

SPOTLIGHT ON: FINANCE**IT'S TOUGH BUSINESS**

OVERVIEW: This activity will give students to make financial decisions as if they are actual business leaders. The activity is heavily based on financial decisions, but the decisions students make will affect all areas of the business.

THE TASK: It is nearing Q4 of your fiscal year, which means it's time to start building the company budget for next year. Each department has submitted requests for increases in their budget for items they feel are essential to the success of the business. Review each of the requests and determine which budget increases you can afford and feel will be most valuable to the organization. Provided are the year-end projections for this year. It is assumed each budget item will at least remain the same for the following year unless you explicitly decrease any of the areas.

THE ASSIGNMENT: After making your decisions, create a presentation explaining your budget for the next year and how you came to those decisions.

THE TWISTS: (optional) Feel free to present one or both of these twists to your students to add to the difficulty of their decisions.

Social/Environmental Dilemma

A few weeks ago a massive natural disaster hit the town that your business is located in. A local community organization is asking for pledges to continue to help the families in need after the emergency resources are exhausted. The pledge promises your company will donate funds next year to the organization. Your company has been approached to pledge \$50,000 to the fund. Decide if you will give the full pledge amount, a different amount, or if you will pass on donating to the organization.

Business Ethics Dilemma

Over the past few months, management has been alerted to a possible defect with your products. Stores are seeing an increase in returns with the complaint that a small piece breaks off rendering the product unusable and posing a choking hazard for small children. Decide how you will handle the situation from one of the below options.

1. Recall all units and replace the piece that may be damaged. This is estimated to cost \$30,000.
2. Issue a voluntary recall where you only advertise at the stores your product is sold. Only those who voluntarily turn their product in for recall will receive the fix. The estimated cost is \$10,000
3. Extend the normal manufacturer's warranty to 180 days. Any units that come in within that time period will be fixed. There will be no advertisement about the extension. The estimated cost is \$5,000.
4. Stand by your usual 90 day warranty. The customer would need to cover all costs. There will be no charge to your form for it.

INNOVATION → CHANGE → OPPORTUNITY → SUCCESS

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THE DETAILS: Below are all of the requests made by the departments for increases in budgets.

You currently have 31 employees.

Revenue

Revenue is expected to increase 3.5%

Marketing

- Marketing is requesting \$30,000 for a market research project that will determine if there is interest for the new product your research department developed this year.
- Marketing is requesting a 3% cost of living raise for each of their team members.

IT

- The IT department is requesting \$8,000 to upgrade software used to protect your email system from phishing attempts.
- IT is requesting a 3% cost of living raise for each of their team members.

Finance

- Finance is requesting a 3% cost of living raise for each of their team members.

HR

- The HR budget covers the cost of recruiting new employees. Currently, 4 new employees are requested across the organization. It costs \$4,120 for each new employee you decide to hire. Remember, if you hire new employees you need to increase benefit expense by \$7,000 for each new employee.
- HR is requesting a 3% cost of living raise for each of their team members.

Operations, Production & R&D

- The production team is losing two employees at the end of this year who will need to be replaced. The team also wants to add another position to the team to reduce the stress and workload of the current employees. In total, they are requesting three new employees. It will cost \$4,120 each to recruit these new employees. The new employees will be hired for \$45,000. The current production line works make \$40,000, which is already high compared to the market rate. Benefits for a typical employee cost \$7,000.
- The management team is worried current employees will find out about the new hiring wage and will be upset that they make less. The team is requesting a \$5,000 raise for each of the remaining production employees (4 people total).
- The Operations, Production, and R&D department are requesting a 3% cost of living raise for each of their team members. Remember, if you raised the production employees' wages by \$5,000 already you do not need to provide a cost of living increase (although you can!). The 4 production employees who already requested a wage increase were paid \$40,000 each last year.

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THE DETAILS CONTINUED:

Sales

- The sales team would like to hire a Sales Development Representative to help the sales team generate more leads. The person will be paid \$30,000 base salary and will make \$100 for every qualified lead they send to the sales team. Benefits for a typical employee cost \$7,000. The cost of recruiting a new employee is \$4,120. The employee will be expected to send 5 qualified leads a month to start.
- The sales team is also looking to update the technology used across the organization.
 - o They are requesting Sales Navigator, which is a program that will allow them to easily look up, save, and connect with potential customers on LinkedIn. Sales Navigator costs \$1,000 per person. You currently have 5 employees in the sales department. Remember, if you hire a new employee you will have 6 total employees in the sales department that may need the software.
 - o The sales team would also like ZoomInfo, which is a database of contact information for companies to easily connect to their target leads. ZoomInfo connects to Sales Navigator making search functions easier. ZoomInfo costs \$10,000 per year.
 - o Finally, the team wants to update the CRM to a system that can integrate with ZoomInfo and LinkedIn making tracking and uploading new customer records easier. The top system they are requesting is Salesforce and the cost is \$18,000 per year.
- Sales is requesting a 3% cost of living raise to the base pay of each team member.

Executives

- The executive team is looking for \$500,000 in Net Profit. The company is saving up to purchase a larger factory to increase production capabilities within the next few years. If you decide not to keep \$500,000 in net profit, be prepared to defend your decision.
- The executive team is requesting a 3% cost of living raise for each of their team members.

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LAST YEAR'S REVENUE AND EXPENSES

Revenue		\$5,500,000
Marketing		
	Salaries	\$250,000
	Digital Marketing	\$6,000
	Other Marketing	\$6,000
	Market Research	\$15,000
IT		
	Software Upgrades	\$2,000
	Technology Upgrades	\$5,000
	Salaries	\$240,000
	Cyber Security	\$9,000
Finance		
	Salaries	\$220,000
	Finance Software	\$490
	Audit Fees	\$2,500
HR		
	Recruiting Expenses	\$4,120
	Salaries	\$130,000
	HR Software	\$9,000
	Employee Benefits	\$210,000
	Training Expenses	\$6,000
	Office Building Rent	\$180,000
	Office Supplies	\$900
Operations, Production, & R&D		
	Salaries	\$600,000
	Research & Development	\$500,000
	Manufacturing Plant	\$60,000
	Storage Warehouse	\$60,000
	Materials	\$700,000
Sales		
	Customer Relationship Management System	\$4,800
	Salaries	\$300,000
	Commissions	\$773,562
Executive Expense		
	Executive Salaries	\$750,000
Net Profit		\$500,000

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BUDGET SHEET FOR NEXT YEAR

Revenue	
Marketing	
	Salaries
	Digital Marketing
	Other Marketing
	Market Research
IT	
	Software Upgrades
	Technology Upgrades
	Salaries
	Cyber Security
Finance	
	Salaries
	Finance Software
	Audit Fees
HR	
	Recruiting Expenses
	Salaries
	HR Software
	Employee Benefits
	Training Expenses
	Office Building Rent
	Office Supplies
Operations, Production, & R&D	
	Salaries
	Research & Development
	Manufacturing Plant
	Storage Warehouse
	Materials
Sales	
	Customer Relationship Management System
	Salaries
	Commissions
	Other Sales Systems
Executive Expense	
	Executive Salaries
Net Profit	

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