

Section B1

Starting a business

B1.1 Eggxactly

◆ *Dragons' Den*

BBC2's *Dragons' Den* is the *X-Factor* for entrepreneurs: a talent contest in which entrepreneurs present their ideas to a panel of super-wealthy investors. The five 'dragons' sit sternly, with piles of cash in front of them, while someone climbs the stairs into the 'den' and then nervously makes a presentation. Fewer than 1 in 20 contestants get the investment they seek. Just occasionally, though, contestants walk away with £150,000 or £200,000 of cash investment into their business.

In August 2006, James Seddon came to the *Dragons' Den* to demonstrate his invention for a better way to cook boiled eggs. Instead of a pan of boiling water, 'Eggxactly' works like a sandwich toaster to cook an egg for the exact time you want. A soft-boiled (runny yolk) egg might take three minutes, while a hard-boiled egg takes four minutes. James Seddon had devised a new way to spread the heat over the whole surface of the egg using a flexible plastic heating element (Figure B1.1).



Figure B1.1 The Eggxactly egg cooker.

Project hint

An Artefact project could be based around designing and making a device for use at home. You might come up with a novel idea like Eggxactly, or you might devise an improved version of a familiar device.

Seddon has a **patent** pending on his invention, i.e. he has applied for a patent and is waiting for it to be granted. If granted, it will provide 20 years' protection from rivals.

Patent

A **patent** is a way of protecting a technical invention. A detailed description is registered with the Patent Office, which gives the inventor the legal right to 'own' the invention. If other people wish to copy the technical details, they have to pay a fee to the patent holder.

Computer software expert Seddon stood up to give his sales pitch, explaining the benefits of the product. He then flicked a switch on the machine to start his demonstration. Four minutes later he opened up the Eggxactly to reveal nothing. He had forgotten to put an egg in. The 'dragons' are impatient with time-wasters, so this was not much help. He then put an egg in, reset the machine and they chatted until, four minutes later, he took out the egg, broke into it, and runny egg went everywhere. It was uncooked.

Despite this incompetence, the investors were so impressed with the man's intelligence and confidence, and the innovative idea, that two of them agreed to invest £75,000 to help Seddon get Eggxactly to market. For their money, the two investors were each to take a 20 per cent share in the business. This could prove a bargain given that one of them, Richard Farleigh, suggested that the device could "sell zillions".

Course reference

Even experienced people get nervous when making a presentation. For advice about giving an oral presentation, see Section 5 of the Student Guide. Think about the lessons you can learn from James Seddon's example.

Activity B1.1 Be a dragon

I E C T E

Imagine yourself as one of the 'dragons' in the den.

If your £75,000 was at stake, what research would you carry out before investing in James Seddon's Eggxactly? Explain your reasoning.

Identify as many possible groups of potential buyers of Eggxactly. Then decide which two groups are the ones with the biggest sales potential. Explain your reasoning.

Discuss whether or not you think Eggxactly will succeed.

B1.2 Bright ideas

◆ Deliberate creativity

Most breakthroughs, such as Eggxactly or the iPod, come from careful analysis of a currently available product/service and then thinking about how it could be different. (For example, on 1 September 2008 the Edexcel exam board decided to remove all waste paper bins from its eight-storey building. An employee had pressed for a new approach: bin the bins and instead have recycling stations on every floor, for paper, cardboard, plastics and confidential material.) This approach is known as **deliberate creativity**, which you will experience in Activities B1.2 and B1.3.

Activity B1.2 Deliberate creativity TW CT EP

Your task is to identify one product or service of interest to you or your group. Then brainstorm its exact features, down to the last possible detail. (At this stage, just describe the features – identifying strengths and weaknesses can come later). For example, here are some features of a packet of Maltesers.

- Sweets come in a small plastic bag
- Bag is flimsy, so you can see and feel the shape of the sweets
- A Malteser is an airy honeycombey, melty, malty ball, covered in chocolate
- All the contents are covered in the same chocolate (white or milk)
- There are about 18 Maltesers in a small pack
- Each Malteser is big enough to hold and eat individually in one go
- Maltesers also come in larger plastic bags and also in larger boxes

1. What other points could you add to this list?
2. As a group, decide on one of the points that you think gives real scope for an improved product, e.g. 'big enough to hold and eat individually in one go'.
3. In silence, each person in the group should come up with at least four ways to improve the product, based on the feature chosen in part 2, e.g. mini-Maltesers, the size of Smarties.
4. As a group, pool your ideas, eventually agreeing on the single best idea for creating a successful new product.

◆ Getting started

The starting point for a new business is usually an idea based on observation. Feasible projects are based on good business ideas, so time spent at this stage is very worthwhile.

Often an idea stems from a thoughtful look at (or analysis of) your local area. Is it lacking a photo-processing outlet, a shoe repair/key cutter, or a Pizza Hut? If so, perhaps it is time one opened up. Or is there a new idea that could be marketed, such as an online DVD rental service with a searchable facility to find all the films starring Matt Damon, which also gives a synopsis of the plot. Or you might decide to make and market a gadget, as James Seddon did with Eggxactly.

To find local inspiration, try mapping the local marketplace. This is easy to do with a market such as 'Eating Out'. All you would need is the Yellow Pages, a map and a pencil to plot each restaurant within your area. Use coloured pencils and you will be able to spot whether the north-east of your district lacks a kebab shop or a Thai restaurant. In that case, you could start by researching which one would be more popular.

Course reference

For general advice on gathering information, see Section 1 of the Student Guide.

An alternative approach is to visit a business library. Secondary research analysis of a market may reveal gaps or emerging trends. This was the way to spot, several years ago, that pizza takeaway was becoming big business – perhaps before it was known in your area.

A library may also hold a very useful publication called the *Franchise World Directory*. This has long lists of **franchise** opportunities available (a right to sell a company's products/services in a particular area using the company's name), any of which may give you an idea. For instance, there is Elms 5, offering franchises to be the operator of a 5-a-side football league. The listing states an investment cost of £7,500, a working capital requirement of £4,000 and a franchise fee of £4,000. Year 1 turnover is projected to be £16,500, and full contact details are provided. Now this may seem poor value, but the idea of running a 5-a-side football league as a business may interest you – or spark off another idea.

Activity B1.3 Bright ideas

IE S M E

Use the approach outlined in Activity B1.2 to any product or service that interests you. Then build up a piece of work that spans your academic interests and skills. For example, if you are interested in art and design, you could develop the packaging for a completely new type of sweet or drink. If your interest is in water supply in the Third World, research current methods and then try to identify a new way of doing things.

Keep a note of your ideas for further development.

B1.3 Starting a business

◆ Feasibility study

The research you need to do when setting up a business and persuading people ('dragons') to invest is known as a **feasibility study**. Table B1.1 provides a useful summary of how to conduct your study. The suggested word count should be taken only as a rough guide and is based on a total word count of 3,500 words. There are several stages and we will look at these one at a time.

Project hint

Research into setting up a business could provide a starting point for an Investigation or Dissertation project.

Stages in the project	Explanatory notes	Word count
Identify a business opportunity	Based on your own experience and interests	75
Analysis of general market background	Secondary research such as Mintel	300
Analysis of local market (consumers and competitors)	Geographical mapping and/or market mapping (see below)	475
Decide how to make your business idea distinctive	Based on the above evidence	100
Gather information to make a sales forecast	Generates primary data	750
Obtain cost information and put together a cash flow forecast	Using your sales forecast and cost data	500
Analyse your information to help make a decision	Using investment appraisal, or break-even	600
Make recommendations about whether or not the proposal is worth pursuing	Use your quantified data, but make sure to evaluate it through qualitative factors, such as risk	200
Make judgements about your project's findings and about the project process	Take your time here – draft and redraft	500

Table B1.1 Feasibility study.

◆ Developing your idea

In Activity B1.3, you used the approach of deliberate creativity to come up with some business ideas. Once you have decided on a business idea, you have to develop it. Start by asking yourself these fundamental marketing questions:

- Who is my product/service aimed at?
- Why should they buy from me?
- What is my unique selling point (USP)?

- How will I persuade customers to become regulars?

Some of the main ways of developing your marketing strategy are described below.

Geographical mapping

If your Project is on opening up a café, nothing could be more important than a map showing where competitors are located. This, together with traffic flows, will give a clear idea of a suitable location. So:

- Go to a library for a good street plan.
- Decide how to categorise the cafés locally (e.g. Traditional, Modern, Young, Other).
- Look up 'Café' in the Yellow Pages and the Thomson Local directory, and then plot them on the map, using a colour key to distinguish the category.
- Analyse the map's implications, in terms of market gaps or location clusters (sometimes it is better to be where rivals are clustered, because that is where consumers head for).

Market mapping

In addition to – or instead of – geographical mapping, **market mapping** can be invaluable. It is harder, though, because it requires you to visit and make a judgement on the competition. If you go to three or four cafés, you should start to see the key consumer criteria. For example, you might consider the key dimensions to be Traditional, Trendy and cheap, and Expensive. Then visit all the cafés in your target district and plot them on a market map, as shown in Figure B1.2.

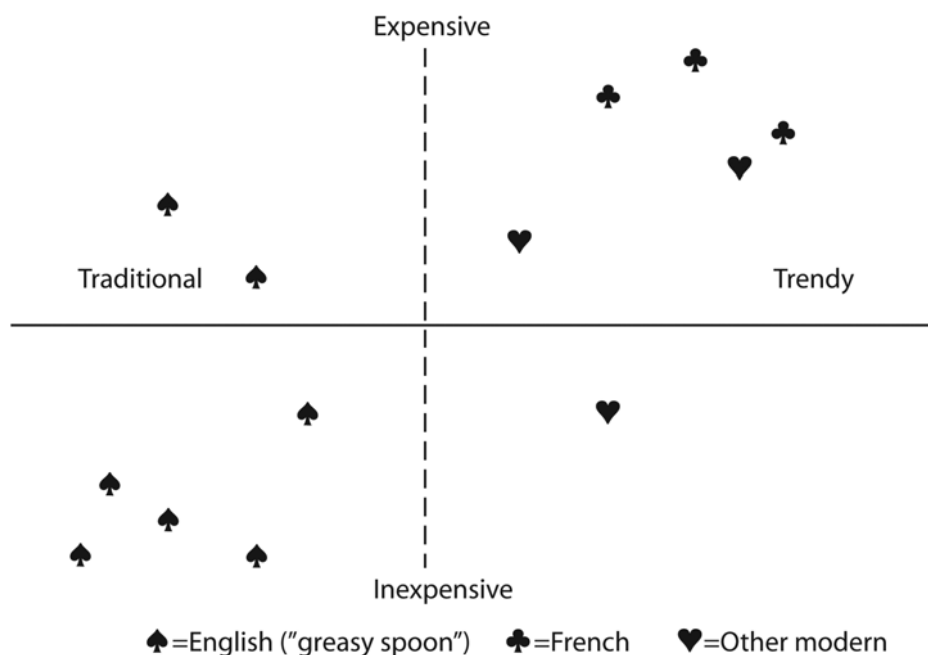


Figure B1.2 An example of market mapping.

This market mapping exercise might suggest scope for a moderately priced, modern, French-style café. This might not have product differentiation in its own right, but if it is the only one in a locality it acquires its own, local USP.

Activity B1.4 Mapping the opportunities

IE SM RL E

Choose one of your ideas from Activity B1.3 and carry out geographical and market mapping. Write a report of your findings, bearing in mind the suggested word limit in Table B1.1.

B1.4 Customer research

◆ Know your customers

Without customers, your business will be doomed to fail. You will need to carry out **secondary research** to find key information, such as the likely age and income profile of consumers. This involves looking at data from similar businesses to the one you are planning and assuming (or hoping) that your findings can be carried across to your own situation.

These findings will be important in helping you decide on the specifications and pricing of your product/service. If the age profile is quite old, for example, it may be that free delivery is a key factor. If young adults are the main age group, good parking facilities may be crucial.

Also available from secondary research sources are figures on market shares. These matter greatly, because if one firm dominates a marketplace it is probably unwise to devise a product which is comparable to theirs. It is safer by far to look for a highly distinctive niche.

Customer contact research

Ideally, you should decide on your marketing/product proposition through secondary research sources, or the two mapping exercises from Lesson B1.3. A customer survey can then be conducted on the basis of a known proposition.

There are some important details to learn about your local customers. For instance, if you have a contact at a retail outlet, you may be able to conduct a self-completion survey quite easily. Your questions could reveal information such as:

- which rival outlets they visit, and why
- how highly they rate criteria such as location, range of products, price and parking when deciding where to shop/visit
- their likes and dislikes of this outlet.

All this detail can help you present a logical case for the business proposition you are putting forward.

If you have an entirely innovative product or service, it follows that no secondary research can exist. Therefore, you may *have* to conduct a survey at this stage, to help formulate a target market and a clear consumer proposition. This is fine, but do remember that there is no value in conducting two market research exercises. So, if you are going to need a sales forecast, you must build the relevant questions into this survey.

Activity B1.5 Customer survey

CT E ICT

Produce a customer survey questionnaire relating to your proposed business. Use it to find out information about your potential customers.

◆ Repeat purchase

In your product considerations and market research, keep thinking about repeat business. No enterprise can survive for long without it. How exactly are you going to ensure that the repeat purchase level is high enough?

From a grading point of view, this is a fruitful area for analysis. Try to distinguish the factors which determine initial trial from those which govern repeat purchase levels. For example, a

special offer may encourage initial trial, but product/service quality will be far more important in determining long-term customer loyalty. If repeat purchase requires free parking or home delivery, the costs can be built in to the financial appraisal.

Activity B1.6 Repeat purchase

CT

Make some notes on how you will attempt to keep your customers loyal and encourage repeat purchase.

B1.5 Financial data

◆ Will it make money?

The 'dragons' were only willing to invest in Eggxactly because they believed it would make money. Contestants who enter the Dragons' Den are expected to provide financial information, and the 'dragons' ask tough questions when they suspect that the financial basis of a business has not been properly worked out.

A feasibility study requires a decision to be made about whether or not a business enterprise is worth starting up. This can only be done convincingly if an appraisal method has been used, such as break-even analysis, investment appraisal, a decision tree or projected accounts backed by ratio analysis. The most appropriate of these methods is investment appraisal. The following checklist applies to all four methods, though.

Start-up costs

- Cost of purchase/lease on premises
- Legal and architects fees for plans and planning permission
- Building and decorating costs
- Equipment costs and installation fees
- Staff recruitment, training and uniforms
- Cost of start-up stock level
- Launch advertising/promotions

Note that, for each of these, it is important to obtain a timescale as well as costs. This will help with cash flow forecasting and/or critical path analysis.

Sales revenue

- Forecast sales volume (short-, medium- and long-term)
- Planned price level (same to all, or will you use some price discrimination or selective discounting?)
- Will sales be for cash or credit? (this will affect the cash flow forecast)
- Are sales likely to be seasonal? Can an estimate of seasonal sales be built into the sales forecast (and therefore into variable costs and also the cash flow forecast)?

Direct costs

- Materials/components/stock bought
- Labour
- Any others (Note: these should be costs per unit, to be multiplied by the monthly sales forecast to give the costs/cash outflows.)

Indirect overheads

- Rent and rates
- Salaries and related costs
- Expenses, e.g. electricity, phone, stationery, etc.
- Interest charges

- Depreciation (for profit and loss account and balance sheet only)

This looks pretty daunting. However, you will probably be able to find out most of the information from sources such as those listed in Table B1.2.

Costs involved	Possible source of information
Cost of purchase/lease of premises	Estate agent with a commercial arm
Rent and rates	Estate agent or (for rates) the local council
Building and decorating	Difficult without contact with a builder or the owner of a comparable shop
Equipment and installation	Equipment suppliers: for contact details, see trade press or trade directory, or attend a trade exhibition
Staff recruitment, training and uniforms	Recruitment cost: see local paper advertising rates in <i>BRAD</i> (see below) Training and uniforms: see trade press or exhibitions
Start-up stock level	It should be possible to ask a trader about this. How much did they have to invest in stock before starting up?
Launch advertising/promotions	See the media directory <i>British Rate And Data (BRAD)</i> , available in any public library with a reasonable reference section
Materials/components/stock bought	Calculate through the percentage gross margin given in key financial ratios, e.g. if gross margin is 30%, then 70% of sales revenue must be cost of sales
Labour and salary costs	See local paper recruitment ads and/or visit local Job Centre
Expenses	Hard without advice from a comparable firm (note, though, that these costs are usually small, so a ballpark estimate of £1,000 or so would not be a disgrace)
Interest charges	Calculate on the basis of any loans needed to start the business up

Table B1.2 Possible sources of cost information for feasibility studies.

Example

This example is from a real student's project. Matthew's study into opening a nightclub estimated that the start-up costs would amount to £875,000 (even though the site was to be rented not purchased). The costs included building, lighting, sound system, IT system, security system, bar equipment and staff uniforms. Worse, first-year costs would amount to £992,000, compared with revenue estimated at £857,000. Fortunately, from then on rising revenues would move ahead of costs.

His complex calculations are summarised in Table B1.3.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash inflow	£857,000	£1,240,000	£1,364,000	£1,501,000	£1,650,000	£1,815,000
Initial outlay	£875,000					
Annual operating outflow	£990,000	£1,040,000	£1,085,000	£1,131,000	£1,185,000	£1,242,000
Annual net cash flow	-£1,008,000	£200,000	£279,000	£370,000	£465,000	£573,000
Cumulative cash flow	-£1,008,000	-£808,000	-£529,000	-£159,000	£306,000	£879,000

Table B1.3 Costing for opening and running a nightclub.

This data was converted into a graph to give a visual summary of the information (Figure B1.3). This helped illustrate that payback would occur after 4 years 4 months. Also, although the average rate of return was 'only' 16.7 per cent, the graph showed the prospects for further, substantial, profits in Year 7 and beyond.

Forecast cumulative cash flow

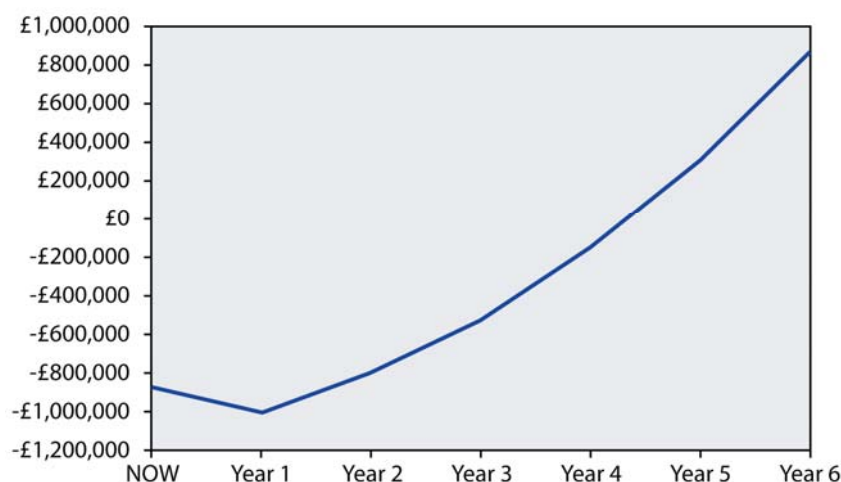


Figure B1.3 Graph of costings for opening and running a nightclub.

Activity B1.7 Doing the sums IE SM M ICT

Carry out a financial appraisal of your proposed business for inclusion in your feasibility study.

◆ The finishing touches

Armed with your work from this and the previous lessons, you now have the information you need to complete your feasibility study. Listed below are a couple of things you might like to consider as you do the final work on your study.

Course reference

For advice on producing a written report, see Section 4 of the Student Guide.

Do it for real

Visit a bank manager or small business adviser, equipped with your near-complete feasibility study. Show a summary of your work and discuss the terms on which the bank might consider lending some start-up capital. Your report on the conversation will make an interesting section within your Project.

Make it personal

An unconventional approach to raising finance can make interesting reading. A project by an Indian student gave an insider's view into the informal way in which family and friends would be likely to support a well-argued business case, and gave a full account of the rewards that would be expected in return. The insights provided into a particular business culture made high marks inevitable.

Section B2

What is an ethical company?

B2.1 Dog's life

◆ Magic ingredient

Jumble started it. She was sniffing around a patch of wasteland and then rushed over to a discarded shopping bag. Tom, her owner, found it hard to tear the dog away from the bag. The next day Jumble raced back to the same spot, where the bag was still lying. This time Tom realised that the attraction was a half-full jar of mayonnaise.

No-one else would have thought further, but Tom was a Product Development Manager for a dog food company. The dog food market had become very competitive in recent years, and his employer had been losing market share. He knew the company's American owners would not put up with underperformance for long. The pressure was on to come up with an innovative product success.

The following week, Tom experimented by adding different quantities of mayonnaise to standard tins of dog food. The results were immediately clear. Based on all the standard test measures (choice, tail-wagging, speed of eating, etc.), dogs loved the addition of mayonnaise to the food. Adding the equivalent of two tablespoons per tin seemed to work best. Further experiments over a period of weeks showed that dogs became very unhappy if they were put back on a no-mayonnaise diet. It seemed that Tom had come up with a recipe that dogs found irresistible, verging on addictive.

Over the following months, Tom developed the product further with the firm's marketing department and advertising agency. How could the attractions of this new product be communicated to the owners? When, in a qualitative group discussion, owners were told that mayonnaise was added, they were outraged. How could a responsible company contemplate adding fatty ingredients to dog food? Tom kept quiet about that incident to his bosses, as he told himself that customers need never know. The label on the can would separate out the specific ingredients of mayonnaise – and, anyway, dog owners rarely read the small print on a can of dog food.

Six months after Jumble's breakthrough, the proposition was fully developed. The brand name would be 'Life'. The advertising slogan would be 'Dogs Love Life'; and the TV commercial would show three bowls of dog food, with dogs walking past the first two as they made a beeline for the bowl labelled Life. The cans would be sold at a 5p price premium to other major brands, even though the cost of the extra ingredients amounted to 0.5p per can. The launch advertising budget was recommended to be £3.8 million. Market research predicted that sales could be as high as £40 million a year.

Now it was time for Tom to present his new product proposals to the firm's Executive Committee. At the same time, one of Tom's colleagues was presenting a proposal for the launch of three new flavours of the firm's best-selling dog food brand. This proposal was backed by a sales forecast of £30 million a year. The Committee would decide which one to go for, if either.

Activity B2.1 Life on the line**CT**

Do you think the Executive Committee should go ahead and launch Life? Explain your reasons.

Activity B2.2 People and pets**SM**

1. Choose a dog with which you are familiar, e.g. a Labrador. Research how it should ideally be looked after – consider exercise time and distance, diet, playtime and so on.
 2. Visit two or three grocers/supermarkets to see the range of dog food on offer. Compare the nutritional value of the food (shown on the can/packet) with the recommended dietary requirements.
 3. Conduct a market research exercise among dog owners, to assess how much exercise they actually give their dogs.
 4. Draw together your findings to reach your conclusions.
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B2.2 Innocent

◆ Innocent Drinks

Innocent Drinks (Figure B2.1) was started in 1998 by three friends, who tried to sell pure fruit smoothies at a small music festival. Their initial testing suggested that there was a market for drinks that had only fresh ingredients and were not based upon fruit concentrates.



Figure B2.1 Advertisement for Innocent Drinks

Innocent Drinks grew rapidly and by the end of 2006 had recorded annual profits of £6.5 million. It had become the number one smoothie brand in the UK, and, crucially, the company wanted to be seen as 'ethical'. It used its virtues as a way to persuade customers to purchase their products.

Today, the Innocent website lists its guiding ethics, and details its aim of creating a fully sustainable business. The bold ethical statements have been backed up by hard cash. In 2006, Innocent donated £706,000 to charities that focused on improving the lives of people in the communities that its business affected.

Resource link

Visit the Innocent Drinks website to see how it promotes its ethical image.

Innocent also tries to be an ethical and novel employer. In 2008, it was again recognised by *The Guardian* newspaper as one of Britain's top employers. Consideration of Innocent as an employer led the Design Council to state that "the result is a talent-rich environment, which encourages creativity, communication and the democratisation of innovation". Rumours abound of visitors to its headquarters, Fruit Towers, spotting employees playing with hula hoops in the car park.

Overall, the brand has been built around a light-hearted, irreverent approach, which is evident in all its packaging, advertisements and website, but it remains extremely committed to a core ethical approach.

Innocent promotes itself as an ethical company, but what does this mean? Virtue ethics focuses on the characteristics of good people. It is also possible to consider the characteristics of a good company. These are traits that may be seen as desirable by others who have some interest in the business (stakeholders).

Course reference

Ethics and ethical frameworks are discussed in Section 2 of the Student Guide.

Activity B2.3 Innocent image

TW EP

1. Look at the Innocent Drinks advertisement in Figure B2.1. Describe the values you think the company is trying to convey to potential customers.
 2. Within your group, discuss how Innocent's approach to its stakeholders, such as its customers, local community and employees, has helped to ensure that it has grown to be such a successful company.
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With such rapid growth, Innocent Drinks has, more recently, started to experience criticism as to whether it has been consistent towards its ethical policies.

In January 2007, there were reports of exploding smoothies all over the country, and a batch of 100,000 bottles had to be recalled. But this only happened after an article on the BBC's *Watchdog* programme.

Then, in October 2007, the Advertising Standards Authority (ASA) upheld a complaint regarding alleged false claims by Innocent of the detoxifying effects of its products. The complaint also questioned whether the product contained more antioxidants than five average portions of fruit and vegetables per day. The ASA subsequently ruled that Innocent Drinks had made incorrect scientific claims and had, therefore, been untruthful in its advertisement. Innocent Drinks agreed not to run the ad again.

In the summer of 2007, Innocent Drinks decided to trial a **tie-up** (a link between commercial companies) with McDonald's, where it sold its drinks in 70 of McDonald's outlets. For many of Innocent's loyal customers, this was by far the most serious breach of its ethics. Anti-Innocent blogs immediately emerged on the Internet, alongside many negative comments on the Innocent website.

Innocent Drinks, though, had anticipated an initial negative response. Senior managers made a point of contacting every negative blogger on its website to explain its actions. Whilst a closer look at McDonald's suggested that customer fears may be misplaced, as it was also rated in the top ten of Britain's top employers in 2008, with a 100 per cent rating for environmental sustainability. Perhaps Innocent Drinks had found an ideal ethical partner.

Activity B2.4 McInnocent?

IE CT E

Consider the potential costs and benefits for Innocent Drinks of the tie-up with McDonald's.

Make a presentation to the rest of your group explaining whether you think the tie-up will be a good one for Innocent Drinks.

Activity B2.5 Ethical company**TW EP E**

Suppose you are setting up a company with your friends to sell jewellery that you have made. The following statements define the possible ethical attributes of your new company.

Rank the statements below according to how important they are to you. Use each number only once, and start off with what you consider the most important, down to the least important attribute of an ethical company.

The company will

- 1 refuse to employ child labour
- 2 donate a percentage of its profits to charity
- 3 pay suppliers a fair price
- 4 not discriminate on the basis of age
- 5 use only materials and ingredients that are natural or organic ingredients
- 6 be run in the most resource-efficient way
- 7 ensure that local communities benefit from any company actions
- 8 refuse to do business in countries where there are breaches of fundamental human rights
- 9 refuse to pay bribes in order to gain contracts
- 10 ensure that it complies with all new legislation on maternity rights for women

Within groups, discuss your personal rankings and the reasons why you have come up with your conclusions. Why do you think that your personal preferences are different from others?

Using the Internet and other sources of information, discuss whether it is more difficult for large, rather than small, companies to be ethical.

Project hint

A question about ethical issues in a particular company could be a starting point for a Dissertation project.

B2.3 Creative genius

◆ The iPod

In 1997, Steve Jobs was brought back to run Apple, the company he founded. Within two years the company launched the successful iMac and iBook computers. Then, in 2001, came the product launch that would establish Jobs as the creative genius of consumer electronics – the iPod. It is hard, now, to realise how dominant Sony's grip had been on the music scene with its Walkman. Within two years the Sony Walkman was as uncool as a teachers' tea party.

The iPod was a brilliant design, backed by brilliant launch advertising. But central to its credibility was the thought that Jobs/Apple had invented this clever, classy device. Jobs happily accepted the admiration of the business world. With iPod sales worth more than \$100 billion to date, Apple shareholders are even bigger fans of Mr Jobs.

In 2008, attracted by the huge sums of money, a firm called Burst.com made a legal claim against Apple, claiming that the iPod infringed Burst.com patents. To defend itself, Apple took the odd step of – in effect – admitting that it hadn't really invented the iPod at all. Apple flew the real inventor, Englishman Kane Kramer, to California to help its defence case.

Creative genius

In 1979, aged 23, Kramer built a device he called the IXI. His 1979 drawings (Figure B2.2) are astonishingly similar to modern MP3 players. More importantly, Kane had the idea at the heart of the device – downloading music digitally to a portable player that would make tape recorders and record players (and the Walkman) obsolete. He took out a worldwide patent and set up a company to develop the idea. But, in 1988, after a boardroom split, he was unable to raise the £60,000 to renew the patents across 120 countries, so the technology became public property.

Figure B2.2 Kramer's drawings of the IXI. (Still to come)

Today, Kramer has been recognised by Apple as a key figure in the development of the iPod, but received no payment other than a fee for taking his time to help in the court case. This is significant because, in 2007, Kramer had to close his struggling furniture design business, sell his house and move his family into rented property.

Kramer is now working on a new invention that he thinks will be huge. The invention will allow people to have phone calls recorded and emailed as an audio file within 30 seconds. This will give business people the opportunity to keep a record of who has agreed what. It sounds as if it has real potential – but perhaps not \$100 billion of potential!

Activity B2.6 Kramer vs Apple

TW EP E

After reading the information above, discuss the following questions.

1. Some newspapers have dubbed Kane Kramer as one of the 'biggest losers' in business history. Is this fair?
2. If you have the opportunity, look at Kramer's original 1979 specification for the IXI. To what extent do you agree or disagree that the iPod was based on Kane Kramer's IXI?

3. Does Apple have a moral duty to pay Mr Kramer a royalty on every iPod sold?

Resource link

Kane Kramer's website www.kanekramer.com has details of his 1979 invention.

Course reference

Ethical frameworks are discussed in Section 2 of the Student Guide.

B2.4 Mind the GAP

◆ Globalisation

The last decade has seen an unprecedented change in how large companies do business in the developed world. Many have recognised that to remain competitive they can outsource many of the production and after-sales processes, which were traditionally performed closer to the Western markets that provided the vast majority of sales.

The globalisation of the clothing industry has led to dramatic changes. Companies realised that they could employ increasingly skilled labour in places such as China and India. These workers could produce garments for a fraction of the cost of their European and North American counterparts, and the branded goods that they produced could then be sold with a huge markup on cost.

This suited the producing firms (and their shareholders) as profit margins could be increased. Consumers also found the price of their clothing actually falling (deflation). The rise of Primark and similar shops where good-quality merchandise could be bought for a fraction of the price ten years previously has been dramatic.

Activity B2.7 Winners and losers

IE CT E

1. Explain how a utilitarian would judge whether globalisation has been a good or bad thing over the past ten years.
2. You are working as an adviser to the UK government. Identify potential winners and losers from the process of globalisation of the clothing industry. Also, suggest what you feel to be the overall impact on the UK.

Course reference

For information on utilitarianism and other ethical frameworks, see Section 2 of the Student Guide.

◆ Social audit

One company that decided to move much of the production of its goods to Asia was the American retailer GAP. The problem with this was that many people within Western societies began to feel uneasy that they may be wearing clothes manufactured using child labour (Figure B2.3), or manufactured by adults working in very poor conditions.



Figure B2.3 Some clothes are manufactured using child labour.

GAP's response was to launch, in 2004, a **social audit system** (an investigation into the impact of a firm's activities upon society in general). This was designed to stop the company from employing child labour in its production processes, whilst also recognising that any workers that manufacture its goods were entitled to safe and fair working conditions.

Resource link

Visit the GAP website for more details. Also, research newspapers' websites for articles written about GAP.

In October 2007, *The Observer* newspaper ran a story that completely contradicted GAP's ethical image. It claimed to have found children as young as 10 working in a situation akin to slavery in India. They were producing garments to be sold in GAP stores for that coming Christmas. The newspaper claimed that children had been sold by their parents, and that they now worked in very poor conditions for up to 16 hours per day.

Resource link

Visit the *Observer*, *Guardian* and *Economist* websites to see how this was reported.

GAP's response was swift. It took immediate steps to stop the work on the specific garments, and pulled the products from the stores, even though the company was in the lead-up to the profitable Christmas season. In June 2008, it followed up the criticisms with a detailed statement on how it was intending to combat child labour, including an enhanced programme of monitoring its suppliers.

Activity B2.8 GAP**CT E**

1. Explain the reasons for GAP introducing a social audit system in 2004.
 2. Discuss whether you think that GAP should have known about the issue of child labour being used to produce its garments.
 3. 'Employing child labour can never be justified.' Discuss how a relativist might disagree with this statement.
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Project springboard**IE SM CT RL**

A question about child labour could provide a starting point for a Dissertation project.

Using the ethical frameworks that you have studied, research and present a case for and against the statement that 'Employing child labour can never be justified'.

Course reference

See Section 2 of the Student Guide for details of ethical frameworks.

B2.5 Count the cost

◆ Do consumers care?

As you saw in the previous lesson, one of the key reasons for a multinational firm to outsource its production is to lower costs. According to *The Economist*, the average wage in India is approximately £1250 per year, compared to £25,000 in the UK. *The Guardian*, in March 2008, discovered that workers producing GAP clothing in Kaspashera, close to Delhi, were working for £11 per week, or approximately £600 per year.

But does the consumer care where its garments are made and at what cost? A recent survey by Taylor Nelson Sofres (TNS) plc, a market research company, led to some interesting revelations. They found that it was the under 25s that were least likely to buy ethical fashion, and a majority of those surveyed in this age group admitted that they bought clothes without caring how they were produced. So it seems that perhaps this revelation of an uncaring (younger) consumer should come as no surprise to those who witnessed the crushing crowds of the Oxford Street Primark store opening in April 2007.

Activity B2.9 Comparing costs

IE CT

Look at Table B2.1 detailing the cost of living comparisons for the UK and India. Do you think that a multinational company can justify workers being paid less than £25 per week (the Indian average wage) in Delhi, India to produce its products? Give reasons for your answer. It might be helpful to think in terms of rights and duties.

Course reference

See Section 2 of the Student Guide for details of rights and duties and other ethical frameworks.

	Delhi, India	Birmingham, UK
Average weekly pay	£25	£457
<i>Cost of living</i>		
Weekly rent for room in good shared apartment	£22	£60
Weekly energy costs	£8.92	£38.46
1 litre of milk	£0.20	£0.70
1 litre of mineral water	£0.20	£0.40
City centre bus fare	£0.07	£2.00
Men's suit	£41.62	£125
Cup of coffee in café/bar	£0.54	£1.79

Table B2.1 Comparing living costs in India and the UK.

Course reference

Note how Table B2.1 summarises data. You will also be asked to use tables to present information for your Project. For advice on written forms of communication, see Section 4 of the Student Guide.

Activity B2.10 Consumer pressure **IE CT E**

1. Explain how consumers could put pressure on the producers of the clothes they buy to reduce the use of child labour.
 2. Using arguments relating to rights and duties, discuss whether you think that consumers are ultimately responsible for poor pay and working conditions in places such as India.
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Project springboard **SM CT**

Design a questionnaire to establish attitudes towards the ethical sourcing of fashion goods. Use it with 20 of your friends and family. Present to your class an account of your findings. This work could contribute to a Dissertation project.
