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**BUSINESS**

Paper 2 Business 2

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Source 1: Slow Fashion

## Slow Fashion

Many clothing companies succeed by using a 'fast fashion' business model: selling seasonal, cheap, low-quality items that are often manufactured in low-cost countries such as Bangladesh. This practice is used by retailers promoting the latest designs. 1

As a senior buyer for a high street clothing retailer, Claudia Bryant had responsibility for sourcing clothing and negotiating contracts with suppliers from many countries. She was successful in her work by securing low-cost deals. 5

On 24 April 2013, over 1,130 people were killed when the Rana Plaza factory complex collapsed in Dhaka, Bangladesh. 2,500 more were injured. The people crushed under those eight floors were working for familiar fashion brands in unsafe conditions.

### Rana Fashion

In 2013 Claudia was shocked by the Rana Plaza disaster. She believed that it was the fault of the 'fast fashion' business model – something she no longer wanted to be a part of. 10

She resigned from her job to set up her own online clothing retail business, centred on ethical objectives. The business (Rana Fashion) is a private limited company with Claudia owning 60% of the shares. The remaining shares are owned by a Bangladeshi charity, ensuring that at least 40% of the annual profits support charitable projects in Bangladesh. 15

The clothes are traditional designs that do not go out of fashion. All are made to last and fabrics are ethically sourced, eg fair-trade cotton. They are manufactured by suppliers in Bangladesh – many with personal links to the Rana Plaza disaster. Each supplier is a small independent family-run business.

Claudia is keen to trade ethically, in contrast with leading retailers, as shown below. 20

<b>Rana Fashion's approach:</b>	<b>'Fast fashion' approach:</b>
<ul style="list-style-type: none"> <li>• pay promptly to help the suppliers' cash flow</li> </ul>	<ul style="list-style-type: none"> <li>• delay payments to help their own cash flow</li> </ul>
<ul style="list-style-type: none"> <li>• buy and store extra inventory – this allows better capacity utilisation for suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• buy only enough to meet projected demand as old inventory goes 'out of fashion'</li> </ul>
<ul style="list-style-type: none"> <li>• have long term contracts with suppliers – allowing suppliers to plan for their future.</li> </ul>	<ul style="list-style-type: none"> <li>• new contracts each season – in search of lower priced deals.</li> </ul>

Rana Fashion garments are sold at a high price. If customers spend over £100 they can pay over 10 months without any interest. Last year 25% of sales were made this way.

Rana Fashion sells directly to consumers worldwide through e-commerce, removing the need for high street retailers. The UK is its biggest market. However, Claudia is pleased that sales in the USA and Europe have recently shown steady growth. 25

No budget is allocated to promotion. Claudia relies on media coverage to promote her brand. She has been interviewed by many newspapers, radio stations and online news providers when journalists have been reporting on ethical fashion. This has proved successful as the readers and audiences have views that are closely aligned with the business objectives.

Rana Fashion invested heavily in its website and is very active on social media, with increasing numbers of loyal customers sharing links which are often seen by hundreds of thousands of like-minded people. 30

The business has large levels of inventory and efficient warehousing is vital. The warehouse manager is a key member of staff and Claudia has designed this job role to have delegated responsibility for the day-to-day running of the warehouse. 35

Rana Fashion outsources its increasingly wide and complex distribution function to international distribution companies such as UPS. These ongoing contracts have specific targets for customer service, based on delivery times such as 48 hours across the UK and Europe. UPS delivers to over 220 countries, including every address in North America and Europe.

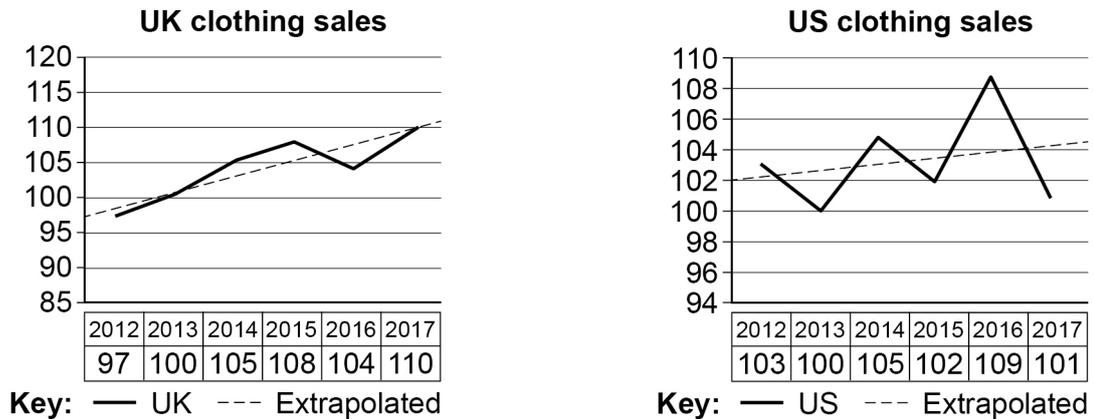
Financially, Rana Fashion has been profitable with rising profit margins, but faces regular cash flow problems. A financial adviser believed that Rana Fashion's business model made the cash flow problems difficult to resolve and had two suggestions to help. 40

<b>Suggestion A:</b>	<b>Suggestion B:</b>
Delay payment to suppliers by paying invoices as late as possible.	Use debt factoring of customer credit.

**Appendices continue on the next page**

**Turn over ►**

**Figure 1: Overall UK and US clothing sales 2012–2017 (Index numbers, 2013 = 100)**



**Figure 2: Estimated elasticity data**

	'Fast fashion'	Ethical fashion
Income elasticity of demand	+0.6	+1.4
Price elasticity of demand	-1.3	-0.8

**Figure 3: Predicted changes in income levels**

	UK	USA	Europe
2019	+2.5%	+4.0%	+3.2%
2020	+2.0%	+3.5%	+3.0%

**END OF SOURCE**

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