

NAME:

COURSE: **G C E APPLIED BUSINESS**

UNIT TITLE: **BUSINESS DEVELOPMENT**

UNIT NUMBER: **8**

BUSINESS DEVELOPMENT PLAN FOR:

CHARLEY'S CAFE



Summary of Contents:

Section 1: The business idea

My business idea with the reasons for my choice and the research accompanying this together with how I have used the research findings. The promotional strategies associated with my chosen idea and any analysis and evaluation undertaken to further justify the development of my business idea.

Section 2: Resource and quality issues

The physical, financial and human resources required to establish and develop the business together with a consideration of relevant aspects of the law applicable to my chosen idea. Coverage of how quality will be met and monitored, particularly in relation to potential customers and of how the human and financial aspects will be managed effectively as the business develops

Section 3: Financial resources

Financial details to include cash flow forecast, opening balance sheet, forecast profit and loss and breakeven forecast. Analysis of the projected figures and evaluation of potential changes likely to affect the business in the first year and the next two years' trading.

Section 4: Feasibility and evaluation

Projection of the business financial position over the next two years trading. A consideration of the difficulties of estimating future positions with regard to cash flow, profitability and liquidity considerations. Further analysis and evaluation of these, together with reasons for the importance of such measures of business performance as the business develops.

Section 1: The business idea

In order to get started I decided to use the technique of brainstorming but limited my ideas only to what I am interested in or things that I know something about – in my case both!

In carrying out this exercise I also thought about where I was going to locate my business. I live in a small village three miles away from the nearest market town, and this is not the ideal place to develop a business simply because there would not be a big enough market for what I am trying to sell. I had decided that I was going to locate in Plymouth. The list I came up with was narrowed down to three and I put them in order of preference having examined the pros and cons of each idea: –

1. A “New Look” city centre sandwich bar/café
2. “Profumeria” – perfumery
3. City Night club

Location

The choice of location is a very important consideration. My choice of Plymouth was based on a number of facts. (see Appendix *(not present)* for various websites from which data was extracted)

- (1) The population is in the region of 250,000 and it draws additional shoppers, workers and visitors from south and mid Devon and south-east Cornwall. In summer the numbers are swelled even more by the arrival of holidaymakers.
- (2) The city shopping area has recently undergone a transformation with the redevelopment of Drakes Circus and the creation of a new “mall”. The result of this has meant firms in the shops leading up to the new centre leaving many nearby premises vacant and available to let. The City Council of Plymouth development plan is committed to enhancing the areas that have been vacated so as not to create any rundown or twilight zones. The overall result since the opening of the new centre has been a massive increase in the number of visitors. Christmas trading results were up on last year in the city and this bucks the national trend for 2006.
- (3) The 2001 census has shown that the structure of the population has changed in terms of its socio-economic profile and ethnic backgrounds. This change has continued during this decade. The number of migrants to the area from the south-east of England has increased as people seek a better quality of life in the south-west. Many people arriving in the area have made capital gains on the selling of their houses just through relocation or in many cases through downsizing. The figures show that income per head of population in Devon has risen and the area overall is booming. This helps to explain the higher than average rise in house prices for the area as shown in the Halifax Building Society house price survey.

After thinking about the pros and cons of each idea, I decided to develop the idea of the “New Look” city centre sandwich bar

Pros

- One of my parents already in the trade can therefore give me advice
- Exciting product and service ideas to appeal to the mass market
- Good marketing opportunities in a large and diverse market place
- Have worked in my mother’s café and have learned something about this type of trade

Cons

- Relatively high rent and rates in city centre
- Long working hours
- Lots of competition
- High sales volume required to meet overheads

Conclusion:

Each of my business ideas was sustainable and with proper marketing could have made profits but I have chosen the food business because:

The café has mass-market appeal and although there are lots of competitors there is always room in the market for good quality food and drink products that have been prepared on the premises and sold fresh. It could be located in Cornwall Street, which leads up to the new shopping centre.

Market Research:

My new business, located in Cornwall Street, Plymouth, is a café and I will be trading under the name of “Charley’s”. I have been advised to trade in my own name rather than spend hours trying to think up a fancy name. If the business goes well then it is my name that is going to get spread around.

The café will try to cater for two types of customer. The first type is the one who wants to be seated and served whilst the other type is the one who just wants to buy lunch and eat it off the premises. The main area on the centre left of the café will have a waitress service for 15 small tables (30 seats) to cater for seated customers. The area to the right will have a “fast counter” for lunchtime traffic wide enough for two employees to be serving. Over on the left will be the separately accessed area for customer comfort facilities.

Seated customers will be able to buy a standard range of hot and cold savoury and sweet snacks and pastries with a hot or cold drinks. The fast counter will include a lunch time deal consisting of a choice of a dozen two-filling paninis, savoury packet, hot or cold drink and a piece of fruit all for a fixed price of £3.50.

The café will be decorated to a high standard. The furniture, fixtures and fittings will also reflect the high quality of what is being produced and served. There will be a proper coffee-making machine. It will have a fresh up-market feel to it – a place

where people want to come and eat and drink. At the same time there will be a fast throughput of customers. Employees will be smartly dressed whilst on duty. The normal hours of trading will be between 8.00am and 6.00pm Monday to Saturday.

We have seen the expansion of this industry to the extent that bookshops like Waterstones now have a Costa Coffee franchise operating in store. In the new Drakes Circus development in Plymouth a large number of food and drink outlets catering for different tastes have opened up and large firms like Marks and Spencers have completely overhauled their catering arrangements.

In researching the market for this sector it was a matter of realising that every one is a competitor and that the customer has a vast range to choose from. Maintaining a reasonable quality product and quick service is the key to success and recognising the two types of customer already described.

Summary of Market Research Findings

My secondary research showed that there were 14 competitors of my size and type in the immediate area surrounding my Cornwall Street location apart from the catering areas in the major stores. The prices charged for food and beverages when the customer is seated do not vary much. All takeaway foods are much cheaper and in this market the prices do fluctuate much more.

My market research questionnaires (see Appendix) revealed that shoppers were not loyal to any particular outlet. Their choice mostly depended upon where they were located at the time they fancied a break for coffee, lunch or tea. Most shoppers interviewed had visited 6 or more different outlets. From my survey no clear favourite emerged as the best place to visit. This shows that the catering experience in whatever form it takes is just a by-product of the day, not the main reason for being there.

Part of my questionnaire focused on what people usually drank and coffee emerged ahead of tea particularly in the age bands from 25 to 55 year-olds. Customers will pay between £2-50 and £3 for a large cup of coffee of good quality.

Coffee drinkers preferred freshly made coffee when they could get it and found the quality of coffee from push-button machines very variable and would if they had time avoid establishments that offered this.

A large number of shoppers expected to spend around £7-50 to £10 if seated at lunchtimes. Prices for good quality, nicely presented fresh sandwiches could be as high as £3.60 in the various seated outlets I visited including Marks and Spencer, British Home Stores, Dingles (House of Fraser), Debenhams, Derrys (Co-op) and Costa Coffee House.

I interviewed customers that had queued for the self-service area at Marks and Spencers and the majority of them spent between £3 and £5 at lunch times for takeaway food, which was considered to be of good quality.

My research showed that there is a large price difference between served and takeaway food, often twice as much. This will have an impact on what I offer and how I price the two different strands of product/service within my café. My pricing will be based on the findings in my market research using the same range of prices as my competitors. I see no real benefit in trying to undercut prices of my competitors as I am trying to give my potential customers a different experience, which I hope they will like and encourage them to return.

Advertising and Promotion

The business will need to be properly launched so the initial campaign needs to use different media.

I will place standard line entries in the classified directory of the BT Plymouth phone book under the heading of cafes and also place my name in the Thomson Local Business guide for the Plymouth City area under the same heading.

The Evening Herald Newspaper will be invited to do a feature on my new business highlighting what it has got to offer. I will invite the press along and pull in passers-by for a free drink on the opening day handing each sit-down customer who comes in a coffee loyalty card on which 6 “stamps” can be collected. When the card is full a free coffee may be claimed on next visit. This will be a continuous promotion lasting beyond the launch period.

A static advert containing a colour photograph of the premises will be prepared for the VU Cinema complex in Coxside, Plymouth. These adverts appear before the showing of feature films on a continuous film tape. The aim here is to remind cinema-going audiences (mainly 18-30 years) where the café is located.

Hand delivered leaflets to local businesses and a follow-up leaflet, after the initial launch may contain a 50 pence discount coupon to be redeemed when £3.50 or more is spent. The figure of £3.50 is linked to the fast counter lunchtime deal price in order to promote that side of the business. It will be quite simple to monitor the extra business that this generates whilst the offer is on.

Future Marketing Strategy

I will be keeping weekly figures of turnover to monitor how the business progresses and to measure the success of any additional advertising or special promotions.

In the medium term I will look to being a member of the Chamber of Trade and to get involved in some area of sponsorship for worthy causes. This will help “Charley’s” become a well-known local business that will gain support and loyalty from its customers because it has good public relations.

In the longer term, depending on the success of the business there may be a case for opening a second shop in another large centre of population like Exeter.

Status of Business Organisation and Legal Matters

I have decided to become a sole trader who directly employs staff.

In these circumstances I will have to register my business with HM Revenue and Customs. I will use an accountant to look after my self-assessment tax return. I will also need to be registered for self-employed Class 2 National Insurance Contributions and for carrying out PAYE income tax and Class 1 National Insurance Contributions for the employees in my café. (see Appendix for website information source).

My business turnover will exceed £61,000 in a full 12 months period so I must be registered for Value Added Tax as well. I may well register under one of the simplified Retail Schemes that are available in order to reduce the amount of administration involved when paying and filing my quarterly returns.

My business is also subject to Local Authority Regulations and my premises and equipment must conform to all Health and Safety Regulations. All members of staff must undergo food preparation hygiene training and obtain certificates

Section 2: Resource and quality issues

Physical resources

Fixed Costs

(1) Leasehold and Premises Costs

By contacting Estate Agents Stratton and Creber in Plymouth I discovered that a five years leasehold agreement on one of the suitable vacant properties would cost £15,000 excluding rent and insurance. I would want to buy the lease because it gives me security of tenure in the initial phase of the business development. A rent has to be paid under the terms of the lease of £1,200 per quarter. P A insurance brokers of Bodmin, Cornwall, can arrange special café insurance. This covers unforeseen trade losses as well as cover for stocks, theft, damage, employers and public liability. This will costs a total a total of £643 for the year. Rent and insurance will be charged as revenue expenditure.

(2) Equipment, Fixtures and Transport

Most of the industrial style equipment for the café could be acquired through the Direct Equipment Catering Company. It is easy to order from the company's website at www.directequip.com. There is a vast arrange of manufacturers to obtain these goods from and one of the prominent ones is Lincat who are specialists. They give discounts for big orders. See page later for details.

Running costs

Initial consideration will have to be given to the following items of expenditure and details are shown in the cash flow statement in section 8.3 later on in the report.

Financial resources

Capital Introduced

The legacy I have received only makes up a part of the capital required and I will have to include my own capital from savings before any bank will look at my business plan because I have no other security to offer.

Borrowed Money

Hire purchase will be raised on the purchase of the van, which I will also make use of for private motoring. An alternative to this is leasing, which is like renting the vehicle instead.

The crucial part of the funding will come from the Business Development Loan, which is longer in term and can be obtained from any of the major banks providing you have a business plan. I would be seeking a loan for 10 years although the bank might want to see that I would have the right to extend the lease beyond five years before they will lend the money to me over a longer period.

A bank overdraft facility of £1,000 is essential at the outset to allow for short-term fluctuations in working capital. This is the maximum that my bank will allow on an

unsecured basis. Once the business establishes a regular pattern it may be necessary to have this figure reviewed.

(Include start-up budget requirements here)

Human resources

Staff are required to cover a working week consisting of 6 days. Some staff will be required to step up their hours to cover for holidays and sickness. At the busiest time of the day there needs to be 5 people on duty with me, the owner, floating to alleviate pressure wherever this arises. I would have to be there 6 days per week and would need one reliable full-timer to delegate to. This person will be paid extra to take responsibility when I can not be around.

Getting the staffing right is one of the major issues facing me as owner. It is always an area that creates problems and the turnover of people is usually high. The basic staff manning the café consists of the following: -

- Café owner
- 1 full-time member of staff
- 6 part-time members of staff
- 2 Saturday casuals

(include staff roster here)

The staff roster shows the working pattern of each employee. The staggered starting times allow the café to be fully manned at the peak times. The staggering of hours and a five hours working day allows those with families to work within school hours and gives them time to get home in time to be there for their children. This will be an important factor when recruiting people to work for me. All members of staff need to be flexible in their approach to the work and help anywhere in the café as and when required. Every person will receive training in food preparation hygiene and be provided with 2 uniforms, one to wear with one in the wash.

The roster shows relief hours for holidays that staff must receive by law. This may mean that existing staff steps up working hours or more hours are given to casual workers.

The premises will contain a room out the back for staff to have their breaks and change as required under Health and Safety at Work regulations. All employees are entitled to a Contract of Employment to be issued within 9 weeks of starting.

Staff will also receive training in customer care and learn how to deal with complaints, which always be dealt with in a sympathetic fashion. Our policy will be based upon if the customer has a complaint about the service, then we want to be informed and a sign will appear in the café to this effect. The usual way of dealing with a justified complaint will be to offer a refund or cancel the bill with an apology.

Legal aspects

Contracts of Employment have already been mentioned but it is worth including procedures that cover discipline if for example employees are persistently late or have been found to be dishonest. If employers do not follow procedures laid down then they stand to lose employment appeal tribunals on a technicality when there is a dispute. The same goes for when an employee has a grievance in relation to the employment situation. There must be a procedure that allows this to be resolved.

As an employer I would face fines or having to pay compensation if it was found that I was to blame in these circumstances as I would be in breach of contract.

The Food and Drugs Act covers all aspects of food labelling and making sure that out of date products are not sold not to the unsuspecting consumer. Everything sold must be fit for its purpose. If a foreign body is found in anything served then I could face a fine from the Local Authority of up to £400.

The Health and Safety at Work Act is part of the criminal law and emphasises the duty of care that the employer has not only to staff but also to customers and other visitors to the premises. The penalties for being in breach are much more severe for the criminal law than civil law and this is why public liability insurance is essential.

The Trade Descriptions Act requires me to display details of what I am selling and the prices charged.

The latest law introduced by the Government that will have an impact on my business is the smoking ban in public places. This comes into force in England on 1st July 2007. I have decided in any case that my café will be a no smoking area because I am aware that most people detest the smell of smoke when eating or drinking. It will be important to display clear signs and also to enforce the rule if any person lights up. Financial laws and regulations cover my liability for Income Tax, National Insurance Contributions and Value Added Tax. My accountant has already made me aware of the need to be registered for self-assessment and for value added tax. These returns must be submitted on time or fines are imposed.

Quality assurance

Ensuring product quality is largely a matter of establishing proper routines in the café that are followed by every member of staff. This covers everything from food preparation to counter and table service and then checking to see if stock has gone past its use by date and needs to be thrown away.

It is a very good idea to write down what these procedures are and to ensure every so often that individual members of staff follow them as a matter of course. This applies to things like hand washing, cleaning of preparation surfaces, floors and toilets. Premises like mine are subject to inspection by Council officials who have the power to close you down if they consider there is a risk to public health.

We have to be aware of which products are going down well with customers and those where there is little take up. We need to concentrate on what we do well and improve or withdraw those items that are not so popular.

The marketing side of quality assurance is a bit more difficult to monitor. In a situation where you are getting no complaints it doesn't mean necessarily that your customers are completely satisfied. It is often a matter of staff keeping their ears

open, reporting back and making recommendations for improvements based on customer observations. This is an informal system but one that is likely to work. Customers are looking at menus all the time so you can point out to them if what they want is not shown for them to ask. Customers want quality but they also want certainty and a friendly service.

As an ever present in the café it will be possible for me to monitor how the staff is working and for me to make the appropriate comments to members of staff who need to improve.

Management

The management of the human side of a small business like this needs a light touch, as I will know the employees and possibly their families very well indeed. There will be a high level of informality with every person on Christian name terms. There will be practically no formal hierarchy to observe with everyone knowing each other so well. It is still important however for people to know whom is boss and not to act on their own authority when asking the boss is a better course of action.

Most of the formal management and control of the business will have to be done by me with some assistance on a day to day basis from my full-time assistant. The most important area is the purchase of supplies and monitoring of stocks held.

Fresh food needs to be monitored daily and supplies can be bought daily a quarter of a mile away down the road from Plymouth Pannier Market. This would be my first call in the morning before opening up with my list written out from the night before.

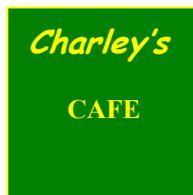
I would order my fresh milk from Newlands Farm who have a network of lorries delivering locally on a daily basis.

Some processed foods, particularly meats will come from specialist suppliers like Roche Foods of Cornwall. Booker Wholesalers could deliver packet foods, tins, canned drink supplies and cleaning materials. Both of these companies offer a next day delivery service if your order arrives by 4.00pm.

My coffee supplier will either be Costa or Illy. Both of these suppliers offer special deals and if you agree to use one or the other exclusively they will often provide a limited amount of crockery with the brand name on or offer a deal on items of coffee making equipment.

The re-ordering process for most of these goods involves making a judgement of stock levels and it is carried out at least once per week.

The protective clothing and tea shirts issued to all members of staff will be purchased from Alexandra's that has a branch in Plymouth. I will pay extra to have them with the café name put on them in a font that matches that used on the menu and the outside sign in my firm colours of green and yellow.



In the management of my business I must establish good working relationships with all my suppliers. This also means making sure that utility suppliers like gas, electric, water and telephones have me connected to their services on a guaranteed basis and at the correct tariff especially as with energy usage I am going to be a big consumer.

I will need to keep my accounts up to date and check my bank statements against the cashbook to stay in touch with the cash flow situation. I will take advice from my accountant as to whether I need to record the transactions manually or on the computer. This has to be done on a weekly basis usually in a quiet atmosphere after the shop has closed. If the level of business warrants it an increase to the overdraft may be necessary so I need to maintain good contact with the bank.

I don't believe that my business is of the type that will benefit from having regular formal meetings with my employees but they will be encouraged to state how things might be improved. If I can afford it I will attempt to motivate my employees by giving them at the end of the financial year a bonus the size of which will depend upon how well the business has performed.

Section 3: Financial resources

The opening balance sheet or sources of funds statement is shown in __ on page __. This statement indicates exactly where the money will come from to finance the business.

On pages _____ the cash flow statement shows how the bank account will look during the course of the year. It is a budget for my cash requirements with the bottom line showing the state of the business bank account at the end of each month. The unsecured overdraft limit has not been exceeded at any stage.

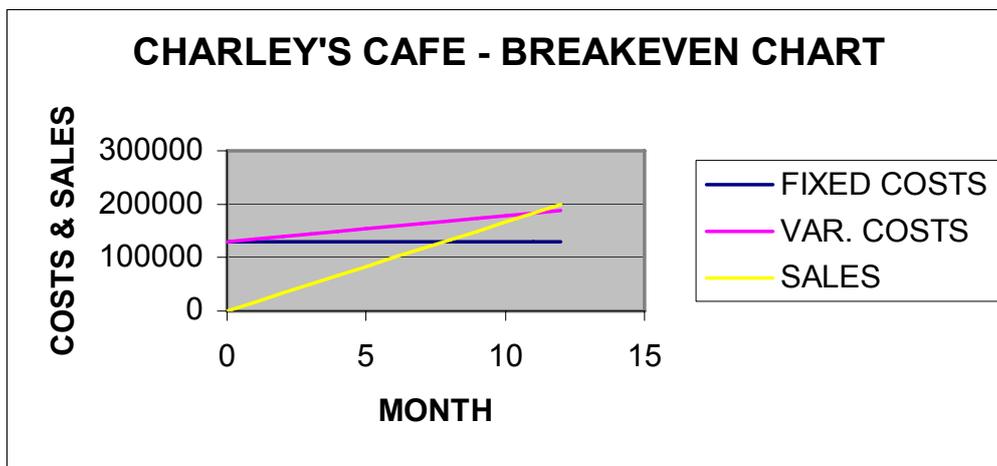
Page __ shows the estimated picture of trading after one year of activity. The same page contains a figure showing how much needs to pass through the till each week, including VAT at 17.5%, before I can be sure that the business is breaking even. (This is a useful figure for management control purposes as I will be sitting down to do my figures for the business every week.)

On page __ I have included a balance sheet that shows the state of my business at the end of the year.

Page __ includes a few notes to help explain what is in the cash flow statement whilst page __ provides some analysis and conclusions drawn from the final accounts. The wages budget has not been included as it already appears in section__ on page __.

Breakeven chart and calculations appear on page __

(The candidate would now present the relevant accounts with Start-up balance Sheet, Cash flow forecast, projected Trading & Profit & Loss, closing Balance Sheet and Breakeven – example shown below from “chart wizard” in Excel. The candidate would comment on the various figures and accounts as indicated above)



Section 4: Feasibility and evaluation

The examination of my financial resources and trading position at the end of my first year is set out in Section 3. The figures showing my year end position after twelve months of trading. I need to be able to show that I am capable of managing my finances if my business is to continue into the next year so my actual performance will be compared against the budget that I originally set out.

When the figures are drawn up in the first place it is only an estimate and there are always some inaccuracies because the timing of some payments will not go according to plan. For the purpose of the figures set out in Section 3, I have shown the worst case scenario for the cash flow. For some months I will be overdrawn at the bank and have to pay interest charges. The café trade is mainly a cash business with customers paying straight away and suppliers sometimes being settled by cash on delivery. As my business grows my credit rating will improve and I may be able to open up lines of credit with my suppliers. This will improve my cash flow because I may be allowed anything between two weeks and one month to settle invoices.

Business activity – year 2

My cash flow statement shows in year one that an overdraft facility of £1,000 was required to cover short-term working capital requirements but this now needs to be increased. The business shows satisfactory profitability ratios but the fixed charges

are high. The business needs to generate extra turnover without vastly increasing its fixed costs. If the business is to expand to meet my objective of much higher turnover this will require an increase in working capital to cover extra trading expenses including the hiring of extra staff.

I believe that the business will have a natural growth of 5% in year two anyway because of the momentum that has been built up during the first year. During that time I will have established a reputation for quality and reliability.

The problem is that I can not change the size of the premises so I need to find a way of selling more. I have decided to run a brief marketing campaign that targets larger office-based businesses and organisations in the immediate vicinity of Plymouth City Centre. I will be offering a catering service for board and business meetings including conferences. Customers will be able to choose buffet prices running from £7.50 to £20 per head. All of the food can be prepared on my premises and taken in on the day and time required.

This will involve some extra investment in warming trays, crockery, cutlery and glassware as well as staff from the café being in attendance to serve and clear away. The trade van purchased in year one can be better utilised for this purpose but there will not be any need to increase the number of vehicles.

This will produce an estimated turnover of _____

Against this figure there would be the following costs: -

£

Equipment

Transport

Advertising

Staff

Trade purchases

Total

The second year cash flow summary on page(s) __ shows that the overdraft would have to be increased to a maximum of £ __ but most of the expansion would be self-financing.

Working out the performance ratios for year two of the business a great improvement has taken place. The comparison on page __ shows that the net profit has doubled, the business has no cash flow or liquidity problems, the assets are being used more efficiently and the amount of dependency on borrowed money has reduced.

The revised breakeven chart on page __ shows that the business moves into profitability earlier in month __.

Business activity – year 3

On the basis of what has been achieved in the first two years of the business I believe that I have a number of options I can consider.

Firstly, I can concentrate on consolidating the business and build up reserves of cash, at the same time reducing my level of indebtedness to the bank. This gives me a chance to see whether my business ideas are working. It also allows me to take stock of myself to see how well self-employment and running a business suits me and the

impact it makes on my private life. I realise that it is going to take a great deal of energy, working long hours in order to make a success of what I am doing.

Secondly, I might consider the possibility of opening a second branch of Charley's Café in Exeter. My liquidity ratio shows that I have built up enough cash to be able to approach the bank to lend me some more long-term cash. I would feel more comfortable however if I could persuade my sister who will have completed her degree in hospitality and entertainment to come in on the business with me and run the Plymouth Café whilst I see over the setting up of Exeter. She could also bring her share of the legacy with her and put some of her own money into the business. We could then change the business to a partnership. We would have to agree between us the terms of this.

Conclusion

On the basis of the projected figures in both of the opening two years I believe that this represents a reasonable proposition to the lender. It shows that consideration has been given to all aspects in the short and medium terms with also a plan beyond this into the longer-term future of the business.

(Candidates would present projected figures for years 2 & 3 as indicated above and some candidates would calculate and explain liquidity and profitability ratios)