

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

LEVEL 4 CERTIFICATE IN MANAGEMENT CONSULTING 10331

UNIT 4 BUSINESS ENVIRONMENT

CASE STUDY – 19 JUNE 2013

INSTRUCTIONS TO CANDIDATES

You should read this case study thoroughly and carefully at the start of the examination. You will have 30 minutes reading time. The examination questions will require you to refer to the content of the Case Study and your own knowledge.

The Warm-Glo Ltd Case Study

Warm-Glo Ltd is a UK-based manufacturer of domestic space heaters which are sold to customers in the UK, France, and Germany. Warm-Glo Ltd was founded as a sole trader business in 1947 and became a private limited company in the 1960's. The organisation remains family-owned with strong links to traditional methods of manufacture. The granddaughter of the original proprietor of Warm-Glo Ltd is both chief executive and a main shareholder. The remaining shareholders are all descendants of the family. Three of them are directors of the business, while the remaining two directors are not members of the family.

The company is organised into five functional areas – Marketing & Sales, Design & Development, Finance & Procurement, Human Resources and Manufacturing. A breakdown of the number of people currently employed by Warm-Glo Ltd in each of these functional areas is shown in Table 1.

Functional breakdown of staff employed at Warm-Glo Ltd

	Functional Area				
	Marketing & Sales	Design & Development	Finance & Procurement	Human Resources	Manufacturing
Directors	1	1	1	1	1
Line Managers	1				2
Engineers and Designers		7			
Administrators		1	1	1	
Skilled Manufacturing Workers	14		7	6	35

Table 1

Warm-Glo Ltd manufactures two types of space heater. The first is its traditional design which uses smokeless-coal and has changed very little since the company started trading in 1947. However, the rise of cleaner, more efficient ways of space-heating and the problem of CO₂ emissions have resulted in sales of traditional coal-fired space heaters becoming more or less static. The company would still like to increase sales in this market. The second type of design is Warm-Glo Ltd's modern glass-fronted, clean-burning, efficient space heater appliance, which uses bottled gas. Despite intense competition and recessionary pressures in the UK market for space-heating appliances, the sales of this particular product continue to increase steadily and account for some 85 percent of Warm-Glo Ltd's annual revenue.

The retail prices in 2012 of Warm-Glo Ltd's traditional and modern space-heating appliances were £450 (€560) and £250 (€310) per unit, respectively. These prices exclude the costs of buying the coal and bottled gas, which were £0.05 (€0.06) per kWh and £0.16 (€0.20) per kWh, respectively. Table 2 gives the sales between the years 2010 to 2012 of Warm-Glo Ltd's traditional and modern space heaters in the UK, France and Germany.

Warm-Glo Ltd's traditional and modern space-heating appliance sales, 2010-2012

Year	UK			France			Germany		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Traditional Space-Heating Appliances Sales (Units)	1676	1763	1750	300	335	371	150	200	247
Modern Space-Heating Appliance Sales (Units)	8520	9467	10150	1000	1500	2104	1350	1375	1403
Total Appliance Sales (Units)	10196	11230	11900	1300	1835	2475	1500	1575	1650

Table 2

Warm-Glo Ltd's key business objective is to achieve an average year-on-year sales growth of at least 10 percent in all segments to which it supplies products. On the other hand, Warm-Glo Ltd's Executives are concerned about the potential risks to the organisation of overdependence on UK sales, particularly as the UK economy could possibly enter an unprecedented 'triple dip' recession. Given the growth potential that appears to exist in France and Germany, some members of the Executive feel that Warm-Glo Ltd now needs to be less 'inward-looking' and it is high time to review the organisation's key business objectives and strategy.

As much as overdependence on UK product sales is a problem for the Executive, it is equally concerned about the potential impact of a number of other business environment issues, which if not tackled effectively, could threaten Warm-Glo Ltd's future viability. At a recent weekend retreat of the Warm-Glo Ltd Executive a number of business issues were identified as priorities for the organisation.

An important part of the Coalition Government's Carbon Emissions Reduction Target (CERT) is the obligation it places on energy suppliers with 50,000 or more domestic consumers to reduce carbon dioxide emissions. Since the coal and bottled gas used in Warm-Glo Ltd's appliances are supplied by other companies, Warm-Glo Ltd is not an energy supplier. Recently, however, these two suppliers with whom Warm-Glo Ltd has a long-standing relationship have become increasingly critical of Warm-Glo Ltd's apparent complacency on this issue. As responsible organisations, these suppliers are convinced that Warm-Glo Ltd, too, ought to be working alongside them in supporting initiatives to promote more efficient energy use and reduce carbon dioxide emissions.

The Directors of Marketing & Sales and Design & Development (who are not family members of Warm-Glo Ltd's Executive) are concerned that the organisation's survival owes more to good fortune, than on a systematic assessment of underlying demographic trends and technological know-how. For example, factors such as smaller households, increases in the rented sector, changes in expected levels of home comforts, lifestyles, and greater awareness of green issues, are all likely to impact on product sales. Likewise, there is a danger that domestic customers may become increasingly dissatisfied with the growing technological 'gap' between coal/bottled gas space-heating and other appliances, especially in relation to ease-of-use, automation, control and design for safety. The Director of Marketing also feels that Warm-Glo Ltd's traditional approach to the sale and delivery of its space heaters could benefit from immediate investment in on-line sales capabilities. In this way, the firm may be better equipped to service and possibly grow the UK market, but more

particularly in France and Germany. Of concern too, are the technical barriers Warm-Glo Ltd must confront in trading such as tighter fuel burning efficiencies in the French market.

With retail prices for electrical domestic space heaters of between £35(€44) and £50(€63) most customers could make the switch from coal or bottled gas space heaters to substitutes. Also with a comparable price per kWh, barriers to exit from the coal and bottled-gas space-heating market are relatively low. Fuel poverty – defined as households which spend more than 10 percent of their income on fuel – could also drive poorer customers to switch to electrical space-heating because of the added flexibility to target electricity consumption to actual need.

Once a customer buys a Warm-Glo Ltd space heater, most of the costs incurred will be to purchase either the coal or bottled gas. The demand for Warm-Glo Ltd space heaters is derived from the demand for energy. In turn, the demand for energy for heating depends on the global price of oil, which is determined on a monthly basis by the Organisation for Petroleum Exporting Nations (OPEC) – an international group of oil-producing nations. The popular view among oil analysts and the suspicion among members of Warm-Glo Ltd's Executive is that at USD110 per barrel, the global price of oil is being kept artificially high. The real worry for the derived demand market in energy products and services and for Warm-Glo Ltd's products in particular, is what might happen to the price of oil.

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