**BUTTERCUP FARMS: IS SHE CRAFTING A HOBBY OR A BUSINESS?**

Audrey Smith had a problem that was never far from her mind. She thought about the problem frequently but didn’t know what to do. Audrey was middle aged and employed by the U.S. Postal Service. She had a husband, a house, and a full-time job, all of which kept her very busy. Thinking ahead a few years to retirement, Audrey was concerned she would not have enough income to live in the manner she chose. She thought perhaps she should create a small business that would supplement her income in later years. Two years ago, Audrey started a small soap making business which she named *Buttercup Farm*. At first she made the soaps to use herself and then began giving them as gifts to friends and family who raved about the soap and encouraged Audrey to commercialize and sell her products. Over the past two years, Audrey began to make the soap in batches of 20 bars, three or four times a month. She sold the bars to two outlets in the Northern Michigan area near her home, one being an Amish operated grocery store, and the other an antique store that also sold home spun wool products. She sold each bar to the outlet for $3.00 and realized a profit of about $1.86 per bar. The retailers marked up the products by 100% for a retail price of $6.00 for the average bar (see Table 1).

Audrey’s workspace was approximately 200 square feet in her attic. There she stored and made her products. Some ingredients she ordered on-line and others she purchased locally. Her biggest problem was inventory storage as she would purchase 50 pound containers of various oils needed and would then have to store these. Another problem was time. Audrey worked full time, was on her feet all day, and ran a household. She estimated that in a month, her time spent on the business including making the soap, labeling and packaging it, and ordering ingredients was only ten hours. But these ten hours came from her dwindling leisure time.

Audrey faced a decision: At present, her business was just a hobby. Should she expand her product line to include liquid soap and lotions, or should she continue on as in the past producing a few batches of bar soap each month?

**The Down Side to Expansion**

A down side of expansion into liquid soap/lotions was she did not know what types of liquid soaps and lotions would sell in her market area. Introduction of a new product required experimentation and testing of the new product, which meant lots of time and money that she feared risking. Audrey viewed the launching of a new product line as a difficult and complicated undertaking. For instance, by experimenting she had learned to her surprise that bug repellent bar soap had gone over very well. Also, she would have to do a great deal of research to arrive at a sale price for the new products. She was not sure at what price she would have to sell the new products in order to realize a profit. This demanded a further investment in both time and money.

A major down side to expansion into liquid soap/lotions required an additional outlay of about $300 (see Table 2). Audrey realized that liquid soap and lotions, unlike the bar soaps she made, would have to be cooked. Using the gas stove in her kitchen was not permitted by local zoning laws due to the alcohol content of the liquid. She needed to purchase an electric heating element and do the cooking in her attic which was her regular workspace. This was a heavy demand on her space, time, and money. In addition, the expansion would probably mean she needed to establish a webpage or eBay site, which led to more complications and money outlays, but potentially better profit margins. Expansion also might mean hiring a lawyer and acquiring trademark protection.

**The Upside to Expansion**

Audrey viewed the upside of expansion to be the lack of saturation of homemade soap products in the local area. Another advantage was that many of the same ingredients were used in making both the bar and liquid soap or lotions. She had about $700 - $800 tied up in inventory. Of course, the biggest lure of expansion was increased profits from the business. If she didn’t expand, an increase in profit was not likely to occur. Retirement and her financial condition were always on her mind.

Another upside to expansion was the fact that Audrey liked helping people. Her products did not burn sensitive skin as did some commercial soap products. She also enjoyed the socialization and camaraderie she felt with her clients and customers. The type of customers who were buying her soap were middle aged women from small communities who wanted to treat themselves by using a high quality natural soap that did not have all of the dyes and chemicals that the “store bought” brands contained. In addition to the two stores, Audrey sold bar soap to associates at her workplace and even occasionally prepared special orders of her bars. Finally, Audrey’s husband was supportive of her efforts as were her friends and family.

Audrey first instinct was to try making liquid soap, believing that if the test product did not sell well she could give the remaining products away as Christmas gifts. If the liquid soap failed, she could back out and return to her original plan of creating a few batches of bar soap monthly. This, however, would not provide her with the funds she felt were necessary to supplement her retirement.

**The Decision**

If Audrey desired to embark on expansion of her product line, she would have to make a move soon. The idea was to have the business in place in a few years to provide supplemental income when she did retire. She could either focus on expanding her customer base in the bar market, or she could broaden her market by offering a broader product line. To make it a business and not just a hobby, Audrey would need the next few years to grow her sales to the next level. To Audrey this was a critical decision and she wanted to get it right. Her future depended upon it. The question was, what should Audrey do, expand into a business or maintain her hobby?

**Table 1: Bar vs liquid costs per unit**

Bar Liquid

Retail price $6.00 $6.00 -$12.00\*

Wholesale price $3.00 $3.00 - $6.00\*

Cost of materials $1.07 $.62

Cost of packaging? $.07 $.93

Profit per unit $1.86 $1.45 - $4.45

Time to process 2 hr/batch 4 hr/batch

Curing time 4 weeks 2 weeks

Shelf life 1 year 2 years

Trade-offs 20 bars (3.5 oz) 36 bottles (8 oz)

(more storage space required)

$22.80 cost per batch $55.80 Cost per batch

simple process more complicated process

(more ingredients, steps, equipment)

bar form only shampoos, bath gels,

bubble bath, hand soaps/lotions

variety of molded shapes, variety of bottles,

fragrances, & colors fragrances, & colors

Volume limitations 10 batches per month 7 batches per month

Many of the fragrances and other raw materials can be used in either product.

\*Best guess on possible range of prices she could charge.

**Table 2: $300 investment for liquid soaps or lotions**

Electric heating element ($50 estimated)

Bottles, pumps, dispenser tops

Exotic oils (hempseed or emu oil)

Colorants

Fragrances