

Case Study – Harrogate Quality Bathrooms

Chris and Sam Cutts established Harrogate Quality Bathrooms as a partnership in 1997, with Chris carrying out installation and Sam designing the bathrooms. In 2000, the business became a private limited company with the shares in the business being divided amongst Chris, Sam, and John Lambell. The latter had worked with Chris, helping him out on more complex jobs. Harrogate Quality Bathrooms now employs ten full-time plumbers and fitters.

The business provides a comprehensive service of bathroom design and installation. The business has established a reputation for exceptionally high standards and has designed and installed bathrooms for MPs and pop stars. The quarterly journal Yorkshire Country Homes recently described their bathrooms as having ‘astonishing craftsmanship and quality’. Customers are allowed sixty days to pay their bills.

The business is based in rented accommodation close to the centre of Harrogate. The premises were once used as a carpet warehouse and provide plenty of space for storing equipment, materials and vehicles. There are three vans and a car; Chris and John each have use of a van and Sam uses the car. The third van is used by other members of staff. Chris, Sam and John have invested over £120 000 in equipment but acknowledge that the business would now benefit from further investment, including a more modern (and larger) van. The value of the equipment has depreciated significantly since purchase, largely due to wear and tear. The vehicles owned by the business have also depreciated in value.

A twelve-year commercial loan for £90 000 (with fixed interest) was taken out in 1997; less than £30 000 of the loan is still outstanding. More would have been paid off, but a ‘repayment holiday’ was taken in 2002.

At any one time Harrogate Quality Bathrooms may hold ovstock. This includes plumbing equipment, fittings, taps and tiles. The business has trade accounts with over thirty suppliers, many of whom typically allow thirty days for payment of invoices before interest is charged. Sales turnover has steadily increased, strongly fuelled by the fact that a well-known Big Brother housemate used the services of the firm and, for a small discount, was happy for the business to use their picture in company’s publicity literature.

Annual turnover is now over £2 million, although Sam provides an explanation as to why this figure is so high:

Quality bathroom equipment of the standard our clients expect is not cheap. To get a top quality finish requires the very best materials and fittings. Designer baths alone can cost many thousands of pounds. For example, a genuine French copper roll top bath would cost us over £4 000 to import, and top quality slate (for tiling) can cost over £50 per square metre. Added to this, the attention to detail needed with design is time consuming. In short, good quality bathrooms are very

expensive!

Apart from a difficult period in 2002, the business has recorded a profit in each year since it began trading. While operating as a limited company, profits have generally been ploughed back into the business, adding to the reserves.

Ratio	Industry average	2007 Accounts
Gross profit margin	32%	30%
Net profit margin	21%	1%
Return on capital employed	25%	8%
Current ratio	3.2:1	1.6
Acid test	1:1	0.5
Debtor days	24 days	20 days
Creditor days	35 days	40 days
Stock turnover	56 days	50 days

Profit and Loss Account 2008

Harrogate Quality Bathrooms Ltd
Profit and Loss Account at 31 March 2008

	£000s	£000s	£000s
Sales			2 265
Less cost of goods sold			
Opening stock		285	
Plus purchases	1 464		
Less closing stock		176	
Cost of goods sold			1 573
GROSS PROFIT			692
Less expenses			
Wages		193	
Rent and rates		165	
Energy		38	
Motor expenses		49	
Printing and stationery		21	
Advertising		12	
Maintenance		23	
Interest		4	
Depreciation		7	
Directors' salaries		97	
General expenses		48	657
NET PROFIT			35

Balance Sheet 2008

Harrogate Quality Bathrooms Ltd
Profit and Loss Account at 31 March 2008

All values are in £000s	Cost	Accumulated depreciation	Net book value
Fixed assets			
Equipment	262	15	247
Motor vehicles	88	17	71
	350		318
Current assets			
Stock		176	
Debtors		72	
Deposits and cash		46	
VAT accrued		2	
		296	
Current liabilities			
Creditors	198		
Overdraft	0		
VAT liability	11		
	209		
Working capital			87
			405
Long term liabilities			
Bank loan			20
NET ASSETS			385
FINANCED BY			
Share capital			138
Reserves			212
P & L account			35
			385

