Business management
Case study: As Fair As

For use in November 2018

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

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As Fair As (AFA)

Sam Temperton attended a large international school in the capital of a developing country. The school had students from many different nationalities and cultures. At the age of sixteen, Sam demonstrated several qualities of an entrepreneur, such as determination, resilience and creativity, by setting up his own business at school. He bought chocolate bars at a supermarket and then added a small mark-up. Sam sold chocolate bars to his schoolmates when he saw the long queues at the school shop. Sam only ever traded in cash. The cost-plus (mark-up) pricing strategy was very popular with Sam's target market. He sold chocolate bars to classmates well below the high prices charged by the school shop.

Students were not allowed to engage in trade for profit on the school premises. In response, Sam started selling chocolate bars to students just off the school premises.

After completing his International Baccalaureate diploma in 2015, Sam decided to turn his business into something more substantial. At school, he had studied motivation theory and he liked Daniel Pink's ideas. He wanted to become a successful entrepreneur working on his own and to make a difference to the lives of stakeholders. In his business management classes, the fair trade movement inspired Sam. From secondary market research conducted by a non-governmental organization (NGO), Sam had learned, to his surprise, that the only places to buy fair trade products were supermarkets. He had the idea of creating a shop fully dedicated to fair trade products. Sam wanted to practice corporate social responsibility (CSR) in his business operations, which he hoped would eventually operate at a global level.

Sam hoped to set up a retail store selling fair trade chocolate, but he had insufficient funds. He created a marketing plan for a local bank manager who was offering young entrepreneurs the chance to seek business finance and advice. The manager was impressed with Sam's enthusiasm but was concerned about some elements of the plan and Sam's poor understanding of accounting and finance. The bank manager thought that Sam did not know the difference between cash flow and profit and that selling only chocolate would not be enough to sustain the business.

Undeterred, Sam came across the idea of pop-up stalls[1] to sell fair trade chocolate. A growing trend, pop-up businesses are flexible and agile and can be established quickly. With his new idea and an improved marketing and business plan, Sam was able to raise enough finance to open his first pop-up stall. However, in his hastily prepared application for a pop-up business licence, Sam forgot to include some important accounting and finance information. His business goals were not seen as ethical and his application was declined. Realizing his mistake, Sam hired an old school friend, Kim, to prepare a second application and help with the businesses' accounts and finances. Soon, his business – named *As Fair As* (*AFA*) – was registered.

Sam set up a pop-up stall near a local train station, a crowded location with limited space. Here, the logistics would be difficult but there would be high foot traffic[2], especially commuters and young travellers. Other pop-up businesses had been located in a less busy part of the station. However, Sam's location decision worked well: *AFA*'s sales revenue and profits grew quickly.

Encouraged by the success of *AFA*'s first pop-up stall, Sam decided to expand the range of fair trade products and open three additional pop-up stalls, each run by a new manager. To do this, he needed to find new suppliers of fair trade products, which were proving to be very popular with his customers. These fair trade products included coffee, clothing and stationery, many of which could be sourced locally.

At first, some suppliers of these fair trade products were not willing to supply Sam, as his order and re-order quantities were very small. However, as *AFA* grew and the suppliers understood Sam's purpose, they became more willing to supply *AFA*. Sam worked with two types of suppliers:

- wholesalers that imported products from many parts of the globe
- local producers that met fair trade standards.

Sam decided to build on the success of his pop-up business by creating an e-commerce business to consumer (B2C) website on which to offer his fair trade products.

By 2017, *AFA* was a great success. Sales revenue had grown significantly and Sam had opened four traditional brick-and-mortar retail outlets selling a much larger range of fair trade products. Instead of using the stalls at semi-permanent locations, such as the train station, he now used them at temporary venues, such as festivals and concerts. Sam made most of the growth decisions himself with limited consultation with Kim. One of the decisions that later caused problems was his promotion of the four pop-up stall managers to managers of the new retail outlets and the recruitment of school leavers to replace the managers at the pop-up stalls.

Faced with growing complexity, Sam decided that some form of restructuring of *AFA* was required. He invited a close friend, Finn, to become his second business partner. With Kim promoted to chief financial officer, Finn was recruited to become chief operations officer. Finn's responsibilities included supervising the four managers of the new retail outlets and being in charge of the e-commerce website. Sam retained overall control of *AFA*.

Signs soon began to appear indicating that business growth was outstripping Sam and Finn's ability to manage. Despite lower transport costs and greater bulk buying, some diseconomies of scale were affecting *AFA*'s operations. Gross and net profit margins were being eroded, so Finn increased prices. Sam accepted this decision but reminded Finn that *AFA*'s vision was to create opportunities for both internal and external stakeholders. Finn responded by telling Sam that if costs were not kept under control then *AFA* would have to adopt some new pricing strategies. By following the fair trade movement, *AFA* was creating opportunities but Sam was concerned that new pricing strategies could undermine *AFA*'s position in the retail market.

Sam generally did not participate in the day-to-day running of *AFA*. He focused on developing strategic plans, ensuring *AFA* remained true to its mission, and strengthening relationships with stakeholders. Finn was methodical and risk averse. He focused on financial details, logistics, tactics and day-to-day operations.

Sam was generally pleased that Finn ran the administration of *AFA*. Sam got bored easily and was always restless, constantly looking for new ways to grow the business. Finn enjoyed the challenges of managing systems. He had previously worked in an industry that was highly bureaucratic and centralized, with narrow spans of control and top-down communication.

As growth of the four stores and the e-commerce website continued, Finn argued that a further restructuring was inevitable, but Sam was concerned about Finn's leadership style. Sam had heard rumours that the managers of the four stores were complaining to each other that they had little input in decision making. Rarely visiting any of the stores, Sam effectively left Finn to manage *AFA* on his own. Sam was spending an increasing amount of time visiting countries to source new suppliers of fair trade goods and speaking to NGOs and charities about ways that *AFA* could help them.

The combination of increasing costs and management unhappiness led to Finn calling an urgent meeting with Sam to discuss organizational issues. At the meeting, Finn argued that *AFA* worked well as a concept but that changes were needed. He felt that the current management system was unable to cope with the growth of the business.

Sam wondered whether he should convert *AFA* to a cooperative, with managers acting as associates rather than being paid a salary. Sam felt this conversion would align *AFA* with the ideas of Daniel Pink. He asserted that Pink's theory should be extended to the managers of the four stores and to Kim. Finn did not like this idea and felt that he was not being listened to. He feared that the mission and corporate social responsibility aspects of *AFA* would be lost. He saw these as essential aspects of the positioning (perception) of the business.

Thinking that Sam was still not listening to his concerns, Finn brought up his latest management idea to highlight the problems at *AFA*. Finn revealed that, unknown to Sam, he had hired a mystery (secret) shopper to visit two of the stores. She had visited stores at their busiest times. Finn was appalled at what she had reported, including:

- poorly organized stores
- unhelpful staff
- a failure to regularly mention the importance of fair trade at the checkout.

Finn was left wondering whether these two stores were devaluing the vision and mission of *AFA* as a fair trade store.

Though Sam was disappointed with what the mystery shopper reported, he was angry at Finn's deception. Finn countered that his decision to use a mystery shopper revealed the true nature of some of *AFA*'s problems. The meeting broke up without any final decision being reached. It was their first significant disagreement about the current situation and strategic direction of *AFA*.

[1] pop-up stalls: short-term, temporary retail venues
[2] foot traffic: the presence and movement of people walking around in a particular space

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.