



To be opened on receipt

AS GCE APPLIED BUSINESS

F242/01/CS Understanding the Business Environment

PRE-RELEASE CASE STUDY

JUNE 2015



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.

talesofgems.com and Precious Pips

Background

Laura Flanagan is the founder and sole proprietor of *talesofgems.com*. The business idea was born out of frustration when, without any receipts, she found it difficult to sell the jewellery which she had inherited for more than a fraction of its value. Disappointed with her lack of success, she posted her experiences on a social network website. To her surprise, she had several offers for her jewellery, the highest one being twice the amount she was quoted by the local jewellers which she had visited. She sold the jewellery to the highest bidder and decided to set up her own website which allows other people to buy and sell second-hand jewellery. 5

Sellers must pay a registration fee to use *talesofgems.com*. Once registered, listing jewellery on *talesofgems.com* is free. Sellers are encouraged to attach a story to the item which they are selling, along with the guide price. Once the listing goes live, prospective buyers send their offers to the seller through *talesofgems.com*. The seller then decides to which buyer to sell the item, usually the highest bidder. The next step is for the buyer to send the agreed price to *talesofgems.com*. The money is held in an account until the jewellery has been received at *talesofgems.com* and passed the scrutiny of the gemmologist appointed by Laura, who is paid a set fee for each piece of jewellery valued. On the successful sale of a piece of jewellery, sellers are required to pay a commission of 15% of the selling price to *talesofgems.com*. Buyers do not have to pay a commission to *talesofgems.com*. The transaction is complete when the jewellery is delivered to the buyer, who has to pay for delivery and insurance. The success of the business depends greatly on the reliability of the IT system designed and maintained by Laura. Both buyers and sellers are able to track the stages of their transaction throughout the process. 10 15 20

The business model of *talesofgems.com* thrives on low costs as Laura works from the living room in her apartment and she does not have a large budget for advertising. She relies mainly on word of mouth and the occasional online advertisement which she draws up herself.

The future

After trading for almost three years, *talesofgems.com* is still a small business with an annual turnover of around £50 000. However, Laura considers this a success as she is only running the business part-time from home, alongside her full-time job as a computer engineer. The business' initial success could be attributed partly to weak consumer spending power post the 'credit crunch' (see Appendix 1). The customer base is now increasing, due partly to the excellent customer service provided for both buyers and sellers, as well as the recovery of the UK economy. Turnover is expected to continue to rise and Laura is wondering whether she should give up her full-time job and devote all her time to running *talesofgems.com*. This would enable her to make the most of the recovery in the economy, as well as making improvements to the business operations of *talesofgems.com*. One area of improvement which she has identified is the keeping of accurate financial records. Even though she uses IT software for these purposes, she realises that she needs to update these records more regularly. 25 30 35

Working together?

At a recent reunion party Laura met up with an old school friend, Pippa, who had graduated with a degree in Jewellery and Silversmithing Design. Laura was very impressed by Pippa's portfolio which showed a lot of creativity and talent. Due to personal circumstances, Pippa has only been designing and making bespoke jewellery for friends and family in her ill-equipped, tiny workshop. However, as both her children will soon be in primary school, Pippa feels that the time has come for her to build on her customer base with the growing demand for personalised gifts (see Appendix 2) which are price insensitive. She is looking for premises from which to sell her products which will be sold under the trade name of *Precious Pips*. 40

Laura feels that working together with Pippa would benefit them both. This could be an opportunity to grow *talesofgems.com* by selling jewellery directly to customers. Another advantage of working more closely with Pippa is that being a qualified gemmologist, Pippa would be able to take on the task of certifying the jewellery, which may bring *talesofgems.com*'s costs down. 45

Pippa has a strong belief in sourcing materials responsibly. As far as possible she has always used local suppliers of tools and equipment. Her hand-crafted creations are made using certified fairtrade and fairmined precious metals and ethically sourced precious stones. The diamonds she uses are conflict-free and the coloured gems are sourced responsibly from small-scale and artisan mines, usually in Africa (see Appendix 3). Laura and Pippa have agreed that this is an important issue if they are to work together. The trade-off between ethics and profit is a challenge for any business and it is important to consider all stakeholder interests for the long-term survival of any business. 50
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Proposals

Together, Laura and Pippa would need to look for more suitable premises which would accommodate both *talesofgems.com* and a new workshop for *Precious Pips*. The ideal location would be in Birmingham's fashionable jewellery quarter which is well known for its array of outlets selling new, second-hand and bespoke jewellery. It should be possible to find premises with a good retail frontage and a workshop in the back so Laura and Pippa would be able to work together. They both agree that the retail frontage has to be fitted and decorated to a high standard as a way of adding value to the jewellery they are going to sell. There is some retained profit in *talesofgems.com*, but it is envisaged that other sources of finance might be needed. 60

They have also considered the issue of business ownership, whether it would be more advantageous to set up a business partnership or to remain as separate sole traders sharing the same premises. Laura and Pippa have agreed to do some research on these different types of ownership and to make a decision when they next meet. 65

Appendix 1

UK households cut spending by a total of £12 000 since start of crisis

As fears of a triple-dip recession grew in 2011–12, analysis of official data showed that on average each UK household was spending £3150 less a year, over £12 000 in total, since the beginning of the financial crisis.

Of this £3150, £1750 was spending on discretionary, non-essential goods and services which had fallen three times as much as essential spending on items such as food, housing and energy. The fall in discretionary spending left a £136 billion 'dent' in the economy.

Appendix 2

The nouveau niche

Mass production is the modern shopper's nightmare. The rise of individualism has meant that consumers nowadays want unique products which suit their personality. Today's consumer only wants to buy things which are unique and individual, just like them. They want products and services which are personalised, tailor-made and special.

The buzzword-generating trend analysis website, trendwatching.com, describes this trend as 'nouveau niche'.

Custom-made consumerism

The upshot of the move away from mass production is that retailers have to look for different ways to promote their products.

Leading by example is the very epitome of 'the' consumer market, the United States of America. Here, customised and personalised products are becoming much more popular, a move greatly helped by the Internet.

Online retailers wait for customers to order a product instead of having to pre-make stock and trying to sell them. For example, the toy company Lego lets you create your own design and order the bricks.

Customer service is also being revamped. Some retail outlets in the United States even put your name on the changing room door to make you feel special.

Appendix 3

Why ethical jewellery?

The mining of precious metals and gems used in most jewellery happens in countries where there is a lack of proper environmental and health and safety regulation. Not only are men, women and sometimes even children made to work long hours in terrible conditions for a minimal wage, but millions of tonnes of toxic waste is regularly dumped in the surrounding areas.

Another major cause for concern for anyone familiar with the phrase 'blood diamonds' is the trading of diamonds to finance conflicts in war zones.

A fervour for fairness

In the UK demand for ethically sourced fairtrade jewellery is growing as consumers become ever more discerning. However, when asked, many mainstream vendors are still ambiguous about the provenance of their products.

It is good to know that there is a small number of passionate ethical jewellers who insist on the true transparency and traceability of all the components of their products.

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