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SPRING IMPEX (A): A BUSINESS PLAN FOR CHEESE PRODUCTION

Introduction

While Mr. and Mrs. Githongo were excited about starting a business, Mr. Githongo was clear in his mind that developing a business plan was critical for the success of the cheese production business they had just conceived. As they took the last bend to their house, Mrs. Githongo realized that they had each been lost in thought. She enquired of her husband what he had been thinking about. Having had a hand at business before, Mr. Githongo knew that this time round, they had to do it right. “We have to prepare a business Plan” he replied. They both knew that none of them was much of a writer. This set in a trail of questions in his mind. “Did he or his wife know how to write one? What kinds of information did they need in order to write one? What did they need to include? What would make the business plan adequate in content and form?”

As they pulled up outside the front door to their house, they knew that making the decision to start was good but insufficient. They had to plan this business. As Mrs. Githongo went on to the kitchen to begin preparing dinner, Mr. Githongo walked around their compound looking for a starting point. Instead, more questions popped up in his mind. “Is there a market? Is there a product? Is there any competitive insulation? Is there recurring revenue? Would they put together the right team? Are the rewards commensurate with the risks? Mr. Githongo knew that a business plan was necessary in helping to drive the operations of the cheese business. By writing a business plan, they would answer these and many other questions.¹

The Business Opportunity

One Saturday in May 1994 Mr. and Mrs. Githongo wondered what they would do with the amount of milk that was going to waste. The couple had been involved in transporting milk from the farmers to Brookside Dairy Ltd, a milk processing factory. A lot of the times, this milk would go to waste. Whenever the milk got rejected by the factory, they would pour it down a trench or give it to their dogs and pigs. Thanks to Mrs. Githongo, a bank employee who kept pigs and

¹ Damary Sikalieh Faculty at USIU Associate Professor of Management and Entrepreneurship prepared this case with the assistance of Professor Leif M. Sjöblom of IMD Business School, Switzerland, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. United States International University (USIU) acknowledges the support of Global Business School Network (GBSN) and financial support from Bill & Melinda Gates Foundation in the preparation of this case study.

dairy cows for additional income. The amounts of milk that went to waste on weekly basis disturbed the Githongos. “What steps could they take to salvage the milk? This is too much milk going to waste” they used to wonder. With this thought in mind, they paid a visit to Silent Valley, a small cheese processing factory to see whether it would receive the milk that had been rejected by the Brookside Dairy.

Silent Valley was reluctant in taking this milk because they did not believe the milk would meet the quality standards they had set for themselves. On the way back home, with Mr. Githongo, a professional accountant on the wheel, they were each lost in thought. Each one of them wondered why they would not start processing this milk to make cheese. “What would we require to make cheese?” started Mrs. Githongo. “Why?” enquired Mr. Githongo who had been thinking along the same lines and had been trying to answer the same question. “Not much”, he replied. “Cottage cheese can be made with equipment and raw materials found in any kitchen”, he went on. “More advanced cheeses require some additional equipment and raw materials but it can all be learned by anyone willing to make the effort”, he said emphatically as Mrs Githongo smiled broadly at him. “He has just said what I was thinking”, she thought. With this, they knew they were going to be making cheese. “I would put it at about the same level of complexity as making beer or wine at home” Mrs. Githongo concluded. Converting a laundry into a freezer and a pen house into a factory, Spring Impex was born conceptually. However, as they reflected, several questions were popping up.

The Background

The Githongos were a family of seven, two sons, Sammy and David and three daughters, Idah, Judy and Jackline the youngest in the family. Idah the first born resigned from full time employment to manage her husband’s real estate business. Judy was still in fulltime employment while Jackline was a student in a college in the United States. Sammy and David, a marketer and accountant respectively, all started off in full time employment and had to resign later to join in the family business. Mr. Githongo’s wife, Esther, who was an employee of Barclays Bank realized that she could do something more with her farm. She knew that she would be retiring from her job and thus needed to prepare for retirement. This saw her keep dairy cows and by 1998 she had 15 dairy cows. She also kept pigs which she sold for pork. On a daily basis and on her way home from work, she passed through Silent Valley, a cheese processing firm to collect the whey that was food for her pigs. Owning a pick-up vehicle, and being only a kilometer away from the Brookside Dairy factory, enabled her to win a contract for collecting milk from other farmers and transporting it to Brookside. This enabled her to earn KES. 2 per litre of milk and an additional KES². 18 per litre that was paid to farmers for each litre of milk delivered. She later stopped keeping pigs in order to concentrate on milk production for cheese making.

James Githongo, her husband was a professional accountant who had been in employment with various organizations. Driven by his business acumen, he resigned from his last employer – the African Association for Literacy and Adult Education. This was a German based Non-governmental Organization for the Education of the Girl Child. James strongly supported the idea of processing cheese. Going back home, he knew that a business plan was the way to go for Spring Impex. He embarked on developing one. In the meantime, the Githongos started

² Currency in Kenya Shilling represented by the symbols KES

assembling the required resources for cheese making. They needed a cold room and processing space. “We do not need to construct a building for this”, James said. We can use the laundry room and the pen house”, Esther suggested. In unison, the domestic laundry was turned into a cold room by equipping it with freezers that would hold 2 tons of cheese. Later, the pen house was converted into the factory. With space sorted out, in 1995, Mr. and Mrs. Githongo registered Spring Impex as a limited liability company. They then settled to complete the business plan for Spring Impex (K) Ltd.

The Business Plan

SPRING IMPEX (K) LTD
(MAKERS OF MENENGAI CRATER CHEESE)
P.O. BOX 104
MENENGAI WEST
STRATEGIC 5 YEAR BUSINESS PLANS.

EXECUTIVE SUMMARY

Our business wishes to take advantage of the current growth in the tourism industry by targeting a product which is high in demand in the establishment that caters to tourists. At the level we are currently operating, we are encouraged that if we expanded our production and at the same time undertake aggressive marketing, we have the possibility of reaching such sales levels that will place Spring Impex (K) Ltd among the market leaders.

In the above regard, there are well over 250 major hotels and restaurants spanning Kenya’s coastal belt that use cheese in many of their menus. It is no wonder the current local supply of cheese is such that the market has space for imported cheese. The present political dispensation in Kenya has created an enabling climate for both the tourism and the dairy industry to grow. The future is certainly looking good and promising. We need to inject more capital in our current operation taking care to do only what we can reasonably handle.

We are inviting you to identify with us in this novel plan by contributing to our working and development capital. This is money we shall appropriately invest in the above project and we are pleased that we have been in the field and are certain we shall be able to repay you this money. We are confident to state the aforementioned as the small market we are currently handling has pointed the direction we should take. We have already invented the wheel and all we want now is to increase its size and velocity.

1. GENERAL COMPANY DESCRIPTION

Spring Impex is a limited liability company which started three years ago (1995) to manufacture and distribute dairy products and more specifically CHEESE. It started at a time when the dairy sector was undergoing tremendous changes, with the new political dispensation encouraging the dairy sector farmers to produce more milk for the local and export market. The objective then was to produce milk, in particular from the small scale farmers in Menengai area of Nakuru

District, turn it into cheese and supply it in the hospitality industry in Mombasa and other areas of Kenya.

In the meantime the performance of the tourism sector had improved with most hotels and lodges showing improved bookings and bed occupancy. Our products have the potential to reach most of these customers, many having shown interest in our products. Our plan is to increase our market visibility and to roll out more stocks to take advantage of the growth of the tourism sector. We have been in it, albeit in a small way for the last three years and we see great potential in our initiative.

2. OUR PRODUCTS

In the three years of our operation, our company has specialized in making the following types of cheese:

- i. Cheddar Cheese
- ii. Red Highland Cheese
- iii. Tilister Cheese
- iv. Gouda Cheese
- v. Gruyere Cheese
- vi. Mozzarella Cheese
- vii. Parmesan Cheese
- viii. Cream Cheese

It is proposed that we will add other types of dairy products such as yoghurts, cream and butter to the cheese portfolio.

THE PROCESS

Milk is collected from the farmers every morning so as to be in the factory by 8:00 a.m. The supervisor will check for quality, such as butter fat content (by lactometer reading) to ensure no adulteration, odor testing (to ensure freshness) and for general hygiene. The milk is pasteurized by heating it to 100°C and cooling it to 34°C. Rennet, which is the chemical that separates the fat from whey, is then applied together with the cheese culture. The resultant curds are thoroughly mixed to ensure the removal of any residual whey. This is then transferred to the molding boxes and to the pressing machine. The cheese is removed to the cold store for curing at temperatures of between 8°C and 18% for eleven days and it is ready for the market.

THE RATIONALE

The products are in demand and we think our consistent product quality has been the driver for high demand levels. The products have received very encouraging reception in the market. Our combined production staff has over 27 years experience in handling dairy products.

THE PRICING

Our pricing is about 80% of the supermarket retail price because we have tried to eliminate unnecessary overhead costs. We have no rent expenses because we operate from our own home. Raw materials i.e. milk is fairly cheap, labor costs are low and fuel is easily available. Transport costs between the company and the market are low, as we have negotiated a concessionary rate of charge with transport companies.

3. MARKETING PLAN

MARKET RESEARCH

Market research has been done through personal visits to the hotels in North and South Coast including Mombasa town. Research findings have been verified through actual delivery of our product samples and sales. Arising from this we realize that the market is large and it remains not fully tapped by local products, with room for imported cheese. Our research shows that with increased stocks, we could tap up to 30% of the Coastal market which is equivalent to about 3000kg per month.

CUSTOMERS

We intend to continue to serve the tourism industry with a focus on the coastal region of Kenya. We will enter the retail outlets when we acquire the appropriate packaging equipment.

PRICE

We will endeavor to maintain pricing structures at KES 380 per kg considering that our cost of production is KES 195 per kg. This will allow us reasonable returns for our future growth and expansion. This will be possible through eliminating overhead expenses as enumerated earlier.

LOCATION

Our factory will be based in Menengai area of Nakuru District. This area has quality milk with guaranteed supply throughout the year. It is served by a good road network and is 20 Km from Nakuru town from where we obtain other production materials. We are connected to an electricity grid, and telephone service is available and therefore electronic mail connecting is possible.

DISTRIBUTION

We have a cold room facility in Mombasa in which we keep a deep freezer with a capacity to hold up to 1000kg of cheese. We intend to identify a bigger space in which we can keep two more deep freezers with a capacity to hold up to 3000kg. This is because our products must be kept at regulated temperatures of between 8° c and 18 °c.

4. OPERATION PLAN

In order for us to produce the right quantities of cheese, we have to acquire aluminum VATS capable of treating one thousand litres of milk. The VATS are used to heat the milk to destroy pathogens and reduce microbial numbers. The milk may be standardized, i.e. the fat content may be increased or reduced or the casein-to-fat ratio may be adjusted (See Budget). We have to acquire a heavy duty cheese pressing machine capable of holding 100kg of cheese at once. In this regard we have to acquire new molding boxes made of wood to facilitate cheese pressing (See budget).

We intend to construct a modern refrigerated cold room for cheese curing. The cold room should be capable of holding up to 3000kg of cheese at any one time before it is moved to the deep freezers in Mombasa in readiness for the market.(see budget). We need to procure modern weighing machines in order to ensure our production levels are in accordance with the accepted extraction of cheese from raw milk i.e.10litres of milk to 1kg of cheese. The weighing machines will assist us to maintain proper stock inventories for control purposes. (See budget)

Once we have acquired the above equipments, we will need a larger working space. At the moment we are using an area of 168 sq. ft. as a production unit. To achieve our required production levels, we will need to increase the operational area to the size of 616sq. ft. so that we have enough space for the VAT, the cheese pressing machine, refrigerated old store, chemicals and packing materials store, and office space. We will need to carry out renovations and a few construction works. (See budget)

We have two full time employees, one who is a skilled cheese maker, and his assistant, in the factory. We will need 3 additional non-skilled assistants to work under the skilled member of staff who will be the factory supervisor.

At the marketing level, we will continue to use part time employees who will work under the supervision of the marketing director. For the time being, we will require a part time accounts clerk who will be based in Menengai to help in maintaining the records of accounts maintain the inventory of stocks and supervise credit control.

5. MANAGEMENT AND ORGANIZATION

Our company has two directors namely Esther Waithira Githongo and James Chege Githongo. Esther was employed for 23 years by Barclays Bank of Kenya where she last worked as a senior clerk before taking early retirement in 1994. James is a trained accountant who worked for several employers including Nairobi City Council, May and Baker Ltd and the African Association for the Literacy and the Adult Education for a period spanning 27 years before also taking early retirement in 1997. They managed the business on a day to day basis. They have organized themselves such that Esther is the director in charge of procurement, production and factory staff management. She assures proper packaging and delivery of the products to Mombasa.

James as the sales and marketing director is based in Mombasa. He ensures receipt and delivery of the products to the storage and eventual delivery to the customers. He is responsible for

managing credit, collection of sales money from the customers and appropriate banking. The above two directors are supported for purpose of management decision taking by their children who work variously in Nairobi. It is envisaged that the sons, Sammy and David will take over the management of the business in future. This company enjoys the special support in terms of professional and management advice from Sammy Karanja, a graduate of Arthur D. Little School of management (ADLSOM) Boston College, USA.

6. PROPOSED NEW CAPITALIZATION

Ours is an on-going business. It already has some of the necessary infrastructure in place and the research work in terms of marketing done. The purpose of the current plan is to enhance our capabilities through modernization and expansion. For example in order to achieve our targets we require the following:-

- i. Modern electrically maintained cold room
- ii. Large capacity vat in which to treat will hold up to 500 kg of milk at a time.
- iii. Heavy duty cheese pressing machine which can hold 100kg of cheese at a time
- iv. Increase the production space in our current working space through renovations and extensions. We will increase the floor working area from 168sq.ft.to 616sq. ft.
- v. Procurement of sufficient quantities of packaging materials
- vi. Increase of cold storage space in Mombasa by obtaining additional large capacity deep freezers which will accommodate 3000kg of cheese.

Additional funds for purposes of increasing our capacity for raw materials, chemicals and stocks are needed. The entire program requires capitalization of four million seven hundred thousand shillings (KES 4.7 M) and the directors will be able to avail seven hundred thousand (KES 700,000) between them.

7. WHOM THE PROPOSAL IS INTENDED

As directors of this company, we recognize that to achieve our intended goal we need a strong financial back up. We are therefore addressing this proposal to the bank and other financial institutions which may interest themselves in our effort. We are convinced that we shall make reasonable returns so as to enable us to repay the funds advanced together with the interest accruing. We are also hopeful of creating capital reserves in readiness for the next phase of development as we venture into manufacturing other dairy products.

Cash flow analysis for the period January to December

	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
S	1,140,000	1140000	1140000	950000	760000	760000	950000	1140000	1140000	1140000	1140000	1140000
	510000	510000	510000	425000	340000	340000	425000	510000	510000	510000	510000	510000
	17600	17600	17600	17600	17600	17600	17600	17600	17600	17600	17600	17600
	10000	10000	10000	10000	10000	10000	10000	10000	10000	10000	10000	10000
	600	600	600	600	600	600	600	600	600	600	600	600
	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600
	15000	15000	15000	12500	10000	10000	12500	15000	15000	15000	15000	15000
	21500	21500	21500	21500	21500	21500	21500	21500	21500	21500	21500	21500
	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000
	60000	60000	60000	60000	60000	60000	60000	60000	60000	60000	60000	60000
ST	150000	150000	150000	150000	150000	150000	150000	150000	150000	150000	150000	150000
RG	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000
	798300	798300	798300	710800	623300	623300	710800	798300	798300	798300	798300	798300
	341700	341700	341700	136700	239200	136700	239200	341700	341700	341700	341700	341700

PROJECT PRIORITY BUDGET EXPENDITURE

VAT Equipment	96000
Refrigerated old room	640000
cheese pressing machine	28000
Weighing machine	35000
Raw materials	500000
Packaging Materials	100000
Vacuum packets	200000
Deep freezers	45000
Labor/remunerations	264000
Transportation	180000
Molding boxes	18000
Total Capital Outlay	2106000

Sources

Directors' contribution	606000
Bank	1500000
	2106000

The Way forward

The business plan was now in place. As Mr. Githongo read through it, he wondered whether the business plan was adequate in form and in content. He knew that he had put in a lot of time, effort and consultation to have the business plan written. Reading through it, he could see that he had described the product, its manufacture and the marketing plan. As he sought the answers to the questions that had led to writing the business plan, he wondered whether the business plan would sell to any financier. Was the business plan convincing enough to any financier to offer them the 4.7 million KES that they required for purchasing the much needed state-of-the-art equipment and running this business? Had he included enough detail for this purpose? Was it flowing?