Heritage Italian Bakery - Cash Flow Projection Case Study

Client Background

Business Name: Heritage Italian Bakery
Location: Small town in Northern Minnesota (population 15,000)
Business History: Nearly 100 years in operation, 3rd generation family-owned
Specialties: Italian bread, doughnuts, ethnic and classic desserts (potica, banana flips, biscotti)

Current Situation

The bakery operates in three channels:

- **B2B Sales:** Direct sales to regional convenience stores and small grocery stores
- **DTC Online:** Seasonal mail-order business (peak during Thanksgiving/Christmas)
- **Brick & Mortar:** Cafe and retail bakery location

Project Overview

The owners want to consolidate their operations by:

- Moving commercial baking from a converted elementary school kitchen (high utilities, deferred maintenance)
- Reducing cafe seating area to create commercial baking space
- Installing existing equipment from school location into renovated cafe space
- Improving operational efficiency and reducing overhead costs

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Sources	Amount
DBR Grant	$ 50,000
BER Grant	$ 20,000
Demo Grant	$ 37,800
HEDA Deferred Loan	$ 75,000
CDFI Loan	$ 97,150
Total	**$ 279,950**

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Uses	**Amount**
Equipment - Freezers	$ 30,000
Building Modifications - Walk In Cooler	$ 20,000
Plumbing	$ 25,000
Electrical	$ 75,000
General Construction	$ 95,000
Overhead Door	$ 3,500
Soft Costs (licenses, fees)	$ 6,000
Contingency	$ 25,450
Total	**$ 279,950**

Loan Terms

Local CDFI Loan

- **Principal Amount:** $97,150
- **Interest Rate:** 3.0%
- **Term:** 20 years
- **Annual Payment (P&I):** $6,139
- **Monthly Payment (P&I):** $512
- **Security:** 2nd position on real estate and equipment

Existing Debt Service

- **Year 1:** $61,920 annually ($5,160 monthly)
- **Years 2-3:** $28,700 annually ($2,392 monthly)
- **Note:** Some existing loans will be paid off after Year 1

Products & Services Revenue Projectionss

Revenue by Channel (Post-Renovation)

Cafe Sales

- **Year 1:** $495,000 (reduced from $570k due to lost seating)
- **COGS:** 35% (Year 1), 32% (Years 2-3)
- **Monthly Average:** $41,250

B2B Sales

- **Annual:** $345,000
- **COGS:** 25%
- **Monthly Average:** $28,750

DTC Online Sales (Seasonal)

- **Annual:** $185,000
- **COGS:** 30%
- **Seasonal Distribution:**
  - October: 25% = $46,250
  - November: 40% = $74,000
  - December: 30% = $55,500
  - January: 5% = $9,250
  - Feb-Sep: $0 each month

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Monthly Operating Expenses

Expense Category	**YR1 Annual**	**YR1 Monthly Average**	**YR 2-3 Monthly Average**
Payroll	$410,000	$34,167	$33,142
Real Estate Taxes	$2,800	$233	$233
Utilities	$48,000	$4,000	$4,000
Repairs & Maintenance	$8,000	$667	$667
Insurance	$24,000	$2,000	$2,000
Vehicle Expenses	$12,000	$1,000	$1,000
Advertising	$10,000	$833	$833
Professional Services	$4,600	$383	$383
Bank Charges	$1,200	$100	$100
Credit Card Fees	$30,000	$2,500	$2,500
Freight & Postage	$24,000	$2,000	$2,000
General Supplies	$8,000	$667	$667
Workers Comp Insurance	$8,000	$667	$667
Total Operating Expenses	**$590,600**	**$49,217**	**$48,192**

Debt Service

- **Existing Loans (year 1):** $5,160/month
- **Existing Loans (year 2):** $2,100/month
- **New Northland Loan:** $512/month
- **Total Monthly Debt Service:** $5,672 (year 1)

Discussion Points for Live Demo

1. **Risk Factors:** What happens if cafe sales decline more than projected, or if holiday DTC sales don't meet expectations?
2. **Loan Structuring:** What if the loan term was only 10 years? Would the project be feasible?
3. **Owner's Pay:** What if the client needs $3,000/month in salary from this operation?