

# Entrepreneurship

Finance



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Points on Entrepreneurship Case Study (Optitech) Jim Harris graduated in 1993, with a history and political science degree Even though he did not score a good grade point average in university, his parents were not much concerned about him as they knew when he wanted to do something, he would do it and give 110% to it

As was in the case of the athletics competition that he took part in, where he won from the guys who should've beaten him easily

After his graduation, Jim Harris moved to San Diego with his girlfriend, but soon after moving, he ran out of money and came back to his hometown, Denver.

After coming back to Denver, he worked with a supplier of remanufactured laser jet toner cartridges for 3 months till it closed down

When the company closed down, he asked his parents for money, that amounted to \$8500 and started selling the cartridges in his car

As Harris decided of opening Optitech, a proper way of refurbishing the laser jet toner cartridges had come, which enhanced the performance of the cartridges

To start with, he started targeting businesses that had large print volumes like hospital, legal and accounting firms

In order to grow, and build a recurring base of revenue for his company, Jim Harris knew that he could not only rely on the small businesses and would have to get some big accounts and by Summer, he was generating a revenue of \$12000 monthly

Soon after, he got a large order from a hospital of \$118, 000, which helped him in collecting a large working capital and got him an entry in healthcare industry

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As the time passed, Jim Harris set up his own plant of remanufacturing operations using empty cartridges in 1995 and acquired quite a few end-users, including sole proprietors and large firms and by the late 1990s, the monthly sale of Optitech had gone up to \$800, 000 monthly

In 2004, Jim Harris learned that a national level office supply store, AOS, was accepting bids from toner remanufacturers, so he applied too

Optitech was the smallest company in the running, with annual sales of \$15 million, but secured a 5-year deal after a continuous effort of more than a year.

To start with the AOS account, Optitech invested about \$2. 5 million in the inventory, which was a huge amount for Optitech

The number of credit days that AOS was getting from Optitech in the earlier stages of the deal was 140 days, because of which the receivable amount that Optitech had to collect from AOS went up to \$12 million by early 2006, however, AOS brought the credit days down to 70 days

By mid-2006, Optitech was earning good profits and their annual sale to AOS went up to \$30 million annually

As the industry started getting matured, the original manufacturers started thinking of ways on how to interrupt the business of remanufacturers of toner cartridges

Jim Harris found this to be a major threat for Optitech and said that they might have to work hard to get ahead of this situation

Jim Harris was ready to face this battle and for that, he contacted ‘ Shield and Company’, an investment bank, to give him an overview of how the business is going to perform in the future, what challenges would it be facing, what decisions it should take in the future, etc

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Based on the trends of the industry, 'Shield and Company' forecasted future cash flows for Optitech for the year 2007, which showed a sale of \$50,000,000 annually, with a profit of \$12,500,000

The sales growth was good but the main concerning factor for Optitech was that 'Gross Profit' margin was decreasing every year because of the 'Cost of Goods Sold' were increasing