

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

LEVEL 4 CERTIFICATE IN MANAGEMENT CONSULTING 10331

UNIT 4 BUSINESS ENVIRONMENT

WEDNESDAY 21 JANUARY 2015

INSTRUCTIONS TO CANDIDATES

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

InSaddle Ltd

InSaddle Ltd is a small London-based specialist provider of services for the commuter cyclist. Its services consist of the retailing, repair and maintenance of bicycles, and the sale of bicycle spare parts and accessories. As a local provider, *InSaddle Ltd* is proud of its mission which at incorporation was written into its 'Memorandum of Association'. This mission is to '*provide, repair and maintain quality bicycles at affordable prices, which contribute to the health and well-being, and safe and speedy transit of the commuter cyclist in London*'.

InSaddle Ltd started operating in 2002 and it has since experienced an almost five-fold rise in revenue from bicycle sales, the sale of bicycle spare parts and accessories and from the repair and maintenance of bicycles. Tina Mullens and Steve Benton, two cycling enthusiasts, are the owners and equal shareholders in the business. Before forming the company, Tina had worked for 13 years with a large motor vehicle parts and accessories retailer, and Steve, for 12 years as a self-employed bicycle mechanic. Steve grew up in the west London area. He learned his trade from his father, who, for many years, ran a bike repair workshop in the same locality.

InSaddle Ltd's overall revenue grew gradually until 2008. Despite the ensuing recession the business still continued to grow and its current revenues are now treble those of 2008. The growth of the repair and maintenance service has been so significant that its revenue contribution now surpasses that achieved by the sale of bicycles and spare parts.

The five principal reasons which might explain *InSaddle Ltd's* remarkable revenue growth over this period are as follows.

- First, since incorporation, it has purchased its bicycles and spare parts from a European supplier which, along with other such suppliers of bicycles and spare parts in the European Union (EU), has been protected from competition from suppliers in China by an anti-dumping levy. Some policy-makers in the EU argue that such a levy is justified as the unfair government subsidies received by manufacturers in China enable them to undercut the retail price of bicycles in the EU. Other than for a number of limited manufacturers in China, this levy imposes a 48.5 percent import duty on all other bicycle and spare parts.
- Second, the UK Government's Cycle to Work Scheme which offers tax incentives for employers to encourage employees to cycle to work had the additional benefit of minimising carbon footprint.
- Third, the recent recessionary pressures in the UK seem to have encouraged some commuters to substitute the more expensive travel options of train, tube and bus for the bicycle.
- Fourth, the rise in the demand for complementary cycling products, such as helmets, locks, and bicycle maintenance kits.
- Fifth, the success achieved by British cyclists in the Tour de France and 2012 Olympics seems to have raised the profile of cycling as a healthy and worthwhile activity.

InSaddle Ltd is located in a large shop along a busy main road in the west of London. Its retail services are situated at the front of the premises and its repair and maintenance workshop is situated at the rear of the building. The retail service space is well stocked but cluttered, with bicycles displayed suspended from the ceiling and stacked side-by-side on the pavement in front of the premises. Though meeting health and safety standards, space is limited in the repair and maintenance workshop.

InSaddle Ltd currently employs nine well-trained and dedicated full-time staff, of whom four are employed on the retail side, four in the repair and maintenance workshop, and one other in business support. *InSaddle Ltd's* wage structure, shown in Table 1, is based on hourly rates of pay.

InSaddle Ltd's Wage Structure

Job-role	Number of staff	Hourly rate of pay (£)
Retail Advisor	4	10.65
Bicycle Technician	4	12.65
Business Support Officer	1	11.65

Table 1

InSaddle Ltd's cramped premises are a concern and the worry is that the lack of space may be preventing the business from growing further. Tina and Steve are aware of the problem, but Steve is unwilling to consider the possibility of relocating the business to larger premises. He believes that *InSaddle Ltd's* mission cannot be achieved if it is located away from the community of which it is a part. He is understandably proud of the repair and maintenance contract work which *InSaddle Ltd* currently has with the Greater London Bicycle Scheme. The fact that the revenue earned from repair and maintenance services out-strips that earned by the retailing side only serves to strengthen his conviction not to relocate the business.

InSaddle Ltd purchases its bicycles and spare parts from a single supplier in Germany with which it has a long-standing business relationship. In this way, based on current average bicycle sales of 50 per week, *InSaddle Ltd* is able to maintain profit margins in line with industry levels which range between 30 and 35 percent. However, both Steve and Tina are wary of the protected state of the European bicycle and spare parts industry, and the ever-present threat posed by the significantly cheaper bicycles and spare parts being produced in the Far East, and particularly in China. They realise that the EU anti-dumping levy against the cheaper bicycles and spare parts produced in China will, again come up for renewal in the near future. If this levy is removed, the result would be a significant collapse in the average selling price of a bicycle from the current level of £439. This poses a real threat to the business.

The vast majority of the rubber used in bicycle tyres is produced in the Far East, and China is the dominant supplier of this raw material. If the EU levy is not reduced or removed there is a real danger that China's rubber industry could react to the EU's anti-dumping levy by creating possible shortages in rubber supplies.

Although the production of Electric bikes (E-bikes) is not yet significant in the EU or in the Far East they present a worthwhile future growth opportunity for *InSaddle Ltd*. In the UK, there is growing interest in this alternative mode of cycling, not only from the frequent commuter, but also from recreational users in the over 50's demographic group. E-bikes are an attractive alternative to conventional bicycles because they require less 'pedal power' and make it easier to negotiate inclines. In addition, the lower EU anti-dumping levy of 14 percent, compared to 48.5 percent on conventional bicycles, might enable *InSaddle Ltd* to extend its range of suppliers to include producers of the cheaper E-bikes produced in the Far East.

Recently, the death of a number of frequent commuter cyclists in London has raised much concern and debate among cyclists, the general public, the police, politicians and the bicycle industry. Safety and the potential risks to which cyclists and other road users may be exposed when travelling across London are now prominent issues. Though most cyclists now regard the use of helmets as an important safety precaution, by law, their use is not mandatory. Nevertheless, as a reflection of cyclists' heightened concern with their safety, recent reports identify a substantial rise in the retail sales of helmets and other safety clothing.

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