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Truffle in paradise: Job costing for a small business

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ABSTRACT

Textbooks and case studies that simply provide direct materials and direct labor costs for job costing problems do not give the reader a true picture of the difficulty in developing these costs, especially for small business owners. “Truffle in Paradise” presents a case based on a very real situation where the entrepreneur, Thor Rasmussen, has started a premium truffle business in his spare time; the business is growing but Thor has no idea if it is profitable because he has not costed his truffles and does not know if his prices are appropriate. The case walks you through the process of determining the costs of his truffles, applying a costing model to analyze his prices, performing sensitivity analyses on labor and material costs, and producing a pro-forma income statement. Student feedback reported that the case opened their eyes to the complexity of costing and planning in small businesses.

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1. Introduction

Thor Rasmussen was an accidental entrepreneur. Although his primary job was as a hair stylist, he also had a small side business in making and selling premium, hand-dipped chocolate truffles. His aunt had developed the original recipe for a family member with a severe soy allergy (most commercial chocolate has soy). Thor made several batches as Christmas gifts for friends in 2006. After a friend of a friend tried some of the special truffles, she approached him and asked if she could buy some. Startled, Thor replied “I don’t know; let me get back to you!” Over the next several years, he continued to give truffles as presents and sell a few batches by word of mouth.

The truffle business really started to grow when he became a hair stylist at “Paradise” and his clients began asking for his truffles. By the Christmas season of 2013, the demand for Thor’s special truffles had grown so much that he really started thinking about running his sideline as a business. While he did not want to give up his career as a stylist, he did enjoy the creativity behind his truffles and the amazed reactions from people who tried them: “That’s a lot of happiness in a little box!”

Thor asked a client who was a cost accountant to help him analyze his business. His main concern was that he didn’t know if he was charging enough for his truffles. He also confessed that he was not good at marketing, or numbers, or record keeping and had really no idea if his truffles were even profitable. As he put it, “I assume they’re profitable because I have fewer credit card payments at the end of the month than I had to start with.”

Thor’s truffles were a premium product with several distinguishing features. He used premium chocolate combined with bulk chocolate in both the filling and the coating layers. The inner truffle (“fondant”) was hand-rolled and cooled extremely slowly, which gave an ultra-creamy texture, and the outer shell was hand-dipped, resulting in a thinner layer which then absorbed more of the flavoring from the inner truffle. The truffles were soy-free, used premium ingredients, and were completely alcohol free.¹ Thor worried that most people didn’t see the huge difference in quality between his truffles and main-stream truffles until they actually tried them.

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¹ Most flavorings use an alcohol base, so this was a unique difference in Thor’s truffles.

Table 1
Prior year's sales by variety.

Variety	Sales (in dozens)
Sea salt caramel	66
Milk & milk	48
Milk & vanilla	32
Dark & dark	64
Dark & amoretto	32
Dark & cherry	32
Dark & raspberry	32
Dark & mint	32
Dark & orange	32
Dark & vanilla	32
Dark & strawberry balsamic	48
Total	450

Developing new flavors was Thor's favorite part of the business. There were eleven regular flavors, and each year Thor would create new varieties in October and test them by distributing samples at his salon, Paradise, listening very carefully to the comments and watching expressions closely. Usually, he would test both a dark and a milk chocolate version and then poll customers and co-workers for the winning combination. Last year's season was unusual because there were three new varieties tested and all three were retained. Thor's development record was good: of the 14 tested varieties, only three had failed. The learning curve for new varieties was fairly steep; the first three batches would be inconsistent after which they would be extremely consistent. Thor's records were very minimal, but he was able to produce a rough estimate of how many dozens he sold of each variety in the prior year (Table 1).

2. Customers

Thor's target market was women between the ages of 35 and 60, or what he called "old money." He distinguished this group as being established in their careers, with discretionary funds, and who were tired of giving the "usual" gift of wine to friends and clients. As he sold only to individuals, the typical order was one to four dozen truffles, although there were three clients who bought in large orders for client gifts. Orders were picked up by customers at his salon, although he would personally deliver for large orders (12 dozen truffles). Every year, 80–85% of his business would be repeat customers. Thor characterized new clients as "slow to develop:" they would try the truffles the first year, make last minute purchases of assortments the second year, but by the third year they tended to start placing large orders for gifts.

Marketing was very minimal. Thor had traded truffles for the development of a website. While the website listed the varieties and had spectacular photos, it did not do a good job describing the varieties, explaining why Thor's truffles were so special, or actually allowing customers to place orders. Thor also printed business cards listing regular varieties, the price per dozen, and his contact information. One business card was included with each box of a dozen truffles and individual "sample" truffles were served on a card to salon customers. Approximately 20% of his total production was handed out as samples each season to attract customers. Other than word of mouth from enthusiastic customers, there were no other marketing or advertising campaigns.

Sales were highly seasonal: Thor started making truffles in October and finished in January, although he was considering summer production to reach outdoor farmers' markets and craft fairs. Each dozen was priced at \$18.50. All sales were made by cash or credit card. Credit card purchases were 85% of Thor's sales with bank fees of 3.65% for credit/debit cards. Because he came under the Colorado Cottage Food Act, Thor would be limited to \$5000 in revenue per type of truffle and was also required to deliver the food to the customer personally, but was not required have a commercial kitchen or special licenses. He was also not required to collect sales tax.

3. Process

Truffles are a very labor intensive process and require a great deal of cooling time between stages of the process. As a result, for everything but the Sea Salt Caramel (SSCar), Thor would usually make four batches of different varieties at a single time, so there was always one batch to be worked on while another was cooling, although he could make up to eight batches at a time. One batch produced four dozen truffles of the regular varieties of truffle.

Four batches could be processed in about two to three days with the chilling and resting cycles. However, the actual labor time during the process would be about twelve hours. Long chilling and resting times were critical, as slower cooling times resulted in higher quality and better taste. Ideally, the external temperature should be less than 74 degrees Fahrenheit. If the weather was humid, the time could be increased considerably as it would take longer to properly incorporate the base ingredients. Fortunately, as Thor pointed out, humidity was rarely a problem in Colorado, which is why there were so many chocolate companies based in the state!

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