



# MISFITS



# CAFE



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## EXECUTIVE SUMMARY

*“As children, we revel in imaginary play, ask outlandish questions, draw blobs and call them dinosaurs. But over time, because of socialization and formal education, a lot of us start to stifle those impulses...And yet we know that creativity is essential to success in any discipline or industry.”* (Kelly & Kelly, 2012)

*“Promoting creativity for and among youth and harnessing young people’s creative potential and energy needs to be a priority in finding creative solutions to today’s challenges.”* (United Nations Youth, 2013).

Our business concept idea is to open up a creative café called “Misfits Café” for youths, which will be located in Gwarko, Kathmandu, Nepal. The idea behind this café is to create an opportunity for youths to express themselves artistically, and to use this to channel their feelings and thoughts while they go through the journey to adulthood. The café will be a place for artwork to be displayed, purchased and critiqued by peers, customers, and even professionals. The expected start-up cost of this project will be approximately NZD\$10,212. Misfits Café is expected to start turning a profit by 2016 by selling food and beverages, and by collecting commission from artwork that sells. Misfits Café will also hold events, competitions and work to involve the student and youth community to enable their artistic abilities, and to help them bloom. It is going to partner with different Facebook based creativity forums for youths and organizations in the field of art to build a strong network base. Apart from helping youth express their feelings in form of art, the café is also helping the society by creating a creativity focused youth who can think differently and give unorthodox solution to problems persisting in it.

## THE BASIC PROBLEM

The metamorphosis from innocent childhood to responsible maturity is bridged by youth. As a result, most youth are caught between the crossfire of childhood and adulthood. This results in frustration stemming from many walks of life. Parents and teachers who do not understand peers who make fun and a disapproving society lead to dissatisfaction with life itself. Youth deal with this dissatisfaction through various coping mechanisms – channelling their feelings through poetry, prose, paintings and various other forms of art being one of them.



## THE BUSINESS OPPORTUNITY

The business opportunity does not sprout only from dissatisfaction with life. There exists a growing number of artists in various fields of art in Nepal, especially Kathmandu. These activities are mostly confined only in social networking sites, especially Facebook. “Word Warriors: A Poetry Slam Group” is a group with over 7000 members on their Facebook page. They also hold a monthly poetry recital program and organize a few workshops regarding poetry. Another group, “Nepalese in Photography,” has over 27000 members. Similarly, there are several other pages and groups related to art with a substantial number of members being highly active. Members in these pages are mostly young amateurs although few experts are also present.

If these activities can be brought from Facebook page to a face-to-face stage, that too in an informal setting, a really genuine business opportunity exists. To tap this opportunity, Misfits Café fits. By providing a platform to showcase various treatise, paintings, photography and music to be presented in front of peers or professionals the café can help youths promote and help sell their work.

## THE TARGET MARKET

The UN, for its statistical purposes, defines youth as the people in the age bracket of 15 to 24. Our business will target a similar segment. More specifically, we are seeking students in high school and undergraduate studies; the age group of our target market thus being 16 to 22. Customers of our café are further categorized, on attitudinal differentiation, as:

- i. **Aspiring amateurs:** They are amateur artists who see themselves as professionals in the future. They would want a direct and regular access to established professionals, and opportunities to be mentored by them.
- ii. **Hobbyists:** They are amateur artists who don't want to be a full time artist but have deep passion and immense appreciation for art. They are also curators who long for their works to be accepted and critiqued by both likeminded peers and professionals.
- iii. **Audience:** They are shy customers who don't want to take centre-stage but enjoy various forms of art. They want to be a part of a group who understands them. They also want good food and good art.



## LOCALE

The café will be located at Gwarko area in Kathmandu city. The rationale behind this is that there are 12 high schools and colleges, with more than 6000 students, who fit the description of our target market, within two mile radius of Gwarko. More than 80% of the respondents in a sample survey in few of these colleges revealed that they would be willing to come to the café regularly if the café becomes what it promises to be. 180 customers (3% of 6000) will yield supernormal profit for us.



## THE BUSINESS MODEL



The basic idea of this business is to be a place where youth can be who they are – young, brash, arrogant, genius – but creatively. Misfits Café sells experience by addressing several of youth needs.

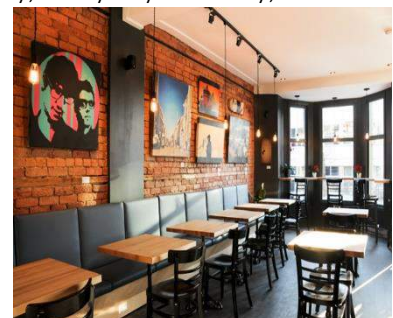
- i. **Need for belongingness:** The psyche of youth is volatile and they can have all sorts of negative feelings. They feel misunderstood by people around them – their family, teachers and even some friends. They feel they are never where they belong. The café will provide a sense of belongingness by bringing in creative people who feel the same way together.
- ii. **Acceptance and appreciation:** In Nepal poetry, painting, photography, drama etc. are not thought as career paths. “How will you make money by drawing pictures? Are you Leonardo Da Vinci?” are some of the questions a pursuer of painting are likely to be asked. The café will give them a place to be appreciated for what they do.
- iii. **A place to explode:** Youth feel frustrated by many things but mostly so by not being able to express themselves. The café will provide them an opportunity to channel their emotions and freely express themselves directly or indirectly. Direct expression will be possible in interactive programs such as poetry recitals, musical performance and drama. Indirectly, they can express through paintings and photography.

The café will also adopt the switchboard model to act as an intermediary between aspiring amateurs and professionals. Professionals’ help to the customers, the aspiring amateurs, will come in two folds. First of all, professionals will critique the customers’ work, give reviews, and comment on how they can better themselves. Secondly, the customers will also get an opportunity to be mentored by a professional personally.

## HOW IT WORKS

The café cannot be a place to share art to an audience throughout the day, every day. Similarly, networking is not possible on a daily basis. The café will provide differentiated food and beverages with differentiated services in day-time hours and weekdays. The café will feature photography and painting of fellow amateurs on its wall during these times. Amenities, the service scope of the café and good food will keep customers coming in in these times. Trading activities of paintings, photography and other works can take place at these hours.

5 PM to 7 PM on weekends will be “Expression Hours” or “Exhibition



Hours” at the café. In Expression Hours, aspiring amateurs and hobbyists will perform their short prose, poetry and drama in front of an audience and a few professionals. These professionals will critique the performance. In Exhibition Hours, paintings and photography will be exhibited in presence of the artists themselves. That way they can describe their work (only if they want to) to the attendees, consisting of peers and professionals.

A practical question arises. How will we have prose, poetry, drama, photography and painting at the same place?

Each weekend, a theme will be selected and based on that theme, Expression and Exhibition Hours will take place. The themes will be in the order of: poetry, photography, short prose, painting and drama. So a theme will be repeated after five weeks. This works in everyone’s favour because it gives time for the artists to prepare quality work, lets us change the operational elements to go with the theme, and the audiences do not feel bored or monotonous.

## THE REVENUE MODEL

Although the café sells experience, it will make money primarily by selling food. Audiences will be the greatest revenue source from food and beverages.

Another revenue source is the commission for the sale of a piece of art. A commission of 5% to 20% can be charged on the selling price for providing a trading floor between seller and prospective buyers. Aspiring amateurs and hobbyists will benefit from this value proposition. In the long run, even professionals can auction their work at our café.

The café will also organize several competitive and non-competitive events that will give direct access to aspiring amateurs with professionals. These events will be targeted at aspiring amateurs rather than hobbyists, however, hobbyists are also encouraged. If a competitive event is held, say for the best prose writing, an entry fee (competition fees) for the competitors will be charged which will add revenue to the business. We will not charge any fee in non-competitive events but they will add value to customers and help increase customer loyalty.

In addition, the café itself need not always organize events. There is a cluster of people and institutions who regularly organize art related events independently. We offer them an interdisciplinary environment. For instance, a drama group performing at our café will have an opportunity to hire a scriptwriter and a photographer from the same place. We can, therefore, also generate revenues by allowing third party events to be organized at our café for a fee.

## FINANCIALS AND ECONOMICS

The PCI of Nepalese is on the rise. In 2012, it rose about 15% to US\$ 700 (World Bank, 2014). This income is heavily skewed towards population in Kathmandu. With high earning parents and independent youth, the purchasing power of youth is also high. Based on an observatory analysis of cafeteria and coffee shop in Kathmandu University School of Management (KUSOM) we found that a student spends an average of NPR 150 (NZD 1.8) daily in campus alone. The sample survey among college students around Gwarko showed above 60% of students spending more than NPR 300 (NZD 3.6) daily on food and beverages. Based on cost of raw materials and existing prices, we found that a competitive price will generate a 30% mark-up on cost; so, we have given 10% of sales as a commission to staff in addition to above market average base salary. Café sales are influenced by numerous variables, so we have reduced the number of days we are expected to make a sale to smoothen the variability.

| Item         | Initial Price/per unit <sup>1</sup> | Initial expected unit sales daily <sup>2</sup> | Expected days sales |      |      |      |      |
|--------------|-------------------------------------|--|---------------------|------|------|------|------|
|              |                                     |  | 2014 <sup>3</sup>   | 2015 | 2016 | 2017 | 2018 |
| Coffee       | NPR 50 (0.6 NZD)                    | 100  | 120                 | 300  | 300  | 300  | 300  |
| General food | NPR 150 (1.8 NZD)                   | 75   | 120                 | 300  | 300  | 300  | 300  |

The expected start-up cost for this project is NPR 851000 which is equivalent to NZD 10212 (details in appendix section). We will present our concept to Biruwa Ventures<sup>4</sup>, a popular incubation centre in the country, to provide us with angel investors who will provide us with a loan, equal to the start-up cost, payable in twelve quarters. The loan will be repaid with a 7% annual rate. In addition, the investor will also get 5% equity shares for an additional NPR 100000, his/her ROI in 2016 being 25% (interest and dividends) and 1100% (only dividends, if full dividends are paid) in 2026. We will also provide stock options for the manager and employees of maximum 3% share equity for a price of NPR 100000; this money will help us meet payables in early years. Paying suppliers 15 days later will render cash cycle negative as we will instantaneously receive cash from our customers, reducing our burn rate.

Expected profitability over the next five years and beyond (in NZD) (refer appendix for details):

| Year       | 2014  | 2015  | 2016   | 2017   | 2018   | 2022 <sup>5</sup> | 2026 <sup>6</sup> |
|------------|-------|-------|--------|--------|--------|-------------------|-------------------|
| Revenue    | 24360 | 61620 | 111000 | 118032 | 141918 | 418253            | 1643010           |
| Expenses   | 28062 | 68604 | 106800 | 109199 | 125504 | 358809            | 1359122           |
| Net profit | -3702 | -6984 | 4200   | 8833   | 16414  | 59444             | 283888            |

## PROMOTION

|   |   |
|---|---|
| 1. Promotion through service delivery and service outlet. | <ul style="list-style-type: none"> <li>• Free Wi-Fi and electricity outlet in each table for laptops</li> <li>• Serene, well-ventilated, bright and quiet environment</li> <li>• Stationery items for customers (sketch pads, pencils, etc.)</li> <li>• Involvement of customer in co-production (e.g. asking customers to submit their own recipe for their favourite food and serving the most creative ones)</li> <li>• Well-spoken, encouraging and creative employees</li> </ul> |
| 2. Promotion focused to the target market                 | <ul style="list-style-type: none"> <li>• Organize workshops in 12 high schools and colleges in Gwarko regarding various forms of art with accomplished artists</li> <li>• Co-organize events in coordination with active groups such as Word</li> </ul>   |

<sup>1</sup> Price expected to increase by 20% every two years. Such is the trend in Nepal, especially in cafés and restaurants.

<sup>2</sup> Unit sales expected to rise to 120 for coffee and 100 for food in 2015 due to advertising and promotion. From there on a constant 5% increase per year expected.

<sup>3</sup> 2014 sales begin from July 1. So calculations in 2014 are of six months.

<sup>4</sup> Biruwa Ventures provides various help to startups (<http://www.biruwa.net/>)

<sup>5</sup> One more café added by 2022. Two cafés in total.

<sup>6</sup> Two more cafés added by 2026. Four cafés in total.

|                      |   |
|----------------------|---|
|                      | <p>Warriors, Nepalese in Art, etc. which will make us familiar with their group members</p> <ul style="list-style-type: none"> <li>Collaborate with colleges (not just students of the college) in organizing their internal events</li> </ul>  |
| 3. General Promotion | <ul style="list-style-type: none"> <li>Website with details of our activities as well as timeline of forthcoming events</li> <li>Facebook page to facilitate instant communication and take RSVP of events and other social sites such as Pinterest &amp; Twitter to promote</li> <li>Blog to post the pictures or poems or any form of arts possible from featured artists and also other interested party</li> <li>YouTube channel to post videos of dramas or slam poetry or events organized in the café</li> <li>Promoting different artists and their performance at the café (also a way to provide mileage for professionals to work with us)</li> <li>Publishing a news report of such events on leading magazines such as ECS Living, WAVE, and Teenz.</li> <li>Presentations on programs organized by youth forums such as Last Thursdays<sup>7</sup></li> </ul> |

## TOWS MATRIX

|  |  |  |
|--|--|--|
| <p><b>Internal Factors</b></p> <p><b>External Factors</b></p>  | <p><b>Strengths (S)</b></p> <p>S1 Dedicated, creative and improvisational employees</p> <p>S2 Highly motivated founding team with business knowledge and art affinity</p> <p>S3 Network with several art professionals and connection with art enthusiasts</p> <p>S4 Uniqueness of business concept</p> <p>S5 Locational advantage</p> | <p><b>Weakness (W)</b></p> <p>W1 Monetary constraints</p> <p>W2 Lack of experience in running a café</p> <p>W3 Lack of adequate and appropriate space to serve as a platform for multi-faceted activities</p>  |
| <p><b>Opportunities (O)</b></p> <p>O1 Huge social media presence of amateurs and professionals</p> <p>O2 Increasing number of people pursuing art as a profession</p> <p>O3 Lack of exposure to hobbyists and aspiring amateurs</p> <p>O4 Increasing trend of cafés as</p> | <p><b>SO Strategies</b></p> <ul style="list-style-type: none"> <li>Provide networking and mentorship from professionals (S3, O3)</li> <li>Use social media platforms to reach out customers and mentors (S3, O1)</li> <li>Creative customer engagement to increase average time and money</li> </ul>                                   | <p><b>WO Strategies</b></p> <ul style="list-style-type: none"> <li>Partner with an experienced café manager to tap in the possible opportunities (W2, O1 to O6)</li> <li>Use light and flexible furniture and other materials to makeshift the service layout adapting to a</li> </ul> |

<sup>7</sup> Last Thursdays are organized by Entrepreneurs for Nepal where young entrepreneurs get an opportunity to promote their business amongst many other things.

|   |   |   |
|---|---|---|
| hangout places<br>O5 Increasing purchasing power of youth<br>O6 Lack of direct competitors, i.e. competitors offering the same product  | spent in café (S1, S4, O5, O6)  | particular theme (W3, O2, O4)   |
| <b>Threats (T)</b><br>T1 A lot of substitute products and services<br>T2 Threat of new entrants with more resources if the model becomes successful<br>T3 Because of the target group of 16-22, difficulty in retaining life-long customers<br>T4 High employee turnover in fast-food industry (Sharma, 2012) | <b>ST Strategies</b><br><ul style="list-style-type: none"> <li>• Train and involve employees in understanding customer needs to personalize and customize services (S1, S2, S3, T2)</li> <li>• Blend of uniqueness and locational advantage to minimize substitute threats during expansion (S3, S5, T1)</li> <li>• Build strong network with existing professionals, aspirers and other customers to retain their interests and minimize threats from new entrants (S1, S3, T3)</li> </ul> | <b>WT Strategies</b><br><ul style="list-style-type: none"> <li>• Emphasize cost reduction to reduce breakeven point (W1, T1, T2)</li> <li>• Increase employee retention and loyalty through adequate incentives, ownership options, and technical and behavioural trainings to safeguard trade secrets and overcome lack of experience respectively (W2, T1, T2, T4)</li> </ul> |

## PARTNERSHIP AND ALLIANCES

All our alliances are aimed to be collaborative partnerships that yield mutually beneficial results.

## COST-REDUCING BUSINESS SUPPLIERS

**I-Kalu Meat Centre** is a popular meat chain in Kathmandu. They can be our supplier for meat. We will purchase in bulk at discounts and we will provide mileage by mentioning them in our menu.

**Coffeecull Nepal** is a supplier of organic coffee in Nepal, from whom we will get coffee beans. We will also promote them through our menu and we will not sell any coffee products from their competitors.

Both these suppliers are located near our location and a healthy relationship with them will enable us to adopt JIT inventory system and reduce inventory related costs.

## VALUE-ADDING PARTNERS

Collaboration with **Word Warriors: A Poetry Slam Group, Nepalese in Art, Nepalese in Photography**, and others to organize events. These collaborations will make us known among their groups and help us build and strengthen the network with professionals. These groups will also benefit because it will help them promote themselves and promote the work of their members. In a correspondence with a



Facebook page admin of Nepalese in Art, we found that they have not held any art exhibitions yet and would love to exhibit in a setting such as ours.

Another important value adding partner is **Gurukul**, the oldest Nepalese Drama theatre. Despite the fact that Gurukul generates top notch actors to the Nepalese movie industry, as a drama theatre, it had to be shut down due to lack of exposure (e-Kantipur, 2012). Under a new management team, a theatre school in the name of Gurukul has been opened. It promotes youth talent such as writing, acting and storytelling through the dramas it showcases. They can showcase their drama at our café for a fee and not only sell tickets but also get a portion of proceeds from food and beverages consumed by audience during the play, thereby resulting in a win-win collaboration – promotion and benefits to both the parties.

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## APPENDIX

### Start up cost Details

|     |  | NPR           | US\$        | NZD          |
|-----|--|---------------|-------------|--------------|
|     | <b>Start-up costs</b>                  | <b>851000</b> | <b>8865</b> | <b>10212</b> |
| 1   | Rent down payment of land and building | 120000        | 1250        | 1440         |
| 2   | Renovation costs                       | 50000         | 521         | 600          |
| 3   | Kitchen Equipment                      | 171000        | 1781        | 2052         |
| 3.1 | <i>Coffee Maker Machines</i>           | 67000         | 698         | 804          |
| 3.2 | <i>Ovens</i>                           | 54000         | 563         | 648          |
| 3.3 | <i>Other utensils</i>                  | 50000         | 521         | 600          |
| 4   | Computers                              | 50000         | 521         | 600          |
| 5   | Musical Instruments                    | 55000         | 573         | 660          |
| 5.1 | <i>Guitars</i>                         | 15000         | 156         | 180          |
| 5.2 | <i>Hand percussions (wooden)</i>       | 15000         | 156         | 180          |
| 5.3 | <i>Sound system</i>                    | 25000         | 260         | 300          |
| 6   | Projectors                             | 30000         | 313         | 360          |
| 7   | Furniture                              | 125000        | 1302        | 1500         |
| 7.1 | <i>Tables</i>                          | 40000         | 417         | 480          |
| 7.2 | <i>Chairs</i>                          | 60000         | 625         | 720          |
| 7.3 | <i>Other amenities</i>                 | 25000         | 260         | 300          |
| 9   | Cash requirement                       | 250000        | 2604        | 3000         |

### Financial Projection

|     |                                 | 2014         | 2015         | 2016          | 2017          | 2018          | 2022          | 2026           |
|-----|---------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|----------------|
| 1   | <b>Revenues (NZD)</b>           | <b>24360</b> | <b>61620</b> | <b>111000</b> | <b>118032</b> | <b>141918</b> | <b>418253</b> | <b>1643010</b> |
| 1.1 | Coffee sales                    | 7200         | 18000        | 30240         | 31752         | 40008         | 120023        | 480090         |
| 1.2 | Food sales                      | 16200        | 40500        | 75600         | 79380         | 92610         | 277830        | 1111320        |
| 1.3 | Sales commission                | 0            | 120          | 360           | 600           | 900           | 1800          | 5400           |
| 1.4 | Networking fees                 | 960          | 2400         | 3600          | 3900          | 4200          | 6000          | 8400           |
| 1.5 | Event Fees                      | 0            | 600          | 1200          | 2400          | 4200          | 12600         | 37800          |
| 2   | <b>Expenses (NZD)</b>           | <b>28062</b> | <b>68604</b> | <b>106800</b> | <b>109199</b> | <b>125504</b> | <b>358809</b> | <b>1359122</b> |
| 2.1 | Staff salary                    | 5760         | 11520        | 12096         | 12701         | 13336         | 26672         | 53343          |
| 2.2 | Commission to staff             | 2340         | 5850         | 10584         | 11113         | 13262         | 39785         | 159141         |
| 2.3 | Raw materials<br>(food, coffee) | 16380        | 40950        | 74088         | 77792         | 92832         | 278497        | 1113987        |
| 2.4 | Event expenses                  | 480          | 1200         | 1260          | 1323          | 1389          | 2778          | 5557           |
| 2.5 | Advertising                     | 600          | 1200         | 600           | 600           | 600           | 600           | 600            |
| 2.6 | Regular Payment                 | 1902         | 3804         | 3804          | 1902          | 0             | 0             | 0              |
| 2.7 | Rent                            | 0            | 2880         | 3168          | 3168          | 3485          | 9277          | 24694          |
| 2.8 | Miscellaneous                   | 600          | 1200         | 1200          | 600           | 600           | 1200          | 1800           |
|     | <b>Net Profit</b>               | <b>-3702</b> | <b>-6984</b> | <b>4200</b>   | <b>8833</b>   | <b>16414</b>  | <b>59444</b>  | <b>283888</b>  |