International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 06 Issue 07 July 2023
DOI: 10.47191/ijcsrr/V6-i7-80, Impact Factor: 6.789
IJCSRR @ 2023
www.ijcsrr.org

Replacement Analysis for Replacing One of Revenue Stream Fuller Smoketown

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ABSTRACT: PT Mahajana Boga Semesta is a company engaged in the provision of food and beverages as well as hospitality. After the pandemic ended and the people were free to be active, the company decided to expand its t-customer business line by establishing a restaurant in the city of Bandung with the trademark Fuller Smoketown. To bring innovation that is different from other restaurants, Fuller Smoketown focuses on developing food variants whose cooking process uses the smoking method. Apart from that, the company has also embedded facilities that other restaurants do not have, such as VIP rooms which can be used as a place for meetings, meals, and karaoke. This VIP room is equipped with karaoke facilities that are appropriate and equivalent to karaoke places in general. At the beginning of the opening of the Fuller Smoketown restaurant, this VIP room became the prima donna and was in great demand by consumers but in the second month and so on the interest in this VIP room actually decreased and did not show any business growth until in the end after 1 year of operation the company planned to close the business line VIP room and replace it with a new line of business, namely leasing business space to third parties. The company is still hesitant to realize this plan due to considerations of cost and revenue issues whether it is comparable to closing the old line of business and replacing it with a new line of business. In this study the author will try to provide an explanation of this plan by using replacement analysis with the indicator NPV, IRR, and Payback period. so that it can assist companies in making decisions regarding the replacement of old business lines with new business lines.

KEYWORDS: Food and Beverage; Replacement; Project; Facilities

INTRODUCTION

Bandung city is famous for its culinary tourism, but in 2020 when the Covid 19 virus entered Indonesia, many industries were affected, one of which was the food and beverage industry. many restaurants in the city of Bandung have finally had to close their businesses due to the pandemic because of government policies that limit community mobilization so that many restaurants lose their customers and make restaurants lose sales and in the end are unable to finance their operational expenses. in mid-2020 PT Mahajana Boga Semesta decided to start a business line in the form of a cloud kitchen business with the trade name fuller Smoketown where the company tries to introduce their products by selling products online, the products being sold are processed smoked meat products. as time goes by and the pandemic is getting under control and government policies are starting to loosen up, PT Mahajana Boga Semesta plans to expand its business into a restaurant, which was originally just a cloud kitchen. not only opening restaurants in general, but the company has also embedded several innovations and facilities for their customers by equipping them with VIP rooms with karaoke facilities. this is proclaimed to be one of the new revenue streams for restaurants that can help restaurant performance and make restaurants more attractive. Besides being able to be used as an entertainment room for karaoke, this VIP room can be used as a private dining area and can also be used as a meeting room.

BUSINESS ISSUE

At the beginning of the opening of the fuller Smoketown restaurant, the VIP room was able to generate sales of IDR 13,770,000 with a sales frequency of 4 times which indicated that the average sales per booked was IDR 3,442,000. the VIP room has a capacity for 10 people in it, which means the average spending per pax is IDR 459,000. The company considers this to be a good sign for the future considering the sales target set by the company for the VIP room business line is IDR 15,000,000 with a sales frequency of 10 times and an average spending per pax of IDR 150,000. but after 1 year of operation, sales from the VIP room business line showed instability and tended to be far from the target set with only 1 sale reaching the target, namely during the fasting month

(April 2023) where the sales obtained were IDR 18,330,000 with a sales frequency of 13 times and average spending per pax IDR 155,339.

With the fluctuating performance of the VIP business line and far below the set target, the company plans to close the VIP room business line and replace it with a business space that is rented out to third parties with the provision that the third party renting the business space must be a tenant who sells a variety of processed desserts such as ice cream or cakes with the hope that apart from getting rent from third parties, the company will also be assisted in selling its products with complimentary dessert products sold by third parties, this is considered to be beneficial for both parties. However, the company is unsure whether to close the VIP room business line and replace it with business space for rent is the right decision considering that to carry out this plan the company must spend funds for renovations.

LITERATURE REVIEW

To answer this problem, it is necessary to carry out a replacement analysis in which the author must determine the value of the weighted average cost of capital (WACC) and then make financial projections for the new and old business lines so that incremental cashflow is found from the two business lines. after finding the incremental cash flow, it is then reviewed into a financial projection to obtain investment decision criteria where the determining factors are the value of the net present value (NPV), internal rate of return (IRR), and the payback period (PP). the value of an NPV must be positive which indicates that the value of future profits after deducting the inflation rate still has a positive value, while the IRR indicates how much the return will be compared to the WACC, and PP provides an illustration of the period of how long it will take to return from the initial value investment. the author will also carry out sensitivity analysis, base scenario, worst scenario, and the best scenario to be able to see and find out whether the plan to replace old business lines with new business lines must be carried out in what conditions.

METHODOLOGY

This research begins with data collection as a basis for developing analysis, the data used is primary data obtained from focus group discussion (FGD) interviews and secondary data obtained from annual financial reports. on primary data the author focuses on digging up information about what the company plans to do to improve the performance of the old business line, and on secondary data the author focuses on getting initial investment and income statement data from the old business line which the writer then evaluates to collect assumptions that will be used use in replacement analysis as well as sensitivity analysis.

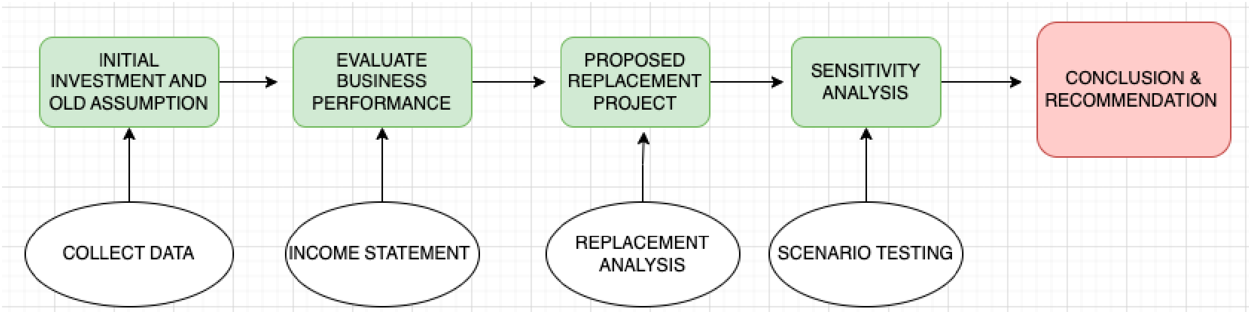

Figure 1. Research Design

By conducting a sensitivity analysis, the author will be able to provide conclusions and recommendations under what conditions the company is better off doing a replacement line of business and under what conditions the company is better off continuing the old line of business.

FINDING AND ARGUMENTS

The WACC of this replacement project is 8.7%, the same as the value of the cost of equity. In this replacement project there is no cost of debt after tax because the source of funding is 100% from the company's equity. To get the cost of equity, the risk premium is multiplied by the beta value of the Indonesian food and beverage industry, then added by the risk-free rate. the risk premium

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refers to Indonesia's country risk premium (damodaran, 5 January 2023) while the risk-free rate is the value of Indonesia's government yield.

WACC		DATA	
COST OF EQUITY	8,7%	EQUITY	100%
AFTER TX COST OF DEBT	0%	DEBT	0%
WACC	8,7%	TAX	22%
		RISK FREE RATE	6,36%
		RISK PREMIUM	9,23%
		BETA	0,25
		COST OF CAPITAL	10,0%
		PAYBACK PERIOD	5
		INFLATION	6%

Figure 2. Weighted Average Cost of Capital

It can be seen in the income statement report that sales of the VIP room business line tend to fluctuate and are difficult to predict. To be able to make a financial projection, the writer makes a minimum, maximum, and average sales analysis on the indicators of number of booked, number of pax, average spending per pax and revenue to plan sales performance for the next 4 years which will then be compared with line sales plans. new business to obtain incremental cash flow.

Month	Revenue	Number of Booked	Number of pax	Average Spending / Pax
Jun-22	IDR 13.770.000	4	30	IDR 459.000
Jul-22	IDR 1.887.500	1	9	IDR 209.722
Aug-22	IDR 4.846.000	4	35	IDR 138.457
Sep-22	IDR 1.470.000	1	8	IDR 183.750
Oct-22	IDR 7.610.000	5	38	IDR 200.263
Nov-22	IDR 1.890.500	1	10	IDR 189.050
Dec-22	IDR 3.225.000	2	18	IDR 179.167
Jan-23	IDR 3.445.000	2	15	IDR 229.667
Feb-23	IDR 6.897.000	3	24	IDR 287.375
Mar-23	IDR 7.702.000	8	34	IDR 226.529
Apr-23	IDR 18.330.000	13	118	IDR 155.339
May-23	IDR 2.780.000	3	22	IDR 126.364
Total	**IDR 73.853.000**	**47**	**361**	
Average	**IDR 6.154.417**	**3,9**	**30**	**IDR 215.390**
Min	**IDR 1.470.000**	**1**	**8**	**IDR 126.364**
Max	**IDR 18.330.000**	**13**	**118**	**IDR 459.000**
Growth	**-14%**			

Figure 3. Income Statement VIP Room

the number of booked and number of pax for the first year in the financial plan is obtained from the average number of booked and number of pax data from the financial statements then multiplied by 12 months and revenue is obtained from multiplying the average spending per pax with the number of pax in the financial plan so that total revenue is obtained in the following year was IDR 77,755,877. the proportion of the cost of goods sold is 50% of total revenue, cost of workers is IDR 80,000 multiplied by the total number of booked, electricity cost is IDR 35,000 multiplied by the number of booked, and maintenance cost is IDR 25,000 multiplied by the number of booked so that in get EBITDA of IDR 31,827,938, then deduct the annual depreciation to get NOPAT - IDR 22,830,462.

OPERATING CASH FLOW VIP ROOM		1		2		3		4
Number of booked		47,0		49,4		51,8		54,4
Number of pax		361		379,1		398,0		417,9
Revenue	IDR	77.755.877	IDR	81.643.671	IDR	85.725.854	IDR	90.012.147
Less :								
Cost of Goods sold	IDR	38.877.938	IDR	40.821.835	IDR	42.862.927	IDR	45.006.073
Gross Profit	IDR	38.877.938	IDR	40.821.835	IDR	42.862.927	IDR	45.006.073
Expenses :								
Cost of Worker / Booked	IDR	3.760.000	IDR	3.948.000	IDR	4.145.400	IDR	4.352.670
Electricity Cost / Booked	IDR	2.115.000	IDR	2.220.750	IDR	2.331.788	IDR	2.448.377
Maintanace Cost / Booked	IDR	1.175.000	IDR	1.233.750	IDR	1.295.438	IDR	1.360.209
Total Operating Cost	IDR	7.050.000	IDR	7.402.500	IDR	7.772.625	IDR	8.161.256
EBITDA	IDR	31.827.938	IDR	33.419.335	IDR	35.090.302	IDR	36.844.817
Depreciation	IDR	54.658.400	IDR	54.658.400	IDR	54.658.400	IDR	54.658.400
NOPAT	IDR	(22.830.462)	IDR	(21.239.065)	IDR	(19.568.098)	IDR	(17.813.583)
Operating cash flow	IDR	31.827.938	IDR	33.419.335	IDR	35.090.302	IDR	36.844.817

PROJECTION RENT SPACE		1		2		3		4
Revenue	IDR	65.000.000	IDR	68.250.000	IDR	71.662.500	IDR	75.245.625
operating cost	IDR	3.000.000	IDR	3.180.000	IDR	3.370.800	IDR	3.573.048
EBITDA	IDR	62.000.000	IDR	65.070.000	IDR	68.291.700	IDR	71.672.577
Depreciation	IDR	54.658.400	IDR	54.658.400	IDR	54.658.400	IDR	54.658.400
EBIT	IDR	7.341.600	IDR	10.411.600	IDR	13.633.300	IDR	17.014.177
tax 22%	IDR	1.615.152	IDR	2.290.552	IDR	2.999.326	IDR	3.743.119
NOPAT	IDR	5.726.448	IDR	8.121.048	IDR	10.633.974	IDR	13.271.058
operating cash flow	IDR	60.384.848	IDR	62.779.448	IDR	65.292.374	IDR	67.929.458

YEAR		1		2		3		4
Rent Space	IDR	60.384.848	IDR	62.779.448	IDR	65.292.374	IDR	67.929.458
VIP Room	IDR	31.827.938	IDR	33.419.335	IDR	35.090.302	IDR	36.844.817
Icremental	IDR	28.556.910	IDR	29.360.113	IDR	30.202.072	IDR	31.084.641

Figure 4. Base Case scenario financial projection

The selling price for the business space lease is IDR 65,000,000 per year with the operating cost for maintenance for 1 year is IDR 3,000,000 resulting in an EBITDA of IDR 62,000.00. NOPAT is EBITDA minus annual depreciation and a 22% corporate tax so that the NOPAT obtained in the following year is IDR 5,726,448. it is assumed that business growth per year is 5% so that there is an increase in sales every year, operating costs will also increase in line with the inflation rate per year of 6%. Incremental cash flow shows a positive number between the operating cash flow of the new business line minus the operating cash flow of the old business line which indicates that by replacing the old business line with a new one, the company will get more profit. for more details, we must look at the NPV, IRR and PP values.

Cost of Capital		8,7%								
YEAR		0		1		2		3		4
investment cash flow	IDR	(85.004.448)								
income operating ash flow			IDR	28.556.910	IDR	29.360.113	IDR	30.202.072	IDR	31.084.641
Terminal Cash Flow										
total cash flow	IDR	(85.004.448)	IDR	28.556.910	IDR	29.360.113	IDR	30.202.072	IDR	31.084.641
			IDR	(56.447.538)	IDR	(27.087.426)	IDR	3.114.646	IDR	34.199.287
NPV	IDR	11.977.019								
Payback Period		2,00								
IRR		15%								

Figure 5. Base Case Scenario

to determine whether the plan to replace old business lines with new business lines is possible or not, the company must ensure that the NPV and IRR values show positive numbers and PP that occurs before the next 4 years. with the base case scenario, we can see that the NPV value shows a positive number of IDR 11,977,019 which indicates that the value of future profits after being adjusted for the inflation rate remains profitable, the IRR value is greater than the Cost of capital of 15% which indicates that the value The profits from this project can still cover the costs incurred by the company, while the payback period shows that the payback period is 2 years before the rental period ends.

CONCLUSIONS

Cost of Capital	8,7%				
YEAR	0	1	2	3	4
investment cash flow	IDR (85.004.448)				
income operating ash flow		IDR 49.472.484	IDR 50.427.433	IDR 51.395.868	IDR 52.376.827
Terminal Cash Flow					
total cash flow	IDR (85.004.448)	IDR 49.472.484	IDR 50.427.433	IDR 51.395.868	IDR 52.376.827
		IDR (35.531.964)	IDR 14.895.470	IDR 66.291.338	IDR 118.668.165
NPV	IDR 80.858.141				
Payback Period	1,00				
IRR	46%				

Cost of Capital	8,7%				
YEAR	0	1	2	3	4
investment cash flow	IDR (85.004.448)				
income operating ash flow		IDR (7.715.152)	IDR (8.631.952)	IDR (9.593.188)	IDR (10.601.054)
Terminal Cash Flow					
total cash flow	IDR (85.004.448)	IDR (7.715.152)	IDR (8.631.952)	IDR (9.593.188)	IDR (10.601.054)
		IDR (92.719.600)	IDR (101.351.552)	IDR (110.944.740)	IDR (121.545.794)
NPV	IDR (114.495.829)				
Payback Period	0,00				
IRR	#NUM!				

Figure 6. Worst & Best Scenario

It can be concluded from the scenario analysis that in the worst and base scenarios the company will benefit more by replacing the VIP room business line with a new business line, this is indicated by positive decision criteria on the value of NPV IDR, IRR which exceeds the value of the cost of capital and pay the back period that occurs before the rent expires is 4 years. but in the best scenario, the company will benefit more by continuing the VIP room business line where the initial target set by the company is achieved.

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Cite this Article: Muhammad Hilmi Nur Karim, Oktofa Yudha Sudrajad (2023). Replacement Analysis for Replacing One of Revenue Stream Fuller Smoketown. International Journal of Current Science Research and Review, 6(7), 4651-4656