

# Executive summary critical analysis



Breakaway Bicycle Company commenced its business in the year 1990 and was primarily lead by Mike Giro, who is the Managing Director of Operations, Steve Brown as Director of Marketing and Sales and Jane Giro as Chief Financial Officer and Treasurer. The company presently has 10 employees to design, build bicycle frames for both road biking and mountain biking.

The customers of BBC include men and women between the age of 24 – 45 who use bicycles for both personal use and office use. Especially college goers and sportsmen and women who use BBC mountain bicycles as a part of entertainment, trekking and mountain riding.

With the expertise knowledge in the field of bicycles and with its massive success in sales and marketing of bicycles, BBC would like to expand its production capacity to meet the increasing demand of bicycles and with this view, BBC would like to acquire a loan to an extent of \$200, 000 for taking lease facility of 800 sq. ft at \$1200 per month for a period of 36 months. Apart from this, there are also expansion in production, machinery and equipment, labor cost, inventory costs and other expenditures.

The period of stage that BBC is passing through is called as Strategic Management which carries essentially, vision, mission, goals, strategies, techniques and tactics and finally action plans. Case Analysis The company has a good old track of 13 years of service in the business of bicycles both in manufacturing and marketing. With experts and professionals in the respective businesses who possess both technical knowledge, marketing strategies and financial management, it is much easier for the management to expand the production capacity of the company.

Having a huge market in America and Europe, the company priced a mountain bike @ \$1600 whereas a road bike is price @ \$1800 whereas the total bike frame cost which includes both material and labor input by the company is at \$465 and company maintains inventory worth \$8000 only and can ship 18 bikes in one weeks time. Mostly the company considers the design that is required and suits the need of customer specifications which is why bike frames are not stored as inventory.

Customers provide specifications and design to build bike frames and staff design bike frames in computer designs and accordingly the designs are molded into real bikes for selling to the customers. This is the process that is being considered by BBC hitherto. The company received good reputation, customer satisfaction and good hold in market share. The staff of BBC are paid good salaries and staff is also satisfied with the company and company financial statements i. e.

Balance Sheet, Cash Flow and revenue projections are very satisfactory wherein there is control over expenditures and there is a continuous cash flow and maintenance of cash balance. The company is practicing good marketing strategies, maintaining labor costs, earning profits and above all keeps a professional conduct in the business of bicycles which is why its product is earning a greater demand. The company is in safe hands of experts who are the main driving force behind its success and are growing from one strength to another with hard work and excellent management of business.

It is important here to take note that when a sanction of \$200, 000 is made, how BBC is going to use these funds towards its expansion program. Going

by the financial statements of BBC for the year 2000, the company has projected a net loss of \$374, 689 in up to December. When taken notice of Profit and Loss Account, it was found that net operating income is much lower than total expenses incurred. It is important to cut down expenses in order to post profit and also expenses have to be lower than operating income.

In this case net operating income and total expenses throughout the entire period of 2000 are not marginal and even figures are quite disappointing. This indicates that the company has to severe attention to the cutting of expenses which are not required and which can be prevented in incurring expenditures viz. , bad debts can be recovered with the help of a recovery agent, expenditure on traveling, miscellaneous expenses can also be avoided wherever required. Another effort can be made to improve gross sales all through the year, which meets all the expenses and posts net profit for the company.

Further sales returns and allowances can also be lessened with the fact that these would add the figure of gross sales for the company. Further delivery expenses are also on the high side which can be negotiated at a lesser tariff and the expenses can be controlled or reduced. Ending cash balance for the year 2000 December is projected as \$343, 530 and for 2001 December \$367, 854 which indicates that there is improvement in cash flow although, the company is still posting a net loss for both the years 2000 and 2001.

Revenue projections for the year 2000 and 2001 are quite encouraging in terms of sales growth and also in terms of business turnover. For the year 2000, \$1, 390, 600 is the net income generated and for the year 2001 the

net income generated is \$1, 619, 600 which indicates a growth in sales turnover. Although the company is posting a net loss for two years, there are few lacunae areas in cost and expenses segment which are overtaking the profits and posting a net loss.

This can always be prevented by taking effective measures of cutting in costs and in expenses. BBC in order to undertake expansion of production capacity must concentrate on some of the important issues viz. , labor cost wherein newly recruited staff have to be paid, leased premises rent has to be paid monthly and maintenance of inventory, purchase of machinery and equipment for increasing the production capacity and also to supply more number of bicycles per week. These should be the main expenses and other expenses which are necessary viz.

, depreciation, delivery expenses, insurance, taxes, bank charges are some of the important expenses that cannot be prevented. Other expenses viz. , travel, miscellaneous, telephone, electricity, postage, charitable institutions, maintenance, office expenses such as these can always be minimized which would instantly cut down the expenses incurred in business. Total assets available for the company as on 31st December 2000 is \$669, 646 and as on 31 December 2001 the total assets of company are \$972, 060 and owners equity is \$758, 260.

This again gives a fact that company has good stand over fixed assets and capital and has a strong objective to grow in future with its program of production expansion although there are imbalances in incurring expenditures which are resulting in posting of net loss for the company. Financial Analysis As on December 31, 2000, BBC posted a Net Income Loss

in Income Statement to an extent of \$178, 868 and net sales are \$1, 034, 118 and expenses are totaled to \$488, 750. Basing on the marketing data, there is an annual market to sell 25 million bicycles as per the survey of Department of Transportation.

The average price of a custom-built bicycle is \$1, 500 and this sale excludes summer Olympics. Currently there are five companies which are making custom-built bike frames in U. S and BBC is not in top five companies. As financial projections indicate in the next three years, there is a huge scope for BBC bike frames which include both mountain as well road frames can tap the customer market, if the production capacity of BBC is expanded with the loan that is applied with the motive of increasing the production capacity and to increase sales.

Further it is also appreciating that U. S and Europe customers are indicating more interest in purchasing more number of mountain bike frames apart road bike frames. Expenditures on travel, delivery, postage, telephones and other miscellaneous should be reduced as these increase the total expenses and reduce the net operating income. With the increase in production capacity, hiring new workers, labor charges have to be paid and salaries also have to be paid basing on hourly, monthly or weekly.

The company is already paying 10 employees and there are plans to appoint few more employees and for this purpose cutting costs and managing funds efficiently is important until the company records regular profits. Once regular profits are recorded, the company can consider a lenient view on expenditures that are necessary for the working operations of the company.

Till that time, it is important to control the expenses in all respects. An approximate calculation of loan that is due for sanction for BBC \$200, 000

1. Office premises on lease @ 1200 per month for 36 months : \$ 43, 200
2. Labor costs 7 designers @ \$35000 + 3 designers @25000 : \$ 60, 000 (p. a)
3. Capital equipment purchase : 3 workstations @ 20, 000 each: \$ 60, 000
4. Advertising \$ 3, 125 \* 12 : \$ 37, 500 ----- Total \$200, 700

As the total loan is \$200, 000 it is important that BBC must pick up sales and earn profits in the first year of sanction loan and prevent over expenditures that are incurred in manufacturing and selling of bicycles in the coming 3-4 years.

There is a clear financial need for rebuilding infrastructure of BBC and loan amount must be used in a useful manner for the growth of company and to increase the turnover of the company. Periodical financial statements, cash flow, budget and sales turnover indicate the working operations of BBC company apart from cautioning against over expenditure. It would also enable forecasts of expenses, target of sales, a complete financial analysis for the present and for future operations of BBC company.

A good portion of raw material, a good amount of major orders must always be on hand for executing orders in time. Further there is also a need to find market for new customers both in domestic and in international level, with the fact that quick growth in turnover would enable BBC to refund loan at a fast pace and also to increase company's profits. Advertising and Marketing Analysis BBC can launch a website as a part of advertising and marketing strategy and launch pop up ads, banner ads, email newsletters, ezines to invite new customers.

Launching a website would cut cost in advertising through television or newspapers as the present day customer is more available on Internet and Internet marketing is the best option to increase sales although the traditional methods of marketing continue in the form of supply of brochures, banner boards and television advertisements. There is scope for more market on Internet. Customers who visit web site can choose a particular bicycle and check the price and email the order or pay on line.

BBC must ensure that the appropriate is delivered to the customer in a perfect working condition. As a matter of fact, sales pick up at a fast pace on Internet as customers visit BBC web site on every day basis and there are purchases of bicycles almost every day. BBC must ensure good customer service, service and repair support apart from offering reasonable discounts to customers who request for a particular model. The motive behind production expansion is to increase sales and it must be achieved as a part of strategic management.

Further, periodical market analysis must be made for the benefit of BBC and regular feedback from the customers would benefit the company in providing excellent information from the market as well from the customer for making improvements in BBC products. Recruitment of efficient and smartly trained marketing executives, advertising executives and technical and skilled personnel who attend to customer requests for repairs is also required by BBC for maintaining the reputation and to make the product quite demanding in market.

Apart from this, pricing strategy of competitors must be analysed and pricing of products should be moderate while maintaining the good quality of



product. It must be noted here that customers must always be satisfied with both marketing as well advertising apart from a complete satisfaction derived from the purchase of product. Final conclusion BBC company is a small establishment when compared with big manufacturing companies of bicycles whereas the strength, market and customer base for BBC is absolutely good which is why, expansion program is required in order keep the company growing towards more number of sales and in earning profits.

This business plan analyses every area of the present business and advises which part of area in business needs extra attention in bringing more success to the company. It also covers every major area and provides details about over all functioning as well the financial analysis of the business. There are many areas in BBC which require re-working and investment of funds and also reduce expenses in delivery, travel and telephone. Small establishments are always easy to manage and also enable quick growth and in earning profits.

Every minute detail must be managed in order to bring the best from the company and also to prevent unforeseen situations that arise from lack of care. It is good for BBC to avail loan at this stage, as it is offering several benefits of expansion of production capacity, manpower and machine capacity. These funds have to be managed and invested in order to meet the objective and target of sales. In future, the banks would not hesitate in sanctioning of more loans for achievement of goals and objectives of BBC company. Reference Week 6 BBC Case Analysis