Cat & Joe’s Pig Rig: Should We Stay or Should We Go?

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MBA 210: Managerial Accounting

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Background

- Owners: Joe Thompson & Cathy (Cat) Obertowitch
- Expert in slow cooking meat
- Potluck dinner led to inspiration for business
- Investor wrote a check on the spot
- First pulled pork food truck in Kamloops, Canada
- Business was an immediate success
- Signature dish: “Ripped Pig”

Takeaway:
First food truck with pulled pork concept.

Key Facts

Kamloops, British Columbia

- “Ripped Pig” price - $12
- Variable cost - 40% of revenue
- Fixed cost per year - $10,000
- Operational time - 180 days
- Corporate income tax rate- 20%

Signature dish- pulled pork sandwich combo with coleslaw, baked beans, and fries.

Bullarama, Barriere

- Event price - $9
- Variable cost: reduced by $1.90 per customer
- $100 donation
- $130 travel cost

Takeaway:
Attending the Bullarama event will affect quantity and price.

Salient Issues

1. Joe’s 24 hour work day
2. Forecasting amount of pork to smoke
3. Organizers don't keep promises
4. Cost of travel
5. Social media population

Takeaway:
Competition and fixed cost might change profit.

Questions

- How much meat should be smoked?
  - How many people will attend?
  - Will there be competition?
  - Are attendants allowed to exit and re-enter?
  - Should more/less meat be smoked the day before?

Takeaway:
Forecasting meat will be a challenge.

Questions

- Will the Bullarama event be profitable with competition?
  - How many Ripped Pigs must be sold to break even?
  - What is the desired profit from the event?
  - Are there funds to cover losses for low sales at the event?

Takeaway:
Competition will affect sales.

Assumptions

- 700 tickets sold does not mean 700 attendees
  - Weather will be good
  - 35% of attendees will purchase food
  - Not much options to choose from
- There is no other popular restaurant near event location
  - Pig Rig is not well-known in Barriere
  - There might be other food trucks at the event
  - Assuming there is no other pulled pork food truck in Barriere

Decision to be Made

Should Cat & Joe attend Bullarama event?

or

Should they operate a regular day in Kamloops?

Financial Report

Takeaway:
Pig Rig will profit even in worst case scenario.

Day in Kamloops

Contribution Income Statement				
	Per Unit	Pessimistic	Realistic	Optimistic
# Meals per Day	1	75	100	125
Sales ($12 per unit)	$ 12.00	$ 900.00	$ 1,200.00	$ 1,500.00
Variable Cost (40% of revenue)	$ 4.80	$ 360.00	$ 480.00	$ 600.00
Contribution Margin	$ 7.20	$ 540.00	$ 720.00	$ 900.00
Fixed Cost ($10,000 per 180 days)	$ 55.56	$ 55.56	$ 55.56	$ 55.56
Income (before taxes)		$ 484.44	$ 664.44	$ 844.44
Taxes (20%)		$ 96.89	$ 132.89	$ 168.89
Net Income		$ 387.56	$ 531.56	$ 675.56

Financial Report

Takeaway:
Attending Bullarama means selling at lower price & higher fixed cost.

Attending Bullarama Event

Contribution Income Statement				
	Per Unit	No competitor	1 competitor	2 competitors
# Meals per Day	1	245	123	82
Sales ($9 per unit)	$ 9.00	$ 2,205.00	$ 1,107.00	$ 738.00
Variable Cost ($1.9 less)	$ 2.90	$ 710.50	$ 356.70	$ 237.80
Contribution Margin	$ 6.10	$ 1,494.50	$ 750.30	$ 500.20
Fixed Cost ($230 more)	$ 285.56	$ 285.56	$ 285.56	$ 285.56
Income (before taxes)		$ 1,208.94	$ 464.74	$ 214.64
Taxes (20%)		$ 241.79	$ 92.95	$ 42.93
Net Income		$ 967.16	$ 371.80	$ 171.72

Break-Even Analysis

Stay in Kamloops:

Break-Even Units: 8 Sandwiches

Break-Even in Dollar Sales: $93

Attend Bullarama:

Break-Even Units: 47 Sandwiches

Break-Even in Dollar Sales: $421

Takeaway:
Low & achievable break-even point for Kamloops.

Quantitative Analysis

Margin of Safety

Stay in Kamloops		
Pessimistic	Realistic	Optimistic
$ 807.41	$ 1,107.41	$ 1,407.41

Attend Bullarama		
No competitor	1 competitor	2 competitors
$ 1,783.69	$ 685.69	$ 316.69

Takeaway:
Margin of safety for attending Bullarama shows a risk with competitors.

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Qualitative Considerations - Stay in Kamloops

Pros

- Focus on the current/new customers
- Avoid travel costs
- Avoid possible false promises

Cons

- No exposure to new environment

Takeaway:
Loyal customers vs. growing new customer base.

Qualitative Considerations - Attend Bullarama

Pros

- Free marketing
- Potential future opportunities
- Increase customer base

Cons

- May lose current Kamloops customers
- Joe will be more tired
- What if more than 35% purchase food?

Takeaway:
Customer base and marketing of business increases.

Conclusion/Recommendation

Not to attend Bullarama event

Increased Fixed costs reduces net income

Risk of competition in Bullarama = high variation in profits

Last time they agreed to attend a similar even they barely broke even and told themselves, “We don't need to say ‘yes’ to every opportunity.”

SWOT Analysis

Strengths

- Loyal customers
- Online marketing
- Simple menu
- First mover advantage
- No labor cost

Weaknesses

- Sales are weather dependent
- Forecasting demand
- Food preparation time

SWOT Analysis

Opportunities

- Attract a larger population through expansion
- Increase brand awareness

Threats

- Onsite competition
- If they run out of food, event promoters will not invite them

Questions?

Appaloosa County Day Care Center

MBA 210 | Dr. Hugh Pforsich

Presenter Names:
A N
R L

Due Date: 3/7/2019

Executive Summary

Background

Appaloosa County Day Care (ACDC) Center provides quality childcare services to low-income communities. They recently built a new facility that is strategized to increase their profits and better serve the community. However, the first-year results has shown otherwise.

What's the story?

Executive Summary

Key Facts

- Board members do not have a financial or accounting background
- Building maintenance expenses are paid by ACDC
- Leases the a portion of space in the new building to 2 tenants
- Operating Loss after the 1st year

Lack of Judgement

Executive Summary

Salient Issues

- No correlation between the childcare/rental rates and costs
- Reckless approach with the “wait and see” position
- Inadequate research on lease rates; rates only based on floor space

What are the problems?

Questions

Why is the Center running at a Loss?

-Which programs are creating the highest costs?

-How do current childcare rates correlate to current costs?

-How much of the costs are the tenants currently absorbing in their rent?

-Where do we have room to increase revenue?

What's causing the loss?

Questions

How can Activity Based Costing be applied to Appaloosa's situation to improve Profitability?

-How do we divide the activities/expense data into various cost pools?

-What are the cost drivers per activity cost pool?

-What are the Activity Rates?

-What is the cost/revenue relationship per program?

Where can ABC fit into ACDC's situation?

Assumptions

- **The Administrative and the Kitchen Staff is present during operation hours.**
  - Although it was not indicated that the administrative or kitchen staff remains on the premises during operation hours, they will be accounted for in our calculations.
- **Food cost includes staff members**
  - Staff members are fed meals; thus, they are accounted for when calculating food costs.

Costs are accounted for

Assumptions

- **All 3 child care services utilize an even amount of space (1200 sq. ft.)**
  - There was no breakdown on the amount of floor space used by each child care service.
- **ACDC will incur the occupancy costs of Head Start and the School District in the first year**
  - Since this is in fine print, it is assumed that ACDC will incur the costs due to their negligence. Therefore, ACDC cannot recoup the costs.

Simplified assumptions for analysis

Decisions to be Made

Increase Child care Program Rates or Keep them the Same?

(Infant, Toddler, Pre-K)

Profitable Programs vs. Non?

Reports: Program Profitability & Enrollment Report

Report Data Source: Enrollment #'s, Rates and Program Revenue

Decisions to be Made

Raise Rent for the other Building Tenants <u>or</u> not?

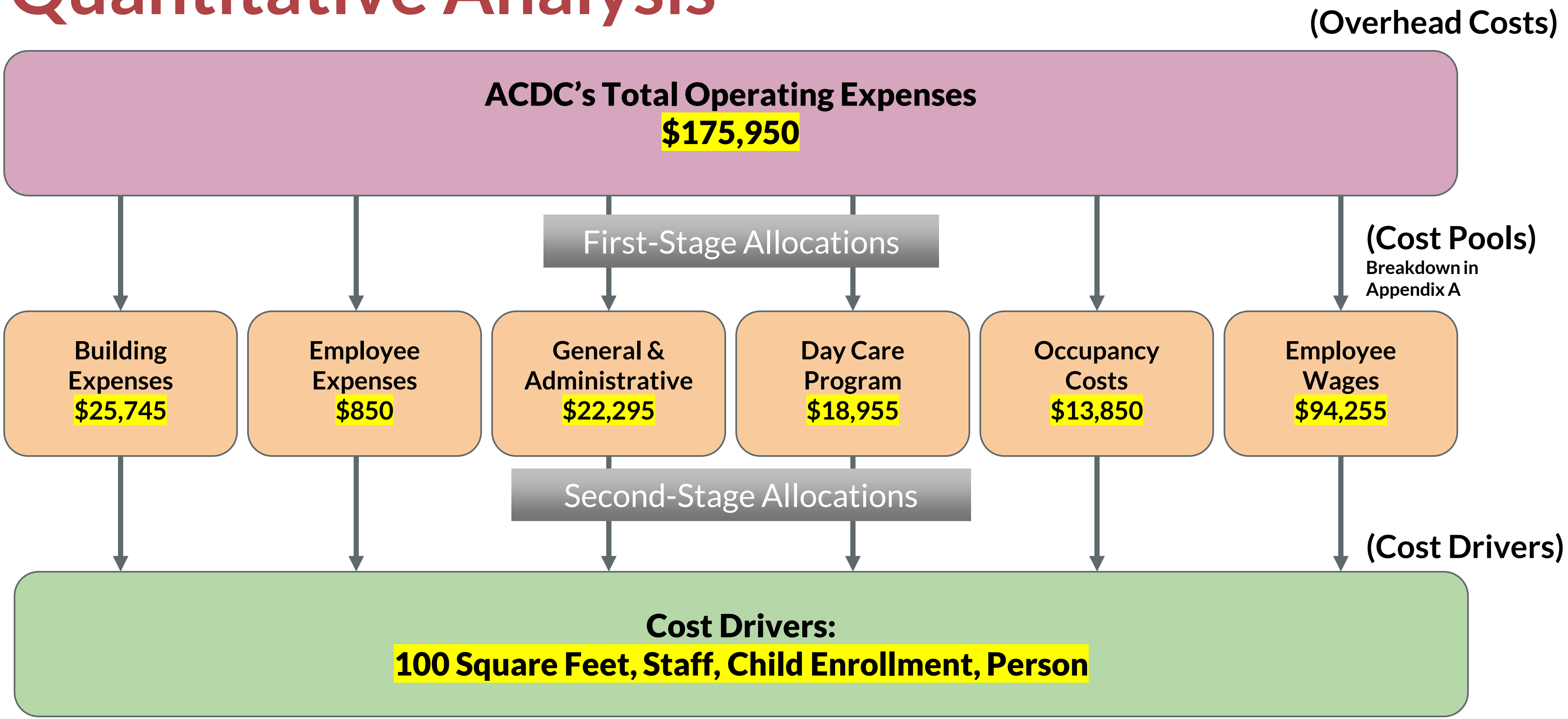
(Head Start/School District)

<u>Reports:</u> Cost of rent per sq. ft. & Occupancy Cost Report

<u>Report Data Source:</u> Tenant/Footage Relationship & Rent

Justifications for Raising Rent

Quantitative Analysis



Quantitative Analysis

What are the breakdowns of the cost drivers?

	Building Expenses	Employee Expenses	General & Administrative	Day Care Program	Occupancy Costs	Employee Wages
(Cost Pools)	$25,745	$850	$22,295	$18,955	$13,850	$94,255
	÷	÷	÷	÷	÷	
(Cost Driver Unit)	Total Square Feet 8000 feet	Total Staff Employed 14 staff	Total Enrollment 78 children	Total Average Daily Population 59	Total People Using Building 125	
	x 100 sq. ft.					
(Cost Activity Rates)	$321.81 per 100 sq. ft.	$60.71 per staff member	$285.83 per child	$321.27 per child	$110.80 per person	$94,255 (a direct cost)

Quantitative Analysis

What is the profitability analysis of ACDC?

ACDC Year 1	Cost Pools	Act. Rate	Unit	ACDC		HEAD START		DISTRICT		Total
Revenue					$ 159,890		$ 6,360		$ 4,200	$ 170,450
				UNITS	COSTS	UNITS	COSTS	UNITS	COSTS	
Costs:										
Direct Labor	$ 94,255				$ 94,255					$ 94,255
Building	$ 25,475	$ 321.81	per 100 sq. ft.	3600	$ 11,585	2650	$ 8,528	1750	$ 5,632	$ 25,745
Employee	$ 850	$ 60.71	per staff	14	$ 850					$ 850
Gen & Admin	$ 22,295	$ 285.83	per child	78	$ 22,295					$ 22,295
Program	$ 18,955	$ 321.27	per avg pop.	59	$ 18,955					$ 18,955
Occupancy	$ 13,850	$ 110.80	per people	61	$ 6,759	46	$ 5,097	18	$ 1,994	$ 13,850
Total Costs:					$ 154,699		$ 13,625		$ 7,626	$ 175,949
Net Income (Loss)					5,191		(7,265)		(3,426)	(5,499)

Quantitative Analysis

Which childcare programs are profitable?

		INFANT		TODDLER		PRE-K		HEAD START	DISTRICT	
ACDC Year 1	Act. Rate	UNIT	COSTS	UNIT	COSTS	UNIT	COSTS	HS COSTS	D. COSTS	Total
Revenue			$ 28,530		$ 68,710		$ 62,650	$ 6,360	$ 4,200	$ 170,450
		UNITS	COSTS	UNITS	COSTS	UNITS	COSTS	COSTS	COSTS	
Costs:										
Direct Labor			$ 20,915		$ 41,830		$ 31,510			$ 94,255
Building	$ 321.81	1200	$ 3,862	1200	$ 3,862	1200	$ 3,862	$ 8,528	$ 5,632	$ 25,745
Employee	$ 60.71	3	$ 182	5	$ 304	4	$ 243			$ 850
Gen & Admin	$ 285.83	11	$ 3,144	35	$ 10,004	32	$ 9,147			$ 22,295
Program	$ 321.27	10	$ 3,213	26	$ 8,353	23	$ 7,389			$ 18,955
Occupancy	$ 110.80	10 2/3	$ 1,182	26 2/3	$ 2,955	23 2/3	$ 2,622	$ 5,097	$ 1,994	$ 13,850
Total Costs:			$ 32,497		$ 67,307		$ 54,773	$ 13,625	$ 7,626	$ 175,949
Net Income (Loss)			(3,967)		1,403		7,877	(7,265)	(3,426)	(5,499)

Qualitative Analysis

Community Considerations:

> Parent Sensitivity to Price Changes

> Tenant Response to Rent Adjustments

> 'On Thin Ice' with Perceptions and Preferences

> Will Stakeholders Empathize?

Consider Worst Case Reactions

Qualitative Analysis

Are we achieving ACDC's mission?

"To provide quality, affordable childcare to the residents of the community (working-class families) and surrounding area."

-Cannot achieve the mission if the organization shuts down

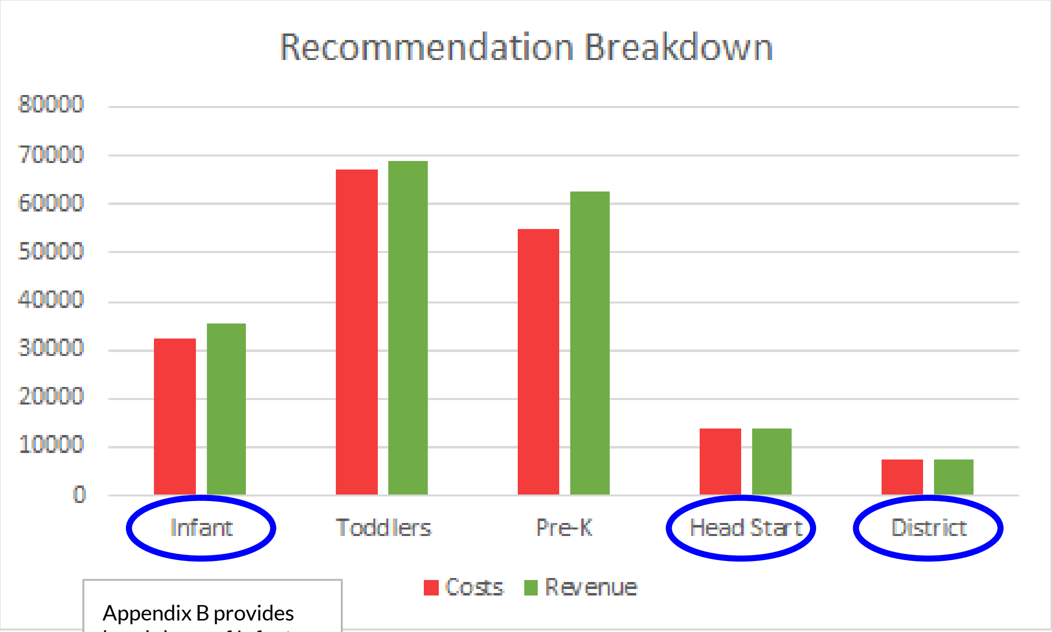
Organizational Alignment

Conclusions & Recommendations

- Update the lease terms and include maintenance fees
  - Rates would reflect the new $321.81 per 100 sq. ft. cost from our ABC analysis.
  - Additionally, charge $110.80 per occupant of average occupants during the year. Could be a one time charge at the end of year.
- Increase rates for the Infant child care program to avoid loss
  - A new increased rate would bring a higher profit margin

Increase rates and lease to make up for high costs

Conclusions & Recommendations



Appendix B provides breakdown of Infant revenue projection

- A suggested Infant child care rate:
  - $2.50 (increased by 50 cents)
  - An approximate demonstrated in the graph.
- Tenants would pay the amount they owe.

Main Goal: Avoid Loss

SWOT Analysis

Strengths	**Weaknesses**
• Ability to Operate on ‘very low’ profit margins • High Quality Facility • 1 Year of Experience & Data to Analyze	• Poor Administrative Practices • Board Lacking Acct./Fin. Competencies • Economically Depressed County • DHS’s Strict Licensing Regulations
Opportunities	**Threats**
• First of its Kind in the Community • Two Tenants (Head Start program & local School District) • Upcoming Building Lease Renewal	• “In-Home Childcare” • Negative Perceptions • Customer reaction to possibly increased childcare rates

Appendix A: Breakdown of Cost Pools

Building Expenses
Depreciation 11,800 (T2)
Insurance - Building/Property 860 (T2)
Interest Expense 13,085 (T2)
=$25,745

Employee Expenses
Continuing Education 450 (T2)
Insurance - Workers' Compensation 400 (T)
=$850

General and Administrative
Administrative Wages 14,940 (T1)
Accounting & Legal 900 (T2)
Advertising 150 (T2)
Bank Charges 35 (T2)
Insurance - Officer Bond 120 (T2)
Insurance - General Liability 2,190 (T2)
Supplies - Office 2,900 (T2)
Telephone 1,060 (T2)
=$22,295

Day Care Center Program
Kitchen 9,780 (T1)
Food Expense 5,500 (T2)
Supplies - Program/Art 3,675 (T2)
=$18,955/59 is $321.21 absorbed per person per year

Tenant or Occupancy Costs (School District and Head Start)
Repairs and Maintenance 5,950 (T2)
Sanitation Service 2,435 (T2)
Supplies - Cleaning 365 (T2)
Utilities 4,000 (T2)
Water/Sewer 1,100 (T2)
=$13,850

Employee Wages
Infant 20,915 (T1)
Toddler 41,830 (T1)
Pre-K 31,510 (T1)
=$94,255 (total of employee wages)

Appendix B: Infant Rate Calculations

Revenue In Year 1: $28,530

Enrollment: 10

Assumed Hours of Operations in a day: 8

Current Price: $2

Suggested Price: $2.5

Current Revenue: $28,530

Projected Revenue: $35,600

Revenue increased by $7,070

Calculating Approx. Days of Operations

$2 x 8 x 10
= $160 revenue in a day

$$\frac{\$28,530}{160}$$

= ~178 days of operations

Calculating amount of revenue in a day/year

$2.5 x 8 x 10
= $200 in a day

$200 x 178
= $35,600 approximate revenue