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### **Simulation Project Deliverables**

**Introduction of Insight-FULL Pizza.** I chose to start up my own pizza business, Insight-FULL Pizza, in a suburban retail area with a rent of \$7,000 per month while charging \$19 per pizza with a total ingredient cost of \$6.90 per pizza. To start this business, I needed to raise \$285,209, and I achieved this by accessing my personal savings and taking out a bank loan. Additionally, I chose to implement a high marketing cost, achieve a recognized average hourly pay per employee, install display cabinets, purchase the most expensive oven, and contract with a pizza delivery service. Oh, how I wish this business existed! In the first year my share of the business profit was \$304,631.35. In the following paragraphs we will go over why I chose to invest in a high marketing, contracting, and a quality oven cost for my business. Then, we will analyze my store's 2019 ratio analysis numbers and the concerns I have for the following year.

**Rationale behind business operation decisions.** I chose to charge \$19 per pizza and incur a \$6.90 cost for the ingredients, allocate \$5,000 monthly towards advertising, and pay \$20 per hour per employees because those numbers positively impacted net profit and sales. Additionally, since my advertising expense was so high, I chose to contract with a delivery service and showcase medium display cabinets within my store. The most expensive oven, which lasts 17 years, was the most appropriate choice because monthly pizza sales were HIGH (we will go over that when we discuss my business concerns). My goal with starting up this business was to ensure my store could reach, or was close to, a 20% net profit margin. Also, since my pizza sales

were high, I invested in a cool room so I can store more products at a discount. Although my expenses increased, so did my sales, which had a positive impact on my net profit margin (discussed next).

**Ratio analysis.** Insight-FULL Pizza managed to achieve a 19% net profit margin within the first year. Additionally, the business achieved a 65% gross profit margin. This was achieved because of the cost of pizza, cost of ingredients, fair wages, and delivery service. Adjusting any of those numbers slightly may negatively impact the gross profit and net profit margin, so those numbers were carefully thought about. Also, Insight-FULL Pizza boasts a 67% return on equity and a 1.02 degree of financial leverage in 2019. So, the decision to borrow money from the bank and invest through personal funds more than paid off. The financial health of the company is great because liquidity ratios are high, which means the business can easily pay off the debts and startup costs (meaning the company is not going under).

**Business concerns.** Business in 2019 was good...too good! And that is one of my major business concerns. In December 2019 the pizza sales were astronomical and exceeded the current oven's bandwidth. So, I needed to invest in a second oven. For instance, in December 2019 the pizza sales were \$179,891 which means 9,467 pizzas were sold. The oven purchased at the beginning of the year can only produce 7,500 pizzas per month. So, where did the extra 2,000 pizzas come from? The business cannot operate with the exceeding demands because it cannot produce over 7,500 pizzas monthly. So, the sales (without an extra oven) would be inaccurate for 2019. Let's just say I was proactive and purchased an additional oven for \$17,000 in June 2019, and let's reduce my share of the business profit by \$17,000. Also, the inventory for pizza

and garlic bread in 2019 continually increased each month by \$1-\$2 thousand. For the following year, I would want to reduce those numbers. I don't want to carry a high inventory of food products because food goes bad. So, over an \$18,000 opening inventory in December 2019 would not sit well with me. I see that as wasteful. Lastly, I have a concern over wages. Employee wages in 2019 were \$256,000, and the salary expense was 81,600. Wages were the highest expense in 2019, so I need to be cognoscente of that in the following year to ensure I don't spend too much on employee wages so I can continue to maintain a profit.

**Conclusion.** If this business was real, I would have invested on it yesterday. Insight-FULL Pizza has a bright future and can easily pay off the bank loan within the first year, or at least half of the bank loan. The first year of business was so good that it couldn't keep up with the demands near the end of the year, so the business had to purchase an additional oven. Lastly, the ROA was SUPERB because it was 53% in 2019. The business is in good financial healthy and could benefit with partners, or possibly consider opening additional locations. Additional partners would be beneficial because if the business expanded into more locations, then the other partners could manage those locations and the profits could be shared. This is just a thought.