

ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

Master's Thesis

The Peculiarities of International Project Management in the sphere of “Opening a Cafe
Business in China”

Student: Valeria Kudrytska

Group: МЕБаНГЛ-19М

Specialty: 292 International economic relations

Supervisor: Alisa Mahdich

Last name, initials, scientific degree

Dnipro, 2021

ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

Second (master) level
 Specialty 292 International economic relations

Approved by:
 Head of the Department

(signature, last name, initials, scientific degree, academic status)

“ ” 20__ p.

The Master's Thesis
Assignment

Kudrytska Valeria Mykolaivna
Student's full name

1. Title

The Development and Implementation of the International Investment Project “Opening a Cafe Business in China”

2. Supervisor _____

(last name, initials, scientific degree, academic status)

Approved with the Order of «__” _____ 20__, No. _____

3. Deadline for submission _____

4. Aim of the paper

The aim of this coursepaper is to determine whether it is profitable to implement the project and open a café in Shanghai. The objective of this proposition is to demonstrate in as much detail as possible that the investment project in China is an effective and profitable investment. The business plan focuses on the café service offered, its market potential and financial forecasts

5. Thesis outline (list of issues to be developed):

Graduate work examines the peculiarities of international project management and proposes a business plan to open a café in China. This type of business requires capital investment, research and analysis of the economic and investment climate, the current market situation and project risks and risk management of the business proposed in the project. The main purpose of the thesis is to measure the viability, feasibility and financial capabilities of the proposed café business in China.

6. Date of issue of the assignment _____

7. Thesis schedule

no	Stages	The deadline for submission	
		Schedule date	Actual date
1	Chapter 1		
2	Chapter 2		
3	Chapter 3		
4	The whole paper		

Student

Kudrytska V. M.

signature

last name, initials

Supervisor

signature

last name, initials

Table of Contents

Topic. The Peculiarities of International Project Management in the sphere of “Opening a Cafe Business in China”.

INTRODUCTION	7
CHAPTER 1. THEORETICAL FOUNDATIONS OF INTERNATIONAL PROJECT MANAGEMENT.....	10
1.1. The five stages of the project lifecycle.....	12
1.2. Key variables in international projects.....	15
1.3. Project management methodology.....	17
CHAPTER 2. ANALYSIS OF THE PROJECT ENVIRONMENT	20
2.1. Analysis of the economic position of China in the global environment.....	22
2.2. Political economic social and technological analysis.....	29
2.3. Niche analysis of the Chinese café industry.....	37
CHAPTER 3. DEVELOPMENT OF INTERNATIONAL INVESTMENT PROJECT IN CHINA.....	42
3.1. Substantiation of the investment project for opening a café business in China.....	44
3.2. Investment resources evaluation and identification of their allocation.....	53
3.3. Investment project appraisal and project risks management.....	65
CONCLUSIONS AND PROPOSALS.....	81
REFERENCES.....	84

SUMMARY

Kudrytska V.N. The Peculiarities of International Project Management in the sphere of “Opening a Cafe Business in China”.

The paper examines the peculiarities of international project management and proposes a business plan to open a café in China. It was revealed that China offers numerous investment possibilities with a lot of positive results and assists businesses at all stages of development. In the recent decades, China has become the worlds largest economy, manufacturer, trader and holder of foreign exchange reserves. The development of trade, infrastructure and services, together with cheap and reliable technology and labor force makes it the biggest fabricating and trading center in the world. A business plan for a café to be opened in Shanghai is proposed with an attempt to measure its viability, feasibility and financial capabilities. This type of business requires capital investment, research and analysis of the economic and investment climate, the current market situation and the potential location of the business proposed in the project. In addition, investment project appraisal is made using the dynamic methods Net Present Value, Internal Rate of Return and DPB Method. Calculations of the needed investment resources are given, potential risks of investment are analysed and the investment attractiveness of the presented project is assessed.

Keywords: *investment climate of China, work breakdown structure, PEST analysis, Gantt chart, NPV, Internal rate of return, payback period, cash flow forecast, risk analysis*

АНОТАЦІЯ

Кудрицька В.М. Розробка та шляхи реалізації міжнародного інвестиційного проекту «Відкриття кав'ярні» в Китаї.

У роботі розглядаються особливості управління міжнародними проектами та пропонується бізнес-план відкриття кафе в Китаї. Було виявлено, що Китай пропонує численні інвестиційні можливості з багатьма позитивними результатами та допомагає бізнесу на всіх етапах розвитку. За останні десятиліття Китай став найбільшою економікою світу, виробником, торговцем та власником валютних резервів. Розвиток торгівлі, інфраструктури та послуг, а також дешеві та надійні технології та робоча сила роблять його найбільшим виробничим та торговим центром у світі. Запропоновано бізнес-план кафе, яке буде відкрито в Шанхаї, із спробою виміряти його життєздатність, доцільність та фінансові можливості. Цей тип бізнесу вимагає капітальних вкладень, досліджень та аналізу економічного та інвестиційного клімату, поточної ситуації на ринку та потенційного розташування бізнесу, запропонованого в проекті. Крім того, оцінка інвестиційного проекту проводиться з використанням динамічних методів: Чиста дисконтована вартість, Внутрішня норма прибутку та Метод DPB. Дано розрахунки необхідних інвестиційних ресурсів, проаналізовано потенційні ризики інвестицій та оцінено інвестиційну привабливість представленого проекту.

Ключові слова: *інвестиційний клімат Китаю, структура розподілу робіт, аналіз PEST, діаграма Ганта, NPV, внутрішня норма прибутку, період окупності, прогноз грошових потоків, аналіз ризиків*

ABBREVIATION & SYMBOL MEANING

ADCF	Accumulated Discounted Cash Flow
Ce	Equity
CPI	Consumer Price Index
DCF	Discounted Cash Flow
De	Debt
DpB	Discounted Payback Period
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IIT	Individual Income Tax
IMF	International Monetary Fund
IRR	Internal Rate of Return
NCF	Net Cash Flow
NPV	Net Present Value
PEST	Political Economical Social Technological
PMBOK	Project Management Body of Knowledge
RMB	Renminbi - Official Currency of China
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital
Wd	Weight of Debt
We	Weight of Equity

INTRODUCTION

The diploma paper subject is "The peculiarities of international project management in the sphere of opening a cafe in China". A business plan for a café to be opened in Shanghai will be put forward in this diploma paper. The essential reason why China was picked for this investment project is because of the cheap and reliable technology and labor force and also, it's great climate. The café will be located in the center of Shanghai because it is a special economic zone of China and one of the most populous cities in the world.

The aim of the diploma paper is the research and analysis of the main components of economic conditions on the niche of the café business sector of China, to determine whether or not it is profitable to implement the project and open a café in Shanghai. In order to achieve this aim, the author provides effective working methods for project planning and management and comprehensive understanding of all areas of knowledge in project management which include content, time, costs, resources, quality, communication, risk management, procurement and integration. The purpose sets the following tasks:

- to identify the theoretical foundations of international project management;
- to review and analyze the Chinese market and the niche of the café business in China;
- to examine how to develop an international investment project in China.

The research object is the development of an international investment project and its subject is the peculiarity of the procedure of opening a café business in China. In this diploma paper the following methods are used: analysis and synthesis, research, statistical and graphical methods, logical generalization of results in the formulation of conclusion and others.

The proposed business has many opportunities for growth, development and improvement, which is facilitated by resources such as statistics data that can help

countries better understand the needs of certain markets areas, identify shortcomings and advantages, help choose the best strategy and direct efforts in the necessary direction.

Research's database is a set of specialized publications, reports of the International Monetary Fund (IMF), the World Bank, Project Management Body of Knowledge (PMBOK), periodical articles and Internet resources that examine the issue of the market development of the café industry in China.

China was chosen for the project, due to the fact that it offers numerous investment possibilities. China has over the past 25 years become the country with the most accelerated economic growth in the world. In the last three decades, the average per capita income in China has grown at an average annual rate of more than 8%. Despite China's enormous size, from the 1990s to the late 1970s it played a relatively marginal role in the world economy. At the end of 1978, China's leadership began economic reforms and a shift from a centralized economic system to a system reminiscent of the free market, while maintaining close supervision. The modern Chinese economy is today a significant player in the international economic arena and a major factor in its development.

The business plan provides an overall future picture of the business in all respects - marketing, technology, operational, financial, and more. A good reason for preparing the business plan is a systematic and orderly analysis of the business, for the purpose of raising capital and cooperation, checking feasibility, and planning a business strategy for the business. There are plenty of investment opportunities in China, where certain options are preferable over others and some should be avoided or left to smarter investors. For this reason, it is essential to make a business plan and make calculations, to comprehend whether the investment project would be beneficial.

Due to the many disciplines required to prepare a good business plan (marketing, finance, strategy, market analysis, product, etc.) and due to the multiplicity of financial models and forecasts that accompany the business plan, it is usually conducted with the help of an experienced economist who specializes in the subject. The business plan focuses on the café service offered, its market potential and financial forecasts. The reason the author put forward a detailed business plan is due to the fact that in new ventures it is

known that a business plan that leaves an amateurish impression may reduce the venture's chances of raising money from private investors or venture capital funds and evolving.

The first section of this diploma paper will include the theoretical foundation of international project management. The second section provides an analysis of the project environment in China and the scope of internal and external factors which impact all the project lifecycle. The third chapter describes the idea of the investment project in detail, provides justification for the project with an attempt to portray the real situation in China as closely as possible with factual prices. The third section also includes the attractiveness of the project to investors, investment project appraisal, project risks and risk management. It will disclose calculations of the expected revenue from the project and other parameters of efficiency.

China beholds many investment opportunities, and this project will endeavour to supply sufficient information to verify that statement. Ultimately, the objective of this diploma paper is to demonstrate in as much detail that the café project in China is a productive and profitable investment, provide up-to-date theoretical knowledge and learning applications, the best approaches and methodologies for project management, such as planning schedules and resources and allocating them.

CHAPTER 1

THEORETICAL FOUNDATIONS OF INTERNATIONAL PROJECT MANAGEMENT

International project management is a branch of management science that deals with the planning and control of international projects, usually with a high component of uncertainty or economic risk. A project is defined as a time-bound effort to create a unique service or product or result. Another definition of a project is taking resource inputs and making changes to desired outputs using production systems.

Project management goals are the completion of the project schedule required to meet the objectives of the project, the required quality, an exceptional budget and achieving satisfaction with the client. Typical projects that can be found in organizations are usually aimed at improving the competitive position of the organization by improving its usefulness or efficiency.

The ability to manage projects requires skills and competencies. In the global village era every contract must be managed as a project, small or large. Today there are more and more joint projects between different countries. In addition, there is also the migration of people from developing countries to developed countries, and these bring with them organizational culture and other customs. There is no concept of "right culture" or "wrong culture". The culture and behavioural habits in different countries and in different regions of the world are different from those we are familiar with, as well as working habits. In the case of international projects, understanding, recognition and coordination are essential to the success of the project.

The skills required for project management are leadership, ability to negotiate, well-developed communication skills and abilities to motivate employees without formal authority. It also requires planning skills, the ability to work in a dynamic and change-environment, make decisions, overcome organizational barriers and develop long-term relationships with a variety of people, including the organization's internal and external

customers. Many times project managers obtain technical skills who can help their employees.

The aim of this chapter is to provide knowledge and to become familiar with tools and topics that are important for the effective management of a project. In addition, to impart knowledge and understanding of the cultural differences that affect international project management in different countries.

1.1. The Five Stages of the Project Lifecycle

Every project has certain phases of development which are also known as life cycle phases. It is customary to divide the life cycle of a project into the following stages:

1. Initiation - The initiation phase meets the need for the project and its purpose. It includes identifying gaps and organizational needs to address the project, setting project goals, timeframe and resources, approval of the project. It is a stage in which the idea for the project arises and examines the problem and the need that motivates the opening of a project. In the initiation phase, the business goals are defined at the macro level, technological goals, required schedules that are defined. This stage tends to be vague but at the end answers to questions such as who the customer is, what is the need, what are the goals of the venture, who is the perpetrator, what is the required solution, who are the stakeholders in the venture, and the like. Information that helps this stage is historical information, assumptions, organizational policies and more. The products of the phase are a decision to open a project, an initial project content document and the appointment of a project manager. A mistake in defining the project at this stage will most likely lead to the actual project failure (Project Management Institute, 2017).

2. Planning - The planning stage is concerned with setting goals for the project, setting schedules and allocating resources and roles. It includes sharpening the project objectives, detailed design of all components of the project: time, capacity, resources, and risks. This phase includes the specific definition of the management processes in this project, such as: communication methods, reporting, identifying specific roles. The planning phase is the most essential phase in the project. Success in planning will lead to a high chance of meeting project goals, customer satisfaction, meeting schedules, meeting quality and more. This phase begins during the initiation phase and ends towards the end of the project. Care

must be taken to complete the required planning thoroughly, as skipping this step will actually lead to failure in execution. This phase includes building many work plans, it is recommended that there be plans for the following topics:

- Planning the content of the work, both super-planning and individual planning of the work packages in the project, division of responsibilities and how to update on changes.
- Schedule planning, tasks to perform, task order, scheduling for tasks, dependencies, constraints, and critical path.
- Cost planning - preparing a budget plan and financial estimates.
- Characterization of the quality of the product or service and how to ensure that the desired quality is obtained.
- Staffing Plan - Building the professional team that will lead the project to its successful completion.
- Communication planning - a successful link of all the factors for joint work.
- Risk management - risk identification, risk assessment on total plausibility and impact, decision on what to treat and how.
- Purchasing Planning - Should we purchase or manufacture? Who will be the contractor to be hired? Signing contracts and more.
- Integration plan - how the actual project will be managed and how all its components will be integrated with each other.

3. Execution - This stage includes all activities related to the implementation of project plans. It monitors the implementation and examination of progress. It is the most expensive phase of the project, this phase involves activating people and various resources according to the work plans set. At this stage, control is carried out (planning versus actual execution) and as a result there may be a request for a change of contents, schedule, costs and other factors. In practice at this stage a lot of communication is distributed between the various

parties. This phase begins near the time of the start of planning and ends at the closing stage of the project, at which point the actual products of the project are received (Project Management Institute, 2017).

4. Control – Control phase runs parallel to the execution phase, consistently monitoring progress during execution to ensure the team is performing as they should. It includes the processes in which it is ensured that the project meets its planning and objectives. Usually, the framework reveals gaps that require a change in the project plans. To do this, an orderly change management process is required. This stage provides feedback on the integration of all parts and testing that the contents have been completed and in the required quality, for control of the schedule, costs, resource and manpower management, stakeholder reporting, control of contractors and contracts and risk management (Project Management Institute, 2017).

5. Closure - The last stage in the project and the final one. This phase includes the completion of the project and the closure of the relevant legal contracts. Project delivery, certificate of completion of the project, research, signing documentation. This is the final stage of the project life cycle and in our project the termination of the project will be after 5 years. This means the total duration of the project will be 5 years (Project Management Institute, 2017).

1.2. Key variables in international projects

There are three key variables in a project and they are also called the Golden Triangle:

- The time invested in the project, in two respects:
 - Calendar time - the time that elapses from the beginning of the project to its end.
 - Human time and machine time: The number of working hours (or months of work) invested in the project by the people and equipment participating in it.
- Cost: The total expenditure for the realization of the project.
- Contents: Project products and work packages.

In addition, three more key variables were added to the golden triangle and they are:

- The quality of the level of product produced in the project.
- Customer satisfaction: Level of meeting customer expectations.
- Risk management: How threats are managed that may harm/promote the project.

From the manager's point of view, the final profit in each international project is a multivariate function that includes the management of all costs between the tender cost and the final cost. A major part of project management involves building plans and characterizing processes, to make sure the project goes up and stays on the right and lucrative path.

Some of the common project management tools are as follows:

- The Pert network and the Gantt chart are quantitative-visual tools that were used before the computer age but were greatly accelerated with the development of the personal computer. These tools are based on dismantling the project into activities,

setting start and end times for each activity, defining connections and dependencies between the activities, and allocating the resources needed to carry out each activity.

- One of the common methods of managing a venture network is based on identifying the critical path , i.e. the longest sequence of activities that a change in the execution time each of them will affect the end date of the entire venture.
- Planning and control of project management using software to manage an enterprise, the most well-known is MS-Project by Microsoft. There are more such as Primavera by Oracle , PS-Next, HP's PPM, Bismo, Basecamp and others.

1.3. Project management methodology

The purpose of the project management methodology is to complete the project on the required schedule, meet the project objectives, the required quality, while minimizing the project cost and achieving customer satisfaction. The project management profession deals with the definition of methods whose function is to ensure that the goals are achieved. The project may be a development project with a high component of technological uncertainty, or a construction project with a high component of economic risk, or even an education project- provided that the basic components of defined content, time and budget are all defined (Project Management Institute, 2017).

The project management may be entrusted with:

- Those who have expertise in the methods of industry and management - that is, without in-depth knowledge of the professional content of the project. In these cases, his main occupation is converting the feedback from the various professionals to time data and linking activities at the planning stage, and then controlling the execution of the actions and flooding problems to a decisive level.
- In many cases, the project will be entrusted to a person who is skilled in the various professional aspects of the project, and in these cases his role will be expanded and will also include elements of decision-making at the various stages.

There are many methods, which change and develop over the years from experience in developing various complex systems. Among the typical methods of project management: management according to a critical path and management according to the critical chain, which is an application of constraint theory (Goldratt, 1997). Over the years, many project management tools have been developed, from tools used to create Gantt and individual charts, to tools for scheduling many projects in a multi-project environment. In recent years, the perception has also prevailed regarding the need to

establish an organizational project management director (who will be the main organizational body involved in the development and implementation of methods and tools for managing the organization's projects.

Many project managers are creative and full of ideas for improving and upgrading workflow. When they come across an idea, they immediately go to implement it and this is exactly where the problem begins. One of the obstacles that many businesses fail at is signing and committing to projects before they have made strategic planning.

The project planning meeting is critical and the ability to manage it effectively is a very powerful tool for the business. In project planning sessions it is important to address all aspects of the project, including risk assessment, financial benefits, financial gains, stakeholder involvement and of course the project plan itself. In an effective project planning meeting it is important to make sure that all stakeholders (directors, owners, suppliers, managers and employees) are aligned in the same line and aim for the same results. Disagreements between managers can develop into a conflict, so if opposing voices arise during the meeting it is important to stop and ask for specific feedback.

Communication and listening skills are an essential component in a planning meeting. Dispute resolution is critical during such a meeting and allows for finding a solution that is acceptable to all parties. In fact, in optimal condition 70% of the time of a project manager should be devoted to planning. To delve into every detail of the project planning and every aspect, and assign who takes responsibility, in what areas.

It is important to discuss in the planning meeting and later also in the meetings about the management software, how it will work and in the area of responsibility of whom to update. It is important to note that not every business requires such software. You can use project management software for important reminders such as delivery dates, milestones, etc., as well as for sharing and praise.

In today's business world it is important to maintain flexibility, during every project obstacles appear along the way, new information appears at every moment so it is

important to keep an open mind and adjust the resources in a way that will contribute to the success of the project.

On the face of it, it could be said that project management methodologies are geared towards different areas of activity and their integration with each other will not bring real benefit to the business, but this is not the case. It is true that the project management methodology imparts project management processes and tools as a project and the methodology defines an orderly process of reducing variance and cost savings, however, their integration with each other may allow for maximum utilization of each method while mutually covering each other's shortcomings.

Therefore, it is clear that the combination of these two methodologies may entail considerable mutual benefit which will lead on the one hand aspects of measuring benefit and expected savings in project management in the organization in general, and on the other improving project management.

CHAPTER 2

ANALYSIS OF THE PROJECT ENVIRONMENT IN CHINA

In the recent decades, China has become the world's largest economy, manufacturer, trader and holder of foreign exchange reserves. Huge volumes and shops full on the one hand, mighty weeds on the other, revolutionary fervor on the one hand and economic pragmatism on the other, China is a country of extreme contrasts. A Western visitor to China may feel very foreign among the masses of Chinese, have a hard time finding his place, or find something tasty to eat. But given the economic potential that accompanies the third largest country in the world, it is very worthwhile to try to crack this business arena.

The fact that China is a centrally closed economic system and yet its growing and becoming more advanced in the last decades staggers economists. It is well known as the most massive factory of the world due to its trade and production facilities. China is the world's largest trading center today, but the growth of Chinese economy began with structural reforms.

The reform of the Chinese economy is a collective name for a variety of reforms initiated by Deng Xiaoping since 1978 in the Chinese economy also known as "Chinese socialism". The goals of the reform, which began in 1978, were articulated by Deng Xiaoping as the four modernizations: agriculture, industry, science and technology (Chang, 1991).

The reform was a great success, led to massive growth and changed the face of China's economy. From a backward planned economy based mainly on agriculture and industry with zero export percentages, China has become the largest market economy in the world in terms of purchasing power, which relies heavily on exports on foreign investment and the services sector (Shangquan, 2016).

Since the economic reforms of 1978, China saw a financial spurt of roughly 10% per year. As the wealth in China progresses, so does the advancement of trade, infrastructure and services. This is an ideal time to open a business in China since the nation is extending, and developing ventures make great livelihoods for investors. Individuals are moving from an agrarian to a civilized way of life and numerous new cities were recently built in China. Per the IMF, the population of China will be 1.4 billion individuals in 2023 (IMF, 2020). This amassing within the number of potential workforces is anticipated to create financial riches, so numerous investors proceed to consider investment propositions in China.

2.1. Analysis of the economic position of China in the global environment

China has a significant and direct impact on the world economy and is responsible for about 15% of world GDP. In 2010, China became the largest producer country in the world in terms of output volume (19.8% of world production), after overtaking the US, which has led world production for over 100 years. According to the World Bank, China is the foremost extensive promoter to the world's financial development since the global crisis of 2008. In 2019, the nation had nearly 19% of the world's population.

China is an extremely stable country. External investment is eased by political and economic stableness of the nation. Investors cherish consistency since it implies being able to know what will happen within the future with their investment. The prospect of having debasement, theft or forging are all colossally improbable to happen in China since the Chinese citizens are submissive to their nation and they fear the law and take after it. Additionally, operation and exchange costs are generally low, this permits financial specialists to rapidly get paid back for their investment. The transportation framework of products depends on progressed quality bridges and roads for the products and employees to reach to their destination safely. Talented laborers are cheap, and this is often a competitive advantage in worldwide markets (Investopedia, 2020).

There are also the official reasons that have caused the collapse in China in recent years and they can continue to influence the economy in the upcoming months and years. The trade war with the US and the slowdown in the growth of the high-tech and large retail companies in China (Tencent, Alibaba, Baidu, JD and more). It can also be seen as an opportunity to invest at a significant discount compared to recent prices, but investors must keep in mind that this is going against the trend before the fundamental indices have recovered and therefore a kind of recovery bet.

The measurements of China's labor and market, the development expectation of these factors is tremendously astonishing, and it is the primary cause of international investment into the country. The nation develops as direct investments grow. This component highlights the advantage of China's massive market, which adjusts growth

chances. The more investments enter into China, contributes for it to extend, in this manner will have a favorable impact on proceeded progress (Investopedia, 2020). Also, China is amazingly open to trade. The work force is colossally driven to communicate with financial specialists which is appealing for investors. The willpower to sell their products and services to the world can be clearly witnessed. There are nearly no trade barriers for exporting goods and trading products.

The People's Republic of China is the country with the largest population in the world, which has over one billion and four hundred million inhabitants. For decades China has authorized each family to give birth to only one child. Couples who violated the one-child policy suffered heavy fines. The state has performed hundreds of millions of abortions and even sterilizations, to enforce birth control.

In 2016, China announced that it was repealing the policy and approving parents to have two children. The aging population and the contraction of the labor force caused China to lift the restriction that had been in force since 1979.

According to the United Nations, China's population in 2020 is 1,439,323,776, an increase of 0.39% since 2019 (Fig. 2.1.). Per Worldometer, the fertility rate is 1.7, medium age is 38 years old. The population of the planet is about 7.77 billion. China holds 18.47% of the world's population.

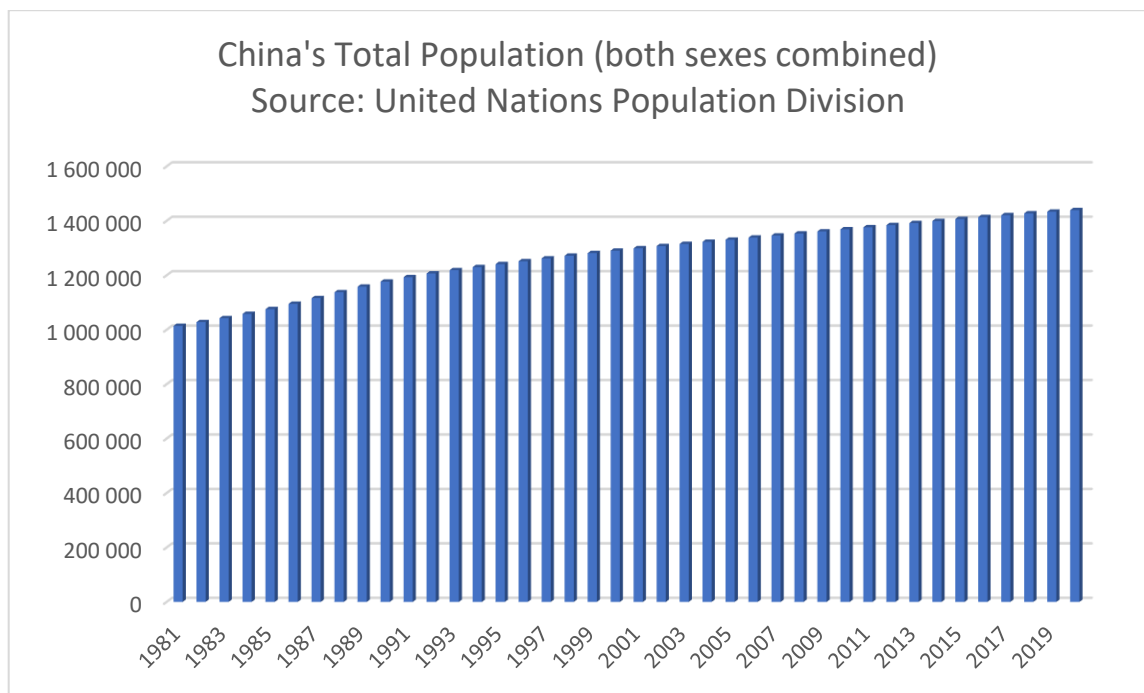


Fig 2.1. China's Total Population

Source: United Nations Population Division (2020)

The Economy of the People's Republic of China is the largest economy in the world in terms of gross domestic product (GDP) by purchasing power parity, whereas in terms of nominal GDP, China's economy is the second largest in the world and far lagging behind the United States economy.

In recent decades, China has become the country with the most accelerated economic growth in the world, when in 2008 the annual growth rate was 9%. In the last three decades, the average per capita income in China has grown at an average annual rate of over 8%, which has led to a significant reduction in the dimensions of poverty in the country. This is despite the fact that one of the consequences of economic growth was the intensification of economic inequality within Chinese society.

Real GDP (gross domestic product) looks at the aggregate market value goods and services which are produced within a country per year. This is an important indicator because it measures a country's economic strength and growth. Real GDP is usually adjusted for price changes. The statistic above shows China's growth of GDP from 1980

to 2020. Per the IMF, China's GDP in 2019 produced \$14.3 trillion. China's economy is the second largest in the world, lagging only slightly behind the US economy.

In 2019, China's GDP grew by 6.1%, while as in 2020 due to the unfortunate events of the global epidemic, GDP grew by 1.9% (Fig. 2.2.). Economists predict that the GDP will continue to expand by 5.5% by 2023 (Investopedia, 2020). According to the World Bank Data, between 1978 and 2019, real GDP per capita grew 48 times, labor productivity relative to the worker 9 times from 1980 to 2019 and Chinese exports as a percentage of GDP increased from 4.5% in 1978 to 22 % in 2019 (World Bank Data, 2020). Some compare the growth and industrialization of China during those years to the growth of Western Europe and the United States during the Industrial Revolution and the Technological Revolution.

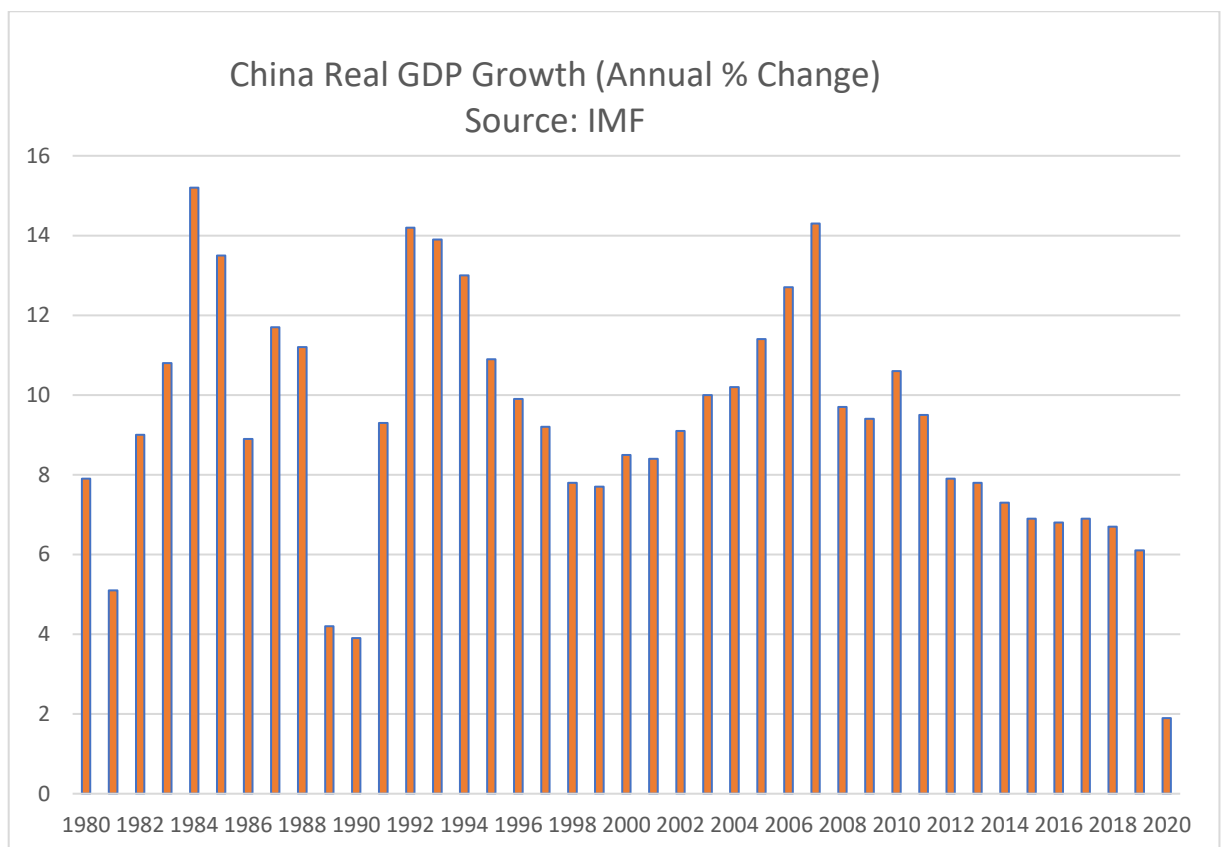


Fig 2.2. GDP growth rate from 1980 to 2020

Source: IMF, 2020

The inflation rate is calculated based on the consumer price index in China (CPI). The CPI is calculated using a product basket that contains a pre-defined set of products and services on which the average consumer spends throughout the year. Including expenses for groceries, clothing, rent, electricity, communications, entertainment and raw materials, as well as tax and federal fees. The product basket is adjusted every five years to reflect changes in consumer preferences and was last updated in 2015 (Statista, 2020). The inflation rate is then calculated using changes in the consumer price index. The domestic inflation is seen as a key economic indicator and is often used for international comparisons.

China inflation rate stabilized substantially in the recent years. In 2019, inflation rate in China was 2.9% (Fig. 2.3.). Among the large and emerging industrialized economies, China introduced the lowest inflation rate of any developing country in 2019. However, it still slightly exceeded the inflation rate in large industrialized countries like the US or the EU (Statista, 2020).

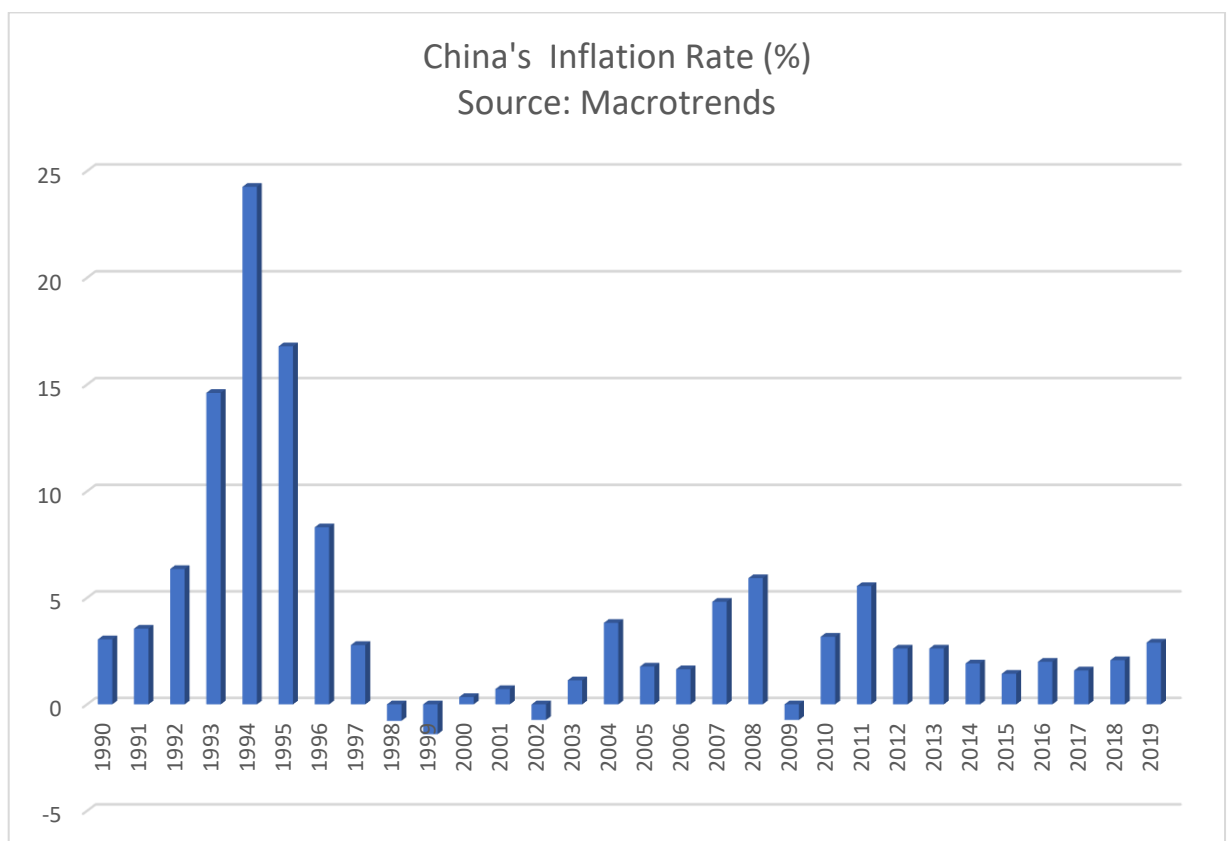


Fig 2.3. China's Inflation Rate

Source: Macrotrends (2020)

The unemployment rate in China measures the percentage of active job seekers in the reported year of total unemployed urban labor. A higher-than-expected figure will be interpreted as a negative/bearish sign for the Chinese yuan, while a lower-than-expected figure will be interpreted as a positive/bullish sign for the Chinese yuan.

In 2019, the government made the fight against unemployment a top priority. The unemployment rate in urban areas in China was around 3.6 percent. According to IMF forecasts, the unemployment rate will rise to 3.8 percent in 2020 due to the impact of the COVID-19 epidemic and will fall again to 3.6 percent in 2021 (Statista, 2020).

While the state has helped businesses retain their employees and pushed its banks to grant loans, it has avoided large aid packages and distributing money directly to people. In the last decade, only about 2.5 million people have received unemployment benefits (Tang, 2020).

Due to the COVID-19 epidemic, China's official urban unemployment rate rose to 6.2% in January and February 2020, compared with 5.2% in December 2019 (Fig. 2.4.). The unemployment rate, which rose to a peak of 6.2% in February, is of particular concern to the Communist Party, whose mandate includes improving the economic well-being of the people. Municipal unemployment in China is not particularly high by international standards, but the jump from 5.2% in December reflected the direct effect of halting production to take over the Corona virus. As of November 2020, unemployment Rate in China is 5.2%.

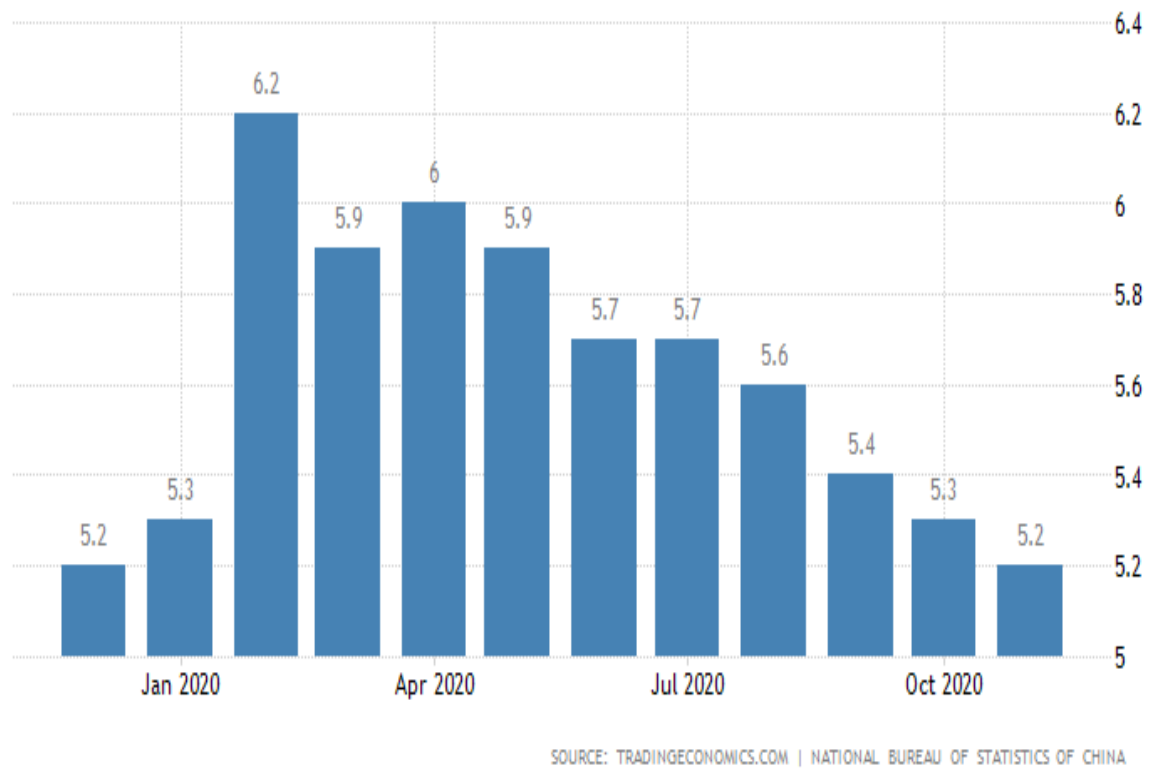


Fig 2.4. Unemployment rate of China

Source: Tradingeconomics (2020)

2.2. Political economic social and technological analysis

We live in a world that is managed and dictated by market forces. There are even some great thinkers from the previous millennium who claimed that these are the forces that drive world history. Entrepreneurs and small or large business owners need an understanding of the basic concepts of the marketing world to help us better understand the conduct of the business environment around us and make the right business decisions. This is where the PEST analysis is introduced, which is mainly a business master plan. That is, what does the business actually have to offer, what is the value proposition, for whom is it intended, i.e. the target market, and how does it intend to appeal to ordinary people and turn them into paying customers, i.e. the marketing message. The PEST analysis is a great tool for businesses and projects to analyze external micro-environmental factors, in order to make efficient strategic decisions and other management processes. PEST stands for political, economic, social and technological factors (Dudovskiy, J., 2020). The purpose of environment scanning is to examine the internal and external factors which influence the project.

1. Political factors

The People's Republic of China is a socialist state led by the working class, a popular democratic dictatorship based on the pact between the peasants and the workers. The socialist system is the fundamental system of the People's Republic of China. This implies that in spite of the truth that China is a free market, the regulations are different from the developed countries. For example, the audits and fiscal statements of the Chinese Stock Exchanges are different from other countries, which is baffling. Bookkeeping standards and administrative differences are plentiful. The café has no control over the political factors and will need to change together with the country's regulations. Due to the fact China is a member of WTO, China's market entry to the world boosts its national economy and has large potential (Contributor, P., 2020).

China's investment policy is reflected in the industries that need encouragement for foreign investment to facilitate and leverage foreign investment in certain industries and specific regions in China. Against the backdrop of tensions with China and the trade war with the US, China seeks to strengthen supplies and begin economic and structural upgrades through domestic and foreign investment. The blacklist of 2020, which restricts or prohibits foreign capital in certain industries, has opened up more access to the foreign investment market (Staff, 2020).

China's main trend in recent years is to protect intellectual property rights. The protection of trade secrets correctly reflects the direction in which China is moving with regard to the protection of intellectual property rights (Sepetys and Cox, 2020). The guiding opinion should help assimilate the commitments regarding piracy and counterfeiting on e-commerce platforms and allow for broader flexibility in dealing with infringers.

2. Economic factors

China's economy was the largest in the world for a long time, from the beginning of the 15th century to the beginning of the 19th century. As of the beginning of the 19th century China's economy was a third of the world GDP. Although China gained economic power during this period, it failed to convert this economic power into diplomatic power - compared to the European powers of the time - and there were a number of reasons for this. One of the main reasons was that alongside China's economic development it experienced a massive increase in population, which meant that the accumulated capital could not be used for exceptional development because it was required to keep pace with the basic standard of living supply to an increasing amount of population. Another reason was that China's leadership was under the impression that since China was large enough and full of natural resources, it had no reason to go out of its way and certainly not to pay a diplomatic price to strengthen economic ties and invest in imports. This lack of incentive to strengthen ties with other empires from that period, left China behind diplomatically.

Nevertheless, China is a global economic power and its economy is growing and rising rapidly. China plays a huge role in the global economy as the ‘factory of the world’ however it is currently trying to shift the economy from manufacturing towards the services sector in order to continue economic growth (Contributor, P., 2020). This is a good reason to open a services sector business such as a café at this point. However, there are some economic variables that are out of the café’s control and are likely to affect the business. The café should prepare to be ready for changes in order to grow. The factors which are likely to affect the café are inflation rates and exchange rates that affect coffee prices, due to the fact that coffee is supplied from abroad. When making project calculations, the inflation rate will be taken into consideration.

3. Free trade zones

In the past, establishing a business in China involved a difficult, complex and very long bureaucracy and there were many restrictions on the areas of activity of the companies and the licenses that the Chinese government granted to the foreign companies operating in China in order to protect the local companies and preserve local production. China has undergone a very big revolution in the last decade and recently launched a number of new free trade zones - Tianjin, Guangdong and Fujian, which are added to the best-known free trade zone Shanghai. The advantages of the free trade area are:

Establishment process: The administrative procedure for establishing a company in one of the free trade areas has become simpler and shorter than usual. A company wishing to register will not have to go through a series of approvals and procedures with various authorities, but only register with the local Chamber of Commerce, as long as it is not an occupation in the industry that appears on the negative list.

Free Trade: The free trade area eases and removes some of the trade restrictions that are customary in China. This liberalization has made it a global hub for the movement of goods, especially the free trade area in Shanghai thanks to its relatively central location in China. The area encourages foreign companies to establish a global warehouse in its

areas, while allowing free entry and exit of goods from abroad within the area without customs duties. Goods that leave the free trade area throughout China are legally charged at customs.

Foreign investment: Companies operating outside the free trade area may make foreign investments without obtaining government approval (as is the practice outside the free trade area). In order to complete the operation, these companies need to submit the relevant documents for the foreign investment to the local authorities. Thus, the foreign investment procedure becomes simpler for the listed companies.

Financial liberalism: Facilitates RMB account conversion, money transfers and account opening. According to the structure of the free trade area, many industries and sectors have opened up to foreign investment, the most significant of which is the financial sector. In addition, a number of restrictions were removed on telecom services, professional services (training, medicine, etc.), transportation services and more.

4. Social factors

The social factor is probably one of the most challenging ones. It is very difficult to understand what the needs of the Chinese people are, due to cultural gaps and a lack of understanding of how the Chinese consume the services and products they desire. The business entrepreneur must try to understand the culture and behavior of the Chinese. Without detracting from the cultural importance and understanding it is crucial to understand a number of important points:

- The Chinese are different from each other and therefore one should not look at the Chinese in a flat or inclusive way. In different geographical areas, different classes, different social characteristics and consumption habits develop. You can see Chinese in the south and north or in the city and village that are fundamentally different from each other, from a Chinese point of view towards themselves, but for people who do not know the culture and language it will be more difficult to see these differences. This can be reflected in

different education, different level of mandarin and in external characteristics such as dress and appearance. In economic characteristics: income and purchasing power, consumption habits, different preferences and many other characteristics.

- Social mobility along with the trends in society are constantly shaping and changing at a rapid pace and influencing the way we should look at the Chinese consumer. From an understanding of all these components we can try and understand how we would like to market and sell our business and our services more effectively to the Chinese people. For example, the way we treat Chinese who arrive in groups will be very different from the Chinese who arrive independently. Another example could be a different approach to young women arriving independently compared to older businessmen and wealthy people from the periphery. It is important to know and appreciate these different people in order to promote the business and meet the great demand.

- The business must have adjustable payments such as Wechat Pay and Alipay. Anyone who has visited China must have noticed that no one uses cash. Even the fruit seller, and the street vendors get the payment for their wares in an electronic payment made with the help of Chinese apps. The two most important payment apps are: Alibaba's Alipay, and Tencent's Wechat (Taylor, 2020). As a business owner targeting the Chinese market there is no doubt that the ability of customers to pay by digital means will definitely transform the business into a local Chinese which attracts Chinese consumers effectively. The solution is to connect to the payment service and hang a sign on the front door with the Alipay and Wechat logo and the Chinese customers will not be late.

- When it comes to businesses such as cafes, restaurants, bars, pubs, and places of entertainment of all kinds, Meituan-Dianping is the most important app. Meituan-Dianping is a platform that ranks businesses by customers, recommending services, places, food, and anything a Chinese consumer might require. In addition, it promotes and offers discounts and promotions through the app and also through it you can pay in restaurants and businesses at a

discounted price. The popularity of Meituan-Dianping is so high that today if a Chinese wants to go to a restaurant he will look for it first in this app and if the rating is lower than 4 to 5 stars the chances that he will eat in it are very low. Therefore, it is likely that Chinese tourists who come to visit the café will look for recommended restaurants in Meituan-Dianping (DeGennaro, 2020).

- Marketing through Wechat Business. Wechat is without a doubt the most popular app in China (DeGennaro, 2020). Beyond the many functions it offers (like text messaging, payment, community page, etc.) it has positioned itself as a top-notch marketing business tool since its immediate exposure is to the greatest number of customers. Today every company in China owns a business page and in this way maintains customer relationships, advertising, marketing, brand building, sales, events, and more.

- Remember that Chinese are Chinese speakers. Chinese for the most part read and receive the information in Chinese and not in other languages. Unfortunately, not all of them know English, so the businesses must offer their services in Chinese. This is an important point that needs to be emphasized. The translation of materials into Chinese must be adapted to the Chinese culture and experience and therefore materials should not be translated simultaneously but make the cultural and social adjustments when we know all the trends.

People's beliefs, attitudes and cultural perceptions are different in the East compared to the West. This is where localization comes into place. The products and environment of the café must be adapted to the locale of the market. The Chinese must feel at home, so the café experience needs to be as local as possible. This is another interesting point because on the one hand the Chinese consumer wants to feel at home and receive services and products in the way he is used to, but on the other hand the Chinese consumer is looking for the different, authentic, local, and foreign. The challenge is how to combine this unbridgeable paradox. If so, it may sound strange but for the Chinese the combination of West and East is quite acceptable in China itself. And many

successful businesses (such as Starbucks, McDonalds, and KFC), which sold the "Western experience" along with adapting to social trends, customer tastes and preferences that are very different from those of the Western consumer. The café should also be up to date with any changes in Chinese trends (Dudovskiy, J., 2020).

5. Technological factors

China doesn't produce just fabrics, spices and toys. China is changing direction and striving to get as far as possible. Many of the world's leading technology companies, which are attracted to China due to the human wealth of talented university graduates, have set up research and development centers in China, engaged in the most innovative technological research.

China is setting a tone in the world of science and technology. The entire population of China is mobilized for industrial development and this is the main factor in pushing China forward. The goal is to adapt the company to technological advances and convert the advantage of the country's cheap manpower into groundbreaking technological developments. The Chinese understand that they must create quality manpower in the field of technology and the goal is exposure to Western educational institutions in all fields of technology and science. China's vision is to be the most important part of the world's technology industry, from face recognition to social media monitoring tools.

China's coffee production remains little, but thanks to the development of cultivation technologies, it is expected to see a steady rise in its trend (Zhang, N., 2020). Other than that, the impact of technology is also relevant in the marketing and operational management. New distribution mechanisms, new products, marketing methods and purchasing methods are constantly being developed. Management must always be aware of the impact of technological changes and compare its technology to competitors' technology (Dudovskiy, J., 2020).

The internal environment of the business will impact its success in the future. Unlike the external environment, internal factors are something the managers have

control over. Proper management of internal operations is the key to the success of the business. Some of these factors include management style, value and strength of employees and effectiveness of communication. There exist many challenges in recruiting and training good quality employees. The goal is to attempt to attract quality individuals from the local neighborhood to work within the café. Many people could derive job satisfaction from having a job they enjoy close to their home.

Studies have shown that, when people are asked about what motivates them at work, they do not mention money first, but they say that they need enough equipment to get their job done, and they say that they want to feel appreciated. Keeping that in mind, it is essential to attract and retain the most qualified employees who will be a credit to the corporation as well as to the local community. Professional store staffing and scheduling policies will be implemented and controlled.

The plan is to provide services in the café which will meet the needs and wants of customers through a strong employee training and development program. Employees will be trained to the big picture of customer service as well as in the minute details of handling café traffic. Research has shown that people who smile at others are perceived of as more intelligent than those who do not smile. Also, employees will relate to customers through body language as well as through verbal communication. Employees will be relentlessly trained and retrained to achieve the highest standards of effective communication.

2.3. Niche analysis of the Chinese café industry

China has a huge coffee consumption market, coffee-related industries have attracted a lot of attention from investors, no matter local factories or a global coffee brand. China's coffee consumption continues to grow by 15% -20% per year, and it is expected to continue to grow, so China will become the largest coffee consumer in the world and coffee will be a mainstream of the drink.

According to Statista, China's market size of coffee shop industry in 2017 was 21 billion yuan and it is forecasted to grow to 47.9 billion yuan by 2023 (Fig. 2.5.). The size of China's coffee shop market has doubled since 2013, achieving an annual compound growth rate of 18%.

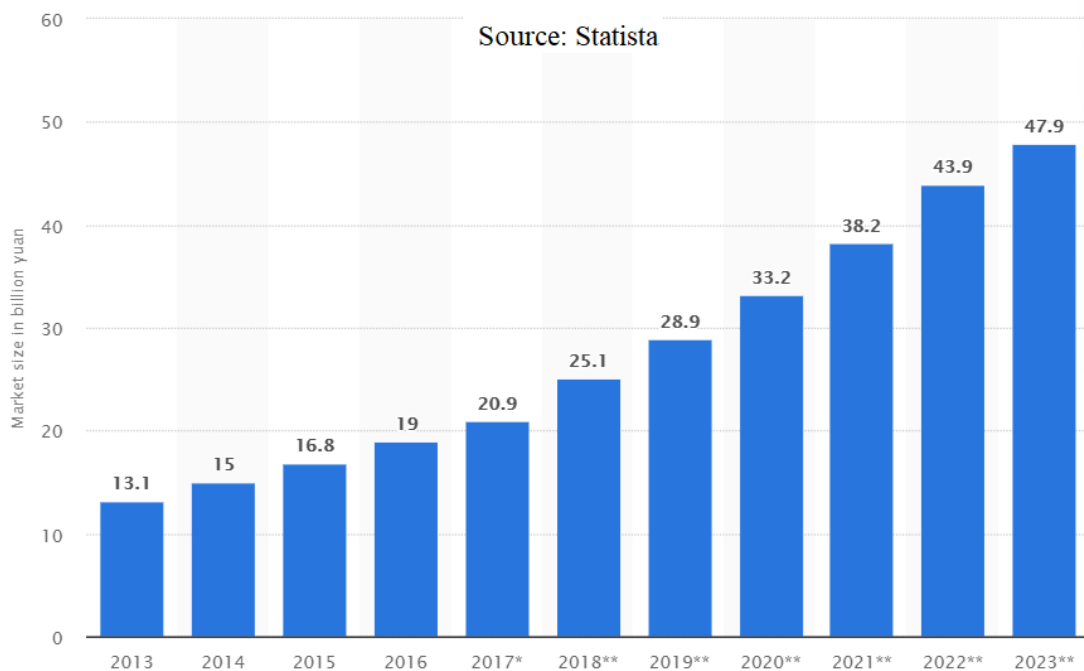


Fig 2.5. Chinese Coffee Shop Industry Market Size 2013-2017 Including Forecast

Source: Statista (2020)

The coffee market in China has opened up to different brands targeting different customers. Although Chinese are deeply influenced by the tea-drinking culture for thousands of years, the Chinese are increasingly open to the Western way of life. It is part of the overall expansion of Western diet and lifestyle in China.

Jack Lam, a Hong Kong businessman stated that “To make the best out of the Chinese market, one must go into the market and try to understand its culture, understand its customer demand, and be prepared and determined to take root and stay on there”. Many brands and business models from abroad have encountered difficulties in their efforts to penetrate the Chinese market. Although tea drinking has been ingrained in China for thousands of years, foreign coffee shop chains from the US, UK and South Korea are expanding their operations quicker than any other retail market segment in China.

The American coffee shop chain Starbucks has created the modern coffee shop culture from scratch in China, according to analysts who specialize in the retail industry. Analysts note that tea is not only the most popular beverage in China, but also deeply rooted in Chinese culture.

Since the opening of the first Starbucks branch in China in 1999, Starbucks has made itself one of the most famous lifestyle brands in the country by promoting its cafes as trendy places to meet friends in the spirit of the Western lifestyle. Starbucks' popularity has even managed to change the Chinese's sense of taste, and consumption of fresh coffee is on the rise.

The market is not only expanding but also diversifying. In recent years, Korean-style niche cafes have sprung up. Independent cafes have become the knowledgeable place to see and be seen in the big cities. All retailers - from McDonald's and KFC to Japanese and Taiwanese convenience stores, have begun to promote fresh coffee sales (Waldmeir, 2021).

The larger the number of existing cafes, the more they will increase in the future, according to Frank Yin of UBC, the Taiwanese coffee shop chain that was one of the first

to enter China. "The growing number of cafes allows people to become better acquainted with coffee."

UBC was also one of the biggest losers in terms of market share due to the growth of Starbucks, whose market share soared from 12% in 2008 to 31% in 2013, while UBC's market share shrank from 33% to 22%, According to Euromonitor data (Waldmeir, 2021).

At the time, McDonald's was building a 6% market share from almost zero percent by opening 800 Mac coffee branches within regular McDonald's branches. During that period, Costa's market share grew from 1% to 5.5%. Yum's KFC, which has not been served coffee in most of its branches in China until recently, has started promoting coffee and many of the convenience stores in major Chinese cities now offer fresh coffee.

"Of course, there is growing competition, but when I look at Japan and Korea, at the overcrowding of the cafes they have - even in Shanghai there is no such overcrowding," said Torsten Stoker, a partner specializing in the China retail sector (Waldmeir, 2021).

At the Man Kofi branch in one of the suburbs of Shanghai on a rather chilly weekday, most of the seats were occupied - mostly by groups of friends chatting loudly. Even at the Starbucks branch in a nearby office building most of the seats were occupied - mostly by customers sitting in units working on their laptops or meeting with co-workers.

What is even more surprising is that the people of China are not only increasing their visits to cafes, but also buying coffee-based beverages and not the other beverages that have been the most popular so far.

"Today there is a greater appreciation for nuances than five years ago, when for most people coffee was Nescafe 3 in 1," Stoker said, referring to the instant coffee brand with milk that has become very popular among new entrants to China's coffee drinking culture. Consumption of coffee in China now stands at 4 cups per person per year, and the growth potential is still huge (Waldmeir, 2021).

According to Mordor Intelligence, there is a very high demand for coffee pods and capsules in China, where capsule coffee machines have become the cornerstone of the traditional coffee shop for consumers. New consumers are continually attracted to support this category, so China will continue to offer significant growth potential (Fig. 2.6.).

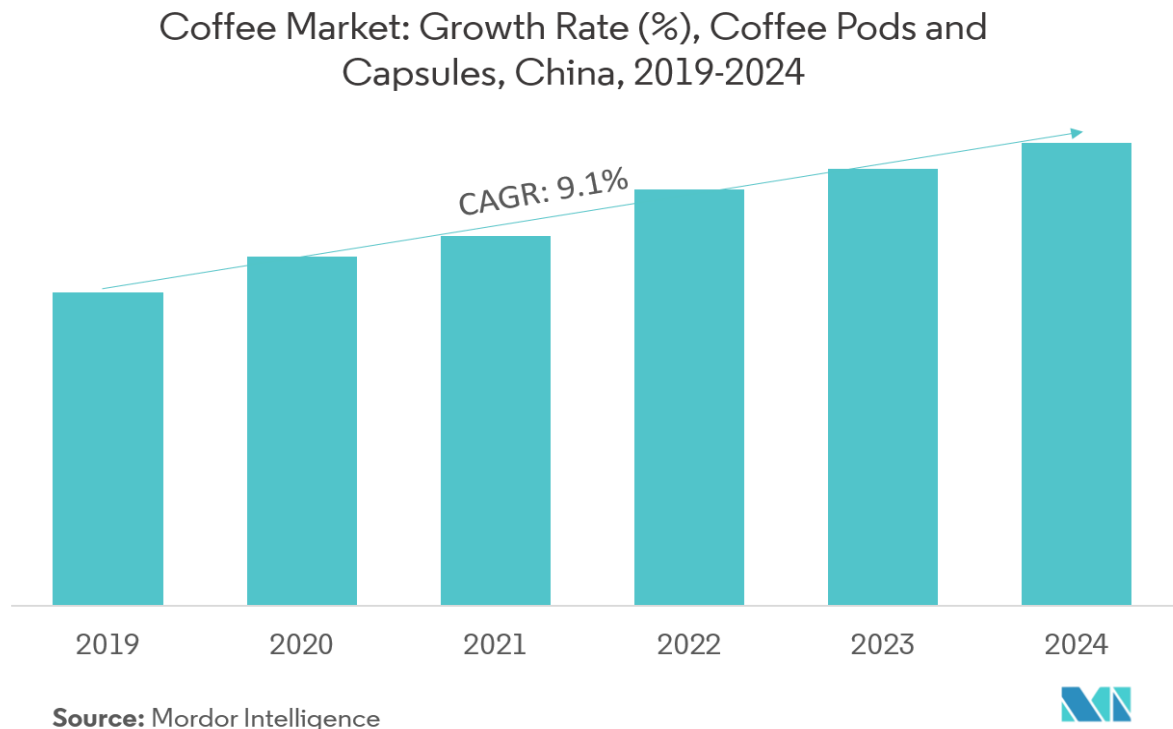


Fig. 2.6. Coffee Market Growth Rate of Pods and Capsules 2019-2024 (%)
Source: Mordor Intelligence (2021)

The significant increase in demand for gourmet coffee, mainly due to the growth of specialty coffee chains has led to the growth of the coffee market. Thus, it's a contribution to the growth of the market segment. Especially the supermarket and hypermarket sector hold the highest revenue share (Fig. 2.7.). However, the trade war between the US and China has led to a decline in sales of coffee makers in the US because China is an excellent market. For example, McDonald's and Starbucks sales were seen to decline in 2018 in China as Chinese consumers turned to local brands.

Coffee Market: Revenue share (%), by Distribution
Channel, Global, 2018

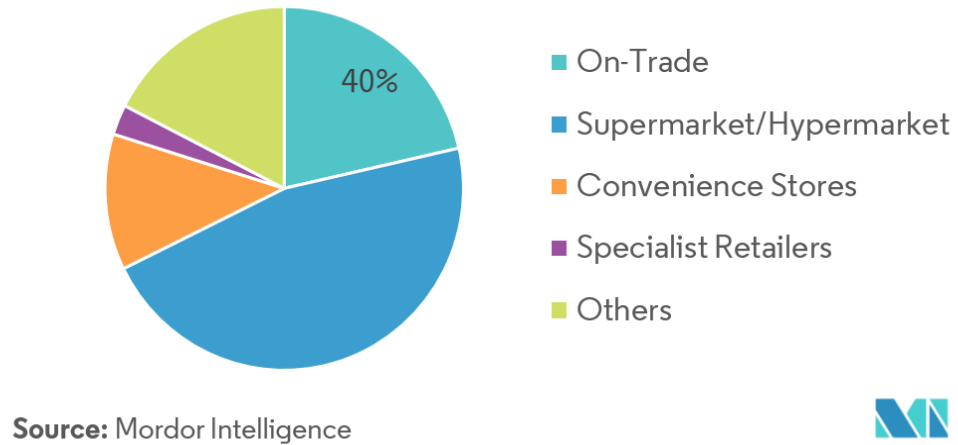


Fig. 2.7. Coffee Market Revenue Share % by Distribution Channel 2018

Source: Mordor Intelligence (2021)

CHAPTER 3

DEVELOPMENT OF INTERNATIONAL INVESTMENT PROJECT IN CHINA

The plan of the investment project is to open a café' with an impressive natural interior design in Shanghai, China. The café will provide a wide variety of drinks and baked products. It will offer the customers something memorable which is highly recommended for all ages. The café will deliver a cup of coffee to its customers and hold a beautiful interior design which resembles a natural environment. This section contains an elaboration on the investment project.

Overall, China is developing rapidly, and so is its coffee market. China is a traditional tea-drinking country, but it is slowly becoming one of the largest coffee consumption markets. This is due to the rapid development of tourism industry in China, which stimulated coffee consumption in the country (Zhang, N., 2020). Tea is the most popular drink in China, although Coca-Cola (the original and counterfeit) also bought it a place in the hearts of the Chinese. Beer is by far the most popular alcoholic beverage. "Wine" is a very general term, referring to all beverages that have been oxidized and soaked in various herbs – there will be rice wine and wines that contain lizards, bees or pickled snakes.

Chinese cuisine is famous all over the world. It is very diverse; The Chinese themselves like to say they are willing to eat anything with four legs, except a table. Most of the time, however, these are sophisticated foods from a limited number of basic ingredients, such as the ones the café will offer.

One of the main goals of coffee shop design is to make customers feel at home when they are there and want to come back again and again when they are not there. The café will realize this by adding a little personal touch to the menu. The target audience the café is targeting are mostly students and young people. Knowing the target audience makes it easier to dictate the atmosphere and choose the design items that will help produce it on the best side.

One of the key principles in designing a café is the phrase "everything that adds detracts". The café management is in favor of keeping the space as clean, aesthetic and designed as possible. Also, it is important that the interior design of a cafe be "temporary", ie does not prevent trends in the market. Although it is fun to combine trendy designs that are seen everywhere, it must be considered that they will not differentiate the business, in addition, at some point they will go out of fashion and then a replacement will be required. Another thing that is important to emphasize is the quality. It is recommended to prefer quality over quantity. Quality furniture may require more investment, but in the future this investment will be more profitable and economical.

The café will work according to the permitted weekly working hours in China. Regulation 36 of the Labor Law states: "The number of daily working hours shall not exceed 8 hours or 44 hours on a weekly average." On March 25, 1995, the State Council's regulations regarding working hours were amended, according to which people in China currently work eight hours a day and forty hours a week. That is, as of May 1, 1995, China is actually implementing a five-day work week and eight work hours a day.

3.1. Substantiation of the investment project for opening a café business in China

The type of café is an entertainment café. This means it's a regular café which offers coffee, cakes and snacks (Table 3.1.). It will also offer these services 'to go' in the take-away method. The main products the café will sell is drinks and baked products. There will be a wide variety of coffee, tea, soft drinks and beverages that customers can purchase. The café will also offer baked products such as macarons, bookies, danish, eclairs, cannoli and strudels.

Table 3.1.

The Menu

Drinks	Baked Products
Tea (¥10)	Macaron (¥20)
Coca-Cola (¥10)	Cookie (¥25)
Coffee (¥15)	Danish (¥25)
Fresh juice (¥20)	Eclair (¥30)
Beer (¥20)	Cannoli (¥30)
Wine (¥25)	Strudel (¥30)

The type of company is private, a sole proprietorship. In this case there will not be any shareholders. One of the biggest expenses in running a company in China is the cost of employees. Base salaries, incentives and employer payments for social benefits can

add up to significant amounts when employing quality workers with relevant experience and good command of English.

The table below (Table 3.2.) is calculated based on the average cost of a good administration manager. It is a common mistake to assume that an administration manager can also serve as the CEO of the business. It is unequivocally recommended to leave the administration manager with the ability to focus on his important area of responsibility and not to burden him with overall operational responsibility for operations.

The business will need at least one employee who will manage the human resources and the administration, and at least one employee who will be able to handle the bookkeeping and daily payments. The cafés staff will consist of a shift manager, administration manager, marketing executive, operation manager, accounting manager and 4 general workers, a cleaner, a bartender, a waiter and a baker (Table 3.2.).

Table 3.2.

Employees

Job Title	Number of Personnels
Shift Manager	1
Admin Manager	1
Marketing Executive	1
Operation Manager	1
General Laborer	4 (cleaner, bartender, waiter, baker)
Accounting Manager	1

The shift manager is responsible for the shift at the café. He is an intermediary between the waiter and the management of the restaurant. Responsible for the day-to-day functioning of the waiters and workers, taking care of salaries and arranging shifts, to managing them during shifts, giving instructions and supervising what is happening. The person in charge of the shift is the authoritative figure who represents the business in the event of a problem with the customer, and he is also obligated to report regularly to the managers.

The administrative manager is responsible for the administrative aspects of the business. Establishing procedures and solving different issues, he is responsible for procurement, recruitment, funds, etc. He is responsible for the proper administrative acceptance of all employees and ensuring compliance with all employees' rights and obligations. The administrative manager formulates a framework that will allow employees to receive training, professional advancement and working conditions as required. He is also responsible for reporting everything required in his field to the relevant parties.

The role of the marketing executive is to plan and manage the marketing strategy, for the benefit of increasing the company's revenue, both long-term and immediate. Out of this, the marketing manager must divide his time in favor of two main goals: increasing the customer base - to increase immediate revenue and adjustment of the marketing system - choosing the right marketing channels in accordance with the changes that the market undergoes during the year and the positioning of the café in order to maintain future profitability. In order to create the most appropriate marketing strategy, the marketing manager must know the market in its entirety, while having a deep understanding of the existing and future supply and demand. That is, the marketing manager must know what products or services the company offers (supply) in parallel with an in-depth acquaintance with the market segment that the business is addressing, with all its characteristics and needs (demand) (Lamb et al., 2015). Also, the marketing manager should also know the competitors in the market, about the products and services they offer. Following demand, the marketing manager must refine the marketing

messages of the business, in an attempt to differentiate its services or products from the competition. That is, from familiarity with the product and service of the café, the marketing manager may re-characterize the product and service to better suit the potential customer audience of the business. For example, rebranding of the product, which will be reflected in the creation of a new logo, a more accurate color palette definition, a change in the texts that appear on the product and the like.

After all this, the marketing manager will determine the advertising and marketing moves of the product and service. Marketing moves will include offline visibility, such as through billboards and flyers, alongside online visibility through a website, social media and emailing. The marketing manager is also responsible for all the various digital assets of the café, starting from the website, through pages on the various social networks, marketing videos, content articles and more (Lamb et al., 2015). The marketing budget is also the responsibility of the marketing manager, in light of the fact that he should have all the data regarding the marketing moves, on their success or failure. For example, a marketing manager may want to increase the digital exposure of the café, at the expense of its physical presence, depending on the data and statistics it has regarding the success of online campaigns.

The operation manager is in charge of contacting distributors and suppliers and managing the product line (Corporate Finance Institute, 2020). With sales turnover of hundreds of millions of dollars on Aliexpress, Ebay, Etsy, Amazon, Alibaba, the possibility of creating a meeting and mutual connection between business owners and sellers from different countries and buyers of products, services and goods has become more promising than ever. The operation manager understands the potential for wholesale transactions inherent in overseas trading venues. This allows free trade for small entrepreneurs and importers who want to import new products while differentiating business-marketing. In order to manage their activities, the sites usually require registration and opening an account with a username and password, as well as learning how to conduct the site, knowing the interfaces and options. To operate properly in the

trading arenas, it requires considerable investment of time, thought and planning, intuition and sharp business senses as well as setting clear goals.

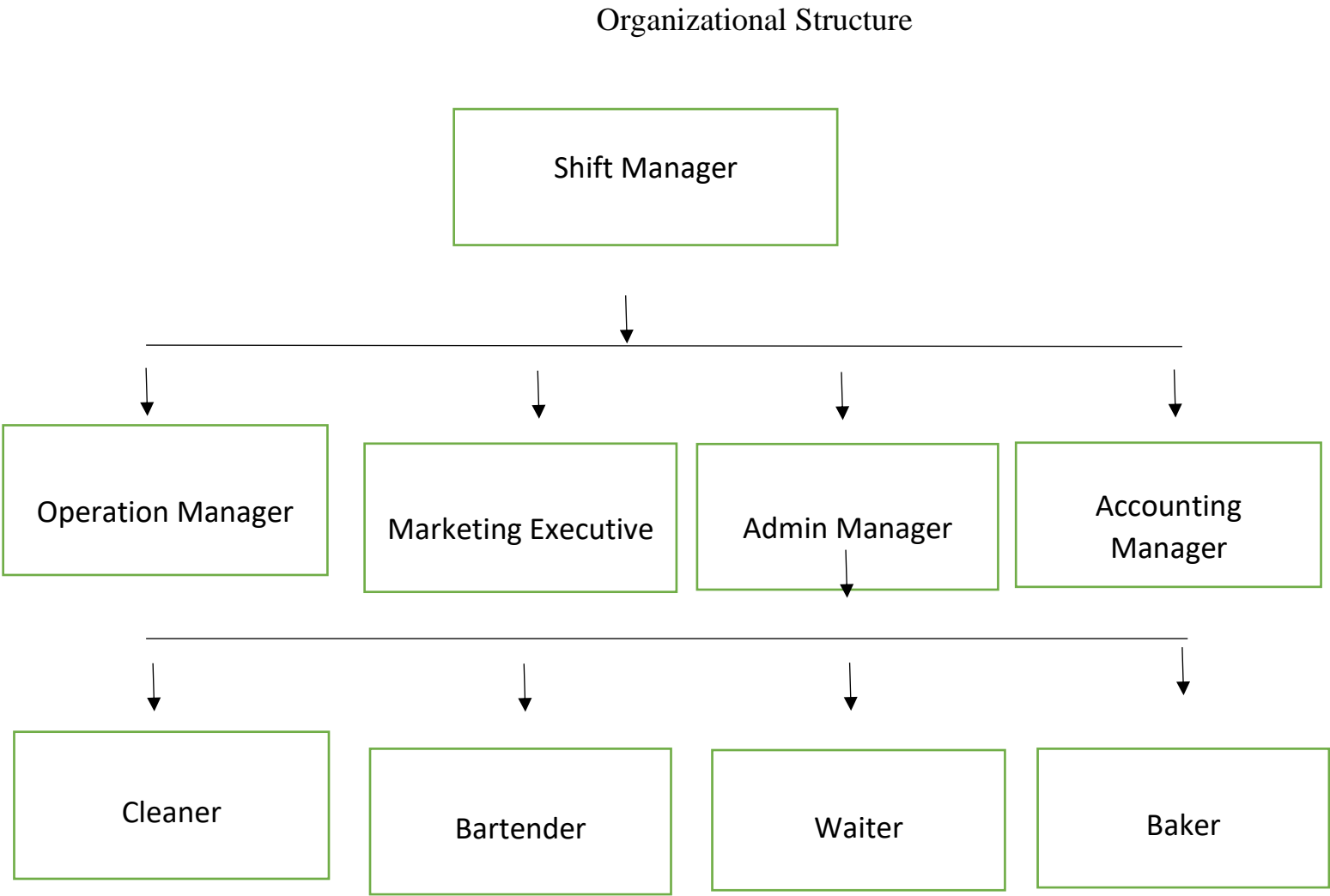
The operation manager must do a brief background check of the vendor to understand who he is dealing with. There is a high concentration of manufacturers, suppliers, distributors and marketers for every possible product, from decorative items to advanced electrical products. The operation manager performs a simple and complex search, locates and filters business partners, maintains business and commercial relationships with them and also exposes and markets the products the café produces abroad.

The business in China will also need to take care of orderly bookkeeping in order to submit accounting reports on a regular basis. That is, it will need the regular services of an accountant to meet the requirements for periodic reporting. The accounting manager is a partner in determining the work plan mainly on the economic side of the café. He is also responsible for preparing the cafes budget and balance sheet, considering the needs of the professional staff. The accountant is familiar with taxation costs in the country. Businesses in China carry a tax and levy burden that can vary depending on the business scope, type of activity and industry of the company. Whether it's VAT, consumption taxes, customs, export tax, or income tax, capital gains tax, dividend tax, and also tax on natural resource consumption, real estate tax, land use tax, praise tax, taxation on company vehicles, stamp duty, municipal taxes and more.

The accountant is responsible for the day-to-day bookkeeping work that includes, among other things, issuing and posting invoices, preparing salaries, paying vendors, collecting debts, inventory records, bank adjustments, and other tasks. The entries are made according to accepted rules, using the double or unilateral accounting method, and in addition, the accountant prepares the periodic reports (monthly or bi-monthly) to the tax authorities. The café needs the services of an accountant, in fact from the first stages of business planning it is already necessary to enlist his help.

The diagram below (Table 3.3.) represents the employee’s organizational structure. The salaries were calculated according to salaries in the current Chinese market (Deloitte United Kingdom, 2020, Limited, Z., 2020).

Table 3.3.



Employees in the core areas of the company constitute a major cost. The table below (Table 3.4.) is calculated based on the average cost of skilled managers and workers in Shanghai, China.

Table 3.4.

Salaries (Current Expenditure)

Position	No.	Monthly salary
Shift Manager	1	¥ 8,000
Administration Manager	1	¥ 7,000
Marketing Executive	1	¥ 5,000
Operation Manager	1	¥ 5,000
Accounting Manager	1	¥ 6,000
General Worker	4	¥ 3,500
Total		¥ 45,000

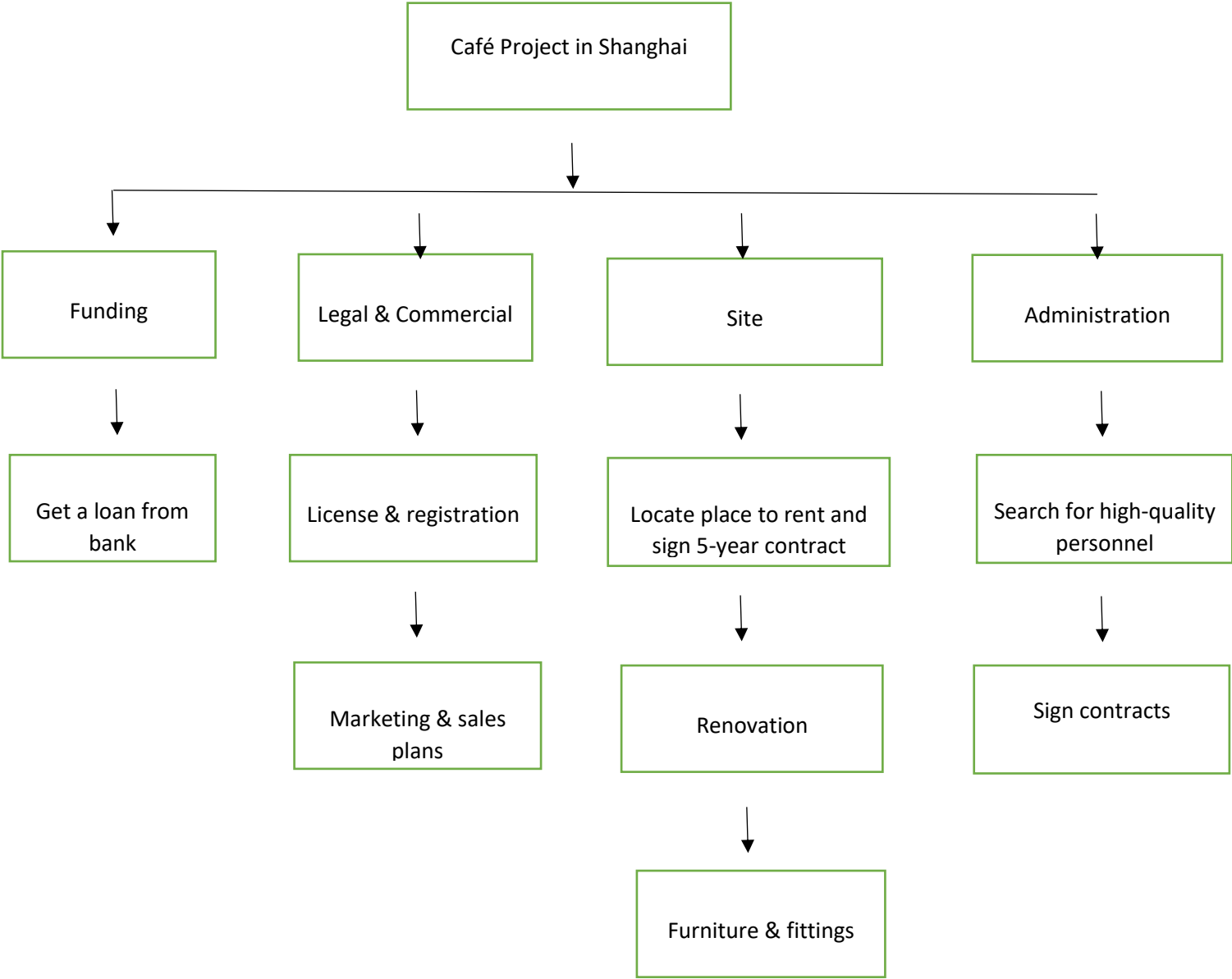
Work Breakdown Structure (Table 3.5.) is used for breaking down a project into easily manageable components, or bites. The WBS provides the foundation for project planning, cost estimation, scheduling and resource allocation. The WBS assists with accurate project organization, helps with assigning responsibilities, shows the control points and project milestones and allows for more accurate estimation of cost, risk and time.

In order to accomplish a WBS, it is first necessary to define the main activities which the organization needs to complete. The main activities which are necessary in order to reach the goal of the project are:

1. This project requires an initial investment. The first step would be to get a loan from the bank. Chinese bank interest rate is 4%.
2. Acquire business license & registration. Companies in China are required to apply to the relevant authorities (AIC) for a business license.
3. Find a central location to rent and renovate the café.
4. Purchase furniture for the café.
5. Hire personnel - shift manager, administration manager, marketing executive, operation manager, accounting manager, 4 general workers.
6. Organize a marketing plan together with the marketing manager. Marketing strategies will include brochures, billboards, magazine advertisements and coupons.

Table 3.5.

Work Breakdown Structure



3.2. Investment resources evaluation and identification of their allocation

When starting a business, the entrepreneur needs to know how to plan the initial investment. The first question we ask ourselves, is how much we invest in our business. The most important part of the investment process is the knowledge acquisition phase.

The scope of the financial investment depends very much on the characterization of the cafe. Firstly the owner must determine whether the plan is to open a coffee and pastry style place, or serving light meals like most cafes. To serve light meals a larger investment is needed that includes kitchen space. For that reason, only coffee and pastries are chosen, there is no need for a large kitchen, the pastries can be obtained from frozen and semi-baked suppliers and it remains only to bake them in the oven.

The second step of determining how much investment is needed for the project and developing a strategy for the business is to analyze the existing spend culture of the café.

Equipment for cafes - for the area where the customers sit there is need for tables, chairs and other furniture details. There is also a need for a coffee machine, display refrigerators for cakes, etc (Table 3.6.).

Tableware - cups, cups, plates, etc. Equipment can be obtained at different price levels, all depending on the quality. This equipment is always broken and periodically stock of fragile products must be replenished.

Coffee Suppliers - Coffee, food and beverage suppliers are needed. Although this is a cafe, customers are also likely to order juices and soft drinks.

Data was obtained from the internet and calculations were made as close as possible to real prices in China. Costs and prices are demonstrated in diagrams below (Living, C. 2020).

Table 3.6.

Furniture and Fittings

Type	Price (Yuan)	Quantity	Total Investment (Yuan)
File cabinet	600	3	1,800
Table	1,000	10	10,000
Chair	400	30	12,000
Indoor Plants	75	40	2,700
Computer	10,000	3	30,000
Air conditioner	10,000	2	20,000
Refrigerator	6,000	2	12,000
Telephone	500	3	1,500
Coffee machine	10,000	1	10,000
Total			¥ 100,000

Budget planning does not start with numbers. Tactical budgetary processes start with strategy. Advertising strategies, content and messages are known to be derived from marketing and sales strategies. Those marketing and sales strategies, as well as branding strategies, are derived from business strategies. Those business strategies and business models are generally derived from a business vision and idea. So is the budget: characterization of pricing strategies, setting goals and indices, derivatives from business models, business strategy, marketing and sales. All these together determine the volume of investment and the expected return on investment (Table 3.7., Table 3.8.).

The investment in advertising and marketing is part of a continuous investment. This is an investment the business will want to make all the way through, but only in the beginning will it come from the investor's personal pocket. Those who bring their own product, and those who want to succeed in marketing, need to know how to advertise themselves, and advertising costs money, at least in the beginning. If the business advertises well in the beginning, it will increase sales and profits and will be able to cover the initial investment faster. Also, sponsored advertising at the beginning, if done right, will later become organic and free advertising.

Advertising can be used to create a Facebook page that will gather a community around it, or alternatively create a name for the businesses brand that will be remembered by the customers for good, the café will be able to advertise less later that customers will start bringing in new customers. But this is a point that needs to be worked hard to get to, and one needs to know how to invest wisely in the beginning.

Table 3.7.

Marketing Budget

Type	Investment	Current Expenditure
Brochures		¥ 1,000
Billboard	¥ 5,000	
Magazine advertisement		¥ 500
Coupons		¥ 500
Exhibition		
Total	¥ 5,000	¥ 2,000

Table 3.8.

Administration Budget

Items	Investment	Current expenditure
Furniture	¥ 100,000	
Renovation	¥ 40,000	
Salaries		¥ 45,000
Rent		¥ 20,000
Business license & registration	¥ 10,000	
Telephone & wifi		¥ 200
Water		¥ 500
Electricity		¥ 2,200
Raw Materials	10,000	¥ 2,100
Total	¥ 150,000	¥ 70,000

To justify the investment and expenses on a regular basis, one should sell between 60 to 100 cups of coffee a day. Only after reaching this daily destination, each cup of coffee will be considered a profit

The initial investment of the café includes rental costs, current expenses such as water, electricity, taxes. Renovation of the café, planning and designing. Acquiring a business license and registering it. Purchase of equipment which is relatively a large expense. Marketing and advertising the café and hiring the staff. According to calculations, the project requires an initial investment of ¥155,000. Private equity invested in the project amounts to ¥77,500 and an additional ¥77,500 will be taken as a loan from the local Chinese bank (Table 3.9.).

Table 3.9.

Total Expenses

Expenses	Investment	Current expenditure
Food & Beverages	-	¥ 2,000
Raw Materials	-	¥ 7,500
Marketing	¥ 5,000	¥ 2,000
Administration	¥ 150,000	¥ 70,000
Total	¥ 155,000	¥ 81,500

Our operation manager will be in charge of contacting distributors and suppliers and managing the product line. The main raw materials which will be needed in a monthly manner are milk and coffee, including other take-away plastics such as straws and spoons in order to manage the café properly (Table 3.10.).

One of the main issues to be dealt with when setting up a cafe is the issue of food costs. An issue that should be given very great emphasis at the planning stage of the establishment of the restaurant and also at the stage of operating the restaurant. Food costs in a café account for big percent of business costs (Table 3.11.). Controlling these expenses (in addition to the cost of the staff) means controlling the business expenses - hence the ability to profit from the business.

The operation manager controls food expenses in the business. In order to gain control over expenses he is committed to a number of processes and actions:

- Perform ongoing control of procurement

He must check every invoice that arrives, make sure that these are the agreed prices and the quantities ordered - and preferably the recipient of the goods will always sign to check. He must constantly check and compare the prices of competing suppliers.

- Make monthly inventory counts

Inventory counting at the end of each month is important for 3 reasons:

- In order to calculate food cost:

Opening inventory + total purchases during the month - end of month inventory = FC

- In order to know the applicability of the goods in the warehouses (quantity and cost)
- In order to convey to the team professional management and full control of operations (reduces the chance of theft)

- Carry out a continuous monthly tracking of the percentage of expenditure against revenue.

When we know the cost of our purchases, and what our inventory is, we know how to calculate the cost of our food, so we professionally control the business, understand the structure of expenses and can change when required prices, suppliers, etc. - all in order to maximize business profit.

Table 3.10.

Raw Materials (Current Expenditure)

Item	Amount required for cup of coffee	Amount required per month	Price per unit	Total purchase
Coffee beans	10g	100kg	¥ 30	¥ 3,000
Milk	150ml	300l	¥ 15	¥ 4,500
Total				¥ 7,500

Table 3.11.

Food & Beverages (Current Expenditure)

Item	Price/unit (¥)	Quantity	Total Cost (¥)
Soft drink	5	180	900
Mineral water	3	300	900
Straw	0.1	1,000	100
Plastic spoon	0.1	1,000	100
Total			¥ 2,000

Hiring appropriate staff for the café and training the employees is the responsibility of the admin manager. According to the schedule of the major tasks we can see how long these activities will take (Table 3.12.). For example, employee training should take up to one week. Painting and renovating the café should take a few days. The shift manager is in charge of the painting and furnishing of the café.

The accounting manager will develop a financial 5-year plan, according to which the café will work. The marketing executive has tasks which will be continuous, monthly tasks. These are purchasing billboards, marketing & advertising the business. They will last until the end of the project life cycle.

The operation manager also has continuous monthly tasks, such as contacting distributors and ordering raw materials and food and drinks for the business. These tasks run out only at the end of the business life cycle.

The accountant will have a monthly task to calculate the monthly close and issue paychecks for the staff. At the end of the project life cycle, in five years' time, the accountant manager will calculate the business' total expenditure and revenue. The owner will monitor the project throughout the life cycle and in five years will be in charge of the project's closure.

Table 3.12.

Schedule for major works

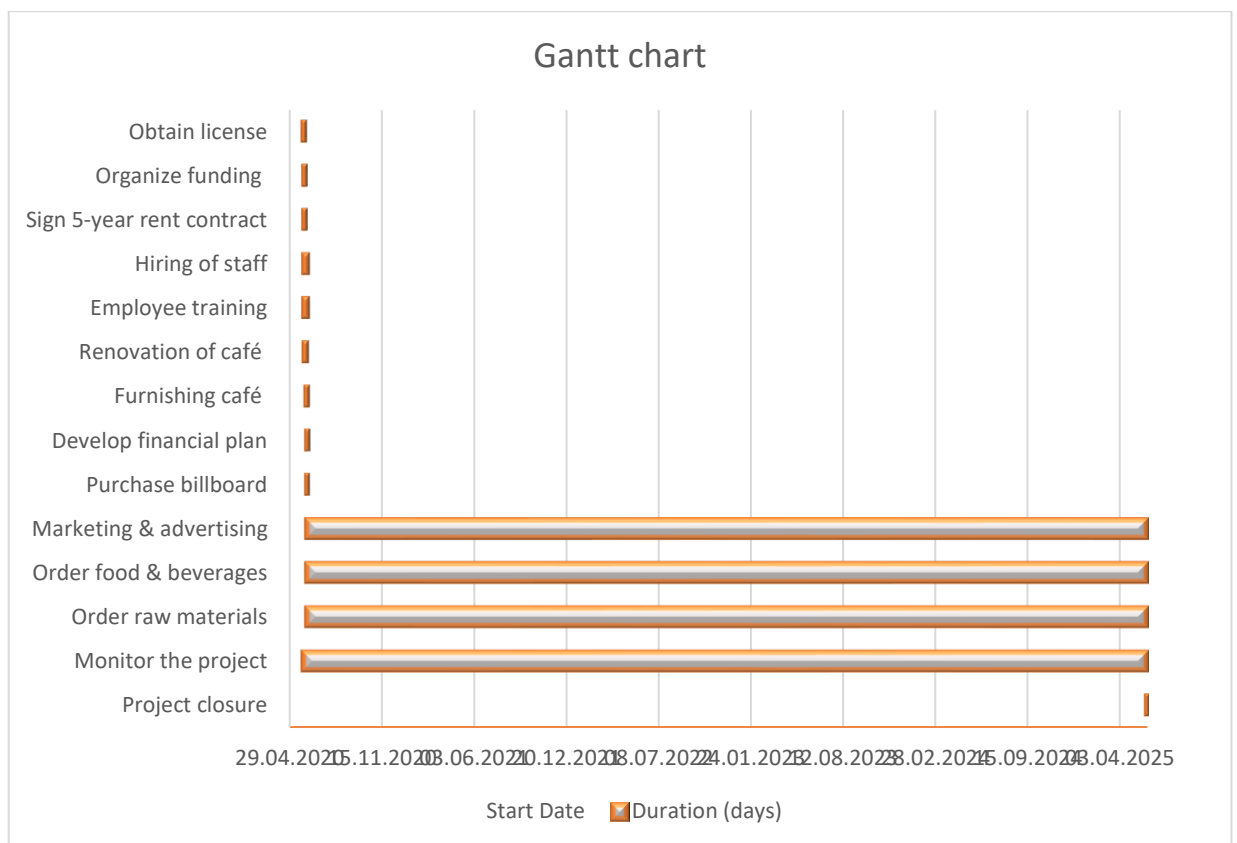
Task	Start Date	End Date	Budget	Manager
Obtain license and registration	31/05/2021	01/06/2021	¥ 10,000	Owner
Organize funding for project	01/06/2021	02/06/2021		Owner
Rent and sign 5-year contract	01/06/2021	02/06/2021	¥20,000/month	Owner
Hiring of staff	01/06/2021	07/06/2021	¥45,000/month	Admin Manager
Employee training	01/06/2021	07/06/2021		Admin Manager
Painting/Renovation of café	02/06/2021	05/06/2021	¥40,000	Shift Manager
Furnishing café	06/06/2021	07/06/2021	¥100,000	Shift Manager
Develop financial plan	07/06/2021	08/06/2021		Accounting Manager
Purchase billboard	07/06/2021	07/06/2021	¥5,000	Marketing Executive
Marketing & advertising	07/06/2021	31/05/2026	¥2,000/month	Marketing Executive
Order food & beverages	07/06/2021	31/05/2026	¥2,000/month	Operation manager
Order raw materials	07/06/2021	31/05/2026	¥7,500/month	Operation manager
Accounting monthly close	31/06/2021	31/05/2026		Accounting Manager
Monitor the project	31/05/2021	31/05/2026		Owner
Project closure	31/05/2026	31/05/2026		Owner

The Gantt chart is used to describe activities with the relationships between them over time. The chart shows the dependencies and connections between the activities in the project. For example, which task must be performed before or in parallel with another.

According to the Gantt chart (Table 3.13.), the first activity of the project is to obtain license for the business. The next activities are to organize funding for project, by going to the local bank and asking for a loan. These activities are the owners responsibility. The person in charge of the work is listed in the “schedule for major works” table. The owner will also find a good location to rent and sign a 5-year contract with the landlord.

Table 3.13.

Gantt Chart



3.3. Investment project appraisal and project risks management

So far we have learned the performance of value calculations of individual amounts and of series of payments, following which we have engaged in calculations related to budget, expenses and current expenditure of the project in order to learn how much is needed for investment. These calculations are necessary for making financial decisions. This chapter discusses project evaluation and examines these economic considerations that the decision maker must exercise when examining the viability of investing in a new project, when its purpose is to maximize its value. Later in the discussion we will see how to build a forecast of cash flows expected from a project, and we will present a number of accepted criteria for the evaluation, acceptance and rating of projects. Finally, the advantages and disadvantages of various criteria, and consider which ones should be used in evaluating the feasibility of projects under various restrictions.

The dynamic methods used for the investment project appraisal are Net Present Value Method, Internal Rate of Return Method and DPB Method, using cash flow forecasts by the traditional and equity methods. In order to achieve absolute profitability, these are the criteria:

- Net present value must be larger than 0
- Internal rate of return is higher than the uniform discount rate
- The payback period must be shorter than the project time limit

$$NPV = \sum_{t=0}^n \frac{CF_t}{(1+i)^t}$$

(3.1),

Net present value is computed by discounting all present and future cash inflows and outflows related to the project. Absolute profitability is achieved if an investment project's

NPV is greater than zero.

NPV \geq 0 project could be accepted

NPV $<$ 0 project should be rejected

$$IRR = \frac{(\text{Cash flows})}{(1+r)^i} - \text{Initial Investment}$$

Where:

Cash flows= Cash flows in the time period

r = Discount rate

i = Time period

(3.2),

Source: Internal Rate of Return - Cleartax (2020)

The internal rate of return is the rate that leads to a NPV of zero when applied as the uniform discount rate.

- IRR $>$ r (WACC)
- IRR \rightarrow max

Absolute profitability is achieved if an investment project's internal rate of return is higher than the uniform discount rate.

$$DPB \rightarrow \sum_{n=1}^N \frac{CF_n}{(1+r)^n} \equiv \sum_{n=1}^N \frac{I_n}{(1+r)^n} \equiv I_0 \quad (3.3),$$

The dynamic payback period is the period after which the capital invested has been recovered by the discounted net cash inflows from the project. This indicator is realistic and reflects the period after which the total investments return. (Mostovoy, 2020). Absolute profitability is achieved, if the payback period of an investment project is shorter than a designated time limit.

In order to calculate the sale expectations for the café to receive the revenue from the sales, we need to make an estimation. In the case that the café is open from 9am until 7pm, and there are approximately 10 customers per hour, that would be 100 customers per day, 300 customers per month. Whether there are less customers early in the morning or later in the evening doesn't make a difference because there will be more in the peak hours of noon-afternoon.

We can assume that each customer purchases a drink or baked product, for approximately ¥ 26-27 (some customers will purchase for less, but most will purchase for more than that sum) we would receive ¥ 80,000 per month in the first year (¥ 960,000 in first year). Inevitably, after a while the sales will increase due to the marketing strategies of the café and customers word of mouth. With this estimation I will add another 10% increase in sales per year (Table 3.14.).

Table 3.14.

Sales Expectations

Year	Sales
Year 1	¥ 960,000
Year 2	¥ 1,056,000
Year 3	¥ 1,161,600
Year 4	¥ 1,277,760
Year 5	¥ 1,405,536

Cash flow is a term in management and accounting that refers to the movement of money to and from a business unit over a fixed period of time. Cash flow is used for budget planning, management, profitability calculations and more. Poor cash flow that creates a shortage of liquid money can cause a profitable company to go bankrupt.

By using a cash flow forecast (Table 3.16.), it is possible to prepare in advance through requests for deferral of payments, requests for advance payments and / or raising loans. It is much easier to get a loan from financial entities when this application is backed up by relevant reports (cash flow forecast) and sufficiently well in advance, rather than when the business is already in difficulties.

Government fees that are charged directly by the authorities for the establishment process must also be considered when preparing a cash flow forecast. These costs are standard and necessary for the establishment of a company of any kind. Like everything in China, they also change from time to time.

The standard Corporate Income Tax (CIT) rate in China is 25%. Liquidating value of equipment equals to 25% of the furniture (100,000*0.25=25,000). Average cost of equity at market value in China is 8%. Chinese bank interest rate is 4%.

The weighted average cost of capital (WACC) is a value that expresses the cost that the company is required to pay for the capital used for its activities, the interest rate, weighted according to the weight of equity and the weight of debt. The businesses' capital consists of external capital - debt for loans, and equity - the investment of the owner. The company pays interest to debtors. The weighted capital price is the average of the interest rates that the business pays for the loans it has taken out, which is calculated according to the debt/equity ratio in the company. It should be noted that the interest rate on the loan taken is fixed.

Cost of equity 8%, cost of debt 4%, tax rate 25%

$$WACC = [\text{Cost of Equity} * \% \text{ of Equity}] + [\text{Cost of Debt} * \% \text{ of Debt}] * [1 - \text{tax rate}]$$

$$WACC = [0.5 * 0.08] + [0.5 * 0.04] * [1 - 0.25] = 0.1 \text{ (Table 3.15.)}$$

Table 3.15.

WACC

WACC	0.1
We	0.5
Wd	0.5
Equity (Ce)	0.08
Debt (De)	0.04

Investment	155,000
Loan/debt	77,500
Equity	77,500

Table 3.16.

CF forecast by the traditional method

Indicators	Periods of project					
		1	2	3	4	5
Turnover		9 60,000	1, 056,000	1, 161,600	1, 277,760	1, 405,536
Expenses	155, 000	9 78,000	97 8,000	97 8,000	97 8,000	97 8,000
Operating profit	155, 000	- 33,000	63 ,000	16 8,600	28 4,760	41 2,536
Corporate tax			15 750	42 150	71 190	10 3134
Net profit	155, 000	- 33,000	47 ,250	12 6,450	21 3,570	30 9,402
Depreciation/Amortization		1 5,000	15 ,000	15 ,000	15 ,000	15 ,000
Liquidating value of equipment						25 ,000
Net cash flow	155, 000	- 18,000	62 ,250	14 1,450	22 8,570	34 9,402

Table 3.16. Continued

	Periods of project					
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
N	-	-	62	14	22	34
CF	155,000	18000	,250	1450	8,570	9402
D	-	-	51	10	15	21
CF	155000	16364	446	6273	6116	6951
A	-	-	-	-	14	35
DCF	155000	171364	119917	13644	2473	9424
N	35	¥				
PV	9,424	Yuan>0				
D	3.0	yea				
pB	9	rs<5				
IR	0.4	>0.				
R	8	1 (WACC)				

Traditional method assumptions are:

- The discounting rate is equal to the weighted average cost of capital ($r=Wacc$).
- During forecasting we do not take into account interest payments and principal payments.

According to the cash flows forecast by the traditional method, absolute profitability is achieved. NPV is larger than 0, DPB is shorter than the project's length and IRR is larger than WACC. Based on these criteria, the project is acceptable (Table 3.16.).

The amount required for investment is 155,000 Renminbi. Term of project implementation is 5 years. Private equity for investment equals to 77,500 Renminbi. Take a loan of 77,500 Renminbi at 4% per annum for 5 years, which we will return monthly in equal parts (Table 3.17.).

Table 3.17.

CF forecast by the method of equity capital

Loan payment schedule			
	77,500/5	Annual payment	
Period	Payments on principal	Uncompensated debt at the beginning of the period	Paid interest
1	15500	77500	3100
2	15500	62,000	2480
3	15500	46,500	1860
4	15500	31,000	1240
5	15500	15,500	620

Table 3.17. Continued

Indicators	Periods of project					5
		1	2	3	4	
Turnover		96 0,000	1,0 56,000	1,1 61,600	1,2 77,760	1,4 05,536
Expenses		97 8,000	97 8,000	97 8,000	97 8,000	97 8,000
Operating profit		- 33,000	63, 000	16 8,600	28 4,760	41 2,536
Paid interest		3, 100	2,4 80	1,8 60	1,2 40	62 0
Profit Before taxation		- 36,100	60, 520	16 6,740	28 3,520	41 1,916
Corporate tax			15 130	41 685	70 880	10 2979
Net profit		- 36,100	45, 390	12 5,055	21 2,640	30 8,937
Payments on principal		15 ,500	15, 500	15, 500	15, 500	15, 500
Depreciation/ Amortization		15 ,000	15, 000	15, 000	15, 000	15, 000
Liquidating value of equipment						25, 000
Net cash flow		- 36,600	44, 890	12 4,555	21 2,140	33 3,437

Table 3.17. Continued

	Periods of project					
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
NC	-	-	44,	124,	212,	333,
F	77,500	36,600	890	555	140	437
DC	-	-				
F	77,500	33,889	38,486	98,876	155,929	226,932
AD	-	-	-	25,9	181,	408,
CF	77,500	111,389	72,903	73	902	834
NP	408,	¥				
V	834	Yuan>0				
Dp	2.83	year				
B		s<5				
IR	0.65	>0.				
R		1				

Equity capital assumptions are:

- The discounting rate is equal to cost of equity (capital $r=C_e$)
- Interest payments and principal payments are taken into account during forecasting.
- IRR is compared with cost of equity capital.
- During the NPV calculation initial volume of investment is taken as own financial resources.

According to the cash flows forecast by the method of equity capital, absolute profitability is achieved. NPV is larger than 0, DPB is shorter than the project's length and IRR is larger than WACC. Based on these criteria, the project is acceptable (Table 3.17.).

It is crucial to analyze the risks associated with making investments in China and go forward only with investments that the investor comprehends entirely, in order to prevent loss. These hazards should not discourage investors but be used as a precaution and comprehended properly in order to avoid them. To exploit any investment and reward tied to China, a smart investor needs a clear understanding of the risks involved.

This section will include a detailed analysis of potential risks of investment in the café project in China to provide a solid foundation. It is important to understand that risks should not discourage investment, but an investor should strive to understand them properly to account for them.

Risk management is a process related to day-to-day management and its purpose is to locate risks and hazards, assess the intensity of the damage, prioritize their treatment according to the intensity, define the required improvement and the investment required to improve and control the improvement activities. Risk management is also part of project management, is carried out in the preparation of the project plan and throughout the life of the project. It is designed to reduce the impact of risks on the achievement of project objectives during the project and at the end.

Risk is defined as a factor or action that may occur outside the plan and as a result of which damage, cost, or time will be lost. The risk is measured according to the reasonableness of its realization, at the technical, programmatic, or managerial level, and the intensity of the damage as a result of the failure is calculated at cost, performance or time.

Risk Management Lifecycle:

- Identification or detection of risks (conducting a risk survey).

Detecting the very existence of risks.

- Risk Analysis

Risk assessment. In addition to identifying dependencies and relationships between other risks. Depend on the risk analysis can be performed using techniques such as surgery trees.

- Mitigation

In some cases, the investment in dealing with the risk may be greater than the damage. In such cases, risk management is not required.

- Reassessment of risks after coping

The main risks associated with China are its communist structure, insider trading and regulatory differences. Some other risks can be political, such as an unexpected war, or an act of God, such as a natural disaster. For the café project there are two main risks to look out for, which are changes in turnover and changes in expenses. These risks could affect the project appraisal.

The technique used to determine how values can impact the profitability of the project is called sensitivity analysis, also known as the What If? Analysis. The Scenario Manager is a tool on excel that enables us to manage scenarios and compare how they affect results. The first risk is if the marketing plan does not succeed and sales expectations don't rise yearly by 10%. In the case that the turnover remains ¥ 960,000 per year, NPV will be below 0 (Table 3.18.).

Table 3.18.

Turnover pessimistic scenario

Indicators	Periods of project					
		1	2	3	4	5
Turnover		960 ,000	960 ,000	960 ,000	960 ,000	960 ,000
Expenses	155,0 00	978 ,000	978 ,000	978 ,000	978 ,000	978 ,000
Operating profit	155,0 00	- 33,000	- 33,000	- 33,000	- 33,000	- 33,000
Corporate tax			- 8250	- 8250	- 8250	- 8250
Net profit	155,0 00	- 33,000	- 24,750	- 24,750	- 24,750	- 24,750
Depreciation/Amortization		15, 000	15, 000	15, 000	15, 000	15, 000
Liquidating value of equipment						25, 000
Net cash flow	155,0 00	- 18,000	- 9,750	- 9,750	- 9,750	15, 250

Table 3.18. Continued

	Periods of project					
	0	1	2	3	4	5
NCF	- 155,000	- 18000	- 9,750	- 9750	- 9,750	15250
DCF	- 155000	- 16364	- 8058	- 7325	- 6659	9469
ADCF	- 155000	- 171364	- 179421	- 186747	- 193406	- 183937
NPV	- 183,937	¥ Yuan< 0				

Risk management is a technique used to identify project risks in advance, evaluate and analyze them, present them to the managerial levels, and take appropriate coping actions. Monitoring the project is essential to make sure that the risks are being addressed and to evaluate the effectiveness of the solution being taken to address these risks. These actions are carried out as part of the ongoing project management.

The second risk to consider is if the expenses of the project unexpectedly rise due to replacement of equipment or other unexpected reasons. In the case that the expenses rise by 20% for three consecutive years, it will be a great risk because NPV will be below 0 (Table 3.19.).

Table 3.19.

Expenses pessimistic scenario

Indicators	Periods of project					5
		1	2	3	4	
Turnover		960 ,000	1,0 56,000	1,1 61,600	1,2 77,760	1,4 05,536
Expenses	155,0 00	1,1 73,600	1,1 73,600	1,1 73,600	978 ,000	978 ,000
Operating profit	155,0 00	- 228,600	- 132,600	- 27,000	284 ,760	412 ,536
Corporate tax			- 33150	- 6750	711 90	103 134
Net profit	155,0 00	- 228,600	- 99,450	- 20,250	213 ,570	309 ,402
Depreciation/A mortization		15, 000	15, 000	15, 000	15, 000	15, 000
Liquidating value of equipment						25, 000
Net cash flow	155,0 00	- 213,600	- 84,450	- 5,250	228 ,570	349 ,402

Table 3.19. Continued

	Periods of project					
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
NCF	- 155,000	- 213600	- 84,450	- 5250	- 228,570	- 349402
DCF	- 155000	- 194182	- 69793	- 3944	- 156116	- 216951
ADCF	- 155000	- 349182	- 418975	- 422920	- 266803	- -49852
NPV	- 49,852	¥ Yuan< 0				

One version of Murphy's Law states that if there is anything that can go wrong, it will go wrong and at the worst possible time. Therefore, care must be taken in planning the activity for such disruption. The application of this principle means that the value of the probability attributed to the event is always that the event will occur. That is, when performing the design of an activity, and in particular a risky activity, it is not possible to estimate the intensity of risks according to the likelihood of risk, but to focus on reducing the intensity of impact , so if the event does occur, it will not be catastrophic.

Risk management often appears in a business-financial context. In fact, a business' ability to maximize its supply chain while minimizing risks is what will ensure its long-term survival. The potential risks increase and their effects on the organization intensify as the supply chain becomes more complicated. Continuous and integrated risk management from the beginning in business activity, it is necessary to reduce the risks in the organization to the desired level financially.

CONCLUSIONS AND PROPOSALS

China's population of more than a billion and a rapidly developing economy, it is unquestionably a great country to open a business in. China is a distinctive nation with a large number of beneficial outcomes, that assists businesses at all stages of development. After analyzing the economic situation in China, its role and place in international economic relations, examining international databases, electronic resources and statistics, we can say that this country has a lot advantages for running your own business and is attractive to foreign investors.

The general characteristics of the Chinese economy indicate a profitable geographical location of the country, developed transport infrastructure, high level of purchasing power of the population and a wide range of various industries. With a population of more than a billion and a rapidly growing economy; China is definitely the next best place to open a business. China is a unique country with a lot of positive results that support businesses at all stages of growth.

A business plan for a café to be opened in Shanghai has been proposed. The primary reason China was chosen for this investment project is due to the cheap and reliable technology, cheap labor force, fertile soil and good weather. Shanghai was the chosen city due to the fact that it is the largest city in China and a major municipality.

Investors interested in owning a piece of investment in China have plenty of investment chances accessible. As expected, certain options are much better than others and should be avoided or left to the most sophisticated investors. That is why it is essential to make a business plan and calculate all expenditures, to see if the investment project would be profitable.

One of the most important factors in a coffee shop's chances of success is the experience and management skills of the entrepreneur. Therefore, entrepreneurs who come from the field or with in-depth knowledge and understanding of the field have an advantage. Anyone thinking of opening a cafe in China should take into account that it

involves many hours of work, as well as skills in operating and managing a cafe. This is not recommended for those who have no background in the field. Cafe management is a combination of management skills, working with customers and getting to know the world of coffee, such as coffee varieties, types of roasting, types of coffee, etc.

The investment required to establish a cafe in Shanghai is about 155,000 Renminbi, with the assumption in the calculation being that the business owner has equity of 77,500 Renminbi and will take a loan of an additional 77,500 Renminbi. Such a cafe that is not in a demand area that is open 30 days a month, for 10 hours a day with 10 customers per hour on average, each of which earns an average of 27 Renminbi before VAT (cost of coffee and pastries) will reach a monthly income of ¥ 80,000 and the rent amounts to ¥ 20,000.

According to the equity capital method of cash flow forecasts, in the first year, the cafe will reach a net profit of -36,100 Renminbi and a net cash flow of -36,600 Renminbi after repaying 18,600 Renminbi from the loan taken for construction. In the second year, the net profit will increase to 44,890 Renminbi and so will the cash flow until in the third year the cumulative cash flow reaches 124,555 Renminbi, which allows the investment to be repaid within two to three years and then the return on investment takes place.

Companies and organizations are required to take risks to develop. The fine balance between risk and chance is a significant point for the business' progress towards strategic goals that it has set for itself. The diploma paper provides a simple and direct way to capture and maintain a comprehensive view of all risks across the business, monitor the most significant risks and plan the audit and mitigation plan so that it has the most comprehensive impact.

The diploma paper's aim is to determine whether or not it is profitable to implement the project and open a café in Shanghai. It is certain that it is a profitable investment, with no doubt. The objective of this proposition is to demonstrate in as much detail as possible that the investment project in China is an effective and profitable investment was achieved.

Investing in services can be considered appropriate, because there exist reasons to believe that its volume will grow the most time. Regarding the calculation part, it should be noted that the opening of a café in China will be much more profitable than investing this money in a bank at interest.

One book which the author recommends reading is the Project Management Body of Knowledge in the original American version or in its translation. The book centralizes the knowledge base on project management that is accepted today and is a standard that is spreading all over the world. A clear advantage of the book is that the book was not written by one person, but by many dozens of volunteer project managers from around the world who came from different disciplines and different emphases of project management theory. Many organizations now turn to the PMBOK and the Project Management Institute as the sole source of knowledge. To this book can be added the PMI brochures relating to portfolio management and portfolio projects, which have been published separately, in English.

As a conclusion, it is exceptionally profitable to open the café in Shanghai. According to calculations, in order to implement the project, a sum of ¥155,000 is needed for investment. With private equity amounting to ¥77,500, a ¥77,500 loan from the bank must be obtained. According to the cash flows forecast by the traditional and equity methods, absolute profitability is achieved. NPV is larger than 0, DPB is shorter than the project's length and IRR is larger than WACC. Based on these criteria, the project is acceptable. Calculations of the needed investment resources were given, potential risks of investment were analysed and the investment attractiveness of the presented project was assessed.

REFERENCES

- Chang, D., 1991. *China Under Deng Xiaoping*. Basingstoke: Macmillan.
- Contributor, P., 2020. *PEST Analysis Of China*. [online] PESTLE Analysis. Available at: <<https://pestleanalysis.com/pest-analysis-of-china/>> [Accessed 12 December 2020].
- Cleartax.in. 2021. *Internal Rate Of Return - Meaning, Formula And Usage*. [online] Available at: <<https://cleartax.in/s/internal-rate-of-return-irr>> [Accessed 28 December 2021].
- Corporate Finance Institute. 2020. *Operations Management - Overview, Responsibilities, Skills Required*. [online] Available at: <<https://corporatefinanceinstitute.com/resources/knowledge/strategy/operations-management/>> [Accessed 14 December 2020].
- Data.worldbank.org. 2020. *Exports Of Goods And Services (% Of GDP) | Data*. [online] Available at: <<https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>> [Accessed 20 December 2020].
- Data.worldbank.org. 2020. *GDP Per Person Employed (Constant 2017 PPP \$) | Data*. [online] Available at: <https://data.worldbank.org/indicator/SL.GDP.PCAP.EM.KD?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=desc> [Accessed 20 December 2020].
- DeGennaro, T., 2020. *How Meituan Dianping Became The World's Most Innovative Company*. [online] Dragon Social. Available at: <<https://www.dragonsocial.net/blog/meituan-dianping-2/>> [Accessed 31 December 2020].

Deloitte United Kingdom. (2020). *A guide for investing in China* | Deloitte UK. [online] Available at: <https://www2.deloitte.com/uk/en/pages/global-markets/articles/guide-for-investing-in-china.html> [Accessed 2 December 2020].

Dudovskiy, J., 2020. *Caffe Nero PEST Analysis - Research Methodology*. [online] Research-Methodology. Available at: <https://research-methodology.net/caffe-nero-pest-analysis/> [Accessed 12 December 2020].

Everycrsreport.com. 2020. *China'S Economic Rise: History, Trends, Challenges, And Implications For The United States*. [online] Available at: <https://www.everycrsreport.com/reports/RL33534.html> [Accessed 24 December 2020].

Goldratt, E., 1997. *Critical Chain*.

IMF. 2020. [online] Available at: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/CHN?zoom=CHN&highlight=CHN [Accessed 31 December 2020].

IMF. 2020. *People's Republic Of China And The IMF*. [online] Available at: <https://www.imf.org/en/Countries/CHN> [Accessed 8 December 2020].

Investopedia. (2020). *Investing In China*. [online] Available at: https://www.investopedia.com/articles/07/invest_china.asp [Accessed 2 December 2020].

Investopedia. (2020). *Top 6 Factors That Drive Investment In China*. [online] Available at: <https://www.investopedia.com/articles/economics/09/factors-drive-investment-in-china.asp> [Accessed 7 December 2020].

Lamb, C., Hair, J., McDaniel, C., Boshoff, C., Terblanché, N., Elliott, R. and Klopper, H., 2015. *Marketing*.

Limited, Z. (2020). *China White-collar Average Salary Dips in the First Quarter of 2018*. [online] Prnewswire.com. Available at: <https://www.prnewswire.com/news->

releases/china-white-collar-average-salary-dips-in-the-first-quarter-of-2018-300622146.html [Accessed 2 December 2020].

Living, C. (2020). *Cost of Living in China*. [online] Numbeo.com. Available at: https://www.numbeo.com/cost-of-living/country_result.jsp?country=China [Accessed 7 December 2020].

Macrotrends.net. 2020. *China Inflation Rate 1987-2020*. [online] Available at: <<https://www.macrotrends.net/countries/CHN/china/inflation-rate-cpi#:~:text=China%20inflation%20rate%20for%202019,a%200.56%25%20increase%20from%202015.>> [Accessed 31 December 2020].

Management.net. (2020). *Summary of Payback Period*. Abstract. [online] Valuebasedmanagement.net. Available at: http://www.valuebasedmanagement.net/methods_payback_period.html [Accessed 7 December 2020].

Mordorintelligence.com. 2021. China Coffee Market | Size | Analysis | Forecast. [online] Available at: <<https://www.mordorintelligence.com/industry-reports/china-coffee-market>> [Accessed 7 January 2021].

Mostovoy, O., 2021. *Indicators Of The Effectiveness Of Projects. Discounted Payback Period (DPB) In Budget-Plan Express*. [online] Strategic-line.ru. Available at: <<https://www.strategic-line.ru/index.files/web-help-163-investment-performance-indicators-discounted-payback-period-english.htm>> [Accessed 24 December 2020].

Population.un.org. 2020. *World Population Prospects - Population Division - United Nations*. [online] Available at: <<https://population.un.org/wpp/>> [Accessed 31 December 2020].

Project Management Institute, H., 2017. *A Guide To The Project Management Body Of Knowledge (PMBOK® Guide)*.

Sepetys, K. and Cox, A., 2020. *Intellectual Property Rights Protection In China: Trends In Litigation And Economic Damages - Part 1 Of 2 - Intellectual Property - China*.

[online] Mondaq.com. Available at: <<https://www.mondaq.com/china/trademark/74520/intellectual-property-rights-protection-in-china-trends-in-litigation-and-economic-damages--part-1-of-2>> [Accessed 14 December 2020].

Shangquan, G., 2016. *China's Economic Reform*. London: Palgrave Macmillan Limited.

Statista. 2020. [online] Available at: <<https://www.statista.com/statistics/270338/inflation-rate-in-china/>> [Accessed 31 December 2020].

Statista. 2021. China: Coffee Shop Industry Market Size 2013-2023 | Statista. [online] Available at: <<https://www.statista.com/statistics/872218/coffee-shop-industry-market-size-in-china/>> [Accessed 7 January 2021].

Taylor, T., 2020. *Alipay And Wechat Pay: The Quest For A Cashless China*. [online] TechGenix. Available at: <<http://techgenix.com/alipay-and-wechat-pay/>> [Accessed 31 December 2020].

Tang, F., 2020. *Can China'S Economy Handle An Unemployment Crisis?*. [online] South China Morning Post. Available at: <<https://www.scmp.com/economy/china-economy/article/3078251/coronavirus-chinas-unemployment-crisis-mounts-nobody-knows>> [Accessed 31 December 2020].

Tradingeconomics.com. (2020). *China Foreign Direct Investment* | 2019 | Data | Chart | Calendar | Forecast. [online] Available at: <https://tradingeconomics.com/china/foreign-direct-investment> [Accessed 3 December 2020].

Tradingeconomics.com. (2020). *China GDP Annual Growth Rate* | 2019 | Data | Chart | Calendar | Forecast. [online] Available at: <https://tradingeconomics.com/china/gdp-growth-annual> [Accessed 7 December 2020].

Tradingeconomics.com. 2020. *China Urban Survey Unemployment Rate / 2002-2020 Data / 2021-2022 Forecast*. [online] Available at: <<https://tradingeconomics.com/china/unemployment-rate>> [Accessed 31 December 2020].

Waldmeir, P., 2021. Coffee Chains Brew Robust Future In China. [online] Ft.com. Available at: <<https://www.ft.com/content/c4346f90-8a46-11e4-9271-00144feabdc0>> [Accessed 7 January 2021].

Worldometers.info. 2020. *Population By Country (2020)* - Worldometer. [online] Available at: <<https://www.worldometers.info/world-population/population-by-country/>> [Accessed 31 December 2020].

Zhang, N., 2020. *Coffee Market In China: Trends & Consumer Strategies*. [online] Riunet. Available at: <<https://riunet.upv.es/bitstream/handle/10251/44210/Nan%20Zhang%20IIIIII.pdf>> [Accessed 12 December 2020].