



Cost Drivers

Sustainable Growth - Optimizing Business Operations

February 10, 2024



Your Optimizing Business Operations Cohort



STREET COMPANY



SUAY

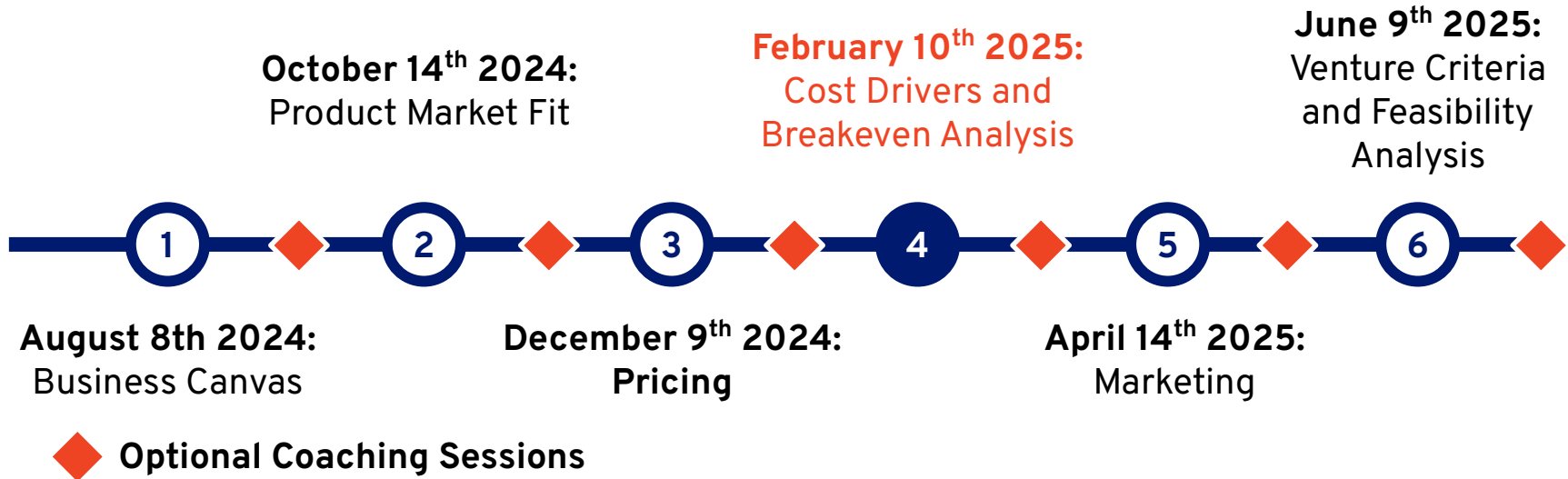
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MERISTEM



Sustainable Growth: Optimizing Business Operations Timeline



Upcoming Program Requirements & Announcements

Program Requirements:

- 1:1 RM meetings – they are happening now and some of you have already completed them! IF you haven't scheduled yours yet, please reach out to your Relationship Manager Jamie or Will
- Upcoming midpoint survey – this will be similar to the initial survey you all took in September and will be released in March. More to come on this via email

Announcements

- Cause Impacts our Evaluation partner put together some preliminary findings we will send out in the recap email to this track session
- Reminder to talk to your RM about responsive technical assistance for 1:1 support!

Upcoming In-Person Events Register by Feb 14th!

Tuesday, March 11th NorCal Regional Event in Oakland

Agenda:

- 10:30-11:30am: Coffee and Tour at Red Bay Coffee Headquarters
- 11:30am-12:30pm: Social lunch at Red Bay Coffee w/ REDF staff
- 12:30-2pm: Planting Justice tour
- 2-3:30pm: Solutions Salon
- 3:30-4:30pm: Closing
- 4:30pm: OPTIONAL site visits in San Francisco

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Thursday, April 10th SoCal Regional Event in Los Angeles

Agenda (still being finalized):

- 10:30-11:30am: Coffee and Tour at South LA Cafe
- 11:30am-12:30pm: Social lunch at South LA Cafe w/ REDF staff
- 12:30-2pm: SUAY Sew Shop tour
- 1:30-3pm: Solutions Salon
- 3-4pm: Closing
- 4pm: OPTIONAL site visits

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Big Check Events Debrief

Thank you to everyone that was able to join us for one of the twelve big check events we hosted in December. REDF would like to create space to debrief and discuss next steps you could take to foster a relationship with local decision makers.

Join us February 25 at 10:00am on Zoom. If you have any questions, feel free to reach out to Justin Van Zerber (jvanzerber@redf.org).
https://redf.zoom.us/joining/register/ovNN_OSCQW2wJII-hhMqRg



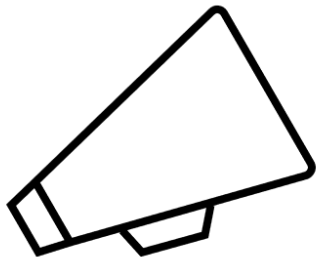
Optional Workshops Coming Your Way!

- **Feb 19, Feb 26, March 5 (Three-part series) on Partnership Mapping**
<https://redf.zoom.us/meeting/register/463-mffOT2-ZFvm7tJKjfg>
- **Apr 1 and Apr 2 Financial Health Metrics 101 and 201 (Financial Fundamentals series)** <https://REDF.zoom.us/meeting/register/gcxTeuK5SUGCQ10M5p3lkg>
- **Apr 3 Liquidity Understanding & Management Part 1 and Part 2 (Financial Fundamentals series)**
<https://REDF.zoom.us/meeting/register/5ts1HotVSW-l4VSwNmrTkw>
- **May 6 Double Bottom Line Analysis**
<https://REDF.zoom.us/meeting/register/3KQmx0WBRMm63oWfoHrpog>
- **May 7 Rising Impact Capital Strategy**
<https://REDF.zoom.us/meeting/register/l1N4LWq2Rha4SoMhOOgKPA>

All upcoming and completed optional workshops can now be found on REDF Workshop!



Help us collect IT practices and get \$25!



Help REDF understand how technology is working for our national employment social enterprise (ESE) community!

REDF has partnered with Deloitte Consulting to learn about ESEs' technology solutions and how these solutions can better serve ESEs' needs.

Complete this 10-15 minute [survey](#) and receive \$25 for your valuable insights. REDF will share back out the findings from this project later this spring. Questions? Contact Maura Welch at mwelch@redf.org.

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Introducing The Growth & Mobility Fund

Flexible Financing. Lower Costs. Higher Impact.

REDF Impact Investing Fund (RIIF) is thrilled to introduce the **Growth & Mobility Fund** – an initiative offering new, flexible loan opportunities just for CA RISE participants.

Fill out a quick [interest form](#), and we'll follow up to learn about your needs, answer questions, and support you through the process.

Questions? Reach out to me directly at rannamraju@redf.org – I'd love to connect.



Interest Form:

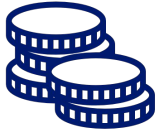


Introducing The Growth & Mobility Fund

Flexible Capital + Job Quality Focus = Lower Costs, Greater Impact

The Growth & Mobility Fund provides flexible capital to help your business grow, with interest rate discounts that increase as you improve job quality – lowering your costs while maximizing your impact. The fund offers:

Discounts from Day One



Get an **automatic discount** when your loan starts – **no extra steps needed**.

Rate discounts are applied based on an **assessment of your current job quality practices** to recognize the value of the policies you already have in place.

Lower Rates Over Time



Earn **additional discounts** throughout the life of your loan by making **job quality improvements** like enhancing employee feedback programs.

We reassess and apply **additional discounts** as improvements are made.

TA For Job Quality



Get **technical assistance** to improve job quality for your participants and employees.

We'll help you identify and fund improvements that are **practical and easy to implement**.

Community Agreements

- Stay engaged - please keep your camera on if you can
- Listen to understand
- Take space, make space
- Nobody knows everything, but together we know a lot
- Challenge assumptions
- Expect and accept non-closure
- Center participant workers
- Embrace diversity in all of its forms
- Create a safer space for sharing / refrain from attribution



Session Overview

- Discuss cost analysis and its benefits
- Explore variable and fixed costs, cost of goods sold, and operating expenses and practice using them in a tool
- Examine social costs unique to ESEs and use them in a tool
- Put together a profit and loss statement based on information in the tool
- Reflect on ways cost analysis can inform revenue strategies



Check-in Reflection

Fixed costs stay the same and variable costs change.

At home, what is one fixed cost and one variable cost you have each month? Try to choose something we'd be surprised by!

For example, my gym bill is fixed but the price of vegan chocolate ice cream is variable.

Please put your thoughts in the chat. And then, share connections with some of the other comments in the chat.



What is Cost Analysis?

Cost analysis for a business is the process of **examining all expenses to understand how money is spent**. It helps identify **fixed costs** (which stay the same, like rent) and **variable costs** (which change with sales, like materials).



How Does Cost Analysis Help My ESE?

Understanding which costs vary with the amount of product/service sold vs. those that don't is critical in order to:

- Budget appropriately
- Benchmark appropriately
- Make targeted cost reductions
- Determine breakeven levels
- Price your product/service

What Are Fixed and Variable Costs?

Common Variable Costs

- Cost of materials needed to produce what you are selling
- Labor costs that vary with production / service
- Fuel needed for transportation related to delivery of product or service

Common Fixed Costs

- Facility Space cost
- Equipment costs
- Management overhead costs

COGS: Cost of Goods Sold

COGS refers to the direct costs associated with producing the goods or services a business sells. This includes materials and labor directly used to create the product or service.

Key Components:

- **Materials:** Raw materials or parts used in manufacturing.
- **Labor:** Wages for workers directly involved in production.
- **Other:** Anything directly tied to product production or service delivery.



COGS: Cost of Goods Sold

Examples for a Coffee Shop:

- Beans
- Cups
- Milks
- Espresso machine lease
- Wages of baristas

Impact: COGS directly impacts gross profit, as $\text{Gross Profit} = \text{Revenue} - \text{COGS}$.



OPEX: Operating Expenses

OPEX refers to the ongoing costs required to run the business but not directly tied to production. These are often referred to as overhead or indirect costs.

Examples for a coffee shop:

- Rent
- Utilities
- Marketing
- Salaries of administrative staff

Impact: OPEX affects operating income, which is part of the Profit and Loss Statement. Managing OPEX efficiently can boost profitability.



Putting it Into Practice

Solo activity: Use the information on the next slide to put together tables of Cost of Goods Sold (COGS) and Operating Expenses (OPEX) in the tool. If you need help, ask questions in the chat!

7 minutes of individual writing time



Latte Larry's

Good Coffee Never Gets Old



EXPENSES Q3 2024

- Beans \$30.00/lb x 50 lbs
- Rent \$60,000
- Marketing \$5,100
- Insurance \$2,000
- Water \$600 x 3 months
- Cups \$525.00
- Milks \$5,000.00
- Espresso machine leases
\$3500 x2 machines
- Wages of Part-Time Baristas
\$50,000
- Cafe Administrator Full-Time
Salary \$15,000
- Cafe Administrator Fringe
\$5,000
- Second Cafe Administrator
\$8,000
- Cleaning Supplies \$500

Stretch Break

Use 2 minutes to move around and take care of yourself.



Social Costs

Social costs are any cost incurred by a social enterprise beyond ordinary business costs in order to fulfill its mission. These costs are often related to providing the extra training, supervision, and support that enable individuals with barriers to employment to become successful employees.

Social costs do not include:

- General inefficiencies – some inefficiency is inherent in all businesses
- All training costs – most businesses require training
- General overhead
- Revenue opportunity costs (i.e. potential revenue lost due to mission)



Social Costs

Potential social costs (program model dependent) include:

- Varied levels of production and constrained working hours
- Increased use of materials for training purposes
- Employee time spent accessing supportive services, with job counselors, and on job search or other activities outside of product production or service delivery
- Increased insurance rates that may come from type of work being completed
- Additional management and supervisory costs of managing and providing supports to employees overcoming barriers
- Increased employee turnover (intentional turn over for transitional employers)

Putting it Into Practice

Group activity: Use your experience and imagination together to fill out the table of Social Costs. Then, discuss how social costs impact your business.

12 minutes of group collaboration



Whole Group Sharing

What's **one thing you're taking away** from the conversation with your group?

Please put your thoughts in the chat.



P&L Statement: Profit & Loss Statement

The P&L statement (also called an income statement) is a financial report summarizing revenues, costs, and expenses over a period of time. It shows whether a company made a profit or a loss.



P&L Statement: Profit & Loss Statement

Here's what goes into the P&L Statement:

- Revenue: Total income from sales or services.
- COGS: Subtracted to calculate gross profit.
- OPEX: Operating expenses are deducted from gross profit to calculate operating profit.
- Net Profit: The final profit after subtracting taxes, social costs, interest, and other non-operating costs.

Impact: It gives a snapshot of financial health and identifies areas where costs can be optimized.



Putting it Into Practice

Group activity: Use the documents in the tool to put together a Profit and Loss Statement (P&L). Then, discuss the P&L for Latte Larry's. What makes sense on the table and what doesn't? If you had to cut costs, where would you start? Use the tips at the end of the tool!

Then, discuss how P&Ls currently impact your business. Do you track money this way? If you do, what decisions does it inform? If you don't, would you find this tool helpful? Why or why not?

~12 minutes of group collaboration



Whole Group Sharing

What's **one thing you're taking away** from the conversation with your group?

Please put your thoughts in the chat.



Check-out Reflection

How does today's information impact how you might **strategically think about your pricing?**

For example, if operating expenses at the coffee shop are too high, they could be a primary reason why Latte Larry's is not making a profit. What ways could you shift pricing?

Put your answers in the chat and give a shoutout to a couple other responses that resonate with you.



What's Next?

- Keep thinking about **strategizing cost and pricing.**
- Join us for a **coaching session on Cost Drivers on March 17th @ 11am-12:30pm.**
- **Remember:** Responsive Technical Assistance on Pricing is available!

- **Questions?** Contact your Relationship Manager!
- **Will Portnof - wportnof@redf.org**
- **Jamie Stark - jstark@redf.org**



Feedback Survey

Please take a few minutes to fill out our Survey on this session.

<https://bit.ly/SGTOptimizeAll>

This feedback helps us improve your experience and plan adjustments to make moving forward.

