

Beano ice cream

[Business](#), [Industries](#)



1. Harris's partnership proposal is not fair for Smith. He completely revised the original investment amount and loan deal that they had originally discussed. He is asking to raise his share to 49%, which would pose many problems for Smith in the control of the company. Giving Harris that high of a stake in the franchise would be giving him a lot more money and half of the control. Smith would be dependent on Harris, and if something suddenly happened to him, or the deal didn't end up going through, then Smith would be out of business.

His SCORE counselor recommended that he does not give up more than 20% share to one investor, and this is above and beyond that. He is also asking to be paid back his full loan of \$95,000 over the first five years. This is completely unreasonable since it is a brand new company and they will not be returning high profits in those primary years. With that expectation, Smith is expected to not only pay back his SBA loan, but also an extra \$19,000 per year, with an added prime rate of interest, to Harris.

With estimated incomes of only \$41,000 after their first year in business, his entire salary for the year would be \$8,695. Not only that, but Harris would get his loan back in five years, plus an extra \$111,867. This is an extra 22 times the amount he put in, while Smith would be left with close to nothing.

2. Even though the estimated net incomes are increasing at a steady pace, it will take him at least five years to get to an average salary point of around \$60,000. Even then, he will have his SBA loan and Harris's personal loan to pay back, which would be a huge detriment to his salary.

It would be much more rewarding for him if he could come to a negotiation with Harris as an investor, or find a new investor all together. This way he could pay off his loan over a longer period of time, and maybe not give up a lot of his control. With the equity stake and loan that Harris is offering, Smith would not be getting a great salary or return from all his hard work. This particular franchise seems to be pretty stable with only a 5% failure rate. Once he gets past those first few years, he will start seeing more of a profit, with some stores even reaching \$500, 000 in sales, and they are number three in market position in sales. The franchisee program comes with a lot of perks that will make it much easier for Smith to be successful in his ventures, and the company has a solid competitive advantage with specifics that include superior ingredients, new product, and market development, and environmentally conscious behavior.

3. I would not recommend Smith to go into a partnership with Harris.

He does not seem very fair in his projections of what he is putting into the company and seems to be attempting to connive Smith into giving up a ton of his control for not a great amount of return. His financial expectations are completely unfair and not warranted. Smith will be left with an extremely low salary, and Harris will be making 22 times the amount of his investment in a short period of time. While Smith wants to get started as soon as possible on this first franchise due to his financial problems if he chooses to go with Harris he could be getting himself into much deeper trouble.

The franchise itself seems to be a decent option, with its great location, franchisee support, and competitive advantage, but Smith should wait to find

a better partner. This business will not succeed if the two owners do not get along. It would ruin their entire organizational and managerial structure.

FINANCIAL APPENDIX	-	-	51%	
-	Cash flow	Distributions	Smith's sha	
1997 with loan	\$ 17, 050	\$ 17, 050	\$ 8, 695	
1998 with loan	\$ 37, 050	\$ 24, 350	\$ 12, 418	
1999 with loan	\$ 55, 650	\$ 41, 750	\$ 21, 292	
-	1997	1998	1999	2000
EBT	\$ 29, 000	\$ 49, 000	\$ 67, 600	\$ 87, 100
Add depreciation	\$ 12, 000	\$ 12, 000	\$ 12, 000	\$ 12, 000
Cash flow	\$ 41, 000	\$ 61, 000	\$ 79, 600	\$ 99, 100
Price earning ration (3)	3	3	3	3
Company value(average of cash flows from previous years x 3)	\$ 123, 000	\$ 153, 000	\$ 181, 600	210525

Investor ownership	49%	49%	49%	49%	4
Buy out amount	\$ 60, 270	\$ 74, 970	\$ 88, 984	\$ 103, 157	\$ 8