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INSERT **1 hour 30 minutes**

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INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **4** pages. Blank pages are indicated.

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The cotton bag enterprise

The background

Kelvin and Shelo are in their final year at school. They are both studying enterprise. Students in Kelvin and Shelo's class are expected to run an enterprise in small groups. The class will be selling their goods or services at the Winter Fair in two months' time.

Other students were discussing who to work with, but Kelvin and Shelo quickly chose to work together. They thought that they would be a strong team as they had been friends for a long time.

The idea

Kelvin and Shelo had thought about selling cakes. Cakes had sold well at previous Winter Fairs and three other groups of students had already chosen that idea. From their enterprise lessons, Kelvin and Shelo had learnt that selling in such a competitive market was a risk. They realised that to make as much profit as possible they would need a more innovative good or service.

They thought of many creative ideas and wrote them down. Most of these ideas were already going to be used by other enterprise groups at the Winter Fair. However, Kelvin was interested in cartoons and suggested a very different idea, printing cartoon designs onto cotton bags. Shelo agreed that this could be a simple and profitable product for their enterprise, especially if they copied the cartoon designs from the internet.

The planning

With the idea agreed, the friends had divided the work. They had written everything down in an action plan and later met to discuss the tasks that each had completed. Kelvin had completed the market research and Shelo had completed the financial records, including a budget.

At the end of the first month, Kelvin and Shelo met with their enterprise teacher.

The meeting

The teacher liked the cotton bag idea and was impressed with the work the friends had completed. However, he was not pleased that all the cartoon designs had been copied from the internet. The teacher explained that this was against copyright laws and regulations. The companies who owned the cartoon designs expected to be paid if people used the designs. It would be illegal to use them without permission. The school could not allow the cotton bags to be sold at the Winter Fair.

Although they were not allowed to sell the cotton bags with those designs, Kelvin and Shelo were determined to continue. They wanted to persevere with this product. They had to adapt the designs. Kelvin paid an art student $14 to produce some original designs they could use. He also agreed to give the art student $1 for each cotton bag sold.

The marketing

Kelvin and Shelo also started to plan their marketing campaign. They decided to produce posters and leaflets to give to every class in the school. The school art department agreed to design and print the posters and leaflets for $18. Kelvin and Shelo would provide the information to include on the leaflets.

Shelo suggested that they state on their leaflet that they would give 25% of their profit to charity. She thought that this would attract customers. Kelvin did not agree. He thought they should keep all of the profit for themselves.

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The financial information

With the increased costs, Shelo was not certain that they would have enough funds. She wrote a revised budget, shown in Fig. 1.

Revised budget for cotton bag enterprise

INCOME	**($)**
Revenue	
Revenue per cotton bag	11

EXPENDITURE	**($)**
Fixed costs	
Marketing materials	18
Designs	14
Variable costs per cotton bag	
Cotton bag	2
Printing materials	1
Payment to the art student	1

Fig. 1

With their personal savings, the friends could only afford to make three cotton bags, which would not be enough to allow them to break-even. They each negotiated with their parents for a loan to buy more materials to make the cotton bags.

With a month to go before the Winter Fair, Kelvin and Shelo were pleased with their work so far. They believed that they just had to make the cotton bags and then collect the profit. Kelvin thought that he might even be able to continue the enterprise in the future.

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