

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Business Plan for a Cafe in Prague**

**Yulia Absatarova**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Yulia Absatarova

Economics and Management

Thesis title

**Business plan for a cafe in Prague**

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### Objectives of thesis

The main goal is to create and critically evaluate a real business plan for the establishment a Coffee house in Prague with regard to administrative, legal, social and business requirements. In order for the main goal could be achieved, bachelor thesis directs on following basic moments:

- Conducting market research;
- Explanation the essence and structure of business planning;
- Preparation the business plan and analysis its structure;
- Demonstration of financial analysis required for operation of business in term of 3 years;
- To evaluate the effectiveness of the project and analyse its sensitivity.

The aim is to be the most preferred coffee house for Prague city among the office staff, students and tourists who visit the city, providing a higher service than any other competitor. As a result, author intends to create a coffee house that will quickly reach profitability and with stand an attractive rate of return (20% or more) for investors.

### Methodology

To achieve the objectives of this bachelor work will be used basic strategic planning tools: Marketing Mix, SWOT-analysis, PEST-analysis, statistical analysis, competitive analysis and financial analysis.

Marketing Mix usually refers to E. Jerome McCarthy's four P classification for developing an effective marketing strategy: product, price, placement, or distribution, and promotion. When it is a consumer-centric marketing mix, it is extended to include three more Ps: people, process and physical evidence, and three Cs: cost, consumer and competitor. Depending on the industry and the target of the marketing plan, marketing managers may take various approaches to each of the four Ps.

SWOT analysis aims to identify the key internal (these are within one's control and can be altered as per the requirement) and external (these usually cannot be controlled) factors seen as important to achieving an

objective. SWOT analysis is an acronym for strengths and weaknesses (internal environment) opportunities and threats (external environment) and is a structured planning method that evaluates those four elements of an organization, project or business venture.

- Strengths: characteristics of the business or project that give it an advantage over others;
- Weaknesses: characteristics of the business that place the business or project at a disadvantage relative to others;
- Opportunities: elements in the environment that the business or project could exploit to its advantage;
- Threats: elements in the environment that could cause trouble for the business or project.

PEST analysis (political, economic, social and technological) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is part of an external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration. It is a strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Statistical analysis involves collecting and scrutinizing every data sample in a set of items from which samples can be drawn. A sample, in statistics, is a representative selection drawn from a total population. In this work, statistical analysis are used for analysis the European Market Services (Personal Services) rendered to population, as well as to analyze the impact of the market on the activities of the planned for opening a Coffee house in Prague.

Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. It uses Michael Porter's famous Five Forces of Competitive Position model, which provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization. The five forces that Porter suggests drive competition are:

1. Existing competitive rivalry between suppliers (In markets with lots of rivals, your suppliers and buyers can go elsewhere if they feel that they're not getting a good deal from you);
2. Threat of new market entrants (Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry);
3. Bargaining power of buyers (is described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes);
4. Power of suppliers (is described as the market of inputs. Suppliers of raw materials, components, labor, and services to the firm can be a source of power over the firm when there are few substitutes);
5. Threat of substitute products, including technology change (The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives).

Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability.

In this bachelor thesis, the financial analysis is used to determine the total amount of the project, to calculate the payback period of the project, Net Present value (NPV) and to decide whether an entity is stable, solvent, and profitable enough to warrant a monetary investment.

Author uses the following formulas:

- $NPV = - \text{investment} + CF_1/(1+k) + CF_2/(1+k)^2 + CF_t/(1+k)^t$

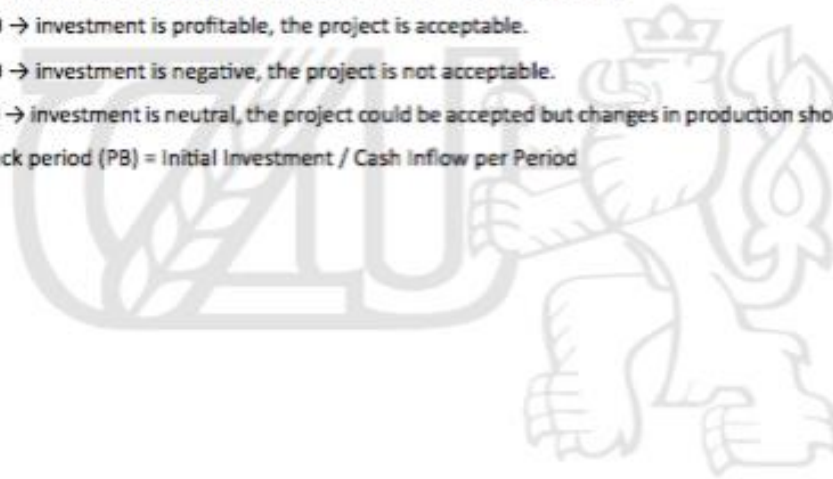
Using the company's cost of capital (  $k$  ), the net present value (NPV) is the sum of the discounted cash flows (  $CF$  ) minus the original investment. There are 3 possible results:

$NPV > 0 \rightarrow$  investment is profitable, the project is acceptable.

$NPV < 0 \rightarrow$  investment is negative, the project is not acceptable.

$NPV = 0 \rightarrow$  investment is neutral, the project could be accepted but changes in production should be made.

- $\text{Payback period (PB)} = \text{Initial Investment} / \text{Cash Inflow per Period}$



**The proposed extent of the thesis**

40

**Keywords**

Coffee shop, Business Plan, Financial Plan, SWOT analysis, PEST analysis, Competitive analysis.

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**Recommended information sources**

"Fundamentals of strategic management" Jose Emilio Navas Lopez; "Principles of Managerial Finance" Lawrence J. Gitman; Osita, Christian; Onyebuchi, Idoko; Justina, Nzekwe (31 January 2014).  
"Organization's stability and productivity: the role of SWOT analysis"; "Anatomy of a business plan" Linda Pinson; "Cafe Society" (2014) Aksel Tjora and Graham Scambler

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## **Declaration**

I declare that I have worked on my bachelor thesis titled " Business plan for a cafe in Prague" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 15<sup>th</sup> of March 2018

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Absatarova Yulia

## **Acknowledgement**

I would like to thank my supervisor Ing. Petr Prochazka, Ph.D., MSc for his time, instructions and advice that were very helpful and essential during writing of this thesis.

# Podnikatelský Plán pro Kavárnu v Praze

## Souhrn

Tato bakalářská práce se zabývá vytvořením a představením podnikatelského plánu při příležitosti založení nové kavárny v Praze. Práce je rozdělena do dvou částí. První teoretická část popisuje obecnou strukturu podnikatelského plánu, analyzuje trendy v oblasti obchodu s potravinami a nápoji v Evropě, zároveň popisuje základní koncepce vztahující se k podnikům v této oblasti a popisuje právní formy podnikání v České republice. Praktická část se zabývá zpracováním konkrétního podnikatelského plánu na zřízení a provoz kavárny na časový horizont 3 let. Práce zároveň obsahuje podrobný popis potřebných materiálů a přehled finančních nákladů pomocí výpočtů a prognózy zisku.

**Klíčová slova:** Kavárna, Podnikatelský plán, Finanční plán, SWOT analýza, PEST analýza, Konkurenční analýza.



# **Business Plan for a Cafe in Prague**

## **Summary**

This bachelor thesis is focused on creating and introducing the business plan for the establishment a new Coffee house in Prague. The work is divided into two parts. The first theoretical part describes the general structure of the business plan, analyzes trends in food and beverage business in Europe as well as basic concepts related to enterprises in this sphere and describes legal forms of business in the Czech Republic. The practical part focuses on the processing of a specific business plan for the establishment and operation of a Coffee house in term of 3 years. There is a detailed description of materials needed, and from the financial point of view: calculations, forecast of profit.

**Keywords:** Coffee shop, Business Plan, Financial Plan, SWOT analysis, PEST analysis, Competitive analysis.

# Table of Content

1. Introduction .....	12
2. Objectives and Methodology.....	13
2.1 Objectives .....	13
2.2 Methodology.....	13
3. Theoretical Part .....	17
3.1 Business Plan.....	17
3.1.1 Essence and Functions of Business Plan.....	17
3.1.2 Business Plan Structure.....	18
3.2 Trends in Food and Beverage Business in Europe .....	19
3.2.1 Coffee Market in Europe.....	23
3.3 Legal Forms of Business .....	30
3.3.1 The legal basis of entrepreneurial activity in Czech Republic .....	30
3.3.2 Registration of companies in Czech Republic .....	32
3.3.3 Taxation in Czech Republic .....	33
4. Practical Part .....	36
4.1 Structure of a Business Plan .....	36
4.1.1 Summary.....	36
4.1.2 Company Description.....	37
4.1.3 Internal Planning .....	37
4.1.4 Financial Planning.....	41
4.1.5 Risks .....	43
4.2 Business Environment Analysis .....	45
4.2.1 PEST Analysis .....	45
4.2.2 Competitive Analysis .....	49
4.2.3 SWOT Analysis .....	51
5. Conclusion .....	54
6. References.....	55

## List of Figures

Figure 1: Food and drink industry indicators.....	19
Figure 2: SMEs in the EU food and drink industry .....	20
Figure 3: Production in the EU manufacturing industry .....	20
Figure 4: Food innovation in Europe .....	21
Figure 5: Ranking of EU food companies by global sales Source: FoodDrinkEurope report (2017) .....	22
Figure 6: Coffee producing countries.....	23
Figure 7: Imports per type of coffee.....	24
Figure 8: Monthly average price of coffee .....	25
Figure 9: Total coffee stocks per port .....	25
Figure 10: Import of not decaffeinated coffee into EU .....	26
Figure 11: Import statistics for Czech Republic .....	27
Figure 12: Average sales price for coffee beans .....	27
Figure 13: Coffee consumption per capita.....	29
Figure 14: Tax rates from personal income .....	33
Figure 15: Social security contributions .....	35
Figure 16: Unemployment rate in Czech Republic .....	47
Figure 17: Annual inflation rate in Czech Republic .....	47
Figure 18: Population in Prague.....	48
Figure 19: Czech Republic average monthly wages in czk .....	48
Figure 20: Porter’s Five Forces Analysis .....	49

## List of Tables

Table 1: Czech VAT Rates .....	34
Table 2: Initial investment .....	41
Table 3: Estimation of the key financial indicators .....	41
Table 4: Income Statement .....	43
Table 5: Pest analysis .....	45
Table 6: SWOT analysis.....	51

## **1. Introduction**

Bachelor thesis is focused on creating the business plan for the establishment a new Coffee house in Prague, which will be built on traditional Brazilian coffee, fresh and seasonal ingredients, and a comfortable seating area. Sticking to a coffee house should be excellent coffee and professional staff.

Coffee house - a small institution that belongs to the public catering enterprises, but is distinguished from them by a specific assortment. In addition to the obligatory coffee - the main character of the coffee house, confectionery products are usually presented among the assortment, successfully harmonizing with the taste of the coffee drink. If the institution is organized according to the format of fast food, several variants of second courses, salads and cold snacks can be offered in it.

To date, the coffee business is developing at a good pace. Over the past 20 years, there has not been a single year in which coffee sales have not grown. There is no network of coffee houses, realizing a quality product, which has been closed during this time, although in other industries there were already quite a few closed companies.

Usually the best business for you is not only to make money, but also to enjoy the process of labour and take pleasure from it. It should be the field in which you are most interested in, or the one you already have skills for. If your skills match the aptitude of the local market, your chances of success will increase.

This study as will be seen in the subsequent practical parts seeks to find out if it will be profitable to run a business developing in conditions of intense competition.

The work is divided into two parts. The first theoretical part describes the general structure of the business plan, the basic concepts related to enterprises in the sphere of food and beverage services and legal forms of business in the Czech Republic. The practical part focuses on the processing of a specific business plan for the establishment and operation of a Coffee house.

## **2. Objectives and Methodology**

### **2.1 Objectives**

The main goal is to create and critically evaluate a real business plan for the establishment a Coffee house in Prague with regard to administrative, legal, social and business requirements. In order for the main goal could be achieved, bachelor thesis directs on following basic moments:

- Conducting market research;
- Explanation the essence and structure of business planning;
- Preparation the business plan and analysis its structure;
- Demonstration of financial analysis required for operation of business in term of 3 years;
- To evaluate the effectiveness of the project and analyse its sensitivity.

The aim is to be the most preferred coffee house for Prague city among the office staff, students and tourists who visit the city, providing a higher service than any other competitor. As a result, author intends to create a coffee house that will quickly reach profitability and with stand an attractive rate of return (20% or more) for investors.

### **2.2 Methodology**

To achieve the objectives of this bachelor work will be used basic strategic planning tools: Marketing Mix, SWOT-analysis, PEST-analysis, statistical analysis, competitive analysis and financial analysis.

“ Marketing Mix usually refers to E. Jerome McCarthy's four P classification for developing an effective marketing strategy: product, price, placement, or distribution, and promotion.”<sup>1</sup> When it is a consumer-centric marketing mix, it is extended to include three more Ps: people, process and physical evidence, and three Cs: cost, consumer and

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<sup>1</sup> Marketing Mix. [online]. [cit.2017]. Available from: <https://www.investopedia.com/terms/m/marketing-mix.asp>

competitor. Depending on the industry and the target of the marketing plan, marketing managers may take various approaches to each of the four Ps.

“SWOT analysis aims to identify the key internal (these are within one’s control and can be altered as per the requirement) and external (these usually cannot be controlled) factors seen as important to achieving an objective. SWOT analysis is an acronym for strengths and weaknesses (internal environment) opportunities and threats (external environment) and is a structured planning method that evaluates those four elements of an organization, project or business venture.”<sup>2</sup>

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<sup>2</sup> Jose Emilio Navas Lopez. (2013). Fundamentals of strategic management. (pp 137-138).

<sup>3</sup> Pest Market Analysis Tool. [online]. [cit.2017]. Available from: [https://en.wikipedia.org/wiki/PEST\\_analysis](https://en.wikipedia.org/wiki/PEST_analysis)

<sup>4</sup> Statistical analysis. [online]. [cit.2017]. Available from: <https://www.a1fidelity.com/services/statistical-sampling-and-analysis>

“Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. It uses Michael Porter's famous Five Forces of Competitive Position model, which provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization. The five forces that Porter suggests drive competition are:

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In this bachelor thesis, the financial analysis is used to determine the total amount of the project, to calculate the payback period of the project, Net Present value (NPV) and to decide whether an entity is stable, solvent, and profitable enough to warrant a monetary investment.

Author uses the following formulas:

- “ $NPV = - \text{investment} + \frac{CF_1}{(1+k)} + \frac{CF_2}{(1+k)^2} + \frac{CF_t}{(1+k)^t}$ ”

Using the company's cost of capital ( k ), the net present value (NPV) is the sum of the discounted cash flows ( CF ) minus the original investment.”<sup>7</sup> There are 3 possible results:

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<sup>5</sup> Jose Emilio Navas Lopez. (2013). Fundamentals of strategic management.(pp 95-101).

<sup>6</sup> Financial analysis. [online]. [cit.2017]. Available from: <https://www.investopedia.com/terms/f/financial-analysis.asp>

<sup>7</sup> Net Present Value. [online]. [cit.2017]. Available from: <https://www.investopedia.com/terms/n/npv.asp>

$NPV > 0 \rightarrow$  investment is profitable, the project is acceptable.

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$NPV = 0 \rightarrow$  investment is neutral, the project could be accepted but changes in production should be made.

- Payback period (PB) = Initial Investment / Cash Inflow per Period



### **3. Theoretical Part**

#### **3.1 Business Plan**

##### **3.1.1 Essence and Functions of Business Plan**

“Why Do You Need a Business Plan?”

The success of your business depends on carefully written business plan! One of the principal reasons for business failure is lack of planning.

"The business that fails to plan, plans to fail."”<sup>8</sup>

A business plan is a plan for the implementation of business operations, actions of the firm, containing information about the firm, the product, its production, sales markets, marketing, organization of operations and their effectiveness.

A business plan is the result of research and organizational work aimed at studying the specific direction of the firm (product or services) activity in a certain market in the current organizational and economic conditions. It relies on:

- “1. a specific project for the provision of new services (features of meeting needs, etc.);
2. Comprehensive analysis of production, business and commercial activities, the purpose of which is to identify its strengths and weaknesses, specifics and differences from other similar firms;
3. Study of specific financial, technical and economic and organizational mechanisms used in the economy for the implementation of specific tasks.

There are two forms of business planning for the firm:

1. planning the company's activity in the market;
2. Internal planning.

As a rule, these aspects of planning are interrelated.

The business plan performs the following main functions:

- It is a tool by which an organization can forecast and evaluate the actual results of an activity for a certain period;
- It is a tool for evaluate the company's financial position and compliance with the financial and material resources, the possibility of achieving their goals, etc.

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<sup>8</sup> Linda Pinson. (1987). Anatomy of a business plan. (p. 22)

- It is a tool for justifying the effectiveness of investments;
- It is a tool for implementing the enterprise strategy.”<sup>9</sup>

### **3.1.2 Business Plan Structure**

There is no rigid regulated form and structure of the business plan. Structure and composition depend on the essence of what the company will do: an investment project (leasing operations) or activity planning when creating or a business plan for the implementation of one of the company's projects with the attraction of borrowed funds. However, there are the main sections of the business plan that contain information aimed at realizing the goals of business planning:

“

1. an introductory part (summary);
2. a substantive section (description, essence of the project);
3. sections of internal planning (activities and structure of the company, marketing, department planning and personnel, technology, turnover, etc.)
4. financial-analytical section (planning of financial indicators, their analysis and evaluation);
5. risk assessment of the business plan. “<sup>10</sup>

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<sup>9</sup> Linda Pinson. (1987). Anatomy of a business plan.(pp. 23-24)

<sup>10</sup> Linda Pinson. (1987). Anatomy of a business plan.(p. 25)

## 3.2 Trends in Food and Beverage Business in Europe

Europe's food and drink industry is the largest manufacturing sector in terms of turnover, value added and employment.

Its contribution to Europe's economy is crucial: 4.25 million employees throughout the EU, over €1 trillion turnover and a positive trade balance of €25 billion.

The food and drink industry also accounts for more than 285,000 SMEs that generate almost 50% of the food and drink industry turnover and value added and provide 2/3 of the employment of the sector.

**Figure 1: Food and drink industry indicators**

Food and drink industry data as published by FoodDrinkEurope National Federations<sup>1</sup> (2014)

	Employment ranking in manufacturing	Turnover (€ billion)	Value added (€ billion)	Number of employees (1,000)	Number of companies
Austria	-	22	5.1	82.6	3,872
Belgium	1	48	7.6	88.5	4,532
Bulgaria	2	4.9	0.9	94.7	5,963
Croatia <sup>2</sup>	1	5.1	4.7	37.7	2,970
Czech Republic	4	11.6	1.9	92.4	7,538
Denmark	2	25.8	4.3	44.8	1,589
Estonia	2	1.9	0.4	15.1	525
Finland <sup>2</sup>	3	11.2	2.7	38	1,700
France	1	184.5	36.2	619.5	62,225
Germany <sup>3</sup>	3	172.2	35.2	559.8	5,828
Greece <sup>4</sup>	1	14.5	2	86.4	1,330
Hungary	2	11.2	1.9	99.8	6,700
Ireland <sup>5</sup>	1	26.4	7.1	39.2	607
Italy	3	132	27	385	54,931
Latvia	1	1.8	0.4	25.8	1,003
Lithuania	1	4.2	0.7	42.5	1,601
Netherlands	1	68.8	10.9	126.3	5,639
Poland	1	49.5	10.6	423.8	14,625
Portugal	1	14.9	2.7	104.3	10,807
Romania	1	11.1	-	178.9	8,798
Slovakia <sup>3</sup>	3	3.8	0.7	28.1	268
Slovenia	3	2.2	0.5	16	2,160
Spain	1	93.4	28	479.8	28,343
Sweden	4	18.4	4.3	54	3,965
United Kingdom	1	120.9	33.4	415	6,360

<sup>1</sup> Or by Eurostat (SBS)

<sup>2</sup> 2015 data except for turnover

<sup>3</sup> Companies with more than 20 employees

<sup>4</sup> Small food and drink producers excluded

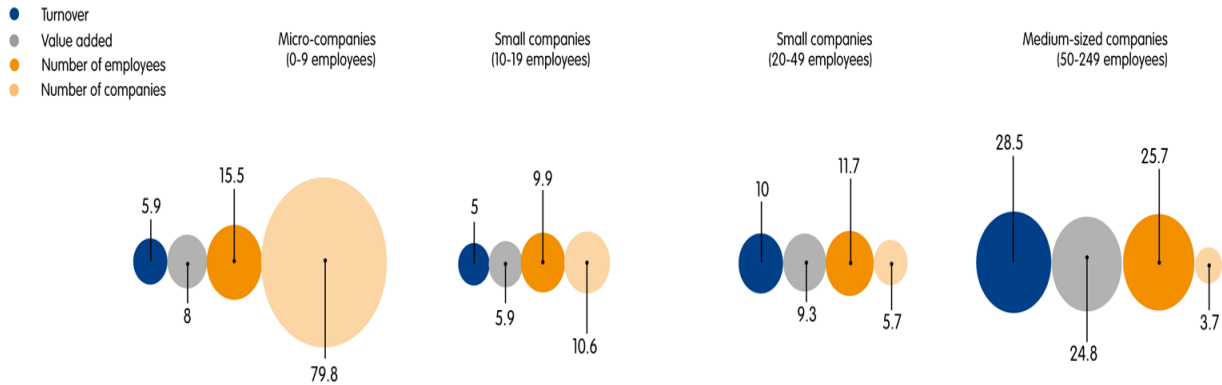
<sup>5</sup> 2012 data

Source: FoodDrinkEurope report

Figure 1 above illustrates turnover, value added, average number of employees and number of companies in the sector of food and beverages in the European Union (of each country). It is possible to see that Germany, France, Italy, the UK and Spain are the largest EU food and drink producers by turnover. The industry is an essential part of national economies. The share of the food and drink industry employment exceeds 15% in more than half of the Member States.

The food and drink industry is a highly diversified sector with many companies of different sizes.

**Figure 2: SMEs in the EU food and drink industry**  
**SMEs in the EU food and drink industry (2013,% by company size)**



Source: FoodDrinkEurope report

From Figure 2 is possible to see the statistics related to small and medium enterprises involved in the field of food and beverages in the European Union. It shows that SMEs account for over 50% of the total of the food and drink sector, and provide almost 50% of the sector’s value added. They employ almost 60% of the sector’s employees. Also it is necessary to emphasize that the number of micro-companies employing about 10 persons is very high, reaches 79% of the total number of companies of EU market. This determines the high role of SMEs in the development of the European food and beverages industry.

**Figure 3: Production in the EU manufacturing industry**  
**Production in the EU manufacturing industry (% change relative to the first quarter of 2008)**

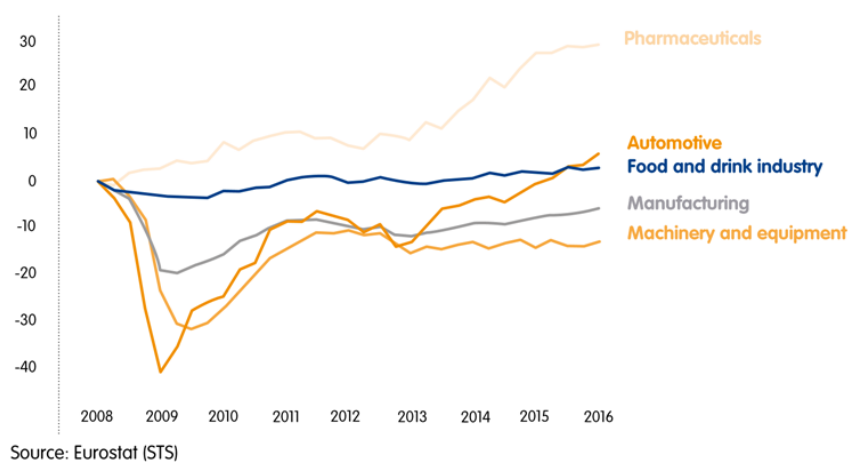


Figure 3 shows that the level of production in the European food and drink industry has no pronounced positive or negative changes, compared to other industry sectors of the EU. It means that this market sector has constant production parameters, and the market is not

susceptible to some negative external threats. This can be explained by the fact that food products represent the primary needs of any person, and therefore they are purchased at all times, regardless of the economic situation in any particular country. However, the fact that there is no increase in the level of production rather testifies that the level of consumption on the European Union's domestic market is rather limited, which can be explained by the ageing of the population, and the overall lack of its growth, due to which the quantitative needs of the population remain generally unchanged.

**Figure 4: Food innovation in Europe**

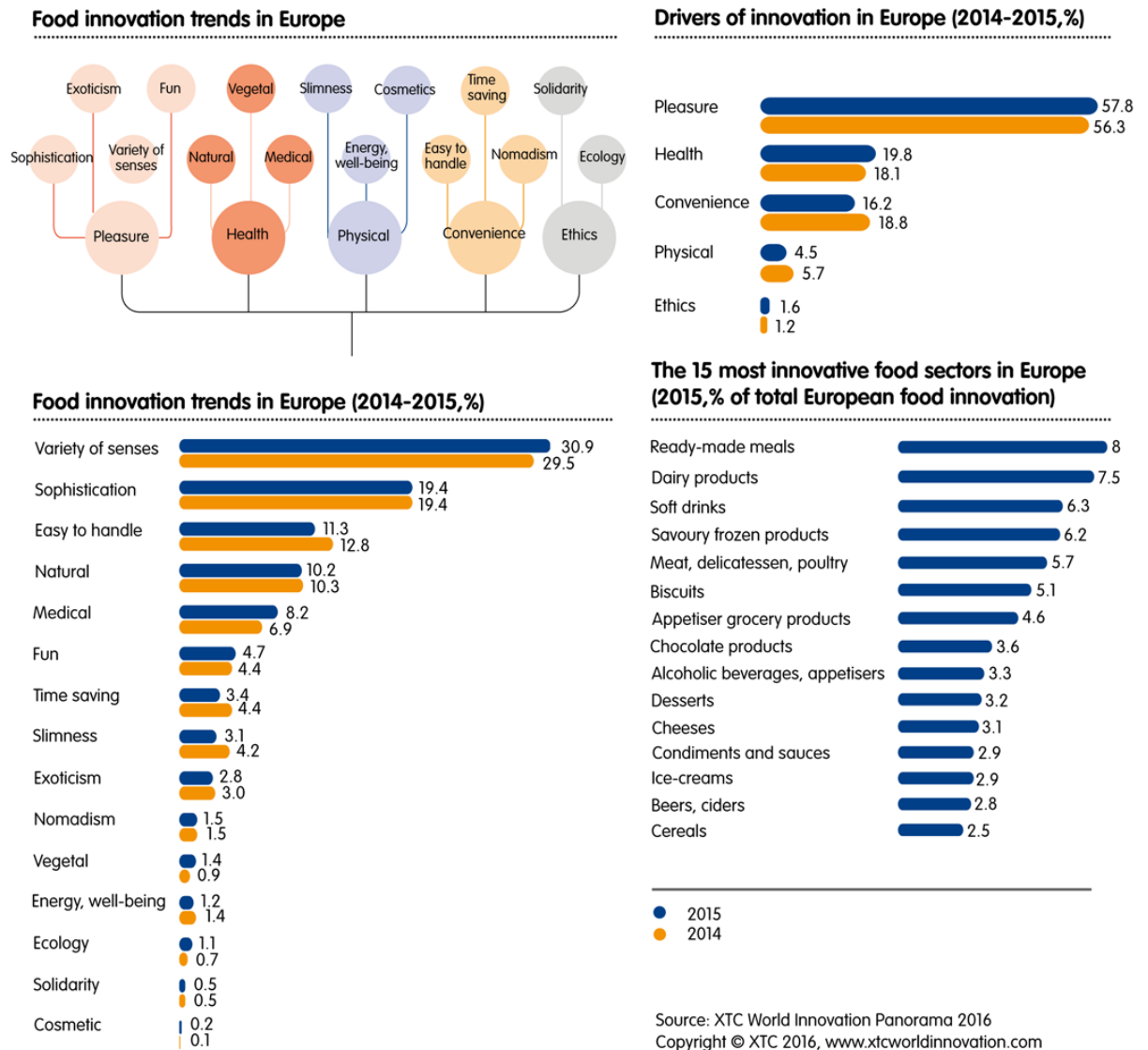


Figure 4 provides an information about drivers of innovation, which can be divided into 15 trends, grouped along five axes, corresponding to general consumer expectations: pleasure, health, physical, convenience and ethics. Pleasure, including variety of senses and sophistication, is by far the leading axis with a 58% share in 2015. Ready-made meals are

leaders in innovation in 2015, pushing soft drinks to third place. Dairy products stay at the second place.

**Figure 5: Ranking of EU food companies by global sales**

**Ranking of EU<sup>2</sup> agri-food companies by global food and drink sales<sup>1</sup>**

Name	Headquarters	Sales (€ billion) <sup>3</sup>	Main sectors
Nestlé <sup>4</sup>	CH	82,66	multi-product
AB InBev	BE	39,16	beer
Unilever	NL/UK	23,00	multi-product
Danone	FR	22,41	dairy, water, baby & medical nutrition
Heineken	NL	20,51	beer
Lactalis	FR	16,50	dairy
Diageo	UK	14,12	alcoholic beverages
FrieslandCampina	NL	11,27	dairy
Arla Foods	DK	10,26	dairy
Ferrero	IT	9,54	confectionery
Carlsberg	DK	8,76	beer
Pernod Ricard	FR	8,56	alcoholic beverages
Associated British Foods	UK	8,39	sugar, starch, prepared foods
Danish Crown	DK	7,99	meat
DSM	NL	7,72	multi-product
Agrokor	HR	6,49	multi-product
Parmalat	IT	6,42	dairy, fruit beverages
Kerry Group	IE	6,10	multi-product
Südzucker	DE	5,73	sugar, multi-product
Barry Callebaut <sup>4</sup>	CH	5,60	chocolate
Oetker Group	DE	5,11	multi-product
Vion	NL	4,57	meat, ingredients
LVMH	FR	4,60	multi-product
Savencia	FR	4,44	dairy
Tereos	FR	4,20	sugar, multi-product
Glanbia	IE	3,67	dairy, ingredients
Barilla	IT	3,38	pasta, bakery
Tate & Lyle	UK	3,23	multi-product

<sup>1</sup> Based on the most recent complete fiscal year  
<sup>2</sup> Headquarters in the EU  
<sup>3</sup> Figures have been converted to Euro with ECB bilateral annual exchange rates series, but only figures in the original currency are relevant  
<sup>4</sup> Switzerland

**Source: FoodDrinkEurope report (2017)**

Figure above shows an overview of the key food and drink companies running their activities on the European Union's market in terms of their sales. The first position is held by the Swiss corporation Nestle which produces the widest range of food and beverages. The second place is held by the Belgian beer production company Anheuser-Busch InBev. The third position is held by the Dutch/British multi-product corporation Unilever. Other prominent companies of the European food and drink industry include the French group Danone, Dutch beer producer Heineken, British beer producer SABMiller, French manufacturer of dairy products Lactalis, and so on. It is important to emphasize that all major corporations of the European Union's food and drink market are incorporated in developed Western European states, and none of the top corporations have their headquarter in Central, East or Southern Europe. This highlights the current market conjuncture in this sector, and the predominance of major Western European transnational corporations.

### 3.2.1 Coffee Market in Europe

The coffee market is one of the segments of the market of food and beverages.

Europe holds the largest share in the global coffee market. This region is segmented into the United Kingdom, Germany, Spain, Russia and others. Further, the United Kingdom and Germany holds a major share in the coffee market. Moreover, development of the coffee sectors in these countries is driving the market. Coffee is one of the most popular hot beverages in Europe and an important commodity worldwide. This is grown in more than 50 countries around the world; however, most of the coffee is grown along the equator. Two types of coffee dominate commercial production: Arabica (Coffee Arabica) and Robusta (Coffee Canephora). (Europe Coffee Market - Growth, Trends and Forecast 2017 - 2022).

The Hot Drinks market segment, "Coffee" consists of caffeinated and decaffeinated coffee in the form of ground coffee and whole beans. The market for coffee is structured into off-trade sales (in stores) and on-trade sales (in coffee shops etc.). The market segment "Coffee" is split into the following segments:

- Roast Coffee - segment that contains caffeinated and decaffeinated roasted coffees in the form of ground coffee and coffee beans.
- Instant Coffee – segment, that contains soluble coffee products, both standard and speciality (e.g. cappuccino) designed to be mixed with hot water.

Distribution of green coffee imports by types of coffee is based on the following grouping of coffee producing countries applied by the International Coffee Organization:

**Figure 6: Coffee producing countries**

Arabicas			Robustas
Colombian Milds	Other Milds	Brazilian Naturals	
Colombia	Bolivia	Brazil	Angola
Kenya	Burundi	Ethiopia	Benin
Tanzania	Costa Rica	Paraguay	Cameroon
	Cuba		Central African Rep.
	Dominican Republic		Congo
	Ecuador		Congo Democratic Rep.
	El Salvador		Cote d'Ivoire
	Guatemala		Equatorial Guinea
	Haiti		Gabon
	Honduras		Ghana
	India		Guinea
	Jamaica		Indonesia

Malawi	Liberia
Mexico	Madagascar
Nicaragua	Nigeria
Panama	Philippines
Papua New Guinea	Sierra Leone
Peru	Sri Lanka
Rwanda	Thailand
Timor-Leste	Togo
Venezuela	Trinidad and Tobago
Zambia	Uganda
Zimbabwe	Vietnam

Source: European Coffee Report 2016/17

Figure 7: Imports per type of coffee

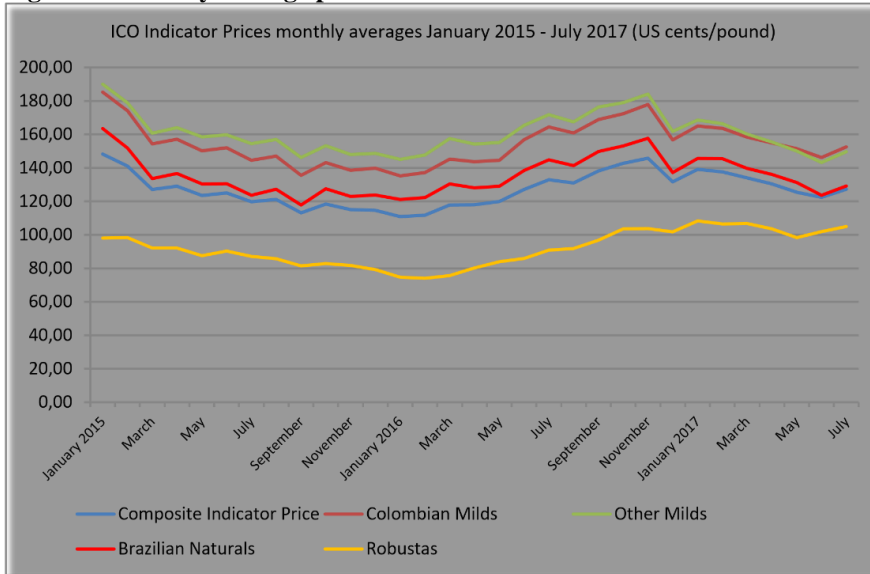
EU28 imports per type of coffee - in % -		
	2015	2016
Arabicas	65,2	63,9
Brazilian Naturals	36,2	33,8
Colombian Milds	8,3	8,5
Other Milds	20,7	21,6
Robustas	34,6	36,0
Other/Unknown	0,2	0,1
<b>Total</b>	<b>100</b>	<b>100</b>

Source: European Coffee Report 2016/17

Figure 7 above shows the structure of the European coffee imports by types of coffee. The greatest share in imports belongs to arabicas 63,9%, while robustas only accounted for 36% of the European Union's total imports in 2016. At the same time, there are some changes that occurred in one year.



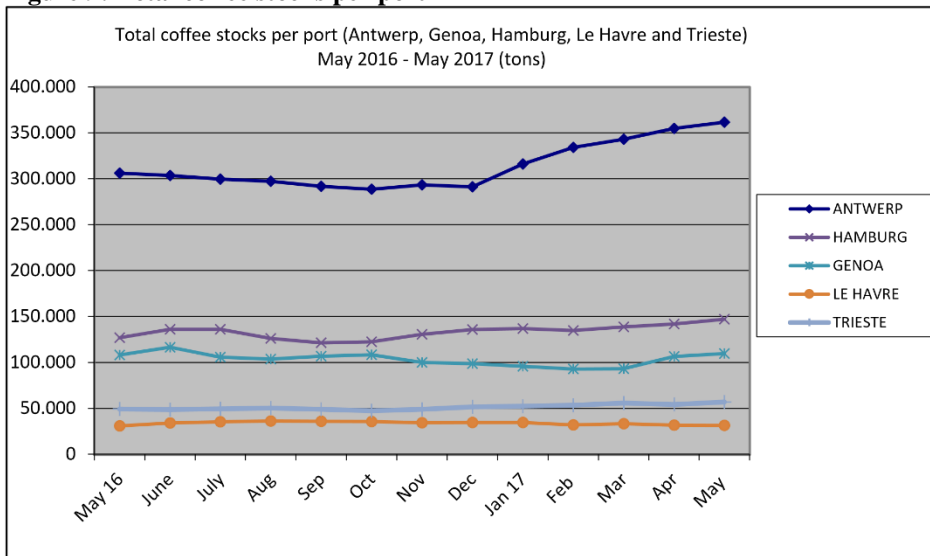
**Figure 8: Monthly average price of coffee**



**Source: European Coffee Report 2016/17**

This chart illustrates monthly average prices of coffee for 2015-2017 years. It is possible to notice considerable increasing of prices occurred in November 2017. However, already by May 2017, the prices of coffee were again declined.

**Figure 9: Total coffee stocks per port**



**Source: European Coffee Report 2016/17**

Figure 9 shows that volumes of coffee stocks in major European ports remained rather stable in 2015-2017 years. Moreover, in January-May 2017, the stocks of coffee in the port Antwerpen were replenishing.

The ‘top 20’ sources of EU28 green coffee imports (excluding intra-EU trade) in 2014, 2015 and 2016 were as on the Figure 10 below.

**Figure 10: Import of not decaffeinated coffee into EU**

Imports of green, not decaffeinated coffee into the EU28 (excluding intra-EU trade) by main origins						
	2014		2015		2016	
	tons	%	tons	%	tons	%
Brazil	917.322	32,4	943.330	33,5	914.605	31,0
Vietnam	702.719	24,8	630.543	22,4	728.279	24,7
Colombia	168.213	5,9	180.644	6,4	193.210	6,5
Honduras	165.063	5,8	174.645	6,2	191.783	6,5
India	133.426	4,7	121.245	4,3	140.739	4,8
Indonesia	118.151	4,2	147.864	5,3	122.417	4,1
Uganda	131.294	4,6	125.604	4,5	122.402	4,1
Peru	116.212	4,1	109.510	3,9	117.796	4,0
Ethiopia	72.811	2,6	73.575	2,6	80.054	2,7
China	33.841	1,2	32.805	1,2	42.998	1,5
Cote d'Ivoire	17.756	0,6	11.883	0,4	35.691	1,2
Tanzania	24.151	0,9	25.582	0,9	31.695	1,1
Guatemala	30.918	1,1	28.607	1,0	27.899	0,9
Kenya	27.810	1,0	27.294	1,0	26.538	0,9
Cameroon	17.374	0,6	21.826	0,8	23.265	0,8
Mexico	25.345	0,9	23.682	0,8	23.213	0,8
Nicaragua	23.105	0,8	26.800	1,0	23.119	0,8
Papua New Guinea	20.234	0,7	15.471	0,6	23.023	0,8
Costa Rica	16.358	0,6	15.263	0,5	14.972	0,5
Laos	11.326	0,4	13.282	0,5	10.596	0,4
Others	59.770	2,1	63.086	2,2	57.257	1,9
<b>EU28 excl. intra-EU</b>			<b>2.812.539</b>	<b>100,0</b>	<b>2.951.549</b>	<b>100,0</b>
<b>833.197</b>	<b>2.</b>	<b>100,0</b>				

Source: European Coffee Report 2016/17

For quite a few years, Brazil and Vietnam have consistently been the top-two suppliers. The third position has changed over time. Historically, this fell to Colombia, but changed to Indonesia in 2009 and 2010, to India in 2011, to Honduras in 2012 and 2013, and back to

Colombia in 2014, 2015 and 2016. In 2016 Brazil continued to be the major green coffee supplier to the EU, albeit with a lower volume of 914.605 tons (-28.725 tons compared to 2015) and market share (-2,5 percentage points). Vietnam retained its position as second supplier, with a higher volume of 728.279 tons (+97.736 tons) and import share (+2,3 percentage points). Colombia took third spot again in 2016, with a higher volume: +12.566 tons. The top-five was completed by Honduras and India. The last-mentioned country has had a bit of an up-and-down performance in recent years; in 2016 it has recovered ground lost in 2015 and surpassed the 2014 volume. Volume changes that appear small from the EU perspective are sometimes significant for the countries concerned. For example, the import volume from Côte d'Ivoire tripled, that from Laos dropped by 20%. (Europe Coffee Market - Growth, Trends and Forecast 2017 - 2022).

**Figure 11: Import statistics for Czech Republic**

Green Coffee (Including decaf)		Roasted Coffee (Including decaf)		Extracts, essences	
Brazil	3.765	Poland	24.724	Germany	3.723
Germany	3.764	Germany	9.513	United Kingdom	3.683
Vietnam	2.757	Slovakia	3.796	Belgium	1.421
Cameroon	1.326	Italy	2.142	Poland	1.383
Slovakia	1.005	Netherlands	1.146	Spain	1.105
Others	5.006	Others	2.701	Others	
Total	17.623	Total	44.022	Total	2.255
					13.569

Source: European Coffee Report 2016/17

Figure above shows import statistics for Czech Republic (in tons)

**Figure 12: Average sales price for coffee beans**

Average sales price 2016 - in EUR per kg except * EUR per unit -				
	Beans	R&G	Pods	Instant
Austria	14,28	13,75	0,27 *	32,30
Belgium	13,27	12,75	0,31 *	31,75
Bulgaria	13,50	10,88	45,25	27,13
Croatia	29,66	17,16	58,89	34,28
Czech Republic	16,62	15,71	36,86	33,50
Denmark	16,44	14,74	0,48 *	38,76
Estonia	17,50	15,56	29,07	33,07
Finland	n.a.	n.a.	n.a.	33,66
France	13,28	11,27	40,37	31,79
Germany	11,68	10,34	29,82	40,40
Greece	n.a.	19,92	n.a.	42,29
Hungary	12,33	20,08	44,18	32,84
Ireland	15,99	20,53	35,57	41,05
Italy	11,57	13,28	45,57	32,56
Latvia	18,18	16,81	2,20 *	41,42

Lithuania	10,88	13,70	39,22		44,26
Netherlands	11,77	11,14	0,19	*	37,57
Poland	15,28	10,03	41,85		26,94
Portugal	9,73	11,93	0,29	*	58,20
Romania	10,29	7,38	40,31		28,97
Slovakia	18,55	17,55	0,41	*	33,02
Slovenia	14,53	12,44	52,76		27,25
Spain	7,40	12,48	0,23	*	25,92
Sweden	9,64	n.a.	n.a.		32,98
United Kingdom	17,16	18,67	73,11		33,65

Source: European Coffee Report 2016/17

On Figure 12 are the average sales prices for coffee beans, roast&ground coffee, coffee pods and regular instant coffee in 2016. Please note that for some markets the sales price for pods are not in kilos but in units.

«Coffee consumption in European Union in 2017:

- Revenue in the "Coffee" segment amounts to US\$27,964m. The market is expected to grow annually by 1.3 % (CAGR 2017-2021).

In relation to total population figures, per person revenues of US\$37.14 are generated in 2017. The average per capita consumption stands at 3.3kg.

- Revenue in the "Roast Coffee" segment amounts to US\$21,467m. The market is expected to grow annually by 1.4 % (CAGR 2017-2021).

In relation to total population figures, per person revenues of US\$28.51 are generated in 2017. The average per capita consumption stands at 2.8k.

- Revenue in the "Instant Coffee" segment amounts to US\$6,497m. The market is expected to grow annually by 1.0 % (CAGR 2017-2021).

In relation to total population figures, per person revenues of US\$8.63 are generated in 2017. The average per capita consumption stands at 0.6kg.»<sup>11</sup>

<sup>11</sup> Europe Coffee Market - Growth, Trends and Forecast (2017 - 2022). [online]. [cit.2017]. Available from: <https://www.mordorintelligence.com/industry-reports/europe-coffee-market>

**Figure 13: Coffee consumption per capita**

Country	Revenue US\$/per person	Consumption kg/per capita	Total revenue US\$	The market is expected to grow annually by % (CAGR 2017-2021)	The largest segment
Austria	87.96	6.8kg	841m	3.6 %	Roast Coffee US\$717m
Belgium	40.32	3.1kg	509m	-0.3 %	Roast Coffee US\$336m
Bulgaria	21.77	3.2 kg	170m	1.3 %	Roast Coffee US\$119m
Croatia	41.74	3.8kg	193m	1.3 %	Roast Coffee US\$169m
Czech Republic	50.82	4.1kg	593m	1.5 %	Roast Coffee US\$501m
Denmark	86.82	7.7kg	548m	1.0 %	Roast Coffee US\$481m
Estonia	48.08	5.5kg	69m	2.5 %	Roast Coffee US\$56m
Finland	82.28	9.8kg	501m	0.4 %	Roast Coffee US\$469m
France	36.58	4.2kg	2,720m	1.2 %	Roast Coffee US\$1,683m
Germany	60.74	5.8kg	5,450m	1.0 %	Roast Coffee US\$4,791m
Greece	67.44	3.9kg	802m	1.7 %	Roast Coffee US\$402m
Hungary	31.42	3.4kg	339m	-0.6 %	Roast Coffee US\$195m
Italy	61.83	5.1kg	4,147m	2.6 %	Roast Coffee US\$4,035m
Lithuania	48.56	3.7kg	154m	0.2 %	Roast Coffee US\$124m
Latvia	43.45	2.9kg	94m	1.1 %	Roast Coffee US\$65m
Netherlands	92.35	8.4kg	1,738m	2.1 %	Roast Coffee US\$1,576m
Poland	26.06	3.2kg	1,092m	2.9 %	Roast Coffee US\$623m
Portugal	42.60	4.1kg	483m	1.9 %	Roast Coffee US\$431m
Romania	30.49	2.3kg	659m	1.1 %	Roast Coffee US\$480m
Slovakia	50.41	4.1kg	302m	1.8 %	Roast Coffee US\$251m
Slovenia	35.46	4.0kg	81m	0.5 %	Roast Coffee US\$65m
Spain	33.40	3.6kg	1,713m	-0.3 %	Roast Coffee 1,188m

Sweden	64.06	8.3kg	703m	-3 %	Roast Coffee US\$608m
Ireland	29.54	2.4kg	154m	3.8 %	Roast Coffee US\$97m
United Kingdom	34.19	1.6kg	2,490m	0.00009 %	Instant Coffee US\$1,811m

**Source: European Coffee Report 2016/17**

Figure 13 shows the structure of per capita coffee consumption, revenue and forecast (for 2017-2021 years) in the European Union. Finland with 9,8kg of coffee per person per year has the greatest share. It can be seen that average volume of coffee consumption within the framework of the European Union is higher in the countries of Western Europe rather than the newer EU member states. what can be explained by higher purchasing power of the population and the national wealth.

### **3.3 Legal Forms of Business**

#### **3.3.1 The legal basis of entrepreneurial activity in Czech Republic**

“Entrepreneurial activity in the Czech Republic is regulated by two main laws:

The Law "About Entrepreneurship" (Zhivnostenskiy Act) No. 455 \ 1991 Coll. From October 2, 1991 and the Commercial Code (Law No. 513/1991 Coll.), As well as additions and amendments to these laws.”<sup>12</sup>

According to the current legislation of the Czech Republic, foreign citizens (individuals) and companies (legal entities) have equal rights when establishing Czech companies and doing business, on a par with residents of this country.

To conduct business in the Czech Republic, obtaining a residence permit, buying or renting a property, it is necessary to register a Czech company.

In accordance with the Law on Entrepreneurship and the Commercial Code of the Czech Republic, a company on the territory of the Czech Republic can be registered in the following organizational and legal forms:

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<sup>12</sup> The legal basis of entrepreneurial activity in Czech Republic. [online]. [cit.2017]. Available from: czech@tiwatiwa.com

- Open commercial company - "v.o.s."
- Limited partnership - "k.s."
- Limited Liability Company - "s.r.o."
- Joint Stock Company - "a.s."
- Cooperative - "druzstvo"

The most common form of the enterprise is společnost s ručením omezeným, (abbreviated as s.r.o.), as the most attractive from the point of view of simplicity of management and order of functioning, taxation and accounting, as well as legal support for its activities.

The advantages of registering a Limited Liability Company are as follows:

- A small amount of the authorized capital, equal to 200 000 Kc (about 6500 euros)
- Number of founders from 1 to 50 people
- Society is responsible to third parties with its property
- Founders are responsible for their contributions
- The relative simplicity of the registration procedure

The share in the authorized capital of each companion can not be less than 20'000 Kc. The minimum authorized capital of the Company is 200,000 Kc, 50% of which is paid to the bank on the Company's settlement account after its registration, and the remaining part thereof within a calendar year.

The authorized capital may also be contributed by a non-monetary contribution, the amount of which is determined on the basis of the expert's conclusion.

To carry out any type of entrepreneurial activity in the territory of the Czech Republic, licenses must be obtained (Zhvinnostenskiy list). Licenses are divided into three types:

- Free;
- Professional (for obtaining it is necessary to provide a diploma or other confirmation of professional qualification);
- Concessionary (issued on the basis of the permission of the Ministry).

### **3.3.2 Registration of companies in Czech Republic**

Registration of an enterprise - a Czech company in the form of a limited liability company (s.r.o.) consists of two stages:

#### 1. Preparatory stage.

The preparatory stage is to provide the company's founders with the following documents and information required for its registration:

- Company name variants
- The main activities for licensing
- Copies of valid passports of founders
- Addresses of registration of founders in the country of permanent residence
- The order of distribution of the authorized capital

#### 2. Company registration process.

The process of registration of a Czech company consists in the following consecutive stages of its registration:

- Checking the name of the enterprise for non-repeatability in the register of names of the Commercial Court;
- Opening of the document on the provision of the legal address of the company;
- Submission of the executive director ("landlord") at the time of registration of the Czech company;
- Creating and signing the constituent documents of the company by the founders or a trustee;
- Open a temporary bank account for a deposit of 30% of the statutory fund, but not less than 100 000 kronas.
- Making a responsible person to conduct business ("intercessors"), subject to licensing;
- Obtaining licenses for doing business;
- Receiving an extract from the register of the Commercial Court on the registration of the company;
- Open a settlement account;
- Stand for tax accounting.



### 3.3.3 Taxation in Czech Republic

#### Corporate Income Tax.

As from 1 January 2010, the standard corporate tax rate is 19%

A special tax rate of 5% is applied to certain collective investment funds, to pension funds C  
Withholding taxes on income of non-residents 35/15/0%, according the type. The withholding tax rates may be reduced by double tax treaties.

#### Income tax on individuals.

Income tax from individuals and legal entities in the Czech Republic is collected in accordance with the Law on Income Tax No. 586/1992 Coll. With changes and additions.

The subjects of income tax from individuals are:

- Income from hired labor and job content
- Income from entrepreneurial or other independent income-generating activities.
- Income from capital,
- Rental income
- Other income.

**Figure 14: Tax rates from personal income**

The tax base (Kc)		Tax (Kc)	From the base exceeding (Kc)
from	to		
0	109 200	15%	-
109 200	218 400	16380+20%	109 200
218 400	331 200	38 220 + 25 %	218 400
331 200	822 600	66 420 + 32 %	331 200

Source: Deloitte<sup>13</sup>

#### Value added tax (VAT)

The accrual and payment of value added tax (DPH) is made in accordance with Act No. 588/1992 Coll. "On Value Added Tax" with additions and amendments to the law.

<sup>13</sup> Principle of taxation. [online]. [cit.2017]. Available from: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-czechrepublicguide-2017.pdf>

Businesses seated in the Czech Republic whose turnover exceeds CZK 1,000,000 (approx. USD 40,284) in any consecutive 12-month period must register as a VAT payer with the tax authorities. Within 25 days after the end of the tax period, the payer must present to the financial authorities a tax return.

**Table 1: Czech VAT Rates**

Rate	Type	Which goods or services
21%	Standard	All other taxable goods and services.
15%	Reduced	Foodstuffs (excluding essential child nutrition); some soft drinks; take away food; water supplies; medical equipment for disabled persons; some domestic passenger transport; some books (excluding e-books); admission to cultural events, shows and amusement parks; writers and composers; cleaning of private households; some agricultural supplies; hotel accommodation; admission to sporting events; use of sporting facilities; social services;
10%	Reduced	Foodstuffs classed as essential child nutrition; newspapers and periodicals; pharmaceutical products; some books.
0	Zero	Intra-community and international transport

Source: Deloitte<sup>14</sup>

### **Excise tax.**

This tax applies to hydrocarbon fuels and lubricants, spirits and distilled liquors, beer, wine and tobacco products (hereinafter referred to collectively as “excise products”) that are produced in or imported to the Czech Republic. The tax is calculated as a fixed amount per unit of the product concerned and is levied on the producer (importer). Tax levied on cigarettes is calculated as a combination of a fixed amount and a percentage of the selling price. Excise products can be produced, transported or stored under duty suspension arrangement, i.e. tax liability is deferred until these products are released for free tax circulation.

### **Energy tax.**

Energy taxes are levied on supplies of electricity, natural and other gases, and solid fuels (hereinafter referred to collectively as “energy”).

The tax on electricity is levied at the rate of CZK 28.30 per MWh. The tax on gas is levied at rates varying from

CZK 30.60 per MWh to CZK 264.80 per MWh, depending on the type of gas, the purpose of its use and the date when

<sup>14</sup> Principle of taxation. [online]. [cit.2017]. Available from: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-czechrepublicguide-2017.pdf>

the tax liability arises. The tax on solid fuels is levied at the rate of CZK 8.50 per GJ of caloric value. End-users can utilise tax exemptions when the energy products are used for specific purposes.

### **Wage tax/social security contributions.**

Tax on employment income is withheld by the employer from the remitted to the tax authorities, The employer must contribute the equivalent of 34% of gross wages to the state social security and schemes, comprising pension insurance, insurance 2.3% for sickness insurance and 1.2% for unemployment insurance. Payments are made monthly to separate organized by to health insurance companies (with respective employees are Employees pay an additional 11% of wages the nds, A cap the average monthly applicable to the assessment base for social security for both employer and employee contributions. There is no maximum assessment base for health insurance purposes for employer and employee contributions.

**Figure 15: Social security contributions**

<b>Contributions</b>	<b>Employer (%)</b>	<b>Employee (%)</b>
Health care insurance	9.0	4.5
Pensions	21.5	6.5
Unemployment	1.2	0.0
Sickness and other benefits	2.3	0.0
<b>Total</b>	<b>34.0</b>	<b>11.0</b>

**Source: Deloitte**

## **4. Practical Part**

### **4.1 Structure of a Business Plan**

The goal of writing a business plan is the development of a specific project. In this work it is the opening of the coffee shop in Prague. The practical part is based on the certain terms of a theoretical part and takes into account the facts that are available to beginning entrepreneurs.

#### **4.1.1 Summary**

This project is a plan for creating a coffee shop with a cash turnover of three years.

The idea of creating a coffee shop by a turnaround in three years has the following goals:

1. Creating a highly profitable enterprise
2. Making a profit.
3. Satisfaction of the consumer market of consumption of coffee and coffee drinks.
4. Enlargement of the enterprise.

The total cost of the opening of restaurant: 1.119.000 CZK

Source of financing: own funds

Payback period: 8 months

The project is also unique due to the interior. The main idea of creating a coffee house is the organization of a cozy space for rest. Leaving all the extra fuss, the client gets the opportunity to enjoy a fragrant drink and author's cuisine in a pleasant company. This is facilitated by the unique interior of the cafe. Coffee shop is located in the central part of the city, in close proximity with historical sites, hotels, shopping malls and business centers. The place is designed for 50 seats, there is a terrace, smoking and non-smoking areas. The service is provided by baristas, is oriented to the service of visitors of any age.

### **4.1.2 Company Description**

Name of the enterprise: Monteverde Cloud s.r.o.

Nature of the enterprise: the enterprise for the realization of cooked coffee and coffee drinks;

Area: 180 square meters; terrace, non-smoking and smoking area;

Seats: 50;

Open hours: Mon-Fri: 8:00 - 23:00

Sat-Sun: 10:00 - 00:00

Average markup: 150%.

"Monteverde Cloud" - a cozy city coffee house, in which everyone will find his own comfort. For esthete is a stylish design, for a businessman is a convenient place for negotiations or business breakfast. Collections of the best varieties of coffee, tea menu and delicious desserts – are offering.

In a review accessible to guests there is always a special showcase where you can immediately choose the dessert you like and personally talk with the barista - a specialist in the preparation of coffee. In the coffee menu "Monteverde Cloud" you can get acquainted with a number of classic coffee drinks based on espresso: cappuccino, lungo, latte and many others.

### **4.1.3 Internal Planning**

The marketing mix is the instrument by which the company seeks to achieve its set goals. The so-called 4P represent product, price, distribution and promotion.

#### **Product.**

As part of this marketing tool, all companies are offering products and services.

Coffee shop offer consists of the following items:

- the best quality coffee
- different sorts of tea
- confectioneries and desserts
- salads and light meals
- non-alcoholic drinks
- non-alcoholic cocktails

- fresh juices and smoothies
- Internet services

**Price.**

The cost-oriented method is used to determine the price of the products offered, combined with a competitive method. It is based on a calculation of total own of the costs to which the variable margin is added, approximately 150%. It represents the profit of the enterprise.

**Distribution.**

The distribution resolves the way from the manufacturer to the customer so that the product is sold at the right time, in the right place and at the right price. All goods are purchased from proven suppliers who supply to the coffee shop directly. The founder is going to use the services of the companies „Lukas Kozubik“ and „Drevotvar Bystre“ to design the coffee shop, supply of equipment and furniture. Companies „Coca-Cola HBC“ and „illy distributors“ are the main suppliers of coffee and food. Sales are based on direct contact customer, it is a direct distribution of the product.

**Promotion.**

Marketing of the coffee shop includes all activities that are aimed at attracting customers. It includes the creation of the concept of coffee shops, and the development of interior solutions, and planning of promotional activities.

Marketing begins with the creation of the company's brand. This is the corporate style of the company, and the concept of internal communication. The first item includes the name of the coffee house, the logo, the interior design, as well as the design of business cards, signboards and menus. In other words, this is the creation of a general concept, within which all advertising campaigns of the coffee house are conducted. Internal communication also consists of certain rules of interaction both between employees and with resource providers.

The main forms of promotion are:

- Web site
- Social networks
- Leaflets advertising
- Print advertising

## **Discounts and Bonuses**

In such a highly competitive industry as public catering, a significant role is played by all kinds of shares and special offers. Often, the availability of discounts at certain hours of work or a bonus program attracts your potential customers.

Of course, choosing a particular type of advertising offers should be based on the preferences of your target audience. For example, if the concept of your coffee house assumes an orientation toward students, then certainly such offers as "Order dessert and get coffee as a gift", "Show the student card and get a 10% discount", "Save bonuses and get coffee for free", and so on further.

However, it is unlikely that they will be able to attract such a proposal to a more adult and wealthy audience. In the case of working with this category of customers, attraction is possible through the introduction of additional services, for example, the ability to pre-book a table by phone or using a mobile application.

For office workers, the main criterion for choosing a place for lunch is the availability of business lunches, as well as special offers for take-away food.

A large number of regular customers can be gained through the introduction of a bonus system. Such system is designed for the fact that the buyer receives a discount not in monetary terms, but in the form of bonuses that are credited to a special card. One bonus equals one crown. And you can use these bonuses only in author's institution. That is, you pre-configure the customer to make an additional purchase.

A significant increase in traffic can give a competent application of cross-marketing. For example, if your coffee shop is located near a fitness center or beauty salon, then you can agree on advertising each other. It is also possible to give the client discounts for a reference to recommendations from the partner.

Making the menu and demonstrating the author's presentation of dishes also make the coffee shop unique in the eyes of the client.

In order to be different from most competitors, it is possible to conduct themed evenings in the cafe: invite experts in the field of nutrition and teach visitors the culture of coffee consumption. Thus, your institution will receive a reputation as an expert in the market, which will allow to increase prices reasonably.

## **Customers description.**

The target audience of the institution is quite large. In general, these are people from 20 to 45 years old. Therefore, it is possible to conduct a more narrow segmentation of consumers:

- Students from 20 to 25 years. The main traffic of customers from this category is in the morning hours (from 8.00 to 10.00) and during the business lunch (from 12.00 to 16.00);
- Office workers from 25 to 35 years. Come on business lunches from 12.00 to 16.00. Sometimes they go to dinner after work, i.e. after 19.00;
- People working in managerial positions and combining lunch with business negotiations. Visit time: from 12.00 to 18.00;
- Housewives coming to the coffee shop with the company to relax and distract from everyday worries. Their attendance increases from 11.00 to 15.00.
- Tourist or a casual passerby who wants to drink a cup of coffee in a coffee house or take with him, can come in at any moment.

On weekends, families with children often come to the coffee shop, as they are attracted by a wide choice of desserts.

In order to cover the maximum number of consumer segments, it is necessary to maintain an average price level, as well as to regularly enter special offers. The stationary coffee shop has a large competition on the market. The competitors of the coffee house are not only the same establishments, which along with dishes of European cuisine offer a wide range of coffee drinks. This are cafes, and restaurants, and even dining rooms during business lunches. Mini-cafes located in shopping centers are not competitors, as they are targeted to a different audience. The points of "coffee with you" are competitors only for a separate service of the institution-coffee for take-away. However, this is an additional service of the coffee shop, therefore it is not advisable to take special measures to reduce competition for this type of service.

In order to stand out among a huge number of establishments, it is necessary to develop a unique trade offer, as well as maintain a consistently high level of quality of food and service. As for the company's pricing policy, the elasticity of demand is highly important in this segment. That is, even a small increase in the price will significantly affect the decline in demand. Accordingly, the price increase should be treated very carefully. Your customers need to understand what they pay for more than before.



#### 4.1.4 Financial Planning

The total cost of the opening of the coffee shop is 1,119,000 czk. For investment are used own funds.

The largest costs for opening a coffee shop is to buy coffee equipment, as well as to repair and decoration of the premises.

**Table 2: Initial investment**

Items	Value in CZK
Registration	9,000
Rent and Utilities	80,000
Design	300,000
Equipment	500,000
Materials	200,000
Marketing (banners, menu updates, advertising sheets)	10,000
Other costs	20,000
<b>Total</b>	<b>1,119,000</b>

Source: own work

The income of the coffee shop is calculated based on the average attendance of the institution and the average cost of one cheque. These factors affect both the seasonality factor and the general situation on the market.

Current expenses of the company are made up of products, leases, wages, marketing and other costs (communication and unexpected costs), as well as tax deductions and depreciation. The largest share in expenses falls on the production cost of production.

**Table 3: Estimation of the key financial indicators**

Month of work	1	2	3	4	5	6
Number of cheques	2 000	2 000	2 000	2 200	2 200	2 400
Average cheque	250	250	250	250	250	250
<b>Sales</b>	<b>500 000</b>	<b>500 000</b>	<b>500 000</b>	<b>550 000</b>	<b>550 000</b>	<b>600 000</b>
<b>Expenses</b>						
Rent and Utilities	80 000	80 000	80 000	80 000	80 000	80 000
Labour costs	36 000	36 000	36 000	36 000	36 000	36 000

Material costs	200 000	200 000	200 000	220 000	220 000	240 000
Promotion	10 000	10 000	10 000	10 000	10 000	10 000
Other costs	15 000	15 000	15 000	15 000	15 000	15 000
<b>Gross Profit</b>	159 000	159 000	159 000	189 000	189 000	219 000
Amortization	8 400	8 400	8 400	8 400	8 400	8 400
EBIT	150 600	150 600	150 600	180 600	180 600	210 600
Tax 19%	28 614	28 614	28 614	34 314	34 314	40 014
EBI	121 986	121 986	121 986	146 286	146 286	170 586
<b>CAPEX</b>	1 119 000					
<b>Cash Flow</b>	- 997 014	- 875 028	- 753 042	- 606 756	- 460 470	- 289 884

Source: own work

Initial investment pays off at least 8 months.

The table shows the monthly fixed and variable costs.

A contract will be concluded between the lessee and the lesser, which will describe rent and utilities. Utilities include energy and water consumption.

The purchasing cost of materials must be up to a total of 40 % of selling price.

There are 2 barista in the Coffee Shop. Personal cost was calculated based on the wages of the population of Prague with considering the social and insurance payment, as well as the deductions to the pension fund, which is in total amount of 34% that payed by employer, and personal tax rate, which is 15%, which is taken from the employee's salary.

The monthly amount of promotion will be 10,000 czk.

Finally, expenses of the company will include the amortization of its equipment.

Amortization will be calculated under the straight-line method. Therefore, the monthly amount of amortization will be the same during all 3 years. The expected service period of the equipment makes up 5 years, and therefore the monthly amount of its amortization will be approximately 8400 CZK.

By using the average price of consumption per person, expected profit can be calculated. The number of visitors per day was estimated based on general information about coffee shops.

Average number of cheques is 2 200 per month in 2019 and will increase in 10% for the next two years. Average price of cheque is 250 czk.

**Table 4: Income Statement**

Items	2019 year	2020 year	2021 year
Total revenue	6 600 000	7 260 000	7 986 000
Material costs	2 640 000	2 904 000	3 194 400
Personal costs	432 000	528 000	528 000
Other costs	1 260 000	1 260 000	1 260 000
Depreciation	100 000	100 000	100 000
Total expenses	4 432 000	4 792 000	5 082 400
Earnings before tax	2 168 000	2 468 000	2 903 600
Tax 19%	411 920	468 920	551 684
Earnings after tax	1 756 080	1 999 080	2 351 916
Profit/Loss +/-	1 756 080	1 999 080	2 351 916

Source: own work

In Czech Republic the Weighted Average Cost Of Capital for food and beverage is 7,23%

In order to calculate the Net Present Value and profitability of the investment Net Cash Flow were calculated.

$$NPV = -1,119,000 + 1,756,080/(1+0,0723) + 1,999,080/(1,15) + 2,351,916/(1,23) = 4,169,133$$

NPV > 0, the investment is profitable.

$$\text{Payback period} = 1,119,000/1,756,080 = 0,6*12 = 7,6 \text{ months.}$$

#### 4.1.5 Risks

There are external and internal risk factors. The first is related to the state of the market environment, the general level of prices, the presence of certain trends in consumption. Internal risks are associated with the organization of work within the company.

External risks include:

- The risk associated with a change in the price of raw materials. To avoid this risk, the company has concluded long-term contracts for the supply of products at fixed prices

with well-established suppliers. However, it is also necessary to monitor the dynamics of prices in the short and medium period, to achieve discounts and a profitable system of payment from regular suppliers;

- The risk of reducing the purchasing power of the population. In this case, you have to either reduce prices, or go to an audience with higher income;
- Possible reduction in sales of products. The management of the coffee house closely follows the behaviour of competitors, and also constantly follows the dynamics of prices in this segment of the market. The quality of the products is constantly improving, and the range of products is constantly expanding. Insurance for this is a good customer orientation, a clear definition of the market niche;
- The risk of losses from non-sales. To compensate for this risk, the management of the coffee house clearly tracks the demand for its products in order to avoid overproduction or at least minimize losses. For this purpose, the turnover of one place per day in a coffee shop and a week is constantly monitored;
- The risk of increased competition. Reduce the risk allows the presence of a unique trade offer, as well as other competitive advantages;
- The risk of changing trends and refusing to use coffee beverages. This risk is minimal. However, even in this case, you can always focus on preparing alcoholic beverages.

Internal risks include:

- The risk of rapid wear and tear on equipment. This risk is high enough, so to reduce the risk you need to know the engineer, which can be contacted in the event of an unexpected breakdown;
- The risk associated with turnover of staff. Favourable working conditions have been created at author enterprise. Workers have a stable working schedule, if necessary management is making certain concessions in scheduling work for employees. Also, all employees have an annual paid leave of 28 days and a stable indexed salary;
- The risk of poor customer service. Reducing due to a well-thought-out system of punishment and the imposition of fines;
- The risk of introducing dishes that are not popular in the menu. In order to neutralize the risk, it is necessary to include in the duty of the chef regular monitoring of demand for these or other dishes;
- Financial risk, in which the company receives much less profit than expected.

## 4.2 Business Environment Analysis

“The concept of environment refers to everything over which a firm has no control as an organisation (M zberg, 1979). According to this definition, the environment is extremely far-reaching. More specifically, a business environment is made up of all those external factors that have a bearing on a firm's decisions and results (Grant, 2008: 66). As they are external factors, a firm cannot control them, but they may however have a significant impact on the success of its strategy, Their analysis allows identifying that influence, which may be positive or negative, and therefore decide upon the most appropriate way of responding to them. “<sup>15</sup>

When analysing the environment, a distinction tends to be made between two levels, namely, general and competitive. The *general environment* refers to the external medium surrounding the firm from an overall perspective: that is, the socio-economic system within which it operates. The *competitive environment*, by contrast, refers to that part of the environment that is closest to its everyday operations; that is, the industry to which the firm belongs.

To determine how these factors will affect the performance of coffee shop activities in the long-term will be applied PEST analysis, which is commonly used in combination with Porter’s Five Forces and SWOT analysis.

### 4.2.1 PEST Analysis

A practical approach enables grouping the environmental factors into the following dimensions: Political, Economic, Socio-cultural, Technological, refer to this analysis using the acronym PEST, based on the initials of the dimensions.

**Table 5: Pest analysis**

Political	Economic
<ul style="list-style-type: none"><li>• Political stability;</li><li>• Government encouragement for foreign investments;</li></ul>	<ul style="list-style-type: none"><li>• Inflation rate is 2.2% for January 2018;</li><li>• Unemployment rate is 3.9% for January 2018;</li></ul>

<sup>15</sup> Jose Emilio Navas Lopez. (2013). Fundamentals of strategic management. (p.82).

<ul style="list-style-type: none"> <li>• Tax policy for investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Developed tourism industry in Prague;</li> <li>• VAT rate 15%.</li> </ul>
Social	Technological
<ul style="list-style-type: none"> <li>• Increase in population;</li> <li>• Change in the income and expenses of the population;</li> <li>• Growing coffee culture;</li> <li>• Increasing health consciousness.</li> </ul>	<ul style="list-style-type: none"> <li>• Rising availability of specialty coffee machines for home use (threat);</li> <li>• Increasing use of social media networks.</li> </ul>

Source: own work

The analysis of political and legal factors follows all relevant laws and regulations which are important for the area where the company operates. “At present, the business of all companies in the Czech Republic is primarily concerned with the following laws:

Legislation regulating the enterprise:

- Act No. 455/1991 Coll., On Business Entrepreneurship.
- Act No. 130/2008 Coll., Amending, in particular, the Trade Licensing Act.
- Act No. 513/1991 Coll., Commercial Code.

Legislation determining taxation:

- Act No. 235/2004 Coll., On value added tax.
- Act No. 586/1992 Coll., On Income Taxes.

Labor law:

- Act No. 262/2006 Coll., Labor Code.
- Act No. 592/1992 Coll., On general health insurance premiums.
- Act No. 589 / Coll., On Social Security Contributions and State Contributions employment policy.”<sup>16</sup>

In terms of economic factors, the level of business is monitored with unemployment, the inflation rate and the VAT rate. Value added tax is among indirect taxes and is included in the price of products. In case that the turnover of the coffee shop exceeds CZK 1 million in the

<sup>16</sup> Legislation in Czech Republic. [online]. Available from: [www.wipo.int/wipolex/en/text.jsp?file\\_id=198074](http://www.wipo.int/wipolex/en/text.jsp?file_id=198074)

previous 12 months, the company becomes obligatory VAT payer. The VAT rate affects the price level. In 2018, the reduced rate is 15%, which will affect it especially food prices.

**Figure 16: Unemployment rate in Czech Republic**



Source: tradingeconomics

From the figure 15 it is possible to see that unemployment rate is 3.9% for January 2018

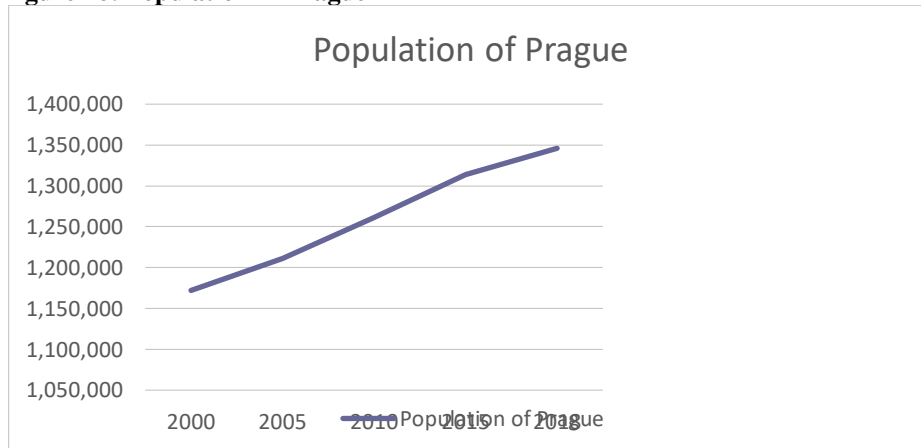
**Figure 17: Annual inflation rate in Czech Republic**



Source: tradingeconomics

Social factors include all the influences of the social environment. Coffee shop operation can be influenced by density and population structure, distribution of population incomes. This information is demonstrated with Figure 17 and 18 which are below.

**Figure 18: Population in Prague**



Source: tradingeconomics

The population of Prague is constantly growing (2000-2018 years on the figure), that is a favourable factor for opening a coffee shop, it means more potential customers.

**Figure 19: Czech Republic average monthly wages in czk**



Source: tradingeconomics

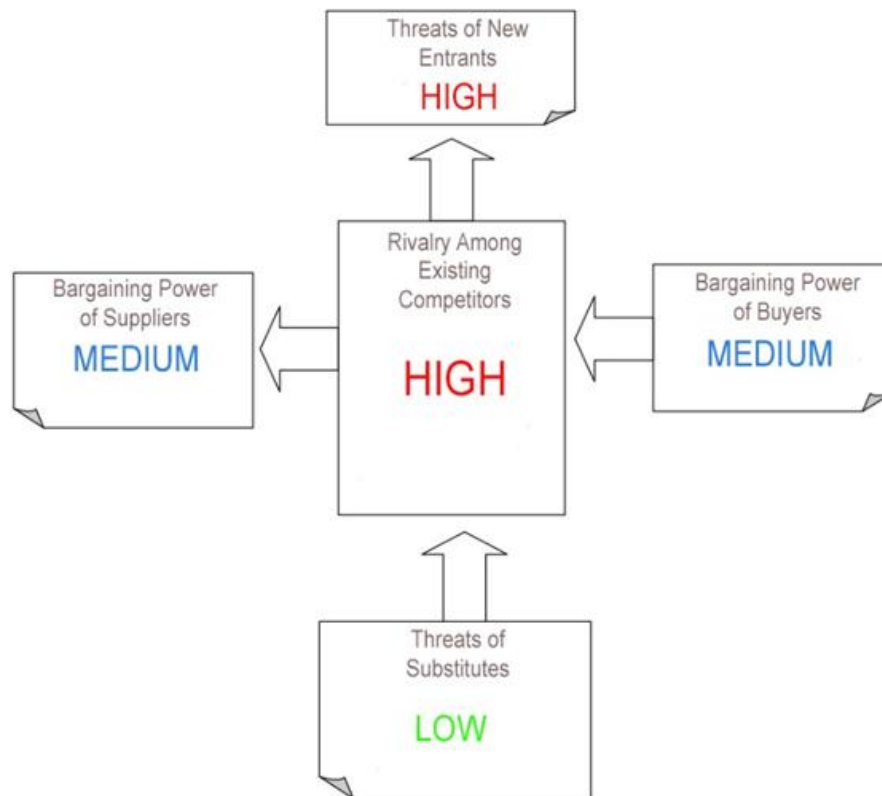
One of the most important effects for visiting a coffee shop is the amount of income earned by potential guests. In July 2017, the average gross monthly wage was 29.050 CZK.



## 4.2.2 Competitive Analysis

The second part of this section analyzes the Prague coffee market deeply using Porter's Five Forces analysis tool. While making analysis, the author's results are shown in the next figure. Both direct and indirect competitors are described at the later part.

Figure 20: Porter's Five Forces Analysis



Source: own work

### High threats of new entrants to a market

As the Czech Republic government is opening to encourage the economy, market entry barriers are relatively low. As a result the Czech Republic coffee market is attractive to more domestic and foreign investors. Furthermore, the coffee market has broadened visibly through a low capital required and a low consumer switching cost. More and more new coffee shops also appear in the current market with their unique coffee concepts and usually with very competitive prices with Monteverde Cloud. These set the high threat of the new entrants to the market.

### High rivalry among existing competitors

The degree of competitive rivalry is based on high number of competitors, rapid rise of coffee industry and low exit barriers. From the point of view of the author, existing competitors can be divided into two groups: direct and indirect competitors.

- Direct competitors.

According to competitive research there are thousands of traditional coffee shops in Prague with different concepts and dimensions. The main facts of similarity are these craft coffee places offer a wide range of beverages and food and cozy and relaxed atmosphere. Prices for these products usually are cheap and acceptable for many people. Therefore, they are considered as the direct competitors of author's coffee shop when utilizing the same formulation of business concepts. In addition, it seems easy to find coffee houses on any roads in Prague. The most known coffee shops from this group could be listed as Muj Salek Kavy, Alza Cafe, EMA Espresso Bar, Cafe Lounge, Monolok, Kafe Karlin, I Need Coffee, Al Cafetero, La Boheme Café, Kavarna Prazirna, Coffee House, Bitcoin Coffee, Anonymous Coffee, Mama coffee and etc.

- Indirect competitors.

The indirect competitors are these coffee shop chains which have operated already for a long time in both domestic and international markets. They are selling not only a good coffee, but also their brands and social positioning. Thus, these coffee shops set very high prices for their products. These define the brand coffee shop chains as indirect competitors. They are Starbucks, PAUL, Costa Coffee, Mc Café, Tchibo, Jacobs.

### Low threats of substitute products

There is low threats of substitutes in this business while the coffee shop are offering a great deal of variety of products in order to meet diverse demands of their customers. These products are coffee, tea, juice, cakes, fast foods and salads. This shows the low threats of substitutes.

### Medium bargaining power of suppliers

There are numerous suppliers with a wide range of coffee and food as well as of furniture and equipment on the Czech market. Coca-Cola HBC, illy distributors, Drevotvar Bystre, Lukas Kozubik who have reputation in Czech market, are chosen as the suppliers of the venture. Nevertheless, the number of reliable suppliers who have been working successfully is limited. Thus, the bargaining power of suppliers is evaluated as medium level.

### Medium-high bargaining power of customers

The level of competition is extremely high in the market, and customers have a big impact, because they can easily switch to other competitors if their needs are not met. The author's coffee house is just a start up company that does not guarantee a large number of orders and customer loyalty as it is expected. Nevertheless, carbonated drinks cause more concern about the negative consequences, and people start to drink healthier drinks, such as coffee, tea and juices, which can be found in the author's coffee shop. Thus, the bargaining power of customers is found to be medium.

### **4.2.3 SWOT Analysis**

And finally the SWOT matrix or analysis is an overview of the entire strategic analysis, both internally and externally, through the joint presentation of the main conclusions reached in the process. SWOT is the acronym of Strengths, Weaknesses, Opportunities and Threats. Each one of the four areas in a SWOT matrix presents, respectively, an organisation's strong and weak points, as well as the opportunities and threats a firm may encounter in its environment.

**Table 6: SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• A team of highly qualified specialists. Regular training and attestation of employees;</li><li>• Bright interior, creating a unique atmosphere;</li><li>• Democratic format of the coffee house, allowing to cover a wide range of audiences;</li><li>• Advantageous location;</li><li>• A unique cuisine, complemented by regular seasonal offers;</li></ul>	<ul style="list-style-type: none"><li>• Possibility of carrying out unsuccessful actions and marketing campaigns;</li><li>• Entrance in the market without reputation.</li></ul>

<ul style="list-style-type: none"> <li>• Variety of coffee drinks, best sorts of coffee;</li> <li>• Providing business lunches and breakfasts at reduced prices;</li> <li>• Non-smoking and smoking area of the coffee shop;</li> </ul>	
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Development of a network of coffee houses in the city and in the region;</li> <li>• Increase ethical behaviour;</li> <li>• Develop a mobile application that allows you to make a reservation or book a table.</li> </ul>	<ul style="list-style-type: none"> <li>• High competition in the market;</li> <li>• Increase prices for coffee and food;</li> <li>• Increase in rent / cancellation of the lease;</li> <li>• Reducing the purchasing power of the population and reducing the demand for coffee shop services.</li> </ul>

Source: own work

From the aforementioned assessment, it is clear that the café has its strengths that they assume the successful operation of the business, but also the weaknesses that the implementation and operation of the company might have endanger.

The process of coffee-making requires specific skills. Thus, the team of employees will meet with regular special training using the equipment and methods that will be used. Physical and skill training will include talking skill and manners, operation of the coffee machine, familiarization with the product and coffee culture, proper reaction and inner decoration. This is necessary in order to ensure that your customer service team is able to provide the guests with the highest level of services.

Location is another advantage of the coffee shop, which will be fully accessible for both tourists and local residents. Besides, the place is conducive both to study and work: stylish and clean design with no distractions, lots of power outlets, strong and clear wifi.

The offered wide range of assortments is considered from the point of view of the founder of the company, as a strong side, which can be somewhat subjective.

Another strength of the business that could provide interest from customers is the division coffee shop for smokers and non-smokers, who will not interact and disturb each other.

As already mentioned, the operation of the business could endanger a number of undesirable aspects, such as high competition in the market.

From the point of view of the weak side impairs the fact that the company does not have a reputation in the market. In this case, strategy will be focused at getting new customers, retaining the existing customers, getting customers to spend more and come back more often. Establishing a loyal customer base is of a paramount importance since such customer core will not only generate most of the sales but also will provide favourable referrals.

Opportunities include increasing coffee culture in Czech Republic, increased socialization and ethical behaviour amongst the youth.

## 5. Conclusion

The goal of this thesis was to provide a business plan for opening a new Coffee shop in Prague. Work was concentrated on processing the overall structure of the business plan and provides with all necessary aspects that author would need it to run this business.

Thesis was divided into two parts. The first is a theoretical part explaining the basic concepts of the subject, describing the general structure of the business plan, the legal forms of business in Czech Republic and analyzing trends in the food and beverage business in Europe, to which the author uses literature from the fields of business and coffee industry. The second part is a practical part in which author was dealing with specific processing of business plan to establish a Coffee shop in Prague. This part emphasized the organisational aspects, demand for this product and service, financial and marketing plan. The financial plan was prepared in order to calculate the profitability, Net Present Value and Payback Period. All of these factors are most important for identifying potential risks. Also this part includes the analysis of the market of a certain industry, using PEST analysis, competitor and SWOT analysis.

The materials studied during the preparation of this work allow to conclude that, at the current stage of development of entrepreneurial activity in Prague, the most effective way of distributing limited resources and products (services) is business planning. Since the business plan is at the same time a guide to the operation and execution of it.

The author positioned the "Monteverde Cloud" coffee shop as a convenient or less expensive alternative to large enterprises with a slightly worse reputation, offering low-quality products using dubious raw materials and cheap labour. The author guarantees the delivery of his products to a level that completely satisfied the customers.

According to the results of the research it was revealed that the project is profitable, with a payback period 7,6 months. The opening of the Coffee shop is require 1.119.000 of initial investment, which will be financed from the own funds. The project on the establishment of Monteverde Cloud to provide services in the field of catering provides high profitability and financial strength indicators since the first year of its implementation.  $NPV = 4,169,133$ ;  $NPV > 0$ , the investment is profitable.

The main goal was achieved.

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