Lesson 3 LEVERAGE MASTER

With your revenues increasing and margins being excellent it is time to expand. You have tested on a small scale and know that your business plan and products are a winner. You are ready to stay in motion and level up by advancing to the next square of entrepreneurship. What are the SMARTEST moves with leverage you ask? "To think is to create"

1) Your friend Katrina makes the best brownies in the universe! She got the recipe from her grandmother in Europe using Belgium chocolate that is now available at Trader's and Costco. Mixed with creamy butter, unbleached flour, a drop of organic wild flower honey, cinnamon, a tad of salt sprinkled with confectionery sugar and baked crispy on the outside and soft in the middle. YUMMY!!!! Last year at your schools annual bake contest she took 1st place easily.

You need to create incredible leverage. After careful thinking it hits you like thunder! Let her provide a portion of the money from her savings. Purchase the batch ingredients, bake the brownies, and package them with a colorful label designed with beautiful artwork and serve them inside a package replete with a pretty napkin.

You arrange a meeting, sit down with her and ask the right questions. The cost (C.O.G.S), plus the package and the baking is 50 cents per brownie. You make an offer to her: Hey Katrina, "would you like to have your own business?" "If we collaborate together by you baking 25 brownies (testing on a small scale)". and Marco Polo Lemonade providing the venue for sales, I think we will be successful! (Of course after she immediately brands her new business Katrina's Brownies)

The cost for the initial test run is $12.50 for the 25 brownies. You will offer them at the your lemonade stand for $1.00 each with the first 50 cents of revenue for each sale paying for the materials and finished Inventory. The balance of 50 cents (Their Profit) will be split 50/50 between you and her.

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Luckily the cost of running the lemonade stand is already built in as part of our operating costs. (Your OPEX). Therefore will not have too many additional costs affecting your net margins. ***Now that is the smart part!***

You are so sure of this venture (plus the fact of her winning the Gold Medal Baking award which is proof of concept) that you make a minimal risk offering proposal. You will layout (loan) the 1st $6.25 or half the cost. Katrina can start her own enterprise and balance sheet by borrowing the other $6.25 from her dad. Both lenders will have a priority claim from any of the sales generated to pay down and fully amortize the loans. The priority is set by an assignment of revenues clause in the promissory note and the time the borrowing agreement is executed.

You draft an offer creating the power of acceptance for her to sign whereby the profits are allocated. She ponders for a moment and a smile comes across her face. Your Leverage is superb! Both of you execute this collaborative joint venture and it is a DONE DEAL!

Revenues may go up and you don't have to do the behind scenes work. No shopping, no preparing, no baking, no packaging, to manufacturing the product. Your time is precious and you have learned how to leverage your Marco Polo brand, your lemonade stand location,, and Y***OUR TIME and MONEY!***
Now that is how you do it! Brilliancy award here!

You teach Katrina the math, she is really going into business with no money down if her dad is lending half the money and you are lending the other half to create the start up batch. So she actually has some great leverage too, using sweat equity. That is essentially whereby she is earning her equity by doing some of the work. How AWESOME is that?. And the R.O.I. Is genius.. Her Liability is $6.25 to dad for the loan and if the sale goes as planned....Then all 25 brownies will be sold. She will earn enough money to pay off the liability and pocket another $6.25 net to her as the profit SWEET VENTURE (Double entendre intended)

That means her cash on cash return is huge because she has not laid out any cash and is in a position to earn over 6 bucks in net operating profit. Great discussion with your presenter/mentor. (This is the principal of leverage and how to make huge returns in business)

How to post this? Subtract $6.25 out of cash and create a journal entry in assets for notes due us in assets, or you can add to AR Accounts Receivable" Either one is time and acceptable as long as you post it. The point is to keep track of your money as you grow and invest into other asset classes.

You are also demonstrating the principal entrepreneur pillar of: Each asset must be put to the highest and best use. Also you believe you have mitigated your risk by testing on a small scale before you expand to the next level. WELL DONE!