

Case Study

Instructions: Read the case study one question at a time, discussing and answering questions 1-5 as you go. Each question builds on your previous answers.

Holyoke 3P, Inc. (“H3P”) is a fictional high-performance design/build firm in Holyoke, MA. In 2023, the owner and 5 employees formed a worker-owned cooperative to improve company performance and share profits and decision-making responsibilities. The team is still learning to make financial information easy to understand, and to hold each other accountable for results.

For 2025, H3P worker-owners set a goal to increase revenue to \$2MM, with 20% net profit. They hired a consultant from Jan-March to increase sales. Based on industry benchmarking, profit-sharing goals, and their desire to have more margin to fund mission impact, they budgeted 70% direct costs and 10% overhead, which would leave them with 20% net profit.

1. Was the consultant effective in helping H3P meet **revenue** goals? How can you tell?

Tariffs lead to 10% increase in materials across the board starting in June, and supply chain issues cause more volatility as the summer progresses.

2. At the end of Q3, the worker-owners look at **Chart B - Jan-Aug Monthly Labor vs Revenue**, and notice that their direct costs are higher than expected, but they’re not worried, because revenue is also higher than budget. What chart(s) could the manager share to help them see whether there’s cause for concern?

The team recognizes that the increase in revenue alone doesn’t account for the increase in costs. They decide to work on different sourcing strategies to get their COGS in line with their target of 40% of revenue. But they see another problem.

3. What other questions might **Chart C - Jan-Aug Direct Costs as % of Revenue** raise about operations?

The lead carpenter points out that the bump in work in late summer led to an increase in overtime, blowing the annual target of direct labor at 30% of revenue. Even though it’s late in the season, she suggests staffing up to manage costs and work-life balance.

4. The team used their numbers to make several key adjustments throughout the year. What charts could they use to evaluate whether they met their financial goals?
5. The lead carpenter is onboarding a new team member. She wants to help them learn how the business makes money, what profit levers they have control over day-to-day, and how being a worker-owner builds wealth. What are some tools she can use?

Answer Key

1. Yes. **Chart A - 2025 Monthly Revenue - Budget vs. Actual** - shows that revenues started below budget, but after the consultant finished work in Q1, sales met or surpassed budget to the end of the year.
Chart G - 2025 6-line P&L - Revenue hit the \$2MM budget by year-end.
2. **Chart C - % of Revenue - Budget vs Actual** - shows that both Direct Labor and COGS are increasingly over-budget relative to revenue.
Chart D - % of Revenue: Labor, COGS and Gross Profit - shows that as direct costs are increasing, gross profit is sinking farther below the 30% target line. That means less money to cover overhead expenses or put toward profit-sharing.
3. **Chart C - Jan-Aug Direct Costs as % of Revenue** - shows that both Direct Labor and COGS are increasingly over-budget relative to revenue. The team has developed a strategy to get COGS under control, but they might ask what's causing the increase in labor costs compared to revenue.
4. H3P had two financial goals -- revenue and net profit:
 - a. **\$2MM revenue goal - Chart G - 2025 6-line P&L bar chart** - shows that the H3P *did* meet their \$2MM revenue goal. However, it shows that other items were not in line with budget, including net profit.
 - b. **20% net profit goal** - The team could also compare **pie charts E & F for 2025 budget & actual** to see what percentage of revenue went to direct costs, expenses, and net profit. They might notice that because the company spent more on direct costs, they had less net profit, even though their overhead expenses were under budget. They only achieved a 14.4% net profit -- nothing to sneeze at, but short of the goal they set for themselves.
5. What she chooses to share depends on both the new hire's level of financial literacy and the company's policies for sharing financial data with non-owners.
 - a. She could share a **pie chart of the budget** to show a very simple version of what the largest costs are, and how as direct costs increase, gross margin and net profit decrease. Direct costs -- particularly labor and materials -- are things that every frontline employee can impact by finding efficiencies and process improvements.
 - b. She could share a **Sankey diagram of the budget** with more or less detail to show how money flows through the company, and where profit flows out to be shared with worker-owners. Even in a non-employee owned company, it can be helpful for employees to see how much the business spends to produce its product or service, though sharing in the profits helps motivate people to find solutions!