International Journal of Research in Engineering, Science and Management
Volume-3, Issue-2, February-2020
www.ijresm.com | ISSN (Online): 2581-5792

Speedy Delivery Case Breakdown

Kuber Khanna
Student, Jayshree Periwal International School, Jaipur, India

***Abstract*: This paper presents an overview on speedy delivery case breakdown.**

***Keywords*: Speedy Delivery.**

1. Introduction

A. Case Study

Speedy Delivery (SD) is a private limited company that delivers freshly cooked meals by bicycle. SD only delivers. Restaurants subcontract SD to deliver meals to customers who place orders online and expect quick and efficient delivery. SD has been operating profitably for two years. Currently, it has the highest market share in the city.

SD is now facing two issues:

- It operates at 98% capacity utilization. Recently, some restaurant owners complained to SD that meals arrived late and cold to customers.
- The market for home-delivered, freshly cooked meals is growing quickly and some new delivery companies have just entered the market.

The CEO wants to address the delivery quality issues and threats of competitors, two of whom recently merged. He is considering an internal growth strategy involving investing in new electric scooters and employing more staff to deliver a greater number of meals more efficiently, SD must raise a large sum of finance. Major shareholders are in disagreement regarding the internal growth strategy. The financial manager has provided some financial information.

Table 1
Current Information

Gearing Ratio	65%
Current Ratio	0.9
Gross Profit Margin (GPM)	20%
Net Profit Margin (NPM)	9%
Return on capital employed (ROCE)	4%
Debtor days	90
Creditor days	60

Table 2
Predicted return on investment

Average rate of return (ARR)	6%
Payback Period	3.2 Years

B. Case Breakdown

Speedy Delivery is a private limited company which is working in the market for the last two years and has attained the highest market share. In order to further expand, they are planning to introduce electric scooters as they are working on 98% capacity. Further are the two sources of finance that are relevant:

- *Bank Loan:* As the company is successful and has a 9% profit margin, the bank may provide them with a loan that can be repaid in easy installments over a long period of time. In addition to this, the Rate on capital employed (ROCE) of the business is 4% which seems to be a favorable ratio for a newly established business and helps them to avail of a bank loan. However, the business is already highly geared with a 65% geared ratio which means that they already have higher external borrowings and in addition to this the current ratio is 0.9 which means that the business is already struggling with liquidity problems. Taking a bank loan will further add on the additional burden of paying equitable monthly installments (EMI) which might worsen the liquidity position of the business.
- *Shares:* As it is a private limited company they can plan to make it into a public limited company or issue more shares to existing shareholders. This will help in attaining a large sum of money without creating any liabilities to repay it back. As the business has the highest market share, existing shareholders might buy more shares. However, existing shareholders, covering majority, are not in favor of internal growth strategy and converting into a public limited company is very time consuming and an expensive deal. With low current ratios (0.9), the business might not be in a condition to bear additional expenses.

2. Conclusion

Therefore, from the above sources of finance, the buying of shares would be the most relevant as it would not add any liabilities to the business and the shareholders can be convinced of the internal growth strategy.

References

[1] http://speedeedelivery.com/