Appendix G

Sample Import Business Plan: Otoro Import Company

EXECUTIVE SUMMARY

Otoro Imports is a spice importing and marketing corporation established in June 2004. It is located in Los Angeles, California, and specializes in the importation and marketing of high-quality spices at competitive prices. The company also provides certain programs to educate and inform distributors, retailers, and consumers about the use and health benefits of spices.

The United States is the world's largest spice importer and consumer. With the increased ethnic diversity of the population, strong U.S. dollar, and limited domestic production, there is greater demand for and affordability of such foods. The industry is dominated by a small number of companies. Otoro intends to import three types of spices: black and white pepper, paprika, and cinnamon, products showing fast growth in domestic demand.

The management team includes Davie Lee, president, and Howard Tzu, vice president. They both have extensive experience in the spice industry. The company has hired four full-time employees and a clerk. It will hire additional employees as the need arises. The company will market the imports through its retail outlets in California, Florida, and New York, and through outside distributors in other states. Its future plan includes expansion to Canada and Mexico and maintaining a substantial presence in the U.S. market, probably controlling approximately 25 percent of the market by 2010.

GENERAL DESCRIPTION OF INDUSTRY AND COMPANY

Otoro Imports intends to import spices from various countries for sale and distribution in the United States. Besides the importation and marketing of high-quality spices, Otoro intends to provide education programs to its distributors and retailers about the various types of spices, their uses, and their health benefits. As sales volume increases, the company also plans to hold free public seminars to inform and educate the North American consumer about the benefits and usage of various spices. The company aims to be known as the premier spice importing and marketing firm in North America. Its development goals are for steady expansion, with profitability by the second year.

The United States is the world's largest spice importer and consumer. Per capita consumption totaled 3.5 pounds in 2002 and it is likely to grow in the next few years. A number of factors contribute to the growing demand for spices in the United States. First, the growth of ethnic populations has caused a surge in the use of the spices common to different cultures. According to the U.S. census, the Asian and Hispanic populations grew by 4.0 and 8.5 million, respectively, between 1995 and 2005. Second, ethnic foods have become increasingly popular in the United States. Today it is rare to see a typical shopping center without an ethnic restaurant. There is also a trend toward the use of spices to compensate for less salt and lower fat levels in foods.

The industry is dominated by a small number of companies that process and market imported or domestically-produced spices. For example, McCormick/Schilling accounts for about 37 percent of the U.S. retail market. Given the trend toward mergers in most sectors, there is a possibility of mergers and acquisitions in the spice industry resulting in fewer, larger firms.

Otoro intends to import high-quality spices at competitive prices. It ensures importation of top-quality spices by maintaining constant communication with foreign producers and stationing a quality control specialist at most export locations to determine and advise on quality before importation into the United States. Importation from Indonesia, India, and China of seven of the most popular spices in the United States (vanilla beans, black and white pepper, capsicums, sesame seed, cinnamon, mustard, and oregano) is planned over the next five years because of their comparative advantages in climate, soil, and labor costs.

The seven products to be imported make up about 75 percent of U.S. spice imports (see Table G.1). The import of spices increased from 292,074 tons in 2004 to 310,874 tons in 2005. There has been a 20 percent increase in spice imports since 2000. Otoro will import three products during the first two years: black and white pepper, paprika, and cinnamon.

Presently, there are no restrictions on the importation of spices into the United States. However, food safety regulations require the treatment of spices to kill insects and microorganisms that thrive under tropical conditions.

TABLE G.1. U.S. Spice Imports

Product	Brief Profile
Vanilla Beans	Imports average over $62 million a year. Major suppliers include Comorus, Madagascar, and the Pacific Islands. Mainly used for ice cream
Black and White Pepper	Imports average over $55 million a year for black pepper and about $12 million for white pepper. Major suppliers are Brazil, India, and Indonesia. Used as seasonings for food
Capsicum and Paprika Peppers	Capsicum peppers are mainly imported from China, India, Mexico, and Palestine. Paprika is imported from Hungary, Morocco, and Spain. Total imports amount to over $62 million a year
Mustard Seed	Import value averages at $138 million a year. There is some domestic production. Most imports come from Canada
Cassia and Cinnamon	Widely used for doughnuts. Most imports come from Indonesia. Import value averages at about $30 million a year
Oregano	Mostly used for pizza. Imported from Mexico and Turkey. Annual imports average about $14 million a year
Sesame Seed	Used in the fast-food sector. Imported from Guatemala, El Salvador, and Mexico. Import value averages about $45 million a year

Otoro will market the imported spices through its retail outlets in California, New York, and Florida. In other states, the product will be marketed through distributors.

TARGET MARKET

Otoro intends to operate retail outlets in major metropolitan centers of California (Los Angeles, San Diego, and San Jose), Florida (Jacksonville, Miami, and Tampa), and New York (New York City, Buffalo, and Rochester). In other states, the products will be marketed through distributors. The major customers include restaurants, fast-food chains, and individual consumers.

Imports have played an important role in the American diet by providing needed spices through out the year and by moderating retail prices during times of shortages or other disruptions in domestic production. The United States produces a limited supply of spices—garlic, onions, mustard, ginger, and capsicum pepper—and its average annual exports are estimated at $89 million. However, the U.S. import share of total domestic consumption stands at about 92 percent (as of 1998), and thus, there is heavy reliance on foreign suppliers. The volume of spice imports grew by about 45 percent in the past decade to an average of 560 million pounds in 2001. The major suppliers include Canada, China, India, Indonesia, and Mexico. India supplied the largest share, at 34 percent in 1996 through 2004.

A number of factors contribute to steady growth and expansion of spice imports in the United States:

- Given the current per capita consumption, total domestic use of spices is likely to increase by over $300 million over the next few years.
- The increased ethnic diversity of the U.S. population will lead to more consumption of spices.
- Because domestic production of spices is limited in volume and variety, the United States will continue to import over 90 percent of its domestic spice needs.
- The increased value of the U.S. dollar in relation to the currencies of our major exporters, such as Indonesia, as well as low U.S. tariffs for spice imports, is likely to increase the availability and affordability of such foods.
- Foreign producers have increasingly adopted new production technologies to meet the necessary safety and quality standards of U.S. consumers and have also enhanced the popularity of imported spices.

There is strong competition from established companies in the industry that sell natural as well as artificial substitutes. However, Otoro's competitive advantage will be in the supply of high-quality spices at competitive prices. Furthermore, current and future needs cannot be met by the existing competition, and Otoro wants to position itself as an important supplier of black and white pepper, paprika, and cinnamon. Industry sources also indicate that these three products will constitute the fastest growing spice import groups in the U.S. market.

MARKETING PLAN AND SALES STRATEGY

Otoro will invest sufficient resources to achieve improvements in quality and reliability. It is important to find a suitable manner of presentation (e.g., bags, baskets, tins, etc.) that is timesaving and attractive to customers. The product will be marketed at a low price to be competitive in the market. Promotion includes participation in food shows and advertising.

MANAGEMENT AND ORGANIZATION

The company is managed by its founder, David Lee (president), and Howard Tzu (vice president). They both worked as managers for a reputable spice trading firm in Las Vegas, Nevada. Four people will be hired during the first phase of operation to clear imports from customs, transport the goods, and warehouse the shipment. The employees and a clerk will be paid \$10.00 and \$7.00 per hour, respectively. The capital structure and salary level (see Table G.2 for capital and ownership structure) are as follows:

LONG-TERM DEVELOPMENT PLAN

Otoro intends to be a major retailer and distributor of natural spices, capturing about 25 percent of the U.S. market by 2005. In the next five years, expansion plans will be focused on Canada and Mexico. Additional borrowing may be required to finance expansion (see Tables G.3 and G.4).

TABLE G.2. Ownership Structure

Partners	Capital ($)	Ownership Share (%)	Salary ($/month)
David Lee	350,000	58.33	4,000
Howard Tzu	250,000	41.67	3,000
Bank loan	150,000	–	–

TABLE G.3. Otoro Imports: Projected Income Statement

	Year 1 ($)	Year 2 ($)	Year 3 ($)
Total net sales	450,000	800,000	1,500,000
Cost of goods sold	150,000	350,000	650,000
Gross profit	**300,000**	**450,000**	**850,000**
Expenses			
Utilities	35,000	40,000	60,000
Postage	2,000	3,000	4,500
Warehouse	86,000	100,000	250,000
Transportation	40,000	55,000	100,000
Rent	85,000	85,000	85,000
Miscellaneous	60,000	75,000	100,000
Total expenses	**308,000**	**358,000**	**599,500**
Net profit (loss) before taxes	**(8,000)**	**92,000**	**250,500**

TABLE G.4. Start-Up Expenses for the First Six Months

Items	Range ($)
Supplies	1,000-2,000
Insurance	400-600
Rent	2,000-2,500
Utilities	400-600
Insurance	500-700
Furniture, etc.	3,000-5,000
Licenses/taxes	500-200
Advertising	3,000-4,000
Professional services	5,000-8,000
Salaries	200,000-240,000
Inventory	350,000-500,000
Operating capital	5,000-8,000
Total start-up expenses	**570,800-771,600**