



[Turn over

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Fashion Letter (FL)

Jane Irfan used to be a senior manager for a high-street clothing retailer, but her role was made redundant in 2014. She set up FL in 2015 as an online clothing retailer. Her aim was to create an intrapreneurial, dynamic, low-cost clothing retailer. Jane decided on the following mission statement for FL.

‘To empower customers by empowering employees within our dynamic corporate culture.’

FL’s customers access the business through an app and they pay a subscription fee to FL each month. The app links to all the main social media services. Based on each customer’s profile and online activity, one item of clothing is chosen each month by FL’s artificial intelligence (AI) system. The item of clothing is then sent, by post, to the customer.

Timeline of FL

2015	FL set up as a private limited company with \$5m of equity provided by a venture capitalist. Jane hires the employees (see Appendix 1). All FL employees use home working.
2016	FL launches the app. \$2m is spent on digital promotion. An international media organisation names FL one of the top 10 most innovative businesses.
2017–2020	FL pursues a strategy of rapid growth (see Appendix 2).
2021	FL uses external finance to takeover GY, a failing clothing manufacturer (see Appendix 3).
2022	FL is criticised in media reports which claim the business uses unethical working practices in the factories it acquired from the takeover of GY. Jane responds by launching an internal audit of FL (see Appendix 4).

Developing a strategy to launch a new product

FL’s board of directors think that the business is too narrowly focused. It has asked Jane to develop a strategy of diversification. Jane believes it is time for FL to challenge its existing strategies.

Jane has recruited a new Director of Strategy who has experience of using a blue ocean strategy approach.

Appendix 1: FL's employees in 2015

- Six software developers with experience of working for global software businesses, such as Google.
- A Marketing Director who previously worked for a large national supermarket chain.
- A Finance Director who has limited experience but graduated from a top university.

Appendix 2: FL's rapid growth between 2017 and 2020

	2017	2020
Subscription fee revenue	\$2m	\$200m
Profit margin	–2%	3%
Number of employees	12	240
Market share (online fashion market)	0.2%	4%
Number of direct competitors offering a subscription service	0	5

Appendix 3: Extract from a 2021 newspaper article about FL's takeover of GY

GY has been a clothing manufacturer for over 80 years, supplying many well-known high street clothing retailers. GY owns a number of factories based in low-cost countries. However, the rise of online retailers that require a fast turnaround of designs and low profit margins has put pressure on GY.

FL, one of the success stories of the last few years, has made a takeover bid for GY.

FL will significantly increase its gearing by taking over GY, but the opportunity to manufacture its own products may give FL a competitive advantage.

Appendix 4: Extract from FL's internal audit in 2022

Strengths	• Intrapreneurial leadership team • Well-known brand name in online fashion market • Low-cost manufacturing
Weaknesses	• High gearing ratio • Weak management control of HR strategy in factories
Opportunities	• To sell FL manufactured products through other retailers • To offer different subscription products
Threats	• Established retailers are entering the fashion subscription market • Bad publicity about its factories

Answer **both** questions.

- 1 Evaluate the impact of FL's corporate culture on the success of the business between 2015 and 2022. [20]
- 2 Advise Jane on whether blue ocean strategy is the most useful approach as she attempts to diversify the business. [20]

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