Contents

1. Company Mission Statement ................................................................. 3
2. Business Overview ........................................................................... 4
3. Summary ............................................................................................ 6
4. Market Survey Executive Summary ................................................... 7
5. Products / Services ........................................................................... 10
7. Market Analysis ................................................................................. 21
8. Competition ....................................................................................... 27
9. Marketing Strategy ............................................................................. 30
10. Financials .......................................................................................... 32
11. Action Plan ....................................................................................... 39
Appendix I: Competitors Analysis ............................................................. 40
Appendix II: Strategic SWOT Analysis ..................................................... 41
Appendix III: Michael Porter’s Analysis .................................................... 43
Appendix IV: PPM Detail Reports ............................................................... 45
1. Company Mission Statement

The mission of this new enterprise is to convert live animal protein into value added food products, maintain ownership along the supply chain and, where possible sell direct to the consumers.

Value add beef protein
Develop an efficient supply chain
Sell direct to the consumer
2. Business Overview

Great Giant livestock Company is a feedlot operation that buys young cattle of a certain weight and grade and through intensive feeding and animal husbandry practices grows the animal to an acceptable market weight for sale as a live animal. These cattle are sourced locally from areas close to the feedlot and also from Australia which is by far the largest single supplier of livestock into Indonesia.

The business was established in 1990 and is located in Terbanggi Besar Central Lampung in Southern Sumatra and is part of a very large agricultural plantation that produces a variety of valued added food products. The vegetable protein waste streams or by-products generated from this agricultural activity is further valued added by converting this vegetable waste to animal protein.

A new company will be established and referred to in this document as Newco and will provide the infrastructure and supply chain that will convert the live animal to food based products for sale into the market. It may be necessary to have more than one Specialist Company to provide these services given the diversity of the market in terms of location and segment.

The main abattoir and manufacturing complex should be located close as possible to the feedlot operation to reduce transportation costs, reduce carcass shrink, and to retain meat quality attributes in the livestock.

The synergies of a fully integrated feedlot, abattoir and manufacturing facility is unique to this market and around the world. This combined with world’s best practice in terms of food safety, product quality and an efficient cold chain delivery system will set the business apart from its competitors.

There are also synergies in product sales and distribution within the group that can reduce cost and provide a better service to the customer base.

The Indonesian economy is expanding at 6% plus per year and providing material wealth to its people. This increase in disposable income is spent on enjoying their lives which amongst other things includes food, so people are continually trying better foods and different eating experiences. This demand for a better life will under pin this business plan.

In five years from now this business will be selling products directly to consumers through meat shops (fully functional meat depots) owned and operated by the company. The traditional sales channels of supermarkets, convenience stores, fast food, and the Hotel and Restaurant trade will all be part of the sales and market strategy and will be serviced from the meat depots. These depots will double as a retail store and small back yard manufacturing unit able to specialize in customizing products in particular market niches.

This company will import food products in its own right and expand its core service to provide a comprehensive range of food products so that the institutional customers can secure their meat and associated products from one source.

To support this market diversity a cold chain supply channel consisting of refrigerated depots, trucks and vans will deliver these food products on a just in-time basis ensuring that
freshness, wholesomeness and food safety parameters are maintained to world’s best practice.

The rate at which this business will grow and fulfill its mission will depend on the continuing economic growth, and an emerging middle class looking for a better way of life.

In considering this project careful attention must be paid to the external threats and weaknesses that have been identified in the SWOT analysis. We have offered a series of counter measures that will assist in protecting the primary investment and reducing risk but they also have issues that need careful consideration.
3. Summary

The company will be a fully integrated food business that will need to be supported by related businesses that underpin the primary investment and counter the external uncontrolled risks.

- Construction of the Abattoir and operational changes to the feedlot to improve meat quality reduce shrink and increase ADG (Average daily gain) – commencement of project
- Supply chain infrastructure development DC and depots – commencement of project but selected regions and population centres.
- Importation division focussing on the sales and marketing of food – commencement of the project
- Domestic and international cattle breeding and resource programs – staged to underpin supply
- Investments will need to be made at the appropriate time and or when market conditions change,
4. Market Survey Executive Summary

PPM management a research and training business company was commissioned to conduct some primary research focussing on the following priorities,

1. Consumer behaviour
2. Market structure
3. Market trends

1 Consumer behaviour

- 85% of consumers surveyed think that beef consumption is stable and or falling due to competition from other cheaper protein sources and the fact that beef is too expensive.
- 66% of households routinely cook 2 or more beef dishes every month which supports the national consumption rate of 2 kilograms per capita
- These trends are contrary to some industry commentary that believes that beef protein demand is tracking GDP growth.
- It is only in the upper /middle class (SES A1) of consumers that think beef consumption is increasing which suggests that in this market beef demand is price elastic.
Where Indonesians Purchase Beef

<table>
<thead>
<tr>
<th>Place to Buy some commodities:</th>
<th>Beef</th>
<th>Fish</th>
<th>Chicken</th>
<th>Vegetables</th>
<th>Fruits</th>
<th>Spices</th>
<th>Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wet Market</td>
<td>89%</td>
<td>81%</td>
<td>84%</td>
<td>75%</td>
<td>62%</td>
<td>77%</td>
<td>55%</td>
</tr>
<tr>
<td>Modern Market</td>
<td>9%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>22%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Around Seller</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Kiosk</td>
<td>2%</td>
<td>7%</td>
<td>6%</td>
<td>14%</td>
<td>5%</td>
<td>13%</td>
<td>32%</td>
</tr>
</tbody>
</table>

To buying some commodities, Indonesians people prefer to buy at Wet Market

<table>
<thead>
<tr>
<th>Wet Market</th>
<th>Quantity of Beef that has Sold /Day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤ 100 Kg – 200 Kg/day butcher</td>
</tr>
<tr>
<td></td>
<td>Variety in each regions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Modern Market</th>
<th>Local: 250 Kg/day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import: 50 Kg/day</td>
</tr>
<tr>
<td></td>
<td>Depends on store &amp; Increasing on Feast Day</td>
</tr>
</tbody>
</table>

- 89% of customers buy their beef from the wet market
- 87% of wet market operators believe their business is declining due to
  - Economy
  - Price
  - Imported beef
  - Modern market
- On average across all regions 60% of wet market customers are institutional (eating out) and 40% house wives (home consumption)
- In the country regions the customer profile percentages change in favour of home consumption.
- Freshness and price are the main considerations when buying from the wet market.
3 Trends

- The price of beef has been steadily rising over the past three years reflecting an increase in the consumer’s capacity to pay,
- This price trend is despite concerns by consumers that beef is too expensive,
- Government policy is limiting beef protein supply to support domestic cattle prices which is restricting consumption,
- There is clear evidence that if beef was cheaper and readily available consumption would increase.

Observations
- The PPM survey has not changed the original assumptions of this business plan, in fact they have confirmed an underlying demand for beef protein in this market.
- There is also a strong case to suggest that beef demand will continue to grow despite the rising retail price.
5. Products / Services

The abattoir will slaughter and fabricate the carcasses into a variety of primal and sub primal cuts of meat and other by products that will be sold into all of the market segments based on each market capacity to pay. The products will take the form of,

1. Chilled (fresh) loin cuts for the hotel and restaurant and some up market home consumption outlets. These cuts will be vacuumed packed in plastic bags and held at near freezing temperatures (-1c to +1c) so as to compete with similar imported beef products. Such items as tenderloin, striploin, cube roll, and selected muscle groups that have specific eating qualities will all be treated and sold as chilled beef

![](image1.png)

Beef tenderloin

Beef striploin

2. Value added tray packs consisting of butt, forequarter meat items and selected offal products all sold into the home consumption markets mainly in the developing modern market segment. Such items as topside, silverside, and knuckle are but a few of the muscle groups sold into the market. These items are popular because they are from the hindquarter and contain large muscles with very little surface and inter muscular fat.

![](image2.png)

Beef knuckle

Beef outside

3. Trimmings and secondary cuts to be valued added and sold in the fast food and convenience store outlets. Items such as hamburger, patties, and some diced products would be the first phase in developing this manufacturing base.
4. The full range of offal and by-products would be sold to the best disposal and in most cases it will be to the wet market and related food services sectors. Products such as beef thick and thin shirts, weasand meat, and other meat based products will be sold to the best disposal and in some cases to export markets where these products are in short supply and or trading at higher levels than the domestic markets capacity to pay.

Beef full tongue  
Beef scalded tripe

5. It is important to understand that approximately 50% of the total production will go to manufacturing department with the remainder been traded into the wet market, wholesalers, and the institutional markets.

The above product display is a sample of the variety of primal and sub primal cuts that will be generated from a standard carcass. The residual trimmings, surface
and inter muscular fats will be transferred to the manufacturing department as the first offer and if not required will be disposed of to the next best market.

In terms of the new and emerging market venues Newco will provide additional services that will be seen by its customers as value. The products such as tray packs, AMP (atmosphere modified packs) and shelf ready products will be a feature and supplied through the food service sector of the supply chain model. These services can be provided through a network of meat depots/shops (similar to the Indoguna meat shop concept) that combine an off-site storage, valued added food service, and sales outlet. A small fleet of delivery vans would support a centralised sales team that would offer a food service option to the Hotel and Restaurant trade as well as the institutional food service sector.

The valued added component of the product profile and the network will be supported by a primary manufacturing division located in the Abattoir Feedlot complex in Lam-pung. In this manufacturing department all of the more sophisticated food technologies and food processing techniques will be employed under strict ISO (International Standards Organisation) and HACCP (Hazard Analysis Critical Control Check Points) protocols.

The domestic market capacity to pay will continually be benchmarked against the international market place and take the best price on the day. This concept of trading across all domestic and international markets has never been done in Indonesia and will take this business to a new level of competitiveness.

You may ask why?, and the answer is simply that there is no domestic infrastructure (abattoir and supply chain) capable of meeting the international meat export standards that are required to gain approval from the importing countries. Newco will have these attributes built into the management physic and controlled by the abovementioned quality systems.

It is appropriate that Newco will have a number of brands that will be employed at different levels and market segments. For your consideration I would list some ideas for discussion and future development.
- Flag ship brand – this would be a premium quality product and or products priced appropriately to reflect its esteem value. The item would be a boneless beef product with specific meat and processing features making it unique in the market place. The product could be further value added into other related food products which would carry the brand. The brand does not have to be the biggest in terms of sales volume but does have to represent all that is good about the Newco business.

Cross sectional view between the sixth and seventh thoracic rib
The photograph centre top depicts a cross sectional view of the rib eye muscle complex off a 30 month old Angus steer (Boss Taurus) grain fed for 240 days and a marble score 5 with a carcase weight of 425kgs. This product quality is sort after by the International Culinary Trade and served in all the high end Hotel & Restaurant segments of the market.

The cattle types that GGLC feed are Brahman cattle (Boss Indicus) that are more heat tolerant and suitable for the Indonesian popular market, but not so good for the table meat trade. It will therefore be necessary to buy a selected portion of live cattle that can be fed on to achieve a more acceptable meat outcome, perhaps not to the level depicted above but certainly a lot better than the existing standards of meat quality produced by GGLC. Cattle will be purchased from GGLC on a weight and grade basis with a buy grid to provide incentives to GGLC for better quality carcasses.
The Wagyu brand- the Wagyu genetics are specific to Japan so all genetic material circulating around the world can be traced back to Japan. Most of the genetic material outside Japan is of poor quality and was smuggled out of Japan in the late 70's to the USA and then around the world. Wagyu quality has been further eroded by cross breeding with mainly British Angus so we have the terms F1, F2 and full blood Wagyu categories all calming to be genuine Wagyu.

In Japan the beef consumption per person is approximately 6 kgs most of which is imported or locally produced Dairy steer which is of similar taste and tenderness to the grain fed beef produced in the USA and Australia. In total Wagyu production represents only 10% of all beef consumed in Japan and is served in traditional food styles such as Shabu Shabu, Sukiyaki, and Teppenyaki. Wagyu is served in very small portions and cooked in boiling water to remove the intermuscular fat that protects the muscle from dehydration and toughness so you have a very pleasant soft sweet taste of Wagyu.

If Newco is to develop this brand we need to understand that Wagyu is not an everyday beef product given the price and strong beef flavour that makes it a special occasion item. This product should be seen as a complementary item to the primary flag ship brand that encourages customers to source all of the meat products from Newco.

Clearly the Wagyu business model must be able to turn a profit and to do this we must be able to value add and or sell the secondary and manufactured products at better than market. This may involve the exporting some primal and sub primal cuts to markets such as Singapore or KL.

As a foot note the Wagyu product recently produced by GGLC was of very poor quality with marbling scores of less than 3 and meat and fat colour scores of 4 to 5 and 5 to 6 respectively. This sort of product quality will not generate repeat business from customers and would be heavily discounted by the market.

The alternative may be to import selected Wagyu primal cuts with specific marble and grade scores thus providing the same service but with no risk.

The photograph below is of a Wagyu sirloin steak with a + 12 marbling score on the MSA grading system. This product was grown in Australia and sold around the world.
• Main brand – this would be product that offers a competitive edge and appeals to the popular market in terms of the price/quality and value mix. As such it catches the middle to lower end of the market and would be seen in all of the market segments and the offer would be across all product types.

![Beef cube roll](image1)

![Beef short Ribs](image2)

• The manufactured products would also carry a related Newco brand and would only apply to products that are sold directly to the consumer. The trimming products depicted below illustrate the different fat contents that determine the sale price. Newco will through the manufacturing department value add these products with surplus volumes sold to the best market on the day.

![Trimming products](image3)

To support all of these marketing initiatives and customer service requirements Newco would have as part of the manufacturing division a research and development and food technology centre that would focus on amongst other things product development. Whilst the facility will be located in the manufacturing department it will supported and controlled by the Sales and marketing department with direct reporting to the CEO.

The business model and supply chain that has been described in this document so far has not been developed to this extent in the Indonesian market. There are several competitors that have developed some elements of this model, but no single entity has a purpose built supply chain of similar design or quality of that proposed in this business plan.

The importation of beef and other food products will be necessary to underpin supply and to give some flexibility in terms of providing product volumes outside natural fall.
For example, we may want to import Wagyu loin cuts to supplement the domestic volumes that may not be adequate to meet demand. Or we may need to import cheap grinding meat products to meet customer demand and to complement the domestic supply volumes.

The introduction of this activity should be immediate as this feature of supply will be driven by customer demand. Alternatively, it may be an option to form a business alliance with a major importer as a first step in developing the knowledge base and market connections thus allowing the business model to mature at minimal risk.

Specifically, I would list the reasons why the Newco model is unique:

- Newco as a new entrant to the food business will have new state-of-the-art technology and purpose-built infrastructure that will provide distinct supply chain and product advantages over its competitors.
- The food safety and hygiene attributes of the Newco suite of products will be extremely difficult to copy.
- The value adding of all offal and by-product items within the abattoir facility is a new approach not practiced by our competitors. Presently all offal products are sold to the wet market traders who then process and sell these products to manufacturers, wet market butchers, and to the consumer. We estimate that by processing and selling these products through our own sales network we can reduce supply chain costs and increase the overall return on these products.
- With supply of imported beef boxed chilled and frozen products being unreliable over the supply cycle a domestic supplier that produces comparable products (hygiene and quality) at internationally competitive prices will be sought after as a hedge by international brands such as McDonald’s, Burger King, and hotel chains all looking for a safe and dependable domestic supplier.
- A state-of-the-art abattoir processing facility combined with the market and intellectual know-how will allow the product to be exported to markets that have a higher return hence creating a new competitive advantage. This flexibility in sales channels at this moment in time has never been attempted by any of our competitors.

The pricing policy of Newco will be driven by a cost plus alpha approach with each division required to add value. If the pricing policy cannot be supported in real terms then market prices will prevail.

At no point will any in-house transfer price be less than the market value on the day after deducting any good, and or service cost that would be required to get that product to market.

Any variation to this pricing policy will be considered by the board of Newco and approved prior to implementation.
KEY POINTS

- **Product profile** – chilled primal loin cuts (tenderloin, Striploin, cube roll, and sirloin steaks) for the table served in the Hotel & Restaurant trade.
- **Develop a series of branded products for various market segments**
  - Flag ship brand which represents all that is good in the business
  - Wagyu brand that compliments the flag ship brand in the top end of the market.
  - Manufacturing brand selling direct to consumer.
- **Grinding beef products** (chuck, blade, brisket and trimmings) for the manufacturing sector and sold directly to end users and the wholesale market.
- **Frozen beef primal cuts** (topside, silverside knuckle and rump) products servicing all market segments including the wet market.
- **Wagyu primal cuts and residual products** for table meat served in the Hotel and restaurant trade.
- **Abattoir and selected meat depots** to value add and distribute products and service to customer base.
- **Benchmark domestic prices against the international market.**
- **Sell direct to end users and consumers using the depot network as retail outlets**
- **Wagyu genetics that provide high quality eating outcomes**
- **Develop an import food business and or alliance with an existing import company to provide additional products and service**
- **Key business features and structure of Newco**

General Manager Duties

- Prepare and oversee implementation of business plans and objectives
- Review and approve key business strategies.
- Examine economic and market trends and conditions as they affect the company and modify policy to take full advantage of any changing circumstances
- Oversee the development and implementation of all company activities to protect funds invested.
- Receive reports from subordinate managers and consolidate for submission to the parent company.
- Ensure compliance with statutory and taxation obligations.
- Oversee the marketing and sales of all products for export and domestic markets.
- Establish pricing policies for all products purchased and sold.
- Maintain necessary contact with major supplier's industrial bodies and government authorities to achieve the above objectives.
- Development of new businesses
- Oversee the QA, R&D function of the business to ensure the integrity of the production and sales system.

Plant Manager Duties

- Oversee the daily operations of the plant
- Responsible for the development and implementation of all plant budget estimates, capital works and maintenance programs
- Ensure that all environmental treatments are complaint to all internal and external standards for both solid and liquid waste streams
- Oversee production and compliance specifications in relation to customer standards
• Oversee and maintain all food safety and hygiene standards applicable to the daily operations of the plant
• Be responsible for the recruitment and selection of all middle management staff within the plant operations

Office Manager Duties

• Responsible for the daily functions and reporting of Newco in relation to all trading activities
• Manage the treasury functions of Newco
• Oversee the H & R function of the business which includes all compliance matters relating to all Government agencies
• Act as company secretary in all legal, corporate, and compliant matters
• Develop and oversee all budgetary and capital works programs and measure company performance against pre-determined KPI’S
• Provide support to the marketing and sales division in relation to cost analysis and sales performance
• Provide IT services to all Newco divisions on a needs basis ensuring that the most current services are available
• Oversee the internal and external audit functions of Newco and in doing so provide structured and relevant forward planning to ensure proper corporate governance outcomes
• Oversee and administer appropriate internal security for all aspects of the Newco business
• Oversee all matters relating to the general maintenance and upkeep of the assets held under Newco

Market and Sales Manager Duties

• Oversee the primary procurement of livestock
• Oversee the daily operations of the Marketing and sales of all products produced by Newco
• Administer the pricing and sales policies (including livestock transfer pricing) of the board of commissioners
• Oversee the daily breakeven calculations on all product categories to guarantee Newco performance
• Administer and be responsible for the debtor’s list
• Oversee and in conjunction with the General manager be responsible for the R&D department’s operations and programs
• Oversee and be responsible for the QA function and all international, Customer, and internal specifications and regulations
• Develop and implement all sales and marketing programs once approved by the board of commissioners
• Provide leadership and take responsibility for the development of all marketing strategies
• Oversee the selection and recruitment of all sales and marketing staff
• Oversee and implement all logistics programs for Newco

Manufacturing Manager Duties

• Oversee the daily operations of the manufacturing department
• Oversee the daily operations of the R&D department
• Oversee the transfer pricing policy to ensure profit centres are maintained
• Oversee the selection and recruitment of all staff and workers within the manufacturing department
7. Market Analysis

The abattoir and manufacturing infrastructure located in close proximity to the feedlot will give Newco the capacity to transform the live animal to food based products suitable for human consumption. It is very important to locate the plant close to the feedlot as the transporting of livestock, the weight loss and meat quality down grades are all costs that can be removed from the supply chain by having the abattoir in close proximity to the feedlot. It is far cheaper and more efficient to transport finished meat products such as boxed beef even though it may require a more sophisticated cold chain.

To give you some understanding of a fully integrated abattoir feedlot complex I would refer you to the photograph below which depicts a 50,000 head feedlot and abattoir with a production capacity of 200,000 cattle per annum. As you can see from the shot the cattle walk from the feed yards to the abattoir a distance of less than a kilometre.

The PPM survey of the wet market butchers shows that over 95% of cattle sold into this market are traded through third parties such as abattoir owners, livestock, and meat traders which implies that feedlot operators sell very little product direct to the wet market butcher. This lack of direct access to the wet market represents a real opportunity for Newco to remove trading levels, profit centres, and improve the supply chain efficiency.

This issue of maintaining an existing sales approach to sell livestock as opposed to food based products will result in conflict that we will need to manage over time.

The supply chain model is designed to provide beef products to all markets including the traditional wet markets. GGLC will continue to sell livestock to traders and other wholesalers thus maintaining sales volumes and underpinning the development phase of the value added component of the business model. This being said the ultimate objective will be to totally eliminate this live trade and move away from commodity type trading.
Newco will not abandon the wet market, on the contrary we will still service the wet market but in a more sophisticated manner using a network of refrigerated depots located in or near the traditional wet markets that will sell bone in, and boneless meat products and offal’s directly to wholesalers and consumers alike.

The PPM survey work shows that the wet market is still the most preferred place to buy beef because it is seen by customers as fresh delivered daily and cheaper than the modern market. The meat depot can still receive fresh beef processed daily thus meeting the expectations of the customer. However the beef will be cleaner more hygienic and have a much longer shelf life than its competition. We also know that in the wet market frozen imported beef is sold as fresh beef despite the fact that it is cold to touch.

The PPM survey confirmed that only 60% of consumers actually touched the beef before buying which indicates that this practice is not as prevalent as it once was. It also allows the wet market butcher to sell carry over product (unsold product from the previous day held in freezer boxes) the next day still promoting it as a fresh product. All of these trends indicate that if product is handled properly during the slaughter, fabrication, transport, and marketing phases the consumer will judge the product on its merits rather than condemn the product as inedible or of inferior quality.

Indonesia is a developing country with a very young population (average age is 29 years) of 237 million people spread over 10,000 islands stretching from Sabang to Merauke. The infrastructure to support this growing economy is limited due to the Government’s priority to provide basic services to its people. It is therefore necessary to consider these infrastructure issues when developing a food supply chain that involves the bringing together of agricultural activity located many kilometers from the urban populations centers. This issue of distribution can be clearly demonstrated when you consider the existing practice...
of transportation livestock vast distances to be slaughtered in local abattoirs near the wet market so that the meat can be sold fresh daily to the consumer. The cost and inefficiencies are huge but never the less real and have to be taken into consideration when developing this marketing and supply chain system.

It is therefore necessary to consider a supply chain and marketing strategy that will cater for

A. Varying regional growth rates measured in terms of GDP,
B. Infrastructure development within regions that will allow for efficient delivery and distribution systems
C. Population growth and urban density by region that will support a more sophisticated production system that will include amongst other things a value added manufacturing facility

This deep penetration of the market and the infrastructure required to support this may take much longer to develop than the primary investment in an abattoir with distribution limited to say greater Jakarta. However Newco will eventually be forced to centralise production and have a series of purpose built meat depots / meat shops that address all of the criteria as mentioned above.

A full assessment of the potential markets and specific locations that Newco will invest in will need to be developed as a separate and more comprehensive document based on the existing sales channels. However it must be understood that the market dynamics in terms of supply channels and customer base will be totally different to the existing customer profile. In fact the existing customers will become competitors as Newco moves its product profile up the supply chain closer to the retail and consumer.

As mentioned earlier in the PPM executive summary 60% of all wet market customers across all regions are from the institutional trade. If you break down the figures further you see that 70% are from the Hotel and restaurant sector which presents a real opportunity for Newco by selling directly to the wet market customers in this sector thus reducing the supply chain inefficiencies and cost.

The PPM survey data confirms that there is an underlying pent up demand for beef that is been exasperated by a limited supply from both domestic and international sources. Further when comparing beef prices to other animal protein products in the market such as chicken, beef is on average three times higher when comparing like with like products.

The consumer shift from the traditional wet market to the modern market outlets is occurring modestly but not evenly due to cultural preferences and uneven GDP growth in rural regions. The business model and distribution structure must be able to accommodate both marketing channels understanding that the wet market is and will remain the most dominate supply channel particularly in the countryside.

The latest survey data from the Ministry of Trade and Industry puts the Indonesian cattle population at 14.3 million which is within the projected range to support the government's self-sufficiency policies. However the government is very mindful of the inefficiencies in the domestic breeding programs and will need to support the under supply of beef protein by controlled imports of livestock for fattening in feedlots, and boneless beef and offal products that are sold directly into the beef market.

It is expected that from time to time there will be imbalances in the supply/demand ratios that cause market disruptions and price wings. Newco will have to protect its supply of cattle by diversifying its supply and not relying on one country such as Australia. This risk management of supply can be off-set by a number of strategies and in summary are
1. Support domestic and international breeding programs

2. Import boxed beef from all approved importing countries that compliment domestic product but can also be a back-up in terms of balancing the supply/demand ratio.

3. Develop strong trading relationship with overseas suppliers

Pricing

The business model pricing dynamics are based on the market and are described as follows:

- Livestock or cattle price is derived from GGLC sales department
- Wholesale prices are derived from industry traders and importers
- Wet market prices are derived from the wet market public offer and compiled by PPM and the Newco team
- The retail prices are derived from the supermarket public offer and compiled PPM and the Newco team

These prices were collected in the second quarter of this year prior to any market distortions caused by the livestock supply closures in June. Since that time prices have increased markedly but in unison with no effect on the margins reflected in this model.

The pricing graph titled Wholesale, Wet market and Retail prices (above) demonstrates quite clearly that the wholesale price (blue line) is on average 13.5% below the wet market and 50% of the retail price less the supermarket margin of 30%. The 30% reduction in the retail price is the assumed mark-up that supermarkets apply on goods purchased so by removing this margin we can compare the Newco sales price to the buy price of the supermarkets.

A 50% margin in the price gives the business a reasonable confidence in terms of competitive advantage.

The only wholesale prices (blue line) that are higher than the wet and retail markets are the loin cuts and this is due to the fact that we have priced these items across three disposals and averaged the price for the model. We are of the view that loin cuts will only be
sold in the middle to upper end of the home consumption market, the eating out trade, and or export. In practice we will not sell any loin cuts to the wet market but in this model we have discounted a small portion that may be out of specification.

The graph labelled Selling price on the Model verses the Retail prices illustrates the margins that exist and underpin the manufacturing model. The manufacturing price is a derived price and is the wholesale price less all packaging and freight costs plus a 25% margin. This margin covers all manufacturing costs (operating and overhead) plus a profit margin. As you can see from the graph the market price (red line) is substantially higher for most of the items with the exception of the some offal and loin products. There are specific reasons why these prices are marginal and they relate to:

- At the time of the survey some offal items were in over supply due to a higher domestic slaughter rate caused by a restriction in imported boxed beef tonnages.
- The loin cut prices do not reflect the higher margins that can be derived from the H&R trade given that the retail price of a dish (steak meal) is influenced by the other ingredients and restaurant margins. However it is estimated that the loin cut prices in this model are undervalued by at least 20% when surveying a range of restaurant prices.

These sell prices to the supermarket includes the cutting and packaging costs that the supermarket would normally be borne by the store so savings to the super market are very attractive.

The market prices and sell prices that drive the financial model demonstrates a tangible competitive advantage.

**KEY POINTS**

- **Newco will not abandon the wet market**
- **Trading directly to wet market butchers**
- **Depots, meat shops and a food service offer is the key to developing new sales channels directly with the H&R trade**
- Customers still see the wet market as cheaper than the modern market and fresh beef daily
- Infrastructure the key to an efficient supply chain
- Today’s customer will be tomorrow’s competitor
- Government policy effects the supply / demand balance
- External Risks must be managed
- All prices in the financial model are sourced from the market
- Pricing margins for wet, retail, and manufacturing give a reasonable confidence in terms of competitive advantage
8. Competition

Newco will buy and grow livestock and then process that livestock into food products for sale into the market. At this moment in time there are only a few companies that have the resources and corporate structure to compete directly with Newco and they are

- Santori - is a fully integrated feedlot, abattoir, and manufacturing business that have an extensive market and sales network throughout Indonesia. The company has several well recognised brands in the market and sell a full range of animal protein items from milk, chicken, beef, and processed foods. This business is well established and by far the biggest threat to Newco.

- Hasindo - is a processor of beef cattle and an importer of boxed beef and other food products. This business does not grow its own cattle but simply buys the livestock from other feed yards on a needs basis. The company has a strong brand in the domestic market and sells domestic beef to supermarkets and the Hotel and Restaurant trade. They do not do any manufacturing at the moment but could easily develop this channel if required.

- Elders – is a fully integrated feedlot and abattoir complex and imports cattle from Australia. They have an established brand called Sterling which is sold into the Supermarkets, Hotels and Restaurant trade. The company does not trade in offal or any by-products but chooses (like most of the abattoir operators) to sell these products untreated to local distributors at discounted prices. Elders have no distribution system of its own and have developed an alliance with Diamond (Sukanda Djaya) to facilitate this service.

- Haji Tolib – is a local operator that trades mainly in the wet market selling a full range of offal and by product items. The uniqueness of this business is its ability to secure the majority of the offal in the market thereby controlling the distribution and price. It is highly unlikely that this company will compete with Newco in the middle to high end of the market but will be very active in the wet and low end offal and by product trade.

- Indoguna – is one of many importers that buy boxed beef and other food products from approved countries around the world and trade these products into the market. This company has developed a very extensive cold chain supported by meat shops that provide direct sale to the public and also service the institutional trade with a range of valued added meat products. They do not buy and or feed any livestock therefore rely heavily on the imported box beef trade. The competitive advantage in this business comes from the quality and price of imported beef products and will directly compete against Newco in the middle to high end of the market in both home consumption and the eating out trade.

As a general rule those companies that import beef products (boxed beef) will not actively buy livestock and process this product in a domestic environment. These types of competitors are called “Importers” and their function is to trade imported and domestic products to their best advantage. This type of trader will be a direct competitor to the Newco business in the manufacturing and high end market segments.

The second type of competitor is a cattle grower that imports livestock from Australia and value adds the cattle by growing the animal to a defined weight and grade prior to slaughter. These companies do directly compete against Newco in selling livestock and will in the fullest of time develop a similar style of business model to that of Newco and others in the market.
To differentiate the Newco business from our competitors we will do the following

1. Create a cold chain that will deliver better product outcomes for the customer
2. Reduced supply chain costs by centralizing the production and processing of cattle thereby reducing transportation costs. Moving livestock around the country is very expensive and wasteful for four reasons
   - The weight loss (or shrink) of the live animal over the journey is a direct cost that cannot be recovered by passing that loss onto the customer. Weight losses of 5 to 10% is not uncommon.
   - The transport cost of moving a live animal with a weight of 500 kgs that will only yield approximately half of the total weight after slaughter is a waste of resources and again cannot be passed on to the customer. This cost simply becomes part of the production cost that makes you less competitive against other protein such as chicken.
   - The meat quality attributes of the carcass will deteriorate if the live animal becomes stressed resulting in dark cutting and tough meat that effects eating quality and eventually the sell price.
   - The transportation of animal’s vast distances will result in higher costs as animal welfare issues become mandatory
3. Food safety and hygiene standards of world’s best practice that competes with all imported meat products
4. Improve meat quality that will allow domestically grown produce to compete in the high end Hotel and Restaurant trade
5. Process all cattle parts in house thereby extracting as much value as possible
6. Develop a value added component of the business model that will move the product closer to the consumer
7. Trade the product to the best possible disposal including the export market
8. The Newco service and product profile will be provide tangible benefits to its customers by
   - Reducing the layers of service and selling more directly to end users
   - Can offer a full range of meat products “a one stop shop option”

The distribution systems for beef and indeed other fresh protein products relies heavily on getting the product to market within the expiry date of the product, in other words before the product becomes unsaleable. As mentioned previously the traditional concept of freshness by the consumer is governed by touch, smell and sight at the point of sale. The PPM survey work confirms that whilst this practice still persists, it is not as prevalent as it once was. However consumers still have a strong belief that beef sold in the wet market is fresher than similar product sold in the modern market. I have to say that some of the existing supply chains in the modern market are not up to standard and have resulted in poor delivery outcomes to consumers and goes to the notion that the modern market is questionable in terms of freshness. Another factor is the quality of the staff and work practices within the store that adds to the issue of poor shelf life and delivery.

It is clear that these sorts of perceptions and concerns about freshness will need to be addressed over time by strong educational campaigns developed by Newco and incorpo-
rated into the marketing and sales strategies. The timing of these promotional events will need careful consideration and be linked to strong and well founded supply systems that can maintain the claims that are made about shelf life, freshness, and wholesomeness in the products sold.

All of these matters relating to supply chain hygiene and delivery have been dealt with in other emerging markets around the world and I see no reason why they will not emerge and become the norm in this market.

KEY POINTS

- Santori will continue to be a real threat to Newco
- Newco is different to its competitors
- The modern market food freshness an issue
- Education is the key to change
9. Marketing Strategy

The business production capacity is designed to provide products for all market segments therefore the promotional and marketing techniques will be developed on a case by case basis. For example the wet market sales will be very much driven by word of mouth and product reputation than any external promotional campaign developed by a service provider. However on the other hand for specific consumer items developed and sold under the company logo and brand it will be necessary to outsource an advertising agency to develop a coordinated approach to the promotion of some of the valued added food products. These sales and promotional campaigns will no doubt be part of the supermarkets in-house promotional programs which will be part of the sales strategy.

Promotion

During the initial set-up phase and the first few years of business, the budget for marketing is minimal. Whilst the majority of customers will come by word of mouth, specific marketing tools have been chosen for their cost effectiveness. The business logo and colours will be consistent across all material to encourage brand recognition. The list of current marketing tools is as follows:

- Small local newspaper advertisement
- Low cost local exhibitions that target lifestyle, health and wellbeing
- Website/blog with online business listings (free and low cost)
- Small Google ad words campaign
- Letterbox drop with flyers (also found to be ineffective)
- Flyers and business cards to be taken to local businesses and
- Networking with other practitioners

Online presence

The business website and online listings is the focus for marketing at this stage. Search Engine Optimisation has been a focus for content and functionality. The ‘feature article’ section will allow for a diverse range of topics to be explored. A ‘Subscription’ to email updates is an avenue for further marketing and notifications of new articles and special service prices. From this, Example Business hopes to gain an online community following and increase the discoverability for new clients.

Measuring success

Evaluation of the effectiveness of each marketing campaign will be carried out every six months. New clients will be surveyed as to how they found out about our products thus compiling market data that will direct future activities.
All of these activities relating to the marketing and sales programs must be put into context when developing this business so the detail relating to the following list of actions will be developed by the market and sales team once they have been put in place.

Show how consumers will find out about your product/service including:

- Where, how and when you will promote your product/service such as shopping centre promotions, point of sale, viral marketing, billboards, loyalty schemes, etc.
- What type of printed materials you’ll create
- Your website or online presence
- Details and cost of advertising including print, online, TV and radio
- Product/service launch plans
- How you will measure the success of your marketing strategy and various promotions
- How pricing will encourage sales (e.g. selling in bulk)
- ‘Wish list’ for further marketing in the future (ideas to look at further down the track with more $ or more experience)
10. Financials

Financial projections

Key Assumptions

<table>
<thead>
<tr>
<th>General Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slaughter Capacity (head/day)</td>
</tr>
<tr>
<td>Abattoir Start up month</td>
</tr>
<tr>
<td>Manufacturing Start up month</td>
</tr>
<tr>
<td>AUD : IDR</td>
</tr>
<tr>
<td>Cost of Equity</td>
</tr>
<tr>
<td>WACC (65% by Debt)</td>
</tr>
</tbody>
</table>

Purchase Specification

| Purchase Price (Rp/Kg Live) | 23,900 |
| Average Live Weight (Kg) | 461 |
| Carcass Yield (weighted average) | 53.65% |

Investment Figures

<table>
<thead>
<tr>
<th>Yearly (in Rp bio)</th>
<th>Fixed Capital</th>
<th>Working Capital</th>
<th>Total Investment</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>By Debt</td>
<td>4.1</td>
<td>28.0</td>
<td>8.5</td>
</tr>
<tr>
<td>By Equity</td>
<td>2.2</td>
<td>15.1</td>
<td>4.6</td>
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<tr>
<td>Total</td>
<td>6.3</td>
<td>43.1</td>
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</table>
### Working Capital Credit Limits

<table>
<thead>
<tr>
<th>Description</th>
<th>Days</th>
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</thead>
<tbody>
<tr>
<td>Days of Payables</td>
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<tr>
<td>Inventory on Hand</td>
<td>15 days</td>
</tr>
<tr>
<td>Days of Receivables for Hotels</td>
<td>60 days</td>
</tr>
<tr>
<td>Days of Receivables for Restaurants</td>
<td>60 days</td>
</tr>
<tr>
<td>Days of Receivables for Supermarkets</td>
<td>60 days</td>
</tr>
<tr>
<td>Days of Receivables for Wholesalers</td>
<td>7 days</td>
</tr>
<tr>
<td>Days of Receivables for Wet Markets</td>
<td>Cash on Delivery</td>
</tr>
<tr>
<td>Days of Receivables for Fast Food</td>
<td>Cash on Delivery</td>
</tr>
</tbody>
</table>

### Income Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
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<tbody>
<tr>
<td>Net Revenue</td>
<td>-</td>
<td>-</td>
<td>137.1</td>
<td>391.4</td>
<td>652.4</td>
<td>652.4</td>
<td>652.4</td>
<td>652.4</td>
<td>652.4</td>
<td>652.4</td>
<td>652.4</td>
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<tr>
<td>Gross Profit</td>
<td>-</td>
<td>-</td>
<td>15.5</td>
<td>51.3</td>
<td>85.9</td>
<td>85.9</td>
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<td>85.9</td>
<td>85.9</td>
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</tr>
<tr>
<td>EBITDA</td>
<td>-</td>
<td>-</td>
<td>3.8</td>
<td>37.2</td>
<td>69.1</td>
<td>71.8</td>
<td>71.8</td>
<td>71.8</td>
<td>71.8</td>
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<tr>
<td>EBIT</td>
<td>-</td>
<td>-</td>
<td>-5.5</td>
<td>27.8</td>
<td>59.7</td>
<td>62.4</td>
<td>70.2</td>
<td>70.2</td>
<td>70.2</td>
<td>70.2</td>
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<tr>
<td>EBT</td>
<td>-1.2</td>
<td>-9.9</td>
<td>22.2</td>
<td>55.3</td>
<td>61.8</td>
<td>70.2</td>
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<td>70.2</td>
<td>70.2</td>
<td>70.2</td>
<td>70.2</td>
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<tr>
<td>EAT</td>
<td>-1.2</td>
<td>-9.9</td>
<td>16.7</td>
<td>41.5</td>
<td>46.4</td>
<td>52.6</td>
<td>52.6</td>
<td>52.6</td>
<td>52.6</td>
<td>52.6</td>
<td>52.6</td>
</tr>
</tbody>
</table>

*Note: All figures in Rp billion.*

- The business will start to generate a profit after year two but will not reach full capacity (200 head per day) until year four.
- The profit after tax is expected to increase from year three to five from 17 to 46 billion Rp, and at year six and thereafter reach 53 billion Rp.
### Balance Sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
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<tr>
<td><strong>Asset</strong></td>
<td></td>
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<tr>
<td>Current</td>
<td>-</td>
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<tr>
<td>Non-Current</td>
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<tr>
<td>Total Asset</td>
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<tr>
<td><strong>Liability</strong></td>
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<tr>
<td>Current</td>
<td>-</td>
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<tr>
<td>Long-Term</td>
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<tr>
<td>Total Liability</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
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<tr>
<td>Capital</td>
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</tr>
<tr>
<td>Fixed Capital</td>
<td>2.2</td>
</tr>
<tr>
<td>Working Capital</td>
<td>-</td>
</tr>
<tr>
<td>Accum Profit</td>
<td>-</td>
</tr>
<tr>
<td>Total Equity</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*Note: All figures in Rp billion.*

- By year ten shareholder’s wealth are expected to be around Rp 397.8 billion with zero debt.

### Cash Flow Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Cash From Operating</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash From Investing</strong></td>
<td>-6.3</td>
</tr>
<tr>
<td><strong>Cash From Financing</strong></td>
<td>6.3</td>
</tr>
<tr>
<td>- From Equity</td>
<td>2.2</td>
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</tbody>
</table>
### Debt Schedule

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tbody>
<tr>
<td>Beg. Debt Balance</td>
<td>-</td>
<td>4.1</td>
<td>36.5</td>
<td>59.0</td>
<td>65.4</td>
<td>20.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Debt Borrowing</td>
<td>4.1</td>
<td>31.1</td>
<td>21.6</td>
<td>15.5</td>
<td>3.0</td>
<td>1.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Debt Repayment</td>
<td>-</td>
<td>-</td>
<td>-3.5</td>
<td>-14.7</td>
<td>-52.0</td>
<td>-22.7</td>
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<tr>
<td>Accrued Interest</td>
<td>-</td>
<td>1.2</td>
<td>4.4</td>
<td>5.6</td>
<td>4.4</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ending Debt Balance</td>
<td>4.1</td>
<td>36.5</td>
<td>59.0</td>
<td>65.4</td>
<td>20.9</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

*Note: All figures in Rp billion.*

- Debt is expected to be fully repaid in the fifth year with initial 65% leverage on investment.

### Free Cash Flow for the Firm (FCFF)

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Income</td>
<td>-</td>
<td>-18.1</td>
<td>-6.6</td>
<td>41.6</td>
<td>57.9</td>
<td>56.3</td>
<td>54.2</td>
<td>54.2</td>
<td>54.2</td>
<td>54.2</td>
<td>54.2</td>
</tr>
<tr>
<td>Fixed Capital Investment</td>
<td>-6.3</td>
<td>-43.1</td>
<td>-13.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>FCFC</td>
<td>-6.3</td>
<td>-43.1</td>
<td>-31.2</td>
<td>-6.6</td>
<td>41.6</td>
<td>57.9</td>
<td>56.3</td>
<td>54.2</td>
<td>54.2</td>
<td>54.2</td>
<td>54.2</td>
</tr>
</tbody>
</table>

*Note: All figures in Rp billion.*

- Positive cash flow for the company is expected to be achieved in the fourth year.
Valuation (Company)

| NPV without terminal value (10 year period) | Rp 38.93 bio |
| NPV with terminal value | Rp 78.92 bio |
| IRR without terminal value (10 year period) | 32.25% |
| IRR with terminal value | 37.98% |
| Payback Period | 4.79 |
| Discounted Payback Period | 6.63 |
| Cash Multiple without terminal value (10 year period) | 5.57 x |
| Cash Multiple with terminal value | 9.67 x |

- The business will generate NPV of 39 billion Rp over ten years and NPV plus terminal value of 79 billion Rp for the same period assuming a 10% decline in terminal cash flow.
- The IRR of 32.25% over a ten year period with a WACC of 18.72% provide a feasible outcome.

Sensitivity Analysis

<table>
<thead>
<tr>
<th>Carcass Yield</th>
<th>Weighted Average</th>
<th>NPV (Rp bio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worst Case</td>
<td>51.65%</td>
<td>-10.21</td>
</tr>
<tr>
<td>Base Case</td>
<td>53.65%</td>
<td>38.93</td>
</tr>
<tr>
<td>Best Case</td>
<td>56.41%</td>
<td>106.88</td>
</tr>
</tbody>
</table>

- The Carcass yield is the most sensitive variable when determining the feasibility of the Project.
- The figure above demonstrates the sensitivity of the weighted average carcass yield (between bulls, steers, and heifers) and the impact on the NPV.
Stress Testing (Simulation Analysis)

<table>
<thead>
<tr>
<th>Confidence Interval</th>
<th>95.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Trials</td>
<td>10,000</td>
</tr>
<tr>
<td>Minimum NPV (Rp bio)</td>
<td>-20.9</td>
</tr>
<tr>
<td>Maximum NPV (Rp bio)</td>
<td>153.7</td>
</tr>
<tr>
<td>Average NPV (Rp bio)</td>
<td>62.4</td>
</tr>
<tr>
<td>Standard Deviation of NPV (Rp bio)</td>
<td>27.9</td>
</tr>
<tr>
<td>95.00% Probability NPV (Rp bio)</td>
<td>7.79 to 117.1</td>
</tr>
<tr>
<td>5.00% Value at Risk – VAR (Rp bio)</td>
<td>15.6</td>
</tr>
</tbody>
</table>

- Using 10,000 random scenarios on three random variables (foreign currency, buy and sell prices, and carcass yield), there is a 95% probability that NPV will fall between 7.79 to 117.1 billion Rp and a 5% probability that it will fall below 15.6 billion Rp.
- The average NPV for these random scenarios is Rp 62.4 billion, compared to the model’s base case of a NPV of Rp 38.9 billion demonstrating that the financial projection is quite conservative.
### Breakeven (200 cattle/day)

<table>
<thead>
<tr>
<th>Breakeven number of cattle slaughtered</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Cattle slaughtered in one year</td>
<td>7,583 head</td>
</tr>
<tr>
<td>Average number of Cattle slaughtered per Day</td>
<td>30 head/day</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Breakeven Gross Contribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakeven Cattle Price</td>
<td>Rp 27,295.33/Kg Live</td>
</tr>
<tr>
<td>Per Hot Carcass Price</td>
<td>Rp 50,868.91/Kg Hot</td>
</tr>
<tr>
<td>Per Product Price</td>
<td>Rp 37,165.02/Kg Product</td>
</tr>
<tr>
<td>Per Head Price</td>
<td>Rp 12,576,594.67/Head</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Breakeven EBITDA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakeven Cattle Price</td>
<td>Rp 26,784.46/Kg Live</td>
</tr>
<tr>
<td>Per Hot Carcass Price</td>
<td>Rp 43,614.72/Kg Hot</td>
</tr>
<tr>
<td>Per Product Price</td>
<td>Rp 31,860.05/Kg Product</td>
</tr>
<tr>
<td>Per Head Price</td>
<td>Rp 12,341,206.80/Head</td>
</tr>
</tbody>
</table>

- Throughput at 200 cattle per day results in breakeven for EBITDA achieved at 30 head with a breakeven cattle price of Rp 26,784.46 per Kg Live.
11. Action Plan

(This section has not been completed and waiting for corporate approval)
**Appendix I: Competitors Analysis**

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Size</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santori</td>
<td>Large</td>
<td>*Fully integrated food business (not just beef but all protein)</td>
<td>*Meat quality and food safety limited market penetration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Fully integrated feedlot, abattoir, and manufacturing complex</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>*good brand</td>
<td></td>
</tr>
<tr>
<td>Hasindo</td>
<td>Large</td>
<td>*Imports box beef</td>
<td>*no feedlot</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Good brand image</td>
<td>*no manufacturing but could invest if the opportunity presented itself.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*domestic processing capacity</td>
<td></td>
</tr>
<tr>
<td>Elders</td>
<td>Small</td>
<td>*Fully integrated feedlot &amp; abattoir *established brand</td>
<td>*limited distribution in that it relies on others to sell their product</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*meat quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Food safety</td>
<td></td>
</tr>
<tr>
<td>Indoguna</td>
<td>Large</td>
<td>*cold chain</td>
<td>*limited to imported box beef</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*excellent Sales &amp; distribution</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>*manufacturing / food service</td>
<td></td>
</tr>
</tbody>
</table>
### Appendix II: Strategic SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy of scale</td>
<td>Limited cattle supply</td>
</tr>
<tr>
<td>World’s best practice</td>
<td>No expertise / industry knowledge</td>
</tr>
<tr>
<td>Sell to all markets</td>
<td>Government policy uncertainty</td>
</tr>
<tr>
<td>Add more value</td>
<td></td>
</tr>
<tr>
<td>Reduce supply chain costs</td>
<td></td>
</tr>
</tbody>
</table>

#### Opportunities

- Marketplace areas that can be built on, e.g.
- Strong consumer demand
- Cold chain development
- Sell direct to consumer
- Educate the public on wholesome meat

#### Strategies using strengths to address opportunities

- Ways to take advantage of business strengths, e.g.
- Food safety/cold chain will give greater market access
- Added value direct to consumer
- Competitive price products
- Meat shops and depots
- Proper marketing & PR campaign

#### Strategies to reverse weaknesses to address opportunities

- Ways to ensure weaknesses don’t hamper opportunities, e.g.
  - Lobby the government on livestock imports
  - Recruit expertise from overseas
  - Develop and train local workforce

#### Threats

- External issues that could affect the success of the business, e.g.
  - Increased imported boxed beef trade
  - No domestic cattle supply
  - Copycat by competitors
  - Decline in cattle supply from Australia

#### Strategies to counter threats with strengths

- Ways to use business strengths so threats are not a problem, e.g.
  - Import and trade boxed beef
  - Develop a domestic breeding program
  - Food safety and hygiene
  - Economy of scale increased barrier to entry.

#### Strategies to fix vulnerabilities

- Ways to address areas where the business may be vulnerable, e.g.
  - Create strategic alliances with Australian cattle suppliers
  - Create strategic alliances with boxed beef exporters around the world
  - Develop a domestic breeding program
Commentary of the SWOT analysis

- The SWOT format demonstrates that when the strengths and opportunities are combined they provide a strong platform on which you can build this business.

- All of the strengths and opportunities can be directly influenced by management thus risk can be controlled.

- The weaknesses and threats are external risk factors outside the control of management, therefore specific counter measures will need to be put in place to protect the core business.
Appendix III: Michael Porter’s Analysis

Identification of the driver in the five forces

Rivalry Among Existing Competitors
- Are there many competitors? - Yes
- Is the degree of operating and financial leverage high? - No
- Are the participants committed to the business high? - No
- Is the product differentiation low? - No
- Is the product shelf life short? - Yes
- Is the information straightforward? - No

Bargaining Power of Supplier
- Are the buyers able to switch the product? - Yes
- Do the substitute products offered have attractive prices? - Yes

Bargaining Power of Buyer
- Are the buyers able to control the standard of the product? - No
- Are the buyers able to switch the product? - Yes
- Is the supply chain attractive to the buyer in terms of backward integration? - No
- Is the price sensitive? - Yes

Primary driver of five forces

Rivalry Among Existing Competitors
- Primary Driver: Is the degree of operating and financial leverage high? - No
- Primary Driver: Is the product shelf life short? - Yes

Threat of New Entrants
- Threat of New Entrants: Is the capital requirement low? - Yes
- Threat of New Entrants: Is the government regulation is heavy? - No

Bargaining Power of Supplier
- Primary Driver: Does the input have specific characteristic? - No
- Primary Driver: Is it hard to change supplier? - No

Threat of Substitutes
- Threat of Substitutes: Are the buyers able to switch the product? - Yes
- Threat of Substitutes: Do the substitute products offered have attractive prices? - Yes

Bargaining Power of Buyer
- Primary Driver: Is the price sensitive? - Yes
- Primary Driver: Are the buyers able to switch the product? - Yes
Assessment of five forces into price sensitivity on the short-term and long-term

<table>
<thead>
<tr>
<th>Primary Driver</th>
<th>Impact on Price</th>
<th>Short Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threat of New Entrants</td>
<td>Decrease</td>
<td>Low</td>
<td>Decrease</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the capital requirement low? - Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is the government regulation heavy? - No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining Power of Supplier</td>
<td>Decrease</td>
<td>Medium</td>
<td>Decrease</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Does the input have specific characteristic? - No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is it hard to change supplier? - No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining Power of Buyer</td>
<td>Decrease</td>
<td>Low</td>
<td>Decrease</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the price sensitive? – Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Are the buyers able to switch the product? – Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td>Decrease</td>
<td>Medium</td>
<td>Decrease</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Are the buyers able to switch the product? – Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Do the substitute products offered have attractive prices? - Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rivalry Among Existing Competitors</td>
<td>Decrease</td>
<td>Low</td>
<td>Increase</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the degree of operating and financial leverage high? – No (ST) / Yes (LT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is the product shelf life short? - Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assessment of five forces into cost sensitivity on the short-term and long-term

<table>
<thead>
<tr>
<th>Primary Driver</th>
<th>Impact on Cost</th>
<th>Short Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threat of New Entrants</td>
<td>Decrease</td>
<td>Low</td>
<td>Decrease</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the capital requirement low? - Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is the government regulation heavy? - No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining Power of Supplier</td>
<td>No Impact</td>
<td>No Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Does the input have specific characteristic? - No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is it hard to change supplier? - No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining Power of Buyer</td>
<td>No Impact</td>
<td>No Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the price sensitive? – Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Are the buyers able to switch the product? – Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td>No Impact</td>
<td>No Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Are the buyers able to switch the product? – Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Do the substitute products offered have attractive prices? - Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rivalry Among Existing Competitors</td>
<td>No Impact</td>
<td>No Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Primary Driver:</td>
<td>*Is the degree of operating and financial leverage high? – No (ST) / Yes (LT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Is the product shelf life short? - Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Assessment of five forces into profit sensitivity in the short term

Assessment of five forces into profit sensitivity in the long term
Historical Profit Margin for Food Industry as a benchmark

Final Assessment on Michael Porter Analysis

Threat of New Entrants
- Is the capital requirement low? - Yes
- Is the government regulation heavy? - No

Mitigate by: Build economic of scale business / cheaper cost/unit

Rivalry Among Existing Competitors
- Is the degree of operating and financial leverage high? – No (ST) / Yes (LT)
- Is the product shelf life short? - Yes

Mitigate by: Sell every product (chilled or frozen) at the highest price to any market segment.

Profit Sensitivity is MEDIUM
Profit Sensitivity is HIGH

Profit Sensitivity is LOW

Bargaining Power of Supplier
- Does the input have specific characteristics? - No
- Is the input hard to change? - No

Mitigate by: None, low input to the industry

Bargaining Power of Buyer
- Are the buyers able to switch the product? - Yes
- Do the substitute products offered have attractive prices? - Yes

Mitigate by: Avoid price as determinant of market share by creating product differentiation and complementary product and services.

Cost Sensitivity is MEDIUM

High

Low

Mitigate by: Reduce Product Differentiation
Appendix IV: PPM Detail Reports

(This section will be provided separately)