

Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics



Bachelor Thesis Abstract

Feasibility Study of Cafe in Prague

Author: **Josef Jilemický**

Summary

This bachelor thesis deals with the feasibility study of a cafe in Prague. The aim of this work is to summarize all requirements needed for the foundation of one's own cafe business. This thesis is divided into two parts. The first part is represented by a theoretical background, which is devoted to be a source for an analytical part. It describes marketing mix and marketing trends. Additionally, vision statement and SWOT analysis are covered, along with financial forecasting. The analytical part is dedicated to the research about setting up a new cafe in Prague. First of all, the vision of the company is presented along with fundamental information such as management of the company, location or potential customers. Later on, SWOT analysis concerning internal and external factors is conducted. Finally, required financial forecasts as well as profit and loss statement are calculated.

Key words: feasibility, financial analysis, marketing, cafe, business plan

Introduction

Coffee is the second most widely used product in the world after oil. Technically, there is no way how the world could survive and develop without having oil. But could it survive without coffee? This commodity represents one of the major parts of the world's economy. Additionally, it employs over one hundred million people around the world. Nowadays, lots of people do not realize the importance of coffee in their everyday life since almost no one can imagine a day without a cup of coffee. For some, this cup of coffee may represent an opportunity to meet their friends or businesses partners. On the other hand, this so-called drug may represent a break in this fast moving world for others. To all appearances, a cafe is a place where all of this can be realized.

The first part of the thesis is literature review, which serves as a background for the analytical part. The beginning is dedicated to marketing, especially to 4P's and 4C's of marketing mix. Additionally, marketing trends such as social media, viral marketing, E-wallet and sampling are discussed. Later on, vision statement and SWOT analysis are explained. Finally, financial forecasting methods including cash flow, key performance indicators, break-even point and profit and loss statement are described. Moreover, business expenses are included.

The analytical part is devoted to the creations of Gizmo's Cafe at Chodov shopping mall. It starts with general information about Gizmo's company, about its objectives and about

its vision statement which is *to create a perfect place admired in our industry where our partners and customers will connect with each other and where they will enjoy our excellent service and the best quality products they can always rely on.* The second chapter recommends ideal management structure, followed by chapter calculating cost of labor and cost of sales. The last type of costs, represented by fixed costs is introduced and calculated in the upcoming chapter. In addition to those calculations, concrete marketing strategies such as social media marketing and sampling are presented. Considering internal strengths with weaknesses and external opportunities with threats, the SWOT analysis is crucial and the next part focuses on it. The last but not least chapter of this thesis analyses financial procedures including calculation of break-even point and profit and loss statement.

Objectives Methodology

The aim of this thesis is to describe all requirements when starting a new cafe business. In order to do a proper market research, quantitative observation methodology has been used to collect required data for analysis of purchasing behavior of customers in competitors' stores. This observation has been conducted for one week during the peak times of different competitors in the shopping mall Chodov. In addition to this, a couple of mystery shoppers have been used to collect further information about competitors' communication with customers, up-selling of products and generally overall atmosphere.

Theoretical background is done using methods of synthesis, abstraction, extraction, deduction and induction. Due to the fact, that all data used for financial analysis, including calculations of cost of sales, cost of labor, fixed costs and other variable costs are predictions, methodology consists only of financial forecasting methods and calculations. According to these facts, break-even point analyses and profit and loss statement have been conducted. The qualitative research is represented by SWOT analysis. It examines the Strengths, Opportunities, Weaknesses and Threats of a company.

Conclusion

The aim of this bachelor thesis was to reveal the most important steps needed for creation of a new company. The literature review provided information about marketing tools and financial forecasting. Not a long time ago, a 4P's marketing focusing only on the way to sell a specific product to any customer, was the most popular marketing tool used in businesses. Recently, the situation has changed and 4C's marketing mix has become more preferred due to the change of orientation from product to customer. This fact was taken into consideration when thinking

about the creation of Gizmo's. The strategy of this company will be aimed at attracting potential customers' attention along with maintaining loyalty of existing customers. This will be done by creating profiles of the company on social sites such as Facebook and Twitter. There will be a communication with customers concerning their daily life, employees' daily life behind the bar and special daily menus offered to those customers. Although a communication through these social sites is crucial nowadays, it is important to be in personal touch with customers, as well. Therefore, Gizmo's Cafe decided to arrange regular samplings, where a customer can try out core beverages including coffee latte, cappuccino, latte macchiato and coffee americano. Moreover, not only beverages but even desserts will be sampled.

When establishing a company one must think about a vision statement which explains what a company wants to become, how it wants to be perceived by others and its future plans. The vision statement of the Gizmo's is *to create a perfect place admired in our industry where our partners and customers will connect with each other and where they will enjoy our excellent service and the best quality products they can always rely on*. To achieve this, Gizmo's Cafe will focus on providing legendary service along with the best quality products including beverages and desserts that will be updated according to the season of the year.

Last but not least, financial calculations required for further development of the company are done, such as profit and loss statement or break-even point, which was calculated with expected average guest check 110 CZK and the result was 10,024 transactions per month needed to reach the break-even point. However, 10,024 transactions per month means an average of 335 transactions per day, which is highly achievable. In order to get the retained earnings, cost of labor, cost of sales, fixed costs, other expenses, interests and taxes have to be subtracted from projected sales of 700,000 CZK. Retained earnings after necessary calculation were 38,624 CZK which means 5.5%.

To conclude the purpose of the thesis, one should consider all the aspects that may influence the proper running of the business. Those aspects are marketing strategy, advertising, vision statement and internal with external analyses. One should also calculate expected cost of sales, cost of labor and fixed-costs along with other expenses to retain earnings.

References

Dineshbakshi.com, (2015). *4C's of Marketing*. [online] Available at: <http://www.dineshbakshi.com/as-a-level-business-studies/marketing-management/102-revision-notes/1242-4cs-of-marketing>.

Economics.fundamentalfinance.com, (2015). *Variable Cost & Fixed Cost - Economics*. [online] Available at: http://economics.fundamentalfinance.com/micro_costs.php.

Kotler, P. (1997). *Marketing management*. Upper Saddle River, NJ: Prentice Hall.

Smallbusiness.wa.gov.au, (2015). *Financial Forecasts*. [online] Available at: <http://www.smallbusiness.wa.gov.au/business-topics/money-tax-and-legal/money-matters/financial-forecasts/>.