

money means business



Dear Educator,

Business has always been a hot topic, boosted lately by current events as well as network television shows and the proliferation of cable TV channels devoted to the topic. As students think about career choices, they may be attracted to business partly because executive “perks” make it seem “cool.” However, being successful in any career takes a lot of hard work both individually and as part of a team of important players. Those players are responsible for a company’s success, and the basis of that success is having a solid foundation of knowledge.

This teaching kit, developed for high school students taking business courses but also useful for students studying math or related subject areas, is designed to give students a snapshot of the many facets of the business world, as well as a taste of what real-life corporate decision-makers face. That is why Youth Media International (YMI) is excited to partner with the American Institute of Certified Public Accountants (AICPA) to provide your students with this introduction to the world of business and accounting through self-standing activities students can do in the classroom or as an introduction to a dynamic new free, self-guided online business workshop called **Money Means Business** (www.MoneyMeansBusiness.com).

Each of the five student activity sheets in this kit includes topics covered in the online workshop. Students will select one of three well-known companies and invent a new product that might appeal to its customers while assuming the roles of such top corporate positions as Vice President of Product Development or Chief Financial Officer. After completing the classroom lessons or

the more comprehensive online workshop, they will have learned how a company creates a new product and makes the financial decisions necessary to support its success. Students who go on to complete all 10 levels of the online workshop will receive a certificate from the AICPA.

For students pursuing a general business curriculum or a specialized area of business in college, this guide will help them see that each key position in a company contributes to the team effort that it takes to succeed. Students of math, social studies, etc., may find related subject interest as well.

We invite and challenge your students to get acquainted with important business foundations that will help make their careers soar. Please share this material with other teachers of related subjects at your school. Although the material is copyrighted, you may make as many photocopies as you need.

A handwritten signature in black ink that reads "Roberta Nusim".

Sincerely,
Roberta Nusim
Publisher

P.S. Visit www.youthmedia.com for more free educational programs or e-mail us at YMIHQ@ymi-ltd.com with your comments. Your feedback is important!

money means business



Program Components

1. This instructional guide
2. Five student activity masters
3. A response card for teacher comments
4. A poster announcing the online **Money Means Business** workshop

Target Audience

This program has been designed for high school students in business and business-related courses. Students of math and related subject areas may also find the program to be of interest in making them aware of career choices in business.

Program Objectives

1. To give students an understanding of business money management
2. To give students experience in calculating financial data and understanding how it is used to make all kinds of business decisions
3. To help students understand accounting as the language of business
4. To provide students with a broad introduction to skills used in the business world

Introduction

The opportunities and rewards of business can be very exciting for young people interested in making a career—and perhaps a name—for themselves. To contribute creatively in the fields of product development, marketing, sales, and finance, or to understand the meaning behind raw data to better position a product in response to the marketplace, is to experience a sense of control and satisfaction while maximizing one's talents and skills.

In today's job market flexibility and productivity are key assets. Employees who seek specific opportunities may end up working in various phases of the business, such as dealing with budgets, costs and profitability projections. Regardless of product or service, business decisions come down to money. The more students know about managing money in business and about different job roles, the better prepared they will be for the challenges and rewards of a career in any field.

The American Institute of Certified Public Accountants (AICPA) wants to help students understand the role of money management, the concept of accounting as the language of business, and the key job responsibilities found in many major corporations. In this guide, students are introduced to the free online **Money Means Business** workshop (www.MoneyMeansBusiness.com) by selecting a division of one of three well-known companies from the workshop site—Nike, Inc., PepsiCo, Inc., or Avon Products, Inc. The site also gives them all the relevant Web sites they'll need to get information about those companies. Best of all, students will have the chance to step into the shoes of a real-life executive in a well-known company to which they may relate.

Using the Classroom Program

This teaching kit can be used as a one-week self-standing classroom unit, as well as an introduction to the workshop. Photocopy the masters and distribute them to students for each activity. The **Heads-Up!** icons indicate material that you should be sure to cover during the course of the program since students will be asked about it in **Part B of Activity 5.**

Using the Online Workshop

The online workshop is so comprehensive that you will want to encourage students to complete it on their own time during the school term in order to take full advantage of it (and for extra credit, if you wish). Each student who completes the 10-level online workshop receives a certificate of completion from the AICPA that can make an important addition to a college or job application. Even if you do not complete all the activity masters in class, encourage students to complete the workshop, as they will find it to be of great benefit.

Web Sites for Further Study

Marketing

<http://www.knowthis.com/>
<http://wdfm.com/>
<http://www.yudkin.com/>
<http://www.libraries.psu.edu/business/Marketing/websites.htm>
<http://www.marketingpower.com/>
<http://gmarketing.com/>

Entrepreneurship

<http://www.startupbiz.com/Library/Entrepreneurship.htm>
http://www.sba.gov/starting_business/
<http://www.irs.gov/businesses/small/article/0,,id=99336,00.html>

New Product Development

<http://www.bu.edu/library/guides/core.html>
<http://www.prod-dev.com/>
http://www.sciencedaily.com/encyclopedia/new_product_development
<http://cipd.mit.edu/>

Additional AICPA Materials

- *StartHereGoPlaces.com*, a comprehensive online resource for students interested in a career in business and accounting
- *Takin' Care of Business* CPA iPACK, which includes an education handbook (learning activities for business and related classes) and video (accounting as a career)
- *Penny Wise* and *Business Building Blocks* videos/DVD, which cover various financial literacy topics such as the history of money, checking and savings accounts, budgeting, etc., as well as CPA career paths

Please contact the AICPA at 212-596-6224 or educat@aicpa.org for more information on these products.

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Youth Media International Ltd.
www.youthmedia.com

To go to the **Money Means Business** workshop, check out www.MoneyMeansBusiness.com

developing the product

Time: One 40-minute class period

Objectives—Students will:

- be introduced to the **Money Means Business** workshop by registering on the workshop site to select a division of one of three companies (Nike, Inc., PepsiCo, Inc., or Avon Products, Inc.) for data needed in classroom activities.
- be introduced to the position of VP of Product Development.
- propose ideas and a name for a new product for their chosen company and identify their target customers.

Step 1: Introduce the overall program content by discussing the importance of business skills in reaching career goals in every area of business money management or accounting. Advise students that the classroom program will introduce them to key corporate positions and their role in developing and bringing a new product to market.

Step 2: Direct students to register for the **Money Means Business** workshop at www.MoneyMeansBusiness.com, in order to access information about the three companies whose profiles appear there and to select a company division for which they think they could develop a product. Tell students that registration enables them to become a member of **StartHereGoPlaces.com**, the student site for the American Institute of Certified Public Accountants, and that they'll be able to participate in an array of challenging online business simulations, games and contests, and receive personalized information to help them along the path to a successful career. **Please note that their registration data will be confidential and that by registering on**

this site, students will not receive unsolicited communications.

Step 3: Instruct students to research their company's background to learn more about its products and history so they can see that companies originate in a variety of ways. For example, Nike was co-founded by a track & field coach and a middle-distance runner who was also a CPA; Pepsi-Cola was created in the late 1890s by a North Carolina pharmacist, and Avon was the brainchild of a 28-year-old who named his venture the California Perfume Company.

Step 4: Begin **Part A** of the activity by asking students: Who develops new products? Why did they show up just now? For answers, students will need to learn about new product development. Successful companies must grow and change with their markets, recognizing opportunities to introduce new products that will fill emerging or existing gaps in the marketplace due to changing customer needs and wants. Developing a new product and doing the initial research to see if it's worth producing is the job of the **Vice President of Product Development**. Direct students to use the company profiles to consider a new product they think might fit into that company's product line, and to decide whether it represents something wholly new, or something adapted from an existing product. Ask them to complete the questions in **Part A** as directed, conducting research as needed.

For information on target customers' spending habits, suggest these sites:

- www.bls.gov/cex/ (Bureau of Labor Statistics)
- www.fedstats.gov/

- www.sba.gov/advo/stats/
- www.pstc.brown.edu/resources_links/refresources.html
- <http://factfinder.census.gov/home/saff/main.html>



Part B of Activity 5 lists four summary questions. **Question 1** asks about the importance of understanding company sponsorship. **At this point in Activity 1**, introduce the idea that companies choose to sponsor television shows or community events based on demographics and behavior that their own research indicates will reflect a good fit between the company's products and the viewers of or participants in those events. Give students a heads-up that they should remember this point, as it will appear in a later exercise of this classroom program.

Students may conduct some basic market research by interviewing five members representative of their target consumer group in order to get feedback on their new-product ideas. Even a few opinions can help indicate whether the product has merit or not.

Step 5: Instruct students to complete the chart in **Part B** by summarizing key information researched to date. They will determine a price for their product in **Activity 2** and then fill it in on this chart. The arrows on the chart show how the company creates products to meet customer needs, and how customer purchases of products support the company's growth.

For 10 questions to be asked when selecting a product name, see www.rhymer.com/questions.html

packaging and distribution

Time: One 40-minute class period

Objectives—Students will:

- be introduced to the steps used in figuring the cost of producing their product.
- develop their retail and wholesale pricing structure, identify distribution channels, and consider packaging types and costs.

Step 1: In this activity, students begin to perform the calculation needed to make sound financial decisions in product development. First introduce the concepts behind pricing a new product by discussing the competitive nature of the marketplace and the need to consider what the “market will bear” in terms of pricing structures.

Step 2: Students will now begin to figure the cost of manufacturing one unit of their product. In **Part A**, ask them to determine a ballpark figure for their retail price by first averaging the prices of three similar products and then using a similar or different price according to how much of an upgrade their new product represents. They can then test it by surveying some people they might consider to be typical of their target customers. Some students may change their initial retail price after doing this research.

Students should use the formula on the sheet to find the cost of manufacturing one unit of their product. Manufacturing cost is generally estimated at 1/10th of the retail price.



Question 2 in **Part B** of **Activity 5** asks about the impact of manufacturing on cost. **At this point in Activity 2**, explain to students that

whether the company has existing facilities that can be used to manufacture their product or may instead have to use an independent contract manufacturer, as well as any special customization needed because of the nature of the product (for example, environmental-protection needs), can be important factors in the manufacturing cost.

Step 3: Next, students will consider where their product might be sold most effectively—their best distribution channels. Have them write the two channels from the list in **Part B** that they think will be most effective for their product on their activity sheet.

Step 4: Now direct students to consider how their product affects the type of packaging used. For example, a cosmetic product sold in high-end salons and department stores may require a package that conveys luxury and elegance—and may cost more as a result. Some sports equipment might vie for consumer attention on the shelves of a sporting goods store or pro shop on the basis of its design alone, thus the package pricing factors are relatively minimal.

Students should decide whether their packaging fits in the lower end of the 10% to 30% range (if it is simple) or the higher end (if it is more elaborate and expensive). Using the manufacturing cost they calculated in **Part A** and the packaging

percentage they choose, they will now calculate the packaging cost per unit.

Step 5: Now direct students to add the cost per unit (from **Part A**) to the packaging cost per unit (from **Part B**) to determine the cost of goods per unit in **Part C**. This will help them understand the factors that go into pricing a product based on the cost to produce it.

Step 6: Instruct students that the wholesale cost—the cost of getting their product into their distribution channels and thus to retail outlets—is determined by the cost of goods per unit (from **Part C**) and the markup. Students can use a markup of between two and four times the cost of goods, depending on the market demand and the distribution channel. Supermarkets and drug stores with low profit margins would need to pay a lower wholesale price. Boutiques and other more exclusive channels can afford to pay a higher wholesale price because of higher profit margins. Students should use the formula shown to decide the wholesale price.



Question 3 In **Part B** of **Activity 5** asks about the difference between the manufacturer’s cost and retail cost of a product. **At this point in**

Activity 2, explain to students that the price of a product generally doubles at each stage of the manufacturing, distribution and sales cycle. For example, a product that costs \$1.00 to manufacture may cost the wholesaler \$2.00, the retail outlet \$4.00, and ultimately, the customer, \$8.00.

marketing the product

Time: One 40-minute class period

Objectives—Students will:

- be introduced to the role of the VP of Marketing.
- consider the best methods of advertising their product by analyzing both their company’s current advertising and that of their competitors.
- summarize the attributes of their product, as well as their chosen advertising strategy.

Step 1: Introduce the role of the **Vice President of Marketing** by teaching students that this individual determines the best way to put the product in front of customers to convince them to buy it, using information about the product from the VP of Product Development.

Step 2: In **Part A**, direct students to return to the Web sites of their chosen company division and research their current ad campaigns, then

decide which, if any, might suit their product. You may wish to familiarize students with these advertising terms:

- **media**—newspapers, magazines, direct mail, radio, television, outdoor, and Internet advertising
- **promotion**—events (local or national), sponsorship tie-ins (sports, music, movies), sampling, sweepstakes, in-store or special sales promotions (demos, trial offers, etc.)

marketing the product Activity 3 *continued*

- **point-of-purchase**—usually seen as window and/or interior displays/signage in retail outlets

Instruct students to decide if the characteristics of their new product make it a good fit with any of their company's current advertising strategies. For example, a "new and improved" cosmetic product customarily advertised in key lifestyle magazines might logically find a good audience there. If, however, the product offers a unique solution to a customer need somewhat outside the company's customary product line and therefore its usual advertising strategy—say, a new hybrid soda that not only quenches thirst but contains multivitamins—then point-of-

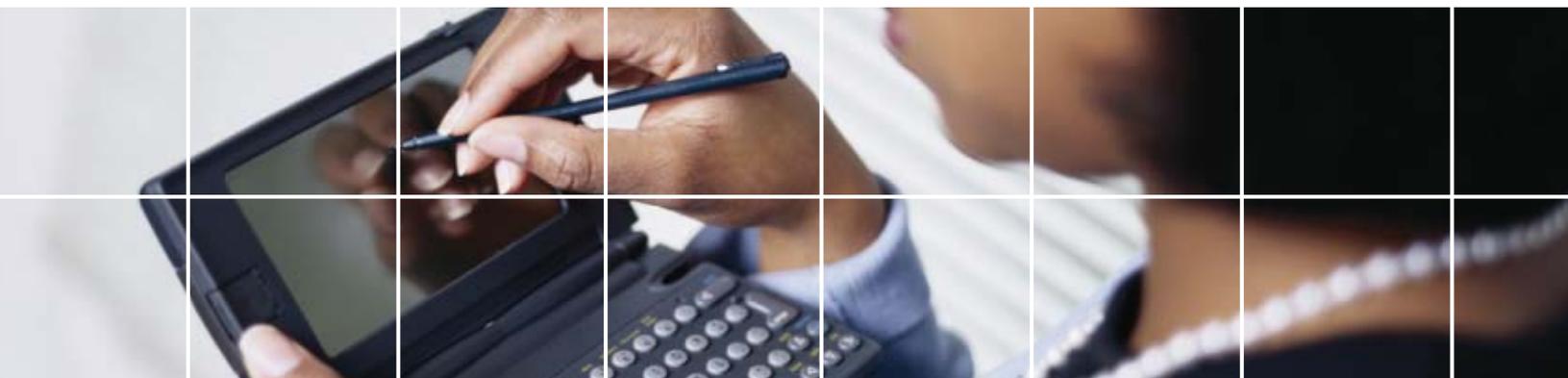
purchase displays at health-food stores and fitness centers might provide an attractive alternative.

Step 3: Now instruct students to research the types of advertising done by competitors for similar products and list which, if any, might be suitable for their product, using the guidelines above.

Step 4: In **Part B**, engage students' consumer experiences by asking them to discuss products that attracted their attention and why they did so—was it the approach? If so, why? Now have them write which approach might be the best for their product.

Step 5: The best advertising provides a highly effective showcase for the product while both matching the media habits of target customers with a company's customary ad strategies *and* standing apart from those of competitors. Prompt students to consider all of these factors and add into the "mix" the possibilities presented by unique opportunities or settings as mentioned on the activity sheet, as they continue their analysis.

Step 6: After students have written a paragraph about their product, its appeal and their advertising approach, hold a class discussion to compare products and strategies. Which seem to offer the greatest appeal to the class as a whole?



making the sale

Activity 4

Time: One 40-minute class period

Objectives—Students will:

- be introduced to the role of the VP of Sales.
- learn about the development of sales strategies needed to arm the sales force to sell in the product to distribution channels.
- estimate sales units sold per year for each of the first three years.

Step 1: This activity will engage students in the kind of financial analysis that is basic to good business money management. First introduce the role of **Vice President of Sales** by explaining to students that this individual prepares sales strategies and sets sales goals for a new product launch.

Step 2: Before they sell in the new product to their distribution channels, sales people must understand what they are selling. Assist students to "think backwards" as if they were a retail store buyer informing their sales staff of the selling points of various products—what points would help staff encourage retail purchase?

Step 3: In **Part A**, students should consider factors determined in **Activities 1 and 2**—product description, target market, pricing approach, and ad strategy—to create an eight-point presentation, using groups of classmates as their sales force. How did students react? What kinds of questions did they ask? Would students change anything in the presentation after others have commented? Why or why not?

Step 4: After each presentation, ask the "sales force" to decide how many units of the new product they think they could sell on a quarterly basis in the first year. The presenter should fill that number in on the activity sheet.

Step 5: In **Part B**, students now can determine projected annual revenues in Year 1 of the new product by using the formula shown to fill in the quarterly figures. (**Note:** Have them assume that sales will be the same each quarter.) Remind them that projected sales revenue is not a reality until their sales force makes it so! These calculations give the sales force a goal.

Step 6: As they begin **Part C**, tell students that as a new product becomes known through

advertising, word-of-mouth, and wider distribution, sales tend to accelerate. Since the rate of acceleration varies somewhere between 1% and 12% from one year to the next, tell students to base their percentage on how quickly they estimate this product will build a following of faithful consumers. They may use the same percentage for each year's growth or vary the figure if they think sales will increase faster in Years 2 or 3. Write this formula on the board for them to use:

$$\begin{aligned} &\text{Number of units sold in Year 1} + \\ &(\text{percent growth in Year 2} \times \text{Number of units} \\ &\text{sold in Year 1}) = \\ &\quad \text{Number of units sold in Year 2} \\ &\text{Number of units sold in Year 2} + \\ &(\text{percent growth in Year 3} \times \text{Number of units} \\ &\text{sold in Year 2}) = \\ &\quad \text{Number of units sold in Year 3} \end{aligned}$$

Then, to determine their projected annual sales revenue, have them complete the chart at the bottom by filling in:

- the percentage of growth in sales as they just determined it;
- the wholesale price per unit and the number of units to be sold in Year 1 from the chart in **Part B**;
- the number of units to be sold for Years 2 and 3 from their classroom calculations.

This will give their sales staff—and the VP of Finance—an idea of how much money their new product is projected to bring into the company.

interpreting the numbers

Activity 5

Time: One 40-minute class period

Objectives—Students will:

- be introduced to the role of CFO.
- use the calculations determined in **Activity 4** to figure the quarterly gross profit.
- review and discuss selected points about material covered in the classroom program.
- be directed back to the workshop site and encouraged to take full advantage of the material there, as well as to receive their AICPA certificate upon completion.

Step 1: Introduce students to the role of **Chief Financial Officer (CFO)** by describing how it interacts with other key positions. The CFO, one of the top two or three officials in a company, is responsible for tracking the company's financial position at all times.



Question 4 in **Part B** of this **Activity 5** asks about responsibility for a new product launch. **At this point in Activity 5**, introduce the concept that the **Chief Executive Officer (CEO)** is responsible for the overall operations and financial performance of the entire company. He or she will present the case for the new product to the Board after collecting information from the Vice Presidents of Product Development, Marketing, Sales and Finance, and the CFO.

Step 2: Tell students to use figures they determined in **Activities 2** and **4** and the formula shown to calculate the quarterly gross profit on sales and to fill in the first five lines of the chart in

Part A. Remind them that they haven't made a profit on their new product yet until they have subtracted the cost of goods from their projected annual sales revenue.

Step 3: Now explain to students that fixed costs (marketing costs, which typically run from 10% to 50% of net sales) also affect how much the company can spend on the new product. Students can use a higher percentage if the product is to be heavily advertised for its national launch or a lower one for a smaller first-year campaign, plus the formula shown, to go back and complete the bottom two lines of the chart.

Step 4: Begin to conclude this activity—and the classroom program—by informing students that still more factors go into a new product launch, among them the annual gross profit margin. Invite students to calculate it when they continue the online workshop to complete the launch of their new product. The difference between gross and net profit margin is the cost of taxes. For a broader view of net profit margin as it applies to overall company operations, see <http://beginnersinvest.about.com/cs/investinglessons//blnetprofitmarg.htm>.

Step 5: Now have students complete the matching exercise in **Part B** to summarize their understanding of roles played by the key positions they have studied. (**Answers:** 1d, 2a, 3b, 4c)

Step 6: Finally, have students answer and discuss in class the summary questions on the bottom of the sheet (referenced by the **Heads-Up!** icon in this guide). Some possible answers include:

1. To understand the kind of customer the company is interested in attracting (see **Step 4** of **Activity 1**)
2. To determine the cost of manufacturing a new product, which in turn depends on existing facilities, distance from distribution channels, and any special requirements of the product that might require customizing the manufacturing facility (see **Step 2** of **Activity 2**)
3. As much as eight, since the price doubles at each stage of the cycle, from manufacturer to wholesaler to retailer to customer (see **Step 6** of **Activity 2**)
4. Though each member of the executive team contributes his or her best efforts to launching a new product, the final decision maker on any major investment is the CEO, who is accountable to the Board of Directors for the company's performance (see **Step 1** of **Activity 5**).

Step 7: (optional) As time and interest permit, you may wish to invite students to consider how they would present their product to their Board of Directors if they were the CEO. Check these sites for presentation tips:

www.unc.edu/depts/wcweb/handouts/speeches.htm
www.abacon.com/pubspeak/organize/organize.html

Step 8: Congratulate students for completing the classroom program and encourage them to return on their own time to fully explore the online workshop and to gain their AICPA certificate of completion.

money means business

developing the product

Think you've got the stuff to call the shots at a company like Nike, Inc., PepsiCo, Inc., or Avon Products, Inc.? If you think so, do you realize how much you have to know about managing money? No one is going to post your name on the door of an executive suite unless you've mastered the money management skills needed to be a successful decision maker. Those skills can open that door to exciting career opportunities that can take you anywhere you want to go.

Although there are no guarantees in business—as in life—you can start finding out if you've got what it takes to succeed in the real world of business by creating a new product and seeing how profitable it will be.

First, check out www.MoneyMeansBusiness.com, a great free online workshop. Select one of the three companies mentioned above and a division of that company that you'd like to work for. Ready to be challenged?

Part A. With your classmates, start by imagining yourself as the creator of a great new product. In most companies the **Vice President of Product Development** and his/her team is responsible for identifying and developing new products. Using the company profiles shown in the online workshop, do some research as you think about a new product that you believe would be a terrific addition to this company's product mix. Use the back of this sheet to make notes. You will be summarizing the key information you find in the chart in **Part B** on the right.

After researching your company's profile, identify the target customers (age, gender, income, geography, habits, etc.) you want to reach with your product.

No. of people in your target group: _____

Annual spending per person: _____

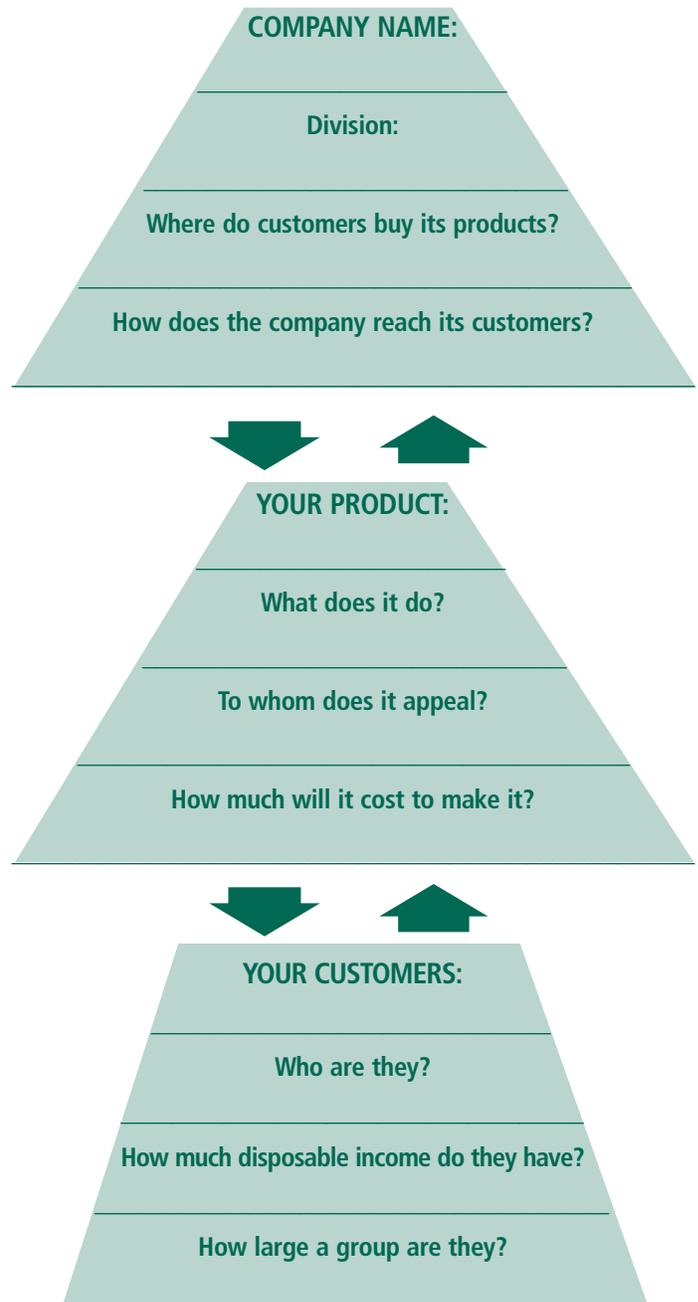
Now consider what kind of new product you might be able to sell to your customers. On the back of this sheet, make a list of new products that could help your target customers manage their lives or entertain themselves and others.

Which of these types of products do you want your company to produce?

Why? _____

Remember, though—it's a crowded marketplace out there. Are there products similar to yours already? Must your product be unique or can you tweak an existing one to reach a prime target niche whose needs have not been met? Conduct more research to evaluate and study the marketplace into which your product will be launched. Write your notes on the back of this sheet or use more paper.

Part B. Now record the results of your research so far on this chart:



What will you name your product? Try a few names on your classmates, and decide on one:

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packaging and distribution

Before a customer buys your product, it has to be packaged and sent to retail outlets or reach customers via sales representatives—adding to the cost of producing your product. How much do you think it adds?

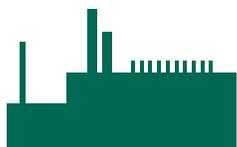
Part A. First consider the price you might charge your customer for your product at retail. For a ballpark figure, think about three similar products, add their retail prices, and divide by 3 to get their average retail price: _____. Does your product represent an improvement on an existing product or a completely new approach to this product? Consider these questions, the average price of your “competition,” and then determine the retail price of your new product: _____. Test your pricing out on some classmates, friends or family within your target market to see what they would be willing to pay for it. Should you change your price? Yes No If yes, what is your new retail price? _____

Now figure the cost of manufacturing one unit of your product by using this formula:

$$\frac{\text{Average Retail Price} = \text{Cost of Manufacturing one unit:}}{10}$$

Part B. You might have a great product at what you think is a competitive price, but how will you sell it to your customers? Stores and other places where it could be sold are called distribution channels. Check all that apply to your product, decide which two are your best channels, and fill them in below:

- | | |
|--------------------------------------------------------------|----------------------------------------------------|
| <input type="checkbox"/> Supermarkets and grocery stores | <input type="checkbox"/> Hair salons and spas |
| <input type="checkbox"/> Convenience stores and gas stations | <input type="checkbox"/> Web sites |
| <input type="checkbox"/> Schools and institutions | <input type="checkbox"/> Department stores |
| <input type="checkbox"/> Restaurants | <input type="checkbox"/> Shoe stores |
| <input type="checkbox"/> Warehouse clubs | <input type="checkbox"/> Specialty stores |
| <input type="checkbox"/> Direct Sales Representatives | <input type="checkbox"/> Company-owned stores |
| <input type="checkbox"/> Drug stores | <input type="checkbox"/> Other channels (explain): |



Company

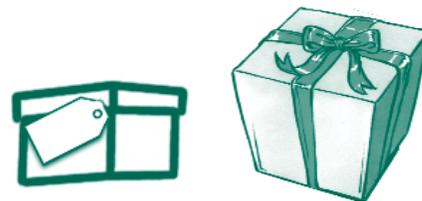
→ Distribution Channel #1:

→ Distribution Channel #2:



Customers

Now think about how your distribution channels might affect your packaging and what the cost of packaging will add to the manufacturing cost of your new product. How can you make your product stand out from others or look more valuable? On the back of this sheet, make a few notes about the kind of packaging that would attract your customers. Check off at top right whether you will use simple or elaborate packaging (you can also use something in-between), then fill in the cost using the formula shown:



Choose Type of Packaging	Simple	or	Elaborate?
	_____		_____
Cost Factor	10%		30%
	of manufacturing cost		of manufacturing cost

Now figure your packaging cost:
Manufacturing Cost per unit (from Part A) x (10% to 30%) = Packaging Cost per unit

$$\text{_____} \times \text{_____} \% = \text{_____}$$

Part C. The cost of goods is what it costs your company to produce one unit. To calculate this number, use this formula:

$$\text{Manufacturing Cost per unit (from Part A) + Packaging Cost per unit (from Part B) = Cost of Goods per unit}$$

$$\text{_____} + \text{_____} = \text{_____}$$

There’s another number to calculate, however—the wholesale cost. Your product can’t reach your customers at the retail stores unless your distribution channels get it first. That’s where the wholesaler comes in.



Wholesale
Bulk purchases by your distribution channels



Retail
Individual purchases by individual customers

Your teacher will now explain how to figure your product’s wholesale price, using a factor known as the markup. Then complete this formula:

$$\text{Cost of Goods per unit} \times \text{Markup Rate} = \text{Wholesale price per unit}$$

$$\text{_____} \times \text{_____} = \text{_____}$$

(Note: If you have different markups in your two main channels, use the average of both as your markup rate in the formula above.)

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marketing the product



So, you have a great product at a competitive price. You're a genius! But how will you get your customers interested in it? What kind of advertising will help you grab the lion's share of your market? Determining these things are all tasks for the **Vice President of Marketing**, your role in this activity.

Part A. First, check out the advertising done by the division of the company you chose to work for. Look again at their Web sites and research their current ad campaigns. Write below the type of advertising media, promotions, point-of-purchase signage or displays, or other strategies the division already uses:

Do you think that any of these types of promotions or strategies are important to continue using for your new product? Yes No

Explain why or why not:

Now look at the types of advertising your competitors use for products similar to yours and list them below. Check off the ones you think would work for your product:

Type of Advertising

1. _____
2. _____
3. _____
4. _____
5. _____

Part B. You can get the consumer's attention by saying something dramatic, funny, sentimental, or outrageous. What types of approaches work in attracting *your* attention to a product? Think about a recent purchase you made; what "sold" it to you? What kind of approach do you think would work with your product?

Now consider the media habits of your target customers and decide which medium would best attract them:

How does your choice of medium match up with your company division's current type of advertising strategy, as well as with what your competitors are doing? Don't forget to consider opportunities that exist within settings like stores, such as special displays where perhaps your product could be demonstrated, or special promotions. What about sample giveaways at community events or free T-shirts with your slogan on them? List any additional options here:

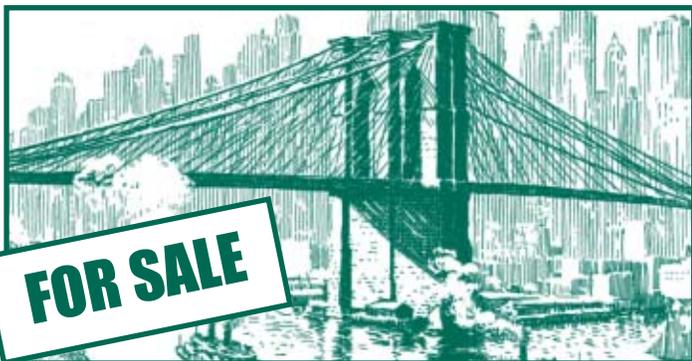
Taking into consideration all these factors, write a paragraph about your product below, including what the product can do for the customer, why the customer has to have it, and why you think your recommended advertising approaches will offer the best strategy for sales success. Use more paper if you need it.

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making the sale



Do you have the gift of gab? Can you sell someone the Brooklyn Bridge? Before you think that your persuasive nature alone could guarantee your company's success, better get a grip—you need to know the role of the **Vice President of Sales** in your company's top team of players. You're the one leading the charge as your salespeople hit the road. You're also the person who prepares a sales strategy and sets sales goals. This is your job now, and your mission is to launch sales of the new product.

To develop your sales strategy, think about your most effective distribution channel, keeping in mind where your division's line of products is currently sold and where your target customer is most likely to buy your product, and then what key information your sales force will need to know to sell in the product to your distribution channels. (Your sales force can include direct-to-consumer sales representatives such as Avon representatives.)

Part A. First use your knowledge of the new product and of your target customers, your pricing, and your ad strategy to outline a presentation below for selling in your product to your distribution channels.

Now present your new product to your sales force—your classmates. Ask them how many units of the new product they think they could sell to your distribution channels each quarter of the first year. (Business statistics are estimated ahead of each quarter, and as the quarter ends, actual numbers are compared to the estimates.)

Total number of units per quarter in the first year: _____

Part B. Now estimate or project how many units of the new product will be sold and what projected annual revenues will be for the first year (Year 1):

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total Year
Number of units to be sold x					
Wholesale price per unit (from Activity 2) =					
Projected sales revenue					

Part C. By adding the numbers in the bottom row for each quarter, you arrived at projected sales revenues for Year 1. This is a projection, not a reality. It sets a goal for the sales force, and the VP of Sales is responsible for making it happen.

Companies seldom base decisions on introducing new products on numbers for a single year. Your job now is to project sales revenue for the first three years. Complete the table below.

	Year 1	Year 2	Year 3
Percentage of growth in sales			
Number of units to be sold during the year x			
Wholesale price per unit =			
Projected annual sales revenue			

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interpreting the numbers

If it seems like the **Chief Financial Officer** (CFO) is the person responsible for all the money, that's only true in a figurative sense. It takes more than luck to make the numbers add up and keep a company on solid ground. It takes lots of business savvy. The CFO is always a member of the company's Executive Committee, the top level of management, and usually sits on the Board of Directors. The CFO analyzes the company's financial information, and makes strategic recommendations that the **Chief Executive Officer** (CEO) and the Board tend to follow. (In most large companies, there will be a Vice President of Finance and a financial department that provides the data to the CFO.) Do you have what it takes to be the CFO or a VP of Finance? Let's find out.

Part A. The money coming into the company—the projected annual sales revenue you calculated in **Activity 4**—looks pretty appealing, but it isn't all profit. First you have to subtract the cost of manufacturing the product. The gross profit on sales is profit after the cost of goods is subtracted. It is calculated on a quarterly basis:

$$\text{Quarterly Sales Revenue} - \text{Quarterly Cost of Goods} = \text{Quarterly Gross Profit}$$

Go back to **Activity 4** for your quarterly sales revenue numbers. Subtract the cost of goods per unit that you determined in **Activity 2** and fill in the **first five lines** of the chart below:

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total Year
# Units to be Sold					
Projected Sales Revenue					
Cost of Goods per Unit					
Total Cost of Goods (Cost of Goods x Units Sold)					
Total Gross Profit					
- Fixed Cost for Marketing =					
Total Operating Income					

The fixed costs of keeping your business running affect how much you can spend on the new product. One of these fixed costs is marketing. Marketing costs for a new product can run from 10% to 50% of net sales. Select a number based on how intensively you think you will need to advertise the new product. Consider the competitive environment and how widely the product will gain distribution across the country in its first year. Use your number in the chart above to **fill in the bottom two lines**.

The formula on a quarterly basis is:

$$\text{Quarterly Gross Profit} - \text{Quarterly Fixed Cost} = \text{Quarterly Operating Income}$$

Part B. Think you've reached the bottom line? Not so fast. There are gross profit margins to calculate, income statements and balance sheets to be reviewed, and plenty more if your product is going to help your company be a winner. You can learn more about these important concepts in the **Money Means Business** online workshop (www.MoneyMeansBusiness.com).

See what you've learned so far by matching the task with the role in your company:

- | | |
|------------------------------|---------------------------------|
| 1. VP of Product Development | a. decides the product's markup |
| 2. VP of Marketing | b. deals with seasonal factors |
| 3. VP of Sales | c. deals with gross versus net |
| 4. CFO (or VP of Finance) | d. identifies target market |

Answers: 1 _____ 2 _____ 3 _____ 4 _____

You're almost done. As a recap of previous activities, the class will be discussing these questions. Be prepared by thinking about your answers and writing them on the back of this sheet.

- Why would the type of events or television programs a company sponsors be important if you were involved in new product development for that company?
- Why is it important to understand how, where and through what means your company manufactures its products?
- When you buy a product in the store, how many times has that product been marked up from the manufacturer's original cost?
- Who in a company will ultimately decide whether a new product is approved for launch?

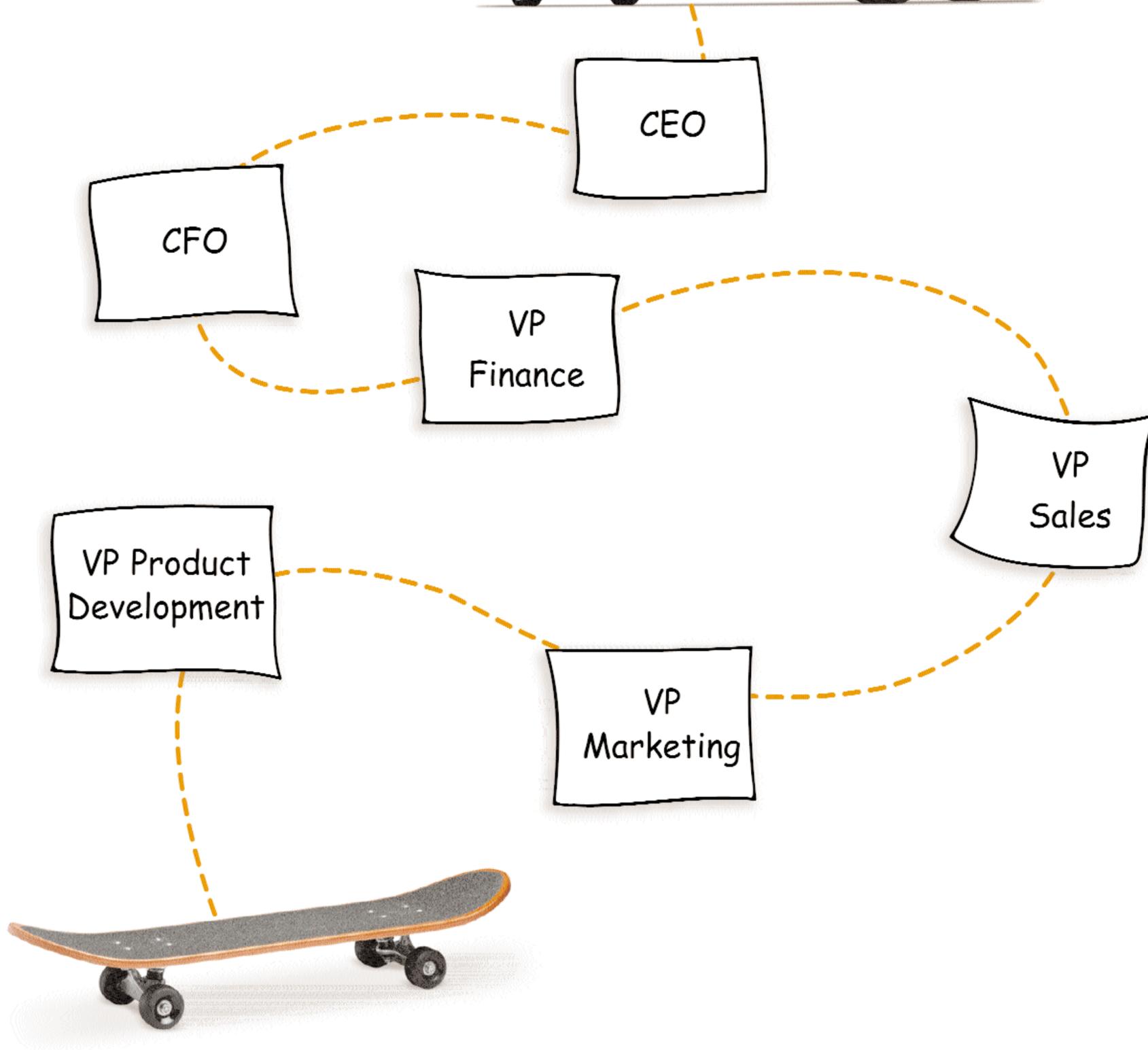
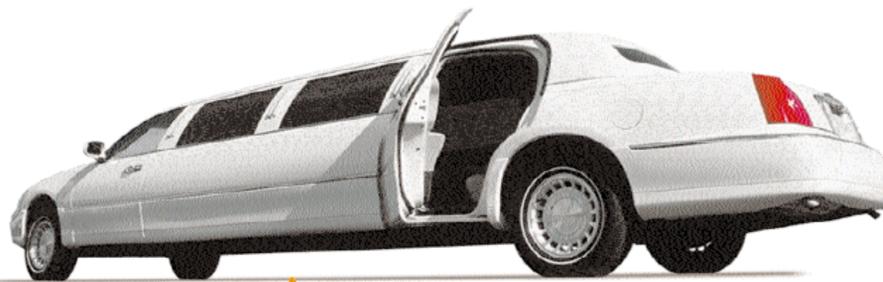
Congratulations! You now have a taste of what's needed to succeed in business money management and in creating a great new product. Now you can put your product idea to the test in the online workshop, www.MoneyMeansBusiness.com. Find out how successful it will be by determining a marketing budget, creating advertising copy, exploring media and promotions, learning about how taxes affect your profitability, and so much more. By completing the workshop, you will receive a certificate of completion from the American Institute of Certified Public Accountants (AICPA) that might help your resume snag a second look. If you're interested in a challenging career in business or accounting, be sure to check out www.StartHereGoPlaces.com as a fun, valuable resource. Good luck—it's up to you now!



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