



Fictional Physical Product Case Study

Irene McGann

Irene McGann is a teacher considering early retirement. If Irene retires early she will still need an income. Wanting to stay active, loving the outdoors and living in the Scottish Highlands, she's decided to set up a mobile coffee van in and around local tourist hotspots.

She's investigated likely pitches and the permissions she needs and decided against buying into an existing franchise business in favour of her own distinctive brand - McGann's Highland Coffee.

Before making any major steps forward, she needs to do some rudimentary financial planning. She's based her calculations on weekly sales and yielding a profit within the first year. She's also looked at the whole year, planning for seasonal peaks and troughs associated with serving tourists.

We explain her thinking below;

1. COMPETITOR ANALYSIS

Irene spent a weekend buying coffee and related products from established competing cafes in her area. She concluded;



Coffee prices varied from
£2.50 - £3.00 on average



Additional products (cakes & snacks) varied
between £2.50 and £3.00 too

She felt McGann's Highland Coffee should be a premium brand so based her revenue calculations on the top end of this range, at £6 per customer.

2. FIXED COSTS

She knows that starting any business involves capital costs. Some of these might be paid monthly or come from loans, but it is best to calculate them as upfront costs. Irene's plan involves paying the initial set-up costs back over 12 months.

The Van - £5,700



The main cost is the van itself. Irene has fallen in love with a second-hand vintage Citroen model which costs £3,500. It needs £700 worth of repairs to make it suitable for the job, £1,200 to be fitted out with coffee equipment and £300 to give it a branded paint job.

Parking & Refrigerated Storage Premises - £1,440



She could rent a parking space and a suitable garage for £120 a month.

Website & Graphic Design - £300



Irene knows a designer who will help her to create the McGann's Highland Coffee brand.

Miscellaneous - £500



There are other smaller fixed costs that Irene needs to get started including branded t-shirts and aprons, printed menus, signs, tables and chairs etc.

Starting the business will cost Irene almost £8,000 before she's even started. To hit her target of profitability in the first year, she needs to make a minimum of £152.69 back each week, come rain or shine.

3. PRICING MODEL

As she's operating direct to her market, with no commissions or recommended prices, Irene can simply calculate how much each average customer will cost her in coffee, cakes, snacks, milk, cups and sundries such as stirrers and napkins. Irene is conscious that her products are perishable so has included wastage in her calculations. On the plus side, buying higher volumes would lead to savings too. Her overall results came out as below.

- ▶ Up to 500 weekly customers
= £1.10 average cost per customer = £550 total costs
- ▶ Up to 750 weekly customers
= £1.00 average cost per customer = £750 total costs
- ▶ Up to 1000 weekly customers
= £0.90 average cost per customer = £900 total costs

With an estimation of £6 revenue from each customer, this could make her between £2,450 and £5,100 weekly. Remember, she has fixed costs of £152.69 a week to pay though and we haven't included running costs yet either.

4. RUNNING COSTS AND OVERHEADS



The below are costs that Irene will need to pay no matter how many customers she serves. She has taken a 12 month view:

Salary



- Irene wants to pay herself £1,000 a month or £250 a week net/take home pay. This allows Irene some holiday. We all need a break! This is below taxable income levels, but she will have to pay national insurance. Irene will also have to get financial advice about her overall personal tax liabilities based on other savings, investments or pension income.

The Van



- Taxing, insuring and running the van is £70 a week averaged out over 12 months
- Fuel for the van and its generator is £100 each week averaged out over 12 months

Other Costs



- Paying a bookkeeper is £100 a month or £25 a week
- Business taxes and professional insurances are £120 a week
- Other miscellaneous costs add up to £100 a week averaged out over 12 months

To keep the van on the road and the business going will cost £665 a week. Irene has added a contingency figure of 10% just in case anything goes wrong or needs fixing, making the total £731.50.

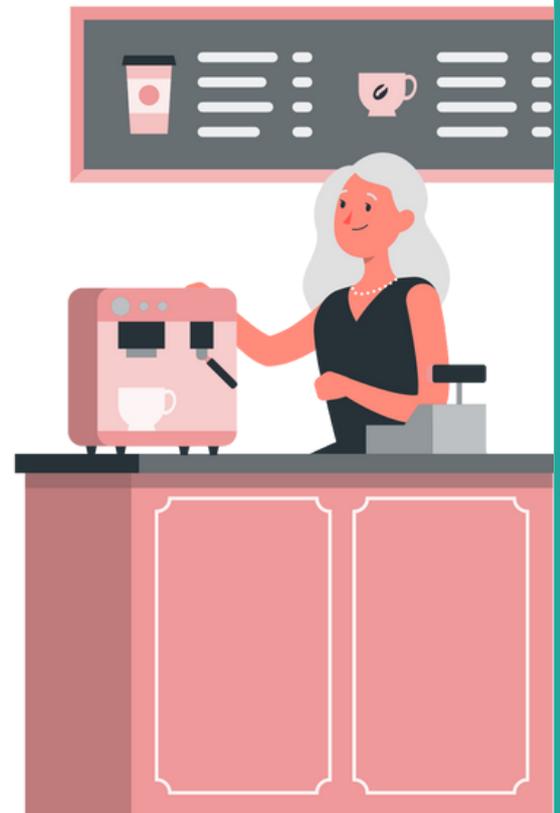
5. CONCLUSION



Irene's business idea will cost an initial £7,940 to start in fixed costs, which equals £152.69 a week to pay back. An estimated minimum of 500 customers a week puts her product costs at £550 a week. Overheads add up to £731.50 a week, which gives her a weekly cost of running the business of £1,434.19. The good news is that her most conservative estimated revenue, at an average of £6 per customer is £3,000 per week, meaning a weekly profit of £1,566.

As Irene's business is seasonal, it's important to remember that her calculations are based on a whole 12 month cycle. She'll need to earn more than the £3,000 forecast in summer to make up for any drop off in winter.

On the face of it, McGann's Highland Coffee seems a viable, profitable business idea. It's not to say realising it will be easy, but doing some initial calculations and planning has proved that it's financially worth taking the first step.



NOTES:

This is an illustrative example for educational purposes only. You should always get expert advice if you're unsure of any aspect of financial planning for your business.