Conquistador Beer Case

- **Problem**

  Should Larry Gomez apply for the Conquistador beer distributorship?

- **Approach to the problem**
  - Conduct **NPV break-even analysis**: determine the point of time when the NPV switch from negative to positive
  - Operating Cash Flow = Inflow - Outflow = Sales - Cost of Goods - Salaries -Incentive Compensation - Fixed Expenses - Taxes

** We assume annual incentive compensation is 10% of salary ($45,000) and loan interest rate is 8%
** Depreciation is not included in the fixed expenses.

How We Utilize Reports We Ordered

- **Use report A, B, C and D:**
  - Total Consumption = Market Share * Total Population over 21 * Beer Consumption(Age 21+)/ capita
  - Justify sufficient retailers to supply beer
  - Sales = *Quantity of Kegs * Price + Quantity of Bottle & Can * Price
- **Use report I:**
  - Predict Conquistador Beer will be priced at the highest market level ($3.18/6 pack, 5.653/gallon**) given its popularity and premium quality
- **Use report F and I:**
  - Sales - Cost of Goods = Profit Generated from sales = total consumption * price *(100%-80.3%***)

*kegs are sold at a rate of 1/3 of bottles and cans. Price for kegs is 45% of bottle/can price.
** Assume the volume of a bottle/can is 12 oz
***80.3% is the cost of sales in financial statement

Year	Conquistador Beer Consumption *	Inflow**	Outflow***	Cash Flow (Inflow - Outflow)	Discounted Cash Flow****
1999	442035	$310,3972	$4,850,790	$(1,746,818)	$(1,746,818)
2000	549052	$439,2278	$4,333,155	$59,122	$55,776
2001	776936	$582,0913	$5,533,418	$287,495	$255,869
2002	1029643	$756,6343	$6,999,834	$566,508	$475,651
2003	1338386	$9,123,466	$8,308,046	$815,420	$645,889
2004	1613821	$10,719,924	$9,649,304	$1,070,620	$800,030

* Assume straight-line growth of Conquistador Beer Consumption

** Inflow = Conquistador Beer Consumption * Price

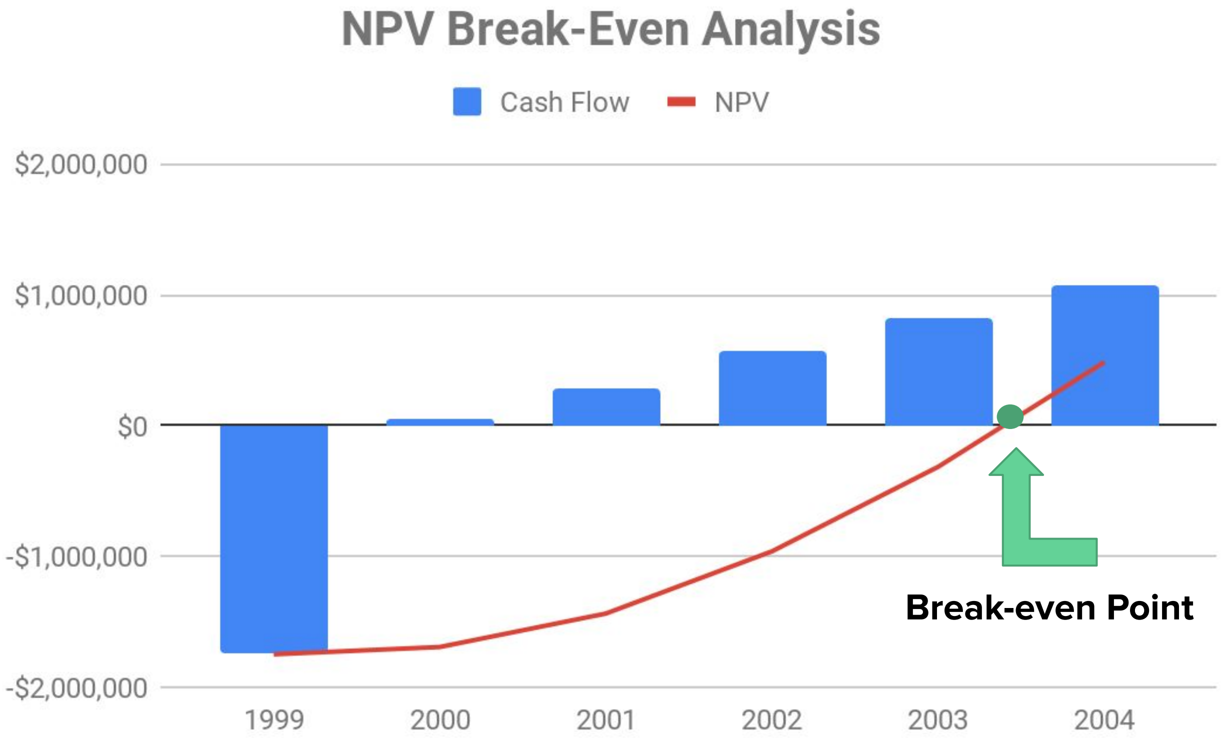
*** Outflow = Cost of Goods + Salaries + Incentive Compensation + Fixed Expenses + Taxes

(For 1999, add another 1,600,000 outflow of investment)

(Depreciation is not included in fixed expenses)

**** We assume discount rate is 6%

NPV break-even points: 4.39 years



NPV Break-even point = (1,746,818 - 55,776 - 255,869 - 475,651 -645,889) / 800,030 = 4.39 years

Explanation:

In 2000, the cash flow becomes positive. At the beginning of 2003, Larry's cumulative cash flow will cover all his investment and operation costs and he will start to make profits!

Recommendation:

Given the potential beer consumption rate and Conquistador Beer's increasing market share, Larry should **INVEST** in this business!