



Tawseel.com¹

Multi-Menu Delivery Project

1. Business Opportunities

Why Saudi Arabia?

The project will take place in Riyadh, the capital of Saudi Arabia and the largest city in the country. Riyadh has a population of around 5,5 million; with USD 32,700 GDP/Capita. Saudi Arabia is one of the most prominent countries in the Middle East. It occupies about 2,240,000 square kilometers of the Arabic Peninsula. With its 27 million inhabitants, Saudi Arabia acts as a bridge that links Asia and Africa. According to IMF's report, Saudi Arabia has been ranked 11 among the 183 surveyed economies in terms of the relative ease of operating a business. According to the same report, Saudi Arabia stands 13 in terms of the legal and financial procedures, time, cost and minimum paid in capital required to start a business. These factors, in combination with the fact that Saudi Arabia is a tax haven, make it an attractive economy to invest in by establishing a business.

In addition to all of the above-mentioned features, it is no surprise that Saudi Arabia is ranked first with regard to low prices of fuel and energy. However, the competitive advantages for a business operating in Saudi Arabia run much deeper than low cost energy. The economy thrives on its ability to offer a world-class business environment that facilitates extremely smooth business set up and day-to-day operations at a relatively low cost as compared to other economies due to the abundant supply of (skilled) low cost labor. These factors are of significant relevance to the project as they have a huge impact on the project's viability.

Why Food Delivery?

Food delivery in Riyadh has been limited to only two food delivery providers in addition to the services provided by restaurants themselves; mainly fast food restaurants. That entails consumers's inability to enjoy food from restaurants that do not offer delivery services when circumstances do not permit them to dine out and a majority of regular

¹ Case written by Amani Alruhaymi, Master of Science in Management, Barcelona School of Management, Universitat Pompeu Fabra, 2012.

full-fledged restaurants do not offer home delivery. In spite of these limitations, take away and delivery sales just from fast food chains account for a quarter of the total sales in the sector. Given that the food services industry is growing exponentially year over year in this market, I see a huge opportunity for a profitable food and beverage delivery business in Saudi Arabia.

Although this service exists in the market, I believe that this project offers an edge over existing players for the following reasons:

- **Unique pricing methodology:** by focusing on partnerships with full service restaurants, we will be able to save the standard service charge (15% in Riyadh) from the food cost and then recharge it to clients as delivery fees. With that we will be able to lower the delivery fees and to some extent not charge customers a lot above the normal market prices.
- **Ease of ordering:** In addition to the IT systems and web services that will enable us to provide a convenient way to order the food, we plan to introduce an easy way to use application for smart phones that makes ordering food twice as easy. Consumers will not have to worry about anything apart from enjoying their meal. Our advanced IT platform will also allow us to maximize sales per customer thanks to relevant CRM based customized sales activities and promotions.
- **Targeting corporate segments:** In addition to individuals, the project will also focus on gaining corporate orders for employee lunch-meal delivery services for a fixed standard fee.

Market Research

Market in Riyadh is huge and it can cater more than two players. According to business monitor, food services industry in Saudi Arabia has been witnessing an average growth rate of around 7.6% over the last seven years. The following table shows the evolution of this industry between the period 2004 and 2010. It shows that the number of outlets have increased by 3 million in seven years.

Figures for growth in food services industry 2004-2010 (Euro monitor)

	2004	2005	2006	2007	2008	2009	2010
Number of Outlets('000)	13.2	14.3	14.8	15.3	15.9	16.1	16.3
Number of Transactions (mn)	1,581	1,700	1,789	1,869	1,940	1,990	2,046
Value (USD Billions)	4.08	4.48	4.75	5.01	5.41	5.76	6.08
CAGR		9.80%	7.90%	7.08%	7.31%	7.14%	6.87%

Figures for forecast growth in food services industry 2011-2014 (Euro monitor)

	2011	2012	2013	2014
Number of Outlets ('000)	16.6	16.8	17.0	17.3
Number of Transactions (mn)	2,110.3	2,178.4	2,257.0	2,347.7
Value (USD Billions)	6.43	6.80	7.23	7.71
CAGR		5.75%	6.04%	6.24%

Beside the normal features that most big cities have around the world, Riyadh, Saudi Arabia's capital, with a population of 5,5 million residents has a very unique feature. Studies have shown that the sex segregation laws, which are imposed in Saudi Arabia, that prevent / restrict male-female interaction in public places play a significant role in consumers opting for home delivery/takeaway services. This affects the entire whole dining-out experience for Saudi families, as they are unable to enjoy the complete experience in unison with their entire family. Considering these circumstances, it is no surprise that the home delivery/takeaway services amount to more than USD 1.4 billion, representing about 25% of the industry's total revenue.

Market Segments

From the results of the surveys, it is evident that female consumers find it more appealing to be in the comfort of their own home environment rather than being restricted in an outside place. Add to that the complexity of women not being able to drive in Saudi Arabia and not all households having a chauffeur. In addition, studies have shown that younger Saudi men gather in groups in spacious farms about 10-15 minutes drive away from the city. These household rendezvous locations represent a replacement to normal meeting points such as bars and restaurants, which are almost non-existent in Saudi Arabia. When you are in the farm with friends, the last thing they want to do is waste 45-60 minutes driving the car to pick up some food and drive back to the gathering place. These two segments: women and young male adults will be the targets for dinner and pastry orders.

For lunch orders we have a huge segment of governmental and private companies' employees who have no easy access to food courts as these only exist in very few office complexes. This segment would prefer to have their lunch delivered at their desks instead of driving their cars in 50°C afternoon heats. In addition to that, we will be targeting small businesses and growing corporate companies with no canteen services; these customers will allow us to earn profits through volume by means of repeated group orders.

Figures for Genders in Riyadh (Central Department of Statistics & Information)

	Total	Females	Males
Age (15 – 34)	2,245,834	980,393	1,265,441
Total	5,835,613	2,526,605	3,309,008
Population	38.48%	38.80%	38.24%

Competition

At the moment, there are two similar services provided in Riyadh (6albat.com and otlob.com). Both of them are online websites that provide home delivery services. Thus, they will be our direct competitors in the market.

The table below describes the strengths and weaknesses of each direct competitor:

Competitors	Strengths	Weaknesses
6alabat.com	<ul style="list-style-type: none"> • Ease of ordering • Delivery by cars • Other revenue streams (Advertisements on their website). 	<ul style="list-style-type: none"> • Minimum charge of 30 Euro per order • Delivery charge of 4 Euro per order • Deliver time: an average of 50 minutes • In partnership with only 20 restaurants • Food is always delivered cold based on our survey • Only have web service (no phone service).

<p>Otlob.com</p>	<ul style="list-style-type: none"> • Ease of ordering • Delivery by cars • Other revenue streams • (Advertisements on their website) • Their business is increasing (expanding to other cities in Saudi Arabia). 	<ul style="list-style-type: none"> • Minimum charge of 22 Euro per order • Delivery charge of 3 Euro per order • Deliver time: an average of 45 minutes • In partnership with only 36 restaurants • Food is always delivered cold based on our survey • Only have web service (no phone service).
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In light of the above, our main competitive advantages are the following:

- The minimum charge per order will be as low as 11 Euro in comparison to our competitors, 22 Euro and 30 Euro minimum charges
- Delivery will be offered free of charge
- Our cost structure is different, as we will use scooters instead of cars due to their economical and time saving benefits
- We will partner with wider range of options as we are targeting to offer the menus of 75 different restaurants
- We are expanding our scope of services to include 30 pastry shops and bakeries in Riyadh
- We will use new “heater box” technology on the scooters to maintain the fresh and hot quality of the food
- In addition to our online ordering channel, we will provide a phone-ordering service.

All of these competitive advantages will allow us to provide an effective service at a lower cost than our competitors. Moreover, we will be able to enhance our customer satisfaction levels by delivering the food for free within 30-40 minutes only, which I also believe will allow for delivering the food in a good and fresh state (thanks to the new heater boxes technology). Above all of that, we will be able to utilize our assets (scooters and drivers) more efficiently by offering to deliver from bakeries, which usually take place in between lunch and dinner times.

On the other hand, our indirect competitors will be fast food restaurants that provide home delivery services and pizza delivery chains. However, since our primary partner targets are regular full service restaurants that currently do not provide any home delivery services or limited delivery, we will be able to establish a strong foothold in the market.

2. Business Model

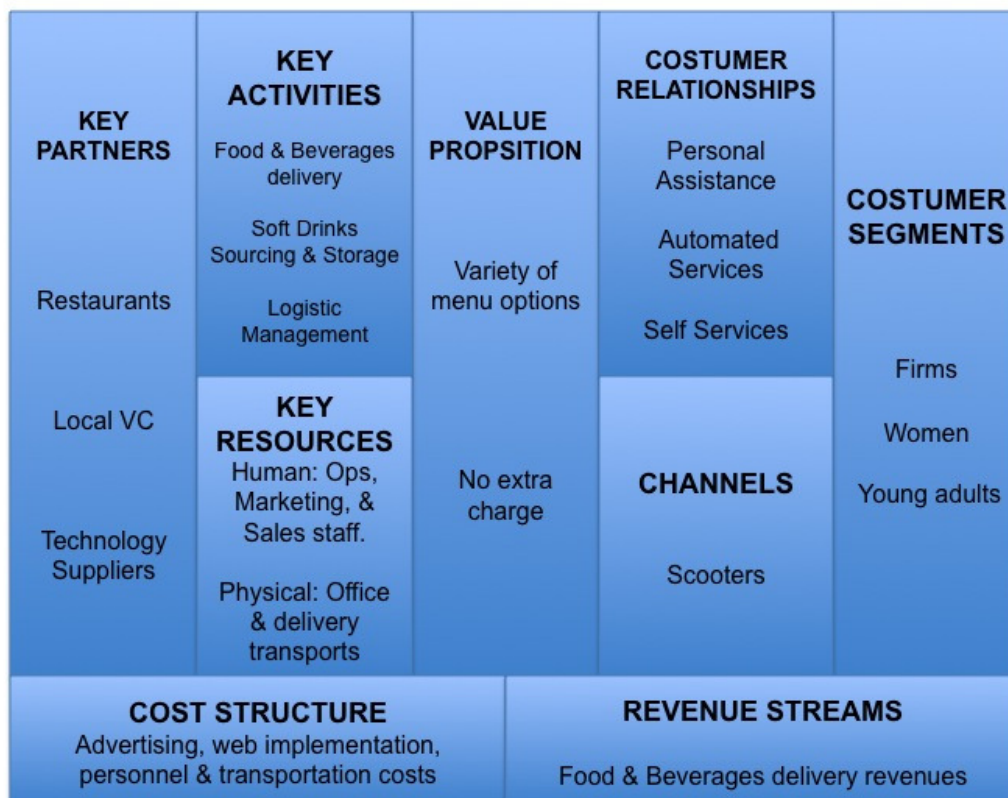
2.1 Business model description

Market forecast of the Saudi Food Delivery/ Takeaway industry and consumer trends indicate a strong growth in demand in this industry owing to increasing consumer preference to eat at home.

However, the market place remains quite competitive. We believe our business model adds value to this ecosystem by:

- Enabling restaurants and food services that do not offer delivery services (in order to avoid additional logistics expenses) to gain a portion of the growing delivery/takeaway market
- Providing a complete online repository of all partner restaurant menus with prices, location indicator and food delivery tracking functionalities to customers
- Offering a unique pricing system where our margins are derived from partner restaurants's savings in operational expenses as opposed to an additional delivery fee borne by the consumer.

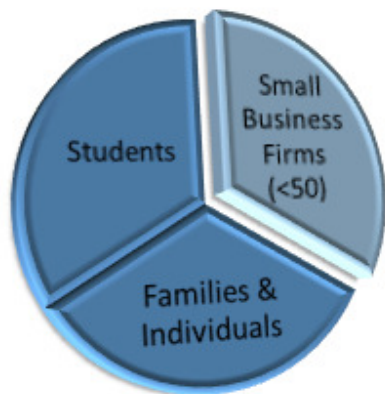
Business Model Canvas



Customer Segments

With a population of 5,5 million residents, Riyadh offers the perfect landscape to convert this concept into a profitable business. As demonstrated in the previous section, the food service sector in Saudi Arabia has experienced a steady 8% growth year over year and as of today is valued at USD 6.08Billion and is expected to grow by 5% over the next three years. Over a quarter of these sales are from delivery/takeaway services offered by fast food restaurants and pizza chains satisfying the socializing needs of consumers who prefer to eat at home for lunch and dinner gatherings as opposed to visiting restaurants as interactions between opposite sex in public places are largely limited due to sex segregation laws.

This has, in effect, led to the emergence of fast food restaurants and pizza chains that only offer takeaway/delivery, a 100% takeaway/delivery food industry. While a significant proportion of these chains' revenues are from the consumer segment, our market research indicates an increasing demand for lunch catering/delivering services in the business community in recent years. Based on these insights, we have identified our main target segments to be:



- Business to Business (B2B) – Small / Nascent business firms that do not have their own cafeteria for lunch delivery services.
- Business to Consumer (B2C) - Young Men and Women between the ages of 15 - 40. We can further segment this group into Students and Young Adults or Families. While families and individuals are our focus for dinner delivery services, I believe that targeting the student community will offer us additional revenues from lunch delivery on campus but also large delivery deals for parties and special occasions.

These segments will be further sub-categorized based on income levels, family and business size and location at the qualification stage.

Value Proposition

Our market analysis and research indicates that although several fast food restaurants and pizza chains offer takeaway/delivery services that satisfy consumers's needsto eat at home, the scope of their business is limited as most chains offer delivery only to customers located within a 5

kilometers radius of the restaurant's physical location. This has resulted in customers having to place repeated orders from the same chains for lack of choice in menus due to logistics limitations or to order from 6alabat.com and otlob.com with an extra charge fees. Tawseel's mission is to bridge this gap between consumer needs and the restaurant's offerings.

Unique Value Proposition:

For the consumers:

- Favorite food at your doorstep for no extra cost – pay as just much as you do when you dine out
- Variety of menus to choose from
- And most importantly; hassle free socializing.

For restaurant partners:

- Larger profit margins with reduced operating expenses
- No cost-branding
- Incremental sales and higher market share.

Service Characteristics:

- Consumer logs into www.tawseel.com.sa/menus to browse our repository of partner restaurant menus
- Place an order for food and beverages (supplied by Tawseel) online or by phone_ expected time of delivery communicated at the time of order placement
- Tawseel coordinates with the restaurant and picks up the order from the respective restaurant and the drinks from the nearest mini-markets– consumer can track delivery status through our website at any point in time
- Food delivered along with beverages at the consumer's doorstep for no extra cost.

Pricing Strategy

We have devised different pricing strategies for the B2C and B2B segments to enhance customer value and establish sustained relationships with restaurant partners and our consumers. For the B2C segment, we will charge 15% of every order's total value as our delivery charge to restaurants, which will be offering us the food at a discounted price as they save on operations cost. This ensures that no additional fee is incurred by the consumer, who receives the meal for the exact menu price as someone dining at the restaurant, as long as the total value of the order exceeds 11 Euro. Only in a scenario where the minimum order value of 11 Euro is not met, the consumer pays an extra delivery fee to Tawseel. As for business customers, we offer two payment options: monthly standard subscription fees or per delivery flat fees; the appropriate model for

individual firms and the exact terms of payment will be decided based on the scope of business proposal at the time of negotiation.

Customer Relationships

- Personal Assistance: Assistance is answering customer's phone calls. Such assistance is performed either during sales, after sales or both.
- Self Service: Our website provides the tools needed for the customers to serve themselves and order food from wide variety of restaurants easily and effectively.
- Automated Services: Customers can order through their smart phones.

Customer Acquisition

Customer acquisition is the process through which a company locates, qualifies and ultimately secures new customers. There are many different strategies used as part of the acquisition process, their effectiveness mainly depending on specific types of potential clients. As we are targeting two broad types of customers, we will have to adapt our acquisition strategy to each segment.

- Business Customers – B2B
- Individuals – B2C

However, an array of attraction actions can be applied to both types of customers equally as at the end of the day; we provide more or less the same solution to both target segments: “a vast choice of quality food to deliver”.

Locate

This consists of locating individuals and businesses who could either be interested in our services or, are already using similar type of service on offer (pizza delivery, take-away food, deli food). For this step, we don't see the need to use different approach for each segment.

As we potentially target hundreds of customers, it is almost impossible to do such a process for each prospect. In our case, we will adopt a slightly different approach that will eventually deliver a similar output:

- Identify primary residential localities housing families with the above average household income and main business areas. At this stage, we should also rank geographical zones in terms of attractiveness. (Classification factors being: average household income in the locality, local traffic and distance to our main pool of our suppliers; restaurant partners).

Qualify

B2C

As mentioned above, we would firstly focus on areas lodging predominantly the wealthy segments of Riyadh's population

B2B

In this case, company website and business databases (e.g. Data Monitor) will help us gain insights on the size of the company. Once the size estimation is done, we will mainly focus on companies with less than 50 employees. We assume that large companies have their own dining/catering facilities and we also understand that we wouldn't have the capacity to deliver a large number of meals at once.

Approaching – Securing

Once we have a comprehensive list of potential clients in place, we will start the marketing actions that will help convert them into prospects and, later on, customers. As our budget is limited, we will definitely adopt a guerrilla marketing style: high impact and low cost.

Both

- Although we clearly position ourselves as an online company, we will in the initial business launch stage, use printed leaflets with service specifics to attract customers. By dropping thousands of advertising leaflets (detailing our value proposition, a quick instruction manual and our website address), we could easily reach a large number of people. Potentially, as a first purchase incentive, we could attach to these first printouts automatically generated individual number that would give a discount to our “early adopter” customers.
- Being included in the local Yellow pages website is a quick win.
- Additionally, we also plan to advertise our company in local websites covering the food service market: specialized blogs, on-line food and lifestyle magazines.

Generally, the Saudi society is a community that relies heavily on consumer referrals. We intend to leverage word of mouth marketing by using more expensive but effectively targeted consumer communication rather than through large investments in mass marketing.

B2B

Convincing companies will require more time and attention. But as they have the potential to generate large incremental revenue from volume orders, I believe the investment is totally worth it. The key aspect will be to establish contact and build a good relationship with the person who is in charge of catering services for employees. It could be the procurement manager, but most of the time in smaller companies, it's either a secretary or the admin that handles this task.

- Therefore specific actions will be required:
 - Office visit
 - Dedicated phone call
 - Direct mail with a more in-depth leaflet

Additionally we could also advertise our company into local business press.

Customer retention

Retention is probably the most difficult yet important part of any business. In an environment that is as volatile as the service food industry (new alternatives being created on a continuous basis), customer retention is even more challenging. We have identified few solutions to minimize loss of customers.

Both

- Frequent newsletter featuring recent changes in our menus (new restaurants, new food or beverage selections) as well as temporary short-term promotions for pre-specified “packages”
- Thanks to our CRM system we will be able to both reward loyal customers (through tailor-made promotional offers) and encourage our “weakening” customers to reach their usual past consumption through discounts.

B2B

- A close monitoring of large accounts combined with tailored promotions should guarantee continuous consumption.
- Frequent customers survey will help us to keep track of new demands. It is key that our product portfolio evolves in harmony with our members’ wishes.
- A specific “subscription” (or points collecting card) model will automatically push our customers to keep ordering from our portfolio.

Channels

Customers will order online or via phone and we will deliver to them via our scooters. Being an online company, the Internet will be our central platform. Our website will be used to handle orders, support advertising campaigns and serve as an interface to our customer database. Additionally we will focus most of our advertising efforts on the web as well:

- Banners on websites and blogs with information/content on food services, lifestyle, specifically targeting the expat and female community.
- We will subscribe to the local online yellow pages website
- We will investigate the possibilities of leveraging social media websites in terms of referrals.

Logistics & IT systems

As explained we intend to solely be a communication and transportation channel between our customers and our network supplying restaurants. Operations and marketing will be the two areas of expertise we will leverage the most to succeed on this market. While the marketing aspect has been covered earlier, we would like to detail our operational model.

Some administrative staff and drivers would be enough to make our business run. However by adopting a very advanced IT system will believe we can create a strong competitive advantage. This IT system would have 2 main components:

- CRM system: Our system will allow us to closely track and monitor our customers and adapt our portfolio consequently. Additionally, by analyzing our customer sales record, mainly the corporate ones, we will be able to offer them promotions that both increase our sales (discount on their favorite products) and broaden their exposure to our entire products (incentives to try out different restaurant from our menu).
- GPS localization system: This system will allow us to track our drivers and calculate the most efficient (time wise and cost wise) ways to deliver. It will also inform our orders/drivers with the traffic conditions. That way, our customers will have a very accurate forecast for the arrival time of their order.

Two step approach

In the early stage of the company, we would like to offer the possibility to our customers to order via telephone. Although it doesn't fit with our "100% online" policy, I believe it's a necessary first step:

- Internet penetration isn't yet matching Western Standards (41% in the country, 65% in Riyadh). However we can expect our core target segment to be more equipped and used to the technology.
- By offering the possibility to place order by phone, we increase our chance to broaden our customer base. For those type of customer we intend to adopt a specific communication campaign (mainly folders attached to their order) to help them to use our website and/or get access to Internet.

Key Activities

The main 3 activities are: supply management, marketing and operations management.

Supply management

That consists of securing:

- The best possible menu by having a large variety of restaurants contracting us.

- The best possible terms which each restaurant regarding the discounts and the services they offer us.

Engaging restaurants will require time, efforts and persuasion to find the best restaurant to sign up and to convince them to partner with us. However, I believe that's it's a clear win-win situation for them as on one side they can generate additional sales (limited cannibalization effect) with a positive margin (our discounted priced is compensated by their much lower operations costs needed to provide a take away meal).

Marketing

As covered before, it includes all the marketing actions we want to do in order to:

- Increase brand awareness
- Develop consideration: educate customers on e-purchase
- Encourage them to buy: with well tailored offers
- Retain our customers: follow up actions and loyalty program.

Operations

It includes all the operational activities that need to be carried in order to offer a high quality service to our customers:

- Collect and deliver meals in the most efficient possible way, thanks to customer database, localisation software and planning management)
- Beverages to be collected from the nearest mini-market to the restaurant or the customer premises. Thanks again to the localisation software; mini-markets on the route will be targeted in order not to waste time.

Resources

Human resources

Qualified personnel:

To properly run this company we would need the following profiles:

- CEO to make the major corporate decisions, managing the overall operations and resources of the company and develop high-level strategies.
- Two marketing specialists to design and implement our marketing strategy.
- An operation specialist to arrange and handle the operations of the whole delivery process.
- One salesman to pitch our services to restaurants and pastries to include them in our portfolio.
- One salesman to pitch our product to the companies(B2B).

- Two IT specialists to monitor the website (GPS localization system- CRM system) and solve the IT problems.

Unqualified personnel:

- 4 operators to handle the online and phone call orders
- 13 drivers to ensure the transportation of food and beverages between the different supply and consumption places.

Physical resources

- A small office where management and call operators would be working. Location doesn't matter, as it's an online company.
- 10 scooters

Intellectual resources:

IT system, servers: An essential part of our competitive advantage is our advanced IT platform. Due to the cost of developing and maintaining such a complex platform (website, CRM, Database), we will use a cloud computing solutions that allows great scalability, clear cost and better reliability.

Partnerships

We would like to start this project with the support of 2 important partners:

- A local VC: that will bring funding but more importantly local knowledge and connection to the Saudi professional world.
- An American colleague: Din-in is a company that offers similar offer in the US. We had the chance to be in contact with them as they are constantly looking for new franchisees and discussed some of the main challenges with one of the managers. We hope to keep discussing our project with him in the future.

Cost Structure and Revenues

For the sake of this financial analysis, we will use the Euro as a currency.

The main revenue stream of our venture will be based on the difference between the price we will pay to the restaurant for the meals and the price we will make our customers pay. The restaurant will provide us meals at a discounted price for three reasons:

- They save service costs as customers will not need to be served by waiters
- They save space in the restaurant for other potential clients
- Real incremental sales: customers may simply not go to the restaurant if our service doesn't exist.

Conservatively, for the latter we did not estimate an additional discount to be asked to the restaurants. The assumption is that restaurants sell us meals at the price net of the service (which is 15% in Saudi Arabia) and we sell to the customers at a price that includes the transportation-service fees (an additional 3 Euro fee is applicable if the total bill is less than 11 Euro).

One of the advantages of this business is that clients pay with credit cards or cash and we do not hold any inventory, therefore we can take advantage of a working capital close to zero.

An important additional source of revenue comes from beverages. We decided not to buy soft drinks from the restaurants but to buy them from mini-markets, in order to make additional money out of it. In Riyadh alone, there are around 12,000 mini-markets. The soft drinks delivery accounts for roughly 7% of our total margin. We estimate to buy every bottle for 30 cents and sell it at 40 cents, making 10 cents (33%) margin out of every bottle sold.

The hypothesis underlining the gross margin calculation is that we will work with 10 scooters for 3 hours during lunch time, 2 hours during afternoon (sweet and pastry delivery) and 5 hours during dinnertime. The average deliveries are prudentially estimated to be no more than two per hour per scooter, reduced to one during Monday, Tuesday, Friday and the weekend at lunch time (no business activities) and during Monday and Tuesday at dinnertime and pastry time.

2.2.Financial analysis

In the previous paragraph we focused our attention on the revenue streams and cost structure of the venture. Here, I will explain the assumptions that I used to project the sales and future cash-flow is anticipated and what are the hypothesis regarding the initial and subsequent investments.

In order to come up with a good forecast about our sales, I decided to breakdown the sales into its 3 different categories; food, beverage and pastries:

- For the food and beverage I have broken them down further and differentiated between the lunch and dinner orders. Moreover, as I anticipate number of orders to be affected by many factors among them the weekdays versus weekends and in order to ensure reflecting the scenarios in real life, I went all the way down to the forecasting on the daily basis. For each forecast, I was conservative in estimating the number of deliveries that can be delivered in every hour and even in the total number of delivery working hours. All of these elements have resulted in what I believe is a close to reality scenario. Summary of the forecasts can be found in the following tables:

	Deliveries estimation										
LUNCH	Avg. delivery per hour	Working hours	# Scooters	Total deliveries food	Food	Food: cost	Margin	Total deliveries drinks	Drinks(2 bottle)	Drinks cost(2 bottle)	Margin
Average check					€ 18.00	€ 15.30	15%		€ 0.80	€ 0.60	33%
Saturday	1	3	10	30	€ 540	€ 459	€ 81	30	€ 24	€ 18	€ 6
Sunday	1	3	10	30	€ 540	€ 459	€ 81	30	€ 24	€ 18	€ 6
Monday	1	3	10	30	€ 540	€ 459	€ 81	30	€ 24	€ 18	€ 6
Tuesday	1	3	10	30	€ 540	€ 459	€ 81	30	€ 24	€ 18	€ 6
Wednesday	2	3	10	60	€ 1,080	€ 918	€ 162	60	€ 48	€ 36	€ 12
Thursday	2	3	10	60	€ 1,080	€ 918	€ 162	60	€ 48	€ 36	€ 12
Friday	1	3	10	30	€ 540	€ 459	€ 81	30	€ 24	€ 18	€ 6
Weekly				270	€ 4,860	€ 4,131	€ 729		€ 216	€ 162	€ 54
Monthly				1080	€ 19,440	€ 16,524	€ 2,916		€ 864	€ 648	€ 216
Quarterly				3240	€ 58,320	€ 49,572	€ 8,748		€ 2,592	€ 1,944	€ 648
Yearly				12960	€ 233,280	€ 198,288	€ 34,992		€ 10,368	€ 7,776	€ 2,592

	Deliveries estimation										
DINNER	Avg. delivery per hour	Working hours	# Scooters	Total deliveries food	Food	Food: cost	Margin	Total deliveries drinks	Drinks(2 bottle)	Drinks cost(2 bottle)	Margin
Average check					€ 40.00	€ 34.00	15%		€ 0.80	€ 0.60	33%
Saturday	2	5	10	100	4,000 €	€ 3,400	€ 600	100	€ 80.00	€ 60	€ 20
Sunday	2	5	10	100	4,000 €	€ 3,400	€ 600	100	€ 80.00	€ 60	€ 20
Monday	1	4	10	40	1,600 €	€ 1,360	€ 240	40	€ 32.00	€ 24	€ 8
Tuesday	1	4	10	40	1,600 €	€ 1,360	€ 240	40	€ 32.00	€ 24	€ 8
Wednesday	2	5	10	100	4,000 €	€ 3,400	€ 600	100	€ 80.00	€ 60	€ 20
Thursday	2	5	10	100	4,000 €	€ 3,400	€ 600	100	€ 80.00	€ 60	€ 20
Friday	2	5	10	100	4,000 €	€ 3,400	€ 600	100	€ 80.00	€ 60	€ 20
Weekly				580	23,200 €	€ 19,720	€ 3,480		€ 464.00	€ 348	€ 116
Monthly				2320	92,800 €	€ 78,880	€ 13,920		€ 1,856.00	€ 1,392	€ 464
Quarterly				6960	278,400 €	€ 236,640	€ 41,760		€ 5,568.00	€ 4,176	€ 1,392
Yearly				27840	1,113,600 €	€ 946,560	€ 167,040		€ 22,272.00	€ 16,704	€ 5,568

- For the pastries deliveries, I followed the same methodology by assuming only 2 working hours with an average number of deliveries that ranges between 1 and 2 only. Although we believe we will be able to deliver more pastry orders, I decided to use a more conservative method rather than over estimating the figures.

PASTRY	Avg. delivery per hour	Working Shift hours	# Scooters	Total deliveries pastries	Pastries	Pastry Cost	Margin
Average check					€ 11.00	€ 9.35	15%
Saturday	2	2	10	40	€ 440	€ 374	€ 66
Sunday	2	2	10	40	€ 440	€ 374	€ 66
Monday	1	2	10	20	€ 220	€ 187	€ 33
Tuesday	1	2	10	20	€ 220	€ 187	€ 33
Wednesday	2	2	10	40	€ 440	€ 374	€ 66
Thursday	2	2	10	40	€ 440	€ 374	€ 66
Friday	2	2	10	40	€ 440	€ 374	€ 66
Weekly				240	€ 2640	€ 2,244	€ 396
Monthly				960	€ 10560	€ 8,976	€ 1,584
Quarterly				2880	€ 31680	€ 26,928	€ 4,752
Yearly				11520	€ 126720	€ 107,712	€ 19,008

From the estimates above, I have made sure that the total number of working hours for all the three categories does not exceed the official working hours for labor in Saudi Arabia which is generally limited to 10 hours, above that threshold we will have to pay over-time rates to drivers.

In order to ensure the availability of a driver for each scooter all around the year, I have imposed a safety buffer for the number of drivers by 30% more than the number of scooters. For example, in 2012 there will be 13 drivers for the 10 scooters we will have that year in order to ensure the work of all scooters in spite of the usual sick leaves and annual vacations.

For the subsequent years, I forecasted sales orders to increase from year 2012 to 2018 by 50% annually in accordance to the increase in the number of scooters fleet we are planning to build (We will add five scooters and six drivers every year, from the year 2012 to 2018). From year 2018 onwards, we are conservatively forecasting that sales will not increase and be the same until 2021. The maximum number of forecasted orders (in 2018) will be around 220K orders in the whole year. In a big city like Riyadh with over 5, 5 million inhabitants, this means we will need less than 4% of total Riyadh inhabitants to order only once a year to meet our projections; the figures that we believe are very conservative and easy to achieve. More details about sales figures are attached in the **Appendix**.

In regard to the **Initial investment** required, I have followed the path of an organic growth. Although I don't see having 40 scooters in the early years of the projects as a challenge, I decided to start with 10 scooters in first year and grow the number of scooters by 5 scooters annually till arriving to the optimal number of scooters in 2018. By doing so I will be able to ensure a better control over the operational processes as managing smaller fleets is easier than managing bigger one. It will also allow us to broaden our customer base gradually in accordance to the number of scooters we have.

Finally, this is as well connected to the number of restaurants and pastries we are dealing with that in turn will grow in the same pace as well.

In order to come up with the required initial investment, I have used the above assumptions and projected the remaining investments in the following table:

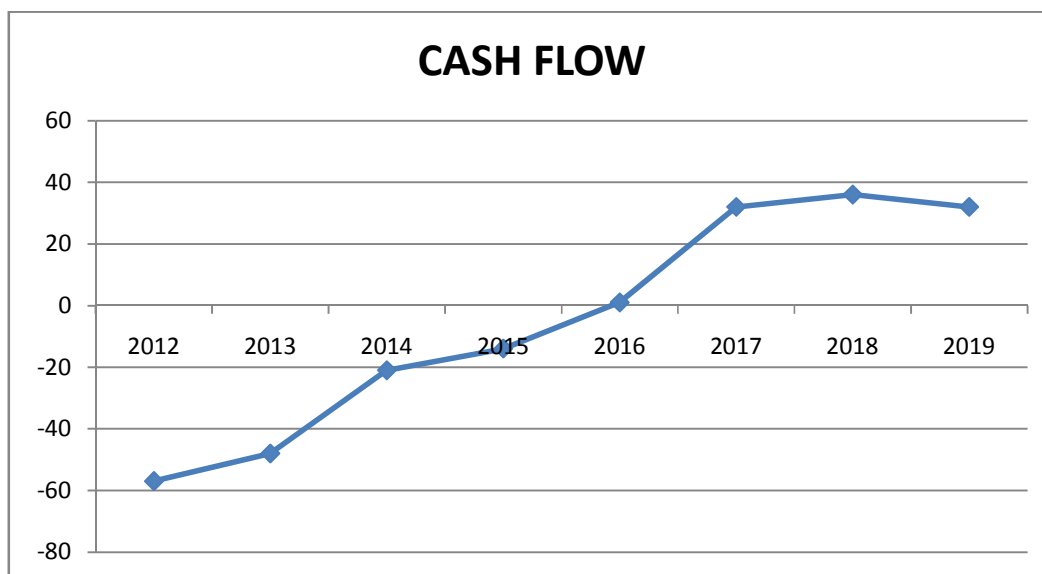
Investment	Cost per Unit	# of Units	Total Costs
Scooters	1,500	10	15,000
Admin Staff (3Months)	2,700	12	32,400
Drivers (3Months)	1,300	13	16,900
Advertising Campaign			25,000
Furniture			8,700
Office Rent			40,000
IT Systems			35,000
Minimum Cash required			12,000
TOTAL			185,000

The funding is structured has been built on the basis of equity to debt of 1:0.85 in order not to load the project with high debt level and hence lead to higher interest expenses as we were taught in the business economics class. So the financing of the initial investment will be as follows:

Capital	Amount
Equity	100,000
Long-term Debt	70,000
Short-term Debt	15,000
TOTAL	185,000

In addition, an additional 50,000 Euro will be injected in the year of 2012 in order to offset the expected loss in 2012 and to finance the financial need resulting from the working capital.

Under the above mentioned sales projections and the above mentioned capital structure, the **cash-flow break-even** will be reached in year 2016, as from the following graph:



Based on these forecasts and the net cash flow as per the attached table in the **Appendix**, the project is expected to have a healthy IRR of 28.6% over the first 10 years (2012-2021).

In order to **estimate the customer acquisition cost**, I made the assumption that each client will perform an average of 4 deliveries in the first year (a number of clients will buy far more frequently, but an important number will do it just once a quarter). By that we will have a client acquisition cost of 3.80 Euro. This is calculated by dividing the annual costs of the website, the advertising costs and salesmen representatives's salaries divided by the number of clients.

Financial Statements Analysis

Looking at the projected Income Statement, Balance Sheet, Source and Application of Cash, Forecast Summary, and Net Cash Flow statements attached in the **Appendix**, we derived the following:

- Strong current ratio (working capital) ranging between 1.2 to 3.3; knowing that the company does not hold any inventory as it delivers the food once purchased, and the fact that it does not hold any short term assets other than cash and receivables makes its current assets very liquid. All of that should help the company prove its ability to pay off all its payables to its suppliers. Following chart shows the evolution of the current ratio over the projected 10 years:

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
3.3	1.9	1.4	1.2	1.3	1.5	1.8	2.1	2.1	2.1

- In order to maximize the equity value, the project depends on above average debt ratios; yet not too high debt in order to avoid high interest as mentioned before. Although the company starts with good debt to equity ratio, debt increases relatively to equity during the first couple of years. Once the project start showing positive net cash flow figures, debt to equity ratio start declining to safe levels. Following table shows the total liability / total net worth ratio:

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1.0	1.5	1.5	1.5	1.4	1.1	0.9	0.7	0.7	0.7

- The financial shows how blessed is the company to operate in an industry where the average receivables collection days are 5 days only while average payable days are 7 days. This results in a healthy working capital as the company is enjoying 2 days of surplus cash within its cycle.
- Projected financials show that net income margins are pretty low, which from one side indicates how dangerous the situation is if these projections are not met. From another side, it indicates how competitively the company is entering the market in order to be able to prove itself in front of its competitors by not aiming for high returns. The following table shows the projected net income margins for the next 10 years:

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
-3.8%	-1.2%	-0.1%	0.0%	0.7%	1.4%	2.1%	2.0%	2.0%	2.0%

- The financials also show how good the company is in utilizing its assets and equity with a 22% Return on Assets (ROA) and 53% Return on Equity (ROE) in the fifth year 2016.

Conclusion

As mentioned earlier in this report, there has been clear trend of people looking for more convenient solutions for their food and more people are leaning towards having their meals at homes. By serving these segments, and leveraging on the low fuel cost and cheap labor, I strongly believe in the future of a food delivery project.

After running all the scenarios of projected sales and costs, I came to the conclusion that we are entering into an underdeveloped market. Although there will be a lot of effort that needs to be done, the risk of not meeting the forecasts is pretty much low as only less

than 5% of Riyadh's habitants are targeted; which seems not to be such a hard job knowing that 70% of Riyadh's habitants are below the age of 35.

One of the main motivations for me towards this project is the relatively low equity capital required when compared with the potential return. This fact by itself minimizes the investment risk.

Sources

- Business Monitor International
(www.businessmonitor.com)
- Central Department of Statistics & Information
(www.cdsi.gov.sa/)
- Euro monitor International estimates
(www.euromonitor.com)
- International Monetary Fund
(www.imf.org/external)
- Nation Master
(www.nationmaster.com)
- Saudia Online
(www.saudia-online.com)
- Saudi Arabia Market
(www.saudinf.com)

Work to do

- 1. Analyze the idea and the business model in order to identify strengths and weaknesses**
- 2. Analyze the financial plan in order to conclude about it**
- 3. As a banker: would you give a loan to finance this project? Why?**
- 4. As an investor: would you invest in it? Why?**
- 5. Give recommendations to improve the project**

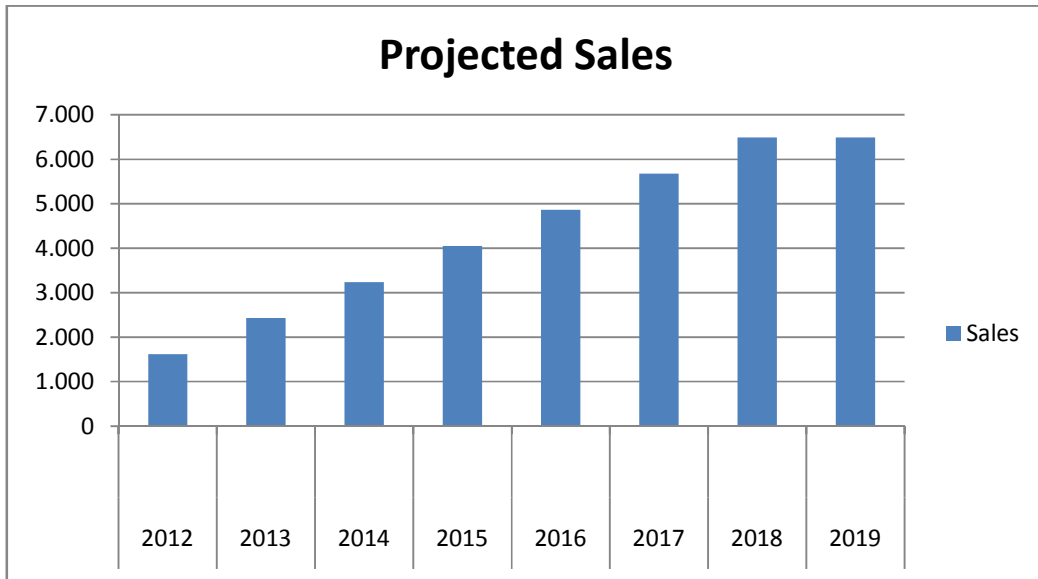
Appendix

Population by Age Groups and sex in Riyadh (2010)

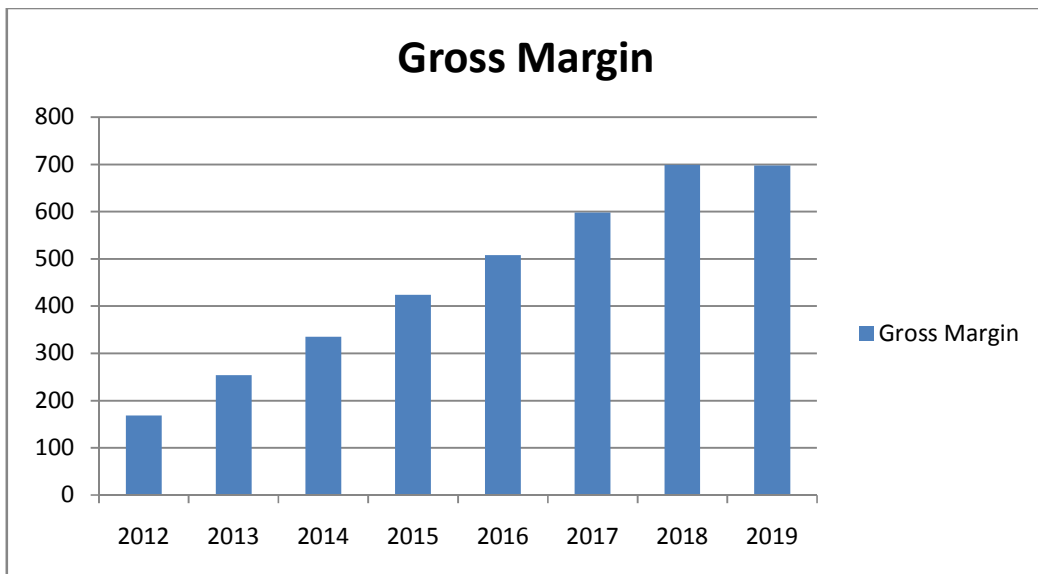
(Central Department of Statistics & Information)

AGE	Total	Females	Males
<1	117,715	58,544	59,171
1-4	538,377	263,397	274,980
5-9	607,243	300,377	306,866
10-14	557,250	276,092	281,158
0-14	1,820,585	898,410	922,175
15-19	505,746	250,586	255,160
20-24	524,785	249,202	275,583
25-29	597,899	240,501	357,398
30-34	617,404	240,104	377,300
15-34	2,245,834	980,393	1,265,441
>34	1,769,194	647,802	1,121,392
Total	5,835,613	2,526,605	3,309,008
0-14	1,820,585	898,410	922,175
0-14 %	31.20%	35.56%	27.87%
15-34	2,245,834	980,393	1,265,441
15-34 %	38.48%	38.80%	38.24%
0-34	4,066,419	1,878,803	2,187,616
0-34 %	69.68%	74.36%	66.11%

Sales Trend



Gross Margin Trend



Income Statement (Euro in 000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sales	0	1,618	2,430	3,235	4,048	4,860	5,675	6,487	6,487	6,487	6,487
Cost of Goods Sold:											
Raw Materials	0	1,377	2,063	2,749	3,437	4,123	4,814	5,493	5,493	5,493	5,493
Labor	0	64	93	123	152	186	216	245	245	245	245
Utilities	0	8	12	16	19	23	26	30	30	30	30
Maintenance	0	0	2	3	4	5	6	7	8	9	10
Depreciation	0	0	5	8	11	14	15	13	13	13	13
Amortization	0	1	1	1	1	1	0	0	0	0	0
Total of CGS	0	1,450	2,176	2,900	3,624	4,352	5,077	5,788	5,789	5,790	5,791
Gross Margin	0	168	254	335	424	508	598	699	698	697	696
Indirect Costs:											
Sales, Gen. & Admin.	0	100	146	194	243	267	312	357	357	357	357
Salaries	0	126	135	144	181	209	209	209	209	209	209
Finance Charges	2	3	2	1	1	0	0	0	0	0	0
Total Indirect Cost	2	229	283	339	425	476	521	566	566	566	566
Net Profit	-2	-61	-29	-4	-1	32	77	133	132	131	130
	0	0	0	0	0	25	50	100	100	130	130
Dividends											
Retained Earnings	-2	-61	-29	-4	-1	7	27	33	32	1	0

Balance Sheet– Assets (Euro in 000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash	178	121	73	52	38	39	71	107	139	140	140
Accounts Receivable	0	22	33	44	55	67	78	89	89	89	89
Current Assets	178	143	106	96	93	106	149	196	228	229	229
Furniture	0	8	13	18	23	28	33	38	43	48	53
Vehicles	0	15	23	31	39	47	55	63	71	79	87
Total Fixed Assets	0	23	36	49	62	75	88	101	114	127	140
Accum. Depreciation	0	0	5	13	24	38	53	66	79	92	105
Net Fixed Assets	0	23	31	36	38	37	35	35	35	35	35
Pre Operating Expense	5	5	5	5	5	5	5	5	5	5	5
Total Intangibles	5	5	5	5	5	5	5	5	5	5	5
Accum. Amortization	0	1	2	3	4	5	5	5	5	5	5
Net Intangibles	5	4	3	2	1	0	0	0	0	0	0
Total Assets	183	170	140	134	132	143	184	231	263	264	264

Accounts Payable	0	28	42	55	69	83	97	111	111	111	111
Short term debt	15	0	0	0	0	0	0	0	0	0	0
Bank	15	15	15	15	10	0	0	0	0	0	0
Current Liabilities	30	43	57	70	79	83	97	111	111	111	111
Bank	55	40	25	10	0	0	0	0	0	0	0
Long Term Debt	55	40	25	10	0	0	0	0	0	0	0
Total Liabilities	85	83	82	80	79	83	97	111	111	111	111
Paid in Capital	100	150	150	150	150	150	150	150	150	150	150
Retained Earnings	-2	-63	-92	-96	-97	-90	-63	-30	2	3	3
Total Equity	98	87	58	54	53	60	87	120	152	153	153
Total Liab & Equity	183	170	140	134	132	143	184	231	263	264	264

Source & Application of Cash (Euro in 000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sources of Cash:											
Paid in Capital	100	50	0	0	0	0	0	0	0	0	0
LTD - SIDF	0	0	0	0	0	0	0	0	0	0	0
LTD - Bank	70	0	0	0	0	0	0	0	0	0	0
LTD - Owner's Account	0	0	0	0	0	0	0	0	0	0	0
Subordinated Debt	0	0	0	0	0	0	0	0	0	0	0
Short Term Debt	15	0	0	0	0	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0	0	0	0	0	0
Other Liabilities & Equity	0	0	0	0	0	0	0	0	0	0	0
Net Profit	-2	-61	-29	-4	-1	32	77	133	132	131	130
Non Cash Charges	0	1	6	9	12	15	15	13	13	13	13
Total Sources	183	-10	-23	5	11	47	92	146	145	144	143
Uses of Cash:											
Capital Expenditures	0	23	13	13	13	13	13	13	13	13	13
Working Investment	0	-6	-3	-2	-3	-2	-3	-3	0	0	0
Perpetrating Exp.	5	0	0	0	0	0	0	0	0	0	0
LTD - SIDF	0	0	0	0	0	0	0	0	0	0	0
LTD - Bank	0	15	15	15	15	10	0	0	0	0	0
LTD - Owner's Account	0	0	0	0	0	0	0	0	0	0	0
Subordinated Debt	0	0	0	0	0	0	0	0	0	0	0
STD	0	15	0	0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	25	50	100	100	130	130
Other Assets	0	0	0	0	0	0	0	0	0	0	0
Other Liabilities & Equity	0	0	0	0	0	0	0	0	0	0	0
Total Uses	5	47	25	26	25	46	60	110	113	143	143
Cash Flow	178	-57	-48	-21	-14	1	32	36	32	1	0
Ending Cash	178	121	73	52	38	39	71	107	139	140	140

Forecast Summary (Euro in 000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current Assets	178	143	106	96	93	106	149	196	228	229	229
Current Liabilities	30	43	57	70	79	83	97	111	111	111	111
Working Capital	148	100	49	26	14	23	52	85	117	118	118
Net Fixed Assets	0	23	31	36	38	37	35	35	35	35	35
Other Assets	0	0	0	0	0	0	0	0	0	0	0
Long Term Debt	55	40	25	10	0	0	0	0	0	0	0
Other Liabilities	0	0	0	0	0	0	0	0	0	0	0
Tangible Net Worth	93	83	55	52	52	60	87	120	152	153	153
Sales	0	1,618	2,430	3,235	4,048	4,860	5,675	6,487	6,487	6,487	6,487
Gross Margin	0	168	254	335	424	508	598	699	698	697	696
Net Profit	-2	-61	-29	-4	-1	32	77	133	132	131	130
Operating Cash Flow	-2	-60	-23	5	11	47	92	146	145	144	143
Ratios/Percentages:											
Working Capital	5.9	3.3	1.9	1.4	1.2	1.3	1.5	1.8	2.1	2.1	2.1
Total Liabilities/ TNW	0.9	1.0	1.5	1.5	1.5	1.4	1.1	0.9	0.7	0.7	0.7
Gross Margin/Sales	0%	10.4%	10.5%	10.4%	10.5%	10.5%	10.5%	10.8%	10.8%	10.7%	10.7%
Net Profit	0%	-3.8%	-1.2%	-0.1%	0.0%	0.7%	1.4%	2.1%	2.0%	2.0%	2.0%
Cash Flow/Sales	0%	-3.7%	-0.9%	0.2%	0.3%	1.0%	1.6%	2.3%	2.2%	2.2%	2.2%

Net Cash Flow (Euro in 000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sources:											
Net Profit	-2	-61	-29	-4	-1	32	77	133	132	131	130
Non Cash Charges	0	1	6	9	12	15	15	13	13	13	13
Finance Charges	2	3	2	1	1	0	0	0	0	0	0
Total Sources	0	-57	-21	6	12	47	92	146	145	144	143
Uses:											
Capital Expenditures	0	23	13	13	13	13	13	13	13	13	13
Not in Use	0	0	0	0	0	0	0	0	0	0	0
Working Investment	0	-6	-3	-2	-3	-2	-3	-3	0	0	0
Pre Operating Exp.	5	0	0	0	0	0	0	0	0	0	0
Total Uses	5	17	10	11	10	11	10	10	13	13	13
Net Cash Flow	-5	-74	-31	-5	2	36	82	136	132	131	130