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Business Plan of Style_We_Knit

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ABSTRACT

Style_We_Knit is a fashion brand that offers hand knitting DIY (Do It Yourself) kits consisting of well-written patterns and materials needed, such as yarns, needles, and accessories, so that customers can indulge in the joy of creating their own clothing and at the same time, contribute to a more sustainable environment of fashion. We target young women markets in Hong Kong and hope to encourage people choosing sustainable clothing over fast fashion by providing solutions of creative garment production. We offer practical and easy-to-follow tools for customers to play their parts in a more sustainable fashion world by selling DIY packages on e-commerce platforms including a brand website. By advertising on social platforms such as Facebook and Instagram, and running online shops on third-party platforms including Etsy and Crecra, we attract the general audience and ideally convert them into potential customers.

Keywords: E-commerce, Start-up Business, Online Shop, Business Plan

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1. INTRODUCTION

Fast fashion, a kind of inexpensive clothing that are rapidly and massively produced corresponding to the new fashion trend (Investopedia, 2020), is now prevalent in the fashion industry. With the increasing popularity of fast fashion trend, consumers are replacing their wardrobes more often than ever before as the leading fast fashion companies are introducing new apparel every day. According to YouGov Omnibus research, around 40% of Hong Kong people have thrown away their clothing after wearing only once and more than 30% of Hong Kongers have directly thrown their unwanted clothing in the rubbish bin (YouGov Omnibus, 2017). Around 20% of the respondents will even throw away their clothes just because they get bored of wearing them (YouGov Omnibus, 2017).

Fast fashion clearly produces more waste and pollution to the environment and our company hopes to arouse people's awareness of the consequences that it brings by providing sustainable fashion as an alternative.

In order to contribute in tackling these not environmentally-friendly habits, the fashion brand Style_we_knit aims to promote the value of hand-knitted garments and encourage people to invest in more sustainable fashion.

Our **Mission**

- To offer an alternative to unsustainable fashion by generating people's interest on hand-knitted products with our best quality and user-friendly DIY packages, hence encourage anyone to enjoy the fun of DIY.

Our **Values**

- We believe hand crafting clothing would help tackling the fast fashion trend and hence make a difference in protecting our environment. We strive to provide unique designs with the best quality products for our customers to join us in this cause.

Our **Vision**

- To lead the change of fashion trend and inspire people on fashion sustainability by highlighting the time, effort, and sincerity that goes into creating each and every piece of hand-knitted clothing.

Our **Strategic Objective**

- To educate the fashion lovers about sustainable fashion and foster the knitting culture

through online promotion to convert all the early adopters into reference customers in 5 years.

2. STRATEGIC ANALYSIS

Our main target region of sales starts with Hong Kong, and it may be extended to other Asian Countries like Taiwan as there are fewer similar businesses developed comparing to the US and Europe according to our own observation on social media. We believe that we can face less intense competition in these countries and create a blue ocean to attract our customers. External and internal analysis will be carried out in this section to assess the possibilities and competitive advantages of the business.

2.1. EXTERNAL ANALYSIS

For external analysis, we employ the PESTEL analysis to analyze the current situation of the environment which may influence our business and forecast the future market by the Scenario Analysis. PESTEL analysis is generally divided into six factors, Political, Economic, Social, Technological, Environment, and Legal (Gutierrez, 2012) and we will assess every aspect in regard of the business environment. We also employ the Porter Five Forces model to assess different stakeholders that have impact on our business.

2.1.1. PESTEL ANALYSIS

2.1.1.1. POLITICAL FACTORS

In terms of **political factors**, due to the recent outbreak of the political movement in Hong Kong, the society is now split into the pro-government and police group (blue ribbon) and (yellow ribbon) the pro-democracy group. Protesters in Hong Kong would like to build up a “Yellow Economic Circle” and they give most of the shops a blue or yellow label. Many consumers are very aware of the political stance (colour) of the store before deciding whether to purchase or not. This creates a huge impact on any business as you can only favor one group of customers at one time (Beech, 2020). It also has a huge influence on starting a business since your political stance would in turn affects your sales.

2.1.1.2. ECONOMIC FACTORS

For the economic factors, the outbreak of Coronavirus and the social movement have greatly decreased citizens’ willingness to consume. According to the government’s statistics, the retail sales figures have dropped by 18-24% for the past 6 months and it is not expected to grow shortly. The unemployment rate is also increasing and it reaches a 9-year high in March (Cheng, 2020). It is clear that we are facing an economic downfall and it is a crucial factor to consider when starting a business.

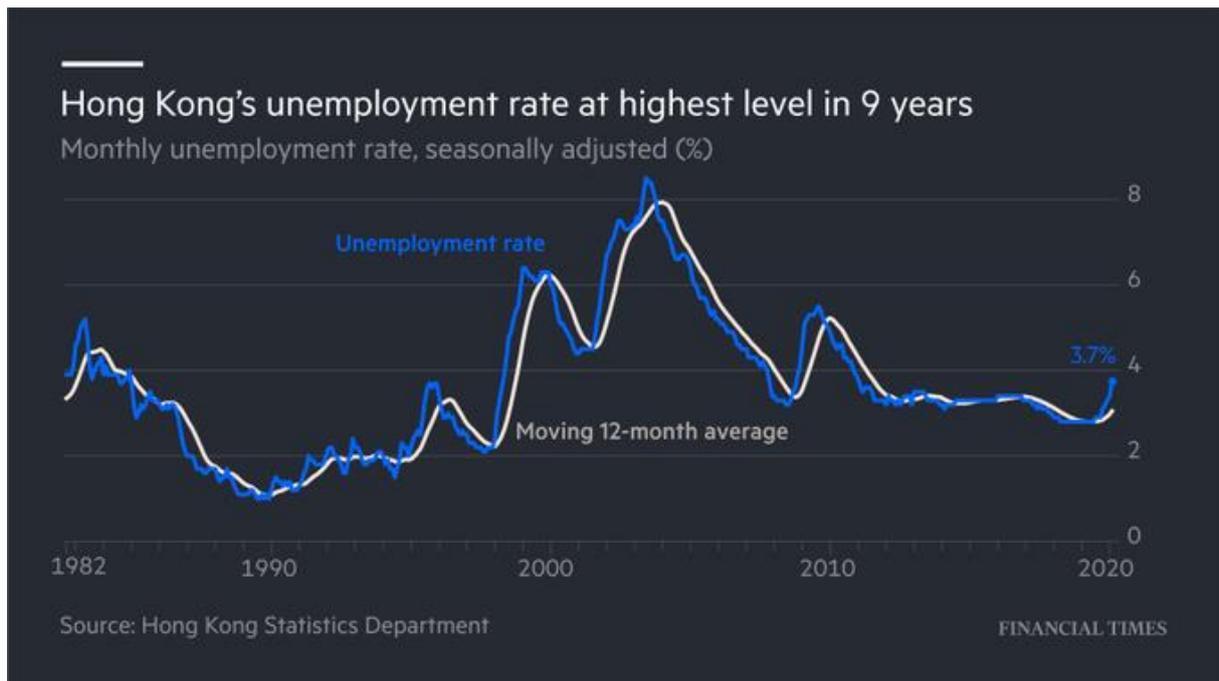
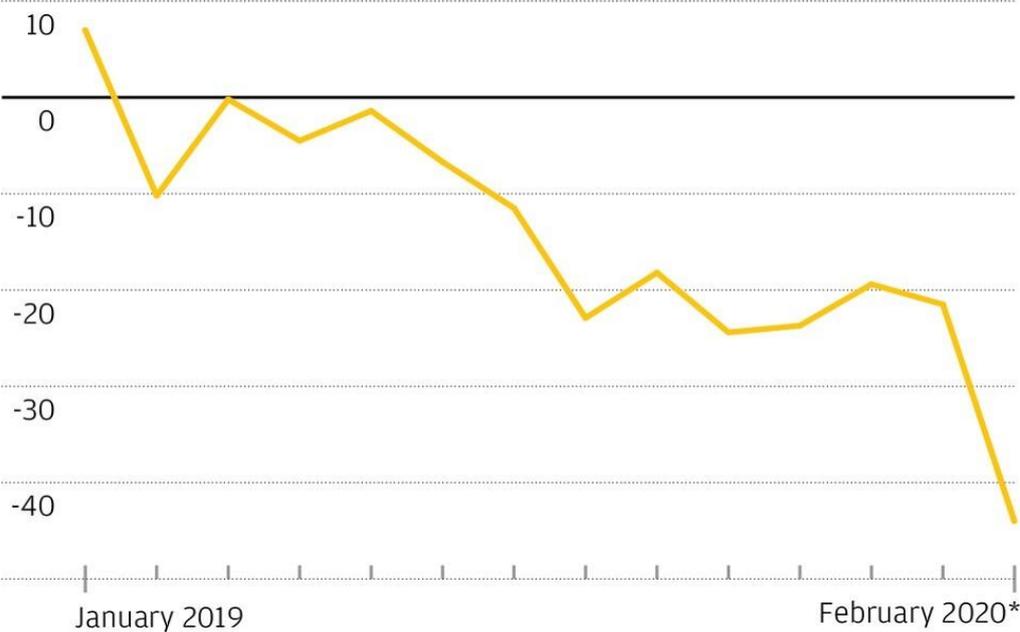


Figure 1. Hong Kong Unemployment rate, Reprinted from Financial Times in Twitter, Retrieved April 2, 2020, from <https://twitter.com/FinancialTimes/status/1245563272746512385>

2.1.1.3. SOCIAL FACTOR

From the social perspective, we need to be concerned about the consequences brought by lockdown due to the pandemic as people are not allowed to go out often and thus results in a drop in sales volume. According to SCMP, the consumer spending has dropped significantly from HKD \$48.1 billion in January 2019 to HKD \$22.7 billion in March 2020. The retail sales has also plummeted 44% in February due to the impact of social movement and coronavirus (Leung, 2020). People do not have the motivation to consume and it greatly reduces the revenue of all traditional offline business.

Retail sales in Hong Kong, year-on-year change (%) from 2019



Source: Census and Statistics Department *provisional figures SCMP

Figure 2. Retails Sales Statistics in Hong Kong, Reprinted from SCMP, Retrieved 31 Mar, 2020 from, <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3077739/coronavirus-hong-kong-retail-sales-record-44-cent>

However, it may also be a great opportunity for e-commerce because people are staying more at home during this period. As our company is operated mainly online and we provide products for customers to spend their time at home, we may even benefit from the current situation as our clients will have no problem to purchase our product anytime in anywhere.

2.1.1.4. TECHNOLOGICAL FACTOR

As for the **technological environment**, it is crucial to analyze the usage of social media as it would be the main promotion platform for the company. With reference to a report from the Hong Kong Government, social media covers 83% of the total population in Hong Kong, with over 80% of them aged 25 or above (ITB, 2019). It manifests that social media has a huge coverage of the market and if we manage our platform properly, our products can be accessed easily by customers.

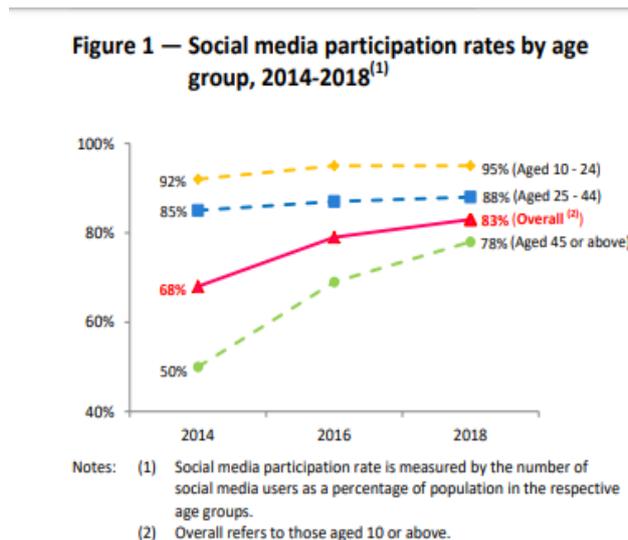


Figure 3. Social Media Participation rates by age group, reprinted from Hong Kong Legislative Council

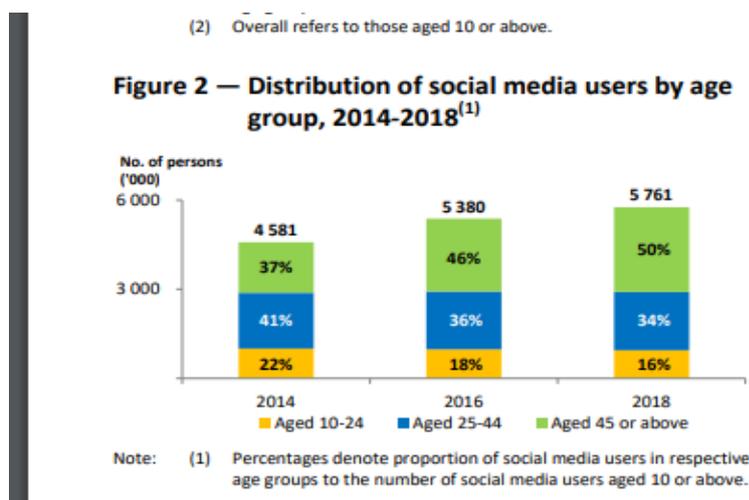


Figure 4. Distribution of social media users by age group from 2014-2018, reprinted from Hong Kong Legislative Council

On top of that, with the prevalent usage of electronic devices, people are increasing shopping online. According to the data from Statista, the revenue of e-commerce is US 4.4 billion in 2019

in Hong Kong, which shows that the e-commerce market is mature in Hong Kong. It also predicts that the market will keep growing and the revenue will increase by 8% by 2023 (Nazim, 2019). According to the report from Import Export Solution, there are more than 4.5 million of e-shoppers currently in Hong Kong, creating 3.5 billion USD sales in 2017 (Import Export Solution, 2017). The fashion sector is one of the most popular sectors in this market and it creates \$990 million of the e-commerce market share alone. The social media penetration rate is also high in Hong Kong, with over 80% in Facebook and 60% in Instagram, which will be our main sales platform.

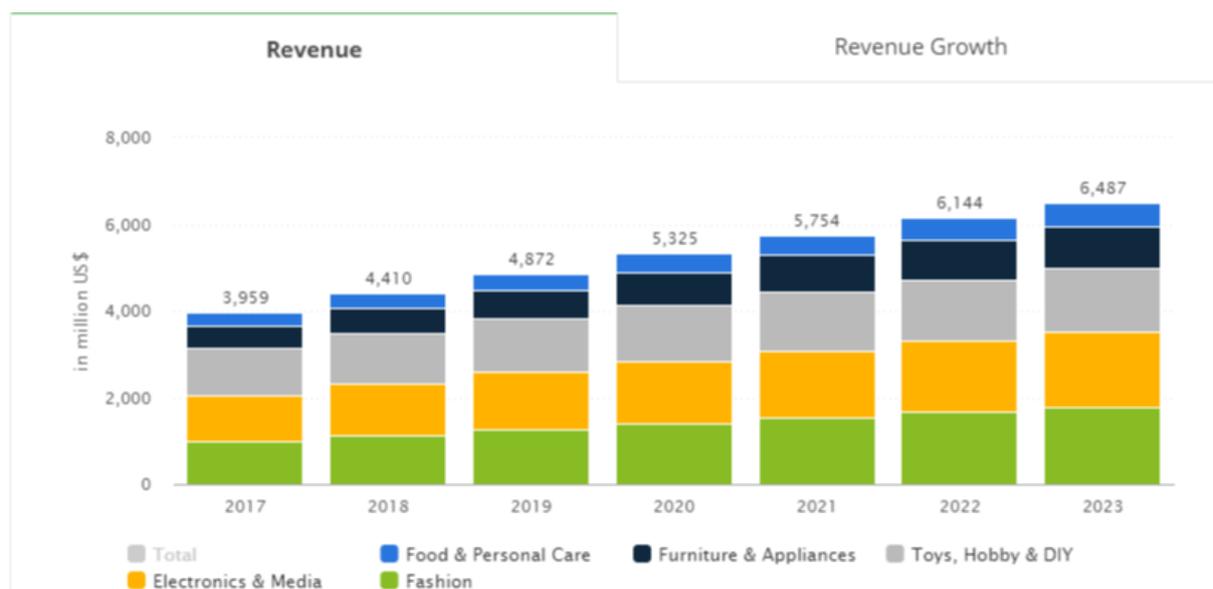


Figure 5. Revenue projection of e-commerce by sector in Hong Kong, reprinted from Statista

As we can see from the figure above, the revenue of the fashion sector is estimated to be growing steadily till 2023, which is a favourable factor to our business.

2.1.1.5. LEGAL FACTOR

Lastly, for the **legal environment**, Hong Kong has a high standard of judicial system that protect fair trade and intellectual property. The Hong Kong Intellectual Property Department issues patent and trademark every year to protect design and creative invention. It creates a favorable condition to start business and it protects our design and patterns from being copied by others.

The following graph illustrates the impact of the variables mentioned above. The most contributing factor would be the coverage of social media under technological factor because our business operates on social media. It greatly affects our exposure and sales volume. The least contributing factor would be political stance as our main target customers have the same political stances with us.

(1: Greatest negative impact, 5: Greatest positive impact)

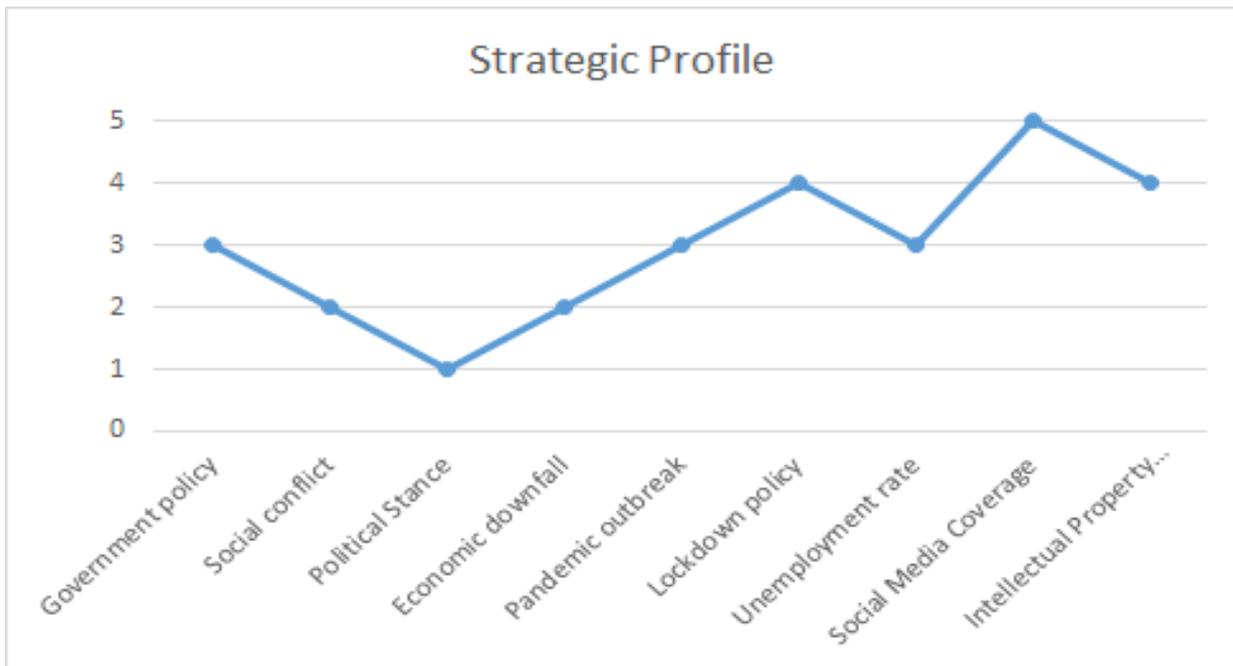


Figure 6. Strategic Profile and PESTEL analysis

2.1.2. FUTURE ENVIRONMENT

As for the forecast of the future environment, we will construct a scenario analysis with a timeframe of 2 years later and analyze some important variables that may influence our company. We have picked four most uncertain scenarios and analyzed how they affect our company in the future. Details are illustrated in the table below.

	Scenarios			
Variables	Yarn Price	Interest in DIY products	Habit in using social media	Competition from foreign counterparts due to globalization
Product Price	Strong (More expensive)	Moderate (won't affect much)	Strong (Have to stay with the	Strong (the increase

	supply)		most frequently used applications)	competition greatly affect the product price)
DIY Culture	Moderate	Strong (Sales will go up if the DIY culture is prevalent)	Strong (Greatly influence the culture trend)	Strong (People will start browsing different options)
Climate	Moderate influence	High (People will be more willing to purchase yarn garment like cardigan if the weather is colder)	Weak influence	Strong (People will look for alternatives)

Table 1: Scenario Analysis

2.1.3. PORTER FIVE FORCES ANALYSIS

With the help of Porter Five Forces Model, we can have a better understanding about different stakeholders around our business, which helps us to respond promptly to the market if there is any change in the market.

2.1.3.1. COMPETITORS RIVALRY

The first stakeholder to be assessed will be the **Competitors Rivalry**. As our business model is still in the developing phase in Hong Kong, there are not as many competitors as Western Countries. This benefits our company as we do not need to worry about the rivalry from the competitors. On average, our counterparts in western countries have 100,000 followers on their social media platform (which is their main sales platform) like Instagram. Yet, the number drops significantly to an average of 10,000 followers in Asian Countries' companies. As we mainly focus on the Asian Market, we do not need to compete with the "big companies" which further reduces our threats.

2.1.3.2. SUPPLIER POWER

The second stakeholder is the **supplier**. The number of supplier can have a huge impact to our business as it determines our choices when looking for cheaper supplies. As yarning business is mature in European Countries, there are many companies supplying yarn and we decide to import our materials from Italy. With the high numbers of suppliers that we can choose from

the market, we do not have to depend on a single supplier and we can always look for cheaper alternatives.

2.1.3.3. BUYERS POWER

For **buyers' power**, since the product is still in the introduction phase, we anticipate that there will not be a large amount of customers at the beginning and buyers will have relatively larger bargaining power. Also, our sales and mark price will depend much on the number of customers in this period. Thus, buyers will have a significant bargaining power on our business.

2.1.3.4. THREAT OF SUBSTITUTION

Then, we should assess the **threat of substitution**. As our company provides yarn packages and guidelines that teach our customers to knit their own clothes step by step, the biggest threat of substitution would be the fast fashion companies. However, we have a total different vision since our vision is to advocate sustainable fashion by letting our customers to experience the process of making a garment. Therefore, it is believed that this factor would not have a huge impact on our business.

2.1.3.5. THREAT OF NEW ENTRANT

The last stakeholder would be from the **threat of new entrant**. To enter this market, one should be familiar with numerous knitting skills and they have to put effort into practice before starting their business in this market. We believe that this market is unique and special which the threat of new entrant will not be intense as not many people would spend time digging into it if they are not interested.

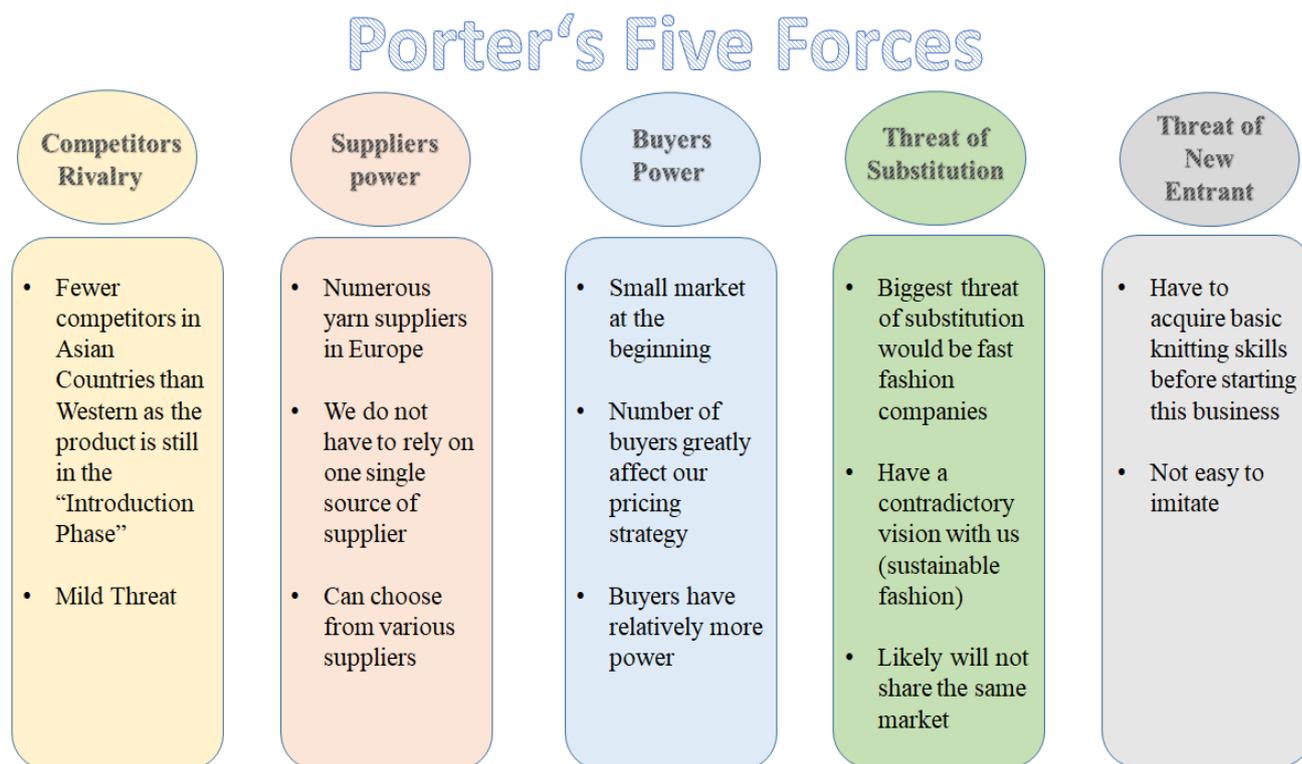


Figure 7. Porter Five Forces Analysis

2.2. INTERNAL ANALYSIS

As for internal analysis, we first build up a company identity, then carry out a SWOT analysis to better understand the position we are in and the competitive advantages we have, hence to better develop our marketing strategies.

2.2.1. COMPANY IDENTITY

The company is currently before the emerging stage of its life cycle as it is still in planning and have not yet been introduced in the sector. It is categorised in the fashion and textile-craft field as a start-up online brand. The company consists of three divisions, namely the administration team, the design team, and the sales and marketing team. Each division consists of 1-2 personnel. For the administration team, the employees manages inventory supplies, operation procedures, and logistics. While for the design team, employees research fashion trends that appeal to the target demographics and create original designs in the form of written patterns and sketches. As for the sales and marketing team, the employees manage the brand website, social media accounts and regularly update feeds on these platforms. They are also in charge of creating the monthly newsletter in email format (subscription to be signed up for on the brand website) and handling daily enquiries of products through the social media platforms, email, as

well as contact form and chat-bot on the brand website.

The main business and product line of the company would be a variety of DIY packages (including the written instructions of design pattern, the materials needed for making the garment, and video explanations upon add-on order) for consumers to purchase online and organic yarn with our own brand. Therefore, the main technologies to be employed would include social media platforms (Facebook, Instagram, etc.), online merchandise (brand website, other e-commerce platform) and pattern designing tools (word processing software and visual art software). As the company is created on private capital as well as assets, no public investment is of interest in this stage.

With the above company identity in mind, we are able to develop the company’s strategic profile as follows,

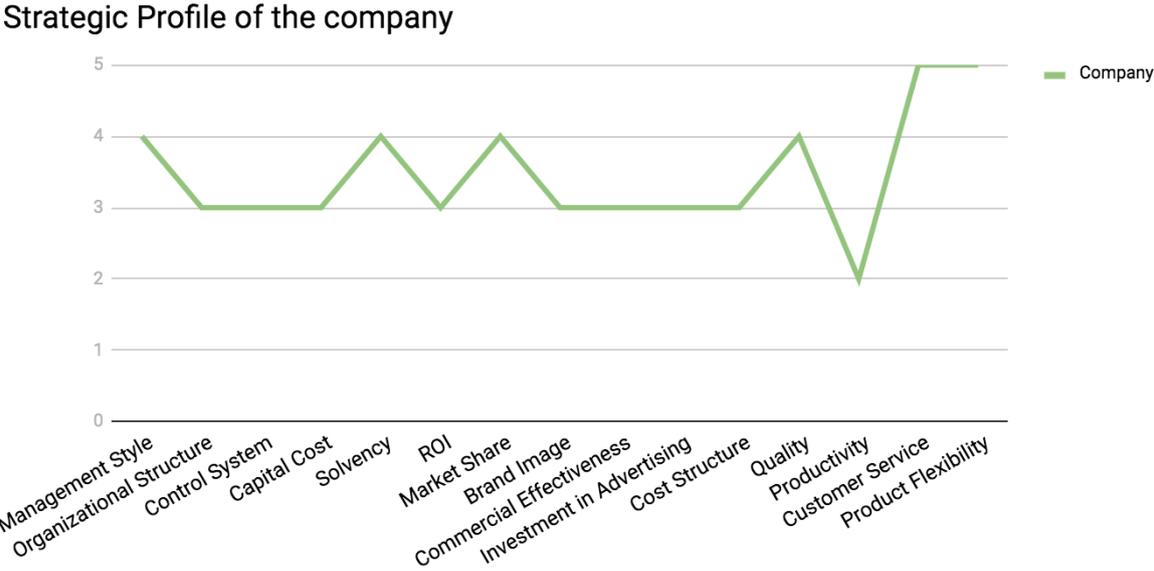


Figure 8. Strategic Profile of Style_we_knit

2.2.2. VALUE CHAIN PROPOSITION

Aiming to investigate the correlations between the company’s value-adding activities and cost-adding activities, we developed a value chain proposition model as follows,

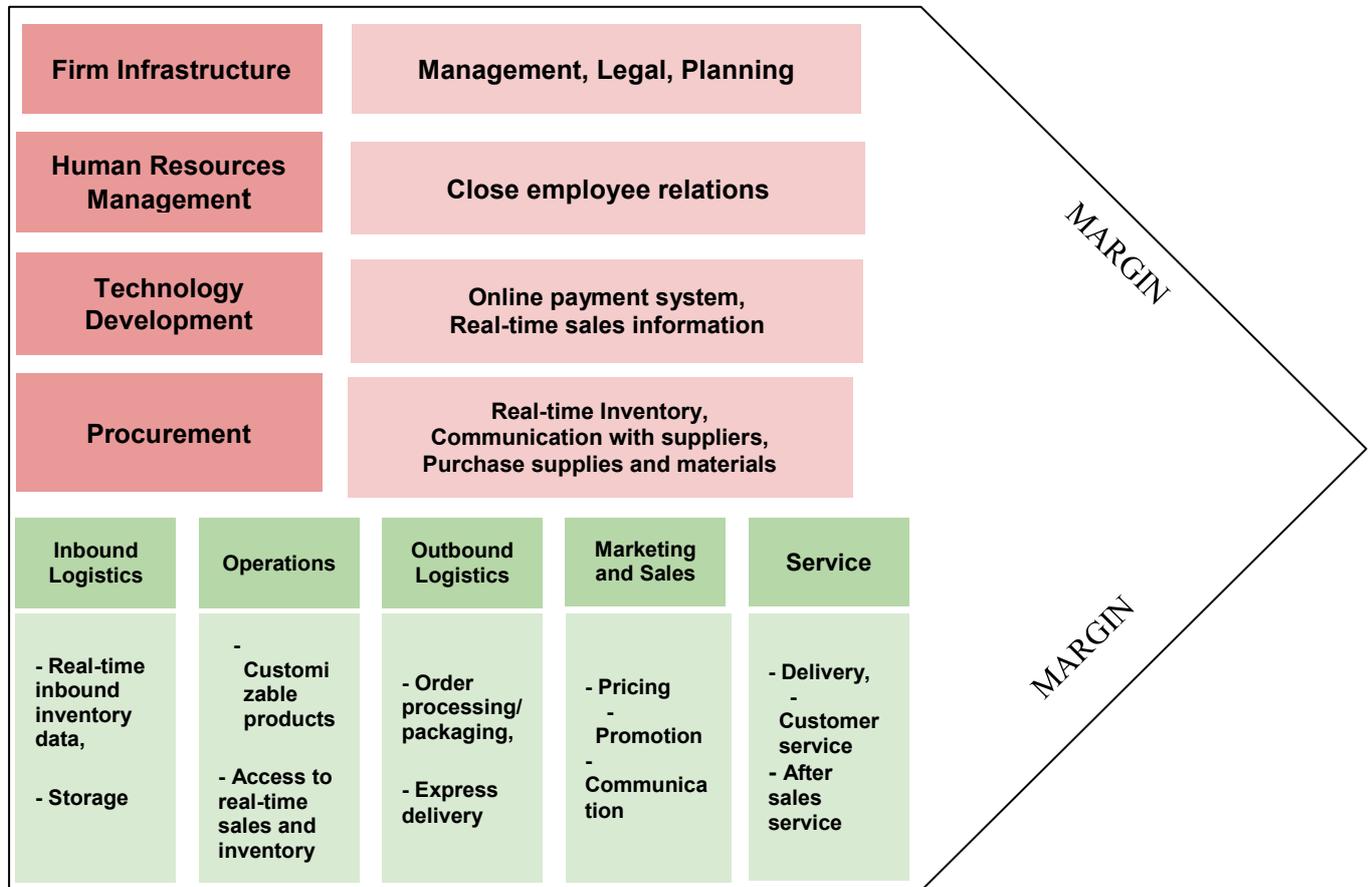


Figure 9. Value chain proposition model

2.2.3. BUSINESS MODEL CANVAS

The following shows the business model canvas which conclude the strategies that our company will be adopting. It includes key partners, key activities, key resources, value propositions, customer relationships, channels, customer segments, cost structure, and revenue streams.

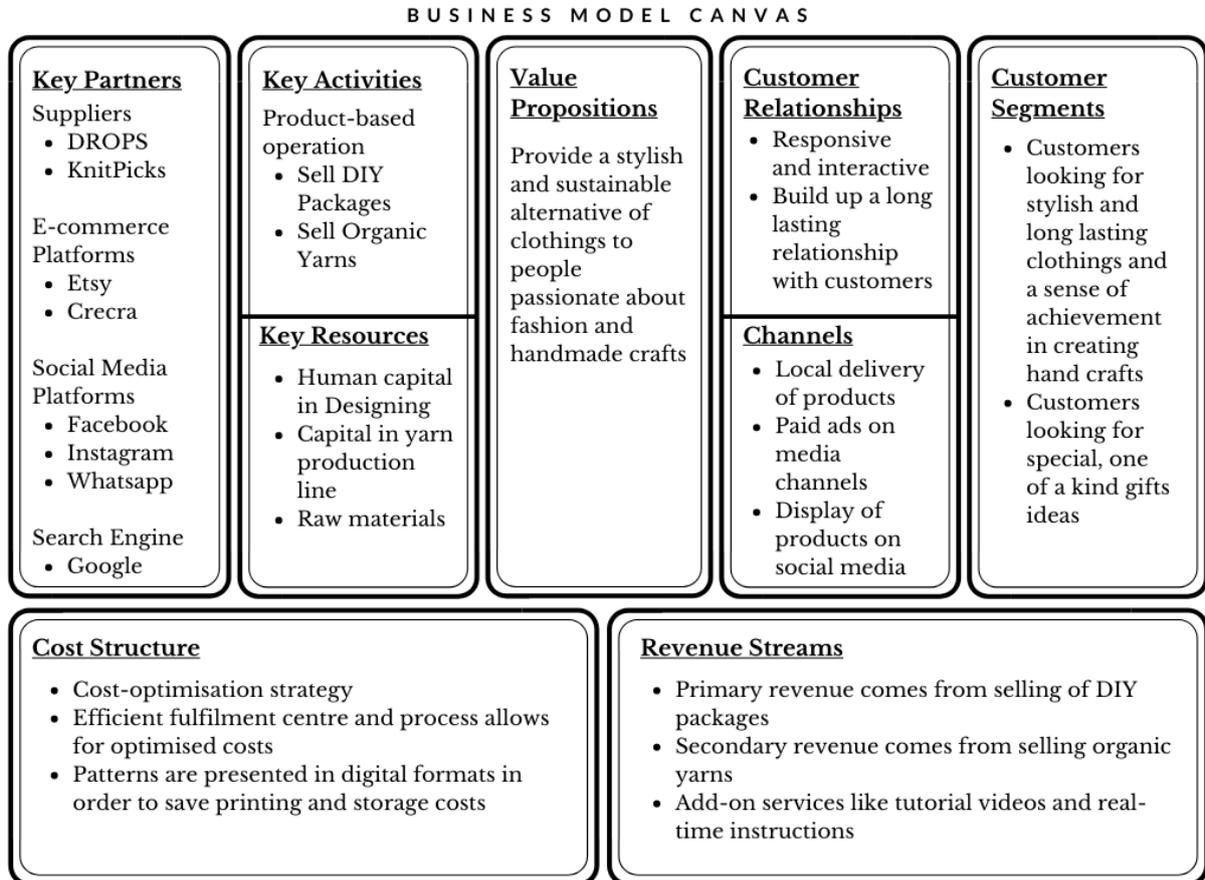


Figure 10. Business Model Canvas

2.2.4. SWOT ANALYSIS

We also conducted a SWOT analysis to assess both the external and internal environment of the business so that we have a clearer understanding of the competitors and our positioning. The following is the SWOT analysis for the company:

<p style="text-align: center;"><u>Strength</u></p> <ul style="list-style-type: none"> - Unique business model in target region - Higher quality of materials - Higher flexibility of designs with personalization and customization - Lower costs for online marketing resources - Good customer service management - Good after sales service 	<p style="text-align: center;"><u>Weakness</u></p> <ul style="list-style-type: none"> - Lower capital - Lower reputation - Higher cost of good quality raw materials (yarns and accessories) - Smaller range of products - Lack of signature/ iconic product - Longer span of product life cycle - Lower frequency of repurchase
<p style="text-align: center;"><u>Opportunity</u></p> <ul style="list-style-type: none"> - Expanding culture/ community of handcrafts and knitting - Rising focus on mental wellbeing (Knitting is a soothing hobby) - Higher appreciation for personalised goods 	<p style="text-align: center;"><u>Threat</u></p> <ul style="list-style-type: none"> - Mature competitors overseas, mainly in the US and EU - Fast-paced living style in Hong Kong - Relatively smaller customer group (those willing to DIY)

Table 2: SWOT Analysis

With this analysis in mind, we have developed the following actionable strategies.

	Internal Strengths	Internal Weaknesses
External Opportunities	<ul style="list-style-type: none"> • Provide flexible & personalized designs with high quality materials to add value for customer • Build up brand awareness and vitalize knitting culture by utilizing our social media 	<ul style="list-style-type: none"> • Develop advertisement campaigns that focus on mental well-being to improve brand reputation and generate traffic • Promote knitting as a hobby to higher repurchase frequency • Expand range of products to attract more potential customers in the handcrafts and knitting community
External Threats	<ul style="list-style-type: none"> • Provide excellent customer services and after sales services to retain the relatively small group of initial customers and convert them into reference customers 	<ul style="list-style-type: none"> • Collaborate with mature and well-known overseas competitors to build up brand reputation • Improve research and development of signature product (the DIY Packages) to satisfy the relatively small group of loyal customers

Figure 11. Actionable strategies for SWOT analysis

3. MARKETING PLAN

In order to create a concrete and comprehensive marketing plan, we will firstly establish the marketing goals, then illustrate our marketing strategies and lastly, define the concrete action plan. In the last part, we will list out the different prices of the packages.

3.1. MARKETING GOALS

To begin with, our marketing goals are split into qualitative and quantitative goals. For qualitative goals, our company aims at being the famous textile craft online shop in Hong Kong, providing the best quality yarn and pattern to our customers. We strive to give our customers the best online shopping experience and outstanding after-sales services as we understand that attracting a new customer cost 5 times more than retaining an existing one. Quantitatively, our target is to be the top of the market among local rivalries in 5 years as there are not many existing online textile craft shops so far. As a start-up company, our target revenue for the first year is to achieve break even, and starting from the second year, we aim at achieving a 25% or more growth in annual sales every year with our effort on marketing and the products' quality. We anticipate our sales volume will be relatively lower in summer time as people are less likely to purchase yarn product in summer. Yet, we will adjust our product line and procure different yarns according to the seasons change in order to fit the customers need.

3.2. MARKET SEGMENTATION

In this section, we will dig into the details of our business plan by listing out some concrete action plans. Our main target group of customers are 15 to 50 years old women in Hong Kong because people inside this age group are the most active users in the social media. Most of them are also financially independent and are able to purchase products online. We also target in relationship consumers who want to surprise their partners by gifting them a hand-knitted garment. Pet owners are our target as well since Hong Kong people are willing to spend money on pet care and we do also provide pets' garment patterns as well. According to SCMP, pet ownership has been increased by around 70% in the last 10 years, from 300,000 dogs and cats to 540,000 in 2019 (Chung, 2018). With the surging number of pet owners, we aim to attract their attention by designing appealing garments for their beloved pets. We also hope to promote the idea of sustainable fashion with which people can replace fast fashion culture with high quality handmade garments. These products would possess not only practical functions but also sentimental values, so that it helps people build up their long-lasting wardrobe. At the same

time, we wish to help revitalising the knitting craftsmanship along the comeback of vintage trend.

3.3. PRODUCTS INTRODUCTION

In our first and main product, the DIY packages, we provide well-written knitting patterns of the garment along with the materials needed for creating this piece of garment. Upon add-on package, we provide video demonstrations and explanations of the knitting process to make sure consumers can easily follow the steps. For the written patterns, our designers first come up with the design and then translate the steps into clear instructions with occasional illustrations for clarity. As for the materials needed, they include different types of yarns, knitting needles, other supplies like locking stitch markers, and optional accessories like buttons. We plan to acquire these materials by cooperating with leading brands in European countries (Italy) that produce them, with wholesaling agreement. Upon arrival of the supplies, we store them in the storage unit for later packaging. After processing the orders, we assemble the contents of the packages and deliver the products to our customers by local postage or express delivery. We promise to deliver within 5 working days upon payment confirmation.

Style _ We _ Knit



Original Sweater DIY Package

Sizes:	XS (S) M (L) XL (2XL) 3XL
Bust circumference:	96 (102) 109 (116) 126 (136) 147 cm
Length:	52 (53) 56 (58) 59 (60) 62 cm
Gauge:	17 sts x 22 rows = 10 x 10 cm in stockinette stitch on 4.0 mm (US 6) needles after blocking
Needles:	Circular needles: 4.0 mm (U.S. 5), 4.5 mm (U.S. 6) 60 and/or 100 cm in cable length
Materials:	Approximately 4 skeins of DROPS Air ~200g in total

Figure 12. Sample of the front page of the written guide in knitting package.

3.4. MARKETING AND PROMOTION STRATEGIES

Concerning marketing strategies, the main platforms we use to promote our company would be the brand website and the accounts we run on social media platforms including Facebook and Instagram. There will be regular updates of feeds on these platforms to inform customers about new products and promotional offers, if there are any. Besides, we plan to put our products to sale on other e-commerce platforms. For instance, the platform Etsy (<https://www.etsy.com/>) is known for connecting sellers and buyers of creative crafts and supplies. In Hong Kong, there is a similar platform called Crecra (<https://www.crecra.com/>). We plan to join these communities as a shop, too. Other than running web pages, we would also invest in online advertisements, such as Google Ads, Facebook Ads, and Instagram Ads, as these are the channels through which can we gain more exposure to our target customer groups. In addition, we send newsletter in the form of emails to potential customers who subscribe to them by signing up on our website. We introduce different promotions adjusted to seasons and special days around the year. These promotions may include discounts or bundling sales, for instance “buy one package and get discount on extra yarns”.

3.5. AFTER SALES SERVICES

Lastly, as we hope to provide our customers the best shopping experience and after-sales services, we believe that a smooth and efficient communication is vital. We will provide different channels for customers to get in touch with us and we promise a prompt reply to every single enquiry. The primary way will be through Email as it is the most organized way for us and we can at the meantime take the opportunity to carry out the Email Marketing with the potential customers. We will also create a chat-bot in our website so that customers can get instant reply on the basic enquiry they look for. Furthermore, we will register a business phone number so that customers can call directly to our customer service department during office hour. Finally, as we are an e-commerce company, customers can contact us anytime directly through social media like FaceBook page, Instagram, Whatsapp, or our website. In case any customers are not satisfied with the product, we thrive to provide corresponding policies to deal with different situations. For instance, if any parts of the products arrived missing or destroyed, the missing or destroyed parts will be delivered to the customers as soon as possible without charging shipment fees. Furthermore, if the products arrived late or the customer was not happy with its quality, a coupon will be gifted to the customer as amendment, in hopes that it serves as an incentive for future repurchase.

3.6. MARKED PRICE

Our company primarily focuses on two types of products, DIY packages and organic yarns. In the first five years, we decide to put the emphasis on designing new and attractive garments' patterns. The package, which includes the pattern and all the necessary materials, will be sold at €50 each, after concerning all the fixed and variable price. The total production cost for the package is €7.1 each, however the fixed cost for rent, salary, and marketing expense cost €3,840 per year. Our target for the first year is to sell 100 packages and thus by applying the break-even sales formula $Q = FC / (p - VC)$, the break-even price would be at least €45.5 euro per package. Thus we decided to set the price as €50 in the first year because our main target is to increase brand awareness instead of optimizing revenue at the beginning of the business. To boost sales volume, we will provide 10% off discount at major festivals throughout the year like Christmas and Valentine's Day. In case our customers have difficulty in reading the written guidelines of the package, we also provide an add-on service that they can purchase a tutoring video with 3€ extra corresponding to the specific pattern.

After we have accumulated enough customers and reputation, we will start a new product line after 5 years, selling the company's own organic yarns. The yarn is marked at €10 each and a wide range of colour will be available for customers to choose. The production cost of each yarn is €1.5 each and we expect to sell 960 yarn, with a 40% increase in sales volume every year starting from year 6. After concerning all the fixed costs and the sales from packages (please see more in the income statement under financial plan), the breakeven price should be set at at least €17.94 in order to incur a profit. However, as we concern setting a yarn at €18 would be too expensive and discourage people from buying it, we decided to set it at €10 first. Although it will incur a loss in the first 3 years, we will be earning a profit afterwards when the sales volume is boosted.

4. OPERATIONS PLAN

The company's operations will mainly be divided into two aspects -- the administration aspect and the logistics aspects. As the company envisions an expansion into a physical store in 5 years' time, the operations plan will consist of two parts -- the short to medium term plan (start to 5th year) and the long term plan (6th to 10th year). As our company is not a high revenue and mature company, we expect the development stage will be longer than other normal companies and thus we define the first 5 years as the short-medium term, as known as the developing stage.

4.1. SHORT TERM OPERATIONS PLAN

In the short term in which the company is just started, the light methodology is adopted in order to enhance flexibility of the business and strive to be more responsive for the customers. By using light methodology, the company can be more agile and it can adapt to the customers' needs more rapidly. Since the company is still in its development phase, the project teams are small and it further favors the implementation of light methodology.

First of all, the two founders of the company will take up both the responsibilities of the administration and logistics divisions and hire employees for the other divisions, which is the design division, and the sales and marketing division. The administration division will be in charge of all project management of the company, from product development, quality check, to employee recruitment.

4.1.1. LOGISTICS PLAN

As for the logistics division, the main responsibility is managing the supply chain. Initially, the company only has one product to offer -- the "Original Sweater DIY Package". The two founders will handle the procurement of materials and products to be included in the package from existing brands (excluding the pattern, as it is to be designed by the design team). These materials and products include yarns, knitting needles, cables, and stitch markers. They will be procured from the brands "*Drops Design* ®" and "*KnitPicks*".

The yarn included in the "Original Sweater DIY Package" will be *DROPS Air* made with baby alpaca and merino wool fibre in the EU.



Figure 13. Sample of Yarns, reprinted from the DROPS Air, retrieved from www.garnstudio.com

A variety of colourways shown below are provided for the customers to choose from. Each colourway will be ordered in small amount as our inventory and reordered when sold out.



Figure 14. Colourways of yarns 1, reprinted from DropsAir, retrieved from www.garnstudio.com



Figure 15. Colourways of Yarns 2. Reprinted from DropsAir. Retrieved from www.garnstudio.com

As for the knitting needles, the package will include the *TRY IT Needle Set - Caspian Wood and Nickel* from the brand *KnitPicks*. The product includes one set of size 6 (4.0mm) Caspian wood tips, one set of size 7 (4.5mm) Nickel Plated tips, one 24" cable, one 40" cable, four end caps, and one metal tightening key (KnitPicks.com) as shown in the figure below. This set of needles are interchangeable using the cables provided in the set, therefore is perfect for the “Original Sweater DIY Package”.



Figure 16. Sample of Needle Set, reprinted from KnitPicks, retrieved from www.knitpicks.com

Also procured from KnitPicks, the package will include the Locking Stitch Markers as shown below for better keeping track of the knitting progress and avoiding confusion.



Figure 17. Sample of stitch markers, reprinted from KnitPicks, retrieved www.knitpicks.com

These materials will then be transported to the storage unit rented by the company for temporary storage. Upon any order from customers, these materials will be packaged into a parcel ready to be delivered to them accordingly. The figure below shows an example, from an existing international brand founded in Madrid with a similar product line -- "*We are Knitters™*", of how the package will look like with its contents displayed.



Figure 18. Sample of the entire knitting package, reprinted from We are Knitters™, retrieved from www.fashionnetwork.com

The delivery service will be outsourced to Hong Kong local post office or an express delivery company, such as DHL, on customers' request.

4.2. LONG TERM OPERATIONS PLAN

After five years of operation, the company is assumed to have grown in sales volume, tripled the sales volume of the first year and generate profit (see more in the income statement under financial planning). It will be ready for an expansion and the company decided to open a physical store in the local market as a means of better display of products and advertisement. At this point, the company still runs by the principles of the light methodology and does not plan to employ too many personnel.

The primary responsibilities of the administration division and logistics division remain largely unchanged, except for the storage capacity and an addition of the company's own production line of organic yarns. To satisfy a higher demand of orders and a wider range of products, the company needs to enhance its capacity for supplies and products storage. Therefore, instead of a small storage unit, the company will now rent a warehouse for holding a larger amount of materials and packaged products. The materials procured from third-party brands will be packaged into different types of DIY packages in advance instead of on orders so that higher efficiency of shipment is achieved.

As for the new production line of organic yarn, it will be outsourced to a factory in South East Asia (for instance, in Vietnam or India for lower production costs). Then the yarns will be transported to the company's warehouse by maritime. An inspiration of produced-in-house yarns is from the brand *Gregoria Fibers Kidsilk Lace* yarn produced in Italy (as shown in the figure below).



Figure 19. Sample of Organic Yarns, reprinted from Gregoria Fibers Kidsilk Lace yarn, retrieved from www.gregoriafibers.com

5. ORGANISATIONAL PLANNING AND HR

For the organisational and human resources planning, both short term and long term planning is considered.

5.1. SHORT TERM ORGANISATIONAL PLANNING AND HR

In the short term, as a small sized start-up company, it will only consists of four divisions, namely the administration division, the operation division, the design division, and the sales and marketing division. For the sake of reducing fixed costs, the company’s two founders will take up the responsibility of the administration, operations, and sales and marketing divisions, with occasional help from the founders’ family. The only division that requires external recruitment is the design team and it will be a one man team.

The following figure shows the organigram in the short-medium term operation with 2 founders doing all the tasks from administration, operations, and sales and marketing division, and 1 designer helping with the pattern design.

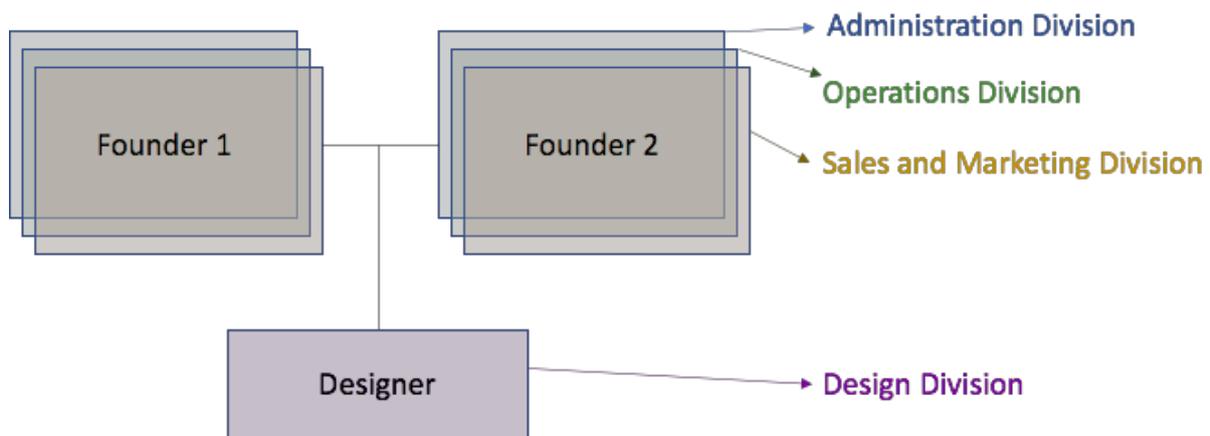


Figure 20. Organigram for short-medium term operation

5.1.1. THE ADMINISTRATION DIVISION

The administration team will consist of the two founders of the company. They will be in charge of all project management of the company, from product development, quality check, to employee recruitment. The team will work closely with the design team in regards of monitoring the product design progress and help with quality check before officially launching new products. Besides, they will also take up the responsibility of Human Resources department

and handle employee recruitment. The recruitment process will be consist of two stages -- posting job advertisement on the company's website and social media accounts, and interviewing shortlisted candidates after reviewing their résumés. The team will also take care of the accounting of the company.

5.1.2. THE OPERATIONS DIVISION

The two founders are also in charge of the operations of the company, so they will also manage inventory supplies, operation procedures, and logistics as described in section 4.1 the short term operations plan.

5.1.3. THE DESIGN DIVISION

For the design team, the employee recruited by external recruitment will have job duties including researching fashion trends that appeal to the target demographics, creating original designs in the form of written patterns and sketches, and communicating with the operations team concerning the procurement of materials to be used in the designs and eventually included in the products.

For the recruitment process, the first step will be posting the job advertisement on recruiting websites including JobsDB, CTGoodJobs, Indeed, and Glassdoor. These are ones of the most popular job searching sites in Hong Kong. The advertisement will consist of the general descriptions, main duties, requirements, and the salary range of the job as shown below.

1. General description of the position: Freelance Fashion Designer (1 employee)
2. Job duties:
 - researching fashion trends that appeal to target customers (15-30 years old women)
 - creating original designs in the form of written knitting patterns and sketches
 - Communicating with the operations team concerning the procurement of materials to be used in the designs and eventually included in the products.
 - filming tutorial videos including instructions of the patterns for knitting the designed garments
3. Requirements/ Candidate profile for this position

Background:

- Status: Currently or recently employed as designer/ freelance designer
- Education: Degree in Fashion and Textile Design/ Fine Arts/ Graphics Design or other related disciplines
- Location: Preferably located in Hong Kong, remote working would be possible
- Mannerisms: Creative, self-disciplined, detail-oriented, responsible, and able to work under tight schedule

Experience:

- Level: at least 2 years of working experience in designing
- Requirements: Experience with hand knitting and related pattern reading, familiar with visual arts tools such as Procreate or Photoshop
- Portfolio: Works of fashion design and knitted garments

4. Salary: 50 Euros/ design

Candidates are required to send their updated curriculum vitae along with a portfolio. After receiving candidates' applications for the position and their documents, the administration team will review them and shortlist 1-3 candidates for an in-person interview. The criteria for shortlisting candidates are based on the compatibility of the candidates with the position and their availability to work considering the production schedule. Then, the administration team will arrange the in-person interview with the shortlisted candidates and get to know them better regarding their personalities and ethics with this opportunity. Finally, the administration team will select and hire the most suitable candidate for this position according to the said criteria above.

Meanwhile, the founders' family who have experience in knitting will also help in the process of developing these patterns and quality checking finished products. In addition, as a tutorial video containing demonstration and instructions of the purchased pattern will be sent to the customers upon their add-on order, the designers will need to film these tutorial videos alongside when they knit the display piece of product. These videos will be filmed in advance of launching the products.

5.1.4. THE SALES AND MARKETING DIVISION

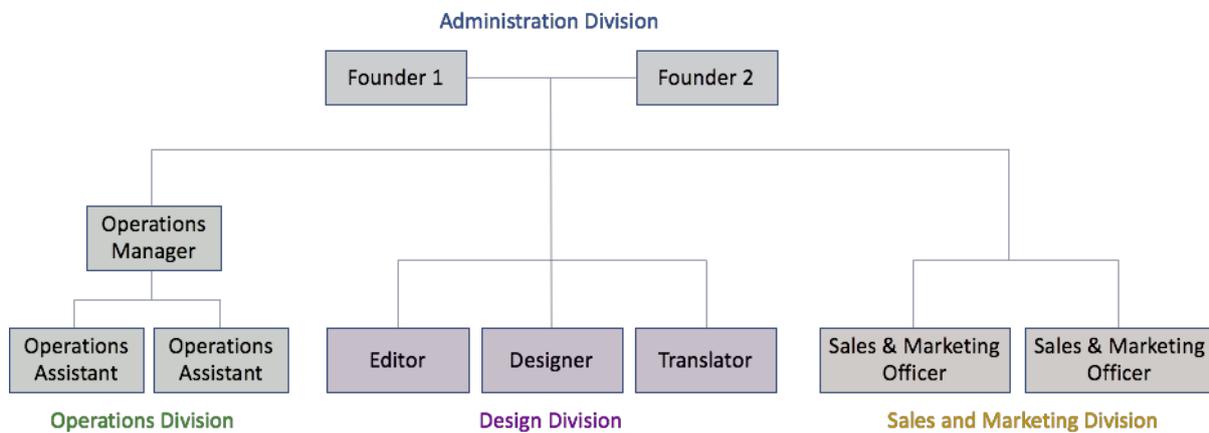
As for the sales and marketing team, it is as well formed by the two founders. They will not only monitor the sales development but also manage the brand website, social media accounts

and regularly update feeds on these platforms. They are also in charge of creating the monthly newsletter in email format (subscription to be signed up for on the brand website) and handling daily enquiries of products through the social media platforms, email, as well as the contact form on the brand website. The website will be created using a free website set up tool.

5.2. LONG TERM ORGANISATIONAL PLANNING AND HR

In the long term, after the expansion, the company will now consist of five divisions, including the administration division, the operations division, the design division, the sales and marketing division, and the customer service division.

The following shows the organigram of the company in long term operation:



5.2.1. THE ADMINISTRATION DIVISION

For the administration division, the structure is the same with that of the short term, except that the two founders will be able to focus on administration aspect of the company but not the operations aspect. They will be in charge of managing product development, human resources, that is the hiring and paying off employees, and accounting.

5.2.2. THE OPERATIONS DIVISION

As for the operation division, employees will be newly recruited by the administration staff by the same external recruitment process as mentioned in the short term planning. The quota of employees will be a total of three personnel, one of them will be the operations manager and in charge of procurement and managing the supply chain while the remaining two of them will be in charge of managing the warehouse as well as packaging and delivery. For procurement, the manager will be working closely with the design team regarding which types of materials to be

procured as mentioned in the operations plan. This manager will also monitor every facet of the supply chain and make sure the inventory suffices the order demand. As for the warehouse management, packaging and delivery, the remaining two employees will be in charge. They will keep record of the stock inventory and are responsible for assembling the packages in advance of delivery. They will also communicate with the local post office or the express delivery companies regarding the shipment of the products.

The following are the candidate profiles for the above three employees.

A. Operations Manager (1 employee)

a. Job duties:

- procurement of materials
- managing supply chain
- making sure the inventory suffices the order demand

b. Requirements for this position

Background:

- Status: Currently or recently employed as an operation manager
- Education: Degree in Business Administration, Logistic Management, or any related disciplines
- Location: Currently located in Hong Kong or willing to relocate in Hong Kong
- Mannerisms: Proactive, detail-oriented, responsible, and able to work under pressure

Experience:

- Level: Senior, at least 3 years of working experience in operations management
- Requirements: Experience with handling procurement, supply chain, and warehouse management

c. Salary: 1900 Euros/ month

B. Operations Assistant (2 employees)

a. Job duties:

- warehouse management
 - keeping record of the stock inventory
 - assembling the packages in advance of delivery
-

- communicating with the local post office or the express delivery companies regarding the shipment of the products
- b. Requirements for this position
 - Background:
 - Status: Currently or recently employed as an operation assistant
 - Education: Degree in Business Administration, Logistic Management, or any related disciplines
 - Location: Currently located in Hong Kong or willing to relocate in Hong Kong
 - Mannerisms: Proactive, detail-oriented, responsible, and able to work under pressure
 - Experience:
 - Level: Beginner to mid-level, at least 1 years of working experience in operations management
 - Requirements: Preferably with experience with handling procurement, supply chain, and warehouse management
- c. Salary: 1300 Euros/ month

5.2.3. THE DESIGN DIVISION

In addition to the initial one designer, the company will recruit one editor and one translator into the team in response to the more complex business model. The designer will keep on performing the existing duties including designing new patterns and filming tutorial videos. The new editor will be responsible for editing the layout, proofreading the pdf files of the patterns, and editing marketing materials for advertisement on various aforementioned platforms. The new translator will be responsible for translating patterns in traditional Chinese into English in order to wider the options for our customers, as English is also an official language in Hong Kong and is used widely among Hongkongers.

The following are the candidate profiles for the two new positions.

A. Editor (1 employee)

- a. Job duties:
 - editing layouts of knitting patterns designed by the designer
 - proofreading pdf files of the written patterns
 - editing marketing materials for advertisement on various social media

and e-commerce platforms, as well as on the company website

b. Requirements for this position

Background:

- Status: Currently or recently employed as an editor
- Education: Degree in Languages, Journalism, or any related disciplines
- Location: Currently located in Hong Kong or willing to relocate in Hong Kong
- Mannerisms: Proactive, detail-oriented, responsible, and able to work under pressure

Experience:

- Level: Mid-level, at least 2 years of working experience in editing
- Requirements: Experience with editing and proofreading publishing materials

c. Salary: 1500 Euros/ month

B. Translator (1 employee)

a. Job duties:

- translating written knitting patterns in traditional Chinese into English or vice versa

b. Requirements for this position

Background:

- Status: Currently or recently employed as a translator
- Education: Degree in Languages, Translation, or any related disciplines
- Location: Currently located in Hong Kong or willing to relocate in Hong Kong
- Mannerisms: Proactive, detail-oriented, responsible, and able to work under tight schedule

Experience:

- Level: Beginner to mid-level, at least 1 years of working experience in translation
- Requirements: Excellent command in both traditional Chinese and English

c. Salary: 1500 Euros/ month

5.2.4. THE SALES AND MARKETING DIVISION

After the opening of the physical store in Hong Kong, the sales and marketing division will need to manage the storefront as well as the additional promotion of it. As the two founders are no longer members of this division, two more employees will need to be recruited externally for this division. These employees will manage the display of sample products of different packages and the finished garments made by the company's designers in the physical store. They will also be in charge of the layout and decorations of the storefront so that the concept of the store fits the general theme of the company. In addition to the packages, the company now sells original organic yarns, too. These will also be displayed in the physical store. Moreover, the same as in the short term, the sales and marketing division will manage the brand website, social media accounts and regularly update feeds on these platforms. They will also continue sending newsletters to subscribers and managing potential leads who visited the brand website's landing page.

Following is the candidate profile for the above two employees to be recruited.

1. General description of the position: Sales and Marketing officer (2 employees)
2. Job duties:
 - managing the display of sample products of different packages and the finished garments made by the company's designers in the physical store
 - handling layout and decorations of the storefront so that the concept of the store fits the general theme of the company
 - managing the brand website, social media accounts and regularly update feeds on these platforms
 - sending newsletters to subscribers and managing potential leads who visited the brand website's landing page
3. Requirements for this position

Background:

- Status: Currently or recently employed as a sales and marketing officer
- Education: Degree in Business Administration, Digital Marketing, or any related disciplines
- Location: Currently located in Hong Kong or willing to relocate in Hong Kong
- Mannerisms: Proactive, creative, driven, detail-oriented, responsible, and able to work under pressure

Experience:

- Level: Mid-level, at least 2 years of working experience in sales and marketing
 - Requirements: Experience in managing storefront and e-commerce platforms, digital-savvy
4. Salary: 1500 Euros/ month

5.2.5. THE CUSTOMER SERVICES DIVISION

Different from the short-medium term, handling enquiries from customers and after sales service will no longer be the responsibilities of the sales and marketing division, but the customer services division's. At least one more employee will be recruited for this team to handle customers' enquiries from email, social media platforms, or the contact form on the brand website. This employee will also respond to customers' feedback after sales, in order to provide a whole rounded buying experience for the customers and ultimately retain them.

Following is the candidate profile of this employee.

1. General description of the position: Customer service officer (2 employees)
2. Job duties:
 - handling enquiries from customers from email, social media platforms, or the contact form on the company's website
 - providing after sales service
3. Requirements for this position

Background:

- Status: Currently or recently employed as a customer service officer
- Education: Degree in Business Administration or any related disciplines
- Location: Currently located in Hong Kong or willing to relocate in Hong Kong
- Mannerisms: Patient, driven, attention to details, responsible, and able to work under pressure

Experience:

- Level: Beginner to mid-level, at least 1 years of working experience in customer services
 - Requirements: Experience in customer services, digital-savvy
4. Salary: 1500 Euros/ month

6. FINANCIAL PLANNING

As our company intends to enlarge our business after 5 years, the financial budget will be split into two parts, short term financial planning and long term financial planning.

6.1. SHORT TERM FINANCIAL PLANNING

We define the first 5 years of the business as the short term period and we will mainly focus our business on the e-platforms that we established, i.e. the company’s website and social media. The operating cost in these 5 years is relatively small as we do not plan to hire many employees and we do not need any physical store. We will project an annual income statement to show the financial situation of the business.

6.1.1. SHORT TERM INCOME STATEMENT

First of all, we assume that our business will grow constantly every year as we gradually gain reputation and we set the growing rate as 30% per year. In the first year, we anticipate to sell 100 yarn packages with the marked price €50. There will be 5 things provided inside the package and the total variable cost of the package will be €7.1. The details are as follow: Package box €0.1, 4 balls of yarn 50g €5, Pattern €0, Needles (2 sizes) €1, Cable €0.5 and 10 stitch marker €0.5. The cost for pattern will be accounted in the following section.

Production Cost of Original Sweater DIY Package	
Package box	0.10 €
Yarn 50/g x4	5.00 €
Pattern PDF	0.00 €
Needles x2 (2 different sizes)	1.00 €
Cable x2	0.50 €
Stitch Marker x10	0.50 €
Total Cost	7.10 €

Figure 19: Production Cost of the Original Sweater DIY Package
Source: Own Elaboration

For the fixed cost, it includes the rent of a storage unit (€200/month) and the salary of a freelance designer who will be responsible for designing 1 pattern every month (€50/month). The company also plans to spend €70 every month on marketing campaign. Moreover, there will be

a monthly €20 expense on the training and recruitment cost. With all the data provided above, we construct a projected short term annual income statement for the first 5 years.

General Expense of Operation	
Freelance Designer x1	600.00 €
Recruitment and training expense	240.00 €
Marketing Campaign	840.00 €
Rent of Storage Unit	2,400.00 €
Total Cost	<u>4,080.00 €</u>

Figure 21. General expenses on operation

Short Term Income Statement					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net sales (30% increase each year)	5,000 €	6,500 €	8,450 €	10,985 €	14,281 €
COGS (Cost of Raw Material)	710 €	923 €	1,200 €	1,560 €	2,028 €
Gross Margin	4,290 €	5,577 €	7,250 €	9,425 €	12,253 €
Rent (200€/month)	2,400 €	2,400 €	2,400 €	2,400 €	2,400 €
Traning and recruitment cost	240 €	0 €	0 €	0 €	0 €
Salary (50€/month)	600 €	600 €	600 €	600 €	600 €
Marketing Expense (70€/month)	840 €	840 €	840 €	840 €	840 €
Net income	210 €	1,737 €	3,410 €	5,585 €	8,413 €
				Total income	<u>€ 19,355</u>

Figure 22. Short term income statement

6.1.2. SHORT TERM CASH FLOW STATEMENT

As cash flow management is of utmost importance to a small business, we also have to carry out a projected cash flow statement to assess whether the company has sufficient cash to maintain daily operation.

Short Term Cash Flow Statement					
	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Activity					
Cash from Sales	5,000.00 €	6,500.00 €	8,450.00 €	10,985.00 €	14,280.50 €
Training and Recruitment Expense	240.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Salaries	600.00 €	600.00 €	600.00 €	600.00 €	600.00 €
Cost of Goods	710.00 €	923.00 €	1,199.90 €	1,559.87 €	2,027.83 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Net cash from operation	2,610.00 €	4,137.00 €	5,810.10 €	7,985.13 €	10,812.67 €
Investment Activity					
Rent of Storage Unit	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net cash flow from investment	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net Cash					
Net cash at the beginning	0.00 €	2,010.00 €	5,547.00 €	10,757.10 €	18,142.23 €
Net cash at the end of year	2,010.00 €	3,537.00 €	5,210.10 €	7,385.13 €	10,212.67 €
Total cash	2,010.00 €	5,547.00 €	10,757.10 €	18,142.23 €	28,354.90 €

Figure 23. Short term cash flow statement

6.2. LONG TERM FINANCIAL PLANNING

After 5 years of operation, the company plans to open a physical store in Hong Kong to display the products and attract new customers. It expects to attract 40% more customers every year. It will also start selling its own organic yarn instead of merely knitting packages. Therefore, the operating cost will be greatly increased as more employees are hired to manage the business. There is also a new production cost as the company is introducing a new product line. The details of the cost will be illustrated in the following:

6.2.1. LONG TERM INCOME STATEMENT

To begin with, the company decides to hire 10 employees to manage the business from procurement to after sales services, with the salary of 1500€/month for each employee. Also, the rent of the physical store is estimated to be 2500€/month with the utilities of 60€/month. While the production cost of the knitting package is kept the same, the production cost of the organic yarn will be 1.5€/ball. The company expect to sell 80 balls per month at 10€/ball in and 40 packages at 50€ per month in the first year.

As sales increases with the expansion of the business, the company needs a larger warehouse to store its product and materials, which costs 800€/month. Lastly, the fee for transporting the

organic yarn from the factory to the warehouse is set as 60€/month. With all the extra cost, the company decides to borrow 30,000€ loan from the local bank in the 6th year, with an annual interest of 5% which can be repaid in 10 years and finance 10,000€ on our own.

A new income statement is then created using the above data.

Long term Income Statement					
	Year 6	Year 7	Year 8	Year 9	Year 10
Sales of Organic Yarn	9,600.0 €	13,440.0 €	18,816.0 €	26,342.4 €	36,879.4 €
Sales of Knitting Package	24,000.0 €	33,600.0 €	47,040.0 €	65,856.0 €	92,198.4 €
COGS yarn(-)	1,440.0 €	2,016.0 €	2,822.4 €	3,951.4 €	5,531.9 €
COGS package(-)	3,408.0 €	4,771.2 €	6,679.7 €	9,351.6 €	13,092.2 €
Gross Margin	28,752.0 €	40,252.8 €	56,353.9 €	78,895.5 €	110,453.7 €
Salary (-)	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €
Traning and Recruitment Cost (-)	600.0 €	0.0 €	0.0 €	0.0 €	0.0 €
Rent of store(-)	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €
Store utilities(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
Rent of Warehouse(-)	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €
Marketing Campaign (-)	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Repaid of the loan (-)	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €
Transportation(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
EBIT	-31,728.0 €	-19,627.2 €	-3,526.1 €	19,015.5 €	50,573.7 €
Interest of loan 5%	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €
EBT	-33,228.0 €	-21,127.2 €	-5,026.1 €	17,515.5 €	49,073.7 €
Tax 16.5%	-5,235.1 €	-3,238.5 €	-581.8 €	3,137.6 €	8,344.7 €
Earning from first 5 years (+)	17,597.8 €	0.0 €	0.0 €	0.0 €	0.0 €
Net income	-10,395.1 €	-17,888.7 €	-4,444.3 €	14,377.9 €	40,729.0 €
				Total Income	22,378.9 €

Figure 24. Long term income statement

6.2.2. LONG TERM CASH FLOW STATEMENT

As the operating cost has been greatly increased because of the opening physical store and the recruitment of new team members, it is very likely that the cash flow in the first few years will be negative and thus harm the operation of the business. To deal with this problem, our company decided to borrow €30,000 from local bank to ensure the cash flow will be positive to support the company’s daily operation. The loan will be repaid after 5 years and the interest rate is assumed as 5% every year.

With the data given, we carried out a cash flow projection below.

Long Term Cash Flow Statement					
	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Activities					
Cash from Sales	33,600.00 €	47,040.00 €	65,856.00 €	92,198.40 €	129,077.76 €
Cost of Goods	4,848.00 €	6,787.20 €	9,502.08 €	13,302.91 €	18,624.08 €
Traning and Recruitment Expense	600.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Salaries	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €
Transportation	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Store utilities	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Net cash from operation	10,872.00 €	22,972.80 €	39,073.92 €	61,615.49 €	93,173.68 €
Investment Activities					
Rent of Storage Unit	-800.00 €	-800.00 €	-800.00 €	-800.00 €	-800.00 €
Rent of the Store	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €
Net cash flow from investment	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €
Financial Activities					
Cash from bank loan	30,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net cash flow from financing	30,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net Cash					
Net cash at the beginning	28,354.90 €	38,426.90 €	30,599.70 €	38,873.62 €	69,689.11 €
Net cash at the end of year	10,072.00 €	-7,827.20 €	8,273.92 €	30,815.49 €	62,373.68 €
Total net cash	38,426.90 €	30,599.70 €	38,873.62 €	69,689.11 €	132,062.79 €

Figure 25. Long term cash flow statement

6.3. THE NET PRESENT VALUE (NPV) AND THE INTERNAL RATE OF RETURN (IRR)

To better access whether it is worth to invest on the project or not, we apply two methods to value our investments, the Net Present Value and the Internal Rate of Return. Since the business does not require much capital and investment in the first 5 years where we mainly operate online, the valuation will start from the 6th year where we start opening our first physical store. The following figure shows the Free Cash Flow of the company in its 6th - 10th year.

Free Cash Flow (Year 5-10)						
	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash from Sales	0.00 €	33,600.00 €	47,040.00 €	65,856.00 €	92,198.40 €	129,077.76 €
Cost of Goods	0.00 €	4,848.00 €	6,787.20 €	9,502.08 €	13,302.91 €	18,624.08 €
General Expenses	0.00 €	48,080.00 €	48,080.00 €	48,080.00 €	48,080.00 €	48,080.00 €
EBIT	0.00 €	(19,328.00 €)	(7,827.20 €)	8,273.92 €	30,815.49 €	62,373.68 €
Income Tax (-)	0.00 €	(3,189.12 €)	(1,291.49 €)	1,365.20 €	5,084.56 €	10,291.66 €
EBI	0.00 €	(16,138.88 €)	(6,535.71 €)	6,908.72 €	25,730.93 €	52,082.02 €
Initial Investment	(40,000.00 €)	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Cash from the previous year	0.00 €	17,597.80 €	1,458.92 €	(5,076.79 €)	1,831.93 €	27,562.86 €
Free Cash Flow	(40,000.00 €)	1,458.92 €	(5,076.79 €)	1,831.93 €	27,562.86 €	79,644.88 €

Figure 26. Free cash flow statement from Year 6-10

6.3.1 NET PRESENT VALUE (NPV)

To calculate the NPV, we should firstly evaluate the **weighted average cost of capital (WACC)** of the company. As we have mentioned above, we decided to borrow €30,000 from the bank and finance €10,000 on our own, the initial investment is €40,000 in total. The interest rate of the loan is 5% and the corporate tax in Hong Kong is 16.5%. Therefore, by applying the equation $K_d(1-t)$, where K_d is the interest rate and t is the tax rate, we get 4.18% as our cost of debt. To calculate the cost of own equity, the equation will be $R_f + (E_m - R_f)\beta$. By researching on the similar industry's data and the government statistics, we assume our beta to be 1.06, the market risk premium to be 9.12% and the free risk to be 0.68% (XXXX, 2020), and thus come up with 10.35% of the cost of equity. With the cost of debt and cost of equity, we get 5.72% as the WACC. By applying the NPV formula with the data from the Free Cash Flow, WACC and the initial investment, we obtain €40,760 as the NPV. Since our NPV is greater than 0 and therefore the project is worth investing.

Input interpretation:

$$\frac{1458.92}{1 + 5.72\%} - \frac{5076.79}{(1 + 5.72\%)^2} + \frac{1831.93}{(1 + 5.72\%)^3} + \frac{27562.86}{(1 + 5.72\%)^4} + \frac{79644.88}{(1 + 5.72\%)^5} - 40000$$

Figure 27. Formula for NPV

6.3.2 INTERNAL RATE OF RETURN (IRR)

The second valuation method that we used is the internal rate of return (IRR). By using the data from the Free Cash Flow and the WACC, we can calculate the IRR by using a financial calculator and get 22.4% of return. As the rate of return is greater than the weighted average cost of capital of 5.22%, the project should be accepted and invested. To calculate the IRR, we should first set the NPV as 0 and use the same formula as calculating the NPV.

$$\frac{1458.92}{1 + r} - \frac{5076.79}{(1 + r)^2} + \frac{1831.93}{(1 + r)^3} + \frac{27562.86}{(1 + r)^4} + \frac{79644.88}{(1 + r)^5} = 40000$$

Figure 28. Formula for IRR

6.4 SCENARIO FORECAST

To better prepare and respond to the worst case scenario or economic downfall in the future, we have constructed a pessimistic forecast on both the short and long term cash flow statement and income statement. We decided to only construct a pessimistic forecast but not optimistic in the financial budget because it helps us to better prevent possible obstacles that affect the company’s operation in the future.

6.4.1 INCOME STATEMENT (PESSIMISTIC)

In the pessimistic forecast, we reduce the sales by 15% starting from the 2nd year and the net income drops significantly in both short term and long term income statement, resulting in a €7,200 total income in 5 years and a -€64,750 in the long term income statement.

Short Term Income Statement (Pessimistic)					
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Net sales	5,000 €	5,525 €	6,105 €	6,746 €	7,455 €
COGS (Cost of Raw Material)	710 €	785 €	867 €	958 €	1,059 €
Gross Margin	4,290 €	4,740 €	5,238 €	5,788 €	6,396 €
Recruitment and training cost	240 €	0 €	0 €	0 €	0 €
Rent (200€/month)	2,400 €	2,400 €	2,400 €	2,400 €	2,400 €
Salary (50€/month)	600 €	600 €	600 €	600 €	600 €
Marketing Expense (70€/month)	840 €	840 €	840 €	840 €	840 €
Net income	<u>210 €</u>	<u>900 €</u>	<u>1,398 €</u>	<u>1,948 €</u>	<u>2,556 €</u>
				Total income	<u>€ 7,013</u>

Figure 29. Short term forecast income statement (Pessimistic)

Long term Income Statement (Pessimistic)					
	Year 6	Year 7	Year 8	Year 9	Year 10
Sales of Organic Yarn	9,600.0 €	11,424.0 €	13,594.6 €	16,177.5 €	19,251.3 €
Sales of Knitting Package	24,000.0 €	28,560.0 €	33,986.4 €	40,443.8 €	48,128.1 €
COGS yarn(-)	1,440.0 €	1,713.6 €	2,039.2 €	2,426.6 €	2,887.7 €
COGS package(-)	3,408.0 €	4,055.5 €	4,826.1 €	5,743.0 €	6,834.2 €
Gross Margin	28,752.0 €	34,214.9 €	40,715.7 €	48,451.7 €	57,657.5 €
Salary (-)	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €
Rent of store(-)	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €
Recruitment and training cost	600.0 €	0.0 €	0.0 €	0.0 €	0.0 €
Store utilities(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
Rent of Warehouse(-)	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €
Marketing Campaign (-)	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Repaid of the loan (-)	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €
Transportation(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
EBIT	-31,728.0 €	-25,665.1 €	-19,164.3 €	-11,428.3 €	-2,222.5 €
Interest of loan 5%	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €
EBT	-33,228.0 €	-27,165.1 €	-20,664.3 €	-12,928.3 €	-3,722.5 €
Tax 16.5%	-5,235.1 €	-4,234.7 €	-3,162.1 €	-1,885.7 €	-366.7 €
Earning from first 5 years (+)	17,597.8 €	0.0 €	0.0 €	0.0 €	0.0 €
Net income	-10,395.1 €	-22,930.4 €	-17,502.2 €	-11,042.6 €	-3,355.8 €
				Total Income	-65,226.1 €

Figure 30. Long term forecast income statement (Pessimistic)

6.4.3 CASH FLOW STATEMENT (PESSIMISTIC)

To deal with the loss in the long term operations, we have to look for places to cut the expenses in order to boost our net income. The first things to be cut down would be the expenses on salary and rent of the stores as they occupy almost 80% of the total expenses. We could hire fewer staffs and look for stores with cheaper rents after we have successfully built up our brand awareness. However, the long term solution will still be pushing up the sales volume and retain customers by providing them outstanding products and a good customer journey.

As for the cash flow statement, both short term and long term cash flow reveals that the company still has a healthy financial situation even the sales volume is reduced by 15%. We have sufficient amount of cash to pay all the short term liabilities and operating expenses as we have borrowed €30,000 loans from the bank and financed €10,000 with our own funding. Below shows the pessimistic forecast of the cash flow statement.

Short Term Cash Flow Statement (Pessimistic)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Activity					
Cash from Sales	5,000.00 €	5,525.00 €	6,105.13 €	6,746.16 €	7,454.51 €
Salaries	600.00 €	600.00 €	600.00 €	600.00 €	600.00 €
Recruitment and training expense	240.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Cost of Goods	710.00 €	784.55 €	866.93 €	957.96 €	1,058.54 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Net cash from operation	2,610.00 €	3,300.45 €	3,798.20 €	4,348.21 €	4,955.97 €
Investment Activity					
Rent of Storage Unit	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net cash flow from investment	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net Cash					
Net cash at the beginning	0.00 €	2,010.00 €	4,710.45 €	7,908.65 €	11,656.86 €
Net cash at the end of year	2,010.00 €	2,700.45 €	3,198.20 €	3,748.21 €	4,355.97 €
Total cash	2,010.00 €	4,710.45 €	7,908.65 €	11,656.86 €	16,012.83 €

Figure 31. Short term forecast cash flow statement (Pessimistic)

Long Term Cash Flow Statement (Pessimistic)					
	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Activities					
Cash from Sales	33,600.00 €	39,984.00 €	47,580.96 €	56,621.34 €	67,379.40 €
Cost of Goods	4,848.00 €	5,769.12 €	6,865.25 €	8,169.65 €	9,721.88 €
Recruitment and training expens	600.00 €	600.00 €	600.00 €	600.00 €	600.00 €
Salaries	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €
Transportation	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Store utilities	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Net cash from operation	11,472.00 €	16,934.88 €	23,435.71 €	31,171.69 €	40,377.51 €
Investment Activities					
Rent of Storage Unit	-800.00 €	-800.00 €	-800.00 €	-800.00 €	-800.00 €
Rent of the Store	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €
Net cash flow from investment	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €
Financial Activities					
Initial self investment	10,000.00 €				
Cash from bank loan	30,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net cash flow from financing	40,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net Cash					
Net cash at the beginning	16,012.83 €	36,684.93 €	22,819.81 €	15,455.52 €	15,827.21 €
Net cash at the end of year	20,672.00 €	-13,865.12 €	-7,364.29 €	371.69 €	9,577.51 €
Total net cash	36,684.83 €	22,819.81 €	15,455.52 €	15,827.21 €	25,404.72 €

Figure 32. Long term forecast cash flow statement (Pessimistic)

6.4.3 INCOME STATEMENT (OPTIMISTIC)

We have also forecasted an optimistic financial situation in which sales volume is boosted by 15%. In this case, our company is expected to generate more revenue and thus we would consider investing more in marketing campaign to further promote our brand. Below are the forecasted short and long term income statement.

Short Term Income Statement (Optimistic)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net sales (30% increase each year)	5,000 €	7,475 €	11,175 €	16,707 €	24,977 €
COGS (Cost of Raw Material)	710 €	1,061 €	1,587 €	2,372 €	3,547 €
Gross Margin	4,290 €	6,414 €	9,588 €	14,334 €	21,430 €
Rent (200€/month)	2,400 €	2,400 €	2,400 €	2,400 €	2,400 €
Traning and recruitment cost	240 €	0 €	0 €	0 €	0 €
Salary (50€/month)	600 €	600 €	600 €	600 €	600 €
Marketing Expense (70€/month)	840 €	840 €	840 €	840 €	840 €
Net income	210 €	2,574 €	5,748 €	10,494 €	17,590 €
				Total income	€ 36,616

Figure 33. Short term forecast income statement (Optimistic)

Long term Income Statement (Optimistic)					
	Year 6	Year 7	Year 8	Year 9	Year 10
Sales of Organic Yarn	9,600.0 €	15,456.0 €	24,884.2 €	40,063.5 €	64,502.2 €
Sales of Knitting Package	24,000.0 €	38,640.0 €	62,210.4 €	100,158.7 €	161,255.6 €
COGS yarn(-)	1,440.0 €	2,318.4 €	3,732.6 €	6,009.5 €	9,675.3 €
COGS package(-)	3,408.0 €	5,486.9 €	8,833.9 €	14,222.5 €	22,898.3 €
Gross Margin	28,752.0 €	46,290.7 €	74,528.1 €	119,990.2 €	193,184.2 €
Salary (-)	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €	15,000.0 €
Traning and Recruitment Cost (-)	600.0 €	0.0 €	0.0 €	0.0 €	0.0 €
Rent of store(-)	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €	30,000.0 €
Store utilities(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
Rent of Warehouse(-)	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €	9,600.0 €
Marketing Campaign (-)	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Repaid of the loan (-)	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €	3,000.00 €
Transportation(-)	720.0 €	720.0 €	720.0 €	720.0 €	720.0 €
EBIT	-31,728.0 €	-13,589.3 €	14,648.1 €	60,110.2 €	133,304.2 €
Interest of loan 5%	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €	1,500.0 €
EBT	-33,228.0 €	-15,089.3 €	13,148.1 €	58,610.2 €	131,804.2 €
Tax 16.5%	-5,235.1 €	-2,242.2 €	2,416.9 €	9,918.2 €	21,995.2 €
Earning from first 5 years (+)	17,597.8 €	0.0 €	0.0 €	0.0 €	0.0 €
Net income	-10,395.1 €	-12,847.0 €	10,731.1 €	48,692.0 €	109,809.0 €
				Total Income	145,990.0 €

Figure 34. Long term forecast income statement (Optimistic)

6.4.4 CASH FLOW STATEMENT (OPTIMISTIC)

For the optimistic cash flow forecast, we expect to have more cash flow at the end of every year as the projected sales will be boosted by 15%. This helps consolidate our financial health and makes sure that our company has sufficient cash to pay to suppliers and other daily expenses. Below shows the optimistic cash flow statement of both short and long term.

Short Term Cash Flow Statement (Optimistic)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Activity					
Cash from Sales	5,000.00 €	7,475.00 €	11,175.13 €	16,706.81 €	24,976.68 €
Training and Recruitment Expense	240.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Salaries	600.00 €	600.00 €	600.00 €	600.00 €	600.00 €
Cost of Goods	710.00 €	1,061.45 €	1,586.87 €	2,372.37 €	3,546.69 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Net cash from operation	2,610.00 €	4,973.55 €	8,148.26 €	12,894.44 €	19,989.99 €
Investment Activity					
Rent of Storage Unit	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net cash flow from investment	-600.00 €	-600.00 €	-600.00 €	-600.00 €	-600.00 €
Net Cash					
Net cash at the beginning	0.00 €	2,010.00 €	6,383.55 €	13,931.81 €	26,226.25 €
Net cash at the end of year	2,010.00 €	4,373.55 €	7,548.26 €	12,294.44 €	19,389.99 €
Total cash	2,010.00 €	6,383.55 €	13,931.81 €	26,226.25 €	45,616.24 €

Figure 35. Short term forecast cash flow statement (Optimistic)

Long Term Cash Flow Statement (Optimistic)					
	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Activities					
Cash from Sales	33,600.00 €	54,096.00 €	87,094.56 €	140,222.24 €	225,757.81 €
Cost of Goods	4,848.00 €	7,805.28 €	12,566.50 €	20,232.07 €	32,573.63 €
Traning and Recruitment Expense	600.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Salaries	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €	15,000.00 €
Transportation	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Marketing Campaign	840.00 €	840.00 €	840.00 €	840.00 €	840.00 €
Store utilities	720.00 €	720.00 €	720.00 €	720.00 €	720.00 €
Net cash from operation	10,872.00 €	29,010.72 €	57,248.06 €	102,710.18 €	175,904.18 €
Investment Activities					
Rent of Storage Unit	-800.00 €	-800.00 €	-800.00 €	-800.00 €	-800.00 €
Rent of the Store	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €	-30,000.00 €
Net cash flow from investment	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €	-30,800.00 €
Financial Activities					
Cash from bank loan	30,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net cash flow from financing	30,000.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Net Cash					
Net cash at the beginning	45,616.24 €	55,688.24 €	53,898.96 €	80,347.02 €	152,257.20 €
Net cash at the end of year	10,072.00 €	-1,789.28 €	26,448.06 €	71,910.18 €	145,104.18 €
Total net cash	55,688.24 €	53,898.96 €	80,347.02 €	152,257.20 €	297,361.38 €

Figure 36. Long term forecast cash flow statement (Optimistic)

6.5 FORECAST BALANCE SHEET

Lastly, we construct a forecast balance sheet for the first 5 years of the company in order to have a comprehensive forecast of the financial budget of our company. As the company is a small-scaled company in the first 5 years, we do not provide credit to our customers and prefer receiving instant transfer or EPS as payment method. Thus, we do not have any account receivable in the balance sheet. Also, we will not borrow any loan in the first 5 years and therefore there is no debt in the balance sheet as well. The following shows the balance sheet for the first 5 years:

Forecast Balance Sheet					
	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Cash	2,010.00 €	5,787.00 €	10,757.10 €	18,142.23 €	28,354.90 €
Account Receivable	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Inventory	142.00 €	184.60 €	239.98 €	311.97 €	405.57 €
Current Assets	2,152.00 €	5,971.60 €	10,997.08 €	18,454.20 €	28,760.47 €
Non Current Assets	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Total Assets	2,152.00 €	5,971.60 €	10,997.08 €	18,454.20 €	28,760.47 €
Liabilities					
Short term debt	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Account payable	710.00 €	923.00 €	1,199.90 €	1,559.87 €	2,027.83 €
Current liabilities	710.00 €	923.00 €	1,199.90 €	1,559.87 €	2,027.83 €
Long term debt	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Total liabilities	710.00 €	923.00 €	1,199.90 €	1,559.87 €	2,027.83 €
Shareholders Equity					
Retained Earning	210 €	1,737 €	3,410 €	5,585 €	8,413 €
Equity Capital	1,232.00 €	3,311.60 €	6,387.08 €	11,309.20 €	18,319.97 €
Total Equity	1,442.00 €	5,048.60 €	9,797.18 €	16,894.33 €	26,732.64 €

Figure 37. Forecast Balance Sheet (Year 1-Year 5)

7. CONCLUSION

As discussed above, E-commerce is apparently thriving in the current market and is estimated to be growing steadily in the future years. Our company hopes to seize this opportunity and make good use of the current rising trend. By utilizing the social media and company's webpage as the main sales channel, our company can on one hand save operating cost due to the low marketing cost and free exchange platform, also on the other hand increase our exposure efficiently with the help of digital marketing.

Moreover, the company wishes to provide customers an alternative to the fast fashion culture and advocate the idea of sustainable fashion. As people will seldom cherish the clothes they bought in fast fashion company and throw them away soon after they get bored of it, our company encourages customers to knit their own clothes and experience the joy of DIY. With the high quality materials and design we provide, our products are expected to be more durable and thus customers can wear them for a long time without getting torn. It at the meantime helps reducing wastages and pollution to the environment, which is the ultimate mission of our company. After analysing and evaluating different aspect, our company believes it is the right time to invest in this new market in Hong Kong and create the blue ocean.

8. LIMITATIONS, MAIN THREAT AND ALTERNATIVES

8.1. LIMITATIONS

- As we are operating the shop solely online for the first 5 years, customers will not be able to see the actual products that they are buying but just photos and descriptions of the products' qualities.
- It might be hard to arouse young people's awareness as the knitting culture is not popular among the younger generations in Hong Kong yet.
- The audience of the advertisements might not be already interested in DIY and might not want to purchase the DIY package, resulting in a low conversion rate.
- Knitted garments and working with yarns might not be favoured in warmer seasons, especially summer, people might also have the stereotype that knitted products are only used and produced in winter, resulting in lower sales in warmer seasons.

8.2. MAIN THREATS

- Entrance of existing strong competitors from European Countries will greatly reduce our profit.
- There are some others e-commerce selling finished products which may compete with our products.
- The marked price will be easily affected by the suppliers and the cost of transportation as we mainly import the raw materials from Europe.

8.3. ALTERNATIVES

- Other than photos and written descriptions of the products, videos of products in the making process and models wearing them will also be provided for better understanding of the products' properties and attractiveness.
- Make use of the trend of customising accessories like phone cases and hand making jewellery among younger generations all around the globe to promote knitting as a part of the DIY culture.
- A wider variety of products such as knitted hats and knitted bags, as well as suitable material and textile of yarns will be offered in warmer seasons. Therefore, existing customers can be retained by new options of products.
- Emphasis on the easy mastering of basic knitting techniques with our products and the fun experience offered by DIY in advertisements so that we can better convert general audience into potential buyers.

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