

# Summary and analysis

Business



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This business proposal has been evolved basing on the information about the availability of events. The demand was assessed by considering the scale of events, market condition covering competition and other factors like the availability of location, weather etc. The next stage was to determine the investments required and the funds needed to set up the venture. The final stage was to evaluate the viability of the project by projecting the sales, costs and the profit. This exercise would have involved considering various factors like demand at peak time and other times, the prices to be charged, availability of staff, their competence, number of customers to be covered etc.

The quantitative information collected like the number of events under the three categories of big, small and medium, event frequency, number of customers covered, selling prices and costs for different items, cost of equipment, various costs etc. is listed out and based on this, financial projections have been made to study the viability of the project. Projections have been made from January to December taking seasonal variations into account. Three products juice, smoothies and soup are assumed to be sold at specified prices. Depreciation of trailer and equipment has been shown as trailer cost and equipment cost.

Almost the entire investment is assumed to be funded by a loan. of £30, 000. Profit projections are made month-wise and the Present value of the cash flows has been calculated using a discount rate of 4. 4% and the total PV works out to £75653. 53, much higher than the investment of £30287. 64. However, the initial investment seems to have been calculated incorrectly by including various items of expenditure like electricity, petrol etc. and an additional amount of £500. The correct value of investment should be £22,

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450 including only the trailer cost £14, 950 and the equipment cost £7, 500.

The NPV will be £75, 636. 53-£14, 950 = £60, 686. 53.

The summary of the results is as below:

Initial investment £14, 950 (towards Equipment and Trailer. 0

Total revenue for the year £259, 850

Total expenses including depreciation£158, 524. 95

Total profit£101, 325. 05

PV of monthly profit at discount rate of 4. 4% £75, 636. 53

NPV £60, 686. 53

The NPV analysis shows that the project is viable and it can be taken up. The profit projections will be realistic only if the assumptions made about the selling prices, costs and the volume of business are correct. Moreover, as pointed out earlier, the calculation of the initial investment is incorrect and needs to be corrected. Moreover, the discount rate of 4. 45 per month appears to be very high, since this will be equivalent to an annual rate of more than 50%. However, these corrections will only have the effect of improving the NPV.

Based on the analysis, the proposal is viable and should be taken up. The next step should be to draw up a schedule for implementation of the project. The first task will be to raise the investment required through a loan as proposed. This should be followed by induction of people to run the business. Once the investment is raised, the trailer and the equipment can be bought followed by the purchase of ingredients and the business commenced

Reference: Pietersz, Graeme “ NPV (net present value)” [online] (n, d)

Available at: <http://moneyterms.co.uk/npv/>

(Accessed Nov 22, 2011)

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