Cost Behavior Analysis of Grandma's Cheese Café

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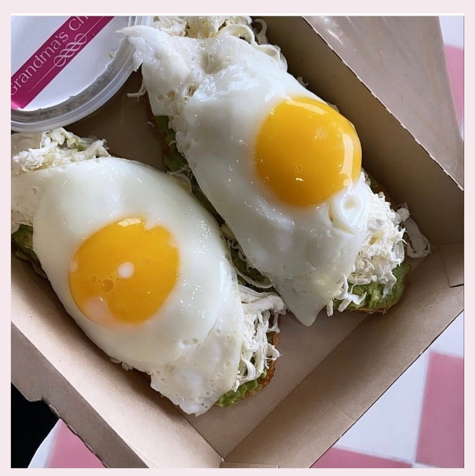
MONMOUTH UNIVERSITY SCHOLARSHIP WEEK

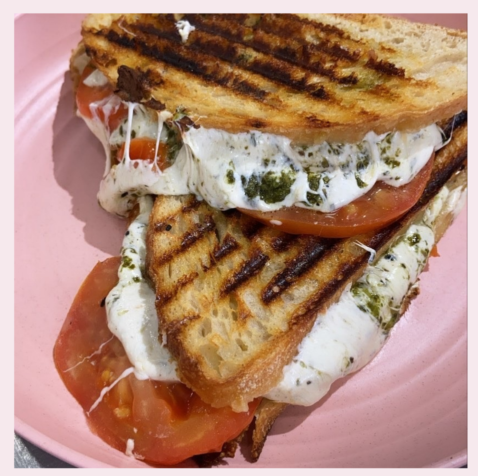
MONMOUTH UNIVERSITY LEON HESS BUSINESS SCHOOL

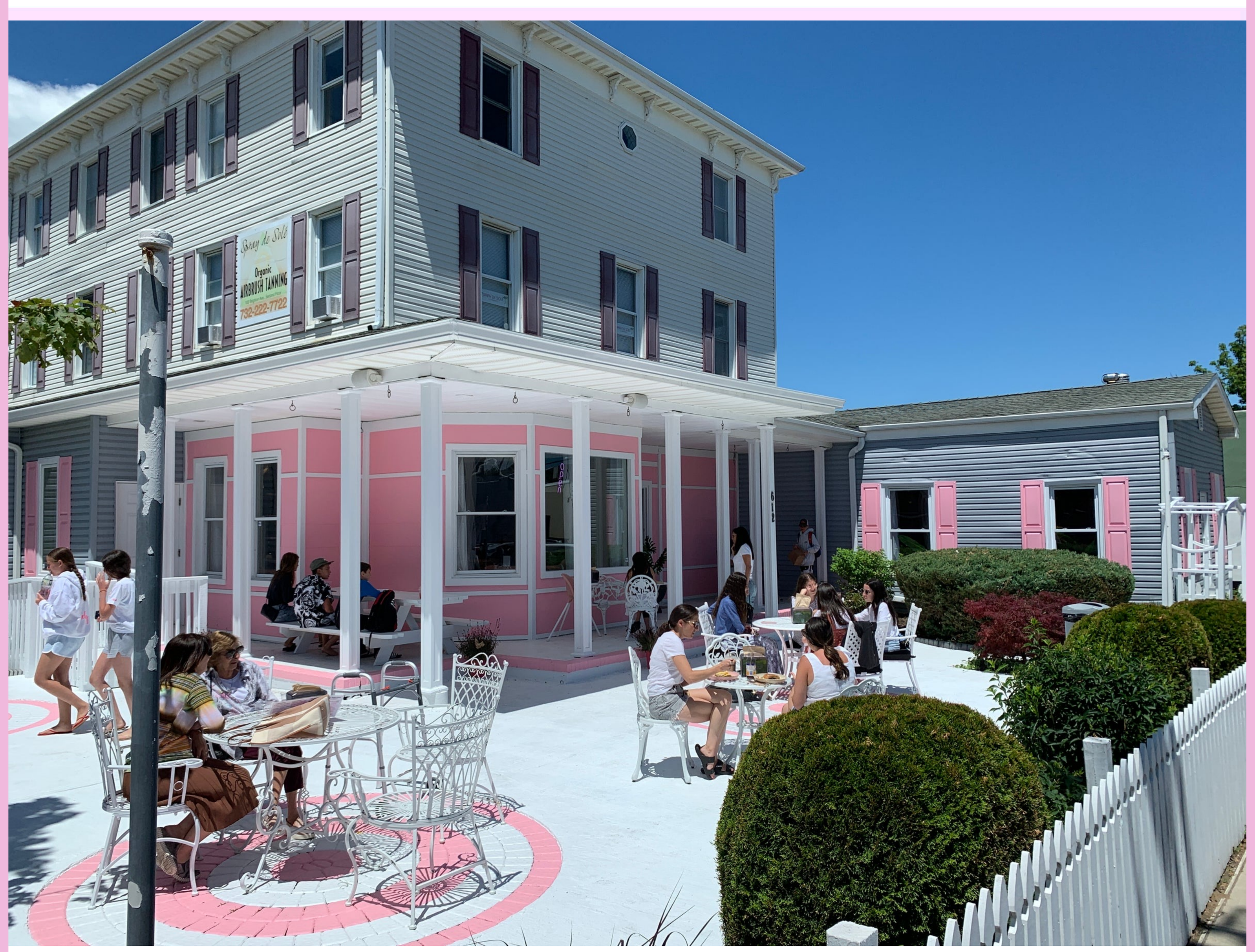
Grandma's Cheese Café

ABOUT

Grandma's Cheese Café is a local business located in Long Branch, New Jersey. Established in 2021, they have been thriving for 3 years now. They are known for their pink aesthetic and delicious food. More specifically, this company provides both services and products. As implied, they are a food service business, offering a variety on their menu. This includes salads, soups, eggs, sandwiches, toasts, paninis, pasta, desserts, and beverages. On the other hand, some products they sell include orange juices, iced teas, cold brew, salad dressings, pesto sauce, bread, and most notably, homemade cheeses (mozzarella and burrata).







Costs Incurred

As with any business, costs are incurred throughout its lifetime. For Grandma's Cheese Café, ten costs incurred include: wages, point-of-sale system, credit card processing fees, cost of ingredients and food items purchased, cost of to-go packaging, advertising expenses, renter's insurance, rent, electricity, and water.

Product Cost or Period Cost?

PRODUCT COST

Product costs are all costs that are directly related to production. This includes direct materials, direct labor, and overhead costs. The product costs of Grandma's Cheese Café are wages (direct labor) and cost of ingredients and food items (direct materials).

PERIOD COST

Period costs are all costs that are not directly related to production. The period costs of Grandma's Cheese Café would be the point-of-sale system, credit card processing fees, to-go packaging, advertising expense, renters insurance, rent, electricity, and water.

Fixed, Variable, or Mixed Cost?

FIXED COST

Fixed costs are costs that remain unchanged as volume changes. The first fixed cost for Grandma's Cheese Café is the point-of-sale system. It involves the initial investment, and once installed, the costs do not vary regardless of business activity or sales volume. A bulk purchase of to-go packaging is fixed because it is a one-time purchase that lasts for a significant amount of time, therefore the cost not varying as volume changes. Advertising expenses are also fixed because a certain amount of money is budgeted for it, not changing if volume changes. Renter's Insurance is fixed because it involves consistent premiums that are not tied to volume changes in business activity. Lastly, rent is a fixed cost because it is a consistent monthly payment that doesn't fluctuate with business activity and sales.

VARIABLE COST

Variable costs are costs that change as volume changes. The variable cost for this café is the cost of direct materials, specifically the cost of ingredients and food items. The amount of ingredients and food items needed in a cafe is directly related to the level of sales or customer demand. As sales increase, more ingredients and food items are required, and if sales decrease, the consumption of ingredients and food items decreases.

MIXED COST

Mixed costs are a combination of fixed and variable costs. Wages are considered a mixed cost. The fixed component of them is the fact that the rate is constant, and the variable component is the hours worked. The more hours worked the higher the pay, and the less hours worked the lower the pay. The same thought process applies to credit card processing fees. The fee itself is constant, but the amount of people that pay with a card varies. The more credit card transactions the more processing fees to be paid and the less credit card transactions the less processing fees to be paid. Similarly with both electricity expenses and water expenses, there are fixed charges that remain constant, but the usage of them varies.

Potential Cost Drivers

VARIABLE COST

For the variable costs of ingredients and food items, cost drivers associated would be price/inflation and the volume of sales. When prices of materials rise, the cost of getting these ingredients also increases, impacting the overall cost of goods sold. Additionally, when more food items are sold, more ingredients are needed to prepare those items. Therefore, the cost of ingredients is directly related to the volume of sales. Higher sales volumes lead to higher ingredient costs, while lower sales volumes result in lower ingredient costs.

MIXED COSTS

For wages, potential cost drivers would be the number of employees and hourly rates. Simply, the more employees, the more money to be paid out and the higher the hourly rate, the higher the wage expenses. Cost drivers for credit card processing fees include transaction volume and transaction value. Generally, the more transactions a business processes, the higher its total processing fees will be, and the higher transaction amounts, the higher the processing fees due to percentage-based fees. Cost drivers for electricity include equipment usage and weather conditions/seasons. The usage of electrical equipment such as coffee machines, refrigerators, freezers, ovens, toasters, microwaves, and dishwashers contribute to electricity costs the more they're used. Also, depending on the time of year, electricity costs vary because heat waves or cold snaps lead to increased use of heating/cooling. As for water expenses, the cost driver would be dishwashing/cleaning and restroom use. The frequency of dishwashing and cleaning can impact water costs The more water used, the higher the cost. Same idea applies to restroom use, the more it is used, the more water is used, and the higher the cost.

How Does Seasonality Affect Cost Behavior for Grandma's Cheese Café?

During the summer, customer demand experiences a surge, while it tends to diminish in the winter. This fluctuation has distinct effects on both fixed and variable costs within the business. Fixed costs, such as the salaries of permanent employees like managers and chefs, remain constant throughout the seasons. However, expenses related to to-go packaging might see an increase during peak periods. On the variable cost side, the expenses tied to ingredients and food items escalate due to the amplified purchasing needed to meet heightened demand. To efficiently cater to customer needs, the strategy involves proactive measures, such as hiring additional part-time staff. Moreover, the correlation between salaries and hours of operation is crucial, allowing for adaptability in fixed costs. For instance, while the store manager and chef's salaries are typically fixed, adjustments can be made to introduce a degree of variability based on the influx of customers, thereby aligning compensation with operational demands.