

# Egger's Roast Coffee Case Study, Part 1

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# Business Plan

- **Buy Bulk**
  - COD (cash on delivery)
  - \$2 a pound for beans
- **Deliver**
  - From order to delivery is 1 month
- **Sell**
  - Roasted, packaged and delivered beans for \$6 a pound.
- **Net 60**
  - Average time from delivery to payment is 2 months

# Variable Costs

- Raw coffee beans = \$2/pound

- Fuel
- Packaging
- Labor
- Transportation

= \$2/pound

Total Variable cost = \$4/pound

# Capital Investment

- Roasting Machine
  - \$540,000
  - Replace in 3 years
- \$800,000 Invested
- \$260,000 cash cushion
- Can borrow \$800,000 in case of emergency

# Profitable?

- Allocate the \$540,000 over 3 yrs/36 months

$$\frac{\$540,000}{36 \text{ Months}} = \$15,000 \text{ month}$$

- Produce 25,000 pounds of beans each month

$$\frac{\$15,000}{25,000 \text{ pounds}} = \$0.60 \text{ pound}$$

# Depreciation

- Roasting Machine
  - \$540,000
  - Replace in 3 years
- \$800,000 Invested
- \$260,000 cash cushion
- Can borrow \$800,000 in case of emergency

# Fixed Costs

- Depreciation

- Rent

- Utilities

- Insurance

- Licenses

- Salaries



G & A or  
General and Administrative  
expenses

# Review

- \$6/pound = selling price
- 300,000 pounds = 1 year volume
- \$4/pound = fixed costs
- Profit: \$1/pound or \$300,000 first year



# Terms

- Negative float
  - Spend cash on the same day as the order, but get paid 60 days later.
- Positive float
  - Get cash now to deliver services later
- Accounts receivable
  - Money customers owe for products already delivered
- Aged accounts receivable:
  - Track how long it's been that money we have not yet received are owed to us