Ben's Beans

Ben founded Ben's Coffee in 2010.Taking advantage of the massive uptake in coffee drinking around the world he has grown his coffee bean roasting business from a homebased part time hobby into a £6 million rapidly growing business.

Ben's Coffee has a small range of beans, which are roasted on the premises and sold to over 400 coffee shops, cafés and restaurants. His premium brand Ben's Beans is now the 2nd biggest brand sold in coffee shops nationally. The business also imports a range of Commercial Coffee Machines which are provided to coffee shops who commit to purchase Ben's Beans exclusively over 3 year minimum contracts.

The popularity of his beans has seen Revenue grow by 14% in 2017 and he is budgeting to increase revenue by another 15% in2018. The business is profitable and made £410,000 in 2017 up from £350,000 last year. Ben pays himself a commercial salary as well as a dividend of £150,000 per year.

Like so many small businesses Ben's Bens has continually struggled with Cash Flow problems. In the past his bank has been supportive, but recently the relationship has changed and with borrowings of over £2.6million, the bank has demanded that Ben puts forward a strategy to reduce the debt to under £2million as soon as possible. Ben has two big challenges, getting paid by customers and sourcing sufficient high quality raw coffee beans.

Ben has started thinking about his future and wants to sell the business in the next 3 years, he will only be in a position to sell if he can be financially independent afterwards. In the meantime he has to work out how to reduce her level of debt as soon as possible. There is a real fear that the bank will withdraw their support

Ben does not have a formal management structure. He employs a part time Bookkeeper and his external Accountant prepares and lodges his accounts for tax purposes. Ben is not very financially literate and is only focused on his Revenue and to a lesser extent her profit. He does have a good understanding of margins and markups.

Given his problems with his bank Ben has called on his friend David a financial expert to review his business. Ben's Accountant has produced a summary set of accounts for the last 4 years.

The Magic NUMBERS

Profit & Loss	30-06-2014 12 months	30-06-2015 12 months	30-06-2016 12 months	30-06-2017 12 months
Revenue	3,400,000	5,000,000	5,800,000	6,612,000
COGS	2,535,000	3,700,000	4,150,000	4,694,500
Gross Margin	**865,000**	**1,300,000**	**1,650,000**	**1,917,500**
Overheads	505,000	833,000	1,025,000	1,216,200
EBIT	**360,000**	**467,000**	**625,000**	**701,300**
Other Inc/Exp	0	0	0	0
Interest	50,000	100,000	150,000	176,000
Net Profit before Tax	**310,000**	**367,000**	**475,000**	**525,300**
Tax	114,600	87,000	125,000	115,300
Net Profit	**195,400**	**280,000**	**350,000**	**410,000**
Dividends Paid	45,400	180,000	100,000	150,000
Retained Profit	**150,000**	**100,000**	**250,000**	**260,000**

Balance Sheet	30-06-2014 12 months	30-06-2015 12 months	30-06-2016 12 months	30-06-2017 12 months
Cash	50,000	0	0	0
Trade Debtors	570,000	900,000	1,200,000	1,443,000
Stock	600,000	920,000	1,250,000	1,550,000
Other Current Assets	280,000	280,000	50,000	71,000
Current Assets	**1,500,000**	**2,100,000**	**2,500,000**	**3,064,000**
Fixed Assets	1,000,000	1,400,000	1,800,000	1,800,000
Other Non Current Assets	200,000	100,000	150,000	150,000
Non Current Assets	**1,200,000**	**1,500,000**	**1,950,000**	**1,950,000**
Total Assets	**2,700,000**	**3,600,000**	**4,450,000**	**5,014,000**
Trade Creditors	300,000	450,000	500,000	590,000
Bank Loans - Current	400,000	1,000,000	1,450,000	1,643,000
Other Current Liabilities	100,000	150,000	200,000	221,000
Current Liabilities	**800,000**	**1,600,000**	**2,150,000**	**2,454,000**
Bank Loans - Non Current	1,000,000	1,200,000	1,200,000	1,200,000
Other Non Current Liabilities	200,000	0	50,000	50,000
Non Current Liabilities	**1,200,000**	**1,200,000**	**1,250,000**	**1,250,000**
Total Liabilities	**2,000,000**	**2,800,000**	**3,400,000**	**3,704,000**
Equity	**700,000**	**800,000**	**1,050,000**	**1,310,000**

David examined the summary accounts and sent Ben some of her initial thoughts:

Profit

- ✓ Revenue is growing steadily year on year
- ✓ Gross Margins have actually increased each year
- ✓ NetIncome has stayed constant with Revenue Growth
- ✓ Whilst profit has grown in line with Revenue in % terms the reality is Revenue has grown by over £3 million since 2014 but Net Profit has only increased by just over £200,000

Clearly you have focused on growing Revenue whilst increasing prices and keeping the cost of the beans down.

Balance Sheet

- ✓ Trade Debtors and Inventory have grown steadily over the 4 years. Both have grown by almost a million.
- ✓ Current Debt has increased by over £1,25 million over the 4 years

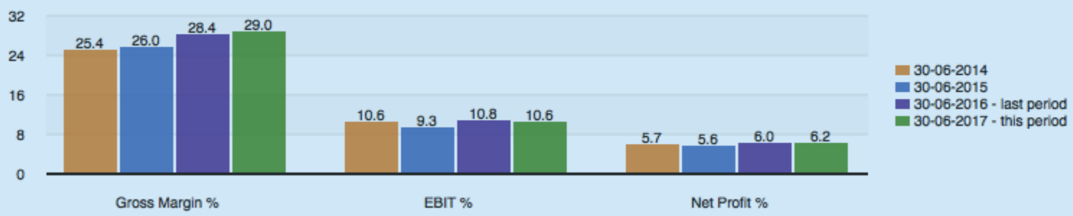
Overall comments

- ✓ Clearly you have focused on growing Revenue whilst increasing prices and keeping the cost of the beans down.
- ✓ Whilst profitable one could argue that Profit growth is small considering the increased Revenue.
- ✓ Lack of control over Trade Debtors and Inventory has created cash shortages.

David entered Ben's financials into Cash Flow Story to analyse the story of Ben's Coffee further. Walking though the business using the structured 4 chapters approach showed some interesting insights into Ben's business.

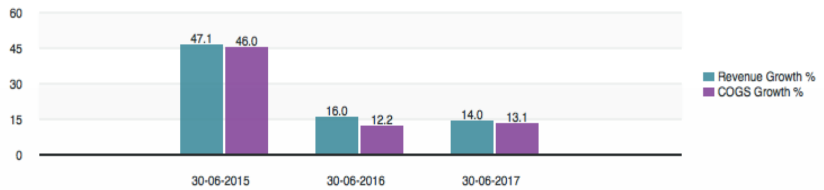
Chapter 1: Profit

Profitability trends

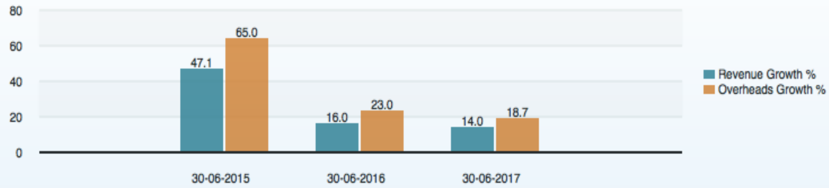


The business has shown strong Revenue Growth with increasing Gross Margin % each year. However the EBIT % (Earnings Before Interest and Tax/Revenue %) and Net Profit % are flat. By reviewing the following graphs the reason for this can be plainly seen.

Revenue growth vs COGS growth



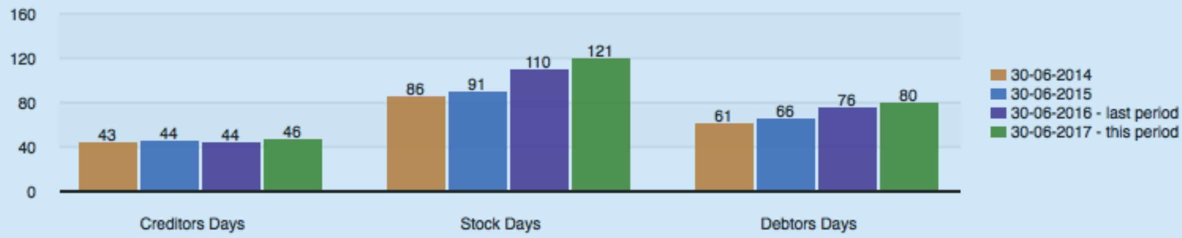
Revenue growth vs overheads growth



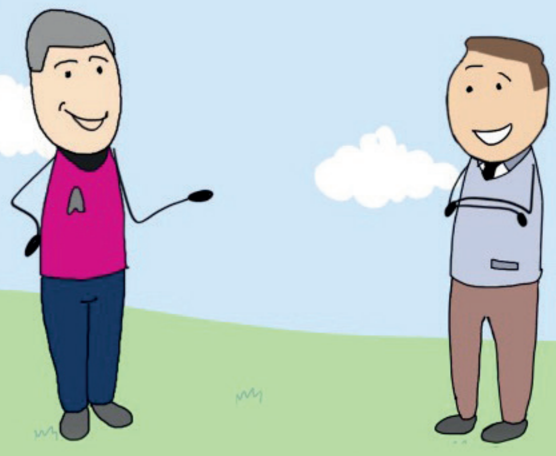
Comparing growth in Revenue to the growth in COGS its clear to see the impressive results each year. On the other hand the second graph shows that Overheads are not being managed. Each year Revenue has grown but Overheads have grown by more.

Chapter 2: Working Capital

Working capital days



Stock days have been rising each year and are now sitting at over 4 months (121 Days). After discussions with Ben this is clearly the reason why his Gross margin has been growing each year. With the objective of ensuring a high quality and consistent coffee from his beans, Ben has had to purchase entire crops from one area. This has meant better pricing but a much larger quantity of beans held in stock. Ben can see no way to reduce his Inventory levels if he wants to maintain his popularity.

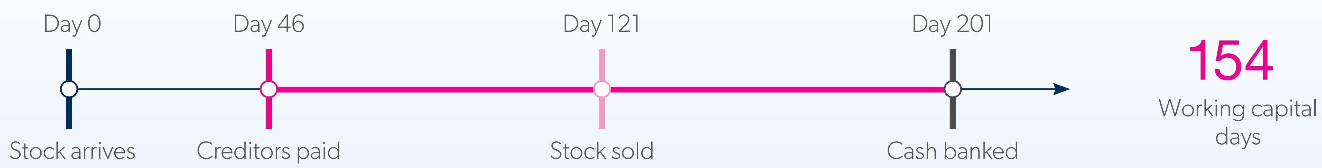


The Magic NUMBERS

Debtors days have also risen steadily over the 4 years from 61 to 80 days. There is no business reason for this increase beyond a lack of focus on collections.

Examining the Working Capital Timeline for the last 2 years shows the total increase in the time between the cash going out to pay the Creditors and the Cash coming back from the Customers increased by 13 days to a very ordinary 154 days which is over 5 months. In the 2017 year it was 201 days from the day the beans landed to the day the cash was banked from the customer for those beans.

This period



Last period

Clearly Ben's Coffee has Cash Flow problems, Ben has never understood why his business is so profitable but yet never seems to have sufficient Cash available. Comparing Profit to Cash Flow clearly highlights the issues in the business. Revenue of £6.6 million but only £6.369 Million was banked. The £243,000 is Cash sitting in Ben's customer's bank accounts that should be in his. Similarity his Cost of Goods was £4,695 Million but he paid out £4,905, meaning that £ he paid out an additional £210,000 for the extra unsold Inventory. The £453,000 difference explains why Ben's business is profitable but yet cash negative.

Profit vs cash flow

Profit		Cash Flow		Variance
Revenue	6,612,000	Cash from customers	6,369,000	**-243,000**
COG	4,694,500	Cash to suppliers	4,904,500	**-210,000**
Gross Margin	**1,917,500**	Gross Cash Profit	1,464,500	**-453,000**
Overheads excl depreciation	1,116,200	Overheads excl depreciation	1,116,200	
EBITDA	**801,300**	**Operating cash flow**	**348,300**	**-453,000**
		+ Other cash outflow	**-541,300**	
		Net cash flow	**-193,000**	

David has not only identified the key issues facing Ben's Coffee but is able to show Ben in a manner that he can understand. However identifying the problem is only half of the story, how does Ben fix his problem?

The Power of One shows the impact that a 1% improvement in the 4 drivers of Profit has on Profit and Cash Flow and the impact that a 1 day improvement in the 3 Working Capital drivers has on Cash Flow. It is clear to see where Ben's 'bang for bucks' are.

Your Power of One			Net Cash Flow $	EBIT $
Your Current Position			-193,000	701,300

Your Power of One	1.0		Impact on Cash Flow $	Impact on EBIT $
Price Increase %	1.0	%	51,690	66,120
Volume Increase %	1.0	%	-4,855	19,175
COGS Reduction %	1.0	%	56,545	46,945
Overheads Reduction %	1.0	%	12,162	12,162
Reduction in Debtors Days	1.0	days	18,115	
Reduction in Stock Days	1.0	days	12,862	
Increase in Creditors Days	1.0	days	12,862	
Your Power of One Impact			**↑ 159,380**	**↑ 144,402**

One consideration would be to increase Prices by 5% that would have a very strong positive impact on both Cash Flow and Profit.

Your Power of One	0.0		Impact on Cash Flow $	Impact on EBIT $
Price Increase %	5.0	%	258,450	330,600

Ben feels that such a large increase in price could lose his customers. But as we see he could sustain over 15% drop in Revenue and still be ahead significantly ahead from a Cash perspective and still ahead in Profit. Ben is not prepared to consider such a radical option as he feels it will upset his customers.

Your Power of One	0.0		Impact on Cash Flow $	Impact on EBIT $
Price Increase %	5.0	%	258,450	330,600
Volume Increase %	-15.0	%	72,825	-287,625
COGS Reduction %	0.0	%	0	0
Overheads Reduction %	0.0	%	0	0
Reduction in Debtors Days	0.0	days	0	
Reduction in Stock Days	0.0	days	0	
Increase in Creditors Days	0.0	days	0	
Your Power of One Impact			**↑ 331,275**	**↑ 42,975**

Ben and David arranged a meeting to work through some realistic strategies that Ben could implement immediately to get her 'Bank off his back'. David asserts that a series of small changes can not only improve Cash Flow but Profit and Value too. 3 strategies are agreed on:

1. Currently Ben sells his Coffee at £30 per 1KG bag, he believes an increase of 60 cents will have very little negative impact on her market.

2. A cut in Overheads of 3% can be achieved by some small cost savings

3. A reduction in Debtors of one week can be easily achieved by simply getting the Bookkeeper to make some calls chasing overdue accounts.

By implementing the 3 small changes a significant improvement to Cash Flow and Profit can be achieved. By showing the Power of One Strategy to her Bank, there is a good chance that they will be happy with the strategy and will give Ben some time to implement.

Your Power of One			Net Cash Flow $	EBIT $
Your Current Position			-193,000	701,300
Your Power of One	**0.0**		**Impact on Cash Flow $**	**Impact on EBIT $**
Price Increase %	2.0	%	103,380	132,240
Volume Increase %	0.0	%	0	0
COGS Reduction %	0.0	%	0	0
Overheads Reduction %	3.0	%	36,486	36,486
Reduction in Debtors Days	7.0	days	126,805	
Reduction in Stock Days	0.0	days	0	
Increase in Creditors Days	0.0	days	0	
Your Power of One Impact			**↑ 266,671**	**↑ 168,726**

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