

CYBER CAFÉ BUSINESS PLAN
JEDI CAFÉ

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1. **Executive Summary**

Jedi Café, a cyber café located in Happy Valley, Hong Kong Island, offers a perfect spot for the public in social gathering and leisure. It provides customers free access to the Internet as well as an area for to meet together in a casual environment under an economical manner.

The business intends to obtain finance from external equity in the amount of USD61,540, for which the application will be for commencing work on shop renovation, equipment purchases, and as operating cash flow. Preliminary capital injection has already been secured by the initial owners, Obewon Kinobi and Alex Skywalker, in the amounts of USD24,360 and USD15,385 respectively.

Jedi Café will be incorporated as a limited liability company. The two initial owners will be the shareholders and their personal liabilities will be subject to a ceiling at the amount of their respective investments.

The finance acquired through this business proposal will allow Jedi Café to successfully open and operate as a cyber café. A comfortable and innovative environment is provided to the customers with a casual atmosphere. Operations in year one will generate Jedi Café a regular customer base that will allow it to be self-maintained in year two.

1.1 **Objectives**

Jedi Café's objectives for the first year of operation include:

- The creation of an exclusive, stylish, innovative environment that will distinguish Jedi Café from other coffee shops.
- The creation of a comfortable and casual environment that will bring people with different interests and backgrounds together for socialization.
- High-quality coffee and bakeries at a reasonable price.
- Free access to online services.

1.2 **Mission**

As Internet has become more popular and grown at an expeditious pace, easy access has become a part of life. Jedi Café provides the public free access to the Internet, high-quality food and beverages in a comfortable environment. People from different backgrounds will come to enjoy the exclusive, stylish, and innovative environment that Jedi Café offers.

1.3 **Risks**

The risks involved with Jedi Café's business are:

- Insufficient demand for the services provided by Jedi Café in Happy Valley.
- The popularity of the Internet stops to grow.
- The opening of new cafés in the same area which offers the exact services that Jedi Café provides.

2. **Company Summary**

Jedi Café, soon to be opened at Shing Wo Road in Happy Valley, Hong Kong Island, will provide the public free access to the Internet and a special and innovative environment for enjoying top quality coffee and bakeries.

Individuals of all ages and backgrounds will find Jedi Café appealing. The staffs of Jedi Café provide not only top quality service but also helpful instructions to customers in computer usage. This educational aspect will attract elderly customers and youngsters who do not own computers at home. The easy access location also provides residents in the same area convenience to their gourmet and online needs.

2.1 **Company Ownership**

Jedi Café will be privately owned by Obewon Kinobi, the founder and CEO, and Alex Skywalker, a second shareholder.

2.2 **Start-up Summary**

Jedi Café's start-up costs will cover renovation, furniture, computers, coffee machines and cooking equipment, and running capital to cover expenses in the first year.

The equipment provided to Jedi Café's customers with high-speed connection to the Internet forms a large portion of the start-up costs. These costs will include computers, two laser printers and a scanner.

Besides, the start-up costs will comprise the coffee machines such as one espresso machine, one automatic coffee grinder, and other additional equipment. The shop will also require funds for renovation and modification. Breakdown of the start-up costs is illustrated as follows:

Start-up Costs	<u>USD</u>
Legal Fee	642
Stationeries	642
Tableware	642
Consultants	2,565
Insurance	900
Rent	1,853
Coffee Machines	13,718
Bean Grinder	1,020
Computer Systems (x11), Software, Printer, Scanner	31,167
Internet Lines	1,077

Fixtures/Renovation	25,642
Total Start-up Costs	<u>79,868</u>
Start-up Assets	
Running Cash	30,770
Start-up Inventory	2,565
Total Assets	<u>33,335</u>
Total Requirements	<u><u>113,203</u></u>

2.3 Company Location

A site has been chosen in Shing Wo Road in Happy Valley for the following reasons:

- Nearness to the close-by residents.
- Proximity to stylish, upscale restaurants in the same area.
- High visibility.

3. Services

Jedi Café will provide free access to the Internet and computer services such as printing, scanning to customers. It will also provide customers with a unique and innovative environment for enjoying top quality coffee and bakeries.

3.1 Service Description

Jedi Café will provide its customers free access to the Internet and common computer software and hardware. Some of the Internet and computing services available to Jedi Café's customers are listed below:

- Internet browsers.
- Laser color printing, copying and scanning.
- Popular software applications.

Also, top quality food and beverages, and a comfortable environment will provide Jedi Café's customers with a second home, a place to enjoy the benefits of computing in a comfortable environment.

3.2 Competitive Comparison

Jedi Café will be the first cyber café in Happy Valley. It will differentiate itself from other ordinary coffee shops in the same area by providing its customers with free Internet and computing services.

3.3 Technology

Jedi Café will invest in high-speed computers to provide its customers with a fast and efficient connection to the Internet. The computers will be reliable and fun to work with. Jedi Café will continue to upgrade and modify the systems to stay with current technologies.

4. Market Analysis

Jedi Café is facing the opportunity of being the pioneer in the Happy Valley cyber café market. The consistent popularity of coffee, combined with the growing interest in the Internet, has been proven to be a winning concept in other markets and will produce the same results in Happy Valley.

4.1 Market Segmentation

Jedi Café's customers can be divided into two groups. The first group is familiar with the Internet and desires a progressive and inviting atmosphere where they can get out of their offices or bedrooms and enjoy a great cup of coffee. The second group is not familiar with the Internet, yet, and is just waiting for the right opportunity to enter the online community. Jedi Café's target market falls anywhere between the ages of 15 and 70. This extremely wide range of ages is due to the fact that both coffee and the Internet appeal to a variety of people. In addition to these two broad categories, Jedi Café's target market can be divided into more specific market segments. The majority of these individuals are students and business people. See the Market Analysis table below for more specifics.

Market Analysis						
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Potential Customers	Growth					
University Students	4%	15,000	15,600	16,224	16,873	17,548
Office Workers	3%	25,000	25,750	26,523	27,319	28,139
Seniors	5%	18,500	19,425	20,396	21,416	22,487
Teenagers	2%	12,500	12,750	13,005	13,265	13,530
Others	0%	25,000	25,000	25,000	25,000	25,000
Total	2.68%	96,000	98,525	101,148	103,873	106,704

4.2 Target Market Segment Strategy

Jedi Café intends to cater to people who want a guided tour on their first spin around the Internet and to experienced users eager to indulge their passion for computers in a social setting. Furthermore, Jedi Café will be a magnet for local and traveling professionals who desire to work or check their email messages in a friendly atmosphere. These professionals will either use Jedi Café's PCs, or plug their notebooks into Internet connections.

4.2.1 Market Trends

A market survey was conducted recently with key questions asked to fifty

potential customers in Happy Valley. Some key findings include:

- 40 people said they enjoyed free access to the Internet.
- 44 subjects use the Internet to communicate with others on a daily basis.

4.2.2 Market Needs

Factors such as current trends, addiction, and historical sales data ensure that the high demand for coffee and Internet access will remain constant over the next five years. Being the first cyber café in Happy Valley, Jedi Café will enjoy the pioneer advantages of name recognition and customer loyalty. Initially, Jedi Café will hold a 100 percent share of the cyber café market in Happy Valley. In the next five years, competitors will enter the market. Jedi Café has set a goal to maintain greater than a 50 percent market share.

4.3 Service Business Analysis

The retail coffee industry in Happy Valley experienced rapid growth from the 1990's and is now moving into the mature stage of its life cycle. Many factors contribute to the large demand for high-quality coffee in Happy Valley. The yuppies is a main source of demand for coffee retailers. The climate in Happy Valley is extremely favorable to coffee consumption. Current trends in this high-spending residential area reflect the popularity of fresh and strong coffee. Happy Valley is a haven for coffee lovers.

The popularity of the Internet is growing exponentially. Those who are familiar with the Internet are well aware of how fun and addictive going online can be. Those who have not yet experienced with the Internet need a convenient, relaxed atmosphere where they can feel comfortable learning about and utilizing the current technologies. Jedi Café seeks to provide its customers with affordable Internet access in an innovative and supportive environment.

Due to intense competition, café owners must look for ways to differentiate their place of business from others in order to achieve and maintain a competitive advantage. The founder of Jedi Café realizes the need for differentiation and strongly believes that combining a café with complete Internet service is the key to success. The fact that no cyber cafés are established in Happy Valley, presents Jedi Café with a great opportunities to enter into a profitable niche in the market.

4.3.1 Competition and Buying Patterns

The main competitors in the retail coffee segment within the same location are StarBugs and Cathay Coffee. These businesses target a similar segment to

Jedi Café's (i.e. educated, upwardly-mobile students and business people). However, Jedi Café will offer substantial computing services to its customers which these competitors are not providing at the moment.

4.3.2 Distributing a Service

The dual product/service nature of Jedi Café's business faces competition on two levels. Jedi Café competes not only with coffee shops, but also with Internet service providers. The good news is that Jedi Café does not currently face any direct competition from other cyber cafés in the Happy Valley market.

Heavy competition between coffee shops in Happy Valley creates an industry where all firms face the same costs. There is a positive relationship between price and quality of coffee. Some coffees retail at USD2.6/cup while other, more exotic beans may sell for as high as USD3.8/cup. Wholesalers sell beans to retailers at an average of a 50 percent discount. For example, a pound of Sumatran beans wholesales for USD9 and retails for USD18. And as in most industries, price decreases as volume increases.

5. Marketing Strategy

Jedi Café will position itself as a stylish coffee house and Internet service provider. It will serve high-quality coffee and specialty beverages at competitive prices. Due to the number of cafés in Happy Valley, it is important that Jedi Café sets fair prices for its products. Jedi Café will use advertising as its main source of promotion. Ads placed in food magazines will help build customer awareness. Accompanying the ad will be a coupon for discounted coffee and nice bakeries.

5.1 Promotion Strategy

Jedi Café will implement a pull strategy in order to build consumer awareness and demand. Initially, Jedi Café has budgeted USD6,410 for promotional efforts which will include advertising with food magazines and in-house promotions such as offering customers free drinks.

Jedi Café realizes that in the future, when competition enters the market, additional revenues must be allocated for promotion in order to maintain market share.

5.2 Pricing Strategy

Determining a fair market for cyber café is more difficult because there is no direct competition from another cyber café in Happy Valley. Therefore, Jedi Café has to base its prices for coffee and specialty drinks on the "retail profit analysis" provided by our supplier, Jenson Coffee, which has been in the coffee business for over 50 years and has developed a solid pricing strategy.

5.3 Sales Strategy

As a retail establishment, Jedi Café employs people to handle sales transactions. Computer knowledge is a prerequisite for Jedi Café employees. If an employee does not possess basic computer skills when they are hired, they are trained by our full-time technician. Our full-time technician is also available for customers in need of assistance. Jedi Café's commitment to friendly, helpful service is one of the key factors that distinguishes itself from other cyber cafés.

5.4 Sales Forecast

Cost of Sales: The cost of goods sold for coffee-related products was determined by the "retail profit analysis" we obtained from Jenson Coffee. The cost of bakery items is 20% of the selling price. The cost of Internet access is USD847 per month, paid to PC-Net for networking fees.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Unit Sales			
Coffee	53,844	64,990	71,490
Specialty Drinks	40,135	48,350	49,706
Baked Goods	20,420	26,344	23,182
Total Unit Sales	114,399	139,684	144,378

	USD	USD	USD
Unit Prices			
Coffee	2.60	2.60	2.60
Specialty Drinks	3.20	3.20	3.20
Baked Goods	2.60	2.60	2.60

	USD	USD	USD
Sales			
Coffee	138,063	166,642	183,308
Specialty Drinks	128,639	154,970	159,315
Baked Goods	52,361	67,549	59,443
Total Sales	319,063	389,161	402,066

	USD	USD	USD
Direct Cost of Sales			
Coffee (based on average)	34,515	41,659	45,827
Specialty Drinks (based on average)	32,161	38,744	39,829
Baked Goods (based on average)	13,090	16,888	14,862
Subtotal Direct Cost of Sales	79,766	97,291	100,518

6. Management Summary

Jedi Café is owned and operated by Mr. Obewon Kinobi. The company, being small in nature, requires a simple organizational structure. Implementation of this organizational form calls for the owner, Mr. Kinobi, to make all of the major management decisions in addition to monitoring all other business activities.

Personnel Plan

The staff will consist of six part-time employees working thirty hours a week at USD7 per hour. In addition, one full-time technician (who is more technologically oriented to handle minor terminal repairs/inquiries) will be employed to work forty hours a week at USD13 per hour. The other shareholder, Alex Skywalker, will not be included in management decisions. This simple structure provides a great deal of flexibility and allows communication to disperse quickly and directly. Because of these characteristics, there are few coordination problems seen at Jedi Café that are common within larger organizational chains. This strategy will enable Jedi Café to react quickly to changes in the market.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total People	9	9	9
	USD	USD	USD
Owner	30,770	33,847	37,231
Part Time 1	10,154	10,154	10,154
Part Time 2	10,154	10,154	10,154
Part Time 3	10,154	10,154	10,154
Part Time 4	10,154	10,154	10,154
Part Time 5	10,154	10,154	10,154
Part Time 6	5,077	10,154	10,154
Technician	27,861	30,647	33,711
Manager	5,129	30,770	33,847
Total Payroll	119,607	156,188	165,713

7. Financial Plan

The following sections lay out the details of our financial plan for the next three years.

7.1 Start-up Funding

This business plan is prepared to obtain financing in the amount of USD61,539. The supplemental financing is required to begin work on site preparation and modifications, equipment purchases, and to cover expenses in the first year of operations. This amount is planned to be repaid by USD15,385 each year by four years.

Owners' investments has already been secured as follows:

1. USD24,359 of personal savings from owner Obewon Kinobi.
2. USD15,385 from the second shareholder, Alex Skywalker.
3. USD11,911 in the form of short-term bank loans.

	USD
Start-up Expenses to Fund	79,859
Start-up Assets to Fund	33,335
Total Funding Required	113,193
Assets	
Inventory	2,565
Cash Balance	30,770
Total Assets	33,335
Liabilities	
Short Term Bank Loans	11,911
Funds Needed to Raise	61,539
Total Liabilities	73,450
Capital	
Obewon Kinobi	24,359
Alex Skywalker	15,385
Total Planned Investment	39,744

7.2 Projected Profit and Loss

Payroll Expense: The founder of Jedi Café, Obewon Kinobi, will receive a salary of USD30,770 in year one, USD33,847 in year two, and USD37,231 in year three. Jedi Café intends to hire six part-time employees in year one at USD7/hour and a full-time technician at USD13/hour.

Rent Expense: Jedi Café is leasing a 400 square foot facility at USD2,565/month for a total of 36 months. At the end of the third year, the lease is open for negotiations and Jedi Café may or may not re-sign the lease depending on the demands of the lessor.

Utilities Expense: As stated in the contract, the lessor is responsible for the payment of utilities including gas, garbage disposal, and real estate taxes. The only utilities expenses that Jedi Café must pay are electricity and the phone bill generated by fifteen phone lines; thirteen will be dedicated to broadband and two for business purposes.

Marketing Expense: Jedi Café will allocate USD43,270 for promotional expenses over the first year. This amount will be used for advertising in food magazines in order to build consumer awareness.

Insurance Expense: Jedi Café has allocated USD1,847 for insurance for the first year. As revenue increases in the second and third year of business, Jedi Café intends to invest more money for additional insurance coverage.

Projected Profit and Loss data is presented in the table below:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
	USD	USD	USD
Sales	319,062	389,159	402,065
Direct Cost of Sales	79,766	97,290	100,517
Gross Margin	398,828	486,449	502,582
Expenses			
Payroll	119,604	156,185	165,711
Marketing/Promotion	43,270	51,283	55,129
Rent	30,770	30,770	30,770
Utilities	11,693	11,693	11,693
Depreciation	14,309	14,309	14,309
Start-up Cost	8,315	0	0
Insurance	7,693	7,693	7,693
Total Operating Expenses	235,654	271,933	285,305
Profit Before Interest and Tax	3,647	19,940	16,247
Interest Expense	2,981	1,885	1,411
Taxes Incurred	100	2,709	2,226
Net Profit	6,548	24,534	19,884

7.3 Projected Cash Flow

	<u>2009</u>	<u>2010</u>	<u>2011</u>
	USD	USD	USD
Cash Received			
Cash from Operations			
Cash Sales	319,062	389,159	402,065
Subtotal Cash from Operations	319,062	389,159	402,065
Additional Cash Received			
Capital Investment	39,744	0	0
Short Term Bank Loan	11,911	0	0
Long Term Funding	61,539	0	0
Subtotal Cash Received	432,256	389,159	402,065
Expenditures			
Expenditures from Operations	375,732	359,504	375,145
Additional Cash Spent			
Repayment of Short Term Loan	11,911	0	0
Long-term Liabilities Repayment	15,385	15,385	15,385
Subtotal Cash Spent	403,028	374,889	390,530
Net Cash Flow	29,228	14,270	11,535
Cash Balance	29,228	43,498	55,033

7.4 Projected Balance Sheet

	<u>2009</u>	<u>2010</u>	<u>2011</u>
	USD	USD	USD
Assets			
Fixed Assets	57,236	42,927	28,618
Current Assets			
Cash	29,228	43,498	55,033
Total Current Assets	29,228	43,498	55,033
Total Assets	86,464	86,425	83,651
Liabilities			
Long-term Liabilities	46,154	30,770	15,385
Total Liabilities	46,154	30,770	15,385
Net Assets	40,310	55,655	68,266
Shareholders' Equity			
Paid-in Capital	39,744	39,744	39,744
Retained Earnings	566	15,911	28,522
Net Worth	40,310	55,655	68,266