

Delivering affordable necessities

The Mobile-Global Food Network



2009 Global Enterprise Experience
Concept Business Proposal

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Executive Summary

The Mobile-Global Food Network (MGF) will address the food cost problem that exists in Kyrgyzstan. This proposal is adapted from the ideas of Swiss entrepreneur Gottlieb Duttweiler. "His life's work consisted of pioneering achievements. In 1925, he founded Migros, a limited company with a revolutionary concept: it was the first retailer to sell articles of everyday use direct to consumers, bypassing the wholesale trade. In 1941, Duttweiler transformed Migros into a cooperative society and transferred ownership to the customers" (<http://www.gdi.ch/en>). Our concept is different because our motivation is on the delivery aspect – reaching every customer in need. Duttweiler started with five trucks that acted as mobile stores. Once his company was established he abandoned the mobile aspect. Although, we plan to also have retail store eventually, we will continue to focus on the mobile delivery service.

MGF will initiate this program in Kyrgyzstan because of the immediate need. Once it is established and has a profit base, we will expand to other areas. It will start by offering just six products that are in high demand: flour, sugar, macaronis, rice, vegetable oil, and beans. We will offer these products at a considerable discount in comparison to other venues. Bulk goods will be repackaged using material that is environmentally friendly.

A fleet of trucks will be used to transport the products to hub locations. Once the products reach hub locations they can be broken down and repackaged using material that is environmentally friendly. For those that are able, products can be purchased from the hub stations directly. For the disabled and the more remote villages, vans will be stocked and driven to the people in need

Description of Present Situation

General information about the Kyrgyz Republic

Kyrgyzstan is a small mountainous country located in Central Asia. It was part of Soviet Union from 1919-1991, and then became independent. Despite the rich natural resources, vast areas for agriculture, the country is still considered very poor. GDP per capita is estimated as \$ 2000 in 2008, placing this country in the 175th place among 225 countries.

Picture 1. Map of Kyrgyzstan



Difficulties for students and pensioners

The inflation rate in 2008 was 12% officially, the unofficial price rise for necessity products was as high as 100%. The pensions, salaries, and stipends for students were not adjusted to growing prices for food.

According to National Statistics of Kyrgyz Republic there are 529, 000 pensioners in 2008, 17,016,000 students and people who receive social allowances due to monthly allowances to disabled children and adults, loss of supporter, single mothers, orphans living on custody. The Table 1 shows how pensioners' allowances are scarce for them to maintain minimum level of consumption.

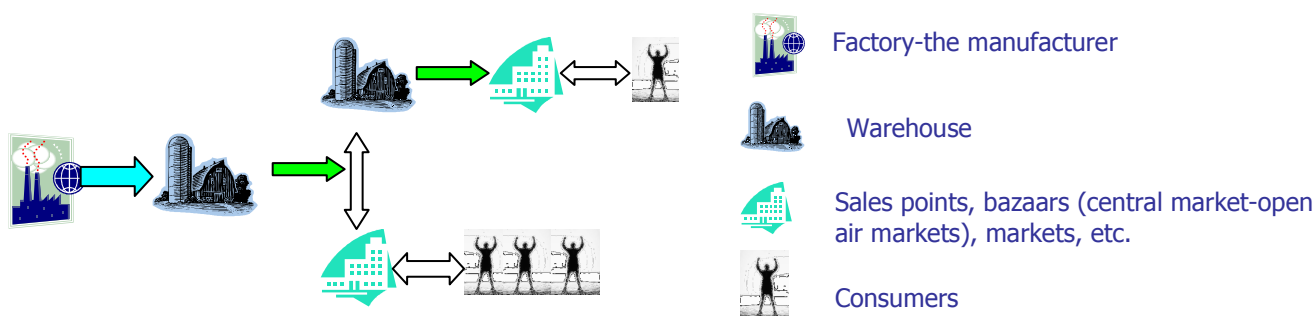
Table 1. Pensions, consumption budgets and its ratio (currency-Soms, \$US1=40 soms)

	2004	2005	2006	2007
Min size of monthly pension payment	714,0	775,0	906,0	1120
Min size of consumption budget	1725,93	1836,63	2377,24	2795,88
Pensioners' min size of consumption budget	1395,57	1492,94	2084,521	2435,62

The products of first need such as flour, sugar, macaronis, rice, salt, and pod bearing products are heavily overprized in Central Markets and supermarkets chain such as "Narodnyi" (from rus. "People's"), due to several middle men and costs such as salary for salesmen, renting and taxes. Even though central markets have comparatively lower prices, they are situated in only one place in certain towns making it impossible or extremely hard for pensioners to travel and carry bags with products.

Situation remains desperate with 35% of population having consumption budget below the level of poverty. 23% of them live in urban regions, and 41% - in rural areas. Their average amount of allowance is as few as 187, which is not even enough for cost of 3 days living.

Picture 2. Current schematic pricing



Solution - Mobile Shop Trucks

Why Kyrgyzstan?

We chose Kyrgyzstan because it is a region that has many poor people that are sensitive to shifts in inflation. Our business plan hopes to address the food cost problem that exists in this region.

Main idea

Our business concept proposes cutting the prices for 6 items, things of first need, by purchasing those products directly from factories in large amounts and selling them for up to 40% cheaper for pensioners, poor families, students and children both in urban and rural areas. As there are many middle men in between product and its final destination to customer, our project will significantly reduce the prices for food. Trucks with built-in containers will deliver the following non-perishable goods: flour, vegetable oil, macaroni, sugar, rice and pod-bearing products (buckwheat, beans, etc).

Where?

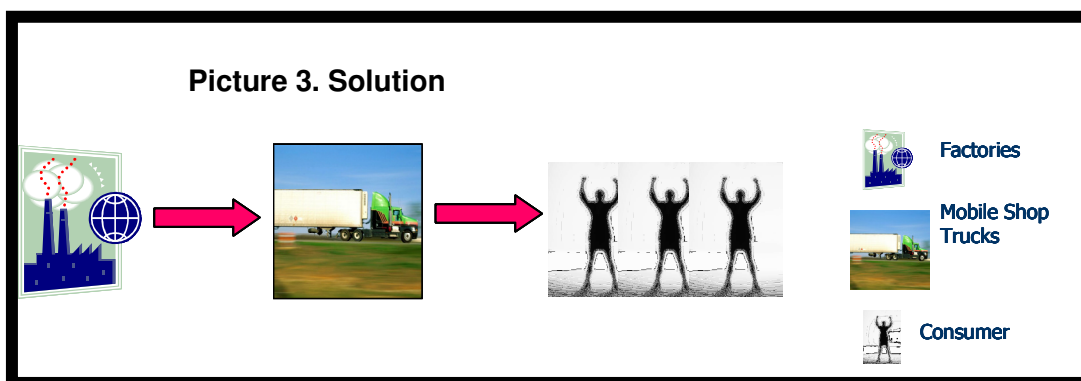
MGF will buy large amounts of the products mentioned above from manufacturers in Russia, Kazakhstan, and China. We will institute a web of contacts that work together to offer food at a lower cost from China, Russia and Kazakhstan. We will buy in bulk from most efficient companies that offer the lowest price.

How?

Food will be packaged in those factories using material that is environmentally friendly and that will be required to be returned. Thus, all packaging will be recyclable. A fleet of trucks will be used to transport the products to hub locations such as apartment housing blocks (typical in all Kyrgyzstan towns). From there vans will continue to more remote sections of the countryside. We must consider that the transport in Kyrgyzstan is severely constrained by the country's alpine topography. Roads are subject to frequent mud slides and snow avalanches. Winter travel is close to impossible in many of the more remote and high-altitude regions. Horses are still a much used transport option, especially in rural and inaccessible areas, as it

does not depend on imported fuel

Picture 3. Solution



As 35% of the whole population lives in urban areas, our project will cover firstly major towns and then eventually therural areas. There are 7 oblasts (regions)

in Kyrgyzstan, majority of population being concentrated in main towns.

Competitors and Comparative Advantage

„Narodnyi“ (rus. „People’s“) Markets

Trade house “Narodnyi” is the biggest self- service chain of food retail in Kyrgyzstan. Trade- retail stores “Narodnyi” opened its first stores in Bishkek in 2002 and since then been rapidly expanding. In 2004 it consisted of 16 stores, and also established some more in other towns. At the moment it has 41 stores located in Bishkek, Kant, Kara-Balta, Tokmak, Osh and Jalalabat. It ensure with job more than 2500 citizens. Nowadays, chain store “Narodnyi” is a leader in food industry of modern type; it is actively expanding and strives for quality service. Unlike central market, the products are overprized but due to clean, relaxing atmosphere, convenient location, it is very popular among middle and higher income households. But when it comes to fruit and vegetables, central markets are much more popular among all levels of class.

Central Markets

Central Market or bazaar, as local people call it, is a large open air market offering everything from bathroom staff to brand new electronics. Unlike in stores “Narodnyi” prices are not fixed, they can be negotiated. They are located in near to the city centers and employ mostly people from rural areas. Due to low prices central markets are mostly visited by low income families. Because of high level of congestion, people passing with big carts all the time, inconvenient location, unorganized numerous sellers, unsanitary conditions



middle and high income individuals almost never shop there. Usually in each town, there is only one central market.

Competitive Advantage

The type of business we are offering does not exist at the moment in Kyrgyzstan. It has several advantages over the "Narodnyi" as well as Central Market.

First, we offer only highly needed and fast consumed goods in convenient location for pensioners. They no longer will have to travel long distances. Second, the prices will be even lower than that of central markets as no renting, salary costs will be incurred. Third, an image of social responsibility will contribute to our business, as it is oriented towards poor people the number of whom is rising. There is no threat that our products might be also bought by high income families. In order to obtain our products, rich families have to wait in a queue, come out of house at certain time, stand in line with lower income families and pensioners. "Natural discrimination" will occur just because rich families prefer other setting and conditions for shopping.

Fourth, many farmers in perspective of "Mobile Shop" Trucks' expansion will benefit as they will sell their products at fair price. Middle men buy agricultural products at very low prices and add up significant margins. In short-term our MGF will not significantly influence the job market of Kyrgyzstan. In long-term, due to expansion of the socially oriented business concept, many employees will switch to working with us. Because we will offer good salary and they themselves will partly own this business by holding its shares.

In addition, we will have competitive advantage in these products because of the network. The agreements made with factories to sell us the food in bulk at lower prices, makes our business efficient. We will also employ cost cutting strategies to keep our costs low such as saving on packaging due to people's returning them as a sign of permanent customers.

The markets already selling foodstuffs will be faced by this competition. Open air type markets could also lose business due to our lower prices. We will offer them to join our network. This way we are not hurting their businesses. This is a win-win scenario because enabling these food sellers to remain in business increases the size and reach of our company. What is important is that more people will have access to affordable food during crisis and rising inflation during normal economic conditions.

Growth Opportunity

Initially this idea will be carried out using trucks as mobile shops to distribute the most necessary, non-perishable foods. As routes grow and a large network is established, we will be able to leverage on this and expand the business in a number of areas.

One possibility is working with the government to assist in distribution of medical service and drugs to these remote rural regions especially to orphanages and elderly houses. This would expand on the other services that we would provide.

Once a solid customer base is built and sales are steady we can monitor the market for other products that would be appreciated by the customers. These products could include clothing, homewares and perishable foodstuffs.

While most of these goods are currently produced outside of Kyrgyzstan, we would like to initiate training programs for local farmers and manufacturers. Education could increase the level of local producers who can distribute their produce through our

networks. There is also opportunity to provide microfinance for farmers at low rates to develop their irrigation and for storage and processing facilities.

From this point, there is the possibility of opening brick and mortar stores. In order to open retail stores, we will need to ensure that we are still providing the lowest possible prices for our goods. The products would need to still cut out the 'middle man'.

A very important part of our growth strategy is to include the customers and employees in our company by offering shares. Initially the company would not offer shares but as the customer base increases we would offer them in such a way that regular customers can benefit.

This model can be used other countries once successful.

Human Resource Strategy

Because our business relies heavily on the transportation and distribution of goods, we will need workers who are capable of driving the trucks to deliver the food items and distribute them effectively in restricted time frame. We will use cost effective resources and implement a recruiting strategy that will render us successful results.

Our recruiting efforts will consists of possibly placing advertisements in the local bazaar, supermarkets, anyplace where there is a high volume of people. Once top applicants are selected, we will train them to operate the truck, learn how to properly handle the food, distribute them, and take money from customers.

We need those who are driven, competent, reliable, and able to get the job done (productivity) in a respectable time frame. Our qualifications for this job are that the applicants live in or close to Kyrgyzstan, must have a valid driver's license, be at least 18 years or older, and familiar with urban areas of Kyrgystan.

Our service would create jobs for those low income families who need the extra money to help pay for essential goods. Those working in "Narodnyi" and Central Markets can either become a driver, work in different departments of our business (marketing, public relations, finance) when it expands. Our aim is to create as many as possible working places in socially oriented business, where employees will become partial owners of company through shares.

Promotion Strategy

The best strategy to get across to the people is trying to create awareness of all the benefits that this project could give to the people. Focusing in the price difference related with the competition like supermarkets.

Is so difficult to transmit the message because not all the people have access to the different communication mediums, so the best ways is through - fliers, announcements at group meetings, billboards (create credibility), radio advertising which are the common ways of communication. Word of mouth is also important. We will do this by contacting the 'house ladies' who are in charge of the apartment buildings where many of the pensioners live. In all of this advertisement try to emphasis in the differences in the prices considering the competition, and all the impacts that this project can bring related to the improvement of the life level and wealth of the people and finally the huge contribution to the environment.

Financial Overview

During crisis small amount might be raised from government and private donations, that's why we might only rely on loan funds from development banks.

We will apply for loan from banks aimed at developmental projects, such as Asian Development Bank and European Bank for Reconstruction and Development. These banks offer loans in interest rates lower than the usual commercial banks, i.e 20% vs 26%. The EBRD is the largest single investor in central, eastern Europe and the CIS might be the best option, as they have experience with being involved in medium projects. Their direct investments generally range from €5 million to €230 million. It offers short to long-term maturities, from 5 to 15 years on fixed and floating interest rates.

As it is indicated in our forecasted financial statement, our project is still profitable in its first 6 month despite the startup costs. Given the high volume of sold products and covered regions, we will be able to repay the loan in 24 months.

Due to falling prices for durable goods, we will purchase trucks at \$50000 that in favorable economic condition would cost as much as \$70000; minivans will cost \$20000 and we will need 3 horses for remote areas. Before launching this Project, we should employ extensive marketing campaign, therefore, we might spend as much as \$5000 on it. Wages will be competitive for our drivers and sellers to keep them motivated. Loan repayment will be made in each 6 month period and in fixed amount.

	1-6 months	7-12 months	13-18 months	19-24 months
Revenue				
Sales	22443750	22443750	22443750	22443750
Cost of products	13912500	13912500	13912500	13912500
Gross Revenue	8531250	8531250	8531250	8531250
Costs				
Start up cost				
Purchase of trucks and their depreciation	250000	10000	10000	10000
Purchase of minivans and their depreciation	120000	4000	4000	4000
Purchase of containers	7500	300	300	300
Purchase of horses	9000	0	0	0
Marketing	5000	0	0	0
Wages	10500	10500	10500	10500
Gas consumption	40000	40000	40000	40000
Loan repayment	23230	23230	23230	23230
Total Costs	462933	88030	88030	88030
Gross Profit	21980817	22355720	22355720	22355720
Income tax (10%)	2198082	2235572	2235572	2235572
NET PROFIT	19782735	20120148	20120148	20120148

NOTE: Please, note that estimations are made in USD. \$1= 40 soms

Summary

Delivering affordable necessities to those who need it the most is MGF's most important goal. The benefits to the community and the opportunities to assist those in need are enormous. We are very proud to be part of this project.

Appendix

Following tables show the price differences in items in Central Market (bazaar) price, Market "Narodnyi" and Factories.

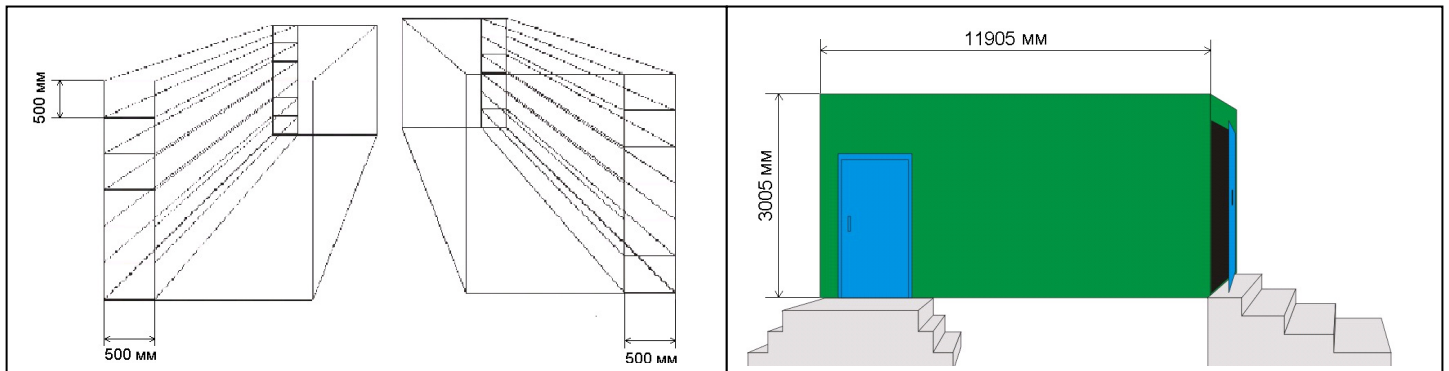
Table 2. Comparison of Prices

Product/Price per 1 kg	China,Russia, Kazakhstan	„Narodnyi“	Central market	„Mobile Shop“ Trucks
Flour	10	35	27	16
Macaronis	14	60	33	20
Rice	11	70	50	25
Sugar	12	35	30	18
Vegetable oil	20	75	55	33
Pod bearing plants (beans, peas, etc)	15	45	35	21

*Source: personal field research

Containers

There are three standard types of trucks with certain trailer sizes. Considering the type of business we propose, trucks with dimensions of 11905X2500X3005cm will be most optimal. This size enables products to be placed in visible and organized way, which will make the distribution smoother.



Bibliography

Data was obtained from National Statistic Committee of Kyrgyz Republic.

www.stat.kg

http://www.persfin.co.za/html/persfin/ownership_table.html