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Financial Feasibility Of Business On Fast Fashion Startup: A Case Study Of Udo Innovate's Offline Store Establishment Project

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Abstract

Fast fashion, noted for its trendy and affordable clothing, has gained significant traction in Indonesia, with the market expected to reach $22.66 billion by 2024 and a compound annual growth rate (CAGR) of 3.31% (Statista). UDo Innovate, a fast fashion company collaborating with the skateboarding community in Bandung, faces challenges in optimizing its marketing strategies due to low sales from online-only efforts. The company seeks to enhance its market presence through an omnichannel strategy, incorporating offline platforms. However, the financial feasibility of this shift has not been previously assessed. This study aims to evaluate the financial viability of establishing a retail store as part of UDo Innovate's omnichannel approach. Financial feasibility is analyzed using the payback period, net present value (NPV), and internal rate of return (IRR), with risk assessed through scenario analysis. The results reveal that setting up an offline store is financially viable within two years, with a payback period of 1.66 years, an NPV of Rp583,921,410, and an IRR of 49.53%. The analysis also considers funding options, recommending a loan from Bank Mandiri with a 6% annual interest rate and an 11% tax rate. This results in a weighted average cost of capital (WACC) of 5.63%, which is lower than the cost of utilizing the owner's capital at 6.38%. The study concludes that the investment in an offline retail store is financially sound and aligns with UDo Innovate's strategic goals.

Keywords: Fast Fashion, Financial Feasibility, Retail Store, Omnichannel Strategy

A. INTRODUCTION

Fashion is a dynamic cultural phenomenon reflecting societal norms and social status, marked by periods of rapid change and stability in style. Historically, fashion has mirrored societal structures and traditions, evolving into a mode of self-expression and a symbol of social status. The transition from traditional fashion to fast fashion exemplifies this evolution, with fast fashion characterized by its affordability and trendiness. Key items in fast fashion include T-shirts, pants, skirts, hoodies, and jackets. The fashion industry's value is influenced by various factors, including cultural, social, political, environmental, and psychological elements (Waves Institute of Fashion Designing, 2023). The global fast fashion market was valued at USD 106.42 billion in 2022 and is projected to reach $184.96 billion by 2027, growing at a CAGR of 10.7% (PR Newswire, 2023). In Indonesia, the fast fashion market is expected to be valued at $22.66 billion in 2024, with a CAGR of 3.31% (Statista, 2024).

Digital advancements have significantly impacted consumer behavior in the fashion industry, making fashion information more accessible and influencing purchasing patterns. Consumers can now choose between online and offline shopping, with e-commerce playing a major role. In 2023, fashion was the third-largest category in e-commerce, contributing 5.49% to total online sales (Databoks, 2024). Factors driving online shopping include time efficiency, price comparison, discounts, free delivery, diverse payment options, product variety, and reviews (Goodstats, 2023). Despite the growth of e-commerce, many consumers, particularly in Indonesia, still prefer offline shopping. This preference is evident among skateboarders, a key demographic for UDo Innovate, who prioritize functionality and price over brand names and often prefer physical stores to evaluate clothing.

UDo Innovate, a company that collaborates with local skaters in Bandung, has observed that its initial focus on e-commerce did not resonate with its target market. This led to the decision to explore offline sales channels. UDo Innovate plans to open its first offline store to cater to the preferences of its community better and enhance its market presence. A financial feasibility study is being conducted to evaluate the viability of this investment and determine the optimal funding strategy.

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B. RESEARCH METHOD

This research utilizes both primary and secondary data collection methods to develop and test the hypothesis. Primary data will be obtained from UDo Innovate's historical financial records and sales data from previous years. Additional data will be collected from similar companies within the fast fashion industry to facilitate comparative analysis. This approach is crucial as it directly relates to UDo Innovate's current situation and addresses specific research problems (Ajayi, 2017). Secondary data will be sourced from academic journals, books, research papers, websites, and other relevant literature. This data, collected by previous researchers and organizations, will provide a broader context and support a more comprehensive analysis (Ajayi, 2017).

Data analysis will follow a structured process involving several key steps. Initially, pro forma financial statements will be constructed to project UDo Innovate's financial performance. These statements, including the cash flow statement, balance sheet, and income statement, will be based on assumptions from both primary and secondary data, covering two years to assess initial funding needs and a five-year horizon to evaluate long-term viability. The Weighted Average Cost of Capital (WACC) formula will be used to calculate the cost of capital for the project. In the first two years, the focus will be on the cost of equity, with debt financing considered for the subsequent five years if needed. The cost of equity will be estimated using beta values from PT Ricky Putra Globalindo Tbk, the risk-free rate from government bonds FR0081, and the market rate of return based on Indonesian investments.

Risk assessment will be conducted to manage uncertainties in the financial projections through scenario analysis, evaluating risks under worst-case, base-case, and best-case scenarios. The feasibility analysis will integrate the pro forma financial statements, WACC calculations, and risk assessment results, focusing on key financial metrics such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period to determine the financial viability of the offline store. The final section will present conclusions and recommendations based on the feasibility study. This will include optimal funding strategies and an assessment of the offline store's potential for long-term growth, providing UDo Innovate with guidance for informed decision-making regarding the establishment and operation of their first offline store.

C. RESULTS AND DISCUSSION

Analysis of Root Cause

Based on the 5 Why analysis in Figure 1, UDo Innovate is experiencing low sales performance, with the root cause identified as the absence of an offline store that aligns with customer behavior. To address this issue, UDo Innovate must first conduct a feasibility analysis to establish its first offline store. This analysis is essential to evaluate the viability of the offline initiative and to enhance sales performance through effective offline engagement. The feasibility study will provide critical insights and data needed to support UDo Innovate's decision-making process, ensuring that the investment in an offline store is strategically sound and aligned with customer preferences.

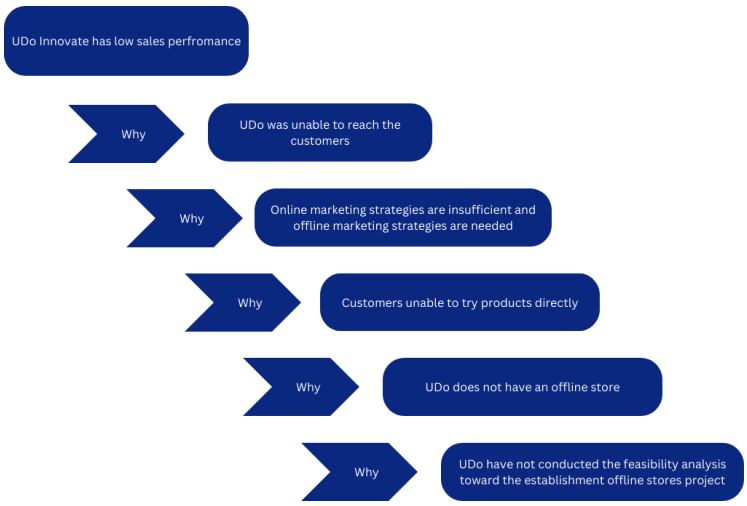

Figure 1. Root Cause Analysis
Source: Research data, 2024

Alternative Business Solution

This section will present the researcher's analysis of potential solutions to address the challenges faced by UDo Innovate. The analysis will utilize data collected from UDo Innovate and comparable companies within the same industry. The collected data will be processed into pro forma financial statements, including assumptions, income statements, balance sheets, and cash flow statements. Two sets of pro forma financial statements will be developed: the first covering the period from 2024 to 2025 to identify suitable funding options for establishing the first offline store, and the second covering 2026 to 2030 to evaluate the store's feasibility. Upon completion of the initial financial report, the results will guide the decision on whether to use full equity or debt financing for the store's setup. The analysis will incorporate the weighted average cost of capital (WACC) to determine the most appropriate funding option. Subsequently, the chosen funding option will be used to assess the feasibility of the offline store, employing tools such as payback period, net present value (NPV), and internal rate of return (IRR) across three scenarios: pessimistic, base, and optimistic.

Analysis of Alternative

This section outlines the alternative analysis and scenarios employed by the researcher. The analysis involves creating pro forma financial statements with monthly calculations for the initial financial statement to minimize the risk of miscalculations. Subsequent financial statements will be prepared on an annual basis. The first financial statement will serve as a benchmark to determine whether UDo Innovate should pursue full equity or debt financing. This decision will be based on the final cash flow generated by UDo Innovate, comparing the costs of equity and debt to identify the more economical option. The results from this cost analysis will inform the feasibility assessment of the offline store project, which will be evaluated using the payback period, net present value (NPV), and internal rate of return (IRR) across three scenarios: pessimistic, baseline, and optimistic.

Initial Investment

To effectively launch the offline activation project through pop-up booths, UDo Innovate will require several assets and pieces of equipment. The initial investment will be allocated towards acquiring the necessary tools and materials to support this initiative. The table below outlines the assets and equipment needed for the project:

Table 1. Initial Investment for First Year

Initial Investment	
Cash	Rp10,000,000
Inventory	Rp38,715,293
Patent	Rp500,000
Warehouse	Rp18,000,000
Pop up Booth	Rp6,000,000
Equipment	Rp2,000,000
Laptop	Rp10,000,000
Receipt Printer	Rp500,000
Total	**Rp85,715,293**

Source: Research data, 2024

Injected Capital

To maximize activation through offline schemes, UDo Innovate plans to establish its first offline store by 2026. The success of this initiative will hinge on the decision to use either debt financing or full equity. To support the business operations of the new store, Udo Innovate requires various assets and equipment. The injected investment for this project is detailed in the table below:

Table 2. Injected Investment for Offline Store Establishment Project

Item	**Description**	**Injected Investment (Rp)**
Cash	Working capital for initial operations	25,000,000
Patent	Intellectual property rights	500,000
Warehouse	Storage facility	18,000,000
Store	Costs for setting up the store	75,000,000
Equipment	Fixtures and display units	50,000,000
Computer	Computers for store operations	10,000,000
Receipt Printer	Printer for transaction receipts	1,500,000
EDC Machine	Electronic Data Capture machine	2,500,000

Item	Description	Injected Investment (Rp)
Total		**182,500,000**

Source: Research data, 2024

This table summarizes the initial investment required for the offline store establishment, totaling Rp182,500,000. This investment will cover essential expenses such as store setup, equipment acquisition, and operational costs, thereby supporting UDo Innovate's offline activation strategy.

Construct Pro Forma Financial Statement

A pro forma financial statement serves as the foundation for assessing the financial feasibility of UDo Innovate's offline store initiative. This statement aims to determine the cash flow generated by the project based on various assumptions applied to the income statement and balance sheet. The financial assumptions for the first year are projected on a monthly basis, while for the subsequent five years, the assumptions are annual. These projections are informed by a blend of UDo Innovate's historical financial data and comparative analysis with a similar company in the industry, PT Ricky Putra Globalindo Tbk. This approach ensures that the assumptions reflect both UDo Innovate's specific financial context and broader industry standards.

Calculate the Weighted Average of the Cost of Capital

The weighted average cost of capital (WACC) results will be pivotal in determining whether UDo Innovate should use full equity or consider debt financing to establish the first offline store. Researchers will compare the WACC for full equity with the WACC for a mixed approach involving debt financing, with the latter having a debt proportion of 68.49%. The Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity (Re). Using the parameters from PT Ricky Putra Globalindo Tbk, the calculation is as follows:

Table 3. Full Equity

Capital Asset Pricing Model	
Unleveraged Beta	-0.0160
Risk-Free Rate	6.38%
Market Rate of Return	14%
CAPM	6.25%

Source: Research data, 2024

The CAPM formula is:

$$Re = 6.38\% + -0.0160*(14\% - 6.38\%))$$
$$Re = 6.25\%$$

If the researcher uses full equity to fund the establishment project, the weight will be 1.00, and the WACC result is:

$$WACC = 1.00*6.25\%$$
$$WACC = 6.25\%$$

The Capital Asset Pricing Model (CAPM) is obtained from the calculation of beta, risk-free rate, and market rate of return, and the results of this calculation will be used to calculate the cost of capital. The beta used comes from similar companies in the same industry, namely PT Ricky Putra Globalindo TBK. The risk-free rate used is from FR0081 government bonds with a 5-year tenor, and the Market Rate of Return used is from the CAGR for the last five years. By calculating these criteria, the cost of capital using full equity is 6.25%.

Table 4. Debt Financing

DV	0.6849
EV = 1 - DV	0.3151
Tax Rate	11%
Debt Interest	6%

Source: Research data, 2024

If the researcher combines equity and debt to fund the establishment project, then with a debt portion of 0.6849 and equity of 0.3151, the WACC result is:

$$WACC = ((EV * Re) + (DV * Rd * (1\text{-Tax}))$$
$$WACC = ((0.3151*\%6.25\%) + (0.6849*6\%*(1\text{-}11\%))$$
$$WACC = 5.63\%$$

The calculation of the Weighted Average Cost of Capital (WACC), which combines both equity and debt financing, involves integrating the costs of equity and debt, accounting for the tax implications. The tax rate applied is 11%, as per Indonesian government regulations, and the debt interest rate used is sourced from Bank Mandiri's KUR program, which the researcher is eligible to utilize. The resulting WACC for the combination of debt and equity financing is 5.63%. Given the comparison between the two funding options, the researcher prefers to use a financing mix of debt and equity rather than relying solely on equity. This preference is due to the lower WACC of 5.63% associated with the combined financing method, which is more economical compared to the WACC of 6.25% for full equity financing. Consequently, the researcher recommends using debt financing for 68.49% of the initial investment, with the remaining 31.51% funded through equity. This approach is expected to be more cost-effective and align better with UDo Innovate's financial goals of establishing its first offline store.

Feasibility Analysis of UDo Innovate

This chapter presents the feasibility analysis for UDo Innovate's initiative to establish an offline store within two years. The analysis employs the Weighted Average Cost of Capital (WACC) as the discount rate for calculating Net Present Value (NPV) and as the benchmark for evaluating the Internal Rate of Return (IRR). The feasibility analysis reveals that the payback period for the project is 1.66 years, indicating that UDo Innovate will recoup the invested amount within this period. This result is favorable as it is shorter than the project's lifespan of 2 years. The NPV of the project is Rp583,921,410, which signifies a positive outcome, reflecting that the project's cash inflows exceed its cash outflows and suggest strong profitability.

Additionally, the IRR of 49.53% surpasses the WACC of 6.25%, demonstrating that the project is expected to generate returns significantly higher than the cost of capital. Overall, the results from the payback period, NPV, and IRR analyses indicate that UDo Innovate's plan to set up an offline store is financially viable. All metrics meet the established criteria, confirming that the initiative is both feasible and promising for the company's growth. Thus, UDo Innovate's proposed offline store project is recommended for implementation.

Table 5. Feasibility Analysis of UDo Innovate

Aspect	Value	Acceptance Criteria	Result
Payback Period	1.66 Years	<2 Years	Accept
NPV	Rp583,921,410	Positive NPV(>0)	Accept
IRR	49.53%	Higher than WACC (>6.25%)	Accept

Source: Research data, 2024

Scenario Analysis of UDo Innovate

The scenario analysis for this project evaluates three potential outcomes: pessimistic, baseline, and optimistic scenarios. The baseline scenario serves as the primary feasibility assessment, while the other scenarios provide contingency plans if the company falls short of the baseline expectations. In the pessimistic scenario, the payback period extends to 1.76 years, with an NPV of Rp435,426,019 and an IRR of 40.99%. These figures indicate a longer recovery time and lower profitability compared to the baseline scenario but still demonstrate positive financial performance.

Conversely, the optimistic scenario presents more favorable outcomes, with a payback period of 1.54 years, an NPV of Rp782,287,089, and an IRR of 58.31%. These results suggest a quicker return on investment and higher profitability than the baseline scenario. Despite the variations between scenarios, all scenarios meet the established acceptance criteria, confirming their feasibility. The optimistic scenario indicates the best potential outcome, while the pessimistic scenario still supports the viability of the project. This comprehensive analysis demonstrates that the project is robust across different conditions and is feasible under various potential future states.

Table 6. Scenario Analysis of UDo Innovate

Aspect	Case Scenario		
	Pessimistic	Base	Realistic
Payback Period	1.76 Years	1.66 Years	1.54 Years
NPV	Rp435,426,019	Rp583,921,410	Rp782,287,089
IRR	40.99%	49.53%	58.31%

Source: Research data, 2024

D. CONCLUSION

UDo Innovate, a streetwear co-creation company collaborating with local skate artists in Bandung, has faced challenges with online sales, which led to a strategic decision to explore offline marketing channels. Initially, the online sales performance was disappointing, with only ten t-shirts sold over two months. However, an offline activation significantly improved the situation, with 29 t-shirts sold in just two days. This success highlighted the potential of offline marketing, prompting UDo Innovate to consider setting up its first offline store in 2026 to maximize omnichannel marketing benefits.

To determine the optimal funding strategy, a comparison between debt and full equity financing was conducted using the Weighted Average Cost of Capital (WACC). The analysis involved evaluating two funding scenarios: full equity financing, which requires 100% owner's capital, and a combination of 31.51% equity with 68.49% debt. The WACC calculation for full equity financing resulted in a rate of 6.25%, while debt financing yielded a lower WACC of 5.63%, factoring in an annual debt interest rate of 6% and a tax rate of 11%. The lower WACC associated with debt financing indicates a more cost-effective option, enhancing the company's profitability and financial efficiency.

In terms of feasibility, the analysis based on full equity financing demonstrates that UDo Innovate can successfully set up the offline store within two years. With an initial investment of Rp 85,715,293, the project is expected to have a payback period of 1.66 years, meaning the company can recover its capital in under two years. Additionally, the project is projected to generate a positive cash flow, evidenced by a Net Present Value (NPV) of Rp 583,921,410 and an Internal Rate of Return (IRR) of 49.53%. These results exceed the acceptance criteria, confirming the financial viability of establishing the offline store.

To further assess potential risks, three scenarios were analyzed: pessimistic, baseline, and optimistic. The pessimistic scenario indicates a payback period of 1.76 years, with an NPV of Rp 435,426,019 and an IRR of 40.99%. The baseline scenario, which aligns with the initial analysis, shows a payback period of 1.66 years, an NPV of Rp 583,921,410, and an IRR of 49.53%. The optimistic scenario presents the most favorable results, with a payback period of 1.54 years, an NPV of Rp 782,287,089, and an IRR of 58.31%. All scenarios meet the acceptance criteria, confirming that the offline store initiative is financially feasible, with the optimistic scenario demonstrating the highest potential performance.

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