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1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains the case study for use when answering the questions.

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Johnny's Pots

The background

Johnny had known the career he wanted to follow since his first art lesson. He wanted to design, make and sell his own pots.

When he left school, Johnny could not find employment in a pottery factory, but he needed to earn money to live. He therefore started to work in the kitchen of a local hotel. Although he worked long hours in the hotel, he found some time to design and make pots.

Johnny knew that people would buy pots, and he thought he could sell his own designs. He just had to find a way to reach potential customers. He took samples of his work to a number of local stores and persuaded the owners to display and sell his pots. The storeowners agreed to pay Johnny only when the pots were sold. The storeowners would keep 20% of the price paid for each pot.

The idea

The storeowners were soon asking Johnny to provide more pots to sell. Johnny was struggling to make enough pots to meet the rising demand. He thought that he might be able to give up his job in the hotel kitchen and work full-time making pots. However, giving up his job would be a big risk.

Before making a decision, Johnny decided to draw up an action plan. This would help him to organise all of the tasks he would need to complete in order to set up his own pottery enterprise.

The first item in the action plan was to do some research. He would need to draw up a budget for the enterprise. To do this he would need to research and calculate all of the potential costs and income.

The research

Johnny started by looking at his own records from the previous sales he had made. Fig. 1 shows the information he found.

Item	Average per pot (US$)
Selling price	10
Cost of raw materials	2
Payment to storeowners	2

Fig. 1

Johnny knew that to increase the number of pots he made he would need to purchase some equipment. The equipment would be large so he would not be able to keep it at his home. He would need to rent a workshop.

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If he rented a large workshop, Johnny thought that he might also be able to sell his pots directly to customers. Selling the pots himself would mean he would save money by not paying the storeowners but this would increase his other costs. Johnny researched these extra costs, shown in Fig. 2.

Item	Cost (US$)
Equipment (a single payment)	300
Rent of workshop (per month)	200

Fig. 2

Selling from his own workshop could also help him to develop brand loyalty. Johnny could lose some of his existing customers by not selling in the existing stores, but it could solve a number of problems.

These costs were high and would be more than Johnny's personal savings. If he wanted to expand the enterprise, he would need to find an additional source of finance.

Johnny thought that he could borrow some money from his family, but he wanted to consider other possible sources. He needed some advice and so he arranged to attend a meeting of the local business network.

The meeting

Johnny had never attended a formal business meeting before. He was surprised when he was given a copy of the agenda. It showed that he would be able to ask questions at the end of the meeting.

At the meeting, one entrepreneur, Ruth, explained that many new enterprises failed due to poor cash flow. She thought that taking on a partner would be the best option for him, given his lack of experience. Johnny was not convinced, because he wanted to be in total control of all decision-making in his enterprise.

Ruth suggested that Johnny produce a formal business plan to help him to make his decision.

The next step

After the meeting, Johnny knew that expanding his enterprise was what he wanted to do. He would complete the business plan and then arrange a further meeting with Ruth to gain some more advice.

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