



ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES
Business, Their Objectives and Environment

2871/CS

PRE-RELEASE CASE STUDY

To be opened and given to candidates on receipt

JANUARY 2009



INSTRUCTIONS FOR TEACHERS

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

INFORMATION FOR CANDIDATES

- This copy may **not** be taken into the examination room.
- The business described in this Case Study is entirely fictitious.
- This document consists of **4** pages. Any blank pages are indicated.

KPrint Ltd (KPL)

Rachael Knight and Chris Partridge had met during their final year at university and had got married a year after graduating. Rachael has a degree in Graphic Design and Spanish. Chris has a degree in French.

Chris had helped pay his tuition fees by working several hours a week at a printer's shop. He had been surprised at how much revenue the shop brought in. Admittedly, it was a franchise of a well known brand, but the profit margins seemed large for the shop's owner, and life was not very stressful. Chris had spotted a number of ways in which costs might be cut and also opportunities to increase revenue. He began to think that one day he might open a printer's shop himself. 5

After leaving university, Chris had done some freelance translation work but had not made very much of a living from it. Neither had Rachael, who had been doing some graphic design work. 10

Chris's mind, therefore, turned back to thoughts of also setting up and running a printing business. He could always do translation work during any less busy times, he told himself. Rachael was quite keen and could see a link between printing and her skills as a graphic designer. The idea seemed a good one. There were a number of suitable industrial units available to rent at a reasonable price as the area had recently qualified for UK government assistance. However, finding a potential location had only been the first step. 15

Rachael, who had an A Level in Business Studies, wanted them to form a private company in the light of the risks involved.

"Isn't setting up a company a bit difficult?", Chris had asked. 20

"Not these days", replied Rachael. "You can buy them almost ready made off the Internet. We could sell shares to family and friends."

That was the theory. This had proved much harder in practice. The legal paperwork had been fairly straightforward and their company, KPL, was incorporated in 2007. The authorised share capital was £30,000 of shares with a nominal value of £1 each. 25

KPL had, however, not been able to raise anything like that amount from the sales of shares. Rachael and Chris both had debts from university and they were only able to invest £1,000 each. Neither of them had many relations. The only 'family' that Chris had was his mother who had bought £200 worth of shares. Rachael's parents had invested £800 between them and her brother invested £100. 30

When it came to friends, the situation had been even worse. Rachael still remembered the first time she had tried to sell some to her best friend, Louise.

"If I buy some of your shares, how much money will I make?", Louise had asked.

"Well, our business plan is to aim for a turnover of about £50,000 in our first year and so ...", Rachael began. 35

"Fifty thousand. That's not bad", interrupted Louise. "How much will I get?"

"That depends", said Rachael.

"On what?", said Louise starting to sound dubious.

“If we actually meet our objectives – which we reckon we will of course – and if our costs stay within budget, if we get a good name for ourselves and ...” 40

“That’s too many ‘ifs’. Sorry Rachael, nothing personal, but it’s too vague. If you can’t tell me what I’ll make out of them, I’m not interested.”

Almost without exception, the same type of conversation took place whenever Rachael and Chris had tried selling shares to anyone, despite stressing the ways in which an investor could make money through the purchase of shares. 45

In the end, they only sold another £600 worth, in three blocks of £200, to their friends. The only one of these to sound enthusiastic about his investment was Nigel De Kretser. Nigel had known Rachael and Chris at university and had gone to work at Allied Electronics plc (AEP) – the business where his uncle is Managing Director. AEP manufactures light bulbs, fluorescent tubes, and their fittings for industrial and commercial use. 50

“I hope you do really well”, Nigel had said, “and if I ever get the chance, I’ll put some work your way.”

Thankfully, as KPL rents the unit, it did not need to raise the full £30,000 of authorised share capital and it obtained the rest of the finance needed via a bank loan of £10,000. KPL also leased some of the necessary equipment. 55

KPL gained a lot of business quite quickly from various local churches, clubs and small businesses. Its repeat custom, both for design work and printing for local firms, has also grown steadily.

The company now has two young part time employees; Kassim and Mandy. They are competent but not particularly committed employees. Kassim’s mind is usually on football; and Mandy, who is a keen rock climber, spends most of her time thinking about her next expedition. She is often suspiciously absent on Mondays or Fridays with minor medical ailments. 60

Rachael recently started advertising KPL’s graphic design services to businesses in Spain via the company’s website and has had some success generating clients from there. One morning last week she was explaining to Chris her plans to expand this further when Nigel De Kretser walked in. 65

“I said I’d try and put some work your way”, he said “and I reckon I can.”

He explained that AEP was about to launch a new range of highly energy efficient bulbs and fluorescent tubes targeted at businesses in the European Union.

“Our American competitors’ bulbs and tubes are good but ours are better because ... well, that would be telling wouldn’t it? But ours last an average of 30% longer than our competitors’. We’ve got an idea of the promotional material we want but it needs to be sorted out properly. That’s where you come in. I’d like an eight page glossy brochure which makes a real impact.” He produced a folder. “I’ve got some general stuff; graphs, photos, etc, that we want on each page. But the actual sizes, fonts, colours and all that I’ll leave to you. Give me a few ideas for each page and AEP’s board will make the final choice.” 75

“How many brochures? And what about languages?”, asked Rachael.

“We’ll be looking at about 10,000 copies in total. We’ll be targeting the Chief Executives and Purchasing Directors of most of the larger companies in the EU. We’ve had the translations done already by a company called Interpeu.” He produced a CD. “Here’s the French version for 80

you to look at. You might need to check a few things with them but basically it's all done. Can you print in different languages?"

"Certainly", smiled Chris.

"Right. Now how green are you?", Nigel asked.

"Pardon?" said Rachael. 85

"Many big companies take social responsibility very seriously", said Nigel. "Especially in countries such as Germany. They insist that their suppliers, right down the chain, look after the environment. All this will have to be done with either paper from a sustainable source or with recycled material. That's not going to be an issue is it?"

"No, we can do quality printing on recycled paper and I already buy paper from a sustainable supplier in France", said Chris. 90

"Great", said Nigel. "I'll be back in a week or so. I'll have a look at your preliminary layouts." He then showed them a piece of paper with some figures on it. "This is the sort of fee we had in mind for you – plus a 5% bonus if you deliver ahead of schedule. Is that OK?" Chris and Rachael nodded enthusiastically. 95

"Can we really do this?", Chris asked Rachael later that day. "We're contracted to do loads of work already over the next few months. And, while he was talking I did a few quick mental calculations. We'd definitely need some new machinery. If we bought it, it would cost of about £20,000 and then there's the cost of the materials. Will you need any new software? You said the other day that a lot of your programs were becoming obsolete. Then, there's Kassim and Mandy! Are they up to the job? We might have to put the plans for expansion in Spain on hold for a while." 100

Rachael looked a bit despondent but then said, "OK, so our next objective will be growth through the AEP contract. But with any luck this will be the first of many."

"OK then. We'll go with the AEP contract", said Chris. "Incidentally, I had a look at this CD with the French text on it. Some of the translation is odd. For example, he said the bulbs last longer. That's been translated as 'Ils resteront vivants pour plus longtemps'. That's more like 'They will stay alive for longer'. I hope AEP know what they're doing. Anyway", he waved some papers, "I'm going to have to spend the rest of the morning reading these new regulations about the disposal of our ink, waste paper, and ... oh!", he paused. "I've got better things to do than this!", and then said "Actually, I might just decide to bung it all in a few black bags and take it down the tip every week." 110

Rachael made no comment.