

Business Plan: The Cairo Health Bread Company

Executive Summary

We aim to be the premier supplier of multigrain bread in Cairo.

Our mission is to provide a consistently high quality and good tasting bread in select areas of Cairo, while increasing the number of people enjoying the health benefits of a higher grain diet.

Our product will be packaged, labeled and branded consistent with the regulatory requirements for food. Products will initially be sold wholesale to food retailers for resale to consumers. Future opportunities include expansion into other cities in Egypt.

Initial competitive advantages include:

- A unique recipe that has been highly rated in consumer taste tests;
- A well known professional baker; and
- An experienced management team with a successful track record in branding and marketing.

To achieve our plan we are seeking a LE 250,000 loan which we will use to 1) buy kitchen baking equipment and build a new kitchen facility; 2) purchase a van for distribution; and 3) provide working capital. Pro forma financial statements are included with this plan.

Description of Company

The company was founded in 2008 by Mr. Hussain Fakhri. Prior to this, Mr. Fakhri had been a professional baker with the Cairo General Baking Establishment. During his career he has also worked in various capacities with several entrepreneurial companies, with the goal of learning how to start and run a food company.

The company is headquartered in Helwan, where it rents 65 square meters of office space and has use of shared computer, printer, fax and telephone facilities. Baking is done at a commercial kitchen nearby. Kitchen facilities are currently rented on an hourly basis. The company plans to build its own kitchen in Helwan when funds are raised.

The company sold its first product in mid-2008 and achieved LE 70,000 in revenue that year. Revenue grew to over LE 150,000 the next year and is expected to reach LE 220,000 in 2010. To date, the company sells only whole loaves of bread, packaged in cellophane and branded with the company logo to top tier retail stores in Maadi and Zamaalek. It has 23 retail customers. We are currently negotiating with Carrefour, a major supermarket located in the Maadi suburb, to have

them carry our products. We see potential to sell our product in certain areas of Mohandisseen and in Qatamiyya.

All regulatory requirements have been met for both baking operations and labeling. The most valuable asset of the company is its proprietary, internally developed recipe.

Product

Today the company sells 1 kilo loaves of multigrain bread to all of its customers. The bread is typically found in the bakery section of each store, displayed on racks along with other fresh and packaged bread products. While there are many bread products sold on racks, this product is distinguished by the fact that it is the only true multigrain bread sold in whole loaves and, further, by the branding and health claims carried on the package. For regulatory reasons, there is no other bread product that is allowed to advertise the health benefits of multigrain in the same way.

This multigrain bread is in the premium category but we expect to be able to sell it for a higher price than other premium breads as a result of its good taste and its health benefits. We expect to price it at a 15% premium over the store's typical brand of high quality bread.

Based on customer requests, the company plans to provide a half-kilo loaf package in the future, which will appeal to those on a lower budget. Plans also include adding a single serving roll to the product line for use in sandwiches and snacks.

Future plans also include adding new breads to the line, including sweet bread with raisins and breakfast bread with nuts.

Products are made from all natural ingredients, obtained from a distributor who specializes in natural and organic products. Ingredients are available in ample quantity however prices fluctuate seasonally. Hedging strategies will be employed to ensure that changes in the cost of our raw materials will not affect the prices we charge to our customers.

Market Description

Increasingly, middle and upper class families are looking for better tasting and more healthy breads than those currently available in private supermarkets such as Seoudi's. We expect that the middle/upper class sector of Egyptian society will continue to grow in number, and that its appetite for better tasting and more healthy bread will continue to increase. We also see foreigners living in Egypt as an important market – these people tend to earn good salaries and are used to good tasting and healthy breads from their home countries.

We estimate that the market for high-quality, non-subsidized bread in Zamalek and Maadi (excluding Carrefour) is about 10 million kilos per year; and that the market in Mohandissen is about 2 million and Qatamiyya 1 million. We think the market for our product in Carrefour will be about 1 million. We estimate that the premium market is growing at 12% per year due to increasing incomes, more focus on taste and better awareness of eating habits and health trends.

Consumers buy bread in a number of ways. Approximately 50% of bread sold is through retail store operations for consumption at home. The retail market itself is segmented into high end

(10%), middle (65%) and lower end (25%). The first two categories are where our products will be sold. These segments are growing 18% and 14% respectively.

The other 50% of bread products are sold in restaurants or other food service venues, including catering, hospitals and schools, and other institutional settings. Of these, only the catering market is appropriate for this product because the others depend on government-subsidized products. The catering sector is a good way to expose upper end consumers to this product. These are also the consumers that are most aware of and interested in the benefits of a healthy diet and are most likely to seek out our product in retail stores.

Strategy and Implementation

As described above, it is our plan to sell first to retail stores throughout Zamaalek and Maadi, focusing on high and middle portions of the market and then expand into other suburbs. Because our product is new, consumers will have to be given an opportunity to taste the product before they are expected to buy, especially since it will be priced approximately 15% over store brands. We will focus first on 35 select stores, providing them personal service and delivery, obtaining feedback from store management as we go, and perhaps most importantly, doing in-store demonstrations of our product where consumers will have an opportunity to taste it.

We will monitor the results of in-store demonstrations by measuring sales trends between store demonstrations to know if consumers are seeking out our product rather than just buying it when they get a taste. When turnover is adequately high between demonstrations in the first 35 stores we will then begin to add additional stores to the base until we reach our ultimate goal of 100 stores.

Our budget for advertising is limited but we will take advantage of low cost in-store literature and newsletters. We will also create signage for the bread rack to draw attention to the product and outline its benefits.

Food service business will be created by marketing direct to caterers, restaurants, delis and others who will use our product as part of their ready-to-eat offering. This will be done through personal marketing efforts and by appearing at special niche trade shows where these users shop.

As discussed, we expect to have a fully functioning web site by 2012. At that time we will use social media and viral marketing to get word out, hopefully with endorsements from the medical community.

Risks and Mitigants

Sales could grow slower than expected. The business is structured as a variable cost business so the investment does not have to outpace the revenue stream. A kitchen will not be built until the order rate is firmly in place and its capacity can be guaranteed to be 65% used.

Ingredient costs can vary seasonally. Sources are locked in and supply contracts have been signed which guarantee prices for a 12-month period.

Some of the large bakeries which have focused on selling to the lower end of the market may try to enter the high-end market. More multigrain products will certainly become available on the market but we expect to benefit from being the first and having established a

known brand. Additionally, taste is the predominant factor in food purchases and blind consumer taste tests which we have run have rated our product #1.

Energy prices may fluctuate. Fuel is an important part of the cost of the distribution system. Driving will be minimized by the fact that our customers will be within a 120 kilometer radius of the production facility. We will also try to avoid supplying shops in remote locations or which are particularly difficult to get to as a result of traffic patterns. Delivery days and routes will be carefully planned. To the extent that fuel prices rise dramatically it is generally expected that the increase can be partially passed on to retailers, who then pass it on to consumers.

Bad debts. We expect to sell only to top tier and well established customers. We will monitor the 30-day terms closely to make sure payments are coming in timely, and will not allow any customer to be greater than 10% of sales.

Management Team

Hussain Fakhri, 36, Founder and CEO. As described earlier Hussain has 12 years of experience as a professional baker at the Cairo General Baking Establishment and worked for several entrepreneurial companies before starting his own.

Maryam Ibrahim, 34, Finance Director. Mariam studied accounting and finance at Cairo University and previously worked as Chief Accountant at Mohandiseen General Motor Repair Company.

Ahmad Mohammed, 44, Head of Operations. Ahmed has a degree in Hotel and Retail Management from Alexandria College and later worked with Hussain at the Cairo General Baking Establishment. Most recently he managed the buying operations of the well-known coffee shop chain, "The Bay Leaf."

Financial Plan

Following are our historic and projected financial statements from inception through the year 2014. Key assumptions include:

- Revenue growth is dependent on unit growth and price increases. We expect unit growth to be 10% per year, with 2% per year price increases.
- Ingredient costs will increase 3% per year, in line with inflation.
- Working capital will grow in line with sales. We will continue with 30-day customer payment terms but recognize that 38-day average is realistic.
- We continue renting our current kitchen facility until 2012, at which time we invest and build our own kitchen.
- We start with one van for delivery and add one per year.
- We have a 5-year bank loan of \$56,500 at an interest rate of 6.5%.
- Our tax rate continues at 30% of profit.