

KEKO MODERN FURNITURE AND HARDWARE LIMITED

PROJECT DOCUMENT ON ESTABLISHMENT

OF

MANUFACTURING FACILITIES

FOR

FURNITURE FROM WOOD & STEEL, PILLOW AND ALLIED PRODUCTS

**Prepared By:
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P.O.BOX 42242
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1.0 EXECUTIVE SUMMARY

1.1 INTRODUCTION

The building and construction industry has been growing very fast and is creating increased demand for furniture. Encouraged by these positive developments, Keko Modern Furniture and Hardware Limited intends to establish manufacturing facilities for all types wood & steel furniture, pillow and allied products with view of producing quality products and enable the company to venture into the export and local market as well. This report is therefore about the financial and economic viability of establishing Keko Modern Furniture and Hardware Limited at Plot no 56, Keko street Temeke Dar-es salaam.

1.2 THE PROJECT

The project envisages establishing a company to Manufacture wood & steel furniture, pillow and allied products with modern and bigger machinery and equipment in order to produce up to date and quality furniture.

1.3 SPONSORS

The project is being promoted and sponsored by Keko Modern Furniture and Hardware Limited; a Private Limited Liability Company incorporated on 10th november2020 with certificate of incorporation no 144717139.

1.4 THE MARKET

Furniture is an essential item in every building. The demand for furniture in Tanzania as measured by the growth of the building and construction industry is enormous. Also, the recent development of construction activities in Dodoma has also increased the demand of furniture's and its allied products. The introduction of the factory will greatly enhance the production of various furniture products and pillows to enable the company venture into both locally & exports market as well.

1.5 ESTIMATED CAPITAL COST

The fixed capital cost of the project is currently estimated at approximately **US 0.600 million** as summarized below:

Investment	Local	Total Costs
Land Buildings	150,000	150,000
Plant & Machinery & Equipment	300,000	300,000
Motor Vehicles	50,000	50,000
Furniture & Fixtures	20,000	20,000
Preliminary Expenses	10,000	10,000
others	20,000	100,000
Working Capital	50,000	50,000
Total Costs	600,000	600,000

Initial increase in working capital is estimated at about US \$0.050million.

1.6 FINANCING PLAN

The above fixed capital cost is planned to be financed as follows:

US\$

Investment	Local	Foreign	Total Costs
Equity		600,000	600,000
Total Costs		600,000	600,000

The initial increase in working capital of US \$0.050 million is assumed to be financed by bank overdraft.

1.7 MANAGEMENT AND STAFF

The company will employ about 70 people of various skills.

1.8 PROFITABILITY AND LIQUIDITY

Detailed financial projections are contained in the various Appendices attached to this report.

1.9 DEVELOPMENT VALUES

The project is considered to have the following development aspects:

- (a) The project will produce high quality wood & steel furniture and pillows which are in high demand.
- (b) The project is of import substitution nature as well as export oriented.
- (c) Manpower to be employed by the project will be about 70 people.

1.10 CONCLUSION AND RECOMMENDATION

Since the project as presented in this report is profitable, financially and economically viable, its implementation is highly recommended.

2.0 BACKGROUND INFORMATION

2.1 THE COMPANY

2.1.1 Company Name and Address

Keko Modern Furniture and Hardware Limited

P.O. BOX 42242

Dar-es-salaam

2.1.2 Corporate Status

Private Limited Liability Company incorporated in Tanzania to manufacture all types of wood working furniture and those from steel products and pillows with view of producing quality products and trade in a wide range of furniture for local and export market

2.1.3 Incorporation

Incorporated and registered in Tanzania on 10/11/2020 under Certificate of Incorporation No. 144717139

2.1.4 Shareholders and Shareholding

Name and Address	Nationality	% Shareholding
Hamoud Abdallah Sumry	Tanzanian	70
Ghalib Ahmed Hamoud	Tanzanian	30

3.0 MARKET

3.1 MARKET FOR FURNITURE IN TANZANIA

3.1.1 Introduction

To date, there are more than 300 small furniture units throughout the country most of which are privately owned. There are also about 20 medium scale furniture manufactures which produce high quality standard and luxurious wood and metal furniture mainly for the domestic market. The local furniture units of Tanzania stand out to be the best furniture stores in Africa designing and delivering world class home and office essentials irrespective of big or small projects. With the latest technologies in access with skilled craftsmen, the furniture companies offer a customized solution to accentuate every living space.

The Product

Furniture retail and trade is an important part of the global economy. The furniture industry is comprised of the production, distribution, and retail of furniture for residential and commercial use. Be it in homes, offices, schools, or even outdoors, there are pieces of furniture to be seen almost everywhere. Furniture industry also includes complementary products such as, mattresses, pillows and home furnishings. Furniture can be categorized as residential house, office, school, and hotel and hospital furniture. Furniture can also be categorized according to the material used as either wooden, metal or plastic furniture and can either be luxurious or standard furniture. Keko Modern Furniture and Hardware Limited intends to produce high quality all types of furniture out of wood and steel together with pillows and other allied products .

3.1.2 Demand for furniture

Furniture is an essential item in every building, be it residential, office, hotel, school, hospital etc. The furniture market in Tanzania is more institutionalized as opposed to individuals. Most institutions, private or public, provide furnished housing for their middle and senior executives. Also, these institutions place orders from time to time to replace old and dilapidated furniture for their staff or to cater for an establishment.

In this group, the Government and public sector stands out prominently e.g., Ministry of Education through the extensive network of schools, colleges and other higher learning institutions, Ministry of Defense and National Service, Ministry of Health.

Also, the recent development of construction activities in Dodoma has also increased the demand of furniture's and its allied products. The parastatal and private companies also require lots of domestic and office furniture e.g., Banks, Insurance Companies, The Harbors Authority, The National Provident Fund, etc. As part of the fast-moving consumer goods (sector, the furniture market tends to rise and fall based on world economic trends.

During a recession, the industry tends to be negatively impacted as consumers cut back on non-essential spending, putting off home redecoration and renovation projects due to lower disposable incomes. This happened most recently during the 2020 coronavirus pandemic. The import and export of furniture is also impacted by such events, however trade values have been growing steadily in recent years.

China is the dominant exporter of furniture and the United States leads for imports. The exact demand for furniture is difficult to quantify due to the unorganized nature of the building and construction industry. Due to rising living standards and a higher income, consumers are replacing their furniture more frequently. In 2019, the Furniture market realized a total worldwide revenue of US\$1,417 billion, representing an annual growth of 3.9% compared to 2018

3.1.3 Supply of Furniture

The supply of furniture in Tanzania is mainly from small (cottage) and medium scale furniture industries. Their work process is essentially based on hand tools although the medium sizes workshops occasionally have wood and metal working machinery. Mass standardized production is done by just a few furniture factories which are a source of constant frustration especially for institutions attempting to procure furniture in large quantities. Determination of installed capacity of the furniture in the country is also difficult due to the large number of furniture types which can be produced from the same unit at various times.

Because of the rather low technical development of the furniture industry in the country, even the most important productivity coefficients are not known because they have never been determined. Consequently, each manufacturer decided on his own way of measuring capacity. Large portion of the furniture used in residential buildings is supplied by family and cottage manufacturing

units which usually do not keep production/sales data and cannot easily be contacted.

3.1.4 Demand/Supply Gap

It is evident from the above explanation that the supply of furniture in Tanzania has always been lagging behind its demand. However, as noted above available supply statistics do not include the majority of family and cottage manufacturing units. Nevertheless, there is a shortage of furniture in Tanzania. This is also indicated by the fact that carpenters in this country are always busy with more orders than they can produce.

3.1.5 Conclusion and Recommendation

Analysis of the market shows that there is a high market potential for good quality furniture in Tanzania. Keko Modern Furniture and Hardware Limited can exploit it easily and therefore establishment of the project has to be carried out as soon as possible. Many organizations/parastatals, government institutions prefer and can afford quality standard furniture. It is therefore recommended that Keko Modern Furniture and Hardware Limited should emphasize on production of quality standard furniture.

4.0 THE PROJECT

4.1 PROJECT DESCRIPTION

M/S Keko Modern Furniture and Hardware Limited Intends to establish a plant to produce all types Steel & Wood Furniture and pillows for locally and export markets. The plant will produce 200 pieces of quality furniture per month which will be able to compete in the local and foreign market. The Furniture market is divided into seven segments: Living Room and Dining Room Furniture, Bedroom Furniture, Kitchen Furniture, Plastic and Other Furniture, Office Furniture, Lamps and Lighting ,and Floor Covering. The main products to be manufactured will include all types of Joinery, furniture and wood including wardrobe, cupboards, desks, cabinets chairs, furniture, wooden components products and Ready-to-assemble (RTA) furniture and pillows . Ready-to-assemble (RTA) furniture comes flat-packed and are assembled on site.

4.2 INSTALLED CAPACITY AND PRODUCTION

The project is expected to produce the following 2400 various pieces of furniture per year. The production will be on the basis of single shift per day. The main products to be manufactured will include all types of household furniture and wood including wardrobes, cupboards, kitchen units' chairs, safes, hospital furniture, wooden components, pillows etc.

4.3 RAW MATERIALS

There are various raw materials and components that are commonly used in the manufacture of furniture. Most of the raw materials are available from local dealers and manufacturers. Substantial amount will be imported to give international standard to furniture.

Furniture is a significant investment in the process of building a home. Understanding what makes a quality piece of furniture requires a deep dive into what raw materials can be used and what are the benefits of these materials. Raw materials like wood, cane, metal, leather, and fabrics are most commonly used for contemporary furniture though one is only limited by one's imagination while being creative.

Wood

Wood is a most popular choice for furniture due to its strength, durability, and organic appearance. Good quality wooden furniture can last for generations if carefully maintained. The choice of the wood being used is decided by the type of furniture, the design and the budget. Hardwood like Teak and oakwood are dense and therefore more durable. They also lend themselves well to carving and finer detailing. Softer woods on the other hand, ensures better workability, and is therefore not suitable for furniture that is in heavy use areas. Engineered wood such as plywood and particle board are made by combining thin layers of wood with adhesive,

hence the terms teak ply, oak ply etc. however has poor durability over time.

Veneers are thin panels of wood glued onto core panels. The variety of veneers available in the market these days allows one's creativity to take flight. They work well for the craft of marquetry that allows creation of patterns on surfaces. While solid wood can warp, veneers tend to be more stable. In today's world veneers have become popular as they use less wood to make a piece of furniture.

Leather

Good quality leather is derived from the upper layer of the hide. The best quality leathers are the full grain and top grain varieties which bear marks of their natural origin such as subtle scratches, wrinkles etc. on its surface. Genuine leather also has a very distinct smell which fake leather cannot replicate. Similarly, fake leather has a very even, smooth texture while genuine leather has some unevenness and the graininess in texture.. Real leather doesn't chip off upon multiple bends and folds. Grades of leather also determine the use and longevity of the product. Full grain and top grain leather are the best quality that you can get, though expensive the quality is reflected in the durability and the beauty of the furniture. Leather surfaces are coated with a light non-pigment aniline to increase stain resistance and enhance its appearance. Polymer-based coatings are used to increase its durability.

Fabric

The world of fabrics is vast – cotton, silk, linen, velvet – the list goes on. The quality of fabric that one should look at depends on the usage of the furniture. For areas that have heavy usage, one must ensure that the Martindale of the fabric is high. Martindale is a unit for quantifying the abrasion resistance of fabrics, particularly for upholstery. While cottons and lines work great for tropical environments, they are harder to maintain over a long period of time and they show wear and tear easily. Natural linen is prone to wrinkles but looks beautiful in a home that is more natural and organic. Similarly cotton by its nature is porous and allows air to pass through. Good quality cotton can feel smooth and nearly silky on the skin. Fabrics like velvet, silk are used to create a luxurious feel. Ideally used in formal areas that are used less frequently, the range of coolers and lustra in these fabrics can be used to create a dramatic statement.

4.3 PRODUCTION PROCESS

4.3.1 INTRODUCTION

The processes used in the manufacture of furniture include the cutting, bending, molding, laminating, and assembly of such materials as wood, metal, glass, plastics, and rattan: In the production process for furniture also design and fashion trends play an important part. The processing of furniture usually follows this order

- i) Raw material storage, preparation including saw milling and kiln drying of timber;
- ii) Machining process
- iii) Cutting and welding process
- iv) Painting where applicable
- v) Assembling and upholstering
- vi) Finishing, storage and packing.

4.3.2 FURNITURE PROCESSING

1) A basic preliminary in all furniture production is the provision of working drawings. In a firm of any size there is a special department where full-size drawings are prepared from small-scale drawings provided by the designer. A sample piece is made to check the design and cutting problems. Cutting lists are prepared; the cost of materials, fittings, finish, etc. are figured and an estimate of machining and assembly time worked out.

- a) The timber is selected which has already passed through the seasoning kiln and converted to standard thicknesses. The wood passes to the machine shop, where it is sawed to size, planed, molded, grooved, or rebated as required.
- b) When a number of parts must be cut exactly alike, they are clamped in forms having the proper contour and are then brought in contact with high-speed rotating knives that shape the part to proper size as the form rides against a guide on hand or automatic shapers and routers. After the

rough carving, the pieces are machine sanded and finished by a hand carver.

- c) If veneering is required will follow and then the_Jointing tenoning, dowelling, dovetailing. Exposed parts are sanded on edge belt sanders, three-drum travelling-bed sanders, or belt sanders. Rounded parts are sanded on soft pneumatic drums, and carved parts are sanded on a buffer, a machine in which shredded sandpaper is supported by brushes on a revolving wheel.

- d) Finally, the work passes to the assembly shop where frames are put together, gluing and assembling is done. After the glue has set, the parts may be returned to the machine department for machining that could not be performed before assembly, such as sanding the joints and shaping the edges.

- e) Then it returns to the assembly department for final assembly. Air-driven clamps are used when the design permits, otherwise, the piece is pressed by hand clamps. Unless electronically cured glues are used, clamps must be applied long enough to ensure a good bond.

- f) The completed article is cleaned to remove excess glue, inspected, and hand sanded. Finally, staining and spray polishing is done and fittings added ready to be sent for sale.

5.0 ESTIMATED CAPITAL COST AND FINANCING PLAN

5.1 FIXED CAPITAL COST

The fixed capital cost of the Establishment of the project is estimated at about US\$ 0.6 million.

Investment	Local	Total Costs
Land Buildings	150,000	150,000
Plant & Machinery & Equipment	300,000	300,000
Motor Vehicles	50,000	50,000
Furniture & Fixtures	20,000	20,000
Preliminary Expenses	10,000	10,000
Others	20,000	20,000
Working Capital	50,000	50,000
Total Costs	600,000	600,000

5.2 FINANCING PLAN

The above fixed capital cost is planned to be financed as follows:

US\$

Investment	Investment Cost	Total Costs
Equity	600,000	600,000
Total Costs	600,000	600,000

5.2.1 Exchange Rate

The foreign cost component of the project has been estimated at exchange rate of US\$ 1 = TUS \$ 2300.

5.2.2 Land and Buildings

The construction of the buildings has been estimated at US\$ 0.150 million.

5.2.3 Plant machinery and Equipment's

Various machinery and equipment will be bought. The above plant machinery and equipment are estimated at US\$ 0.300 million.

5.2.4 Motor Vehicles

Mini Bus for staff, Distribution trucks 3¼ (2 pcs for distribution purposes), Pick- up 2 pcs of 1½ and 2 directors' car. It is also suggested in later years to purchase Various types of vehicles including, 3-ton pick-up, one tractor with 20ft trailer and three Toyota be bought.

5.2.5 Import Duty

It is assumed that the project will be approved by the Tanzania Investment Centre (TIC) and therefore, qualify for exemption of import duty on imported plant machinery and motor vehicles for the project in accordance with investment laws and regulations.

6.0 MANAGEMENT AND STAFF

6.1 MANAGEMENT

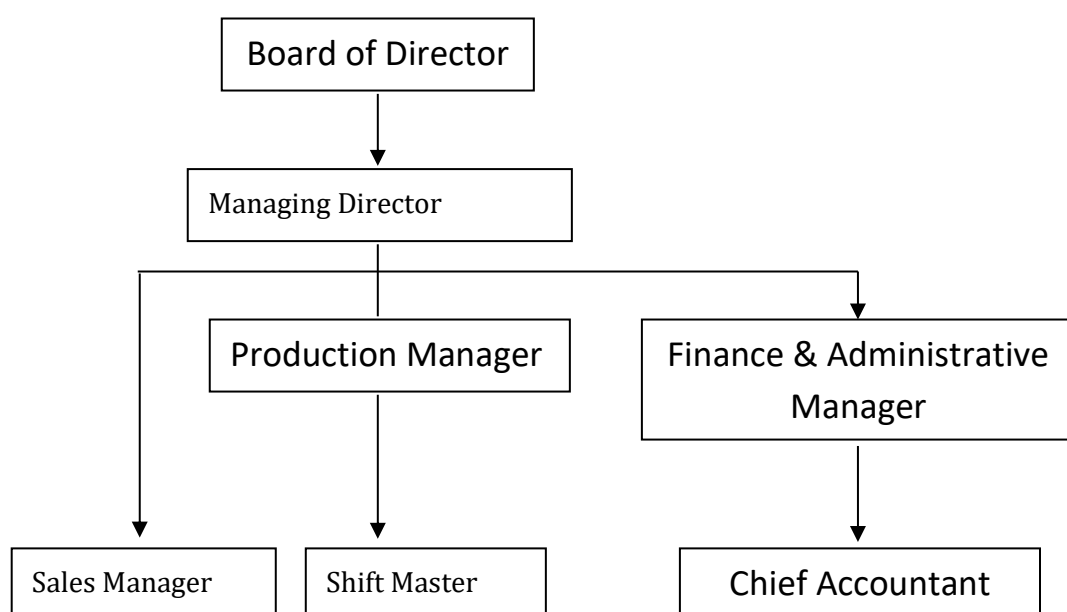
The company is managed through a Board of Directors. The Managing Director is the Chief Executive of the company responsible to the Board of Directors for the day to day functioning of this company. The Managing Director is assisted by the General Manager, who in turn is assisted by the Production Manager, Chief Accountant, Marketing Manager, Technical Manager and other staff.

6.2 STAFF

The company intends to employ 70 permanent staffs. The company will also employ 5 expatriates' staff. In house training shall be provided by competent technician trainers to the operators and staffs. Trainers shall train on all the aspects like machine operations, trouble shooting, maintenances etc.

5.2 Organization Structure

The organization structure of the project is as follows:



7.0 FINANCIAL ANALYSIS

7.1 REVENUE ASSUMPTIONS

The basic assumptions underlying the projected production and sales revenue are detailed below:

7.1.1 Basic Assumptions

- i) The installed production capacity of the furniture factory is approximated at 2,400 various pieces of furniture per year. The practical operation of a furniture factory is a single shift whose capacity is determined at the assembly section.
- ii) We estimate capacity utilization to increase from 50% ,60% 70%, 80% and 100%.
- iii) The revenue and operating cost assumptions have been projected as constant prices; it being assumed that any substantial cost increase will be offset by a corresponding increase in the selling price. The operating cost have been taken to be 75% of the total revenue

7.1.2 Sales Revenue

The sales revenue for the project is derived from sales of the various items of furniture, and various products components produced. On the basis of the projection targets above, the domestic and export sales revenue is worked out as summarized below:

US\$

Year	1	2	3	4	5
Percentage utilization	50%	60%	70%	80%	100%
Sales	300,000	360,000	420,000	600,000	750,000
Total Sales Revenue	300,000	360,000	420,000	600,000	750,000

7.2 OPERATING COST ASSUMPTION

7.2.1 Utilities

Utilities comprise electricity, water, fuel, oil and gas. The cost of utilities is estimated on the following basis.

(a) Electricity and Water

Electricity is used for running the various machinery as well as for general lighting while water is for general human consumption and cleaning.

(b) Fuel, Oil and Gas

Fuel is mainly needed for motor vehicle running while oil is used for lubrication purposes as well as in transmission and hydraulic systems. Gas is used in the various welding processes.

7.2.2 Depreciation

In working out the depreciation charges, tax depreciation rates have been used on the straight-line method.

Investment	Total Costs	Rate	Expense
Land Buildings	150,000	4.0%	6000
Plant & Machinery & Equipment	300,000	12.5%	37,500
Motor Vehicles	50,000	25.0%	12,500
Furniture & Fixtures	20,000	12.5%	2,500
Preliminary Expenses	10,000	20.0%	2,000
Total Costs	530,000		60,500

7.3 PROJECTED PROFIT AND LOSS ACCOUNTS

The revenue and operating cost assumptions have been summarized and presented in the Projected Profit and Loss Accounts. The Accounts clearly demonstrate that the project will be very profitable with pre-tax profits increasing from USD 10,150 in year 1 about US \$182,000. in year 10

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7.4 PROJECTED CASHFLOW

The cash flow analysis gives the movements of funds during the project operation after the initial financing, additional funding for increases in working capital requirement is internally generated by the project.

8.0 CONCLUSION & RECOMMENDATION

8.1 CONCLUSION

From the financial and economic evaluation of the project, the following conclusion can be drawn:

- (a) The Proposed project is commercially attractive and financially viable.
- (b) The project will create additional employment opportunities to **70** people.
- (c) Foreign exchange savings through import substitution and earnings through exports are substantial.

8.2 RECOMMENDATION

Since the project meets the main objectives creating self-sufficiency in basic consumer needs from locally available raw materials while earning foreign exchange, its early implementation is strongly recommended.