

Good business plan on company background

[Business](#), [Company](#)



Agroland is a family owned agribusiness based in Cairo, Egypt. The business was established in 1995 by AbouSamra as tomato and cucumber distributing and exporting firm. The business started with one production plant processing about 50 tons of tomatoes and cucumbers per day. In the year 2,000, the business started to register profits and positive growth. It diversified into other agricultural businesses such as the selling of farm tools and nutrients used grow exotic plants and fruits. The firm also upgraded its processing capacity to 300 tons per day. In 2003, the business performance began to decline due to competition. Many distributors who were not happy with the growth of Agroland and its market share ventured into tomatoes and cucumber distribution and export business. As a result, the Agroland's profitability margin began to shrink. At the same time the firm was experiencing managerial challenges because no family member was available to manage the business. The proprietor had ventured into hospitality and tourism business that was very profitable by then. Consequently, AbouSamra shut down Agroland. Towards the end of 2011, the tourism industry experienced low performance because of the Arab Spring that had also affected Egypt. However, the crisis had little impacts on agribusinesses. Hence, the proprietor decided to revive the business.

Agricultural Sector in Egypt

Egypt has a total land area of 995, 500 square kilometers. The total agricultural land in 2011 according to FAO was 36, 650 square kilometers (3.68% of the total area). There has been an increase in agricultural land by 38% from 1990s. Of the total agricultural land, 28, 700 square kilometers (2.88% of total area) was classified as arable land by FAO in 2011. According to

the World Bank, the total arable land in Egypt has been declining since 2009. About 29 in every 1000 ha of cultivated land in Egypt are merchandised. According to Food and Agriculture organization, every hectare used for crop production in Egypt generated \$ 4, 495. The cultivated areas is mostly found in around Nile valley and delta.

Agriculture is a very critical sector in Egypt's economy. In 2012, agriculture's share of Egypt's gross domestic product stood at 14%. In 2009, 2010 and 2011, the agriculture's contribution to GDP was 14%, 14% and 15% respectively. According to the World Bank, agricultural sector accounted for approximately 29% of the total employment in Egypt in the year 2011. The percentage of total employment in agriculture in the year 2007, 2008, 2009 and 2010 were 31%, 32%, 30% and 28% respectively. The agricultural labor productivity has been increasing since 2009 according to the World Bank. The agricultural values added per worker were \$ 2, 158 \$ 2, 237, \$ 2, 320 and \$ 2, 408 in 2009, 2010, 2011 and 2012 respectively.

The Egypt's total agricultural production in 2011 was valued at \$ 23. 9 billion. The agricultural production increased by the smallest margin (1. 39%) between 2007 and 2012 partly because of the political crisis that began in 2011. The sector grew by 4. 7% between 2002 and 2007. In 2012, agricultural production injected \$23. 9 billion into the economy of Egypt. Crop production accounted for 99% (\$23. 7 billion) of the total agricultural production. The top produced crops by value in 2012 were (\$ 3. 19 billion), rice (\$ 1. 57 billion), grapes (\$0. 79 billion), wheat (\$ 0. 76 billion) and date (\$ 0. 75 billion).

The total cultivated land in Egypt is approximately 8. 5 million feddans (35,

700 square kilometers). Through vertical cultivation, Egyptians have managed to add about 6.2 million feddans to the total crop area. The crop production is fully dependent on irrigation except in region around Mediterranean coast that experience high annual average rainfall of between 60mm and 190mm. The region around Nile with yearly mean rainfall of between 25mm and 60mm rely on the Nile water for farming. The top large scale crops grown in Egypt in 2012 were wheat (3,048,000 feddans), maize (1,670,000 feddans) and rice (1,095,000 feddans) (Central Bank of Egypt). The top crops produced in 2012 were sugarcane (16,500,000 t), sugar beet (9,126,058 t), wheat (8,795,483 t), tomatoes (8,625,119 t), maize (8,093,646 t) and paddy rice (5,911,086 t).

Since the revolution in 1952, Egyptian government has initiated and completed major agricultural projects aimed at enlarging area under cultivation, boosting crop production and promoting sustainable agriculture. The most notable project that continues to have great impacts is the building of Aswan High Dam in 1960s that created Lake Nasser whose waters are used for irrigation in the country. The recent projects include Toshka that is meant to create a new delta (0.54 million feddans) for crop cultivation in the south of Western Desert. The other projects are Al Salam canal (0.62 million feddans) and East Uwaiynat (0.25 million feddans) (“State Information Service Agriculture”).

Agriculture is a key revenue source that contributes close to 20% of commodity export. Egypt’s top 2011 agricultural export by value are oranges (\$0.538 billion), cotton lint (\$0.264 billion), refined sugar (\$0.258 billion), cheese (\$0.256 billion) and potatoes (\$0.251 billion). The country also

imports significant amount of agricultural products. The top 2011 agricultural imports included wheat (\$ 3. 20 billion), maize (\$ 2. 18 billion), soya beans (\$0. 94 billion), palm oil (\$ 0. 86 billion) and sugar raw centrifugal (0. 80 billion).

Vegetables are one of the most important crops cultivated in Egypt. It is estimated that vegetables are grown on 1, 903, 000 feddans of land in Egypt. In 2012 according to the Central Bank of Egypt, the country produced 24, 611, 000 tons of vegetables. The average productivity of vegetable during the same year was 11. 305 per feddan. Tomato alone is planted on about 3% of Egypt's cultivated area (" Food and Agriculture Organization"). It is the most important vegetable in Egypt planted in autumn, summer and winter. However, the crop is also the most vulnerable to diseases that include nematodes, blight and leaf curl virus. According to the United Nations Conference on Trade and Development, Egypt produced 10, 000, 000 tons of tomatoes in 2009 compared to 9, 204, 000 tons in 2008. On the other hand, the production of cucumber was 962, 083 tons in 2011 (Shehata et al 108).

The tomatoes and cucumber business in Egypt is confronted with a number of challenges that must be tackled by Agroland company. Today, there are many companies involved in the business compared to 10 years ago when the company began operation. Consequently, the profitability has declined owing to stiff competition. Moreover, cucumbers and tomatoes are perishable produce that must be transported to the processing plant within few hours to avoid losses. Hence, there are great logistical challenges associated with the business. Again, the Egyptian processed tomato products

are competing with similar products from countries such as Turkey, Israel, Italy and China. The intense competition in the export market demands for enhanced competitiveness driven by new business strategy that is geared towards enhancing value addition, innovation, reducing production cost and improving quality.

Agroland intends to install and commission a new processing plant that use new advanced technology. The new processing shall have an increased production capacity (25%) and high energy efficiency (70%). The new plant shall have a processing capacity of 4, 000 of 400 grams per shift of 8 hours. It is estimated that the company shall make a \$ 110 energy savings per month. Apart from new processing plant, the company shall install 1000 refrigerator tons of processed tomato and cucumber products. The company shall also employ very highly qualified staff to promote productivity and quality.

Financials

Income statement

The business revenue is projected to grow by 51% from \$ 914, 223 in 2014 to \$ 1, 378, 000 in 2018. It is expected that the operating expenses during the first year of operation shall higher than the second year because of huge financial allocations to sales and marketing and research and development. The firm's expenses are also projected to rise from 2014 to 2014 due to increase in wages and fuel prices. Moreover, the business is expected to begin making profit in the second year (2015). The profitability shall be maintained by increasing revenue.

Balance sheet

The business current asset is projected to increase by 25% from \$ 859, 035 in 2014 to \$ 1, 074, 086 in 2018. The fixed asset is also expected to grow by 4. 2% while the current liabilities shall reduce by 26. 0% within 5 years of operation. Moreover, the owner's equity is also projected to increase by 22. 5%.

Cash flow statement

The net cash flow from operating activities is expected to increase as the sales increase and business reduces expenses on marketing and research. Moreover, the net cash flow from investing activities is also projected to increase as the investment begins to pay off. Again, the net cash flow is projected to increase as the business venture into new markets and begin to gain from capital investments.

Profitability Ratios

The net profit margin is projected to rise to about 20% by the year 2018. The return on assets is projected to remain within 8% margin. The low rate of returns is an indication that pomegranates distribution and exporting business are capital intensive. Moreover, the rate of equity is also expected to increase as the net income increases.

Start Up Cost

Net Present Value

$$NPV = C_0 + \frac{C_t}{1+r} + \frac{C_{t+1}}{(1+r)^2} + \dots + \frac{C_n}{(1+r)^n}$$

The discounted rate = 8%

$$NPV = -567, 800 + 580, 964$$

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The Agroland business is worth starting because NPV is > 0

Internal Rate of Return

The IRR = 9.8%

NPV = -567,800 - 567,768

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