

ADVANCED SUBSIDIARY GCE
APPLIED BUSINESS
Understanding the Business Environment

F242/CS

PRE-RELEASE CASE STUDY

To be opened on receipt

JUNE 2011



INSTRUCTIONS TO TEACHERS

- This case study **must** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- You **must** make yourself familiar with the case study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.
- This document consists of **8** pages. Any blank pages are indicated.

Funky indicator gloves

ECO Textiles Ltd

ECO Textiles Ltd is a successful fabric manufacturer based in the East Midlands. The company's founders, Abi Gilmore and Dom Hudson, started the business with the vision of creating a range of fabrics made from organic and Fairtrade materials as its unique selling point. Currently, *ECO Textiles Ltd* supplies fabric to a wide variety of ethical clothing manufacturers across the globe. Annual turnover now exceeds £2m.

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"Now that's a worthwhile cause to pursue if we really care about the environment," said Dom to Abi during a recent board meeting. He was referring to the funky indicator gloves project that his daughter, Charlie, wished to pursue.

The funky indicator gloves

The funky indicator gloves were the brainchild of Dom's daughter. Charlie, an A Level student and a keen cyclist, had been developing gloves with flashing indicator LCD lights arranged in the shape of an arrow as the focus of her Extended Project. The gloves were the result of Charlie's research on road safety for cyclists (**see Appendix 1**). The funky indicator gloves will, hopefully, increase the visibility of young cyclists who are usually smaller and more erratic in their cycling habits. While it is almost impossible to persuade teenagers to wear safety gear when cycling, Charlie thought that her design for the funky indicator gloves would appeal to teenagers and older children because of their battery-operated flashing lights.

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Even though the prototype was somewhat crude, the gloves functioned well and seemed well received by all her friends at school. Instead of travelling round the world during her gap year like most of her school friends intended, Charlie decided she would spend her time developing the gloves to merchantable quality and then selling them to raise funds to promote the benefits of cycling to school, and to give away bicycles to needy students in the most economically deprived areas.

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Number crunch

Dom and Charlie have decided to draw up a cash-flow forecast for the proposed project which will be called '*Bike Angels*'. They hope to be able to persuade Abi to allow a small production line to be set up in the textile factory for the sole purpose of manufacturing the gloves using Fairtrade materials supplied by *ECO Textiles Ltd*. As the LCD lights and batteries will be imported from China, it would only be a simple process to attach them onto the gloves and package them. Charlie thinks that she will initially need one production worker to help with the manufacturing of the gloves, increasing to maybe two or three once the project gets going. A website would need to be created to sell the gloves and Charlie would be in charge of maintaining and updating it once she had received the relevant training. She envisages running the administration side of the project from her own bedroom. The start-up costs, however, are not looking as negligible as Charlie once thought, and budgets need to be set realistically, and break-even closely monitored.

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Profit or ethics?

The unit production cost of the funky indicator gloves depends entirely on the quality of the materials used. There is a possibility of producing a pair of funky indicator gloves which will only last as long as the batteries (approximately three months, depending on use), which would be cheaper to manufacture than gloves with renewable batteries. The latter would mean that, instead of disposing of the gloves once the batteries run out, the consumer could replace the old batteries and prolong the life of the gloves. Charlie is aware of the pros and cons of both options, especially in the light of recent press criticism of manufacturers which make products that either become rapidly obsolete or break down prematurely for their own selfish gain (see **Appendix 2**). Whilst it is extremely tempting to keep production costs low, there is the ideal of creating a sustainable, consumable product.

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Charitable status?

Dom admires Charlie's aspiration and wants to offer her his full support. Dom thinks that Charlie should set up her fund-raising scheme as a registered charity. He encouraged her to read the information which he had found out about registered charities (see **Appendix 3 and Appendix 4**). Setting up a charity was definitely not as straight forward as Dom had thought and there is the need to think carefully when setting out the aims and objectives of the charity.

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Abi's reaction to Charlie's project was lukewarm. She found it difficult to understand why Dom would want to invest his time and energy in a not-for-profit organisation, be it with charitable status or not, when he should be focusing on helping her to run their textile manufacturing business. She would take some persuading.

Appendix 1

Cycling accidents – Facts and figures

Every year in the UK over 16 000 cyclists are involved in reported road accidents, including around 2 500 who are killed or seriously injured.

Cyclist Casualties, 2007

| | |
|-------------------|--------|
| Killed | 136 |
| Seriously Injured | 2 428 |
| Slightly Injured | 13 631 |
| Total | 16 195 |

Cycling Accidents

- 90% occur in urban areas
- 75% happen at, or near, a road junction
- 80% occur in daylight
- 80% of cyclist casualties are male
- About one quarter of the cyclists killed or injured are children
- Around three quarters of cyclists killed have major head injuries

Types of Accident

Accidents involving child cyclists are often the result of the child playing, doing tricks, riding too fast or losing control. For teenage and adult cyclists, accidents are more likely to involve collisions with motor vehicles.

Common Cycling Accidents

- Child cyclist playing or riding too fast
- Cyclist turning right
- Motorist emerging into path of cyclist
- Motorist turning across path of cyclist
- Cyclist riding into the path of a motor vehicle, e.g. riding off a pavement
- Cyclist overtaking

Appendix 2**What a monstrously wasteful throwaway society**

The youth behind the counter in one of those terrifying computer shops on Tottenham Court Road could hardly conceal his contempt. “You want us to service *this?*”, he sneered, giving my ailing laptop the sort of look that dentists give to rotten molars. “Not worth it, mate”, he continued. “Fixing that old thing would cost as much as buying a new one, even if we could get the right bits.”

“But it’s only four years old!”, I cried. At which point the shop seemed to go very quiet. The youth shook his head sadly. “In this business”, he replied, “anything older than 18 months is obsolete.” I shuffled out of the store as I invariably shuffle out of every high-tech emporium – feeling bamboozled, deflated ... and about 200 years old.

I would not normally bore you with my public humiliations – so commonplace have they become these days – except that the youth’s phrase, “anything older than 18 months is obsolete”, struck such a chord. The memory plays strange tricks, I know. But I distinctly recall that when I was a boy our family had a Morris Minor that was still chugging merrily along at 28mph a full ten years after we bought it, secondhand. There was also a large wooden ‘radiogram’ in our lounge – it looked like a giant coffin – that was working as well on the day I left for university as when I was toddling round in nappies. And there were bikes that could be ridden over kerbs and through ponds without shaking themselves to pieces after three months.

But today? Does anybody buy a car, a washing machine, even a toaster, in the expectation that it will last a decade? As for computers, mobile phones, iPods and all the other electronic paraphernalia of our gizmo-fixated age, well, the philosophy among manufacturers seems to be that since consumers will surely want to ‘upgrade’ every 12 months, there is no reason, let alone obligation, to make products that last any longer.

Appendix 3

What are the benefits of charitable status?

As a registered charity you are unlikely to pay income tax, capital gains tax, stamp duty or inheritance tax; and you can take advantage of gift aid, a simple way to reclaim the tax on donations made by UK taxpayers.

Charities also pay no more than 20% of normal business rates on their premises and can get special VAT treatment.

Things to consider before registering your charity

- How will you raise funds? Having a plan in place can help with cash-flow.
- Could you work with an existing charity instead? It can be better to merge your efforts with other, already established charities if your causes are similar.
- Who will be the trustees?
- What type of governing document will you need?

Charity trustees have a variety of responsibilities, which may carry liabilities. They will be responsible for breaches of the law attributable to them in the conduct of their charity. For example, they will:

- be liable to the charity for breach of their trust or fiduciary obligations under trust or company law;
- be responsible generally for any breaches of the criminal law they commit;
- sometimes be liable under civil law to third parties either for breaches of contract or for infringement of another's rights.

Appendix 4

Resources and legal forms – charities

You should also think about the resources needed to run a charity. Some questions to consider include the following:

- how would I see the charity that I am thinking of creating working in the long-term?
- do I have the time and energy needed to run a charity?
- am I confident I could raise enough money to make sure that the cause I want to support will receive the level of funding it deserves?
- will I be able to attract trustees (and staff) of the right quality, commitment and range of expertise?

If you are satisfied that the answers to these questions show that you should go ahead with setting up a new charity, then you need to decide on the best legal form to use. To do so, you should think about whether you are likely to have liabilities. For example:

- am I going to employ staff?
- am I likely to invest in assets (equipment, machinery, premises and vehicles)?
- am I going to become involved in fundraising?
- am I going to have other liabilities?

If you answer 'Yes' to any of these questions, you should limit your liability by setting up as a company limited by guarantee or other limited liability organisation, such as a Community Interest Company (CIC).

You can obtain a model document (*'Model memorandum and articles of association'*) number GD1 from the Charity Commission, which also has a helpful leaflet, CC21, *'Registering as a charity'*.

If you do not currently have access to someone with relevant professional experience, we would advise you to consult an experienced lawyer or accountant, who can go through the process with you. The Charity Law Association (CLA) can advise you on lawyers with expertise in this area who may be able to help.

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