Cafe yumm

[Literature](), [Russian Literature]()

It is not intended to serve as sources of primary data or illustrations of effective or ineffective management . Let's assume that it is currently October of 2011 and you are exploring the opportunity of becoming a Caf© Yumm! franchisee by opening a Caf© Yumm! near the I-JO campus on E13th street. Alternatively, you can open a Caf© Yumm! in downtown (two blocks from the LDT). For the downtown location, you face the following uncertainty: the city plans to build a huge office and apartment complex (with estimated 100, 000 square feet office space and 150 apartments). The city will vote to make final decision in a year from today.

If the project is approved by the city, the construction will take a year (starts this month next year and ends a year after that). You estimate the probability of the approval of the project by the city is 75%. To evaluate the franchise opportunity with Caf© Yumm! , you start to collect info as below. For both the I-JO and the downtown locations, you have the following estimates of the expenses to become a part of the Caf© Yumm! : Franchise fee: $35, 000. This is one-time charge, paid to Caf© Yumm!. Advertising osts: between 1% and 2% of the gross sales paid to Caf© Yumm! n annually basis; currently 1. 5% of the gross sales. You will pay the advertising cost by the end of each year. Service fee: 6% of the gross sales paid to Caf© Yumm! by the end of each year. For the I-JO location, you estimate that the initial investment is $350, 000. That includes the remodeling cost and the first-year rent which is $6, 000 per month for this 1, 200 square feet restaurant space. The lease of the restaurant space will be guaranteed for the next seven years. The rent, however, is expected to vary every year. The rent will be paid by the end of each year.

From the opportunity analysis, your estimate other expenses and sales for the I-JO location are as follows: Expenses and Sales Labor Cost Non-labor Fixed Cost (Equipment lease, utility, insurance, and other miscellaneous costs Cost ofFood; Service Sales per $250, 000 $36, 000 $185, 000 For the downtown location, you have the following choice depending on if the city approves the construction of the new office and apartment complex: Choice A: Rent a 1, 500 square feet facility now The initial investment: $500, 000. That includes the remodeling cost and the first-year ent which is $15, 000 per month for this 1, 500 square feet restaurant space.

The lease of the restaurant space will be a seven-year agreement (early termination and sub-rental are not allowed). The rent, however, is expected to increase to $20, 000 per month after the new office and apartment complex is built (if the project is approved). The rent will be paid by the end of each year. Estimated labor cost, cost of food and service, and sales: the same as those of the I-JO location before the new office and apartment complex is built; two times of those of the I-JO location after the ew office and apartment complex is built (assume that if the new complex is not built, the estimated numbers will remain unchanged).

Estimated non-labor fixed costs: $4, 500 per month. The number will increase to $6, 500 after the new complex is built. Choice B: First rent a 1, 000 square feet facility now; if the new office and apartment complex is approved by the city, you have the option to expend the rental space to a total 1, 500 square feet (by contracting the next door rental space - the only way to expand the space in downtown area). The probability of the availability of that dditional 500 square feet space in this month next year is 80%.

In addition, you estimate that the probability of the availability of that additional 500 square feet space after the new office and apartment complex is built is 0%. For this Choice B, you estimate The initial investment now: That includes the remodeling cost and t year rent which is $10, 000 per month for this 1, 000 square feet restaurant space. If you get the additional 500 square feet space, the remodeling cost is $200, 000. The monthly rent for the total 1, 500 space is $20, 000.

Estimated labor cost, cost of food nd service, and sales: 75% of those of the I-JO location before the new office and apartment complex is built; 125% of those of the I-JO location after the new office and apartment complex is built if no expansion is performed; two times of those of the I-JO location after the new office and apartment complex is built if the expansion is performed. Estimated non-labor fixed costs: $4, 000 per month for the 1, 000 square feet facility and $6, 500 per month for the 1, 500 square feet facility.

You currently don't have any cash to start and run the business. You need to borrow oney to pay the initial investment and the franchise fee. You have two alternative ways to raise capital: Bank Option: Themoneycan be financed from a Portland-based ABC bank at the annual compound rate: Wall Street Journal Prime Rate + 12%. If you loan from the ABC bank, there is no monthly payment. However, you must prepare one check to pay off your loan (principal plus interests) at the end of the seventh year.

Early payoff is not allowed. Partnership Option: As an alternative, a local investment firm offers you the following financial " partnership" opportunity. Under the partnership agreement, the firm would rovide you all the cash needed to start the business (initial investment including all remodeling costs, and the franchise fee). In exchange for this, the firm would receive 80% of all your net profit at the end of the seventh year (if there is any).