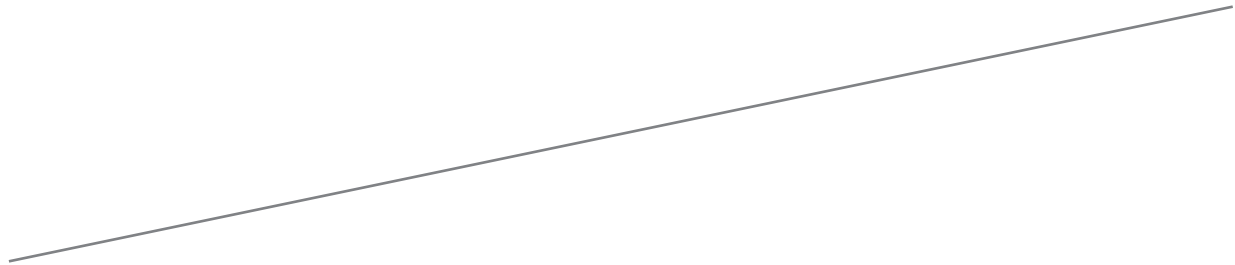




**PRODUCT**

FISHING  
LURES



**SERVICE**

FARM  
TOURS





## CASE STUDY |

PRODUCT 

### *Rob: Personal Opportunities & Challenges*

Rob lives for days out on the lake. With all the demands his job and his family place on him, it's nice to get away. If he can't be fishing, Rob spends his free time hand crafting wooden lures. He spends hours whittling and painting, making each one unique. His lures have gained quite a reputation in the county and he constantly gets requests to make them for friends and family. He used to think people were just being polite, but lately Rob wonders if he could actually turn his hobby into a business.

Despite his desire to spend all his time fishing and making lures, it seems impossible at this stage of his life. He's never run a business or had any formal training, and he doesn't know where he'll find the time. In addition to working at the local grocery store, he spends the remainder of his day helping his wife get the boys to and from school, ball games, and scouts. Many evenings and weekends, he's busy serving as the assistant coach on the boys' team.

Moreover, he has no idea where he'd get the money to start a business. He and his wife have a mortgage of \$700 a month on the house and owe about \$3,000 on their credit cards. Although his truck is paid off, the payments on his wife's car are \$200 a month. From time to time, they pay down their credit cards. But, just as financial stability seems achievable, some unexpected expense pops up or the holidays roll around, and the balance goes back up again. Rob's family doesn't live extravagantly, but they do enjoy a weekly Friday night date at their favorite restaurant and their annual week-long family fishing trip.

Rob fears that starting a business will make him give up time with his family and risk their financial future. He loves the idea of being his own boss, but is it really possible to have it all?

## CASE STUDY |

SERVICE 

### *Caroline: Customer, Problem, Alternatives*

After moving away from home for a couple years, Caroline found herself back on the farm trying to figure out what was next for her. She always loved being on the farm, but when she graduated high school, she worried her little town was too small for her bright future. Now, she's back.

One day while out collecting eggs, Caroline has a thought. What if there was a way to share everything she loves about farm life with others? People drive through her region all the time and come to enjoy the countryside. Perhaps if her farm were to give tours, they could become a destination. With a little research, she discovers a farm upstate that is doing really well providing the farm experience to tourists. Although her farm is situated not far from a major route between two larger cities, there aren't many family friendly activities in the area apart from a few picnic spots. Quaint bed and breakfasts and antique stores in the area tend to attract more mature visitors.

Perhaps she doesn't have to leave home to find her purpose; she can start her own business. Everything she needs is already on the farm; all it will take is a little time and planning—and some customers.

## CASE STUDY |

PRODUCT 

### *Rob: Solution, Benefit, Advantage*

Even with all the obstacles in his way, Rob keeps thinking about starting his fishing lure business. His wife is supportive but a little worried about the financial risks involved. Still, people keep coming to him requesting his hand crafted lures—even people he doesn't know!

Because making lures is more of a hobby at the moment than a business, Rob often refers people to the gift shop attached to a touristy spot in the neighboring county. However, the gift shop lures are more decoration than function. The other alternative to avoid the hassle of carving one yourself is to buy one at the local bait shop. While it's more affordable, the lures there tend to be plastic. You can find them online, but it's difficult to tell the quality and doesn't help if you need it immediately.

Rob's grandfather taught him how to make lures, including a special custom design that is more effective at catching fish than standard designs. From what Rob can tell, current prospects are slim if you want a special handmade lure to make a fishing trip a success. Someone needs to offer unique hand crafted lures at reasonable prices. Maybe, just maybe, it should be Rob.

## CASE STUDY | *Caroline: Starting Small*

SERVICE 

As Caroline helps her dad with the daily chores, she dreams about her farm experience tours.

People from all over the country will come for the opportunity to go berry picking, milk cows, feed chickens, hunt for eggs, and go on hay rides. In the evenings, there will be a family-style meal laid out on big tables under the shady patch of trees. Guests will turn in for the evening in the old barn, newly converted to rustic guest rooms. In addition to activities at her farm, guests will be able to add excursions for picnicking, horseback riding, fishing, hiking, and canoeing at neighboring farms. The possibilities are endless...

However, creating a farm tour experience like that costs a lot of money – money she doesn't have. It seems like her dream may never become a reality. "Surely," she thinks, "there's got to be a simpler way."

## CASE STUDY |

PRODUCT 

*Rob: Keeping & Growing Customers*

Rob decides to go for it but start small, working on the side until his fishing lure business can sustain him full-time. Really, all he needs to get started are his tools, paint, hooks, and wood. Why wait?

However, Rob's not sure how to best get the word out about what he offers to others. So many strategies are possible. How will he know what's the best one? It all feels a little overwhelming.

## CASE STUDY | *Rob: Distribution*

PRODUCT 

While it seems like a pretty simple model – make lures and sell them – Rob realizes quite a few options exist for getting his fishing lures to his customers.

One way is to sell directly to his customers himself. This means he'll need to find the customers, take their orders, make the lures, and then deliver them. In addition to an in-person local approach, he could also sell them online to reach a broader audience. The challenge with this approach, though, is that he'll have to find all the customers himself.

Another option is to target places where people already go—sportsman stores or bait shops. If he could get his handcrafted lures on the shelves of existing stores, he wouldn't have to find customers himself. However, his prices would need to be lowered to allow the stores to make money and he isn't sure he'll have enough time to make as many lures as a retail store will require.

After mulling it over for a few days, Rob decides that the flexibility and freedom of selling directly to customers is the best choice for right now. He can always approach stores later, right? But to start out, he's going to go with the less complicated and less demanding option.

## CASE STUDY | *Caroline: Unit of Sale*

SERVICE 

One day while in town, Caroline overhears a neighbor complaining that she can't come up with anything for some out-of-town guests to do. They are visiting for a full week and she's already done everything on her list. Caroline sees an opportunity to start small and test her farm tour business idea. She tells the neighbor about her farm tours and asks if the visitors would be interested in doing one. They would definitely be interested. What will they do on the farm and how much will it cost?

Promising to get back with the neighbor by the end of the day, Caroline goes to work figuring out a price. The first part is easy. She plans to take them on a fun-filled day of berry picking, milking cows, feeding chickens, hunting for eggs, and a hay ride. The second part is more challenging. How does she figure out the price? She's not selling something they can take home, and down the line, she may change the types of activities she offers. The prices Caroline sets now will also affect how she charges customers in the future.

Caroline scratches her head. What is she really selling?



## CASE STUDY | *Rob: Pricing*

PRODUCT 

Rob's first sale! A friend called wanting a set of fishing lures for his son's birthday. When Rob told him about the new business, he was relieved his friend was happy to buy the lures. "How much will they cost?" he asked. Having never sold his lures before, Rob asked for a day to get the numbers together.

First, Rob figures out what customers would be willing to pay. To make sure his product is fresh in their minds, he invites them on a fishing trip. Reeling in a huge bass, one friend remarks he'd happily pay \$25-\$40 for one of Rob's lures. They are not only nice-looking, they work. The others agree.

Next, Rob looks at what other competitors in the area charge. With a little investigative work, he discovers that a lure at the touristy gift shop costs about \$40 and comes in a pretty wooden box. The bait shop is far more affordable at \$10. Making one yourself costs about \$3 in materials but entails the hassle of carving and painting. A quick look on the online store Etsy shows handmade lures selling for \$10-\$50. He knows most people think the gift shop and the bait shop lack quality. The Etsy stores vary greatly in the price/quality spectrum and it's hard to tell which work well and which are for decoration. Since his customers want something quality, unique, and memory-making, he must meet all their needs.

Lastly, Rob figures out his costs. From a quick stroll through the hardware store, it'll cost him about \$3 worth of materials to make a lure, an hour of his time, and delivery costs.

## CASE STUDY |

SERVICE 

### *Caroline: Legal Considerations*

Caroline decides to talk with a lawyer about her business concept. Through their conversation, she discovers many legal issues she'd failed to consider.

First, Caroline realizes it would be best if her venture were an independent organization, separate from herself. If something horrible happens, she doesn't want to risk the life she and her family have built on the farm. Because the business will be pretty simple and she doesn't have any partners, a business structure with minimum personal liability makes the most sense. To become a legally recognized business, Caroline meets with a lawyer and files the appropriate paperwork, including registering his business name as "Caroline's Country Experience."

Next, Caroline gets a business identification number from the national government. According to the lawyer she met with, she needs this number to file her business taxes alongside her own.

At the local level, a county official tells her to file business licenses with the county. She doesn't have to file with the city since the farm is outside city limits. They also refer her to the local Health Department, in case she decides to sell food to visitors as part of her tours. She learns she can't cook and sell from her home unless her kitchen is certified as a commercial kitchen. In order to be certified, she has to comply with a list of requirements and undergo several inspections. Moreover, she must file for food-related permits with the Health Department..

At her lawyer's encouragement, Caroline also talks with an insurance agent to acquire a standard liability insurance policy. This policy protects Caroline's Country Experience and the farm in the rare instance someone gets hurt on a tour and decides to sue. "Better safe than sorry," the lawyer reasoned with her.

Caroline is really glad she talked with a lawyer. Failure to do so could have been bad for her and her business.

## CASE STUDY |

PRODUCT 

### *Rob: Startup & Ongoing Costs*

Rob realizes that there are several things he needs to get his fishing lure business started. He sits down and makes a list:

- Wood blocks
- Saw, drill, and other tools
- Ruler
- Sandpaper
- Paint brushes & paint
- Sealer
- Hooks
- Boxes & tissue paper for shipping

That should be everything it takes to make a lure. What about the more “business-like” things? He continues writing:

- A cell phone
- A computer
- Logo design
- Website
- Business cards
- Advertising
- Business licenses & permits
- Insurance
- Taxes
- Utilities

He'll also need to devote quite a bit of time to making the lures, which means no longer serving as the assistant coach on his boys' ball team. His wife needs to be on board. Rob also needs to perfect his process and the models and styles he'll initially offer. He'd like to have an online store to reach a wider audience, and since his computer skills are lacking, he needs to find someone to help him set it up and manage it.

Looking back over his list, Rob realizes that starting a business is much more complicated than he originally thought. But, he is excited to get started.

## CASE STUDY | *Caroline: Fixed Costs*

SERVICE 

Caroline thinks she'll charge an hourly rate for her tours, estimating the amount of time required for the various activities. In order to figure out how much to charge per hour, Caroline realizes she needs to know her fixed costs.

Internet service is a must since she expects most tourists will find her through the internet. Although she'll need to factor creating a website into her startup costs, she'll also have a monthly web hosting fee. She needs to join her state's agritourism association, which has dues of \$120 a year or \$10 a month. Liability insurance costs \$125 a month and her cell phone \$75. Also, she needs to pay herself. If she could make \$36,000 a year, she'll be able to support herself and contribute some to the farm's upkeep. While this might be ambitious at the start, she wants to make this her full time job. The salary breaks down to \$3,000 per month. She decides to make a list.

Fixed Costs: Item Description	Cost
Internet service	\$75
Web hosting	\$10
Agritourism association dues	\$10
Liability insurance	\$30
Cell phone	\$75
Salary	\$3,000
Total:	\$3,295

If her math is right, she'll need \$3,295 a month in order to do her farm tour business full-time.

## CASE STUDY | Rob: Variable Costs

PRODUCT 

Rob needs to figure out how much it will cost him to sell one fishing lure. Besides materials, the biggest cost is his time. Although he'd prefer to pay himself a salary, it seems to make sense to tie the labor costs to each lure instead, using an hourly wage. That way, if he ever hires someone else to help him, he already knows his costs. Rob estimates it will take an hour to complete a lure, minus the hours waiting for things to dry.

Rob lists out his variable costs:

### *Variable Costs for One Lure*

Variable Costs: Item Description	Cost
Small block of wood	\$0.25
Sandpaper	\$0.80
Paint	\$1.00
Sealer	\$0.50
Hooks	\$0.30
Ballast weight	\$0.10
Wood glue	\$0.03
Eyelet	\$0.07
Box	\$1.00
Tissue paper	\$0.25
Standard shipping rate	\$2.95
Labor in making the lure	\$10.00
Pament processing fees (3%)	\$0.90
Total Variable Costs:	\$18.15

Now that he knows his variable costs, he subtracts them from the selling price (\$30) to determine his gross profit, \$11.85 per lure. To keep everything in one place, Rob finds it helpful to look at his information in a table:

Typical Sale	One lure
Price	\$30.00
Variable Costs	\$18.15
Gross Profit	\$11.85

## CASE STUDY |

PRODUCT 

### Rob: Break-Even Point

In order to calculate his break-even point, Rob needs to get all his numbers together in one place. Rob has determined that his fixed costs are:

Fixed Costs: Item Description	Cost
Internet	\$55
Cell phone	\$80
Insurance	\$75
Taxes	\$110
Web hosting	\$10
Advertising	\$50
Licenses and permits	\$30
Salary	\$500
Online store assistant salary	\$250
Total Fixed Costs:	\$1,160

His salary seems a stretch, but he wants to be compensated for time spent finding customers and doing paperwork. Rob adds his fixed costs to his chart.

Typical Sale	One lure
Price	\$30.00
Variable Costs	\$18.15
Gross Profit	\$11.85
Fixed Costs	\$1,160.00

Rob worries he won't meet his minimum goal. Selling more than three lures every day, even weekends, seems like too much.

He experiments with the numbers to see if he can find a better situation.

- **Scenario #1: \$30 per lure, salary at \$500 per month**
- **Scenario #2: \$40 per lure, salary at \$500 per month**  
He learns that by raising his price to \$40, his break-even point drops to 54 lures per month.

- **Scenario #3: \$30 per lure, no hourly wage, no salary**  
Because he doesn't think his customers will pay that much, he tries lowering his costs. If he receives no compensation (salary or hourly), his break-even point drops to 31 lures.
- **Scenario #4: \$30 per lure, no salary**  
However, he wants to get paid. With an hourly wage and no salary, he needs to sell 56 lures a month.
- **Scenario #5: \$35 per lure, no advertising budget, salary at \$200 a month**  
He tries lowering the costs of materials, but the outcome isn't significant enough to risk sacrificing the quality of his lures. He finds that eliminating his advertising budget, reducing his salary to \$200 a month, and raising his price to \$35 a lure results in a break-even point of 49 lures per month.

This last scenario is the most realistic one, in his opinion. It might be a while before he actually gets the salary he desires and many free forms of advertising will work at the start. In fact, with the last scenario, if he foregoes his salary and only pays himself an hourly wage, his break-even point drops to 37 lures (#6).

	#1	#2	#3	#4	#5	#6
Typical Sale	One lure	One lure	One lure	One lure	One lure	One lure
Price	\$30.00	\$40.00	\$30.00	\$30.00	\$35.00	\$35.00
Variable Cost	\$18.15	\$18.15	\$18.15	\$18.15	\$18.15	\$18.15
Gross Profit	\$11.85	\$21.85	\$21.85	\$11.85	\$16.85	\$16.85
Fixed Costs	\$1,160.00	\$1,160.00	\$660.00	\$660.00	\$810.00	\$610.00
Break-even	98 lures	54 lures	31 lures	56 lures	49 lures	37 lures
Days open/Mo	25 days	25 days	25 days	25 days	25 days	25 days
Lures per day	3.9 lures	2.16 lures	1.24 lures	2.24 lures	1.96 lures	1.48 lures

Although this still seems like a lot of lures to make, he's pretty sure he can streamline the process and make it more efficient. Instead of making one lure at a time from start to finish, he can just as easily make 3-5 with little additional time.

## CASE STUDY |

SERVICE 

### Caroline: Break-Even Point

Based on Caroline's estimates, she will need \$3,295 a month to launch her farm tour business. Every month, she'll need to pay for:

Fixed Costs: Item Description	Cost
Internet service	\$75
Web hosting	\$10
Agritourism association dues	\$10
Liability insurance	\$125
Cell phone	\$75
Salary	\$3,000
Total:	\$3,295

Although Caroline initially thought she would charge an hourly rate, she realizes it's easier to figure out what a typical tour will be and charge a per-tour or per-person rate. She estimates that the average number of people on a tour will be a family of four, two adults and two children. From what she knows about her competition and the desires of her customers, Caroline sets her price at \$100 for a family package (a family of four on a four hour tour), or \$25 per person. Because Caroline's costs stay the same no matter how many tours she gives, she has no variable costs - at least not until she expands her offerings. She lists out her numbers.

Typical Sale	The family package (one four hour tour for a family of four)
Price	\$100.00
Variable Costs	\$0
Gross Profit	\$100.00
Fixed Costs	\$3,295.00

To make her target salary of \$3,000 a month, Caroline needs to sell 33 family packages a month – about 9 a week. If she sells tickets individually, another way to look at it is 33 people per week on her tours. She estimates that the majority of tours will be on Saturdays and Sundays and that multiple families will be on one tour. If she schedules three tours a weekend (two tours on Saturday and one



on Sunday) and averages three families in each tour (12 people), she should have no problem meeting her goals (scenario #1).

Caroline discovers that if she reduces her salary to \$2,500 a month, she only needs to sell 28 family packages a month, or 7 a week to break even (scenario #2). While the extra \$500 a month would be nice, she can live off less until the business takes off.

Looking at the numbers, Caroline feels encouraged. Her farm tour business may be doable after all!

	#1	#2
Typical Sale	The family package (one four hour tour for a family of four)	The family package (one four hour tour for a family of four)
Price	\$100.00	\$100.00
Variable Costs	\$0.00	\$0.00
Gross Profit	\$100.00	\$100.00
Fixed Costs	\$3,295.00	\$2,795.00
Break-even Point	33 tours	28 tours
Work Weeks per Month	4 weeks	4 weeks
Tours per Week	9 tours	7 tours

## CASE STUDY |

SERVICE 

### *Caroline: Multiple Break-Even Points*

In addition to selling family tour packages for \$100 (or \$25 per person), Caroline also plans to do tours for schools. School tours will be about two hours long on a weekday. Based on the average number of students that fit on a school bus, she estimates having approximately 50 students at a time. She thinks a school will be willing to pay \$7 per student, or \$350 per school tour package. If she sells both types of tour packages, how many of each does she need to sell to break even?

First, she has to figure out her costs and gross profit for each type of tour. Fortunately, she's already done the work for a standard farm tour. For the school tour, she estimates needing to hire four helpers so they can rotate kids between activities in groups of 10. This gives her a variable cost of \$80 per tour. If she charges \$350 for a school tour package, her gross profit is \$270.

It seems that her fixed costs apply equally to both types of sales. However, she expects to spend about 70% of her time and resources on family tours and only 30% on school tours. Using these percentages, she figures out how much of the \$2,795 in fixed costs would go toward each typical sale. Then she calculates her break-even point for each.

Typical Sale	The family package (one four hour tour for a family of four)	The school package (one two hour tour for 50 students)
Price	\$100.00	\$350.00
Variable Costs	\$0.00	\$80.00
Gross Profit	\$100.00	\$270.00
% Fixed Costs dedicated to typical sale	70%	30%
Fixed Costs (based on percentage)	\$1,956.50	\$838.50
Break-even Point	20 family tours	4 school tours
Weeks per Month	4 weeks	4 weeks
Typical Sales per Week	5 family tours	1 school tour

With these estimates, Caroline finds that instead of needing to sell 28 family tour packages each month, she only needs to sell 20 family packages and 4 school tours.

Caroline realizes that if she focuses more effort on school tours, she'll need to sell fewer tour packages total. For example, if she focuses 40% of her effort on family tours and 60% on school tours, she'll only need to sell 7 school tours and 12 family packages a month.

Typical Sale	The family package (one four hour tour for a family of four)	The school package (one two hour tour for 50 students)
Price	\$100.00	\$350.00
Variable Costs	\$0.00	\$80.00
Gross Profit	\$100.00	\$270.00
% Fixed Costs dedicated to typical sale	40%	60%
Fixed Costs (based on percentage)	\$1,118.00	\$1,677.00
Break-even Point	12 family tours	7 school tours

## CASE STUDY | *Caroline: Estimate Sales*

SERVICE 

Knowing her break-even point, Caroline wonders how long it will take her business to get there. Sales will most likely be slow at first and grow gradually. After looking at the calendar and thinking about her marketing plans, she writes down everything that will contribute to her sales growth for the coming months and estimates her sales.

She uses a chart to organize her thoughts.

Month	Feb.	March	April	May	June	July
Notes: (What's driving sales each month?)	Has one family booked and hopes to get one more by spreading the word locally	Plans on contacting agritourism travel agent and expects to get at least 6 tours through these routes	Will publish an ad in a travel magazine	School lets out and summer travel begins...		
Estimated units sold	2	6	13	21	32	40

Month	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Notes		Add a corn maze to draw fall crowd?			Slow	Slow
Estimated units sold	37	32	35	29	9	7

## CASE STUDY |

SERVICE 

### *Caroline: Sales Projections*

Using her projections of future sales, Caroline calculates how long it will take her business to break even.

She'll start with \$500 in her business's bank account and will reduce her salary for the first few months until sales can support it. To get started, she needs to purchase signs to direct visitors to the farm. Since the signs are a special expense not related to her fixed or variable costs, she lists them as a unique one-time expense. She also realizes that it would be nice to give each family a printed map of the farm and a photo capturing their farm experience. These added materials create a variable cost of \$15 per family tour package.

Then, Caroline makes calculations using these formulas:

- $\text{Estimated Sales} = \text{units sold} \times \text{price per unit}$
- $\text{Total Variable Costs} = \text{units sold} \times \text{variable costs per unit}$
- $\text{Total Expenses} = \text{fixed costs} + \text{total variable costs} + \text{special expenses}$
- $\text{Gain or Loss for Month} = \text{estimated sales} - \text{total expenses}$
- $\text{Balance} = \text{cash balance at month's start} + \text{gain/loss for month}$

(continued...)

Month	February	March	April	May	June	July
Cash Balance at Month's Start	\$500	-\$825	-\$1,610	-\$1,800	-\$1,310	\$115
Notes: (What's driving sales each month?)	Has one family booked and hopes to get one more by spreading the word locally	Plans on contacting agritourism travel agent and expects to get at least 6 tours through these routes	Will publish an add in a travel magazine	School lets out and summer travel begins...		
Estimated Units Sold	2	6	13	21	32	40
Estimated Sales (cash in)	\$200	\$600	\$1,300	\$2,100	\$3,200	\$4,000
Total Variable Costs (\$15)	\$30	\$90	\$195	\$315	\$480	\$600
Fixed Costs	\$1,295	\$1,295	\$1,295	\$1,295	\$1,295	\$1,295
Special Expenses	\$200					
Total Expenses	\$1,525	\$1,385	\$1,490	\$1,610	\$1,775	\$3,395
Gain/Loss	-\$1,325	-\$785	-\$190	\$490	\$1,425	\$605
Balance	-\$825	-\$1,610	-\$1,800	-\$1,310	\$115	\$720

If Caroline's predictions are correct, it will take her 6 months to break even. During this time, she'll have thousands in losses. While she can reduce her salary for several months, she can't cover the losses, as well. She also discovers that while the summer months are profitable, she may have a hard time covering the salary she needs during the winter, at least at first. She'll either need to get creative with ways to get more people out to the farm or find a part-time job to cover the gap. She needs to come up with a plan to make this work.

Month	August	September	October	November	December	January
Cash Balance at Month's Start	\$720	\$1,070	\$995	\$1,175	\$845	-\$1,185
Notes: (What's driving sales each month?)		Add a corn maze to draw fall crowd?			Slow	Slow
Estimated Units Sold	37	32	35	29	9	7
Estimated Sales (cash in)	\$3,700	\$3,200	\$3,500	\$2,900	\$900	\$700
Total Variable Costs (\$15)	\$555	\$480	\$525	\$435	\$135	\$105
Fixed Costs	\$2,795	\$2,795	\$2,795	\$2,795	\$2,795	\$2,795
Special Expenses						
Total Expenses	\$3,350	\$3,275	\$3,320	\$3,230	\$2,930	\$2,900
Gain/Loss	\$350	-\$75	\$180	-\$330	-\$2,030	-\$2,200
Balance	\$1,070	\$995	\$1,175	\$845	-\$1,185	-\$3,385

## CASE STUDY | Rob: Loans

PRODUCT 

Rob's been in business for a while now and things are going well. He's been working mostly with the tools he already had, but he thinks he can save time and money if he purchases a new, industrial carving machine.

With his existing tools, Rob spends about 2,000 hours a year making lures. When he started his business, using what he already had seemed to be the smart way to start. His existing tools cost him about \$300 to run and maintain each year.

If he purchases an industrial carving machine, Rob will be able to make his lures in half the time and only spend \$200 in maintenance costs.

Rob needs to take out a \$1,000 loan to have enough money to buy the new carving machine. The loan will have a 9% interest rate and he plans on repaying the loan in one year. This means he'll pay \$90 in interest the first year he uses the new machine.

Is a loan worth it?

	Current Cost per year	Cost Year Machine is Bought	\$ Saved or Lost by Buying Machine*	Cost 2nd Year Using Machine	\$ Saved or Lost 2nd year+
Cost of time (# hours x \$10)	\$2,000	\$1,000			
Maintenance	\$300	\$200			
Machine cost	—	\$1,000			
Loan interest	—	\$90			
Total:	\$2,300	\$2,290			

\* current cost per year minus cost year machine is bought

+ current cost per year minus cost 2nd year



## CASE STUDY | *Rob: Cash Flow*

PRODUCT 

Rob's business has now been up and running for about a year and a half. Beginning with that first sale, many customers have bought his lures to help make memorable fishing trips.

While Rob didn't initially intend to sell to retail sportsman stores, an opportunity came his way that he couldn't refuse. Looking at the numbers, the retail sales would make his sales goals more achievable, so Rob took the job. Word got out and he now supplies four retail stores in the region in addition to filling orders for individual customers locally and through his online store. To meet the increased demand, he hires two part-time people to help with production and pays them an hourly wage. Since he's so busy now, he's been able to afford a higher salary, raising his fixed costs to \$1,110 per month.

Even though Rob tracks his expenses and sales each month, he constantly worries about having enough cash on hand when the bills are due. The retail stores pay monthly instead of paying lure by lure, and he has to get the timing right. For example:

### IN APRIL:

- He collects \$2,500 through fishing lure sales to individuals.
- He collects \$500 from a store he invoiced last month.
- He sends invoices to 4 stores; each owes \$400 (for a total of \$1,600). They have 60 days to pay.
- He pays \$720 for supplies and materials.
- He places an order for 300 shipping boxes, to be paid on arrival.
- He pays his monthly fixed costs of \$1,110.
- He pays his part-time workers \$620.
- He pays himself \$1,250 for hourly work making fishing lures.

### IN MAY:

- He collects \$2,000 through lure sales to individuals.
- He collects money from 3 of the 4 stores, totaling \$1,200.
- He sends invoices to the stores in the amount of \$2,000 due within 60 days.
- He sets up a business account with his supplier, and buys \$700 of materials to be paid within 60 days.
- He receives the shipping boxes and pays \$75 for them.
- He pays his part-time workers \$590.
- He pays himself \$1,250 for hourly work making lures.
- He pays his monthly fixed costs of \$1,110.

### IN JUNE:

- He collects \$1,700 through lure sales to individuals.
- Half of the stores pay their invoices and Rob collects \$1,400.
- Rob invoices the stores for \$1,750, due within 60 days.
- He places another order of materials with his supplier for \$250 to be paid within 60 days.
- He pays his part-time workers \$570.
- He pays himself \$1,000 for hourly work making lures.
- He pays his monthly fixed costs of \$1,110.

### IN JULY:

- Rob collects \$3,000 through sales of lures to individuals.
- He receives payment from the stores totaling \$1,500.
- He pays his supplier \$700 for materials.
- He places an order for \$500 worth of materials to be paid within 60 days.
- He invoices the stores for \$2,500.
- He pays his part-time workers \$650.
- He pays himself \$1,600 in hourly wages.
- He pays his monthly fixed costs of \$1,110.

Rob tracks his cash flow, along with other important numbers, using a spreadsheet.

Category	April	May	June	July
Starting Cash Balance	\$450	-\$250	-\$75	
Cash In				
Collected from Individuals	\$2,500	\$2,000	\$1,700	
Collected from Stores	\$500	\$1,200	\$1,400	
Total Cash In	\$3,000	\$3,200	\$3,100	
Cash Out				
Fixed Costs	\$1,110	\$1,110	\$1,110	
Other Expenses Paid	\$2,590	\$1,915	\$1,570	
Total Cash Out	\$3,700	\$3,025	\$2,680	
Gain/Loss for month	-\$700	\$175	\$420	
End Cash Balance	-\$250	-\$75	\$345	

Non Cash Flow Items				
Actual Units Sold	148 lures	138 lures	119 lures	186 lures
Sales To Be Collected (Accounts Receivable)	\$1,600	\$2,400	\$2,350	\$3,350
Expenses To Be Paid (Accounts Payable)		\$700	\$950	\$750