

# Case study example

[Science](#), [Geography](#)



Out of the five keys to success mentioned in the question Dwayne and Fred had three out of five keys in place. They had good access to market, access to suppliers and industry experience. The partners had a great network of clients which would enable their company to generate more than \$1 million in sales during the first year. Their prior experience in sales in the industry will help them build productive business relationship with their customers. The two weakness of their business venture was their business plan and access to capital. Their business plan did not contemplate changes in the projected sales and it had zero room for error. Their capital position was weak evidence by the fact that when the loan was lowered by 41.66% the company faced serious cash flow problems. 2. Dwayne and Fred faced an ethical dilemma due to the fact that they started a company in the same industry as their previous jobs. As salesmen they utilized their business connections from their previous jobs in order to attract customer for their own business. In essence Dwayne and Fred stole the customer away from their old job. In the business world these types of situations often occur. Companies have to protect themselves. A way the company could have protected itself was by forcing employees to sign confidentiality agreement and no competition agreements. The no competition agreement should have had a clause that stated that the employees could not start a business in the same industry. Since these legal documents did not exist Dwayne and Fred were within their right to do what they did. Their actions might have been a bit unethical, but they were not illegal. 3. The net income for the project is illustrated below

|                    |         |
|--------------------|---------|
| Sales              | 1000000 |
| CGS                | 700000  |
| Gross profit       | 300000  |
| Operating expenses | 288000  |
| Net profit         | 12000   |

Based on these results the business

would be making a small profit at the end of year one. The net profit for the business is very low with a net margin of only 1.2%. If projected sales are not adequate the business will probably incur in operating losses. At first glance it does not seem as if the business venture is worth the effort of the founders. A piece of information that I need is to know how much salary the partner used to make in their old jobs and how much of the \$24,000 monthly operating expenses are salaries for the partners. If their salary is lower the business venture looks less attractive. We are only considering the first year of sales. I would like to know how much potential room there is for sales growth in the pet supplies marketplace. If there is a large room for growth and low competition the company might be able to significantly increase their income in the future. If there is projected room for the growth I could reconsider my opinion of the business venture and classify it as a viable business venture for the partners.

4. The business venture Dwayne and Fred started is currently in a tough situation due to the fact the bank loan they had approved for \$300,000 was reduced to \$175,000 by the bank. The business partners already started to pour thousands of dollars into the operation which means they have to find a solution to the problem. There are many options available to them, but they have to be willing to change the current structure of the business. The first option the businessmen have is to look for a new equity partner for the operation. The new partner would have to invest at least \$125,000 in order for the business to be back at the original position. The new partner should be offered somewhere between 20-30% of the company. A second option is to incorporate the business in order to be able to sell common stock of the

company in the open market. This option entails involving an investment banker to facilitate the sale of the stock. A third option available in this situation is to acquire money through the sale of corporate bonds. The fourth option available is to find a way to reduce costs so that the profit margin of the company increases. This would entail finding new suppliers from a developing nation such as China or India to reduce the price of supplies. The company currently has a gross margin of 30%. If the firm is able to increase its profit margin to 50% the company might be able to survive with the \$175,000 loan. A fifth option available is to place a lawsuit against the bank for changing the terms of the loan after the fact. This option is bit risky because it might take too long for the lawsuit procedure to be completed.