

Unit 3 Portfolio- The Financial Plan

Introduction

The task of writing a finance plan for a business idea to raise at least £100 for charity has been assigned to me. The particular business idea that I shall be assessing is that of setting up and running a sweet stall. The purpose of this finance plan is to evaluate and argue the case for the business idea, taking into account; costs, source of funds, recommended price of product, etc. The profit will be acquired by selling bags of sweets, in school, at lunch times and break times to the students of Sir William Borlase's Grammar School.

Methodology

To help determine whether or not the proposed idea of a sweet stall was feasible, a questionnaire was drawn up. The questions asked were selected so that they would benefit both the financial plan and marketing plan. To gather information from a range of year groups, 25 questionnaires were handed to each year group from the following: 7, 8, 9 and 10. The questionnaires were given out via the morning register, and collected back from Matron at break time. We thought that having a sample of 100 pupils, spread evenly across the years would be sufficient data to analyse and calculate projected revenue.

At first, a questionnaire was drafted with only questions relevant to the finance section of the plan. It was then revised, and questions were added that would benefit the marketing section. The questions asked were ones that would help me to predict revenue, with respect to: 1) how many people were interested in the idea of a sweet stall; 2) how many times they would visit the stall (both daily and weekly) and 3) the price people were willing to pay for the product. This would allow me to draft supply and demand graphs, break even charts, a profit and loss account and a cash flow chart.

Findings

Sales

To begin with, I analysed the results associated with the amount of people interested in the idea of a sweet stall:

Would you be interested in buying products from a sweet stall, if one were to be set up?

| Year Group | Interested | % Interested |
|------------|------------|--------------|
| yr 7 | 21/25 | 84% |
| yr 8 | 19/25 | 76% |
| yr 9 | 15/25 | 60% |
| yr 10 | 8/25 | 32% |
| All years | 63/100 | 63% |

From this information I was able to estimate the total number of students that would visit the stall.

$$= 0.63 \times (125 \times 4)$$

$$= 315$$

I multiplied the percentage interested in the idea by the year size. Upon multiplying this figure by four, I was left with the total number of students in years 7, 8, 9 and 10 that were interested in buying products from the stall.

Now that I knew the number of students that would visit, I analysed the figures that showed the number of times that they would visit, both in one day and in a week.

During the course of one day, how many times would you visit the stall?

| | 1 visit | 2 visits | 3 visits | 4+ visits |
|-------|---------|-------------------------|----------|-----------|
| yr 7 | 5 | 6 | 8 | 2 |
| yr 8 | 3 | 6 | 9 | 1 |
| yr 9 | 3 | 5 | 5 | 2 |
| yr 10 | 1 | 3 | 4 | 0 |
| Total | 60 | 100 | 130 | 25 |
| | | Av. no. of visits daily | 750 | |

Note: in the Total row I have estimated the number in the entire year, not just the people taking the questionnaire.

Having established how many times people would be willing to visit in one day, I then went on to question the audience about how many days, in one week, they would be willing to visit the stall.

During the course of the week, how many days would you visit the stall?

| | 1 day | 2 day | 3 day | 4 day | 5 day |
|-------|-------|-------|-------|--------------------------------|-------|
| yr 7 | 0 | 1 | 2 | 3 | 15 |
| yr 8 | 1 | 1 | 2 | 2 | 13 |
| yr 9 | 0 | 1 | 1 | 5 | 8 |
| yr 10 | 1 | 1 | 1 | 2 | 3 |
| Total | 2 | 4 | 6 | 12 | 39 |
| | | | | Av. number of days of visiting | 4.33 |

The average number of days of visiting was calculated by multiplying total of each column by the number of days, and adding them together. This was then divided by the total number of people that answered the question (63).

To work out the total number of visits in the week I used the following equation:

Average number of daily visits x average number of days visited

$$\begin{aligned} &= 750 \quad \times \quad 4.33 \\ &= 3226 \end{aligned}$$

To establish the average number of visits per day over the course of five days, not just over 4.3 days, the total number of visits was divided by 5:

Total number of visits \div Number of days

$$\begin{aligned} &= 3226 \quad \div \quad 5 \\ &= 645 \text{ visits per day} \end{aligned}$$

Price and Revenue

Having estimated the number of visits that I would get, both in one day and in the entire week, I can now determine a suitable value for the price of the sweets.

The variable and fixed costs of the project must first be worked out before I can argue a price for the product.

The cost of the sweets

In the local shop, they sell 1000 sweets for £6.00. If one bag contains 25 sweets, and there are 645 bags to be sold, then:

$$\begin{aligned} &= 645 \quad \times \quad 25 \\ &= 16,125 \text{ sweets per day} \end{aligned}$$

To determine the price of the sweets, we must first discover how many times £6.00 has to be multiplied by.

$$\begin{aligned} &= 16,125 \quad \div \quad 1000 \\ &= 16.125 \end{aligned}$$

$$\begin{aligned} &= 16.125 \quad \times \quad \text{£}6.00 \\ &= \text{£}96.75 \end{aligned}$$

The bags

Obviously, we cannot merely give the sweets away without packaging them. It is for this reason that we decided to put them in paper bags. These have a cost of 1p each; therefore calculating the cost was simple:

$$\begin{aligned} \text{Total cost of bags} &= \text{Cost of one bag} \times \text{no. of bags required per day} \\ &= \pounds 0.01 \times 645 \\ &= \pounds 6.45 \end{aligned}$$

The rent

The cost of renting the premises had to be calculated as a fixed cost. The cost was in half-hour slots, £5.00 for 30 minutes. That meant one slot for break-time and two for lunch-time.

$$\begin{aligned} \text{Cost of half hour slot} \times \text{no. of half hour slots required} \\ \pounds 5.00 \times 3 \\ = \pounds 15.00 \end{aligned}$$

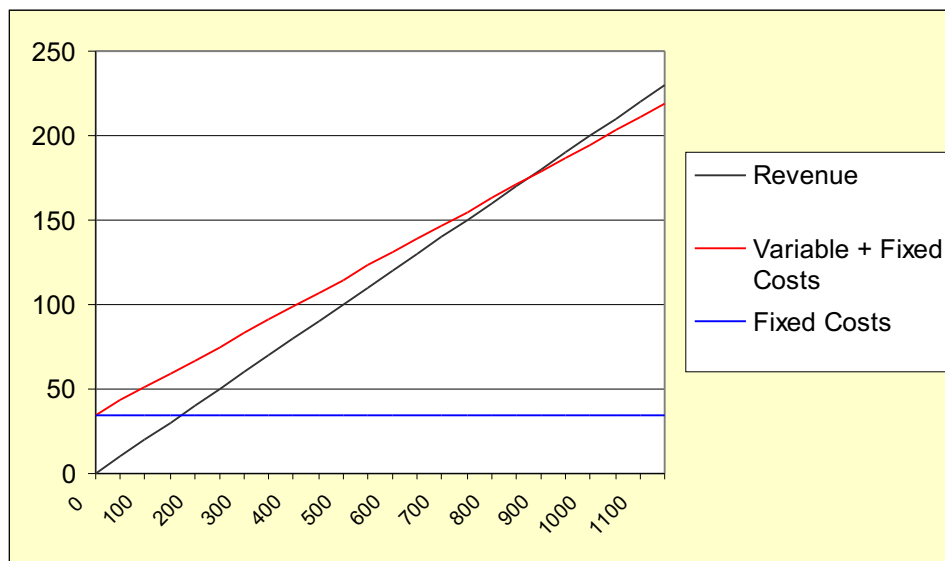
The Loan

To pay back the initial loan, payments of £20.00 will be made every day, to make up to the original £100.00. This is considered a fixed cost. I will talk about the loan later.

Determining the Price – Break-even charts

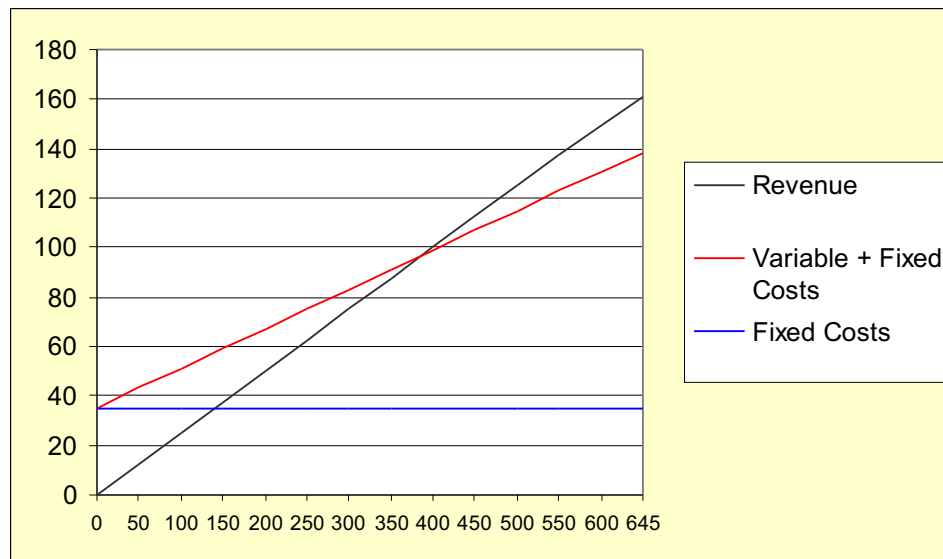
I shall now determine the price for the product by examining two different prices: 25p and 20p per bag.

20p



Working out the exact number of units that had to be sold to break-even, left me with the figure of 875. This presents me with a margin of safety of -230. In other words, we would have to sell 230 more bags of sweets than we would need, in order to break even. This would be impossible as we would only have access to enough bags and sweets to sell 645 bags.

25p



Working out the number of units that had to be sold to break-even at 25p, however, left me with the figure 389. The margin of safety at 25p is considerably more: 256. What this means is that I could sell 256 units less than expected and not still break even.

Profit and Loss

Having established a price, determined the costs, and decided on a number of visits, I am ready to start predicting the profit for charity.

| | £ |
|---------------------|---------|
| Sales revenue | 806.25 |
| Cost of sales | 516.00 |
| Gross profit | 290.25 |
| Overheads | 75.00 |
| Operating profit | 215.25 |
| Interest receivable | 100.00 |
| Interest payable | -100.00 |
| Retained profit | 215.25 |

If everything went according to plan, I would be able to make £215.15 for charity.

Source of Funds

The start-up cost of the project is the variable costs (the fixed are payed at the end of the day, by which time we will have had time to raise money). This is equal to the cost of the sweets + the cost of the bags.

$$= \text{£}96.75 + \text{£}6.45$$

$$= \text{£}103.20$$

A grant received from the Parents Association of £100.00 will cover almost all of the start-up cost. The rest will be funded from an internal source (probably our parents). The grant must be paid off in £20.00 instalments at the end of every day. I have already included this cost in both the break-even charts and profit and loss account. The following is the cash-flow chart for the week in business:

Cash Flow Chart - Without Loan

| | Day 1 | Day 2 | Day 3 | Day 4 | Day 5 |
|---------------------|--------|--------|--------|--------|--------|
| Sales | 161.25 | 161.25 | 161.25 | 161.25 | 161.25 |
| Retained Profit | 0.00 | 43.05 | 86.10 | 129.15 | 172.20 |
| <i>Total Income</i> | 161.25 | 204.30 | 247.35 | 290.40 | 333.45 |
| Sweets | 96.75 | 96.75 | 96.75 | 96.75 | 96.75 |
| Bags | 6.45 | 6.45 | 6.45 | 6.45 | 6.45 |
| Rent | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |
| <i>Total Costs</i> | 118.20 | 118.20 | 118.20 | 118.20 | 118.20 |
| Balance | 43.05 | 86.10 | 129.15 | 172.20 | 215.25 |

Without the loan, the profit remains the same, due to the lack of interest the PA are charging. However, it is only until Day 4 that we can actually buy the products at the beginning of the day. It is for this reason that we need a loan. We are very capable of paying it back; we just need an injection of money to initiate the process.

Cash Flow Chart

| | Day 1 | Day 2 | Day 3 | Day 4 | Day 5 |
|---------------------|--------|--------|--------|--------|--------|
| Sales | 161.25 | 161.25 | 161.25 | 161.25 | 161.25 |
| Loan received | 100.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Retained Profit | 0.00 | 123.05 | 146.10 | 169.15 | 192.20 |
| <i>Total Income</i> | 261.25 | 284.30 | 307.35 | 330.40 | 353.45 |
| Sweets | 96.75 | 96.75 | 96.75 | 96.75 | 96.75 |
| Bags | 6.45 | 6.45 | 6.45 | 6.45 | 6.45 |
| Rent | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |
| Loan Payment | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| <i>Total Costs</i> | 138.20 | 138.20 | 138.20 | 138.20 | 138.20 |
| Balance | 123.05 | 146.10 | 169.15 | 192.20 | 215.25 |

From this table, you are able to see that from the loan + retained profit; we are able to buy all of the products at the beginning of the day, instead of relying on profit at the end of the day.

Conclusion

Contrary to my original beliefs that this business idea would not work, it seems that the questionnaire revealed some interesting figures. With clever 'bargain' hunting for the best price for sweets and paper bags, coupled with a tax-free loan and you are left with an intelligent business idea, capable of raising more than enough money to cover all the costs and raise £100.00 for charity.

If allowed to go ahead with this plan, I propose to raise approximately £215.25. Obviously, this figure could be far less or far more, as a result of poor reception and lack of advertising leading up to the crucial first day, but, having analysed the findings from the questionnaire and by introducing the product at a reasonable price, I am left with the conclusion that we will raise £215.25 for charity.