

CHAPTER 8 RISKS, PROBLEM AND ASSUMPTION

8.1 Challenges/Risks of Investing in Malaysia

8.1.1 Risk in the industry

i) Unfavourable industry wide trends

With the Malaysian Gross Domestic Product (GDP) expected growth at below 5% for 2002 and the decline in overall world wide market after the September 11th 2001 incident, we do not foresee a future decline in consumers consumption for the coming 2 years. The foreign specialty cafes are still expanding with more outlets in Malaysia. In the food and beverages industry, consumers have a varied of choices to choose from in Klang Valley and their choice would be based on service and food quality.

ii) Set up cost

With the current market situation in Klang Valley, the cost of rental remains stable. Set up cost is below the ceiling rate as during the booming years of 1996. Contractors are more willing to accept projects with a lower profit margin. The current scenario might not sustain in the coming years where set up cost might decrease even further if there is no improvement to the economy or the opposite where cost would increase.

iii) Changes in cost of raw materials

The cost of coffee beans is subject to market fluctuations and maintaining a substantial inventory to hedge against price increase is inevitable. The issue here would be the lost of aroma and taste to the coffee beans due to prolong state of being kept. Therefore, a stringent inventory system would need to be established to maintain the freshness of the coffee while at the same time avoid the situation of running out of stock.

iv) Competitors

Having been in the Malaysian market since 1998, our competitors are more matured and understand the market situation better. Being a new player in the growth stage of specialty café, Borneo Café would need to convince and convert consumers to patronised our outlets as we serve the same quality of coffee with a different ambience.

v) Change in Government Policy

The most recent announcement made by the Selangor state local government of closing all food outlets by midnight is affecting business as Malaysian generally consume food until the wee hours of the day. Similar policy changes as the one mentioned before would either effect or support the food industry.

vi) Monetary Exchange Rate

Currently the Ringgit is pegged to the US Dollars at 3.8. All financial reports are based on the current US Dollar.

8.1.2 Risk in the company

i) Personnel

Workforce turnover rate is difficult to predict. Employers are currently more loyal to their jobs due to the dampen market but situation will change when the market regains.

ii) Job satisfaction

This is a monotonous job and we do not foresee our staffs remain more than 3 years with the organisation. Furthermore, employees would be mostly school leavers who are waiting for the exam results. Once the results are released, the school leavers would either continue working or return back to further their education. Due to the high level of employee turnover, training must be conducted on a on-going basis by experience staff or by management itself.

iii) Product market appeal

Coffee will never go out of fashion as a casual sit down drink as Malaysians have been drinking coffee for many years. The challenge is for Borneo Café to create new variety of drinks made from coffee to stay competitive in business.

iv) Timing and financial start up

Although we have planned the execution of the business according to schedule, there are several factors that might cause delay to the project. For example, funding or investment may get late approval.

v) Lead time in procurement of raw materials

Roasted coffeebeans is procured from Penang and Ipoh while the raw coffeebeans are procure from all over the world. We do not intend to maintain stock for more than 2 months period due to the lost of aroma and taste, therefore the possibility of running short of coffee is inevitable. A systematic foolproof procurement and delivery system would need to be created.

8.2 Assumptions

i) Sales projections

Sales projection was based on observation survey on consumer traffic conducted at Coffee Bean and San Francisco with the following formula:

Number of Customers Per Hour X

Total Operating Hours in a Day ✕

30 Days in a Month X

0.5 (50% factor loading as Borneo Café is still new in the market)
revenue gained,

ii) Customers orders

Based on customer orders recorded during our observation survey conducted at Coffee Bean and San Francisco coffee.

iii) Competitors

For Borneo Café, our competitors are foreign branded specialty cafes such as Coffee Bean, Starbucks, San Francisco and Gloria Jeans.

We assume the single outlet local specialty cafés as a non-competitor as these single outlets are mostly set up at housing districts and serve a small target market.