

# FASHION ENTREPRENEURSHIP

## Retail Business Planning

3<sup>rd</sup> Edition

MICHELE M. GRANGER | TINA M. STERLING | ANN CANTRELL



FAIRCHILD BOOKS

# **FASHION ENTREPRENEURSHIP**



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## **RETAIL BUSINESS PLANNING**

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THIRD EDITION

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# PREFACE

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Fashion retail businesses are started every day by all kinds of people from all over the world. Some will fail, and others will succeed. The difference often lies in the quality of the planning process. We approached this joint venture with years of experience in owning businesses, consulting to entrepreneurs, and teaching fashion retail entrepreneurship to students and other future business owners. We shared a passion for the entrepreneur that led to an earnest vision of increasing the potential for success for aspiring, early-stage, and struggling entrepreneurs. This text is written for both college students and practitioners who desire to start their own retail businesses in the fashion industry. It is also developed for those fashion retailers who are already in business and who want to reexamine the direction of their companies. Although this book provides the structure for a carefully researched and well-developed business plan, it also offers the questions and the tools needed to direct an existing business toward a path of success and growth.

Entrepreneurship is a discipline like no other. It is an opportunity to act on dreams, become one's own boss, secure financial freedom, and share a passion with others. Owning a business requires an analysis of both personal and professional traits to determine if it is the right time to begin. After assessing one's self, the entrepreneur must analyze the business concept from a variety of angles, looking for its strengths, while seeking out its weaknesses with equal vigor. The challenges of business ownership are immense, but the rewards can surpass even the boldest dreams.

## FEATURES

Although there are many textbooks on the market in both fashion and in entrepreneurship, few combine both disciplines. It became apparent to us that a book was needed to guide the reader through a sequential, step-by-step approach to starting a business, with robust and engaging business and financial planning templates that would allow for the application of knowledge to real-life goals as they relate to the business. Readers are introduced to the various components of the business, are provided with the opportunity to practice what they have learned, and are encouraged to use the business plan template and financial planning template in the online STUDIO to apply that knowledge to their individual business concepts.

What makes this book distinctive is its real-world application. Features include the following:

- *Learning Objectives* at the beginning of each chapter let the students know what they will learn.
- *Entrepreneur Tips* boxes throughout each chapter connect chapter content to the actual business plan and act as a guide to help students create their own visionary store.
- *Case Studies* in select chapters provide additional examples of successful entrepreneurship.
- *Profile of an Entrepreneur* features real-world examples of the concepts presented in the text and highlights the challenges and successes of a wide variety of businesses. Entrepreneurs are as diverse as fashion itself; therefore, the profiles and examples within the text were selected

from companies of varying sizes in diverse locations, started by entrepreneurs from an array of backgrounds.

- *Business Plan Connection* in each chapter directly links the student to the online STUDIO to complete the parts of the business plan template that relate directly to the chapter. This section contains both a blank business plan template and a financial planning template to be used for each section of the individual business plan. The business plan template in the STUDIO portion of the book (also available in Appendix E in this text) provides sections for the writer—the prospective entrepreneur—to provide an in-depth analysis of the potential retail business, from defining the target market, to clarifying the product assortment, to selecting a location, to solidifying operational issues related to merchandising, personnel, and control. Throughout the process, the business concept is continually weighed against the target market to ensure that it has the potential to capture a large enough segment to make a profit.

The financial planning template provides an Excel spreadsheet embedded with the formulas needed to enter and evaluate the start-up costs, monthly expenses, planned sales and inventory, markdowns and markups on stock, and general profitability of the potential business. The financial planning template enables flexibility in the planning stage. The entrepreneur may compare, for example, monthly lease prices before actually selecting a location. The final, completed financial plan will be submitted as part of the final business plan.

## NEW TO THIS EDITION

We have updated this new edition to help entrepreneurs navigate the changing retail climate and be prepared for this fast-paced world:

- We have integrated information about social media, technology, and new POS systems throughout.
- New and updated Profiles of Entrepreneurs at the end of each chapter provide real-world business acumen to readers and are followed by all-new critical-thinking questions, so they can apply what they learned.

- An underlying dedication to companies focused on ethics and sustainability, and independent small businesses is constant throughout the book.

## COVERAGE

The content of this text is rooted in the real world and has been refined in the classroom. As it aims to generate skills and foster awareness, and build knowledge, the content is presented sequentially as it relates to building a business. Chapter 1 investigates the personal and professional characteristics of the entrepreneur, as well as timing and opportunity. Chapter 2 describes developing a road map for success through an effective business plan. Chapter 3 focuses on developing the business concept by asking the questions “What will the business be?” and “How will it be differentiated from others?” In Chapter 3, researching the industry, the market, and competition is also explored. In Chapter 4, the product and the business concept are examined in terms of product terminology, product levels, the product life cycle, branding, and licensing.

Creating an environment in which to sell the selected product to the defined target market is outlined in seven chapters. Chapter 5 explores planning a strategy to open a business, including the choice of starting a new business from the ground up, purchasing a franchise operation, or acquiring an existing business. Chapter 6 focuses on finding the right location for the business, whether building a new facility or buying or leasing an existing space. The business location is examined from the outside in, through discussion of exterior and interior options and accompanying decisions to be made. In Chapter 7, building a business using the web is discussed, from a brick-and-mortar retail operation having a web presence to a full e-commerce business. Chapter 8 examines market penetration, determining the most effective ways to reach the intended customer. In Chapter 9, the entrepreneur examines his or her skills, experience, and education to identify what or who it will take to build a strong management team. Planning the merchandise assortment is the subject of Chapter 10. The role of the buyer, the functions of a resident buying office (or consulting service), internal and external sources from

which the merchandiser can collect buying information, and merchandising calculations used in fashion buying are presented. Chapter 11 focuses on the financial aspects of the business. Students learn the implications of buying, hiring, and how to manage the money. Chapter 12 offers guidance for developing operating and control systems for the business, from space allocation and inventory control to employee development and business security.

A sample business plan is included as Appendix D. The company represented by the sample business plan, RealWomen, Inc., and its owner, Lucy Rich, are presented in the plan's introduction. Throughout the text, RealWomen, Inc., is used as an example to illustrate such concepts as determining a business concept, selecting a location, and developing a merchandise assortment. As each chapter is read, the student/reader is encouraged to examine the corresponding section of the RealWomen, Inc., sample business plan; these sections are specified in the Business Plan Connection at the conclusion of each chapter. Seeing how the owner of RealWomen, Inc., completed that specific component of the business plan provides a model for completing one's individual business plan sequentially as the content of the text is read and applied.

## FASHION ENTREPRENEURSHIP STUDIO™

With this third edition, we are pleased to offer an online multimedia resource—*Fashion Entrepreneurship STUDIO*. The online *STUDIO* is specially developed to complement this book with rich media ancillaries that students can adapt to their visual learning styles to better master concepts and improve grades.

- Study smarter with self-quizzes featuring scored results and personalized study tips.
- Review concepts with flashcards of essential vocabulary and basic retail math formulas.

- Practice your skills with downloadable worksheets to complete the end of chapter Business Plan Connection exercises.
- Download business plan and financial plan templates to get your business off the ground.

*STUDIO* access cards are offered free with new book purchases and are also sold separately through [www.FairchildBooks.com](http://www.FairchildBooks.com).

## INSTRUCTOR RESOURCES

- An instructor's guide is available with the text; it presents suggested teaching ideas and a key to chapter review activities.
- A test bank of questions with an answer key is provided for each chapter.
- PowerPoint® presentations include images from the book and provide a framework for lecture and discussion.

Instructor's Resources may be accessed through [www.FairchildBooks.com](http://www.FairchildBooks.com).

The world is ever changing. Markets shift, consumer buying behaviors change, technology advances, and the best way to do business is always a topic on the table. We approached this third edition challenged and invigorated with the goals of bringing forth tried and true expertise, the most current information, and new tools to simplify the business and financial planning needs. The challenges and opportunities in the global economy, and how we do business based on social media and the web, have changed the face of entrepreneurship. Change is integral in building a business. We support and applaud the bold and the brave, the entrepreneurs. Victor Kiam describes them well: "Entrepreneurs are risk takers, willing to roll the dice with their money or reputation on the line in support of an idea or enterprise. They willingly assume responsibility for the success or failure of a venture and are answerable for all its facets."<sup>1</sup>



# ACKNOWLEDGMENTS

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Writing a book can be a lonely process. Being an entrepreneur means striking out on your own, communicating your vision, and selling the idea. Fashion and business are often perceived as direct opposites, when, in fact, they are not.

This project found the best in all of these assumptions. Writing was not solitary, thanks to a partnership and the encouragement of family and friends. The entrepreneurial spirit was shining as we created this business called a book. Fashion merged with business in a fascinating, pragmatic, and unique manner.

Ann:

I am grateful for this opportunity to revise the 3rd edition of the book and incorporate some new ideas in retailing as well as new companies to the readers as well. I would like to thank everyone who participated in the Profile chapters including Lindsey Engler, Jen Mankins, Gregg Renfrew and her team at Beautycounter, Roth Martin and Stephen Hawthornthwaite and the Rothy's crew, Laura Vinroot

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## INTRODUCTION

# CASE STUDY: REALWOMEN, INC.

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You may know someone like Lucy Rich, or you may have something in common with her. From a professional perspective, Lucy is a college graduate and an eight-year veteran of the fashion industry, having worked in sales, management, and buying in such positions as a buyer for Saks Fifth Avenue, an assistant manager for Lane Bryant, and a public relations assistant for Showroom Seven. From a personal perspective, Lucy is bright, independent, and driven. She is an aspiring entrepreneur.

Lucy Rich has dreamed of owning her own business since high school, when she worked in a specialty apparel and accessories store owned by a successful entrepreneur. Throughout college and postgraduate employment, Lucy has been learning and planning, preparing to open her own business someday. She chose employment positions that would broaden her background in customer service, employee relations, promotion, and retail buying. She saved her money. She is mobile and ready to go where her business dream will have the greatest opportunity for success. Lucy is now ready—professionally, personally, and financially—to take the plunge and follow her dream by opening her own retail store.

RealWomen, Inc., is the name she has chosen for her business. She has recently finished preparing the business plan that she will present to bankers and other funders to acquire the capital she needs to open her store. After completing months of research and discarding a couple of business concepts, Lucy has determined to open a specialty store offering contemporary apparel for women, sized 11/12 to 19/20, who desire fashion at affordable prices. The merchandise assortment will consist of clothing and accessories suitable for business, university, and casual activities. From a business perspective, providing large-size fashions for contemporary women makes sense. The customer base is increasing. Government reports indicate that more than 17 percent of teenagers are large size, more

than three times the rate of a generation ago. The market for contemporary plus sizes (the consumer segment typically aged eighteen to thirty-five) has shown strong growth. Research indicates that six of every ten women wear a size 12 or larger, and half of all American women are size 14 or larger, with nearly a third at size 16 or above. Despite these statistics, fashion apparel stores have limited styles and selections for the larger-size woman.

Lucy has taken the same path you will follow as you read through this text. She read each chapter, reviewed the suggested resources, carried out the assignments, discussed the related topics with business associates and consultants, contemplated the Business Connection content at the end of each chapter, and completed the blank business plan and financial planning templates in the STUDIO portion of the book, step-by-step. The results of her extensive work in developing a top-notch business plan are included in Appendix D.

A review of some of her work on the business plan as it relates to each chapter follows:

- Chapter 1, “Becoming a Fashion Retail Entrepreneur,” does not have an actual place in the business plan; it does, however, provide background through discussion of the successful entrepreneur, trends in entrepreneurship, and self-assessment for the prospective entrepreneur and the business concept. Lucy carefully read this chapter with notebook in hand. She listed her strengths and weaknesses and noted those areas in which she would need assistance. She also checked her résumé against the content of the chapter in order to emphasize the skills and experiences that bankers or other funders would be seeking.
- Chapter 2, “Developing a Road Map for Success,” examines the reasons for developing a business plan and how the plan is structured. Lucy used the

information in this chapter to organize working files for each part of the business plan.

- Chapter 3, “Analyzing the Industry and Finding Customers,” focuses on market research. Although, she had completed much work in the area of market research, Lucy located additional resources to add national statistical data to her market research materials.
- Chapter 4, “Identifying the Product and the Business Concept,” explores types of products, the product life cycle, and branding to help communicate the business concept clearly. At this point in her reading, Lucy began to visualize her business concept from a product perspective and focused on locating branded merchandise lines that would meet her customers’ need in terms of fashion and price, while projecting the image she desired for her store.
- Chapter 5, “Planning a Strategy to Open a Business,” presents the three main entry strategies for opening a fashion retail business: starting a new business, buying an existing one, and opening a franchise. Lucy analyzed her business concept and determined that starting a new business was the only option for her, as franchise and existing store operations matching her concept were nearly nonexistent.
- Chapter 6, “Finding the Right Location for the Business,” examines location variables and costs, from region to site, inside and out. After studying the chapter content, Lucy found a home for her business—a college town.
- Chapter 7, “Building a Business Using the Web,” discusses e-business models and methods of integrating promotional and retailing e-commerce activities into the business. Lucy’s plan to introduce the business online through a website and social media was validated after reviewing the material on e-businesses.
- Chapter 8, “Reaching Customers and Driving Sales,” investigates how to name the business and how to market it. Lucy learned that her industry experience in promotion and public relations gave her an edge as she developed a list of promotional plans for RealWomen, Inc.
- Chapter 9, “Building a Team to Drive Success,” focuses on the management of the business and human resource development. At this point, Lucy decided to hire an assistant manager. To complement her work experience, and fill in the voids, she decided to search for someone with experience in the fields of marketing and advertising for a retail clothing store, as well as an

understanding of the daily operations of a retail apparel and accessories store.

- Chapter 10, “Planning the Merchandise Assortment,” discusses the role of the buyer, the resident buying or consulting office, sources for effective buying, and merchandising calculations. Lucy’s previous employment as a retail buyer helped her understand the buying process and led her to developing Excel spreadsheets to track merchandise receipts and on-order, calculate open-to-buy, and maintain an updated six-month plan.
- Chapter 11, “Building the Financial Plan,” presents the financial statements (cash flow statement, income statement, and balance sheet) and explains how to use the financial planning template. Lucy used the content in this chapter and the financial planning template from the STUDIO to develop the full financial plan for her business plan.
- Chapter 12, “Developing Operating and Control Systems,” provides information needed to build these systems and to construct operations, control, and employee manuals. Lucy had viewed the business from every possible perspective while working her way through the chapters, so she was ready to develop operations and control policies for the business, as well as a manual for her future employees.

The following sections of Lucy Rich’s business plan for RealWomen, Inc., are located in Appendix D:

- Cover Letter (see page 245)
- Confidentiality Statement (see page 246)
- Table of Contents (see page 247)
- Executive Summary (see page 248)
- Management Plan (see pages 249–250)
- Merchandising/Product Plan (see pages 251–252)
- Brick-and-Mortar Location Plan (see pages 253–254)
- Web Plan Summary (see page 255)
- Marketing Plan (see pages 256–259)
- Financial Plan (see pages 260–262)
- Retail Operations Plan (see pages 263–264)

As you read each chapter, take time to read the section of the sample business plan that corresponds with that particular chapter. It is extremely helpful to see an example, a model, of how the chapter content can be applied to an actual business plan. By the way, Lucy Rich’s dream has come true. RealWomen, Inc., is off and running; it is a huge success.

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## CHAPTER 1

# BECOMING A FASHION RETAIL ENTREPRENEUR

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### Objectives

Upon successful completion of this chapter, readers will be able to:

- Explain the concept of entrepreneurship and what's involved with starting a business.
- Identify characteristics of a successful entrepreneur.
- Recognize entrepreneurial competencies within yourself.
- Establish a personal vision as a prospective entrepreneur.
- Summarize the importance of the planning process in developing and opening a business.
- Describe the legal forms of ownership and the importance of establishing a business correctly.

This chapter begins by developing an understanding of entrepreneurship. A self-analysis is conducted of the entrepreneurial mind-set and skills. Defining and knowing the traits possessed by already successful entrepreneurs increases the chances of success for new entrepreneurs. Next, timing and funding availability are examined. Timing and funding play crucial roles in the process of determining whether or not to start a business. The prospective fashion entrepreneur then begins developing the business concept. The business concept takes the idea for a business and tests it against social, political, financial, and economic realities before the actual business venture is begun. Finally, the prospective entrepreneur looks at the importance of developing a comprehensive business plan.

### THE ENTREPRENEURIAL PROFILE

The fashion industry is increasingly recognizing that entrepreneurial skills are an important component of the fashion entrepreneur's portfolio of knowledge and skills. What is an **entrepreneur**? Many views exist on the definition of an entrepreneur. Some define an entrepreneur as one who creates a product on his or her own account. But this raises questions. Does just creating a product make you an entrepreneur if you never do anything with it? What if you take someone's product and make it a success? Investorwords, a set of definitions of financial terms, defines an entrepreneur as "an individual who starts his/her own business."<sup>1</sup> But limiting the definition to someone starting a business implies that when a business is no longer in the start-up phase, it no longer is entrepreneurial.

An entrepreneur can also be defined as a person who creates and manages a business venture, assuming all the risk for the sake of profit. This may suggest that the motivation for starting a business is purely profit. Although profit is at the top of the list for most entrepreneurs, businesses are started for many reasons. Some people create businesses out of necessity after they lose their jobs. Others start companies because they feel excitement in creating a new method of retailing for the market. Here, an entrepreneur is someone who decides to take control of his or her future and become self-employed, either by creating a unique business or by working as a member of a team, as in multilevel marketing. Entrepreneurs see themselves as the driving force and believe that success or failure lies within their personal control or influence.

None of the previous definitions is wrong. As the entrepreneurial alternative becomes more prevalent, the definition will evolve. Entrepreneurship may be more clearly defined by people's traits, strengths, and weaknesses, and by comparisons of many definitions and views. Jeffrey A. Timmons, one of the pioneers in the development of entrepreneurship education and research in the United States, defines an entrepreneur and entrepreneurship in the following terms: "Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced."<sup>2</sup>

Fashion entrepreneurs recognize an opportunity. They size up its value, as well as the resources necessary to make that opportunity a success. They are visionaries. They have a vision of how the business will grow, and they have the drive to make it happen. Fashion entrepreneurs are always looking for better and innovative ways to find new markets, to add to an existing product line, and to tap into larger geographic territories. They move with the times or, more often than not, before the times. They are futurists in that they anticipate and embrace change. They see different ways of doing things. E-commerce, for example, becomes a welcome challenge, not something to be feared and rejected. Fashion entrepreneurs persevere and are not easily defeated. They thrive in a challenging environment and have a tremendous need to be in control. They will take calculated risks and welcome responsibility. They are absolutely passionate about what they do.

Rent the Runway was founded by entrepreneurs Jennifer Hyman and Jennifer Fleiss in 2009, with the idea to allow women to rent clothes instead of buying them as part of the ever-growing sharing economy. Hyman's sister was looking to buy a new, expensive dress because she had already been photographed on social media wearing the dresses she already owned. In 2016, Rent the Runway launched an unlimited subscription model that led them to \$100 million in revenue. Hyman and Fleiss identified a business need and addressed it, by creating not just a fashion company but also a fashion technology company that is both attractive to consumers, designers, and investors. Figure 1.1 shows Jennifer Hyman, cofounder and CEO of Rent the Runway, at their DC Store opening. They started opening stores in 2015 as a way to further connect with their customers. Their business model continues to evolve as they study and analyze customer needs, behaviors, and shopping patterns.

**Figure 1.1**

Rent the Runway launched as an online portal to "borrow" high-end clothing, but it has become much more than that. They also have opened stores to connect with customers.



Fashion retail entrepreneurs are the key people managing the entrepreneurial process; they are the driving force. They see an opportunity, are innovative in their thinking, and possess the business acumen to make things happen. For the fashion entrepreneur, the fashion retail store is the "window" to the consumer. Whether a website or a brick-and-mortar store, the fashion entrepreneur sizes up the market and then buys, sells, and displays fashion merchandise that will entice customers to make purchases.

## A TIME FOR FASHION ENTREPRENEURS: TODAY'S ENVIRONMENT

In today's economy, entrepreneurship is at the forefront of options for fashion students. It is challenging and ever changing. Each new day brings a new set of rewards and obstacles. By recognizing opportunity, fashion entrepreneurs emerge as some of the most successful business people in the world. Understanding entrepreneurship, owning a business, understanding how that business works, planning it carefully, and knowing one's personal qualities will increase the chances of success.

Entrepreneurial businesses contribute to local economies, provide jobs, pay taxes, and generate a



comfortable living for their owners. Today's economic climate and lifestyle preferences, as well as education and business trends, encourage and nurture entrepreneurship. Approximately 650,000 new businesses are opened each year. Two out of three net new jobs created in the private sector come from small business. Hundreds of thousands of college graduates, corporate executives, retirees, and individuals interested in career changes are striking out on their own in opportunities that we could never have imagined before. These businesses have been the key to survival for individuals affected by corporate downsizing, outsourcing (contracting for services), and restructuring. Customers have also changed the way they shop; more than ever, the customer is in charge, and entrepreneurs are most successful when they take the pain points away from the shopping process. The age of the entrepreneur provides opportunities for individuals from every imaginable background and category: male, female; young, old; rich, poor. It provides an abundance of opportunities for the fashion retailer.

Entrepreneurship is in an upward trend both nationally and internationally. With the growth of e-commerce, the number of **virtual companies**—companies offering goods and services on the internet—has increased the opportunity for small businesses to increase sales and tap into global markets. Technology has made it possible for companies to accomplish more and reach more

markets with fewer employees. Thanks to entrepreneurs, technology is driving much of the world's economic growth. Research has projected that small companies can respond quickly to change, thus creating a competitive advantage over larger companies. Entrepreneurs play a key role in our economy from a macroeconomic perspective, owing in large part to their role in the growth of the internet. Companies, such as One Kings Lane, HauteLook CoutureZappos, Shopbop, and Bag Borrow or Steal, are increasing purchasing (or leasing) options for consumers across the globe.

To the fashion retail student, the study of entrepreneurship can play an important role in future career opportunities. Studying the field of entrepreneurship provides the chance to deal with change on a daily basis, to study all aspects of the business, and to become familiar with entrepreneurs throughout the world. Even those seeking traditional business careers will require knowledge of various aspects of business in order to be successful. Many companies are encouraging their employees to have an entrepreneurial mind-set: innovative and creative and recognizing opportunity. The entrepreneurial spirit keeps the company at the leading edge of technology and diminishes bureaucracy. Many fashion retail entrepreneurs work within a fashion company, using their entrepreneurial skills, before venturing into their own fashion business.



**Figure 1.2**

Shopping is now done from all channels, in-store with brick-and-mortars, online, and through mobile commerce. Entrepreneurs need to be prepared to launch their business on all portals.



# BUSINESS IS CHANGING IN THE GLOBAL MARKETPLACE

The business world is changing constantly, especially with regard to fashion and retail. Entrepreneurs and businesses need to stay ahead of the curve in order to keep up with today's savvy and well-informed customers. In today's business world, e-commerce platforms and social media sites that work in tandem are a must. Inventory systems that track online and in-store selling are vital. Security for all these programs and customer data is imperative.

We must also keep track and observe our customer's buying habits to make sure the product we are offering is fresh and compelling in a way that they want to buy it. Connecting with customers at the brand level is extremely important to grow loyalty and ultimately sales. The industry is changing quickly, and what worked before is not what will work in the future. An entrepreneur needs to keep learning, growing, and reworking the business model to keep the business nimble and profitable. What is the future of the fashion industry? What trends and issues are having an impact on the direction of entrepreneurial business in apparel and soft goods? It is important to be aware, not just of trends in the fashion industry, but also with the ways in which people buy, how they think, and what is driving buying decisions. The successful entrepreneur identifies the trends and then translates them into business opportunities.

## DO YOU HAVE WHAT IT TAKES?

Researchers and academicians continually argue whether entrepreneurs are born or made. What is important is the drive to take the entrepreneurial path. Entrepreneurs are innovative and creative. They see what others do not see and arrive at a variety of solutions to meet a need or solve a problem (Figure 1.3).

The retail industry requires that businesses be both people oriented and service oriented. This entails juggling both satisfied and dissatisfied customers, maintaining merchandise that sells, and keeping an eye on costs and prices. Retail success requires the effective combination of attractive layout and design, great customer service, and attention to detail. It requires a flair for selecting appealing merchandise that is priced for the right market, at the right time. It requires creativity and understanding of finance—

**Figure 1.3**

Entrepreneurs are driven to fulfill the dream of owning their own business.



that is, both left-brain and right-brain characteristics. Most important, retail success is predicated on an understanding of what customers need and want in order to create an atmosphere that will sell, sell, sell. The mindset of an entrepreneur approaches this head-on.

## Advantages and Disadvantages of Owning Your Own Business

Retailing can provide an opportunity to meet new people, develop a successful business team, travel for business, and contribute to one's community as an economic entity. Most important, it can provide the opportunity for financial success and independence from working for someone else.

There are both advantages and disadvantages to starting a fashion retail business.

### *Advantages:*

- You can be your own boss and control the outcome of your venture.
- You have the freedom to pursue opportunities as you identify them. No one tells you what to do or when.
- You receive the recognition for the design of your store and the products it sells.
- Opportunities exist to maximize the return on your investment, whether in time, money, or both.

### *Disadvantages:*

- Any entrepreneurial venture requires a huge time commitment, particularly in the start-up phase.
- Start-up ventures typically scramble for funds and work on tight budgets. This impacts the ability to travel to trade shows, utilize the latest technology, and bring in teams to build the business.
- Entrepreneurs are faced with juggling resources to meet deadlines and customer expectations. Problem solving is an everyday occurrence.
- Because start-up businesses often lack sufficient funds to hire a team, much of the work—often, every job—is performed by the entrepreneur. This leaves little time to focus on one particular area.

Starting a fashion retail business requires a commitment of both time and money. Those retailer entrepreneurs that have the greatest chance of success are skilled at small business management and project management. They possess a high level of interpersonal skills, such as effective communication, getting along with others, leading teams effectively, listening, and resolving conflict.

## **Traits of Successful Entrepreneurs**

Although the need exists to understand the competitive, economic, and cultural climates in the retail industry, it is just as important to assess and understand one's personal traits, skill, and needs. Entrepreneurship requires a particular way of thinking and acting. As stated earlier, entrepreneurs, above others, are innovative and visionary and are creative in their thinking. Entrepreneurs seem to solve problems, in part, based on intuition. They are successful communicators; they develop a strong network of contacts. They have the ability to utilize resources more efficiently. Entrepreneurs are passionate, enthusiastic individuals. By observing both successful and unsuccessful entrepreneurs, you will find a wide range of personalities. Although special talent and self-discipline come naturally to some, to others, these characteristics must be learned.

Numerous studies have been conducted to analyze the differences in traits between successful and not-so-successful entrepreneurs. In the challenging world of the entrepreneur, chances of success increase dramatically if the prospective entrepreneur begins by understanding who he or she is. The following discussion covers some

of the traits that research has shown are possessed by successful entrepreneurs.

### ***Passion/Desire***

Perhaps the most important of all the traits successful fashion retail entrepreneurs possess is passion. Unquestionably, the successful entrepreneur has the passion to be one. The fashion entrepreneur also relishes sharing that passion and desire with others. Entrepreneurs are driven to succeed. Many have determined that they cannot work for others; they want to be their own boss. When people are passionate about what they are doing, tasks seem relatively timeless and effortless. Launching a new venture requires long hours and many challenges.

### ***Determination/Perseverance***

Fashion entrepreneurs are determined. They want to succeed and do not give up easily, even when it may appeal to others to do so. Determination is a key factor in a winning attitude. The role of the entrepreneur requires the ability to persevere in the toughest of times. Successful entrepreneurs will figure out the path they need to take to reach their goals and challenge all obstacles blocking those paths. Establishing a successful business takes time. Most entrepreneurs acknowledge that it takes four to five years before the money starts rolling in and the hours decrease to a manageable level.

### ***Responsibility***

Many fashion retail entrepreneurs say that they believe one of the keys to their success was their willingness to take responsibility for themselves, their employees, and their businesses. Owning a business provides entrepreneurs with the freedom to make decisions independently, to make things happen, and to influence and determine outcomes, but with that comes taking ownership of one's actions.

### ***Problem Solvers***

To entrepreneurs, problem solving and decision making come naturally. Entrepreneurs are innovative in their thinking because they determine the best ways to overcome a problem or obstacle. They will solicit input from their team and stakeholders and process information to arrive at the best decision possible (Figure 1.4).

**Figure 1.4**

Successful entrepreneurs analyze a problem from various angles.



## ***Creative and Innovative Thinkers***

Fashion entrepreneurs are creative thinkers. They combine imagination and ingenuity to solve a problem or create a need or want. Although not every idea is practical or can be turned into a successful venture, entrepreneurs are not discouraged and will continue to solve problems in this way.

Innovative thinkers transform an idea into a marketable product or service. They implement the idea, taking it to marketplace. Take Francis Cabot Lowell (1775–1817). He was an innovator. During a trip to England, he was stunned by the number of textile mills and their machinery. He memorized the machinery, but with the goal of going further than replication. After returning to Boston in 1813, Lowell communicated his ambition to his brother-in-law, Patrick Tracy Jackson, and to the mechanic Paul Moody. Together, they formed the Boston Manufacturing Company, organizing it into a corporation with a huge capitalization of \$300,000. The mill they built together was the first to convert raw cotton into cloth by power machinery within the walls of one building. For years, entrepreneurs have started retail ventures that spin off into new products that revolutionize the way we dress and do business.

## ***Ability to Work Independently***

Employees of large corporations may have a team of assistants, accountants, marketers, researchers, and financial analysts to help them with the daily activities and

overall planning of the company. When a new business is started, however, more often than not, the entrepreneur is the company and all its departments. This is because in the beginning, entrepreneurs generally have little support. The funds are simply not available. Entrepreneurs start out as janitor, bookkeeper, and strategic planner. They have only themselves to rely on to do the work that may be unfamiliar or unpalatable. Recognizing the necessity to do whatever it takes to get the job done to make the business ultimately a success is crucial.

## ***Respect for Money***

It is easy to get caught up in the glamour of owning a business. Many businesses get into financial trouble because they spend far too much money on items that have very little to do with the success of the business. Successful entrepreneurs are conservative and careful with their money. They spend what is necessary and save the rest. Successful entrepreneurs do not typically judge themselves based on what they spend or can afford to buy. Satisfaction is obtained through achieving their own internal goals and objectives.

## ***Ability to Manage Time Wisely***

Getting a business started is extremely time-consuming. Because entrepreneurs are working with little or no staff and limited budgets, the ability to plan and prioritize effectively is critical. It is not uncommon for entrepreneurs to work seventy to eighty hours per week in the initial stages of a business and still leave the office with many tasks unfinished. The inability to manage time efficiently will lead to poor performance. Poor performance reflects on the company. In the initial stage of the business, entrepreneurs either are guilty of trying to perform too many tasks on their own or are doing their best with the limited funds they have. When they do employ personnel, good entrepreneurs will utilize them to their best advantage. They will learn to delegate duties and responsibilities and to enable employees to fulfill those duties by giving them the autonomy to do so.

## ***Dependability***

It is important to follow through on commitments that have been made. Storefront retail businesses need to open the doors when the sign on the front of the door says they will open. E-commerce businesses need to deliver goods within the time frame indicated. Undependability can

lead to disaster for fashion retail businesses. Consumers expect excellent service.

### ***Flexibility***

Successful entrepreneurs must be able to adapt to the changing demands of customers and their businesses. The world has become a fast-paced, ever-changing place. The tastes, wants, and needs of the consumer are also ever changing. The ability of the entrepreneur to adapt to these changes will increase the opportunity for success.

## **Traits of Unsuccessful Entrepreneurs**

The personality traits in the following discussion have been identified as negative qualities for the entrepreneur, as they relate to success. Note that negative characteristics can be changed, but it requires effort. If the prospective entrepreneur has the determination, self-discipline, and objectivity to identify and rectify possible problem areas, the potential for entrepreneurial success increases.

### ***Dishonesty***

The fastest way to create an unsuccessful business is to be dishonest with one's customers, suppliers, funders—any of the people and businesses with whom the entrepreneur deals. People want and need to trust business associates. After that trust is broken, it is difficult to reestablish. Credibility is vital to the success of any business.

### ***Impatience***

It is true that disaster follows entrepreneurs who lack patience. Impatience may lead to hiring the wrong people, targeting the wrong market, pricing inventory too low to make a profit (just to get it sold), or opening a business at the wrong time. People who are impatient believe that the business absolutely has to be open now, or the market will disappear or go elsewhere. This does not hold true for most industries. Only after careful planning and research should a business be staffed, stocked, and opened.

### ***Reluctance to Ask for Help***

There is a misconception among potential entrepreneurs that asking questions about how to run the business suggests that they lack the skills and knowledge needed. Entrepreneurs cannot be experts in all areas of a business;

all business owners need help and support. More often than not, unsuccessful entrepreneurs waited until it was too late to ask questions about issues critical to their business. There are a number of organizations across the United States with a mission to champion the entrepreneur. They provide education and resources to help small businesses succeed. A list of these support organizations is provided in Appendix A.

### ***Lack of Interpersonal Skills***

Successful fashion retailing begins with making the customer feel comfortable, welcome, and valued. If someone has a low tolerance for people, retail business ownership is not the career path to pursue. Envision trying to shop in a favorite store with the “out of control child” screaming in the background and destroying merchandise as the mother pursues her search for the perfect dress. Picture a disgruntled employee complaining to customers about the business operation. The successful entrepreneur must be able to pacify discontented customers, motivate sales associates, and negotiate with suppliers. Successful businesses provide excellent customer service. Successful entrepreneurs recognize the people skills needed to provide this service. Kay Saunders, the founder of the Human Asset Imaging Institute, which offers programs and workshops on the development of interpersonal skills, asserts, “In retail it is of enormous importance that owners and associates connect with others to influence their buying decisions. People may not remember a specific product, but they will not forget how they were treated. Being creatures of habit, people like consistency and courtesy served with conversation and commitment.”<sup>3</sup>

## **Assessing Yourself: Traits and Skills**

Entrepreneurs have to know their strengths and weaknesses, both on a personal and a business level. In addition, entrepreneurs must compensate in some way for the areas in which they are not especially proficient. A business is a reflection of the person running it. By conducting a self-analysis before going into business, the prospective entrepreneur will develop an inventory of his or her personal needs in the areas of motivation, skills, and talents. Self-analysis also clarifies the entrepreneur's values in terms of money, power, fun, independence, and security. The prospective entrepreneur should



compare personal qualities and preferences with those of entrepreneurs who succeed and those who have been less fortunate. The analysis should examine the following: how the prospective entrepreneur gets things done; how the entrepreneur interacts with people; and how the entrepreneur goes about making decisions. Many successful entrepreneurs constantly assess themselves and solicit feedback from friends, family, peers, and employees. The process of continual self-assessment becomes a habit for many successful business developers.

Figure 1.5 is a personal assessment that can be used to score and assess individuals who are considering becoming entrepreneurs. Take a moment to fill this form out and find out your rating. Assessment instruments are used in many different industries and come in many different forms. This assessment tool was developed simply to help prospective entrepreneurs identify those areas in which they are weak and those in which their strengths lie. It is recommended that the prospective entrepreneur complete it independently and then ask someone, such as a professor or colleague, to fill out an evaluation about the prospective entrepreneur. The personal assessment is most helpful when the participants are open-minded and willing to receive feedback.

The prospective entrepreneur should read each statement and enter a score in the right column, using a scale of 1 to 4. When completed, the score is calculated by adding all points in the score column.

A score of between 31 and 80 points is in the mid-to-low range. Starting a business requires a commitment by the entrepreneur to focus significant amounts of time and energy on the business. A mid-to-low score could mean that the prospective entrepreneur needs to spend more time developing confidence, skills, and abilities in certain areas before committing time and funding to a new venture.

A score between 81 and 124 points is in the mid-to-upper range. It indicates that the prospective entrepreneur possesses many of the key habits and skills needed to become successful. A high score indicates that prospective entrepreneur will welcome challenges, set goals, and implement the steps necessary in achieving those goals.

## Assessing Your Business Skills

Many successful entrepreneurs believe that they learned much of what they know through the “school of hard

knocks.” Because the business climate changes much more rapidly now than it did ten or even five years ago, the school of hard knocks may not provide the education it once did. Technological, social, and economic trends have resulted in increased levels and speed of communication and product life cycles. Globalization is part of today’s business world. Entrepreneurs cannot be everywhere at once. They cannot possibly experience firsthand all the skills needed to grow a business successfully. Time and resources are limited for new companies. Entrepreneurs can, however, compensate for these limitations. How? By hiring personnel or forming an advisory team with strengths in their areas of weakness. The business failure rate is high for those who go into it without knowledge of the issues of today and tomorrow and a good support system to help them accomplish all that is needed.

Good entrepreneurs assemble a management team or advisory team to take care of areas in which they lack knowledge and experience. For example, the prospective entrepreneur may retain the services of a law firm or an accounting service, in anticipation of opening the business. It should be noted that there are businesses that have succeeded in which the owner lacked any firsthand experience in the industry but brought on a management team or advisory team that did.

On a daily basis the entrepreneur must make decisions that require a basic knowledge of business. The entrepreneur is the person responsible for the strategic planning and growth of the company. Often, he or she is the person who will develop a marketing plan for the organization, based on an evaluation of the general industry and the competition. The entrepreneur is also likely to be the person who identifies the target market, and where it is located, and decides how to reach it in numbers large enough to sustain the business.

In addition to analyzing the customer, the entrepreneur will have to read and understand financial statements and know how to access money. Often because of the lack of a financial background, the entrepreneur does not initially know what the business needs in order to operate and grow. Many times, insufficient research is done to determine all the start-up capital needed. For example, retail stores in most states are required to post a **sales tax bond**, based on projected sales. A sales tax bond is essentially a deposit held by the state to offset any unpaid sales tax incurred in the business. For a business projecting large sales, the amount of the bond can be significant. Entrepreneurs

**Figure 1.5**

A personal assessment form.

STATEMENT	RATING SCALE
I attend the organizational meetings I have scheduled.	_____
I show up for classes and other events on time.	_____
I take responsibility for my college courses and assignments.	_____
I prioritize my "list of things to do."	_____
I finish my assignments on time.	_____
I know how much time I spend on each activity and/or class per week.	_____
I manage my time well in college.	_____
I am excited when new opportunities and projects present themselves.	_____
I have the ability to make decisions quickly.	_____
I make good decisions.	_____
I like working on numerous tasks at the same time.	_____
I enjoy competition.	_____
I set goals for myself and meet those goals.	_____
I am responsible with my finances.	_____
I am happiest when I am responsible for myself and my own decisions.	_____
I prefer to work in a group setting on a class project rather than alone.	_____
I have the ability to motivate others.	_____
I volunteer to take on leadership roles. I enjoy being the one responsible for organizing a project and keeping the project on schedule.	_____
I enjoy new challenges.	_____
I am talented at finding new ways to do things.	_____
I am intuitive.	_____
I enjoy staying busy. I don't like to sit around.	_____
I am self-motivated.	_____
I enjoy public speaking and/or speaking in class.	_____
I look for ways to acquire new skills that will enable me to grow both as a person and as a student.	_____
I welcome change. I find it exciting.	_____
I can adapt easily to change.	_____
I am not timid about speaking in class and asking questions.	_____
I recognize that my health is important, and I take the steps necessary to maintain my health.	_____
I can work on projects independently.	_____
I am able to get along and work well with other students.	_____
TOTAL SCORE	_____



may also struggle because they do not understand the impact of financials on the business. What happens when inventory does not turn over as anticipated? Should more inventory be added? How often should the inventory turn over? Good market and financial research will provide answers to these questions.

The entrepreneur will have to analyze trends and personnel requirements as well as know how to plan for growth strategically. He or she will be required to negotiate the lease agreement for securing a piece of real estate or to determine the cost of producing and distributing a catalog or the terms for developing and managing a website. Entrepreneurs in many areas of fashion retailing must purchase and manage stock. The entrepreneur will need to ensure that procedures are in place to turn stock the fastest way possible and to limit the amount of stock to reduce storage, stocking, and maintenance costs. Without the education and knowledge required to address these issues, the chances are high that a new business will not succeed.

**Funders**, such as bankers, are individuals or institutions and organizations that loan money to the business. They will always look at whether the entrepreneur has experience in the industry in which he or she wants to start the business or is associated with individual(s) with experience in the industry. Funders believe, and rightly so, that unless a person has worked in retailing, he or she will not have the knowledge and practical skills needed to run a retail operation. Many prospective entrepreneurs establish a career plan designed to enable them to gain as much experience as possible in the area or field in which they want to start a business.

An entrepreneur has to have a basic understanding of all aspects of the business. There are a number of internship programs available that provide an opportunity to work in the fashion retail industry. Small businesses are a wonderful place to learn about the world of the entrepreneur because the entrepreneurs and employees wear many hats. Business knowledge should come from academic training and texts, work experience, and networking with entrepreneurs. It is important to seek out those entrepreneurs who have been successful, as well as those who have failed. Most entrepreneurs are eager to share their knowledge, as long as the prospective entrepreneur will not be in direct competition with them.

## TIMING AND FUNDING AVAILABILITY

Three key factors come into play when determining the right time to start a business. The venture will demand much of the entrepreneur's time; the business may not initially provide the fashion retail entrepreneur with the lifestyle he or she had anticipated it would; and it may take more money than the entrepreneur has available or can secure.

Assessing where the entrepreneur is in his or her life is important. Careful planning, as well as articulation and revision of goals, will help the entrepreneur know when to start the new venture. It is important for the entrepreneur to address his or her life priorities. The pursuit of a higher educational degree; lack of experience in the field; the need for more money, more time, or for a stronger support system—these are all conditions that may cause someone to postpone entrepreneurial endeavors. The ability to measure where one is and what one wants in life at a particular stage is significant to entrepreneurial success. Entrepreneurs begin by defining what is most important to them in life, for example:

- I want to be surrounded by beautiful clothes.
- I want to make lots of money.
- I want to live on the East Coast.
- My friends and family will come first in my life.
- I want to complete a doctorate program.

After determining what is most important and most motivational, the entrepreneur will want to analyze whether the business will allow him or her to accomplish those goals, and if so, how.

Above all, life balance is critical. The burnout rate is high among entrepreneurs who do not take time for themselves, friends, and family. Numerous entrepreneurs burn out within the first two years simply because they have no other outlets in their lives. Successful entrepreneurs recognize the importance of balance.

## PLANNING FOR SUCCESS

The personal traits of an entrepreneur have been examined. This section addresses issues relating directly

to the proposed business. Among the top reasons for a business's failure are the following:

- Lack of good initial research of the concept
- Lack of sufficient capital for the start-up phase
- Lack of solid business planning
- Poor management by the entrepreneur
- Failure to seek and identify a market niche
- Lack of understanding of the competition
- Lack of knowledge of the market
- Poor customer service

A well-researched concept is critical to any entrepreneur. Furthermore, theory should be measured against reality. Successful entrepreneurs research prospective customers, product, competition, personal goals, timing, and funding availability before moving forward. Entrepreneurs who are not successful often have not taken the time to evaluate and test their concept.

The first step in establishing a business from a legal perspective is setting it up correctly with the state and federal government. Tax codes are ever changing, and the liabilities attached to different corporate setups are important to consider. According to SBA, most small businesses (70%) are sole proprietors. Sole proprietors are single business owners (no partners), operating themselves. It is fairly easy to set up this type of business structure where all profits, losses, and liabilities are the responsibility of the business owner. When considering starting a new business though, liability is a key issue. Sole proprietors are personally liable for all debts and losses to the business. There is no distinction between them and their business.

Partnerships, a business created with one or more partners, can be an easy way to establish a new business as well. Depending on the structure, a limited partnership (LP) or a limited liability partnership (LLP) limits the amount of liability to each partner. Things can get complicated with loss to the business, as partners are connected through these agreements and can be liable for monetary and legal issues that arise. In most cases this is not a recommended form of business ownership, although it can be an easy way to start and test a new idea until a more formal business entity is formed.

LLCs (limited liability corporations) are a fairly new form of business ownership and can be relatively flexible combining ease of tax reporting with liability for owners.

LLCs separate your business from your personal finances, which is important from a legal perspective. This is often a recommended business setup for new entrepreneurs, who can also establish a business as a single member LLC. There are certain procedures in place that must be followed, including writing articles of incorporation, publishing your new business, and so on. Others might pursue corporation (C corporation or S corporation) status. These provide strong liability for owners but at a cost, which is profits as taxable income. There are many nuances and considerations to consider for your business entity. Setting up your business right from the beginning is essential and should always be reviewed with an accountant and lawyer before proceeding.

In the past few years, a new form of business ownership has also launched, the benefit corporation. Currently this is recognized as a legal form of ownership in thirty-three states and DC, so for-profit companies can be created with the formal intent on creating public benefit is some way. Benefit corporations operate the same way as other corporations but are legally responsible to consider the impact of their decisions on the environment and society. As the tide of business continues to turn toward making decisions that are right for all stakeholders, more and more businesses are considering this legal entity option. Allbirds and Patagonia are two examples, but more can be learned at <http://benefitcorp.net/>. If interested in pursuing this line of business creation, also consider researching B corporations too.

Sufficient capital is a must. More often than not, entrepreneurs open their doors without sufficient capital to sustain the business through the start-up phase. Researching other fashion retail businesses will provide hard data on the approximate amount of capital needed. It is important to remember that every business will be different and that some adjustments will need to be made to the financials to fit a specific business.

In addition to sufficient capital, it is also necessary to understand the financial statements of the business. The financial statements serve as a management tool. They show the condition of the business and provide information necessary to make good financial decisions. The decisions to increase inventory, to seek additional financing, and to hire new employees rest on the financial health of the business.

A business may fail because of a lack of planning. Some prospective entrepreneurs believe that they do not have time to work on a business plan. This can be the kiss of death. The business plan provides direction, addresses both strengths and weaknesses of the proposed business, and allows the entrepreneur to look at the business as a whole, in its entirety. A good business plan will increase chances of success dramatically. How could it not? Through development of an effective business plan, the entrepreneur addresses the business from a variety of angles. The plan will confirm whether the business concept is feasible and will guide the best use of resources. It is not uncommon for entrepreneurs to produce a number of business plans for different business opportunities. The business plan is discussed in greater detail throughout this text. At this point, it is important to recognize the significant role this plan plays in the overall success of a business.

Poor management can be the greatest single cause of business failure. Management of a business encompasses planning, organizing, controlling, directing, and communicating. It is important to hire the right people, to properly train these employees, and to motivate them. Effective management requires good leadership skills. Leadership is the art of persuading, guiding, and motivating. An effective leader will encourage productivity and guide the employees through the business rather than simply dictate what tasks need to be done.

Entrepreneurs should determine how they will exit the business before the business is started. Planning can afford the entrepreneur the opportunity to create value in the company, so it can be sold sometime in the future. Closing the doors without a plan can sometimes leave unpaid obligations, employees without jobs, unsold inventory, and a broken lease. Exit strategies, further discussed in Chapter 5, involve determining what the business is worth and how this is to be calculated. It also involves knowing the time frame in which the entrepreneur plans to exit the business.

Those entrepreneurs who have succeeded generally acknowledge that perseverance is at the top of the list of success factors. They did not give up. They recognized that continually monitoring the industry and market and maintaining the willingness to change with that industry and market kept them going. Flexibility is important in their ever-changing environment. Entrepreneurs also know that to succeed in the fashion retail business, they must earn the loyalty of their customers. Good business

owners will make their customers the number one priority. They will provide service beyond the expectation of the consumer. In the words of Benjamin Franklin, “I have not failed. I have found 10,000 ways that don’t work.” Entrepreneurs do not set out to fail. Careful planning and knowledge of the industry and markets increase the chances of finding the one way that works.

## DEVELOPMENT OF THE BUSINESS CONCEPT: WHAT WILL THE COMPANY BE?

If, after careful assessment of both personal and business skills, the prospective entrepreneur determines that he or she has what it takes to open a new business or buy an existing business, then it is time to develop the business concept. A sample concept statement is included in Appendix D. The concept begins with an idea. It often arises out of a consumer need that is not currently being satisfied. The entrepreneur has thought outside of the box and created an opportunity for a new product. Although the concept is not an actual part of the written business plan, it is crucial to the planning process. To be successful, the business concept must meet four requirements:

- There must be a group of customers willing to purchase the product or product lines featured by the business at the price offered.
- The market must be large enough to support the business and generate a profit.
- The entrepreneur must be able to differentiate his or her business from that of the competition.
- The entrepreneur must be able to finance the business—either personally or through funding sources.

With these requirements taken care of, the entrepreneur is ready to contemplate business ownership.

Picture yourself totally lost. You know where you want to go. You need to know who you are and what you stand for. A **mission statement** will provide focus. It is a statement addressing the purpose of the company. Entrepreneur Tips 1.1 outlines questions that can be used to guide the development of a mission statement. A **vision statement** addresses what the owner stands for and what he or she believes.

Formulating mission and vision statements and committing those statements to writing establish a sense of direction for the company and help the entrepreneur

### QUESTIONS A MISSION STATEMENT SHOULD ANSWER

- What are the basic values of the company? What does the company stand for?
- What principles or values guide the business?
- Who is the business's target market?
- What are the company's basic products and services? What customer needs and wants do they satisfy?
- How can the company better satisfy those needs and wants?
- Why should customers do business with this company rather than with the competition?
- What is the personality of customer service? How can this company offer the customer better value?
- What is the company's competitive advantage?
- What benefits should be provided to the company's customers five years from now?

stay on track. A sample mission statement might include, "Our mission is to provide a line of clothing that addresses the needs of the physically challenged." The concept for the company should both agree with and help define the entrepreneur's belief system. Business goals may include creating a new web-based fashion retail business or achieving a particular profit within a certain time period. Personal goals may include selling the business within five years, helping children who are physically challenged, or donating five outfits to a local charity each year. Entrepreneur Tips 1.2 illustrates an example of a mission and objective statement for RealWomen, Inc., the business featured in the sample business plan (Appendix D).

It is essential that the mission and vision statements be communicated to employees, who, in turn, will communicate them to customers. They must become an integral part of the culture of the company. An example of a business concept that reflects a personal vision is that of Wishing Wells, a line of special clothing for special people. Although many know her as Mary Ann of *Gilligan's Island*, Dawn Wells is also an author, speaker, philanthropist, and entrepreneur. Dawn created the company Wishing Wells, a line of apparel designed for the elderly and physically challenged. Wells believes that giving someone special clothes can make all the difference in their lives. She says, "I know what it feels like to take care of someone you love, to care for them, dress them, and even spend hours trying to rip a bathrobe down the back to make dressing easier. I know what it feels like because I had a grandmother we took care of at home."<sup>4</sup> Easy-on, easy-off clothing became the concept for her entrepreneurial venture (Figure 1.6). The market was there to support the idea.

**Figure 1.6**

Successful entrepreneurs recognize opportunities for niche markets.





## SAMPLE MISSION AND OBJECTIVES STATEMENT

### Mission and Objectives Statement

The mission of RealWomen, Inc., is to be the premier specialty store for sized 11/12 to 19/20 contemporary women by providing affordable fashion-forward merchandise and excellent customer service. Our long-term goal is not only to achieve profit objectives, but also to be the number one fashion specialty store for our market in Diva City by targeting customers, providing value and service, promoting the company, and later expanding.

### Target Customers

The target customers of RealWomen, Inc., are mid-level income women who shop for fashionable, quality apparel and accessories. The customer profile is a contemporary woman between the ages of eighteen to thirty-five who wears a size within the range of 11/12 to 19/20 and who purchases fashion apparel and accessories in a moderate price range. She believes in “fashion first” and embraces her curves. She seeks apparel and accessories for casual and work wear. She may be a college student or a working woman. This woman currently spends nearly \$1,000 annually on her wardrobe, largely outside of Diva City. Twenty-five percent of Diva City’s population fits this consumer description, and no retailer is focusing on her apparel preferences in this downtown location.

Within Diva City’s population, 25 percent are women between the ages of eighteen and thirty-five. This age group represents one-fourth of the large-size market population in this geographic area. Demographics also show a median income level of \$40,500, with the vast majority being college students or working professionals. Their primary motivations for purchase are

- desire to buy in their geographic area,
- need for quality clothing in sizes 11/12 to 19/20, and
- ability to purchase fashion apparel and accessories at reasonable prices.

In a survey conducted by the local chamber of commerce and university, 300 female consumers ages eighteen to thirty-five who indicated they were a plus size reported that they would purchase clothing in the area if the selection existed. They also indicated that they spend approximately \$750 on their clothing each year.

### Positioning

We want our target customers to perceive RealWomen, Inc., as having the most timely and competitive selections of fashionable, quality merchandise. We believe that one of the keys to our future growth is the consumer between the ages of eighteen and thirty-five who shops for fashionable, updated merchandise in sizes 11/12 to 19/20. By positioning the company in this size range and age span, we are filling a retail void in the marketplace. Diva City has only two plus-size stores, and both carry clothing for more mature women.

### Merchandise

RealWomen, Inc., will present a balanced selection of fashion apparel and accessories in a variety of colors, fabrications, styles, and brands that represent current fashion trends. Our merchandise must be timely, fashion-forward, and be of the finest quality available in the moderate price range.

To create a sustainable competitive advantage, the merchandise focus will be on recognizable name brands that are not carried by the competition. Consistency and exclusivity of these lines will build brand acceptance, which will encourage repeat purchases, and, subsequently, increase profits.

### Value and Service

Although RealWomen, Inc., wants to be a fashion leader, we also want to offer our customers the best available price on all offered goods. Through research and regular, preplanned market trips, we have the opportunity to buy top-quality merchandise in a moderate price range.

In addition we will offer the finest possible service available. Our sales staff must be courteous, caring, and knowledgeable about our merchandise and the business. Above all, our sales staff must be available to our customers and willing to help them achieve the looks they want. To accomplish this, we require a regular updating of our computerized client profile lists, and we encourage all sales associates actively to call our listed clients to advise them of new merchandise shipments that would be of interest to them.

### SAMPLE MISSION AND OBJECTIVES STATEMENT (*continued*)

RealWomen, Inc., will also offer services such as credit/debit card transactions, free home delivery on purchases greater than \$200, low-cost alterations, and year-round gift wrapping.

#### **Promotion**

To reach our target customer, gain new clients, and promote our image as a fashion leader, RealWomen, Inc., will present its merchandise in a variety of formats and locations. In addition to semiannual fashion shows (fall and spring), we will sponsor several trunk shows in the store location. RealWomen, Inc., will also participate in fashion trade shows offered locally. We will actively seek cooperative advertising agreements with our vendors and sponsor frequent television, radio, and print media ads, as well as ads on the RealWomen, Inc., website. Advertised quarterly sales (fall, winter, spring, and summer) and monthly one-day sales will also help gain new, value-

minded customers, while keeping the inventory on the sales floor fresh and updated.

#### **Expansion**

It is the intention of the owner to keep the store at 2,500 square feet for at least three years. Future related merchandise lines, such as hosiery, lingerie, and shoes, may be added as the customer base grows.

RealWomen, Inc., recognizes the opportunity to create awareness of the store and to expand sales through the internet. A website and social media outreach will be available upon opening of RealWomen, Inc. Because apparel goods are typically the first level of items purchased on the web and are among the leaders in online purchases, RealWomen, Inc., will continue to monitor sales and weigh options with regard to web sales distribution in the next two to three years.

After the mission and vision statements have been developed, they will become the foundation on which the business will be based and the grounds on which the direction and feasibility of the business concept will be explored. Mission statements may change as research begins. There is nothing wrong with that, as long as the mission and vision statements, as well as the business plan, complement one another. As the business concept is developed, the entrepreneur will want to look closely at what matters most to him or her. The business concept may be defined and redefined many times.

## Researching the Business Concept

A significant amount of research should go into the business concept before large amounts of time, money, and energy are invested in the business. The reason for researching and developing the concept for the business is to test it against economic, financial, and political realities. This development process helps determine whether efforts should go forward and whether additional resources

should be committed to the concept. It is important to develop a business concept and business plan from an objective perspective. The prospective entrepreneur must be willing to revise the original concept if the need arises.

It is important to identify ways in which the business will distinguish itself in the market. Some competitors may do some things well; others may not. The entrepreneur should seek new or better ways of doing things in order to offer a unique and competitive advantage over the other businesses in the marketplace. Also, the prospective entrepreneur will encounter some companies that have not changed with the industry, including e-commerce. Such businesses may provide an excellent opportunity.

It is critical for the entrepreneur to look at the economic trends, technological advances, and demographic shifts in order to assess the impact these elements will have on the fashion retail industry. As discussed earlier, as business ebbs and flows and customers buy clothing and accessories differently than ever before, new businesses can emerge to monetize on the new trends. Analyzing the market, thinking ahead, and taking risks are what entrepreneurs are all about. Zappos (the online shoe website that



has pulled market share away from independent shoe stores, despite being a business not typically thought to be appropriate for e-commerce sales) has flourished by thinking thoughtfully ahead of their competition and making buying shoes as effortless as possible.

During economic downturns, sales in the better-apparel market may also take a turn downward. Technological advances have provided new channels of distribution through the internet, linked websites, apps, video catalogs, and social media. Demographic shifts in the population may indicate more disposable income for teen customers. A comprehensive survey of environmental factors often identifies trends that may offer new business niches.

For others, the concept has significant philanthropic value. TOMS Shoes is one such example (Figure 1.7). A 2010 article in *Fortune* magazine provides the story of TOMS Shoes. In 2002, Blake Mycoskie teamed with his sister to compete on the TV reality show, *The Amazing Race*. Although they did not win, his travels took him back to Argentina in 2006. In describing his visit, he states:

My first venture was a door-to-door laundry business for students that I started while on a partial tennis scholarship at Southern Methodist University in Dallas. I wanted to do something that didn't depend on my hands to create value.

My father is a doctor, so when he's playing golf, he's losing money. When I came out of a business class and saw my trucks picking up laundry, I thought, I'm in class and making money at the same time.

**Figure 1.7**

TOMS Shoes is a business with a social conscience between its “one for one” model and the many partnerships celebrated around the world.



After we expanded EZ Laundry to four colleges, I sold my share. I moved to Nashville to start an outdoor-media company that Clear Channel scooped up three years later. In 2002 my sister and I teamed up to compete on the CBS reality show *The Amazing Race*. We didn't win, but my travels during the show led me back to Argentina in 2006. On my visit I saw lots of kids with no shoes who were suffering from injuries to their feet.

I decided a business would be the most sustainable way to help, so I founded TOMS [in Santa Monica], which is short for a “better tomorrow.” For each pair of shoes sold—TOMS are based on the classic *alpargata* style worn in Argentina—we donate a pair to a child in need.<sup>5</sup>

In 2010, Fast Company named TOMS Shoes number six in its list of top-ten most innovative retail companies:

After four years in business, 33-year-old Blake Mycoskie has proven that his socially conscious “one for one” model is more than just a novelty project. For every pair of his signature *alpargatas* sold, one free pair is given to a child in the developing world.<sup>6</sup>

Now years later, TOMS sells fair trade coffee, eyewear, bags, and has cafés in addition to their original shoe collection, and it has grown into a \$400-million-dollar company based on a social mission of giving back.

What makes the TOMS Shoes concept exceptional? Creating a new market for an old product? Launching a company with a socially conscious mission? Engaging consumers in its mission? All these factors provide entrepreneurial inspiration, from the original concept to the new concepts that keep the company growing.

Researching an entrepreneurial venture involves more than a visit to the library. It encompasses seeking the advice of friends, bankers, business advisers, professors, and other entrepreneurs. As advice and information are offered, the entrepreneur must listen and keep an open mind. The entrepreneur should not expect people to simply confirm what the entrepreneur is thinking. The entrepreneur should give information sources the freedom to be honest. Entrepreneurs should acknowledge the importance and value of the perceptions and opinions of others. The prospective entrepreneur will want to know whether a product will sell and whether financing will be available. The entrepreneur must remain objective in studying and evaluating information.

Be sure to look for the strengths of the concept, the weaknesses, any opportunities, and certainly any future threats.

## Writing the Business Concept Statement

Because the business concept does not appear in the final business plan, why is it necessary to write out the **concept statement**? A concept statement is a document used to present an idea for a business. The concept is used to determine whether the business idea is potentially sound. It is also used to help the entrepreneur focus on what she or he wants the business to be and how it is going to get there. The concept should be concise and well-thought-out. A fully developed concept provides the entrepreneur with the opportunity to analyze potential success by addressing the target market, the financial strategy, how the market will be reached, and how the concept compares with the competition.

Note that concept statements should not be too general. A statement such as, “The business will provide good service,” will mean different things to different people. Concept statements should not be too broad. “Fashion retail store” tells very little. “Fashion retail store featuring clothes designed for the physically challenged” is a more complete statement. Many concept statements are incomplete because they omit key elements that provide information about what the business is going to be and do. The test for a well-defined concept statement is to let someone, such as a funder, read it to see if he or she is able to understand the business proposed. The business concept statement should not be more than one or two pages. The concept statement is the first step in developing a sound business plan (refer to the concept statement included in Appendix D).

## WHY BUSINESS PLANNING IS IMPORTANT

The remainder of this text focuses on the development of the business plan itself. A **business plan** is an evolving document that outlines the focus and direction for the

business. The importance of a comprehensive business plan cannot be overemphasized. A well-thought-out business plan provides direction for knowing what the company is or will be, defining what the company goals are, and determining how those goals will be reached. It reflects the commitment of the entrepreneur. The business plan is critical for obtaining outside capital. It will provide information key to managing operations and finances. It will also provide a way to measure performance; it will detail a tactical plan for carrying out strategies and accomplishing goals. The process of developing the plan gives the entrepreneur the opportunity to evaluate the entire business. In addition, the business plan will allow the entrepreneur to take a proactive, rather than reactive, approach to the business.

Business plans are not measured by size but by content. All business plans should be organized into distinct sections. In the content of the plan, funders look for experience in the industry, identification of a market niche, ability to generate cash flow, and whether the entrepreneur has the necessary operating and control systems in place to manage the business. The business plan is intended as a management tool to be evaluated on a regular basis.

The plan is intended to provide a means of measuring the direction the company is taking against the projected outcome. The plan will provide important information about the goals of the company, financial forecasts, the market, the industry, management strategies, and other facts needed to lead the company to success. The plan should be visited often. Fashion trends change frequently. Both the internal and external environments can affect the business. The ability to analyze and adapt to change through a well-written plan eliminates unwanted surprises.

Although there are many organizations and consultants ready and willing to assist with writing business plans, the plan should be prepared by the entrepreneur. Lenders and investors will view this as an indication that the entrepreneur understands the business. They will want to know that the entrepreneur is aware of the risks involved in creating the new venture and that measures have been taken to reduce those risks. The criteria used by lenders and investors in evaluating business plans are covered in Chapter 11.

## CONCLUSION

Understanding entrepreneurship, its rewards and challenges, is the first step in considering business ownership. Entrepreneurship is a discipline like no other. It is an opportunity to act on dreams, to become one's own boss, to secure financial freedom, and to share a passion with others. Some people have the personal attributes needed to be entrepreneurs; others do what it takes to develop the skills and qualities necessary to succeed; still others never succeed in developing these skills and qualities. Developing a business requires an analysis of both personal and professional traits. It requires an

examination of the characteristics that differentiate those who succeed in business from those who do not. Successful entrepreneurs persevere. They have a passion for what they want to do. They take responsibility for themselves and their businesses. They learn the skills necessary to run a business.

Planning is critical to a successful business. The entrepreneur must analyze the business from a variety of angles, looking for its strengths and weaknesses with equal vigor. The challenges of business ownership are immense, but the greatest challenge may be the objective evaluation of oneself and one's ideas.

Begin with the end in mind.

## Key Terms

business plan  
concept statement

entrepreneur  
funders

mission statement  
sales tax bond

virtual companies  
vision statement

## Discussion Topics

1. Discuss the factors that contribute to a successful retail business.
2. Identify personal areas of weakness that may affect the success or failure of a prospective entrepreneur.
3. Conduct a self-analysis, using the areas of strength and areas of weakness discussed in Topics 1 and 2.
4. Discuss the top three reasons why a business might fail. Provide examples of actual businesses that have succeeded, even though they would seemingly fit into one or more of the criteria for failure.
5. Discuss the importance of the development and evaluation of a business concept statement. Discuss the key elements.

## Suggested Readings

Burke, Sandra. *Fashion Entrepreneur: Starting Your Own Fashion Business*. Burke Publishing, 2008.

Harder, Frances. *Fashion for Profit*. Harder Publications.

Pink, Daniel. *A Whole New Mind*. New York: Riverhead Books, 2006.

Riso, Don Richard, and Russ Hudson. *Discovering Your Personality Type*. New York: Houghton Mifflin, 2003.

## Online Resources

### Entrepreneurship

<http://www.entrepreneurship.org>

Resource for information on entrepreneurship.

### Ewing Marion Kauffman Foundation

<http://www.kauffman.org>

The largest foundation in the world with entrepreneurship as its focus. Many resources available.

### How I Built This Podcast

[Http://www.npr.org/podcasts/510313/how-i-built-this](http://www.npr.org/podcasts/510313/how-i-built-this)  
Informative podcast from some legendary entrepreneurs who discuss how they got started in their industries.

### US Small Business Administration

<http://www.sba.gov>

Support, resources, tools for small businesses.

Read more about forms of business ownership here:

<https://www.sba.gov/business-guide/launch/choose-business-structure-types-chart>

## STUDIO™ Business Plan Connection

### Thinking Like an Entrepreneur

Taking the opportunity to interview an entrepreneur in the fashion industry can provide valuable information about the prospective business. You should let the entrepreneur know how much time will be needed when setting up the appointment and what you are trying to get out of the conversation. Knowledge gained from the interview can then be used to help in the development of the concept statement. Also recognize their time is valuable, perhaps offer some time to help in their business (even unpacking boxes or steaming clothing is appreciated).

1. Develop a set of specific questions you want the entrepreneur to answer and the general areas about which you would like information.
2. Conduct the interview with the entrepreneur.
3. Evaluate what you have learned.
4. Write a thank-you note, connect on LinkedIn, and follow up as appropriate.

### Potential Questions

Use these questions as a guide but develop your own set of questions based on what you feel is most important to know from a practicing entrepreneur.

- What motivated you to start your own business?
- How did you start your own business?
- What inspired your business concept?
- Where did you find help for starting your own business?
- What do you like most about running your own fashion retail business?

- What do you like least about running your own fashion retail business?
- What was the biggest surprise you had?
- How do you market and sell your products?
- What advice would you give to others?

### Assignment 1.1: The Concept Statement

1. Open the concept statement template in the Chapter 1 folder in the online STUDIO portion of this text. This template will be used to write your concept statement.
2. Save the concept statement template to your computer.
3. Complete the assignment by addressing the questions contained on the concept statement template.

After completing your interview with an entrepreneur, use your saved concept statement to develop your business concept. Answer the following questions:

- Where do you need to be positioned financially to launch the business? How much money will you need to be comfortable as the business is built?
- What is your source of income as the business is launched and grows?

### Concept Statement

- Nature of the Business
- Business Location
- Unique Aspects
- Intended Customer
- Market Penetration Strategies



# PROFILE OF AN ENTREPRENEUR

## Jen Mankins—Retail and Design Visionary

**Figure 1.8**

Jen Mankins, owner of Bird, first bought her business from an existing store and then expanded on the shop's original success, making it her own.



Bird owner Jen Mankins got her start in fashion working as an assistant buyer for Barneys New York, later moving into the position of head buyer for Steven Alan. Inspired by the independent design scene, Jen went on to cofound the women's fashion label Charlotte Corday but quickly realized that retail was her true calling. Bird is the manifestation of this passion, providing a space to champion thoughtful, independent designers.

Mankins bought Bird in 2004, and it's been a success ever since, now growing to five locations including four in Brooklyn and one in Los Angeles. *Lucky Magazine* named Bird its Top Visionary Boutique in the United States.

### What skills does it take to be an entrepreneur?

I would say my founding principles for being an entrepreneur are curiosity and confidence. You have to always be open to new ideas and new ways of doing things and be willing to take a chance. Surround yourself with people that challenge you and bring new perspectives to the table. Then be willing to go for it and be ok with failing. Every day, every situation is a learning experience. If you get stuck, then by definition you can't move forward. The key to being an entrepreneur is always moving forward.

### Tell us about Bird and your vision for the brand?

Bird is a destination for discovering the best independent fashion from all over the world. We believe in unconventional beauty, individual style, the power of community and the importance of sustainability. We champion both new and established designers. We believe our clients should feel great about themselves, and we strive to serve that purpose and to promote joy and confidence and self-expression through clothes.

### How has your business evolved over the years?

We started with one small women's store on 7th Avenue in Park Slope, Brooklyn. The mix was very local and very casual. From the beginning we believed in community and in connecting strongly with clients. We still have clients that have been shopping with us from the very beginning. The business has obviously grown over the years, but it has been organic, slow growth. We started with a second women's store in Cobble Hill, Brooklyn, where I was living at the time. I knew from the beginning I wanted to have a bigger impact and bigger reach into many communities that I loved and valued. I wanted Bird to be a part of helping shape and define communities that were growing and changing. I quickly realized I wanted to expand into men's clothing, as well as have more space to expand my brand offerings for women. So, I began looking for bigger spaces in Brooklyn, which took me out of the traditional townhouse neighborhoods, and I landed on a fantastic space in Williamsburg, Brooklyn. It was almost three times bigger than my other stores, so it really has allowed me to experiment with different brand assortments and category assortments as well. After that we knew the pull of digital was calling. We really wanted to be able to capture and communicate what we were doing in the shops, and so we set to work building our website and e-commerce platform. Then this year, we opened another neighborhood store in Fort Greene, Brooklyn, and a new West Coast flagship in Culver City, Los Angeles. The Los Angeles store is double the size of the Williamsburg store, and we are excited about future collaborations and explorations into even newer areas like home and design. What started as a small, 700-square-foot storefront with



three employees and sales of a few hundred thousand dollars, now is a business with five brick-and-mortar locations in two states, e-commerce, fifty employees and sales over \$10M.

#### **How do you find the designers you carry?**

Luckily today, with Bird as an established store and with all the new forms of digital communication, new designers are likely to reach out to us. We receive hundreds of submissions every season from new designers, and we do our best to review and consider as many as possible. We also walk trade shows and visit multibrand showrooms and exhibit spaces. And of course, we always have our eyes and ears open, and I am constantly asking people on the street or on the subway what they are wearing. And I am an avid shopper, mostly while traveling, and will try to find the best local designers wherever I go.

#### **What are the highlights of running your own business?**

The biggest and best part of running my own business is the people. The dedicated, smart, funny collective of people that make up the Bird family. Once a Birdie always a Birdie. Then there are all the incredibly talented, creative designers we get to work with, often building relationships that continue for years and decades. Last, but certainly not least, the loyal, discerning and joyful clients that become woven into our lives over the years. They push us and challenge us to always bring our very

best, in our inventory assortment and, most importantly, in our customer service.

#### **What are the most challenging parts of being a business owner?**

Again, I'd have to say the people, ha! But seriously, finding talented people and managing them is often the most challenging aspect of running a business. It takes so many different types of people to run a business, and they all have to work together and get along; that usually takes a lot of empathy and understanding and constant communication to keep everyone happy. Also, when a business is growing, finding enough great people can be a constant challenge. It seems like we are never not hiring. In terms of the work I do, the biggest challenge is constantly needing to wear a hundred hats and shift gears between creative projects, human resources, financial analysis, sometimes, all in the course of a few minutes. Navigating a lot of different areas that require different skill sets all the while taking into account the different personalities involved and all the possible outcomes is demanding, nonstop work. I am almost never not thinking about work that needs to be done and the people I need help from to do it.

#### **The retail climate is changing all the time, tell us how your business adapts to your customers growing needs?**

I think it goes back to my core belief about staying curious and asking a lot of questions. The digital side of retail,



**Figure 1.9**

Bird's flagship location in Williamsburg, Brooklyn.

from e-commerce to social media, is the biggest change and challenge we are adapting to lately. A lot of the technical aspects of the digital side of the business do not flow naturally out of the things I've learned as a retailer. But ultimately it still comes down to understanding your customers. Who are they, what do they do, where do they live, how do they live, do they travel, where do they travel, do they have children, how do they spend their time, do they like to shop in-store, do they like to be called, do they like to be emailed, do they want to see everything we are doing on Instagram, or do they want personalized text messages and emails with selections curated specifically for them? You have to always be asking questions and gathering information, and then looking for people with different perspectives and backgrounds if you can't find or don't have the right answers.

**What advice do you have for someone interested in starting [his or her] own fashion retail business?**

Believe in what you want to create, and then go out and meet all the different people you will need to know in

order to start and run your business. Get involved at the community level. Meet all the other small business owners in the area. Be open and honest. I've found that it is way more beneficial to be open and share what I am excited about or what I am working on or what I am struggling with; then people will feel connected to you. They will open up and share, and there is always more power in numbers. I think it is also very important to be open to how your business ideas might need to change. Business, by definition, is always changing. Change is inevitable, so it is better to accept that and figure out how you want to change, and then set off in that new direction.

### **Profile Questions**

1. Discuss what contributes most to Bird's success?
2. What makes Bird stand out among its competitors?
3. How are Bird and other fashion retailers adapting to the ever-changing retail climate?
4. Discuss what you learned from Jen Mankin's risks and successes.

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## CHAPTER 2

# DEVELOPING A ROAD MAP FOR SUCCESS

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### Objectives

**Upon successful completion of this chapter, readers will be able to:**

- **Explain the significance of the business plan.**
- **Describe the key components of a business plan and why they are important to address.**
- **Create a business plan using the resources in this chapter and in the STUDIO component.**

The basis of this text is to provide guidance and the framework necessary to grow a successful fashion retail business, with a primary outcome of developing a business plan to launch the venture. The following chapters offer detailed information concerning different sections of the plan, with a how-to approach. This chapter shows how a business plan is constructed and gives an overview of the questions used to stimulate thought processes. A sample business plan is included in Appendix D, and a blank business plan template is provided in this book's STUDIO.

### REASONS FOR DEVELOPING A BUSINESS PLAN

To an entrepreneur in today's fast-changing environment, the business plan is critical. A business plan is a written document outlining a direction for where the business is going and how it is going to get there. If approached objectively, the business plan addresses whether the concept is feasible, whether there is enough money to start and sustain the business through the start-up phase, what makes the best use of time and money, and whether there is a market large enough for the business to be profitable. The business plan provides the entrepreneur with the

opportunity to formulate a strategy for success. It is a communication tool for the entrepreneur and interested parties, such as funders and suppliers. The business plan is a living document in that it will change as the business concept is researched and developed and new information is obtained.

To funders, the plan helps ensure that funds are not being put into an unacceptable risk and that the entrepreneur has an understanding of the business, how much funding is necessary to launch and grow the business, and where the funding will be found. It gives funders a level of assurance that the entrepreneur has the ability to manage the business and overcome any hurdles.

Think of the business plan as a road map, one that guides the entrepreneur through the business. An individual would ordinarily not get into a car to travel to a new city without a map or GPS to provide direction. A business plan guides the entrepreneur's concept from an idea to reality. Finally, in terms of the prospective entrepreneur's frame of mind, the business plan forces the entrepreneur to take an objective and unemotional approach to the business.

The research needed to write a good business plan for opening a fashion retail operation affords the entrepreneur the opportunity to learn about the industry and the market. In addition, it requires the entrepreneur to "comparison shop" in terms of expenses relating to location, merchandise, operations, and personnel. A well-thought-out business plan can save the entrepreneur money. By taking time to understand the needed capital, the management team, the target market, and other factors, the entrepreneur can get off to a good start. It is easy to get caught up in the excitement of the potential new venture and want to jump in immediately. Good entrepreneurs step back and evaluate. Entrepreneur

## Entrepreneur Tips 2.1

### BUSINESS PLAN MYTHS

- **Myth #1: I don't need a business plan. It's just me.** The exercise of creating a business plan really helps the entrepreneur think through all the critical aspects of running a business, making better business decisions, and getting to profitability sooner.
- **Myth #2: Business plans are complicated.** A good business plan doesn't have to be formal or complicated, but it must be thorough and in writing. It should address the *who, what, when, where*, and *why* of the business.
- **Myth #3: I have to do everything I said I would do in my business plan.** The business plan is a living document. The content will change as the business evolves and markets shift. The entrepreneur needs to be flexible and willing to take detours along the journey.
- **Myth #4: A business plan is at least forty pages long.** It's not the length of the business plan but the quality of the content. The information should be easily accessible and not just in your head.

## Entrepreneur Tips 2.2

### OVERVIEW OF THE BUSINESS PLAN

A business plan should cover the following:

- Define the company, its goals, and objectives.
- Serve as a guide to help the entrepreneur stay focused on the direction of the company.
- Serve as a management tool for measuring whether the company is on target with its projections and goals.
- Provide an opportunity to understand the financial considerations of the business.
- Encourage research and the need for knowing the fashion industry and intended market thoroughly.
- Summarize the information needed to make critical business decisions.
- Provide an opportunity to understand both the internal and external forces that can affect the business.
- Provide an opportunity to understand the competition and to position the company in relation to that competition.
- Highlight the strengths and weaknesses of the business.
- Define a strategy for exiting the business when the time is right.

Tips 2.1 outlines common myths about business plans. Entrepreneur Tips 2.2 provides an overview of the overall purpose of the business plan.

## HOW THE PLAN TAKES SHAPE: STRUCTURE OF THE PLAN

There is no one correct way to write a business plan. Various books on the market outline business plans in different ways. The order of the content should flow logically. Some issues may repeat in more than one section of the plan. Figure 2.1 illustrates the layout for a business plan. Following is the organization selected for this text.

## Cover Letter

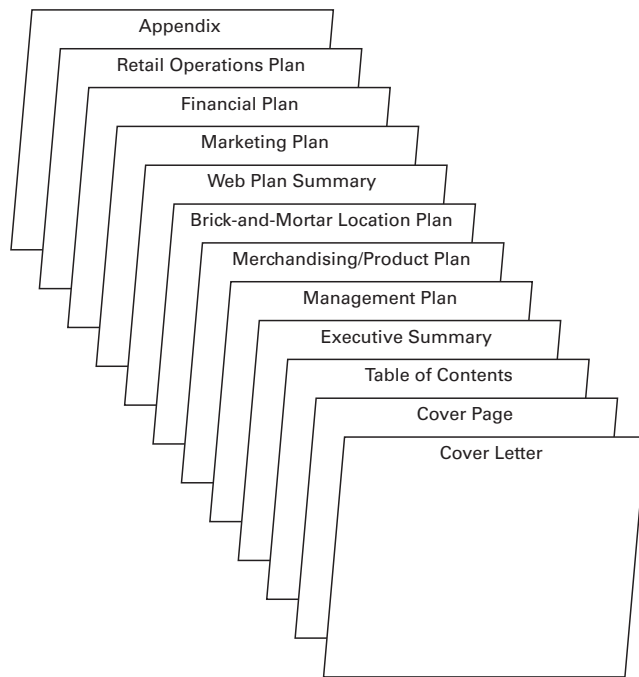
The cover letter is the vehicle through which the entrepreneur's concept is introduced. It should state the reason the business plan is being presented and introduce the documents that are included in the package. The cover letter should be precise and to the point—no longer than one page.

## Cover Page

The cover page identifies the document. It includes the name of the company; its address; contact information for the business, including an email address, if applicable;

**Figure 2.1**

A business plan format.



the date; and the name, title, and address (if the address is different from that of the business) of the contact person within the company. Information on the title page may be arranged in any format deemed appropriate.

Business plans often contain confidential information that should not be distributed—for example, the finances of the entrepreneur. It is advisable to include a confidentiality statement on the cover page. Figure 2.2 provides a sample confidentiality statement.

Before reading the following sections on the specifics of the business plan and financial plan, review the tips for writing a good business plan contained in Entrepreneur Tips 2.3.

## Table of Contents

The table of contents should list each section of the plan and the page number on which it first appears. The reader will not necessarily start at the beginning of the plan and read through it, front to back.

## Executive Summary

This is the first opportunity the entrepreneur has to grab the reader's attention. The **executive summary** provides a sketch, or overview, of the business. It should contain key

**Figure 2.2**

A sample confidentiality statement.

Business Plan

November 15, 2018

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points relating to each section of the plan. It should include information about the business concept, the management team, the financing needed, how the entrepreneur intends to reach the market, and the prospective business's competitive advantage.

The executive summary follows the cover page in the business plan. It may be written first or last. It is not uncommon for it to be written first, to serve as a synopsis of what is to come. It can then be rewritten, once the final business plan is complete, to reflect any changes. The summary should be written in narrative form, to tell the story of the business. It should not be longer than two pages. Readers will be looking for the *why* and *how* of the business, as well as the factors that will contribute to the success of the venture.

The executive summary should provide the following:

1. **An overview of the business**—This section includes the products or services being offered, what is unique about them, and how these goods will get from the supplier to the customer; the type of business, such as the type of organization (a corporation or limited



### TIPS FOR WRITING A GOOD BUSINESS PLAN

The following are some tips for preparing an eye-catching business plan.

- Determine who the reader will be. For the document to be effective, the entrepreneur must take into account the reader's perspective. For example, a banker will look for the business's ability to generate positive cash flow, whereas suppliers may only look at the concept of the business and its ability to attract customers.
- Focus on content. The length of the plan will depend on how long it takes to say what needs to be said. The less complicated the business, the fewer pages it will take to describe. A typical plan ranges from twenty to forty pages.
- Take the time to review the plan before it is distributed. Search for spelling, grammar, and sentence structure errors, as well as omissions and incorrect data. Errors within the plan send the message that the entrepreneur is not detailed or interested enough to make sure the plan is correct. The assumption then becomes that this person may not have the discipline needed to run a business.
- The business plan is not meant to justify opening the business; rather, it is used to evaluate, objectively, whether the concept will work. Be careful that the plan is not written simply to confirm the entrepreneur's viewpoint. Conduct all the research necessary to find out the answer to the question, "Will this business really work in this market?"
- Be careful with superlatives. Readers are naturally skeptical of overreaching self-promotion. Avoid using words such as "best," "terrific," "wonderful," or even "unmatched."

partnership); whether the business is retail, wholesale, or a service; and where the business will be located, such as the city and state, as well as brick-and-mortar, brick-and-click, or online only.

2. **An overview of the management team that will drive the business to success**—This section describes the key team members, their roles, and the skills they bring that will contribute to the overall success. The reader will also look for any outside support groups, such as advisers, attorneys, board members, or consultants that will be involved with the business.
3. **The critical success factors that must be met to reach the goals and objectives of the business**—Critical success factors are the essential activities that must be performed well if the business is to achieve its goals. For example, if the proposed business is a men's retail store, the critical success factors may include expanding the product line to attract more customers, sustaining a customer satisfaction rate of 98 percent, or relocating to the south side of the city where the population of men is higher.
4. **An overview of the market and the strategy for reaching that particular market**—This section includes data that support the identification of a want or need for the products being provided and of a

market large enough to make the business profitable. This section should also include information about the benefits of the product or service to the customer, as well as details about the competition, product promotion, potential sales, and branding.

5. **An overview of the market from a global perspective**—The market is looked at in terms of the industry, the customer, customer needs, product benefits, the target market, and how the market will be reached. At an industry level, the market may address trends in the fashion industry or the percentage of consumers that shop online. At a local level, the market may address the number of men ages twenty-four to thirty-eight who hold corporate jobs, as well as major competitors, their strengths and weaknesses. In this section the entrepreneur identifies the companies the venture is going up against with similar product and service offerings as direct competition. Specific facts and figures are disclosed that have been obtained from the market research.
6. **An examination of finances**—Finances are examined in the following ways in this section: how much money the venture will need for start-up costs, what kind of financing will be needed, where the money will come from, and how the money will be spent.

## Management Plan

The **management plan** is the section of the plan that defines the management team. It must establish the credibility of the team running the business. It must reflect the team's ability to operate the business successfully and to achieve its outlined goals and objectives. If any member of the management team lacks the needed credentials or experience, the entrepreneur must explain how these deficiencies can be overcome with assistance from members of the support groups, such as the board of directors, the advisory council, consultants, attorneys, or accountants. The entrepreneur must be able to prove that he or she has access to the management expertise needed to operate the business profitably.

This section of the business plan lists the key management positions, along with a description of primary job duties and responsibilities. It should include a summary of each person's prior business experience because this explains how the person's skills will contribute to the overall performance of the business. If the person has not yet been hired, the writer must still include a brief position description that gives a list of the business skills and experience needed for the position. To develop a good management plan, the entrepreneur should address the following issues:

- **The organizational structure under which the business will operate**—The structure may be a sole proprietorship,

corporation, limited liability corporation, and so on. The plan includes the percentage of the company owned by the entrepreneur and others.

- **The contribution of the management team**—The plan addresses the role of the entrepreneur (Figure 2.3). It also outlines the key management personnel, such as presenting their job descriptions and prior experiences, talents, training, and any special expertise. The writer indicates that résumés are included in the appendix. Key members could include the entrepreneur, floor manager, sales manager, and buyer. Descriptions include key members' job duties, such as buying, selling, advertising, and marketing.
- **Compensation and ownership of the management team**—The plan addresses how the owner(s) will be paid. It includes and describes the compensation package for the entrepreneur and management team. This is often listed in chart form, with salaries, benefits, bonuses, and stock options, if any.
- **The qualifications, roles, duties, and compensation of employees**—This section addresses the amount employees will be paid and any incentive programs. Incentives may include bonuses and flex time. If an incentive plan is offered, there should be an explanation of the plan, as well as of performance goals tied to projected revenues. If applicable, the plan discloses any special recognition awards and commissions. Key points are summarized, and any supporting documents are placed in the appendices.



**Figure 2.3**

Successful businesses are often led by a team of people, each bringing an area of expertise that contributes to the overall success.

- **The identities of the board of directors or advisory council (if applicable)**—The plan lists in table form the board of directors and advisory council members, including names, titles, addresses, and phone numbers. It is important to list members' potential contribution, salary, benefits, and any ownership in the company. The plan highlights their qualifications as they relate to the fashion retail business.
- **Communication**—It clearly determines how the values and expectations of the business will be communicated to both internal and external stakeholders. It also explains what system will be used to ensure communication is clear.
- **Any governmental approvals necessary to operate the business legally**—This may include the obtainment of a business license or approval by a planning and zoning commission.

The management plan is discussed in detail in Chapter 9.

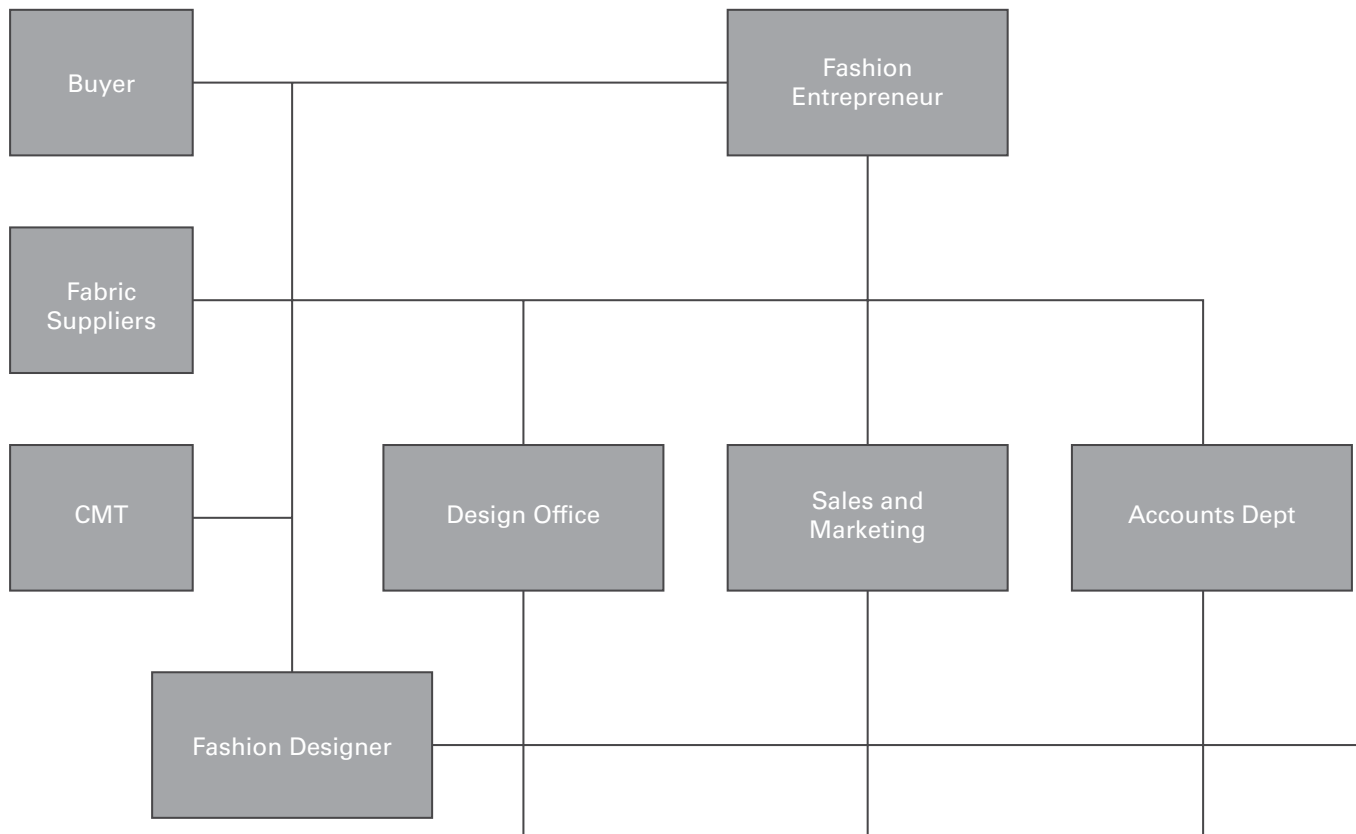
It is important to recognize that key people both within and outside the company will be involved in the business. No entrepreneur works in isolation, and successful businesses require a team. Figure 2.4 illustrates how the fashion entrepreneur interfaces with outside sources.

## Merchandising/Product Plan

The **merchandising/product plan** section of the business plan describes the products and services being offered to the customer. It states what is being delivered in broad terms, such as accessories, beauty products, menswear, or women's wear. Because the reader may not be familiar with particular designers or lines, it is a good idea to include photos or drawings of the product line in the appendix of the business plan. Many fashion entrepreneurs use storyboards to present concepts visually to funders. In addition, the competitive advantage of the product/service mix is described in terms of unique features or

**Figure 2.4**

The organizational matrix shows how the fashion entrepreneur works with the fashion designer, design office, sales and marketing, accounts department, fabric suppliers, and buyers (customers/clients).





**Figure 2.5**

Providing specific examples of a similar product line enables the reader of the business plan to visualize the merchandise planned for the new business.



benefits and whether any legal protection has been or should be obtained, such as trademarks, copyrights, or patents. Figure 2.5 clearly shows the types of products offered by this retail store and could be included in the appendix of the business plan.

In the fashion retail industry, it is important to know that the merchandise can be located and will be delivered. Some manufacturers will not supply their product lines to

a start-up company, even if the entrepreneur stands at the door waiting with cash in hand. The supplier may require the business be open one to two years before getting its merchandise to ensure that the business will be there, able to pay its bills, and that it will not be closed in six to twelve months. In addition, some lines are sold exclusively, limited to one or a few retailers in a city or region.

The merchandising/product plan section of the business plan should cover the following:

- **Description of the product**—This section describes the product and the product mix. It provides a list of the products that will be offered. The writer should consider using catalogs of merchandise with percentages of sales to describe the product mix.
- **Unique characteristics**—Anything unique about the merchandise or product, such as price, design, or quality, should be described here. The plan tells about the unique features of the store, such as store design and layout and exclusivity of the merchandise. Any available photographs or drawings of the exterior and signage and the layout of the store interior should be included in the appendices and cited in this section. Jack Rabbit is an example of a specialty retail store passionate about educating people about running and triathlon and making sure everyone makes the best choices in gear (Figure 2.6).



**Figure 2.6**

Jack Rabbit sets itself apart by focusing on state-of-the-art tools to help recommend running shoes, by offering the most advanced shoe fitting service, and by ensuring a highly trained staff.

- **Proposed lines**—It is important to list the various suppliers and when and how the merchandise will be delivered. The reader will want to know the process used to purchase merchandise, at what time of the year it is to be purchased, and how vendors will be paid.
- **Proprietary aspects**—If any licenses or royalty agreements will be obtained, these are clearly outlined. In the fashion industry, perhaps this will be the only retail operation to provide a certain line of clothing in this market.
- **Merchandise assortment**—Fashion retail entrepreneurs should be able to identify the assortment of merchandise and describe how that assortment will satisfy customer needs and allow the business to meet planned sales goals.
- **Market trips**—This section lists the market trips planned for the year and the cost of attending each. It is helpful to list the reasons these particular trips will benefit the business and sales.
- **Markup/markdown policies**—In fashion retail, markups and markdowns are common practice. Various methods exist with regard to each of these policies. This section outlines the policies that will be implemented to mark up and mark down merchandise.

Information needed to complete the merchandising/product plan is discussed in detail in Chapters 4 and 10.

## Brick-and-Mortar Location Plan

The **brick-and-mortar location plan** describes the business in terms of its physical location. Location plays a key role in the success of any fashion retail business. In developing the location section of the business plan, the entrepreneur must be careful to address the following topics:

- **Physical location**—This section addresses the physical location of the business, including city, state, and street address. The location of the business is disclosed in terms of the region of the country in which it will be located. It also provides information as to hours of operation.
- **Location features**—Knowing the amount of square footage available for merchandise is key to a successful fashion retail business. This section allows the entrepreneur to describe the physical location of the business in terms of square footage—allocation to

selling space, office space, storage, and so on. It also addresses parking facilities and merchandise receiving access, all critical elements in selecting a location.

- **Target market considerations**—Accessibility for the target market is important. This section addresses accessibility ease for the customer—the distance of the building from major streets, highways, or interstates. It will encourage the entrepreneur to consider the ease or difficulty that customers may have in accessing the storefront.
- **Leasehold improvements**—Most buildings require some sort of leasehold improvement. The improvements enable the store to be functional and inviting. This section addresses what leasehold improvements will be necessary to make the store attractive and functional for the customer as well as employees.
- **Other location costs**—This addresses any costs that may be incurred that do not fall under the heading of leasehold improvements—for example, the cost of inspections to ensure the building meets code.
- **Signage**—Signage is critical. Customers must be able to locate the store easily. It must be seen. This section addresses the size of the sign, its location in relation to traffic (foot, vehicular), and how easy it is to see the sign from a distance.

The location plan is discussed in detail in Chapter 6.

## Web Plan Summary

The **web plan summary** describes the online business opportunity. These days, most brick-and-mortar retail businesses also operate an online retail store or use the internet as a means to advertise the business. This section looks at the online portion of the business specifically. It enables the reader and the entrepreneur to know the purpose of the site (to provide information, to drive sales, to serve as a way to purchase merchandise) and how the site will be established. It also shows that the entrepreneur has thought through the details of maintaining the site and providing ease of use for consumers. This section addresses the following topics:

- **Overview**—This section provides an overview of the products offered, how the site is positioned against other sites, and what will be required to launch the site. Is it a stand-alone site, part of a larger presence like Shoptiques, or just selling through social media?



- **Online marketing strategy**—This is an opportunity for the entrepreneur to explore how he or she will drive traffic to the website. Methods may include social media, e-advertising, and blogging. This section addresses the online brand strategy and how this strategy will be used in relation to marketing. Today, whole companies have been launched through Instagram alone; the business plan needs details as to how the company is going to attract customers.
- **Web development and hosting**—Websites require development and hosting. This section addresses how the site will be developed, who will host the site, and how customers will make purchases. Research the best methods for your customer here for your purposes. Some companies like Shopify are teaming up with Instagram and other social media platforms to sell products easier than ever. These initial decisions impact long-term sales.
- **Costs**—Some websites can be developed for little cost. Others require more significant funding. The entrepreneur addresses the costs incurred in developing and maintaining an online presence.
- **Photography**—Photography itself can be a significant cost, as most products need to be shot for the site. Consider using images from the vendors as much as possible to cut down on photography expenses. Invest in lifestyle shots that can be used multiple ways for the site and newsletters and social media.
- **Buying and shipping methods**—Today's consumers expect ease of purchasing and receiving merchandise. This section discusses timing and shipping methods and how online transactions will work. It discusses the measures that ensure the site is secure, in relation to online purchases.
- **Security**—Customer safety and privacy is important too and needs to be addressed. Is the site secure? Show customers this through security icons to reassure them the site is a safe place to shop.

Establishing an online presence is addressed in detail in Chapter 7.

## Marketing Plan

The **marketing plan** describes the entrepreneur's intended actions for bringing his or her product or service to market and for persuading consumers to buy. The marketing section of the plan is divided into five parts: industry

profile, market analysis, competitive analysis, pricing structure, and market penetration. The industry profile is an in-depth look at the internal and external factors that affect the fashion industry. It includes a listing of the major competitors in the industry, the demographics and psychographics of the industry's customers, and the economic trends in the fashion industry as well as factors that affect these trends. For example, the current economy has affected how consumers are buying—when and how much is being spent. This section gives the entrepreneur an opportunity to address how this recent trend may impact the proposed venture.

The marketing plan describes the target market and how that market will be penetrated. It must convince the reader that there is a large enough market to make the venture successful. It describes the promotional efforts that will be implemented to reach the customer. To develop a good marketing plan, the entrepreneur should address the following questions:

- **Industry profile**—This section provides an overview of the industry from a global perspective. It includes trends in the industry that may affect the business and any profit characteristics to be taken into consideration. It is an opportunity to address how consumer buying behaviors, technology, and online shopping impact success.
- **Market economic factors**—This section discusses the economic trends or patterns that are occurring in the specific geographic location of the business. What is happening globally may not necessarily be happening locally.
- **Market analysis summary**—This describes the primary target market, including both demographic and psychographic information. It includes the general location of the target market in relation to the physical location of the business. Questions addressed may include what percentage of the total market the target market occupies; whether a second market has been identified; and, if so, who this market is and how it will be targeted.
- **Market needs**—This section defines any gaps in the marketplace and how the business will meet the needs of that particular market.
- **Customer profile**—This section determines who the targeted customer is. The customer is described in terms of age, gender, profession, income, geographic location, and other demographics. Also included are

customer psychographics—attitudes, values, belief systems, and social status. Any testimonials, results from market surveys, focus group studies, and the like should be incorporated into this section.

- **Future markets**—In this section the entrepreneur discusses any opportunities that may occur and would open the door to increase sales or change or enhance the product or service offering in the future. Although the future cannot be predicted, following trends can lend some guidance.
- **Competitive analysis**—In this section the entrepreneur should use a competitive matrix and list the main competitors to the business. The matrix includes the locations and sizes of the competing businesses, their strengths and weaknesses, merchandise or products offered, and unique features and benefits. It is important to include any direct competitor that sells similar products/services to the same target market. The sources of the information should be cited. In paragraph form, the writer will also briefly describe indirect competitors—those that offer different products or services that may fill the same need as those of the proposed business.
- **Competitive advantage**—Using a competitive analysis chart, this section summarizes how the entrepreneur's business will compete in the areas of quality, price, unique merchandise, distribution systems, marketing/advertising, and geographic location. Inclusion of the basis for the competitive position in the marketplace is important.
- **Pricing strategy**—The pricing section addresses strategy, the price list (price zones), and pricing policies. In this section the entrepreneur explains why the identified strategies have been selected and will examine the pricing strategies of competitors as well as any constraints or sensitivities that may influence pricing of the product. This section outlines purchase prices, shipping costs, and discounts and introductory offers. The entrepreneur will also want to address any strategies that impact customer service, such as warranties, guarantees, return policies, alterations, or sales on merchandise.
- **Market penetration**—This section begins by outlining the brand strategy. It identifies the avenues that will be used to reach potential customers. Today, customers are at times seeking information through social media, such as Facebook, Twitter, and Instagram. How will these outlets be used to reach potential customers?

And how will you track return on investment? Will a direct sales force be formed to sell directly to the customer? What is the sales strategy? What, if any, publicity will be used to attract customers? Will trade shows be used as a method to attract customers? How will marketing efforts be evaluated? Analyzing and addressing these questions will better ensure success at breaking through all the advertising and promotional clutter and at reaching customers.

If the business is an online store, how will the website be positioned for potential customers find the merchandise? Customers do not automatically flock to newly launched websites. Unless marketing and advertising campaigns are in place to target customers and drive traffic to the site, adding online shopping will be a waste of time. Social media has become an important way to create community and attract an audience, but how will posts be translated into sales? Social media accounts are free, but the time to manage them is not, nor are digital ads. How are these aspects accounted for in the business? Web-based businesses are addressed further in Chapter 7.

The marketing plan is discussed in detail in Chapters 3, 7, and 8.

## Financial Plan

The **financial plan** section provides sound financial statements that reflect the potential profitability of the business. It communicates the amount of funding needed to start and grow the business and how well the business is anticipated to do in relationship to other businesses within the same industry; it will help the entrepreneur run the business on a day-to-day basis. It is absolutely critical that the entrepreneur review and analyze this section of the business plan again and again. Entrepreneurs who spend time carefully considering the impact of their decisions on the financial health of the business are much more likely to succeed.

The financial plan section should include a monthly cash flow statement, a profit and loss statement, and a balance sheet for the business. It is crucial that the numbers presented be real numbers; good funders will know if the writer is being false. Although a new company does not have historical data, it can look to similar businesses in the industry to make assumptions. This section should also include a set of assumptions for the pro forma financials that are being presented. Lack of proper research in this

section can close the door before it opens. It should be noted that most funders will want three years of financial statements, from the start-up point to the projected third year of operation. For purposes of this text, the financial statements for one year are presented:

- Cash flow statement
- Assumptions
- Profit and loss statement
- Balance sheet

The financial plan is discussed in detail in Chapter 11.

## Retail Operations Plan

The **retail operations plan** demonstrates that the entrepreneur understands the importance of administrative policies, procedures, and controls. It is used to show that all aspects of the business, from an operation and control point of view, have been addressed. Sections may include:

- **Receiving orders**—This is an outline of the administrative policies, procedures, and controls that will be used to receive merchandise. This section explains how orders will be processed after they are received and describes the type of database that will be used to track this information.
- **Paying suppliers**—This section may outline the administrative policies, procedures, and controls that will be used for paying suppliers. It identifies procedures for controlling due dates on bills. The writer should list accounting and bookkeeping controls that will be needed to pay the suppliers.
- **Reporting to management**—For some larger retailers, entrepreneurs may address the administrative policies, procedures, and controls that will be used for reporting to management. He or she will explain the communication process that employees will follow to report incidents to management. A description of the format and schedule to be used for management meetings, who will attend, and how often meetings will be held may be included.
- **Staffing levels**—This section addresses how the business will ensure it has enough employees to cover the store during seasonal changes and promotional time periods. It addresses staffing considerations in relationship to traffic flow.

- **Inventory control**—Inventory control is critical. The plan may address the administrative policies, procedures, and controls that will be used to control inventory. It will address the frequency of taking physical inventory.
- **Handling returns and exchanges**—How will returns be documented for proper credit? How will exchanges be handled? These questions need to be addressed in this section. The entrepreneur should also identify a system for handling customer complaints. A system should be in place to obtain feedback from customers to improve customer service and potentially add new product.
- **Security systems**—What administrative policies, procedures, and controls will be used for providing security for the business?
- **Documents and paper flow**—What will be the flow of information throughout the system? What documents must be prepared for a transaction? This section identifies all things that should happen in a transaction. It includes examples of invoices, sales tickets, and charge documents, and other such forms, to be found in the appendix.
- **Planning chart: product availability**—When will the merchandise be in and ready for the store to open? List all the activities necessary to get the merchandise in the door. List the names of the persons who will be responsible for each activity as well as completion dates. Outline the timing of events by month, for a minimum of twelve months.

The operating and control systems plan is discussed in detail in Chapter 12.

## Appendices

Appendices are any documents needed to support the plan. Appendices may include:

- Résumés of the management team and key personnel
- Any employee contracts, such as non-compete agreements or commission agreements
- Personal financial statements for the principal(s) of the business
- Copies of any contracts or documents needed by suppliers
- Samples of advertising brochures or other forms of advertising including marketing material and collateral

### THE ELEVATOR PITCH

Entrepreneurs should be prepared with a one- to two-minute elevator pitch. The elevator pitch introduces the audience to the new venture and piques its interest. It is a brief overview of the business, its products, and how it will benefit a particular market. It should be exciting to hear. Try not to get too “fluffy”; people want substance and real meaning.

Elevator pitches are important when running into a potential customer, when pitching to a friend, or when given the opportunity to introduce yourself and your business at an event. However, often they are developed for approaching investors, like on the popular TV show *Shark Tank*.

*Shark Tank* started in 2009 as a franchise of the international phenomenon *Dragons’ Den*, which started in Japan. The show features multimillionaire Sharks looking to invest in America’s business hopefuls. Entrepreneurs have three minutes to introduce their venture and pique the investors’ interest—that is, to give their elevator pitch.

First, lay out the pain statement. What problem are you solving? Second, you must show the value proposition. How does your business solve that problem? Be succinct and easy to understand. No tech talk. Make sure, if pitching to investors, that it is clear when and how the business will be profitable. Don’t leave the audience with more questions than answers.

*Good morning. My name is José. I’ve just opened a retail store featuring natural clothing—vegan friendly and earth friendly. Shop our store for fabulous natural clothing, organic accessories, and more—no toxins, no animal products or byproducts in any item in the store. This is the first store of its kind in this area, and we are poised for success and growth in the coming year.*

Being able to nail your elevator pitch and describe your business in thirty seconds or less is crucial to communicate your message to customers and potential investors.

- Copies of any logos that have been developed
- Copies of any letters of reference
- Copies of any documents needed to support data in the industry study or marketing plan
- Photographs of the preferred business location
- A map showing the location of the business
- A diagram of the layout of the store

The business plan outlines the elements of the business in detail. The entrepreneur should also be prepared with a one- to two-minute elevator pitch. Most often developed for funding or investment purposes, the **elevator pitch** introduces the concept in a clear and interesting manner. A description and example are shown in Entrepreneur Tips 2.4.

## CONCLUSION

The importance of a sound business plan cannot be overemphasized. Many potentially successful businesses have failed because they lacked one, and many succeeded because of one. A well-written business plan will serve as an invaluable road map for ensuring that the company reaches its goals. It will be used as a tool for accessing capital and selling the company to potential investors and the management team.

The business plan contains the following components: the cover letter, the cover page, the table of contents, the executive summary, the management plan, the merchandising/product plan, the brick-and-mortar location plan, the web plan summary, the marketing plan, the financial plan, the retail operations plan, and the appendices. Each section or component should objectively address both the strengths and weaknesses of the business. The business plan will become the tool for making a dream a reality.

## Key Terms

brick-and-mortar location  
plan  
elevator pitch

executive summary  
financial plan  
management plan

marketing plan  
merchandising/product  
plan

retail operations plan  
web plan summary

## Discussion Topics

1. Discuss the purpose of a well-researched business plan and its benefits to both the entrepreneur and parties interested in funding or working with the business.
2. Discuss the importance of including sources that support the feasibility of the concept.
3. Discuss the significance of each section of the business plan to the entrepreneur as well as an outside reader.

## Suggested Readings

Abrams, Rhonda. *The Successful Business Plan: Secrets and Strategies*. Palo Alto, Calif: Planning Shop, 2012.

DeThomas, Arthur R., and Stephanie Derammelaere. *Writing a Convincing Business Plan*. Hauppauge, NY: Barron's Educational Series, 2015.

## Online Resources

### SBA.gov

<https://www.sba.gov/>  
Small business information

### SCORE

<https://www.score.org/>  
Free business consulting and mentoring and workshops for entrepreneurs

### Centre for Fashion Enterprise

<http://www.fashion-enterprise.com>  
London's pioneering business incubator that supports and nurtures emerging fashion design talent

### Fashion Entrepreneur Report

<http://www.fashionentrepreneurreport.blogspot.com>  
Trends and interviews

## STUDIO™ Business Plan Connection

### Thinking Like an Entrepreneur

A key step in developing a business plan is to take a 30,000-foot view of the business plan as a whole. What is a business plan? What issues or questions does it address that make or break a business? Those questions have been addressed in this chapter. As you read the following chapters, the business plan components will be explained in more detail.

There are many resources for reviewing sample business plans and business plan templates. These can be found online or in college or university libraries. While investigating business plans, select a number of entrepreneurs, and ask each about his or her process for

developing a plan. What sources were used, and why? How did the business plan impact the success of the entrepreneur's business?

Local nonprofit organizations, such as small business development centers, the Service Corps of Retired Executives (SCORE), universities, and community organizations can be great sources of information. Also, talk to local commercial lenders at banks, or identify investors in your area and ask what they look for in evaluating a plan and loaning or investing money.

The business plan assessment can serve not only as a guide for evaluating your business plan, but also as a tool for developing questions to ask your local entrepreneurs.



### Assignment 2.1: The Business Plan Assessment

1. Open the business plan assessment file in the Chapter 2 folder in STUDIO. This assessment will be used to evaluate your business plan as you develop each section.
2. Save the business plan assessment template to your computer.

Your business plan assessment template provides a checklist that may be used to critique your business plan.

To become familiar with the criteria that will be used to evaluate your plan, open your saved business plan template file, and review the criteria for each section of the business plan. You will refer to this assessment as you develop each section of the plan. When appropriate, use the checklist, and place an **X** in the Yes or No checkbox to evaluate each section of the business plan. In a separate document, note specific aspects that make the plan strong. For weaknesses, explain how you could improve the plan.

## PROFILE OF AN ENTREPRENEUR

### Rachel Shechtman—What's Your STORY?

**Figure 2.7**

STORY founder Rachel Shechtman speaks at the inaugural Girlboss Rally.



Rachel Shechtman launched STORY in 2011 in New York City's Chelsea neighborhood as a rotating concept store. It "has the point of view of a magazine, changes like a gallery and sells like a store."<sup>1</sup> Every four to eight weeks STORY completely changes concept and introduces a new theme to its customers. Shechtman has retailing in her blood and worked as a consultant for top brands before she launched the shop. STORY also works with brands to help get the word out about new products and messaging. To introduce additional revenue streams to their retail model, they charge big brands, such as GE and Benjamin Moore, a partnership fee that helps curate the story and in turn drives traffic to the store. Each new story includes a big name-brand partnership to guide the "story."

An interesting example of this is their partnership with Coty who showcased four of their brands at STORY (CoverGirl, Rimmel, Sally Hansen, and Clairol) with the intent to see what customers responded to in a more closed setting versus their normal big box store setting.

In a controlled environment, Coty executives could witness firsthand what customers respond to and use the information to create scalable resources for the rest of their products. STORY provides an authentic, engaging shopping experience for big brands to test market new retail ideas.

Shechtman has also sponsored Pitch Nights, where entrepreneurs pitch their ideas and products to industry professionals (and sometimes even celebrity judges like Whoopi Goldberg). It helps the store find new products and gives makers, emerging designers, and start-ups a place to show their new goods. The store sponsors tons of events too, all driving brand awareness. The store also partners with digital companies to bring displays to life in interesting ways. STORY is a great example of a strong partnership between well-known brands and an independent brick-and-mortar store that curates stories their customers want to hear.

### Profile Questions

1. Explain how this shop that rotates in different stories every few weeks is a game changer in the retail industry.
2. How can STORY connect with customers better than other regular brick-and-mortar stores?
3. Discuss how this business model is set up for success for STORY, the vendors, partners, and the customers.
4. Brainstorm some ideas for STORY's future stories. Check out some of their previous stories here: <http://thisisstory.com/stories/>.

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## CHAPTER 3

# ANALYZING THE INDUSTRY AND FINDING CUSTOMERS

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### Objectives

Upon successful completion of this chapter, readers will be able to:

- Examine the fashion retail industry to identify trends that will impact the success of the business.
- Identify the competitive advantages for the business.
- Research and appraise the selected target market.

This chapter focuses on the techniques commonly used to obtain information needed to analyze objectively the fashion industry and a potential target market. Emphasis is placed on how to analyze market data and information for the purpose of developing a comprehensive marketing plan. This section guides an exploration of the fashion industry's current trends, norms, and standards—as well as the demographics and psychographics of the intended market—in order to help the entrepreneur identify and understand opportunities to enhance the development of the retail business and position the business against the competition.

### THE REASON FOR A MARKETING PLAN

Successful entrepreneurs are those who are good at keeping an eye on the marketplace and identifying needs and gaps, then finding ways to fulfill those needs and close the gaps. Successful entrepreneurs are continually researching and reevaluating their marketing plans to determine whether there are new and better opportunities to grow their businesses.

The marketing plan describes the industry and the entrepreneur's specific actions intended to bring his or her

products or services to market and persuade consumers to buy. Without a solid marketing plan, the business is going nowhere. Profitability rests, in large part, on not only identifying a target market, but also ensuring that there is a big enough market to make the business profitable. Researching the market and understanding that market can give the entrepreneur a better idea of the needs, wants, and habits of the customers with whom the entrepreneur will conduct business.

Market research and the analysis of that information impact decisions made throughout the business—from hiring the right sales people, to deciding the type and amount of merchandise to carry, to choosing the best location for the business.

The marketing plan begins with an overview of the industry, the potential for growth, and trends that may lead to opportunities for the business. It then profiles the intended target market and how that market is going to be reached and then be influenced to buy. The plan identifies and analyzes the competition; then it outlines a pricing and market penetration strategy to drive sales.

The marketing plan will answer the following questions:

- What is happening in the industry that will impact consumer behavior and, subsequently, the prospective business?
- Who is the target market?
- What is the profile of the customer?
- Who are the competitors, and how will this business be positioned against that competition?
- What promotional efforts will be used to reach the market?
- How will the products or services be priced?
- What gaps exist in the immediate market, and how will this business fill those gaps?
- How much money will the marketing efforts cost?

## DEFINING MARKET RESEARCH

**Market research** is an organized effort to find out information about an industry, the market, and its customers. Here, the term **industry** refers to all companies supplying similar or related products (which can include services). Market research identifies trends and provides answers to questions, such as how consumers respond to products or services; how they buy; when they buy; and what they want, need, or believe. Market research provides the entrepreneur with information that will prevent the investment of funds and resources into a venture with insufficient customers to make the venture worthwhile. The research helps identify opportunities to turn ideas into a real business. Moreover, because markets, trends, and customers are constantly changing, market research is ongoing. The more an entrepreneur knows about a particular industry and market, the better he or she is at identifying gaps, needs, and unfulfilled wants.

Through market research, entrepreneurs can identify more effective ways of communicating with their target markets. Understanding customers' buying and spending habits, for example, can aid in the development of marketing campaigns designed to meet the specific interest and needs of the intended market. Research can also help entrepreneurs spot potential obstacles to the proposed concept, such as competition that was not readily identified and that would inhibit the ability to gain a competitive advantage—for example, a plan to develop a large shopping center with a number of retailers that would detract customers from the proposed business.

A systematic process of conducting research enables the entrepreneur to take a focused approach.

- What are the trends in this particular industry?
- Which markets have the greatest potential?
- Who makes up the target market, and what are its needs?
- What is the size of the potential target market?

The following list explains the systematic process for conducting research:

- Step 1: Outline the scope of what you want to know.
- Step 2: Identify sources of information.
- Step 3: Research the industry.
- Step 4: Identify and understand the market.
- Step 5: Understand the customer or target market.
- Step 6: Analyze the competition.

- Step 7: Research supply channels and methods of distribution.
- Step 8: Research the location.
- Step 9: Analyze the information.

## Step 1: Outline the Scope of What You Want to Know

Entrepreneurs increase their chance of success by asking the right questions—ones that are not too open-ended or broad. This step enables entrepreneurs to step back and outline an overall scope, so they can then formulate a series of questions to drive the process. As the research progresses, the scope and series of questions may change.

To aid in narrowing the focus, entrepreneurs should concentrate on finding and analyzing information that will lead to a greater understanding of these areas:

- **Trends**—Keep your eye on trends that will have either a positive or negative impact on the proposed business concept.
- **Who the customers are**—Knowing what the customers want will ensure the right products or services are directed at the right target market.
- **Where the customers will make their purchase**—The products or services may be purchased online, through smartphones, through brick-and-mortar retailers, or through other distribution channels.
- **The price customers are willing to accept**—Learn what customers will pay for the products or services and what they perceive as value. Researching pricing strategies for the customers of other entrepreneurs in the same industry will guide the pricing strategy for the proposed business.
- **How customers receive their messages**—Various means exist to reach customers in today's market, including social networking and other websites and text messages; radio, television, and newspaper advertising; direct mail, and so on. However, entrepreneurs typically have limited funds during the start-up phase. Understanding the best way to reach potential customers through promotional activities will save time and money and make efforts more effective.
- **The basis of the competition**—The entrepreneur is faced with competition both directly or indirectly. Understanding how the competition will react to the proposed business is important to decisions