

A Project Feasibility Study of Establishing Coffee Hills Coffee Shop in Tagbilaran City

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I. INTRODUCTION

Abstract-The study aimed to determine the feasibility of establishing the Coffee Hills Coffee Shop in Tagbilaran City, Bohol. It sought to determine the viability of the business in terms of the 1) marketing, 2) management, 3) technical, 4) financial, and 5) the socio-economic aspects.

In collecting the data, an interview was conducted among 10 respondents who are loyal customers of another coffee shop in the city owned by the proponent – Gelateria Milano and review of records of the same coffee shop as the basis for sales and other financial estimates.

These were the key findings:

- 1) In terms of the marketing aspect, the proposed coffee shop has a strong demand among the market segment of the affluent middle class, young professionals, students, foreign expatriates, and Filipino nationals who are returning from travel/living overseas, arriving at increasing projected sales of Php2.7 million in the first year to Php6.09 million in the fifth year;
- 2) On the technical aspect, the proposed business is feasible because it will offer a variety of local coffee products and pastries based on the preference of the target customers; it also has an available supply of local coffee and other ingredients, machines and tools, a strategic location in the center of the downtown area;
- 3) On the management aspect, the proposed business is feasible because it has a local source of competent persons who can be hired for the business, has well-crafted personnel policies and competitive salaries for its employee;
- 4) The business is also financially feasible. The owner can put up its initial investment without borrowings. Based on its projected financial statements, its gross profit margin will be 65% from Year 1 reaching 67% on Year 5, and return on assets will also increase annually, from 9% to at least 40% in the succeeding years, the investment will also be recovered in 2.73 years only; and lastly,
- 5) The socio-economic benefits include helping coffee farmers, workers and their families in plantations in Dimiao and Mabini. It will also provide jobs to 11 personnel and contribute taxes to the government amounting to total of Php 1,915,538 in income taxes in five years.

Based on these findings and conclusions, it is recommended that the proposed business be established according to the timetable. It is also proposed that the marketing plan is to position Coffee Hills as a coffee shop that will offer a wider selection of coffee products, offering a relatively lower price, with an attractive al fresco design and location to lure its target market.

“Only one thing is certain about coffee: wherever it is grown, sold, brewed, and consumed: there will be lively controversy, strong opinions, and good conversation. “(Pendergrast, M, 1999)

Coffee has proved to be an essential commodity around the world for hundreds of years. A report of www.fairtrade.org.uk (May 2012) stated that coffee is the most valuable and widely traded tropical agricultural product because 7.9 million tons of coffee were produced in 2011, of which 6.2 million tons were exported. Twenty million smallholders produce 80% of the world’s coffee and an estimated 1.6 billion cups of coffee are drunk worldwide every day. Global consumption has almost doubled in the last 40 years and is forecasted to reach 9.09 million tons by 2019. Consumption growth in the last decade was led by producing countries (57%) and the emerging markets of Eastern Europe and Asia (46%).

A way to make the most out of the plantations is using the coffee beans is putting up a Coffee shop where coffee beans will be roasted, ground, brewed and served; offering to our customers a very fresh, eco-friendly product, with a local taste. The shop will also be a coffee retailer; where costumers will be able to purchase local coffee in beans or grinded. Adding to its marketing prospects is the new Alturas Mall wherein I was able to get a space for a coffee shop.

To complete this project successfully, taking into account legal, economic, technological, scheduling and other factors, this feasibility study will be undertaken.

The 1987 Philippine Constitution encouraged the pursuit of coffee production in support of agriculture and private enterprise development. Article XII Section 1 states: “The goals of the national economy are a more equitable distribution of opportunities, income, and wealth; a sustained increase in the amount of goods and services produced by the nation for the benefit of the people; and an expanding productivity as the key raising the quality of life for all, especially the underprivileged.”

Moreover, it stipulates that “The State shall promote industrialization and full employment based on sound agricultural development and agrarian reform, through industries that make full and efficient use of human and natural resources, and which are competitive in both domestic and foreign markets. However, the State shall protect Filipino enterprises against unfair foreign competition and trade practices. In the pursuit of these goals, all sectors of the economy and all regions of the country shall be given optimum opportunity to develop. Private enterprises, including

corporations, cooperatives, and similar collective organizations, shall be encouraged to broaden the base of their ownership.”—

The Department of Agriculture in the department’s profile stated that Pres. Corazon Aquino’s Executive Order No. 116 mandated the Department to promote agricultural development by providing the policy framework, public investment, and support services, which are needed for domestic and export-oriented business enterprises. Guided by the principle that agriculture is a business, the DA implemented policy and institutional reforms that freed the agriculture markets, enabling farmers to enjoy higher farm gate prices. These reforms included the dismantling of agricultural monopolies.

Griño (2011) in his research paper, “The Coffee Industry: Performance, Policies and Strategic Directions” said that there are several varieties of coffee grown in the Philippines. The most common are Arabica, Robusta, Excelsa and Liberica. Robusta dominates domestic production. Robusta Coffee is used as blender to Arabica as well as in instant coffee. It grows ideally in the lowlands up to nine hundred (900) million. The ideal rainfall range is 1,500 to 2,500 mm, fairly well-spread, but needs dry period for flower initiation. It is tolerant of a wider range of soil with pH range of 5.5 to 6.5. Robusta coffee grows in many locations in the Philippines. It is about eighty-five percent (85%) of the total coffee variety grown in the country.

According to PCARRD or Philippines Council for Agriculture Forestry and Natural Resources Research and Development (2011), the Department of Trade and Industry-International Coffee Organization Certifying Agency reported a one hundred thirty percent 130% increase in export value from One hundred nine million pesos (Php109 M) in 2003 to Two hundred sixteen million (Php216 M) in 2004. And, the export momentum is here to stay as the demand for barako in the Middle East and for Benguet arabica in the United States continues to rise. Export of soluble coffee to Japan is also anticipated to prosper. Similarly, prospects for the industry, in general, are positive.

In an article entitled “Success renews Bohol’s interest on Coffee Farming,” Intalan said that Bohol is actually an ideal place for producing coffee thanks to its soil and climatic conditions. He added that up until the early 1990s, the province was teeming with coffee farms. But as that decade went, market conditions brought down coffee production.

According to Euromonitor’s country report (2013), cafés/bars in the Philippines, is a channel highly dominated by independent players, Rustan Coffee Corp, the operator of Starbucks specialist coffee shops in the Philippines, continues to be the biggest chained player. With a network of two hundred seven (207) stores by the end of 2012, which is the largest in cafés/bars, the business organization accounted for five percent (5%) of total value sales. Starbucks capitalizes on its strong brand equity, which has strengthened customer loyalty. The brand continues to attract the young consumer group of professionals in the country. Following Rustan Coffee Corp are other specialist coffee shops operators, namely Figaro Coffee Co and The Coffee Bean & Tea Leaf Philippines Inc

with value shares of one percent (1%) each.

The report stated that according to analysts, specialist coffee shops in the Philippines are expected to continue growing in the coming years. Specialist coffee shops grew in terms of number of outlets, transactions and value sales. With international coffee chains gaining popularity and other specialty coffee shops following suit, more such outlets are likely to appear. The strong growth is mainly attributed to excellent consumer demand, as coffee drinking has become a very popular social activity.

The same Euromonitor’s Country report added that coffee shops have become a status symbol for younger consumers and Filipinos, in general, have started to be more discriminating in their preferences for coffee. In the Philippines alone, multinational chains dominate specialist coffee shops and have experienced robust growth since the late 1990s. Popular foreign franchised specialist coffee shops include Starbucks, Seattle’s Best, The Coffee Bean & Tea Leaf, Gloria Jean’s and UCC Coffee. In addition, local coffee chains have also experienced strong growth over the past several years.

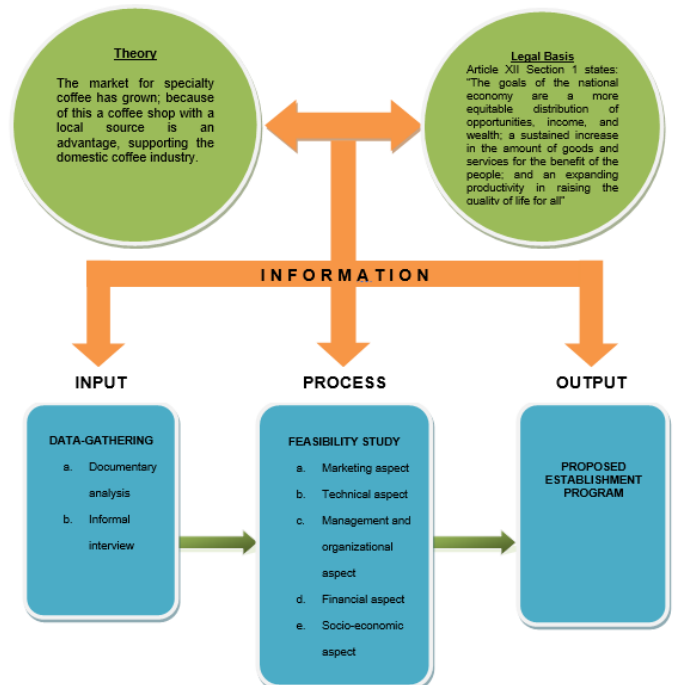


Fig.1. Theoretical Framework and Research Flow

The research was done in Tagbilaran city. Interviews were conducted in the different coffee shop businesses in the country and in Carmen at the Bohol Cacao and Coffee Growers Marketing Cooperative (BCCGMC) where the coffee beans are processed and roasted.

First, Tagbilaran City. This is where the coffee products are intended to be sold through a coffee shop. Tagbilaran has a population of 96,792 people. Local residents and tourists are avid coffee drinkers. They hang around coffee shops to chat, meet new friends, enjoy the scenery and drink a good cup of coffee. Coffee shops are not just stores, but emblems of a good

coffee experience. In addition, the province is now a popular tourist destination with its beaches and resorts.

Tagbilaran City is the capital of Bohol. Its province is already a popular tourist destination with its beaches and resorts. The Chocolate Hills, numerous mounds of limestone formation, is the most popular attraction. Tourism plays a vital role in the island's economy. A new airport with international standards will soon be constructed in Panglao Island which houses the most-visited and accessible beaches in the province. Locals are avid coffee drinkers.

The respondents of the interview were regular customers of Gelateria Milano Ice Cream and Coffee Shop, as well as the bulk buyers of coffee in Bohol. There were 10 respondents out of the estimated 100 regular walk-in customers of Gelateria Milano, and some of them were assumed to be the future customers of the planned coffee shop.

The interview was carried out to determine the coffee drinking habits and usage pattern of coffee shops with clientele composed of young professionals and students in Bohol.

II. EXECUTIVE SUMMARY

This chapter presents the findings on the different aspects of the project feasibility study, namely: the Management, Marketing, Technical, Financing and Financial and the Socio-Economic Aspects

A. Background

Name of the Proposed Business: Coffee Hills Coffee Shop
Type of Business Organization: Sole Proprietorship
Location: Alturas Mall, CP Garcia Avenue, Tagbilaran City
Proponent: Paolo Rigotti

B. Marketing Feasibility Summary

In terms of marketing, the proposed coffee shop has a strong demand among the market segment of the affluent middle class, young professionals, students, foreign expatriates, and Filipino nationals who are returning from travel/living overseas. It is projected that its sales will grow along with the growth of the population, progress of the city including a booming tourism and commerce, and the prospects of the coffee industry. Its 5Ps –product quality, competitive price, good location and effective marketing strategies will surely attract the target customers.

C. Technical Feasibility Summary

The proposed coffee shop will serve locally grown coffees beans, brewed coffees, special coffees preparations, pastries and light snacks. The business is feasible in terms of its technical aspect. This is because the project location is strategic, which is the new Alturas Mall, in Tagbilaran City. The store will be located at the 4th floor of the mall, occupying an area of about 60 square meters. It will also be able to meet the other technical requirements like utilities, machines and equipment, manpower, raw materials (variety of quality coffee from my own plantation) and supplies. Production is efficient because they are locally-available and affordable, thus the estimated production volume will be certainly achieved.

D. Management And Personnel Feasibility Summary

The business is a sole proprietorship, in which the owner is also the manager. As such, fullest attention to every detail of business, particularly in the management of funds, expenditures and the dealing with its human resource and its concerns, as well as that of the clients' needs will be ensured.

The business is feasible in the management aspect because it meets the necessary requirements for success. Its eleven personnel can be hired locally and hiring will ensure that they are qualified and competent in doing their jobs. Also, the personnel's salaries and benefits are competitive to other players in the industry, and its policies and programs are well-defined.

E. Financial Feasibility Summary

The business will be solely funded by the owner through personal savings. The business is very profitable taking into account the gross profit of 65% from Year 1 reaching 67% on Year 5. The operating expenses are decreasing on a yearly basis contributing to a higher net income. The return on assets increases annually, from 9% to at least 40% in the succeeding years. Also, based on the calculation of the payback period, the investment on Coffee Hills will be recovered in 2.73 years only.

F. Socio-Economic Feasibility Summary

The business is also expected to benefit the coffee farmers and workers in plantations, particularly in Dimiao and Mabini. This benefit will redound to their family, the local coffee industry and their communities. It will also provide jobs to 11 personnel. In addition, it will contribute to the government and to the people by paying the taxes from the business. For its five years of operation, a total of Php 1,915,538 in income taxes alone will be paid to the government in a span of five years.

Lastly, Coffee Hills will provide a friendly, comfortable atmosphere where the customer can receive quality fresh brewed coffee, service and entertainment at a reasonable price.

III. PROJECT BACKGROUND

A. Project Proponent

Paolo Mendez Rigotti is the proponent of the business. He will be the owner and manager of the business. As to qualifications, he is an avid coffee drinker himself. Professionally, he has extensive experience in the food industry, and already own a well-established coffee shop in town named Gelateria Milano. He has solid understanding of all aspects of this retail business including inventory management, sales forecasting and planning, marketing among others. He will utilize his experience to streamline business operations and improve sales.

B. Proposed Name of the Business

The business will be named "Coffee Hills." Many reasons brought the proponent to choose this name for the store: Since they will proudly serve a 100% Boholano blend of coffee the name of the store will recall the main symbol of Bohol's

“Chocolate Hills”; the name “Coffee Hills” will not only represent the Coffee Shop, but also the main plantation on the green hills in Dimiao, giving a sense of bio-friendly/organic production. The acronym of the proposed name “CH” is also the abbreviation based on Switzerland’s official Latin Name “Confoederatio Helvetica”, the proponent’s origin country which represents quality and accuracy.

C. Type of Business Organization

The coffee shop will be a sole proprietorship. This type of organization is faster and has easier creation of the business, the legal restrictions are minimal and the owner will be having a free hand in the decision making. Also, he will not be sharing the income with anybody and enjoy its tax advantages.

D. Location of the Business

The store will be located in the newly opened Alturas Mall in Tagbilaran City. A letter of intent was already passed to the leasing department explaining that the Coffee Shop would require 40 to 60 square meters. For this concept, it’s ideal to have an open-air area of about 10 to 20 square meters, for smoking customers and patrons who just want to enjoy an al-fresco environment.

Coffee Hills could complement the business concept of the new Alturas Mall because it may cater to the same target market. According to Alturas management, spaces will be ready for tenants at the last quarter of 2015.

TABLE I: SWAT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> Local Grown Coffee Unique concept Cheaper prices Convenient location 	<ul style="list-style-type: none"> Not premium coffee (Arabica) Limited food choice
Opportunities	Threats
<ul style="list-style-type: none"> Growing preference for eco-friendly products 	<ul style="list-style-type: none"> Potential new entrants in the coffee shop segment may hurt sales Poor farm production

IV. CONCLUSIONS

Based on the detailed findings and presentation of the study, it is concluded that:

1. In terms of the marketing aspect, the proposed coffee shop has a strong demand among the market segment of the affluent middle class, young professionals, students, foreign expatriates, and Filipino nationals who are returning from travel/living overseas. It is projected that its sales will grow along with the growth of the population, progress of the city including a booming tourism and commerce, and the prospects of the coffee industry. Its product quality -100% fresh, locally produced Boholano; competitive price - lower than others; good location and store design – in Alturas Mall strategically situated in downtown Tagbilaran; and effective marketing strategies will surely attract the target customers.
2. On the technical aspect, the coffee shop will serve a variety of products, meeting the preferences of its target market.

Locally grown coffees beans, brewed coffees, special coffees preparations, pastries and light snacks will be offered. The business is feasible in terms of its technical aspect. This is because the business location is strategic, which is the new Alturas Mall, in Tagbilaran City. The store will be at the 4th floor of the mall, occupying an area of about 60 square meters. It will also be able to meet the other technical requirements like utilities, machines and equipment, manpower, raw materials (variety of quality coffee from my own plantation) and supplies. Production is efficient because they are locally-available and affordable, thus the estimated production volume will be certainly achieved.

3. As to the management aspect, sole proprietorship is appropriate, in which the owner is also the manager. As such, fullest attention to every detail of business, particularly in the management of funds, expenditures and the dealing with its human resource and its concerns, as well as that of the clients’ needs will be ensured. The proposed business has an available source of 11 competent personnel, as hiring will be guided by a well-defined personnel job qualifications and description, as well as policies. Also, the personnel’s salaries and benefits to be offered will be competitive to other players in the industry.
4. The business is also financially feasible. The owner can put up its initial investment without borrowings. Based on its projected financial statements, it will be very profitable taking into account the gross profit of 65% from Year 1 reaching 67% on Year 5. The operating expenses are expected to decrease on a yearly basis contributing to a higher net income. The return on assets will also increase annually, from 9% to at least 40% in the succeeding years. Also, based on the calculation of the payback period, the investment on Coffee Hills will be recovered in 2.73 years only.
5. In terms of its socio-economic benefits, the business is also expected to help the coffee farmers and workers in plantations in Dimiao and Mabini. This benefit will redound to their family, the local coffee industry and their communities. It will also provide jobs to 11 personnel. In addition, it will contribute to the government and to the people by paying the taxes from to the business. For its five years of operation, a total of Php 1,915,538 in income taxes alone will be paid to the government in a span of five years.

V. RECOMMENDATIONS

The following are the recommendations:

1. The business will be named “Coffee Hills” as it will proudly serve a 100% Boholano blend of coffee, and it will recall the main symbol of Bohol’s “Chocolate Hills.” It will be owned and managed by a coffee expert whose experience has proven his ability to engage in the business of coffee shop.
2. Considering its positioning map, this proposed business must position itself as a coffee shop that will offer a wider selection of coffee products. It should implement its proposal to offer a variety of local coffee and pastries; employ low pricing and take advantage of an attractive al

fresco design and location to lure its target market – the affluent young professionals, students, foreign expatriates, and Filipino nationals who are returning from travel/living overseas.

- The proponent must implement the proposed business according to the timetable below:

TABLE II: BUSINESS TIMETABLE

Activities	2015									
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
General Project Planning										
Security Permits and Licenses										
Acquiring for the materials										
Purchasing of Supplies and Equipment										
Hiring of Employees										
Promotion										
Start of Operation										

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