



Cost Drivers Coaching Session

Sustainable Growth - Optimizing Business Operations

March, 2024



Your Optimizing Business Operations Cohort



STREET COMPANY



SUAY

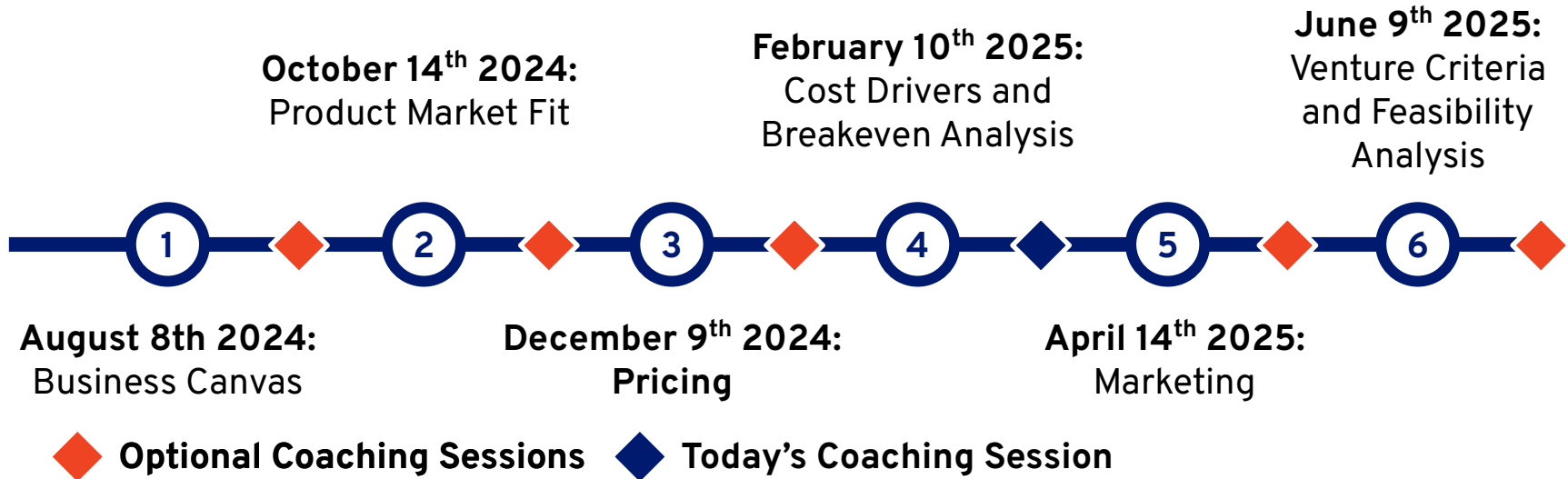
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MERISTEM



Sustainable Growth: Optimizing Business Operations Timeline



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

- Review cost analysis and its benefits
- Explore cost reduction strategies and tips
- Apply cost strategies and tips to Latte Larry's and our own business models



Check-in Reflection

Tell us about something or someone you want to celebrate in your organization — it could be big or small!

Please put your thoughts in the chat. Then, share some love 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

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)

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

Latte Larry's

Good Coffee Never Gets Old

COGS: Cost of Good 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.

	Item	Cost
	Beans	1,500
	Cups	525
	Milks	5,000
	Espresso machine leases	7,000
+	Wages	50,000
	Cleaning Supplies	500
	Total Cost:	\$58,225

Latte Larry's

Good Coffee Never Gets Old

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.

	Item	Cost
	Rent	60,000
	Water	1,800
+	Marketing	5,100
	Insurance	2,000
	Admin salaries	28,000
	Total Cost:	\$96,900



Good Coffee Never Gets Old

Social Costs

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

Item	Cost
Advanced Barista Training	10,000
Training Materials	1,000
Tech Training	5,000
Employee Transportation	12,000
Total Cost:	\$28,000



Good Coffee Never Gets Old

2024 Q3 P&L 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.

Total Revenue:	\$102,945
COGS	\$58,225
OPEX	\$96,900
Social Costs	\$28,000
COGS + OPEX + Social Costs:	\$183,125
<i>Subtract expenses from revenue</i>	
Total Profit/Loss:	-\$80,180

Tips for Cutting Costs

Focus on large cost categories first

- Using the cost data contained within the accounting system, determine the categories responsible for the bulk of the business's expenses
- Prioritize these areas for cost reduction, since even incremental changes can have a significant impact on total costs

Tips for Cutting Costs

Make incremental changes

- Consolidate activities to save on costs
- Reduce material wastage (e.g., instead of utilizing new materials for brand new trainees, use leftovers for practice)
- Reduce FTE overhead by allowing proficient workers to operate semi-autonomously after the successful conclusion of the training period
- Attempt to re-negotiate rates with suppliers where possible, such as for bulk purchases

Tips for Cutting Costs

Redesign, reorganize, and eliminate

- Review business processes to identify the most time-consuming, labor-intensive processes and brainstorm ways to streamline them (see process overview document for more information on streamlining processes)
- Identify where materials are often wasted as a result of inefficient processes and implement preventive measures
- Determine which long-time standing processes add value, versus which can be eliminated
- Consider closing down product or service lines that generate an outsized proportion of costs and that don't contribute substantial revenue

Tips for Cutting Costs

Solicit suggestions from staff members

- Often, front-line workers have the best vantage point from which to diagnose organizational inefficiencies
- Conduct regular check-ins with managers and participants to surface novel cost-reduction ideas

Putting it Into Practice

Group activity: Latte Larry's is going to have to close if it has another P&L like Q3. Using the cost-cutting tips and your own experience, create a strategy for getting Latte Larry's to at least break even in Q4.

Note: Some of the details are vague, Latte Larry's hasn't done a great job of bookkeeping – use your imagination to fill in the blanks!

15 minutes of group collaboration



Whole Group Sharing

What's the top cost-cutting technique Latte Larry's needs to put in place immediately? How will it help the business while not compromising the mission?

Please put your thoughts in the chat.



Stretch Break and Grab Your P&L Statement

Use 5 minutes to move around, take care of yourself and grab a copy of your P&L Statement – or, list your main cost drivers.



Putting it Into Practice

Group activity: Share the outline of your own organization's P&L with your group along with a financial goal you have for the next year. It could be focused on cutting costs or it could be something else. Using all the tools we have explored in these sessions and your collective experience, work together to brainstorm pathways toward each organization's goal.

20 minutes of group collaboration



Whole Group Sharing

Shoutout a new idea or two that came up in your group today. Then, tell us how that idea might impact your organization.

If the idea inspires you, too, let everyone know in the chat!



What's Next?

- Keep thinking about **cost, pricing and strategy.**
- Join us for our next session on **Marketing on April 14th @ 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.

