

Snowie's Shaved Ice Business: Planning and Decision Making

Wendy Tietz
College of Business
Kent State University

Indrarini Laksmana
College of Business
Kent State University

John Rose
College of Business
Kent State University

INTRODUCTION

Snowie™, owned by Carl and Gordon Rupp, is a company that provides training, equipment, and supplies for operating a shaved ice business. Shaved ice is an ice-based refreshment made by shaving a block of ice into a fluffy, snow-like ice. The product is served in cups with flavored syrups added to the ice. Due to its fine texture, shaved ice absorbs the syrup, making each bite flavorful. Snowie does not sell franchises. It sells a wide array of equipment and supplies, including ice shavers, kiosks, carts, buses, syrups, cups, and other supplies to independent operators.

PART 1: COST-VOLUME-PROFIT ANALYSIS FOR A SNOWIE KIOSK

Assume that you are evaluating whether to start a Snowie¹ business. You could operate a shaved ice kiosk at fairs, downtown areas, and other outdoor events. The kiosk is portable with wheels and a hitch. It has plenty of storage place, work area, electrical outlets, lighting, and a water system. The flavored shaved ice, a "Snowie," is normally offered in three sizes. For this case, we are going to assume that only one size is offered—the large size, 20 oz. The large Snowie sells for US\$4.00. See Table for a list of all costs related to a large size Snowie.

In this case, use straight-line depreciation with a five-year life and salvage values of zero for both the ice shavers and the flavor station. All monetary amounts in this case are expressed in U.S. dollars.

REQUIREMENTS

1. Specify your assumptions about the following items:
 - a. Number of days you anticipate opening the Snowie kiosk per month _____
 - b. Number of hours you will work (no wages required) per day _____
 - c. Number of hours you will pay an employee to work in the Snowie kiosk per day _____
2. Is the cost of syrup a variable or fixed cost with respect to the number of Snowies sold? What is the cost of syrup per Snowie? (Use four decimal places in your response and all calculations for this question.)
3. Is the cost of the worker attending the kiosk a variable or fixed cost with respect to the number of Snowies sold? What is the cost of the worker's wages per day and per month?
4. What is the total variable cost per Snowie (per cup)?
5. What is the total fixed cost per month to operate the Snowie business?
6. Calculate the number of Snowies that you need to sell each month to break even.
7. How many snow cones must be sold to achieve an operating profit of US\$2,000.00 per month (before tax)?
8. Think about the break even and target profit quantities you just calculated. Do you think these quantities are realistic? Discuss and support your answer.

¹ Company information and most cost data for this case were obtained from <http://www.snowie.com>. Assumptions are noted where used.

PART 2: SPECIAL-ORDER PRICING FOR A SNOWIE EVENT

Assume that Main Street Kent, an organization that hosts outdoor events in downtown Kent, approaches you about bringing your Snowie kiosk to the Octoberfest in Kent for one day in October. Main Street Kent will provide the cups for the event that are branded with the Kent Octoberfest logo, so you will not have any cup costs for this event. Main Street Kent will also not be charging you a registration fee for this event. Main Street Kent will allow you to advertise your business in its mailings for two months at no cost and asks you to cut your Snowie price for this one event to US\$3.00 in exchange for the free advertising. You have no other event scheduled for this one day in October, and you would work the event by yourself (you will not pay an employee for this one-day event). You anticipate that you will sell 200 Snowies on this one day at Octoberfest. Do you accept Main Street Kent's special price offer? Why or why not? Support your answer.

PART 3: BUDGETING FOR A SNOWIE BUSINESS

Now assume the Snowie supplier increases the cost of a gallon of the Snowie syrup to US\$8.00 (from its original cost of US\$4.25). In response, you increase the selling price of a large Snowie to US\$5.00.

REQUIREMENTS

- Make the following assumptions (you can re-use your assumptions from Part 1 if you wish or you can change them):
 - Number of days you anticipate opening the Snowie kiosk per month _____
 - Number of hours you will work (no wages required) per day _____
 - Number of hours you will pay an employee to work in the Snowie kiosk per day _____
 - How many Snowies you estimate you will sell on an average day _____
- Prepare a budgeted contribution margin income statement for one month using the data given in Part 1 and the assumptions that you listed in Part 3. Provide a separate line for each variable cost and for each fixed cost.
- What other factors should you consider before deciding to start a Snowie business?

Costs

All listed costs relate to the large size Snowie

Ice per Snowie	\$0.20
Spoon straw (need one per Snowie)	\$0.02
Styrofoam cup (need one per Snowie)	\$0.08
Napkin per sheet (need two per Snowie)	\$0.01
Servings per gallon of syrup	28
Cost per gallon of syrup (includes concentrate, preservative, and sugar)	\$4.25
Hourly rate for workers	\$10.00*
Event registration fee per day	\$25.00*
Electricity, insurance, maintenance, and permit costs per month	\$250.00*
Kiosk rental per month	\$650.00*
Purchase cost of two ice shavers (five-year life)	\$3,180.00
Purchase cost of a flavor station (five-year life)	\$1,080.00

*Assumption made for this case

All monetary figures are expressed in U.S. dollars

ABOUT IMA® (INSTITUTE OF MANAGEMENT ACCOUNTANTS)

IMA®, the association of accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than 85,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/India. For more information about IMA, please visit www.imanet.org.