



BUSINESS PROPOSAL FOR ESTABLISHMENT OF NON-ALCOHOLIC BEVERAGES AND PACKAGING PRODUCTS



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Executive Summary

GSM Tanzania is one the country's highly recognized business conglomerate. The company is widely diversified with interests ranging from household goods to sports and entertainment. Over the years, the companies have been market leaders and preferred choices to many people. The company owes its success to its core values: Integrity, Efficiency, Teamwork and Accountability.

The company now aspires to expand more by establishing a beverages line. The new line will constitute carbonated soft drinks (CSD), bottled drinking water, juices and energy drinks. Production is expected to start in the last quarter of 2022 with the introduction of bottled drinking water, other products will follow within six months period.

Products will be distributed to the market through various routes system and focus will be ensuring the products reach the final consumer at the earliest. Distribution mode will be such that 10% of products from the factory to the depot, 55% to wholesalers, 30% to retailers and 5% to HORECA (Hotels Restaurants and Cafes). There will be approximately 183 distribution trucks of varying capacity for this purpose.

The project has been assessed and found to be viable. In the first year of operations the company will record PAT of TZS 67million from TZS 45.69billion in revenue while utilizing the installed machines at nearly 85%. Gross and net margins will be in the positive side with GP of 34% and NP of 1%. NPV^{17%} is positive at TZS 581million.



Chapter One

1.1. GSM Tanzania Profile

1.1.1. History and background

GSM Tanzania is one the country's highly recognized business conglomerate. The company is widely diversified with interests ranging from household goods to sports and entertainment. The company history can be traced back to mid-fifties (1955) when Mr. Mohamed Senior established a merchandising business in the streets of Tanga. This venture grew and became a formal business. Mohamed Senior retired in 1996 and left the venture in the hands of the second generation of Mohamed brothers who shifted operations to Dar es Salaam.

The brothers then established one of the country most populous business dealing with importation and distribution of PVC carpets. PVC carpets business was split when the brothers decided to pursue different ventures and GATCO which later became GSM Tanzania in 2017 was born. GSM has given rise to several other sister companies that form the GSM Group. Over the years, the company have been market leaders and preferred choices to many people. The group owes its success to its core values: Integrity, Efficiency, Teamwork and Accountability.

Under the leadership of Mr. Ghalib Said Mohamed, GSM Tanzania Company has created a diverse conglomerate that deals with general trading and retailing. The company currently employs over 600 direct employees and in the process has created a multitude of other indirect jobs.

1.1.2. GSM Tanzania

GSM Tanzania Limited is the company dealing mainly in trading of goods imported and manufactured by the Group companies. The company consists of about 10 companies listed below.



Name of Company	Nature of Business
GSM Tanzania Ltd	Fashions/garments international brands
	Trading on imported products including Tiger Head batteries, food products etc.
	Spares for Chinese trucks, tyres etc.
GSM Tanzania Ltd	Asset management entity

The company currently employs over 2,000 direct employees and in the process has created a multitude of other indirect jobs. The group has operations in foreign countries such as Zambia, Rwanda, Kenya and South Africa.

1.2. GSM Tanzania Aspirations

As stated in the previous section, one of the company's line of business i.e. Trading, has seen success with its imported and distributed products such as GSM Coconut Cream, Anchor Yeast, Tiger Head Batteries, Royale Tomato Paste and Evastat Car Batteries.

The company is looking into establishing non-alcoholic beverages line. This line is expected to start operations by the first quarter of 2023. The line will initially start with bottled drinking water, energy drinks, sodas (carbonated soft drinks) and juices. There will also be a packaging line, which will be producing pre-forms and caps. This proposal will focus on the financial viability assessment of the entire project while highlighting risks and rewards of the project.

1.3. Food and Beverages Industry Analysis

The food and beverages industry in Tanzania can be divided into two sub-groups: food and non-alcoholic beverages and alcoholic beverages and tobacco. Our company will be dealing with non-alcoholic beverages. Price movements in this sub-sector, like any other sector plays crucial role in the determination of Consumer Price Index (CPI). According to the Tanzania Bureau of Statistics (NBS), the headline inflation for the country

in the month of April 2022 had moved to 3.8% from 3.6% recorded in the month of March 2022.

According to the NBS, the National CPI was 107.88 (baseline 2020: 100). Data from NBS shows that food and non-alcoholic beverages had the highest move in increased consumption having scooped 28.2% of the total weight measure (100%) with price movement of 6.6% year on year.

This gives an indication of the lucrative nature of the food and beverages industry in Tanzania despite numerous producers and a variety of products offered.

Focusing on the beverages sub-sector, research indicates that there are more than 75 bottled drinking water brands in Tanzania, 85 carbonated soft drinks and nearly 18 energy drinks. Dar es Salaam remains by far the prominent location of most producers and importers of such products. This is due to it being the business capital of the country followed by Arusha and Kilimanjaro in a tie while Mwanza comes in the third place.

Another sector of the non-alcoholic beverages includes the so-called energy drinks. Available in retail shops shelves today, most of these products are locally manufactured.

The increase in consumer spending has increased consumption of these products especially for working class labor and casual labor who largely depend on these products to remain active during the day. The recent announcement by the government on increasing public sector payroll by 23.5% is likely to increase disposable income for most people and hence increase consumer power creating demand for more products within the sector.



Chapter Two

2.1. Beverages Project

2.1.1. Project Management

The project is under the lead of Mr. Joseph Nyandega, the entire EXCO and Senior Management. Senior Management team in the project include Chief Legal Officer, Group Treasurer, Chief of Procurement, Head of Property Management, Group Tax and Compliance Manager and Finance Manager. The EXCO team in the project include the Chief Finance Officer, Chief Internal Auditor, Chief Commercial Officer, Chief Human Resources Officer and the Chief Information Officer.

2.1.2. Products and Services

Our project will involve establishment of non-alcoholic beverages (both flavored and energy drinks), bottled drinking water and a dedicated packaging line. Flavored drinks include carbonated soft drinks (popularly known as soda) and juices while energy drinks include caffeinated drinks with energy boosting ingredients including fat, proteins, sugar and vitamins.

2.1.2. Consumer and Marketing

Our products will be designed to cater for the entire population and will cater for lower to higher income individuals, households and institutions. Products will be distributed countrywide with availability highly driven by market demands. In addition, marketing strategies shall be put in place for advertisements through mainstream media (TVs, Newspapers and Radios), Social Media (Facebook, Instagram, YouTube, Snapchat etc.), road shows, banners and posters and through our group sponsorship of Young Africans Sports Club jerseys.

With population estimated at 62million people, Tanzania has annual demand for drinking water estimated at 800 million liters. Current available supply is estimated at 276 million.

2.1.3. Distribution and Logistics

Our group already has distribution centers, wholesalers and storage warehouses in several parts of the country. However, in order to ensure that products under the beverages section pick up well and reach our intended market timely, the group will deploy additional 183 delivery trucks of varying carrying capacity. We shall use the expertise of our sister company- Galco in fleet management and logistics coordination to ensure our marketing and distribution team deliver up to customer expectations. The trucks will be divided into zones according to zone size and demand for products.

Depots shall be used to coordinate deliveries between wholesalers and retailers. Products available in the depot shall be distributed in a similar fashion with 80% delivered from depot to retailers.

Trucks and equipment requirements (tentative) to facilitate distribution are listed below

SN	Vehicles	Description	Qty
1	Trucks	30T Semi trailers	60
2	Canter	3T trucks	82
3	Mini-truck (Kirikuu)	1T	11
4	Handling Equipment	Forklift	5
5	Pickup Trucks	For Sales managers	5
	Equipment		
1	EFD Machines	1 per track	70
2	Phones with Software	For sales people	70
3	Furniture	For the depots	
4	Computers networked		13
5	Compliance requirements		

In order to drive efficient distribution network, 30-ton trucks shall focus in up-country routes to depot and distribution while 3-ton trucks shall focus on key accounts and HORECA (Hotels, Restaurants and Cafes- HORECA). 1-ton trucks shall focus mainly on Dar es Salaam routes of HORECA and Key Accounts. Forklifts and pick-up trucks shall be for handling and transport for sales managers respectively. Each depot will have at least 1 fork lift.



2.1.4. Production, Technology and Utilities

The Ultra-modern, Non-Alcoholic Beverage Processing and Packaging facility will compose of state-of-the-art European machinery. The bottling section will employ a French technology in production and filling/packing while the packaging line will have Korea technology.

Raw materials and consumables will be supplied by various suppliers.

2.1.4.1. Bottling Line

The bottling section will have five lines, three for water production and one for carbonated soft drinks and juices. Both lines will employ Technology from France.

In the first year, we expect to utilize only 85% of the installed capacity on three 8-hour shifts per day thus maximizing on the available resources.

The second line: carbonated soft drinks and juices line will have capacity of 45,000bph (18,500ltr/hr). This line will also be capable of blending, proportioning, capping, labelling and shrink-wrap. Capacity utilization in the first year for both lines is projected at 85% and shall gradually increase with market growth.

2.1.4.2. Packaging Line

The packaging line will have three basic functions:

- Primary packaging- rigid
- Secondary packaging- flex and
- Handling pallets.

a. Machine Capacity

The packaging line will have ability to produce pre-forms and caps for the bottles. There will be two lines for each product as per product variety.

Capacity utilization of the packaging line will highly depend on the capacity utilization of the filling/bottling line.

2.1.4.3. Water Treatment - Throughput 100,000Lts/Hr

The Ultra-Modern designed Water Treatment systems comprises and Ultra-filtration Systems (UF), where the water is polished by Granular Activated Carbon (GAC) and a Reverse Osmosis (R.O) water purifier. Disinfection is ensured by Ozonation and an online Ultra-Violet (U.V) system to produce the highest quality water for bottling and CSD/Juice manufacture.

Storage: Developing storage facility by TanksConnected Ukraine Technology, surface mounted SAXY Coated Steel Panel tanks to be built on site. **Water Storage-** Capacity with 2No x 3,000m³ equivalent of **6 Million Litres.**

General Observations

GSM is a brand with countrywide recognition. In addition, our group has adequate and reliable distribution network. Our team of innovators in the marketing department have designed our bottles to appeal to consumers in all walks of life. Thus, our products are expected to be highly differentiated from other products and this will be our winning point alongside price differentiation and sales service (delivery services to customer premises). Our products will be highly competitive and are bound to succeed due to group's economies of scale.

As for drinking water, packaging available will be the traditional 0.5L, 1L and 1.5L while for CSDs, energy drinks and juices emphasis will be on the most preferred taste. Prices will be at or below the lowest available in the market in order to easily penetrate the market.

2.1.6. Location and Facilities

The factory will be located at Cocacola road, Mikocheni Industrial area in Dar es Salaam. A building contractor from Dubai who has adequate experience working with plant supplier has been approached for this task and will work together with our internal Project Engineer.

(i) Selection of the location

Being an industrial area, the premises already complies with land use regulations. In addition, the premises are located in an area with all necessary amenities including electricity, water, gas and all-weather road. In this location, gas supply is ensured as the company will be running on gas-powered generators to supplement the Tanesco mains

electricity. Water will be supplied by Dawasa from the water mains already in the premises. In addition, the premises have adequate storage with four warehouses.

(ii) Utilities

(a) Water

Water will be supplied from two sources: Dawasa and internally built bore three holes. Dawasa water will be supplied from the 300mm main line that delivers between 20,000 and 30,000 liters per hour. Our three 150m- boreholes are capable of yielding 10,000 liters per hour each (90,000 liters per hour combined). This supply is adequate for the factory water requirements. Back up water will be stored in two epoxy coated steel tanks with total holding capacity of 2,000,000 liters.

In order to maximize water usage, a water recycling plant will also be built. The plant will have capacity to recycle 40,000 liters per hour using ultra- filtration, granular activated carbon, reverse osmosis and ozonation systems.

(b) Power

Electricity will be supplied by Tanesco from the 12KVa transformer. This will be supplemented by gas-powered generators to be sourced. Generators capacity will be 2MW, which is adequate to cater for the factory power needs.

(c) Roads

Mikocheni Industrial area is ideal location for the factory due to accessibility of roads. At this location, the company can easily coordinate distribution of products to Northern and Lake Zones via the Bagamoyo road, to Southern Highlands via Morogoro road and to Eastern and Southern Zones via Mandela Road. Distribution within Dar es Salaam can also be easily accommodated from this location.

2.1.7. Project Implementation Timelines

We expect the project to kick off in the last quarter of 2022. The first product in the offering will be water (November/December 2022). Juices will be the last to hit the market and shall be introduced in 2023.

Preliminary works have been completed in most items or are in good progress. Progress of the project is in good course and is expected to be completed within the budgeted time.



Chapter Three

3.1. Project Funding Requirements

The total cost of the project is about USD 33 million that includes capex spending, pre-operating expenses and working capital.

Item	USD
Pre operating expenditure	418,983
Capital expenditure	27,971,872
Working capital	5,000,000
Total requirements	33,090,855

3.1.1. Financing Structure

Financing of the project will constitute debt and equity. Debt will be for funding for a period 72 months inclusive of grace period of 12 months to accommodate civil works and installation of utilities and machinery. Repayment will begin in year 2 whereby the company would have built enough cash flow to meet maturing obligations from the Bank. A detailed repayment capacity and financial projections is provided under the financials sections. The composition of debt and equity is shown below.

Activity	Pre operating expenses	Capital expenditure	WC	Total
Amounts in USD	118,983	27,971,872	5,000,000	33,090,855
Funding				
Equity	118,983	-	-	118,983
Debt*	-	27,971,872	5,000,000	32,971,872
Debt Local	-	10,891,462	5,000,000	15,891,462
Debt Foreign	-	17,080,410		17,080,410

*The company has managed to secure funding under the export credit agency with Landesbank Baden-Württemberg (LBBW) based in Germany. The foreign financier will provide the company with 85% of the total cost of the imported machinery. The remaining 15% will be made via advance payment (through local bank financing with CRDB). The remaining amount to be funded with CRDB comprises of capital expenditure of USD 10.89 million (water system USD 1.2 million, other assets USD 4.9 million, 15%

payment To and USD 3.0 million and civil works USD 1.7 million) and working capital of USD 5 million.

3.1.2. Funds Utilization

Below is the description of funds utilization.

A. Pre operating expenses are as follows:

Item	Total Value – USD
Manpower Expenses	2,330
Sales and Marketing	5,468
Occupancy Cost	-
Admin & Other Expenses	4,524
Legal & Compliance Costs	4,076
Finance Costs	102,585
Total	118,983

The pre operating expenditures will be met by the company through internally generated cash flows.

B. Capital expenditure

SUPPLIER		CAPEX REQUIREMENTS	USD
		Machines for Bottling factory	
	Bottling Machines		
1	Line #1	Water Bottling Line	4,389,140
2	Line #2	CSD/Juice Bottling Line	5,528,922
		Utilities	6,250,042
		Sub-Total	16,168,104
		Final Discounted buying price	15,440,100
	Rigid-Pack		
4	Line #1	Caps/Closures	1,674,550
5	Line #2	Preform X 2No Lines	2,819,450
		Smart service	219,350
		Sub-Total	4,713,350
		Final Discounted buying price	4,654,500
WATER SYSTEM		Boreholes (Water Source & System)	146,448
		Potable Water Tank	718,082
		Potable Water Tank Base (Civil Works)	391,681
		Final Construction/ buying price	1,256,211
VEHICLES & OTHER ASSETS		2 Caterpillar Natural Gas Operation	1,291,870
		Gen-set 1200 ekW	
		Handling Equipment	496,129
		Distribution Vehicles	2,982,390
		Other Fixed assets	93,129

		Final Estimated price	4,863,519
Civil works		Final Estimated price	1,757,543
		TOTAL	27,971,872

Note: figures are VAT exclusive

Capex is divided into two major expenditures. The first is the cost of acquisition of machinery from the suppliers. The company will source two lines for bottling and packaging. Total acquisition cost will be EUR 18,780,000 (see table above).

Drawdown plan

The company is requesting for an immediate drawdown of around USD 8 million that will be utilized as follows:

Item	USD
Civil works	1,757,543
2 gas powered generators	1,291,870
Potable Water Tank	718,082
Potable Water Tank Base	391,681
Boreholes (Water Source & System)	146,448
15% down payment to (USD 698,175 @ TZS 2320)+ 18% VAT	823,847
15% down payment to (USD 2,316,015 @ TZS 2320)+ 18% VAT	2,732,898
TOTAL	7,862,369



Chapter Four

4.1. General Operating Environment

4.1.1. Risks and Mitigations

The manufacturing sector in Tanzania is still relatively small but has a significant contribution to the country's overall GDP. Over the past decade, the sector has averaged 8% of GDP and 4% annual growth rate. Most of the manufacturing activities are centered on simple consumer products such as foods, beverages, tobacco, textiles, chemicals, plastic, wood and steel allied products.

The recent development agenda in the country has brought industrial development back as one of the country's policy priorities. Policy makers have made it a point to lead the process of transforming the country's economy from low productivity and low growth to high productivity and dynamic economy, associated with structural change and sustained income growth.

Currently the domestic value addition is limited by the dependence of imported intermediate goods, signifying limited inter-industry linkages that are important for promoting domestic manufacturing base and employment. Various technological, financial, policy, and administrative constraints remain unresolved and therefore, limiting faster industrial growth and transformation.

GSM Tanzania Limited has ventured into manufacturing of water and carbonated soft drinks (CSDs). Under CSDs, the company will be manufacturing sodas, energy drinks and juices. The following are the key risks (and their respective mitigations) the company is likely to face.

Key Risk	Mitigation
<p data-bbox="172 322 778 409">A. Product safety and processes (compliance risk)</p> <p data-bbox="116 427 778 779">Adhering to safety standards and having comprehensive processes in place is critically important the manufacturers' survival and the health & wellbeing of its employees and customers. Claims arising out of negligence/supply chain issues can damage the brand and potentially closure of business</p>	<p data-bbox="783 322 1402 842">GSM Tanzania Limited has ensured the layout of factory is per the manufacturer specifications in order to have a seamless production process from start to finish. All the employees will be trained and constantly undergoing capacity building to make sure they are adhering to all the safety standards. The factory will also be undergoing various spot checks (without interrupting operations) from management.</p>
<p data-bbox="172 848 778 887">B. Supply chain interruption</p> <p data-bbox="116 898 778 1420">The business will be reliant on the quality of their suppliers' products, and when there is a disruption in the supply chain, it is difficult to find a replacement. A compromised supply chain will lead to disappointed customers who may choose other products in the future. Supply delivery can be interrupted by many factors, including adverse weather, infrastructure issues, price increases, or damage to a supplier location.</p>	<p data-bbox="783 848 1402 1155">GSM Tanzania Limited will work with their procurement teams to build a panel of approved alternative suppliers that will support the business in case one of their suppliers is unable to deliver. This will ensure business continuity.</p>
<p data-bbox="172 1426 778 1464">C. Product Quality Issues</p> <p data-bbox="116 1476 778 1895">Many companies run into quality issues when they try to speed up or slow down production in response to the market. Especially for brands that have a multinational customer base, it is difficult to consistently deliver products in a manner that is simultaneously reliable, efficient and profitable. This could lead to excessive</p>	<p data-bbox="783 1426 1402 1895">In order to avoid product quality issues, GSM Tanzania Limited conducted a comprehensive market study to determine demand and supply challenges. The company will also be using state of the art technology to streamline the entire production process. They will also employ best technology to provide market and industry insights on developing trends and</p>

inventory, lower margins and profits, higher product waste and increased operating costs	flag inefficiency and detect bottlenecks in the processes set in place
<p><i>D. Equipment breakdown</i></p> <p>The company will rely on plant and machinery as a key part of their operational infrastructure. Whether it is the reliance on refrigeration units to store products; reliable power supply; or critical production equipment that can lead to stoppage of production the breakdown of either could have a detrimental effect on the business.</p>	<p>The company will use equipment manufactured by Italian and German companies. These manufacturers bear great reputation for delivering reliable machinery to various manufacturers in Tanzania. So far, there is no any adverse report of failure of any of their equipment/machinery.</p>
<p><i>E. Environmental and Social Risk</i></p> <p>Environmental issues in beverage manufacturing include solid waste, wastewater, energy consumption and emissions to air.</p>	<p>The customer will be complying with Environmental Regulations, OSHA and Fire Safety Standards. The project will be registered by NEMC. The company will also have essential tools for managing impacts while optimizing water, energy, and resource use and improving working practices by adoption of good-manufacturing practice and quality management systems</p>

4.1.2. SWOT Analysis

STRENGTHS

- The project will leverage on the good brand GSM Tanzania has established with their various other products.
- The group already has in place existing distribution channels that will be useful in ensuring the products reach the final customer timely.
- The company will install state of the art machinery from German and Italian manufacturers who have a proven track record in their reliable equipment.

- The experience of entire management in handling operations of bottled water, juices, soda and energy drinks and trading. Key department - Finance and Productions are managed by professionals-CPA holders and Engineers.
- The existence of a prime location for production. The factory will be set up at Mwenge where the foam factory existed. The area has good infrastructure and is accessible easily.

WEAKNESSES	MITIGATIONS
<p>Key man Risk</p> <p>The business is family owned with one-man key decision maker.</p>	<p>Professionals have been employed in areas of Finance, Logistics, Human Resources Production and Marketing.</p> <p>The majority shareholder Mr Ghalib is not involved in the day-to-day operations of the business. The group has defined all the key functions and has employed staff with relevant credentials to oversee the businesses.</p>
<p>Development Risk</p> <p>The project may stall in case the Directors divert resources/requested funding.</p>	<p>All the disbursements for equipment acquisition will be made directly to the suppliers. The directors of the company have a good reputation in funds utilization, a reputation that has been built in many years as indicated by the growth of the brand GSM.</p>
<p>Exchange rate risk</p> <p>Fluctuation of foreign exchange.</p>	<p>The company will ensure bulk importation of raw materials to avoid frequent ordering of materials that may otherwise be negatively impacted by exchange rate volatility.</p>



OPPORTUNITIES

Despite the existence of other players, there is room for other companies such as GSM Tanzania Limited to establish themselves. Demand for bottled water and energy drinks is on the rise, coinciding growing population and changing lifestyles.

Tanzania has undergone a lot of improvement in infrastructure in its road network. This will simplify the delivery of products to various outlets across the country.

The government is encouraging the growth of industries in order to contribute to the economic growth of Tanzania. This means the company will receive all the support it requires as it continues to set up the factory.

CHALLENGES

Competition from existing manufacturers with an established footprint

MITIGATIONS

The company will rely on its existing extensive network in marketing (for example Young Africans FC), distribution and logistics to maximise its products upon launching

