



MODULE 2: COST MODELS





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Step 1: Questions to Ask Before You Start

How much do other companies sell their similar products for?

Do you think you can charge a premium (higher price) for your product?

If so, what makes your product better than your competition?

What is your break-even number (how much money you have to make to cover all of your costs)?

How many products do you need to sell to reach your break-even point?

Example Recipe & Cost Breakdown

Orange Julius Recipe

1 Serving

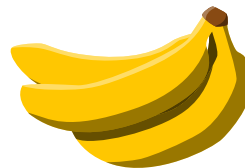
- 1 large banana (frozen)
- 3/4 cup orange juice
- 1/4 cup whole milk
- 1/4 teaspoon vanilla extract
- Garnish with orange slice (optional)



Place the banana, orange juice, milk, and vanilla in a blender. Blend the ingredients until it is smooth using the highest or smoothie setting. Pour into cup and serve.

Cost of ingredients (priced out from Walmart)

1 banana = **\$0.23**



52 oz bottle of quality **orange juice** = \$4.00

52 oz = 6.4 cups

\$4.00 divided by 6.4 = \$0.63 per cup

\$0.63 multiplied by 0.75 (75% or 3/4 cup) = **\$0.47 per serving**



1 **gallon milk** = \$3.00

1 gallon makes 16 cups

\$3.00 divided by 16 = \$0.18 per cup

\$0.18 multiplied by 0.25 (25% or 1/4 cup) = **\$0.06 per serving**



1 oz **vanilla extract** = \$4.50

1 oz = 6 teaspoons

\$4.50 divided by 6 = \$0.75 per teaspoon

\$0.75 multiplied by 0.25 (25% or 1/4 teaspoon) = **\$0.19 per serving**



100 pack of 10 oz **plastic cups** = \$15.50

\$15.50 divided by 100 = **\$0.16 per cup**



Added all up = **\$1.11 cost per cup**

Example Candle Cost Breakdown

Supplies needed to make 20 candles

Cost of ingredients (priced out from Amazon)

1 candle making kit = **\$56.99**

Includes:

- 10 candle tins (4 oz)
- 20 candle wicks
- 5 packages of beeswax
- 20 dye blocks
- 6 essential oils
- 10 wick clips
- 10 stickers
- dried flowers/herbs

12 additional **candle tins** (4 oz) = \$11.99

\$11.99 divided by 12 = **\$0.99 per candle**

5 lb. bag of soy **candle wax** = **\$29.80**

1 lb. = 16 oz. (5 lbs. = 80 oz.)

Each candle uses 4 oz. of wax

80 divided by 4 = 20

\$29.80 divided by 20 = **\$1.49 per candle**

1 1/2 inch **round labels** (pack of 900) = **\$7.89**

Total of all materials = \$86.67

\$86.67 divided by 20 = \$4.33



Remember to take into consideration that the candle making kit is a one time purchase. Your total product cost will likely go down after that initial purchase for the equipment. We also will have leftover materials to make additional candles. Oftentimes, your product costs will fluctuate.

Step 2: Your Recipe & Ingredients

LIST YOUR INGREDIENTS & PORTION MEASUREMENTS

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Write instructions on how to make your recipe:

Step 3: Define Cost Model & List Costs

What exactly is a cost model? By Dictionary definition "a cost model is a mathematical algorithm or equation for estimating costs of a product or project." For our sake, we can boil it down to 1) How much does it cost to make our product? 2) What can we sell it for to make enough profit?

List all of the ingredients you need to purchase to make your juice (or other product) and how much each ingredient will cost you to purchase:

Ingredient

Cost

Example: Gallon of milk

\$3.49



Step 4: Identify All Other Needs/Costs

Now we know what a serving of our juice product will cost us, but we have to consider **ALL** costs involved with the business and apply those in order to find our Total Cost per Serving. Fill in the appropriate information below and think about all of the things you will need for your stand.

Additional costs to consider:

Serving cups:

Orange slices:

Stir sticks:

Napkins:

Gloves:

Set up needs to consider:

Table:

Tablecloth/decorations:

Signage/banners:

Canopy:

Flyers to print/distribute:

Competitive Pricing:

McDonalds: Medium, \$1.89 Large, \$2.09

Orange Works: Fresh squeezed (16 oz.), \$5.00

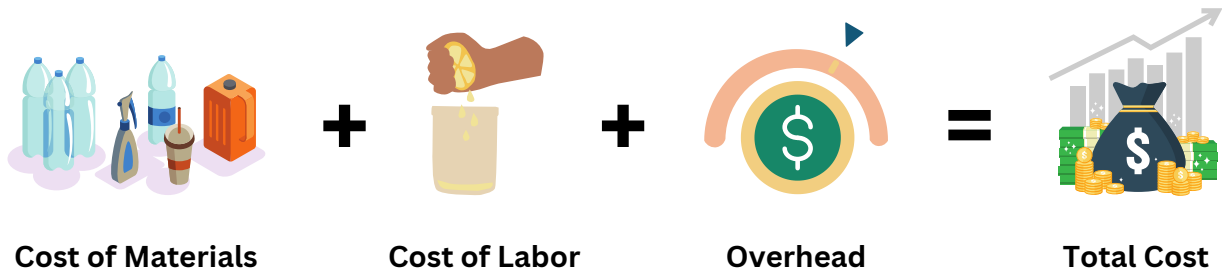


**She got sponsors to
donate decorations!**



Step 5: Find Your Cost Per Cup & Selling Price

Now it's time to add up all of the costs of our materials, labor, and overhead to find your Total Cost. Then, we will use Total Cost to find the true cost to produce one serving of your juice product, which will help you determine how much you will sell it for.



Example:

Cost of goods = \$1.25

Labor = \$15

Overhead = \$40

Total Cost = \$56.25

Total Cost divided by Volume (anticipated cups sold) = per cup cost

\$56.25 / 50 cups = \$1.125 cost per cup

\$1.125 cost per cup x 2 (double your cost) = \$2.25 selling price to customer

You may choose to charge more than double your cost in order to make a higher profit.



Things to Think About for the Next Module

In the next session of Jr. CEO, we will dive into SAFETY & FOOD PREP! We'll run through proper food handling basics and how to set up your juice booth and safely sell your product to your customers.

What are some basic food handling rules you know of?

What is needed to maintain a sanitized food prep area?

What current rules and regulations will apply to the prep and sale of your product?