

# Additional Case Studies

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## Chapter 8

### Tracy's Fudge

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Tracy's initial forecasts were based on taking samples to local shops and getting buyers to taste samples before placing orders. When asked for her prices Tracy felt that she had to quote a figure that was lower than comparable products made by larger suppliers. She felt that since her business was new and unknown she could not afford to charge premium prices and she was also felt anxious to get some sales, at any price.

At the start of the venture she expected to produce the product at home and subsequently move into dedicated premises. She would be responsible for everything, from sales and marketing to actually making the product.

Initial reaction to the fudge had been good and she had a number of retailers lined up to sell the product. The business plan that she had presented to the bank enabled her to agree to a small overdraft, since she envisaged delays between receiving money and having to spend it on raw materials. The business would also require her to invest her own savings as well as borrow from friends.

In the beginning the business grew according to her plans. She was able to add new outlets and people were interested in what she had to sell. She found however that she had to leave a range of flavours with retailers and they would tend to pay more slowly than she had anticipated. It wasn't really a matter of going back after a couple of weeks and seeing how much had been sold and then getting paid. Some people wanted her to wait until the end of the month, some wanted invoicing and so on. However they all expected to be re-stocked, since it was commonly said that if the display was half-empty and especially if certain flavours were missing this gave a bad impression to potential customers.

Slowly Tracy began to notice that her cash was running out, she was finding it harder to pay her suppliers and various other bills. She checked her cash flow forecasts and found that while the size of various expenses had been as forecast, others which were related to her sales

had been rising much higher than forecast. She had originally felt that this was, ‘a nice problem to have’, since it was the result of the popularity of her fudge. But now she was not so sure. If her suppliers would not extend her credit, or her bank would not extend the overdraft, she was worried that she would not be able to keep supplying some of her customers and that could be bad for her reputation.

With her financial problems mounting Tracy even wondered whether or not she was actually making a profit. She calculated how much money she received per unit from the retailers and then worked out how much it cost to make each one. She even worked out how much of her overheads to attribute to each piece of fudge. Having done all this she calculated that she was actually making some money on each unit of fudge sold. So what exactly was the problem?

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