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Profit Planning Analysis in a Start Up Company in Catering Service Sector

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ABSTRACT

Planning is a tool used to achieve company goals. In a company, planning can be poured using profit planning. By making profit planning, manager can evaluate whether their desired strategy will generate value and estimate the economic impact of each different strategic alternatives. PT X is a start-up company that was founded in Jakarta in 2017 and engaged in the catering service industry. Since its inception, the company has shown good performance by booking an increasing profit every year. The company even managed to get grant fund and investors to provide funding to develop its business. However, for the first time since its establishment, in 2020 the company booked a net loss even though its sales increased that year. This indicates a problem in costs management. If the company has a good profit planning, the company should still book profits because if sales increase, profits will also follow. Just like other newly established companies, PT X still does not have a formal profit planning. This study aims to implement profit planning that can be used by the company in implementing the strategy that has been chosen by the company. The approached used in this research is case study. This study uses a qualitative method. The result of this study is profit planning for PT X which is derived using the 3 wheels method according to Simons (2000), namely the profit wheel, cash wheel, and ROE wheel.

Keywords: *profit planning, start up, catering*

1. BACKGROUND

Planning is a tool used to achieve company goals. In the company, planning can be poured using profit planning. Profit planning is a tool that managers can use to evaluate businesses and their operating plans, make choices between different courses of action, set performance and accountability goals, and evaluate the extent to which business performance is likely to meet the expectations of different constituencies (Simons, 2000)[1]. PT X is a start-up company that was founded in Jakarta in 2017 and is engaged in the catering service industry. PT X provides catering services, especially for corporate consumers. Even though PT X is a young company, PT X has a good performance as indicated by the company's profit that grows every year. PT X even managed to get a grant from the Tourism and Creative Economy Agency of the Republic of Indonesia and obtained financing from investor in the form of convertible notes to develop its business. This shows that the company has good performance and potential. However, for the first time since its establishment, in 2020 PT X booked a net loss even though sales for that year increased compared to the previous year. This phenomenon shows that there are problems in managing costs at PT X. If the company has a good profit plan, the company should still record profits in 2020 because if sales increase, profits will also follow.

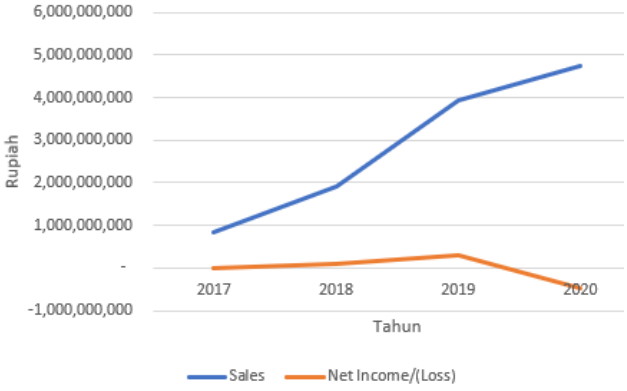

Figure 1. PT X Sales and Net Income/(Loss)

Source: PT X Financial Report, Processed by Author (2021)

With profit planning, the company will have a guidance in managing its costs. Although planning cannot eliminate uncertainty, with planning, managers can respond more effectively to changing situations. Planning can reduce uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and build appropriate responses (Robbin, 2012)[3]. Newly established companies usually do not have a standard operating system and formal

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planning. This also happens to company X. Based on these problems, this study questions how to implement profit planning that can be done by the company in implementing the strategy that has been chosen by the company. In this study, the profit planning is derived using 3 wheels method according to Simons (2000) [1], namely the profit wheel, cash wheel, and ROE wheel. The uniqueness of this study is PT X has negative ROE. The contribution of this study is to provide recommendations to PT X's management and to give example for other companies, especially for start-up company and company with negative ROE, on how to implement profit planning.

2. LITERATURE REVIEW

Profit planning is a structure for bringing together sales forecasts, production plans designed to meet this demand which are converted into production costs, and the planned or budgeted engineering, distribution, and administrative costs needed to support sales and production activities (Murray, 1963)[4]. Profit planning has several benefits, including providing a disciplined approach to problem identification and resolution, providing direction to all levels of management, improving coordination, providing a way to elicit ideas and collaboration from all levels of management, providing benchmarks for evaluating actual performance and improving performance. ability of the individual (Carter, 2006)[5].

According to Simons (2000)[1], the basis of profit planning is a set of assumptions about the future. There are three cycles that must be analyzed to build profit planning, namely profit wheels, cash wheels and ROE wheels

Figure 2 Profit Planning Cycle

Source: Simons (2000)

1. Profit Wheel

Based on Simons (2000) [1], in making a profit wheel, the first step is to estimate the number of sales. Next is to estimate operational costs. There are two categories of costs that must be analyzed differently in estimating operating costs, namely variable costs and non-variable costs. Variable costs are costs that change in proportion to the level of sales. While non-variable costs are costs that do not change directly to the level of sales. After getting estimated sales and estimated operating costs, the manager can calculate the estimated profit. Next, to complete profit planning, managers must look at the level of investment in the new assets required. Managers must determine the level and type of investment in new assets needed to support the sales estimation. The final step in constructing the profit wheel is to lock the wheel and test the key assumptions using sensitivity analysis. The purpose of sensitivity analysis is to estimate how much profit can change when there is a change in the basic assumptions.

2. Cash Wheel

Second wheel according to Simons (2000) [1] is cash wheel. The first step in cash wheel is managers must estimate whether the company has sufficient cash to operate. In simple terms, the estimated operating cash required in a period of time can be calculated by calculating the estimated cash received from customers minus the estimated cash paid to suppliers and for operating costs. The next step is to estimate the cash required to finance the growth of operating assets and estimate the acquisition and divestment of long-term assets. The final step is to estimate the required funding and interest payments.

3. ROE Wheel

The last wheel is the ROE (Return on Equity) wheel. ROE is a profitability ratio that measures a company's ability to generate returns from shareholder investments. ROE can be calculated by dividing net income by the number of shareholders' equity.

Figure 3 shows the research framework used in this study. This study uses quantitative data and qualitative data. Based on these data, the profit wheel, cash wheel and ROE wheel are arranged. The result of this study is profit planning for PT X.

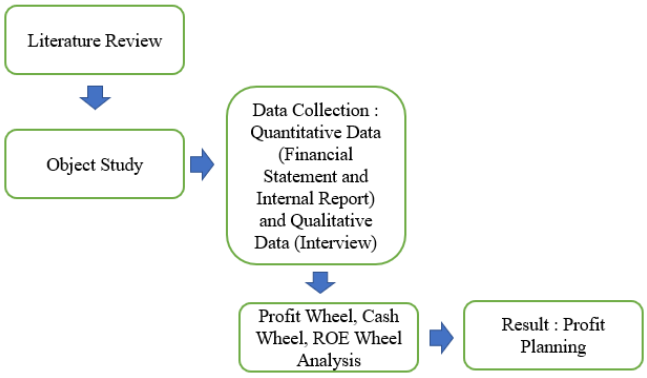

Figure 3 Research Framework

3. RESEARCH METHOD

The approach used in this research is a case study. Yin (2003) [7] defines a case study as scientific research conducted by investigating contemporary phenomena in the context of life, especially when the boundary between phenomenon and context is not clear. The case study approach is used in this research because author wants to explore phenomenon that occurs in PT X as a whole and hopes that it can be used and applied in similar cases in different companies. In research that uses case studies, researchers should try to conduct in-

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depth testing of the unit of analysis used as the object of research. The unit of analysis is something that is used as a focus for research. This research uses a single case study conducted in single unit analysis, namely PT X.

This study uses a qualitative method. Qualitative research is a type of research that has a dependence on information collected based on objects or participants (Creswell, 2008) [8]. Meanwhile, according to Gay (2006) [9] qualitative research is research consisting of data collection, analysis and interpretation in the form of a comprehensive narrative of data that can be visualized to obtain information in the form of conclusions on an interesting phenomenon.

This study uses primary data sourced from interviews and secondary data derived from the financial statements of PT X, internal company's report and other relevant data sourced from the internet. The data analysis method used is descriptive content analysis method. In analyzing the content descriptively, the author uses the reduction method data. Data reduction is the process of selecting, simplifying or changing rough data obtained from the field during the data collection process until the data is collected the final process. Data reduction has an important role in generating efficient data and delivering effective information.

4. ANALYSIS AND DISCUSSION

4.1. Profit Wheel

The first step in making a profit wheel is to estimate sales. In 2022, it is estimated that PT X will continue to serve its customers from the previous year. PT X's customers come from several industrial sectors, namely hospitals, warehousing, finance, construction and manufacturing. For customers from the hospital sector, it is estimated that sales will decrease by 25% in line with the reduction in the number of health workers who are seconded at the hospital for handling Covid-19. As for PT X's customers from other sectors, it is estimated that sales will increase according to the industry growth rate of each customer in the 2021 quarter 2. The growth data can be seen in Figure 4.

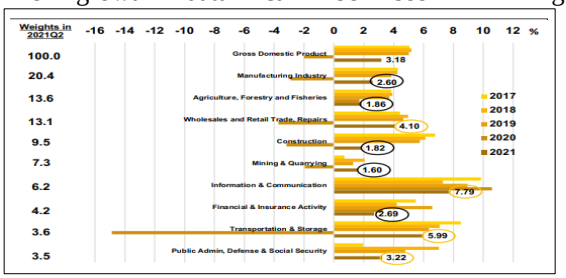

Figure 4 GDP and Key Industry Growth, 2017 – 2021 Q2

Source: LPEM (2021)

In addition to customers from the previous year, the company also estimates sales from new customers. It is estimated that PT X will get 1 new customer in 2022 with a sales value of IDR 630 million based on meeting between PT X and the prospective customer. This customer had been approached from the previous year and had reached the food tasting stage. In addition, it is estimated that PT X will get additional sales from other customers who have not been identified at this time amounting to Rp562.5 million. This figure is based on the level of sales growth expected by the company.

Next is the analysis of production capacity. Based on the estimated sales made, the average production of PT X is 1,100 servings per day. This is still within the scope of PT X's production capacity, which is 3,000 servings per day.

The next step is estimating operational costs. In estimating operational costs, the authors classify into variable costs and non-variable costs. Figure 5 shows the grouping of these costs along with the assumptions used for profit planning in 2022.

Cost Type	Cost Name	Assumption for 2022
1. Variable Cost	COGS	In line with increase/(decrease) of sales
2. Non Variable Cost	Rent Expense	Same as previous year
	Depretiation Expense	Same as previous year
	Sales and Marketing Expense	Same proportion with previous year
	Wages and Remuneration Expense	Increase in line with additional personel needed
	Security and Cleaning Expense	Same proportion with previous year
	Transportation Expense	Same proportion with previous year
	Meals and Meeting Expense	Same proportion with previous year
	Health and Medicine Expense	Decrease 50%
	Subscription Expense	Same as previous year
	Training Expense	Same as previous year
	Legal and Consultant Expense	Increase in line with additional customers
	Research and Development Expense	Same as previous year
	Certification Expense	Certificate extension
	Utility Expense	Same proportion with previous year
	Repair and Maintenance Expense	Same proportion with previous year
	Supplies Expense	Same proportion with previous year
	Others Expense	Same proportion with previous year

Figure 5 Cost Grouping and Assumption for 2022

After getting the estimated sales and estimated cost, the next step is to calculate the expected profit. It is assumed that no new asset additions are required for sales planning in 2022. We also added a sensitivity test. In the best case scenario, we assume sales to other customers are double the target. Meanwhile, in the worst case scenario, we assume that there will be a 5% increase in raw material prices. Summary of the estimated profit and loss of PT X in 2022 can be seen in Figure 6. The estimated net profit in 2022 is Rp98,192,435. If PT X can sell 2 times to other customers, the net profit will increase by 58%. Meanwhile, if the price of raw materials increases by 5%, the company will suffer a loss of Rp. 37,729.074.

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	Most Likely Scenario Estimated Year 2022 (Rp)	Best Case Scenario Estimated Year 2022 (Rp)	Worst Case Scenario Estimated Year 2022 (Rp)
Sales	6,886,426,559	7,448,926,559	6,886,426,559
COGS	5,601,857,025	5,950,510,597	5,770,509,346
Gross Margin	**1,284,569,534**	**1,498,415,962**	**1,115,917,213**
Wages and Remuneration Expense	380,199,976	380,199,976	380,199,976
Sales and Marketing Expense	96,119,970	102,821,325	96,119,970
Rent Expense	115,384,937	115,384,937	115,384,937
Depretiation Expense	119,278,246	119,278,246	119,278,246
Security and Cleaning Expense	69,509,510	69,509,510	69,509,510
Utility Expense	70,040,156	75,761,206	70,040,156
Supplies Expense	66,686,714	72,133,847	66,686,714
Transportation Expense	64,986,495	70,294,749	64,986,495
Meals and Meeting Expense	55,740,441	60,293,455	55,740,441
Health and Medicine Expense	5,795,300	5,795,300	5,795,300
Subscription Expense	21,257,100	21,257,100	21,257,100
Training Expense	12,255,151	12,255,151	12,255,151
Repair and Maintenance Expense	18,796,438	20,331,777	18,796,438
Legal and Consultant Expense	30,000,000	30,000,000	30,000,000
Research and Development Expense	4,414,274	4,414,274	4,414,274
Certification Expense	4,000,000	4,000,000	4,000,000
Others Expense	19,181,580	20,748,378	19,181,580
Total Operating Expense	**1,153,646,288**	**1,184,479,231**	**1,153,646,288**
Operating Profit	**130,923,246**	**313,936,731**	**(37,729,075)**
Income Tax	32,730,812	78,484,183	0
Net Income	**98,192,435**	**235,452,548**	**(37,729,075)**

Figure 6 Estimated Income Statement PT X Year 2022

4.2. Cash Wheel

In preparing the cash wheel, assumptions are needed regarding the time of money received from customers and the timing of cash payments to suppliers. It is estimated that billing and payment from customers will be made within 6 weeks. Cash payments to suppliers will be made in the following month and payments for labor and operating costs are in the same month. Figure 7 shows the estimated cash flow as well as the sensitivity test. In the worst case scenario, PT X's cash flow is negative. This means that if there is an increase in raw materials by 5%, the company needs to find sources of funding to finance its operations. Sources of funding can come from within, namely by issuing equity or from outside by borrowing from creditors. If borrowing from creditors, PT X needs to pay attention to interest costs and principal payment terms. It is assumed that the funding will be obtained from a loan from a bank in the amount of Rp70,000,000 for operational activities with an interest rate of 10% per year.

	Most Likely Scenario Estimated Year 2022 (Rp)	Best Case Scenario Estimated Year 2022 (Rp)	Worst Case Scenario Estimated Year 2022 (Rp)
Cash at beginning period	2,760,420	2,760,420	2,760,420
Cash inflow			
Cash receive from customers	6,366,680,377	6,835,430,377	6,366,680,377
Total cash inflow	6,366,680,377	6,835,430,377	6,366,680,377
Cash outflow			
Cash paid to suppliers	(4,445,430,832)	(4,735,975,475)	(4,601,381,254)
Cash paid for operational expense	(1,827,628,041)	(1,858,460,983)	(1,827,628,041)
Cash paid for tax	(32,730,812)	(78,484,183)	0
Total cash outflow	(6,305,789,685)	(6,672,920,641)	(6,429,009,295)
Total cashflow from operating activity	60,890,692	162,509,736	(62,328,918)
Cashflow from financing activity			
Cash receive from bank loan	0	0	70,000,000
Cash paid for bank interest	0	0	(7,000,000)
Total cash flow from financing activity	0	0	63,000,000
Cash at the ending period	**63,651,112**	**165,270,156**	**3,431,502**

Figure 7 Estimated Cash Flow Year 2022

4.3. ROE Wheel

The final step is to calculate the ROE of PT X. PT X equity in 2021 is still negative. Many start-up companies are losing money early in their establishment and will continue to have negative equity in the next few years. Therefore, investors can look at the available cash flow to see the health of the company (Furhmann, 2021)[6]. Based on this, the ROE wheel cannot be applied to PT X profit planning. As long as the cash flow is positive, it means the company is in good condition.

5. CONCLUSION AND RECOMMENDATION

PT X is a start-up company that show good growth. However, in year 2020 the company booked a net loss even though sales in that year increased compared to the previous year. This shows the company has trouble in managing its costs. With doing profit planning, the company will have a guidance in carrying out company activities to achieve company goals, including cost management.

Profit planning starts with making a profit wheel. By making profit wheel, the company has a sales target, cost target, profit target and planning for the investment of assets needed to support the profit wheel. Based on the calculated profit wheel, the company will book profit in 2022. However, if the price of raw materials increases by 5%, the company will suffer a loss.

Second wheel is a cash wheel. Based on the calculation, the company will have sufficient cash to fund its operation in 2022. But, if the price of raw materials increases by 5%, the company will need to get additional fund for its operational.

Last wheel is ROE wheel. PT X has negative equity so the ROE wheel becomes irrelevant to use. On this research, not all the wheels are used in the application of profit planning with the Simons' three wheels approach. Only two wheels are used, namely the profit wheel and the cash wheel.

Recommendations to PT X in the application of profit planning:

1. Profit planning must be approved by the shareholders and be management commitment in carrying out company activities. Furthermore, this profit plan must also be properly communicated to all employees so that employees understand the targets that expected to them.
2. Periodically measuring and monitoring targets that have been prepared in profit planning and take immediate correction and feedback in case of deviation from the target.
3. Sensitivity analysis shows that the increase in raw material price affects the company's profitability significantly. Therefore, PT X should make continuous efforts and innovations to reduce the cost of goods sold in order to increase company’s profitability.

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4. Supervise billing and payments from customers so that billing and payments can be made on time.

Research limitation in this study is the object of this research has negative equity so that the third wheel of Simons profit planning, namely ROE wheel, cannot applied.

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