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ENTERPRISE **0454/11**

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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. Any blank pages are indicated.

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The ecommerce fashion store

The background

College students Lin and Rachel, both aged 21, have a blog which they use to post fashion news and ideas. To earn some extra money, they decided to sell clothes through a link on their blog. They negotiated a US$2000 loan from their parents to enable them to buy clothes to sell online.

Lin and Rachel started selling these clothes on an ecommerce platform linked to their blog. Their enterprise quickly became popular. Lin decided to leave college to manage the enterprise full-time. However, Rachel was not sure that the enterprise would continue to earn money in the long term. She therefore decided to continue her studies, assisting with the enterprise after college and at weekends.

The idea

Although the clothes on the ecommerce platform were popular, customer feedback has identified some issues. Several customers stated that the clothes often need altering to fit better. Rachel thinks that adding a clothing alteration service to their enterprise would improve customer satisfaction. Customers could pay extra for this. She explains this idea to Lin.

Lin agrees that this service could be a good idea, and that it may even be profitable. However, she thinks that they should be more innovative. She suggests that they produce their own range of quality clothes. Rachel can see the benefits of this, but it would be a significant change to their enterprise. Neither she or Lin have the practical skills to design and manufacture clothes. Producing their own range of quality clothes would also involve many other costs.

Rachel is also concerned that there may be many regulations which cover the manufacture of clothes. She thought that Lin's idea was too risky. Lin disagreed. They had already overcome the risks of starting an ecommerce enterprise and were complying with all current government regulations.

The friends cannot agree on what to do next. Rachel suggests that they research both ideas before meeting again to discuss each option. Once they have decided, she thinks that they should discuss it with an enterprise consultant.

The research

Rachel started her research by analysing the customer comments and complaints. This helped her to identify the reasons customers were dissatisfied with the clothes. From this, she listed a range of possible clothing alterations. Next, she researched existing clothing alteration enterprises which helped her to identify the prices that could be charged.

Lin interviewed a fashion designer who explained the skills and tools needed to design and make a range of clothes. The designer also provided Lin with an estimate of the time and costs involved in this process. Lin then used the internet to find a fully equipped workshop that would be suitable for manufacturing clothes.

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The meeting

At their meeting, Lin and Rachel discussed each option. Lin estimated that a designer would need to be employed to design the new clothes range. Two tailors would be employed to manufacture the clothes. Lin and Rachel put the expected costs of each option into a table as shown in Table 1.

Table 1

Option 1: Clothing alterations		**Option 2: Producing their own range of clothes**	
	Cost US$ per month		**Cost US$ per month**
Wages for employing one tailor	400	Wages for employing one designer	1000
		Total wages for employing two tailors	800
		Rent of workshop	100
		Insurance for workshop	25

The decision

Option 2 would allow the enterprise to better adapt to any future changing needs or wants in their market. However, if they choose this option, Rachel will need to give up her college course and work full-time in their enterprise. Additionally, Lin and Rachel do not have enough retained profit to cover all the costs of this potentially profitable option.

After a long discussion, Lin and Rachel cannot decide what to do. Rachel thinks that it would be a good idea to write detailed reports on each option. As their ecommerce enterprise is heavily impacted by social and technological change, Rachel thinks the reports should include a PEST analysis. The reports could then be presented to the enterprise consultant for further advice. Although Lin says she agrees with this plan, her negative body language suggests otherwise.

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