

Innovative entrepreneurial project distribution of dairy products

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Abstract

The association of small cheese producer Koprivničko-križevačka county "Prgica" has a total of 37 members who each for himself produce and sell dairy products. Thereby, they have significant cost.

This paper presents the innovative idea establishment of enterprise for the distribution of dairy products produced by association members "Prgica". The results show that the realization of entrepreneurial ideas could provide the conditions for market competitiveness of association members and successful business the new entrepreneurial company with 5 persons employed.

Key words: *business idea, the distribution of dairy products, business of association members.*

Introduction

Small Cheese Producers Association „Prgica“ was founded in Koprivnica-Križevci county in 2006, with the aim of assisting its members in placing their products on the market. However, what is still a problem is the lack of continued joint representation on the market, joint promotion and sales. The Association “Prgica” counts 37 members, each of whom produces their own products and directly sells dairy products on busy farmer’s markets once to four times a week in Koprivnica-Križevci County, Zagreb County and Varaždin County. Their expenses are considerable, taking into account travel and other expenses, a certain “waste of time” and the fact they have to oversee and be responsible for the whole process – from production to sales.

On the other hand, it has been proven that customers are interested in traditionally produced agricultural products. Great many people – customers – buy their food on farmer's markets and consider the offer there to be insufficient.

The goal of this paper is to show innovative ideas for distributing dairy products produced by the members of the Small Cheese Producers Association in Koprivnica-Križevci County through the foundation of a new company which would primarily be involved in the sales of the produced dairy products. The cost-effectiveness of the idea is shown through a business plan and the aim is to ensure a greater profit both for the producers and the newly founded company. Besides, the new company encourages self-employment while allowing the cheese producers to focus on production only. The true innovation lies in the fact that this is the first company of this kind in Croatia.

Materials and methods

The paper is an overview of the business plan aimed at representing the innovative idea behind the founding of a company for selling and distributing dairy products of the Association. Considering that the Entrepreneur's family has been producing dairy products for years, she knows the problems behind the placement of finished products on the market. Expenses occur, such as travelling from home to the farmer's market, but also fees, scale rentals, booking a stand for the whole month, personal expenses. Therefore, she showed innovation by trying to found the company for distributing the products of the Association "Prgica", and which would do activities prior to sales of the analyzed agricultural food products (with the emphasis placed on distribution and promotion), while allowing the members/producers of the Associating to do what they love the most – produce dairy products.

The paper uses internal data of the Association "Prgica" in order to calculate the cost-effectiveness of the company for the distribution of dairy products. Also, in order to do the SWOT analysis as efficiently as possible, we conducted interviews with the members of the Association.

All financial indicators are in Croatain kunas – HRK (1 EUR=7,5 kn).

Results and discussion

Information on the investor and the investment

The Entrepreneur graduated from Vocational High School and entered into professional studies program Agriculture, majoring in Management in Agriculture at college of Agriculture in Križevci. After graduation, she decided to start her own business and open a company which would distribute dairy products to the market. Her family has been producing dairy products for years at their own farm. They have been fairly successful at producing dairy products and placing them on the market so far, but lately they've encountered problems with the distribution of their products to the market. The expenses are increasing and they lack the quantities of products to satisfy all their customers' needs. Those problems are shared by other producers in the Association "Prgiva" (37 members) so the Entrepreneur decided to start up a company which would handle the distribution and sales of the Association's products, assist producers in placing their products on the market and jointly become competitive on the market.

The SWOT analysis shows that the competitive advantages of the future company are high-quality products, long tradition of selling the products on farmer's markets, high-quality labor force, the proximity of big cities (primarily Zagreb), and wide product range.

Location elements

The Entrepreneur's intention included choosing a location of her new company in a part of her own family home, close to other members of the Association. She plans to turn one part of her own house into a small office and another part into a refrigerated warehouse in order to keep the products in optimal temperature. The house is located on a main road in the village.

The village is 13 kilometers from Križevci, 57 km from Zagreb, 41 km from Varaždin. The close proximity of the big cities ensure the markets for the products. Excellent traffic connections, both road and railway, additionally facilitate the access to markets.

Market justification and sales plan

While making the business plan, the Entrepreneur paid attention to different risks which could occur during the implementation of the business venture. In accordance with this, she developed structure and sales quantities variables. She

identified the structure and the quantities of product sales with corresponding unit selling prices during the duration of the project. The quantities have been calculated based on conversations with producers about their actual production quantities and current average selling prices of approximately ten products on the market at the moment. She assumed that the quantities could be substantially higher, considering the fact that the producers would not be involved in the sales anymore, only production. The Entrepreneur is certain she can conquer the market and plans to increase the sales quantities by 10% annually, which increases the overall profit (Table 1).

Table 1. Five-year sale plan – during the venture project

	<i>Type</i>	<i>Measuring unit</i>	Year					Price in HRK
			1.	2.	3.	4.	5.	
1.	Cottage cheese	kg	36.680	44.680	49.148	54.063	59.469	30,00
2.	Škripavac	kg	35.880	44.080	48.488	53.337	58.670	35,00
3.	Butter	kg	4.724	5.824	6.406	7.047	7.752	40,00
4.	Boiled sir	piece	33.120	43.120	47.432	52.175	57.393	40,00
5.	Boiled cheese with spices a	piece	30.120	39.120	43.032	47.335	52.069	40,00
6.	Smoked cheese	piece	34.120	43.120	47.432	52.175	57.393	40,00
7.	Smoked cheese cones	piece	13.560	17.560	19.316	21.248	23.373	10,00
8.	Dried cheese	piece	18.872	23.672	26.040	28.645	31.510	30,00
9.	Milk	l	50.240	64.240	70.664	77.730	85.503	6,00
10.	Cream	l	33.480	41.280	45.408	49.949	54.944	25,00

Source: Own research

Analytical duration of the project was determined at 5 years. In the business plan, the Entrepreneur took into consideration seasonal fluctuations, especially during July and August when the sales of dairy products decreases due to holidays.

It needs to be emphasized that the Entrepreneur intends to sell the dairy products for the members of the Association and thus make a profit for the producers and for her own newly-founded company, based on the 7% profit margin of sold products (Table 2).

Table 2. Total income of Entrepreneur (7%) from selling the Association's dairy products

YEAR	TOTAL INCOME OF MEMBERS OF THE ASSOCIATION	ENTREPRENEUR'S PROFIT 7%
1.	8.279.760,00	579.583,20
2.	10.433.760,00	730.363,20
3.	11.477.144,00	803.400,08
4.	12.624.900,00	883.743,00
5.	13.887.448,00	972.121,36

Source: Own research

The Entrepreneur and her employees will sell the products at the farmer's market for cash due to the current inability to set up card paying system for direct sales. The members will be paid for their products immediately after delivery, decreased for the 7% of the selling price which will amount to the Entrepreneur's income for the work she would be doing for each individual producer/member of the Association.

Business expenses

Implementing the business plan requires investing in the adaptation of a house which will be redecorated as an office and a refrigerated warehouse. Further funds need to be invested in vehicles and office inventory. This all amounts to 250.000,00 HRK. Therefore, the Entrepreneur developed a structure and dynamics of needed investments she will do in the first two months. One part of the money would be her own funds (100.000,00 HRK), and the majority would be from a bank loan from a bank offering the most favorable conditions for similar business ventures (150.000,00 HRK). The entrepreneur would seek repayment options of 150.000,00

HRK for 5 years. There would be 16 equal three-month instalments (principal instalments).

In order to prevent the permanent assets from devaluating during the project, and due to possible effects on liquidity, the Entrepreneur shall regularly extract some write-offs – depreciation of assets.

The expenses projection during the observed years of project exploitation are shown in Table 3. The Entrepreneur has tried to rationally assess all planned expenses, or expenses which might occur during doing business. In order to ensure against unexpected expenses, she has planned a slowly-increasing item *Other expenses*. In the final (fifth) year of the project exploitation, the expenses decrease which the Entrepreneur explains by the reduction of loan interest and depreciation expenses as well as keeping other expenses at approximately the same level.

Table 3. Expenses projection (HRK)

No	Expenses items	Observed years of project exploitation					Total
		1.	2.	3.	4.	5.	
1.	Expenses of business and office inventory	10.900,00	12.900,00	14.900,00	16.900,00	18.900,00	74.500,00
2.	Expenses of market fees	36.400,00	36.400,00	36.400,00	36.400,00	36.400,00	182.000,00
3.	Energy expenses	20.000,00	30.000,00	40.000,00	50.000,00	50.000,00	190.000,00
4.	Utilities	1.000,00	1.000,00	1.000,00	2.000,00	2.000,00	7.000,00
5.	Expenses of vehicle maintenance	15.000,00	20.000,00	25.000,00	55.000,00	70.000,00	185.000,00
6.	Salaries	260.000,00	302.000,00	372.000,00	372.000,00	372.000,00	1.678.000,00
7.	Loan interest	27.187,50	19.687,50	12.187,50	4.687,50	0,00	63.750,00
8.	Amortization costs	51.850,00	51.850,00	51.850,00	51.850,00	4.350,00	211.750,00
9.	Gas expenses	70.000,00	75.000,00	85.000,00	100.000,00	120.000,00	450.000,00
10.	Other expenses	10.000,00	20.000,00	30.000,00	40.000,00	50.000,00	150.000,00
TOTAL EXPENSES		502.337,50	568.837,50	668.337,50	728.837,50	723.650,00	3.192.000,00

Source: Own research

The Marketing plan is part of the business plan which names all forms of communication with the market with the aim of achieving planned sales strategies.

Even though the association „Prgica“ is a famous and well-accepted association in Koprivnica-Križevci county, but also in other counties, people are still not well informed about the Association, they do not know what the Association does and what is its role. Precisely for that reason, investing in the recognition of the Association products and conquering new markets is necessary because people are not informed about the products and producers. Advertising the newly opened company is therefore needed as well. The rough estimate of the marketing expenses – in newspapers ads, radio commercials, advertising on the Internet, making an Internet page of the company, handing out samples and organizing tastings of the Association’s products would amount to 45.000,00 HRK annually.

In order to cover the planned production volume, the Entrepreneur intends to hire four workers/employees, in addition to self-employment, with the tendency to hire more in the future. The total labor expenses would amount to 135.446,40 HRK annually.

Profit and loss projection

Profit and loss projection is shown in Table 4. The Table clearly shows that the project will have positive business results during the five observed years of the project exploitation, achieving total net retained profit. After paying the 20% tax on the total gross income, there will be a net profit which will amount to 61.796,56 HRK for year 1, and for year 5 it will be 198.777,09 HRK.

Table 4. Profit-loss projection (in HRK)

YEARS	Income	Expenses	Profit before taxes	Net Profit
1	579.583,20	502.337,50	77.245,70	61.796,56
2	730.363,20	568.837,50	161.525,70	129.220,56
3	803.400,08	668.337,50	135.062,58	108.050,06
4	883.743,00	728.837,50	154.905,50	123.924,40
5	972.121,36	723.650,00	248.471,36	198.777,09

Source: Own research

The Entrepreneur sees her development and entrepreneurial opportunity in the fact that the company will be the only of its kind in the market for a while, which does not mean there would not be competition soon. Therefore the entrepreneur wants to

invest most of the achieved profit in the promotion of the Association's products and their better placement on the market. As far as the quality of the products is concerned, the Entrepreneur believes in the members of the association "Prgica" and their knowledge in the production of dairy products of highest quality in the north-west Croatia.

Conclusion

The research results show that the implementation of the business idea might ensure the conditions for the survival of the members of the Association on the market and a successful business of the new company with five employees. It is important to emphasize important determinants which justify the decision to embark upon the business venture and justify the bank loan for financing a part of the investment.

1. The analyzed business/investment project is market-oriented and is based on the daily unsatisfactory demand for high quality dairy products.
2. The Entrepreneur uses the good location, invests a part of her own building and her knowledge in order to enter the competitive market with the high-quality product produced by the members of the Association "Prgica" and compete with other producers and associations of dairy products on farmer's markets.
3. The investment project remains liquid during its entire duration. In other words, its total income (7% commission) manages to cover all its expenses.
4. Primary competitive advantage is a wide range of high-quality products which are recognizable on the market because of the long tradition of being sold at farmer's markets, high-quality labor force and the proximity of big cities (primarily Zagreb).
5. The great advantage is the fact there is no competition because there is no similar company on the market.

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*1 EUR=7,5 HRK

Expenses projection - **7%** from selling the Association's dairy products (HRK*)

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