who are concerned about the environment. These nappies have different qualities to suit different needs and they come in two sizes. Size one nappies will fit babies up to 10kg in weight, while size two nappies are for babies weighing more than 10kg. Bamboo nappies are the most absorbent, less bulky and have a silky touch. Cotton nappies have good absorption and are more robust than many other types of nappy. Microfibre nappies are made from fleece and offer the quick-drying option which are competitively priced and expected to last for more than one baby.

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A production line would be set up to produce each of these different types of nappy. Whilst Nina has the option of installing high-tech robots in order to automate the production processes, she has chosen to produce the nappies by hand. The rationale behind this decision is two-fold. Firstly, unemployment is high in India and labour costs are low. *OrganicCherubs.com* would provide the much needed job opportunities on which a developing country such as India thrives. Secondly, the manual process would add another unique selling point to *OrganicCherubs.com*'s products – handmade.

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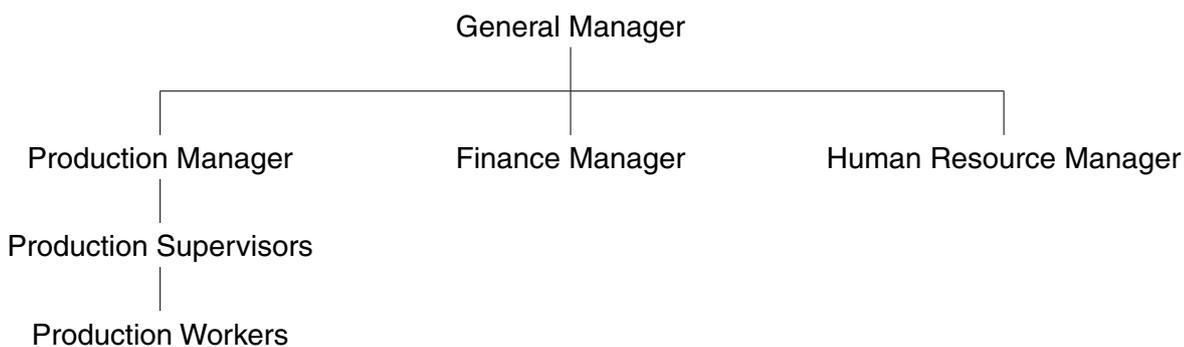
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### Organisational structure

The biggest drawback to setting up the factory in Mumbai is its distance from *OrganicCherubs.com*'s headquarters in the UK. From an operational point of view, it would be impossible for Nina to be based in Mumbai the whole year round, so a suitable organisational structure has been drawn up (**see Fig. 1**).

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**Fig. 1 Extract from the proposed organisational structure of the Mumbai factory**



Nina hopes that this simple structure will enable the factory to run smoothly.

## Budgets

The latest technology is to be installed both in the Mumbai factory and in the UK headquarters in order to aid communication. Besides being able to communicate with the employees in Mumbai on a regular basis, Nina would be able to inspect every corner of the factory at the click of a button. A substantial budget of £100 000 has been allocated to capital investment in IT hardware and software in order to achieve this objective. The new technology would also allow financial record-keeping to be more accurate. 75

A factory of 25 000 square metres would need to be purchased at a cost of £16 per square metre. The costs of acquiring machinery, tools and equipment have been estimated at a further £100 000. In order to create a state-of-the-art staff room complete with pool tables and a modern kitchen, a budget of £30 000 has been allocated. Nina believes that a happy workforce is crucial to high productivity and low wastage levels. A total of 200 machinists will be employed to work on the production lines and they will be paid 10% above the minimum wage set by the Indian government. All the machinists will be trained before they start working at the factory and this will mean an additional cost of £30 per worker. 80

Nina is extremely optimistic about the future of *OrganicCherubs.com*'s operations in Mumbai. The recipe for success, she feels, is a combination of having a product which meets consumer needs, whilst running a business ethically in a way which does not damage the environment for selfish gains. 85

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## Appendix 1

### **Wondering if choosing organic baby clothes over more ‘conventional’ products really makes a difference? You bet it does!**

Globally speaking, buying organic clothing can make a big impact, even if it is for your little baby. Organic farming reduces your carbon footprint and contributes to the general health of the planet. For instance, the cotton industry accounts for over 24% of pesticide use. Children who are exposed to pesticides in and around the home have a seven times higher risk of leukaemia. And it is not just children who are at risk. In India, 91% of male cotton workers who are exposed to these chemicals for more than eight hours daily experience some type of health disorder. The synthetic fertilisers and pesticides used on many crops can poison the water you drink and kill off beneficial organisms (an estimated 67 million birds each year!). Small business farmers often get caught in the vicious cycle of purchasing expensive chemicals to improve yield, only to find that more chemicals are required to kill off resistant pests and enhance tired soil the next year. The land wears out, water becomes poisoned, and costs get out of hand, so a once thriving livelihood gets abandoned.

Many parents think that the ‘organic’ label is just a slick way to raise clothing prices. While organic does cost a little more, the quality of the materials and construction outweighs the extra cost. Your baby’s clothes will last longer, look and wear better. You won’t be embarrassed to give them to another parent or save them for your growing family. For many, choosing organic baby clothes is one of the most logical steps when planning for their new arrival. When you put the facts together, it is clear that organic is the only way to go. Buying organic baby clothes is not only a great choice for taking care of your little one; it is the responsible choice for taking care of our world.

## Appendix 2

### **Incentives offered by the Indian government**

The Indian government offers many incentives to investors in India with a view to stimulating industrial growth and development. The incentives offered are in line with the government’s economic philosophy, and are revised regularly to accommodate new areas of emphasis. The following are some of the important incentives offered, which significantly reduce the effective tax rates for the beneficiary companies:

1. five year tax holiday for:
  - power projects;
  - firms engaged in exports;
2. tax deductions of 100 per cent of export profits;
3. deduction of 30 per cent of net (total) income for 10 years for new industrial undertakings;
4. deduction of 50 per cent on foreign exchange earnings by construction companies, hotels; and on royalty, commission, etc. earned in foreign exchange.

### Appendix 3

## Green mums dump the disposable nappy to ease waste

In the topsy-turvy world now described by 'green' parenting groups, there are even claims that mothers are becoming 'too posh for disposal nappies'.

It is a trend that washes out decades of careful nappy marketing: more babies now wear re-usable nappies than at any time since the 1970s.

Legions of mothers are returning to the bulky safety-pinned terries that their mothers and grandmothers swore by in a less extravagant age. This trend has been helped by technological breakthroughs which have allowed moisture to be locked away for up to 12 hours within re-useable nappies.

Aided by modern materials and a redesign, the washable nappies have spread across social classes to vie for the affections of parents in the wake of arguments by campaigners that they are more environmentally friendly.

The impact on landfill sites is cited as the single biggest problem with single-use throwaway nappies. Each baby is estimated to go through 4 500 before being trusted to give his or her parents sufficient warning to get to a loo in time.

Each year close to three billion disposable nappies are thrown away, accounting for 670 000 to 750 000 tonnes of waste. Disposable nappies make up about 4% of household waste and they may take up to 500 years to degrade.

A recent report published by Mintel, the market research firm, said that while washable nappies are a niche market at present, they could follow the example set by organic baby food, which was transformed from a fringe interest to the mainstream. Mintel analysts said that the disposable industry had managed to maintain a positive image among consumers because of convenience and performance, but noted that there was rising interest in green issues. "Consumers are increasingly interested in green and natural products, as shown in other markets such as the growth of organic food," the report said.

The researchers highlighted the increasing popularity of washable nappies and calculated that usage from 2005–07 rose by 6%. Mintel put the value of the nappy market in the United Kingdom at £592m, an 18% rise since 2002.



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