NAME; UROMI-OWU MERCY

MATRIC NO; 18/SMS09/090

COUSE; AFE 202

DEPT; INTENATIONAL RELATIONS

Assignment

PREPARE A BUSSINES PLAN ON A CHOSEN AGICULTURAL ENTEPISE FOLLOWING THE GUIDELINES IN THE NOTE

COFFEE EXPORT BUSSINES PLAN

**Executive Summary**

Silvera & Sons prepares green Arabica coffee beans grown in Brazil for exportation to American specialty roasters and sells to wholesalers on the Brazilian market. We will expand production capacity from 72,000/60kg bags per year to 120-160,000/60kg per year. Our coffee stands out from that of the competition. We prepare the top five percent, in terms of quality standards, of all Arabica beans on the market. Our customers seek this product as it provides them with a point of differentiation to specialty roasters. In the past six years, demand for our coffee has exceeded the amount we are able to supply and we have been forced to refuse requests for larger shipments.

We predict growth of thirty percent in the first year with sales exceeding ($BRL) expectations. In year three the plant will run at maximum capacity and based on the current price of coffee we expect excellent profits ($BRL). We have positive indicators from current importers that the additional amount of beans will be sold. Our keys to success are: Establishing and maintaining working relationships and contractual agreements with American importers and Brazilian coffee brokers and wholesalers. Bringing the new facility to maximum production within three years of operation. Increasing our profit margin with the use of improved technology in the new facility. Effectively communicating to current and potential customers, through targeted efforts, our position as a differentiated provider of the highest quality Arabica beans in the world. The objectives of Silvera & Sons: Increase production and sale from 78,000/60kg bags per year to approximately 100,000/60kg bags per year in the first year of operation at the proposed facility and reach maximum capacity of 120,000/60kg bags per year by year three. Increase sales substantially in the first full year of operation. Establish strategic relationships with 10-15 American importers in Los Angeles, San Francisco, & Seattle. Increase gross margins in the next three yearsSilvera & Sons Ltda seeks to serve coffee importers and enthusiasts by exceeding minimum acceptable quality standards and by providing the highest quality product at the lowest possible price. We value our relationships with current and future customers and hope to communicate our appreciation to them through our outstanding, guaranteed product quality, personal service, and efficient delivery. Our commitment to our customers and the country of Brazil will be reflected through honest and responsible business.

**Management Summary/ Sponsorship/Technical assistance**

Silvera & Sons management consists of four full-time employees. Additional assistance is acquired on a part-time basis and/or through the use of consultants, specifically in legal matters. Detailed descriptions are found in the following section. Silvera & Sons is organized into three functional areas: product sourcing, sales, and marketing; production and shipping; and finance and administration.

Marco Silvera Sr: CEO/President in charge of finance and administration. Marco Silvera Sr., 57 has worked in the coffee export business for 30 years. Before starting Silvera & Sons he was the Chief Financial Officer and general manager of the Cafe Fino coffee company. He began working for Cafe Fino after he finished an accounting degree at the University of Southern California. The current Silvera & Sons plant was formerly owned by Cafe Fino and was sold to Mr. Silvera who had decided to "retire" and wanted to run a small business. Cafe Fino had purchased larger facilities and no longer needed the plant.

Marco Silvera Jr: Vice president in charge of product sourcing, sales, and marketing. Marco Silvera Jr., 32 completed his MBA at Syracuse University and worked for several years on the Brazilian stock and commodities market as a broker. He later took a position as an International Sales and Marketing Representative for a major agricultural brokerage and supply firm in Sao Paulo. He is expected to succeed his father as CEO of Silvera & Sons Ltda.

Antonio Silvera: Vice president in charge of production and shipping. Antonio Silvera, 29 worked as a civil engineer for two years for the Brazilian government after completing an engineering degree at the University of Brazil, Sao Paulo. He is responsible for the supervision of all plant employees. We currently lack a full-time professional who can deal with the changing legal and financial aspects of international business. We have relied on legal consultants but are now analyzing the possibility of adding an additional position to deal exclusively with international issues. In addition, as we continue to grow and hire more personnel, we may hire a controller. The personnel plan requires an increase in plant employees from 11 to 17-20 within the next three years. Additional employees will also be added to increase administrative and accounting support. One additional employee will be added to the sales and marketing division. We will retain all current employees as they will not have to relocate.

**Market And Sales**

Coffee is the second largest commodity market next to oil and Brazil has remained the largest producer of coffee in the world for two centuries. Imports of Arabica coffee in the United States have increased ninety-four percent in the past five years and consumption of coffee within Brazil has seen similar increases. In addition, demand for green coffee is above the market clearing level, and market price and crop yield estimates are at an all time high.

The increase in the number of independent specialty roasters in the United States and Brazil has contributed to and is an indicator of the increased demand for coffee. Within the larger coffee market is our target market is the specialty roaster. These discerning customers want the highest quality coffee beans. They serve the growing "gourmet" coffee market and are represented by large American companies like Starbucks and thousands of smaller specialty roasters. The Arabica bean is considered to be the best in the world and as such, the demand for Arabica beans is high on the specialty roaster market. Specialty roasters are willing to pay more for Arabica beans and attempt to distinguish themselves via the characteristics of the bean they use i.e. the location in which it was grown, farming methods, bean size, etc. The final consumer is relatively price insensitive if the coffee is good, has won awards, or is compatible with a popular trend. We estimate that specialty roasting in the U.S. alone is a ($USD) one-billion market. The potential customer groups for Silvera & Sons are: American importers of green Arabica beans: Market research suggests that there are approximately 200 importers of green Arabica coffee on the West and East Coasts of the United States that would be able to handle the quantities of our shipments and are in our target market . Combined, they import a total of four to five million/60kg bags of Brazilian coffee per year. Brazilian green coffee wholesalers: This market serves as a safety valve for our export business. By maintaining relationships with Brazilian wholesalers we have an alternative market with established distribution channels. Brazilian specialty roasters: As we move towards maximum capacity we will plan to more aggressively target this audience. We hope to eventually reduce transactions with wholesalers and capture their value-added costs as profit. We anticipate that this effort will begin approximately four years into operation of the new facility.

**Competition and Buying Patterns;** The purchase decision for our customer is based on trust in our process and bean selection. We have established relationships with our customers which extend beyond that of the buyer/seller. The Silvera & Sons label means that the product has been chosen and prepared with the highest quality standards in mind. Our beans are priced up to nine percent higher than similar products. Our customers are willing to pay more for our product because they are familiar with us and trust in the quality of our beans. This is the result of their success in the marketplace with our product. There are approximately 150 exporters of green Arabica beans in Brazil. According to the Brazilian Coffee Exporters Association, ABECAFE, fifty percent (50%) of all green coffee exports come from their 45 members. Approximately eighty percent (80%) of these exports come from 20 ABECAFE members. Market contributions of individual exporters are held in strict confidence and are not available to the public. However, based on this information and given the large number of remaining exporters not affiliated with ABECAFE who account for the remaining sixty percent (60%) of all exports, we assume that many of the largest competitors are amongst the ABECAFE members.

**Technical feasibility**

Silvera & Sons currently works with two importers in the United States who handle all of our shipments. Likewise, we have dealt with the same Brazilian wholesalers, for internal sales, each year. Sales to this point have been handled through personal selling. Additional sales literature will include a website, direct mail to specialty roasters and importers, and print advertising in several trade publications including *Coffee Times*, a monthly publication which targets American business dealing with issues relevant to the coffee industry. Improvements in technology will include the use of partially automated selecting machines which will allow for increased production capacity with a lower machine-to-operator ratio than we currently employ. Additional storage capabilities will decrease shipping charges and will reduce the need for permanent shipping employees by thirty-five percent. High-technology information system upgrades will improve all aspects of business, especially inventory control, tracking of shipments, and communication with clients in import countries. Both the existing and the proposed facilities are ideally located in Ouro Fino, in the state of Minas Gerais. Minas Gerais is the largest coffee producing state in Brazil and beans produced in the region are of the highest quality. With additional financing, we would be able to buy larger volumes at lower prices. We now buy from one or more of six private growers or grower cooperatives. Contracts are secured six months in advance of harvest. Alternative to the Arabica bean, Coffea Robusta, though it shares some similarities with the Arabica bean, is very different. Coffea Robusta is grown at lower elevations and has a higher yield per plant as well as being more resistant to disease. It also has up to twice the caffeine level as it's cousin the Arabica Bean. Due to the lower cost and larger market amount of Robusta coffee, it is found primarily on supermarket shelves. The Arabica species grows at much higher elevations, better soil rich areas, and is the source of the worlds finest coffees.

By providing the finest species of coffee, Silvera & Sons has taken the first step towards a differentiated product. To further distinguish our coffee, we adhere to higher quality standards than approximately ninety-five percent of the market. In addition, all of our beans are of the Bourbon Santos variety. The "Bourbon" strain is considered one of the finest Brazil has to offer. It is grown in the mountains surrounding Sao Paulo and is highly sought after by specialty roasters from around the world. We have assumed the position of a specialized provider of this exceptional coffee. Our customers, American and Brazilian specialty roasters, recognize Silvera & Sons for our ability to provide the type of beans they require to produce award winning coffee.

**Estimated project cost and revenue**

We want to finance growth through a combination of long-term debt and cash flow. Purchase of the larger facility and equipment will require approximately eighty percent debt financing. Additional technology will be primarily financed with cash-flow. Inventory turnover must remain at or above four or we run the risk of backing up orders and jeopardizing our freshness guarantees. We have had no problems with accounts receivable and we expect to maintain our collection days at 30 with thirty percent of sales on credit.

In addition, we must achieve gross margins of thirty-five percent and hold operating costs no more than sixty-five percent of sales.

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| **BREAK-EVEN ANALYSIS** |
| Monthly Units Break-even | 2,049 |
| Monthly Revenue Break-even | $537,078 |
| Assumptions: |  |
| Average Per-Unit Revenue | $262.08 |
| Average Per-Unit Variable Cost | $212.00 |
| Estimated Monthly Fixed Cost | $102,629 |

Important assumptions for this plan are found in the following table. These assumptions largely determine the financial plan and require that we secure additional financing.

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| --- |
| **GENERAL ASSUMPTIONS** |
|  | **1999** | **2000** | **2001** |
| Plan Month | 1 | 2 | 3 |
| Current Interest Rate | 14.00% | 14.00% | 14.00% |
| Long-term Interest Rate | 9.00% | 9.00% | 9.00% |
| Tax Rate | 47.00% | 47.00% | 47.00% |
| Other | 0 | 0 | 0 |

**Funding mechanism**

Silvera & Sons is in its sixth year of operation. The current plant has been in operation for 15 years and for 12 of those years was managed by Marco Silvera Sr. who was then an employee of the former owner, Cafe Fina. Since the plant was purchased, Silvera & Sons has maintained maximum production and sales. It is currently operating at maximum capacity. Both the existing and the proposed facilities are ideally located in Ouro Fino, in the state of Minas Gerais. Minas Gerais is the largest coffee producing state in Brazil and beans produced in the region are of the highest quality. With additional financing, we would be able to buy larger volumes at lower prices. We now buy from one or more of six private growers or grower cooperatives. Contracts are secured six months in advance of harvest.

**Conclusion**

The bussines is technically feasible, therefore is recommended for funding.