



YOU MAKE THE CALL

The Objective:

Raise the level of employees’ business understanding by exploring critical business decisions and asking the employees to “Make the Call”

The Idea in Short:

Business owners often need to make tough decisions that may either make or break the company. Even if all of the information needed to make an intelligent decision is available, it takes a strong understanding of the possible financial impacts to make the best decision.

Approximate time required:

Prep Time: 10 minutes

Play Time: 30 minutes

Materials Needed: PowerPoint/Whiteboard, handouts, timer, noise maker.

How it works:

Dream up a business dilemma or, better yet, use the one you struggled with recently.

Here is an example:

We are a small three-person business that builds and sells specialty yo-yo’s. A neighboring city’s little league has asked for 750 custom painted digital yo-yo’s to give to their players. They need delivery of the finished product by the 20th of next month. They will pay the bill at the time of delivery. Wow! We just landed a BIG ONE! We’re rich...or are we?

There’s more...

The little league would like to add a glow-in-the-dark sticker to each side of the yo-yo. After checking with vendors, you discover the stickers can be made, but it will take a 10-day lead time at a cost of \$.15 each or an additional \$.30 per yo-yo.

The customer is only willing to pay \$3.00 per yo-yo. If you accept the job, the extra expense for the stickers and any overtime for labor due to the short lead time will have to be absorbed by the current margins.

Should we take the order? You make the call.

Here are the facts:

- Order: 750 yo-yo’s @ 3.00 each
- COGS: \$1.27 per yo-yo
- Material Cost: \$.75 per yo-yo
- Additional Material: \$.30 per yo-yo (stickers)
- Additional consideration:
 - Pay dad for gas to deliver: \$10.00
 - Year-to-date cash flow position: +\$500.00
 - Inventory on-hand: enough to build 50 yo-yo’s
 - Labor cost: \$.21 per yo-yo
 - Vendor payment terms: cash on delivery
 - Customer payment terms: cash on delivery
 - We will borrow tools from Dad and use his shop at no cost.

Let’s project our profits with the Income Statement:

Sales	
Less material cost	
Less labor/OH	
Gross Margin	
Less expenses	
Profit before tax	



How does it look so far? How much cash will we need?

Material Requirements =	$\$.76 \times \underline{\hspace{2cm}} \text{ pcs} =$	\$
Additional cost of stickers =	$\$.30 \times \underline{\hspace{2cm}} \text{ pcs} =$	\$
Cost of labor =	$\$.21 \times \underline{\hspace{2cm}} \text{ pcs} =$	\$
Gas expense =		\$
	Total Cash Needed =	\$
	Less Cash On-Hand =	\$
	Cash Balance =	\$

You Make the Call:

- Will we make a profit?
- Do we have enough cash to complete the order?
- If no, what options do we have to get the required cash?
- Should we take the order?

Make it Interesting, Maybe Even a Little Fun:

Distribute the above exercise to all employees. Break the group into small teams of 4-6. Ask the teams to review the scenario and complete the exercise. Allow each team to discuss and debate the scenario, but don't give them more than 15 minutes (sometimes you have to make tough decisions quickly or you could lose the deal). The team to complete the exercise, including 'quality answers' to the questions wins a load of 'Funny Money' to be used at the upcoming company prize auction.

Questions to consider:

How can we compare this situation to our business?