



Salad Packaging

BUSINESS PLAN

LYONS & COYNE, INC.

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San Francisco, CA 87239

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Salad Ready is a pre-packaged, ready-to-eat salad created by a company seeking to fill the market desire for foods that are both convenient and healthy. This plan is an example of a company attempting to make an innovative food product available to larger markets .

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COMPANY OBJECTIVES

The aim of Lyons & Coyne, Inc. is to manufacture and market an innovative food product: a fresh and ready-to-eat leaf lettuce salad package.

The product Salad Ready will have wide appeal to a large variety of market segments nationwide, from consumers to the hotel, restaurant, and institutional markets. The strategy of Lyons & Coyne, however, is to build a consumer brand in successively larger segments of the market, region by region, and to build sales to H/R/I markets at the same time.

Profitability will be demonstrated in the first year of operation: cash flow will be generated in amounts that will permit extension of existing operations, and new regional market entries, in the first five projected years.

The firm's financial objective is to reach a point where stock can be offered publicly. The factors that make this possible are the size of the market, lead time of the company over competitors, and its dedication to stay ahead through an aggressive marketing strategy and a solid R&D program.



PRODUCT

Product Description

Salad Ready is a consumer food product — fresh, washed, bite-sized, detached leaves of leaf lettuce, contained in a sealed, transparent, polypropylene bag.

The product concept flows from the European culinary tradition of "salad" – a tasteful selection of appetizing and eye-appealing green leafy lettuces. These lettuces include romaine, radicchio, mache, etc.

The packaged version of this concept places it in the rapidly growing group of high-quality, premium-priced, convenience-based products which fit with the emerging American family and lifestyle.

- Variety of salad greens eliminates need to buy heads of several kinds of lettuces, mix portions of those heads, and store the unused portions
- Sustained freshness for at least five days if bag is maintained at proper temperature
- Ready-to-use - eliminates trimming, washing, drying and cutting the salad
- Pre-selection of highest quality green
- Maintenance of nutritional content through the retail cold-chain
- Hygienic protection of produce from dust, uncontrolled spraying spill-overs, or easy touching and tampering

Salad Ready is manufactured through an industrial process. The bag containing the lettuces is made of transparent polypropylene. Pressurized air is added to the pouch before sealing to allow vapor exchange and to protect leaves from being crushed or bruised.

The recommended shelf life varies between 5 and 20 days, depending on the quantity of lettuce involved, the combination of leaf lettuce types, and the quality of the customer's storage facilities.

The Salad Ready product line will include:

Contents

- The "combination" product (mixture of leaf lettuce types)
- The "single variety" product (single kind of leaf lettuce)

Sizes

- 1/2 lb. bag (11 × 9 inch bag) and 1/4 lb (8" × 6" bag) for the retail market
- 1 lb. and 5 lb. for the institutional market.

Proprietary Position

There is currently no similar product on the market in the U. S. Existing products that come closest to this product are quite different in content, containing compacted shredded vegetables or iceberg lettuce instead of loose-leaf vegetables. They also differ in appearance, sold in a cloudy package instead of transparent film.

Salad Ready-type products have been successfully marketed for five years in Switzerland, and were introduced only a year ago in France, where they have already taken one-third of the linear shelf space in the chain stores and supermarkets. (After only nine months of operation, the leading French company is currently under buyout negotiations for as much as four times its initial capitalization.)

The processing technology for Salad Ready, which was developed in Europe, falls in the realm of "trade secrets." Although there is no patent protection, the technology is proprietary and unique, based upon a combination of machines, including vegetable processing units as well as other food product processing



units ;a specific design for some of the machines; and a particular set of quality control methods.

However ingenious, the process remains relatively simple at first glance: raw material is trimmed and cored by hand; selected raw material is then mechanically and automatically cut, washed, rinsed, spin-dried, weighed and packaged. In fact, this proprietary process know-how is necessary to assure the distinctive high quality of the product and avoid production problems that lead to a deterioration of quality.

Lyons & Coyne, Inc. has secured the source of know-how via a license option granted by the leading French company manufacturing Salad Ready-type products.

Experience in Europe shows that Salad Ready know-how can be mastered only after a one-year learning curve. This will give the management of Lyons & Coyne, Inc. the time to close at least one one-to-two-year contract with a major chain store company before the competition comes in.

Product Potential

It is anticipated that as soon as operations begin, an R&D program will be instituted, conducting continuous consumer research to determine changes in public preference and market trends as they occur. Again, Salad Ready-type product experience in Europe shows that continuous product development is a necessity to stay ahead of competition and grow.

The relative simplicity of the technology and its production capacity flexibility permit quick and inexpensive adaptation of the process to new products. The product characteristics that could be modified in the course of business are:

Contents

- Mixture of lettuces
- Addition of other vegetables (radishes, mushrooms, olives, etc.)
- Addition of other loose ingredients (nuts, corn, etc.)
- Addition of other packaged products (salad dressing samples)

Packaging

- Dimensions
- Packaging material
- Graphics, labelling

Salad Ready has a high capacity for adaptation to regional differences, different market segmentation needs, and food consumption trends, because it can easily accommodate variations around its basic two-fold concept of freshness and convenience.

MARKET TRENDS AND POTENTIAL

Consumer Market Overview

All indications are that the U.S. market is poised for growth in the green, leafy lettuces category, and that salads are increasingly important as a component of everyday American diets.

Fresh fruits and vegetables are already the fastest growing category in U.S. supermarkets. This fact is propelled by the strong consumer trend to eat more fresh produce. Per capita fresh vegetable consumption in the United States (excluding potatoes) increased to a record 100.9 pounds in 1982, up from 89.1 pounds in 1972. According to the USDA, which tracks trends in the sale of specific vegetables, fresh lettuce consumption



increased 28% between 1962 and 1982.

Most of this lettuce consumption takes place in the form of salads, although some is used as garnish on sandwiches. A study done for Progressive Grocer Magazine in 1984, by Leo J. Shapiro Associates, polled American consumers at random about their salad usage. The results, which are projectible to the population at large, were:

- 21% are serving more salads
- 72% are serving the same number of salads
- 7% are serving fewer salads

Overall Market Size for Lettuces

We estimate that the overall lettuce market, including both iceberg, or "head," lettuce and green leafy lettuces is a \$2.5 billion market at retail, and a \$1.03 billion market at farm level. Of this, green leafy lettuces comprise roughly 20% of the retail market on a weight and value basis. (These figures do not include the imports of exotic and specialty lettuces such as radicchio and mache, which have been increasing.)

Consumer and Demographic Trends

The major consumer and demographic trends which play a key role in selection of food products are as follows:

- More women working outside of the home
- Smaller households requiring packaging of smaller portions
- Sophistication of consumers' eating habits (consumers are looking for high quality, more adventurous flavors, and new eating sensations)
- Consumer concern about fitness and health

—Source: *Food Processing Magazine*, 8/86

We believe that these trends are favorable to the success of a high-quality, premium-priced, convenience-based product like Salad Ready.

Leaf Lettuce Usage and Trends

American consumers are demanding a greater percentage of leaf lettuces in their diets vis-à-vis the traditional iceberg lettuce usage.

In a 1984 study done for the California Iceberg Lettuce Commission, consumer researchers found that almost 5 percent of the American public used leaf lettuce exclusively.

Current Lettuce Usage

- Leaf Lettuce Only—4%
- Iceberg and Leaf Lettuce—35%
- Iceberg only—61%

Although iceberg retains its strong hold in the supermarket basket, leaf lettuces already have loyal followers. We believe that this following is growing.

Type of Lettuce Most Preferred

- Iceberg Lettuce—78%



- Romaine—7%
- Red Leaf—3%
- Green Leaf—3%
- Bibb—2%
- Boston—2%
- Butter—1%
- Spinach—1%
- Endive—1%
- Don't Know/No Preference—2%

Demographics of Consumers and Purchasers

Although we believe that the demographics of leaf lettuce consumers are more up-scale than those of iceberg lettuce consumers, both are members of the "salad user" category.

Ninety-eight percent of all homes serve salads. "Heavy users" were identified in a 1984 study by the California Iceberg Lettuce Commission as differing from the household population in general by being middle aged, better educated, and more affluent.

Women represent four out of five daily salad consumers, and three out of four people who consume salad four to six times a week basis. In ethnic terms, whites are the heaviest salad consumers overall; 92% of those eating salads daily are white. Leaf lettuce purchasers are more upscale consumers than salad users as a whole.

Usage Patterns in Regional Markets

Higher salad consumption occurs in suburban and central city areas than in nonmetropolitan (rural) areas; this is a constant throughout our examination of regional markets.

Household usage of fresh lettuce is tracked by The Food Institute, which shows the following differences regionally:

Fresh Lettuce-Annual Average Household Usage

(Quantity per Household Per Week in Pounds)

- Northeast—1.22
- North Central—1.14
- South—0.89
- West—1.42
- Total U.S.—1.13

—Source: *"Facts in Food Consumption"*

The Food Institute, 4/85

Percentage of Households Using Lettuce - Annual Average

- Northeast—68.5%
- North Central—66.5%
- South—55.1%
- West—75.4%
- Total U.S.—65.1%

—Source: *Facts in Food Consumption*

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The Food Institute, 4/85

It can be seen that the West and Northeast consistently rank highest in terms of both usage patterns; pounds consumed and percentage of households using.

This regional pattern holds true for the percentage of consumers who have prior purchase experience with leaf lettuce:

Percentage of Consumers who have Purchased Leaf Lettuce

- Northeast–51.9%
- North Central–45.0%
- South–46.7% West–70.0%
- Total U.S.–51.8%

–Source: Vance Research/The Packer

Consumer attitude information by region is not currently available to us on salad or Salad Ready Products, but a working assumption is that consumers in the Northeast have more "refined palates" and sophisticated tastes than the nation as a whole, and that consumers in the Western states tend to enjoy fresh foods, particularly produce.

COMPETITION

DOLE Dole did some early testing in the prepared salad market, using their "Dole" label rather than "Bud." They test-marketed pre-cut vegetables in a plastic packet in the East and Northwest, but terminated the market tests. One product attempted was a salad mixture of primarily iceberg, with some added vegetables for color.

CAMPBELL Campbell entered the prepared salad market in 1984, with controlled-portion, pre-packaged salads of the pasta variety, under the brand "Fresh Chef Salads." These salads are sold in the dairy case; the product line includes 9 salads and 6 sauces. In March 1986, Campbell acquired Mrs. Giles Kitchens, Lynchburg, VA, a privately held company with 1985 sales of \$18 million, generated from 35 varieties of salads. In the branded produce category, Campbell has recently tested two varieties of exotic mushrooms in the eastern U S. and Chicago, and has also tested Campbell's Fresh brand asparagus in markets throughout the country.

KRAFT Kraft already has involvement in the salad business from the salad dressings category.

INTERHARVEST Interharvest reportedly entered retail markets in the East, Midwest, and West with a salad-bowl package containing an 8 oz. bowl of romaine, chicory, and a tomato on the top. To date we do not know whether this was a market test or a full-fledged continuing entry; however, consumers in the Western markets rejected this product.

ORVAL KENT Orval Kent Company, Wheeling, IL, is a \$100 million company in the prepared salad (non-lettuce) category. It sells under its "Signature" label, and has 23 varieties sold in bulk into the deli section. Their most recent product entry is an extension of the bulk salads — "Salad Singles" brand — which plans to go national with packaged individual portions of non-lettuce salads. Currently, the brand has 30% market coverage in Philadelphia, Los Angeles, New York, Chicago, Baltimore, and Washington, DC.

A strength for this company is an existing distribution network which reaches 90% of the deli sections in the US.

BLU RIDGE FARMS Blue Ridge Farms, Brooklyn, NY, is a \$55 million company in the bulk, prepared, non-lettuce salad business. It sells 102 varieties of salads into supermarket delicatessans.

CONTINENTAL SALAD PROCESSORS Continental Salad Processors, Los Angeles, CA is one of about seven "cutters" (companies serving the H/R/I market with pre-cut iceberg lettuce salad mixes) in Los Angeles.

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Pre-cut lettuce represents about 60% of their volume, pre-cut cabbage comprises about 20%, and the remainder is in such items as onions, celery, broccoli, carrots and zucchini. The company was founded in January 1986, and is headed by Dennis Edwards, formerly marketing manager at Ready Pac Produce, and Maurice Portnoy, formerly general production manager of the international division of DuPont. They sell primarily to jobbers and distributors, who in turn supply restaurants and hotels.

PRE-PAK Pre-Pak, Sacramento, CA, has been in the packaged vegetable business for 10 years, and have recently expanded operations to include regular fresh produce merchandising and delivery. Their primary markets for packaged pre-cut iceberg lettuce are the H/R/I markets. Their marketing area is California, north of Fresno.

CUT-N-READY Cut-N-Ready, East Bay, CA, was, at one time, a producer of specialty pre-cut iceberg-based mixes for mostly-institutional markets, and was owned by DelMonte. It was bought back by the founders and is rumored to be in bankruptcy.

CROSSET & CO. Crosset & Co., Cincinnati, OH, is reputed to be the biggest producer of salad in 4-5 states. They produce both 8 oz. and institutional sizes.

GRAND UNION Grand Union is reportedly importing 1000 packs of Salad Ready product from France weekly. This program just began, and the results are yet to be documented.

Strengths Against Competition of Lyons & Coyne, Inc.

Lyons & Coyne, Inc. will have the following advantages against competition:

- flexibility to make a quick start
- attention to continuous quality control
- a fresh start: no assumption by existing customers that the product is iceberg-based.

Competitors' Likely Market Share

Lyons & Coyne, Inc. will enjoy a time advantage against the competition of approximately 9 months in terms of ability to backwards engineer the process and know-how. However, we believe that this lead-time will protect the company from substantial competition for up to three years. We anticipate having a 60% market share after three years.

MARKETING STRATEGY

Product Characteristics and Product Mix

The initial products offered by Lyons & Coyne, Inc. will be:

Content

- A mixture of lettuces
- One single type of leaf lettuce

Package Size

- 8 oz. consumer pack
- 4 oz. consumer pack
- Institutional packs in sizes from 16 oz. to 5 lb.



All products will share the following characteristics:

- High eye appeal
- Pieces sized to consumer preference
- Long shelf-life (5-20 days)
- Branded
- Transparent polypropylene bag as packaging material
- Competitively priced with bulk, but with a value added price premium for convenience

PRICE

FOB prices will be set with three objectives in mind:

1. The price will be right in order to penetrate the market
2. The price should always cover the costs of production
3. The price should allow for profitability

Product cost will not vary greatly with size of package, since the form-fill-seal machinery has maximum speed regardless of size. Thus, price will decrease with volume of production. We estimate that the experience curve effect will allow a decrease of cost of 20% when sales volume doubles.

Allowing for 15% profit before taxes, the FOB price will be:

	12,000/day	24,000/day
8 oz packet	\$0.93	\$0.83
4 oz packet	\$0.83	\$0.66
	12,000/day	24,000/day
8 oz packet	\$0.93	\$0.83
4 oz packet	\$0.83	\$0.66

FOB price will be adjusted every week in order to take into account daily variations in the price of the raw material (raw materials account for 20% of product cost).

Lyons & Coyne, Inc. pricing policy will be flexible enough to maintain market position once competition arrives. This will be done by providing for better quality and extra features without necessitating dramatic price reductions which may jeopardize "positioning" as a high quality product.

MARKET SELECTION AND ROLL-OUT FOR SALAD READY PRODUCTS

Geographic Market Selection

The market entry strategy is to enter regional markets progressively. San Francisco is seen as the first entry market due to its closeness to produce suppliers in the year-round Salinas growing area. San Francisco also has the demographic/up-scale profile of a Salad Ready-accepting market.

Other Markets — Export

Lyons & Coyne, Inc. intends to explore the possibility of export to Asian markets, particularly Japan. The current unfavorable export climate caused by the strong US dollar may impede rapid development of Pacific Rim markets, but several California produce brokerages have begun to offer lettuce to Pacific Rim customers.



Other Products

Lyons & Coyne, Inc. anticipates that it will add other products to its offerings.

We also believe that we may gain a revenue source by offering to serve as a sampling medium for salad dressing companies that wish to encourage trial of new products by salad companies.

Promotional Programs and Costs

Lyons & Coyne, Inc. intends to begin with an initial promotional budget of 5% of sales. This is in line with advertising-to-sales ratios reported in the preserved fruits category by Advertising Age magazine.

Brand-building activities will include:

- In-store demonstrations
- Public relations activities
- Point-of-purchase materials (especially important since many shop pers buy produce items on impulse)
- Cooperative advertising with grocers

OPERATIONS AND MANAGEMENT

Location

The first facility will be established close to the San Francisco Bay Area market (either South Bay or East Bay). The proximity of the Salinas-Watsonville supply region will be a cost-reducing factor. A specific sity will be chosed by focusing on the following issues: wage rates, labor unions, access to transportation, taxes, and county inspections.

Facilities

The business requires a 1.5 acre industrial site with a covered space of 10,000 sq.ft.:

- 4,000 sq.ft. for production itself (cold room)
- 4,000 sq.ft. storage for raw material and final product (cold room)
- 2,000 sq.ft. office

Open and remaining land comprises:

- 30,000 sq.ft. receiving-shipping area
- 10,000 sq.ft. for future production-area extension

There are two ways of securing the facility:

- Lease an existing unused facility (vegetable processing plan, dairy, etc.); improve it; bring in equipment
- Rent production space from a packer and bring in only specific equipment

Both options will be explored in the development stage.

For the present financial forecast, we have assumed that we will be leasing an existing unused facility. Cost estimates are:

Site improvement	\$100,000
Facility leasing	\$9,500/mo

Site improvement \$100,000

Facility leasing \$9,500/mo



MANUFACTURING PROCESS

Production Line

One production line consists of the following items:

- 1 preparation table with conveyors (operated by 16 people): raw leaf lettuce heads are trimmed and cored by hand
- 1 water chiller: to maintain wash water at low temperature
- 1 automatic cutter: selected raw material is cut to required size
- 2 automatic washers: one to wash cut leaves in agitated water; one to wash and rinse cut leaves
- 5 spin dryers (operated by two people): cut leaves are dried
- 1 dumper: cut leaves return to original shape
- 1 electronic scale: cut leaves are weighed in lots
- 2 automated fill-form & seal machines: cut leaves are packaged in air-filled sealed bags
- 1 automated carton packing machine: bags are put in cartons
- 8 transfer conveyors: product is transferred from each one of above units to the next

Total acquisition cost for the equipment is \$420,000 (FOB). It is anticipated that all equipment will be leased. Cost estimates involved are the following:

❑ Equipment leasing cost	\$16,000/mo
❑ Utilities	\$3,640/mo
❑ Maintenance	\$1,500/mo

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❑ Utilities	\$3,640/mo
❑ Maintenance	\$1,500/mo

Labor

A shift that operates an eight-hour schedule at full capacity will comprise 18 people working on the production line and two people loading and unloading supplies and final product cartons. A shift is supervised by 1.5 technicians. Cost estimates are based on conservative figures for Monterey County, where labor is heavily unionized (\$7.25/hour and 30% benefits).

❑ Unskilled labor	\$35,200/month	(20 people and benefits)
❑ Supervision	\$3,250/month	(1.5 person and benefits)

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Raw Materials

Raw materials used in the manufacturing process comprise:

- Leaf lettuce in bulk, for which cost variations have both high frequency and high range. For financial projections, an average cost of \$.408/lb FOB has been assumed. Bulk lettuce will be purchased daily from wholesalers and from growershippers. Transportation costs by truck are estimated at \$6,600/mo. Storage in cold chambers should last on the average of one day. Seasonality may lead exceptionally to a five-day storage time.
- Polypropylene film, for which the cost of printed film has been estimated at \$.047 per 1/2 lb. pack. A 10- to 20-day inventory is to be maintained.
- Cartons, at an estimated cost of \$.032 per 1 lb pack. A 10-day inventory is to be maintained.



Cost of Sales Breakdown

Financial productions for this business plan are based on one Salad Ready product defined as:

Net weight: 1/2 lb
Content:

romaine	30%
escarole	35%
endive	30%
radicchio	5%

Net weight: 1/2 lb

Content:

romaine	30%
escarole	35%
endive	30%
radicchio	5%

Cost per pack	1 shift	2 shifts
Materials		
Raw FOB	.204	.204
Transportation	.025	.025
Film	.025	.025
Printing	.022	.022
Cartons	.031	.031
Labor		
Unskilled	.134	.134
Skilled	.012	.012
Overhead		
Building	.200	.200
Add. Land	.015	.008
Equipment	.061	.030
Utilities	.014	.007
Maintenance	.006	.003
Cost of Sales	.569	.511

Cost per pack 1 shift 2 shifts

Materials

Raw FOB	.204	.204
Transportation	.025	.025
Film	.025	.025
Printing	.022	.022
Cartons	.031	.031

Labor

Unskilled	.134	.134
Skilled	.012	.012

Overhead

Building	.200	.200
Add. Land	.015	.008
Equipment	.061	.030
Utilities	.014	.007
Maintenance	.006	.003
Cost of Sales	.569	.511



SALES AND MANAGEMENT

Sales

Sales will be managed through one or more brokers. The brokers will be responsible for getting daily orders from store buyers, and for arranging pickup and distribution.

Sales expenses, including broker commissions, promotion, and administration, but excluding the Sales Manager's salary, are estimated at the rate of 15% of sales.

Management

The management team consists of four key positions:

- **General Manager** Responsible for achieving projected growth. This person is the overall supervisor of all operations and is in charge of R&D, marketing, finance, and personnel.
- **Production Manager** Directs plant operations and maintenance; manages production and quality control. The production manager proposes and implements all necessary equipment and labor changes to meet the volumes, costs, and standards planned.
- **Sales Manager** Negotiates brokers' contracts, follows up on orders; organizes customer service. The tasks of the Sales Manager include promotion and demonstration implementation.
- **Purchasing Manager** Negotiates on a day-to-day, and possibly contractual, basis with grower-shippers and wholesalers. The purchasing manager is responsible for ordering the quality and quantity of raw material necessary to meet orders and standards.

The team will be assisted in the start-up stage and in the early production stage, by the CEO of the company licensing to Lyons & Coyne, Inc. the know-how as a trade secret. As part of the licensing agreement, this executive will train the General Manager and the Production Manager and will advise management as principal consultant.

Selling and Administrative Costs

For purposes of projecting financial data, the following estimates have been selected:

Salaries = \$11,500 and 30% benefits

General Manager.....\$5,000/mo
 Prod. Manager.....\$3,500/mo
 Sales Manager.....\$3,000/mo (1/2 time)
 Purch. Manager.....\$3,000/mo (1/2 time)
 Office Expenses.....\$700/mo
 Sales Expenses.....15% of sales

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General Manager \$5,000/mo
 Prod. Manager \$3,500/mo
 Sales Manager \$3,000/mo (1/2 time)
 Purch. Manager \$3,000/mo (1/2 time)
 Office Expenses \$700/mo
 Sales Expenses 15% of sales

Cost per pack	1 shift	2 shifts
Sales Expenses	.094	.094
Promotion	.047	.047
Salaries	.057	.028
Office Expenses	.002	.002
Total Sales & Admin	.200	.171



<i>Cost per pack</i>	<i>1 shift</i>	<i>2 shifts</i>
Sales Expenses	.094	.094
Promotion	.047	.047
Salaries	.057	.028
Office Expenses	.002	.002
Total Sales & Admin	.200	.171

Inception Team

Founders of Lyons & Coyne, Inc. are:

Michael Lyons, mechanical engineer and financial manager; Palo Alto, CA

Mary Coyne, medical nutritionist and marketing trainee; Palo Alto, CA

The founders have added to their venture:

Barbara Keck, management and marketing consultant, President of Keck & Co., Inc., Business Consultants; Atherton, CA

Jim Cloyd, future production manager, previously production manager with Bill Cloyd's Shredded Lettuce Plant; Salinas, CA

Sylvain Darnay, as principal consultant; CEO of Salagastronomie, the leading French Company for Salad Ready-type products; Paris, France

Design and Development Plans

Before the product is ready to be manufactured and placed on the market, several steps are required. Listed below, they are scheduled over a three-month period.

Package Design Phase No. 1

Preliminary to consumer research:

Following are the stages of this task: investigate packages currently used; identify graphic elements supporting marketing concepts; design three options for each marketing concept; check with consumer focus groups; select and refine design. The direct cost of package design is \$3,000

Consumer Research

As of today, a survey of secondary buyers (store buyers) has been conducted. End-consumer reactions to the product have to be checked formally: who will buy? at what price? in what packaging? where in the store? how will they use the product? etc. Quantitative and qualitative methods will be used.

Qualitative method: Consumer focus groups (1 in Bay area; 1 in Los Angeles; 1 in New York). Direct cost is \$6,600.

Quantitative method: Mall intercepts survey (6 malls in Bay area); 50 people interviewed. Direct cost is \$12,000.

The two methods require actual sample product to be presented and tested by people interviewed. Two hundred bags will have to be imported. Direct cost of sample import is \$1,000.

Brand-building efforts are envisioned as a result of this research. Size of the market will be derived from this research as well.

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Trade Secret Transfer Agreement Preparation

Preliminary agreement between the French company that currently exploits the product process and Lyons & Coyne, Inc. has to be developed into a documented form and program that can be transferred later. Thorough description and documentation of the process has to be done, training program must be defined, and consultancy must be determined and valued. Direct cost is \$4,000.

Plant Engineering Design and Installation and Operational Costs Study

Once a location has been selected, it will be necessary to evaluate how to improve the costs of supplementary equipment installation required by the manufacturing process. Operational cost will be refined as well.

Preliminary design for contractor bids will be drawn from this study as well as investment figures for start up. Direct cost for the plant engineering study is \$12,000.

Incorporation

To secure proper financing rounds and stockholder structure, Lyons & Coyne, Inc. will have to be incorporated. State fees and legal fees will cover structure optimization research and administrative registration. The direct cost of incorporation is \$2,000.

FINANCIAL PLAN

Extensive sensitivity analysis will have to be performed, with feedback from consumer research, an engineering study, transfer agreement preparation, and brand-building (advertising effort) design, with the variables being price, cost, sales volume, and preliminary investment.

Pro forma income statements, cash flow analysis, and a balance sheet will be produced. Also, the structure of the next financial round will be proposed. The direct cost of financial plan is \$7,000.

OTHER TASKS AND OVERALL COORDINATION

Principals of Lyons & Coyne, Inc. will perform the following tasks, and they will provide coordination, supervision, and management of the development stage.

Trade secret agreement.....	\$8,000
Supply plan.....	\$4,000
Equipment plan.....	\$4,000
Plant site selection.....	\$4,000
Institutional mkt analysis.....	\$6,000
Distribution plan.....	\$8,000
Coordination, management.....	\$27,000
<i>Subtotal.....</i>	<i>\$61,000</i>
Total Capital Expenditure for Development Stage.....	\$108,600

Trade secret agreement	\$8,000
Supply plan	\$4,000
Equipment plan	\$4,000
Plant site selection	\$4,000
Institutional mkt analysis	\$6,000
Distribution plan	\$8,000
Coordination, management	\$27,000
<i>Subtotal</i>	<i>\$61,000</i>
Total Capital Expenditure for Development Stage	\$108,600



CRITICAL RISKS: COMPANY RESPONSE

The major risks of this business venture are listed below, along with an outline of how the management of Lyons & Coyne, Inc. is planning to react if the risks materialize.

Competitor Starts Marketing its Product Before Lyons & Coyne, Inc.

We will buy the competitor's product and test it for quality, freshness, and shelf life. We will then make results available to store buyers and consumer groups. Meanwhile, we will prepare to enter this market with better standards than the competitor, making any necessary modification of our production line quality control measures.

We may also enter markets where competition already exists with products significantly differentiated from the competitive product. This may require us to replace packaging materials or graphics, or modify our mix of lettuces.

A delicate balance must be maintained between pushing for market share (since this may bring in qualified competitors who then set standards not compatible with our own, but with products at a loss-leader price), and being "second-in" (in order to benefit from the experience and mistakes of competitors).

Price Cutting by Competitors

The price of our product will be sustained or even increased. Value will be added with more expensive and exotic types of raw materials and complimentary items (salad dressing samples, aromatic herb packs, etc.).

Poor Quality Marketed by Competitors

Advertising, promotion, and demonstration techniques will be used to ensure that consumers differentiate our company's product from others.

Difficulties Encountered in the Supply of Raw Materials

If domestic supplies of common types of lettuce cannot be met economically, because of bad weather, strikes, etc., raw materials will be purchased through import wholesalers and brokers. The price will be revised accordingly and accepted because of efficient previous market penetration.

Larger-Than-Expected Innovation and Development Costs to Stay Competitive

The development plan will be re-evaluated, and, if appropriate, the partnership will be opened to another financing round.