

Quick Start Guide

Case Study: Jill and Jack

Topic: financial planning

Many consider them [multilevel marketing companies such as Mary Kay, Amway, Herbalife, NuWay] to be little more than a legal version of a pyramid scheme, yet the economically desperate ignore warnings . . . begging them to stay away.

—Helaine Olen¹



by Jerry King



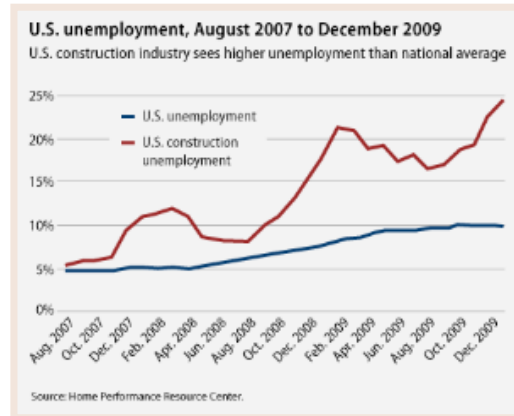
While it is easy to point to the Apples, the Googles and other recent upstarts that have grown into large successful companies, the vast majority of new businesses fail within their first decade of existence.

—Kai Ryssdal, Marketplace.org, July 22, 2013

¹ <http://www.forbes.com/sites/helaineolen/2012/07/20/mary-kay-preys-on-women/>

Introduction

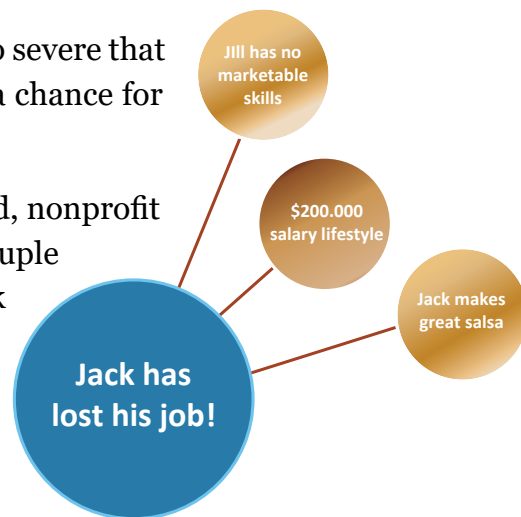
This case is set in 2009, a year after the country slipped into recession and unemployment numbers climbed quickly—particularly in some sectors. As new housing starts dried up, the construction industry was among the hardest hit. By the end of 2010, unemployment in the construction industry had reached over 27% and, with up to 18 months without work and no end in sight, workers began leaving the field altogether.² For families caught in this crisis, the usual tactic of belt tightening during the search for a new job did not work. Prior to 2007, the average number of weeks a person might be unemployed was 20 weeks. By 2009, it had climbed to 40 weeks. By 2010, 1 in 6 Americans were on food stamps.



Dilemma

Are there times when a family’s economic crisis is so severe that it justifies going after a business opportunity with a chance for success that is less than 1 in 3?

Playing the role of an advisor at a community-based, nonprofit financial advisory, students meet Jill and Jack, a couple facing a truly dismal economic future. Because Jack is in construction and his wife has a narrow range of professional skills, the case stipulates the advisor can imagine that, given the odds, 12 months from now this couple will be living on food stamps and worrying more about keeping their utilities turned on than about how to pay their kids’ college tuition. After



months of taking all of the recommended steps (applying for jobs remotely related to the work they had been doing; networking with family, friends, and colleagues; updating their profile on LinkedIn and posting their situation on their Facebook page), like a growing segment of middle-class clients they are very seriously considering a more entrepreneurial approach. Jill is about to sign on to sell Mary Kay cosmetics, and Jack is canvassing friends and family for an investment in a home-based business selling his own salsa, a concoction for which he is famous among family and friends.

² http://www.slate.com/articles/business/moneybox/2011/08/the_construction_workers_have_left_the_building.html

The advisor sees one future, but Jill and Jack, who have never experienced long-term unemployment, feel strongly that they can figure this out. Jack was an all-state quarterback when he was in high school and he knows he never would have achieved that level of success by throwing safe passes.

What Students Will Learn

Students will learn to solve a problem for which the best solution will be based on evaluating the relative risk of different decisions.

Problem-Solving Skills

- To conceptualize and engage with a hypothetical case study as a true problem, not one that fits neatly into, and illustrates, a preordained solution
- To incorporate and critique multiple sources of information, including technical and financial information, to solve a problem
- To factor in risk when deciding how to solve a problem
- To adapt to a problem for which there is no solution that accomplishes what they thought were their most important goals

Related Financial Literacy Concepts

Entrepreneurship: Broadly speaking, entrepreneurship refers to having an idea, as well as the capital and willingness to take a risk needed to execute the idea. Entrepreneurs often start business ventures that could be tremendously profitable, but many are not ultimately successful.

Investment: In personal finance, investment refers to sacrificing spending today by putting money into particular financial instruments with the expectation of future gains. We generally assume there is a trade-off between risk and reward, whereby riskier investments may offer larger *potential* gain, but also have the potential for losses. Investments can include not just traditional financial instruments like stocks and bonds, but also more self-directed (and generally riskier) ventures like starting a business or buying real estate.

Long-term financial planning: Planning for the long-term requires setting goals, “paying yourself first” to help achieve those goals, and patience. Catastrophic financial situations can sometimes interfere with plans; having a good plan from the outset can help cushion the losses by providing a greater safety net, but also will require hard choices and adjustments to the plan.

Unemployment: In technical terms, unemployment refers to being out of work while actively seeking a job. Although unemployment can result in a better job match, it is generally very painful and challenging in the short term. Especially during times of economic recession, spells of unemployment can last a long time and take a significant financial and economic toll.

In the Classroom . . .

1 HOMEWORK

Assign the case study for homework with the introduction that they will be reading about a married couple facing a serious financial crisis and a set of critical decisions. Tell students that in order to be completely familiar with the facts of the case they should read it twice: once to get an overview of the case, the narrative, and the second time to take notes on what they consider the most relevant facts and questions.

2 AS A WHOLE CLASS

Show students a sample dilemma map on a different topic from “Using the Quick Start Guides.” Explain mapping to the students and tell them it will be a tool they use to work on this difficult case. Ask students to review the facts of the case so that everyone has a shared understanding of the key facts of the case.

The dilemma in this case is challenging because there are no near-term solutions to the problem Jack and Jill are facing. Instead, they must decide among “less bad” choices. To help students tackle the frustration of this case, consider dividing the class into research teams charged with researching just one of the options the couple are facing—a Mary Kay franchise, a home-based salsa business, or the ladder of decisions people who have lost their jobs make in order to keep the elements of their lifestyle they value most.

Before dividing into research groups, as a class students should complete a dilemma map that captures the depth of the family’s dilemma.

3 RESEARCH ACTIVITY

Each of the three groups should research their topic and fill in the portion of the organizer that relates to what they are learning.

The organizer should capture the almost certain risk of long-term unemployment against the uncertain future of salsa and Mary Kay. (This would include the risk that the projects could put them even deeper in the hole.)

Example of completed organizer:

Option	Pros	Cons
<i>Coping with unemployment</i>		
Using all avenues to seek a new job [Jack]	A new job is the best prospect for stable income and benefits such as retirement and health insurance.	Appears to have already tried this and is discouraged; an all-out job search requires a large time commitment that does not provide any income.
Retraining for a job in a different sector [Jack]	New skills can help find a job that is more “recession-proof” and potentially increase income.	Time consuming and expensive, does not generate any income during training, risky (may not pay off).
Tapping into savings and retirement accounts to cover expenses	Need to cover daily living expenses, and could be less expensive than accumulating a lot of debt.	Lose the safety net of savings, and potentially high penalties and tax implications for early withdrawal from retirement accounts.
Borrowing additional money		
Using home equity		
<i>Direct sales/multilevel marketing</i>		
Mary Kay sales [Jill]	Relatively low start-up costs compared to starting a full business.	Very few reps make money; ties up both time and money in a venture that could very well not be profitable.
<i>Starting your own business</i>		
Salsa business [Jack]	Complete control over the business; potential for profits given popularity of the salsa.	Research shows that most small businesses fail; very risky financially; no experience running a food service business (e.g., with food safety, distribution, marketing)—much more is involved than just preparing the salsa; need commercial-grade kitchen equipment to safely prepare in the quantities needed for sale.

4 CLOSURE

Bring the research groups together and, after each has reported on their findings, do a cost/benefit analysis of each of the options (or some combination of the options) available to them. Ask students to write down what they would advise Jill and Jack to do, and why. Ask at least three volunteers to use their written answer to explain the position they would take with Jill and Jack. Try to find at least one volunteer who came to a different conclusion.

COMPLICATING FACTORS

If the groups reach closure quickly, or draw conclusions that don't reflect an understanding of the case as a true dilemma, introduce the following information and ask students to discuss these facts before making their final recommendations. They can do their own research or you can provide them with the information detailed in the "Complicating Factors Expanded" section at the end of this guide.

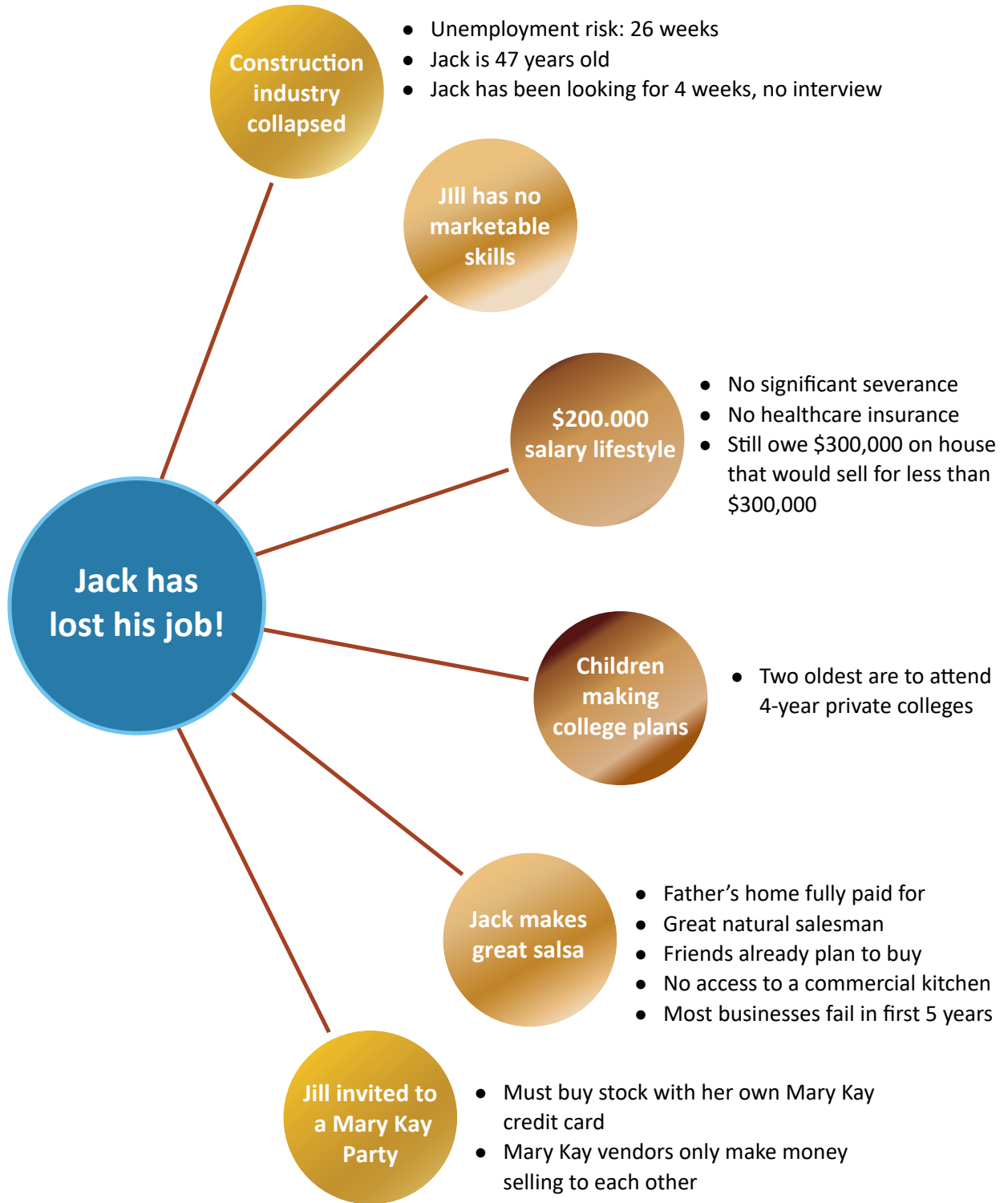
- ▶ Entrepreneurship has a low rate of success.
- ▶ Anecdotally, a long shot sometimes pays off.
- ▶ The longer someone is unemployed, the less likely they are to find a job.



Extension

Vary the case study by changing the risk tolerance of Jill and Jack and/or by changing the businesses they are considering.

Completed Dilemma Map



Organizer

Option	Pros	Cons
<i>Coping with unemployment</i>		
Using all avenues to seek a new job		
Retraining for a job in a different sector		
Tapping into savings and retirement accounts to cover expenses		
<i>Direct sales/multilevel marketing</i>		
Mary Kay sales		
<i>Starting your own business</i>		
Salsa business		

An Opportunity. Be Your Own Boss!



How You Start a Small Business



by Jerry King

U.S. Unemployment



Complicating Factors Expanded

The following information is supplemental to the Complicating Factors on page 6 of this guide.

1. Entrepreneurship is overrated: An article on seven overrated business opportunities listed restaurants or catering and multilevel marketing as the first two. Their failure rate is higher than the already high rate (50%) of small business failures.
2. Nothing left to lose: Story of FedEx: The founder of FedEx struggled very early on, and at some point the company was down to \$5,000, which was not enough to meet basic payroll and operating expenses. It also had run down all possible sources of investment and lines of credit. The founder, Fred Smith, took the last \$5,000 to Vegas and gambled it on blackjack, making \$27,000 and meeting payroll, making enough money to keep the company going until more revenue and credit were available. This seems ridiculously reckless and like a really bad example to follow (and it is), but the founder's rationale is worth considering—at that point, \$5,000 was effectively \$0, so there is a point at which audacious risk becomes rational because there is essentially nothing left to lose. The story is at http://www.huffingtonpost.com/2012/10/15/fred-smith-blackjack-fedex_n_1966837.html, and might be a challenging counterpoint to what conventional wisdom and the data seem to tell us about taking chances.
3. At the beginning of the recession, 37% of the unemployed had been out of work for over 27 weeks. Their job prospects became increasingly dim. According to calculations from the Council of Economic Advisers, a person who has been unemployed for 5 weeks or less has a 31% chance of getting a job. Once they've been unemployed between 27 and 52 weeks though, those odds drop to 12%. What happens once you're unemployed for more than a year? The odds drop to just 9%.

The odds of getting a job decline as time goes on.

About 4 million Americans are currently in the unfortunate situation of having been unemployed for 27 weeks, and their odds of getting a job just keep dropping.¹

Note: See the accompanying bar graph on the following page of this guide.

¹ <http://economy.money.cnn.com/2014/01/08/long-term-unemployed/>

Bureau of Labor Statistics March 2013 Data

