

FINANCIAL LITERACY

Case Study

Scarves of the North

Scarves of the North has been in business for four years. The business has been growing, but Fred the owner is not making the money he had hoped for.

Here are the details:

- They sell custom-made knitted scarves to retailers and directly through their website
- Fred decided to start the business after a trip to New York City five years ago.
His wife was wearing one of her mother's scarfs while on a shopping trip in Saks on Fifth Avenue. One of the sales people commented on how awesome his wife's scarf was
- Fred's mother-in-law used to do all the knitting, but as the business has grown the knitting has been woutsourced
- Currently there are six different designs of scarves
- The selling price via the company website is \$60 per scarf. For orders of 10 or more the price per scarf is reduced to \$50
- The selling price to retailers is \$20 each
- Here are the financial results over the past four years:

	Year 1	Year 2	Year 3	Year 4
Sales	\$3,500	\$9,100	\$14,450	\$19,550
Cost of sales	\$600	\$2,300	\$4,550	\$6,750
Gross profit	\$2,900	\$6,800	\$9,900	\$12,800
Gross profit %				
Expenses				
Admin	\$300	\$3,000	\$4,000	\$6,000
Marketing	\$0	\$500	\$1,000	\$1,000
Operating	\$100	\$300	\$600	\$1,000
Salaries*	\$0	\$1,000	\$5,000	\$7,000
Total expenses	\$400	\$4,800	\$10,600	\$15,000
Net income (loss)	\$2,500	\$2,000	(\$700)	(\$2,200)
Number of scarves sold				
Website - singles	50	60	70	80
Website - total scarves orders of 10 or more	10	70	85	95
Retailers	0	100	300	500
Total sold	60	230	455	675

* Note: salaries exclude anything to Fred, the owner

QUESTIONS

1. By what amount and at what rate are sales growing each year?
2. What are the gross profit margin percentages each year?
3. What are the key expenses and how much have they increased over the 4 years?
4. Why is the company losing money when sales are growing?
5. What non-financial issues may be inhibiting the company? (i.e. outside forces)
6. What would you suggest to Fred to turn the business into a profitable one?