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# AS BUSINESS

Paper 2 Business 2

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Source 1: Mind Candy



**Source 1 Mind Candy****Mind Candy Ltd**

Mind Candy Ltd was formed by Michael Acton Smith in 2004, using money made from a successful online gift shopping site and venture capital provided by a company called SPARK Ventures. SPARK Ventures is still a significant shareholder of Mind Candy Ltd. Mind Candy Ltd's first product was a virtual puzzle game – Perplex City. By 2007 the game's success had attracted £4.5m extra venture capital from several providers including SPARK Ventures, intended to fund further growth for the game.	1 5
However, further growth for Perplex City did not happen, despite spending nearly all the additional venture capital. With just £600,000 left Acton Smith persuaded his fellow directors to spend what was left on the launch of his new product – Moshi Monsters.	10
The Moshi Monsters' website allows children (mainly aged 6 to 12) to adopt and customise their own cute monster character. The monster travels around a virtual world playing puzzle games. Educational elements allow users to earn 'Rox' (virtual money) which they can spend on decorating their monster's home. The Moshi Monsters' website also allows users to send short messages to other players – a kind of social networking for kids. The website is accessible and playable free of charge. Extra areas and functions, such as sending virtual gifts to other players and adding rooms to a monster's house, require a £4.95 monthly subscription.	15
Mind Candy Ltd has always been careful to try to avoid unethical behavior when marketing products to children that parents have to pay for. Mind Candy Ltd avoids tempting children to buy additional resources and incur extra charges whilst playing the games. Other providers of online games have been accused of tricking children into having to make additional payments, but Mind Candy Ltd has avoided such criticism. It has also donated several hundred thousand pounds to children's charities in recent years.	20 25
From slow beginnings in 2007, the Moshi Monsters' site's popularity exploded as it became the talking point of primary school playgrounds worldwide. By 2011, 50 million users had registered on the site and a craze was born. As usual with web-based games, turning Moshi Monsters' popularity into revenue required imagination and diversification. A wide range of products were produced using the Moshi Monsters' name and logo. Mind Candy Ltd decided to remain a virtual entertainment business, and chose to outsource the manufacture of the products. Suppliers around the world were contracted to produce a wide range of Moshi Monsters' merchandise including trading cards, cuddly toys, lunchboxes and a magazine that sold half a million copies in the UK at its 2011 peak. The site's pop star monsters, Lady Googoo and Dustbin Beaver featured on a Number 1 CD release. This outsourced merchandising acts as a way of extending the life cycle of the Moshi Monsters' brand.	30 35



Substantial extra investment will be needed to keep developing new titles. Some analysts have suggested that Mind Candy Ltd should become a public limited company to help raise more finance. However, Mind Candy Ltd's directors remain keen to manage the business in a way that preserves its key values, and believe that remaining a private limited company is the best way of doing this. 40

2012 saw the Moshi Monsters' brand sales peaking but also presented new challenges. As is common in technology-based industries, the rate of change in the market was pushing Mind Candy Ltd to keep developing and work started on generating Moshi Monsters' apps for smartphones and tablets. Although Moshi Monsters kept generating sales, these were falling and staff at Mind Candy Ltd began searching for new product ideas. 45  
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Working at Mind Candy Ltd is unusual. Motivational techniques are mainly non-financial (see **Figure 1**). These techniques are at the heart of what Mind Candy Ltd wants from its staff and how it treats its staff – giving them opportunities to be as creative as possible whether generating new ideas for games or producing the computer coding that makes the games work. The quotes below are from Mind Candy Ltd staff: 55

- “A uniquely talented staff, working collaboratively, trying to change the world, where staff have ownership of the projects they are working on”
- “As soon as you walk in the door there's this crazy environment: we want to be a company that changes the world; we want people who want to conquer the world, who are not afraid of ambiguous situations, who are very energetic and passionate about creating entertainment for the next generation.” 60

By 2014, despite Moshi Monsters' slowing growth, Mind Candy Ltd's small and loyal management team were optimistic about the future. New products had been developed, their biggest launch was a new app-based game called World of Warriors. The game's position in the top 50 titles of Apple's App Store had led industry analysts to estimate its daily revenue to be £60,000. Meanwhile, Mind Candy Ltd's PopJam, a photo-sharing social app for children was receiving encouraging reviews. Mind Candy's Chief Financial Officer, Davinia Knowles, explained: 65  
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“If you look at Mind Candy Ltd, we have the success of Moshi Monsters, which is going to live on. We are creating new products in terms of World of Warriors, but we are also building PopJam, which will be a distribution platform that sits underneath it all; so rather than having to be a business that has to create hit after hit after hit, it will take away some of that boom-or-bust nature of what we're building.” 75



**Figure 1 Mind Candy Ltd's seven key values aimed at motivating staff****Figure 2 Financial data for Mind Candy Ltd**

	2011	2012	2013
Sales revenue (£m)	28.9	46.9	30.6
Staff costs (£m)	4.4	9.2	11.9
Operating profit (£m)	7.4	8.1	(2.2)

**Figure 3 Data for potential key ring supplier**

Variable cost per key ring	30p
Fixed costs per month	£12,800
Selling price (paid by Mind Candy Ltd)	50p

**Figure 4 Staffing details for Mind Candy Ltd as at beginning of 2014**

Role	Number of staff
Director	2
Administrative staff	62
Development staff	144

**END OF SOURCE**