ACCT4660 Case Study 1

Hallstead Jewelers

Addison Babcock

# Question 1

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2003 | 2004 | 2006 |
| Cost of Goods Sold | $4326000 | $4132000 | $5570000 |
| Commissions | $429000 | $405000 | $536000 |
| Variable Costs | $4755000 | $4537000 | $6106000 |

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| --- | --- | --- | --- |
|  | 2003 | 2004 | 2006 |
| Salaries | $2021000 | $2081000 | $3215000 |
| Advertising | $429000 | $250000 | $536000 |
| Administrative Expenses | $418000 | $425000 | $435000 |
| Rent | $420000 | $420000 | $840000 |
| Depreciation | $84000 | $84000 | $142000 |
| Misc Expenses | $53000 | $93000 | $122000 |
| Fixed Costs | $3425000 | $3353000 | $5290000 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2003 | 2004 | 2006 |
| Sales | $8583000 (5341 units) | $8102000 (5316 units) | $10711000 (6897 units) |
| Variable Costs | $4755000 | $4537000 | $6106000 |
| Contribution Margin | $3828000 | $3565000 | $4605000 |
| Contribution Margin per Unit | $716.71 | $670.62 | $667.68 |
| Contribution Margin % | 44.6% | 44.0% | 43.0% |
| Fixed Costs | $3425000 | $3353000 | $5290000 |
| Operating Income | $403000 | $212000 | ($685000) |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2003 | 2004 | 2006 |
| Breakeven Units | 4778.72 | 4999.87 | 7922.94 |
| Breakeven Sales | $7679372.20 | $7620198.04 | $12304275.79 |
| Margin of Safety | $903627.80 | $481801.96 | ($1593275.79) |

The margin of safety has been dropping rapidly. This is largely because of the rapid increase in rent and advertising. People have also been spending less per sale, although the number of sales has increased.

# Question 2

|  |  |
| --- | --- |
|  | 2006 |
| Sales | $10588595.83 (7500 units) |
| Variable Costs | $6639843.41 |
| Contribution Margin | $3948752.42 |
| Contribution Margin per Unit | $526.50 |
| Contribution Margin % |  |
| Fixed Costs | $5290000 |
| Operating Income | ($1341247.58) |

The company’s income would be significantly lower assuming nothing else changed.

|  |  |
| --- | --- |
|  | 2006 |
| Breakeven Units | 10047.48 |
| Breakeven Sales | $14185156.72 |
| Margin of Safety | ($3596560.89) |

Lowering prices would not be good idea. Local stores trying to compete with online retailers should do so based on service, not price.

# Question 3

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| --- | --- |
|  | 2006 |
| Cost of Goods Sold | $5570000 |
| Commissions | $0 |
| Variable Costs | $5570000 |

|  |  |
| --- | --- |
|  | 2006 |
| Sales | $10711000 (6897 units) |
| Variable Costs | $5570000 |
| Contribution Margin | $5141000 |
| Contribution Margin per Unit | $745.40 |
| Fixed Costs | $5290000 |
| Operating Income | ($149000) |

|  |  |
| --- | --- |
|  | 2006 |
| Breakeven Units | 7096.89 |

The company is now much closer to breaking even. The sales staff probably aren’t very happy though. An upset sales staff likely won’t be working as hard to close deals or to upsell product.

# Question 4

|  |  |  |
| --- | --- | --- |
| Fixed Costs | $5490000 | +$200000 |
| Breakeven Units | 8222.50 | +300 |

The store would need 300 average sales just to pay for the advertising. That should be easily accomplished with such a large advertising budget. The average revenue per sale might be impacted if the advertising comes across as cheap, but the total revenue is likely to be higher anyways.

# Question 5

|  |  |
| --- | --- |
| Breakeven in Total Sales 2006 | $12304275.79 |
| Fixed Costs 2006 | $5290000 |
| Breakeven Contribution Margin 2006 | $7014275.79 |
| Units Sold 2006 | 6897 |
| Needed average sale in 2007 | $1017.00 |

It might be tough to accomplish this because the average sale is so much higher. The amount of upselling required for this to happen might push customers away.

# Question 6

The business would be worth quite a bit based on the sales, customer loyalty and the prime retail location. It might be a good idea to sell the business, split up the profits and retire. There is easily enough money to be gained from the sale that the family would never have to work again.

If I have to pick from the options explored, increasing the advertising budget (question 4) would seem to be the best option. 300 more sales doesn’t seem hard to accomplish.