

RAKIJARNICA



PROJECT CAPITAL BUDGETING

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INTRODUCTION

Rakijarnica is a mini bar established by me and my friend. We will sell shots of the indigenous Serbian drink called rakija, in German so called schnapps. We offer many different flavors of great Serbian schnapps, but the most desirable are: plum, pear, cherry, quince, etc.

The unique thing we have is the story. We put a lot of effort in creative marketing to attract as much people for as little money as possible.

First think that we make sure is a location in the center of Brno, where the turnover of pedestrians is the highest of all streets in Brno.

Second, it is not a usual bar; therefore we will serve our clients in a special way. That means that we will sell schnapps in packages for eggs, they will get 10 shots of schnapps inside.

Third, promotion is the part of business where we put the most effort. Our logo is in shape of mustache, which has connection with, indigenous Serbians and is very easily recognizable. On top of it our female waitress will have them too, however artificial ones. For every box of schnapps that we sell our clients will get one too, which is perfect way of self-promotion, since nowadays everyone uses phones with cameras and the most popular thing is Facebook where people post everything that happened to them. This is a cheapest way of making people aware of our existence and that is the way more to be told about the story of Rakirarnica, however it will be presented in numbers.

CAPITAL BUDGETING

The length of the project is 7 year at 8% rate. I will present three different scenarios: optimistic, pessimistic and negative. Any changes on the following factors have an effect on each scenario: the number of sales per year and the cost related to it. Revenues and expenses have annual increase of 5%.

INITIAL INVESTMENTS

Since Rakijarnica is specialized in only one drink, it makes the initial investment much lower than it would be in a usual bar. Also, weren't a small place of 25m² from where our stuff will serve the clients, however there is 50 m² of outside area with five standing tables where our clients can enjoy our speciality. In order to secure our revenue in any weather condition, we will buy umbrellas and heater, and put the blankets on the chairs that our clients can also enjoy their time in wet and cold days. I did some market research on all equipment that is necessary. The total price of equipment is about 417.500,00 CZK, bar counter will cost us 200.000,00 CZK, eight standing tables 20.000,00 CZK, refrigerator 87.500,00 CZK, two big umbrellas 90.000,00 CZK and four heaters 20.000,00 CZK. We need also office equipment, which includes box office cashier, computer, and phone for a total of 25.000,00 CZK. To rent a place we have to pay real-estate agency a fee of 3 rent payment of total 225.000,00 CZK, and pay a deposit of 225.000,00 CZK to owner. The last part of initial investment goes for opening supply which will cost us additional 25.000,00 CZK. This brings our initial investment to the total price approximately 917.500,00 CZK.

PROJECT INPUTS

The place of Rajarnica is in the heart of Brno, Czech Republic. In is located on the highly transient street allowed only for pedestrians. The street is also very interesting by events that are happening there. Inside place is very small, which does not represent huge problem for us, since our concept is based on self-service. People would come to bar counter where they would order a box of 10 shoots. However the outside area is bigger where people can enjoy the drinks. Outside we have 8 standing tables, which are place under umbrella in case of strong sun or bad weather, moreover in winter we will also place 4 heaters so that people will not be frizzing. Not forgetting to mention the cost, we have to pay a monthly rent of 75.000,00 CZK for 25 m² of inside area and 50 m² of outside area.

As we will only specialize in one drink, we make sure that we offer to our clients high quality home-made schnapps. Our supplier is eco farm, which produces only organic schnapps. The price that we arranged is 375 CZK per liter. However, packaging represents huge part of our brand. We will serve schnapps in small plastic shots, which will be placed in egg boxes. On to the box an artificial mustaches will be pasted. It is part of our promotion, since people will put them on, take some pictures and post them on Facebook. Trough some market research, I found a cheapest supplier in China, they offer us small plastic glasses of 0.02 l for 25 CZK per 100 pieces, packaging for eggs 7 CZK per piece and artificial mustaches 7 CZK per piece.

Our operating hours will be everyday from 4p.m until 12p.m, since we only offer alcohol. We will employ two female students, which will work together. They will be paid 125 CZK per hour, all together will come to 28.000,00 CZK per month for one employee, since they will have 2 days in month for free.

Part of our concept is Happy Friday, which means that we will hire a folk band that will play for our clients every Friday for 2 hour. This will cost 5.000,00 CZK per play.

In order to become recognizable, we have to invest also in marketing. Our planning budget for it is 25.000,00 CZK per year.

We also make a deal with insurance company, which will cost us 13.000,00 CZK per year.

The main utilities that will be paid are electricity, water, gas and cleaning, all this together sums up approximately 5.000,00 CZK per month.

DEPRICIATION

Rakijarnica has an initial investment of 917.500,00 CZK for planning period of 7 years. With a straight-line method of deportation we deduct initial investment from planning period, which gives us 131.071,4 CZK a depreciation cost for every year.

REVENUES

Rakijarnica has only one source of income, however it is important to mention that do not sell schnapps as a single shot, one can only buy a box with 10 schnapps. This immediately increases our sales, one such box will cost 300 CZK, that means that one unit or shot cost 30 CZK. In Brno you will not find cheaper shot of any alcohol drink. This is our competitive advantage. However, revenues will change from scenario to scenario, further explanations will be given for each one.

OPTIMISTIC SCENARIO

Under optimistic scenario we made an assumption that we sell one box every five minutes. At the end of the day we have 96 sold boxes, at the end of the week 672, at the end of the month 2688 and at the end of the year 32.256. This means that we would need about 6452 l of schnapps for one year. Since our supplier offers us discount price for this amount of schnapps, this would cost us approximately 2.419.500,00 CZK per year. Our selling price is 300 CZK per one box, which means that, due to this assumption, we would earn 9.676.800,00 CZK, and our selling profit would be 7.257.300,00 CZK per year, which is really optimistic.

REALISTIC SCENARIO

Under realistic conditions we made an assumption that we sell one box every 10 minutes, which reduces our revenue by half to 16128 boxes of schnapps per year. However, since we could not make more sales our supplier increased the price of schnapps by 125 CZK, which end up to a price of 500 CZK per liter. This means that we would need about 3226 l of schnapps for one year. Since our supplier would not offer us discount price for this amount of schnapps, this would cost us approximately 1.613.000,00 CZK per year. Our selling price is 300 CZK per one box, which means that, due to this assumption, we would earn 4.838.400,00 CZK, and our selling profit would be 3.225.400,00 CZK per year, which is still promising.

PESIMISTIC SCENARIO

Under realistic conditions we made an assumption that we sell one box every 12 minutes, which reduces our revenue to 13440 boxes of schnapps per year. However, since we could not make more sales our supplier increased the price of schnapps by € 125 CZK, which ends up to a price of 500 CZK per liter. This means that we would need about 2.688 l of schnapps for one year. Since our supplier would not offer us discount price for this amount of schnapps, this would cost us approximately 1.344.000,00 CZK per year. Our selling price is 300 CZK per one box, which means that, due to this assumption, we would earn 4.032.000,00 CZK, and our selling profit would be 2.688.000,00 CZK per year, which is not too promising.

CONCLUSION

I took this project since, me and my friend, were really thinking about founding such bar, which I still think would be very attractive for people. I did some market research on this topic and all the numbers and figures are realistic. However, this would require higher investments regarding the marketing. Another thing that I am aware of is seasonal outages, probably we would work perfectly during summer and the high winter period, but in between we would face dramatic downfall of clients. By this project I discovered few more things, which I will take in consideration if one day I decide to start Rakijarnica.