

Sample Company

Sample Company Close Corporation

Business Plan

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SAMPLE

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Confidentiality statement

It is acknowledged that all information contained in this report is of a confidential nature.

Executive Summary

Sample Company is a close corporation, which has as its objective, the purchase and distribution of dry spices within the informal, predominantly black market.

The business, consisting of three members, employs a small number of staff (six) to package the spices, and outsources to service providers, the functions of marketing and sales, distribution and credit management.

The business will operate from leased premises located in xx

The long term strategic objective of the business is to develop and leverage the informal sector as the demand for attractive and tasty spices, following international growth trends in the spice sector of the food market.

The business is projected to achieve an annual turnover of R 27m within a forecast 5 year period, generating an operating profit of R 7.9m pa.

Funding: the business is expected to participate in a sustained growth phase, and the use of external funding will be investigated to assist with the demands of working capital growth.

Member profiles:

XXX is an experienced entrepreneur, who has a background in successfully operating numerous ventures, and is successfully running a R50m business within the food industry.

XX, likewise, with a food science degree and background, is in business with XX, and adds to the success of that venture.

XX has sound experience in the informal sector and comes from a background of sales and marketing.

Black Economic Equity

To both create wealth opportunity and access to markets, the membership of the Close Corporation has BBBEE equity holding of 33.3%.

Funding requirements

Start up Capital of R 2.5 m for packaging equipment and a further R0.6m working capital has been invested in the business. It is anticipated that external funding will be obtained to fund this start up capital.

The related funding costs (interest) have been factored into the financial projections with a 60 month term and interest rate of prime plus 1%.

Corporate Information

The CC's vision statement is:

- To become a supplier of choice in the supply of affordable spice products to the informal sector, within South Africa.

The CC's mission statement is:

- To provide a cost efficient and reliable product to the wholesale market and onto the informal black sector (spaza shops etc) across South Africa, providing a real alternative to the existing supplier.
- In doing so, to continually expand and grow, and in this way contribute to not only its own growth, but by growing the economy and creation of job opportunities.
- The business continues to invest in its staff, develop and train and grow them with ongoing training and to always ensure the best working environment, adequately resourced to deliver a quality and safe product.

Objectives:

The **objectives** of the company are:

_Short term objectives:

- To establish a strong presence within the Gauteng, Western Cape, Polokwane and Eastern Cape regions, using established Agents in the areas (Macro, Cash & Carry for example), which whom the owners of Sample Company have an established relationship with.

Medium term objectives

- To grow the annual turnover of the business from an initial R4m, to R27m pa over a five year period, by providing reliable and cost effective products, leveraging the relationship with Season to Season..

Product Offering

The business will provide affordable dry spices in 7g packs to the predominantly black informal sector through established wholesalers, and through spaza shops.

The business will purchase its products from xx CC, an inter group entity, controlled and owned by xx and xx. This will allow Sample Company the security of supply, and to compete on price in the informal sector, by ensuring prices remain affordable. xx is a R50m pa turnover business, with an established track record of 10 years and is key to the success of the Sample Company venture.

Sample Company will purchase its products from xx and will then package the products into affordable 7kg packs, for distribution to the targeted market.

It is anticipated, in order to create brand awareness, a significant promotional and free samples effort will be required from Sample Company, which spend has been built into the projected financials.

Sample Company will benefit from xx's investment in Research & Development, with all products developed as per specific customer requirements and needs.

Service excellence / customer relationships

Sample company aim is to provide service excellence at all times and provides quick lead times to market and can, through its relationship with xx, bring a continual variety of products to market. xx is FSSC 22000, and SAFSIS superior rating accredited, ensuring that the high quality standards are met and passed onto customer.

Market Analysis

The end user are consumers within the Living Standard Measures (LSMs) of between 2 and 4.

People are grouped according to objective criteria, such as whether they are urbanised, own motor vehicles or major appliances, or having running water or a flush toilet in or outside the house.

Income is not used to determine a person's LSM.

LSM 1 is the lowest or poorest category and LSM 10 the highest.

Currently, there is one dominate supplier of related product in the targeted market, that of xx.

The market research conducted by Sample Company reveals that the market is large, and that consumers purchase their spice needs on a daily basis in small easily transportable packs, due to their limited affordability and limited access to transport.

Market research indicates that the anticipated sale of 11,200 Boxes monthly, (each pack consists of 40 x 7g sachets), is considered conservative, and the potential to double this in the following years is considered a high probability.

Competitors

While there are some big names in the overall spice market (Freddy Hirsch, Bidbvet-Meisterclub- industrial, and Robertsons - retail), the informal market and in particular the 7g offering is not well serviced at this time.

Sample company has identified this segment of the market which will provide rapid and large growth over the next five years.

Product availability and cost management (input costs as well as distribution costs) become vital enablers to ensure the operations success and sustainability.

xx remains the major competitor and pricing will be determined by xx..

Risk profile

(Describes the risk profile of the entity)

By focusing on the entities strengths and aligning these to the opportunities identified, the business can create future value.

SWOT Analysis

(Strengths, weaknesses, opportunities and threats)

<p>Strengths (internal)</p> <ul style="list-style-type: none"> • Entrepreneurial spirit / experience • Established manufacturer of spices (xx) which will supply products to Sample Company. • Flexibility and ability to react quickly to market signals. 	<p>Weaknesses (internal)</p> <ul style="list-style-type: none"> • Establishment of a brand awareness and presence • Presence of xx with a strong footprint • Availability of initial capital.
<p>Opportunities (external)</p> <ul style="list-style-type: none"> • Strong demand for spices in affordable packs within the informal economy. • Provision of a choice of spices which is new to the targeted market segment. 	<p>Threats (external)</p> <ul style="list-style-type: none"> • Management and control of cash, which will be a feature of this market segment. • xx is the price leader due to its market share.

From the SWOT analysis the strategic advantage that the company is to develop is:

- Availability and affordable prices are key to the operation.
- The business will look to establishing its footprint in its targeted market areas by providing affordable and easily transportable products.

Industry Analysis

Sample Company operates within the dry spice food market of the South African.

Five Forces Analysis

Industry Competitiveness

Industry rivalry is assessed at the local level, or in the arena that the business operates within.

Strategic competitive choice is generally accepted as being one of the following:

1. Cost leadership
2. Product / service differentiation
3. Niche market focus.

Porters Five Forces

- describes the competitiveness / intensity of the industry the entity operates within
- the more competitive / intense, the less opportunity to obtain higher returns
- Some industries with very high intensity generate low returns and this impacts the value that can be placed on the business.

Barriers to entry - Moderate <ul style="list-style-type: none"> ➤ Limited experience required ➤ Moderate start –up capital required 	Substitute products - Moderate <ul style="list-style-type: none"> ➤ There are a multitude of alternative spices available in the market, but not in the 7g sachet.
Supplier power - Low <ul style="list-style-type: none"> ➤ Input product prices are highly negotiable as the supply of products, especially from the Far East (including India), is available. 	Customer power - High <ul style="list-style-type: none"> ➤ Customers in the targeted sector are extremely price & brand sensitive.

**Rivalry:
Moderate**

Strategic competitive choice:

- Cost leadership (ie management) is key, and the availability of product.

Financial Analysis

Projected Financial Statements

The projected financials reflect the following main assumptions and drivers of growth for the base case (conservative):

Profitability

The profitability KPI's for the projected financials (5 year forecast) are indicated below:

sale revenue growth		100%	50%	50%	50%
Cost of sales % of revenue (product)	44%	44%	44%	44%	44%
Operating expense growth		8%	21%	8%	10%
Effective tax rate	28%	28%	28%	28%	28%

Sale revenue growth is based on 11,200 boxes per month, at a selling price of R 30, 00 per box to the wholesalers.

Conservative growth expectations are reflected at 50% pa after an initial surge of 100% in year 2.

There is no capacity ceiling within the projected period, but additional staff is planned for year 3, and the packaging equipment replaced in the 5th year.

Overheads are expected to growth in line with inflation.

Operating profit % is expected to grow from 9% in the initial year, to 29% as economies of scale are achieved.

Cash generation is positive in year 1, and through to year 5, both at the operational level and at the net of financing level.

Cash conversion ratio is 1.6 to 1.7 as a result of cash terms agreed with Wholesalers, and terms obtained with suppliers of services and product input costs ie favourable trade working capital.

The Statement of income, Financial Position and Cash Flows are reflected below:

Sample Company CC

Five Year Forecast

Figures in R'000

Statement of Income	1	2	3	4	5
Sales revenue	4,032	8,064	12,096	18,144	27,216
Cost of sales - materials	2,652	5,322	7,983	11,975	17,963
Outsourced fees: distribution, marketing	887	1,774	2,661	3,992	5,988
Cost of sales - materials	1,764	3,548	5,322	7,983	11,975
Gross profit	1,380	2,742	4,113	6,169	9,253
GP%	34%	34%	34%	34%	34%
Operating expenses	1,032	1,074	1,120	1,251	1,311
Accounting Fees	24	26	28	33	36
Advertising & Promotions	60	65	70	85	91
Bank Charges	5	5	6	7	7
Computer Expenses	5	5	6	7	7
Development	0	0	0	0	0
Safety expenses	0	0	0	0	0
Motor Vehicle Expenses	38	41	45	54	58
Staff Welfare	6	6	7	8	9
Telecomms	32	35	38	46	49
Salaries	180	194	210	254	274
Running Expenses	182	196	212	257	277
Travel & Accommodation	0	0	0	0	0
-	0	0	0	0	0
Depreciation	500	500	500	500	500
-	0	0	0	0	0
Operating Profit	349	1,667	2,992	4,918	7,943
OP profit %	9%	21%	25%	27%	29%
Finance expenses	264	251	201	120	48
Profit for the year	85	1,417	2,792	4,798	7,895
Taxation	24	397	782	1,343	2,211
Net Income after tax	61	1,020	2,010	3,455	5,684
Net income %	2%	13%	17%	19%	21%
Gross profit	34%	34%	34%	34%	34%

Sample Company CC

Figures in R'000

Statement of Financial Position

1 2 3 4 5

Assets

Figures in Rands

Non-current assets

2,000 1,500 1,000 500 3,000

Current assets

763 2,101 4,349 8,107 8,581

- receivables

0 0 0 0 0

- stock on hand

202 202 302 454 680

- cash / bank balances

562 1,899 4,047 7,653 7,900

-

2,763 3,601 5,349 8,607 11,581

Equity & Liabilities

Equity

61 1,081 3,091 6,546 9,388

- capital

0 0 0 0 0

- retained profits

61 1,081 3,091 6,546 9,388

Non-current liabilities

2,508 2,006 1,404 702 70

Current liabilities

195 514 854 1,359 2,123

- payables : materials

147 146 219 328 492

- payables : other

48 169 244 359 525

- taxation

0 198 391 672 1,105

- dividends

Total equity and liabilities

2,763 3,601 5,349 8,607 11,581

Return on equity

100% 94% 65% 53% 61%

Days sales outstanding

0 0 0 0 0

Stock turn

20 40 40 40 40

Payables days - material

30 30 30 30 30

Payables days - other

30 15 15 15 15

Working capital - excl bank & tax

7 -114 -161 -233 -337

Dividend pay-out ratio

0% 0% 0% 0% 50%

Capex

2,500 0 0 0 3,000

Sample Company CC					
Figures in R'000					
Statement of cash flows	1	2	3	4	5
Profit for the year	85	1,417	2,792	4,798	7,895
- depreciation	500	500	500	500	500
working capital adjustment	-7	121	47	73	104
Cash from Operations	578	2,037	3,339	5,371	8,498
Purchase of Plant, Property & Equipment	-2,500	0	0	0	-3,000
- loan received	3,000	-502	-602	-702	-632
- loan repaid	-492				
- dividends paid	0	0	0	0	-2,842
- taxation paid	-24	-198	-589	-1,063	-1,777
net movement in cash	562	1,337	2,148	3,606	247
Opening bank balance	0	562	1,899	4,047	7,653
Closing bank balance	562	1,899	4,047	7,653	7,900