



**BUSINESS AND MANAGEMENT
CASE STUDY: REACH OUT**

For use in May and November 2011

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

Reach Out

Laura Chan

Laura Chan's life changed dramatically in December 2009 when her three-year-old son, Toby, was diagnosed with autism. Autism affects how a person communicates and interacts with others, and one child in a hundred is affected by the condition. Laura was therefore surprised to find out that, in her country, the government provided very little help to families of children with autism.

- 5 There was no system of free medical support; private therapists could charge up to \$100 per hour for a visit to a newly diagnosed child. Laura was very worried. She knew that she could not afford these charges because of her low income. She felt it was unethical that private sector companies were taking advantage of some families. This could result in some children with autism being excluded from early treatment.
- 10 Through the use of new technology social networking sites such as *Facebook* and *Twitter*, Laura created an informal network of families in the same situation. She created an online support forum where parents could share experiences and exchange information. She started writing a blog, describing her daily successes and difficulties with Toby. By March 2010, her blog received thousands of visits every day. Many families e-mailed Laura to thank her for
- 15 raising awareness of autism or to ask her for advice. Her blog had become a medium for social marketing. Moderating the forum and replying to e-mails was becoming very time-consuming. Laura was not sure how she could keep up with her online activities whilst looking after Toby and working part-time as a supermarket cashier in a nearby town. Then she received a phone call from Neil Johnson.

Neil Johnson

- 20 Neil Johnson previously worked in both the public sector and the private sector as an educational consultant. He was now retired and still acted as an advisor for several public-private partnerships, such as schools and universities. He read Laura's blog and was moved by her story. Neil wanted to help. He could also see the business potential of Laura's blog. Neil and Laura met and realized quickly that they could complement each other.
- 25 They discussed how Laura could become self-employed, work from home on a flexible schedule and use her knowledge and first-hand experience of the needs of families affected by autism. She was passionate and had many ideas, such as involving trainee teachers working with children with autism. Neil had the skills and expertise to set up and manage a business.

Setting up the charity

30 Despite the many problems Neil and Laura faced as a start-up, they decided to create a charity for children with autism called *Reach Out*. Neil insisted *Reach Out* be organized to a professional standard. He prepared a STEEPLE analysis, a SWOT analysis, a business plan, a budget and a simple system for their final accounts. He calculated that the start-up costs would amount to \$10000 in order to convert a bedroom in Laura’s home into an office and to equip it with better computer facilities. Having considered possible sources of finance
35 such as a short-term loan from a bank or a community grant from the local public authorities, Neil eventually decided to donate the \$10000 himself. Laura and Neil would both be employed part-time by *Reach Out* as joint directors with equal responsibility, Laura as “Director – Communication and Networking”, Neil as “Director – Finance and Strategy”. Whereas Laura’s salary would be fixed (\$2000 per month), Neil’s rewards package would be
40 based on a performance-related pay (PRP) basis (a commission of 10% of the total cash receipts). Laura would have the security of a steady income, and Neil liked the financial motivation to make *Reach Out* successful. Both were determined that *Reach Out* would remain a non-profit organization with the primary ethical objective of helping children with autism.

45 *Reach Out* was formally launched on 1 May 2010 with the vision statement: “no child with autism will be left behind”. Laura also wrote a mission statement for *Reach Out*: “to provide online support for families of children with autism and to offer them communication resources at a greatly reduced price”. The first part of the mission statement referred to the popularity of her blog, which she wanted to develop further by adding podcasts and video clips and having a professional-looking web site. The second part of the mission statement referred to
50 a project close to her heart. Communication resources for families of children with autism are very expensive; few companies produce PECS¹ cards and they all charge very high prices. Laura’s goal was to produce and sell PECS cards with the unique selling point (USP) being a much lower price. The use of surplus² to subsidize the PECS cards would make them more affordable to all families. First though, she had to establish the charity and to make it financially sustainable.

Raising revenue

55 *Reach Out* was based on a simple business model that covered costs and allowed the organization to create a surplus. This money would eventually be used to offer communication resources (PECS cards) at a reduced price. A monthly average of \$200 was received from donations by the readers of Laura’s blog, which she donated to *Reach Out*. This was only a small portion of *Reach Out’s* income. Laura had read on a web site that many students training to
60 become school teachers needed experience working with children with autism as part of their qualification. She contacted the local university and created a database of interested students who had studied how to support children with autism. Although they were not qualified therapists, they would be able to help the children and their families. Laura matched the students with local families who had e-mailed Laura asking if she knew of any affordable therapists, qualified
65 or not. Neil was hesitant about the risks of using unqualified staff: he thought it might be unethical.

¹ PECS: Picture Exchange Communication System; a method of using cards with pictures and symbols to communicate with children with autism

² surplus: retained profit (in the case of a charity)

Neil also expressed doubts about legal issues of health and safety, as well as child protection. However, Laura was impatient and pursued her ideas. She insisted that everybody would benefit: the children, the families, the trainee teachers and the charity itself. By the end of May 2010 she had organized for 20 families to receive support from the trainee teachers, so-called “*Reach Out* therapists”. Families were asked to pay \$25 per hour of one-to-one therapy sessions: \$20 was for the salary of the therapist and \$5 was for *Reach Out*. On the basis of 20 hours a month per family, this meant that each family contributed \$100 a month to *Reach Out*. The revenue model worked very well initially with little liaising, mentoring and monitoring of the therapists. *Reach Out’s* six month statement of financial activities (SOFA*) was healthy, with a small surplus.

Andrew Grandin

The initial success of *Reach Out* had surpassed Neil’s and Laura’s expectations. More families were contacting *Reach Out* to ask about their therapist scheme. The number of families asking for support was doubling each month for the first six months. Laura and Neil were delighted with the success as this ensured a revenue of several thousand dollars (Appendix 1) but it was becoming too time-consuming for Laura and Neil to supervise the therapists. They decided to hire a part-time manager who would be responsible for overseeing the scheme and managing the therapists. The scheme manager would start on 1 August 2010 and would be managed by both of them. Though Neil would have to train the new part-time manager in workforce planning, the appointment would allow Neil more time to concentrate on finance and strategy. Laura could focus her energy on promoting the vision of *Reach Out*.

After a number of interviews, Laura and Neil recruited Andrew Grandin at a salary of \$1000 per month. Andrew was quite a character. At the age of ten, he was diagnosed with Asperger’s Syndrome, a well-known form of autism. He was fascinated with trampolines and had gone on to become an Olympic silver medalist. His empathy with the vision of *Reach Out* and his celebrity status had been key factors in his appointment. Neil, however, was concerned that Andrew did not have much experience in working with adults. Due to his condition, Andrew experiences difficulty with some social situations. Even so, Laura was delighted: she was confident that Andrew’s appointment would generate public relations opportunities and goodwill towards *Reach Out*. Most communication between Laura, Neil and Andrew was informal.

After a few weeks with Andrew in the role of part-time manager, a number of complaints were e-mailed to *Reach Out’s* central office. Laura was away on vacation at the time, so Neil had to investigate. He prepared a fishbone diagram to analyse the problem (Appendix 2).

* SOFA: a charity’s equivalent of a profit and loss account

100 The complaints ranged from the punctuality of some therapists, with some not turning up at all, to Andrew failing to confirm appointments and to reply to messages. Neil was worried that these complaints would lead to families withdrawing from the scheme, which would mean a drop in revenue. He confronted Andrew but there were barriers to effective communication. Neil felt that Andrew was not listening, but just giving excuses. Andrew made the following points. Firstly, he argued that although the students were willing to work for \$20 per hour, they needed more flexible working patterns in order to attend lectures at their university.

105 Secondly, many of them had to pay for public transport to go to the therapy sessions. Andrew felt this was unfair. During the confrontation, Neil discovered that Andrew had lied in saying he knew how to use a computer. After a lengthy argument, Neil was left with no option but to walk away and wait for Laura to return.

110 On her return, Neil told Laura about the problems. He wanted to dismiss Andrew and to outsource the therapist scheme management role to an independent freelancer*. Laura, however, did not regard these problems as either serious indicators of students' demotivation or poor performance by Andrew. With regard to Andrew she argued that he could overcome these difficulties with further training and support.

115 Neil had always been impressed by Laura's determination, but was now seeing it as a weakness for *Reach Out*. He was also becoming increasingly irritated by her laissez-faire leadership style. The more he worked with Laura, the more critical he became. He particularly disliked her decision-making methods, which were solely based on her intuition and limited experience. Neil preferred to be more analytical and scientific.

Neil's options to generate further revenue

120 When Laura was away on vacation, Neil identified three options to generate further revenue for *Reach Out*.

Option 1: Modify the pricing structure of the therapist scheme

Reach Out could ask families to pay slightly higher fees (\$30 instead of \$25). This could help remotivate the students, but more importantly this modification would instantly double *Reach Out's* revenue: for each hour of therapy, *Reach Out* would earn \$10 instead of \$5 previously.

* freelancer (or freelance worker): a self-employed person who may work for several employers. Freelancing is very common in fields such as journalism, graphic design, consulting and translating.

Option 2: Develop a family brand for *Reach Out*

125 As the name “*Reach Out*” was already well known regionally, Neil believed that they should take advantage of this reputation and develop a family brand. The brand could cover not only the existing therapist scheme, but also a new portfolio of products including clothes and accessories (such as T-shirts, mugs and computer mouse mats) with the *Reach Out* name and logo. Combining brand development and product development, this option would be expensive, around \$100 000 in total. Neil used a break-even model to determine that it would be a worthwhile investment. They could use their surplus to finance this option. Of course, this meant that the subsidized PECS cards would have to wait.

Option 3: Obtain sponsorship

Sponsorship is a promotional tool very common in sports, leisure and entertainment: sponsors provide funding and, in turn, expect to see their name and logo on the team or at the event they support. Sponsorship is increasingly used in other sectors too, including the world of charities. Neil contacted a well-known multinational pharmaceutical company called *N-Pharma*, which was currently undertaking research into the causes of autism. After seeing *Reach Out*’s business plan, *N-Pharma*, as part of its corporate social responsibility programme, offered to sponsor *Reach Out*, adding to its support for deserving community-based projects. *N-Pharma* would pay a monthly sponsorship fee of \$10 000. In return, *N-Pharma* would place a link from each page of Laura’s blog to its company web site and Laura would promote *N-Pharma*’s research on autism.

Laura’s doubts

When Neil explained to Laura the three options to generate further income for *Reach Out*, she listened attentively. However, none of them appealed to her.

- The first option conflicted with her ethical principle of charging families as little as possible. Laura argued that this 20% increase would be too much for some families, especially in a time of economic recession, and that it would give a poor image of the charity.
- The second option was based on a marketing approach that Laura found inappropriate for the charity. She did not see how marketing objectives could help *Reach Out* achieve its goals. She wanted to sell subsidized PECS cards to help children with autism learn to live independently, and was not interested in brand development and product development to include T-shirts, mugs and computer mouse mats.
- Finally, Laura did not want to be linked to a multinational company whose commitment to corporate social responsibility and the vision of *Reach Out* would be little more than a public relations exercise.

- 155 After discussions with Laura, Neil realized that she did not support any of the options, although she could see some long-term advantages in branding. Laura, however, felt that her control over the charity's future was in jeopardy and she was unsure about the future growth of *Reach Out*. She was concerned that spending the charity's surplus on marketing could damage the credibility of *Reach Out's* vision.
- 160 Although Laura was content with the current therapist scheme and wished to start producing subsidized PECS cards, Neil wanted to pursue the options he suggested. However, rather than increase tension with Laura, Neil decided to agree to her wishes and began conducting market research into the prices of three publishing companies, A, B and C, that were currently selling PECS cards (Appendix 3).

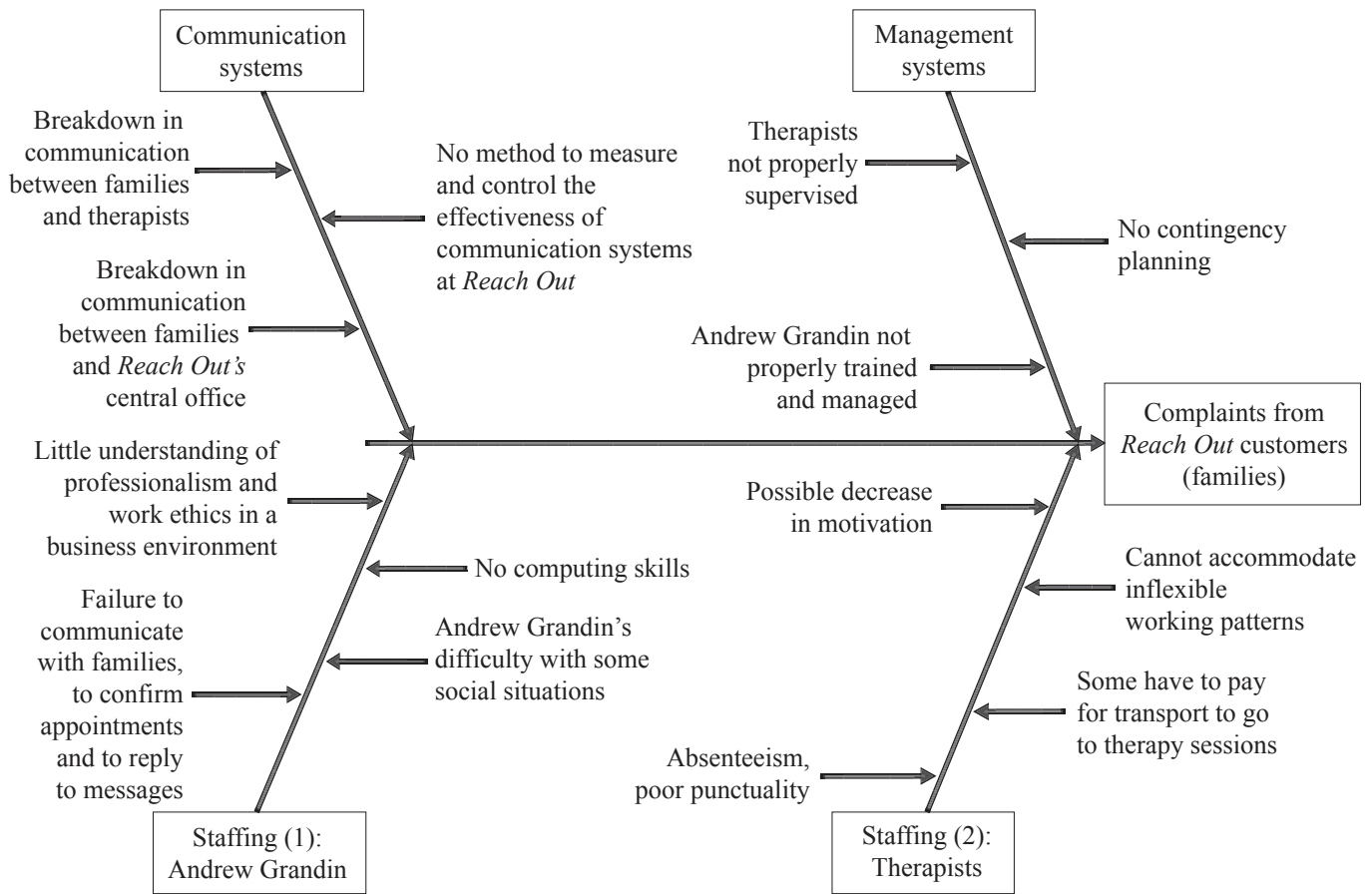
Additional terms not in the Guide

- Sponsorship
- Surplus
- Statement of financial activities (SOFA)

Appendix 1: Extract from *Reach Out's* monthly cash flow (all figures in \$)

	Pre start-up	May 2010	June 2010	July 2010	August 2010
Opening balance (start of month)	0	200	-320	960	5840
Cash receipts					
Commission from therapist scheme	0	2000	4000	8000	16000
Sales of subsidized PECS cards	0	0	0	0	0
Charity contributions (donations)	200	200	200	200	200
Start-up funding (Neil's donation)	10000	0	0	0	0
Total cash receipts	10200	2200	4200	8200	16200
Cash paid out (expenses)					
Neil's salary (10 % of cash receipts)	0	220	420	820	1620
Laura's salary	0	2000	2000	2000	2000
Andrew's salary	0	0	0	0	1000
Direct costs	0	350	350	350	350
Indirect costs	0	150	150	150	150
Production of subsidized PECS cards	0	0	0	0	0
Start-up cost (bedroom conversion, office and computer facilities)	10000	0	0	0	0
Total cash paid out	10000	2720	2920	3320	5120
Net cash flow	200	-520	1280	4880	11080
Closing balance (end of month)	200	-320	960	5840	16920

Appendix 2: Neil’s fishbone diagram



Appendix 3: Results from Neil’s market research into the PECS cards market

Sales price of a pack of 50 PECS cards	
Company A	\$120
Company B	\$130
Company C	\$115

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