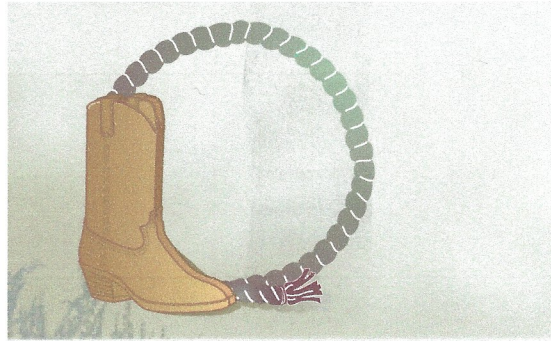
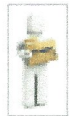




Auburn Circular Club Pro Rodeo Roundup

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The Business Situation

When Shelley Jones became president-elect of the Circular Club of Auburn, Kansas, she was asked to suggest a new fundraising activity for the club. After a considerable amount of research, Shelley proposed that the Circular Club sponsor a professional rodeo. In her presentation to the club, Shelley said that she wanted a fundraiser that would (1) continue to get better each year, (2) give back to the community, and (3) provide the club a presence in the community. Shelley's goal was to have an activity that would become an "annual community event" and that would break even the first year and raise \$5,000 the following year. In addition, based on the experience of other communities, Shelley believed that a rodeo could grow in popularity so that the club would eventually earn an average of \$20,000 annually.

A rodeo committee was formed. Shelley contacted the world's oldest and largest rodeo-sanctioning agency to apply to sponsor a professional rodeo. The sanctioning agency requires a rodeo to consist of the following five events: Bareback Riding, Bronco Riding, Steer Wrestling, Bull Riding, and Calf Roping. Because there were a number of team ropers in the area and because they wanted to include females in the competition, members of the rodeo committee added Team Roping and Women's Barrels. Prize money of \$3,000 would be paid to winners in each of the seven events.

Members of the rodeo committee contracted with RJ Cattle Company, a livestock contractor on the rodeo circuit, to provide bucking stock, fencing, and chutes. Realizing that costs associated with the rodeo were tremendous and that ticket sales would probably not be sufficient to cover the costs, the rodeo committee sent letters to local businesses soliciting contributions in exchange for various sponsorships. Exhibiting Sponsors would contribute \$1,000 to exhibit their products or services, while Major Sponsors would contribute \$600. Chute Sponsors would contribute \$500 to have the name of their business on one of the six bucking chutes. For a contribution of \$100, individuals would be included in a Friends of Rodeo list found in the rodeo programs. At each performance the rodeo announcer would repeatedly mention the names of the businesses and individuals at each level of sponsorship. In addition, large signs and banners with the names of the businesses of the Exhibiting Sponsors, Major Sponsors, and Chute Sponsors were to be displayed prominently in the arena.



A local youth group was contacted to provide concessions to the public and divide the profits with the Circular Club. The Auburn Circular Club Pro Rodeo Roundup would be held on June 1, 2, and 3. The cost of an adult ticket was set at \$8 in advance or \$10 at the gate; the cost of a ticket for a child 12 or younger was set at \$6 in advance or \$8 at the gate. Tickets were not date-specific. Rather, one ticket would admit an individual to one performance of his or her choice—Friday, Saturday, or Sunday. The rodeo committee was able to secure a location through the county supervisors board at a nominal cost to the Circular Club. The arrangement allowed the use of the county fair grounds and arena for a one-week period. Several months prior to the rodeo, members of the rodeo committee had been assured that bleachers at the arena would hold 2,500 patrons. On Saturday night, paid attendance was 1,663, but all seats were filled due to poor gate controls. Attendance was 898 Friday and 769 on Sunday.

The following revenue and expense figures relate to the first year of the rodeo.

Illustration CA 5-1
Revenue and expense
data, year 1

Receipts		
Contributions from sponsors	\$22,000	
Receipts from ticket sales	28,971	
Share of concession profits	1,513	
Sale of programs	<u>600</u>	
Total receipts		\$53,084
Expenses		
Livestock contractor	26,000	
Prize money	21,000	
Contestant hospitality	3,341*	
Sponsor signs for arena	1,900	
Insurance	1,800	
Ticket printing	1,050	
Sanctioning fees	925	
Entertainment	859	
Judging fees	750	
Port-a-potties	716	
Rent	600	
Hay for horses	538	
Programs	500	
Western hats to first 500 children	450	
Hotel rooms for stock contractor	325	
Utilities	300	
Sand for arena	251	
Miscellaneous fixed costs	<u>105</u>	
Total expenses		<u>61,410</u>
Net loss		<u><u>\$ (8,326)</u></u>

*The club contracted with a local caterer to provide a tent and food for the contestants. The cost of the food was contingent on the number of contestants each evening. Information concerning the number of contestants and the costs incurred are as follows:

	<u>Contestants</u>	<u>Total Cost</u>
Friday	68	\$ 998
Saturday	96	1,243
Sunday	83	<u>1,100</u>
		<u><u>\$3,341</u></u>

On Wednesday after the rodeo, members of the rodeo committee met to discuss and critique the rodeo. Jonathan Edmunds, CPA and President of the Circular Club, commented that the club did not lose money. Rather, Jonathan said, "The club made an investment in the rodeo."



case 5 Cases for Management Decision-Making

Instructions

Answer each of the following questions.

1. Do you think it was necessary for Shelley Jones to stipulate that she wanted a fundraiser that would (1) continue to get better each year, (2) give back to the community, and (3) provide the club a presence in the community? Why or why not?
2. What did Jonathan Edmunds mean when he said the club had made an investment in the rodeo?
3. Is Jonathan's comment concerning the investment consistent with Shelley's idea that the club should have a fundraiser that would (1) continue to get better each year, (2) give back to the community, and (3) provide the club a presence in the community? Why or why not?
4. What do you believe is the behavior of the rodeo expenditures in relation to ticket sales?
5. Determine the fixed and variable cost components of the catering costs using the high-low method.
6. Assume you are elected chair of the rodeo committee for next year. What steps would you suggest the committee take to make the rodeo profitable?
7. Shelley, Jonathan, and Adrian Stein, the Fundraising Chairperson, are beginning to make plans for next year's rodeo. Shelley believes that by negotiating with local feed stores, innkeepers, and other business owners, costs can be cut dramatically. Jonathan agrees. After carefully analyzing costs, Jonathan has estimated that the fixed expenses can be pared to approximately \$51,000. In addition, Jonathan estimates that variable costs are 4% of total gross receipts.

After talking with business owners who attended the rodeo, Adrian is confident that funds solicited from sponsors will increase. Adrian is comfortable in budgeting revenue from sponsors at \$25,600. The local youth group is unwilling to provide concessions to the audience unless they receive all of the profits. Not having the personnel to staff the concession booth, members of the Circular Club reluctantly agree to let the youth group have 100% of the profits from the concessions. In addition, members of the rodeo committee, recognizing that the net income from programs was only \$100, decide not to sell rodeo programs next year. Compute the break-even point in dollars of ticket sales assuming Adrian and Jonathan are correct in their assumptions.

8. Shelley has just learned that you are calculating the break-even point in dollars of ticket sales. She is still convinced that the Club can make a profit using the assumptions in number 7 above.
 - (a) Calculate the dollars of ticket sales needed in order to earn a target profit of \$6,000.
 - (b) Calculate the dollars of ticket sales needed in order to earn a target profit of \$12,000.
9. Are the facilities at the fairgrounds adequate to handle crowds needed to generate ticket revenues calculated in number 8 above to earn a \$6,000 profit? Show calculations to support your answers.
10. Prepare a budgeted income statement for next year using the estimated revenues from sponsors and other assumptions in number 7 above. In addition, use ticket sales based on the target profit of \$12,000 estimated in 8(b). The cost of the livestock contractor, prize money, sanctioning fees, entertainment, judging fees, rent, and utilities will remain the same next year.

Changes in expenses include the following: Members of the Club have decided to eliminate all costs related to contestant hospitality by soliciting a tent and food for the contestants and taking care of the "Contestant Hospitality Tent" themselves. The county has installed permanent restrooms at the arena, eliminating the need to rent port-a-potties. The rodeo committee intends to pursue arrangements to have hotel rooms, hay, and children's hats provided at no charge in exchange for sponsorships. The cost of banners varies with the number of sponsors. Signs and More charged the Circular Club \$130 for each Exhibiting Sponsor banner and \$48 for each Major Sponsor banner. At this time there is no way to know whether additional sponsors will be Exhibiting Sponsors or Major Sponsors. Therefore, for budgeting purposes you should increase the cost of the banners by the percentage increase in sponsor contributions. (*Hint: Round*



all calculations to three decimal places.) By checking prices, the Circular Club will be able to obtain insurance providing essentially the same amount of coverage as this year for only \$600. For the first rodeo the Club ordered 10,000 tickets. Realizing the constraints on available seating, the Club is ordering only 5,000 tickets for next year, and therefore its costs are reduced 50%. The sand for the arena for next year will be \$300, and miscellaneous fixed costs are to be budgeted at \$100.

11. A few members in the Circular Club do not want to continue with the annual rodeo. However, Shelley is insistent that the Club must continue to conduct the rodeo as an annual fundraiser. Shelley argues that she has spent hundreds of dollars on western boots, hats, and other items of clothing to wear to the rodeo. Are the expenses related to Shelley's purchases of rodeo clothing relevant costs? Why or why not?
12. Rather than hire the local catering company to cater the Contestant Hospitality Tent, members of the Circular Club are considering asking Shady's Bar-B-Q to cater the event in exchange for a \$600 Major Sponsor spot. In addition, The Fun Shop, a local party supply business, will be asked to donate a tent to use for the event. The Fun Shop will also be given a \$600 Major Sponsor spot. Several members of the Club are opposed to this consideration, arguing that the two Major Sponsor spots will take away from the money to be earned through other sponsors. Adrian Stein has explained to the members that the Major Sponsor signs for the arena cost only \$48 each. In addition, there is more than enough room to display two additional sponsor signs. What would you encourage the Club to do concerning the Contestant Hospitality Tent? Would your answer be different if the arena were limited in the number of additional signs that could be displayed? What kind of cost would we consider in this situation that would not be found on a financial statement?