

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
AS GCE**

F242/01/CS

APPLIED BUSINESS

Understanding the Business Environment

PRE-RELEASE CASE STUDY

To be opened on receipt

JUNE 2012

MODIFIED ENLARGED

OCR SUPPLIED MATERIALS:

Separate Data Booklet (inserted)

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- This Case Study **MUST** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- You **MUST** make yourself familiar with the Case Study and separate Data Booklet before you sit the examination.
- You **MUST NOT** take notes into the examination.
- A clean copy of the Case Study and Data Booklet will be given to you with the question paper.

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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. 5

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 49th 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. 10

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. 15

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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 25

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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 in the separate Data Booklet); 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 17th birthday, she was the managing director of *OrganicCherubs.com.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

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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 in the separate Data Booklet). The most important factors being low start-up and running costs and an abundant supply of the materials ***OrganicCherubs.com*** uses. 70 75

ORGANIC NAPPIES

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 in the separate Data Booklet). 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 10 kg in weight, while size two nappies are for babies weighing more than 10 kg. 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. 80 85 90 95 100 105

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.

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 in the separate Data Booklet).

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.

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.

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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.

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