

Sweats galore

Business



**ASSIGN
BUSTER**

Business Situation After graduating with a degree in business from Eastern University in Campus Town, USA, Michael Woods realized that he wanted to remain in Campus Town. After a number of unsuccessful attempts at getting a job in his discipline, Michael decided to go into business for himself.

In thinking about his business venture, Michael determined that he had four criteria for the new business: 1. He wanted to do something that he would enjoy. 2.

He wanted a business that would give back to the community. . He wanted a business that would grow and be more successful every year.

4. Realizing that he was going to have to work very hard, Michael wanted a business that would generate minimum net income of \$25, 000 annually.

While reflecting on the criteria he had outlined, Michael, who had been president of his fraternity and served as an officer in several other student organizations, realized that there was no place in Campus Town to have custom sweatshirts made using a silk-screen process.

When student organizations wanted sweatshirts to give to their members or to market on campus, the officers had to make a trip to a city 100 miles away to visit “ Shirts and More. ” Michael had worked as a part-time employee at Shirts and More while he was in high school and envisioned owning such a shop.

He realized that a sweatshirt shop in Campus Town had the potential to meet all four of his criteria. Michael set up an appointment with Jane Stool, the

owner of Shirts and More, to obtain information useful in getting his shop started.

Because Jane liked Michael and was intrigued by his entrepreneurial spirit, she answered many of Michaels questions. In addition, Jane provided information concerning the type of equipment Michael Mould need for his business and its average useful life. Jane knows a competitor No is retiring and would like to sell his equipment.

Michael can purchase the equipment at the beginning of 2008, and the owner is willing to give him terms of 50% due upon purchase and 50% due the quarter following the purchase.

Michael decided to purchase the equipment as of January 1 , 2008. Cost
Useful Life Hand-operated press that applies ink to the shirt \$7, 500 5 yr
Light-exposure table \$1, 350 10 yr Dryer conveyer belt that makes ink dry
on the shirts \$2, 500 Computer with graphics software and color printer 3,
500 4 yr Display furniture \$2, 000 Used cash register yr Michael has decided
to use the sweatshirt supplier recommended by Jane. He learned that a gross
(144 units in a gross) of good-quality sweatshirts to be silk- screened would
cost \$1 , 440.

Jane has encouraged Michael to ask the sweatshirt supplier for terms of 40% of a quarter's purchases to be paid in the quarter of purchase, with the remaining 60% of the quarter's purchases to be paid in the quarter following the purchase. Michael also learned from talking with Jane that the ink used in the silk-screen process costs approximately \$0.

5 per shirt. Knowing that the silk-screen process is somewhat labor intensive, Michael plans to hire six college students to help with the process. Each one will work an average of 20 hours per week for 50 weeks during the year.

Michael estimates total annual wages for the workers to be \$72, 000. In addition, Michael will need one person to take orders, bill customers, and operate the cash register.

Cary Sue Smith, who is currently Director of Student Development at Eastern University, has approached Michael about a Job in sales. Cary Sue knows the officers of all of the student organizations on campus. In addition, she is very active in the community. Michael thinks Cary Sue can bring in a lot of business. In addition she also has clerical skills needed for the position.

Because of her contacts, Michael is willing to pay Cary Sue \$1, 200 per month plus a commission of 10% of sales. Michael estimates Cary Sue will spend 50% of the workday focusing on sales, and the remaining 50% will be spent on clerical and administrative duties. Michael realizes that he will have difficulty finding a person skilled in computer graphics to generate the designs to be printed on the shirts. Jane recently hired a graphics designer in that position for Shirts and More at a rate of \$500 per month plus \$0. 10 for each shirt printed.

Michael believes he can find a university graphics design student to work for the same rate Jane is paying her designer.

Michael was truncate to tint a commercial building tort rent near the university and the downtown area. The landlord requires a one-year lease.

Although the monthly rent of \$1, 000 is more than Michael had anticipated paying, the building is nice, has adequate parking, and there is room for expansion. Michael anticipates that 75% of the building will be used in the silk-screen process and 25% will be used for sales.

Michael's fraternity brothers have encouraged him to advertise weekly in the Eastern University student newspaper.

Upon inquiring, Michael found that a 3" x 3" ad would cost \$25 per week. Michael also plans to run a weekly ad in the local newspaper that will cost him \$75 per week. Michael wants to sell a large number of quality shirts at a reasonable price. He estimates the selling price of each customized shirt to be \$16. Jane has suggested that he should ask customers to pay for 70% of their purchases in the quarter researched and pay the additional 30% in the quarter following the purchases.

After talking with the insurance agent and the property valuation administrator for his municipality, Michael estimates that the property taxes and insurance on the machinery will cost \$2, 240 annually; property tax and insurance on the display furniture and cash register will total \$380 annually. Laymen reminded Michael that maintenance of the machines is required for the silk- screen process. In addition, Michael realizes that he must consider the cost of utilities. The building Michael wants to rent is roughly the same size as the building occupied by Shirts and More.