

Latte Larry's

Good Coffee Never Gets Old



Latte Larry's is a coffee shop and cafe that is primarily staffed by adults over the age of 70. Latte Larry's believes that it is important for people at any age to be able to live fulfilling, independent lives. Unfortunately, Latte Larry's didn't hire enough administrative staff to complete this quarter's P&L. We're hoping you can help.

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

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

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

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
Subtract expenses from revenue	
Total Profit/Loss:	-\$80,180

Tips for Cutting Costs

In ESEs, some costs will be greater than other businesses. Whatever the specific social mission is, incurring social costs is not an accidental matter; it is a by-product of doing social mission work. There are numerous costs to running a social enterprise that can be attributed directly to the sponsoring organization's social mission or the social mission of the business. For example, labor costs will always be high due to training requirements. As you find ways to make your business more profitable, here are a few tips that might help you think of ways to cut 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
- **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
- **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
- **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