# RESEARCH ON INVESTMENT ESTIMATION WHEN DECIDING TO START A NEW BUSINESS

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**Abstract:** *An entrepreneur has to follow several steps when deciding to start a new business. Starting a business involves planning, making key financial decisions, completing a series of legal activities, hiring reliable employees and after all of this the success of the new firm is determined by a few steps, which every manager must take into account. One of these steps is adopting a company name, the calling card of the business, taking into consideration the related tips regarding its selection. Entrepreneur must estimate the initial investment and the necessary financial resources. When talking about a company its mission must be clear and easy to understand. Thus, the description of the main activity and the general environment must be present in the business plan as well.*

**Key words:** *starting a business, manager, resource allocation, investment estimation.*

## 1. Introduction

The appearance of the workplace can define the work atmosphere, and it can also be a key factor in determining the clientele. The most important position in a business is that of a manager. In this case the head of the company must be aware of the requirements of the position, the different types of managerial styles, and in the end he must adopt a suitable one for his company. Of course, the financial and human resources must be taken into account when starting a business. In the following paper these steps are explained and put into application through the birth and evolution of a limited liability company.

The main objective of this paper is to introduce the statistical method for determining the investment.

## 2. General description of a company

In the current economic environment, industrial and administrative, managerial foresight is an attribute which, if well executed, leads to securing the future of an enterprise from the point of view of its human and material resources. Managers, who properly exert their forecasting capabilities, lead the company to success. For the businesses that have a large volume of information processing, the rational planning of activities, flexible and tailored to the competitive market is indispensable. Auto Service networks are characterized by current works and

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temporary works. Current works are characterized by specialized repair shops general maintenance and repair of only certain components (engine, brakes, steering, body, electrical parts, etc.), and they only consider a certain type of car. AUTO SERVICE Network is a new concept that addresses more complex issues to eliminate the disadvantages of the existing service. The idea is to make complex high quality repairs, with as few staff as possible, at the lowest cost and addressed to a greater number of customers.

## 3. Description of the Main Activities

Each car service unit has 5-6 employees performing automotive repair (Fig. 1). They must receive customer orders. Usually the employee discusses with clients to whom the vehiclebelongs, the symptoms and the temporal evolution prior to the occurrence of the fault. This information is collected from people mostly lay in auto mechanics. The auto mechanic may not be a specialist in the reported defective auto component system.

The correct diagnosis of the health status of a vehicle is crucial to shorten the response and stationary service costs. Based on the diagnosis the list of necessary supplies is compiled.

The idea is that each service network must cover an area which may provide potential customers and perform repairs according to the competence of the employees to the network.

Suppose that the network of service stations has 150 engineers in 15 areas of intervention centers (electricians, drivers, managers, roofers, mechanics, engine, steering, braking system, transmission, injection, turbochargers, etc.), with various levels of qualification and specialization. For example:

Auto Electrician:

1. Screw in and unscrews bulbs, electrical parts, signage, etc.
2. Dismounts and mounts the alternator charger, the starter, electrical connections.
3. Repairs electrical components such as manifolds, coils, bridge rectifiers, alarm systems, central locking etc.



Fig. 1. *General scheme of a SERVICE*

4. Repair electronic components such as electronic ignition, signalling relays, car alarms, electric current recovery system, etc.
5. Repairs electronic and computer components (the autopilot robot, the state machine diagnostics, the onboard computer, etc.).

At one time an employee can be in one of the following situations:
- Perform an auto response.
- Available (pending auto interventions).
- Sick leave or rest.
- Activity commissioned by the chief administrative service.

Through the contract of employment the employee has specified the basic elements of service such as duration of employment, profession, qualifications, skills, work schedule, etc. All this determines the salary and hourly labour implicitly provided.

Personnel in auto service network are assigned to each service, according to its specificity.

## 4. The investment

In general, investment represents any capital expenses which are made for the purpose of obtaining future profit. Particularly the following concepts are used:

- Capital investment
- Financial investment

Capital investment refers to funds invested in fixed assets, tangible or intangible or both.

Financial investment is represented by any funds allocated for capital stock or other businesses, bounds, public and private, real estate held for rental income and also for the prospect of capital gains.

The investments vary in accordance with liquidity. Some can be turned into cash in a reasonable time, but others are difficult to convert even though they are profitable sources of revenue. For example, the capital investments lack in fluidity and flexibility and they are more rigid because they are expected to be held until their services to the business have expired.

There are two main kinds of investment resources:

- Internal resources:
  - the primary investors capital
  - profit
  - capital depreciation
  - funds from bounds and stocks
- external resources:
  - loans
  - funds from the budgets of local public administration authorities
  - grants
  - subventions
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## 5. Classical investment estimation

The classical evaluation of an investment is analytical.

The detailed structure of investment and the necessary equipment are presented in Table 1.

Table 1

*Clasical investment calculation*

| Surface service area | 170 $m^2$ |
|---|---|
| Decoration | 90,000 lei |
| Electronics and other appliances | 50,000 lei |
| Buildings and land | 800,000 lei |
| tools devices equipment | 250.000 lei |
| *TOTAL INVESTMENTS* | *1,190,000 lei* |

## 6. New method of investment estimation

The new method is based on the similarity to the real estate investment evaluation. The evaluation of real estate investments in order to sell them is based on the price per square meter. In our country this assessment of the investment is expressed in euro per square meter.

The average value per square meter of construction is 750 euro.

Applying this method of assessment in the case of a company with the object of activity in services has revealed that the method must be adapted to enterprises. In the case of the real estate the investments shall include land, buildings and a minimum of utilities (water, sewer, gas, kitchen, bathroom, central heating and parking).

In the case of companies the investment includes besides these utilities tools, devices, machines, measurement and control, materials and everything that is encompassed in the fixed and variable cost structure of a company.

Analyzing a total of over 50 companies we found that the nearest value can be estimated per cubic meter of enterprise.

To calculate the volume of building an enterprise must take into account that it has two types of buildings.

- Administrative Buildings (offices, attachments, storage, lockers, toilets, etc.)

for which the height of 2.5 meters needs to be taken into account. The value of 250 euro per cubic meter of administration building was determined statistically

- Production Buildings (mechanical workshops, electrical workshops, bodywork, electronics, etc.) for which the height of 3.5 meters needs to be taken into account. The value of 450 euro per cubic meter administration building was determined statistically

Applying this statistical method in the case of an auto service, it was found that it consists of 34 square meters of Administrative Buildings and 136 square meters of Production Buildings from a total of 170 surface service area.

We can thus estimate the investment:

34*2,5*250+136*3,5*450=235,450 euro

235,450euro*4,5lei/euro= 1,059,525lei

The method gives satisfactory results in case an entrepreneur decides to start a business.

## 7. Conclusion

This method of determining the investment of a company resulted from the statistical analysis of existing similar companies. The statistical method is based on the observation of over 50 companies. We must calculate the total investment by dividing the enterprise space in workspaces and administrative buildings.

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