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ENTERPRISE **0454/11**

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INSERT **1 hour 30 minutes**

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INSTRUCTIONS

- 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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V&R T-Shirt Enterprise

The background

Virgil and his sister, Rinsola, have inherited a factory from their grandparents. The factory produces clothing which it sells to retailers. Although it had been successful, a lack of innovation means that the factory is now finding it difficult to make a profit. If Virgil and Rinsola cannot find a way to improve the profits, they will have to sell the factory. They believe that selling it would have negative consequences for stakeholders.

The idea

While watching their soccer team play, Rinsola had an idea. She noticed that some people were wearing clothing printed with the team's logo. She wondered if the factory could make copies of the players' shirts to sell directly to supporters.

Virgil explained that although this may be a good idea, it was both illegal and unethical. He told Rinsola that only enterprises which had been given legal permission could use the team's logo on any product. If Virgil and Rinsola made copies of the players' shirts, they could be asked to pay a fine. If they continued to make the players' shirts, their factory could be closed.

Virgil thought that selling directly to supporters would be costly. He has a friend who draws cartoons for a newspaper. Virgil believed that these original cartoons could be printed onto t-shirts. He thought that the factory could produce such printed t-shirts. Virgil and Rinsola could then sell them directly to retailers.

The research

Rinsola decided that they should complete some research to see if Virgil's idea was a realistic one. They decided that Rinsola would research the cost of printing t-shirts and Virgil would contact clothing retailers to find out if they would buy them.

The next step was to ask Virgil's friend for permission to use his cartoons on t-shirts. Virgil produced a sample t-shirt to show to his friend. The friend agreed to allow Virgil to use some of his designs for a payment of US$2000.

Virgil then explained his idea to some local clothing retailers. He showed them the sample t-shirt and some of the other cartoon drawings. The retailers liked the sample and the other drawings. They were willing to purchase the t-shirts at a price between US$6 and US$8.

The costs

Rinsola produced a list of costs for producing the t-shirts. She hoped that the costs would be quite low as the factory already had printing equipment that could be used for t-shirt production.

Rinsola estimated that to produce 500 t-shirts, the costs would be:

- fabric and thread – US$1000
- fabric dye and packaging – US$500

There would be an additional fixed cost of US$12 500 per year for wages.

Rinsola calculated the workers could produce five hundred t-shirts in one week.

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Rinsola decided to present the information as a cost budget to make the research clearer for Virgil. This is shown in Fig. 1.

Cost budget for the t-shirt enterprise	
Variable costs (US$)	
Fabric and thread	1000 for 500 t-shirts
Fabric dye and packaging	500 for 500 t-shirts
Fixed costs (US$)	
Payment for cartoons	2000
Total wages for the year	12500

Fig. 1

The planning

The research helped Virgil and Rinsola decide that they should sell each t-shirt for US$6.

Rinsola and Virgil did not have enough savings to pay all the costs for the t-shirt enterprise. They would need to identify a source of finance. Rinsola knew that it would be easier to gain finance if they prepared a business plan. Virgil agreed that a business plan would be helpful before they started production of the t-shirts. However, as new entrepreneurs, neither Rinsola or Virgil understood how to write an effective business plan.

Virgil suggested that they ask for advice to ensure their business plan was effective. Rinsola agreed. This was an important document and they should make sure that it included all sections. Virgil also wanted to make sure the factory was prepared for any future opportunities and risks. He thought they should seek some further help and support.

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