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# BUSINESS PLAN FOR A NEW ONLINE CLOTHING STORE

Case: The Closet

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## Business plan for a new online clothing store

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## ABSTRACT

This thesis copes with finding a gap in the Finnish clothing market and fashion industry for the start-up company that the author is founding; The Closet. Based on the findings, a business idea is developed and a business plan is completed.

Even though the business plan is an essential part of this thesis and the study, this thesis focuses on the overall process of developing the business idea instead of the implementation of the business plan.

To analyze better the overall situation in China and Finland in the theoretical framework, theories like the PESTEL Analysis and the SWOT Analysis is used to figure out the Strengths, Weaknesses, Opportunities and Threats of these both countries.

The actual business plan is created accordingly using the Hoffren Business Idea Model, with the focus on the market need, image, product, target group, mode of operations and resources.

The research method used in this thesis is qualitative and approach is deductive. Sources used in the gathering of the research data for the theoretical part are published sources such as articles, literature, journals and information gathered from multiple Internet sources.

Keywords: business idea, start-up business, business planning, fashion industry

# Lahden ammattikorkeakoulu

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## TIVISTELMÄ

Opinnäytetyö tutkii mahdollisen markkinaraon löytämistä Suomen muotialalta kirjoittajan tulevaisuudessa perustettavalle The Closet – yritykselle. Löydosten perusteella parannellaan liikeideaa ja kehitetään liiketoimintasuunnitelma. Opinnäytetyö keskittyy liikeidean kehittämisperiaatteisiin, vaikka itse liiketoimintasuunnitelma on oleellinen osa tutkimusta.

Analysoidakseen paremmin Kiinaa ja Suomea teoreettisessa viitekehysessä, työkaluna analyysissä käytetään PESTEL ja SWOT malleja. SWOT malli kertoo osapuolien vahvuudet, heikkoudet, mahdollisuudet ja uhat.

Itse liiketoimintasuunnitelmassa käytetään Hoffrenin liikeideamallia, jossa keskitytään tarpeeseen, imagoon, tuotteeseen, asiakasryhmiin, toimintatapaan ja voimavaroihin.

Opinnäytetyössä käytetään laadullista tutkimusmenetelmää ja lähestymistapa on deduktivinen. Teoreettisen osion tutkimusaineiston lähteenä käytetään julkaisuja materiaaleja, kuten artikkeleita, kirjallisuutta ja luotettavia Internet lähteitä.

Avainsanat: liikeidea, yrityksen perustaminen, liiketoimintasuunnittelu, muotiala

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## 1 INTRODUCTION

### 1.1 Background

When the time came to make a thesis that would in some way summarize a lot of things that the author had learned during the past few years of her schooling, the author had her work cut out for her. Choosing a topic that would be interesting and in some way current was easy to the author, fashion.

The author's lifelong passion concerning clothes and accessories made it easier to choose a topic that would keep the authors interest and focus on the making of the thesis. Having an obsession over clothes is not that much fun in Finland when knowing the high price level of pretty much everything and low wages. The author's interest in shopping drove her to the international world of Ebay and buying these kinds of goods online. When realizing the affordable prices, especially in China, of these kinds of goods and convenient and easy access to them, it is easy to be hooked right away and the saying of "going shopping" just got a new, more affordable meaning in real life.

Being an entrepreneur in Finland hasn't always been on top of the list career wise for the author, but the good possibility of succeeding on a field that is so close to the heart and the idea of being your own boss makes it all sounds too good to pass on without trying. The knowledge of what women might just like to buy is already there after many years of experience working in different clothing stores and the possibility to co-operate with people from different countries makes the business idea even more tempting to pursue. The high price level of clothing in Finland and on the other hand the low manufacturing costs of clothing in China makes this cooperation worthwhile, at least on paper.

### 1.2 Objectives and Research Questions

The main objective of this thesis is to research all factors that go with starting a business in Finland with merchandise that will come from China and by this research, it will be possible to see if it would be profitable for the author to start a business like this.

The business plan, which in this case, is a crucial part of the thesis, will tell if there is a market place and a good possibility of survival for this kind of business. With all the results that will appear in the making of this thesis, the author will know how to proceed with this business idea and how to improve it. In order to figure the above mentioned things out, the author has listed a few research questions:

- What is the target market for the fashion online store?
- What is the appropriate target group for this kind of fashion online store?
- How to advertise this kind of store and make it different from other similar sites?
- What kind of equity would be needed in the start-up of this company?
- What kind of products will the store have and how will the author find the right manufacturer/retailer?

### 1.3 Limitations

Even though the company is started in Finland, but since it is an online company, the author would like to make it international almost right away with the possibility of getting customers from other Nordic countries. With that said, the author has to take into consideration also the possible competition that comes from those countries. The thesis will not focus on any other possible customers than the ones that are in the researched target groups. Manufacturing of the goods that will be sold in the store will happen in China because of their cheap manufacturing and labor costs, so no other Asian countries will be taken into consideration. Even though making products in China is cheap, all necessary customs fees and shipping costs for large amounts that come from China have to be taken into consideration.

#### 1.4 Theoretical Framework

The authors' subject of the thesis relies entirely on the planning of the business and different models of business plan.

#### 1.5 Research Method and Data Collection

It can be seen from the content of this thesis that the research approach is deductive and the method is qualitative. Sources used in the gathering of the research data for the theoretical part are published sources such as articles, literature, journals and information gathered from multiple Internet sources.

#### 1.6 Thesis Structure

The structure of the thesis is as follows:

1. Introduction
2. Business planning and distribution
3. From China to Finland
4. Business plan: The Closet
5. Conclusion
6. Summary

The thesis is basically divided into two parts; chapter's two and three are the theoretical part and the business plan, chapter four, is the empirical part. The author starts with explaining the processes of starting a business and making a successful business plan and about the distribution of the products. Chapter 3 tells about the dynamics between China and Finland; products that are manufactured in China, shipped to Finland where they will be sent to wherever the end customers are. In this chapter all parts of the co-operation, including the most common problems, will be taken into account.

The empirical part of the thesis, chapter 4, shows the business plan for the company and the main obstacles that companies face every day when promoting their products to the consumers and by that the author means marketing. Chapter 5 will tell of all of the findings and results and if the business plan is a go or a no go. Chapter 6 summarizes the whole thesis.

## 2 BUSINESS PLANNING & DISTRIBUTION

In this chapter the author will explain the basic steps of starting a business and about the tools that are needed in establishing a proper business. The second part of this chapter focuses on the distribution.

### 2.1 Business Idea

It is without saying clear that without an idea, a real life successful business will not be accomplished. It all starts with an idea and not just any idea, it has to have certain characteristics for it to be worthwhile pursuing into a business.

McKinsey (McKinsey& Company 2000, 37) lists 5 crucial characteristics that a good business idea has to consist:

- It has to be fulfilling for the needs of the customer which in other words means a problem solver
- It has to be innovative
- It has to be unique
- It has to be clearly focused
- It has to be profitable, if not right away then in the long run

In most cases the idea is presented first to the investor and therefore it has to be not only extremely convincing but also taking the investor and the customer in mind, a good way to call it would be a decision support document that according to McKinsey (McKinsey& Company 2000) emphasis three things:

1. Customer benefit - Since the key thing to a marketing success is to satisfy the end users aka customer's need, the product has to describe clearly what needs or problems it will take care of.
2. Market – It is without saying clear that a business idea has to be accepted by the market before it benefits anyone and makes any kind of profit.

Therefore, a good business idea has to show; the size of the market for the offered product or service, the group it is targeted to and how it's different from other similar products or services.

3. Revenue – profitability in the long run. The idea has to show the possible revenue that can be gotten from it and how it will be earned.

## 2.2 Business Planning

A good business idea will never get to be a successful real life business without proper planning. Proper business planning ensures that the business runs efficiently and that everything works effectively.

A good and comprehensive business plan consists of proper planning of all kinds of working and operational actions, different investments and resources that are needed because of the personnel.

McKinsey (McKinsey& Company 2000) explains the five factors that the investors, strategic customers and the end users aka possible customers expect from a good business plan and why it should be done in the first place:

- The business plan forces the founders of the business to go through the whole idea of the business in a detailed way.
- If there are any gaps or errors in the business idea and the execution of it, the business plan helps to fill and correct those errors effectively and in a clear structured way.
- The business plan is a way for the business partners to communicate with each other.
- The business plan lists all the required resources that are needed and reveals the possible holes in the plan.

- A well-made business plan gives the business partners a free trial run to see if the idea even works. In this way, when it's only a rehearsal of the real thing, no harm will be done to anyone if the idea turns out to be a complete fiasco.

The right way of structuring a business plan is crucial for the partners and possible future investors for them to clearly understand the entire concept of the business idea.

McKinsey (McKinsey& Company 2000) explains how a business plan is structured. It all starts with an executive summary that is a brief explanation of the business, and then comes the convincing description of the product or service that sells itself to the investor.

A presentation of the team that is behind the building of the business since usually always the team is the most critical factor when it comes to the success of the business. This is the particular part where the investors pay the most attention to. After the presentation of the team comes the time to explain the marketing aspects, which include a clear description of the price of the service or product, sales and distribution. Targeting customer segments and information about the market are also crucial. The production concept which includes details about the manufacturing and outsourcing are also information that is very important to the investors. Then comes the schedule of the implementation and realization milestones. Possible risks are also good to list and give an overall overview of the financial consequences. To end the whole well-made and comprehensive business plan, all financing must be explained: required investments, expectations of return on capital (ROC) for investors, the balance sheet, P&L account and cash flow.

## 2.3 Implementation of a Business Plan

Putting a business together to work in reality and turning it into a successful business, it needs a functional business plan that has to be ready to launch and be operationalized. The business plan makes the foundation for the implementation strategy. A successful implementation consists of four key steps:

1. Define activities – In order to know and stay in the budget and business ideology, you must know which activities you want to implement, for example marketing. A well put plan will make it easier to control all kinds of costs, timelines etc.
2. Map processes to activities – Make sure that all of the implementation processes are well and clearly defined and written down, taken into consideration the possible risks and activity based costs that need to be in the overall implementation plan structure. All the stakeholders need to be aware of the project implementation framework and the compiled schedule. Since the stakes are high, nothing should be left to chance.
3. Measure outcomes – the project framework needs to be well planned and structured to make sure that the final outcomes match the expectations, timelines will be kept and staying within the budget.
4. Governance framework – Things like who is responsible for all of the actions that are done in the implementation plan and knowledge of the touch points should be managed through framework or a governance board.

Delays that may come from internal conflicts will hurt the finances and the costs of a delayed entry to the market will have tangible and intangible issues. Issues need to be resolved right away by the entrepreneur since it's his/her business idea and business that are at stake.

## 2.4 Marketing mix - Four P's

In the second part of this chapter the author focuses on the marketing mix the four P's and in particular the distribution.

Marketing mix consists of four P's; product, price, promotion and place (distribution). When marketers are determining a brand's or a products offer, marketing mix is a crucial tool. In marketing that covers service, the four P's are expanded even up to eight P's to cover all of the different sides of services. (Marketing mix 2011.)

FIGURE 1. All four components of the marketing mix (Business-Fundas 2011)



Product - It can be either a tangible product or an intangible service, either way the main purpose of it is to satisfy all needs and demands set by the consumer.

A tangible good is a product that you can actually see and touch also known as having a physical existence.

These items may be as simple as like basic consumer goods like for example soap or toothpaste or they can also be classified as consumer durables like Ipads or watches. A typical example of a mass-produced good is a disposable razor and a mass-produced service is for example a computer operating system. It is clear that everything in life has its own life-cycle, even every product is a subject to that, starting with a growth phase, and then the maturity phase and eventually since the sales will fall the period of decline comes. Before doing any kind of marketing plans for a product the marketers have to do accurate and precise research on the length of that particular products life-cycle and take into consideration and try to predict different challenges that may come up as the product moves. Product development strategies must also be taken into consideration by the marketer.

(Marketing mix 2011)

Price - As it says itself, it is simply the amount of money that the customer pays for a certain product or service. The price of a product is important since it specifies the profit that the company gets from the sales of the product and if it gets any. In pricing, the marketer should take into consideration also the other factors of the marketing mix. There are three basic strategies of pricing:

- Market skimming pricing is where the producer sets a fairly high price for a high-end product and after the maximum amount of revenue has been received before the competitors come up with substitute products, the producer lowers significantly the price of the product in order to get the low-end customers as well and affect and cut down the sales of copycat competitors. (Business dictionary 2014)

- Market penetration pricing is a way to achieve relatively fast a high volume of sales and deep market penetration for a new product. In this pricing method the price of the product is pretty low and promoted to the maximum. (Business dictionary 2014)

-Neutral pricing is the most common way of pricing. Products with neutral pricing attract customers that are relatively indifferent between your product and the competitor's product after taking into consideration the price, all product features and benefits. (Entrepreneur 2012)

Promotion - This represents all the ways that a marketer uses to bring awareness to the product and promote the benefits of the product to the target customers.

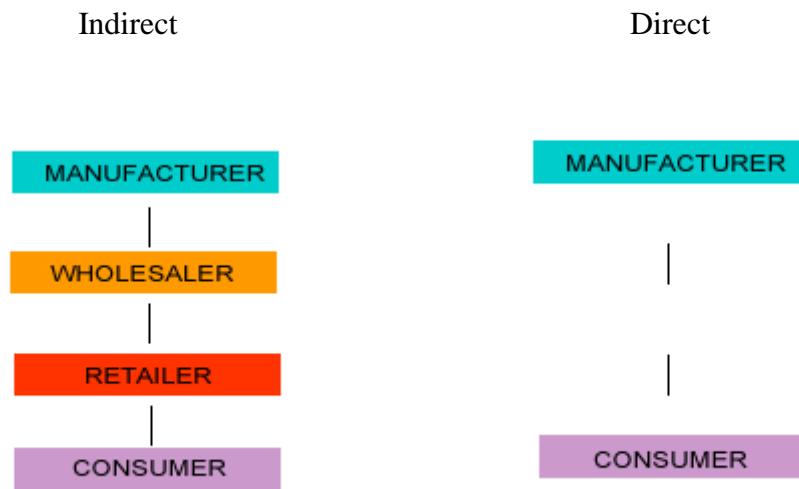
Promotion can be divided to four parts: advertising, PR (public relations), personal selling and sales promotion. No matter what the product or service is, the sales personnel play a huge role in the promotion part of the product. (Business-Fundas 2011.)

## 2.5 Distribution (Place)

The location of a product or service is crucial since usually when having the same particular product in many different places, the customer chooses the one that is most convenient for him/her, taking into consideration the price, shipping costs (if an online store), other possible benefits and just being at the right place at the right time. The last P of the marketing mix is place which can also be called distribution. Place is the location/ distribution channel where the products or services go from the manufacturer or service provider to the end customer or user. These places may be a physical store for example a department store, mall or a grocery store or a store that is based on the Internet. (Marketing mix – 4 P's 2014.)

If the company's goal is to meet all of its marketing objectives, the marketing has to be on top of its game, effective and efficient. When a company starts to plan its marketing for a certain product, it has to decide which distribution channel to use. There are two ways to distribute a product; the indirect distribution and the direct distribution.

FIGURE 2. Explanation of the two ways to distribute (Business Science 2009).



When a product is distributed in an indirect way, it goes through many people before it is in the hands of the consumer, for example the manufacturer selling to a wholesaler and through that on to the retailer etc. The way of indirect distribution in the other hand is the way for the manufacturer to distribute directly to the consumer and the positive thing in this is that the manufacturer has a complete control over its product. Possible intermediaries for a distribution of a product include wholesalers, retailers, agents, the Internet and overseas distributors.

### 3 FROM CHINA TO FINLAND

In this chapter the author will focus on the two countries that are in focus in this thesis; China and Finland. The author is going to take a look on both countries key but important facts and competitive advantages concerning their business relationship together. First the author will focus on the facts that are available of China, the main facts about the mighty country called China and after that will the focus be turned to the well-known clothing industry of China.

In the second part the attention will turn to Finland, the cold and quiet northern European country. First the focus will be on the key facts of Finland, after that the author will explain the business environment and the things that are concerned when starting a business in Finland. Last but definitely not least, the author summarizes the two countries together in the form of the PESTEL – analysis.

#### 3.1 China

In this section the author will focus on basic facts and on China's geographical factors since they are essential when thinking about doing business with other countries, whether it's importing or exporting goods. China's economy and the condition of the state are also factors that will be issued. Information about the textile and garment industry in China is also essential when considering the topic of this thesis.



FIGURE 3. Map of China (China Page 2014)

China, officially called the People's Republic of China (PRC) is an autonomous state that is located in the East part of Asia. China is the biggest country in the world by population; year 2013 estimate was over 1.36 billion. People's Republic of China is the second biggest country in the world by land area right after Russia, covering a whopping 9.6 million square kilometers. China is a single-party state that is governed by the Communist Party, in the capital city of Beijing. China has their jurisdiction in over 22 provinces, in five autonomous areas, four direct controlled municipalities; Shanghai, Beijing, Chongqing and Tianjin. And in addition to that, in Hong Kong and Macau, the two essentially self-governing areas. (China 2014.)

China has a lot of abutters which is more than logical since it has the longest combined land border in the world. China borders 14 countries which is more than any other country in the world. Border countries in Southeast Asia; Vietnam, Laos and Burma. Nepal, India, Pakistan and Bhutan are in the south. In the central Asia region are Kyrgyzstan, Afghanistan, Kazakhstan and Tajikistan. In the northeast and inner Asia region are Russia, Mongolia and North Korea. Maritime boundaries are shared with Japan, South Korea, the Philippines, Vietnam and Taiwan. (China Geography 2014.)

When looking into the economical part of China it's clear that China is the fastest growing major economy and has had the second largest economy by nominal GDP since 2010. China is now more than ever playing an influential and important role in the economy globally. The nominal GDP rate increases an average of 10 % each year. The rapid and consistent growth of the GDP has lifted more than 500 million people out of poverty. Even though its role in global economy and never ending growth rates, China still is considered a developing country because of the low per capita income and its incomplete market reforms. Reducing poverty is a major challenge in China; rated second largest number of poor people when fact data shows that almost 99.00 million people live under the national poverty line. (World Bank 2014.)

In 2011 Justin Lin, the chief economist of World Bank, noted that if the current phases continue, China may just become the world's largest economy in 2030. Some of the challenges that China's government has to face and deal with properly, in order to fill certain requirements, include pollution and inequality. (Economy of China 2014.)

China is the second largest importer of goods in the world; In 2013 China bought US\$1.95 trillion worth of imported goods. This total has grown by approximately 94.0 % from 2009.

TABLE 1. Import Statistics in 2013 (World's Richest Countries 2013)

1.	Electronic equipment US\$439.3 billion
2.	Oil US\$314.7 billion
3.	Machines, engines, pumps US\$170.7 billion
4.	Ores, slag, ash US\$148.4 billion

China is currently world's largest exporter which explains itself with the fact that China is the largest manufacturing economy in the world. Goods approximately worth of US\$2.21 trillion was shipped out from China in 2013. A growth rate of 84.0 % from 2009.

TABLE 2. Export Statistics in 2013 (World's Richest Countries 2013)

1.	Electronic equipment US\$ 561.7 billion
2.	Machines, engines, pumps US\$ 383.3 billion
3.	Knit or crochet clothing US\$ 96.8 billion
4.	Furniture, lighting, signs US\$ 86.4 billion

### 3.1.1 Clothing Industry in China

China has been the undisputed leader of the world's textile and garment industry for several years now and the textile industry is one of the industries in China that has the most competition internationally, fastest growth and most advanced market and certainly gets most attention. China's garment industry is estimated to have over 10 million employees and about 100,000 garment manufacturers with decent capacity. In 2012, China manufactured approximately 43.6 billion garment pieces with a value of over US\$ 153 billion and the sales value at domestic market was RMB 1.7 trillion. (CNGA 2013.)

The garment industry is mainly located in the southeast around the Pearl and Yangtze River Delta, the Bohai Sea region and southeastern coastal areas. Over 70 % of all China's garment manufacturing happens within five provinces; Jiangsu, Fujian, Shandong, Zhejiang and Guangdong. Possible investors or manufacturers should keep in mind that although China is the number one exporter of textile and garment products, it is not their main important industry since it is only one of the many major industries in China. (Fashion united 2014.)

China is known for not having the most ideal working conditions for the workers in the textile factories. Executive director of New York based China Labor Watch, Mr. Li Qiang noted that there has never been that much consideration for the interests or the rights of the workers even though the modern economic development of China. The factory workers wages have increased by 124 % in the last decade which is a good thing when thinking about the future but it really just tells how low the wages have been to begin with. Nowadays the urban workers have more options of places to work in and since the demand is high, the workers can ask for bigger paychecks comparing to those in less developed countries. It is pretty much impossible to get reliable data from China concerning forced labor, prison labor or child labor since the country's repressive political system and it is difficult to even know how actively the Chinese government enforces labor laws or prosecutes any violations of that sort. (Fashion United 2014.)

### 3.2 Finland

In this second part of the two countries brief introduction to the topic, the author focuses on the northern Europe country; Finland. First, the author focuses on the basic facts and geographical factors concerning Finland. Since starting a business in Finland is the key point of this thesis, the author wants to address the Finnish business environment and get a clear view of what it takes to start a business in Finland.

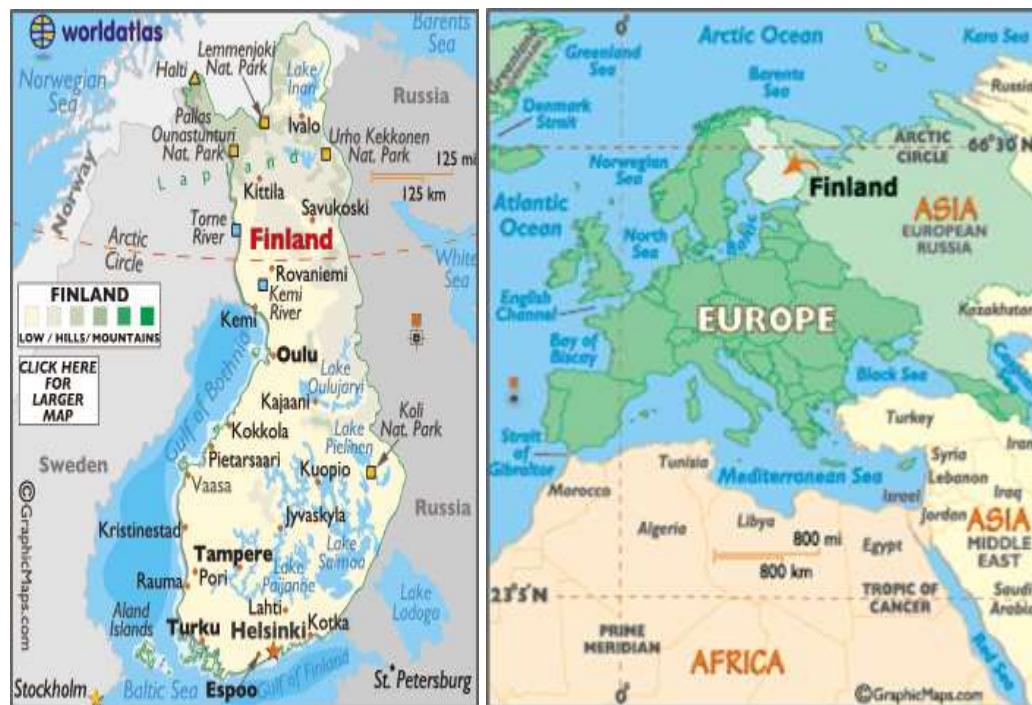


FIGURE 4. & 5. Map of Finland and Map of Europe (World Atlas 2014.)

Finland is a Nordic country (eighth largest country in Europe by area), located in the Fennoscandian part of northern Europe. Finland's abutters are Sweden in the west, Norway in the north, extravagant Russia in the east and Estonia in the south. In the year 2013 the population of Finland was counted to be around 5, 5 million, the majority of the population lives in the southern parts of Finland. (This is Finland 2014.)

Economic growth between 2010 and 2011 happened thanks to Finland's domestic trade, growing exports and overall consumption of households. In order to keep its economy the way it is, Finland is forced to address few things that will be problematic in the near future; aging population, productivity that keeps going down which causes a threat to fiscal sustainability, economic growth and affects competitiveness. Finland is known for certain industries; wood, metal, telecommunications, engineering and electronic thus it is a highly industrialized economy. Per capita output being close to other western economies outputs, like France and the United Kingdom. Imports and exports are as important to Finland as to any other countries; exports account for more than 30 % of the overall GDP. Finland is world famous for its high-tech exports in mobile phones. (Index mundi 2013.)

TABLE 3. Export Statistics 2013 (Trade 2013)

1.	Chemical industry products 13 806 € million
2.	Forest industry products 11 221 € million
3.	Metal and metal products 7 958 € million
4.	Machinery and equipment 7 513 € million

TABLE 4. Import Statistics 2013 (Trade 2013)

1.	Chemical industry products 12 439 € million
2.	Products from mining and quarrying 10 217 € million
3.	Electric and electronics industry products 6 926 € million
4.	Transport equipment 4 753 € million

Finland is highly reliable on imports such as energy and certain raw materials. Finland earns a great deal of goods coming from its forest industry which also provides a secondary way of living for the rural population.

Finland's main trading partners were listed to be in 2012; Russia, Sweden, Germany, China, the Netherlands, United States and the United Kingdom.

### 3.2.1 Business Environment & Starting a Business

Finland is extremely encouraging towards new innovations and entrepreneurs. Both private and public sectors are actively investing in development and research. Finland has a well-developed manufacturing sector in its free-market economy.

Starting a business in Finland is rather easy since the government is so encouraging and helpful for example by providing different sorts of grants to new entrepreneurs and courses on entrepreneurship. A new business can be built up by any private entrepreneur or an already existing company. There are four different forms of companies working in Finland; general and limited partnership, limited company and co-operative. (UHY 2012)

Private entrepreneur – The simplest way for a private person to start a business in Finland is to set up a private enterprise. A person setting up a company in this form is free to keep all the possible profits that come from the business but is also the only one who is responsible for the company's debts and loans.

General partnership – In a general partnership there has to be at least two partners who share the company's profits and losses within themselves. There is no initial capital needed in order to get the business up and running but instead, the partners are the ones that are responsible for the company's obligations, their own personal assets may be required. A general partnership that operates in Finland has to be registered and a member of the Trade Register. (Bridge West 2010.)

Limited partnership - In a limited partnership there has to be at least two partners or legal entities. At least one of the partners is fully responsible for the obligations

of the company and has the right to claim profit. At least one of the partners is the silent partner so he/she has no right to take part or make decisions in the company's management.

The silent partners are not responsible to take part covering the losses of the company. Limited partnership must also be registered and a member of the Finnish Trade Register.

**Private Limited Liability Company** - Set up by at least one partner. There are only shareholders, no general partners. The shareholders are not responsible for the company's debts or obligations. The shareholders shares are private which means that they can't be traded to the public or that there are no negotiation possibilities. The minimum amount of share capital that a private limited liability company must have is €2500.

**Public Limited Liability Company** – Set up by at least two people or juristic persons who are required to invest a minimum share capital of €80.000 to the business. The shareholders are not in any way responsible to take part in the company's debt or obligations with their own assets. This type of company is allowed to offer its shares for trade or it can transfer the shares. (Bridge West 2010.)

**Co-operative company** – A minimum of three persons are required to start up a company like this. The founder of a co-operative company has to be already a member of the co-operative, but it doesn't matter what nationality he/she is or where they live. The price of the company's shares is defined by the co-operative; all shares have to be the exact same amount.

### 3.3 Finland vs. China - PESTEL - Analysis

PESTEL – analysis is a framework or a tool that is used by marketers to observe and analyze the external marketing environment factors that have any kind of effects on an organization. The PESTEL analysis results shows the threats and weaknesses that come to use if doing an SWOT -analysis.

PESTEL stands for; Political, Economic, Social, Technological, Environment and Legal. (Professional Academy 2014.)

### 3.3.1 PESTEL – China

The following explains the PESTEL – analysis of China.

TABLE 5. PESTEL – China (Scribd. 2014)

<b>Political factors</b>	<b>Economic factors</b>
<u>Constitutional system</u>	<u>Business freedom</u>
- Political system – adopts both socialist and communism	- Business freedom- tight (because of governments strict regulations), very strict on foreign businesses coming to China
- The one and only political party – Communist Party of China	- Member of WTO (World Trade Organization)
- Government controls all citizen activities	<u>Trade freedom</u>
- Government of china – moderate and stable	- Nowadays more loose trade policy to the outside world than before tax policies
- Policies and law regulations – restricted but effective	- High income tax rate and moderate corporate tax rate
	<u>Monitory freedom</u>
	- Economic freedom – mix of free market and controlled market
	- Moderate inflation rate

<b>Social factors</b>
- Extreme gap between the lowest income and highest income
<b>Technological factors</b>
- Active in achieving lots of discoveries in the field of science
- Programs to enhance research and development industry
<b>Environmental factors</b>
- Many regulations and laws to protect, prevent and control pollution
<b>Legal factors</b>
- Strict labor rules and regulations hinder productivity growth and overall employment

The PESTEL analysis, part political factors of China shows that the People's Republic of China's political system adopts socialism or communism when doing important decisions in the government. The one and only political party of China is known as the Communist Party of China and it operates in the capital, Beijing. The government is moderate and stable and it will stay that way since it is in no way public to the citizens through internet or press. In the matter of economic factors, the freedom of business is extremely tight when it comes to restricting outside world businesses coming to China. China became a member of the World Trade Organization in 2011. China has loosened their trade policy to other countries concerning import, export and trading. (Scribd. 2014.)

### 3.3.2 PESTEL – Finland

The following explains the PESTEL – analysis of Finland

TABLE 6. PESTEL – Finland (Scribd. 2014)

<b>Political factors</b>	<b>Social factors</b>
- Member of EU since 1995	- Fast shrinking working population – Aging population
- Economy modern and competitive	<b>Technological factors</b>
<b>Economic factors</b>	- Wireless and mobile solutions a specialty
- Euro as currency since 1999	<b>Environmental factors</b>
- Economic freedom on a high level	- Distinctly different seasons of the year
- Economy stated as the world leader in business and trade freedom	-Current issues include Air and water pollution
- Moderate tax rates, overall high level of taxation	<b>Legal factors</b>
- Financial system provides a wide range of services	- Efficient legal environment
	- Property rights on point

When analyzing Finland with the analyzing tool PESTEL, the author found out that concerning political factors Finland is a member of the EU and has been since 1995. Finland's economy is very modern and extremely competitive.

When looking into the economic factors Euro was changed as currency in 1999. The Finnish economy is stated to be as the world leader in business and freedom of trade. Tax rates are moderate but taxation overall is on a high level. (SCRIBD. 2014.

## 4 BUSINESS PLAN FOR THE CASE COMPANY: THE CLOSET

This chapter introduces the initial business idea of manufacturing and importing fashionable and affordable clothes and accessories to women from China to sell in a new online clothing store that is based in Finland but further along growing with the possibility of getting customers from other countries as well, bringing to life as a draft version of a business plan. First, the author takes a look into facts about the situation of the Finnish market and things that need to be taken into consideration when starting a new business and especially an online business. A SWOT analysis will be made of the company's situation.

In the second part, the author uses the famous dynamic business model by Hoffren (Hoffren 2002, 1-39) that is commonly used in Finland when constructing a business idea to a business plan.

### 4.1 Doing Business Online & Company Type

Whether it is a small business or a fairly big business, taking a business to work online is a thing that should not be delayed. With the total of 875 million possible customers who actively buy products or services from the internet, businesses just can't afford to completely ignore the option of e-commerce. Starting an online business is fairly easy and a big part of small business retailers sell their products from their homes which cuts immediately the costs that would come from businesses working offline, like rent, store equipment costs and different insurances. Expanding the business to other countries with the possibility of sending the products abroad is a clear and smart goal since the Finnish market is fairly narrow. Marketing and getting the word out on your product is the main key to a successful business, and more so when working online. Choosing the right marketing tools and channels is everything. In this case, where the products are fashionable women's clothes, a good way to start marketing is through fashion blogs that have a good amount of day-to-day readers. The effective way to advertise something or bring awareness nowadays is through blogs and through Instagram with many followers, taking into consideration of course the target segment. (World Pay 2011)

When starting a business, the company type that will be practiced needs to be solved. As the company types were described earlier, the author has no other choice than choose the private entrepreneur from all of the business type, since there would be only one person starting the company and having all the responsibility of running the company, including all of the possible profits, debts and loans. Some other business types would be current if an investor would be required to get for example a better situation with products in stock.

#### 4.1.1 Requirements of Technology

Since the designing and manufacturing would happen in China, to get the store open nothing else would be needed in Finland than a mobile phone and a computer. Running an online store requires a good working computer with a proper software and opening an online based store servers maintaining the website would be needed and technical experts that would help with the website. To be in contact with the manufacturers in China, a computer and a phone would be enough for that also.

#### 4.1.2 Internationalization

The author's plan first and foremost is to build an online store that is based from Finland and would only work within the Finnish market but since the Finnish market is so marginal, expanding would just be a matter of time. After operating in Finland for a while, the next logical countries where to get access to would be Sweden, Norway, Denmark and Estonia.

#### 4.1.3 Legislation

Every store in Finland has to have according to the law, a return or an exchange policy for a product. The same principles apply just the same, whether it is an online or an offline store, the purchase has the right to be cancelled within 7 working days or at least have a possibility of an appropriate exchange policy.

All the products on the website should presented in the right way and precise descriptions. In this case, since the products are imported from another country, the most legal factors that need to be taken into consideration are the ones that come from all of the importing procedures.

#### 4.1.4 Competition

The biggest threat to a business is always the competition that comes from businesses that offer the same or similar kinds of products. In this case, the author has had a lot of experience from buying a lot of products from China and Hong Kong over the past 10 years and the author knows how much other already existing similar online stores ask for similar kinds of products and the author knows how to get the consumers with right kind of competitive prices and products that the already existing online stores don't offer. Indirect competition would come from different retail stores like for example: H&M, Lindex, Seppälä, JC, Cubus and BikBok.

#### 4.1.5 SWOT - Analysis

A SWOT-analysis is a good strategic tool for planning and management. SWOT stands for strengths, weakness, opportunities and threats. The internal factors of a business that are controllable are the strengths and weaknesses and external factors are opportunities and threats in what the business has no control over.

FIGURE 6. Definition of SWOT - Analysis (SWOT - canvas 2014)



#### 4.1.5.1 Company SWOT - Analysis

There are several advantages of the company a few of them are the international aspect which includes manufacturing in China and taking care of the rest in Finland and aiming to sell the products possibly someday all over the world and the author has many years of experience dealing with the same kind of products that would be sold. The wide range and selection of affordable (possible mass production), fashionable clothes and accessories with new entire collections changing frequently is a clear strength. All products that can be counted as "last season", are sold with very appealing offers. Having an online store is an advantage since these types of companies that start small and have the similar kinds of products with the same target consumers, a well done marketing and advertising of the company through social media and different sources should be enough to get the target customers attention.

Some customers might hesitate of buying the stores products only because of the label "Made in China" and since the products would be at least comparing to the Finnish markets clothes, rather cheap, the potential customers might think automatically that since it is cheap, the products might be of poor quality. These kinds of issues that might come up, would be a definite weakness factor for the business.

Biggest opportunity is opening an online store into a market (at least the Finnish one) that hasn't even been close to fulfilling its entire market potential and a store that has products that other similar stores don't have in their collections with almost half of their prices. The number one threat to a business is other businesses. The rivalry might be fierce and being innovative and creating things that the competitors don't have must be a 24/7 job. A passion for the business is a must have.

## 4.2 Business Idea Model

Choosing the right business model that would study and represent the business idea in the right way, was clear to the author. Since the main focus of this thesis is the business idea, the Hoffren dynamic business idea model was the right way to go. The Hoffren model is well known in Finland when talking about investing in financing. Hoffrens' dynamic business idea model consists of six key elements that need to be taken into consideration when compiling a clear business idea. The six key elements are the following: market need, image, product/service, target group, mode of operations and resources including financial, physical and human. (Hoffren 2002, 10.)

### 4.2.1 Market Need

The market need for clothes is always there and especially for affordable, stylish and somewhat practical clothes. Accessories are either a way to keep someone warm or add a fashion statement to a look.

### 4.2.2 Image

The image that the author is striving to have for the store is of affordable, fashionable and quality products. Getting to sell some similar kinds of products that are offered in offline stores, but with half of the prices that those stores ask of their garments. The store aims to have an honest, trustworthy and good overall reputation.

### 4.2.3 Product

There will be a lot of clothes and accessories (which include bags, purses etc.) so there is no so called main products that the selling is only focused on. The main selling point will be the frequently changing seasonal collections.

Each product will have a detailed information tag on them of washing and maintaining instructions. Customer support is offered through the website 24/7.

### 4.2.4 Target Group

The primary target group is trendy women between the ages of 15-27.

#### 4.2.5 Mode of Operations

To offer customers unique and stylish clothes for a lot less money than they would have to spend somewhere else. Rather quick plan to expand the business from the Finnish market to other Nordic countries and from there to rest of Europe.

#### 4.2.6 Resources

The stock will be held in Finland, at first a studio apartment or the authors' own large apartment might be enough, later the possibility of getting a warehouse will be bigger. Getting the business up and running will need the authors' own capital and possibly bank loans. Human resources that will be needed are the author in Finland and the manufacturers and retailers in China.

### 4.3 Company Objectives

The initial development plan of the company is done in a three-year period. The goals are met only if the author is active in its actions and committed to the business. Before starting the business, the author has to find out all the costs related to the start up. Knowing beforehand the situation in the market considering competitors is a must.

TABLE 7. Three-year Objectives of The Closet

1st year	2nd year	3rd year
- Establish the online store; The Closet.	- Goal to be at the point where expanding the business abroad would be the clear next move.	- Focus on new markets and expanding the business as well as developed the website.
- Create a positive image with good marketing tools.	- Creating more awareness in other countries.	

#### 4.4 Financial Plan

In this section the author has accumulated all the necessary figures to compile the financial plan for The Closet. First, the author presents calculations of capital and financing and after that the profit and loss account of the period January 2015 to December 2015 is showcased. As shown in the table below, The Closet will not have any physical investments in the beginning since the author will use her own computer, software and mobile phone from before. The stock will also be located, in the beginning to reduce extra costs, at the authors' apartment. Calculations for needed capital and financing are as follows.

#### NEED FOR CAPITAL AND FINANCING

<b>NEED FOR CAPITAL INVESTMENTS</b>		<b>NEED FOR CAPITAL</b>	
Machinery & Equipment		Investment	0
Computers & Software	-	Working capital	1524
Office furniture	-	10%	254
Machines total	-	<u>Needed capital total</u>	1778
Other	-		
<u>Investments total</u>	-		
		<b>FINANCING</b>	
Basic stock	5000	Own financing	20 000
Cost before starting business		External financing	0
Registering	105	Subsidies	0
Commission fee	70	<u>Financing total</u>	20 000
Internet connection	15		
Other	0		
<u>Total</u>	190		

#### WORKING CAPITAL

TABLE 8. Calculated Costs for the First Three Months

<b>Cost during 3 months (no sales revenue)</b>	
Rent	489
Phone, Electricity	150
Internet	45
Insurance	40
Marketing	300
Loans	0
Salary (social sec)	0
<b>Total</b>	<b>1024</b>
Needed cash	500
<b>Working capital total</b>	<b>1524</b>

The author has estimated the value of stock in the beginning to be worth of 5000 which means an average of 700 products. The rent was calculated to be the monthly amount of 163€ and it is calculated from the authors rental apartment 738€/month. Needed space for the stock was an estimated 15m<sup>2</sup> of the total space 68m<sup>2</sup> of the apartments living area. Cost of the first three months were listed as rent, utilities such as electricity and phone, insurance, marketing expenses and salary. The insurance was calculated as a part of the apartments covering home insurance and in the marketing expenses there were only taken into consideration the cost of creating and maintaining the website. The internet amount is an estimated value of an average high speed internet connection. The salary was calculated to be as low as possible, since the goal is first to make the business profitable so that all necessary payments are paid.

In the following are calculated the Profit and Loss account and the Profit Margin.

TABLE 9. Profit and Loss Account & the Profit Margin Target

<b>PROFIT &amp; LOSS ACCOUNT</b>		<b>GROSS MARGIN TARGET</b>
1.1.2015-31.12.2015		
Sales revenue	2846	<b>Target profit</b> -
- VAT 24%	683, 04	+ Depreciation (25%) -
= Net turnover	<b>2162, 96</b>	= Operating profit target -
- Variable costs	-	+ Interest -
= Gross margin	<b>2162, 96</b>	= Operating margin target -
- Fixed costs	2846	+ Fixed costs
= Operating margin	<b>-701, 04</b>	Rent 1956
- Interests and other		Electricity 150
financial costs	-	Phone 400
= Profit/Loss of the year	<b>-701, 04</b>	Internet 180
+ Other income (subsidies)	-	Insurance 160
= Profit/Loss of the year	<b>- 701, 04</b>	Salary + social sec -
		<b>Fixed costs total</b>
		2846
		= Gross Margin Target
		2846
		+ Variable costs -
		= Sales revenue target 2846

## 4.5 Risks

In this part, the author explains some of the possible risks that might threaten The Closet during the first year of business. Economic and accident related risks are addressed. Possible risks that may occur are good to detect in advance to minimize the possible loss.

### 4.5.1 Economic Risks

A possible risk might be the lack of attention that the products might get and that would show in low sales. Aggressive marketing from the start is a necessity. An economic risk might also be that since the products are so low priced, the customers might assume directly the products are bad quality.

### 4.5.2 Accident Related Risks

As the author has the entire stock, at least in the beginning, at her own apartment and to secure her apartment from example being burned down, the author has an inclusive home insurance. The insurance would cover the value of the stock if something might have happened.

## 5 FINDINGS & CONCLUSION

In this chapter the author will provide brief answers, as a result of the findings, to the research questions that were presented in the first chapter.

### 5.1 FINDINGS

TABLE 10. Findings to the Research Questions

The Research Question	Findings
What is the target market for the fashion online store?	The niche for trendy and fashionable clothes and accessories.
What is the appropriate target group for this kind of a fashion online store?	Women between ages 15 to 27.
How to advertise this kind of store and make it differ from other similar sites?	Marketing of the store would happen at the beginning through social media, different blogs etc. Affordable prices and special offers would make it stand out from the competitors.
What kind of equity would be needed in the start-up of this company?	The author has her own savings to start-up the company, 20 000€ would be enough. No investors or loans would be required at the beginning.
What kind of products would the store have and how will the author find the right manufacturer?	The store would have women's clothes and accessories, for example bags and purses. The manufacturer would be located through the authors' own experience of buying products from China.

## 5.2 Go or a No Go

The author is a strong believer, after conducting the research needed for this thesis that the business idea for The Closet is worth pursuing. The authors' own experience in this field; buying clothing from China and at the same time working for six years at a clothing store located in Finland, tells the author that a more affordable clothing store with the stock located in Finland (for quicker delivery) is more than welcome to the Finnish market. Even though some consumers hesitate using products manufactured in China, the author believes that a well-designed website, quality products and good customer service and support would win the consumers trust. This thesis provides a strong business idea but lacks in some important aspects like for example logistics, transport, production and other important factors. The thesis provides a comprehensive information package about business planning in general and facts about the Finnish business environment.

## 5.3 Suggestions for Future Research and Business Planning

After further research and development of the business and financial plan it would be essential to know more about the finances needed during the first year. More research concerning the manufacturing factors in China, transporting products to Finland and overall logistic issues should be conducted. The pricing of the products has a clear relation to the other costs that come from transporting and other business transactions.

Internet was a clear decision to use as a distribution channel but more information should be gathered in the future about running a web page; costs and maintenance. Gathering more information about other already online working businesses could help in finding the best procedures when dealing with an online business.

## 6 SUMMARY

The main objective of this thesis is to find out if there is a place in the Finnish fashion market for a new affordable online clothing store for women. A feasible business plan of the business idea is the second objective. The famous Hoffren business model is used as a tool to find out if the business idea of starting an online clothing store in Finland with products manufactured in China, is a go or a no go. To research and get the results needed, the author studied the six feasible perspectives; market need, image, product, target group, mode of operations and resources.

Research questions are brought up in the introduction part to guide the research through the thesis. The research approach in the thesis is deductive and the method is qualitative. Sources used in the gathering of the research data for the theoretical part are published sources such as articles, literature, journals and information gathered from multiple Internet sources. The theoretical frameworks essence are the research of the business idea and the models of business planning.

Some key facts of China and Finland are studied, paying more attention to the garment and textile industry in China. The focus is also on the Finnish business and entrepreneurial environment since the business idea of a start-up company in Finland is formulated into a business plan.

To summarize, this thesis provides through study and research information on finding a demand on the clothing market which generated the business idea and which was developed accordingly into a business plan.

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FIGURE 1.

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