CHAPTER 10 THE FINANCIAL PLAN

10.1 Pro forma Cash Flow (Projected)

At this stage we have concluded that by itself Borneo Café is a viable investment. However, what about the operation of multiple outlets that were established in this business plan. As described earlier, this business plan will expand in the Klang Valley and to other major towns in Malaysia. What financial issues will arise from the international venture. These are two areas that we will have to deal with considering the importance of assessing the profit durability of the project. Projects of national and international levels call for extended forecast of up to 5 years minimum. With this in mind, a scenario analysis is also necessary to fend of local and international risk factors.

Again, assumptions are critical to effectively project a sensible cash flow statement for the project with multiple café operating the same time and capital investment incurred during the course of the business venture.

<u>Assumptions For the Normal Scenario Analysis with Multiple Outlets</u>

1. Projections on Sales or Revenue are accrued. The first three café will be established progressive within four months each.
2. The number of outlets to be set up are as follows:
   a. First Year three outlets in the Klang Valley
   b. Second Year six outlets in Klang Valley
   c. Third Year, six in Klang Valley with remaining there in other major cities
   d. Forth Year, nine Local café with 2 new outlets in the Klang Valley (Business District)
   e. Fifth Year, eleven Local café with 2 new outlets in the Klang Valley (Residential Area)
3. Variable cost of local and foreign outlets are 30% of Revenue.
4. A loading factor of 1.5 is assumed for foreign salary, management fee and rental costs.

5. Annual increment of 10% for operation staff salary and Management Fee
6. Rental is assumed to be stabile for the first three years but increase about 5% in the third and forth year.
7. Capital investment of a single local and foreign outlets are $M300,000 and RM 500,000, respectively.

As before, the pessimistic scenario projection was also conducted to evaluate the situation.

<u>Assumptions For the Pessimistic Scenario Analysis with Multiple Outlets</u>

8. As per items 1 to 7 above except the variable cost is at 35% of Revenue.
9. Projections on Sales or Revenue are accrued. The first three café will be established progressive within four months each.
10. Revenue is expected to be lower by 10 % of the normal scenario analysis.

10.2 Pro forma Cash Flow Analysis

From Table C and D of the Appendix, it is evident that the Borneo Café concept with multiple outlets both locally and abroad can generate positive cash flow even under pessimistic condition. With the current economic out look that is expected to improve, we are optimistic that the projected cash flow can be realised. A summary of the financial highlights for the cash flow projection is as presented below for both the normal and pessimistic scenario with multiple outlets:

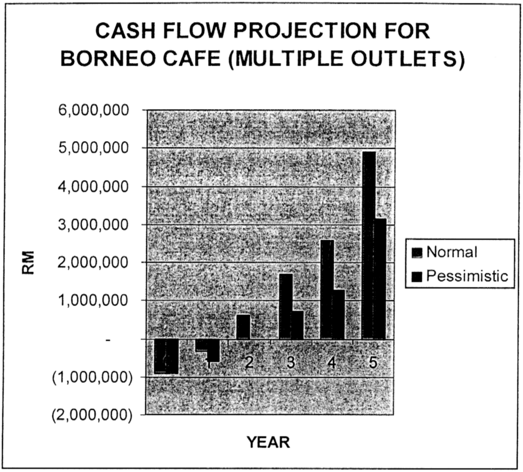
Table 10.1 Financial highlights

Scenario	NPV (RM)	IRR (%)
Normal	3,730,863.60	75
Pessimistic	736,071.01	36

We do not expect the pessimistic scenario to materialise as the local economic outlook is expected to improve in the long term.

The forecasted Free Cash Flow are also shown in the graph below:

FIGURE 9 CASH FLOW PROJECTION



10.3 Breakeven Point

It is not practical to compute the breakeven point for the multiple local and foreign outlets as all the outlets will be of going concern. Calculation for the entire operation will not be logical. However, the original calculation using a single outlet is deemed suitable to assess the breakeven point (or the payback period). On the pessimistic note the anticipated payback period is 18 months.

10.4 Cost control

Cost control for our establishment will be conducted by continuous sourcing of quality coffee beans from supplies with the most competitive price. However, in order to avoid degradation of the quality of our product specific quality of beans is necessary and supplies must be able to meet such demands to qualify as a supplier.

In order to avoid over paying for a certain type of bean, the Internet shall be used to source and gather information on the coffee beans all over the world. Upon selection of the quality of bean from different suppliers, careful scrutiny of the supply, packaging, shelve life and price shall be conducted. Finally, a supplier will be selected based on the following criteria:

1. Quality of Beans to meet requirements and taste.
2. Packaging. Supplier that offers vacuum package for longer storage life is preferred.
3. Price. Although rated third, we feel that the quality of beans in the freshness of coffee bean is more critical as coffee is out main product.
4. Credit facilities. Longer credit terms by supplier alleviate the cost of capital hence reducing the overall cost of goods sold.
5. In order to address issues earlier, half-yearly management report shall be prepared to account for the operational cost and revenue of each outlet. Branch managers shall be required to act promptly to arrest issues arising such as irregular increase in COGS and drop of sales volume.
6. Extra Ordinary Expenses. In order to avoid over indulgence on the part of directors when the company is making profit, the Article of Association shall include an

article to restrict all extra-ordinary expenses. A 3/4 majority of those present and voting must be available to pass a extra-ordinary expenses.

Daily prudent operation philosophy of the café is critical to the profitability of the business. Employees shall be trained to avoid excessive wastage consumables such as coffee beans, creamer, sugar etc. by means of using pre-calibrated utensils.