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ANALYSIS OF THE EXTENSION OF A BUSINESS IN THE FIELD OF PUBLIC FOOD

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Abstract

Assessing the performance and financial position of a company calculated on the basis of the information provided by the companies in the financial statements reveals a certain trend of the company. The defining objective of financial management is to increase the firm's market value. The decisive factor that contributes to the increase of the value of the company are the investments. Investments give the company's identity. Thus, the first and decisive step towards increasing the market value of the firm is to make good investment decisions. This paper focuses on analysing and evaluating the expansion project of AMIOGO restaurant. Indicator values: Net current value, Internal Return Rate or Investment Recovery Duration indicate the viability and attractiveness of the proposed project. At the same time the possibility that the analyzed company can develop is highlighted or not: at what terms, during what time period, in what value limits, with what risks.

Key words: *costs, exploitation, forecast, profit, turnover*

INTRODUCTION

The development of mankind has made that all notions that make up the course of an ordinary day to be shaped directly proportional to the exchanges of mentality and invented technology. Thus, changes have taken place in all areas of infrastructure, communication and transport, up to homes, buildings, public establishments, accommodation, recreation or food.[7]
Food tourism trends to focus on prepared food and drink, while agro tourism focuses more on the raw ingredients and the farming experience.[2]
In this context, we propose expanding the activity of a restaurant with the specific of the Spanish cuisine, having as an objective the creation of a culinary tourism being transposed through preparations and arrangement.
Under the slogan*: "Eating differently is always what we are looking for when pushing a restaurant's door"* the public food unit will become an appealing and innovative one, by adopting the healthy, fresh, and natural Mediterranean cuisine.
There are differences between the concept of traditional product and the concept of local product.[6]
Romania has a relatively new history of the organic market, but increase the number of operators registered in the system is a spectacular one.[10]

MATERIALS AND METHODS

The current Net Value (VAN) is a complete efficiency investment indicator of the difference. The current Net Value of a project is determined by deducting from the present value of the net incomes from exploiting the project the value of the initial investment, respectively the present value of net payments to be made for the commissioning of the project as shown by the formula:

$$VAN = \sum_{t=1}^{n} \frac{FN_t}{(1+r_t)^t} - Vi$$

Vi = initial investment as a negative flow, respectively net cash outflow;
FNt = the net cash flow estimated to be generated in year t;
Positive VAN projects are believed to lead to

an increase in the value of the company. In this way, the VAN-based decision-making rules specify that all independent positive VAN projects must be accepted. If the VAN is greater than zero, the project is acceptable, as the income is sufficient to obtain a benefit and to return the initially invested capital, before the end of the investment lifetime. If VAN is equal to zero, the balance is achieved at the end of the lifetime and the investment is too little attractive.[5]

Return on investment or ROI is the method of assessing business initiatives in order to determine their viability. If the ROI is too small compared to the interest the investor would have made if deposited in the bank, the project needs to be re-analyzed or abandoned.

ROI = (Revenue from the investment - Amount invested) x 100 / Amount invested [1]

Internal Rate on Return, indicator used in analyses on the efficiency of investment projects using the update technique, expresses that interest rate level that equals up-to-date earnings with up-to-date expenses and makes the amount of updated net income equal to zero. This indicator is used to analyse the efficiency of investment projects. Internal rate on return is the minimum profitability threshold of a project, below which it is not efficient. The formula for calculating the internal rate on return is:

$$RIR = rmin + (rmin + rmax) \times [VNA(+) / (VNA(+) + |VNA(-)|)]$$

where: RIR = internal rate on return; rmin = the minimum updated rate corresponding to the updated net income that is positive; rmax = the minimum updated rate corresponding to the updated net income that is negative;

VNA (+) = the positive value of the updated net income corresponding to the minimum updated rate;

VNA (-) = the negative value of the updated net income corresponding to the maximum updated rate;

VNA (-) | = the negative value of the updated net income corresponding to the maximum updated rate taken in module. It is recommended that the difference between rmin and rmax should not be greater than 5. The project selection criterion is represented by its value which must be higher or at least equal to the average interest rate on the market. The higher the internal rate on return, the more cost-effective the investment.[5]

Investment Recovery Duration (Dr) expresses the return on investment (expressed in years). Calculation formula: Dr = Vi / Pn average, where: Pn average = average net profit on the forecast horizon. Dr - must be maximum 10 years. The informative value of this indicator, in addition to the net updated value, is reduced. The merit of this indicator is to indirectly evaluate whether the projected net profit projections in the project are concentrated towards the end of the reference period (and are therefore affected by a higher uncertainty).[3]

RESULTS AND DISCUSSIONS

Sales volume

A 38% increase in sales revenue was estimated for year N+1 compared to year N, due to the opening of the new restaurant. In the year N + 2, a 100% increase in revenue compared to the year N was estimated as a result of service capacity doubling (the new restaurant is exploited throughout the entire year N + 2, compared with only 6 months in year N + 1). For the next two years (N + 3 and N + 4), an increase in the volume activity was anticipated, based on: the exploitation of the commercial frequented place, the allocation of additional amounts for advertising and publicity, the increase of the service capacity and the employment level (from 70% to 78%). The effect is the increase in revenue by 6% in N + 3 compared to N + 2 and by 5% in N + 4 compared to N + 3.

Sales of goods represent 27% of total turnover (2% - from catering activities and 25% - from the activity of restaurants). Due to the specificity of the activity, sales with returns under 30 days represent 100% of turnover.

Cost elements

The cost of the sold goods is kept at approx. 45% from goods sales and represents approx. 15% of the exploitation expenses. Expenditure on anticipated raw materials for the forecasted period represent approx. 57% from the total exploitation expenses. The level of indirect costs of the company is at approx. 11% of total exploitation expenses, and depreciation costs represent approx. 2.3% of the latter.

For implementing the project the entity will aquire a loan of 327,000 Euros, with a 3-year repayment plan at equal rates and interest calculated on the balance. It was considered a 6-month grace period.

Interest expenses matched according to the loan repayment schedule at a 12% interest rate:

Table 1. Expenses with the repayment of the loan for the first year (Lei)

Year N+1					
Explanation	**Trim. I**	**Trim. II**	**Trim. III**	**Trim. IV**	**Total**
Reimbursement	0	0	148,785	148,785	297,570
Interests	31,245	44,630	43,145	38,685	157,705
Annuities	**31,245**	**44,630**	**191,930**	**187,470**	**455,275**

Source: Own findings.

Table 2. Expenses with the repayment of the loan for the two year (Lei)

Explanation	**Year N+2**	**Year N+3**
Reimbursement	595,140	595,140
Interests	110,111	38,684
Annuities	**705,251**	**633,824**

Source: Own findings.

Table 3. Expenses with the repayment of the loan in EURO for the first year (Euro)

Year N+1					
Explicatie	**Trim. I**	**Trim. II**	**Trim. III**	**Trim. IV**	**Total**
Reimbursement	0	0	32.700	32.700	65400
Interests	6.867	9.809	9.482	8.502	34.660
Annuities	**6.867**	**9.809**	**42.182**	**41.202**	**100.060**

Source: Own findings.

Table 3. Expenses with the repayment of the loan in EURO for the two years

Explicatie	**Year N+2**	**Year N+3**
Reimbursement	130,800	130,800
Interests	24,200	8,502
Annuities	**155,000**	**139,302**

Source: Own findings.

Fixed assets and their depreciation:

The company holds, at the date of drawing up the plan, fixed assets, at a net value of 3,301,000 mil Lei (the real estate of the restaurant, three vehicles for the delivery of orders, kitchen equipment and furniture). By carrying out the planned investments, the value of the fixed assets will increase by 1,624,350 Lei in the year N + 1. The depreciation system adapted is the linear one, with the annual global amortization rate being approximately 4.6% of the book value.

Stocks

The value of stocks is small, given the specificity of the activity, thus causing a very high rotation speed. Their structure is represented by commodities (53%), raw materials (20%), finished products (10%), packaging (10%) and consumables (7%).

As a result of increased control over the quality of the ingredients used, a significant decrease in stock volume was anticipated.

Receivables

Receivables will have relatively small values and will mainly represent unincorporated rights from the companies to which catering services are provided. The specificity of the activity allows the recovery of receivables from clients in the vast majority of cases at terms less than 30 days from the invoicing date.

Cash availability level

As can be seen from the "cash flow calculation," it indicates a balanced situation at the level of treasury without account breakthroughs and without the danger of monetary imbalances during the forecast period. The annual treasury surplus is distributed to dividends.

Commercial credit policy

Achizitiile se vor face pe baza de contract, cu termene rezonabile de achitare a facturilor, avand in vedere relatiile deja consacrate cu furnizorii.

Acquisitions will be made on a contractual basis, with reasonable time limits for paying the invoices, taking into account the relationships already established with the suppliers.

Debts to the state budget

These are represented by the company's contributions and deductions from the salaries of employees for the CAS, health fund, unemployment, wage tax and other contributions.

All these company's contributions amount to approx. 22.60% of the wages fund, and the contribution of the employees to CAS, funds and taxes amounts to approx. 26.80% of the wage fund.

Profit tax

This item was calculated using a 16% tax rate for the entire forecasted period.

Dividends

As a result of the allocation policy of the expected cash surpluses, dividends distributed annually during the forecast period were calculated at 75% (in year N + 1), 60% (in year N + 2) and 100% (in the last 3 years) of the forecasted net profit.

Social capital

The amount of the social capital will remain constant during the 4 projected years (620,000 thousand Lei).

The break-even point and the sensitivity analysis:

Turnover at threshold calculation: [10]

CAN+1pr. = (CFN+1)/(MCFN+1%) = 2,611,900/28.8% = 9,055,480

where:

Capr = turnover at threshold,

CF = fixed costs,

MCV%= the ratio of the turnover margin on variable costs.

Given the volume of activity anticipated for the N + 1 exercise, the value thus obtained translates into a monthly turnover of 754,623 thousand Lei.

Determining the safety margin:

N+1 = CAN+1p – CAN+1pr =
24,004,396 – 9,055,480 = 14,948,916 lei,

where:

CAp = expected turnover,
CApr = turnover at threshold.

This indicator expresses the risk degree of the exploitation. The higher its value is, the lower the risk is, or in other words, the exploitation activity is further from the minimum profitability level (zero profit). [8]

In the case of the N + 1 exercise, the indicator highlights a favorable situation, with the expected turnover exceeding the profitability threshold with approx. 165%

For the entire forecast period, the evolution of the safety margin is presented in Table 4.

Table 4. The evolution of expected turnover, turnover at threshold and safety margin (Thousand Lei)

Explanations	N+1	N+2	N+3	N+4	N+5
Expected turnover	24,004,396	38,810,000	36,898,600	38,743,530	38,743,530
Turnover at threshold	9,055,480	9,441,335	10,120,867	10,562,546	10,723,150
Safety margin	**14,948,916**	**25,368,665**	**26,777,733**	**26,180,984**	**28,020,380**

Source: Own findings.

For the sensitivity analysis we have identified the following scenarios:

A 25% increase in the meat price, generates a 15% increase in the company's variable costs.

Under these conditions, turnover at threshold reaches the level of 14,374,947 thousand Lei, with the following effects:

- diminishing the turnover margin on the variable expenses by 2,562,110 thousand Lei;
- diminishing the safety margin by 5,319,467 thousand Lei, its value in this situation being 9,629,449 thousand Lei;
- a decrease in the Profit from Exploitation Margin (MPE) from 17.96% to 9.96% and Return on Investment (ROI) from 48.12% to 11.92%.

In this variant the forecast turnover will exceed the profitability threshold by only 67%.

According to the current trends, it is anticipated that additional taxes on real estates will be introduced, this would lead to a 15% increase in fixed expenses.

Automatically an increase in turnover at threshold will take place up to the value of 10,413,802 thousand Lei. Such a hypothesis will also increase the risk of exploitation, but with a lower negative effect than the one caused by the increase in variable expenditures:

- the reduction of the safety margin by 1,358,322 thousand Lei, its effective value being of 13,590,594 thousand Lei.
- a decrease in the Profit from Exploitation Margin (MPE) from 17.96% to 16.74% and Return on Investment (ROI) from 48.12% to 42.58%.

In this hypothesis, the predicted turnover exceeds the critical point by 131%.

In order to obtain a profit of 10% higher than the anticipated value for the year N + 1, it is

necessary to stimulate an increased turnover, situation defined by:
- the increase of the safety interval by 1,494,891 thousand Lei, its value reaching 16,443,807 thousand Lei;
- an increase in the Profit from Exploitation Margin (MPE) from 17.96% to 18.11% and in the Return on Investment (ROI) from 48.12% to 54.21%.

For this scenario the calculations lead us to a turnover value of 25,499,287 thousand Lei, with approx. 6% higher than predicted.

Investment project evaluation indicators

Determining the Internal Financial Profitability Ratio (RIR)

This indicator was determined by considering a 10-year investment period and represents that value of the discount rate for which the net updated value is zero. [4]

As a result of the calculations, the discount rate for which the updated value of the net income is zero, is in the range 41% - 42%. According to the calculations, the most appropriate value of RIR is 42%.

Determining the net present value of the project

For the calculation of this indicator for an economic lifetime of the project of 10-years, a discount rate of 19% (consisting of 12% - the average interest rate on foreign currency loans and 7% - the risk factor for the realised projections) was used.

The calculations lead to a VAN of 9,168,106 thousand Lei by updating the net cash flows of the investment project at the above rate.

We mention that the financial projections are based on an approach of the business evolution in constant prices (those existing at the date when this business plan was drawn up).

Investment recovery period

The recovery term expresses the time required to recover the invested capital through the updated annual average net cash inflows generated by the project. [2]

The results lead to a recovery period of approx. 6.2 years which is considered to be good, compared to the lifetime of the project, which is at least 10 years.

CONCLUSIONS

After several calculations we have the following results:
• a monthly threshold turnover of 754,623 lei;
•the forecasted turnover exceeds the profitability threshold with approx. 165%
• the value of RIR is 42%;
• a VAN of 9,168,106 lei through the cashflow update;
• recovery period of approx. 6.2 years.

Managers use several methods and indicators when evaluating a project. The analyzes performed can help refine the results obtained, giving the management an explicit insight into the value / loss generating sources of a project. Determining and correctly interpreting the investment project evaluation indicators represents a major competitive advantage.

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