

South West Beef Initiative

Business Plan

2004

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Executive Summary

Introduction

The South West Beef Initiative (SWBI) is a group of investors that are aiming to diversify the beef industry within Saskatchewan. The group objectives are to create wealth and improve integration in the area surrounding Swift Current through the development of a sustainable processing plant. The plant is planning to process 130,000 head of cattle, over thirty months of age, each year. The plant will create jobs and increase the capital in the Swift Current community, benefiting not only stakeholders but tertiary service providers as well.

Operations Plan

SWBI will be located about three kilometers off of highway #1 near Swift Current, Saskatchewan. The site chosen has access to city sewer and water systems along with close proximity to the city allow for reasonable natural gas and power installation costs. The slaughter plant site will cover 160 acres, the actual plant will only cover sixty acres. The extra land will allow for the possibility of expansion in the future. The cattle processing cycle will occur over a 24 hour time period. Within this time period live cattle will enter the cycle, be processed, and carcasses will shipped out the following day.

Capital Costs

In order to start up business for SWBI the following capital costs will be incurred.

Table 1 Project Capital Costs

Land	\$4,811,520
Building	6,700,000
Net Working Capital	3,906,037
Equipment	10,566,345
Total Capital Costs	\$25,983,902

The cost of goods manufactured in the first year of production can be seen in Table 2.

Table 2 Cost of Goods Manufactured for 2006

Direct Materials	\$24,006,147
Direct Labour	791,907
Manufacturing Overhead	2,803,225
Cost of Goods Manufactured	\$27,601,279

Human Resource Plan

The SWBI will be headed by 8-10 board of directors. This group of people will have a wide variety of knowledge, from the industry, as well as other industries. SWBI will be owned through shareholders in which 51 percent will be from the Federation of Saskatchewan Indian Nations and the remaining 49 percent will be investors. The following staff plan illustrates the company’s structure.

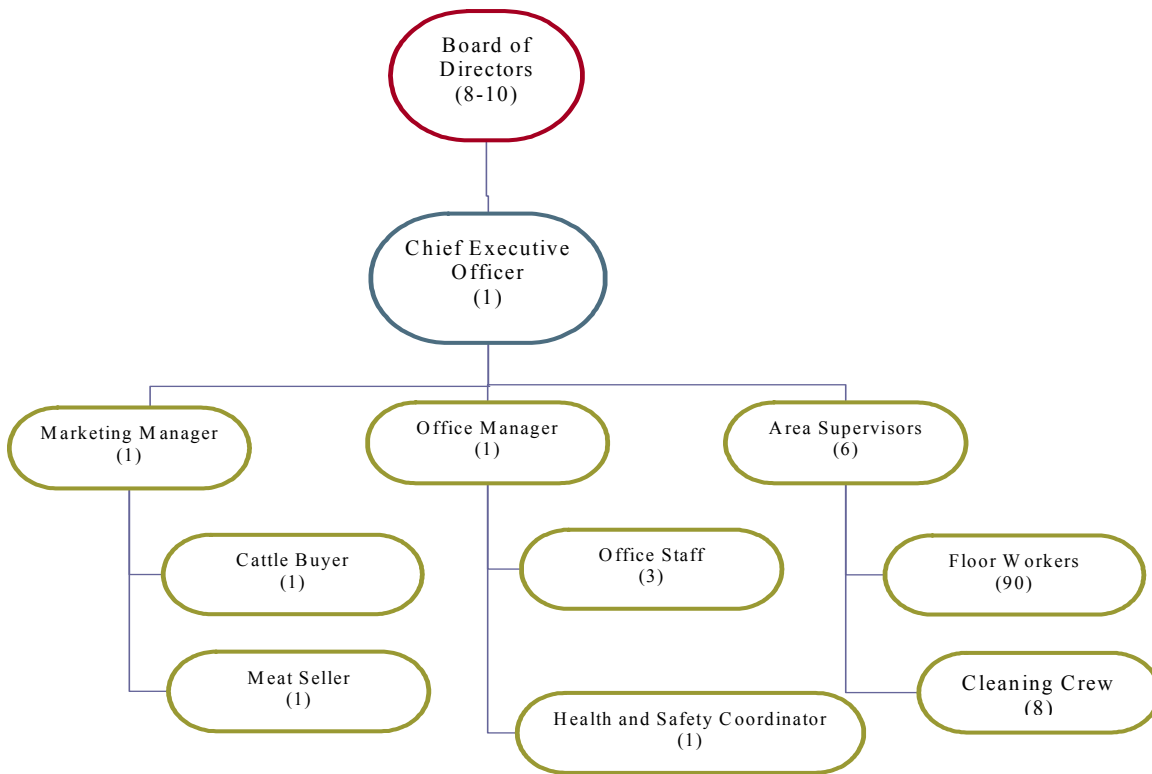


Figure 1 SWBI Staff Layout

Table 3 SWBI Proposed Salaries and Benefits

Management Salaries	\$468,751
Direct Labor Salaries	\$3,752,261
Cleaning Crew Salaries	\$221,312

Marketing Plan

In order for SWBI to enter the market place they will have to replace the beef imported from other countries. In the past Canada has relied on the importation of beef from other countries to meet consumption needs. The importation of beef was needed to fill the void left behind from large amounts of beef exports. Currently there is no exportation of beef from animals over thirty months of age (OTM). This creates an opening in the marketplace if SWBI can produce a product that is the same quality and price as those products that were brought in from overseas.

SWBI has access to a large supply of slaughter cattle (OTM). Previously most cull cattle in Saskatchewan were shipped to the United States for processing. Since the border closure there has been a limited market for the older animals. The supply within Saskatchewan has been growing over the past couple of years. Saskatchewan has approximately 28 percent of Canada's total live cow inventory. This access to cattle is an advantage for SWBI which is located by Swift Current, Saskatchewan.

SWBI competition is mainly from four large companies which occupy approximately 85 percent of Canadian slaughter capacity. The total capacity is close to 4 million head per year. The plan for SWBI is to have a total slaughter capacity of 130,000 head annually. This amount is only a small percentage of the total capacity within the country. There is an uncertainty to the opening of the border which holds a threat to SWBI. The opening of the border will increase competition to the facility as American plants will be competing for Canadian cattle and Canadian markets. It is important that SWBI is able to produce a competitive product which will be able to differentiate itself in the market place.

Financial Plan

SWBI has a financial plan that is projected over a thirteen year period. All the prices are increased at a rate of inflation of two percent. The finances for the business will be obtained from long term debt and owner's equity. The long term debt for the business will be paid back over the thirteen year period. Debt for the business will be financed at eight percent. Table 6 shows a breakdown of the financing for SWBI.

Table 4 SWBI Financing

Long Term Debt	\$10,303,561
New Common Shares	15,590,341
Total	\$25,983,902

Table 5 shows the financial model for SWBI in the first year of production. The FSIN proposes to be a 51 percent shareholder of the company. SWBI projects to experience losses in the first year of production; however profits are realized in the following years. Over the thirteen year period SWBI captures a 20 percent IRR and a 15 percent ERR from the business operations. These numbers show that the business could possibly remain feasible over the thirteen year period.

Table 5 Summary of Financial Model

Year	2006	2007	2008	2009
Total Revenue	28,445,967	104,453,592	118,380,738	120,748,353
Cost of Goods Sold	27,372,699	97,237,516	109,153,364	110,902,928
Gross Margin	1,073,268	7,216,076	9,227,374	9,845,425
Expenses	4,790,409	3,024,085	3,181,534	3,185,025
Income Before Taxes	(3,717,141)	4,191,992	6,045,840	6,660,400
Income Taxes	93,079	158,410	1,956,414	2,149,451
Net Income(Loss)	(3,810,220)	4,033,582	4,089,426	4,510,948
End Retained Earnings	(3,810,220)	223,362	4,312,788	8,823,737
Net Present Value (required return of 20%)			(4,066,201)	
Internal Rate of Return			20%	
External Rate of Return			15%	

The goal is to pay out dividends once the business has reached a sufficient profit level (Table 6). The dividends are determined by the financial equation:

$$\text{IF: Cash} > 10\text{M} \quad \text{Then: (Cash-10M)*0.5 = Dividends to shareholders}$$

Table 6 Dividends

2010	2011	2012	2013
\$3,674,615	\$2,217,034	\$3,356,950	\$3,955,891

The two most critical variables are the buying price of the live cattle and the selling price of the carcasses. If either variable changes by more than six percent the venture will have an IRR equal to zero

Conclusion

The business plan for SWBI has shown that it appears to be a somewhat feasible business. In the base case the business shows an IRR of 20 percent, which is less than the required 25 percent IRR. The investors must realign their required rate of return to less than 20 percent. It is positive that dividends start being paid out by 2010. There is some risk associated with SWBI when dealing with prices. SWBI will be buying cattle at a fluctuating price and if the price of cattle becomes too high it can be detrimental to the profitability of the business. When comparing the base case to the accounting breakeven there appears to be little margin which means the business is suited to large operations where the unit cost can be decreased. The price of purchasing cattle and the selling price seem to have the most risk associated with them concerning the breakeven analysis.

Table of Contents

1.1 Organization of Company	2
1.2 Mission Statement	2
1.3 Background and Literature Review.....	2
1.4 Goals and Objectives.....	3
1.5 Project Benefits	4
2.0 Operations Plan	5
2.1 Site Plan.....	6
2.2 Site Layout	6
2.3 Floor Plan and Flow of Work Plan	7
2.4 Business Operations	13
2.4.1 Average Business Day	13
2.4.2 Average Business Week.....	14
2.4.3 Business Suppliers.....	15
2.4.4 Quality Control.....	15
2.4.5 Environmental Limitations.....	16
2.5 Capital Budget.....	16
2.6 Operating Expenses.....	16
2.7 Working Capital Planning and Management	16
2.7.1 Cash Management	19
2.7.2 Inventories	19
2.7.3 Accounts Receivable.....	20
2.7.4 Accounts Payable	20
2.7.5 Cash Conversion Cycle	20
3.0 Human Resource Plan	21
3.1 Organizational Structure	22
3.2 Staff Plan.....	22
3.3 Board of Directors.....	22
3.4 Chief Executive Officer	22
3.5 Area Supervisors	24
3.6 Floor Workers	24
3.7 Cleaning Crew.....	24
3.8 Marketing Manager	25
3.9 Meat Seller	25
3.10 Cattle Buyer.....	25
3.11 Office Manager	25
3.12 Health and Safety Coordinator.....	26
3.13 Employee Benefits	26
3.14 Meat Inspectors.....	26
3.15 Transportation	27
4.0 Marketing Plan.....	28
4.1 Market Analysis	29
4.1.1 Standard Performance	29
4.1.2 The Market.....	29

4.1.3 Local Competition.....	32
4.1.4 North American Competition.....	32
4.1.5 International Competition	33
4.1.6 Target Markets	33
4.1.7 Product Features.....	36
4.1.8 Market Opportunity.....	36
4.2 Overview	36
4.3 The Marketing Mix (4 P's).....	37
4.3.1 Products and Service.....	37
4.3.2 Pricing	37
4.3.3 Promotion.....	37
4.3.4 Place	37
4.4 Segmentation, Targeting, and Positioning	38
4.5 Strength, Weaknesses, Opportunities, and Threat Analysis	39
4.5.1 Internal Strengths	39
4.5.2 Internal Weaknesses.....	40
4.5.3 External Opportunities	41
4.5.4 External Threats	41
4.6 Marketing Strategy.....	42
4.6.1 Sales Objective.....	42
4.6.2 Channels of Distribution	43
4.6.3 Pricing Policy	44
4.6.4 Selling and Advertising.....	45
4.6.5 Six Key Critical Success Factors	47
5.0 Financial Plan.....	48
5.1 Beginning Balance Sheet	49
5.2 Venture Financing.....	50
5.3 Dividend Policy.....	51
5.4 Economic Assumptions.....	51
5.5 Summary of Financial Results	52
5.6 Ratio Analysis.....	52
5.7 Sensitivity Analysis.....	53
5.8 Break Even Analysis.....	55
5.9 Risk Analysis.....	57
6.0 Conclusion.....	60
7.0 References	62
8.0 Appendix A	64
9.0 Appendix B	67
10.0 Appendix C	74

List of Tables

Table 2.1 The Capital Budget for SWBI.....	17
Table 2.2 Direct Material Purchased for 2006.....	18
Table 2.3 Direct Labour and Benefits for 2006.....	18
Table 2.4 Manufacturing Overhead Costs for 2006.....	18
Table 2.5 Costs of Goods Manufactured for 2006.....	18
Table 2.6 Costs of Goods Sold.....	18
Table 2.7 Other Variable and Fixed Operating Expenses.....	19
Table 2.8 Working Capital for the start of 2006.....	19
Table 3.1 Management Salaries.....	27
Table 3.2 Direct labor Salaries.....	27
Table 3.3 Cleaning Crew Salaries.....	27
Table 4.1 Canadian Consumption of Manufacturing Beef	24
Table 4.2 Top Canadian Beef Processors	25
Table 4.3 Total Canadian Beef Imports Fresh & Frozen in kg	26
Table 4.4 Total Canadian Beef Imports Fresh & Frozen in Cdn \$	26
Table 4.5 Total Canadian Beef Imports Fresh & Frozen in Cdn \$/kg	26
Table 4.6 Top USA Beef Processors.....	33
Table 4.7 Import Quota Holder’s in close Proximity.....	34
Table 4.8 Primary Users of Manufacturing Beef.....	35
Table 4.9 Projected Sales and Revenue for SWBI.....	43
Table 4.10 Marketing Budget.....	47
Table 5.1 The January 1, 2006 balance sheet for SWBI.....	50
Table 5.2 The types of financing to be used by the SWBI.....	50
Table 5.3 The values of the critical variables for the three main scenarios for 2008.....	52
Table 5.4 Summary of financial results for 12 years of production for the SWBI.....	54
Table 5.5 Partial ratio analysis for the SWBI for several years of production.....	55
Table 5.6 Critical Variables isolated to yield an IRR = 0, during full production in 2008.....	57
Table 5.7 The cash, net income, and net present value for 2006 for the accounting break even variables.....	58

List of Figures

Figure 2.1 The site location of the SWBI near Swift Current, Saskatchewan 7

Figure 2.2 The site layout for the SWBI near Swift Current, Saskatchewan..... 8

Figure 2.3 The floor and flow of work plan of the main work area for the SWBI. 9

Figure 2.4 Pneumatic Stunner. 10

Figure 2.5 Handheld Dehider 10

Figure 2.6 Hock Cutter..... 10

Figure 2.7 The basement floor plan and flow of work for the SWBI. 13

Figure 3.1 SWBI Staff layout plan 23

Figure 4.1 Canadian Beef Imports 34

Figure 4.2 Beef & Veal Quota Holder’s 36

Figure 4.3 Canadian Cow Prices in 2003/2004..... 45

Figure 4.4 The percentage of beef in each province.....46

Figure 5.1 Dividends Paid.....51

Figure 5.2 Compares the selling price fo three break even scenarios for 13 years..... 56

Figure 5.3 Compares the purchase price with breakeven scenarios for 13 years.....56

Figure 5.4 Compares the plant utilization for 13 years for three different analyses 57

INTRODUCTION

1.0 Introduction

1.1 Organization of Company

The South West Beef Initiative (SWBI) is comprised of several investors located in south west Saskatchewan that are looking to bring diversification to the area and incorporate value added methods to the distressed beef industry. The proponents of the initiative include the Federation of Saskatchewan Indian Nations (FSIN), Swift Current Rural Municipality, Southwest Center for Entrepreneurial Development, beef producers, a veterinarian, and members of the Saskatchewan Cattle Feeders Association. The objectives of the committee are to create sustainable agriculture so that more wealth and improved integration occurs in the community of Swift Current and surrounding area. The First Nations people plan to be a part of supporting this initiative through labor and inputs such as; beef, and crops. There is support offered for First Nations people from FSIN to develop this land and make it more agricultural productive. The SWBI will be a unique branding opportunity in the future if public perception remains constant about food safety. The founders of the SWBI have varied backgrounds. Engineers, cattle farmers, and individuals from the banking industry are but a few examples. This allows for a varied perspective and should help to promote a multi-functional “team based” approach.

There would be many economical benefits for the community of Swift Current and surrounding area. With the creation of this plant, there will be a large number of jobs and an influx of capital into the community. This will benefit not only the direct stakeholders of the initiative, but also tertiary service providers in the area. If all goes well, the plant could contribute to the stabilization of the area’s economy and increase Saskatchewan’s Gross Domestic Product.

1.2 Mission Statement

To provide a value added product for both Saskatchewan’s beef and general consumers.

1.3 Background and Literature Review

In May of 2003 Canada experienced a major blow to the agriculture industry that severely impacted the marketing of beef. The confirmation of BSE led to the immediate

closure of export markets to Canadian beef. Canadian beef producers rely heavily on the exportation of beef to other countries. Statistics Canada (Statistics Canada 2004) stated that prior to BSE, Canada was the third largest beef exporter in the world. The U.S. accounted for over 70% of Canadian's beef exports and when the border closed between the two countries Canada had lost its major market place. With the loss of export markets and the inability of Canadians to consume the surplus beef throughout the country the result was dropping prices. Over one year later borders remained closed to Canadian cattle. Some progress has been made in the fact that the U.S. has allowed the entry of boneless beef less than 30 months of age. Other countries have remained entirely closed due to the fear that Canadian beef may be unsafe for consumers.

The surplus of cattle is far greater than the slaughter capacity in Canada. Before BSE hit Canadian producers relied on U.S. slaughter facilities to process beef. When live cattle were no longer allowed to cross the border producers had to count on Canadian processing plants. The Federal Government is now promoting the expansion of slaughter capacity to evenly match the domestic cattle supply and Canada's processing level.

The proposed study will decide if a beef packing plant located near Swift Current SK, is sustainable given the following characteristics: Capacity of 500 beef animals per day with the possibility of incorporating an in house laboratory to screen for diseases such as Bovine Spongiform Encephalopathy (BSE), *E.coli*, Tuberculosis (TB), and any other possible diseases that arise that are a threat to human health. The cattle that will be processed will be at least 30 months of age. The plant will be selling larger carcasses which will result in more meat per carcass at a lower price. The plant will be a newly constructed facility and will take advantage of the latest technologies.

1.4 Goals and Objectives

- Increase Saskatchewan's value added industry.
- Maximize production at 500 head per day.
- Economic sustainability of cow/calf producers.
- Create opportunities for research and development.

- Develop markets for waste products, further enhancing value added processing.
- Provide a product that consumers are confident with its safety.

1.5 Project Benefits

- Create employment through the construction and operation of a packing plant.
- The packing plant ensures producers a place to market cull cows in Saskatchewan.
- The development of value added industry will help to diversify the economy and increase the industry within Saskatchewan.
- Promoting relationships between the First Nations people and beef producers in Southwest Saskatchewan.

OPERATIONS PLAN

2.0 Operations Plan

2.1 Site Plan

The site that the SWBI plans to build the packing plant is near Swift Current, Saskatchewan. It is only 3.3 kilometers to highway #1 as can be seen below in Figure 2.1. The legal land description of the site is the SW-3-16-13-W3. The land that has been chosen for the development has easy access to the city's sewage and water systems. The packing plant will require that three phase power be installed along with a natural gas pipeline. Both of these services will be reasonably priced due to the close proximity to Swift Current. The slaughter plant will be built in the first year of operations and no further expansions are planned within the next ten years. Extra land will be purchased at the beginning of the project in the event that any future expansions are undertaken.

2.2 Site Layout

The site that has been chosen for the Southwest Beef Initiative is 160 acres of land. The actual site of the plant will only take 60 of these acres. The layout of the site is shown in Figure 2.2. The perimeter of the 60 acre site will be surrounded by a security fence. There is easy access to the plant by municipal roads that lead to highway #1 so that logistics is simplified and it is easier for the transportation services to access main roads in the Swift Current district. The main construction materials that will be used to build the main building and coolers will be concrete. The corrals will be made of steel while the office is to be constructed from wood and sided to match the main building. The largest part of the building on site is for the actual slaughter of the mature cattle along with the cooler space that is required for the storage of the carcasses after slaughter but before shipping. This building will also contain an area of pens where cattle will be kept prior to slaughter. All of the activities that are related to the slaughter and storage of the animals are located in the building as well, such as a safety room, lunch room, and the laboratory for the testing of possible diseases.

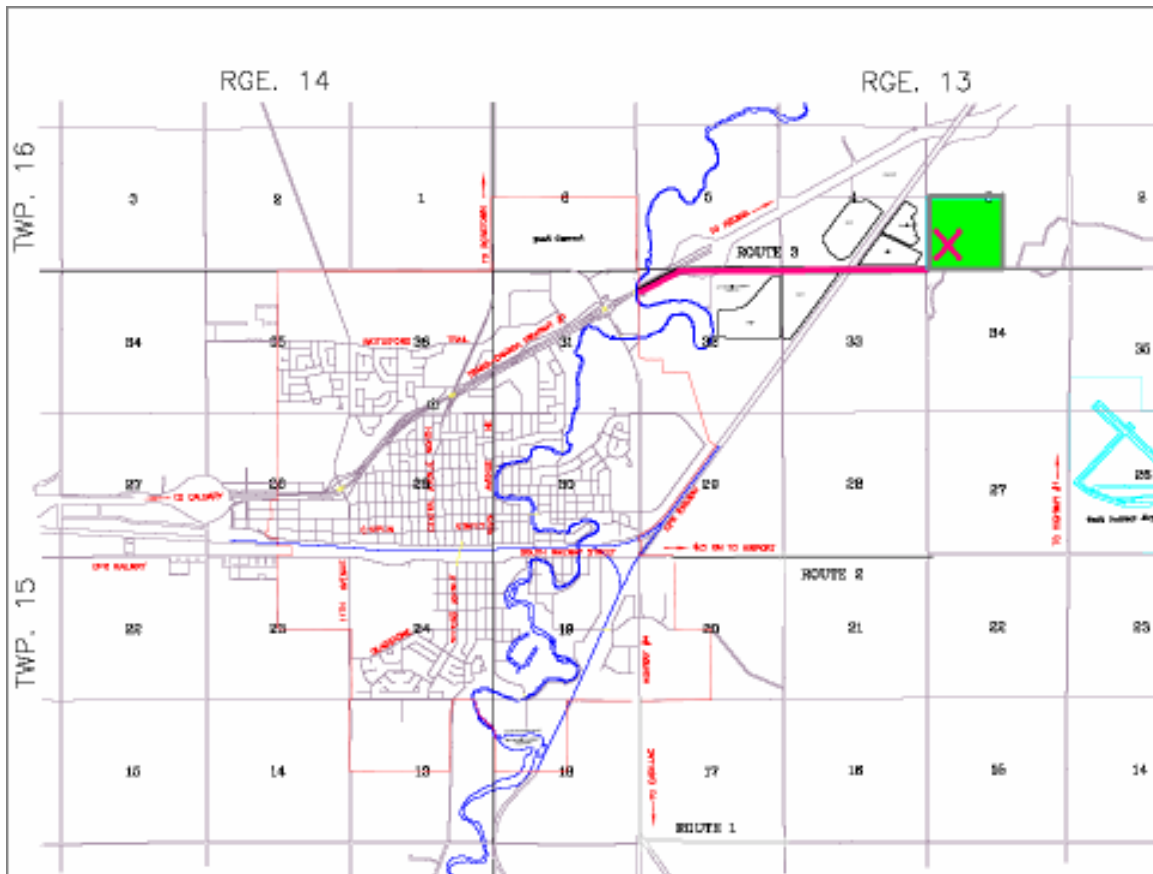


Figure 2.1 The site location of the SWBI near Swift Current, Saskatchewan.

2.3 Floor Plan and Flow of Work Plan

The SWBI plant has two floors. The bottom floor is actually the basement with the top floor being at ground level. The floor on the ground level is where most of the activity occurs from the slaughtering of the animals through to the storage of the carcasses (Figure 2.3). The basement is set up to collect the hides as they are removed from the animals and all the waste products. The waste is sent to the basement on a gravity chute that uses water as a lubricant to move the product to the basement where it will be pumped to the processing area. The basement also contains the power generators that are used as a back up in the case of a power failure.

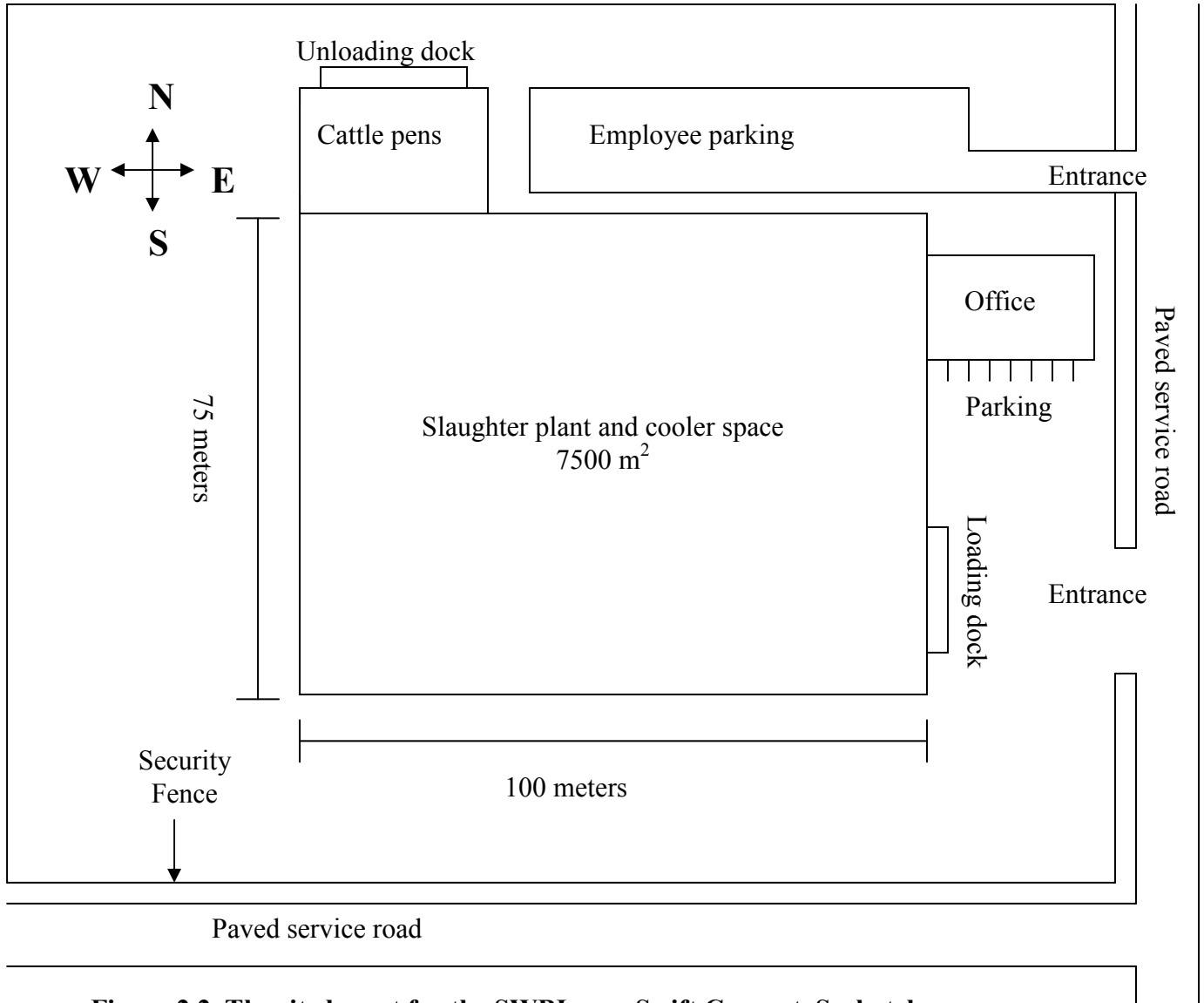


Figure 2.2 The site layout for the SWBI near Swift Current, Saskatchewan.

The following is the description of the flow of work and the legend for the floor plan of the main working level of the SWBI’s slaughter facility (Figure 2.3).

- A – This is the pens for the facility where the cattle will be unloaded and penned until they are slaughtered. They are not expected to be held in the pens for more than 24 hours. The two rows of pens are separated by an alley that will make the movement of cattle to and from the pens quite easy. This alley connects the pens to the site of slaughter.

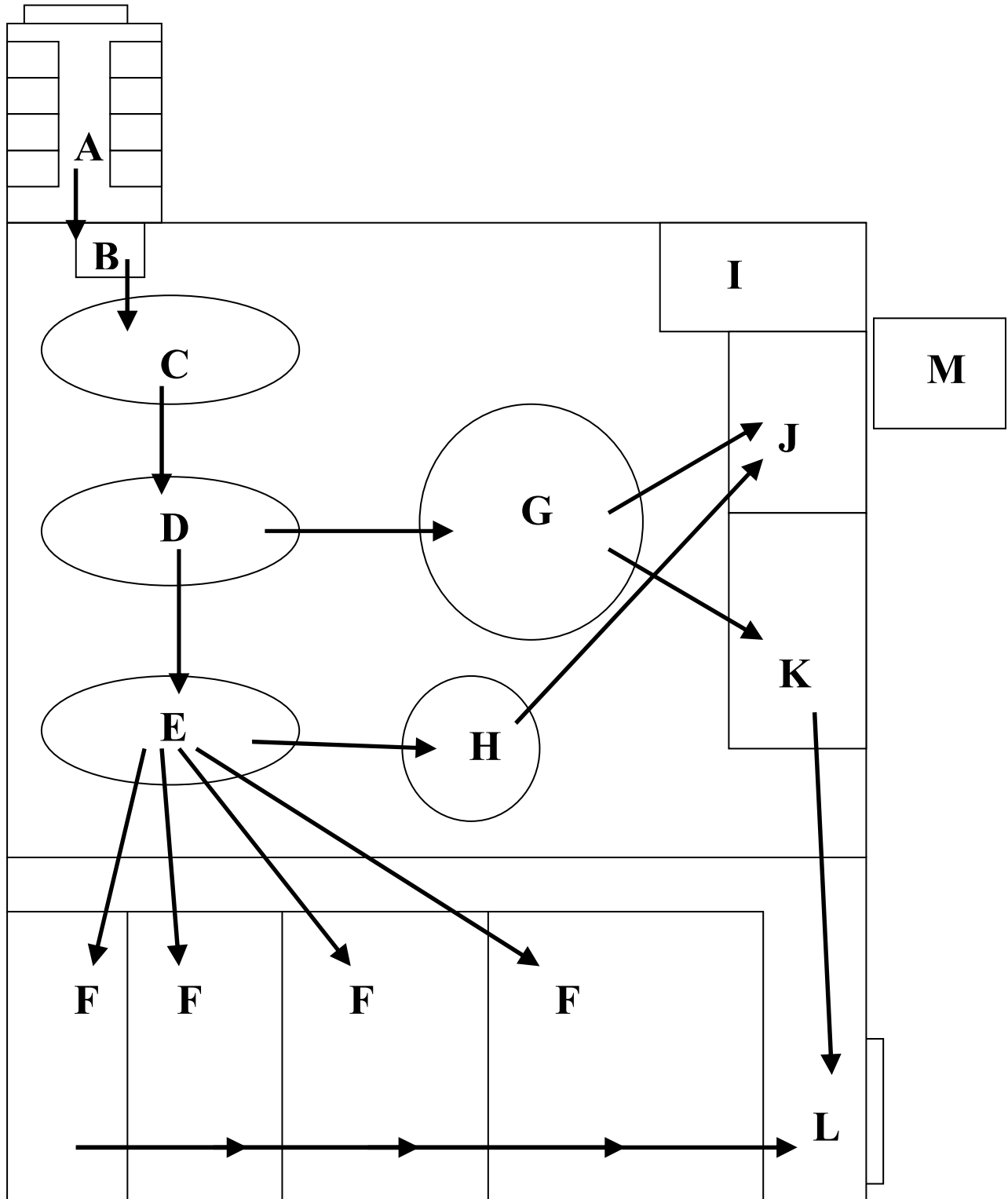


Figure 2.3 The floor and flow of work plan of the main work area for the SWBI.

B - The kill floor is located in this section which is where the cattle will be quickly and humanely killed. Killing will be done through the use of a pneumatic stunner as shown in Figure 2.4. As soon as they are dead they will be lifted to the processing line where the processing begins and the blood will be let out of the animal.



Figure 2.4 Pneumatic Stunner. (Jarvis, 2004)

C - Animals are moved to here where the hide will be removed from the animal and sent to the basement for storage (area N on Figure 2.7). The hides will be removed by several work stations as the animal is moved slowly down the work line. Figure 2.5 displays a handheld hide remover that is used. It is at this area that the front and rear hocks are trimmed off by using a hock cutter as shown in Figure 2.6. After the hide has been removed the carcass is moved through a lactic acid bath which kills any bacteria that was on the carcass from touching the hide as it was removed.



Figure 2.5 Handheld Dehider. (Jarvis, 2004)



Figure 2.6 Hock Cutter. (Jarvis, 2004)

- D - This is the area where both the head and entrails are removed from the carcass. The head is removed first. Anything that is useable on the head is removed like any muscle tissue, with the rest being sent to the collector and grinder in the basement. Next the entrails are removed. The organ meats are removed along with any other part of the entrails that has an end use. For example the omasum or part of the stomach is used and known as tripe. The organ meats and useable entrails are sent to an area of the plant for processing (area G on Figure 2.3).
- E - The final trimming and grading of the beef occurs in this section of the plant. The first step is to split the carcass into two halves down the spine. The next step is a new process since the BSE incident in May 2003, the spine is removed from the carcass. During this time any excess fat is removed from the animal and sent to the grinding area (area P in Figure 2.7). The final process in this area is to move the halves of beef through a hot water bath at 180 degrees Fahrenheit for the purpose of sanitation.
- F - This is the part of the plant that is set up for cooler space. The halves of beef are hung in this area at four degrees Celsius until they are shipped out to the end user. There are several different cooler sizes so that it is possible to sanction off certain shipments of beef. They usually do not remain in the cooler for longer then 24 hours except on weekends.
- G - The organ meats and the entrails, which are known as fancy meats, are moved to this part of the plant where they are processed. The tripe is washed in soap and hydrogen peroxide under high pressure before it is packaged and put into storage. The organ meats are washed before they are vacuum packaged and put into boxes. They are then either frozen or kept fresh (area K on Figure 2.3) depending on the order.
- H - The holding area is set aside to hold the animals that the Canadian Food Inspection Agency (CFIA) has pulled aside in their inspections. This area is where the carcasses will be kept until a veterinarian is able to examine the carcass and decide on a course of action. The carcass may only need to be trimmed

- before resuming its position in the process or may be sent to the grinding area (area P in Figure 2.7) if the veterinarian deems this the safest practice.
- I - The room is designed to be for the employees. It is here that there is a lunch room, change rooms, and washrooms. Also this is the area where the CFIA will have its office and where the safety room will be located (room with safety supplies).
 - J - This is where the laboratory will be located. This laboratory will be used for in house testing for diseases like *E. coli*. This will allow the SWBI to track its performance and cleanliness. The laboratory will be large enough so that if in the future regulations require each facility must do its own disease testing this one will have the capacity to do so.
 - K - The organ meats and useable entrails will be stored in the freezer until shipping. There will be both a frozen and fresh area therefore satisfying customers with different needs.
 - L - This is the loading dock. It is here that the halves of beef will be quartered as they are loaded onto trucks. Trucks of supplies are unloaded and stored in this area. The organ meats are also loaded onto trucks at this area.
 - M - The main office of the SWBI is located here and this is where all of the administration tasks occur.
- Figure 2.7 is the legend and description of the flow of work for the basement of the SWBI.
- N – This is the area of the basement that is used to collect the hides from the animal once they have been removed from the carcass. They are kept at four degrees Celsius until they are shipped to the end user.
 - O - This area is set up with generators to run the plant in the event that the power was to fail.
 - P - This section of the plant is where all of the trimmings of fat, high risk materials like the brain and spinal cord, and any other waste material are collected from the gravity chutes and the water treated before it is put into the Swift Current sewage system for further treatment.

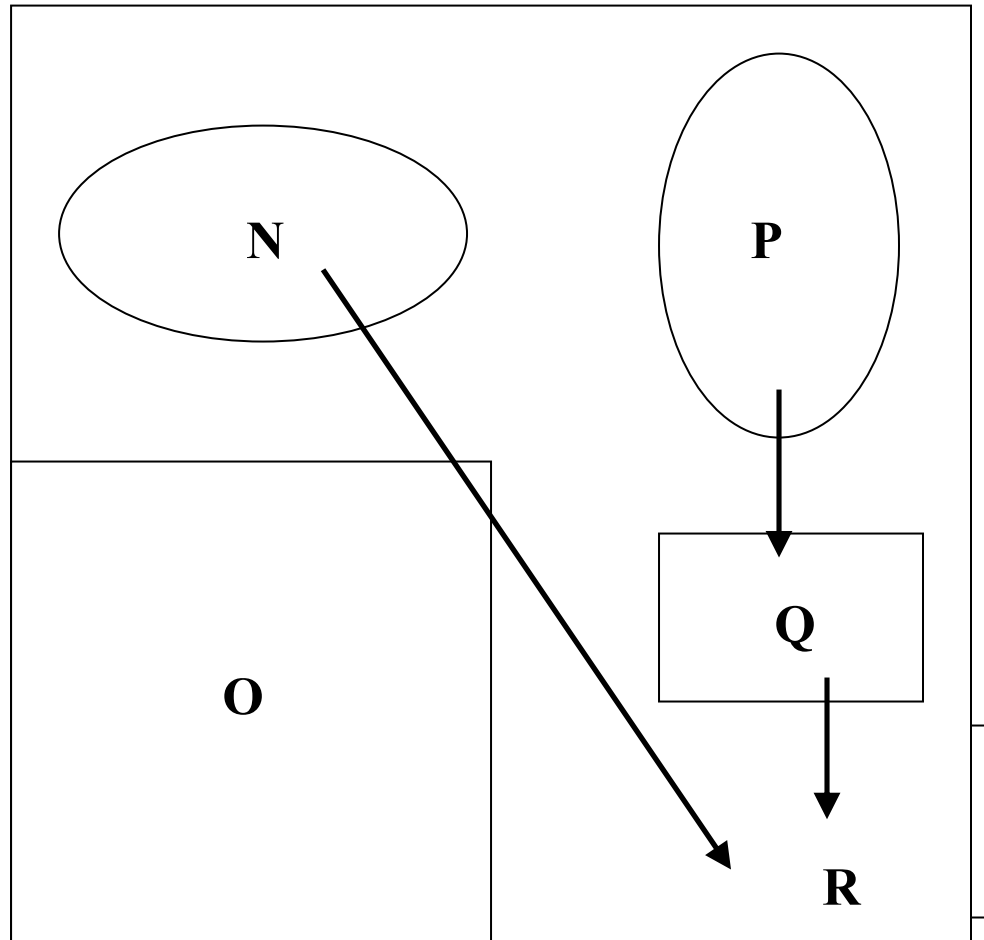


Figure 2.7 The basement floor plan and flow of work for the SWBI.

- Q - At this point the grinder and homogenizer combine all of the waste where it is ground into a fine powder and then put into solution where it will be stored until the end of the day when it will be shipped to the buyer.
- R - A ramp is located here so that the hides can be loaded onto trucks and the homogeneous solution is easily pumped onto the tanker truck.

2.4 Business Operations

2.4.1 Average Business Day

An average business day will begin at 5:00 am. This is the time that the shift will start to kill the animals and the production line will start. It will take about twenty minutes for

the carcasses to get this far down the production line. For all of the stations the requirement will be that the workers must be in position to begin work when the first carcass reaches their station. The shipping area begins to move product at 4:00 am. The shifts last for approximately eight hours. This will vary because there will be 500 head killed each day. Some days the slaughter will be complete before the eight hours is up and other days it will be complete after the eight hours is up. All labor codes are to be recognized so that the employees are to receive the correct amount and length of coffee breaks and lunch hours. The animals that are to be killed in the shift will only be brought to the facility the day they are to be slaughtered. This means that the cattle unloading area will be open 24 hours per day so that all 500 head to be killed can be unloaded the day of slaughter. Once the carcass is hanging in the cooler it will remain for one day to be cooled, then shipped to its destination. Each night a tanker truck will arrive to transport the homogenous waste solution to the end user. Also each day the hides are transported to a customer where they are turned into leather. A cleaning crew will start their day at 4:00 pm and clean the whole plant when the day is finished. The coolers will be cleaned each day as they are emptied.

The office staff will begin work at 8:00 am and be finished at 5:00 pm. They also will receive coffee breaks and lunch hours off. The administration work will vary each day but there must be a steady supply of beef to the plant as well as a sale of the beef each day so that production is not slowed for any reason. All of the payments to suppliers of the beef and receiving payment for the beef must be coordinated each day.

2.4.2 Average Business Week

The average business week begins on Sunday when cattle start to arrive for the Monday morning slaughter. Friday's slaughter will be kept in the coolers until Monday morning shipping. There must be enough cattle sourced for the week and beef sold to customers so that there will be no break in the slaughter of the animals. The compensation paid to each worker will be paid on every second Friday. Also on every second Friday a safety meeting will be held so as to keep employees working in a safe effective manner. Each

week the CEO will review all of the sales and purchases to decipher if changes must be made to keep SWBI a profitable venture.

2.4.3 Business Suppliers

The SWBI will have many suppliers for its production inputs. The town of Swift Current should provide most of the people for the floor of the production facility. There needs to be 41 First Nations workers in the plant in order to capture the government procurement market. The procurement market is a government market that First Nations have first access to if they own and operate a business. The meat will be used for feeding penitentiaries and other government facilities. There will be some heavy recruitment for First Nations people to move to Swift Current. People in managerial positions may have to be hired from other worker pools from outside the province or even the country. The cattle that are to be slaughtered will be received from local cattle producers and auction marts where the cattle are being sold. The plastic and boxes needed for packaging the organ meats will be received from Normapac Inc. which is a firm that supplies packaging materials. Most of the tools that are to be used will be supplied by Jarvis. One of the largest inputs will be water which will be received from the city of Swift Current. Trucking services for the fresh meat to the customers will be provided by the Yankee Group of Companies.

2.4.4 Quality Control

Quality control is one of the most important issues that must be faced with a cattle slaughter plant. SWBI will be a member of ISO 9001. This is one way to ensure that all standards will be met. Another important way that high quality meat is produced from this plant is that it will be conforming to Hazard Analysis and Critical Control Point (HACCP). This will allow the plant to use all up to date food safety protocols to produce a safe consistent product (U.S Food and Drug Administration, www.cfsan.fda.gov). All employees will be instructed to shut down production if for some reason they see that a certain section of the process does not conform to all of the HACCP or ISO 9001 standards. An onsite laboratory will allow immediate analysis of bacterial contamination of the meat. For example, *E. coli* populations will be closely watched to see if there is

any change in trends so that the facility can change its practices to produce the safest meat possible.

2.4.5 Environmental Limitations

There does not appear to be any environmental limitations to the SWBI. The only concern will be that water that is put into the Swift Current sewage system be relatively free of solid matter. The facility will have some water treatment infrastructure to allow the water entering the Swift Current sewage system to be within the allotted range sewage range where further treatment will occur.

2.5 Capital Budget

The capital expenses for SWBI will total \$25.98 million dollars. These costs are summarized in Table 2.1 and include land, building, equipment, and working capital costs. This budget is done for an annual capacity of 130,000 head slaughtered. There is a possibility to build an attached laboratory to meet specific demand for testing but it is not included in this business plan. Most capital purchases need to have their loans matched to their useful lives which can be from one to 25 years depending on the item. All costs are estimated from reputable industry leaders.

2.6 Operating Expenses

Operating expenses for the plant consist of direct materials, direct labor, and manufacturing overhead. All costs have been annualized and are in the Table 2.2 through 2.7.

2.7 Working Capital Planning and Management

The solvency of SWBI and managing to keep a liquid current ratio is an integral aspect to being successful. The benchmarks for cash, inventories, accounts receivable and accounts payable are given below (Table 2.8).

Table 2.1 - The Capital Budget for SWBI

Description	Estimated Cost (\$) 500 Head/Day	Source of Estimates Obtained
Land	144,000	SAMA - Land Assessment Disk \$900 / acre
Site Enhancements:		
Water Installation	840,000	City of Swift Current \$210 / m for 4.0 km
Sewage Installation	560,000	City of Swift Current \$140 / m for 4.0 km
Natural Gas Install	755,000	Duke Energy Gas Transmission Canada
Electricity Installation	2,007,000	Norrie Eng. Inc. 3000-4000 KVA Equipped
Landscaping	440,000	Norrie Engineering Inc.
Fence Enclosure	65,520	McGraw Hill Construction 7ft- \$12/ft -60 acres
Total Land Costs	4,811,520	McGraw located in NJ outlets in Canada
Buildings:		7,500 m ² plant area for 500-600 head/day
Main Plant (75m x 100m)	6,700,000	Norrie Engineering Inc. @ \$0.78/US\$
Refrigeration	2,500,000	Norrie Engineering Inc.
Waste Water Treatment	3,000,000	Mallot Creek Strategies Inc. @ 130,000 head/yr
Corrales & Shelter	1,152,000	Norrie Engineering Inc. \$1,280/m ² -30x30m
Building Infrastructure & Heavy Duty Rail for Cows	2,100,000	Norrie Engineering Inc.
Contingency Costs	800,000	Industry & Consulting Standard
Total Building Costs	16,252,000	
Equipment:		
Handheld Dehidiers	7,600	Jarvis -(8) @ \$950/item
Side Clamp Dehider	750,000	XL Foods
Splitting Bandsaw	17,500	Jarvis - (2) @ \$8,750
Hock Cutters	37,500	Jarvis - (5) @ \$7,500
Tail Cutter	8,500	Jarvis - (2) @ \$4,250
Dehorner	11,000	Jarvis - (2) @ \$5,500
Brisket Saw	13,500	Jarvis - (2) @ \$6,750
Circular Saw	8,550	Jarvis - (2) @ \$4,275
Bung Ring Expander	3,395	Jarvis - (1) @ \$3,395
Pneumatic Stunner	21,900	Jarvis - (2) @ \$10,950
Knives	54,250	Jarvis - 7,000 / annum @ \$7.75/knife
Office Equipment	4,500	Computer, Desk, Printers etc
Other	76,150	Balancer, Regulators, Hydraulic Power Unit
Total Equip. Costs	1,014,345	
Total Working Capital	3,906,037	
Total Capital Required	25,983,902	

Table 2.2 - Direct Material Purchases for 2006

Livestock Purchased	Cost in (\$)	Source
Cows (100%)	22,708,711	Heartland Livestock 1400lbs @ \$1100/live tonne
Inspectors Salaries	143,000	MPCS Plan inflated by CPI Index
Boxes / Bags / Labels	14,125	NoramPac 4x4x3 box with label @ \$0.78
Sanitation Supplies	4,875	USDA Beef Packing Plant Survey Adjusted CPI
Total Direct Materials	24,006,147	

Table 2.3 - Direct Labour & Benefits for 2006

Floor Labourers	585,000	Monster.ca Salary Center - 90 @ \$11-\$14/h
Supervisors	75,000	Monster.ca Salary Center - 6 @ \$50,000
Benefits for Direct Labourers	131,907	1.4*EI, CPP, Vacations, Sask Workers Comp
Total Labour & Benefits	791,907	

Table 2.4 - Manufacturing Overhead Costs for 2006

Variable:

Transportation	137,800	Yanke Group of Companies @ \$1.06 / km
Water	19,636	City of Saskatoon @ \$1.13 / m ³
Sewage	19,636	City of Saskatoon @ \$1.13 / m ³
Maintenance & Repairs	454,718	Norrie recommends 7% Total Equipment Costs
Quality Assurance Testing	32,500	5% of Carcasses Tested @ Random @ \$25/test
Natural Gas	70,063	Sask Energy at 430m ³ /h annually 894,400
Electricity	112,500	Sk Power estimate for Plant \$0.0833-0.03001/kw/h
Total Variable Expenses	846,853	
Fixed:		
Insurance	54,000	Need final quote, \$0.45 / \$100 of Capital
Property Taxes	105,000	Awaiting response, Jim Parsons for mill rate
Capital Cost Allowance	1,797,373	Mach./Equip. 30%, Building/Infrastructure. 10%
Total Fixed Overhead	1,956,373	
Total Overhead	2,803,225	

Table 2.5 - Cost of Goods Manufactured for 2006

Direct Materials	24,006,147
Direct Labour	791,907
Manufacturing Overhead	2,803,225
Total Cost of Goods Manufactured	\$27,601,279

Table 2.6 - Cost of Goods Sold

Beginning Finished Goods Inventory	0
Cost of Goods Manufactured	27,601,279
Cost of Goods Available for Sale	27,601,279
Ending Finished Goods Inventory	228,580
Total Cost of Goods Sold	\$27,372,699

Table 2.7 - Other Variable & Fixed Operating Expenses for of 2006

Interest on Loans @ 8%	831,485
Bad Debt Expense	284,460
Management Salaries & Benefits	468,751
Administrative & Marketing Expenses	54,100
Cleaning Staff Salary & Benefits	221,312
Shipping Expenses	187,032
Telephone	6,000
Contingency Costs	2,737,270
Total Other Operating Expenses	\$4,790,409

Table 2.8 Working Capital for the start of 2006

Cash	3,906,037
Accounts Receivable	0
Inventories	0
Accounts Payable	0
Total Working Capital	3,906,037

2.7.1 Cash Management

Cash reserves are going to be a critical component for SWBI. Primarily, the need to obtaining a large short term line of credit will be essential to meet cash shortfalls. This revolving line of credit will need to be approximately 2-3 million dollars to adequately cover large disparities. The cash requirement to effectively meet operational requirements will need to be nearly \$4,000,000. This cash amount will meet short term payables, interest, and operating bills before receivables are collected.

2.7.2 Inventories

The costs associated with holding inventories can be great. The benefits of a slaughter facility are that the direct material purchases arrive daily with all of the output going out within one day. Therefore there are little inventory costs. Regular supplies such as sanitation supplies and boxes will be held for one to two months at a time. The only finished goods inventory is Fancy Meats that are requested with orders and some Friday kills that do not get delivered until Monday. Simply utilizing existing coolers will be the only costs associated with inventories. Therefore the average inventory will be three days.

2.7.3 Accounts Receivable

When finished goods are delivered the accompanying invoice will go with the order thus eliminating some lag in the payment turnover. With this billing technique in place receivables should be collected in 16 days of receiving the goods on average. There is expected to be a one percent bad debt expense which will total \$284,460 in year one. These accounts will be kept on the immediate books for one quarter and for one fiscal year in the annual report.

2.7.4 Accounts Payable

In this industry there will be little advantages for discounts because most farmers will not have the ability to offer discounts. Large feedlots may offer discounts and will be considered if short term financing is high. All accounts will be paid on time, to signal strong management and to align good working relationships with our suppliers. This management practice will bring accounts paid to nine days.

2.7.5 Cash Conversion Cycle

SWBI will have a cash conversion cycle of approximately ten days ($\text{Inv } 3 + \text{A/R } 16 - \text{A/P } 9 = 10$ days). This is a very minimal amount of time to have cash tied up in the operations cycle. This Figure should be managed on an ongoing basis for working capital and current position issues.

HUMAN RESOURCES PLAN

3.0 Human Resources Plan

3.1 Organizational Structure

This company will be directed by eight to ten board of directors. It is important that the people on the board have a wide variety of knowledge, from the industry, as well as from other industries to get a wide base of knowledge. SWBI will have shareholders, 51 percent of whom will be the FSIN and the remaining 49 percent will be investors.

3.2 Staff Plan

The following staff plan illustrates the intended structure of the company. There is a detailed description of each position after the chart to give a clearer picture of the company's structure. SWBI is unique in that it will have a minimum required aboriginal employment ratio of greater than thirty-three percent. By achieving this ratio it opens up opportunities during the marketing plan. In the descriptions the Federal Meat Inspector is listed and even though they work in the plant they are not employees of the SWBI.

3.3 Board of Directors

The board of directors will be made up of about eight to ten people with various backgrounds. There will be approximately four to five from the FSIN and two to three with vast knowledge in the slaughter industry. There will be two to three local people to keep the interest in the community and express any concerns that local producers have. The FSIN is a major supporter of this project and the knowledge in this industry will be growing. The FSIN also has other projects on going that will help this slaughterhouse in the long run.

3.4 Chief Executive Officer

The Chief Executive Officer (CEO) will have a vast knowledge of the slaughtering industry as well as a bachelor's degree and at least 15 years of experience in the industry. This individual will be very knowledgeable in any position from the marketing, to the killing line, right down the loading of the trucks. Supervising the operations of this plant will also be a duty of the CEO. Organization will be key to this position because there will be many issues ongoing that must be sorted out over time. Negotiation skills will be

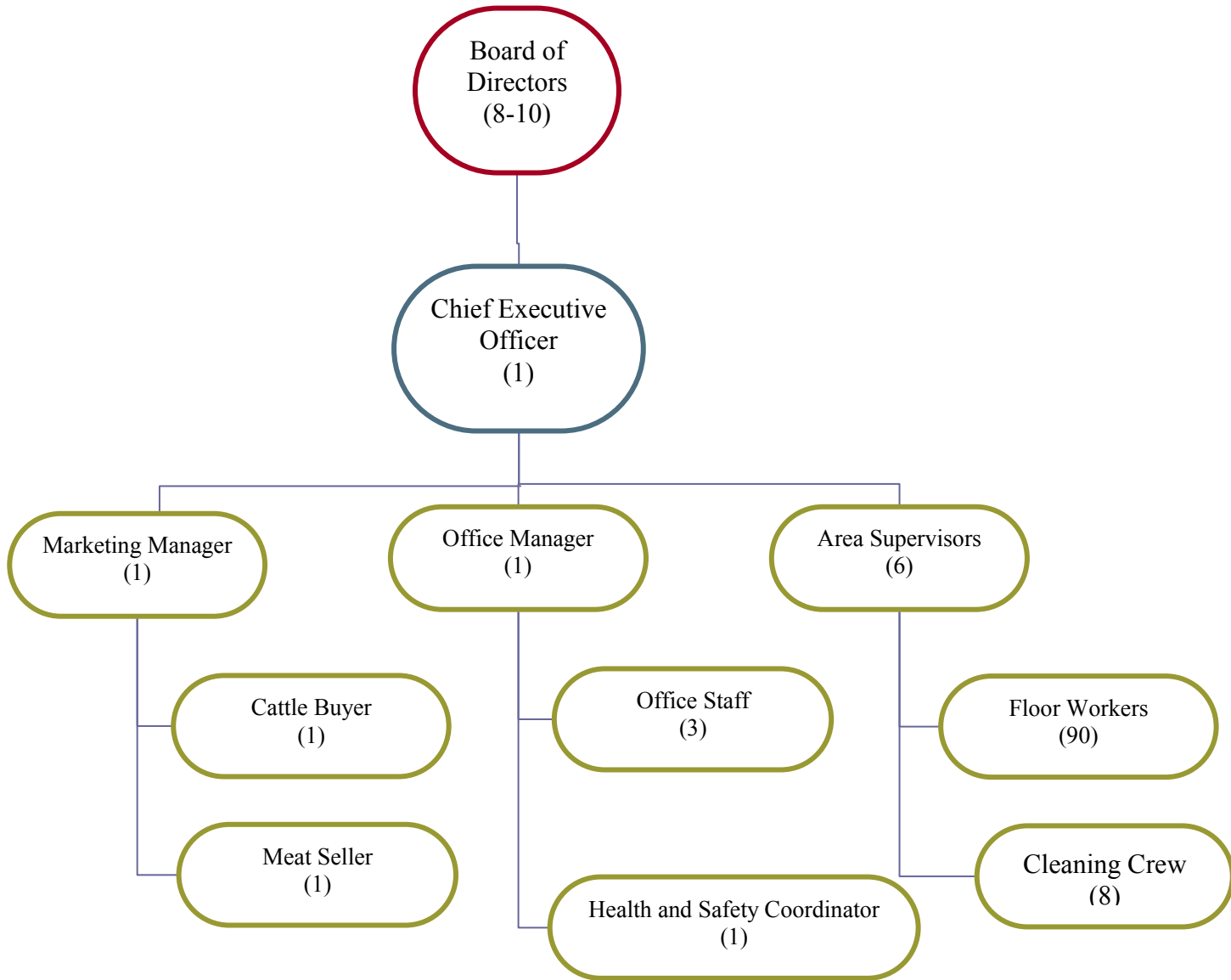


Figure 3.1 SWBI Staff layout plan

required because there will communication with employees as well as outside inquires so unbiased opinions will be an asset for the company. The CEO will be working closely with the marketing team to find certain customers to help increase the sales for the SWBI. The salary will be starting at about \$150, 000 per year. Due to the cut back of production in the first two years the wages will be 52 week year for 2006, but the actual payment to workers will be related to actual hours see Appendix B for more details.

3.5 Area Supervisors

Area Supervisors will have a variety of jobs depending on what area they are supervising. This position would require detailed experience in a slaughter plant as well as a grade 12 education. They would have to be very comfortable and experienced with a knife or perfect with cutting operations. This experience would be crucial for the plant especially when starting up because mistakes are not affordable during the start up stages. Within the area that this supervisor would be working, they would be able to do every step in their area at a very skilled level. This position would report to the CEO. The supervisors will be starting at a competitive wage starting at \$47,500 for a total cost of \$285,000.

3.6 Floor Workers

Floor workers would have a number of different jobs starting at the unloading docks through to loading the trucks. There would be on site training for these employees to learn the tasks that they would be carrying out every day. For requirements, a grade 12 education is all that is needed. The training period would be about one to three months because it is very important that these workers have the experience and knowledge to keep the product at the very highest quality. This position is required to report to the appropriate Area Supervisor. Floor workers will be paid depending on their ability and experience. They will have an average wage of \$26,000 on an annual basis for a total cost of \$2,314,000.

3.7 Cleaning Crew

The cleaning crew will work every day after the day's shift is over. They will be in charge of making sure that everything is sanitized daily and ready for operation the next

morning. These positions will report to the area supervisors but if the job is not done correctly it will not go unnoticed in the rest of the plant. The cleaning crew has a requirement of grade 12 education and they will be paid a base rate of \$22,880 annually.

3.8 Marketing Manager

The Marketing Manager will assist the CEO with daily operations. They will also work with the cattle buyer and the meat seller to make sure that the plant is running at full capacity. It will be important for this individual to have skills negotiating and promoting the meat products prepared at this plant. This individual reports to the CEO. The marketing manager will be paid \$45, 000 annually.

3.9 Meat Seller

The Meat Seller will have the job of making sure that the meat is being sold fast enough so the cooler space does not run out. This employee will have a high communication rate with the cattle buyer and will report to the marketing manager. The turn over rate is very high thus contacts will be very important to establish at the beginning of this job. The meat seller will start at a salary of \$36,000 annually.

3.10 Cattle Buyer

Cattle buyer will be in charge of communicating with the meat seller and marketing manager about what types of cattle are needed at certain times. This individual will buy cattle; negotiate the prices, as well as any specific requests that the producer may have that the animals will be sold. The Cattle Buyer will report to the Marketing Manager. Contacts are a key to this position. The wage for this position will start at \$36,000 annually.

3.11 Office Manager

The Office Manager will be working with the office staff to make sure that all cattle coming in and out are being recorded properly. They will also be in charge of all the finances. Pay roll will be one of the main duties for the office manager. Other duties will include receiving payment for meat that is sold, and for the payment of the cattle that are

purchased. The Office Manager will report to the CEO. This position will start with a wage per year of \$43,000.

3.12 Health and Safety Coordinator

Health and Safety coordinator will be organizing all of the training and making sure that all emergency supplies are readily available for employees. They will also be certified to teach the needed programs such as WHIMIS and HACCP and any other courses that certain jobs may require. This individual will report to the Office Manager as well as have contact with the CEO. Programs will need to be updated as new ones are released. This employee will start at a wage of \$40,000 annually.

3.13 Employee Benefits

There will be benefits including Unemployment Insurance, Canadian Pension Plan, and Workers Compensation. Unemployment Insurance is at a rate of 1.98% with a maximum employer contribution of \$1,081.08. The Canadian Pension Plan is at a rate of 4.95 percent with a maximum employer contribution of \$1,831.50. Workers Compensation has a very high rate of 8.21 percent with a maximum employer contribution of \$4,351.30. This chart shows the amounts that will be paid for Workers Compensation, Canadian Pension Plan, and Employment Insurance for each position.

3.14 Meat Inspectors

There will also be meat inspectors but they are not employees of the slaughterhouse. They will be inspecting the meat to make sure that it is all of the quality that is expected from Canadian beef. There will be a cost but the inspector will not be on salary at the slaughter plant. The cost in 2008 when the plant has reached full capacity will be \$583,440.

Table 3.1 Management Salaries

	Management					
	salaries	benefits				total benefits
CEO	\$150,000.00	\$1,081.08	\$1,831.08	\$4,351.30	\$8,653.85	\$15,917.31
Office Manager	\$43,000.00	\$1,081.08	\$1,831.08	\$3,530.30	\$2,480.77	\$8,923.23
Marketing Manager	\$45,000.00	\$1,081.08	\$1,831.08	\$3,694.50	\$2,596.15	\$9,202.81
Cattle Buyer	\$36,000.00	\$1,081.08	\$1,831.08	\$2,955.60	\$2,076.92	\$7,944.68
Meat Seller	\$36,000.00	\$1,081.08	\$1,831.08	\$2,955.60	\$2,076.92	\$7,944.68
Office Staff (3) @ \$30,000	\$90,000.00	\$1,782.00	\$4,455.00	\$7,389.00	\$5,192.31	\$18,818.31
Total	\$400,000.00	\$7,187.40	\$13,610.40	\$24,876.30	\$23,076.92	\$68,751.02
					total	468,751

Table 3.2 Direct Labor Salaries

	Direct labor				
	salaries	Benefits			
Health and Safety Coordinator	40,000	1,081	1,831	3,284	2,308
Area Supervisors (6) @ \$47,500	285,000	6,486	10,986	24,630	16,442
Floor workers (89) @ \$26,000	2,314,000	24,991	113,119	189,953	133,500
Total	2,639,015	32,559	125,937	217,867	152,250
		total compensation		3,167,627	

Table 3.3 Cleaning Crew Salaries

Cleaning Crew (8) @ &22,880	\$183,040	\$3,624	\$9,060	\$15,028	\$10,560	\$38,272
					total	\$221,312

3.15 Transportation

The trucks that will be transporting the meat will be contracted out at a competitive price. The trailers will have to have a cooling system that has been inspected and in good working order. Once production is at 100% in 2008 the total transportation costs will be \$562,224.

MARKETING PLAN

4.0 Marketing Plan

4.1 Market Analysis

The market analysis will give an overview of the past and present markets on a local and global scale. An analysis of supply and demand for manufactured beef over 30 months of age (OTM) will provide the primary market for the product. Manufactured beef is primarily cow and bull meat that is a tougher lower quality meat. This manufactured beef is usually sent for further processing such as grinding. A breakdown of Canadian imports will show potential opportunity to capture supplementary import supply with domestic product. Determination of local and national competition will be a key aspect for segmenting and market targeting.

4.1.1 Standard Performance

There are typical marketing strategies common to most meat processing facilities. As SWBI is a slaughter plant it will primarily market to processors, wholesalers and large retailers. Other marketing channels for plants that sell boxed meat would also include restaurants, retailers, meat shops and direct customer orders. A large portion of cows OTM were exported to the USA prior to May 20, 2003 (USDA Beef Packing Plant Survey). SWBI will be slaughtering OTM and therefore export restrictions limit the market to Canada alone.

4.1.2 The Market

Total demand can be broken down into consumption by Canadians both from domestic and imported beef. As seen in Table 4.1 Canadians only consume 24.7 percent of total Canadian production. That means the other 75.3 percent of total beef products in Canada is from imports and 60 percent (or 130,000 tonnes) of that product is manufactured beef. Manufactured beef imports amount to 13-15 percent of Canadian consumption (Sask Ag, Food & Rural Revitalization, World Trade Atlas Canada –Imports & Exports – Number of Head – Canadian Dollars). Beef Imports from non-NAFTA countries are subject to a

tariff rate quota (TRQ). Trade agreements show Canada is committed to TRQ volume of 76,409 tonnes. So, importers must use their quota or risk losing it. Once committed quota is reached, importers apply for supplementary imports at the same in quota rates of zero percent. If not granted supplementary imports additional imports are charged a 26.5 percent tariff. This supplementary market is one that can be offset by Canadian production.

Table 4.1 Canadian Consumption of Manufacturing Beef in 2002	
(Numbers based on 700,000 cow kill & 70,000 bull kill annually)	
Total non-fed boneless beef* production in Canada	180,000 metric tonnes
Less: % exported live (40%)	-72,000
Net Slaughtered in Canada	108,000
Less: % exported as Beef (60%)	-64,800
Amount of CDN boneless beef consumed in Canada	43,200
Plus: TRQ Imports	76,409
Plus: Supplementary Imports	55,000
Total Imports	131,409
Plus: Canadian Consumption of Domestic	43,200
Canadian Consumption of Boneless Beef	174,609

* Boneless Beef – Typically ground beef, hamburger patties

Source: Sask Ag, Food & Rural Revitalization “Overview of Cull Animal Slaughter and Manufacturing Beef Production”

Since May 2003 and the closure of the USA border Canada has seen increased cattle supplies and inventory of domestic animals. During 2003 beef imports were nearly 200,000 metric tonnes due to this border closure, which presents a larger potential market currently for SWBI. Canadian slaughter facilities are running at full capacity and the markets are saturated with cattle. This excess supply has forced the government to supply funds to farmers and feedlots to have market ready cattle set-aside and grazed on the farms for one more year. This will alleviate the strain on markets and prices should begin to rise.

For SWBI having access to a constant supply of beef cows and bulls (OTM) is critical for long term success. Saskatchewan has 19.5 percent of the total Canadian cattle supply and 28.4 percent of beef cows. Including Manitoba and Alberta, the SWBI has access to 68.1 percent of total Canadian cattle supply and access to 80.1 percent of beef cows in terms

of location, see Table 4.6. However, the majority of processors are in this region and that will be a major threat to SWBI.

Within Canada there are four main players with regards to market share of slaughtered beef as seen below see Table 4.2. In a total slaughter industry of 3.9 million head there is only 15 percent market share that is not occupied by the top four processors. SWBI will add 0.13 million head to the total. This market will be very competitive and price sensitive. The main opportunity is that these competitors only slaughter UTM making few buyers of OTM beef.

Table 4.2 Top Canadian Beef Slaughterers	Estimated Annual Capacity
Lakeside Packers (Tyson)	1.2 million head
Excel (Cargill)	1.2
Better Beef Ltd.	0.5
XL Beef	0.4
Total Canadian Slaughter Capacity	3.9 million head
Market Share of Top 4 Companies	85%

Source: Corporate Web sites (Lakeside, Excel); Saskatchewan Food Development Centre

Canada receives the majority of its imports from five countries. As seen in Table 4.3 the total imports from 2003 were 188,353 tonnes and 28 percent came from Australia who is primarily exporting manufactured beef. This works out to be a \$128 million dollar market for potential growth. A price breakdown per kg is given in Table 4.4. It shows that the USA (NAFTA) import price for 2003 is around \$5.36/kg which is primarily under thirty months of age (UTM), where as Non-NAFTA prices are much lower. Uruguay's price is \$2.54/kg, Australia's price \$3.23/kg and New Zealand's price is \$3.04/kg which are competitive. SWBI has to remain below USA and come close to Australia's price in order to capture market share.

Table 4.3 Total Canadian Beef Imports Fresh & Frozen in kg						
	U.S. (UTM)	Australia	N.Zealand	Uruguay	Argentina	Total
1999	72,180,241	44,867,211	34,910,923	14,997,360	10,792,327	177,782,380
2000	73,652,975	38,695,762	21,075,109	24,616,625	26,217,421	184,257,955
2001	66,545,151	54,289,270	56,614,398	30,790,447	4,123,883	212,479,810
2002	67,567,174	93,240,452	55,115,519	32,379	0	215,990,201
2003	63,159,732	39,897,361	45,863,441	39,393,077	0	188,353,080

	U.S. (UTM)	Australia	N.Zealand	Uruguay	Argentina	Total
1999	323,787,463	129,507,593	102,504,752	37,636,446	28,608,338	622,139,283
2000	352,605,467	119,839,988	68,873,615	63,258,671	68,460,859	673,039,200
2001	327,986,753	177,959,872	167,447,440	83,245,895	11,292,610	768,170,919
2002	331,445,321	291,943,104	164,104,302	153,436	0	787,727,751
2003	338,397,679	128,786,483	139,297,078	99,868,861	0	706,465,647

	U.S. (UTM)	Australia	N.Zealand	Uruguay	Argentina	Total
1999	4.485818536	2.88646408	2.93617995	2.5095381	2.650803483	\$3.50
2000	4.787389335	3.09697966	3.26800753	2.569754	2.611273588	3.65
2001	4.928785164	3.27799346	2.95768296	2.7036274	2.738343935	3.62
2002	4.905419324	3.13107774	2.97746089	4.7387504	0	3.65
2003	5.357807392	3.2279449	3.03721385	2.5351881	0	3.75

Source: Statistics Canada

4.1.3 Local Competition

Locally SWBI has a few obstacles in terms of competition. SWBI will need to be federally certified in order to deal outside of Saskatchewan. The major player in Saskatchewan is XL foods. Industry trends show that the number of slaughter plants is decreasing, but the size of each plant is increasing. Like any other business that requires intensive capital, it is hard to be successful on a small scale. SWBI will be entering the market at a competitive size with the potential to run two shifts to increase output. Many of SWBI local competitors are diversified in other operations other than beef so it only has a couple of direct competitors here in Saskatchewan. If SWBI is to be successful it will need to capture the procurement market, supplementary import market, as well as compete in the wholesale/ distribution market.

4.1.4 North American Competition

In terms of size the USA beef market is 10 times the size of the Canadian processing market. The top ten players take up 93 percent of the market as seen in Table 4.6. The largest Canadian processor which is Tyson (which happens to be owned by the largest USA processor) has only 0.116 percent of the annual capacity occurring in Canada.

Table 4.6 Top USA Beef Processors	Estimated Annual Capacity
Tyson	10.35 million head
Excel	7.29
Swift	6.18
U.S. Premium National Beef	2.7
Smithfield	2.49
Rosen's Diversified	1.14
Nebraska Beef	0.9
Greater Omaha Packing Co.	0.78
America Foods Group	0.54
Brawley Beef	0.48
Creekstone Farms	0.48
Total of Top 10	33.33 million head
Total U.S. Slaughter Capacity	35.7 million head
Market Share of top 10	93%

Source: "Meat & Poultry 2003 Facts," American Meat Institute and Sterling Marketing

4.1.5 International Competition

SWBI will need to penetrate this non-NAFTA import market if they want to be successful. These countries are listed in Figure 4.1. These countries compete in terms of price and quality of beef. Offshore beef tends to be 40 to 45 percent cheaper than North American beef.

4.1.6 Target Markets

The target markets for SWBI will be:

- Supplementary Import Markets
- Procurement & Set-asides Market
- Wholesaler/Processors & Distributors Markets

SWBI will need to target import markets in order to gain market share for their product. A list of the quota holders in Alberta, Saskatchewan, and Manitoba are given in Table 4.7. These companies only amount to 10.6 percent of Canadian import quota holders as seen in Figure 4.1. The majority of the import holders are from Ontario and Quebec which make up 75 percent of the entire market. There are only two companies in Saskatchewan that have import quota and they are Mitchell's Gourmet Foods Incorporated and Harvest Meats Company Limited.

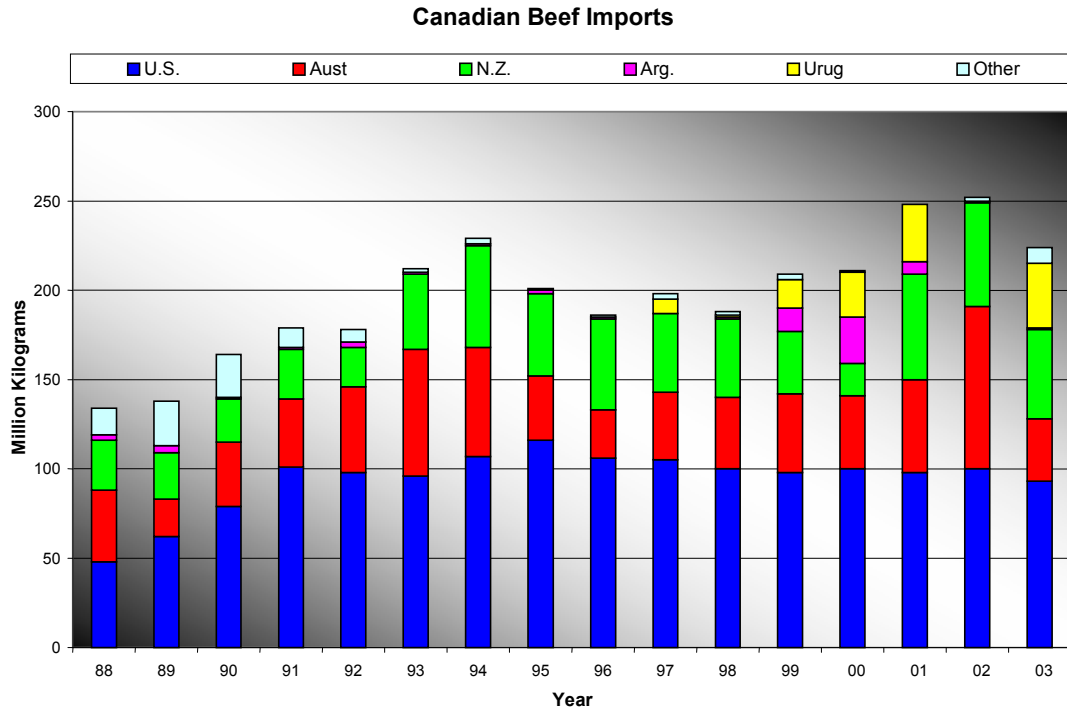


Figure 4.1 Canadian Beef Imports

Source: Statistics Canada

Table 4.7 Import Quota Holders in Close Proximity	
Athena Domair Distributors Ltd.	Edmonton, Alberta
Canada Safeway Limited	Calgary, Alberta
Capital Packers Limited	Edmonton, Alberta
Cargill Foods	High River, Alberta
Centennial Food Corporation	Calgary, Alberta
Edmonton Meat Packing Limited	Edmonton, Alberta
Multi National Foods	Calgary, Alberta
Precision Trading Limited	Calgary, Alberta
Westbrook Trading Company Limited	Calgary, Alberta
Western Quality Meats	Calgary, Alberta
Harvest Meats Company Limited	Yorkton, Saskatchewan
Mitchell's Gourmet Foods Incorporated	Saskatoon, Saskatchewan
Northern Meat Services	Winnipeg, Manitoba
T0-LE-DO Foodservice	Winnipeg, Manitoba

Source: <http://www.dfait-maeci.gc.ca/trade/eicb/agric/agric-en.asp>

Canada has imported nearly 980,000 tonnes of beef over the last five years. This amounts to 196,000 tonnes imported annually. Manufactured beef makes up 65 percent of total imports. Using a rate of 0.3 tonnes/head and annual capacity of 130,000 head SWBI will produce 39,000 tonnes of product. That means SWBI will potentially take up 20 percent of the total import market and 30.5 percent of potential manufactured beef market. The primary users of manufactured beef will be hamburger patty processors. A list of the major users is given in Table 4.8. Centennial Foods in Saskatoon and Calgary along with Better Beef, Maple Leaf, and Olymel would be key buyers for SWBI.

Table 4.8 Primary users of Manufacturing Beef

Target Demand for Manufacturing Beef	Location
Caravelle Foods	(Spruce Grove, AB & Brampton, ON)
Cardinal Meats	(Toronto, ON)
Centennial Foods	(Calgary, AB & Saskatoon, SK)
As well as: J.D. Sweid, Better Beef, & Lucerne	

Source: Saskatchewan Agriculture, Food and Rural Revitalization “Meat Industry Information”

SWBI will have a unique opportunity to capture tenders for the federal government procurement market. The eligibility requirements for Aboriginal set-asides will be met by the SWBI and therefore provides a unique opportunity to market their product through the government (Appendix C). There are government officials who accept bids for correctional facilities, army bases, and hospitals. This has the potential to make up 10 to 15 percent of SWBI output for a year.

Distributors and wholesalers will be a large market for SWBI to access. By offering a low cost product to large distributors the opportunity to supply a large retail chain is possible. Canadian Safeway has already shown interest in purchasing SWBI product.

4.1.7 Product Features

SWBI has an economically viable beef product that is low in cost. This 100 percent Canadian beef is federally inspected and extremely safe. The product comes in quarters as well as hides, offal, and fancy meats. The entire animal is used in some way or another.

Beef & Veal Quota Holder's in Canada 2004

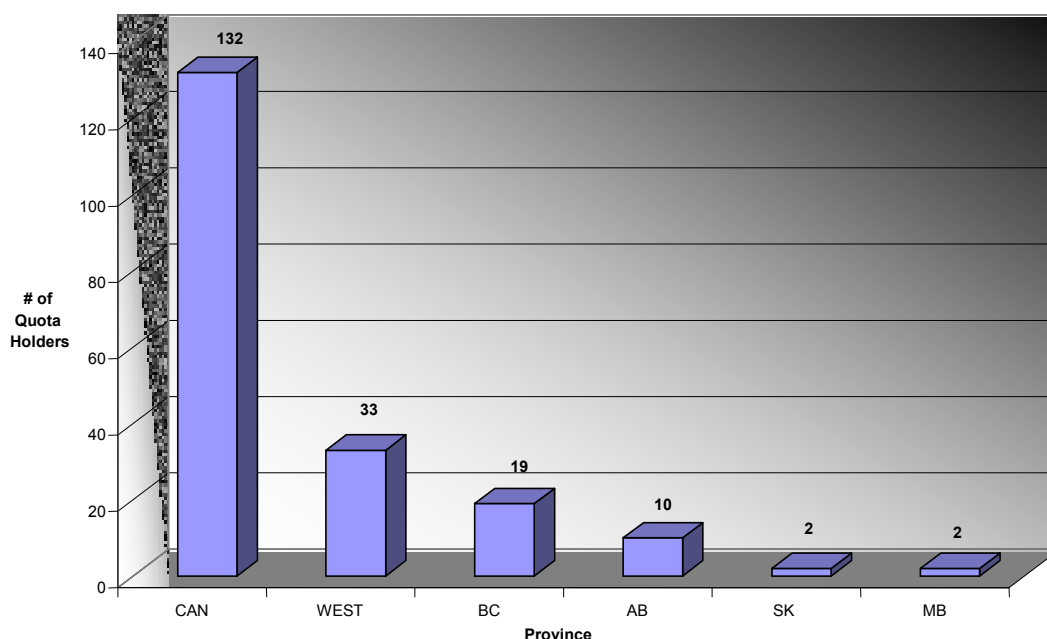


Figure 4.2 Beef & Veal Quota Holder's

Source: <http://www.dfait-maeci.gc.ca/trade/eicb/agric/agric-en.asp>

4.1.8 Market Opportunity

There is a market opportunity for SWBI since the May 20, 2003 single BSE case in Canada. There has resulted an over supply of market ready animals and a very cost effective input. This along with FSIN and local producers has given rise to a potential venture that will capture the import markets as well as wholesalers and government procurements. A competitive advantage SWBI has is that it can apply to Aboriginal procurements and set-asides to which other processors can not access. The total processors market is 3.9 million head in Canada. With capacity of 130,000 head per year SWBI will have 3.33 percent market share.

4.2 Overview

The SWBI is preparing a Canadian product that will be competitively priced. There will be many different markets to sell this product in.

4.3 The Marketing Mix (4 P's)

4.3.1 Products and Service

- Selling quarters of beef
- Over 30 months in age
- 100 percent Canadian beef
- Hides
- Offal
- Fancy Meat (Organs)

4.3.2 Pricing

- Competitive with other slaughter plants over 30 months
- SWBI is selling beef that is over 30 months old so they will not be able to charge a premium price.

4.3.3 Promotion

- 100 percent Canadian beef
- Safe Product
- Value adding to Saskatchewan industries
- Consistent quality
- Easy accesses for cattle producers to deliver live animals
- Using our Marketing Managers to promote our product
- Meat trade magazines
- Trade shows
- Economical
- Web site
- Equal opportunity employer
- Donation of Beef

4.3.4 Place

- Will focus in Western Canada
- The product will be delivered via trucks

- There may also be contracts with the government called set aside programs (Procurements)
- Distribution through brokers

4.4 Segmentation, Targeting, and Positioning

4.4.1 Segmentation

- Processors/wholesales in western Canada will be interested in the product if they are willing to take beef that is over 30 months. It will be convenient for transportation as well as good quality and a competitive price. If they have a track to hang the quarters on the SWBI plant would be very economical to buy from because there are few plants that are selling the end product as quarters. One draw back for the processor is if they are currently exporting to the USA they would not be able to use products from the SWBI in their plant and continue shipping their product to the USA.
- Brokers would want to sell SWBI's beef quarters because it will be a product that is priced lower than other plants that have beef that is under 30 months. It would also be priced lower than a product that is boxed even if the boxed product is over 30 months.
- Government Procurements would be an important segment for SWBI because they are looking for high quantity of product. It would also make economical sense if the products were being produced locally because there would be lower shipping costs thus making it a lower overall cost.
- Retailers will be looking for a product that is safe that they can guarantee. If they are set up for quarters of beef then our product would be perfect for making certain products in their store. Many retailers do not get whole quarters rather they just purchase from wholesalers.
- Restaurants may be looking to support local communities as well as Canadian beef.

4.4.2 Targeting

- One of the main markets SWBI will be targeting will be the Government Procurements. There needs to be 33 percent Aboriginal workers at the plant as well as 51 percent Aboriginal ownership. They will be looking for a product that is safe and is priced competitively. Quality will not be of the highest concern in the purchase of the product so over 30 months would be a good choice.
- Processors and wholesales would be the other major market. If they are not exporting any products to the USA it does not matter if there is both OTM and UTM in their system.

4.4.3 Positioning

- This product is a high quality product at a very economical price and from a business standpoint it would be the correct choice. The company is concerned with the local farmer and community events such as: barbeques, hockey team sponsors, and other charity events.

4.5 Strength, Weaknesses, Opportunities, and Threat Analysis

4.5.1 Internal Strengths

Through the analysis of the SWBI the following strengths have been identified.

Human Resources

- Well trained floor employees from Cypress Hills Regional College and on site training.
- Enough floor employees to produce the most efficient product with no quality concessions.
- Incentive packages for upper management based upon performance.

Physical Resources

- New plant with all of the new technologies.
- Excellent location so that logistics is easy.

- Ability to switch between the killing of both over and under thirty months of age if the need ever arises.
- Ability to test for all major diseases if it ever becomes economically feasible.
- Possibility to double the capacity easily by running a second shift.

Financial Resources

- Fifty one percent ownership by FSIN allowing unique marketing and finance opportunities
- Short period for both accounts receivable and accounts payable.
- Lately gross margins for packing plants have been high (source Western Producer).
- Through the use of shareholders less money must be raised in the form of loans.

4.5.2 Internal Weaknesses

The following internal weaknesses have been identified and must be kept under careful observation if the SWBI is to succeed.

Human Resources

- Need to find all new employees so many will be inexperienced.
- May be difficult to find experienced management.
- May need to entice people to move to Swift Current.
- More buyers and beef marketers could be a necessity once the plant is in full production so that there is a smooth flow of product through the plant.
- To access the procurement market 41 of the plant workers must be Aboriginal.
- The workers may wish to become unionized.
- Can be large worker turnover.

Physical Resources

- SWBI will not produce boxed beef even though some competitors do this.
- The current plan is to slaughter over thirty months of age beef so that export is not an option in the near future.
- Small number of holding pens and cooler space requires careful planning to prevent the stoppage of work due to either no inputs or the inventory of finished product is too high.

Financial Resources

- Large amount of finances must be raised so that operations can begin.
- There will be a large overhead cost of production.
- Traditional gross margins for the industry are small.
- Shareholders may make decisions based upon the community instead of profit.

4.5.3 External Opportunities

- The SWBI has many possible opportunities that may be realized.
- With the USA border closed the price of over thirty months of age should stay depressed.
- Very few slaughter plants currently use over thirty months of age animals keeping domestic competition to a minimum.
- Large number of cows in southwest Saskatchewan and southeastern Alberta.
- May have the ability to replace the Australian frozen beef imports into Canada by fulfilling the market with SWBI's product.

4.5.4 External Threats

The following external threats have been identified as possible factors that may affect the SWBI's bottom line.

- Possibility of other similar plants beginning
- Farm Credit Canada has been approached by 52 entities for funding to start the slaughter of cull cows.
- Unable to sell carcasses to companies that export their product.
- Canada finding more BSE in the cattle herd.
- Changing consumer tastes
- BSE in long run may decrease consumption of beef more.
- Small plant among large players.
- Loss of the procurement market.
- Canadian cow herd decreases in numbers because of prolonged low cattle price
- Supply of main input decreases.

- Antidumping tariffs like the one in place for the export of live Canadian hogs to the USA may cause the price of substitute products to decrease.
- Australia may be able to still produce frozen beef products exported to Canada below SWBI cost causing the loss of money.

4.6 Marketing Strategy

4.6.1 Sales Objective

- Create a market that will demand five hundred head of cows per day
- Obtain a 25 percent internal rate of return by the second year
- Obtain 15 percent of the procurement market (see Appendix C).

The SWBI needs to market five hundred head per day in order to maximize profits for the business. This consists of 130,000 head throughout one year. This volume of animals will create revenue of approximately \$118,380,738 in 2008. This amount can be seen in Table 4.8. After, two years of production the SWBI plans to be at maximum production. There will be very little inventory on hand as cattle will be processed within 24 hours of arrival. After processing, inventory will be shipped out after 24 hours to allow for room to keep operation at full production.

The SWBI wants to become a profitable business along with stimulating the local economy in the Swift Current and surrounding area. In hoping to achieve financial returns of 25 percent the company would like to set itself up in good financial position so that the plant can look at expansion in the future.

It is vital that in order to meet maximum sales there is a steady flow of inventory both in and out of the plant. It is necessary for cattle to be bought in advance so cattle will arrive 24 hours before slaughter in an organized time of arrival. Cattle that are late or unable to arrive will slow the production line and ultimately cost the organization profit. Good relations must be kept with suppliers in order to keep a steady flow of cattle into the plant.

Table 4.9 Projected Sales and Revenue for SWBI.

	Year				
	2008	2009	2010	2011	2012
Quantity of Sales (# of head/year)	130,000	130,000	130,000	130,000	130,000
Sales Revenue	In Dollars				
Meat	103,095,898	105,157,816	107,260,973	109,406,192	111,594,316
Hides	6,086,340	6,208,067	6,332,228	6,458,873	6,588,050
By-products	9,198,500	9,382,469	9,570,118	9,761,521	9,956,752
Total	118,380,738	120,748,353	123,163,320	125,626,586	128,139,118

The same concept is also necessary for inventory to be shipped out to customers. In the plant there is a limited amount of cooler space, which makes it vital to keep a steady outflow of five hundred head per day. If products start to stockpile because there is not a market for the beef than cooler space will fill up and production will have to slow. This situation could greatly decrease profits for the business. Good relations also have to be kept with customers to make sure there is a steady supply of product moving out of the plant.

4.6.2 Channels of Distribution

The SWBI will use two different approaches to their channel of distributions. One of these is; carcasses will be shipped directly to food processors. These processors will then serve consumers with their products. The other method is the use of an agent or distributor to find wholesale and retail markets that serve consumers.

SWBI's main form of distribution, which is the same for many other food processors, is the use of refrigerated trucking. A trucking company will be hired to deliver the products to various processors and retail outfits all across Canada. The Yankee Group of Companies estimated a cost of \$562,224 in 2008. For those domestic markets within

Canada product will be shipped to processors to be further processed into branded products.

Cattle suppliers will deliver cattle to the slaughter plant at their cost. The trucking of cattle to the plant will be arranged through the cattle buyer in advance. The location close to good quality major highways makes shipping by trucks much easier. Any road repairs would not be an issue for the packing plant.

4.6.3 Pricing Policy

The Canadian packing industry is a competitive industry with respects to companies that process a large number of cattle. The SWBI would be considered price settlers when it comes to purchasing cows to be used for direct materials. The price is determined depending on the supply and demand of cows within Canada amongst the other packing plants. The cattle buyer will be responsible for purchasing cows at a price where the company is able to reach market prices and achieve a profit for the company.

It is important that SWBI packing plant is running in full production in order to take advantage of lower costs per head processed. By lowering the cost per animal than it will increase profits for the business by decreasing expenses. Any new technology that will speed up the slaughter process will only benefit the packing plant by cutting costs and increasing margins.

The SWBI marketers have the responsibility of making sure that all processed cattle are sold to consumers at a profitable price. The marketer will have to take into consideration the price of direct materials, operating expenses, and a projected profit amount in order to determine a price level. It is also necessary to have a competitive price with other packing plants to remain sustainable in the long run. One advantage that SWBI has is that there are a large number of cattle in Saskatchewan as a possible resource. Figure 4.4 shows the number of beef cows in Saskatchewan as compared to the rest of the country. In the past the majority of cattle were traveling out of province to be processed. The plan

is to change this trend by processing older cattle within Saskatchewan where they will be marketed after slaughter.

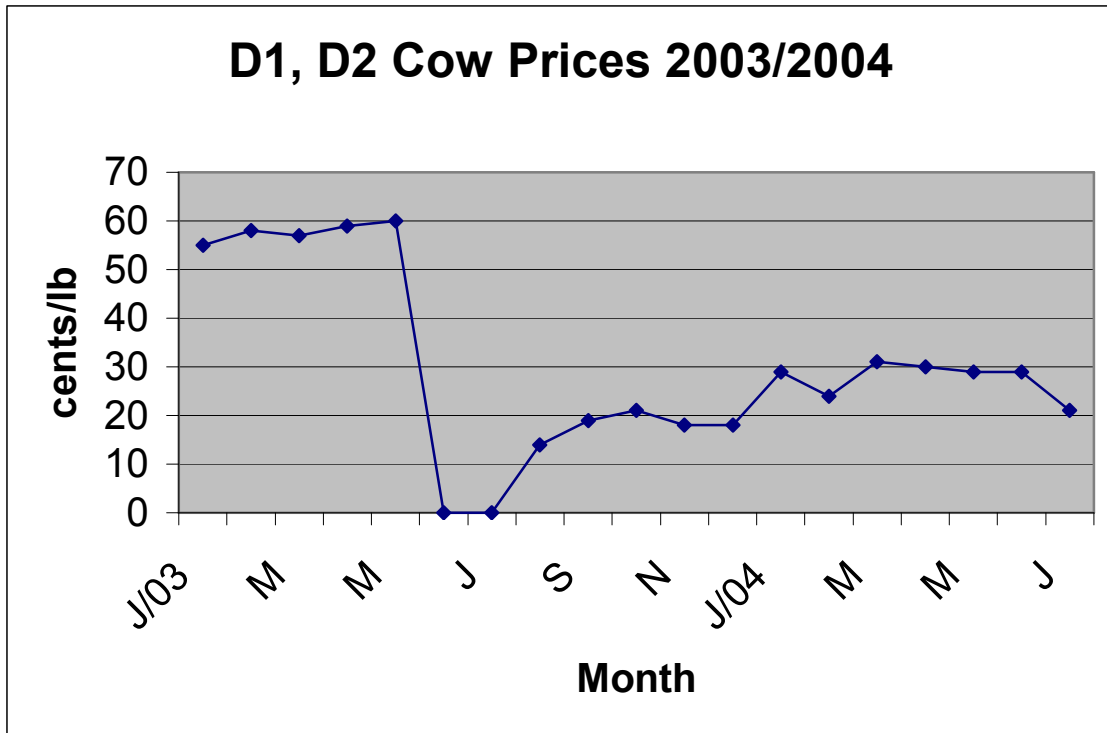


Figure 4.3 Canadian Cow Prices in 2003/2004

Source: Canfax, 2004

4.6.4 Selling and Advertising

The main form of selling and advertising will be the responsibility of the marketer. The marketer will be in charge of promoting SWBI products to various customers across Canada. The success and profitability of the packing plant will fall mainly on the shoulders of the marketer. He/She has to find markets for SWBI products to make sure that the plant can run at full capacity. Contracts with product buyers will be important to ensure that they will receive a steady supply of produce. The main way that the marketer will keep in contact with buyers is through the use of faxes, e-mail, and telephone to update and make changes in production and prices. This way they will also be able to arrange shipping quantity and delivery dates. It is necessary that the marketer have good relationships with product buyers. Alternative forms of advertising will include the use

of a web page designed to inform the public about the organization, and products produced.

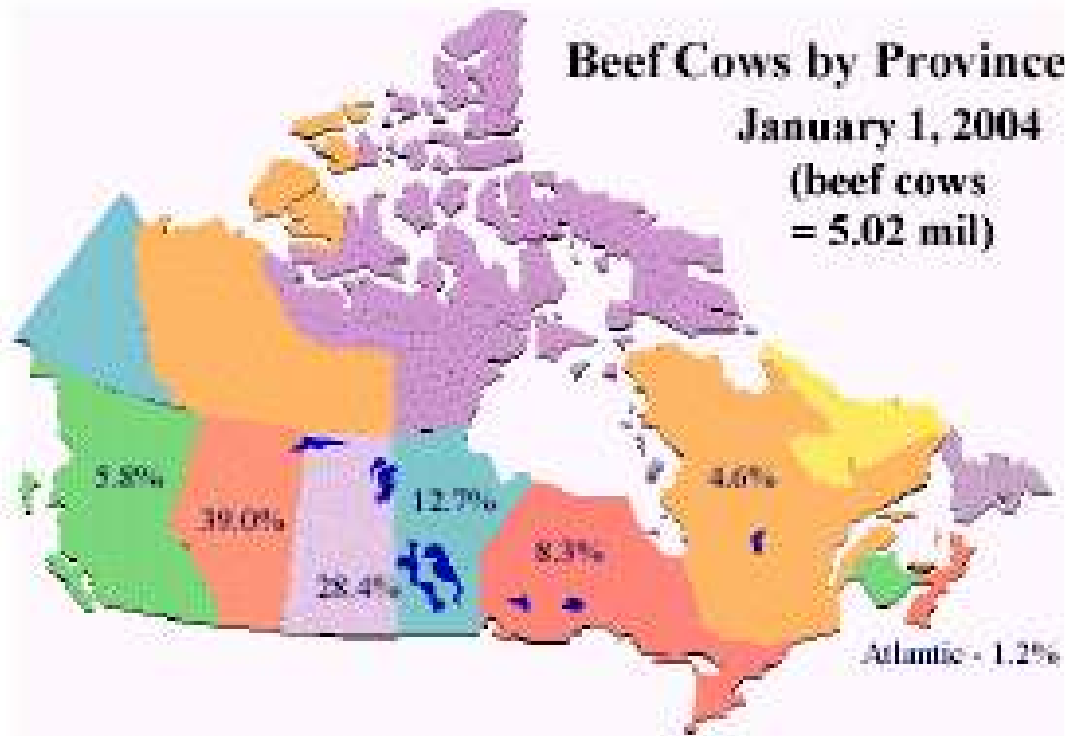


Figure 4.4 The Percentage of beef in each province

Source: Canfax, 2004

SWBI can also look at advertising by providing public tours of the facility to allow the public to gain knowledge about the plant and its products. It would also be beneficial to advertise in industry magazines and trade shows. This can be vital to making contacts within the supply chain and gaining support in the industry. One other beneficial form of advertising will be through donations into the local community. Donations can be in the form of cash or else SWBI's products. This will strengthen relationships with the community and help gain added support. It is critical to have aggressive marketing in the first few years of development to create markets and gain reputable customers. Once a customer base has been developed then the focus on marketing can be relaxed somewhat

but there must be still some focus on marketing so that production is not stalled due to lack of markets.

Table 4.10 Marketing Budget

Expense	Cost/year	Cost/head of cattle
Marketer's Expense Account	24,000	0.18
Web Page	3600	0.03
Advertisements	1500	0.01
Donations	5000	0.04
Total	\$34,100	\$0.26

4.6.5 Six Key Critical Success Factors

- Consistent supply of animals
- Consistent markets for products
- Ability to create a unique selling point
- Establish a cost effective facility
- Establish a secure financial plan
- Establish a knowledgeable project leader

FINANCIAL PLAN

5.0 Financial Plan

The financial plan for the SWBI can be seen in its entirety in Appendix B. Appendix B contains the base case analysis. Appendix A contains the different variables that were used in the analysis and their individual sources.

5.1 Beginning Balance Sheet

The Table 5.1 depicts the balance sheet for the SWBI at the start of the business. This balance sheet is for January 1, 2006. This is after all of the funds have been raised and construction is nearing completion but the plant has had no revenue as it has not been open for production at this point.

The SWBI has two different types of financing that must be raised. The two types are long term debt and owner's equity. The venture is having a proposed long term debt of 40 percent for the venture with the owner's equity financing of 60 percent of the needed capital for the SWBI to begin. The owner's equity will be comprised of all Class A common shares where all of the shareholders are able to vote on major business decisions. The long term debt that is to be raised is expected to have a cost of borrowing of eight percent. It will be borrowed from an institution like Farm Credit Canada (FCC). FCC has shown interest in financing part of this venture. The types and amount of financing can be seen in Table 5.2. The owner's equity is proposed to be split into two different sections. Fifty one percent of the owner's equity will be supplied by the FSIN. This enables the venture to then have access to market advantages like the procurement market. The value that the FSIN would have to supply would be \$7,951,100. The remaining share of the owner's equity would be raised by any potential investors, probably from the Swift Current area. The value that the investors other than the FSIN would have to raise would be \$7,639,241 or 49 percent of the owner's equity portion.

Table 5.1 The January 1, 2006 balance sheet for SWBI.

Balance Sheet	
South West Beef Initiative	
As of January 1, 2006	
Assets	
<u>Current Assets:</u>	
Cash	3,906,037
Accounts Receivable	0
Inventory	0
Total Current Assets	3,906,037
<u>Fixed Assets:</u>	
Plant, Land and Equipment	22,077,865
Accumulated C.C.A.	0
Total Fixed Assets	22,077,865
Total Assets	25,983,902
Liabilities	
<u>Current Liabilities:</u>	
Accounts Payable	0
Total Current Liabilities	0
<u>Non-Current Liabilities:</u>	
Long Term Debt	10,393,561
Total Non-Current Liabilities	10,393,561
Total Liabilities	10,393,561
Shareholders' Equity	
Share Capital	15,590,341
Retained Earnings	0
Total Shareholder's Equity	15,590,341
Total Liabilities and Shareholders' Equity	25,983,902

5.2 Venture Financing

Table 5.2 The types of financing to be used by the SWBI

Type of Financing	Value
Long Term Debt	\$10, 393, 561
Owner's Equity	\$15, 590, 341
Total Financing	\$25, 983, 902

5.3 Dividend Policy

Dividends will be paid to equity investors when cash over \$10,000,000 occurs. Any amount of cash in excess will be paid as 50 percent as dividend and 50 percent will be retained by SWBI for other activities after 2010. Prior to 2010 all cash over \$10,000,000 will be paid as a dividend as less cash should be needed for the upkeep of the SWBI. In the base case, this will still give the SWBI enough cash to work with the years after dividends are paid. Paying out this many dividends is feasible for SWBI because they are not investing in any other projects as time goes on. The plant is at its maximum capacity and is not planning on expanding.

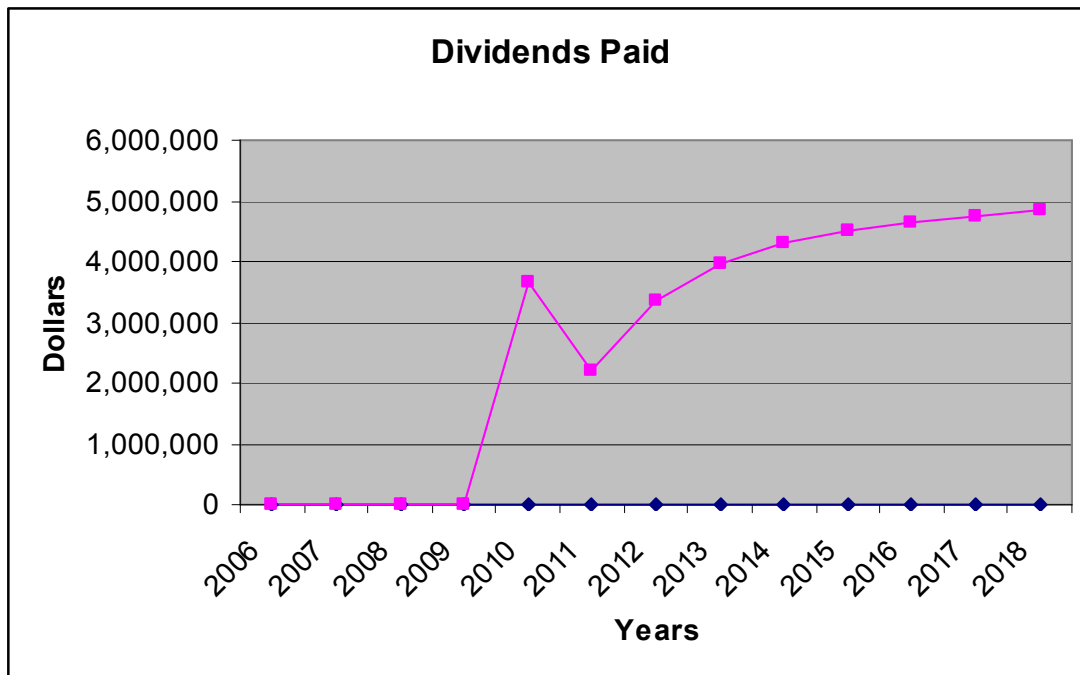


Figure 5.1 The dividend schedule for the SWBI for 8 years

5.4 Economic Assumptions

A 13 year projection has been made for SWBI using an inflation rate of 2 percent. This has been used throughout the financial model to determine the all costs and revenues.

Table 5.3 The values of the critical variables for the three main scenarios for 2008.

Variable	Best Case	Base Case	Worse Case
Live Cattle Purchase Price	\$343/tonne	\$1144/tonne	\$1494/tonne
Beef Quarter Selling Price	\$2636/tonne	\$2080/tonne	\$1499/tonne
Plant Utilization rate	115%	100%	90%

The economic assumptions that were used in the forecasting the SWBI financial situations can be seen in Table 5.3. These are the values that caused an accounting break even, where IRR is equal to zero. This shows that there is little margin from the base case to the worse case. This means there is little room for error or price changes and leads to large firms trying to decrease costs by having large plants and vertical integration. They are presented for 2008 as this is the first year of full production for the base case.

5.5 Summary of Financial Results

The projected financial results are predicted in table 5.4. All of these values are based on the expected economic model for SWBI. The full financial projections can be found in Appendix B.

5.6 Ratio Analysis

The performance ratios for the SWBI can be seen in table 5.5. They depict a possibly successful business that has the opportunity to succeed in the future. A more complete analysis can be found in Appendix B where the full ratio analysis can be seen for the SWBI.

All of the ratios that are in table 5.5 show a healthy projected business. Both of the liquidity ratios demonstrate that the business is very liquid at any point in time, even at the beginning of the business venture. In most businesses a current ratio that is greater

then 1.5 is considered excellent as well as a quick ratio of greater than 1.0. SWBI is a very liquid business. The investment utilization ratios are also very intriguing. Few businesses in any industry are able to have a very low days inventory, receivables, and payables. The reason that the average days inventory is low is that the just in time delivery system is used where the live cattle are brought to the plant the day they are to be slaughtered. Also with limited cooler space the quarters of beef must be moved to the customer one day after slaughter. The only product that the SWBI may have in inventory for any period of time is the internal organs or fancy meats. It is expected that the average customer will pay for their order in 16 days. The solvency ratios indicate that the business is not over debt financed and has the ability to easily make the fixed debt payments. The debt to equity ratio proves that the business is quickly reducing debt and thus represents less financial risk. The profitability ratios are very reasonable for the industry that the SWBI competes in. For the gross profit margin and the net profit margin the SWBI is very near the industry averages. The SWBI has an advantage over the industry average for the return on assets and return on equity ratios as they are significantly higher than the industry averages (industry averages difficult to obtain due to the large number of private corporations that compete in many industries and are vertically and horizontally integrated).

5.7 Sensitivity Analysis

Selling price and purchase price were the two most critical variables. These two variables were very sensitive to price changes. If the selling price decreased by about six percent the venture is not profitable. The same is true for the purchase price where an increase in the price by about five percent makes the SWBI not a viable venture. This means that the margins are very small for the business (Table 5.6).

Plant utilization was also tested as a critical variable. It was found that this was not a critical variable. This is due to the high margins in the best and base case scenarios. At the worst case the margins become lower so the plant utilization becomes more of a critical variable as more animals must be slaughtered because of the decreased margins

per animal. The carcass yield was also not a critical variable as it is a very standard value and does not change much (Table 5.6). As the margins become lower it is more important that the highest possible percent of the carcass be used. After the first year with the labor being well trained there should be no problems getting the 60 percent of the carcass yield in beef quarters. In the worst case scenario the carcass yield becomes very important as the gross margins diminish.

Table 5.4 Summary of financial results for 12 years of production for the SWBI.

Year	2006	2007	2008	2009
Total Revenue	28,445,967	104,453,592	118,380,738	120,748,353
Cost of Goods Sold	27,372,699	97,237,516	109,153,364	110,902,928
Gross Margin	1,073,268	7,216,076	9,227,374	9,845,425
Expenses	4,790,409	3,024,085	3,181,534	3,185,025
Income Before Taxes	(3,717,141)	4,191,992	6,045,840	6,660,400
Income Taxes	93,079	158,410	1,956,414	2,149,451
Net Income(Loss)	(3,810,220)	4,033,582	4,089,426	4,510,948
End Retained Earnings	(3,810,220)	223,362	4,312,788	8,823,737
Year	2010	2011	2012	2013
Total Revenue	123,163,320	125,626,586	128,139,118	130,701,900
Cost of Goods Sold	113,237,120	115,379,861	117,580,680	119,839,522
Gross Margin	9,926,199	10,246,725	10,558,438	10,862,378
Expenses	3,185,879	3,183,826	3,178,575	3,169,808
Income Before Taxes	6,740,321	7,062,899	7,379,863	7,692,570
Income Taxes	2,201,964	2,309,855	2,425,993	2,535,140
Net Income(Loss)	4,538,357	4,753,044	4,953,871	5,157,430
End Retained Earnings	9,687,478	12,223,488	13,820,409	15,021,948
Year	2014	2015	2016	2017
Total Revenue	133,315,938	135,982,257	138,701,902	141,475,940
Cost of Goods Sold	122,155,248	124,527,106	126,954,661	129,437,741
Gross Margin	11,160,690	11,455,151	11,747,241	12,038,199
Expenses	3,157,183	3,140,328	3,118,840	3,092,283
Income Before Taxes	8,003,507	8,314,823	8,628,401	8,945,916
Income Taxes	2,641,352	2,746,910	2,853,198	2,961,132
Net Income(Loss)	5,362,155	5,567,913	5,775,203	5,984,785
End Retained Earnings	16,094,522	17,168,547	18,308,107	19,545,288
Net Present Value (required return of 20%)			(4,066,201)	
Internal Rate of Return			20%	
External Rate of Return			15%	

Table 5.5 Partial ratio analysis for the SWBI for several years of production.

	2008	2010	2012	2014
Liquidity Ratios				
Current Ratio	6.27	8.11	9.20	9.33
Quick Ratio	5.90	7.74	8.83	8.96
Investment Utilization Ratios				
Average Days Inventory	1.6	1.6	1.6	1.6
Average Days Receivables	16	16	16	16
Average Days Payables	9	9	9	9
Total Asset Turnover	3.8	3.48	3.36	3.43
Solvency Ratios				
Debt Ratio	36%	29%	23%	18%
Debt to Equity Ratio	0.6	0.4	0.3	0.2
Profitability Ratios				
Gross Profit Margin	8%	8%	8%	9%
Net Profit Margin	3%	4%	4%	4%
Return on Assets	13%	13%	13%	14%
Return on Equity	21%	18%	17%	17%

5.8 Break Even Analysis

The breakeven points for the SWBI are quite concerning. All of the breakeven points except the plant utilization are very near the base case scenario. This means that if the change in price for the selling of the carcasses decreases by almost six percent the venture will not be profitable (Table 5.6). The required IRR is higher than the base case scenario. This is seen in Figure 5.2 for the selling price breakeven. The margin is steady as five year averages were used for the selling price. This shows that there is a small margin that the SWBI can operate upon.

The breakeven point for the buying price of live cattle is very similar to the selling price. Figure 5.3 shows the base case in relation to the required return and the accounting breakeven. Once again a small margin appears and slight price increases by about five percent (Table 5.6) make the business unprofitable. The five year price averages were used in the calculation of the base case. If the plant were to begin operation in 2004 today's purchase price would be much lower and nearer the best case scenario. But due

to the uncertainty of the USA border opening to OTM cattle it was more reasonable to use the five year averages.

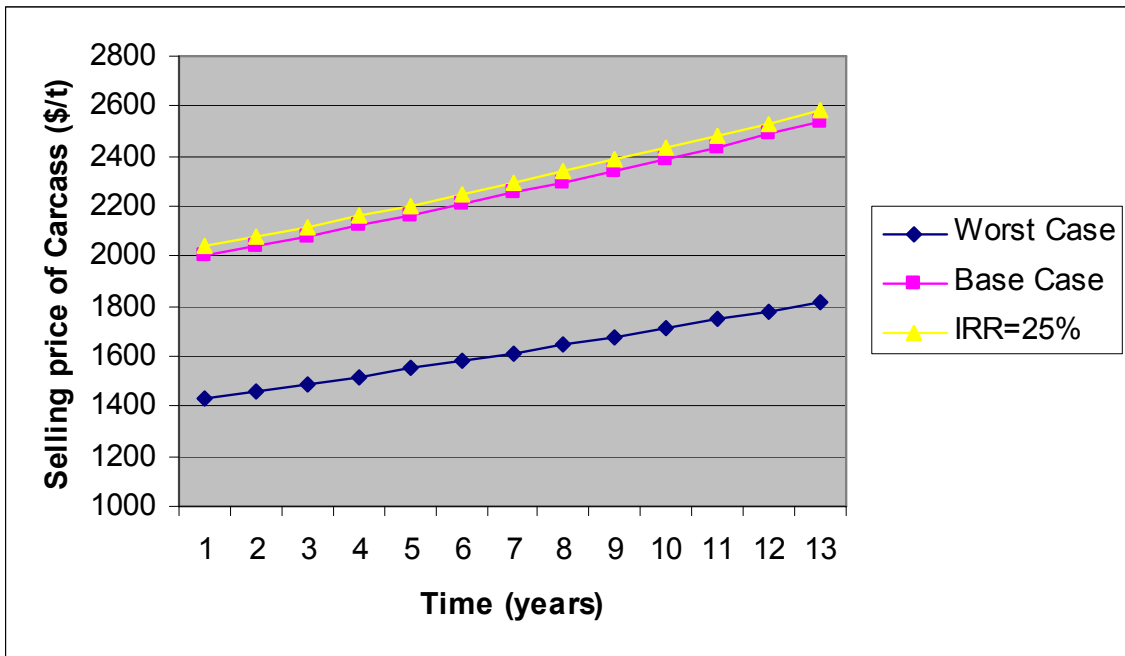


Figure 5.2 Compares the selling price of three break even scenarios for 13 years.

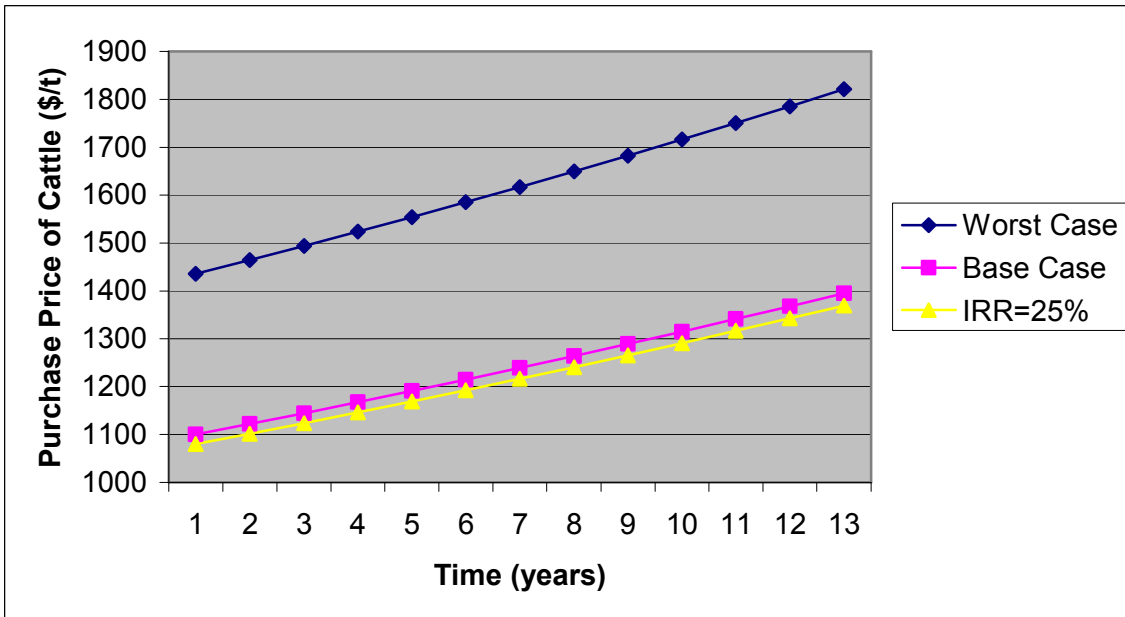


Figure 5.3 compares the purchase price with breakeven scenarios for 13 years.

The breakeven analysis for the plant utilization can be seen in Figure 5.4. There is a large margin between the accounting breakeven and the base case scenario. This is

because the number of animals slaughtered is much less sensitive than the buying and selling prices (Table 5.6). The reason that there is an increase in production in the first two years is that in the first year the plant will not be open until later in the year. In the second year there is expected to be several minor problems as the plant works out the final problems.

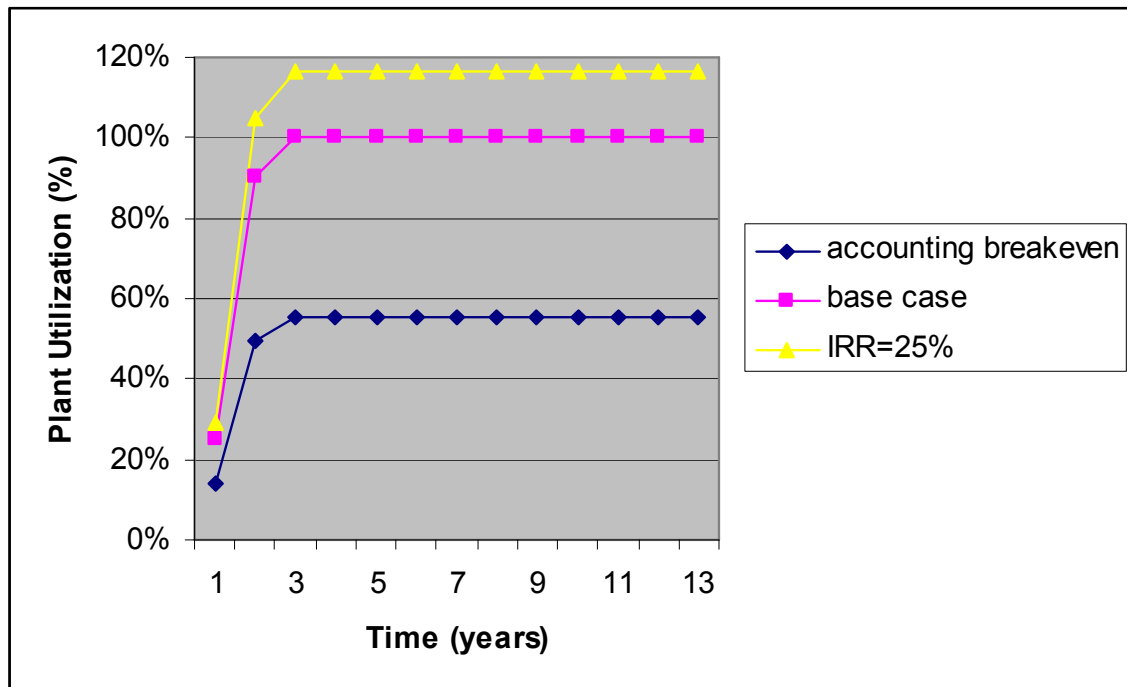


Figure 5.4 Compares the plant utilization for 13 years for three different analyses.

Table 5.6 Critical Variables isolated to yield an IRR = 0, full production in 2008.

Critical Variables	IRR = 0	% change from base case
Selling Price	\$1,884	-5.8
Purchasing Price	\$1,166	5.7
Plant Utilization	55%	-45
% Beef / Carcass	57%	-5

Table 5.7 depicts the values of the cash, net income, and NPV in 2006 for the SWBI at the accounting breakeven points for the critical variables. The most critical variable from Table 5.7 is the purchase price of the animals. This is because it produces the lowest cash value, lowest net income, as well as the lowest NPV. The second most critical

variable from Table 5.7 is the selling price of the carcasses. It also produces negative cash, net income, and NPV.

Table 5.7 The cash, net income, and net present value for 2006 for the accounting breakeven for the critical variables.

Critical Variable	Cash	Net Income	NPV
Purchase price	(1000976)	(5360034)	(18039513)
Selling price	(833974)	(5233273)	(17867124)
Plant utilization	869898	(3856561)	(15674554)

5.9 Risk Analysis

SWBI just like any other business will be faced with unexpected risks that will potentially threaten the viability of their business. It is important to try to mitigate as many risks as possible and have contingency planning for certain outcomes. There is a possibility of another BSE case in Canada, or spread of chronic wasting disease to major suppliers and knowing about these risks can help a business ride out the economic storm. By diversifying the outputs and suppliers the SWBI will have an advantage. If employees form a union there is always the chance of a strike and one needs to have funds and contingency plans in place to either bring in part time workers or to shut down temporarily. A contingency fund should be created and retained for many or all of these risks. This fund will take some extra cash from within the company, but with proper management it will prove to serve the long term success for SWBI now and into the future.

CONCLUSION

6.0 Conclusion

The SWBI is a business that has the opportunity to become somewhat successful. The projected internal rate of return is 20 percent with the projected external rate of return being 15 percent. This is worse than the business's required rate of return of 25 percent. For the SWBI to be a success it must source enough live cattle over thirty months of age and produce a consistent high quality product that will displace the imported Australian beef from the Canadian marketplace and create a premium above the selling price used in the base case from this model. Good leadership and a vision for the future will be needed by the board of directors and CEO to allow for a successful business. If managed correctly the SWBI could make investors a desirable rate of return while fulfilling the FSIN goal of trying to build ventures in Saskatchewan that are owned by the Aboriginal people of Saskatchewan.

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APPENDIX A

8.0 Appendix A

The following Table 8.1.1 has many of the researched values used in the financial model and the source for the number.

Table 8.1 Variable numbers and sources for the financial model.

Variable	Source
Live Cattle Price	Nilsson Bros. Livestock Exchange
Beef Quarters Price	Derived from Co-op ground beef price
Fancy Meat Price	USDA
Offal Price	USDA
Hide Price	Halford Hide
Carcass Yield	XL Meats
Boxes and Bag Price	Normatec Inc
Transportation Cost	Yankee Transport group of Companies
Cost of Sanitation Supplies	USDA

APPENDIX B

9.0 Appendix B

Appendix B contains the base case financial set for the SWBI.

South West Beef Initiative Committee

South West Beef Initiative Financial Projections

Base Case

Statement of Income and Retained Earnings

For the year ended Dec. 31

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales Revenue:										
Beef Quarters	24,773,140	90,966,969	103,095,898	105,157,816	107,260,973	109,406,192	111,594,316	113,826,202	116,102,726	118,424,781
Hides	1,462,500	5,370,300	6,086,340	6,208,067	6,332,228	6,458,873	6,588,050	6,719,811	6,854,207	6,991,292
Fancy Meats	236,008	866,620	982,169	1,001,812	1,021,848	1,042,285	1,063,131	1,084,394	1,106,082	1,128,203
Offal	1,974,320	7,249,704	8,216,331	8,380,657	8,548,270	8,719,236	8,893,621	9,071,493	9,252,923	9,437,981
Total Revenue	28,445,967	104,453,592	118,380,738	120,748,353	123,163,320	125,626,586	128,139,118	130,701,900	133,315,938	135,982,257
Cost of Goods Sold	27,372,699	97,237,516	109,153,364	110,902,928	113,237,120	115,379,861	117,580,680	119,839,522	122,155,248	124,527,106
Gross Margin	1,073,268	7,216,076	9,227,374	9,845,425	9,926,199	10,246,725	10,558,438	10,862,378	11,160,690	11,455,151
Expenses:										
Management Salaries	400,000	408,000	416,160	424,483	432,973	441,632	450,465	459,474	468,664	478,037
Salaried Employee Benefits	68,751	70,126	71,529	72,959	74,418	75,907	77,425	78,973	80,553	82,164
Bad Debt Expense (1% Revenue)	284,460	1,044,536	1,183,807	1,207,484	1,231,633	1,256,266	1,281,391	1,307,019	1,333,159	1,359,823
Telephone	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171
Marketing	34,100	34,782	35,478	36,187	36,911	37,649	38,402	39,170	39,954	40,753
Administration	20,000	20,400	20,808	21,224	21,649	22,082	22,523	22,974	23,433	23,902
Cleaning Staff Wages & Ben.	221,312	225,738	230,253	234,858	239,555	244,346	249,233	254,218	259,302	264,488
Warehousing and Shipping	187,032	421,580	466,231	475,555	485,066	494,768	504,663	514,756	525,051	535,552
Contingency Cost	2,737,270	-	-	-	-	-	-	-	-	-
Interest LT Debt	831,485	792,803	751,026	705,907	657,179	604,552	547,715	486,331	420,037	348,439
Total Expenses	4,790,409	3,024,085	3,181,534	3,185,025	3,185,879	3,183,826	3,178,575	3,169,808	3,157,183	3,140,328
Income Before Taxes	(3,717,141)	4,191,992	6,045,840	6,660,400	6,740,321	7,062,899	7,379,863	7,692,570	8,003,507	8,314,823
Income Taxes	93,079	158,410	1,956,414	2,149,451	2,201,964	2,309,855	2,425,993	2,535,140	2,641,352	2,746,910
Net Income(Loss)	(3,810,220)	4,033,582	4,089,426	4,510,948	4,538,357	4,753,044	4,953,871	5,157,430	5,362,155	5,567,913
beg Retained Earnings	-	(3,810,220)	223,362	4,312,788	8,823,737	9,687,478	12,223,488	13,820,409	15,021,948	16,094,522
Net Income(Loss)	(3,810,220)	4,033,582	4,089,426	4,510,948	4,538,357	4,753,044	4,953,871	5,157,430	5,362,155	5,567,913
Dividends	-	-	-	-	3,674,615	2,217,034	3,356,950	3,955,891	4,289,581	4,493,888
End Retained Earnings	(3,810,220)	223,362	4,312,788	8,823,737	9,687,478	12,223,488	13,820,409	15,021,948	16,094,522	17,168,547

Dividend Policy: Pay excess cash balance in following year.

50% of Excess over 10,000,000 after 2010, all cash >10,000,000 in 2010

Total 13 Year Net Income (Loss)	57,113,990
Total 13 Year Net Cash Flow	15,969,360
Total 13 Year Dividends	36,216,935

Balance Sheet

December 31

Start 2006 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

Assets

Current Assets:

Cash	3,906,037	526,069	4,315,569	9,356,853	13,674,615	14,434,068	16,713,900	17,911,782	18,579,161	18,987,776	19,271,286
Accounts Receivable	0	1,246,947	4,578,788	5,189,293	5,293,078	5,398,940	5,506,919	5,617,057	5,729,398	5,843,986	5,960,866
Inventory	0	228,580	819,099	917,577	932,642	952,019	970,315	989,078	1,008,301	1,027,979	1,048,110
Total Current Assets	3,906,037	2,001,595	9,713,455	15,463,722	19,900,335	20,785,027	23,191,134	24,517,917	25,316,861	25,859,742	26,280,261

Plant and Equipment & Land	22,077,865	22,077,865	22,585,038	23,102,353	24,585,216	26,097,735	27,640,505	29,214,130	30,819,228	32,456,428	34,126,372
Accumulated C.C.A.	0	(1,797,373)	(4,913,991)	(7,374,573)	(9,344,707)	(11,486,056)	(13,558,432)	(15,577,246)	(17,555,418)	(19,503,829)	(21,431,689)
Net Plant and Equipment	22,077,865	20,280,493	17,671,046	15,727,780	15,240,509	14,611,679	14,082,073	13,636,884	13,263,810	12,952,599	12,694,683
Total Assets	25,983,902	22,282,088	27,384,501	31,191,502	35,140,844	35,396,705	37,273,207	38,154,802	38,580,671	38,812,341	38,974,944

Liabilities

Current Liabilities:

Accounts Payable	0	591,932	2,182,974	2,464,535	2,512,033	2,561,986	2,612,938	2,664,909	2,717,920	2,771,990	2,827,143
Long Term Debt	10,393,561	9,910,034	9,387,824	8,823,838	8,214,733	7,556,900	6,846,439	6,079,143	5,250,462	4,355,487	3,388,914
Total Liabilities	10,393,561	10,501,966	11,570,798	11,288,373	10,726,766	10,118,886	9,459,378	8,744,052	7,968,382	7,127,477	6,216,056

Shareholders' Equity

Share Capital	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341	15,590,341
Retained Earnings	0	(3,810,220)	223,362	4,312,788	8,823,737	9,687,478	12,223,488	13,820,409	15,021,948	16,094,522	17,168,547
Total Shareholders' Equity	15,590,341	11,780,122	15,813,703	19,903,129	24,414,078	25,277,820	27,813,829	29,410,750	30,612,289	31,684,864	32,758,888
Total Liabilities and	25,983,902	22,282,088	27,384,501	31,191,502	35,140,844	35,396,705	37,273,207	38,154,802	38,580,671	38,812,341	38,974,944

Capital Budget	
Description	Estimated Cost (\$)
	500 Head/Day
Land	144,000
Site Enhancements:	
Water Installation	840,000
Sewage Installation	560,000
Natural Gas Install	755,000
Electricity Installation	2,007,000
Landscaping	440,000
Fence Enclosure	65,520
Total Land Costs	4,811,520
Buildings:	
Main Plant (75m x 100m)	6,700,000
Refrigeration	2,500,000
Waste Water Treatment	3,000,000
Corrales & Shelter	1,152,000
Building Infrastructure & Heavy Duty Rail for Cows	2,100,000
Contingency Costs	800,000
Total Building Costs	16,252,000
Equipment:	
Handheld Dehidiers	7,600
Side Clamp Dehider	750,000
Splitting Bandsaw	17,500
Hock Cutters	37,500
Tail Cutter	8,500
Dehorner	11,000
Brisket Saw	13,500
Circular Saw	8,550
Bung Ring Expander	3,395
Pneumatic Stunner	21,900
Knives	54,250
Office Equipment	4,500
Other	76,150
Total Equip. Costs	1,014,345
Total Working Capital	1,409,663
Total Capital Required	23,487,528

Direct Material Purchases for Year 1		
Livestock Purchased	Cost in (\$)	
Cows (100%)	42,900,000	
Inspectors Salaries	572,000	
Boxes / Bags / Labels	19,500	
Sanitation Supplies	56,500	
Total Direct Materials	43,548,000	
Direct Labour & Benefits for Year 1		
Floor Laborers	2,340,000	
Supervisors	300,000	
Benefits for Direct Labourers	527,627	
Total Labour & Benefits	3,167,627	
Manufacturing Overhead Costs for Year 1		
Variable:		
Transportation	275,600	
Water	78,542	
Sewage	78,542	
Maintenance & Repairs	60,861	
Quality Assurance Testing	130,000	
Total Variable Overhead	623,544	
Fixed:		
Natural Gas	280,252	
Insurance	105,694	
Property Taxes	105,000	
Electricity	450,000	
Capital Cost Allowance	1,849,503	
Total Fixed Overhead	2,790,449	
Total Overhead	3,413,993	
Cost of Goods Manufactured		
Direct Materials	43,548,000	
Direct Labour	3,167,627	
Manufacturing Overhead	3,413,993	
Total Cost of Goods Manufactured	\$50,129,620	
Cost of Goods Sold		
Beginning Finished Goods Inventory	0	
Cost of Goods Manufactured	50,129,620	
Cost of Goods Available for Sale	50,129,620	
Ending Finished Goods Inventory	#REF!	
Total Cost of Goods Sold	#REF!	
Fixed Operating Expenses		
Interest on Loans – Prime + 2%	744,000	not done
Cleaning Staff	183,040	
Management Salaries	278,000	
Administrative Salaries	90,000	
Cattle Buyer & Meat Seller	72,000	
Benefits for Salary Earners	115,527	
Bad Debt Expense of Aging A/R	34,192	
Total Fixed Operating Expenses	\$1,516,759	

South West Beef Initiative Committee

Employment Benefits						
	Wages	Employment Insurance	Canadian Pension Plan	Workers Compensation	Vacation Pay	Total Benefits
CEO	\$150,000.00	\$1,081.08	\$1,831.08	\$4,351.30	\$8,653.85	\$15,917.31
Office Manager	\$43,000.00	\$1,081.08	\$1,831.08	\$3,530.30	\$2,480.77	\$8,923.23
Marketing Manager	\$45,000.00	\$1,081.08	\$1,831.08	\$3,694.50	\$2,596.15	\$9,202.81
Cattle Buyer	\$36,000.00	\$1,081.08	\$1,831.08	\$2,955.60	\$2,076.92	\$7,944.68
Meat Seller	\$36,000.00	\$1,081.08	\$1,831.08	\$2,955.60	\$2,076.92	\$7,944.68
Office Staff (3) @ \$30,000	\$90,000.00	\$1,782.00	\$4,455.00	\$7,389.00	\$5,192.31	\$18,818.31
Health and Safety Coordinator	\$40,000.00	\$1,081.08	\$1,831.08	\$3,284.00	\$2,307.69	\$8,503.85
Area Supervisors (6) @ \$50,000	\$300,000.00	\$6,486.48	\$10,986.48	\$24,630.00	\$17,307.69	\$59,410.65
Floor workers (90) @ \$26,000	\$2,340,000.00	\$25,272.00	\$115,830.00	\$192,114.00	\$135,000.00	\$468,216.00
Cleaning Crew (8) @ &22,880	\$183,040.00	\$3,624.16	\$9,060.48	\$15,027.60	\$10,560.00	\$38,272.24
Total	\$3,263,040.00	\$43,651.12	\$151,318.44	\$259,931.90	\$188,252.31	\$643,153.77

Management					
	salaries	benefits			
CEO	150,000	1,081	1,831	4,351	8,654
Office Manager	43,000	1,081	1,831	3,530	2,481
Marketing Manager	45,000	1,081	1,831	3,695	2,596
Cattle Buyer	36,000	1,081	1,831	2,956	2,077
Meat Seller	36,000	1,081	1,831	2,956	2,077
Office Staff (3) @ \$30,000	90,000	1,782	4,455	7,389	5,192
Total	400,000	7,187	13,610	24,876	23,077
		total compensation		468,751	
Direct labor					
	salaries	benefits			
Health and Safety Coordinator	40,000	1,081	1,831	3,284	2,308
Area Supervisors (6) @ \$47,500	285,000	6,486	10,986	24,630	16,442
Floor workers (89) @ \$26,000	2,314,000	24,991	113,119	189,953	133,500
Total	2,639,015	32,559	125,937	217,867	152,250
		total compensation		3,167,627	
Cleaning Crew					
	salaries	benefits			
Cleaning Crew (8) @ &22,880	183,040	3,624	9,060	15,028	10,560
		total compensation		221,312	

Balance Sheet	
South West Beef Initiative	
As of January 1, 2006	
Assets	
Current Assets:	
Cash	3906037
Accounts Receivable	0
Inventory	0
Total Current Assets	3906037
Fixed Assets:	
Plant and Equipment	22077865
Accumulated C.C.A.	0
Total Fixed Assets	22077865
Total Assets	25983902
Liabilities	
Current Liabilities:	
Accounts Payable	
Total Current Liabilities	0
Non-Current Liabilities:	
Long Term Debt	10393561
Total Non-Current Liabilities	10393561
Total Liabilities	10393561
Shareholders' Equity	
Share Capital	15590341
Retained Earnings	0
Total Shareholder's Equity	15590341
Total Liabilities and Shareholders' Equity	25983902

	2006	2008	2010	2012
Liquidity Ratios				
Current Ratio	6.56	8.5	9.85	10.07
Quick Ratio	6.59	8.13	9.5	9.7
Investment Utilization Ratios				
Average Days Inventory	1.6	1.6	1.6	1.6
Average Days Receivables	16	16	16	16
Average Days Payables	9	9	9	9
Total Asset Turnover	3.6	3.38	3.21	3.26
Solvency Ratios				
Debt Ratio	34%	28%	22%	17%
Debt to Equity Ratio	0.5	0.4	0.3	0.2
Profitability Ratios				
Gross Profit Margin	8%	8%	8%	9%
Net Profit Margin	4%	4%	5%	5%
Return on Assets	15%	15%	15%	16%
Return on Equity	23%	21%	19%	19%

Working Capital	
Cash	526,069
Accounts Receivable	1,246,947
Inventory	228,580
Accounts Payable	(591,932)
Total Working Capital	1,409,663

APPENDIX C

10.0 Appendix C

Appendix C contains the eligibility requirements for Aboriginal businesses, so that SWBI will have access to government procurement markets. These government procurement markets are put up for tender and the recipient gets to fill the required quota. Government officials buy beef for hospitals, army bases, jails and correctional centers. The government launched the Procurement Strategy for Aboriginal Business (PSAB) to help Aboriginal firms do more contracting with all the federal departments and agencies.

Eligibility Criteria

The Procurement Strategy for Aboriginal Business (PSAB) is open to all Aboriginal businesses. A business can include:

- a sole proprietorship;
- a limited company;
- a cooperative;
- a partnership; or
- a non-profit organization.

To be eligible an Aboriginal business, a firm must meet the following criteria:

- at least 51% of the firm is owned and controlled by Aboriginal people, and
- at least one third of the firm's employees, if it has six or more full-time staff, must be Aboriginal.

If a firm is starting a joint venture or consortium, it must meet the following criteria:

- at least 51% of the joint venture or consortium must be controlled and owned by an Aboriginal business or businesses, as defined above.

When a firm bids for a contract under the PSAB, it must certify that it meets the above criteria, and it must provide proof of eligibility upon request. Indian and Northern Affairs Canada (INAC) exercises the right to audit Aboriginal supplier certifications.

The procurement market works by:

- Setting aside contracts for Aboriginal firms--reserving all contracts that serve a primarily Aboriginal population and that are worth more than \$5 000 for competition among qualified Aboriginal businesses. Federal buyers are encouraged to set aside other contracts for competition among Aboriginal businesses whenever practical.
- Joint venturing--encouraging Aboriginal firms to create joint ventures with other Aboriginal or non-Aboriginal firms in bidding for and executing government contracts.
- Sub-contracting--whenever contractors need assistance to fulfill a government requirement, the government is encouraging them to sub-contract to Aboriginal businesses, as long as the prime contract is not subject to the North American Free Trade Agreement or the World Trade Organization Agreement on Government Procurement.
- Getting the word out--the government is making sure that Aboriginal businesses and federal public servants are aware of this strategy. Across the country, Aboriginal businesses are being told about federal procurement opportunities and contracting procedures. Federal public servants are being informed about the initiative and about Aboriginal suppliers: who they are, where they can be found, and the goods and services they provide.

Contact information:

Aboriginal businesses should register their firms with:

- Contracts Canada's Supplier Registration Inventory info line **1-800-811-1148** or **819-956-3440** (in the National Capital area) or visit the Web site at **<http://contractscanada.gc.ca/en/regist-e.htm>**

- Industry Canada's, Strategis, Aboriginal Business Directory (ABD), info line **1-800-328-6189** or **613-954-5031** (in the National Capital area) or visit the Web site at **http://strategis.ic.gc.ca/cgi-bin/sc_coinf/ccc/index_gen/company.pl?lang=e&profileId=629**

http://www.cbsc.org/alberta/search/display.cfm?Code=8025&coll=AB_PROVBIS_E

<http://www.ammsa.com/sage/DEC96.html>