

SOLUTIONS TO END-OF-CHAPTER QUESTIONS

CHAPTER 10

► DEVELOP YOUR UNDERSTANDING

► Question 10.1

The following information will be relevant in putting together a business plan for the new cake shop (this list is not exhaustive and you may have included relevant points that are not presented below):

- Expected numbers of regular cakes to be sold in the shop on a daily basis
- Expected numbers of cakes for special occasions to be sold on a weekly or monthly basis
- Expected selling prices for regular and special occasion cakes
- Expected costs of ingredients for regular and special occasion cakes
- Expected baking costs for the cakes
- Expected packaging costs for the cakes
- Rental cost of the shop
- Any local business rates for the shop
- Expected usage of electricity and gas for heating and lighting the shop as well as for baking cakes
- Expected cleaning cost of the shop if your friend is not doing the cleaning himself
- Any other expected costs that the shop will incur on a regular basis
- Will your friend be running the shop entirely on his own or will he be hiring in assistants who will need to be paid? What are the expected costs of those assistants?
- Expected equipment costs (for example, ovens, fitting out the shop, the till, display cabinets)
- Website design and running costs
- Accountancy costs if your friend is not planning to produce his own annual accounts for taxation purposes
- Expected advertising costs
- Expected bank charges
- Expected inflows and outflows of cash
- Insurance quotes from insurance companies
- Competition in the local area

Solution to end-of-chapter questions **Chapter 10**

- Expected reaction of local competitors and what your friend will do in response to competitors cutting prices or expanding ranges offered
- Differentiating factors that make your friend's business different from competitors
- The market for the types of cakes your friend is planning to sell
- Longer-term plans if the business is successful, such as plans for home delivery, opening an on-site café to offer drinks and cakes together
- Opening times on each day of the week
- Details of the position of the shop, whether it is in a main shopping area or in a side street which suffers from reduced numbers of passers by
- Any market research on the number of shoppers in the area in which the shop is situated to gauge likely demand and the likely target audience
- Details of local disposable income to determine whether the local population is likely to buy cakes or lack the means to do so.

► Question 10.2

Factors your friend should take into account when making her decision about which factory to rent for her expanded business (this list is not exhaustive and you may have included relevant points that are not suggested below):

- The factory rental costs, how affordable these are as business is built up in the new location
- Business rates expense for the new factory
- Any other costs that will be incurred by the new factory
- Whether the increased level of production, sales and profit will cover the increased rent and other costs of the expanded business
- The long-term strategic aims of the business over the next 5–10 years
- The expected wages/salary costs for new employees
- Availability of new employees in the local area to staff the factory
- Training costs for new employees
- Whether current employees will be willing to move with the business to the new location
- Accessibility of the new factory for both employees and transporters of goods to customers
- Road links to enable easy deliveries to customers
- Proximity of the new factory to major road networks
- Are there any bottlenecks on roads around the factory which could delay deliveries to customers?
- Requirements for new machinery to meet increased demand
- Cost of new machinery and expected annual running costs
- Costs of moving existing machinery from the current factory to the new factory

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- If the old machinery is not being transferred to the new factory, how much this old machinery could be sold for
- Termination costs of the lease on the current factory
- Continued demand for flat-pack cardboard boxes in standard sizes
- Current orders from customers and whether customers will continue to order from the business
- Rival flat-pack cardboard boxes in standard sizes that customers might prefer
- Any new administrative procedures that will be required
- Whether the current accounting system and current accounting staff will be able to cope with the increased workload
- Any additional supervisory staff that will be required in the factory
- Whether the requirements of specific customers will continue to be met.