A-level
BUSINESS

Paper 3 Business 3

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Source 1: Hopps London

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Hopps London

Jack Hopper started his business, Hopps Clothing Ltd, a year ago. Although he enjoyed the £25 000 salary he was earning working for a bank, he was frustrated by the routine work and was eager to test his entrepreneurial skills. With an eye for an opportunity, Jack took his interest in fashion and turned it into a business which he would run in his spare time. Hopps Clothing Ltd produces a small range of clothing, reflecting Jack's interest in 'urban style' clothing and accessories.

Jack's first attempt at a range of clothing consisted of three items – caps, beanie hats and T-shirts featuring his own Hopps London logo. Information on the costs and prices of these items is shown in **Appendix A**. Still living with his parents, Jack used their house and garage as his storage space and his bedroom as an office. This kept his fixed costs to a minimum.

As a new, small clothing brand, Jack had two distribution options:

- sell online only through his own website
- sell through retailers.

Jack needed to find a way to distribute his clothing to consumers. Finding a retailer that was interested in selling his clothes was difficult. He did receive a proposal from Debenhams, who demanded exclusive distribution rights and expected high retail margins, as shown in **Appendix A**. Jack felt that selling through his own website allowed better targeting of the 15–30 year–olds that made up his target market.

As a start-up business Jack found it hard to find manufacturers willing to produce the small batches he wanted to order. He did find a supplier who was willing to produce his designs in batches of no fewer than 200 units for each design. For the T-shirts, Jack ordered a total of 200 in a range of sizes, following advice from the supplier on which would be likely to sell best. As Jack's was a new business, the supplier was unwilling to offer credit, so Jack had to use his savings and an overdraft to pay for all the stock in advance. Once his supplier had delivered, Jack's parents' house was suddenly full of cardboard boxes containing products that Jack now had to sell. Jack's parents were not happy.

Jack knew that in order to build his brand, promotion would be critical in such a crowded market. His strategy used social media. Instagram was his preferred platform. He initially used friends, and even himself, to model his clothing. Sales did not happen as quickly as he had hoped. Chatting to other entrepreneurs, Jack found that celebrity endorsement can be critical if using social media. Jack used several 'lesser known' celebrity endorsements to generate sales – as major stars with thousands of followers charged too much for an endorsement. In his first year Jack spent a total of £1000 on social media. The items shown in the Instagram posts sold well. Jack had sold out of the most popular sizes and colours within a couple of weeks of each post. It took the rest of the year to sell the rest of his stock – and therefore return Jack's bank balance to positive figures.

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Planning a new range   40

For his next range of clothing, Jack has decided to only produce T-shirts, themed
around famous brands of his childhood. He plans to have the full range of designs
manufactured and ready to sell at Crepe City, a major urban footwear and fashion fair in
London, which takes place in 25 weeks' time. Jack plans to use network analysis to
help him manage the process of getting everything ready in time for the launch.   45
Appendix B shows the activities Jack needs to complete before launching the new
range, and the network diagram he constructed. Since constructing the diagram, Jack's
designer has told him it will probably take 5 weeks to digitalise his new designs, while
the website re-design is likely to take 14 weeks.

The future   50

Jack has really enjoyed starting his own business. He would love to turn it into a full-
time job. However, he is not willing to do so unless he can earn the same amount of
profit from the business as his salary at the bank.

If Jack quits his job, he plans to pursue a 3-year growth strategy involving:

- recruiting eight regional salespeople covering the whole of the UK to visit   55
  retailers
- recruiting a full-time website administrator
- recruiting a specialist digital marketing director
- renting a storage unit for inventory
- increasing his annual marketing budget.   60

In addition to carefully monitoring the work of his new recruits, Jack would spend time
visiting potential suppliers, as well as working on new designs for clothing and
managing the business's inventory and finances.

Jack recognises that the business would need to grow rapidly to achieve his objective of
£25 000 profit but is concerned by the problems that growth would bring. However, he   65
has unshakeable faith in the brand, and his designs, and his bank job is not getting any
more interesting.

Appendix A Financial data for Hopps Clothing Ltd last year

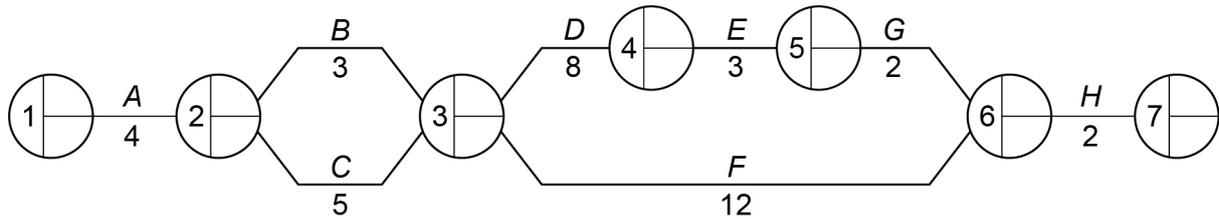|	Cost per unit – paid by Jack to his supplier (£)	Price that Debenhams offered to pay Hopps Clothing Ltd (£)	Retail selling price (£)
T-shirts	9	15	24
Caps	7	12	20
Beanie hats	7	10	16

Other costs incurred:
- marketing costs of £1000
- £10 per month website fee
- bank account fee £10 per month.

Appendix B

	Activity	Jack's original estimated duration (weeks)
A	Jack produces designs	4
B	Designer digitalises designs	3
C	Jack arranges a supplier	5
D	Manufacturing	8
E	Arrange and execute photoshoot for social media campaign	3
F	Website re-design	12
G	Social media campaign runs	2
H	Final preparations for product launch event at Crepe City	2

Source: Jack's own estimates

Appendix C

Forecasts for next year if Jack runs the business full time

Item	Expected annual online sales volume	Expected online selling price (£)	Expected annual sales volume through retailers	Expected price retailers will pay Jack (£)
T-shirts	2000	24	33 000	15

Additional information for next year if Jack runs the business full time:
Total fixed costs = £200,000
Variable cost per unit = £9

END OF SOURCES