

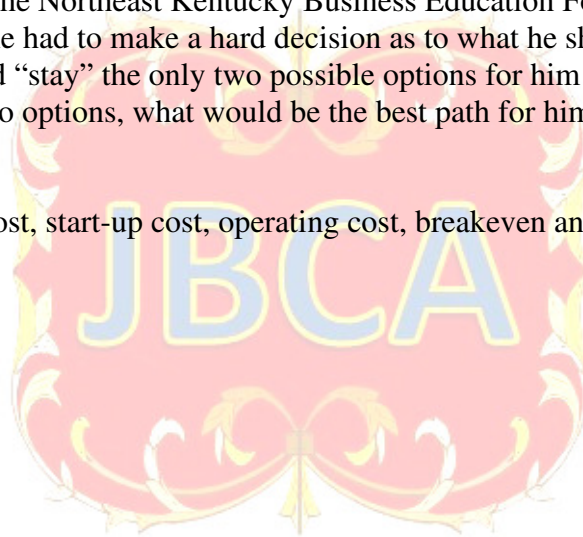
Should Daniel have quit his job and been a full time entrepreneur?¹

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ABSTRACT

There was always a dilemma faced by a start-up entrepreneur. “Should I quit my job and go full speed into my business?” “Or, should I keep my job and lend some more time to my business for it to grow?” Daniel was not an exceptional case – a mid-thirties, part-time business owner with a home mortgage and college debt. After founding an animation studio in 2015 while working part-time for a small local TV station, he was hired as the director of marketing and communications for the Northeast Kentucky Business Education Foundation in April 2016. It was in June 2017 that he had to make a hard decision as to what he should have done with his business. Were “quit” and “stay” the only two possible options for him in his mid-thirties? If they were not the only two options, what would be the best path for him to get out of this difficult situation?

Keywords: opportunity cost, start-up cost, operating cost, breakeven analysis, risk and benefit analysis



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¹ This is a decision case. All information used in this case was obtained (and/or confirmed) via interviews from the decision maker whose identity is disguised. All his personal information and some numbers (where necessary) are modified to protect the privacy of the decision maker and the confidentiality of his information. Teaching notes to this case are available. For those who are interested in obtaining them, please feel free to write to ocheung@iue.edu.

INTRODUCTION

There was always a dilemma faced by a start-up entrepreneur. “Should I quit my job and go full speed into my business?” “Or, should I keep my job and lend some more time to my business for it to grow?” Daniel was not an exceptional case – a mid-thirties, part-time business owner with a home mortgage and college debt. After founding an animation studio in 2015 while working part-time for a small local TV station, he was hired as the director of marketing and communications for the Northeast Kentucky Business Education Foundation in April 2016. Being an entrepreneur working just part-time on his own studio business, it would certainly slow down the growth of the business. On the other hand, the income he made from the director job would provide him a steady income to fall back on in case his business did not work out as expected. It was in June 2017 that he had to make a hard decision as to what he should have done with his business. Were these the only two options for Daniel to continue following his dream and passion?

WHO WAS DANIEL?

Daniel was a 2012 business graduate from a Midwest university. He also minored in entrepreneurship and anthropology. He started studying in an informatics degree program after high school. He was not passionate about being an informatics professional. However, he chose the program in the sole anticipation of the high income potential that the jobs in the field might bring to him in the future. It ended up that he lost interest in his studies and dropped out of college in his first year in the program. He then worked for Promotion, Inc., a multi-level marketing company that sold household, nutrition and health products, for five years. Although Daniel experienced some personality conflicts between himself (artistic) and his colleagues (Type A driven), he admitted that he learned some marketing skills from the company’s mentorship program. Due to these conflicts, he did not feel comfortable working in such an environment. He decided to go back to school at the age of 25 to earn a business degree.

While at school this second time, Daniel was actively engaged in student life. He spent over one thousand hours in service learning and served as a student representative on several university committees. It was the skills he acquired in the entrepreneurship classes (together with what he learned from the speech and creative writing classes) that enabled him to turn his hobby into a business.

Daniel enjoyed reading comic books and watching cartoon shows when he was a little kid. He liked to read comic books or watch cartoon shows about X-Men, Spider-Man, the Guardians of the Galaxy, Teen Titans, Harley Quinn, Stephanie Brown and Squirrel-Girl. A question from his friend made him consider heading down the entrepreneurial path of starting an animation studio. He still remembered well this question “You like to read comic books and watch cartoon shows so much, why don’t you create one yourself?” He loved to share with others this starting point of his being an entrepreneur.

Daniel enjoyed writing scripts on the types of contents that other people might be interested in knowing about. While the business classes he took helped him in managing his business, his speech and creative writing classes equipped him with the skills necessary to produce the “web contents” for his business – particularly on how to interact with the camera. He founded an animation studio named Daniel’s Studio of Comic Work in 2015. The goal was to produce animation cartoons from the ground up. He hoped to be able to produce cartoons or a

web series to be played on YouTube or eventually to solicit some to the actual TV studios such as Cartoon Network or Netflix. He was planning to have his first pilot cartoon show available by spring 2016 with all the pre-production work completed in the fall of 2015.

While he was establishing his business, Daniel was working at a small local TV station 30 hours per week in a northeastern Kentucky county. Having a part-time job only, he did not receive a very high salary from the TV station. However, the job gave him the opportunity to learn the full process of content production (such as those for the videos that were shown on the TV station and the flyers that were put on bulletin board for public review). This skill landed him a full-time job in April 2016 as the director of marketing and communications of the Northeast Kentucky Business Education Foundation (a regional non-profit organization) whose members were mainly the area's businesses and non-profit organizations.

Daniel served on several committees of the foundation and represented the foundation on the committees of other non-profits and city/regional events. He made \$45,000 income plus \$5,500 benefits per year from this full time job. At the same time, he was putting into his own business roughly about 20 to 30 hours per week (after his regular working hours for his director job) on content creation and handling the business aspects. He had to make sure that new episodes of his intended talk show were posted to his business website and the information associated with the show was updated. He needed to maintain the required paperwork for his business as well. Before the founding of his studio, he spent two years writing the actual business plan, followed by building a website from scratch. He researched extensively on website development, internet technology and how information could spread through websites. He did most of the work himself during the first year. He then worked with some talented people as partners to develop some of the contents in their subject areas to show on his business website.

Daniel bought his home nine years ago when he was 26, the second year after his return to college. His monthly house payment was \$500 (\$450 towards his mortgage and \$50 towards ESCROW (a trust account held in Daniel's name to pay property taxes and insurance premiums for his house)). He had already paid off his vehicle. However, he still had a student loan balance of over \$40,000 that currently called for monthly payments of \$62 (the amount was determined, under the income contingency repayment plan (FinAid, 2019; Edvisors, 2019) he applied for, based on his income and expenses as shown on his tax filing). His other monthly expenses including auto insurance, gas, home utilities, groceries and entertainment totaled \$638.

DANIEL'S STUDIO OF COMIC WORK

Daniel's Studio of Comic Work was established as an animation studio in the form of a sole proprietorship in 2015, with the objective of producing high quality animation cartoons. Alongside this, Daniel also launched a website called TalksonComicWork.com. This was to bring in different show hosts and guests, who would talk about the hobbies they had interest in. In addition, they would also develop shows with contents based on their interests. The purpose of establishing and maintaining the website was to enhance the skills of Daniel and his partners in content and video production to be shown in a free environment such as YouTube. The website hosted shows and podcasts of various duration on crafts (for household, cosplay or any other circumstances), themes, conventions and more. The show hosts might discuss trends and other information about comic books from which new movies were filmed. They might also discuss about the topics related to those comic books that people did not really get into but still

would like to learn something from the books about the movies. Some of the convention report shows might run up to 45 minutes or longer.

There were 18 episodes on the website in 2015. It had grown to 52 episodes by June 2017. These episodes were mainly talking pieces. The most popular section was gaming, which included various contents related to card, board, and video games. All the shows were hosted on YouTube. The TalksonComicWork.com website served as a hub for the studio's creativity contents that met the needs or interests of different types of people. It included webpages that embedded the links to the studio's videos on YouTube. People came to the website and clicked on the links, which would bring them to the videos played on YouTube. However, this was unidirectional only. Viewers could not access the website directly from YouTube. What Daniel did was to let the viewers know that they could find more shows on his TalksonComicWork.com website by including there on YouTube a note and/or link to his studio website. The goal of the studio was to create high quality contents and bring in viewers to the website.

There were three other co-hosts working for free with Daniel in 2015 at the start-up of the studio. Daniel also hosted some shows at that time. He found this business model very promising and thought it might be very successful in the future. He was confident that a lot more businesses would employ this model down the road. The setup cost of this type of online businesses was lower as compared with the traditional doorfront businesses. It was also more easily adaptable to any change in the business environment such as the shift in consumers' taste. The co-hosts were working as partners with Daniel. They put up the contents on the studio website at any time, and people could view them at their leisure. They used the studio's equipment including one green screen, two microphones, and one camera in producing their shows. They could even use these pieces of equipment outdoors to film their shows on their vacation if they wanted.

The co-hosts were expected to write their scripts, produce, and edit their own shows as well as market them. It was actually a quite lengthy process for them. One way they used to promote their shows was through Facebook. The hope was to eventually build a fan base on YouTube where they could receive and respond to comments. Since all co-hosts, as well as Daniel himself, were part-timers for the studio business, they were not able to make a lot of shows. The biggest challenge for such a new business was to build the viewer community, the size of which also determined how much revenue the business could generate. Daniel and his co-hosts needed to get the word out and attract people to visit their website. Daniel had confidence that once people started viewing the website, they would become fans and would come back to view further contents.

To start his studio on March 31, 2015 and maintain the business website, it actually did not cost Daniel a lot of money. What he needed for the start-up back in 2015 were a professional microphone (\$110.15), a shotgun MIC (\$32.99), a camcorder (\$469), a green screen and light kit (\$89.99) and a bracket mount (\$14.97). He purchased all the equipment except the professional microphone in February 2015. About eight months later, he added the professional microphone to the business' equipment. He also needed to acquire four domains (including .com, .net, .org and .biz) for a fee of \$79.96 per year. These were for protecting the brand of his business as well as for the possible future expansion. His contract ran from March 30 to Feb 28/29. In addition to start paying for an email account (\$8.91 per month) on April 1, 2015 and a P.O. Box (\$20 per quarter, billing cycle with payment days on 03/31, 06/30, 09/30 and 12/31), he also paid a website hosting fee (\$19.99 per month) starting April 28, 2015. This first payment was for May 2015. For this fee, he could host a maximum of five websites at the same time. Instead of

capitalizing the costs of the equipment, Daniel wrote them all off as expenses for the first year of the operation of his studio (IRS, 2011; Campbell & Strachan, 2015). As his business was only a sole proprietorship, there was no business registration cost to him. He operated his studio at home, so there was no additional property tax to him either.

Although the studio was still in the start-up stage, the business expected to make money through advertising revenues via YouTube and Google partner program. Daniel was also looking into the opportunity provided by Project Wonderful. Whereas Google paid the studio business based on the number of recorded views of its TalksonComicWork.com website, Project Wonderful (worked like eBay) was an advertising-based system that would let people bid for the advertising spaces on the TalksonComicWork.com website (such as the banner spaces on the top and on the right of its webpage). Google could add advertisements to the website. Thus, the studio could generate revenues based on the number of people who had viewed and clicked on its website and the volume of interaction these viewers had with the website.

In 2015, the studio was being paid at the rate of \$2 advertising revenue for 2,000 views of their web contents on the TalksonComicWork.com website by Google. Google Analytics could track how many times the website had been visited as well as how many visits were made by unique viewers who had never been to the website before. Daniel expected to have 800,000 views or more for 2015. By Project Wonderful, advertisements would be put on his website in the bid spaces. Each time people got into Daniel's website, as they would be able to see the advertisements as well, an impression would be counted for the individual advertisements. To be qualified to put a bid on Project Wonderful, the studio needed to have a minimum of 10,000 accesses to its website per month.

However, a few months after the launch of the website, the co-hosts either got a new full time job or had other commitments. They were not able to work with Daniel further. With the leaving of the co-hosts one after the other, there were only two persons left on the staff of the business, Bill and Daniel himself. Bill had a lot of expertise in his content areas. He volunteered to work for Daniel and got no pay from the studio. Daniel did have some videos put on YouTube in accordance with his original business plan. But, he was not very happy with their quality. Thus, he subsequently removed them. At the same time, it might take years to complete the production of his pilot cartoon show, as he was working on it by himself only. Since the studio had been through so many changes in the first year and Daniel viewed cartooning as more of a hobby rather than as a serious income generation area for his business, he decided to temporarily stop working on the production of the pilot cartoon show.

Daniel received only 63 cents of advertising revenue from Google Ads during 2015. Not much increase had been seen in the years that followed. The hit count of his website was not high enough to meet Project Wonderful's requirement as well. By May 2017, the TalksonComicWork.com website traffic was only about 3,000 hits per month. The studio could not generate much income in the first year. In fact, Daniel filed a tax return for 2015 showing a business loss of over \$1,000. The condition did not improve much in the following years until May 2017. Although it only costed Daniel less than \$50 per month to continue running his business, he had not been generating any income despite the many hours he put in per week.

Subject to all these hardships, Daniel was searching the optimal path for him to follow his dream and passion. Were "quit" and "stay" the only two possible options for him in his mid-thirties? If they were not the only two options, what would be the best path for him to get out of this difficult situation?

LEARNING OUTCOMES

In completing this assignment, students should be able to:

1. Identify opportunity costs to a business owner when making a financial decision
2. Distinguish between start-up and operating costs of a business
3. Perform a breakeven analysis
4. Discuss factors that might affect the revenues of a business
5. Make a rational financial decision
6. Identify the risks and benefits associated with a financial decision

DISCUSSION QUESTIONS

1. How might the concept of opportunity costs be applied in this case? (LO1)
2. What were the start-up and operating costs for the studio business? (LO2)
3. How did Daniel come up with a business loss of over \$1,000 for 2015 in his income tax filing? What was the breakeven number of content views for his studio? (LO3)
4. What factors contributed to the insufficient viewers for the contents on Daniel's website? (LO4)
5. What would be the minimum level of business Daniel needed to generate in order to quit his director job? What might be the major drawbacks of making the decision to quit? (LO5, LO6)
6. What level of business for his studio would make it worth for Daniel to quit his director job? (LO5, LO6)
7. What were the possible options for Daniel's situation? Determine the pros and cons of each alternative. If he decided to quit his director job, what would he need to do to resign from it in a professional way? (LO6)

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