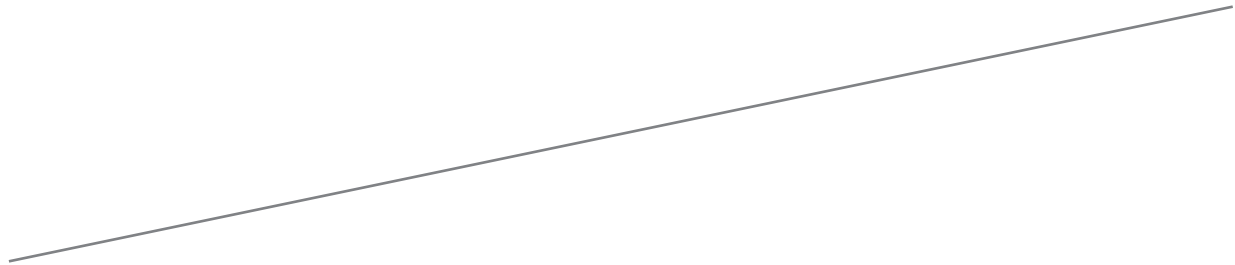




**PRODUCT**

RESTAURANT  
(CATERING)



**SERVICE**

CLEANING  
SERVICE





## CASE STUDY |

PRODUCT 

### *Cynthia: Personal Opportunities & Challenges*

Cynthia is a busy single mother of two with a big dream of someday owning her own restaurant. A whiz in the kitchen, she greatly enjoys cooking for her friends and family. Cynthia enjoys hearing that her dishes taste better than those at local restaurants. She used to think that her friends were just being polite, but lately Cynthia wonders if she could actually turn her hobby into a business.

Despite her desire to open a restaurant, it seems impossible at this stage of her life. She's never run a business or had any formal training, and she doesn't know where she'll find the time.

She already works two jobs, cleaning floors while the kids are in school and working a third shift security job part-time. She already has very little time to spend with her children.

Moreover, she has no idea where she'd get the money to start a business. She has rent of \$550 a month and owes about \$1,400 on medical bills. Although her car is paid off, the after-school fees for her children are \$200 a month. From time to time, she works a few hours overtime so she can pay down her medical bills. Just as financial stability seems possible, though, another unexpected medical expense pops up or the holidays roll around, and the balance goes back up again. Cynthia doesn't live extravagantly, but she does splurge on a Saturday night at her favorite restaurant once a month and takes an annual week-long family trip to visit cousins in Florida.

Cynthia fears that starting a business will make her give up even more time with her kids or risk their financial future. She loves the idea of being her own boss, but is it really possible to have it all?

## CASE STUDY |

SERVICE 

### *Anthony: Customer, Problem, Alternatives*

Anthony dreams of being his own boss. Although he works hard for his employers, he hates the lack of flexibility and control over his life. While he's had other jobs at a cleaning company and a small factory, Anthony currently waits tables at a local restaurant. At the restaurant one day, he overhears his boss mention that the professional cleaning service the restaurant uses raised its price again. He's willing to pay more if the company actually does a good job. However, the higher price and the poor quality of work mean the restaurant needs to find a new cleaning service.

Anthony realizes that he might be able to help. Perhaps he doesn't have to give up his dream; he can start his own business. He has experience as a professional cleaner and can do jobs more affordably without the overhead a larger company. Moreover, he knows his cleaning quality is top notch—which is incredibly important in the restaurant industry. Lots of small businesses and restaurants need affordable cleaning services but struggle to afford the prices of large firms. They can try to do it themselves, but that often means it doesn't get done.

All he really needs to get started are cleaning supplies and a customer. He can easily get cleaning supplies at the store. As for a customer, the restaurant is a perfect place to start.

## CASE STUDY |

PRODUCT 

### *Cynthia: Solution, Benefit, Advantage*

Even with all the obstacles in her way, Cynthia keeps thinking about the restaurant. Her family is supportive but a little worried about the financial risks involved. Still, people keep coming to her requesting her food for their special days—even people she doesn't know!

Because of her limited time, Cynthia often refers people to the eatery up the street from her house. However, people usually complain about the eatery's high prices. The other alternative to avoiding the hassle of cooking is the supermarket deli. While it's more affordable, the food isn't very good.

Although Cynthia lacks experience running her own business, she does have a lot of experience cooking, amazing recipes, and a huge network of support to help her succeed.

From what Cynthia can tell, the options are few if you want to make your special day perfect with something delicious and affordable. Someone needs to offer tasty food at reasonable prices. Maybe, just maybe, it should be Cynthia.

## CASE STUDY | *Cynthia: Starting Small*

PRODUCT 

In the rare quiet moments of the day, Cynthia daydreams about her restaurant. She pictures a warm, comfortable room with wooden tables and chairs where customers enjoy her food. In the corner, a beautiful display case is stocked with pies – her specialty. A big chalkboard outlines the day's specials. She'll offer an extensive menu of home-style dishes: crisp buttermilk fried chicken, flakey chicken pot pie, savory roast beef, creamed corn, braised greens... The kitchen will remain busy, serving the restaurant as well as providing catering services to people wanting her fantastic food for their events.

However, restaurants like that cost a lot of money – money she doesn't have. It seems like her dream may never become a reality. "Surely," she thinks, "there's got to be a simpler way."

## CASE STUDY |

SERVICE 

### *Anthony: Keeping & Growing Customers*

Anthony decides to go for it. Starting a cleaning service provides him with an amazing opportunity to work for himself and fill a need for small businesses.

Although he's planning on approaching his boss at the restaurant about his services, Anthony's not sure how to best get the word out about what he offers to others. So many strategies are possible. How will he know what's the best one? It all feels a little overwhelming.

## CASE STUDY | *Cynthia: Distribution*

PRODUCT 

Despite her big dream, Cynthia decides it's best to start small. Because running a restaurant is expensive and her time is limited, Cynthia will begin with catering services. At first, she plans on catering out of her home but soon learns that the health department won't allow it.

With a little creative thinking, Cynthia realizes she knows a kitchen that could work. Her church has one that is rarely used. Cynthia approaches her minister with a proposal. She'll prepare a special meal for the congregation on Sundays. In exchange, the church will allow Cynthia to use the commercial kitchen for her business at no charge. Everybody wins. The best part is that her children can come with her and do homework in the Sunday school rooms while Cynthia prepares food.

Cynthia will drop one of her jobs to free up time for the catering business. Now that she has a plan, Cynthia needs to figure out how to get her food to her customers. Really, she's got two good options.

One way is to sell directly to her customers herself. This means she'll need to find the customers, work with them to create a menu, cook the food, set up, serve the food, and take care of any additional needs like table cloths, plates, or centerpieces.

Another option is to sell to customers through an event planner. Because the event planner finds the customer and takes care of many event details, it's an attractive choice. However, an event planner will demand lower rates in order to make money.

Because Cynthia's ideal customer wants affordable catering, she decides to sell directly to her customers. She likes the personal touch anyway, and knows she'll be able to serve her customers better if she works with them one-on-one.

## CASE STUDY | *Anthony: Unit of Sale*

SERVICE 

After days of waiting for the timing to be right, Anthony works up the courage to approach his boss. Anthony explains that his new business is the solution to the restaurant's need for a thorough and affordable cleaning service. Anthony's boss is quiet for a moment, and his heart sinks. "Maybe this wasn't such a good idea after all," Anthony thinks. After a few minutes, the boss says he's interested, but he needs a proposal and a price before making any final decisions.

Promising to have a proposal to his boss in a few days, Anthony gets to work. The first part is easy. He knows what the restaurant needs - a reliable, good, inexpensive cleaning service. The second part is more challenging. How does he figure out the price? The prices Anthony sets now will affect how he charges customers in the future. Each job will require a different amount of time and effort, so a fixed rate doesn't seem like the best way to go.

Anthony scratched his head. What is he really selling?



## CASE STUDY | *Cynthia: Pricing*

PRODUCT 

Cynthia is so excited she can hardly stand it. Her first sale! A friend called wanting food for a family reunion of 50 people. When Cynthia told her about the new business, she was relieved her friend was happy to pay for the catering. “How much will it cost?” she asked.

Having never sold her food, Cynthia asked for a day to get the numbers together.

First, Cynthia asks a few friends what they’d be willing to pay. To make sure her product is fresh in their minds, she invites them over for lunch. Scraping their plates clean, she finds they’d gladly pay \$10-\$25 per person.

Next, Cynthia looks at what other catering services in the area charge. Her sister calls three local catering companies and finds that they charge \$25-\$45 to cater a meal for 50 with home-style food. She remembers that most people think existing catering options are too expensive. The supermarket is far more affordable at \$10 per person, but you have to pick it up and serve it yourself. Since her customers want something affordable, hassle-free, and delicious, she must meet all their needs.

Lastly, Cynthia figures out her costs. The menu her friend wants is buttermilk fried chicken, mashed potatoes, green beans, homemade biscuits, and apple pie. The ingredients, not including her time, will be about \$5 per serving.

With all the information in hand, Cynthia is ready to figure out her price.

## CASE STUDY |

PRODUCT 

### *Cynthia: Legal Considerations*

Cynthia decides to talk with a lawyer about her business concept. Through their conversation, she discovers many legal issues she'd failed to consider.

First, Cynthia realizes it would be best if her venture were an independent organization, separate from herself. If something horrible happens, she doesn't want to risk her family's financial future. Because the business will be pretty simple and she doesn't have any partners, a business structure with minimum personal liability makes the most sense. To become a legally recognized business, Cynthia meets with a lawyer and files the appropriate paperwork, including registering his business name as "Cynthia's Catering."

Next, Cynthia gets a business identification number from the national government. According to the lawyer she met with, she needs this number to file her business taxes alongside her own.

At the local level, a county official tells her to file business licenses with the county and the city. They also refer her to the local Health Department where she discovers some alarming information. Apparently, she can't sell food cooked at the church unless her kitchen is certified as a commercial kitchen. In order to be certified, she has to comply with a list of requirements and undergo several inspections. Moreover, she needs a liquor license in case her customers request alcoholic drinks and must file for food-related permits with the Health Department.

At her lawyer's encouragement, Cynthia also talks with an insurance agent to acquire a standard liability insurance policy and product liability policy. These policies protect Cynthia's Catering in the rare instance someone gets sick from the food she serves and decides to sue. "Better safe than sorry," the lawyer reasoned with her.

Cynthia is really glad she talked with a lawyer. Failure to do so could have been bad for her and her business.

## CASE STUDY |

PRODUCT 

### *Cynthia: Startup & Ongoing Costs*

Cynthia realizes that there are several things she needs to get her catering business started. She sits down and makes a list:

- Ingredients
- Serving dishes/trays
- Pans
- Oven
- Stove
- Refrigerator
- Cooking utensils
- Plates and flatware

That should be everything it takes to cook and serve the food. What about the more “business-like” things? She continues writing:

- A cell phone
- Office supplies
- A computer
- Advertising
- A delivery vehicle & gas
- Business licenses & permits
- Logo design
- Insurance
- Website
- Taxes
- Business cards
- Utilities

She'll also need to devote quite a bit of time to cooking, which means quitting one of her part time jobs. She needs to find people to help serve since she can't do everything herself. Cynthia also needs to perfect her process from menu selection to cleanup. Developing menu samples and prices would help clients make selections and understand the range of food she offers. She'll probably need to talk with a lawyer at some point, too.

Looking back over her list, Cynthia realizes that starting a business is much more complicated than she originally thought, and thrilling at the same time.

## CASE STUDY | Anthony: Fixed Costs

SERVICE 

Anthony plans to charge an hourly rate for his professional cleaning service. In order to figure out how much to charge per hour, Anthony realizes he needs to know his fixed costs.

A better cell phone plan is a must since he'll use more minutes talking with customers. He also plans to place a weekly add in the business section of the newspaper and buy a used minivan for his supplies and gear. Liability insurance, in case someone slips on a wet floor and decides to sue, costs \$30 a month. Also, he needs to pay himself. The minimum he needs to make yearly is \$ 27,000. While this might be ambitious at the start, he wants to eventually quit his job at the restaurant and focus on his business. The salary breaks down to \$2,250 per month. He decides to make a list.

Fixed Costs: Item Description	Cost
Cell phone	\$70
Weekly ad in the paper	\$100
Minivan	\$125
Liability insurance	\$30
Salary	\$2,250
Total:	\$2,575

If his math is right, Anthony will need \$2,575 a month in order to be self-employed as a professional cleaner.

## CASE STUDY | Cynthia: Variable Costs

PRODUCT 

Even though Cynthia originally thought her typical sale was one meal, after some thought, one event seems to be a better unit. She won't make meals one at a time, and her work hours and hiring will depend on the event, not on a single meal. A typical event will be for 50 people.

Cynthia needs to figure out how much it will cost her to cater one event for 50 people. Besides ingredients, the biggest cost is her time. Although she'd prefer to pay herself a salary, it seems to make sense to tie the labor costs to each event instead, using an hourly wage. That way, if she ever hires someone else to help her, she already knows her costs. Cynthia estimates it will take 25 hours of work to cater an event.

Because she'll be busy cooking, Cynthia plans to hire a friend to help serve for 5 hours per event. She also needs to rent plates, glasses, and flatware, as well as pay for gas for the minivan. She lists her costs:

### *Variable Costs for One Event*

Variable Costs: Item Description	Cost
Ingredients	\$300
Plates	\$30
Flatware	\$45
Glasses	\$15
Supplies	\$30
Gas for minivan	\$25
Labor in preparing the meal	\$250
Labor in serving the meal	\$60
Total Variable Costs:	\$755

Now that she knows her variable costs, she subtracts them from the selling price (\$18 per person or \$900 per event) to determine her gross profit, \$145 per event. To keep everything in one place, Cynthia finds it helpful to look at her information in a table:

Typical Sale	One Event for 50 people
Price	\$18 per person, \$900 per event
Variable Costs	\$755
Gross Profit	\$145

## CASE STUDY |

PRODUCT 

### *Cynthia: Break-Even Point*

In order to calculate her break-even point, Cynthia needs to get all her numbers together in one place. Cynthia has determined that her fixed costs are:

Fixed Costs: Item Description	Cost
Internet service	\$55
Cell phone	\$80
Insurance	\$75
Taxes	\$110
Van payment	\$200
Advertising	\$100
Licenses and permits	\$30
Salary	\$500
Meals for church	\$350
Total Fixed Costs:	\$1,420

The salary seems a stretch, but she wants to compensate herself for time spent finding customers and doing paperwork. Cynthia adds her fixed costs to her chart.

Typical Sale	One Event for 50 people
Price	\$18 per person, \$900 per event
Variable Costs	\$755
Gross Profit	\$145
Fixed Costs	\$1,420

Cynthia worries she won't meet her minimum goal. Catering two events or more each week seems like too much. Three events in one week would be a 75 hour work week!

She experiments with the numbers to see if she can find a better situation.

- **Situation #2: \$25 per meal, salary at \$500 per month**

She learns that by raising her price to \$25 per person, her break-even point drops to 3 events per month.

- **Situation #3: \$18 per meal, no hourly wage, no salary**  
Because she doesn't think her customers will pay that much, she tries lowering her costs. If she receives no paycheck (salary or hourly), her break-even point drops to 3 events per month.
- **Situation #4: \$18 per meal, no salary**  
However, she wants to get paid. With an hourly wage and no salary, she needs to cater 7 events each month. she tries lowering her costs. If she receives no compensation (salary or hourly), her break-even point drops to 13 cakes.
- **Situation #5: \$21 per meal, smaller advertising budget & salary at \$300 a month**  
She tries lowering the costs of ingredients, but the outcome isn't significant enough to risk sacrificing the quality of her food. She finds that reducing her advertising budget to \$50, reducing her salary to \$300 a month, and raising her price to \$21 per person results in a break-even point of 4 events per month, or one per week;

This last situation is the most realistic one, in her opinion. It might be a while before she actually gets the salary she desires and many free forms of advertising will work at the start.

	#1	#2	#3	#4	#5
Typical Sale	One event	One event	One event	One event	One event
Price	\$18 per person (\$900)	\$25 per person (\$1250)	\$18 per person (\$900)	\$18 per person (\$900)	\$21 per person (\$1050)
Variable Costs	\$755	\$755	\$755	\$755	\$755
Gross Profit	\$145	\$495	\$395	\$145	\$295
Fixed Costs	\$1,420	\$1,420	\$920	\$920	\$1,170
Break-even Point	10 events	3 events	3 events	7 events	4 events
Weeks per Month	4 weeks	4 weeks	4 weeks	4 weeks	4 weeks
Events per Week	2.5 events	0.75 events	0.75 events	1.75 events	1 event

## CASE STUDY |

SERVICE 

### Anthony: Break-Even Point

Based on Anthony's estimates, he will need \$2,575 a month to become a self-employed professional cleaner. Every month, he'll need to pay for:

Fixed Costs: Item Description	Cost
Cell phone	\$70
Newspaper ad	\$100
Minivan payments	\$125
Liability insurance	\$30
Salary	\$2,250
Total:	\$2,575

From what he knows about his competition and the needs of his customers, Anthony sets his price at \$20 an hour. The only variable cost he has that will change with the number of jobs he does is cleaning supplies. He guesses that for every hour he cleans, he'll use \$2 worth of supplies. Anthony lists out his numbers.

Typical Sale	One hour
Price	\$20
Variable Costs	\$2
Gross Profit	\$18
Fixed Costs	\$2,575

To make his target salary of \$2,250 a month, Anthony needs to take jobs amounting to 144 billable hours a month – about 36 hours a week. Since much of his time will be spent meeting with prospective clients, taking care of bookkeeping, and other mundane office tasks, 36 hours a week of billable design sounds challenging, but reasonable (situation #1). Anthony decides to experiment with the numbers to see if he can find an even better solution.

- **Situation #2: \$15 per hour**

Anthony discovers that by discounting his price to \$15 an hour, he'll need to bill 198 hours a month, or approximately 50 hours a week to break even.

- **Situation #3: \$25 per hour**

If he gets his professional cleaner certification, he'll be able to raise his price to \$25 per hour and only need to work 112 hours a month, 28 hours per week.



	#1	#2	#3
Typical Sale	One hour	One hour	One hour
Price	\$20	\$15	\$25
Variable Costs	\$2	\$2	\$2
Gross Profit	\$18	\$13	\$23
Fixed Costs	\$2,575	\$2,575	\$2,575
Break-even Point	144 hours	198 hours	112 hours
Work Days per Month	20 days	20 days	20 days
Hours per Week	36 hours	50 hours	28 hours
Hours per Day	7.2 hours	10 hours	5.6 hours

## CASE STUDY |

PRODUCT 

### *Cynthia: Multiple Break-Even Points*

In addition to catering events for 50 people at \$21 per person, Cynthia also plans to cater lunch meetings of 10 people for \$8 per person. If she caters both types of events, how many of each does she need to sell to break even?

First, she has to figure out her costs and gross profit for each type of event. Fortunately, she's already done the work on 50 person event. For a lunch, she estimates 3 hours of her time (\$10 an hour = \$30), \$25 in ingredients, and \$3.50 on boxes and disposable utensils. If she charges \$80 for a catered lunch, her gross profit is \$21.50.

It seems that her fixed costs apply equally to both types of sales. However, she expects to spend about 70% of her time and resources catering larger events and only 30% on lunches. Using these percentages, she figures out how much of the \$1,170 in fixed costs would go toward each typical sale. Then, she calculates her break-even point for each.

Typical Sale	One event for 50 people	One lunch meeting for 10 people
Price	\$21 per person (\$1050)	\$8 per person (\$80)
Variable Costs	\$755	\$58.50
Gross Profit	\$295	\$21.50
% Fixed Costs dedicated to typical sale	75%	25%
Fixed Costs (based on percentage)	\$877.50	\$292.50
Break-even Point	3 events	14 events
Weeks per Month	4 weeks	4 weeks
Typical Sales per Week	0.75 events	3.5 events

With these estimates, Cynthia finds that she'll need to cater 3 50-person events and 14 lunch meetings.

It appears that lunch meetings will make Cynthia less money than catering large events, and 3-4 lunch meetings a week will be difficult to do while also preparing for the larger events.

However, she'd also like to cater really big events with 250 people. An event that large will take 25 hours of her time and will require hiring 2 helpers for 15 hours each (\$10 an hour = \$300), making her total labor costs \$550. Ingredients, plates, and other supplies will cost about \$1,900, for a variable cost of \$2,450. Because catering companies usually charge less per person as the number of guests goes up, she lowers her price to \$18 per person for a 250 person event.

Typical Sale	One event for 50 people	One event for 250 people
Price	\$21 per person (\$1050)	\$18 per person (\$4,500)
Variable Costs	\$755	\$2,450
Gross Profit	\$295	\$2,050
% Fixed Costs dedicated to typical sale	70%	30%
Fixed Costs (based on percentage)	\$819	\$351
Break-even Point	3 events	1 event

If Cynthia focuses more of her attention on getting larger events, she finds she has to cater fewer events total. In fact, if she just caters one 250 person event per month, she breaks even.

Typical Sale	One event for 50 people	One event for 250 people	One event for 250 people
Price	\$21 per person (\$1050)	\$18 per person (\$4,500)	\$18 per person (\$4,500)
Variable Costs	\$755	\$2,450	\$2,450
Gross Profit	\$295	\$2,050	\$2,050
% Fixed Costs dedicated to typical sale	20%	80%	100%
Fixed Costs (based on percentage)	\$234	\$936	\$1,170
Break-even Point	1 event	1 event	1 event

## CASE STUDY | Cynthia: Estimate Sales

PRODUCT 

Knowing her break-even point, Cynthia wonders how long it will take her business to get there. Sales will most likely be slow at first and grow gradually. After looking at the calendar and thinking about her marketing plans, she writes down everything that will contribute to her sales growth for the coming months and estimates her sales.

She uses a chart to organize her thoughts.

Month	Feb.	March	April	May	June	July
Notes: (What's driving sales each month?)	Has 1 event lined up. Uses family and friends to help get the word out.	Her family reunion is scheduled and she expects she can get 1 more.	Catering two charity events, but at a discounted rate of \$16 per person.	Wedding season begins...		
Estimated units sold	1	2	2	3	3	4

Month	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Notes	Slow			Thanksgiving	Christmas	Slow
Estimated units sold	2	4	4	6	8	2

## CASE STUDY |

PRODUCT 

### *Cynthia: Sales Projections*

Using her projections of future sales, Cynthia calculates how long it will take her business to break even.

She'll start with \$100 in her business's bank account and will cut her salary for the first few months until sales can support it. She also needs to purchase a new set of knives. Since the knives are a special expense not related to her fixed or variable costs, she lists the knives as a unique one-time expense.

Then, Cynthia makes calculations using these formulas:

- Estimated Sales = units sold x price per unit
- Total Variable Costs = units sold x variable costs per unit
- Total Expenses = fixed costs + total variable costs + special expenses
- Gain or Loss for Month = estimated sales – total expenses
- Balance = cash balance at month's start + gain/loss for month

(continued...)

Month	February	March	April	May	June	July
Cash Balance at Month's Start	\$100	-\$475	-\$955	-\$1,735	-\$1,720	-\$1,410
Notes: (What's driving sales each month?)	Has 1 event lined up. Uses family and friends to help get word out.	Her family reunion is scheduled and she expects she can get 1 more.	Catering two charity events, but at a discounted rate of \$16 per person.	Wedding season begins...		
Estimated Units Sold	1	2	2	3	4	5
Estimated Sales (cash in)	\$1,050	\$2,100	\$1,600	\$3,150	\$4,200	\$5,250
Total Variable Costs (\$37.67)	\$755	\$1,510	\$1,510	\$2,265	\$3,020	\$3,775
Fixed Costs	\$870	\$870	\$870	\$870	\$870	\$870
Special Expenses		\$200				
Total Expenses	\$1,625	\$2,580	\$2,380	\$3,135	\$3,890	\$4,645
Gain/Loss	-\$575	-\$480	-\$780	\$15	\$310	\$605
Balance	-\$475	-\$955	-\$1,735	-\$1,720	-\$1,410	-\$805

If Cynthia's predictions are correct, it will take her 11 months to break even. During this time, she'll have close to \$2,000 of losses. While she can give up her salary for 7 months, she can't cover the losses, as well. She needs to come up with a plan...

Month	August	September	October	November	December	January	February
Cash Balance at Month's Start	-\$805	-\$1,085	-\$775	-\$765	-\$165	\$1,025	\$464
Notes: (What's driving sales each month?)	Slow				Christmas	Slow	Valentine's Day
Estimated Units Sold	2	4	4	6	8	2	55
Estimated Sales (cash in)	\$2,100	\$4,200	\$4,200	\$6,300	\$8,400	\$2,100	\$3,025
Total Variable Costs (\$37.67)	\$1,510	\$3,020	\$3,020	\$4,530	\$6,040	\$1,510	\$2,072
Fixed Costs	\$870	\$870	\$870	\$870	\$870	\$1,170	\$660
Special Expenses							
Total Expenses	\$2,380	\$3,890	\$4,190	\$5,700	\$7,210	\$2,680	\$2,732
Gain/Loss	-\$280	\$310	\$10	\$600	\$1,190	-\$580	\$293
Balance	-\$1,085	-\$775	-\$765	-\$165	\$1,025	\$445	\$757

## CASE STUDY | Anthony: Loans

SERVICE 

Anthony's been in business for about a year and things are going well. He's gotten enough professional cleaning jobs to quit his job at the restaurant, but he thinks he can save time and money if he purchases a professional steam cleaner.

Currently, Anthony spends about 100 hours a year steam cleaning carpets using a small steam cleaner meant for home use. When he started his business, it was all he could afford. The small machine costs him about \$300 to run each year.

If he purchases an industrial grade steam cleaner, Anthony will be able to clean the carpets of his existing customers in 50 hours and only use \$200 running the machine.

Anthony needs to take out a \$1,000 loan to have enough money to buy the new steam cleaner. The loan will have a 9% interest rate and he plans on repaying the loan in one year. This means he'll pay \$90 in interest the first year he uses the new machine.

Is a loan worth it?

	Current Cost per year	Cost Year Machine is Bought	\$ Saved or Lost by Buying Machine*	Cost 2nd Year Using Machine	\$ Saved or Lost 2nd year+
Cost of time (# hours x \$20)	\$2,000	\$1,000			
Maintenance	\$300	\$200			
Machine cost	—	\$1,000			
Loan interest	—	\$90			
Total:	\$2,300	\$2,290			

\* current cost per year minus cost year machine is bought

+ current cost per year minus cost 2nd year



## CASE STUDY | *Cynthia: Cash Flow*

PRODUCT 

Cynthia's business has now been up and running for about a year and a half. Beginning with that first sale, many customers have sought her help in making their special days perfect.

Even though Cynthia tracks her expenses and sales each month, she constantly worries about having enough cash on hand when the bills are due. For example:

### IN APRIL:

- She has \$700 in her bank account from March.
- She collects \$5,500 for catering events she did in March.
- She sends invoices to 3 clients for April events, totaling \$5,100. They have 60 days to pay.
- She pays \$3,000 for ingredients for April events.
- She rents \$300 worth of plates and cups, and has to pay for them upon delivery.
- She pays her monthly fixed costs of \$1,170.
- She pays her helpers \$1,200 for their work.
- She pays herself \$1,000 for hourly work catering events.

### IN MAY:

- She collects money from 2 of the 3 April events, totaling \$4,100.
- She sends invoices to 5 customers for May events in the amount of \$7,500 due within 60 days.
- She rents \$500 worth of plates and cups, and has to pay for them upon delivery.
- She sets up a business account with her supplier, and buys \$2,000 of ingredients to be paid within 60 days.
- She pays her helpers \$1,000 for their work.
- She pays herself \$1,250 for hourly work catering.
- She pays her monthly fixed costs of \$1,170.

### IN JUNE:

- She collects \$1,000 from the remaining April event and \$4,500 from 3 of the 5 May events.
- Cynthia invoices 4 June clients for \$4,750, due within 60 days.
- She rents \$350 worth of plates and cups, and has to pay for them upon delivery.
- She places another order of ingredients with her supplier for \$2,500 to be paid within 60 days.

- She pays her helpers \$1,500.
- She pays herself \$1,000 for hourly work catering events.
- She pays her monthly fixed costs of \$1,170.

#### IN JULY:

- Cynthia collects \$3,000 from her remaining two May events and \$1,750 from one of her June events.
- She pays her supplier \$2,000 for ingredients.
- She places an order for \$2,500 worth of ingredients to be paid within 60 days.
- She rents \$250 worth of plates and cups, and has to pay for them upon delivery.
- She invoices customers for \$2,500 for July events.
- She pays her helpers \$800.
- She pays herself \$1,600 in hourly wages.
- She pays her monthly fixed costs of \$1,170.

Cynthia tracks her cash flow, along with other important numbers, using a spreadsheet.

Category	April	May	June	July
Starting Cash Balance	\$700	-\$470	-\$290	
Cash In				
Total Cash In	\$5,500	\$4,100	\$5,500	
Cash Out				
Fixed Costs	\$1,170	\$1,170	\$1,170	
Other Expenses Paid	\$5,500	\$2,750	\$2,850	
Total Cash Out	\$6,670	\$3,920	\$4,020	
Gain/Loss for month	-\$1,170	\$180	\$1,480	
End Cash Balance	-\$470	-\$290	\$1,190	

Non Cash Flow Items				
Actual Units Sold	3 events	5 events	4 events	2 events
Sales Pending (Accounts Receivable)	\$5,100	\$8,500	\$7,750	\$5,500
Expenses Pending (Accounts Payable)		\$2,000	\$4,500	\$5,000