

Chef's toolkit

[Business](#), [Management](#)



Define the Issues

Chef's Toolkit has exhausted all of their financial resources trying to develop their product. The owner, Peter Jeffery, is seeking external investment to fund the launch of his product, and the potential investor, Dale Reid, has asked for projected financial statements for the company's pessimistic, expected, and optimistic projected sales for the first year of operation ending July 30, 1995.

Analyzing the Case Data

Fragmented information was given in the case, along with a balance sheet and a production schedule for the expected sales of 10, 000 units.

There was no statement of cash flows, income statement or any information about their cash account or their accounts payable account.

Generating Alternatives

Dale Reid could choose to either invest \$85, 000 for 50% of the company, choose to invest more or less for a negotiated percentage of the company, or not invest in Chef's Toolkit. The pessimistic projected sales is 5, 000 units per month, totaling 60, 000 units in the year. The expected amount of sales is 10, 000 units, summing to 120, 000 units per year.

The optimistic projected sales is 30, 000 units per month resulting in a total of 360, 000 units sold in the year. In the optimistic option, a double mold is needed since the total required production exceeds the maximum amount for the single mold.

Selecting Decision Criteria

- Low additional investment
- High revenues with low expenses
- Return on Investment
- Break Even

Analysis

Both the pessimistic and expected sales forecasting show that with an investment well under the proposed \$85, 000 is required, a negative return of investment is expected. Also, according to break-even analysis operating with the single mold and excluding warehousing costs, a minimum of 12, 035 units must be sold to break even. Under a similar situation with the double mold, 15, 507 units must be sold to break even, which is about half of the optimistic sales projection. Also under the optimistic sales projection, a positive return on investment is expected.

Because the company is turning profit, less additional investment is required. Additionally under the pessimistic and expected situation, the company turns losses, and under the optimistic projections, Chef's Toolkit only has a net income of 13% of its revenues.

Selecting Preferred Alternative

According to the above information and the projected pro-forma statements, Dale Reid should not invest his money in the company. The company's lack of current assets, high expenses and low per-unit revenue create an unfortunate and unprofitable investment in pessimistic and expected situations. Only in the optimistic production and sales does the company

begin to turn profit, but this profit is low. Chef's Toolkit needs desperate restructuring and additional revenue sources before Dale Reid should invest.

Developing and Implementing the Plan

To reduce production costs, Chef's Toolkit should look into finding less expensive producers and packagers. They should also look into additional revenue streams or finding a way to retail their product directly to the customer to take out the middleman.

This would increase their revenue per unit significantly. Chef's Toolkit can explore online retailing since they essentially don't have any sort of bricks-and-mortar store front, so it would flow with their current business model. Also, if they aim to sell 13,500 units per month, they will turn profits (see break-even analysis-single mold) and not require a double mold since they will produce and sell a total of 162,000 units (the max for the single mold) within the first year.

However, presently Peter Jeffery and his wife have exhausted all of the company's assets as well as substantial amount of their personal assets. The risk in their current situation is high and they need immediate revenue to start recouping their research and development costs. They also need money to even start producing the product so that they can sell it. This should be brought up in their discussion with Dale Reid, and hopefully Peter can persuade him to invest despite the bleak pro-forma financials.