Pre-Feasibility Study

INTERNET CAFE

S M E D A

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1   INTRODUCTION

1.1   Project Brief

This objective of this document is to provide information regarding investment opportunity for setting up an Internet Café, with focus on product differentiation i.e., providing some unique services (Video/Audio Chat, Web Developing) which are not offered by a typical Internet Café. The business can be established in any of the major cities of the country.

1.2   Opportunity Rationale

In a short period of three decades, computer has become a household item all around the world. With the introduction of Internet, in the 90s, computers became a significant medium to communicate with people around the world. It became a source of information and now there is an increasing number of businesses shifting toward e-Commerce, which means doing business on the Internet. From a few hundred thousand pages on the Internet in 1994, there are now over a billion pages and these are being added at the rate of about a million new pages every day.

Internet was introduced in early 90's in Pakistan, and since then, it has been on a tremendous growth because of incentives provided by Government of Pakistan to promote Computer related fields, such as computer education, Internet Service Providers, etc.

The demand of Internet in the country has been growing since its introduction. From few ISPs in 90s, now (2005), there are more than 40 operating in Pakistan. There are more than 7.5 million Internet users in Pakistan and the number is growing at a tremendous rate. There were only 29 cities with Internet facility in August 2000, which has expanded to around 1898 cities by 2005.

Given the income level and low purchasing power of majority of Internet users in Pakistan, opening an Internet café to cater to this segment is a viable project.

1.3   Proposed Capacity

The proposed project is based on 20 computer systems.

1.4   Total Project Cost

The total cost of the project is approximately Rs. 1.110 million.

1.5   Proposed Location

For the Proposed project following premises should be considered.

- Proximity to the majority of people living are from middle income group
- Proximity to Private hostels setup in different areas of cities.
- Low cost rent Rs. 4000/- per marla
- High visibility.

1.6 Services

Proposed internet café will provide full access to the resources of internet and other online services, printing, composing, scanning, fax. However or the sake of innovation and differentiation there would be a unique services of Video/Audio Chat. Just being a net café will not serve the purpose as business need to be more than a value addition process rather than a traditional net café, that is why after being operational for first two years there will be a facility added to the cart i.e. Web developing. It will not only be the value addition but also a business expansion tool.

2 CURRENT INDUSTRY STRUCTURE

According to an estimate, Internet subscribers are more than 300 million on the globe and Internet growth is 100 percent per year. Internet took only five years to reach 50 million users. The Internet market in Pakistan is moving in positive direction. Internet usage has shown a tremendous growth, since its introduction in Pakistan.

In Pakistan, ISPs started to provide services in 1996. Today, the ISP market in Pakistan is booming, and new ISPs are being set up at a regular interval. In 2005, there were about 38,309 internet hosts. There were over 7.5 Million Internet users in 2005; this number has been growing with the increase in the number of cities that are now on the World Wide Web.

From few Internet providers, now all the major cities have quiet a number of Internet providers to cater to the increasing demand of Internet. According to PTCL, the number of cities in Pakistan that has Internet access has grown to 1898 and below is the breakup of these cities.

Table 2-1   Details of Cities with Internet Service

Province/Area	No. of Cities
Punjab	1166
Sindh	202
NWFP	420
Balochistan	110

Source: Pakistan Telecommunication Company Limited, PTCL

Because of the economic conditions in Pakistan, very few people can afford a personal computer at their home and this has been the primary reason for the success of internet cafés all over the country.

Looking at the existing internet cafés operating in different cities of Pakistan, it can be inferred that all of them are providing very traditional services. Most of the customers use internet for chat purpose. The hardware being employed by majority of the cafés is usually not the latest one. Naturally, the quality of the service is not of the required standards and can be improved substantially.

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3   CRUCIAL FACTORS & STEPS IN DECISION MAKING FOR INVESTMENT

3.1   Key Success Factors

The common viability of this Internet café depends on the following factors:

- **Location of the project**: Location of the project is of prime importance. If the project is set up in a location with high income group, the amount of traffic on the café will be less because majority of the people will have personal computers at their home. A project like this can really do well in places, where the majority of people living are from middle income group, who cannot afford a personal computer. Another location can be near private hostels setup in different areas of cities.

- **Unique Services:** Majority of the internet cafes are operating on a similar kind of services. If the proposed setup is opened with a strategy of differentiation, it can be more successful i.e. video/Audio chat facility, for value addition, web development should also be started in the up coming years. In this feasibility web development services are initiated after two years of operations of net café.

- **Quality of Service**: The most important factor for the success of the project is the quality of service provided to the customer, which includes customer's privacy, speed of internet and the atmosphere in the café.

3.2   OPPORTUNITIES

Growing population of daily Internet users. The importance of the Internet almost equals that of the telephone. As the population of daily Internet users increases, so will the need for the services of internet café.

3.3   THREATS

- **Rapidly falling cost of Internet access.** The cost of access to the Internet for home users is dropping rapidly. Internet access may become so cheap and affordable that nobody will be willing to pay for access to it

- **Emerging local competitors.** Additional competitors are on the horizon, and we need to be prepared for their entry into the market.

- **A dependence on quickly changing technology.** Internet Café is a place for people to experience the technology of the Internet. The technology that is the Internet changes rapidly.

- **Cost factor associated with keeping state-of-the-art hardware.** Keeping up with the technology of the Internet is an expensive undertaking. Internet café needs to balance technology needs with the other needs of the business. One aspect of the business can't be sacrificed for the other

3.4   Target Customers

The proposed project intends to cater to students and middle income group people. Furthermore will be a magnet for local and traveling professionals who desire to work or check their e-mail massages in friendly environment.

- Students
- Business people
- Middle Income Groups
- Private Hostels

The large student population will become an important part of the Net Café customer base. The student population continues to grow with the success of the educational institutes. Evening entertainment, access to the Internet, and the up-scale ambiance will attract the students. Business community is growing rapidly with the addition of new companies day by day. Internet café will provide an opportunity to local and traveling professionals to check their e-mails communications, this will be an attracting entity for the Middle income group and for the residents of private hostels as they do not have access to the internet at their living places.

3.5   Market Need

As the popularity of internet continues to grow at an exponential rate, easy and affordable access is quickly becoming a necessity of life.
Public wants access to the methods of communication and volumes of information now available on the internet, and access at a cost they can afford and in such a way that they are not socially, economically and politically isolated.

3.6   Market Trends

More than 90 percent of visitors of these cafes and clubs are youngsters and their sole objective to get to these is to get enjoyment

3.7   Knowledgeable and friendly staff

Internet café is a service business. The success of the business depends upon the quality of the service offer and delivering the service consistently. So a knowledgeable friendly and eager to please staff, state-of-art computer hardware and a clear vision of the market need will help it succeed.

4   INTERNET CONNECTION

The major cost of an Internet café is the Internet connection. For providing better service, the proposed project will use a High Band width connection for better speed as the project is going to provide service of video chat. It is recommended that the Internet connection should be taken from the best Internet service provider.

5   RECOMMENDED CONNECTION

If the project is set up in area, where DSL Internet connection is available, it is recommended to use DSL Internet connection instead of a any other Internet connection. This will improve the speed of Internet, which will improve the performance of video chat and will also reduce the telephone expense.

6   MARKETING

Marketing will play an important role in success of the project, as majority of the players in the industry are following the strategy of low price with no differentiation, i.e., they are providing similar services and competing with each other on the basis of lower prices.

It is recommended to follow a different strategy for the proposed project, which is the product differentiation. For this purpose, a special service of video chat facility is going to be offered by the proposed project. To build an image of a reliable and excellent Internet service, extensive promotion in the locality near the project will be done by use of print media and billboards.

7   EQUIPMENT REQUIREMENT

The proposed project is going to be of 20 computer systems and the details of the equipment required for the project is given below:

Table 7-1   Equipment Requirement Details

Description	No.	Cost Per Unit (Rs)	Total Cost (Rs)
Computer System (P-4)	21	25,000	525,000
Hub	1	6,000	6,000
Computer Camera	20	1,000	21,000
UPS	1	60,000	60,000
Printer	2	28,000	28,000
Scanner	1	4,000	4,000
Modem DSL	1	8,000	8,000
Other Equipment			
Networking Cable	500 ft	10 per ft.	15,000
Total Equipment cost			**659,200**

Table 7-2   Furniture & Fixture Details

Description	No	Rate (Rs)	Total Cost (Rs)
Computer Table & Cabins	21	5,000	105,000
Computer Chairs	21	2,000	42,000
Air conditioner	2	25,000	50,000
Telephone sets	2	1,000	2,000
Fax machine	1	5,000	5,000
Carpet	900 sq. ft	30 per sq. ft	27,000
Total Furniture & Fixture			**226,140**

The project is based on Pentium-4 computer systems. Second hand systems are also available in the market at much lower prices. The reason for using the latest system is the new software coming in the market that requires more powerful systems which will provide better service to the customer. The prices of computer systems vary with the introduction of new technology in the market.

8   HUMAN RESOURCE REQUIREMENT

The details of human resource requirement for the project are given in the following table:

Table 8-1   Human Resource Requirement

Description	No	Monthly Salary (Rs)	Annual Salary (Rs)
Network Administrator	1	8,000	96,000
Security Guard	1	4,000	48,000
Total Cost			**108,000**

9   LAND & BUILDING REQUIREMENT

The details of the area required for the proposed project is given in the below table:

Table 9-1   Covered Area Requirement Details

Description	Area Required (sq. ft)
Computer cabins	600
Sitting Area	100
Administrator office	100
Free space	90
Total Area Required	**900**

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9.1 Recommended Mode

It is recommended that this project should be started in a rented building, as this will reduce the initial capital cost. The approximate area required is almost 4-marla space. The details of monthly rent are given below:

Table 9-2 Rental Cost Details

Description	Monthly Rent (Rs)	Annual Rent (Rs)
Approximate Rent @ Rs 4,000 per marla	16,000	192,000

9.2 Suitable Locations

This project can be set up in any city, where Internet service is available. As the proposed project is based on product differentiation, so, it will be more successful in the larger cities like Lahore, Karachi, Islamabad, Peshawar, as the speed of the Internet service provider is better in cities.

If the project is set up in Lahore, it is recommended that it should be set up in a locality, where there are hostels or which have majority of middle income group, who cannot afford a personal computer.

9.3 Utilities Requirements

- Electricity
- Telephone

10 PROJECT ECONOMICS

10.1 Project Cost

Table 10-1 Project Cost

Capital Expenditure	Total Cost (Rs)
Equipment	659,200
Furniture & Fixtures	231,000
Pre-Operational Expense	28,000
Total Capital Expenditure	**918,200**
Working Capital	192,000
Up front Insurance Payment	0
Up front Building Rent	105,600
Total Working Capital	**105,600**
Total Investment in Project (Rs)	**1,110,200**

10.2 Financing Plan

For the purpose of this pre-feasibility study, it has been assumed that all the funding required for this project would be provided by the investor himself.

10.3 Project Returns

Table 10-2   Project Returns

Internal Rate of Return	35%
Net Present Value (Rs)	360,258
Payback Period (Years)	2.36

11 KEY SUCCESS FACTORS

The commercial viability of this proposed Internet Café depends on the following factors:

- Location of the project is of prime importance. If the project is set up in a location with high income group, the amount of traffic on the café will be less because majority of the people will have personal computers at their home. A project like this can really do well in places, where the majority of people living are from middle income group, who cannot afford a personal computer. Another location can be near private hostels setup in different areas of cities.

- Majority of the Internet cafés are operating on a similar kind of services. If the proposed setup is opened with a strategy of differentiation, it can be more successful i.e. video chat facility, or a small snack café along with the Internet service. With more services provided under the same roof, more traffic can be generated in the Internet café.

- The most important factor for the success of the project is the quality of service provided to the customer, which includes customer's privacy, speed of Internet and the atmosphere in the café.

12 FINANCIAL ANALYSIS

12.1 Projected Income Statement

Projected Income Statement					
	2006	**2007**	**2008**	**2009**	**2010**
Sales					
Internet Sales	1,330,560	1,425,600	1,520,640	1,615,680	1,710,720
Printing Revenue	133,056	142,560	152,064	161,568	171,072
Fax Revenue	39,917	42,768	45,619	48,470	51,322
Composing Revenue	144,000	180,000	216,000	252,000	288,000
Web Development Revenue			50,000	70,000	90,000
Total revenue	**1,647,533**	**1,790,928**	**1,984,323**	**2,147,718**	**2,311,114**
Cost Of Goods Sold					
Internet Connection Charges	300,000	297,000	294,030	291,090	288,179
Printing Charges	66,528	71,280	76,032	80,784	85,536
Composing Charges	72,000	90,000	108,000	126,000	144,000
Web Development			25,000	35,000	45,000
Fax Charges	19,958	21,384	22,810	24,235	25,661
Machine Maintinence	26,611	28,512	30,413	32,314	34,214
Direct Electricty	237,553	219,766	229,217	238,668	248,118
Total CGS	**722,651**	**727,942**	**785,501**	**828,090**	**870,708**
Gross Profit/Loss	**924,882**	**1,062,986**	**1,198,822**	**1,319,628**	**1,440,405**
Operating Expenses					
Payroll Admin	144,000	158,400	174,240	191,664	210,830
Marketting And Selling	26,611	28,512	30,413	32,314	34,214
Amortization (Pre-Operations)	5,600	5,600	5,600	5,600	5,600
Depriciation	178,040	178,040	178,040	178,040	178,040
Total	**354,251**	**370,552**	**388,293**	**407,618**	**428,685**
Operating Profit/Loss	**570,631**	**692,434**	**810,529**	**912,011**	**1,011,721**
Non Operating Expenses					
Financial Charges (S.T)	26,880	32,341	34,800	37,554	40,633
Financial Charges (L.T)	35,291	29,952	23,866	16,927	9,017
Building Rent	192,000	211,200	232,320	255,552	281,107
Total	**254,171**	**273,494**	**290,986**	**310,033**	**330,758**
Profit Before Tax	**316,460**	**418,940**	**519,544**	**601,978**	**680,963**
Tax	63,292	83,788	103,909	120,396	136,193
Profit After Tax	**253,168**	**335,152**	**415,635**	**481,582**	**544,770**
Retained Earning (Year Beginning)		253,168	588,320	1,003,955	1,485,537
Retained Earning (Year Ending)	253,168	588,320	1,003,955	1,485,537	2,030,307

12.2 Projected Balance Sheet

Projected Balance Sheet						
	Year 0	**2006**	**2007**	**2008**	**2009**	**2010**
Assets						
Cash		400,678	875,997	1,425,712	2,034,436	2,698,437
Upfront Insurance		17,804	14,243	10,682	7,122	3,561
Upfront Building Rent	192,000	211,200	232,320	255,552	281,107	309,218
Total Current Assets	**192,000**	**629,682**	**1,122,560**	**1,691,946**	**2,322,664**	**3,011,216**
Gross Fix Asset	890,200	890,200	890,200	890,200	890,200	890,200
Less: Accumilated Depriciation		178,040	356,080	534,120	712,160	890,200
Net Fix Assets	**890,200**	**712,160**	**534,120**	**356,080**	**178,040**	**0**
Pre Operational	28,000	22,400	16,800	11,200	5,600	0
Total Intengible Assets	**28,000**	**22,400**	**16,800**	**11,200**	**5,600**	**0**
Total Assets	**1,110,200**	**1,364,242**	**1,673,480**	**2,059,226**	**2,506,304**	**3,011,216**
Liabilities						
Running Finance	192,000	231,010	248,570	268,242	290,238	314,789
Long Term Loan	252,080	213,944	170,470	120,909	64,409	0
Total Liabilities	**444,080**	**444,954**	**419,040**	**389,151**	**354,647**	**314,789**
Equity						
Paid Up Capital	666,120	666,120	666,120	666,120	666,120	666,120
Retained Earnings	0	253,168	588,320	1,003,955	1,485,537	2,030,307
Total	**666,120**	**919,288**	**1,254,440**	**1,670,075**	**2,151,657**	**2,696,427**
Total Liability & Equity	**1,110,200**	**1,364,242**	**1,673,480**	**2,059,226**	**2,506,304**	**3,011,216**

12.3 Project Cash Flow Statement

Projected Cash Flow						
	Year 0	**2006**	**2007**	**2008**	**2009**	**2010**
Operating Activities						
Net Profit		253,168	335,152	415,635	481,582	544,770
Depriciation		178,040	178,040	178,040	178,040	178,040
Insurance amortization		5,600	5,600	5,600	5,600	5,600
Upfront Insurance Payment		-17,804	3,561	3,561	3,561	3,561
Cash Provided By Operations	**0**	**419,004**	**522,353**	**602,836**	**668,783**	**731,971**
Financing Activities						
Long term Debt principle Payment		-38,136	-43,475	-49,561	-56,500	-64,409
Building Rent Payment	-192,000	-211,200	-232,320	-255,552	-281,107	-309,218
Building Rent Expense		192,000	211,200	232,320	255,552	281,107
Addition to Long term debt	252,080					
Addition to Short Term Debt	192,000	39,010	17,560	19,672	21,995	24,551
Paid up Capital	666,120					
Casfh Flow By Financing Activities	**918,200**	**-18,326**	**-47,034**	**-53,121**	**-60,059**	**-67,969**
Investing Activities						
Capital expenditure	-918,200					
Cash Flow by Investing Activities	**-918,200**					
Net Cash	**0**	**400,678**	**475,319**	**549,715**	**608,724**	**664,002**
Cash Balance brought Forward	0	0	400,678	875,997	1,425,712	2,034,436
Cash Balance	0	400,678	875,997	1,425,712	2,034,436	2,698,437
Cash carried Forward	**0**	**400,678**	**875,997**	**1,425,712**	**2,034,436**	**2,698,437**

13 KEY ASSUMPTIONS

Table 13-1   Financial Assumptions

Project Life (years)	5
Equity	100%
Discount rate	20%

Table 13-2   Production Assumptions

	Server		Client	
No. of Computers		1	20	21
Total Capacity per day(Hours)				240
Maximum Capacity Per Year				86400
Capcity utilization (Year 1) %				70%
Capcity utilization (Year 1) hours				60480
Capcity Growth Rate per Year %				5%
Maximum Capacity Composing/pages/Day				100
first year capacity				20%
Increase In composing capsity				5%
First year capacity Web Developing\web\year				5
Increase in W.D per year				2

Table 13-3   Operating Assumptions

Shift per day	1
Hours operational per shift	12
Days operational per Month	30
Days operational per year	360
Pre Operation Period (Month)	1

Table 13-4   Economy Related Assumptions

Electricty Charges Per Month/ Year One	25,212
Electricty growth rate	10%
Wages growth rates	10%
Equipments Mantinence G.Rate	2%

Table 13-5   Depreciation Expense Assumptions

Computer Equipments	20%
Furniture Fixtures	20%
Pre Operations	20%

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Table 13-6   Expense Assumptions

Internet Connection Charges Year 1	300000
Connection Type	DSL 512 KB
Connection Charges per Month	25,000
Cimposing Charges % of Composing Sales	50%
Web Development Charges % of web Sales	50%
Internet Connection Charges Decrease rate	1%
Equipment Maintinence % of Internt Sales	2%
Prepaid Building rent (Months)	12
Rent Rate per Marla	4000
Sq.Ft In One Marla	225
Rent Growth Rate	10%
Insurance Rate (% of N. Fix Assets)	2%
Marketting & Selling Expenses(% of sales)	2%
Taxes	20%
Printing Expences(% of Printing Price/Unit)	50%
Fax (% of Price per fax)	50%

Table 13-7   Revenue Assumptions

Video /Audio Chat Price/hour	25
Internet Plain Price/Hour	20
Plain Internet Usage	60%
Video /Audio Usage	40%
Internet Sales Price Decrease rate	0%
W.A Sales Price per hour	22
Printing Revenue % of Internet sales	10%
Fax Revenue % of internet Sales	3%
Composing Price	20
Web Price	10000

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