

The Scratching Problem

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ABSTRACT

This case illustrates several dilemmas faced by a founder of a new clothing start-up, Joan. The idea of starting a clothing venture specializing in comfort apparel was born due to a frequent problem encountered by her when buying clothes for her skin sensitive son. Despite having some working experience as marketing manager and research analyst, Joan found herself grappling with a number of key decision-making problems in her business venture – ranging from financing, vendor and material selection as well as human resources. This case describes challenges and problems of a business start-up at the inception or infancy stage of the business. Therefore, it is designed to provide understanding of the process of starting a business start-up and stimulate critical thinking and problem-solving skills related to entrepreneurial activities.

Keywords: Entrepreneurship; start-up; business venture

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THE BUSINESS LUNCH

It was in early May 2016. Joan, a full-time research analyst who worked in a global business consultancy firm in Johor, wanted to ask some opinion from Isaac, a business consultant, who joined the company at the same time with her in early 2015, and has been one of her close friends since. Joan invited Isaac to a local café near their office for lunch.

Joan : I am thinking of starting my own business.

Isaac : What happened?

Joan : You know about my son, Adam and his condition, right? I'm tired of looking around when shopping for his clothes. Of course, I know that the clothes suitable for children with skin condition like Adam are expensive, but then when I find one, most of the time, I do not like their design! I think if I can just design my own children's clothing label, then I could solve my problem and other people's problem as well.

Isaac : Yes. I understand your frustration. But it is not easy to run a business. You could end up creating more problems than you have now.

Joan : Yes, I am aware of that. But you never know until you do it.

Isaac : So, are you planning to quit your job?

Joan : No, not now. I am thinking to start the business on a part-time basis. When I feel confident that the business is sustainable, I will quit and concentrate on it.

Isaac : That is a good call. But, if you are running your business part-time, are you sure you can juggle your day-time job, being a wife and mother, and being a business owner? Plus, you don't have any experience running a business, do you?

Joan : I know it will not be easy. I may not have knowledge or experience, but I am certainly full of courage and determination, and I believe I can do it. For the sake of my son, I will do whatever it takes.

Isaac : You are so optimistic and motivated. That's the spirit that everyone in business should have. Anyway, I am here to help if you need me.

THE SKIN SCRATCHING

Joan, a 31-year-old mother of a three-year-old boy and a one-year-old girl, was grappling with difficulties when she went shopping for her son's clothes. Her son – Adam, had sensitive skin, and was struggling with eczema. In addition to his allergy to pollen, cats, dust mites and certain foods, Adam would also develop rashes when he wore certain type of fabrics, especially when he was sweating. It was a struggle for Joan and her husband – Asri, to stop Adam from scampering around the house and yards like what other children his age would do. At this age, Adam was in a stage of rapid physical and intellectual development, and therefore stopping him from doing things that he enjoyed would also mean stopping him to learn and explore new things. Both Joan and Asri knew that there was nothing much they could do to stop Adam from playing and sweating, so when they went shopping for Adam's clothes, they would look for clothes that used hypoallergenic breathable fabric. This type of fabric did not use any substance that may cause irritant to a person with a skin condition. It also allowed air to circulate more freely through the fabric, making heat more bearable to children like Adam. Children's clothing using this type of fabric was not only limited in number, but also did not come cheap, as most of them are imported and used fabrics from organic material. Tired to look around for his son's clothes, Joan was struck by an idea of starting her own children's apparel line, specializing in comfort fabric for sensitive skin.

THE ENCOURAGING SIGNS

It was in the middle of June 2016, and Joan had gathered opinions from her husband, family members, and friends about her business idea.

“You know that I always support you in whatever things that you do. So don’t worry dear. If you think that this is good for Adam, then it will certainly be good for our family too,” said Asri.

“I am with you if you really want to pursue this. In fact, all of us will. Although I know that you don’t want to bother us with any problem, just let us know when you need help, especially financial help. You know that we can help you on that,” said Johary, Joan’s brother.

“Although not all parents would buy this kind of clothes, but I still think it is a great idea. It is a niche market, but a very promising one as not many companies do this. I know some parents that have similar problems like you. They also said that it is difficult to find such clothes for their children. I think they would love to buy from you if you have one,” said Hadi, one of her friends.

THE EUREKA MOMENT!

After considering opinions from her trusted circle of family and friends, Joan decided to proceed with her business idea. She laid out a canvas on her desk, jotting down tasks needed to be done. The first thing that came out of her mind was the brand name – it must be simple, yet catchy. Having worked as marketing manager for an entertainment company in Kuala Lumpur, she knew very well that a good brand name would attract potential customers to try her product. The brand name must also be short and easy-to-remember, so that it would travel fast through word-of-mouth.

She scribbled the random words that came out of her mind on the canvas, trying to figure out the brand name she would choose for her clothing line. Words after words, and hours passed by, but Joan still did not manage to decide on the brand name. She decided to take a short break, listening to songs of her own. Joan was an active musician a few years ago. She was a vocalist for a local indie band and recorded several songs. While listening to the music, she reminisced about her good-old-days as a singer, travelling around the country

with her band and entertaining their fans. Suddenly, the idea came. She knew that many of her fans from her time as a singer still followed her social media page. She could leverage on them and take advantage of her popularity if the brand name could carry some connotation of her. This sort of brand name would travel fast among fans and social media followers. Joan scribbled her name, and it was then when she had her aha moment. Out of several words, Joan circled the word “Nisera” – a jumbled word from her middle name, Aniser.

THE FOUNDING MEMBERS

Joan had graduated with a bachelor’s degree in communications. She started her career in public relations and marketing communications, making her way to becoming one of the youngest managers in a renowned entertainment company in Kuala Lumpur while all the while pursuing her interest in music. After giving birth to Adam in 2012, Joan took a sabbatical leave from work and the music scene, focusing on raising up Adam. She resumed working in 2015 with her current employer. Although she had several years of working experience in various senior positions, Joan has never been in business herself. She acknowledged that she could not run her business alone. Being a wife, mother to two toddlers, and working full time as a research analyst would mean that she had less time to spend on her own business.

Joan asked her friend, Isaac to join her in her newly established business venture. A graduate from local university in the field of engineering, Isaac had worked in various positions as a sales engineer and consultant for multinational companies and accumulated vast experience and expertise in business management. He wanted to quit his current job; therefore, the opportunity to join Joan was something that he would not reject. Joan agreed that Isaac would have 20% share of the business, and in return, he would oversee the aspect of financing and strategic development of the business.

That would mean that Joan would be responsible for the rest of the business – from production, marketing and sales, and distribution. It would be a huge task to handle all those activities on her own; therefore, Joan figured out that she needed at least one

assistant to help her out. She hired Lina, a 23-year-old marketing graduate. Lina's main responsibility was to help Joan in marketing and administrative tasks such as updating the website and social media sites, packaging for delivery and documentation. Lina would work only 12 hours a week. She would also be on standby for another 3 days in case of situations such as processing urgent customers' order and participating in bazaar or trade shows.

PRODUCING A CLOTHING LINE

Referring to Figure 1, the process of producing the clothing line starts with the design. In designing a garment, Joan used a mood board – a tool that provides a visual reference of her design idea (refer Appendix 1). On a board or canvas, the concept of the design is explained through an assemblage of diverse materials such as design sketches, magazine cutting, newspaper, photographs, fabrics, and garment accessories that would bring her idea into a design. The mood board was also an important tool for Joan to show her design to her friends and family members and have them review the design.

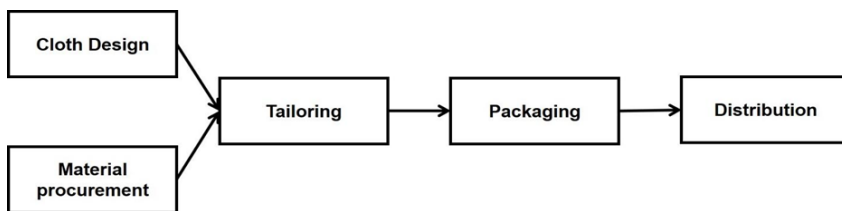


Figure 1: Production steps of Nisera clothing line

Another important part of the production process was material procurement. Based on her experience, Indonesia and Thailand had many textile wholesalers that were able to sell fabrics suited to her requirements. Although she could buy the same type of material in Malaysia, the price difference was significant. For a meter-length fabric, it would cost her RM18 in the local market, but only about RM7 in Indonesia or Thailand. Joan wanted to inspect the fabrics herself before buying them, thus buying from Indonesia and Thailand would incur travel expense. She estimated that travelling to Indonesia would incur a minimum of RM1500 for a 3-day trip in travelling costs; meanwhile it would cost her about RM2500 to travel

to Thailand for the same duration. Although she would only travel once in every two or three months, she had to decide whether this option would save her money in the long run. Buying from Malaysian textile wholesalers meanwhile, would mean that she could cut her cost in travel expense and save her time.

Once satisfied with the design and having bought the necessary materials, Joan would send her mood board to a contract tailoring service. Through a personal contact, Joan approached a tailoring service based in Indonesia. The average service fee was 50% cheaper than similar service in Malaysia. Due to the potential production cost saving, she agreed to use the Indonesian-based tailoring service. A few weeks after sending her mood board, fabrics and other garment accessories to the tailoring service, the finished products arrived. She rushed and opened the box containing her clothes and carefully took out one dress. To her surprise, it was not tailored to her design and specification. As quick as a flash, she took all the clothes out. All of them are wrongly tailored!

Rounds of phone conversations took place between her and the representative of the tailoring service. Eager to solve the problem quickly, she agreed to send all the clothes back to Indonesia for alterations. Days passed by, and Joan received a call from her vendor in Indonesia. Hoping for good news, Joan got the shock of her life when they asked for sample and detailed instruction to proceed! In a black mood, she asked Lina, her assistant to go to Indonesia to meet the tailor personally after the call ended.

While waiting for her assistant to return, Joan was wondering how much she would have spent if she hired a local tailoring service.

“Maybe I should hire a local tailor in the first place. I have spent a lot of money just to solve my problem. If the local tailor could do it without occurring problems like this, maybe I could save more even though their service fee is expensive.”

Joan had several new designs, and she needed those designs to be produced soon. Without wasting time, she opened her laptop and started looking for a local tailoring service. Through a social network site, she met one tailor, Maimunah, who lived some 30-minutes away from her place. Joan contacted Maimunah and both agree to meet the following day.

Joan brought the mood board for one new design with her for the meeting. After few minutes looking at the mood board,

Maimunah told her that some part of the design cannot be done as Joan wanted to. Maimunah explained to Joan why it cannot be done and gave her suggestions on how to modify her design. Maimunah told her that she needs three weeks to complete the job, with a service fee of RM30 per piece. Joan gulped when Maimunah told her the service fee, and thought,

“It is so expensive. More than double of what my current vendor charges. But she seems to be very professional and able to explain the problem just by looking at my mood board. I am so impressed with her problem-solving skills. She should have been in the business long enough to be able to do that. This is exactly what I need.”

Joan was also contemplating appointing a Thailand-based tailoring service. According to information that she had, Thailand had a number of contracts tailoring service companies, and had better expertise for a complicated and complex design. The service fee was lower than the local service but higher than its Indonesian counterpart. However, communication could be tricky, as most of them could not understand English. Joan summarized her finding in the table below.

Table 1: Summary of Tailoring Service

		Malaysia	Indonesia	Thailand
i.	Average Service Fee (per piece)	RM30	RM15	RM20
ii.	Average Delivery Fee (per 70 pieces)	0	RM1,000	RM2,000
iii.	Travel expenses (for a 3-day trip)	0	RM1,500	RM2,500
iv.	Expertise	Medium	Medium	High
v.	Problem solving skills	High	Low	Information not available
vi.	Communication Issue (Language barrier)	No	Low	High
vii.	Quality Control	Information not available	No	Information not available
viii.	Other value-added services	Pick-up and delivery; Packaging	No	No

HOW TO GET FUNDING?

It has been three months since Joan decided to venture into the business in June. Joan sold most of her products through an online

platform. Her customers came from various cities, even from East Malaysia. A portion of her sales came from Kuvi, a local retail boutique in the city center, where she sold them on consignments. She also participated in bazaars within the city center on a weekly basis. Through these three main channels, more often than not, Joan's products went out-of-stock earlier than she expected. In order to keep up with her clients' demand, she thought that she needs to produce more clothes, therefore expanding her business capacity. However, this would require more money into the business. Isaac was tasked to gather some information about financial assistance that they could apply for.

Joan : What is your progress so far?

Isaac : I went to the office of Yayasan Usahawan to discuss the financial assistance for entrepreneurs like us. From my discussion with the executives there and after they looked through our business plan, I would say that we have a good chance to get the financial assistance but... ..

Joan : But what?

Isaac : Hmmm...I know you want to get the money the soonest possible, but it will take a few weeks before we can get the money. The application process takes about 60 working days and another 45 working days for disbursement of financing after approval. And that is if our documents are in order.

Joan : Don't we have other options?

Isaac : Yes, we have. But still, we cannot get them in time. Some of the government agencies that I asked to require us to attend entrepreneurship workshop and courses, and if we go to corporate banks for business financing, they need audited accounts of our business, which we don't have now. Other option is personal loan.

Joan : No. Not personal loan. Do you know how much the interest rate is they charge you?

Isaac : Yes. I know that. But that is the fastest. Or we bring other investors.

Joan : I thought about that too, but I worry that we will have less control over our business. Not to mention that we need to share the profits. And the most important one to me is other than money, what are other things that he or she can bring into our team?

Isaac : I understand your concern.

After browsing through the brochure brought by Isaac (refer Appendix 2), and thinking through all financing options that they had, Joan summarized the advantages and disadvantages of each option in below table.

Table 2: Summary of Financial Sources

Alternative	Advantages	Disadvantages
i. Yayasan Usahawan	<ul style="list-style-type: none"> ● High chance of approval ● Financial assistance up to RM100,000 ● Able to participate in entrepreneurial training and development. ● Provision of consultancy and advisory service ● Low interest rate ● Long payment tenure ● Able to retain ownership 	<ul style="list-style-type: none"> ● Long processing time
ii. Other government agencies	<ul style="list-style-type: none"> ● Able to participate in entrepreneurship workshops and courses. ● Low interest rate ● Able to retain ownership 	<ul style="list-style-type: none"> ● Long processing time due to requirement to attend entrepreneurship workshops and courses for approval
iii. Corporate bank	<ul style="list-style-type: none"> ● Short processing time ● Low interest rate ● Able to retain ownership 	<ul style="list-style-type: none"> ● Require an audited business account
iv. Personal loan	<ul style="list-style-type: none"> ● Short processing time ● Able to retain ownership 	<ul style="list-style-type: none"> ● High interest rate ● Liability on the founder
v. Additional investor	<ul style="list-style-type: none"> ● Possibility of investor who could bring other skills. ● Able to share risk 	<ul style="list-style-type: none"> ● Loss of total control and ownership ● Need to share profit

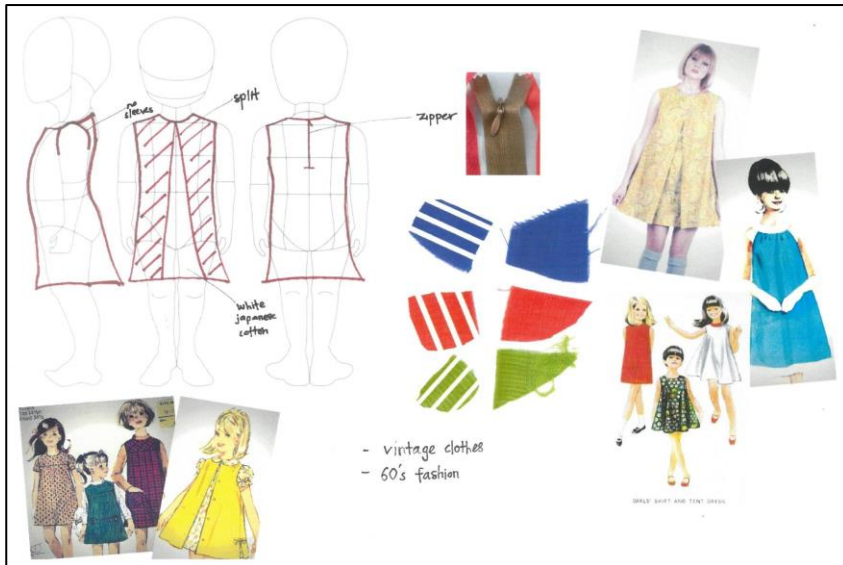
Alternative	Advantages	Disadvantages
vi. Family members (or friends)	<ul style="list-style-type: none"> • Interest-free or low interest rate • Flexibility in payment term 	<ul style="list-style-type: none"> • May harm relationship in the event of dispute or disagreement • Risk of family members or friends meddling with business operation.

THE HEAD SCRATCHING

Joan was contemplating resigning from her current job to focus on the expansion of her business venture, but at the same time, she worried about the financial need her business required. She had used almost RM30,000 from her personal saving to start off her business. Most of the money went into procuring materials and production of her clothing lines. She asked Isaac to prepare pro forma financial statement of their business venture to show their projected financial position within the first year of operation. After looking at those statements, she thought,

“Although the business seems to be sustainable, I need to increase capacity to keep up with the demand to maintain customer satisfaction, and that requires me to put more time and commitment into the business. But if I resign from my current job and work full time on the business, then I will have no additional income and cannot pump money into the business should anything happen. The business needs both financial source and my full commitment to expand. What should I do? I need to solve this by next month.”

APPENDIX 1 SAMPLE OF JOAN'S MOOD BOARD



APPENDIX 2 YAYASAN USAHAWAN'S BROCHURE

Yayasan Usahawan: Young Entrepreneur Scheme

- Eligible for young entrepreneurs between the age of 18 to 35 years old that meet the criteria below:-
 - Have a business in one of the following sectors:-
 - Education
 - Clothing & Accessories
 - Cosmetic & Beauty Services
 - Automotive & Engineering
 - Computer and Information Technology
 - Have good records with financial institutions.
 - Have a sound business model
- Benefits
 - Up to RM100,000 of financial assistance
 - Up to 7 years payment tenure
 - Entrepreneurial training and development
 - Consultancy and advisory service
- Application Process
 1. All applicants must register with Yayasan Usahawan and sit for Entrepreneurial Test.

2. Applicants attend Business Plan Workshop (optional).
3. Applicants submit their business plan to Yayasan Usahawan.
4. Applicants present their business plan to panel selected by Yayasan Usahawan.
5. Successful applicants receive approval notification*.
6. Successful applicants undergo a 3-day entrepreneurship course.
7. Successful applicants receive payment**.

Note:

*Approval is made within 60 working days upon submission of application.

**Payment of fund is made within 45 days upon approval.

APPENDIX 3

NISERA PRO FORMA FINANCIAL STATEMENT

Table 3: Pro forma Income Statement (1 July 2016 – 30 June 2017)

	RM
Sales	283,400
Cost of Goods Sold	172,100
Gross Profit	111,300
Operating Expenditure	70,500
Net Income	40,800

Table 4: Pro forma Cash Flow Statement (1 July 2016 – 30 June 2017)

	Q1 (RM)	Q2 (RM)	Q3 (RM)	Q4 (RM)	Total (RM)
Cash received					
Capital received	30,000	0	0	0	30,000
Sales	47,500	71,250	78,400	86,250	283,400
Total Cash received	77,500	71,250	78,400	86,250	313,400
Expenditure					
Material & supplies	10,000	10,000	11,000	11,000	42,000
Office equipment	1,000	0	0	0	1,000
Service fee	34,550	34,550	38,000	38,000	145,100
Salary	9,000	13,500	13,500	13,500	49,500
Other operating expenditure	4,000	5,000	6,000	6,000	21,000
Total cash spent	58,550	63,050	68,500	68,500	258,600
Beginning cash balance	0	18,950	27,150	37,050	-
Current cash balance	18,950	8,200	9,900	17,750	-
Ending cash balance	18,950	27,150	37,050	54,800	-

Table 5: Pro forma Balance Sheet (1 July 2016 – 30 June 2017)

	RM
Current assets	
Cash balance	54,800
Inventories	20,000
Total current assets	74,800
Other assets	500
Total assets	75,300
Current liabilities	4,500
Shareholder's equity	30,000
Retained earnings	40,800
Total liabilities and equity	75,300