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Assessing the Feasibility Study of XYZ Company's New Supermarket Branch in Menteng, Central Jakarta

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ABSTRACT: XYZ Company plans to expand into Jakarta's supermarket market, leveraging Indonesia's growth in the food and beverage industries. With a population of 273 million in 2024, urbanization, a rising middle class, and evolving consumer behaviours drive sector growth. XYZ Company, with over 40 successful stores in Bali and Lombok, aims to enter Jakarta's competitive retail market, dominated by players like Hero Supermarket and Carrefour. This feasibility study uses a mixed-methods approach, including interviews, surveys, financial reports, and market analyses. Financial metrics such as Net Present Value (NPV), Internal Rate of Return (IRR), and payback period indicate the project's viability, with costs estimated at Rp. 22,858,000,000.00. Marketing analysis, using SWOT, TOWS, and Porter's Five Forces, reveals opportunities for differentiation through premium product offerings and food courts, enhancing customer experience and foot traffic. Significant opportunities for XYZ Company to differentiate include leveraging the growing middle class and diverse consumer preferences. Integrating food courts within supermarkets, a strategy used by competitors like Transmart Carrefour and Grand Lucky Supermarket, can significantly enhance customer experience. Focusing on premium products and readyto-eat meals can attract a broader customer base. Strategic recommendations involve selecting high-traffic locations, expanding the online presence, and adopting sustainable practices to control costs and appeal to environmentally conscious consumers. The study emphasizes adapting to market trends and maintaining financial prudence for long-term profitability. In conclusion, the feasibility study offers a comprehensive analysis of XYZ Company's proposed expansion into Jakarta. By focusing on strategic market entry, financial planning, and risk management, XYZ Company can successfully establish its presence in Jakarta's competitive retail market, ensuring sustainable growth and profitability.

KEYWORDS: Feasibility Analysis, New Branch, Risk Analysis, Supermarket.

INTRODUCTION

Based on the research done by various global reports, the supermarket industry in Indonesia has been growing steadily with a compound annual growth rate (CAGR) of approximately 4.6% from 2022 to 2026 (Growth Market Reports, 2024). The trend towards integrating food courts within supermarkets is a strategic response to evolving consumer preferences for convenience and a holistic shopping experience, as demonstrated by major players like Transmart Carrefour and Grand Lucky Supermarket (Przybylski, 2023). This approach not only enhances customer satisfaction but also drives foot traffic, positioning these supermarkets as versatile destinations that cater to diverse consumer needs. Furthermore, XYZ company, with its focus on fresh, high-quality products, has successfully adopted the "compact supermarket format" and aims to replicate this success by expanding into Jakarta, targeting the upper-middle-class demographic in the upscale neighborhood of Menteng (Indonesia Investment, 2023).

The proposed expansion into Jakarta represents a significant strategic move for XYZ company to enhance its market presence and brand recognition. With a fully-funded investment of Rp. 22,858,000,000.00. the company aims to bring its successful Bali-based model to a new market that promises potential consumers from both residents and tourists (BPS, 2024). To ensure the success of this expansion, XYZ company needs to conduct a thorough feasibility study and assess financial risks to determine the project's viability. The primary research questions focus on analyzing the financial feasibility of the investment, identifying potential financial risks, and determining the overall feasibility of the expansion project (PHRI, 2023; Juniman, 2023). This strategic decision aligns with the growing demand for one-stop shopping destinations that offer both retail and dining options, catering to the changing needs of modern consumers who value efficiency and variety.

The strategy to expand its market to Jakarta represents a significant step for XYZ company to enhance its market presence and brand recognition beyond Bali. Currently well-known in Bali, XYZ company aims to leverage Jakarta's strategic location, attracting both residents and tourists. Jakarta's diverse and dense population, coupled with its status as a commercial hub, makes it

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an ideal location for XYZ company's upscale supermarket concept. The expansion is seen as a strategic move to tap into a new and lucrative market segment.

However, this expansion requires substantial capital investment to ensure the ambience and service quality of its Bali stores are replicated in Jakarta. Maintaining consistent quality and customer experience is crucial for XYZ company's brand reputation. This involves significant expenditures on store setup, staff training, marketing, and ongoing operational costs. To ensure the viability of this project, XYZ company needs to conduct a thorough feasibility study. This study will assess the financial feasibility, including projected revenues, costs, and return on investment.

In addition to the feasibility study, XYZ company must also assess the financial risks associated with building and operating the supermarket in Jakarta. These risks could include market competition, economic fluctuations, regulatory challenges, and potential operational inefficiencies. Identifying and mitigating these risks is essential to safeguard the company's investment and ensure sustainable growth.

RESEARCH METHOD

This feasibility study employs a mixed-methods approach, combining qualitative and quantitative data to provide a comprehensive analysis. Primary data was collected through interviews with XYZ company's CEO and market surveys, offering insights into the company's operations and market conditions. Secondary data was gathered from historical financial reports, market analyses, and industry publications, providing a solid foundation for evaluating the project's feasibility. The data collection process ensured a detailed understanding of both the internal and external factors influencing the project.

This research employs a six-stage analysis to gain insights into the issues faced by XYZ Company. The first step involves conducting a comprehensive market analysis. Following this, a pro forma financial statement for XYZ Company's new branch is constructed, which includes determining assumptions for each account and preparing both monthly and yearly pro forma income statements and balance sheets. The third step involves calculating the Weighted Average Cost of Capital (WACC). The fourth step calculates the free cash flow of the firm (FCFF). The fifth stage is a feasibility analysis using Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PP), and Profitability Index (PI). The final stage assesses XYZ Company's risk.

To make accurate assumptions and understand the market, a thorough marketing analysis was conducted, including SWOT analysis, TOWS analysis, marketing mix analysis, business model canvas, Porter's Five Forces, and TAM, SAM, SOM analysis. This analysis provides a comprehensive overview of XYZ Company's current situation and strategic positioning.

The SWOT analysis identified strengths such as a high-quality, diverse product range catering to gourmet and international tastes, a strong brand reputation, and a loyal customer base. Weaknesses include higher pricing compared to local markets and dependency on tourist traffic. Opportunities involve expanding the online presence and collaborating with local suppliers, while threats include increased competition and economic downturns. The TOWS analysis further explores strategic options by leveraging strengths to capitalize on opportunities and mitigate threats while addressing weaknesses.

Next, pro forma financial statements project financial outcomes based on certain assumptions about future events. These statements are crucial for estimating XYZ Company's future financial performance. The initial step in preparing an accurate pro forma financial statement involves determining assumptions for the next 10 years. These assumptions are based on benchmarking financial statements and insights from interviews with XYZ Company's management, as well as market research.

Once assumptions are established, monthly pro forma income statements and balance sheets are prepared, providing detailed monthly sales projections and financial positions. Subsequently, yearly pro forma income statements and balance sheets are compiled from the monthly pro forma statements to evaluate long-term feasibility. This step-by-step approach ensures a thorough financial planning process for the new branch.

WACC represents the average cost of capital that a company is expected to pay to finance its assets, considering both debt and equity. For this project, XYZ Company will fully fund the expansion without incurring debt. Next is calculating FCFF is calculated to determine the cash flow available to the firm. This involves developing the pro forma income statement, balance sheet, and cash flow statement. Where OCF is operating cash flows, EBIT is earnings before interest and tax, Tc is the corporate tax rate, Net CAPEX is net capital expenditure, ΔNWC is changes in net working capital, CA is current assets, CL is current liabilities, and t is the period in years. This calculation helps in understanding the cash flow dynamics of the new branch.

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Lastly, feasibility analysis determines whether the proposed project is viable. Various capital budgeting strategies are employed, including NPV, IRR, PP, and PI. These metrics help assess the financial viability and potential success of the project. Additionally, risk assessment is conducted using sensitivity analysis, which identifies potential risks and evaluates how they could impact the project. Sensitivity analysis helps determine the tolerance levels for various risks and suggests mitigation strategies. This analysis ensures that XYZ Company is prepared for potential uncertainties when opening its new branch.

RESULTS AND ANALYSIS

Company's profile

XYZ company is a supermarket chain based in Bali and have been in the supermarket business since the year of 2001. Starting with a single supermarket, XYZ company has grown to operate more than 40 stores across Bali and Lombok. Targeting the uppermiddle class, the company focuses on offering fresh and high-quality products. Knowing that they have significant growth in Bali as well as Lombok. Knowing its target market and having the wants to expand its business to a new market XYZ company is interested in opening its new branch in Jakarta. In order to open the new branch XYZ company must supply the financial needs. This covered purchasing a new land, building cost, design cost, purchase of new assets as well as activation for the business to process in order of opening its new branch. The financial requirements for the new branch are detailed as follows: Land: Rp. 14,000,000,000.00, Building: Rp. 4,500,000,000.00, Fridge: Rp. 250,000,000.00, POS Station: Rp. 50,000,000.00, Table: Rp. 50,000,000.00, Chair: Rp. 25,000,000.00, Rack: Rp. 100,000,000.00, Sofa: Rp. 10,000,000.00, Banner: Rp. 10,000,000.00, LED Banner: Rp. 15,000,000.00, Salad Bar: Rp. 35,000,000.00, Plate Set: Rp. 5,000,000.00, Cutlery: Rp. 7,000,000.00, AC: Rp. 500,000,000.00, and CCTV: Rp. 20,000,000.00. The total financial requirement sums up to Rp. 19,577,000,000.00. XYZ Company has decided to fully fund the new branch project. To determine the feasibility of this investment, a comprehensive feasibility.

Step 1 – Marketing Analysis

A comprehensive marketing analysis for XYZ Company included SWOT, TOWS, marketing mix, business model canvas, Porter's Five Forces, and TAM, SAM, SOM analysis to understand market position and potential. The SWOT analysis highlighted strengths like a high-quality product range and strong brand reputation, weaknesses such as higher pricing and dependency on tourist traffic, opportunities for expanding online presence and collaborating with local suppliers, and threats from increased competition and economic downturns. TOWS strategies leveraged strengths to expand online presence and host culinary events while addressing weaknesses through budget-friendly options and improved marketing. The marketing mix emphasized diverse products, competitive pricing, strategic locations, and robust promotions. The business model canvas outlined key components, focusing on customer segments and revenue streams. Porter's Five Forces showed high competition and buyer power, moderate supplier power and new entrant threat, and high substitute threat. TAM, SAM, and SOM analysis estimated market size in Jakarta, Central Jakarta, and Menteng, respectively. A survey of 217 Jakarta residents, mostly millennials with monthly incomes of Rp. 1,000,001 to Rp. 10,000,000, found spending between Rp. 100,000 and Rp. 500,000 at supermarkets, with significant interest (93.1%) in integrated restaurant concepts, highlighting the potential for unique shopping experiences and key improvement areas in price, quality, cleanliness, and customer service.

Step 2 – Pro Forma Financial Statement of XYZ Company's New Branch

The assumptions for creating the pro forma financial statements were derived from interviews with XYZ Company's management and historical data to enhance accuracy. Total sales encompass revenue from supermarket items and the connected restaurant, which has the highest profit margin. Payments to suppliers fluctuate based on needs. Operational expenses include salaries for 100 staff, managers, head chefs, and a marketing team, totaling Rp. 390,000,000 monthly. Office supplies cost Rp. 750,000 per month, maintenance costs Rp. 20,000,000 monthly with additional biannual expenses, and electricity costs Rp. 100,000,000 monthly. Transportation is allocated Rp. 2,000,000 per month, and marketing expenses are Rp. 5,000,000 per month. The land and warehouse are owned by the company, and various assets have specified lifespans and monthly depreciation values. The base tax rate is assumed to be 10%, managed by a tax consultant. For the balance sheet, current assets include cash based on operational, financing, and investing cash flows, with excess cash subtracted from required cash. Payments are direct, so there are no accounts receivable. Inventory levels vary monthly, and office supplies are regularly replenished. Fixed assets are depreciated monthly. Short-term

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liabilities include accounts payable, assumed to be 85% of inventory, and tax payable increasing by 10% annually. The company has no long-term liabilities as it is fully self-funded. Retained earnings are reinvested to grow the business, and owner's equity covers necessary operational investments. Monthly pro forma income statements and balance sheets show variability due to growth and operational expenses, which are used to compile annual pro forma statements, providing a detailed financial forecast reflected in the appendices.

Step 3 – Calculate weighted average cost of capital (WACC)

Weighted Average Cost of Capital (WACC) is the average rate of return a company is expected to pay its investors to finance its assets, considering the proportion of debt and equity in its capital structure. The assumptions for calculating WACC include a riskfree rate of 7.17% based on Indonesia's 10-year bond yield, a beta of 1.19 derived from sector-specific data accessible through NYU, and a market return of 13.63% based on the Compound Annual Growth Rate (CAGR) of the industry.

The cost of equity was determined to be 14.86% based on a risk-free rate of 7.17%, a beta of 1.19, and a market return of 13.63%. Using this cost of equity, the Weighted Average Cost of Capital (WACC) was calculated. The company's capital structure consists of Rp20,000,000,000.00 in equity, which makes up 39.83% of the total capital, and Rp30,214,793,135.04 in retained earnings, accounting for 60.17%. In total, the capital is Rp50,214,793,135.04. With equity making up 53.93% of the total capital weight, the WACC is calculated to be 5.92%.

Step 4 – Calculate free cash flow of the firm (FCFF)

To get the full calculation of the free cash flow of the firm, using the initial investment of Rp. 22,858,000,000.00. As the company asked for a 10 year of calculation the free cash flow is at 10 years of counting.

Table 1. Free Cash Flow

	Year	Cash Flow	Accumulated Cash Flow	Factor PV	PV Cash Flow
0	2024	(22,858,000,000)			
1	2025	9,633,429,173	(13,224,570,827)	0.94413069	9,095,216,202
2	2026	9,971,606,249	(3,252,964,578)	0.8913827	8,888,518,033
3	2027	10,813,790,790	7,560,826,212	0.84158183	9,100,689,942
4	2028	11,768,887,617	19,329,713,830	0.79456324	9,351,125,578
5	2029	12,853,496,279	32,183,210,109	0.7501715	9,642,327,276
6	2030	14,086,605,671	46,269,815,780	0.7082599	9,976,979,222
7	2031	15,489,929,429	61,759,745,210	0.66869000	10,357,960,913
8	2032	17,088,287,695	78,848,032,904	0.63133075	10,788,361,590
9	2033	18,910,041,623	97,758,074,527	0.59605874	11,271,495,713
10	2034	20,987,587,856	118,745,662,384	0.56275736	11,810,919,540

Sources: Research data, 2024

Step 5 – Feasible Analysis using NPV, IRR, PP, PI

Table 2. Feasibility Analysis

Payback Period	5.43	Accepted	Lower than 10 Years
Profitability Index	4.4	Accepted	Higher than 1
Net Present Value	Rp. 80,706,594,008	Accepted	Positive NPV
IRR	47.71%	Accepted	Positive IRR

Sources: Research data, 2024

Based on the result, the opening of the new branch is very much feasible, with its payback period under 10 years, their profitability index shows 4.4 which is over the acceptance rate of 1. For the NPV itself, it shows that it is positive, and the number shows that it is very feasible if the company decides to open the branch. Lastly, the IRR indicates 47.71% which shows that the rate of return is quite high. Making this new project of XYZ Company on opening its new branch very feasible.

Step 6– Assessing XYZ company's risk

After knowing that it is feasible, XYZ company wanted to know if there are any financial risk that they are going to face and what variable is the most affected. That is why a sensitivity analysis is made to know the most affected varible if a swing happen. With a 5% swing it can be seen through the table below.

Table 3. Sensitivity Analysis

Variable	Variable Decrease	Variable Increase
Sales	-40.55%	40.55%
Payment to Supplier	30.04%	-30.04%
Salaries	3.11%	-3.11%
Maintenance	0.21%	-0.21%
Marketing Expense	0.03%	-0.03%

Sources: Research data, 2024

Based on the sensitivity analysis where the swing is 5% we can see that the sales, payment to suppliers and salaries have the most impact in the changes of NPV. Especially on the total sales. For maintenance and marketing expenses variables, they did not have any significant changes for the NPV. To illustrate this, result a sensitivity analysis is made through a tornado chart below.

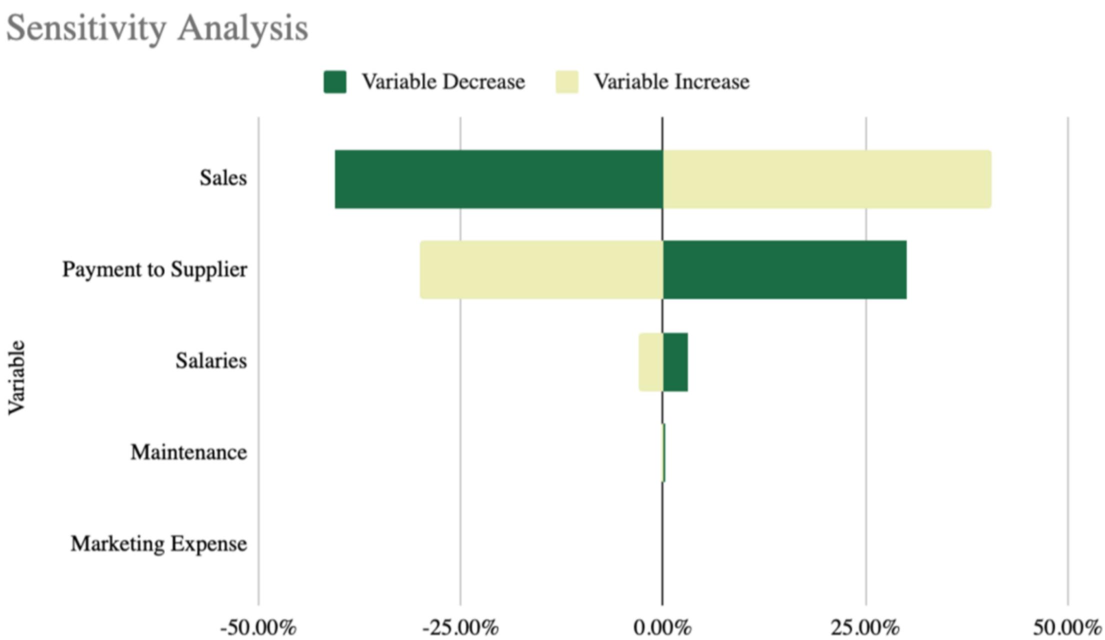

Figure 1. Tornado Chart of Sensitivity Analysis
Sources: Research data, 2024

CONCLUSION

Based on the comprehensive analysis conducted in this study, it is evident that opening a new branch of XYZ Company in Jakarta is a highly feasible and lucrative venture. The financial feasibility is supported by robust calculations of the pro forma financial statements, which include the monthly and yearly income statements and balance sheets. The weighted average cost of capital (WACC) has been calculated to be 5.92%, indicating a reasonable cost of equity.

The free cash flow of the firm (FCFF) analysis reveals positive cash flows starting from the second year of operation, with a significant accumulated cash flow by the tenth year. The feasibility analysis using Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PP), and Profitability Index (PI) further confirms the project's viability. The project boasts an impressive NPV of Rp. 80,706,594,008, an IRR of 47.71%, a payback period of 5.43 years, and a PI of 4.4, all of which are well above the acceptance thresholds.

The marketing analysis, including SWOT, TOWS, marketing mix, business model canvas, Porter's Five Forces, and TAM, SAM, SOM analyses, provides a strategic overview of the market conditions in Jakarta. The sensitivity analysis shows that sales, payment to suppliers, and salaries have the most significant impact on the project's NPV, while maintenance and marketing expenses have minimal effects.

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