

REPORT: MAYDAY PRINTERS

The firm, Mayday Printers, from my analysis is operating in a niche market (a small segment of a larger market). This means they are aiming at a relatively small target market and have a specialised service designed to meet the specific needs of the niche. The specialised service Mayday Printers offer is a twenty-four hour turnaround so they guarantee they can finish printing anything you want and it will be ready for you in a day to collect. They also can then charge a premium price for this specialised service because they must make their profits from a small sales volume as they are in a niche market. The problems faced by Mayday Printers are that overheads can not be spread over a high output level. So fixed costs per unit are high therefore prices must be high but the service must be highly valued by the niche aimed at, like the service Mayday Printers provide which is differentiated from other services because they have such a quick turnaround from receiving the order and processing it therefore they can charge a premium price for it.

If we now look at what factors can allow Mayday Printers to achieve such an efficient service we shall see the importance of the machinery and what effect a new printer will have. A flexible and reliable workforce is needed because if there is an order made for example at night the workforce must be expected to work through the night to process it and they must be reliable and turn up to work everyday or night otherwise the service is no better than any other which takes over a day to process. It is essential the business has a good reputation of being reliable because they offer a service that aims mainly at emergency situations where people need things to be processed and printed for the next day. They will not go to a business that has a bad reputation of being unreliable and they won't risk not having their order ready as usually it is an urgently needed job. Presently though the workforce is reliable and Mayday Printers is working at full capacity, so the firm is producing the maximum possible output that it can with the current available resources. The reason they are turning away work is because of a limited amount of resources, i.e. not enough printers. Mayday Printers can take advantage of high capacity utilisation by expanding and invest to boost their total production capacity. If they purchase or have use of another printer the affect it will have on the business is a long-term increase in prosperity as they can meet demands and produce more due to more capacity available. This means more productivity and more revenue leading to more profits for the business. In terms of cash flow Mayday Printers are very good as they meet short term debts easily however there are periods where the cash flow is strained. This may be because they offer credit to customers, what this means is they may offer a 30 day period in which customers can pay, but Mayday Printers might need to make a payment on an overdraft in ten days, and interest gets paid onto the overdraft every time so there will be little cash flow to pay off the overdraft so it will take longer to pay off and the longer it takes the more interest will have to be paid on it. Not only the overdraft payments have to be met but also employee wages, overtime pay and to purchase supplies. The supplies will be more expensive as they use a Just In Time production method so they only buy enough stocks to meet orders. They have to pay more for the stocks and frequent deliveries and cannot afford to have a low cash flow. A new printer would increase the cash flow and so they will meet all the running costs of the business and make some profit as they would be able to take more orders and increase cash flow coming in to the business. Also if printer breaks down in the current situation they will find it hard to meet costs as they have some cash flow

problems at certain periods when there are a lot of orders. They will lose out on a lot of orders but another printer will mean they will still have enough orders processed to meet costs and take orders so will be able to meet some overheads. A new printer would benefit them hugely and increase the total capacity, allowing them to make more revenue and ultimately more profit.

Mayday Printers have two options to purchase a printer: Bank Loan or Leasing a printer

Option 1

They can take out a bank loan for £100,000 with 8% interest and a 4% bank rate (which is variable) to be paid over a 10 year period. The advantage of taking out a bank loan is that after the 10 year period when the entire loan has been paid off the printer will be Mayday Printer's property. If they lease the printer it would not be their property at any point.

Leasing over a long period of time is more expensive than the outright purchase of the printer. The loan is cheaper in the loan term as Mayday printer would pay £934 per month compared to the £1,500 per month for leasing, over 10 years the loan is cheaper and the printer becomes their property. Loans cannot be secured on assets which are leased, so when the loan is repaid and the printer is their asset they can secure a loan on it but if they leased a printer they cannot secure a loan on it as it is not their property. A loan also allows you to preserve your cash and working capital. Business and bank know precisely what the repayments of the loan will be and how much interest is payable and when. This makes cash flow planning more predictable you can organize your loan schedule to match your payments with the projected cash flows from the proceeds of the funds this will help you minimise the drain on your working capital. The loan is committed; the business does not have to worry about the loan being withdrawn whilst it complies with the terms of the loan. The terms for early termination of most leases can be very unpleasant for the business, particularly if the termination is forced, i.e., the printer is stolen. In such cases, insurance pay-outs often fall far short of the balance due on the lease leaving you responsible. There is a tax advantage, Interest payments on your loan are tax deductible and are made with pre-tax money. Purchases financed with profits, in contrast, are made with after-tax money. Leasing companies tend to require higher amounts of insurance coverage compared to no insurance for the loan.

Option 2

Alternatively they can lease out the printer for a flat rate of £1,500 per month. This can have its benefit as they pay a fixed sum every month, unlike the loan there is no interest charged. The business does not need large amounts of money to use equipment or to buy equipment. Maintenance and repair costs are not the responsibility of the user, so if the printer breaks down Mayday Printers do not have to pay for it to be repaired, also the leasing company may even replace it so no orders are lost. With a loan if the printer broke down then Mayday Printers would have to pay extra to get someone to repair the machinery plus they will still have to make the payments for the loan. Leasing increases purchasing power as the business may need £100,000 for a printer but their available cash/credit may only allow for £30,000, hence they have to settle for a smaller printer that only meets their needs half-way. A lease can increase Mayday Printers purchasing power by allowing you to finance the needed equipment for the job. That way they get the equipment they need to meet demand and promote growth. Leasing makes sense when the equipment you use

creates a return that exceeds its cost. In other words, leasing allows you to set a fixed monthly payment for the use of equipment that creates an anticipated return exceeding that payment. That way you are certain that your operation is profitable and the equipment serves its purpose. Leasing is not subject to market fluctuations and interest rate increases. You can negotiate the monthly payments up front and secure a fixed rate for the life of the lease. This makes it much easier to project cash flow and budgets for planning purposes. Unlike dealing with bank loans and other alternative types of financing, leasing is an easy and convenient process. Since Mayday Printers payments apply to the use of the equipment they do not pay for ownership on equipment that consistently depreciates. Furthermore, the cash savings can yield a return. The leased equipment is usually all that is needed to secure a lease transaction. With a loan the lender may insist on a pledge of some asset to secure the loan. Under a security agreement (for personal property), if you default on the loan, the lender is able to cease upon the asset and sell it to repay the money owed to the lender. Also with a loan the lender may define a variety of events that will constitute a default on the loan, including failure to make any payment on time, bankruptcy, insolvency and breaches of any obligations in the loan documents. Additional guarantees are needed depending on the credit rating of your company; the lender might require additional guarantees. These may be provided by Mayday Printers and could affect their credit rating. The end user bears all the risk of equipment devaluation because of new technology as at the end of the loan the property is yours and by that time new printers may have come out, with a lease you can easily upgrade to a new printer.

Overall after analysis of both options I feel the bank loan financially is more appealing as it works out at £934 per month which is less expensive than leasing the printer for £1,500. However if the printer breaks down under the lease the leasing company will fix it. Also the lease is a fixed rate but can be called in whenever the leasing company desires. I feel the loan will be the best option as at the end of the repayment period the printer will be Mayday Printer's property and after that it will be a great asset as then the revenue received will be profit. During the repayment period it will pay for itself as the company will have expanded and increased capacity and will be able to take more orders, with a lease more orders a month will be needed before they make profit as they have to pay a higher amount per month. With a lease it will never be their property and so if they lease it for ten years it is better to outright buy it. The loan is financially more profitable and manageable for Mayday Printers. It will in the long term benefit the business more and help them expand and grow.

