

Explain and justify the ventures potential success

Business



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The success of a business venture strongly depends on proper financial planning. In this case, launching an online pizza delivery would be determined by factors such as utilisation of fixed obligation capital like debt finance which can amplify the impact of earnings per share of shareholders. The initial money from the venture would be obtained from debts. Basically, debt financing is a cheaper form of raising funds for ventures compared to equity funds. The utilisation of debt funds in capital structure of the firm increases the rate of profit for equity to the shareholders as long as the rate of return surpasses the expense of debt. Since financial risk is connected with inclusion of debt capital, this implies that if there are no debt funds hence there will virtually be no financial risk. This also implies that activities which are totally financed by equity convey no financial risk. Subsequently, equity capital has the long-term potential for generating superior returns for the investors and is thus considered as appropriate source of finance especially for new business ventures.

The investment appraisal techniques reveal that the net present value of investment is £19, 538. 43 with an IRR of 29 percent. As the return on investment is more than cost of capital, it is apparent that project is viable and investors may accept this project. It is also apparent that budgeting will contribute towards the success of the business venture. Below is an outline of the anticipated budget as well as pricing structure for the business venture.

Unit Cost and Pricing Decision

Deliver Charges

First Time

Large Pizza

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Medium Pizza

Any Size

Stuffed Crust

Customers

Total

(For spending above £25)

£ 3. 30

£ 7. 59

£ 6. 57

£ 5. 59

£ 8. 09

£ 31. 14

The average per unit cost of delivering pizza is expected to be £20 for sale of 8, 825 units (in first year) and considering the demand of product and current competition in market, the management could expect sales turnover of around £176, 500. This means that average revenue per unit of pizza delivered will be £31. 14 (shown in price chart above) making a profit of £11. 14 per unit. The pricing structure is viable since it will enable the business venture to raise enough revenue to sustain its operations as well as to

generate profits. Essentially, the aim of business is to make profit and this is achievable since our products are likely to attract more customers.