Student Self-administered case study

the Welly Boot Box: starting up

Case duration (Min):	> 60
Principles of Management (PoM)	
Management Information Systems (MIS)	
Information Technology and E-Business	
Electronic Commerce	

Worldwide

Case summary:

New companies face many challenges such as determining what value adding activities to perform in-house and which to outsource. This case explores a range of related decisions associated with establishing a new company.

This case documents the challenges of starting up a new (simple) company with a single product. However, it enables the exploration of many start-up related business issues and theories such as the business plan, the value chain and value configuration, the fragmentation of the value chain and outsourcing production to low-labour cost countries (globalisation), disintermediation and the use of the web as a sales channel. Additionally, marketing concepts are considered, particularly the use of PR as a means to promote sales in a cost efficient manner. Case-study users may pick and mix their preferred concepts for discussion and activity.

Learning objectives:

Describe and explain the contents of a business plan
Explain the purpose of a business plan/ case
Discuss the reasons why a company may fragment its value chain
Explain what is meant by disintermediation and why organizations may do it
Discuss marketing alternatives for the start-up organization
Evaluate the role of PR

Case problem:

A variety of problems may be considered such as:
(1) How to set-up a company (structure i.e. limited company) – and create a business plan
(2) How to manage the value chain as a small company – fragmentation and outsourcing (creating the virtual company)
(3) Which sales channel to use at start-up: direct or in-direct (e-commerce or mail order agency)?
(4) Where to outsource production to (globalisation issues)

Company

Personal Products

Innovayta Ltd

http://www.innovayta.com

The Welly Boot Box - storage for Welly boots with a built-in boot jack

In response to a common household problem, after several prototypes, founder Toby Sparrow eventually came up with a design for the Welly Boot Box that was very effective and extremely practical, and decided to patent the idea, and see if anyone would be interested in buying it (retailing under £100). The first mail order company that the company approached ordered it for their 2005 May and Christmas catalogues - and the Welly Boot Box venture became a business. Now various mail order catalogues are also stocking the Welly Boot Box.

Pre class activities...		
1	Before class, visit http://www.launchlab.co.uk/article/Starters-for-ten/Toby-Sparrow-and-his-Welly-Boot-Box/162 and read about Toby Sparrow and his Welly Boot Box - Toby Sparrow is a serial entrepreneur and inventor. Here he describes his latest invention, The Welly Boot Box, which he's just getting off the ground. Then visit the company web site http://www.innovayta.com and evaluate the site as a marketing tool and sales channel.	**20-30**
2	Research business plans - what normally goes into one and why?	**20-30**

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:
1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.
Consider attempting the case study as a group exercise; you could form a study group with fellow students.
3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.
Discuss questions and answers with other students.
4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type	URL/ Media description
Toby Sparrow and his Welly Boot Box	http://www.launchlab.co.uk/article/Starters-for-ten/Toby-Sparrow-and-his-Welly-Boot-Box/162
HTML	Toby Sparrow is a serial entrepreneur and inventor. Here he describes his latest invention, The Welly Boot Box, which he's just getting off the ground. your business so my mum would understand it. I invented the Welly-boot storage Box, which combines a boot-jack and seat – it makes it easy to take wellies on and off, and for all the mud and mess to stay in the box, with a removable tray for cleaning. It also doubles as seat to sit on whilst putting shoes and socks on. Why did you start a business in the first place? I came up with the idea of the Welly Box to solve our own problem and meet my family's needs. It seemed like a good idea and it worked well for us, so I approached a mail order catalogue with the prototype, and they jumped at the idea. I then put together a simple business plan and decided to patent the idea and start making them. It was intended as a sideline business to my main line of work. What surprised you most about starting up? The number of things that needed to be thought about, and how very important it is to make sure that the theory of the business (the business plan) stacks up. When we started, we thought we could manufacture at a certain price, but hadn't thought about a lot of the things that needed to be factored in. It soon became unviable to manufacture in the UK, and we had to go and investigate possibilities in China and Poland. Was there anything you would do differently now?

Hindsight is a wonderful thing, and of course we would do some things differently. But if we did, the set of challenges we faced would just be different. The main thing is not to give up, and to face each challenge as it arises, and work through it. In that respect, I wouldn't do anything any differently.

What was your strategy at launch, and have you stuck to it?

Our strategy at launch was to manufacture in the UK and supply large volumes to the mail-order industry. We have changed that entirely and now mainly supply direct (where margins are much higher) and manufacture in Poland.

This new strategy has meant higher marketing costs to make people aware of our product and our website, but that is what is going to add value to our product and brand. A Google search for Welly Boot Box now brings us to the top of the Google page, which is great.

What's been your biggest hurdle or stumbling block so far?

In a word, China. I flew out to China twice (which, on a business that started on £5000 capital, was a major investment). The Chinese businesses we saw were only interested in producing vast quantities, and we were not convinced of the quality. Perhaps we just didn't find the right people. Poland, however, was a success story when we eventually found the right supplier.

…And your luckiest moment?

I think the Email to Jane Hudson, the CEO of Presents for Men. It was the first sales email I had sent for this product and she responded very quickly. She was so enthusiastic about my idea (even though it was only a shabby prototype). I think if we had met a lot of resistance in those early stages, it probably would never have got off the ground. So a big thank you to Jane!

Where are you now with the business?

We are just reaching the end of our second year of proper trading, and we will make a profit this year. For this sort of start-up business with a lot of R&D costs and patenting costs, that is a pretty good achievement. We are also well stocked up with product, so next year is looking very promising as our sales and marketing engine is cranking up to full speed.

What does the future have in store?

Our customers are telling us that they would like a waterproof version that can stand out of doors, and that will accommodate four pairs of wellies. That is going to need a major investment if we proceed with it, and will mean shifting the business up a gear or two.

What's your best piece of advice for someone who's about to launch?

Watch the cash. Make sure that you always have cash in hand, and the support of your bank for your business plan. If things are going well, additional funding is fairly easy to get, but if there is a glitch in your plans (and there almost certainly will be glitches) you need to have enough cash to be able to see you through. It is almost always lack of liquidity that cripples new businesses.

Company structure - Toby Sparrow of the Welly Boot Box

http://www.launchlab.co.uk/article/Business-video/Company-structure---Toby-Sparrow-of-the-Welly-Boot-Box/250

Film

This clip describes the value adding activities of the companies value chain and identifies those that are out or insourced.

http://www.launchlab.co.uk/article/Business-video/Marketing-a-new-product---Toby-Sparrow-of-the-Welly-Boot-Box/270

Film

Many households like to keep boots, and particularly Wellington boots (Welly boots) which get messy, out of sight. However, putting dirty Welly boots into a storage area is not the answer because of the mess they make, and moreover Welly boots are usually items which are regularly used and it would be impractical to keep taking them in and out of a cupboard or other storage area. Furthermore, the removal of Welly boots or riding boots is an age-old problem because they can be difficult to remove, often resulting in getting a sock dirty or having to sit down and get muddy hands. The Welly Boot Box is designed as an attractive looking ventilated box which incorporates a hinged front cover which is used as a boot jack. It is designed in such a way that it is easy to remove Welly boots using it, and once they have been removed, the lid folds back and the Welly boots are concealed. When the lid is closed, the Welly Boot Box can be used as a seat on which to sit when putting on shoes. The bottom of the Welly Boot Box incorporates a plastic tray which can be removed for cleaning.

In this clip, Toby explains how he markets the product. When he started out he used a mail order agency (indirect sales) and made a small profit of £5 on a £70 unit price item. Unhappy with this he decided to adopt a direct approach through the web and hired a PR agency (Watershed) to promote the company and its product.

NOTES:

Case study questions...

	Action	Pre/During/After class
1	**COMPANY STRUCTURE - TOBY SPARROW OF THE WELLY BOOT BOX** Based on the video clip and reasonable assumptions, describe the out and insourced activities of the company, with reference to the value chain.	During
1	**THE BUSINESS PLAN** In your groups, discuss the contents of a business plan and evaluate the purpose of each component.	During
2	**FRAGMENTATION PROCESS** Discuss the fragmentation process in relation to the value chain - why did the company arrange for manufacture to take place in other countries? The company had to go and investigate possibilities in China and Poland - compare the two outsourcing locations and evaluate which would be preferred and why.	During
3	**PUBLIC RELATIONS** What is public relations? Evaluate how it may help a company like this. Visit the watershed web site http://www.watershedpr.co.uk/default.html	During
4	**DISINTERMEDIATION AND E-COMMERCE** Discuss the supply chain and disintermediation - critically evaluate the two options considered by the company: the use of an intermediary (mail order) and direct through e-commerce.	During
5	**TYPE OF BUSINESS ORGANISATION** What type of business organisation would you use to form the company?	During

Answers...

VALUE CHAIN

Viewing a firm as a series, chain or network of basic activities that add value to its products and services and thus add a margin of value to the firm.

VALUE CONFIGURATIONS

Describes how value is created in a company for its customers

VALUE CREATION

Performing activities that increase the value of goods or services to consumers

DISINTERMEDIATION

When a Net Market bypasses a traditional channel, directly linking buyers with suppliers.

FRAGMENTATION PROCESS

different parts of goods and services are provided in different countries before they are combined in final goods

ELECTRONIC COMMERCE

The process of buying and selling goods electronically by consumers and from company to company through computerized business transactions.

PUBLIC RELATIONS

Managing and controlling the process of using publicity effectively. It is the planned and sustained effort to establish and maintain goodwill and understanding between an organisation and its target publics

Question/ Answer

1 **Company structure - Toby Sparrow of the Welly Boot Box**

Based on the video clip and reasonable assumptions, describe the out and insourced activities of the company, with reference to the value chain.

A Polish (outsourced partner) company administers the activities associated with raw materials and inbound logistics. They construct the product (manufacture/ production) and despatch it to the Welly Boot Box.
The Welly Boot Box holds the stock in its warehouse (probably the garage at the family home!)
PR is outsourced (Watershed) to promote the company and its products. Marketing initiatives are used to improve the internet search engine ranking of the company and its products.
The Welly Boot Box makes use of their web site as an e-commerce direct channel to customers. This is used for sales to collect orders and payment. Orders are then downloaded and picked, packaged and labelled.
Outbound logistics (customer deliveries) are outsourced to a courier (DHL) who collect and deliver.
The secondary activities of technology infrastructure (web construction and maintenance) are internally managed by the Welly Boot Box (Toby); HR is limited to his wife and the accounting could easily be outsourced to a local book keeper/ accountant. As a limited company there will be required accounting reports to be submitted. If Toby or his wife receives pay, the accountant may manage the payroll. Alternatively, they may simply opt to receive dividends as a tax efficient financial return.

1 the business plan

In your groups, discuss the contents of a business plan and evaluate the purpose of each component.

A business plan is typically used by start-up companies to attract external funding. Established companies follow a similar process to justify investment, change and the use of company resources. In such cases the document tends to be termed a business case. The two documents are similar though one has an external and the other an internal audience. We include one structure for a business case below. The business case is a document that presents a comprehensive view of the project and provides the financial justification and ROI for implementation. The business case "makes the case" for change and provides the financial basis for a project. The business case can be used to: communicate the project to others, establish a method for measuring success and receive funding approval for the project. The business case tells the project story in straight forward, easy-to-understand language. If done correctly, the business case will provide compelling justification for a change by outlining (at a high level) what is broken and describing (at a level) the solution and its possible impacts. The business case answers questions like: Why are we doing this project? What is the project about? What is our solution to the business problem? How does this solution address the key business issues? How much will it cost? How long will it take? Will we suffer a productivity loss during the transition? How will the business benefit? What is the return on investment and pay back period? What are the risks of doing the project? What are the risks of not doing the project? How will we measure success? What alternatives do we have? The most obvious reason for putting together a business case is to justify the resources necessary to bring about change. However, this implies that the business case is simply a financial document. While all business cases should include financial justification, it should not be the only purpose of the document.

The most important role of the business case is to verify that the solution substantiates or meets the needs of the business. It provides a vehicle for the team to step back and subjectively review their facts and assumptions. In addition, it is vital that the team document what would happen to the business if the effort is not undertaken. This base case or do nothing scenario is the foundation upon which all benefits from the effort are derived. By documenting everything together in one story, it is easy to link the issues to the solution and the benefit, and identify where the business would be without the project. The development of the overall business case simplifies the development of the financial justification, and will usually identify holes or problems with the solution. The final, important role that the business case plays is to provide a consistent message to many different audiences. It is a high level view of the entire project and enables all organizations affected by the effort (customers, management, operations, research & development, service, sales, accounting, finance, etc.) to be cognizant and knowledgeable about the effort.

Here is a list of key elements for a business case: Executive Summary, Situational Assessment and Problem Statement, Project Description, Solution Overview, Solution Detail, Solution Alternatives, Costs and Benefits, Implementation Timeline, Critical Assumptions and Risk Assessment, SWOT Analysis and Conclusions and Recommendations.

The executive summary provides management with a short (one to three pages) snapshot of your business case. It must be persuasive. The remainder of the business case provides the detail and analysis to support the statements you make in the summary. The focus of the executive summary should be on the bottom line financial benefits to the organization.

Situational Assessment and Problem Statement - The initiative is being undertaken for some reason. Perhaps something is not working, customer satisfaction is low, profits are not what they should be or employees are not performing. Whatever the reason, a strong business case will begin with a thorough understanding of the issues facing the organization and your teams' conclusions about what is wrong, not working or under performing.

Project Description - This section describes the objective of the initiative. Define the processes, systems and organizations included within the scope of the initiative. Finally, include an overview of the stakeholders for whom this effort is being undertaken (customers, management, etc.).

Solution Overview - This section defines the desired end-state for the initiative. The end-state provides the framework for the solution definition. Things to include are vision statements or goals. In addition, the solution overview should provide a high level description of the solution -- it should paint a picture for the reader of what the end state will look like.

Solution Detail - This section should include: A description of the new system, Changes to organization -- people, culture, training, etc., Changes to processes and Changes to support systems. It is important that the solution be presented from the viewpoint of the organization receiving the benefit of the solution. The solution detail should clearly point out how issues presented earlier are being resolved by this solution.

Solution Alternatives - Discuss the alternatives to the solution proposed. This must include a discussion about the implications to the organization if this project does not become implemented (the do-nothing scenario).

Costs and Benefits - This section should include an estimate for every anticipated cost of the project. It should also include any ongoing maintenance or administrative costs. Costs may be tangible or intangible – described quantitatively or qualitatively. The benefit section should quantify or qualify those benefits that were identified in the solution detail. Include: cost reductions, revenue increases, improved customer satisfaction, improved employee morale, lower turnover, etc. Costs and benefits may be described in relation to organization affected (customers, development, parts, service, etc.), type of benefit (cost reduction, increased revenue, etc.) and timing of benefit (immediate, first year, future, etc.). Typically a Cost Benefit Analysis (CBA) will include investment appraisal methods (e..g NPV, IRR etc) that support investment decision making.

Implementation Timeline - Depict each major step in the implementation of the solution on a

timeline (project plan or Gantt chart).
Critical Assumptions and Risk Assessment - List all assumptions made. Include assumptions about: the current state of the business, the status quo of organizations, processes and systems that are outside the scope of the project, constants used in cost/benefit analysis, the approval of the business case, etc. Your description should indicate the impact to the solution if the assumptions did not hold true. Discuss the risks of the implementation. Discuss what will happen to the organization if the benefits from the initiative are not realized. Include an assessment of the risks caused by implementation on the ongoing operation of the business. Discuss the steps that will be taken to minimize or mitigate each risk.
SWOT Analysis - This analysis looks at the Strengths, Weaknesses, Opportunities and Threats (SWOT) of the solution being proposed. Demonstrate how the organization will maximize strengths and minimize weaknesses of the solution. Include a discussion of the opportunities now possible because of the solution. Include a means to minimize and prevent threats to the organization caused by the solution.
Conclusions and Recommendations - This should summarize the issues, costs and benefits of the solution. Demonstrate that the financial benefits outweigh the costs by including a financial return on investment analysis.

2 Fragmentation process

Discuss the fragmentation process in relation to the value chain - why did the company arrange for manufacture to take place in other countries? The company had to go and investigate possibilities in China and Poland - compare the two outsourcing locations and evaluate which would be preferred and why.

Globalisation through increased competition forces companies to locate particular operations (activities and resources) in those places where they can be performed most efficiently. Organisations do this by relocating production facilities to other countries or by outsourcing certain activities to companies in other countries.
Theories of international trade seek to explain why trade occurs and how it can benefit the different parties to an exchange. According to Adam Smith (1776) If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it off them. Multinational organisations have had the opportunity to benefit from the comparative advantage of different countries, be they technology driven or factor abundance driven, to reduce the total costs of production, particularly through the ever more popular method of fragmentation (slicing up the value chain) in which different parts (activities) of the production process are located in different countries.
In comparing China with Poland as potential outsourcing partners, we may compare labour costs, transportation costs, taxes, ease of doing business with each, timeliness, quality of work and goods, flexibility etc.

3 Public relations

What is public relations? Evaluate how it may help a company like this. Visit the watershed web site http://www.watershedpr.co.uk/default.html

Public relations (PR) is the practice of managing the flow of information between an organization and the public. PR achieves an organization exposure to their audiences using topics of public interest and news items that do not require direct payment. Because PR places exposure in credible third-party outlets, it offers a third-party legitimacy that advertising does not have. Common activities include speaking at conferences and working with the press. In this case PR can be used to build rapport with sales channel's, customers or investors. Thus, for the Welly Boot Box, starting up it attracts prospects at a cost lower than that obtained through traditional marketing.

4 Disintermediation and e-commerce

Discuss the supply chain and disintermediation - critically evaluate the two options considered by the company: the use of an intermediary (mail order) and direct through e-commerce.

One way of categorising and understanding organizations is based on an analysis of how the organization adds value. Value is essentially what something is worth, the amount customers are willing to pay for a product or service. Added-Value is the difference between the amount customers are willing to pay for a product minus the costs of inputs and transformational activities used to create that product or service (offering). There are three main factors that influence the value equation: input costs (supply-side), transformation costs and the amount the buyer is willing to pay for products or services on the demand side (based on perceived product benefits) relative to competing products. Porter (1985) identified the 'value chain' as a means of analysing an organisation's strategically-relevant activities. Value Chain Analysis helps the organization identify core competencies and distinguish those activities driving competitive advantage. The chain consists of five primary activities and four support activities. The nine activity groups are:
Primary activities:
1. Inbound logistics: materials handling, warehousing, inventory control, transportation;
2. Operations: machine operating, assembly, packaging, testing and maintenance;
3. Outbound logistics: order processing, warehousing, transportation and distribution;
4. Marketing and sales: advertising, promotion, selling, pricing, channel management;
5. Service: installation, servicing, spare part management;
Support activities:
6. Firm infrastructure: general management, planning, finance, legal, investor relations;
7. Human resource management: recruitment, education, promotion, reward systems;
8. Technology development: research & development, IT, product and process development;
9. Procurement: purchasing raw materials, lease properties, supplier contract negotiations.
The value chain concept has been extended beyond individual organizations. An organization's value chain is part of a larger system including the value chains of upstream suppliers and downstream channels and customers. Porter calls this series of value chains the value system. Other scholars may refer to this as a value network or supply chain. ☐ Supplier Value Chain ☐ Firm Value Chain ☐ Channel Value Chain ☐ Buyer Value Chain.
The power of the Internet in enabling SME's to globalise has attracted a great deal of scholarly attention. For small medium enterprise (SMEs), effective use of the Internet can provide a low cost "gateway" to international markets and help overcome many of the barriers or obstacles to internationalisation commonly experienced by such firms. An Internet connection can substantially improve communications with actual and potential customers, suppliers and partners abroad; generate a wealth of information on market trends and developments worldwide; provide an "ear to the ground" on the latest technology and R&D; and be a very powerful international promotion and sales tool. Disintermediation is the process of doing away with 'middlemen' from business transactions. Distribution channels are affected through the process of disintermediation as the Internet makes direct contact between end-users and producers more feasible. This reduces the costs and may increase the profit margin for the producer/ manufacturer. However, the intermediary may serve additional purposes. They may have an established customer base, good marketing, good access to prospects, a good distribution network and business experience.

5 Type of business organisation

What type of business organisation would you use to form the company?

The most common types of business organisation are as follows:
- limited companies
- sole traders
- partnerships
- cooperatives

students should evaluate each option, considering advantages and disadvantages of each

for a detailed review of advantages and disadvantages see Cole and Kelly (2011 chapter 12)

Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.