

### Appendix 3: Business plan for Dewhurst Engineering Ltd

**Business name and address:**

Dewhurst Engineering Ltd.  
Unit 7  
Highgrove Industrial Estate  
Coventry

**Proprietor's name and address:**

Nitin Shah  
11 Prospect Place  
Kineton  
Warwickshire

**Business form:** Limited company

**Business activity**

The company specialises in undertaking high quality, high added value engineering work for local technology based companies. Such work is usually for prototypes, one-off projects or specialist requirements. The company was established in 1972 and is now offered for sale with its existing customer base by the owner who is retiring because of ill health. Excluding the owner, there are three full-time shop floor employees plus one part-time secretary/bookkeeper. The, as yet, unaudited accounts for the year ending 31 March 2000 show a turnover of £140,000 and a net profit of £10,000.

The company is offered for sale as a going concern for £50,000.

**Aims:**

To become a major supplier of specialist engineering services for technology based and other companies in the area (20 mile radius) within five years.

**Objectives:**

For year to March 2001: Turnover £187,000, after tax profit £18,000.

For year to March 2002: Turnover of £270,000, after tax profits of £30,000.

All of this to be financed through retained earnings and using the existing premises.

**Market size and growth:**

There are an estimated 250 technology based companies within a 20 mile radius of Coventry. The company currently sells to only about 30 of them. About 150 of the remaining companies are potential customers, judging from the Chamber of Commerce Directory of Companies.

**Competitors:***Names**Strengths**Weaknesses*

There are few direct competitors in the area who offer the same range of services. Most engineering firms concentrate on batch or production line engineering work in order to warrant the use of their expensive CNC machinery. The major competition comes from the potential use of in-house facilities by customers.

**Your business:***Strengths*

1. Good reputation for quality work
2. High level of repeat work
3. High level of service provision
4. Competent, loyal workforce

*Weaknesses*

1. Owner has let things drift during his illness

**Competitive advantages:**

No direct competition in the area.

**Proposed customers:**

The majority of existing customers are situated within 20 miles of Coventry. Typically, they are commercial companies or other organisations involved in R&D and/or design and manufacturing. They are technology based and include welding equipment, printing technology and new product R&D companies. Some work comes from motor manufacturers such as Jaguar. They value quality of work and service, including speed of delivery. A list of current customers is attached to this plan.

The marketing plan envisages doubling the customer base to approximately 60 companies within one year.

Initial orders, however, are likely to be relatively small.

**Advertising and promotions strategy:**

In the past, promotion has been mainly by personal selling. Over the last year, because of illness, the company has relied heavily on repeat business from existing customers.

Personal visits will be reinforced by direct mail to generate new customers. It is intended to mail 15 companies per month, which should result in 7 visits, from which it is hoped to generate 2 new customers.

**Pricing strategy:**

The component is usually a small part of the total product cost and therefore not subject to intensive price scrutiny. Currently pricing is based on 'cost +': a standard hourly labour charge + cost of materials + 40% mark-up. Sometimes the mark-up is increased when the job can stand it. However, sometimes jobs are taken on with a lower mark-up, to help contribute to overheads.

**Premises**

The company operates out of a 1000 sq foot unit leased from the City Council on the outskirts of the city. The lease runs to the end of 2002 at a cost of £6400 pa. This is very low. It is anticipated that the rent review will increase this by 50%.

**Equipment**

Existing: 2 × lathes      2 × milling machines      2 × gear shapers  
 1 × gear hob      1 × milling machine, horizontal      1 × surface grinder  
 Various other low value machines

All are fully paid for other than the milling machine on which payments finish this year.  
 No new machinery is needed this year.

**Key people and job functions:**

|             |   |
|-------------|---|
| Nitin Shah  | Managing Director<br>Responsible for sales and organisation of production |
| Monty Young | Foreman   |
| John Goody  | Shop floor worker   |
| Brian Johns | Shop floor worker   |
| Sue Brown   | Secretary/bookkeeper  |

**Background details of key people:**

Nitin Shah      Age 38  
 Formerly Production Manager at Hunting Engineering (a customer of Dewhurst).  
 17 years in the engineering industry, starting as a toolmaker and working up from the shop floor.  
 Experience and contacts in the industry.

Monty Young      Age 47  
 Foreman. Trained and qualified toolmaker. Been with the company 12 years.

John Goody      Age 38  
 Trained and qualified toolmaker. Been with the company 15 years.

Brian Jones      Age 43  
 Trained and qualified instrument maker. Been with the company 2 years.

Sue Brown      Age 27  
 Been with the company 4 years.

## Financial highlights

**12 months to:** 31 March 2001

### Turnover:

£187,380 (excluding VAT)

### Profit:

£18,138, after tax

This represents a 48% per cent return on the £50 000 invested

### Break-even:

$$\frac{118 \times 187.4}{143.8} = \text{Approximately } £153,800 \text{ turnover}$$

This treats all wage costs (other than overtime) as fixed.

If wages were treated as variable, the break-even drops to £116,300.

### Funding requirement:

The company is offered for sale as a going concern for £50,000.

This is not shown in the cash flow as it will be used to purchase the shares from the present owner.

### Source of funds:

£3,000 own money

£20,000 loan for 10 years, plus overdraft facility of £15,000

## Forecast profit and loss account

|  |                |     |
|--|----------------|-----|
| <b>Business:</b> Dewhurst Engineering  |                |     |
| <b>Period:</b> 31 March 2001           | £000           |     |
| <b>Sales:</b> (excluding VAT)          | £ 187.4        | (A) |
| <b>Less direct (variable) costs:</b>   |                |     |
| materials                              | £ 28.4         |     |
| direct wages <i>Overtime</i>           | £ 15.2         |     |
| other                                  | £              |     |
| <b>Total direct costs</b>              | £ <u>43.6</u>  |     |
| <b>Gross profit/contribution:</b>      | £ 143.8        | (B) |
| <b>Fixed costs (overheads):</b>        |                |     |
| wages/salaries (including taxes)       | £ 75.1         |     |
| rent                                   | £ 8.0          |     |
| heat/light/power                       | £ 1.2          |     |
| advertising                            | £              |     |
| insurance                              | £ 0.9          |     |
| transport/travel                       | £ 9.4          |     |
| telephone                              | £ 1.8          |     |
| stationery/postage                     | £ 1.2          |     |
| repairs/renewals                       | £              |     |
| depreciation                           | £ 16.1         |     |
| local taxes                            | £              |     |
| other <i>Professional fees</i>         | £ 1.9          |     |
| other _____                            | £ 2.4          |     |
| <b>Total fixed costs</b>               | £ <u>118.0</u> | (C) |
| <b>Net profit</b>                      | £ 25.8         |     |
| Less Interest                          | <u>1.9</u>     |     |
| Net profit after interest              | 23.9           |     |
| Less: Tax                              | <u>5.7</u>     |     |
| <b>Profit retained in the business</b> | £ 18.2         |     |

$$\text{Break-even point} = \frac{(C) \times (A)}{(B)}$$

**Cash flow forecast**

2000/2001, £'000

\*includes VAT

A schedule of debtor payments is attached

| Month: | May | June | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | Total |
|--------|-----|------|------|-----|------|-----|-----|-----|-----|-----|-----|-----|-------|
|--------|-----|------|------|-----|------|-----|-----|-----|-----|-----|-----|-----|-------|

**SALES**

|          |      |      |      |      |      |      |      |      |      |      |      |      |       |
|----------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| Volume:  |      |      |      |      |      |      |      |      |      |      |      |      |       |
| Value: * | 16.4 | 15.3 | 16.5 | 16.5 | 21.5 | 16.5 | 16.5 | 22.6 | 11.8 | 23.7 | 20.4 | 20.4 | 218.1 |

**RECEIPTS**

|                    |            |             |             |             |             |             |             |             |             |             |             |             |              |
|--------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Sales – cash       |            |             |             |             |             |             |             |             |             |             |             |             |              |
| Sales -debtors *   | 8.0        | 13.2        | 16.4        | 15.5        | 16.3        | 17.4        | 19.9        | 16.9        | 17.6        | 19.8        | 15.1        | 21.8        | 197.9        |
| Capital introduced |            |             |             |             |             |             |             |             |             |             |             |             |              |
| Grants, loans etc  |            |             |             |             |             |             |             |             |             |             |             |             |              |
| VAT on sales       |            |             |             |             |             |             |             |             |             |             |             |             |              |
| <b>TOTAL (A)</b>   | <b>8.0</b> | <b>13.2</b> | <b>16.4</b> | <b>15.5</b> | <b>16.3</b> | <b>17.4</b> | <b>19.9</b> | <b>16.9</b> | <b>17.6</b> | <b>19.8</b> | <b>15.1</b> | <b>21.8</b> | <b>197.9</b> |

**PAYMENTS**

|                         |             |             |             |             |             |             |             |             |             |             |             |             |              |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Materials *             | 1.4         | 2.1         | 3.7         | 5.6         | 3.6         | 3.0         | 4.0         | 5.3         | 2.3         | 5.0         | 5.4         | 4.4         | 45.8         |
| Wages/salaries          | 7.0         | 7.0         | 7.0         | 7.0         | 7.0         | 7.4         | 7.4         | 8.1         | 8.1         | 8.1         | 8.1         | 8.1         | 90.3         |
| Rent                    |             |             | 2.0         |             |             | 2.0         |             |             | 2.0         |             |             | 2.0         | 8.0          |
| Heat/light/power        |             |             |             |             |             |             |             |             |             |             |             |             |              |
| Advertising             |             |             |             |             |             |             |             |             |             |             |             |             |              |
| Insurance               |             |             |             | 0.9         |             |             |             |             |             |             |             |             | 0.9          |
| Transport/travel        | 0.7         | 0.7         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 9.4          |
| Telephone               |             |             | 0.5         |             |             | 0.5         |             |             | 0.5         |             |             | 0.3         | 1.8          |
| Stationery/postage      | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 1.2          |
| Repairs/renewals        |             |             |             |             |             |             |             |             |             |             |             |             |              |
| Local taxes             |             |             |             |             |             |             |             |             |             |             |             | 1.2         | 1.2          |
| Other <i>Prof. fees</i> |             |             |             |             |             |             | 1.9         |             |             |             |             |             | 1.9          |
| Other                   | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 2.4          |
| Capital purchases       |             |             |             |             |             |             |             |             |             |             |             |             |              |
| Loan repayments         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.1         | 0.1         | 0.1         | 0.1         | 1.9          |
| Drawings/dividends      |             |             |             |             |             |             |             |             |             |             |             |             |              |
| VAT on purchases        |             |             |             |             |             |             |             |             |             |             |             |             |              |
| VAT paid to C&E         | 2.5         |             |             | 4.2         |             |             | 5.1         |             |             | 4.7         |             |             | 16.5         |
| <b>TOTAL (B)</b>        | <b>12.0</b> | <b>10.3</b> | <b>14.5</b> | <b>19.0</b> | <b>11.9</b> | <b>14.2</b> | <b>19.7</b> | <b>14.7</b> | <b>14.1</b> | <b>19.0</b> | <b>14.7</b> | <b>17.2</b> | <b>181.3</b> |

**CASH BALANCES**

|                     |        |        |       |        |        |       |       |       |       |     |     |     |     |
|---------------------|--------|--------|-------|--------|--------|-------|-------|-------|-------|-----|-----|-----|-----|
| Cash flow (A) - (B) | (4.0)  | 2.9    | 1.9   | (3.5)  | 4.4    | 3.2   | (0.2) | 2.2   | 3.5   | 0.8 | 0.4 | 4.6 |     |
| Opening balance     | (8.2)  | (12.2) | (9.3) | 7.4    | (10.9) | (6.5) | (3.3) | (3.1) | (0.9) | 2.6 | 3.4 | 3.8 |     |
| Closing balance     | (12.2) | (9.3)  | (7.4) | (10.9) | (6.5)  | (3.3) | (3.1) | (0.9) | 2.6   | 3.4 | 3.8 | 8.4 | 8.4 |