

THE APPLICATION OF CANVAS BUSINESS MODEL AND FINANCIAL FEASIBILITY ANALYSIS

A Case Study On New Photography Business "Tap Studio "

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Abstract

The purpose of this research is to analysis how business model canvas can be applied to photography business, and to know its financial feasibility, especially from the point of view Net Present Value (NPV) and Payback Period." TAP Studio" is the name of anew photography business, that is a house production, producing video and photography., with total investment amounting to Rp. 150.000.000. The research was conducted in June 2017 - December2017 using data collection techniques such as observation, interviews, and secondary research. It can be concluded that Canvas Business Model can be applied to a photography industry, and its financial feasibility, especially in term of Net Present Value is feasible, because its NPV is positive IDR 491.199.909. Furthermore, the Payback Period is 2 years and 8 months.

Keywords : Canvas Business Model, Net present Value, Payback Period

INTRODUCTION

TAP Studio is a brand name for a business production house producing photos and videos, specifically conceived for advertising. This business was established in the year of 2018. TAP Studio is an abbreviation of "Take a Picture" Studio. The author uses the slogan "Let's Take a Picture", meaning that the studio wants to TAP the impression of friendly, making consumers feel comfortable. TAP Studio is included in two sub sectors of creative industry, i.e. design and video, Film and photography.

The vision of the TAP Studio is to be the best product of photos and video services in Jakarta and surrounding areas. Its mission are (1) maintain and improve the quality of photos with creative ideas with an understanding of the concept of the desirable customers, (2) provide the best services and keeping in touch with customers, (3) continue to innovate in the development of technology and information in order to understand customer's needs, (4) create business opportunities for the photography industry in Indonesia.

The target market of the TAP Studio is the individual or organization who requires the services of photography for media promotion. In line with it, TAP Studio offers service product such as (1) catalog photography service, (2) package photography service, (3) Unit photography service, and (4) photography service outside the Studio.

RESEARCH METHODS

The data used is the data resulted from observation, interview and secondary data. This research is done in June-July 2017. Questioner distributed to respondents of "TAP Studio" to get information from the target market, what the consumers' needs, and the appropriate price, and the marketing strategy to be applied. In determining the financial feasibility, TAP Studio used investment criteria, especially the method of Present Value and Payback Period (Husein Umar 2007), while business model used is Canvas Business Model (Osterwalder, 2010). Customer segmentation is based on geographic, demographic, psychographic analysis (Kotler dan Armstrong, 2012)

RESEARCH PROBLEM

Profit is the main goal of an entrepreneur. However, not all business getting profit. Therefore before running a business an entrepreneur has to build its business model (describing how his or her business is managed), and he or she has to know first the benefit or the financial feasibility of his or her business. Though, there are some factors that affecting the financial feasibility of the business in the future.

REVIEW OF THE LITERATURE

According to Royan (2014), there are four kinds of business model, i.e. creator, distributor, land lord and broker. The creator business model is a business model used in manufacture. One of the business models that can help identify the activities and how to operate the business (in manufacture) is the Canvas Business Model, developed by Alexander Osterwalder and Yves Pigneur (2010). In this business model, there are nine blocks consisting of customer segments, value proposition, channels, customer relationship, revenue streams, key resources, key activities, key partnership, and cost structure. How business models emerge? The value chain is a model developed by an academic researchers that many entrepreneurs use to identify opportunities to enhance their

competitive strategies. The value chain is the string of activities that moves a product from the raw material stage, through manufacturing and distribution, and ultimately to the end user (Barringer, 2013).

To analyze the financial feasibility, first we have to plan the start up capital (investment capital) consisting of fixed assets and working capital (Jumingan, 2009). The financial statement used in this analysis is Proforma Financial statement, not historical financial statement (Scarborough, 2016). Then, to analyze the financial feasibility of a new business that will be established, generally uses one or more criteria of investments (Investment criterion), i.e. methods of Payback Period, Net Present Value (PV), (ARR), Internal Rate of Return (IRR), Profitability Index (PI), and Break even Point (Husein Umar, 2007). While, Suad Husnan (2014) adds one another criteria that is Average Rate of Return (ARR) The decision of an entrepreneur or investor willing to invest in the business is if the results of the analysis based on the criteria above states that the business is feasible. When the financial feasibility analysis has been already declared viable, the later stage is to make planning for the establishment of the business. At this stage, Canvas Business Model proposed by Alexander Osterwalder and Yves Pigneur (2010) can be designed to apply in the business.

A study on the same business, i.e. "CAPTUREBOX" Photography (Salamin, 2018) showed that the appropriate application of Canvas Business Model resulted in enhancing the profit of the business, and its financial feasibility.

However, the success of the business is also depended on a good marketing strategy i.e. product, price, place and promotion strategies; the combination of these four strategies is called marketing mix (Pearce & Robinson, 2013).

THE APPLICATION OF BUSINESS MODEL CANVAS ON TAP STUDIO.

A business model describes the various aspects related to all activities of the business, either internal or external aspects of the business. The business model also describes how the company's relationship with other stakeholders such as customers, suppliers, and distributors. Business models designed by a company also helps the company to be able to compete with the competitors in the market. The business model also provides an overview of how organizations create, deliver, and capture the value. How the

Canvas Business Model can be applied to "TAP Studio Photography " business, it can be described as shown in the following figure:

Table 1. TAP Studio Canvas Business Model.

Key Partners	Key Activities	Value Proposition	Customer Relationship	Customer Segment
<ul style="list-style-type: none"> • Suppliers of software for photo editing • Digital printing Company • Suppliers of photo equipment 	<ul style="list-style-type: none"> • Photoshoot • Editing • Printing 	<ul style="list-style-type: none"> • The process of effective and fast Photo • The provision of affordable quality photos 	<ul style="list-style-type: none"> • Promotion: online and off line • Follow the event photography exhibit • Providing discounts on loyal customers and customers who use the service with large numbers. 	<ul style="list-style-type: none"> • Geographical: Jakarta • Demographic: local Employers require promotional tools • A psychographic breakdown: a community that has high quality photos sentiment.
<ul style="list-style-type: none"> • Model 	<ul style="list-style-type: none"> • Conceptions • Designing • Maintenance 			
	<p style="text-align: center;">Key Resources</p> <ul style="list-style-type: none"> • Competent human resources • Photo tools and editing software and the latest updates 		<p style="text-align: center;">Channels</p> <ul style="list-style-type: none"> • Directly to consumers, both offline and online (face book, twitter) 	
	□		□	□

Cost Structure	Revenue Stream
• Operational <i>Monthly Cost</i>	• Photo Services
• Marketing cost	• Design services
• Photo equipment maintenance cost	• Editing Services
• Human resource cost	• Printing Services

Source: processed data by writer

Consumer Segment

Consumers segment of TAP Studio is entrepreneurs who market their products online, especially in the areas of Jakarta, Bogor, Depok, Tangerang and Bekasi, both men and women. The next segment is the local brand or entrepreneur who started and owns the market in territory of Indonesia. TAP Studio target market is also the consumers who have high taste on beauty and commercial value of photos.

Value Proposition

To create more value to customers, TAP Studio attempt to provide fast service, and provides a quality photos at an affordable price.

Channel

Direct marketing is an effective way for the TAP Studio photography business. However, to transmit values to customers, TAP Studio must be supported by using social media, exhibitions, local brands and websites to market products to service the community. Media chat and phone TAP used the Studio as a means of consumer conduct discussions regarding the concept photos. Direct marketing is an effective way for the TAP Studio photography business.

Customer Relationship

TAP Studio builds relationship with customers both by online and offline promotions. TAP Studio also gives discounts to loyal customers who have been using our photography services more than four times a year, and the customers who needs photography product more than fifty units.

Revenue Streams

TAP Studio revenue stream comes from the services of photo editing products, services, design services, and printing services.

Key Resources

The main resource of the TAP Studio is the qualified human resources to ensure the quality of the product. Each employee will receive training in advance in accordance with his duties. Furthermore TAP Studio needs photo tools and editing software. All these will be updated periodically, to follow the latest development in technology.

Key Activities

Key activities consist of, the process of shooting, editing, designing, printing and maintenance of photo tools. Giving the concept to suit customer's needs is also becoming a key activity of the TAP Studio.

Key Partnerships

Partnership of TAP Studio consists of suppliers for editing software, digital printing company, and suppliers of photo equipments.

Cost Structure

Cost structure consist of operational monthly cost, marketing cost, photo equipment maintenance cost, and human resources cost.

FINANCIAL FEASIBILITY ANALYSIS

In analyzing the financial feasibility of TAP Studio, the authors first, respectively will calculate the needs and use of funds, pro forma Income Statement, and project cash flow (present value work sheet). Then, the financial feasibility of the business will be measured by using method of Present Value and Payback Period.

The Need and Use of Funds

The funds needed to start this business is amounting to IDR 150 million, consisting of IDR 126 million for investment in fixed assets, and IDR 24 million for working capital. This fund is personal fund of the owner of TAP Studio business.

The projected profit or Pro Forma Income Statement (2018-2023)

Here the author compiled the pro forma income statement of TAP Studio, from 2018 to 2023, by considering a wide range of both internal and external factors that affect this business in the future.

Table 2. TAP Studio Pro Forma Income Statement 2018 - 2023 (in Rupiah)

Description	2018	2019	2020	2021	2022
Revenue from Sales:					
9 photo packages	47,500,000	57,000,000	84,700,000	162,690,000	286,044,000
18 photo packages	37,350,000	45,000,000	66,330,000	127,710,000	226,076,400
45 photo packages	63,650,000	76,950,000	113,905,000	218,196,000	383,473,200
Piece photo package	9,250,000	11,100,000	22,500,000	36,000,000	86,400,000
Outdoor photo package	40,050,000	48,150,000	71,775,000	114,345,000	201,465,000
Catalog photo	18,150,000	21,780,000	35,310,000	64,970,400	136,900,000
Design Service	5,800,000	7,000,000	14,100,000	33,862,500	72,300,000
Print Service	1,250,000	1,500,000	2,025,000	3,240,000	5,184,000
Total Income	223,000,000	268,480,000	410,645,000	761,013,900	1,397,842,600
Sales expense:					
9 photo packages	4,750,000	5,700,000	8,470,000	16,269,000	28,604,400
18 photo packages	3,735,000	4,500,000	6,633,000	12,771,000	22,607,640
45 photo packages	6,365,000	7,695,000	11,390,500	21,819,600	38,347,320
Piece photo package	925,000	1,110,000	2,250,000	3,600,000	8,640,000
Outdoor photo package	4,005,000	4,815,000	7,177,500	11,434,500	20,146,500
Catalog photo	1,815,000	2,178,000	3,531,000	6,497,040	13,690,000
Design Service	580,000	700,000	1,410,000	3,386,250	7,230,000
Print Service	29,000	35,000	70,500	169,313	361,500
Total Sales Expense	22,204,000	26,733,000	40,932,500	75,946,703	139,627,360
Gross Profit	200,796,000	241,747,000	369,712,500	685,067,198	1,258,215,240
Operating Expense :					
Advertising expense	12,000,000	12,000,000	13,800,000	16,560,000	21,528,000
Office rent expense	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000
Utility expense	6,000,000	6,000,000	6,900,000	8,280,000	10,764,000
Production Salaries Expense	48,000,000	72,000,000	108,000,000	180,000,000	294,000,000
Marketing Salaries Expense	36,000,000	72,000,000	72,000,000	108,000,000	168,000,000

Administration	24,000,000	24,000,000	24,000,000	48,000,000	48,000,000
Salaries Expense					
Depreciation Expense	15,710,000	15,710,000	15,710,000	15,710,000	15,710,000
Maintenance Expense	6,000,000	6,000,000	6,900,000	8,280,000	10,764,000
Total Expense	165,710,000	225,710,000	265,310,000	402,830,000	586,766,000
Income Before Tax	35,086,000	16,037,000	104,402,500	282,237,198	671,449,240
Tax 1%	2,230,000	2,684,800	4,106,450	7,610,139	13,978,426
Earning After Tax	32,856,000	13,352,200	100,296,050	274,627,059	657,470,814

Projected Cash Flow

Based on Pro Forma Income Statement above, next can be calculated the project cash flow and its Present Value, as follows :

Table 3. Present Value Work Sheet

Description	To	2018	2019	2020	2021	2023
Earning after tax		32,856,000	13,352,200	100,296,050	274,627,059	657,470,814
Depreciation		15,710,000	15,710,000	15,710,000	15,710,000	15,710,000
Net operational cash flow		48.566.000	29.062.200	116.006.050	290.337.059	673.180.814
Fix asset investment	(26.000.000)					
Working Capital	(24.000.000)					
NCF	(150.000.000)	48.566.000	29.062.200	116.006.050	290.337.059	673.180.814
DF (15%)	1	0.870	0.756	0.658	0.572	0.497
PV	(150.000.000)	42.252.420	21.971.023	76.331.981	166.072.798	334.570.865

Note : at the end of year 5, terminal cash flow of Fixed assets and working capital, are not counted as benefit (cash inflow), because this businesses will still continue to the next years (it will not be closed).

NPV and Payback Period

From the table above can be calculated NPV and Payback Period as follows :

1) Net Present Value = (150.000.000) + IDR 641.199.087 = IDR 491.199.909. It can be concluded that this business is feasible, because the PV is positive IDR 491.199.909

2) Payback Period :

Investment = (IDR 150.000.000)

Net Cash Flow 2018 = IDR 48.566.000

IDR 101.434.000

Net Cash Flow 2019 = IDR 29.062.200

= IDR 72.371.800 / IDR 116.006.050 x 12 months

= 7.5 months

So, the Payback Period of the photography "TAP Studio" is 2 years and 7.5 months. If the owner wants that the funds invested will be back in 3 years, then this business is acceptable. But if he wants the payback period is less than 2 years and 7.5 months, then this business can't be accepted or rejected.

CONCLUSION

From the above analysis, it can be concluded that the Business Model Canvas can be applied to a photography business, in this case specifically for the business of photography "TAP Studio". However, it needs to be a more detailed planning of each element of this business model, so that it can be used as a clear guide in operating a business.

Furthermore, the result of financial feasibility of TAP Studio business is feasible. Using the Present Value method, this business is worth, with a positive NPV of IDR 491,199,909. Then, its payback period is 2 years and 7.5 months.

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