
Coffee shop business proposal

Executive summary

Uptown Culture coffee is determined to satisfy the consumers need to take coffee. It will offer a place where individuals can escape their daily lives to relieve the daily stress, give them a comfortable place to relax with friends or even have a personal time. With the high demand to have high-quality coffee, Uptown Culture offers to satisfy the market urge.

The coffee bar has a \$500000 initial startup capital that will be used to operate a 2400 square foot coffee bar of the 57th street Manhattan.

Information about the industry

In the US, coffee houses are one of the small sector businesses in the foods and drinks. However, they generated approximately \$742 billion in 2016. Coffee comes in different forms, but the traditional coffee is gaining popularity. Despite the small size, the industry is a threat to the restaurants that are offering baked goods, sandwiches among other snacks. Starbucks is the major company in the industry. Its brand is the biggest globally. According to a survey by Nielsen Scarborough, in the spring of 2016, over 36 million Americans had taken coffee in the past month. Therefore, there is more potential in the industry.

The marketing plan

To market the business, five thousand flyers will be distributed around New York City around malls and shopping centers. Also, Uptown Culture will have advertisements in the media two weeks before the opening of the business. Besides, free postcards with Uptown Culture endorsements will be printed to increase the coffee bar visibility among its patrons. On the opening day and the subsequent one week, clients will receive a cup of free coffee for every two cups they purchase.

Competitor analysis

The major competitors are Starbucks, the UO Bookstore, Java and Café Roma (Reinecke, Manning & Von Hagen, 2012). However, the major threat comes from Starbucks because its financial position is very stable. They also have deep experience in the industry having vast operations in the globe. However, clients have a preference towards small coffee bars businesses as long as they offer a favorable environment at affordable prices. Therefore, Uptown Culture will not only provide high-quality coffee at affordable prices but also provide a cozy as well as a comfortable environment. The firm will also provide a corporate set up to cater for the customer's minds and bodies which will aid the business increase the market share and competition in the market.

Three-year income statement projections

	Year 1	year 2	year 3
Sales			
Coffee beverages	\$180000	\$250000	\$320000
Coffee beans	\$65000	\$91000	105000
Pastries	\$109000	\$175600	\$205960
Total sales	\$354000	\$516600	\$630960
Cost of sales			
Coffee beverages	\$56750	\$87234	\$145687
Coffee beans	\$32568	\$47896	\$54389
Pastries	\$53478	\$86500	\$103690
Gross income	\$211204	\$294970	\$327194
Other expenses			

Marketing	\$46000	\$76800	\$63560
Depreciation	\$2000	\$2000	\$2000
Insurance	\$2000	\$2500	\$2700
Rent	\$28000	\$30000	\$33000
Taxes	\$10000	\$10500	\$11000
Administrative expenses	\$41000	\$68000	\$87000
Salaries	\$50000	\$52000	\$57000
PBIT	\$42204	\$63670	\$81934
Taxes	\$6330.6	\$15917.5	\$27857.56
Net profit	\$35873.4	47752.5	\$54076.44
Net profit to sales ratio	10.13%	9.243%	8.57%

Basic assumptions

Uptown Culture will not make any sales credit

The salaries burden is low because part-time will receive low benefits.

Funding schedule

	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Rent	30000	15000	15000	10000
insurance	10000	10000	0	10000
purchases	120000	50000	42000	40000
marketing	70000	20000	14000	12000
miscellaneous funds	20000	5000	4000	3000
Total	250000	100000	75000	75000

It is assumed that the expenses incurred from the funding are from the \$500000 debt. It is also assumed that the quarterly expenses allocated in case of any excess, they are carried forward to the next quarter.

Break-even analysis

We assume that Uptown Culture fixed cost is \$30000 and monthly variable cost per unit is \$2.

The selling price of each coffee mug is \$2.5.

So, the break even sales is=

$$30000 / (2.5 - 2) = 60000$$

Uptown Culture, therefore, needs to sell 60000 units of coffee for them to break even.

Scenario review

The first country to expand to is in Canada; the Canadian people consume 5.9 kg per capita of coffee per year. Canada has a population of 36,626,083, and during winter, they consume a lot of coffee thus making it the most viable market. Labor wise, it is cheap as Uptown Culture can outsource labor from Mexican who will be paid a little bit higher than they are paid in the US.

Besides, the taxation policy is better than in the US as it ranges from 5%-34.5% as compared to the US where it ranges from 15%-35%. Administrative wise, Canada is the best suit because it is near the US and thus the cost of administration will be low because the two countries are close.

Advantages and disadvantages of debt financing.

Advantages and Disadvantages of Debt Financing vs. Selling Stock.

Debt financing is preferred instead of selling stock because of the following reasons.

- Debt financing is temporal, the relationship between the company and the debtors stops after the loan or debt is paid. The moment the debtor is paid what is due, they cannot claim anything from the company as compared to equity where in case one buys stock, one becomes part of the company as a shareholder and is entitled to benefits (Cinnamon, Helweg-Larsen & Cinnamon, 2010). The only advantage the debtor can claim is the interest on the debt.

- Tax-deductible- loan interest is tax deductible thus making it cheaper for the firm when paying.
- Appropriate timing, they can either be long term, medium term or short term. Debt financing can suit the company depending on the firm's needs.
- Easy to plan- the principle and interest are known making it easy to plan in the budget for the repayment of the monthly interest rates.
- Freedom and flexibility- the lender has no say on how the company utilizes the funds because they do not have any ownership as compared to equity financing where the shareholders can dictate on how the company can utilize the money (Cinnamon, Helweg-Larsen & Cinnamon, 2010).

Debt financing has the following disadvantages

- Tight deadlines, the money must be repaid within the agreeable time and rates, failure to which the firm will remain in breach of the lending contract, and they can be auctioned by the lender to recover the loan (Institute for Business and Finance Research, 2010).
- Overdependence on the debt will interfere with the cash flows as much revenue will be used to service the loan instead of being reinvested. It reduces the profits.
- Less attractiveness to the shareholders- investors prefer companies with low gearing, and thus overdependence on debt reduced the ability to raise capital through equity in future times (Institute for Business and Finance Research, 2010).
- A decrease in sales while the firm is dependent on debt financing can leave the company in trouble as it is required to repay the debt and there is no revenue to settle that debt.
- It hinders the growth rate as the repayment drags the company's growth.
- Requires collateral- to obtain equity, the business needs collateral which in case of defaulting the loan, the collateral can be auctioned to recover the amount owed.

The venture capital process

It is mainly a source of funding for new businesses. Investors provide venture capital through buying of shares in a company with the aim of having long-term capital gains. The process

begins with raising funds to be invested; the investor evaluates the existing opportunities and then invests the money one has either in shares or participating debentures. Also, the venture capitalists are involved in governing of the business. In case there is an IPO, and they want to exit the company, they can liquidate their shares and distribute the returns to the investors. Since the business has already started, it is not reasonable to bring in venture capitalists. There is much potential for the business, and with debt financing, it can service the debt as Uptown Culture realizes more profits. However, to finance an extensive global expansion strategy, venture capital funding can be introduced because it involves heavy investment.

References

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Reinecke, J., Manning, S., & Von Hagen, O. (2012). The emergence of a standards market: Multiplicity of sustainability standards in the global coffee industry. *Organization Studies*, 33(5-6), 791-814.