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UNDERSTANDING AN EXCELLENCE FINANCIAL STRATEGY USING FEASIBILITY STUDY TOWARDS FNB STARTUP: A CASE STUDY OF SYFO

Kevin Nurizky Wijayanto[1], Atika Irawan[2]
[1,2] School of Business and Management, Bandung Institute of Technology
kevin_nurizky@sbm-itb.ac.id

Keyword

Financial Feasibility, Capital Budgeting, Ready-to-cook Product

Abstract

SYFO is an emerging company in the food and beverage sector that offers households and career women throughout Indonesia with SYFOin, a ready-to-cook product that simplifies their daily culinary activities. Prior to implementing a go-to-market strategy, a financial feasibility study was necessary. This study employed quantitative methodology, acquiring primary data from SYFOin and secondary data from industry peers. This investigation's feasibility study was evaluated employing Payback Period, Net Present Value (NPV), and Internal Rate of Return (IRR), along with scenario evaluation, in order to assess and reduce the business's financial risks. The SYFO feasibility analysis consisted of three scenarios: the most probable, the pessimistic, and the optimistic. The findings of the financial feasibility analyze indicate that SYFO is financially viable as a FnB startup company with a payback period of 2.54 years achieved before the end of the project life (5 years), with a favorable total NPV of IDR 892,696,221 and an IRR value of 42.06%, which is greater than the pessimistic and optimistic scenarios.

INTRODUCTION

The issue of food waste continues to grow worldwide from one year to the next. According to Kata Data (2022), which report from the United Nations Environment Programme (UNEP), Indonesia is one of the largest contributors to food waste in Asia, with an annual total of 20.93 million tons. Indonesia generates a substantial quantity of food waste, significantly more than any other ASEAN country. Then, this food waste is a significant contributor to the increase of waste in Indonesia, which has a negative effect on both the natural world and the economy.

Due to the Indonesian population's conspicuous consumption, the problem of food waste in Indonesia continues to grow significantly. Many Indonesians believe that it is preferable to purchase more food than less for use on a regular basis. In addition, an individual's income also influences their food management and spending patterns. According to research conducted by the World Bank in 2019, high-income households in Indonesia have an average monthly expenditure of more than IDR 6,000,000 million each person, whereas those with middle-incomes have an average monthly expenditure of between IDR 1,200,000 and IDR 6,000,000 million each person, and vulnerable households have an average monthly expenditure of between IDR 532,000 and IDR 1,200,000 each person, and are therefore classified as low-income. Upper-income households have a propensity to shop at supermarkets, where they frequently purchase significant quantities over a specific time period, such as weekly or monthly. Due to financial constraints, low-income households typically shop regularly at stalls, mobile vegetable vendors, and traditional markets.

Due to these factors, a substantial amount of food is wasted because the amount of food purchased exceeds the requirements of each family member. The excess food then contributes to Indonesia's growing food waste problem. This is supported by the findings of FAO research

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indicating that 50.18 percent of respondents encountered the phenomenon of excessive daily food portions. This phenomenon necessitates household participation in minimizing food waste generated by their daily food consumption. This can be accomplished by selecting and preparing nutritious foods for the daily ingestion of family members. On the other hand, there are presently a large number of career women who frequently face challenges and limited time when managing and preparing sustenance for their families (Lubna and Abdurrahman, 2022). Consequently, there is still a large disparity between food preparation and food loss at the household level, where food management is not optimal in terms of quantity, culminating in food waste due to the aforementioned factors.

This phenomenon presents opportunities for the ready-to-eat or ready-to-cook food industry to assist in optimizing food preparation and minimizing food waste at the household level. According to GlobalData (2021), the ready-to-cook food industry will experience significant growth over the next few years, with the market size of ready-to-cook food in Indonesia expected to increase by 6% from 2021 to 2026. Based on the issues, market potential, and expansion of the industry, SYFO is a solution that fills the void. SYFO offers ready-to-cook products that aid households and working mothers in daily family meal preparation. The primary product of SYFO, SYFOin, is a ready-to-cook product in the form of nutritionally balanced side dishes consisting of vegetables, fruits, and meat in the right portions that can be cooked easily and quickly to increase cooking time efficiency and prevent food waste that may result from excess cooked food.

SYFO is an emerging business in the food and beverage industry, or preferably in the prepared-to-eat food industry, that offers an already-prepared food product, SYFOin, to Bandung housewives and career women with an upper-class economic background and a monthly income between Rp 3,000,000 and Rp 5,000,000. Presently, SYFO is experiencing some difficulties in its development, the most significant of which is that its products have a substantial margin of profit but low profitability. In addition, this condition renders SYFO's financial position unstable, resulting in stagnant development in contrast to the majority of other startup companies, which experience exponential growth.

According to CB Insight, there are 12 factors that contribute to the downfall of emerging businesses, and one of the most important is that they run out of cash / lack to raise new capital. Fundraising is one of the most essential aspects of developing a successful fledgling business. In order to raise capital, startup entrepreneurs must calculate and execute sound financial planning and business feasibility studies as the primary supporting data, while administering the company's finances prudently. A thorough feasibility study based on financial performance will assist in understanding the business potential from a financial perspective with financial planning and projections, and in determining whether or not SYFO is a viable fledgling business. Consequently, the purpose of this research is to evaluate the financial viability of SYFO over a five-year projection period (2024-2028). The analysis of SYFO's viability is conducted using projections and financial calculations; the results can be used to determine how to further develop the company.

METHOD

This study employs a quantitative methodology. This study's data was compiled from secondary and primary sources. Secondary data is gathered from journals, books, papers, and literature reviews to support primary data and assumptions in this study, particularly in calculating and analyzing financial metrics to obtain essential information for conducting financial feasibility. While the primary data source for this research is the financial data of SYFO companies from 2021 to 2023, this study also includes secondary data sources. When calculating and analyzing financial metrics to obtain vital information for conducting financial feasibility, primary data serves as the foundation for the main assumptions. In addition, the method for making financial assumptions in this research is an internal and external analysis of the company. For internal analysis, use the SWOT-TOWS framework, and for external analysis, using PESTEL

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framework. Several calculations are then performed in the computation and analysis of financial metrics to determine the financial viability of the company.

a. Financial Statements

According to Zimmerer et al. (2008), Financial statements are financial records that include a formal record of the financial transactions of a business as well as operations and provide a summary of its overall financial performance and position during a specific time period. The financial statements include the balance sheet, income statement, and cash flow statement, as well as the accompanying financial annotations.

b. Time value of money

The theory of the time value of money is based on the principle that a dollar received today is more useful than a dollar obtained in subsequent years. Potential value techniques evaluate cash flows at the end of the project's existence (time zero), whereas present value techniques evaluate cash flows at the commencement of a project's existence (time zero).

c. Capital Budgeting

According to Zimmerer et al. (2008), Capital budgeting can be defined as the evaluation of long-term investment opportunities that a company is able to pursue in order to make an informed decision regarding the financial viability of pursuing investment opportunities.

d. Cost of Capital

Cost of capital refers to the minimal rate of return that a company must generate on its investments in order to maintain its current market value and attract potential investors. Cost of capital is also known as the WACC (Weighted Average Cost of Capital), that is one of the most significant financial metrics for a company in raising capital through debt and equity financing and can be viewed as the average cost of financing for a company.

e. Financial Feasibility

Financial feasibility is the assessment of a proposed project or investment opportunity's economic feasibility and financial viability (Brigham & Ehrhardt, 2013). Using multiple financial parameters such as repayment period, Net Present Value (NPV), and Internal Rate of Return (IRR), a financial feasibility analysis is performed to gain insight into the viability of the company.

f. Scenario Analysis

According to Bodie et al. (2014), typically, scenario analysis is utilized to evaluate risks and generate strategic decisions based on outcome possibilities.

RESULTS

3.1 Assumptions

3.1.1 Internal Analysis

3.1.1.1 SWOT-TOWS

Table 1. SWOT Analysis

Strengths	Weakness
- Offer FnB products that could save time, money, and reduce food waste. - Reasonable prices for items that are simple to prepare. - Product with well-balanced nutrients and premium ingredients. - Fit-portion goods.	- Restricted funding resources. - Absence of technological advances and cuisine specialists. - Limited goods existence span.
Opportunities	**Threats**

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- The growing market for ready-to-eat dishes in Indonesia with not many rivals. - Numerous people in Indonesia engage in highly mobile activities. - Good culinary trends.	- Rivals offering comparable goods. - Alternative goods, like refrigerated meals, have reduced prices. - people in Indonesia are unfamiliar with already-prepared foods.

- **SO Strategy**
  - Investigate and create ready-to-cook goods that adequately meet the requirements of the target consumers and address their food preparation difficulties.
  - Implement marketing initiatives to obtain consumer acceptance of ready-to-eat meals.
- **ST Strategy**
  - Enhance goods distinctiveness and benefit to succeed with both straight and indirect goods rivals in the industry.
  - Implement goods introduce and market education based on the established benefit offer.
- **WO Strategy**
  - Acquire funding and investments from external investment organizations or angel investors.
  - Expand the SYFO as a company, including constructing a larger management team and increasing apparatus with cutting-edge technology to improve operations.
- **WT Strategy**
  - Construct an internal team comprised of technology and culinary experts to increase the item's durability and operational efficacy.
  - Modify goods pricing and add additional value benefits in order to compete with straight and indirect rivals.

3.1.2 External Analysis

3.1.2.1 PASTEL

a. Political

The stable political climate and government support for startup development in Indonesia are conducive to economic expansion. The government is targeting 4,500 digital startups by 2024, and international events such as G20 2022 offer investment opportunities in a variety of sectors, including early startup development. This stable political climate allows startups to expand their enterprises without significant obstacles. The positive attitude and support of the government for the industry contribute to its success.

b. Economical

Indonesia's economic recovery from the COVID-19 pandemic has resulted in a new normal, indicating the country's ability to maintain economic stability. The country's emerging market provides appealing investment opportunities, thereby attracting vast inflows of capital and foreign investment. This is supported by the Indonesian government by enabling investment accessibility, particularly in fledgling industries. Bank Indonesia projects a GDP growth of 4.5-5.3% for the upcoming year, with an optimistic objective of IDR 21,000 trillion by year's end. This favorable economic climate is predicted to benefit Indonesia's business and startup developments.

c. Social

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During the period of transition following the pandemic, there has been a transition from remote to normal activities, with the majority of industries requiring high mobility. According to research conducted by Kantar, forty percent of adults responsible for meal preparation spend more time preparing meals than they did prior to the pandemic. This results in a high demand for ready-to-cook products, which people who need to save time cooking require. People now prioritize high-mobility activities, such as working from home or school, over low-mobility activities, such as physical distance. This combination of high mobility and limited time requires time-saving daily activities, such as cooking. The social conditions of Indonesians are optimal for the expansion of the food and beverage industry, particularly in the area of ready-to-eat meals.

d. **Technological**

Social distancing policies have resulted in the emergence of post-pandemic digitalization, which has accelerated the adoption of new technologies and digital activities. Traditional purchasing is being replaced by online shopping, particularly in the fast-food and food-ordering industries. E-wallet payment systems such as QRIS are also anticipated to be widely adopted, making it simpler for individuals to purchase products online. Startups that adopt digitalization in their product sales and payment processes will experience greater growth than those that do not.

e. **Environmental**

Environmental concerns, such as food waste, are gaining significance among stakeholders, such as consumers and investors. ESG metrics reward businesses for managing their operational impact and being environmentally responsible. Customers' awareness of environmental issues has increased, resulting in a preference for environmentally favorable products over those that are not. This creates a prospective market opportunity for environmental start-ups to provide solutions to these problems.

f. **Legal**

The government's support for startup companies and early-stage ventures has simplified business launch in Indonesia. The Cipta Kerja Law allows for smaller capital limits and less paperwork in establishing business entities like Perseroan Terbatas (PT), boosting economic development and employment rates. This favorable environment allows startups to access investment opportunities while maintaining their market position.

3.2 Pro-forma Financial

The preparation of monthly pro forma financial statements is based on beforehand established estimates. The pro forma financial statements for each month were produced in advance to reduce the possibility of errors caused by variances between the monthly information. The final pro forma financial statements for each month are prepared and reflect the most probable scenario. The optimistic pro forma financial statements were created by presuming 5% higher monthly revenue in the most likely scenario for the initial year, whereas for the least likely scenario, 5% less revenue was presumed.

3.3 Weighted Average Cost of Capital

Table 2. Capital Asset Pricing Model (CAPM) of SYFO

Capital Asset Pricing Model

Unlevered Beta	0.47
Risk-Free Rate	7%
Market Return	3.53%
Cost of Equity	5.37%

$$\boldsymbol{R_e} = \mathbf{7}\% + (\mathbf{0.47}(\mathbf{3.53}\% - \mathbf{7}\%))$$

$$\boldsymbol{R_e} = \mathbf{5.37}\%$$

Equation 1. Cost of Equity of SYFO

As SYFO is totally financed by capital investments and has no debt or other financial leverage, the weighting is 1.00. Below is the equation for Weighted Average Cost of Capital (WACC).

$$\boldsymbol{WACC} = \mathbf{1.00}\ \boldsymbol{X}\ \mathbf{5.37}\%$$

$$\boldsymbol{WACC} = \mathbf{5.37}\%$$

Capital Asset Pricing Model (CAPM) is a financial modeling technique comprised of beta, risk-free beta, and return on equity. As evidenced by the SYFO structure, it is more appropriate to businesses with modest leverage and a stable cash flow. The beta of Indofood CBP Sukses Makmur Tbk (ICBP) over the next ten years (2019-2030) is 7%, whereas the return on equity is computed using the Compound Annual Growth Rate (CAGR) from the Bursa Efek Indonesia (BEJ) for the next five years (2017-2022). The CAPM method assigns an equity cost of 5.37 percent.

3.4 Feasibility Analysis

Table 3. Feasibility Analysis of SYFO

Technique	**Value**	**Acceptance Criteria**	**Result**
Payback Period	2,54 Years (2 Years 6 Months 13 Days)	Throughout Project's Lifetime (< 5 Years)	Accept
NPV	Rp 892,696,221	Positive NPV (NPV > 0)	Accept
IRR	42.06%	Higher than WACC (IRR > 5.37%)	Accept

The feasibility analysis reveals that the repayment period for this endeavor is 2.54 years, or 2 Years 6 Months 13 Days to be more specific. This repayment term is preferable because it is accomplished before the conclusion of the project's lifecycle (5 years), indicating that the cash flow projection will be able to reach the break-even point of the first investment in year 3 and produce net cash flow in subsequent years. In addition, the NPV calculation yields favorable outcomes with an entire NPV of Rp 892,696,221 over the course of the project, indicating that the initiative is profitable, with greater cash inflow than cash outflow, in the context of the company's operations. In addition, the estimation of the IRR yields greater outcomes than WACC (42.06 % > 5.37 %), indicating that the project satisfied the chosen factors and is anticipated to generate returns that exceed the required rate of return of the company. Regarding the results of the three feasibility methods that have already been developed, it is possible for SYFO to implement the plan with the aim of attaining its sector's objectives.

3.5 Scenario Analysis

Table 4. Scenario Analysis of SYFO

Technique	**Scenario**		
	Pessimistic	**Most-Likely**	**Optimistic**
Payback Period	4,11 years	2,54 years	1,95 years
NPV	Rp 524,992,948	Rp 892,696,221	Rp 2,163,460,243
IRR	11.53%	42.06%	68.87%

The evaluation was performed by adjusting specific presumptions to be 5% fewer for the less favorable scenario and 5% greater for the more favorable scenario, relative to the most likely scenario upon which the scenario analysis is founded. The unfavorable scenario implies a time frame for repayment that can be realized in 4.11 years or less, which is shorter than the project's lifespan (5 years). With the overall NPV of Rp 524,992,948, the NPV of the unfavorable scenario is positive, indicating that it satisfies the feasibility requirements. Furthermore, the IRR of the unfavorable scenario is positive and greater than the WACC (11.53 % > 5.37 %), indicating that the project would be possible for execution according to the estimation of the unfavorable scenario, since those are 3 accepted requirements out of an overall of 3 that have to be accepted to prove that this project is company feasible. In contrast, the more favorable scenario yields adequate outcomes with an investment back rate.

CONCLUSION

The feasibility study of SYFO concentrates on three scenarios: the most-likely, pessimistic, and optimistic. Calculations and projections for the study are based on the most probable scenario. SYFO's development requires an initial investment of Rp 405,500,000, with a return period of 2.54 years, or 2 years, 6 months, and 13 days. SYFO generates a projected accumulated net profit that is substantially greater than the initial investment, with an NPV of Rp 892,696,221 and an IRR of 42.06% within five years. This indicates that the project is financially feasible and can therefore be implemented.

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