

Auto Scrap Business Plan

Author's Name

Institution Affiliation

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Executive Summary

This is a business plan for Auto Scrap Masters; a start-up company dealing mainly with scrap vehicles. The Business will be located in Riyadh, within its CBD. Auto Scrap Masters was established with the aim of meeting the needs of clients who would like to get rid of their scrap cars and at the same time enable similar traders to procure or dispose them. The company will ensure compliance with the set regulations in order for the benefits of all involved stakeholders. The ultimate goal of Auto Scrap Masters is to build a product line of scraps that is unique and market it among the targeted clients so that it is well accepted and adopted by the market. My long-term objective is to build a market that is not entirely based on price but quality of the product and hence increase the consumers' trust.

About the Company and its objectives

Auto Scrap Masters is a proposed business start-up which focuses on meeting the potential customers' needs and wants with its services. We will set up a car brokerage company that is expected to buy approximately 10,000 scrap vehicles per year. The vehicles targeted to be bought are mainly those owned by individuals / companies and being scrapped as a result of outliving their useful lifespan and cannot be repaired or which have been involved in an accident and are written off completely based on opinions by insurance. Auto Scrap Masters will also be involved in accepting and processing small light goods vehicles which will include Ford Transit Van and other smaller units (Boone & Kurtz, 2011).

Thus ,our product portfolio as we commence operations will be scrap vehicles and small light goods vehicles. The products / services offered will be increased as the company grows and become accustomed to the environment. Auto Scrap Masters target customers will be: First metal processing companies who will be buying the scraps for molding them to make metallic products.

Secondly, mechanics who will be buying the written off vehicles get required vehicles' spares to fit into other vehicles and lastly, motor vehicle dealers who are able to build new vehicle using the remaining spares.

The target clients / market will be both in Saudi Arabia and from neighboring Middle East Countries. We have undertaken market research and we have noted that our products will be offered to meet the current gap. We will build

on our product portfolio and we plan to extend our markets to countries in North Africa, Europe, India and South Asian Countries (Score. 2013).

Thus, Auto Scrap Masters establishment aims to create a sense of community, cost savings and convenience. We are planning to commence our operation on the first of April 2016.

Mission, Goals and Objectives

The mission statement shows the purpose and the intent of the business. The Auto Scrap Masters Mission is “to enhance a sustainable and empowered environment through offering affordable and efficient products and services to a targeted clients”.

Goals and Objectives

Spreading awareness about Auto Scrap Masters products and services within the first three months by using:

- Flyers: Across the region.
- Advertisements on billboards in city centers.
- Social media exposure: via Twitter, Instagram, Facebook and Foursquare.
- Bloggers and local radio stations.

Business opportunity:***Justification of business the opportunity***

This is the justification of the viability of this investment. We have undertaken sufficient research and established that the business will be able to break even after one and half years.

Competitive Advantage

Auto Scrap Masters has an innovative and unique business idea that does not exist within the city and its environs. The business is the first of its kind in procuring and offering comprehensive and affordable vehicles, scrap meals to individual vehicle owners, dealers and manufactures. Auto Scrap Masters has differentiated itself from other competitors in the local industry for it enables customers and members to enjoy these benefits:

- Convenience of sizes
- Affordable service prices.
- Online purchasing services.
- Accessibility and a convenient location.

Place:

The initial shops will be established in Saudi Arabia with later plans for establishing more in the neighboring countries. The reason why the business is located in this area is due to its closeness to the target market. This location would be convenient and accessible for consumers and dealers.

Financing

The Business will have to pay several expenses for which we will require either start-up capital or financing. These items include buying seedlings, leasing farming, office and factory space, getting computers, equipment and fixtures, travel expenses and start-up overhead expenses. My sources of cash for starting my business are equity based. If insufficient, we are prepared to make presentations to potential lenders. My presentation set includes this business plan, my personal financial statement and personal tax returns. We will be prepared to be specific in my needs for financing, the payback program and my sources of repayment. We will furnish potential lenders a cash flow projection showing sources of repayments and we will be conservative in my forecasts.

Having considered all relevant factors, I believe that this venture is going to be successful. It is expected to break-even within 6-12 months and then generate steady profits from then henceforth.

The Market and its Gap

As mentioned in the introductory part of this business plan, currently there exists an unmet gap within the market and which Auto Scrap Masters aims to satisfy. Our company will meet the needs of the individual customers' needs within our vicinity. This is expected to be very attractive in that it will save their time and money.

Industry Profile

The analysis of the competitive industry of Auto Scrap Masters will be done by the porter's five models.

Competitive Rivalry – the new product development of scrap vehicle and related products, markets will face competition from similar products that other companies are producing. The success of the Auto Scrap Masters is analyzed using the competitive rivalry will determine the success of the firm based on other competing firms. The success of the Auto Scrap Masters as it enters the scrap vehicle market is determined by the number of the firms in the similar market. If there are a large number of firms, the competition is ought to be stiff. Other factors that will determine the competitive rivalry include the entry cost, switching cost, product differentiation, diversity of the rivals among others (Denis, 2013).

Threats from new Entrants – once the Auto Scrap Masters launches its operations, there is a likelihood of threats of new entrants to compete for that market in the first phases. The threats of new entrants will depend on the entry cost, product differentiation, the entry legislation. The company should have

highly differentiated products to guard the market from new entrants, who might drive the company out of the market.

Threats from buyers – The targeted consumers who are mostly the vehicle dealers, mechanics, and related operators may unite together and demand higher discounts on the products we offer, different delivery places, different taste, packaging and any other products related tastes. These demands are likely to lower the amount of the profit that the company may make. Hence the Auto Scrap Masters should always study the customers and avoid any chances of them putting on similar needs (LUXINNOVATION G.I.E., 2008).

Threats from suppliers - the suppliers of the Auto Scrap Masters can gang up and make policies that are detrimental to the operations of the company. They can group and increase the prices of the raw materials, which will affect the profit margin of the vehicles scraps. The suppliers can also demand that their deliveries be paid on the cash basis, which means that the Auto Scrap Masters will not enjoy the credit policies it was enjoying before and extend the same to its customers. Hence the company should source from suppliers who have very little chances of uniting and influencing the conditions of the raw materials.

Threats from Substitutes – the company faces the competition from the products that can be used to serve similar needs as the scrap vehicle owners. The company should differentiate their products in such a way that there is no nearer substitute for their products (Holland, 2012).

Operations of the business

The main initial operation of the Auto Scrap Masters will be conducted at the shop established on the eastern side of the university. We will use that to serve as many individual scrap vehicles possible within the campus. We will make use of technology and e-business where dealers can be able to order and pay for their required scraps online. We will use a motor bike to deliver the products to the clients' residence or their designated place. This move is very important in ensuring that our products are widely available to the selected market.

In future we plan to have sales vans to be distributing the vehicle scraps to clients at different sections of the university. This move is aimed at centralizing our operations and reducing the cost of having to establish spare part shops in other sections, a move expected to reduce our operational costs and increase revenues.

The Pricing Strategy

The price of services will be determined by various factors such as the competitors selling prices and the forces of demand and supply. Others may include; direct costs, indirect costs and government regulations. The business will not offer credit sales because of the nature of products we sale.

Key Management Personnel

During Start-up phase the business will require twenty full time employees. An additional 30 staff will however be needed once the business

gets contracts to provide distribution of the vehicle spares to other clients. A full-time Centre manager and a part-time data entry clerk will be engaged to manage each shop.

Management

Four of the six directors of this enterprise are long serving members in different catering firms both in public and private sectors. The others are taking courses related to entrepreneurship, marketing and finance. This gives this start up business the required knowledge and skills to offer the expected services satisfactorily. All the directors are enrolled for master degrees in entrepreneurship. Thus this business idea is viable and comes in handy at a time when there is a growing urge by the clients to conserve environment and earn additional money.

The structure of the dedicated business development team will be as follows:



The management is designed to focus all initial marketing efforts on establishing a large customer base in Middle East and Northern Africa. I will personally be responsible for making contacts with the appropriate purchasers.

Auto Scrap Masters production line will be presented as a package. Initially our price structure will be based on a maximum markup of 18% in order to provide a strong price incentive. We will be depending on the combination of innovative styling, product quality, cost-effective distribution and price to break into this market.

Financial Requirements

Financial analysis and planning of Auto Scrap Masters are a key part and should clearly state the following: the proposed company financing (this is the financial requirement, sources and proposed usage); financial projection, which includes projected income, projected cash flow statement and projected balance sheet all for one year; financial analysis of major fixed and variable cost, gross and operating margins, break even analysis and profitability ratios. There should also be an analysis of the eminent risks and ways to manage them. The cash flow statement shows the monthly inflow and outflow of the cash and is a determinant of the company's ability to pay its bills when they arise.

The cash flow statement indicates the cash break down in terms of cash provided for operations, investing and financing. This statement shows the flow of the cash. The cash flow forecasting, identifies the companies need for extra cash to cover the potential shortfalls. The balance sheet is a summary of a company's assets, liabilities and shareholders' stake in the company at any time. It shows cash provided for operations, investing and financing, and also how the company gets and uses its funds, and it also shows what Auto Scrap Masters owns and how well it manages its assets, liabilities and financial reserves (Denis, 2013).

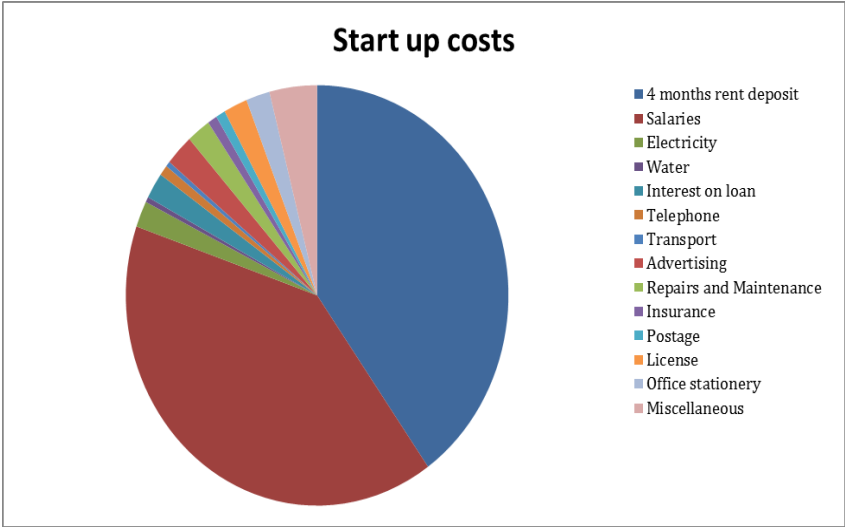
Profit and Loss account, this is a financial statement that gives the breakdown of the revenues, costs and expenses that the Auto Scrap Masters incurs during a specific financial year. It shows the ability of a company to

manage and use its resources to make a profit. It does also indicate what cash flow the company has available to repay debt and how it manages its tax obligations.

Start up cost

The business will require to be financed by the following to start.

Item/Expense	Cost (USD)
4 months rent deposit	100,000.00
Salaries	100,000.00
Electricity	5,000.00
Water	1,000.00
Interest on loan	5,000.00
Telephone	2,000.00
Transport	1,000.00
Advertising	6,000.00
Repairs and Maintenance	5,000.00
Insurance	2,000.00
Postage	2,000.00
License	5,000.00
Office stationery	5,000.00
Miscellaneous	10,000.00
TOTAL	251,000.00



Financial Highlights and Detailed Financial Plan

This is looking at the key finance statements and which will help to determine the performance of our business.

Auto Scrap Masters	
Projected Balance Sheet as at March, 1 2017	
(amounts in \$000's)	
Assets	
Non-Current Assets	
Desks	2,000.00
Fridge	400.00
Roller	72.00
Computer	500.00
Till Machine	47.00
Shop fittings	500.00
Accumulated Depreciation	603.80
Total Non-Current Assets	4,122.80
Current Assets	
Inventory	256.84
Prepayments	20,400.00
Cash	69,215.00
Total Current Assets	89,871.77
Total Assets	93,994.58
Current Liabilities	
Current Borrowings	-
Total Current Liabilities	-
Non-Current Liabilities	
Loan	25,000.00
Total Liabilities	25,000.00
Paid-in Capital	8,396.67
Retained earnings	60,597.91
Total Equity	68,994.58
Total Liabilities and Equity	93,994.58

Financial Summary

Auto Scrap Masters Projected Income Statement	
	Year 1
Increment	
Total Sales	189353.4
Cost of goods sold	41856.93041
Gross Profit	147496.4696
Less overheads:	
Energy cost	8580
Wages	34600.96
Rent	20400
Premises Insurance	4140
Council Tax	935
Advertisement	600
Depreciation	603.804
Other Expenses: Staff uniform	749.52
Total operating expenses	70609.284
EBIT	76887.18559
Interest expense	1139.7996
EBT	75747.38599
Tax@20%	15149.4772
EAT	60597.90879

The projected income statement indicates the revenue that the business will generate in year one. Based on our analysis, the business will grow by 10% in year 2. This information is very important in that it enables us to calculate the break-even point and the time the company will take to make a profit.

The viability of the Business based on the break-even analysis

In order to analyze the ability of the project to

Calculation of Break – Even Point

Breakeven point, it's a level of operation at which a business neither makes a profit nor sustains losses. The calculations of break even points for three years of the business operation are as shown

Calculation of break even point

Total contribution margin = Sales – Total variable cost

$$= 983,300 - 165,196 = 818,104$$

Contribution margin percentage = Contribution margin / sales x 100%

$$= 818,104 \times 100\% = 83.2\%$$

983,300

This information is very important in that it enables us to calculate the break-even point and the time the company will take to make profit.

Breakeven Point/Unit	
Year 1	5815.247874
Year 2	6397.784661

Breakeven Point in \$	
Year 1	70486.61948
Year 2	77547.54788

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