

Morning Ridge Coffee

Should a specialty coffee shop open in Hollis Creek, Arkansas, and which of two locations gives it the strongest chance?

PREPARED FOR

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The answer

Hollis Creek can support another coffee shop, and Site A on Main Street is the stronger location by a wide margin. The weak point is cash, and it is fixable before you sign.

Proceed with conditions

at Site A, 214 Main Street

All three demand methods show room for another shop. At Site A the plan covers its monthly costs in over 99% of simulated futures within 24 months. But as budgeted, 30% of futures run out of cash before getting there. Add \$15,000 of working capital and that falls to 8%.

Over 99%

chance Site A covers its monthly costs within 24 months

30%

chance cash runs out first, as budgeted

8%

chance cash runs out first with \$15,000 more working capital

55%

of new food-service businesses still open after 5 years (U.S. starting odds)

The three numbers behind the verdict

Test	Result	Proceed needs
Demand methods showing room	3 of 3	3 of 3
Chance of covering monthly costs by month 24	Over 99%	60% or more
Chance cash runs out first	30%	20% or less

The first two tests clear the Proceed line. The third does not, so the verdict is Proceed with conditions. When tests point different ways, the more cautious verdict applies.

Site B: do not proceed

Site B on Highway 64 sits next to the drive-through chain, pays \$700 more rent a month and captures fewer customers. As budgeted, 96% of its futures run out of cash first, and 32% never cover monthly costs within three years.

Conditions to meet

- 1 Add \$15,000 of working capital before opening.** Cash-out chance falls from 30% to 8%.
- 2 Sign at Site A for no more than \$3,200 a month.** Every extra \$100 of rent raises the customers you need each day.
- 3 Reach 173 customers a day by month 7.** That is break-even. The base case gets there in month 5. Count customers daily from day one.
- 4 Hold the average sale at \$7.25 or higher.** It is the second-largest driver of the result after customer count.

What this means. The market and the site are good. The plan just starts with too thin a cushion (\$25,000) to ride out a slow first few months. Fix the cushion and the odds move into Proceed territory.

How many coffee shops Hollis Creek supports

We estimate demand three independent ways, then check whether they agree. Each answer is a number of coffee shops the area's spending can support today.

1. Groundwork Threshold Test

Arkansas has one coffee or snack bar for every **5,558** residents (3,045,637 people, 548 shops). The U.S. has one per 4,267.

THE MATH

$18,500 \div 5,558 = 3.3$ shops supported
Present: 2. Room for 1.3 more.

We use the Arkansas ratio, the stricter of the two.

2. Groundwork Gap Analysis

Arkansans spend **\$103** a person a year at coffee and snack bars, and the average Arkansas shop sells **\$572,666** a year.

THE MATH

$\$103 \times 1.05 \text{ income} \times 18,500 = \$2,001,543$
 $\div \$572,666 = 3.5$ shops supported. Room for 1.5 more.

3. Groundwork Spending Potential

Household spending by income, from the previous page: **\$1.43 million** a year at coffee shops.

THE MATH

$\$1,429,247 \div \$572,666 = 2.5$ shops supported
Room for 0.5 more.

This method reads the actual income mix, so it is the most conservative here.

Coffee shops the area supports, three ways



Do the methods agree?

The three answers run from **2.5 to 3.5**. The lowest sits just outside our agreement band (within 25% of the middle answer, 3.3), so we treat them as not fully in agreement and plan on the **conservative case**: room for about **half of one more shop** at today's spending.

What it means for you

The market can carry a third shop, but not easily on new spending alone. A new shop wins mostly by taking customers from the two already here and from the town's growth. That makes location decisive, which is what the Site Comparison measures.

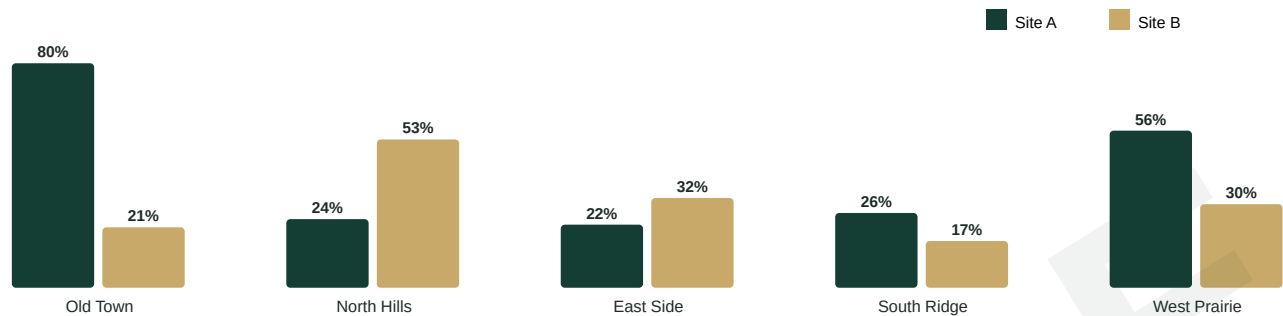
How the three methods differ

Method	What it reads	What it leaves out	Answer
Threshold Test	How many people it takes to keep one shop open in Arkansas	Income and spending levels	3.3 shops
Gap Analysis	Arkansas spending per person, adjusted for local income	The income mix inside the town	3.5 shops
Spending Potential	What each income group actually spends eating out	Visitors and travelers	2.5 shops

Which site wins customers

The Groundwork Gravity Model estimates the share of each neighborhood's coffee spending a site would win. It weighs each shop's size against how long it takes to drive there, against both competitors.

Share of each neighborhood's coffee spending each site would win



Neighborhood	People counted	Share to Site A	Share to Site B	Customers' worth, A	Customers' worth, B
Old Town (downtown)	4,400	80%	21%	3,498	943
North Hills	4,600	24%	53%	1,119	2,417
East Side	4,800	22%	32%	1,071	1,525
South Ridge	3,800	26%	17%	1,005	629
West Prairie	3,000	56%	30%	1,671	888
Total	20,600	41%	31%	8,364	6,402

What the model shows

Site A wins 41% of the area's coffee spending, about \$646,000 a year. Site B wins 31%, about \$495,000. Site A dominates Old Town and the south and west; Site B fights the drive-through chain for the north and east.

Checked both ways

The model's key setting is how quickly customers give up on distance. For a daily purchase like coffee we use the stronger setting. Run with the weaker setting, Site A wins 40% and Site B 33%. **Site A leads either way.**

These shares become the customer counts used in the money and probability sections.

Model inputs: drive times and shop sizes

Drive minutes from	Site A	Site B	Competitor 1	Competitor 2
Old Town (downtown)	2	8	8	4
North Hills	7	4	5	9
East Side	6	5	4	8
South Ridge	7	10	10	4
West Prairie	6	11	11	8
Size (sq ft)	1,600	1,800	2,200	1,100

Your odds

Two kinds of odds, side by side. The industry's starting odds come from federal data on every new business. Your odds come from 10,000 simulations of your own plan, run through the Groundwork Probability Engine.

Over 99%

cover monthly costs
within 12 months

Month 5

typical month the shop
first covers its costs

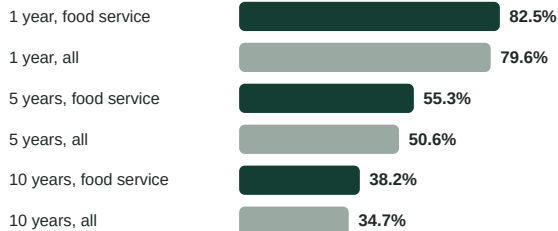
30%

run out of cash before
covering costs, as
budgeted

\$340,408

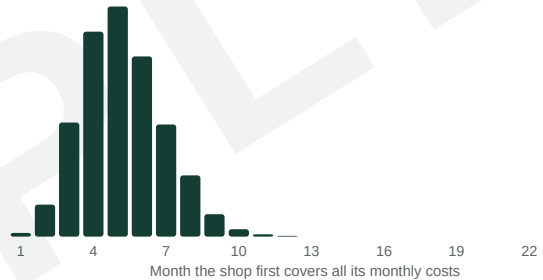
typical cash in the bank
at month 36

Industry starting odds: share of new businesses still open



Bureau of Labor Statistics, Business Employment Dynamics, businesses opened in 2013.

When the shop first covers its monthly costs, across 10,000 futures



How to read the two

The starting odds describe every new food-service business in the country, good plans and bad. Your odds describe this plan, in this town, at this site. We show both and never multiply them together.

What a cash-out means

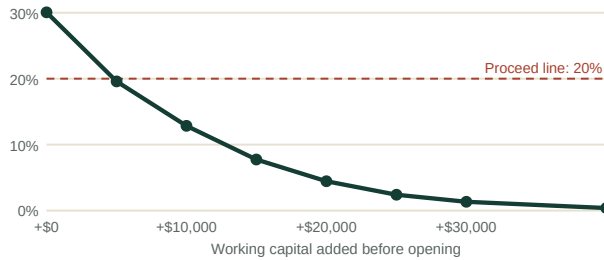
In 30% of futures, the shop would still reach break-even, but the bank balance goes below zero on the way. In real life that means a missed payment, a personal credit card, or closing early. The fix is cheaper before opening than after.

Result, Site A	As budgeted	With \$15,000 more working capital
Covers monthly costs by month 12	99.9%	99.9%
Typical month it first covers costs	Month 5	Month 5
Runs out of cash first	30%	8%
Cash at month 36: 1 in 10 does worse than	\$147,812	\$162,812
Cash at month 36: typical	\$340,408	\$355,408
Cash at month 36: 1 in 10 does better than	\$537,765	\$552,765

How much cushion is enough

We reran the 10,000 futures with more working capital each time. The curve shows how fast the cash-out risk falls.

Chance of running out of cash first, by working capital added



Added before opening	Cash-out chance
Nothing (as budgeted)	30%
+\$5,000	20%
+\$10,000	13%
+\$15,000	8%
+\$20,000	4%
+\$25,000	2%
+\$30,000	1%
+\$40,000	0%

Our recommendation: \$15,000

Adding \$5,000 brings the cash-out chance to 20%, just inside our Proceed line. We recommend **\$15,000**, which brings it to **8%**. Beyond that, each extra dollar buys less.

Ways to raise it

- 1 Trim the build-out.** Reusing the existing counter and plumbing at Site A could save part of the \$62,000 renovation.
- 2 Lease the espresso machine.** Moves part of \$48,000 in equipment into a monthly payment; rerun the numbers with the lease payment added.
- 3 Ask the landlord for two free months.** Common on a new lease; worth \$6,400 of cushion.
- 4 Add a working-capital line to the loan.** Raises the loan payment; we will rerun the odds with the new payment.

Site B for comparison

Site B, as budgeted: 96% cash-out chance and a 32% chance it never covers monthly costs within three years. More cushion delays the problem at Site B. It does not fix it.

Result	Site A	Site B
Customers a day, base	248	189
Break-even customers a day	173	178
Covers costs by month 24	>99%	68%
Runs out of cash first	30%	96%
Typical cash at month 36	\$340,408	\$15,948

What to do now

Open Morning Ridge Coffee at Site A, after adding working capital. Here is the order we would do it in.

Proceed with conditions

Site A, 214 Main Street. Add \$15,000 of working capital, sign at \$3,200 or less, and track daily customers against the 173-a-day break-even line.

Before you sign

- 1 **Count the competition.** Two weekday mornings at each competitor, 7 to 9 a.m. Write down the line length every 15 minutes.
- 2 **Raise the cushion to at least \$40,000.** Use one or more of the four options on page 13.
- 3 **Negotiate the Site A lease.** \$3,200 or less, two free months, two short-term parking spaces, outdoor seating rights.
- 4 **Get the build-out bid in writing.** If it comes in over \$62,000, send us the new number and we rerun the odds.

First 90 days open

- 1 **Count customers daily.** Compare with the ramp: about 152 a day by month 3 and 193 by month 6.
- 2 **Win the 6 a.m. downtown crowd.** Neither competitor serves it well.
- 3 **Sell to offices.** Coffee carafes for meetings at the 2,400-worker downtown employers.
- 4 **Review prices at day 90.** If the average sale is under \$7.25, adjust before the slow summer months.

WHEN TO CALL US

If daily customers run more than 15% under the ramp for four straight weeks, send us the numbers. A mid-course rerun shows whether to adjust hours, prices or costs.

Timeline

When	Milestone	Done when
Month -4	Competitor counts; raise working capital	Cushion at \$40,000 or more
Month -3	Sign Site A lease	Rent at or below \$3,200, free months in writing
Month -3 to -1	Build-out, equipment, permits	Health and occupancy permits issued
Month -1	Hire and train; soft opening for downtown offices	Staff trained on the full menu
Months 1 to 3	Daily customer counts; office sales	152 customers a day by month 3
Months 4 to 9	Build regulars; day-90 price review	173 customers a day (break-even)