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9B19M042

using effectuation to start up a new venture Through instagram

Professor Simon C. Parker wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Alyssa Delaney was midway through the second year of her master of business administration degree at a prestigious East Coast business school in early January 2019, and she believed she had a great idea for a new business:

Start-ups often face the challenge of making themselves visible to potential customers. With a strong and loyal following on Instagram, I believe I can address this challenge by directing followers to my personal website, where I can sell goods sourced from my friends and contacts. The concept itself is simple: my social contacts provide the products, Instagram directs traffic to my company website, and the postal service delivers the products.

The spark for Delaney’s idea came from some conversations with friends and family over the 2018 Christmas break. She had learned in an entrepreneurship class the previous semester that it was possible to start new businesses with very little capital, and she was intrigued by the notion of leveraging her online presence to explore some possibilities. She had also learned that Instagram had recently changed its platform to facilitate e-commerce marketing and transactions.

SOCIAL CONTACTS AS PRODUCT SUPPLIERS

Delaney’s first conversation about the business was with her mother, Madison. Madison designed and fabricated a range of high-quality children’s dolls, which she sold to a locally based baby products store for prices that started at about US$60.[[1]](#footnote-1) Demand for the dolls was strong. Madison was happy to continue supplying the store, which added its own markup to the prices, depending on the kind of doll produced. Delaney wondered whether or not her mother might be interested in selling some of the dolls online through the new business.

Madison mentioned to Delaney that the manager of the local baby products store faced a recurring problem: how to dispose of surplus clothing lines that undersold. At present, the store donated any clothing surplus to a local charity, but the manager had expressed a strong preference for a more profitable solution that would at least help defray some of the store’s costs.

Delaney next spoke to one of her close friends, Nathan Smith. Nathan had a full-time job as an accounts clerk, but one of his hobbies was producing handmade, customized artisan chocolate. Nathan gifted a lot of his chocolate to friends and family, but he also sold some to his uncle’s restaurant. Nathan’s uncle gave chocolate to customers at the end of the meal to sweeten the presentation of the bill.

Finally, one of Delaney’s offline friends regularly participated in workshops at a local craft club. Delaney vaguely recalled that the club consisted of people who were interested in learning and enhancing their skills in a wide variety of crafts. However, she did not know much about the club, how it worked, or who its members were. Most of Delaney’s friends were online; she had thousands of followers on Instagram alone, and these followers seemed especially interested in the stories she posted featuring fashion, health, and fitness topics.

INSTAGRAM AS A STOREFRONT AND MARKETING TOOL

To use Instagram for business purposes, people or companies posted pictures and stories, and tagged selected products in the pictures with links to company webpages. For example, Delaney could post a story about chocolate and illustrate it with attractive pictures, including examples of Nathan’s products. Interested followers who tapped on a product tag would see an image of the product, a description, its cost, and a link to Delaney’s company webpage, where they could complete a fast (possibly impulse) purchase. Because she had a large number of followers, who had their own social networks to spread news of their purchases, Delaney felt sure that she could generate a lot of customer traffic, providing the products she promoted struck a chord with her followers.

To exploit this e-commerce opportunity, Delaney would need to alter the settings in her Instagram application (app) and switch from a personal account to a business account. She would then need to set up a product catalogue associated with a shop on Facebook, Inc. and link it to her account. All of these steps were free. She would also need approval from Instagram to gain eligibility, a process that could take a few days to a few weeks. Once she obtained this approval, Delaney would be able to use her smartphone to create posts with tagged products. She could then choose to pay for one of Instagram’s advertising services, if she wished, but she was confident she would not need them, given her large and growing base of followers.

OTHER COSTS

Delaney was aware of a few modest operating costs that she would face. First, she would need to register a new domain name for the company, which would cost $10–$20 per year. Second, she would require shared website hosting, which would cost about $50 per year. She already had a website, so she did not need to incur costs for that. Third, there would be shipping costs. Delaney had not yet decided whether she would offer free shipping or charge for it separately.

DECISION TIME

Delaney knew there were several different paths she could pursue with this opportunity. Three of her many options were as follows:

* Sell artisanal chocolates to the general public.Delaney believed that there would be a high demand for Nathan’s chocolates, especially if she accentuated their handmade, artisanal nature. Compared with many of the more expensive corporate products being promoted on Instagram, handmade chocolates were a fun and affordable treat.
* Purchase surplus clothing from the baby products store and set up as a discount reseller, making a margin on each item sold. As the baby products store was currently receiving nothing for its overstock, Delaney believed she could pick up a lot of it for a very low price, which could lead to significant margins on product she resold, even if she charged a relatively low price.
* Become an online retail specialist in children’s dolls, selling her mother’s products together with others sourced from elsewhere. Delaney believed that overstock situations, whereby retailers were prepared to sell excess stock at a discount, offered an opportunity to pick up a large stock of dolls at bargain-basement prices. She also remembered reading about numerous cheap craft products that were made in developing countries, which might well include dolls. Delaney did not know much about children’s dolls, but she felt sure there were numerous untapped sources of supply.

Delaney remarked:

I envision my company fulfilling unmet needs of time-starved millennials and growing very rapidly. The best part of this idea is that my start-up capital costs are minimal compared to almost any other high-potential business.

Delaney believed that she had stumbled on a high-potential business idea and was eager to get going. “After all,” she remarked, “lots of successful entrepreneurs started their ventures in their garages or university dorm rooms, including Mark Zuckerberg.” Eager to jump-start her company, Delaney wanted to generate as many great opportunities as possible. In addition, she wanted to identify any barriers she might encounter.

1. All currency amounts are in US dollars. [↑](#footnote-ref-1)