

Make vs buy

Business



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Products and services

Papa Geo has a vision of creating a restaurant in one location, and generate \$40, 000 annually. Moreover, the income is expected from the second year of operation but the company expects a 2% profit. The business is planned to be located in Florida, where there are a large number of lower middle class, which is the main target group. The business serves 10, 000 families mostly with an average of four people, which translates to 40, 000 people. The population grows at about 6%, which means in the next five years Papa Geo will be serving 52, 000 people. Moreover, this means that the sales of the company may also increase by 6% annually considering the population growth. The restaurant is intended to sell diverse products, which include buffet, pizza, soup, sauces and desserts. In addition, the restaurant will have a self-service soda bar.

Competition

Although there are other companies such as McDonalds serving the area, the <https://assignbuster.com/make-vs-buy/>

prices of their products are not affordable to most people in Florida. Moreover, these companies do not have physical locations in the area but rely on suppliers. This means that Papa Geo has the potential of competing effectively in the market and possibly gaining competitive advantage (Jeffries & McGrath, 2008). The fact that the products of the company are rare in the market consequently highly demand makes the company more competitive. This will ensure that the company records high sales volume. Moreover, the company will register high sales volume because they produce variety, which gives consumers the ability and freedom of choice. Finally, the company strategy is effective because it attracts children too, which will boost sales since it will be assumed to a family restaurant (Jeffries & McGrath, 2008).

Financial Budgetary and the contributory aspect towards achieving the company's strategy

The offers given by financial lending institution will be enough in setting up the business and repayment period is reasonable, which will grant the owner the opportunity to repay comfortably. Therefore, the business can be set up but it requires effective analysis and forecasting due to uncertainties in the business environment. Proper financial budgetary planning is fundamental in achieving the company's strategy.

Sale forecast forms the most critical part of this budget proposal because, it is through proper and accurate forecasts in sales that the entrepreneur would be able to determine the amount to repay either in monthly or annual basis.

2. 1 Sales Forecast

Year

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Year 1

Year 2

Year 3

Year 4

Year 5

Sales

\$102, 200, 000

\$108, 332, 000

\$114, 831, 920

\$121, 721, 835. 2

\$129, 025, 145. 31

The above sales forecasts are made with the assumptions that one unit in the company goes at \$7, and each individual in the 15-minute area purchases one unit per day. Secondly, it is assumed that since the population increases at 6% annually for the next five years, sales volume also increases at the same margin.

2. 2 Methods and Assumptions

This budgetary proposal assumes that, the owner is granted a loan for the preliminary startup, which is repayable within 10 or more years. The repayment is done at the current rates, which range from 9. 5% to 12%.

Moreover, the owner is to use personal investments in operating the business until it starts generating adequate cash flow. This sales forecast is based on the assumption that the inventories are expected to be estimated at 10% for the subsequent month's sales. This study reveals that the standard meal costs at least \$4 in terms of labor and material. Similarly, a representative family spends \$4 on selling machine tokens. It is notable that <https://assignbuster.com/make-vs-buy/>

the managers enjoy some privileges, which are not extended to other workers. This cuts the cost of operation consequently favorable for the sale forecast made.

Item

quantity

Cost (\$)

total

Cost of registration

1

160

160

Renovations

1

15, 000

15, 000

Soda fountain bar

1

70, 000

140, 000

Pizza ovens

2

20, 000

40, 000

Video game vending machines

6

8000

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48, 000

Management office, desk & laptop computer

1

90, 000

90, 000

Staff lunchroom

1

8, 000

8, 000

Four-seater tables and chairs

20

200

4, 000

Busing cart

1

700

700

Commercial dishwasher

1

1000

1000

Total

346, 860

The above projection of capital expenditure is based on the assumed demand of the intended restaurant's products. It is imperative to note that, the projected total investment of \$1, 000, 000 is fundamental in ensuring the <https://assignbuster.com/make-vs-buy/>

business starts on a good note. The major items as listed above are significant in achieving the company's strategy because they act as facilitators or catalysts.

4. 1 Cash flows

Cash flows as depicted in the cash flow statement do not show a substantial difference for the first year since the company does not have a substantial time in the market. The cash flows from operating activities are still not substantial because the company does not have big operations yet. Some of the things missing such as depreciation and dividend payment will therefore not appear in the first year. However, subsequently as the company advances to larger operations the cash flow will have more inclusions.

4. 2 NPV Analysis

An NPV analysis helps evaluate the company's investments future value. The summation takes into account the current amount a company has invested in, looking at the interest rates and predicting whether the company's operations will be profitable in the future.

$$\text{NPV} = \text{Cash Inflows} - \text{Cash Outflows} + \text{PV}$$

Therefore, Net Present Value of the company is \$ 1, 294, 700. 00

The pro-forma Income Statement and statement of financial position do not show a comprehensive figure since the information provided does not add up to the required complete that would help in a comprehensive report.

However, the provided shows that the company has a profit of \$ 102, 184, 840.

Prime, J. (1967). Investment Analysis. Englewood Cliffs, N. J: Prentice-Hall.

7. 1 Appendix 1: [Budget proposal]

7. 2 Appendix 1: [worksheet]

7. 3 Appendix 1: [power point]