

CHRISTIAN SERVICE UNIVERSITY COLLEGE-KUMASI

DEPARTMENT OF BUSINESS STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

KAABS SNAILS

BUSINESS PLAN

BY

AGNES SEFAH

JENNIFER ADDAI

JAMIL KADRI

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DECEMBER, 2011

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A BUSINESS PLAN SUBMITTED TO THE DEPARTMENT OF BUSINESS STUDIES

OF CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI IN PARTIAL

FULFILLMENT OF THE REQUIREMENTS FOR THE COURSE

CSAD 443 TEAM BUSINESS PROPOSAL

BY

AGNES SEFAH

JENNIFER ADDAI

JAMIL KADIR

SUSAN OKYERE BAFFOUR

EBENEZER OWUSU BEMPAH

DECEMBER, 2011

## STATEMENT OF AUTHENTICITY

I have read the Christian Service University College's regulations relating to plagiarism and certify that this Business Plan is all my work and do not contain any unacknowledged work from any other source. I also declare that I have been under supervision for this Business Plan herein submitted.

Name of students Index Number	Signature	Date
1. AGNES SEFAH (10124241)	.....	.....
2. EBENEZER OWUSU BEMPAH (10124224)	.....	.....
3. JENNIFER ADDAI (10124079)	.....	.....
4. JAMIL KADRI (10140937)	.....	.....
5. SUSAN OKYERE-BAFFOUR (10124200)	.....	.....

Certified by

.....

(Supervisor)

Signature

Date

Certified by:

.....

(Head of Business Studies Department)

Signature

Date



## EXECUTIVE SUMMARY

KAABS snails, is a start-up specialty snail firm to be launched in the coming year. It will sell canned snails to customers including medium and high income residents of Ghana (especially southern Ghana). It will be located at Aputuogya - Kumasi.

KAABS snails' will be established as a limited liability company by its five co-founders. The co-founders will contribute 12% each to make up 60% of the capital needed. The members then will seek for additional funds from potential investors. The company will be managed and directed by Miss Akua Konadu Addai (owner of Adom restaurant).

The company intends to produce under hygienic conditions, make the product accessible to customers and earn appropriate returns for the products.

The company will produce and sell snails which are put in cans with tomato sauce added. The cans will be in two sizes, that is, the large size and the small size. The snails will be purchased from suppliers within a hundred miles from the production site to maintain its freshness.

Our market will be segmented on the basis of geographic and demographic means.

Geographic example: Ashanti Region and Greater Accra Region. Demographic example: income and education level.

Snails are sold in their raw form through retailers. They are mostly displayed on the ground which is only covered with sacks. This put the hygienic situation of the product in question. However, this creates opportunity for KAABS snails in markets which only provide canned



snails. The sales staff will help customers who places order by delivering the products to their door step to ensure customer satisfaction.

KAABS snails' intends to promote the brand name through radio ads, point of sale display and direct sales to identifiable user group to make the product a house hold name in canned snails' production. With this leverage the company is expected a growth of 7.5% of sales through out the years of KAABS operations.

The company expects to make 96.2% annual cash sales in 2012, 96.8% in 2013 and 97.3% in 2014 of its total sales and 5% to 22.5% profit margin in the first three years of the company's operation. Return on capital employed is expected to be 16.95% in the first year, 30.88% in the second year and 46.34% in the third year. KAABS Ltd will have a positive Net Present Value of GH¢3,925 which makes the project or company's establishment viable.

Based on the stated sales projection the company seeks to break even in the first month of the second year of the company's operation.



## **VISION STATEMENT**

KAABS wants to be the leading producer of canned snails in Ghana and West Africa.

## **MISSION STATEMENT**

To produce canned snails under hygienic conditions, make it accessible to customers and earns appropriate returns for the product.

## **Objectives**

1. Increase sales significantly over the next three years.
2. Delivering high quality products that set us apart from the others in taste and value.
3. To contribute our quota to national development by providing jobs to the people in the community in which we operate.



TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY .....	i-ii
VISION AND MISSION STATEMENT .....	iii
ORGANISATION .....	1-3
PRODUCT IDEA AND RELISATION OF SCHEDULE .....	4-5
MANAGEMENT TEAM .....	6-11
MARKETING ANALYSIS .....	12-26
FINANCIAL AND RISK ANALYSIS .....	27-35
APPENDIX .....	36-42



## 1.0 ORGANISATION

**Name of business:** KAABS Snails Company Ltd

**Nature of business:** production of canned snails

**Address:** Box AP 369. Aputuogya, Kumasi.

**Tel:** 0246329032/ 03220021610

**Email:** [kaabs@live.com](mailto:kaabs@live.com)

**Date of registration:** 1st August 2012.

**Date of operations:** 1st January, 2013

**Bankers:** Agriculture Development Bank

### **Ownership:**

KAABS snails' will be established as a limited liability company by five co-partners. They are Mr Ebenezer Owusu Bempah, Miss Jennifer Addai, Mr Jamil Kadri, Miss Agnes Sefah and Miss Susan Okyere Baffour. The co-founders will contribute 12% each to make up 60% of the capital needed. The members will then seek for additional funds of 40% from potential investors. The partners will share in management responsibilities. However, final decisions will fall on the Managing Director who is a member of the Board of Directors.

Our form of ownership which will be a limited liability company will be registered under the Ghana companies Code 1963 Sect119-121 (Act 179). The reasons for this form of ownership are as follows:





- Business continuation is ensured with this form of ownership. Unlike partnership and sole proprietorship, a company will continue operating even in the absence of active partners.
- We anticipate that a Limited Liability Company is important in protecting our assets. If the company should wind up, the personal assets of investors will not be used to settle debts.
- It will be easy for KAABS snails to raise funds since we have the choice of going in for equity or debt finance. Banks also have much confidence in companies limited by liability than the other forms of ownership.

**Slogan:** *Your number one delicacy.*

Between 2016 and 2020, KAABS snails will seek new investors who will bring in additional capital, managerial competence and improved technology to enhance the company's competitiveness in the product offered. It is expected that 40% of the ownership of KAABS snails will be floated to the prospective investors.

As a result, KAABS snails is developing this business plan to guide management and staff to achieve this laudable business opportunity as well as secure financial aid from financial institutions.



The purpose of the business plan, prepared at the request of the management of KAABS snails is to assess and determine among others the following:

- Determine the financial viability of the business opportunity.
- Identify and provide any relevant information relating to the KAABS snails' operational strategies to achieve its strategic direction.
- Produce document on our operations to allow potential shareholders of KAABS snails and other key stakeholders make informed decision on prudent management and evaluation of performance of the management team.



## **2.0 PRODUCT IDEA AND RELISATION OF SCHEDULE**

### **2.1 PRODUCT IDEA**

The company came into existence out of the figment of the imagination of Mr Jamal who had this thought when his wife once called him from home to buy snails for the weekend's palm nut soup which happens to be his favourite. He bought some snails from the market (which took him about twenty minutes to get to the market) as requested by his wife to prepare soup but got to the house with snails stains in his trouser. This then struck him to discuss with his friends the possibility of coming up with such a company that will produce canned snails for both domestic and commercial use and in a more hygienic manner.

KAABS Snails seeks to provide snails to individuals who are time conscious (due to pursuit of work and higher education) and health conscious. The company intends to package the snails in cans to make it easily to transport. KAABS canned snails will add tomato sauce to give our customers more value for their money. In order to make it accessible to our customers, the company will supply the products to wholesalers and retailers.



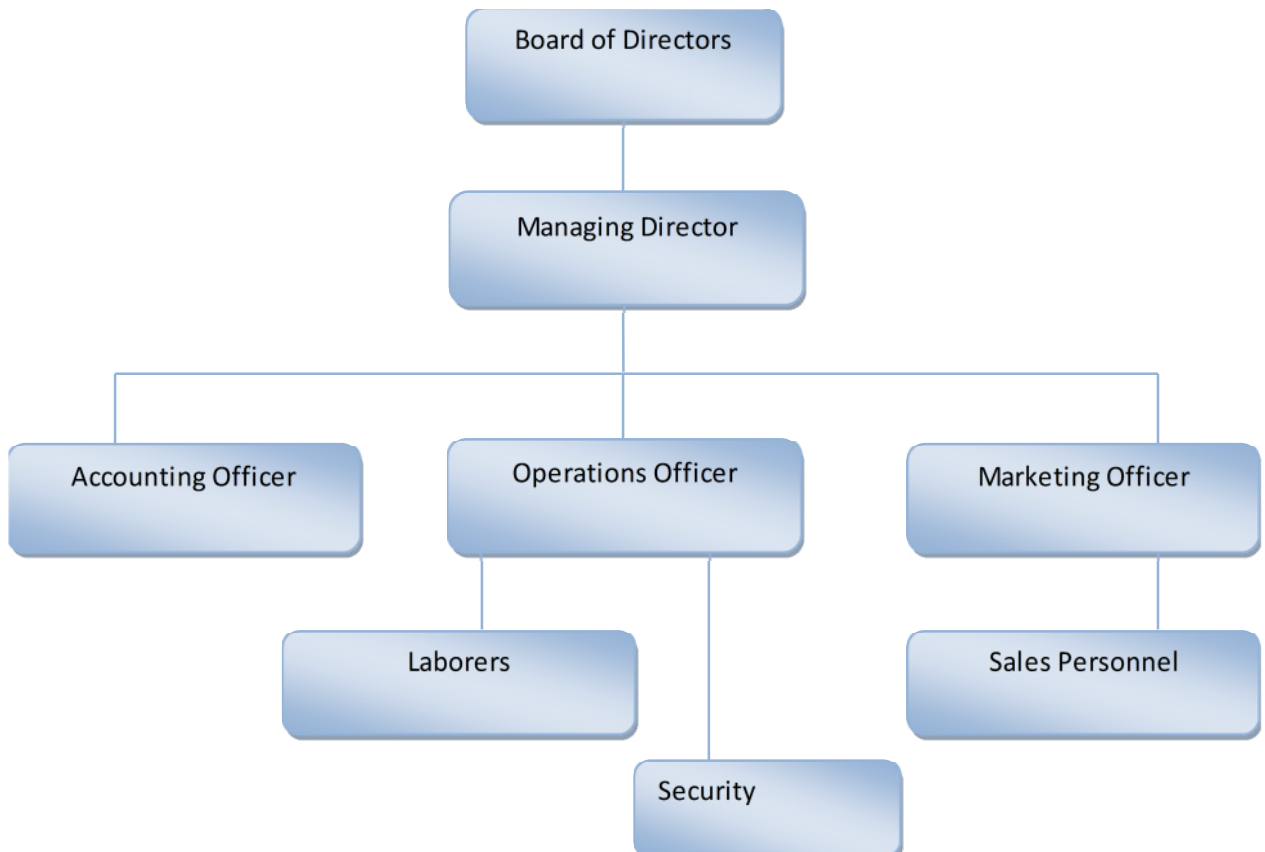
## 2.2 RELISATION OF SCHEDULE IN THE YEAR 2011-2012

<b>ACTIVITY</b>	<b>TIME</b>	<b>RESPONSIBILITY</b>
Funds seeking	July – August	Account officer
registration	August	Managing Director
Office allocation	September – October	Operations officer
recruitment	November – January	Marketing officer and operations officer
production	January - February	Operations officer
Launching and promotion	March – April	Marketing officer
Sales	April	Operations officer and marketing officer



### 3.0 MANAGEMENT TEAM

#### Management and organizational structure



#### 3.1. Board of Directors

The membership of Board of Directors will comprise the following: Mr Wilson Dabor(MD of Noda Hotel), the owner, Silver Crest shopping mall and Miss Akua Konadu Addai(owner of Adom restaurant).

Among others, the functions of the Board of Directors shall include:

- Formulate strategic policy guidelines for implementation of business activities.



- Approve condition of service, scheme of service, policy, procedures and rules required to direct, discipline and motivate all staff; periodic control and evaluation mechanism to assess operational effectiveness of the KAABS and Compensation system.

The Board of Directors will meet quarterly to assess the operational and financial performance of KAABS snails and devise control mechanism and strategies to ensure that growth, profitability and productivity are sustained on a continuous basis. The Board of Directors will be competitively remunerated to motivate them perform their functions effectively and efficiently.

### **3.2.0 Proposed Management Team: Responsibilities and Duties**

The management team of KAABS exhibits characteristics such as ability that determines the feasibility of this proposed plan.

The management team comprises of the Managing Director, Accounts Officer, Production/operation Officer, and Marketing Officer.

#### **3.2.1 Managing director (MD)**

The managing Director of KAABS is Miss AkuaKonaduAddai. She holds a degree in Banking and Finance from Christian Service University. She also holds Professional qualification in CIM Level 2 and has three years working experience as marketing manager at Silver crest. She is also the owner of Adom restaurant.



She ensures that, general administration work and all operational activities are coordinated effectively.

- a) Develops strategies which improve the long term competitive advantages and growth of the company and formulate new ideas and plans.
- b) Provides good and effective leadership style.
- c) Manage the operations, finance and administration of the company.
- d) Oversees the general direction, control and growth of the business.
- e) Responsible for the setting up of business policies.

### **3.2.2 Accounts Officer**

The accounts officer is in the person of Miss SussanOkyereBaffour. She holds HND in accounting and is currently pursuing a degree program at Christian Service University College. She has two years working experience as accountant at A-life supermarket.

Duties and responsibilities:

- a) Instituting prudent financial measures and controls.
- b) Preparation of the company's financial statements and forecast the company's financial position.
- c) Monitor and control the flow of cash receipts and disbursements.
- d) Establish prudent financial policies, controls and procedures.
- e) Check and manage the inflow and outflow of cash.



### 3.2.3 Production/Operations officer

The operations manager is the person of Mr Ebenezer Owusu Bempah. He has four years' experience in snail farming. He holds an HND in Human Resource Management. He is also pursuing a degree program in HRM.

#### **Duties and responsibilities:**

- a) Assist the GM in developing the basic objectives and policies of the company.
- b) Ensure that all members of the venture are aware of the overall objective and perform their duties and responsibilities to help in accomplishing them.
- c) Supervise the day to day production of the canned snails.
- d) Ensure the availability of raw materials for production.
- e) Liaise with marketing department to always produce to meet demand
- f) Ensure that quality standards are met.

### 3.2.4 Marketing officer

The marketing officer is Mr. Jamil Kadri. He holds HND in marketing and he is pursuing a degree program in marketing.

#### **Duties and responsibilities:**

- a) Plan and execute all marketing activities in consultation with the GM
- b) Achieve all sales targets projected by the business plan financial projections
- c) Plan daily sales activities and manage key accounts and clients
- d) Take orders on site and on phone
- e) Conduct periodic market research and update management
- f) Conduct periodic competitors analysis of product



**3.3 STAFFING COST**

<b>Positions</b>	<b>No. of Staffs</b>	<b>Per Month</b>	<b>Per Annum</b>	<b>Total Amount</b>	<b>SSNIT 13.5%</b>
General Manager	1	600	7200	7200	972
Accounts Officer	1	400	4800	4800	648
Marketing Officer	1	400	4800	4800	648
Operation & prod.	1	400	4800	4800	648
Operations personnel	2	300	3600	7200	972
Sales Personnel	3	300	3600	10800	1458
Labourers'	8	100	1200	9600	1296
Drivers	2	200	2400	4800	648
Security officer	1	150	1800	1800	243
<b>TOTAL</b>	<b>20</b>	<b>2850</b>	<b>34200</b>	<b>55800</b>	<b>7533</b>



### **3.4 Future additions to management**

The future addition would be the employment of an HR Officer after the next three years.

#### **3.4.1 Quality**

The operations officer will supervise the factory workers on regular basis to ensure that quality standards are met.

Factory workers are selected after going through a series of workshop. Our hired workers will have modern equipment to produce better products and reduce waste as well.

#### **3.4.2 Customer service**

Proper records will be kept on orders so as to deliver on the agreed date and time.

Room will be provided for customers' complaints and suggestions.



## 4.0 MARKETING ANALYSIS

### **Industry overview**

The snail industry seems to be growing at a faster rate but is mainly made up of small scale sellers. The industry provides fresh and dried snails to the community. The significant percentage of the major raw material in relation to the industry is farmed locally. The industry is not regulated by any regulatory body and government interferences are minimal. Anybody with a little amount of capital can enter and the market whenever he/she wishes.

The major customer groups are commercial (restaurants and traditional caterers) and domestic (households) users.

With the canning industry is regulated by the food and drugs board. Even so, anybody with the needed capital and the necessary equipment can enter and leave the market whenever he/she wishes. For an individual producer to grow and survive in the industry will depend on his/her ability to find and provide to the needs of his target market through innovativeness, value for money (quality), and the ability to develop a relationship with the target market through an effective customer relationship management (CRM).

The canning industry has a tendency to grow if only the government draws a supporting structure for the industry. A reduction in the importation of canned food will make the industry become very strong and develop enough to work on a larger scale.



## **Business strategy**

KAABS snails desire to be a leading company in the provision of canned snails, and also enrich lives with our hygienic products. We will ensure that we position ourselves very well to be viewed as the number one snails' supplier in Ghana. Our products will be perceived by our customers to be of high quality and accessible. Our effective CRM will enable us to create a good relationship with our customers. We intend to embark on new ways of packaging the snails and source out for cheaper sources of raw materials. We will use envelopment business strategy that is identifying the weakness of our competitors and applying modern technology and producing in a hygienic condition which our competitors' lack. Some owners of restaurants and shopping malls and major retailers in the industry will be used as board of directors to help us gain business.

## **Goals**

The ultimate goal of KAABS is to provide best of snails under hygienic conditions and below is clearly stated.

- To provide hygienic products that satisfies the nutritional needs of consumers.
- To raise a substantial profit margin for the business
- To ensure continuous supply of the product to customers
- To create employment for the youth
- Other corporate social responsibilities



#### 4.1 BUSINESS SYSTEMS AND OPERATIONS

KAABS snails will be located at Aputuogya where it is known to be one of the major places where snails are sold in large quantities. With this, the company will easily attract suppliers who have large snail farms.

**Raw material acquisition:** The products will be purchased from suppliers within a 100-mile radius from the snail farm to the company; this is to maintain product freshness. In terms of pricing, as the operations manager would periodically scan the market for prevailing market price at the major places where snails are reared in large quantities.

**Housing:** the snails will be housed and fed until they are ready to be used. The snails will be housed in a clean and cool cemented hole. They will be fed with fresh kontomire leaves. The hole will be cleaned every morning to ensure that the dried leaves are taken out.

**Plucking:** the snails will be plucked out of their shells. We will ensure that laborers who do this put on gloves and use sterilized tools.

**Washing:** the snails are then washed thoroughly in vinegar solution to prevent any contamination.

**Boiling:** the snails will be boiled at maximum of 20 minutes to have a slightly cooked meet.

**Packaging:** snails will be packaged in cans with sauce added.

**Labelling:** designed and printed stickers with KAABS logo on it will be use in labeling.

**Storage:** canned snails can be stored for 24 months.



## 4.2 ENVIRONMENTAL ANALYSIS

### 4.2.1 MACRO ANALYSIS

#### **Political factors**

The political situation in Ghana is quiet stable as at now and this is an advantage for us since there is no possibility of war. The company does not expect any challenges politically in the near future though the country will soon be entering into an election year.

#### **Economic factors**

The company expects to benefit or take advantage of the current stable nature of the Ghanaian economy. Inflation rate is currently on single digit and a prime rate of 12.5%. The company expects the economy to remain stable though there may be some rough patches before, during and after the election. Getting loans from the bank will be affordable and since the inflation is 8.3% our cost of production will be stable and we will have control over our cost. Minimum wage 3.8% been low also means we will be able to pay our employees with ease.

#### **Social factors**

Factors such as religion and culture are what the company expects to capitalize on to push the product and help in the growth of the company. There is no culture or religion in our target market that prohibits the eating of snails. For example the Ashanti culture promotes the nutritional value of snails to its people.



### **Technological factors**

The company intends to put into good use the current and modern technology available in the world today. High level of technology will be used in the operation process as well as the packaging and marketing of the final product.

### 4.2.2 MICRO ANALYSIS

#### **Customers**

The customers of KAABS snails' will be households, caterers and restaurants. The customers who request for high quality products are the same customers who want the product at a cheaper price. Delay in making payments on credited goods by customers will lead to a halt in production. Asking for discounts on purchased goods will lead to a reduction in our estimated profit.

In order to deal with this problem, that is why KAABS have chosen a target market of medium and income earners and upmarket caterers. These target groups understands that quality comes with high cost which leads to high price.

#### **Suppliers**

The company's suppliers are individuals and firms that provide us with raw materials like the snails, cans and labels. The suppliers' attitudes can influence our production process. When the suppliers delay in supplying the raw materials, this will also delay our production process.



Again, the suppliers can increase the prices rapidly; this in effect will increase our cost of production which will eventually increase our selling price.

On the other hand, the suppliers can offer us moderate price or give us flexible time to pay.

In order for KAABS snails to deal with this problem, we will contract three snail farmers all based in Aputuogya. These three are the most large scale farmers of snails.

### **Competitors**

The competitors of KAABS are direct, indirect and potential.

Direct

Currently KAABS Snails has no direct competitors.

Indirect

The indirect competitors for KAABS snails are sellers of fresh and dried snails<sup>7</sup>. Sellers of fresh and dried snails provide snails in its unfinished state at relatively low prices. Customers of this product will sacrifice some quality and options for price.

### **Strengths**

- 1) Experience in the industry
- 2) Existing relations with traditional caterers
- 3) Good knowledge of the market and snails





- 4) Sells at relatively cheaper price

#### Weakness

- 1) Poor distribution network
- 2) Poor customer relations

#### Potential Competitors

Vega foods produce tin tomatoes, Vega spaghetti, Vega mackerel and other household consumables. Vega is seen as a threat and a potential competitor; some customers may decide to purchase Vega mackerel. With the resources available to the company it can decide to enter into snail canning.

#### Strengths

- 1) Strong financial backing
- 2) A well run distribution system
- 3) Advertisement on major television stations and other media outlets
- 4) Better knowledge of the market

Our competitors' analysis was made on the competitors' capabilities, assumptions, strategies and objectives.

#### Objectives and Strategies

Information from our target market will be used with the additional information gathered through critical observation.



## Assumptions

The misery shopper technique was used to gather information by our marketing team.

To differentiate ourselves from all others, we will package the snails in cans and add a masterful blend of tomato sauce that cannot be matched in taste. This will be a simple product that will be presented in a way which will encourage consumers to have a long term relationship with us. Our aim of being the number one canned snails' producer to our target market and customers in Ashanti and Greater Accra Regions will not be an easy task to achieve in the next few years. This is because there are some competitions coming from some farmers and sellers of fresh snails. But KAABS SNAILS has the ability to compete and outweigh these competitions on the basis of our innovations and distribution channels.

## **Intermediaries**

Our intermediaries are the retailers of the product. The retailers can refuse to sell the product or draw our attentions to the complaints made by the consumers. They can also sell the product above the normal price. All these will affect the image of the company.

For us to avoid these inconveniences, we will create a cordial relationship with them and also give them discount on a specific quantity of products they sell.



## 4.2.4 SWOT ANALYSIS

### Strength

- 1) Easy access to raw materials (snails)
- 2) Wide distribution network
- 3) Having required equipments
- 4) Political stability

### Weakness

- 1) Inability to meet the demand of a growing market

### Opportunity

- 1) Increasing health consciousness of the Ghanaian economy on the products high level of protein and calcium.
- 2) Ability to increase market share which will intend reduce our cost of production.
- 3) Greater export potential
- 4) Low interest rate and inflation expected in the near future.

### Threats

- 1) Less cost involved in entering the market.
- 2) High cost of media publication

### Plans to overcome identified weaknesses

- 1) The company having realized a weakness in operational experience, we intend to invest heavily into research and development consistently.



- 2) The company will adopt more of personal selling strategy.
- 3) The company also would invest more in the awareness of the health efficacy of snails over other substitute products example beef and pork meat. This we believe would catch up with the ever increasing number of health conscious Ghanaians, who would form the initial customer base of the company.

**Competitive strategy:** differentiated product.

#### **4.3 Market segmentation (geographic and demographic)**

The company chooses a market segment of the Ashanti and Greater Accra Region. This is based on our current resources, and our aim to produce efficiently and deliver quality products to our customers. Moreover, we have ascertained, after a careful observation, that the people in Ashanti are the highest consumers of snails in the country whilst Greater Accra Region consist of people with different culture of which majority are made up of medium and high income earners with high level education background.

#### **4.4 Target market**

Individuals

KAABS Snails are targeting individuals who have high levels of disposable income and are time conscious due to the pursuit of work and higher education. These people are always conscious of



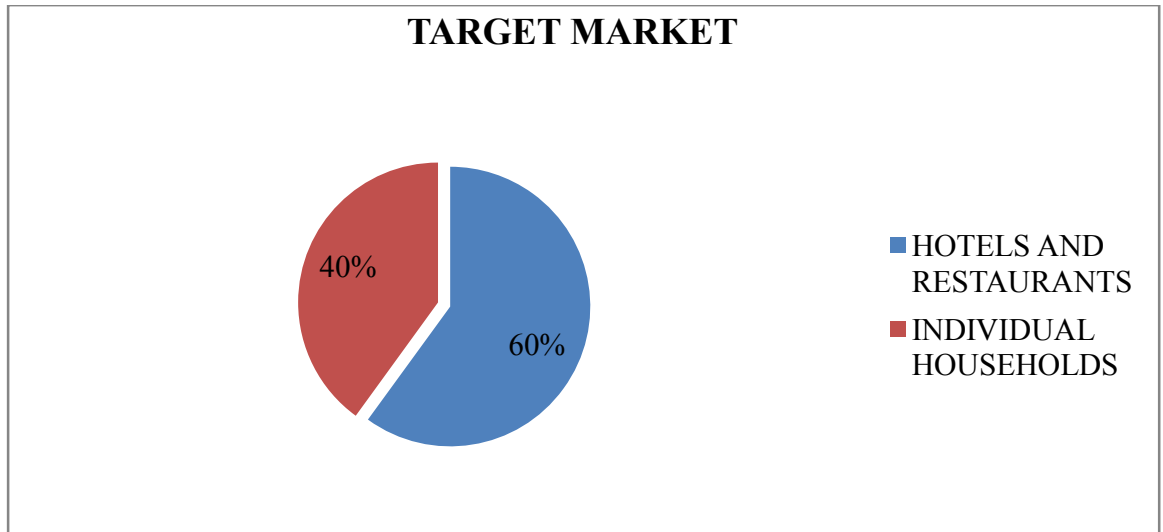
their health. Such individuals could save some time on food preparation should they purchase our canned snails.

Caterers, Restaurants and Hotels

Caterers, especially those who serve high-end corporate and private events and upscale (expensive) restaurants seek high quality meet at wholesale prices. KAABS will sell in bulk to catering businesses and restaurants at a discount while still allowing for margin.

Caterers, Restaurants and Hotels and individuals who are looking for affordable but healthy alternative in canned snails, are generally looking for the under listed values which KAABS snails provides.

- 1) **Time saving** - already prepared and ready to be used for your favourite soups and stews.
- 2) **Hygienically prepared**- time would be taken to select the best of the snails to prepare under strict hygienic conditions as per regulatory standards by Food and Drugs Board and the Ghana Standards Board
- 3) **Health efficacy** – the product would be marketed on the grounds of its low cholesterol level relative to beef and pork.
- 4) **Value added**-sauce would be added to the product upon purchase to give our customers more value for their money.



**Fig 1.0**

#### **4.5 MARKETING MIX**

KAABSNAIL snails will sell hygienic and quality product. Our approach is to take our product image up in the market because of our uncompromising view of product quality. This focus will enable us to view the voids in the market and add value that will fit it.

##### **4.5.1 Product description**

We will sell snails in tomato sauce which is packed in cans. Our product will be in two packages.

These include:

- 1) Large size cans which net weight is 812 grams
- 2) Small size cans which net weight is 425 grams



This is to help us serve our customers for domestic and commercial use.

The company would register the trade mark i.e. KAABS and the logo for legal protection as well as make it distinct from other existing products on the market.

#### 4.5.2 Cost analysis

Product size	Quantity	Unit cost	Profit margin	Unit price
Small	11000	GH¢ 6	17%	GH¢ 7
Large	12800	GH¢ 13	17%	GH¢ 15

#### 4.5.3 Pricing

The company being the first time in business will use the cost plus base. We will add all the cost incurred in producing the product and divide it by the quantity of goods produced. After that, we will add 17% margin on cost for both sizes of our product. This will help the company to make returns within a short period of time to cover our debts and also maximize our shareholders wealth.

#### 4.5.4 Promotion

The company shall use the media and personal selling as the promotional tools for the different target groups since the various decision makers in each category have different lifestyle or demographics.



### Households

They are going to be targeted with television adverts and point of sale display; this is because as they see the television adverts the point of sale display at the supermarkets would reinforce the message received. This will urge them to go ahead and purchase at the super market or retail shops.

### Hotels, restaurants and caterers

Food managers of hotels and restaurants are also going to be targeted with one on one presentation (personal selling) as well as free samples and also give them discounts on specified quantity purchased.

### **4.5.5 Distribution**

The company intends to contact some wholesalers especially in the Greater Accra Region, who will supply its products. In Ashanti Region, the company will distribute the products through retailers and also deal directly with the hotels, restaurants and caterers – this would be undertaken by salesmen with vans who will serve super markets, hotels and restaurants whilst they prospect for new ones, as well as orders that have been placed at the factory premises would be distributed.



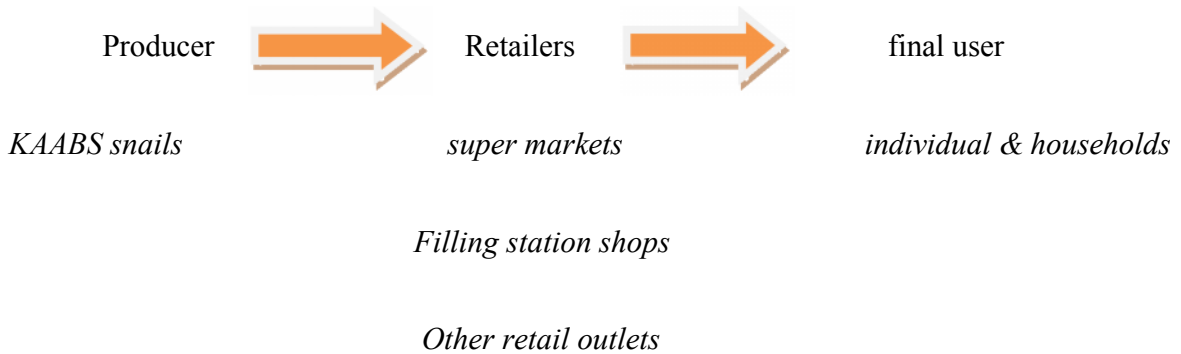


**Distribution channel:**

Channel one (exclusive strategy)



Channel two (selective strategy)



Channel three (intensive strategy)





## 5.0 FINANCIAL PLAN

### 5.1.0 Financial forecast

KAABS Company is expecting a sales growth of 7.5% through out the years of its operation and also 5% to 20% profit margin. This growth rate is due to the fact that, KAABS has a ready market based on its promotional and advertising strategies using. Also, the knowledge about KAABS target customers is a factor to achieve the growth as set by KAABS.

### 5.1.1 Important assumption

- We assume a ready market for our product based on the rate of snail consumption in the country especially the southern part where the company has targeted and the advertisement put in place by the company sales force.
- We assume a rapid loss in the first year because Ghanaians may criticize on the type of snails KAABS Company is using for its products.
- We also assume that competitors from nowhere will jump into the market to compete with us and that we have to strategies very well to overcome such sort of competition.
- We assume, of course, that there are no unforeseen changes in the consumer market to make products immediately obsolete or out of favour (or not increasing in popularity)

### General assumption

PLAN MONTH	2012	2013	2014
Current prime rate	12.5%	12.5%	12%
Long term prime rate	10%	10%	10%
Tax rate	25%	25%	25%



## 5.2.0 Risk Analysis

### 5.2.1 Pure Risk

- **Damage of assets;** Looking at the kind of business we are into, a breakdown of our machinery like the sterilization and washing jar machines and even our vans which is used to transport the products to our customers or a fire outbreak destroying the building will bring the business to a standstill.
- **Worker injury;** this also deals with the risk associated with employees getting injured in the production process and benefits paid to those employees. Because the employees take the greater percentage in the production process, their absence will cause a great loss to the business.
- **Legal liability;** our primary aim is to provide quality and hygienic canned snails to our consumers but at the same time, we do not expect every consumer to be satisfied with our product since its new. There would thus be legal liability for damages for harm caused unknowingly in any form, by our product to customers, suppliers, shareholders as well as other parties.

**Credit risk;** this risk is associated with default of payment by the business's debtors. The risk possibility that may occur as a result of debtors (retailers) not making payments for products purchased on credit will lead to the eventual collapse of the business. However if KAABSnails borrows money to expand its business in the subsequent years and default in payment, the business will go bankrupt since it has to settle its debts as credit risk increases



For these possible risks, a rate of depreciation has been projected to be used for the calculation on fixed assets, and reduction of activities as safety precautions. The company in trying to manage the various risks will use the methods of managing risks.

**Loss financing method;**

Insurance contracts; is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. After careful consideration, KAABS SNAILS has agreed to engage the services of the State Insurance Company (SIC), Under property loss exposures-the company's fixed assets (buildings, machinery and vans) would be insured to avoid direct loss resulting from disasters. With losses to human resources- The Company will purchase a life insurance policy to secure claim cost in case of injuries, death and retirement of employees

**Loss control**

This method will reduce expected losses by lowering the level of risky activities and increasing precautions against loss for any given level of risky activities. Risky activities to be controlled include;

- Putting in place safety measures and policies that will guide employees at the various departments by organizing frequent safety training to remind employees of our safety policies.
- There will be routine inspection by the supervisor to ensure that the right method and procedures are followed to reduce defections.
- KAABS Snails will make available fire alarms, extinguishers and smoke detectors to counter fire outbreaks.



### **5.2.2 Internal Risk Reduction**

In order for the company to manage its credit risk whose impacts can increase the cost and decrease the revenue of the business, causing eventual bankruptcy. The company will invest in information to obtain superior forecast of expected losses.

The management of risk is important in other to maximize shareholders wealth. These analyses are important because in the event of risk occurrences, both direct and indirect losses are observed, hence measures will be put in place to reduce risk exposure since it cannot be eliminated in any business undertaken and KAABSNAIL is no exception to this reality.



## 5.3.1 KAAB SNAIL COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 31ST DEC. 2012, 2013 AND 2014

<b>ASSETS:</b>	<b>2012</b>		<b>2013</b>		<b>2014</b>	
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
<b>NON-CURRENT ASSETS:</b>						
Property, Plant & Equipments		78250		78500		75750
<b>CURRENT ASSETS:</b>						
Inventories	3000		4700		5200	
Trade Receivables	10000		9000		8300	
Cash & Cash Equivalents	<u>29317</u>	<u>42317</u>	<u>59404</u>	<u>73104</u>	<u>107831</u>	<u>121331</u>
<b>TOTAL ASSETS</b>		<b><u>120567</u></b>		<b><u>151604</u></b>		<b><u>197081</u></b>
 <b><u>EQUITY AND LIABILITIES</u></b>						
<b>CAPITAL AND SURPLUSES:</b>						
Stated Capital		72000		72000		72000
Net Profit for the year		<u>0</u>		<u>22167</u>		<u>53627</u>
		72000		94167		125627
<b>NON-CURRENT</b>						
<b>LIABILITIES:</b>						
Interest bearing borrowing		35000		30000		25000
<b>CURRENT LIABILITIES:</b>						
Trade Payables	7267		21137		40154	
Interest on Loan	<u>6300</u>	<u>13567</u>	<u>6300</u>	<u>27437</u>	<u>6300</u>	<u>46454</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>178560</u></b>		<b><u>151604</u></b>		<b><u>197081</u></b>

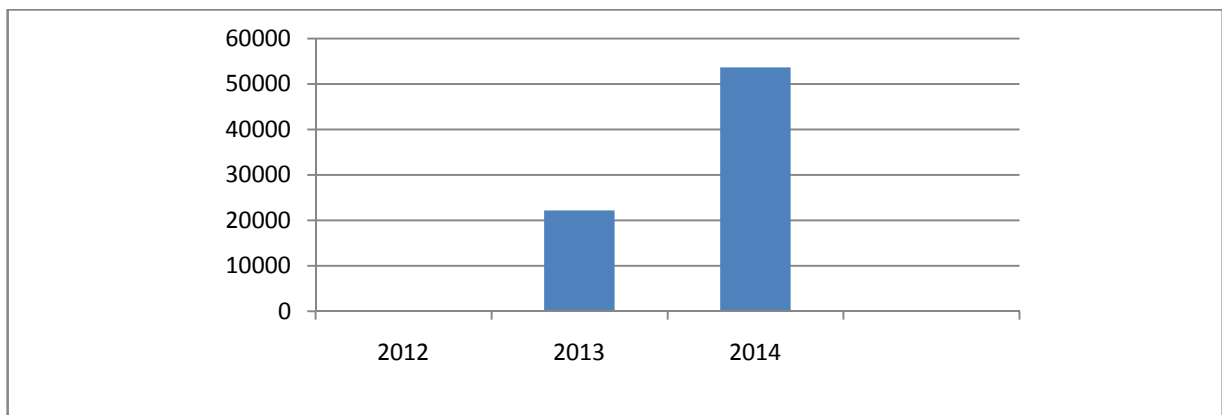


5.3.2 KAAB SNAIL COMPANY LTD;

PROFORMA STATEMENT OF INCOME FOR THE YEAR ENDED 31<sup>ST</sup> DEC. 2013, 2014 & 2015.

	2012	2013	2014
	GH¢	GH¢	GH¢
Turnover	269000	279000	309900
Cost of sales	<u>(137500)</u>	<u>(140500)</u>	<u>(135000)</u>
Gross profit c/d	131500	138500	174900
<u>Expenses:</u>			
Selling, Distribution & Adm.	(107960)	(92760)	(98500)
Other expenses	<u>(7367)</u>	<u>(7400)</u>	<u>(6600)</u>
Operating profit	18140	38340	69800
Financial charges	<u>(16173)</u>	<u>(16173)</u>	<u>(16173)</u>
Net profit for the year	<u>-</u>	<u>22167</u>	<u>53627</u>

PROFIT YEARLY (FIG 1.1)





**5.3.3 KABBS COMPANY LIMITED**

PROFORMA CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER.

	2012		2013		2014	
INFLOWS:	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Capital		72000		-		-
Turnover		<u>259000</u>		<u>270000</u>		<u>301600</u>
		331000		270000		301600
<b>OUTFLOWS:</b>						
Selling, Dist. & Adm.	99760		83740		85000	
Property, Plant & Equip.	78250		20000		20000	
Financial charges	16173		16173		16173	
Production cost	<u>107500</u>	<u>(301683)</u>	<u>120000</u>	<u>(235583)</u>	<u>132000</u>	<u>(253173)</u>
Net cash flow		<b>29317</b>		<b>30087</b>		<b>48427</b>
Cash b / d		<u>-</u>		<u>29317</u>		<u>59404</u>
Accumulated cash		<u><b>29317</b></u>		<u><b>59404</b></u>		<u><b>107831</b></u>

**5.3.4 BREAK-EVEN ANALYSIS**

(1) BEP in units=  $\frac{\text{fixed costs}}{\text{Contribution/units}}$

Contribution/units

Contribution= sales – variable costs

$269000 - 66237 = \text{GH¢}202763$

Therefore, c/units=  $202763 / 23800 = 8.5$





BEP in units=  $218053 / 8.5 = 25653$  units

(2) BEP in value=  $\frac{\text{fixed cost} * \text{selling price}}{\text{unit}}$

$\text{Contribution} / \text{unit}$

BEP in value=  $\frac{218053 * 11.3}{8.5}$

BEP in value= **GH¢289,882**

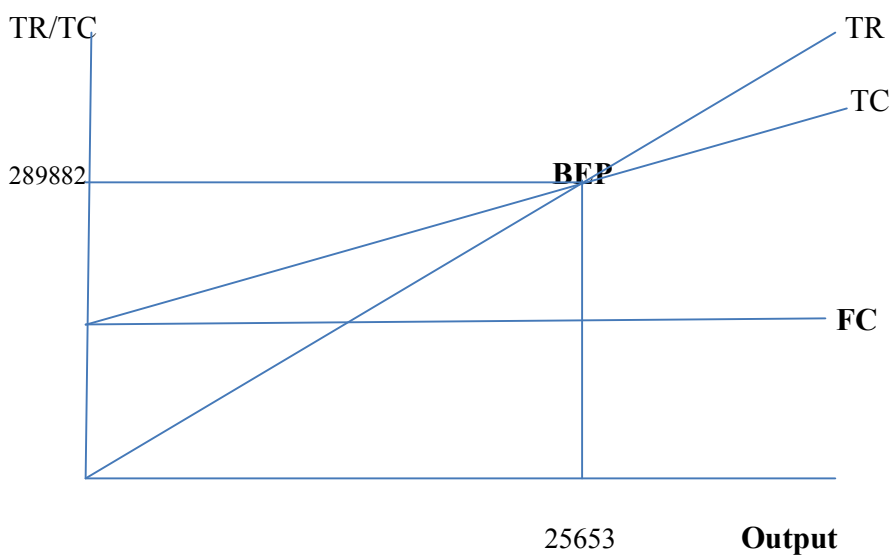
(3) BEP Month=  $\frac{\text{Total cost}}{\text{Total revenue}} * 12 \text{ Months}$

$\frac{284290}{269000} * 12 \text{ months}$

= **12.7 months**

The company will break even in the 11th month of its operation.

FIG 1.2





### 5.4.0 RATIO ANALYSIS

YEARS	CASH FLOWS	DISCOUNT (15%)	PRESENT VALUE
2012	29317	0.847	24831
2013	30087	0.718	21602
2014	48427	0.609	29492

Total present value= 24831+21602+29492= GH¢75925

(i) Net present value= Total present value – initial investment

75925 - 72000

**GH¢ 3925**

(ii) Return on Capital Employed= Operating profit / Capital employed \* 100%

2012= 18140 / 107000 \* 100%=**16.95%**

2013= 38340 / 124167 \* 100%=**30.88%**

2014= 69800 / 150627 \* 100%= **46.34%**

(iii) Net Profit margin= Operating Profit\* 100%

Turnover

2012= 18140 / 269000 \* 100%= **6.7%**

2013= 38340 / 279000 \* 100%= **13.7%**

2014= 69800 / 309900 \* 100%= **22.5%**



## APPENDIX

### NOTES TO THE ACCOUNTS

- (a) The accounts have been properly prepared in accordance with International Accounting Standards (IAS) & International Financial Reporting Standards (IFRS).
- (b) The company's financial statements have been prepared on historical costs basis.
- (c) The company will adopt a FIFO method and continuous stock valuation method.
- (d) Depreciation is to be charged at 20% on plant, 15% on delivery vehicle and 10% on office equipment. All on straight line.
- (e) Additional assets (Delivery vehicles) will be purchased in the preceding years. Thus 2014 & 2015.
- (f) The company expects to make 85% annual cash sales in 2012, 96.8% in 2014 and 100% in 2014 of its total sales.
- (g) The selling, distributive and administrative expenses will be increased by 7.54% from 2012 base on the additional allowances that will be provided to our workers.
- (h) The company's long term borrowings will be paid through 7 years of its operations at interest of 18% per annum.

**WORKINGS****(1) MANUFACTURING ACCOUNT**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
<u>Raw material</u>	GH¢	GH¢	GH¢
Opening inventory		5000	4700
Purchases	93420	92850	84150
Carriage inwards	500	530	600
Closing inventory	<u>(3000)</u>	<u>(4700)</u>	<u>(5200)</u>
Cost of material	90920	88680	84250
Direct labour	14400	14600	15000
Prime cost	105320	103280	99250
Production overheads:			
Lighting and heating	820	850	850
Depreciation – machinery	16000	16000	16000
Insurance	15000	15000	18500
General operating expenses	<u>360</u>	<u>370</u>	<u>400</u>
Cost of Sale	<b><u>137500</u></b>	<b><u>140500</u></b>	<b><u>135000</u></b>

**(2) COST PER UNIT PRODUCED**

PRODUCT	QUANTITY	UNIT COST	TOTAL COST
Large size	12800	GH¢ 13	GH¢ 66000
Small size	11000	GH¢ 6	GH¢ 166400



(3) ANNUAL SALES FORECAST

**Large size**

Years	Qty	Unit Price GH¢	Total Amount GH¢
2012	12800	15	192000
2013	13000	15	195000
2014	14500	15	217500

**Small size**

Years	Qty	Unit Price GH¢	Total Amount GH¢
2012	11000	7	77000
2013	12000	7	84000
2014	13200	7	92400

**Total Sales**

Years	Qty	Unit Price GH¢	Total Amount GH¢
2012	23800	11.3	269000
2013	25000	11.2	279000
2014	27700	11.2	309900



(4) FIXED COSTS

Insurance	15000
Registration fee	500
Rent	34000
Sample analysis	720
Machinery cost	80000
Office Equipment cost	15000
SSNIT	7533
Launching of product	2000
Advertising	7500
Salaries & Wages	<u>55800</u>
TOTAL FIXED COST	<u><b>218053</b></u>

(5) VARIABLE COSTS

Sales promotions	500
Discount allowed	550
Gen. Office expenses	1200
Lighting – office	640
Fuel	4300
Factory lighting & heating	820
Gen. Factory expenses	360



Cost of raw material	50000
Carriage inward	500
Other expenses	<u>7367</u>
TOTAL VARIABLE COST	<u><b>66237</b></u>

(6) SELLING, DISTRIBUTION & ADMINISTRATIVE EXP.

Product launching	2000
Advertising & promotion	7500
Fuel	4300
Discount allowed	550
Registration	500
Rent	34000
Sample test	720
Lighting	640
Salaries & Wages	55800
Gen. Office expenses	1200
Depreciation – equipment	<u>750</u>
	<u><b>107960</b></u>

(7) FINANCIAL CHARGES

Interest on loans	6300
SSNIT	<u>9873</u>
	<u><b>16173</b></u>

**(8) FIXED ASSETS SCHEDULE FOR 2012**

Cost	Plant & Machinery	Office Equipment	Total
As at 1 <sup>st</sup> March	80,000	15,000	95,000
Depreciation:			
Amount charged	<u>(16,000)</u>	<u>(750)</u>	<u>(16750)</u>
Net Book Value	<b><u>64,000</u></b>	<b><u>14250</u></b>	<b><u>78250</u></b>

**(9) FIXED ASSETS SCHEDULE FOR 2013**

Cost	Plant & Machinery	Office Equipment	Delivery van	Total
As at 1 <sup>st</sup> March	80,000	15,000	-	95,000
Additions	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
	<b><u>80,000</u></b>	<b><u>15,000</u></b>	<b><u>20,000</u></b>	<b><u>115,000</u></b>
<b>Depreciation:</b>				
At start	(16,000)	(750)	(-)	(16,750)
Amount charged	<u>(16000)</u>	<u>(750)</u>	<u>(3000)</u>	<u>(19750)</u>
	<b><u>32000</u></b>	<b><u>1500</u></b>	<b><u>3000</u></b>	<b><u>36500</u></b>
Net Book Value	<b><u>48,000</u></b>	<b><u>13500</u></b>	<b><u>17,000</u></b>	<b><u>78500</u></b>





(10) FIXED ASSETS SCHEDULE FOR 2014

Costs:	Plant & machinery.	Office Equipment	Delivery van	Total
At start	80000	15000	20000	115000
Additions	<u>-</u>	<u>-</u>	<u>20000</u>	<u>20000</u>
	80000	15000	40000	135000
Depreciation				
At start	32000	1500	3000	36500
Amount charged	16000	750	6000	22750
	<u>48000</u>	<u>2250</u>	<u>9000</u>	<u>59250</u>
N B V	<b><u>32000</u></b>	<b><u>12750</u></b>	<b><u>31000</u></b>	<b><u>75750</u></b>