

Marquette University

Cocobano Chicken Cooperative



AGBL – El Salvador Team 2012

7/1/2012

Team members: Kimberly Campbell, Matthew D’Arcy, Erica Figueroa, Michael Kunkel, Lauren LaLuz, Emily Pier, and Krista Worzalla.

Advisors: Rachel Kirvan, Heather Kohls, Ph.D. and Noreen Lephardt, Ph.D.

Executive Summary:

AGBL went to Cocobano, El Salvador to meet with the members of a community Chicken business. Students learned the basics of chicken rearing and were given access to the organizations financial records and prior business plan. The students identified a few key errors in the previous plan and found ways to present this to the organization, to correct the errors, and to make the business self-sustaining in the long run. The students used a great deal of financial and accounting skills, as well as the fundamental understanding of economic principals to create their recommendations to the company.

It is not easy to start and run your own business, and there are many problems that must be overcome to be successful. After our work with the Chicken Cooperative in Cocobano, we have composed a strategic business plan from which the cooperative can go forward with the hope that they will be able to increase their revenue and continue to expand their market. We like the product that the business is selling, and we would like to present to you some recommendations on increasing revenue from your existing market and diversifying to add other revenue sources to your business. The application of a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis helped provide us with the information needed to identify areas in your business that require greater attention. The purpose of this paper is to lay out some recommendations of what can be done in order to maintain the long term success of the business. This document outlines important concepts that we discussed during our time in Cocobano and provides recommendations for the cooperative based on their long term goals and visions.

The structure of this business plan is focused on different areas of action available for the business:

1. Financial Scenarios: how to organize the accounting and budgets in a way that will make it easy to identify problem areas of the business.
 - Also setting net income targets that would make wages equal to others who have a job outside of their homes.
 - Ensuring that the business is financially sustainable and they are able to buy chickens and other materials without having to take out loans.
 - Focus on reducing costs and increasing revenues.
 - Setting up a calendar for the purchase and sale of lots of chickens.

2. Marketing Suggestions: how to better conduct market research and differentiate products to convince customers to buy them, even when prices rise.

3. Expansion plan: a plan detailing how to further expand the business using money that is set aside; also details an organizational structure to future expansion.

- acquiring a car to be used for deliveries
- buying a computer to use for accounting purposes
- constructing a wall to protect the coops from rain runoff.
- Possibilities for diversifying: raising prices on the grinder and possibly using the incubator to hatch chicks themselves.

Part 1: Financial Analysis and Recommendations

Based on evaluations of the business with 500 chickens and also 1,000 chickens using costs gathered from 2011, there were a few core observations (see exhibit A). Given the current revenue and cost structure with 500 chickens, the annual positive cash flows are about \$300, assuming no interest expense on loans. At this level of revenues, it would take approximately 14 years for the company to have enough cash to operate without outside financing (See Exhibits B.1 & B.2).

Assuming 1,000 chickens and cost assumptions indicated in exhibit A, the annual positive cash flows are about \$1,600, assuming no interest expense on loans. At this rate, it would take approximately 5 years to have enough cash to operate without outside financing (See Exhibits C.1 & C.2).

Our core recommendation to increase cash flow is increase revenues per egg through raising prices. With a 10% increase in revenue, it would take slightly less than 2 years with 1,000 eggs to have enough cash to operate without outside financing assuming no interest expense on loans (See Exhibits D.1 & D.2).

Considering this recommendation, we suggest the following:

- Secure a 0% interest loan from CIS to purchase 1,000 chickens
- Raise prices of eggs by 10%
- Track monthly expenses in the categories on the income statement and calculate each expense as a percentage of sales. Compare percentages to projection. If percentages exceed projection, make adjustments to try to match the projection.
- In order to meet the goal of not needing external financing within 2 years, the company needs to save approximately \$350 per month into a savings account with the target of having \$7,500 within 2 years. If at the end of the month, income is lower than \$350, salaries should be decreased.

Monthly Target Budget

Statement	Annual Target	Monthly Target	% of Sales
Revenue	\$ 40,725.50	\$ 3,393.79	100.00%
Molina	\$ 2,246.50	\$ 187.21	5.52%
Eggs	\$ 34,979.00	\$ 2,914.92	85.89%
Chicken (Meat)	\$ 3,500.00	\$ 291.67	8.59%
COGS	\$ 23,692.59	\$ 1,974.38	58.18%
Chicken Food	\$ 22,090.00	\$ 1,840.83	54.24%
Vaccines & Vitamins	\$ 360.00	\$ 30.00	0.88%
Packaging (Cartons, Bags, & Paper)	\$ 490.00	\$ 40.83	1.20%
Transportaion Costs	\$ 366.64	\$ 30.55	0.90%
Sales Commision (Incentives)	\$ 385.95	\$ 32.16	0.95%
Gross Profit	\$ 17,032.91	\$ 1,419.41	41.82%
Expenses	\$ 5,039.65	\$ 419.97	12.37%
Salaries (Sueldos)	\$ 3,254.52	\$ 271.21	7.99%
Electricity	\$ 609.93	\$ 50.83	1.50%
Water	\$ 57.65	\$ 4.80	0.14%
Cleaning Supplies	\$ 9.60	\$ 0.80	0.02%
Cooking Oil	\$ 299.29	\$ 24.94	0.73%
Office Supplies	\$ 9.60	\$ 0.80	0.02%
Cell Phone	\$ 64.00	\$ 5.33	0.16%
Molina Maintenance	\$ 735.06	\$ 61.26	1.80%
Net Income	\$ 11,993	\$ 999	29.45%
Payment of Loan	\$ 7,500.00	\$ 625.00	18.42%

Exhibit A – Core Assumptions

Annual Expenses	1 Chicken	500 Chickens	1000 Chickens	1,000	Assumptions
Assumptions	1	500	1000	1,000	
# chickens	1	500	1000	1,000	
Eggs per chicken	292	292	292	292	Based on Actual Revenues and average # of chickens in 2011
Egg sales Price	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	
Annual food per chicken	\$ 22.09	\$ 22.09	\$ 22.09	\$ 22.09	
Cost of Chicken	\$ 7.50	\$ 7.50	\$ 7.50	\$ 7.50	
Annual Vaccines & Vitamins	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36	
Packaging (Cartons, Bags, & Paper)	\$ 0.49	\$ 0.49	\$ 0.49	\$ 0.49	
Transportation per 365 eggs	\$ 0.59	\$ 0.59	\$ 0.59	\$ 0.37	Transportation increases 25% when going from 500 to 1000 chickens
Sales Commision per 365 eggs	\$ 0.62	\$ 0.62	\$ 0.62	\$ 0.39	\$1 per day for egg delivery, trips increase 25% when going from 500 to 1000 chickens
Sale Price of Chicken for Meat	\$ 3.50	\$ 3.50	\$ 3.50	\$ 3.50	
Salary	\$ 243.86	\$ 2,169.68	\$ 3,264.52	\$ 3,264.52	60% increase in salaries when both are full
Revenues					
Egg Revenue	\$ 31.63	\$ 16,060	\$ 32,120	\$ 32,120	
Sale of Chicken	\$ 3.50	\$ 1,750.00	\$ 3,500.00	\$ 3,500.00	
Molina Revenue	\$ 2,246.50	\$ 2,246.50	\$ 2,246.50	\$ 2,246.50	
Total Revenue	\$ 2,281.63	\$ 20,056.50	\$ 37,866.50	\$ 37,866.50	
Variable Costs					
Chicken Food	\$ 22.09	\$ 11,045.00	\$ 22,090.00	\$ 22,090.00	
Vaccines & Vitamins	\$ 0.36	\$ 180.00	\$ 360.00	\$ 360.00	
Packaging (Cartons, Bags, & Paper)	\$ 0.49	\$ 245.00	\$ 490.00	\$ 490.00	
Transportaion Costs	\$ 0.59	\$ 295.00	\$ 366.64	\$ 366.64	Transportation increases 25% when going from 500 to 1000 chickens
Sales Commision (Incentives)	\$ 0.62	\$ 310.00	\$ 385.95	\$ 385.95	\$1 per day for egg delivery, trips increase 25% when going from 500 to 1000 chickens
Total Variable Costs	\$ 24.15	\$ 12,075.00	\$ 23,692.59	\$ 23,692.59	
Gross Margin (Contribution Margin)	\$ 2,257.48	\$ 7,981.50	\$ 14,173.91	\$ 14,173.91	
Fixed Period Expenses					
Salaries (Sueldos)	\$ 243.86	\$ 2,169.68	\$ 3,264.52	\$ 3,264.52	
Electricity	\$ 609.93	\$ 609.93	\$ 609.93	\$ 609.93	
Water	\$ 57.65	\$ 57.65	\$ 57.65	\$ 57.65	
Cleaning Supplies	\$ 9.60	\$ 9.60	\$ 9.60	\$ 9.60	
Cooking Oil	\$ 299.29	\$ 299.29	\$ 299.29	\$ 299.29	
Office Supplies	\$ 9.60	\$ 9.60	\$ 9.60	\$ 9.60	
Cell Phone	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00	
Molina Maintenance	\$ 735.06	\$ 735.06	\$ 735.06	\$ 735.06	
Total Fixed Period Costs	\$ 2,028.99	\$ 3,954.81	\$ 5,039.65	\$ 5,039.65	
Total Contribution to PSI	\$ 228.49	\$ 4,026.69	\$ 9,134.26	\$ 9,134.26	
PSI Initial Investment					
Chicken Purchase	\$ 7.50	\$ 3,750.00	\$ 7,500.00	\$ 7,500.00	
Total PSI	\$ 7.50	\$ 3,750.00	\$ 7,500.00	\$ 7,500.00	
Periods to PSI Payback	Never	Never	0.82	0.82	

Exhibit B.1 – Income Statement with 500 Chickens

Statement	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$ 20,057	\$ 20,057	\$ 20,057	\$ 20,057	\$ 20,057
COGS	\$ 12,075	\$ 12,075	\$ 12,075	\$ 12,075	\$ 12,075
Gross Profit	\$ 7,982	\$ 7,982	\$ 7,982	\$ 7,982	\$ 7,982
Expenses	\$ 3,955	\$ 3,955	\$ 3,955	\$ 3,955	\$ 3,955
Net Income	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027

Exhibit B.2 – Cash Flow with 500 Chickens

Free Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14
Net Income	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027	\$ 4,027
Capex	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)	\$ (3,750)
Free Cash Flow	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277	\$ 277
Cumulative FCF	\$ 277	\$ 553	\$ 830	\$ 1,107	\$ 1,383	\$ 1,660	\$ 1,937	\$ 2,214	\$ 2,490	\$ 2,767	\$ 3,044	\$ 3,320	\$ 3,597	\$ 3,874

Key Takeaway: With consistent net cash flow of \$277/yr it will take them 14 years to be able to purchase chickens without a loan
 - This does not include interest on a loan.

Exhibit C.1 – Income Statement with 1,000 Chickens

Statement	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$ 37,867	\$ 37,867	\$ 37,867	\$ 37,867	\$ 37,867
COGS	\$ 23,693	\$ 23,693	\$ 23,693	\$ 23,693	\$ 23,693
Gross Profit	\$ 14,174	\$ 14,174	\$ 14,174	\$ 14,174	\$ 14,174
Expenses	\$ 5,040	\$ 5,040	\$ 5,040	\$ 5,040	\$ 5,040
Net Income	\$ 9,134	\$ 9,134	\$ 9,134	\$ 9,134	\$ 9,134

Exhibit C.2 – Cash Flow with 1,000 Chickens

Free Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	\$ 9,134	\$ 9,134	\$ 9,134	\$ 9,134	\$ 9,134
Capex	\$ (7,500)	\$ (7,500)	\$ (7,500)	\$ (7,500)	\$ (7,500)
Free Cash Flow	\$ 1,634	\$ 1,634	\$ 1,634	\$ 1,634	\$ 1,634
Cumulative FCF	\$ 1,634	\$ 3,269	\$ 4,903	\$ 6,537	\$ 8,171

Key Takeaway: With consistent net cash flow of \$1634/yr it will take them 5 years to be able to purchase chickens without a loan
 - This assumes 0% interest loan, salaries only increase 50% with 1000 vs. 500 chickens

Exhibit D.1 – Income Statement with 1,000 Chickens and Increased Prices

Statement	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$ 40,543	\$ 40,543	\$ 40,543	\$ 40,543	\$ 40,543
COGS	\$ 23,693	\$ 23,693	\$ 23,693	\$ 23,693	\$ 23,693
Gross Profit	\$ 16,851	\$ 16,851	\$ 16,851	\$ 16,851	\$ 16,851
Expenses	\$ 5,040	\$ 5,040	\$ 5,040	\$ 5,040	\$ 5,040
Net Income	\$ 11,811	\$ 11,811	\$ 11,811	\$ 11,811	\$ 11,811

Exhibit D.2 – Cash Flow with 1,000 Chickens and Increased Prices

Free Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	\$ 11,811	\$ 11,811	\$ 11,811	\$ 11,811	\$ 11,811
Capex	\$ (7,500)	\$ (7,500)	\$ (7,500)	\$ (7,500)	\$ (7,500)
Free Cash Flow	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311
Cumulative FCF	\$ 4,311	\$ 8,622	\$ 12,933	\$ 17,244	\$ 21,555

Key Takeaway: A 10% increase in price would give \$4311 net cash flow per year and it would take them slightly less than 2 years to be able to purchase chickens without a loan.
 - This assumes 0% interest loan, salaries only increase 50% with 1000 vs. 500 chickens

Part

In

2: Marketing Recommendations

order for firms to grow their business, it is necessary to do

marketing. This allows you to understand the competitive environment and increase awareness of where you can grow your sales and how to do so.

A firm should have a short speech memorized by all members of the group. This is a way of having a fixed message that encapsulates the most important information you want the public to know about your firm. Here is one sample the team has written for you:

1-5-10 Minute Speech

We are a women's group formed upon the basis of solidarity from a small community in La Paz. My fellow business partners and I grow chickens and harvest their eggs in a healthy way which makes our product safer for your family (or customers). We feed our chickens with the highest quality feed, and provide them with a superior shelter from the elements. Our eggs tend to be larger and heartier than those chickens not fed with high quality grain or given appropriate antibiotics. We care about our chickens so you can enjoy a better quality product, getting the best value for your money.

We formed this cooperative in 2010 in order to generate income to help support ourselves. Our dream is to someday make a better living for our families and community.

Marketing Research

At the Market

Marketing is an important part of your business. Having an effective marketing strategy is a great way to connect with new customers and find more people who want to buy your products. One part of marketing is market research. Market research involves studying your competition to see what you are going to be competing with at the store or markets where you sell your eggs. Some ways of completing market research for your company are asking your community members what qualities they see as being particularly important in their decision making process. Would they like to see an egg stand that was particularly vibrant in color, or had different marketing techniques like those listed above? This would be a great target audience for markets you sell your product at.

When you're at the market selling your product, look at the other egg sellers. Do they have a large table? Do they sell other related products? Do they have a sign, or some sort of attention getter? Other than seeing what others are doing to become more visible, your group should think of what would get you noticed. One thing to keep in mind is that it is important to differentiate yourselves from the competition. You must convince the customer to buy your eggs instead of your competitors eggs. Some ways to differentiate your product are:

- Have a colorful photo draped over the front of your table with your group name.
- Have colorful trays to place eggs in.
- Provide large purchase quantity discounts and advertise the discounts.
- Have signs that say "Fed with highest quality feed!" "The healthiest of chickens" and "Eggs made with love"

- Have the women all wear a similar, stand-out style shirt. A bright green or bright red with a company name and/or logo on the front and back. This kind of uniform will make your stand more identifiable over time, so you have repeat customers.
- Have pictures of your chickens versus competitor chickens. Have side by side comparison of your eggs versus smaller, lesser grade egg types.
- Create a side by side comparison of all the factors egg differentiation involve, and add checkmarks next to all qualities you have that an average egg producer does not.

Example:

Qualities	Your Eggs	Competitors
Premium Feed	X	
Thicker Shell	X	
Happy Chickens	X	
All Vaccinations to date	X	
100% Pure Bred Chickens	X	
Fresh, Handpicked TODAY	X	

It also may be important to think about which markets you engage in business at. Do you only go to markets that prices are higher? How many competitors do you have their? Create a spreadsheet of what you charge, and how many you sell. This will help you decide which markets you should be conducting the majority of your business at, on what days, at what times, and also give you the information of how many people need to be present at the stand on any given day.

In the community

If you find that your audience in the immediate community does not find your 'high quality' eggs to be worth the extra couple pennies, it would be a great time to think about only purchasing 'frier' eggs instead. While this would yield less money per egg, you would also have less upfront costs, and sell more in the long run if demand was high. Keep a tally for what the people you speak with say. Do they like fryers for all their egg needs? Do they like having the option for high quality, but only by 10, maybe 20%? The more quantitative information you have, the easier it will be to make your final decision whether to continue farming high quality chickens versus fryers.

Open up a store

Opening a 24 hour store would allow your group to generate income while someone is watching over the chickens at all hours of the day. There is a need for one in your immediate community since no one else has one that is 24 hours, or with a capacity that can support the whole market. You can also bring in other sellers possibly one time of day, or one day a week to create a type of "local market", therefore eliminating the need for everyone to catch a cab or bus to town. Selling items other than eggs, like chips, soda or snack type food would be a good way to increase your revenue. You already have a building that could function as a store, and many of your fellow community members know your business, and that you staff your grounds all day every-day. Because there are no other competitors just like you in the market, you

will be filling a niche in the local market. Additionally, an increase in traffic would extend your visibility with your egg business. Having community members come to your 'shop' for a bag of chips, grind their corn, and gather their eggs all at the same would make your shop a popular place to stop.

Part 3: Expansion Plan for the future

In order to allow for future expansion we suggest opening a saving account at a bank. The initial goal for the savings should be the repayment of outstanding loans to reinforce the group's future financial strength. The advantage of keeping the money in the bank is that it will make you consider future purchases more since the money has to be taken from the bank to spend it. If there is concern about safety getting to the bank, this should be addressed by having a man do the deposit or having the women travel together. Another advantage of the bank is that in the long run, the goal is for the group to accumulate \$7,500 toward their future. This money can accumulate more quickly if the account earns interest.

Here is a list of recommendations for ensuring your future strength:

- Create a schedule for buying chickens based on the speed with which you can save money. Incorporate the important holiday (Easter, for example) in the planning.
- Invest in a computer to allow better tracking of expenses and revenues.
- Save money to buy a car/truck for delivery of eggs. Another option in the short run is to better coordinate the delivery eggs to reduce travel time as much as possible. (They may be doing this, but it was unclear from the conversation.)
- Consider trying to grow chicken just for fryers.
- Invest in your facility by building the wall to protect birds from floods.

The business may face difficulties in the expansion of egg production and the repaying of bank loans in the short run, therefore the consistent income from the grinder provides a healthy cash flow that may need to be increased. The suggestion of a price increase, although not an ideal solution, may provide the funds to sustain the business until egg production of 1000 chickens is consistent.

We hope that in the future AGBL can revisit the Chicken Cooperative in Cocobano to watch their business as it grows.