

On Your Bike, Mike

Key financial idea

- Cash flow is about the difference between cash coming into the business and cash going out to cover the cost of running the business.

You need: a calculator, a classmate

ACTIVITY ONE

Mike has been fascinated by bicycles ever since his uncle taught him to ride when he was 5.

As Mike grew older, many of his friends came to him for ideas about how to make their bikes go faster, look cooler, or just work properly again.

On his twelfth birthday, Uncle Lance gave Mike a mega toolkit. So Mike decided to start his own cycle-modification business. Mike had no savings, so Uncle Lance lent him a cash advance and showed him how to set up his accounts.

Yes, but my business will owe you \$50.00. That's a liability.



Mike's Bike Services: Statement of financial position as at 1 July 2007

	\$	\$ total
Assets:		
Cash in bank	\$50.00	
Total assets		\$50.00
Less Liabilities:		
Loan	\$50.00	
Total liabilities		\$50.00
Net Worth:		

- Why is it important to have money available if you want to start a business?
 - With cash of \$50.00 and a debt of \$50.00, what was the net worth of Mike's business?
 - Give some other examples that are assets and liabilities for any business.
- Find out what the following words mean and discuss them with a classmate in terms of Mike's business: profit, loss, and risk.

Mike carried out a survey of his schoolmates to see what changes they would most like to make to their bicycles and how much they would be prepared to pay. Here is the questionnaire he used:

Please circle the words that apply to you:

Gender: Boy / Girl Age: 10 yrs 11 yrs 12 yrs 13 yrs

What items would you like to change or add to your bike? (Please tick.)

<input type="checkbox"/> Seat	<input type="checkbox"/> Handlebars
<input type="checkbox"/> Pedals	<input type="checkbox"/> Hand grips
<input type="checkbox"/> Gears	<input type="checkbox"/> Stand-on pegs
<input type="checkbox"/> Flag	<input type="checkbox"/> Water bottle and holder
<input type="checkbox"/> Speedometer	<input type="checkbox"/> Carrier
<input type="checkbox"/> Brakes	

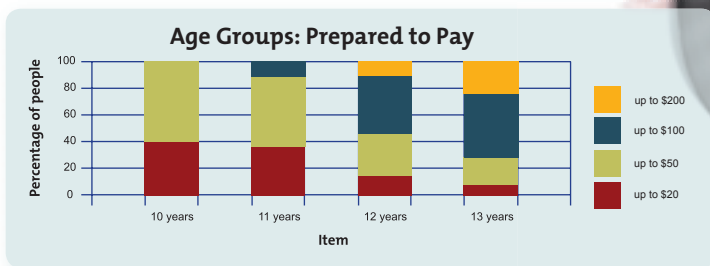
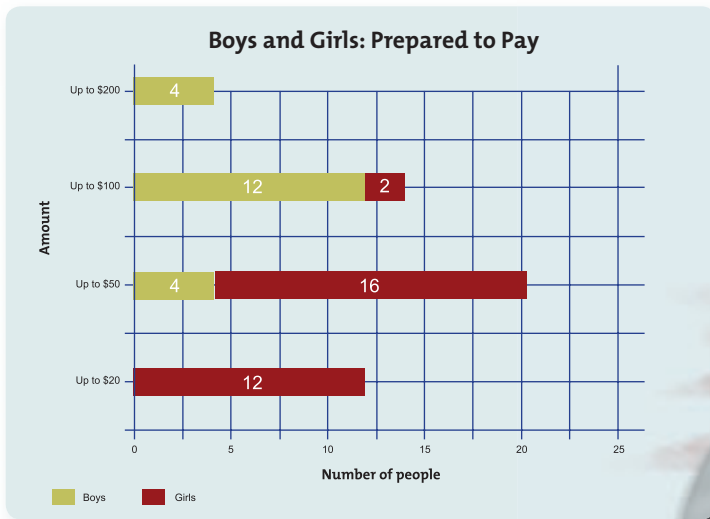
How much would you pay for the changes? (Please tick.)

Up to \$20.00 Up to \$50.00 Up to \$100.00 Up to \$200.00

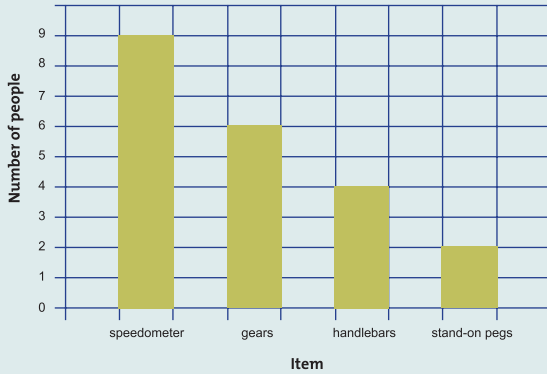


1. a. Was Mike's survey going to give him enough information about what people wanted changed on their bikes and how much they would be prepared to pay?
 b. How could he improve the survey to get better information about changes and services?

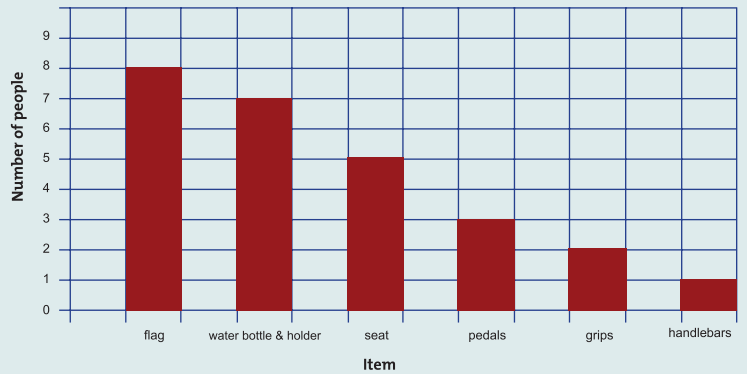
2. Mike used a computer program to present his data in several displays.



Boys' Preferred Modifications



Girls' Preferred Modifications



- Using the information on these four displays, suggest who Mike should target as his customers. Explain why.
- Should girls and boys be offered the same modifications? Or should Mike offer different options for boys and girls? Explain your answer.

ACTIVITY THREE

A bicycle importer offered Mike a deal in which he could buy parts at 25 percent off retail price. Mike could then put a mark-up on the parts as well as charging for his labour.

The importer gave Mike this price list:

Item	Normal retail	Price to you
Seat	\$29.90	\$23.00
Handlebars	\$79.90	\$60.00
Pedals	\$29.90	\$23.00
Hand grips	\$14.90	\$12.00
Gears	\$47.90	\$35.00
Stand-on pegs	\$55.90	\$40.00
Flag	\$15.90	\$12.00
Water bottle and holder	\$11.90	\$9.00
Speedometer	\$59.90	\$43.00
Carrier	\$27.90	\$20.00
Brakes	\$35.00	\$26.00
Puncture repair kit (includes glue and 20 patches)	\$20.50	\$16.00

This is a good deal, Mike. Bike shops buy a lot more parts than you will, but they still get only one-third off the retail price.



1. a. Was the discount on all of these parts 25 percent? Explain your thinking.
- b. When he sells the parts to his customers at retail price, should Mike add 25 percent to the price he paid? Explain your answer.
2. Mike offered a couple of “combo” deals to his customers:

Combo 1: Safety and comfort special: \$50.00 + \$5.00 for fitting

Combo 2: Mean machine special: \$150.00 + \$20.00 for fitting

- a. What kind of people was Mike targeting with each of these combo deals?
- b. How much money did he make on each combo deal?
- c. Suggest other combo deals he could have put together.

ACTIVITY FOUR

As well as offering modifications, Mike decided that he needed to offer some maintenance services as well. People at school were always having bicycle breakdowns, and fixing their machines would give him good cash flow. Mike thought that he should charge a labour fee of \$10.00 per hour, plus the retail cost of parts.

1. How might these maintenance services help Mike’s cash flow?
2. How much should Mike charge for each of these maintenance repairs?

Job	Time needed	Parts cost (retail)
a. Replace chain	15 minutes	\$14.90
b. Puncture repair	10 minutes	\$1.00
c. Replace tyre and tube	20 minutes	\$39.90
d. Replace brake cables	30 minutes	\$24.90
e. Replace brake pads	10 minutes	\$12.00
f. Replace gears	40 minutes	\$47.90



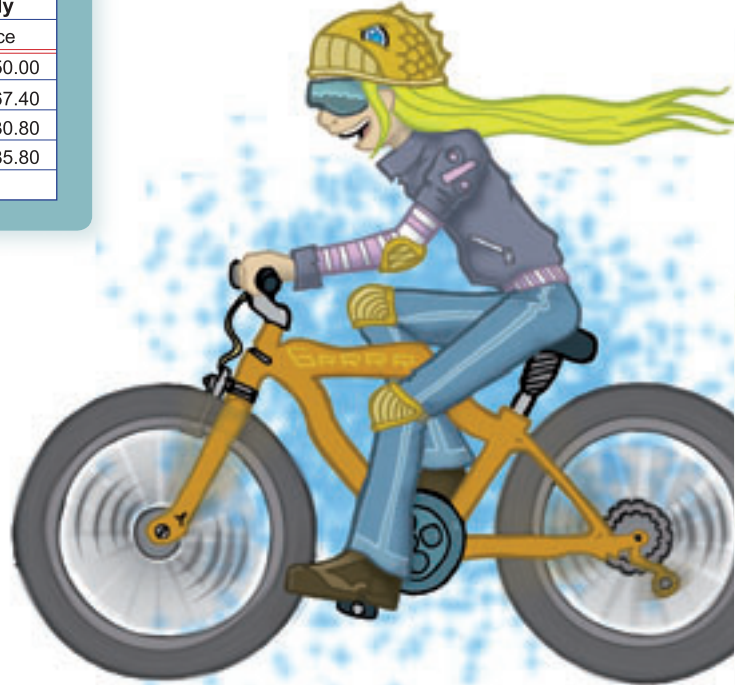
Mike started his business, Mike's Bike Services, with \$50.00 in cash and \$50.00 of liability.

His first bank statement had this information on it:

Bank Statement: Mike's Bike Services			31 July
	Cash in	Cash out	Balance
Balance	\$50.00		\$50.00
Mere	\$17.40		\$67.40
Leon	\$63.40		\$130.80
Ms Hennessy	\$55.00		\$185.80

His creditors' and financial position statements at the end of the first month looked like this:

Creditors' Schedule for July:		
		Balance
Chain	\$11.00	
Pegs	\$40.00	
Seat	\$23.00	
Flag	\$12.00	
Water bottle	\$9.00	
Total Owed		\$95.00




Mike's Bike Services: Statement of financial position as at 31 July		
	\$	\$ total
Assets:		
Cash in bank	\$185.80	
Total assets		\$185.80
Less Liabilities:		
Loan	\$50.00	
Creditors (purchase of parts)	\$95.00	
Total liabilities		\$145.00
Net Worth:		
Profit		\$40.80


1. At the beginning of August, Mike decides that it's time to pay himself a wage of \$15 for the work he did in July, spend \$30 to advertise his business, and pay his July creditors.
 - a. Does Mike have enough money in the bank to pay these amounts?
 - b. Did he earn all the money he will use to pay these amounts?



2. Mike's first job in August was a "mean machine special" on Eric's bicycle. But Eric rode off on his bike without paying.




It's OK, mate. I'll fix you up on Thursday when Dad gets paid.




Perhaps I should have insisted on cash up front.

- a. What will be the cost to Mike's business if Eric doesn't pay?
b. After waiting for 3 weeks, Mike hired a debt collector to collect the money from Eric.



Eric's dad paid up. It cost him \$208.25. That includes my collection fee of 20 percent, plus the GST on my fee.



I wonder what Eric's dad thought about that!

- i. How much extra did Eric's dad have to pay?
ii. How much did the debt collector earn?
c. What do you think Eric's dad will be discussing with Eric?

During the rest of August, Mike got these jobs:

Person	Job	Parts cost (retail)	Labour	Total	Paid
Tipene	Replace pedals	\$29.90		\$42.90	Yes
Julie	Puncture	\$1.00		No charge	N/A
Cody	Handlebars and grips	\$94.80		\$100.00	Yes
Kim	Carrier	\$27.90		\$31.00	Yes
Damien	Speedometer and gears	\$107.80		\$122.80	Half paid

1.
 - a. Work out how much Mike charged for his labour for each job.
 - b. Did he make more out of the parts or more out of his labour? Explain.
 - c. Mike repaired Julie’s puncture for free. What consequences might there be for his business if he continues to offer free puncture repairs?
2.
 - a. If Mike pays for his August parts in September, what is his bank balance at the end of August?

Bank Statement: Mike’s Bike Services			August 31
	Cash in	Cash out	Balance
Balance			\$185.80
Bike parts: July		\$95.00	

- i. What was the financial position of Mike’s Bike Services at the end of August? (See the July statement on page 26.)
 - ii. Do you think Mike’s business is profitable?
3. What advice would you give Mike about what jobs to take in the future?



Reflective question

• What have you learned about business risk?

And finally ... (refer to page 1)

Who is your “Young Entrepreneur of the Year”?