

ADVANCED GCE
APPLIED BUSINESS
Unit 9: Strategic Decision-Making

F248/CS

CASE STUDY

Thursday 14 January 2010
Morning

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- This is a clean copy of the case study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may not take notes into the examination.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

Natracleanse

Background

Stewart Hudspith and his wife Mary, a couple with a keen social conscience, live in the heart of the North Yorkshire Moors. Mary, an enthusiastic gardener who delights in growing tasty organic fruit and vegetables, is passionate about recycling. Stewart, a supporter of a national charity against child poverty, insists that they always buy 'Fairtrade' products when available.

Disillusioned with the profit-centred business aims of many modern production systems, Stewart (an industrial chemist) and Mary (an environmental health officer) set out to prove that being profitable and environmentally-friendly can go hand in hand. After consulting an independent business advisor, and preparing the detailed business plan, Stewart and Mary decided to leave their jobs and set up their own ethical and environmentally-friendly partnership – *Natracleanse* – producing liquid soap. 5 10

The Hudspiths knew that they would not be able to compete with the large established multi-nationals on price; instead they would differentiate their product by making it organic and natural. Mary would supervise the selection and cultivation of all of the herbs and plants to ensure the highest standards of natural ingredients. Stewart would manage the production process ensuring that no harsh additives were used. 15

Research indicated that *Natracleanse* liquid soap, being organic, should be aimed at the high-end of the market. Stewart and Mary spent many hours experimenting with the appearance of the container as it was so important in the niche market they were targeting. They were pleased with the result – a high quality, square-edged glass pump dispenser with a silver-coloured metal plunger, fit to grace any bathroom or cloakroom. A 250 ml dispenser of *Natracleanse* liquid soap would retail at between £8 and £10. 20

A smallholding, comprising a large barn and several acres of land, was bought on the outskirts of the village where they live. The barn was converted into a factory with office space, production zone, packaging and dispatch area, canteen, toilets and a large staffroom. Twenty employees were recruited – two cultivation staff, two office personnel and 16 workers involved in production, packaging and dispatch. Herbs were sourced and planted to create the luxury liquid soap in four different herbal fragrances – clary sage (aimed at the male market), lavender (aimed at the female market), thyme and fern (both unisex). Production of *Natracleanse* liquid soap finally began towards the end of 2005. 25

Pleasing progress

After a slow start, supplying just a few local pharmacies, Mary finally managed to secure annual contracts to supply two leading department stores. Both agreed to purchase the luxury liquid soap for £4 a bottle. This was the breakthrough the business needed and in 2007 it recorded its first trading profit. 30

Stewart and Mary were determined to ensure that profit was not achieved at the expense of the environment: local suppliers of glass dispensers and raw materials were sourced to minimise fuel costs and pollution; products were dispatched to the shops in second-hand boxes or crates; and the administration staff used recycled paper whenever possible. The Hudspiths were more than happy when in 2008 *Natracleanse* was accredited with carbon neutral status. 35

Stewart and Mary were immensely proud of their staff who worked hard to produce high quality, hand-made, liquid soap without the ease of machinery. Every year when Stewart measured his employees' performance against the national average his workforce compared favourably, and by way of a thank you an annual bonus was paid. Over the years the business has been in 40

operation, the Hudspiths have never had to dismiss anyone or make anyone redundant. Stewart hoped that this could continue.

As ethical employers, the Hudspiths devoted a great deal of time to getting to know every member of their workforce. Stewart and Mary always tried to deal as flexibly as possible with staff – even changing work rotas for school sports days and granting a day off to the entire workforce to accommodate the village feté! The employees could always rely on the Hudspiths to handle their problems with sensitivity and care, and in return gave back a loyalty which made the running of the business so much easier.

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From 2005, orders had increased year on year and the Hudspiths viewed the first few years of their business as a total success.

Troubling times

Despite the success that the Hudspiths and their staff had made of the business there were problems ahead. The first sign came when the annual renewal of department store contracts showed no increase in order quantities. The second came when one of the suppliers was forced to increase delivery charges because of large increases in fuel costs. Stewart and Mary were getting worried. Finally, a leading economist predicted a severe downturn in the economy by the end of 2010. Both Stewart and Mary knew that 0% growth, falling employment levels and rising inflation would have a negative impact on the sales of *Natracleanse* liquid soap, especially since the products are in the luxury goods market. The Hudspiths were concerned not only for the survival of the business but also for their workforce. Not wanting to leave things to chance, Stewart and Mary knew they needed to act and act quickly.

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Thankfully the Hudspiths were well prepared. Their financial advisor had taught them the importance of contingency planning. They both agreed it was time to put their contingency plans into action.

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The options

Option 1 – Visitor attraction

Natracleanse would continue with its day-to-day operations but, in addition, open to the public as a visitor attraction. For a modest charge visitors would be able to enjoy the aromatic gardens, take a guided tour of the factory and visit the newly opened gift shop. The gift shop would offer visitors the opportunity to enjoy a relaxing cup of 'Fairtrade' tea or coffee, as well as sample (and hopefully purchase) the liquid soap. The gardens would need route marking signs as well as information boards giving details about the plants. A section of the staffroom would need to be partitioned off to create the gift shop. Promotional materials would need to be created. At an estimated cost of £30 000 Mary thought that this option had a high chance of success.

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Option 2 – Refillables

Natracleanse would make the liquid soap available in refill pouches, as well as the luxury dispensers. Plastic pouches, similar to those used by liquid detergent and fabric softener manufacturers, would allow consumers to reuse their glass dispensers time and time again, saving money. A 'fill and seal' pouching machine would need to be purchased. At an estimated cost of only £20 000 Stewart thought that this option could not fail to make a profit, and, since it promoted the reuse of the world's resources, must further enhance the public image of *Natracleanse*. Mary was not so sure as she was concerned that the nearest supplier of plastic pouches was based in London, some 200 miles away. Furthermore, the plastic pouches would look nowhere near as prestigious on shop shelves as the glass dispensers and may prove counterproductive in the high-end market in which *Natracleanse* operates.

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Option 3 – Going corporate

Perhaps the most exciting option was to widen the customer base and sell the organic liquid soap, in bulk, to the discerning corporate market. Being a keen golfer, Stewart considered golf clubs to be his primary target, but other markets such as theatres, private leisure clubs and airlines came to mind. Chances of success were slim as it would involve competing alongside the large multi-national soap suppliers for contracts, but, if successful, the option could prove very profitable indeed. Producing large quantities in bulk containers would require *Natracleanse* to fully automate the production process. This would be a considerable divergence from the current way of working and raise several staffing issues. Furthermore, *Natracleanse* would need the financial input of Zeeta Kabal, an experienced venture capitalist, to help fund the estimated cost of £150 000. Zeeta insisted that the business would have to be changed into a private limited company and was willing to invest £100 000 of her own money in exchange for a 50% share in the new business, Natracleanse Ltd.

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The decision

Whichever option was chosen *Natracleanse* would continue to produce all four herbal fragrances of liquid soap. The Hudspiths knew that the decision needed to take into account not only finance but also the aims, direction and public image of the business. The decision was not an easy one to make, but doing nothing was not an option. A decision needed to be made, and made quickly.

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Appendix 1

Soap, Bath and Shower Products – UK

Changes in bathing habits have led to a continued decline in bar soaps as many consumers prefer to use more modern formats such as liquid soap and shower gels. Manufacturers have responded by creating product ranges that fit into modern lifestyles resulting in a great deal of innovation, with spa-based and natural/botanical themes taking centre stage.

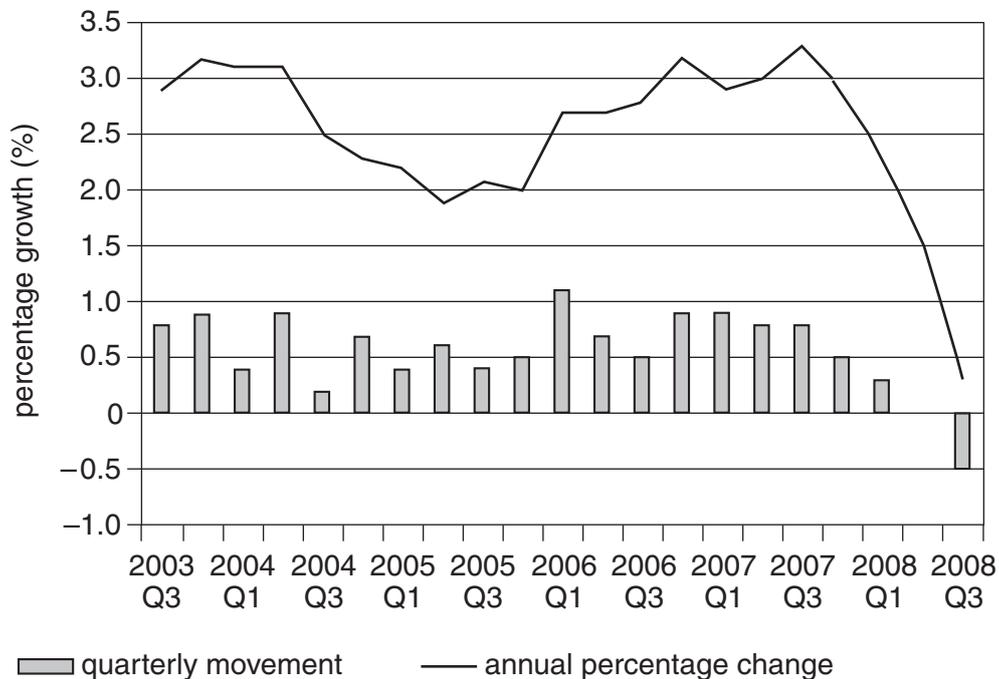
Appendix 2

Organic Surge

A recent survey showed that the reason 89% of customers buy natural toiletries is to avoid synthetic chemicals. And no wonder – did you know that there are currently over 10 000 in everyday use? And that our skin absorbs around two kilograms every year? With this worrying fact in mind, Organic Surge bath body and skin care decided to look at what it could do to put its customers' minds at rest. The newly reformulated and repackaged Organic Surge collection now confidently pledges that it offers impressive results with no chemical overload – and no compromise on quality or efficiency. Most Organic Surge products are now between 95% and 99% natural. What's more with every single product sold a percentage of what customers pay goes back to Africa to support vulnerable children!

Appendix 3

Percentage Growth in GDP



Appendix 4

Predictions of an uneven fallout from economic downturn

Consumers are tightening their purse strings and are, therefore, less likely to step inside department stores and boutiques where they will be surrounded by expensive luxuries.

Manufacturers aiming at these retail channels may struggle, while beauty players selling products door to door such as Avon and Oriflame may benefit from the slow down.

In terms of product portfolio, Mellage (an employee of Kline, a market research organisation), predicted that toiletries would fare comparatively well because they are essential items that cannot be avoided.

The outlook is less rosy in luxury cosmetics and fragrances where high-end distribution channels and low consumer confidence may drag down sales figures.

On the other hand, the lipstick theory would suggest consumers may turn to inexpensive luxury goods to console themselves when the economy is putting high priced luxuries out of reach.

Appendix 5

Predicting the future – trends in the golf course market

The golf market is growing. It is not booming but it is growing steadily. Within the past 10 years the number of players in Europe has grown by an average of 7% per year, while the number of golf courses has risen by an average of 5% per year.

Appendix 6

Fun suffers as families cut back

Millions are cutting back on restaurant meals, gym memberships and nights at the cinema because of the credit crisis, it has been claimed.

Holidays are one of the few things hard-up families are not willing to sacrifice.

The travel industry is one of the few to benefit, as families seem determined to reward their self-denial with a holiday.

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