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### ***Executive Summary***

*Why So Cereal*, London Ontario's first cereal café. The idea a group of Western University students envisioned with their goals of:

- Gaining local awareness
- Become the trendy go-to eatery
- Achieving profitability

Here your personality comes out through your custom cereal creation. In a fun, witty environment, *Why So Cereal?* is the ultimate consumer experience. From the witty pop culture art on the wall, to the customization of your own imagination, the staff members ensure your entire visit is one you won't forget! Starting from the wall covered in a wide breadth of cereal where you select the cereal(s) you fancy, to the toppings that ensure your creation has all the sweetness you desire, right to finishing your concoction with the perfect amount of milk, you get your bowl just how you like. Located in the heart of London on Richmond Street near Oxford Street this high traffic area is the hottest spot for all the students to catch-up.

With the cereal production industry expected to grow by around \$50 million in the next 3 years taking this opportunity to enter the market is relatively low risk. Not only is cereal on the rise, the London community is recovering from the recent recession and unemployment is set to decrease by 1.4% in the next two years. According to BBC Good Food, breakfast for dinner will be a popular trend in 2015. The demand is evident, and the industry is easy to get into due to the low barriers to entry.

*Why So Cereal?* is a diverse company that has a competitive advantage by being a unique one of a kind café in London. Not only is the business concept exclusive, but the witty brand personality is also a new change for the London community. Students surveyed between the ages of 18 – 29 showed great interest in eating cereal leisurely.

To target young adults, various price promotions are available such as 50% off your purchase on the grand opening to accommodate less disposable income amongst this demographic. "Media Monday's" is a dual strategy that encourages consumers to enjoy a cup of cereal for a discount along with increasing our online presence. This is done by having the consumer share a picture of their cereal via social media to receive a 10% discount.

*Why So Cereal?* is expected to gross \$122,304 in its first year of operations. The company is projecting growth of approximately 45% in the second year due in part to an increase in advertising. Our retained earnings and adequate levels of cash on hand permit an investigation of an expansion to a second location after the third fiscal year.

Based on both the qualitative and quantitative analysis *Why So Cereal?* is not only feasible, but also a healthy business which is why the shareholders should initiate the commencement of this business.

## OVERVIEW

### Company Description

*Why So Cereal?* is a cereal café located in London, Ontario. The idea behind this café stems from Gen Y customers' increasing desire for foods with "flavor profiles tweaked with unexpected or dramatic twists" and a "penchant for customizing foods through add-ons or mix-ins"<sup>1</sup>. The basic business concept is that customers create personalized bowls of cereals by mixing and matching a variety of cereals, milks, and toppings. We have been inspired by similar eateries around the world such as *Cereal Killers Café* in London, UK and *Cerealicious* in the Philippines, which are both doing extremely well in their respective cities. By placing our café in a high-traffic area, we hope to provide our customers an opportunity to enjoy a creative twist on a breakfast favourite, any time of the day

### Goals and Objectives

#### Short term (1 year)

- Gain widespread local awareness
- Establish brand as the go-to eatery for our target market
- Create a welcoming and unique environment for customers

#### Long Term (3 years)

- Achieve profitability
- Build a loyal and expanding customer base
- Investigate expansion/franchising opportunities

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<sup>1</sup> <http://www.millennialmarketing.com/2012/06/millennials-are-literally-the-tastemakers-in-food/>

- Display consistent growth

### **Key Success Factors**

- Good quality food: As a café, our biggest achievement would be to provide food that is delicious, of high quality, and diversified, even during periods of seasonality
- Cost Controls: Build better supplier relationships to ensure minimal future food costs
- Excellent customer service: Everyone in our organization will be customer-centric. They will exemplify traits such as enthusiasm, creativity and problem solving in order to optimize the customer experience, while ensuring efficiency.
- Social Media outreach: In order to better connect with our target market, we need engaging social media outlets and a dynamic website
- Targeted value proposition: Our marketing will be target market focused. It will clearly define our café's experience and will differentiate us from our competition.
- Effective re-investment of earnings: We will re-invest the majority of our earnings every year back into the business, while ensuring personal financial stability.

## **INDUSTRY ANALYSIS**

The breakfast cereal manufacturing industry generates approximately \$33 billion in annual revenue worldwide.<sup>2</sup> The Cereal Production industry in Canada is expected to grow by about \$50 million in the next 3 years<sup>3</sup>. Additionally, the coffee and snack shop industry is anticipating a growth of 2.9% annually until 2019. Historically, it has been documented that breakfast food consumption has spearheaded growth amongst an otherwise stagnant industry.<sup>4</sup> Therefore, it can be assumed that in the future, this trend will continue, and the demand for cereal will rise.

### **The London Market**

London's economy is gradually recovering from the recent recession. The closure of a Kellogg's plant has hindered the progress in this region. However, forecasts indicate that the unemployment rate will drastically decrease by 1.4% in the next two years,<sup>5</sup> bringing it to 5.4%. This will be the record low unemployment rate in the 21<sup>st</sup> century.<sup>6</sup>

In the next two years, the population of the London economic region is expected to rise by 2.25% to a total of 682,535.<sup>7</sup> Complementing the population and economic growth, there will also be an increase in disposable income. This higher income is predicted to augment spending in restaurants and cafes.<sup>8</sup> Henceforth, it can be concluded that London is an ideal market for a new eatery.

### **Social Trends**

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<sup>2</sup> <http://search.proquest.com/docview/1625626749/6B2C35DAC8984F8APQ/2?accountid=15115#>

<sup>3</sup> <http://clients1.ibisworld.com/reports/ca/industry/industryoutlook.aspx?entid=226#IO>

<sup>4</sup> Ibid

<sup>5</sup> <http://www.occ.ca/advocacy/ontario-economic-outlook-2015/london/>

<sup>6</sup> <http://www.investinmiddlesex.ca/data-centre/workforce-profile/unemployment-rate-trend>

<http://www.foodnavigator.com/Market-Trends/Lower-oil-price-to-have-limited-impact-on-food-industry-Rabobank>

<sup>7</sup> <http://www.fin.gov.on.ca/en/economy/demographics/projections/table13.html>

<sup>8</sup> <http://clients1.ibisworld.com/reports/ca/industry/industryoutlook.aspx?entid=226#IO>

The influx of disposable income is also expected to increase sales of higher end food products, such as organic cereals.<sup>9</sup> Recent trends indicate that individuals have a strong desire to be more health conscious.<sup>10</sup> Consumers are driven to find diverse and healthy options, forcing the food services industry to accommodate these demands.

According to BBC Good Food, breakfast for dinner will be a popular food trend for 2015.<sup>11</sup> Another prominent trend in the hospitality industry is the preference for personalization. Consumers want to have the freedom to dictate exactly what their meal will look and taste like. Thus, the demand for customization will be a market driver in the future.

## **COMPETITIVE ANALYSIS**

*Why So Cereal?* is the first café of its kind in the London area. As we enter the industry, we will be tapping into a fairly new market. Therefore, gaining initial exposure may be difficult. However, the lack of local competition is promising for our company growth and a large market share. By taking the opportunity to tap into this untouched market, we will be able to gain enough momentum to be able to establish a strong brand before direct competitors are able to enter.

### **Direct Competition**

As a cereal café in London, Ontario, we do not have any direct competitors. It is important to recognize that businesses of the same nature exist in a few locations globally. However, these companies have a small market share in their respective regions, causing us to not be concerned with their brand value infringing upon our growth potential.

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<sup>9</sup> <http://clients1.ibisworld.com/reports/ca/industry/industryoutlook.aspx?entid=226#IO>

<sup>10</sup> <http://clients1.ibisworld.com/reports/ca/industry/industryoutlook.aspx?entid=226#IO>

<sup>11</sup> <http://www.bbcgoodfood.com/howto/guide/top-10-food-trend-predictions-2015>

## Indirect Competition

Richmond Row is home to a wide variety of restaurants and specialty snack retailers. With all of these establishments vying for customers, it creates challenges for us to distinguish ourselves. Our major competitors are: *Frozen Yogurt Bars*, *Campus Hi-Fi Diner*, and *Sammy's Souvlaki*. Additionally, we also compete with at-home cereal consumers.

Exhibit 1 shows a map of Downtown London in close proximity with *Why So Cereal?* in order to depict the environment and location of our competitors. Accompanying the map is a brand perception range which contrasts *Why So Cereal?* to competitors. Analysis of price point and experience places us slightly above our strongest competitors, as we offer a high quality experience at a relatively low price. Competitor ranking were established based on information outlined as follows.

### Frozen Dessert Eateries

At a frozen dessert bar, you are given the opportunity to combine a variety of flavours of yogurts or ice creams as well as toppings to create a unique combination. Given the similarities of the customization concept, a trade-off exists between going out for frozen yogurt or for cereal. Based on phone interviews with popular frozen yogurt franchises in London, the average price for a bowl of frozen yogurt is between \$5.00 and \$7.00.<sup>12</sup>

Along Richmond Row, three popular frozen yogurt franchises exist. *Chil Frozen Yogurt Bar* uses natural ingredients and supports local Ontario farmers.<sup>13</sup> Their prices are

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<sup>12</sup> Interview with Chil, Menchies and Yogurty's.

<sup>13</sup> <http://www.chilfroyo.com/>



higher than traditional frozen yogurt locations due to their efforts with organic local ingredients. Another eatery, *Yoyo's Yogurt Café* looks to offer a premium healthy product. They are also focused on providing a creative environment and cater towards a younger market.<sup>14</sup> High prices not hindering demand leads us to infer that customers are willing to pay a premium for healthy products.

Finally, *Marble Slab Creamery* offers a slightly different experience than a traditional self-serve dessert option. They display the creation of the customer's order right before their eyes. Although this restricts the customer's hands-on opportunities with customization, it replaces it with a spectacle of the product being made live.

### Campus Hi-Fi

The popular diner, *Campus Hi-Fi*, focuses on breakfast offerings. A unique selling feature of this restaurant is the all day breakfast.<sup>15</sup> However, their offerings are centered on the classic foods such as bacon, eggs, and pancake meals. From this, we can infer that breakfast food is a viable food option in the region. Introducing new breakfast options with competitive pricing has potential to take a larger component of the market share.

### Sammy's Souvlaki

*Why So Cereal's* neighbour to the south is the Mediterranean food cart, *Sammy's Souvlaki*. The cart focuses on a variety of specialty foods as well as traditional North American foods such as burgers and fries. *Sammy's* prices are relatively low for their

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<sup>14</sup> <http://www.yoyosyogurtcafe.com/yoyos>

<sup>15</sup> <http://campushifidiner.foodpages.ca/>

variety of food offerings, which attracts university students. Since *Sammy's* does not offer a dessert option, the opportunity to provide an evening snack next door is attractive.

### Household Consumption

We also must compete with the fact that consumers are capable of purchasing local brand name cereals at a grocery store. The availability of the same cereals in larger quantities might deter potential consumers from coming to our café.

### **Competitive Differentiation**

The appeal about our business will be its simplicity. Cereal is a classic North American breakfast favourite, and we will strive to redefine and rejuvenate the cereal experience. Our vast array of unique cereals, milk, and toppings can be enjoyed at any time of the day. We believe that our variety of options is the most appealing attribute of *Why So Cereal?* It is not realistic for any individual consumer to own the vast product breadth we possess.

### **Risks and Catalysts**

There are several risks that must be mitigated during our initial entry and ongoing activity in the London market. However, there are also a number of catalysts that will assist us with our formation.

#### *Risks:*

- Shifting demographics: The number of children aged 14 and under, a key market segment of cereal consumption is expected to decline in the future.<sup>16</sup>
- Threat of substitutes: Some consumers will be hesitant to purchase local cereals at a restaurant, when they can purchase the same brands in local grocery stores.

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<sup>16</sup> <http://www.fin.gov.on.ca/en/economy/demographics/projections>

- Volatile commodity prices: Cereal manufacturers are constrained by fluctuations in the price and supply of grains such as wheat, corn, and oat. Potential shortages of harvest could negatively impact our product offerings, and significantly influence our food costs.<sup>17</sup>
- Impending threat of waste: Due to supplier constraints, products must be ordered in bulk. However, because produce and milk are perishable, there is a possibility of large quantities of unused ingredients being thrown out.
- Low barriers to entry: The food service industry has low barriers which in turn poses the problem of competitors entering the market quickly.

*Catalysts:*

- No current competition in Canada: Our cereal café is the first of its kind in Canada. There is significant potential that the company will gain momentum, experience considerable growth and brand recognition, leading to the establishment of a new sector in the food services industry.
- London, Ontario market: According to Niraj Dawar from the Ivey Business School, “London’s size, population and location make it a prime testing market.” Many companies test new concepts in London due its diverse demographics.
- Offering healthy options: In line with current social trends, having healthy cereals and toppings will cater towards the health-conscious demographic. Moreover, many cereal manufacturers have begun to modify their product line up to include gluten-free options, to accommodate consumer demands.<sup>18</sup>

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<sup>17</sup><http://search.proquest.com/docview/1625626749/6B2C35DAC8984F8APQ/2?accountid=15115#>

<sup>18</sup><http://search.proquest.com/docview/1625626749/6B2C35DAC8984F8APQ/2?accountid=15115#>

- Fewer people eating breakfast at home: Although the majority of individuals would like to prepare their own breakfast, time constraints limit them. Due to this daily challenge there has been a shift towards convenient, and fast alternatives, including quick-serviced cafes and diners.<sup>19</sup>

## CONSUMER ANALYSIS

Due to the fact that *Why So Cereal?*'s founders are students who attend Western University, we will explore entering the market from an easily accessible location. Given this restriction, the regional demographics analyzed were from the following neighbourhoods: Central London, North London, West London, and Medway.

### Local Market

As of 2011, the four aforementioned neighbourhoods had a population of 60 045<sup>20</sup>, a figure that is likely even higher today given a 5.4% increase from 2006-2011. The average income varies from \$35 000 - \$65 000 between the neighbourhoods, putting this region in the low to average Canadian income bracket.<sup>21</sup> This implies that businesses in this area would have to consider high levels of price-conscious consumers.

There are also two post-secondary institutions relevant to assessing this region's market potency, Western University and Fanshawe College, with populations of 33 000<sup>22</sup> and 15 000<sup>23</sup> full-time students respectively. This large population base creates a potential target market in the seventeen to thirty years of age range.

<sup>19</sup> [http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/sis15003](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/sis15003)

<sup>20</sup> (<https://www.london.ca/About-London/community-statistics/neighbourhood-profiles/Pages/default.aspx>),

<sup>21</sup> <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/famil108a-eng.htm>

<sup>22</sup> (<http://www.aucc.ca/canadian-universities/facts-and-stats/enrolment-by-university/>)

<sup>23</sup> <http://www.fanshawec.ca/london>

Due to the fact Central London is London's downtown-core, many residents from other neighbourhoods will travel through this area regularly. This will drive high foot traffic, which is imperative for our business model to succeed. With a large population base, we are set up well for the future given this region.

### **Target Market Analysis**

The potential target markets for *Why So Cereal?* can be categorized in five age groups: <18 years of age, 18 – 23 years of age, 24 – 29 years of age, 30 – 39 years of age, and 40+ years of age. Cereal does not cater to specific genders or sexualities, enabling us to make the assumption to gather research dependent strictly upon age groupings. To analyze the target market, a combination of evaluating the local market and conducting a research survey was completed. The survey (Exhibit 2) received 836 responses from respondents located within our target regions. This was executed by sending surveys to high school Facebook groups, twitter feeds, university Facebook groups, graduate students, independent adults, and parents. From the data collected, it is evident that two target markets are prevalent: post-secondary students and high school students.

### **Primary Target Market: Post-Secondary Students**

From our research survey, post secondary students (18-29 year olds), go out for food approximately 95 to 110 times annually. 60.7% of 18-23 year olds and 85.7% of 24-29 year olds say that spending their time going out for cereal would be an enjoyable experience. This concludes that the post-secondary market contains 30 000 prospective customers. It is also reasonable to presume these statistics are applicable to the 18-29 year old population in our regional mix that do not attend either of these institutions.

They attribute for 23% of that population region, increasing our primary target market to 43 800 individuals. As a result, our marketing efforts will primarily target this demographic.

### **Secondary Target Market: Secondary Students**

High school students are an important market segment to target for the following reasons:

- 1) From our survey it is evident that this group is the next best market segment whom find our product an enjoyable experience.
- 2) A large consumer base from London residents will assist to mitigate seasonality incurred over the summer academic term for post-secondary students.
- 3) High school students typically live at home, which infers we can consider a spill over market of families. This increases our consumer base and potential sales. Our atmosphere caters to a family-friendly environment so we are well set up to benefit from this spill over.

Our marketing tactics will address this segment of the market as well, which will help ensure we remain profitable year-round. Kevin Wu, owner of *Chil Frozen Yogurt* advised us that summer seasonality can be an issue, but we will overcome this challenge by focusing on secondary school students.

### **Alternatives Analysis**

From the survey and regional data it is evident that the 30 – 39 year old demographic is not a sound target market. Although they may have more disposable

income, they are also less prone to dining out, and do not find customizing a bowl of cereal a fun event. Considering they also represent a small fraction of the population it will not be as worrisome that we are not as attractive to this segment. Catering to this market would not allow us to maximize our potential as a business.

The survey and demographics depict similar information for the 40 and older age group. However, this age group is likely to have children in the <18-year-old age group, and are likely to be influenced by the ‘nag factor’<sup>24</sup>. This means that catering to the <18 year old age group will inherently drive in traffic for the consumers aged 40 and older.

## **MARKETING**

We aim to have our customers reminisce their fond childhood memories of early morning cereal, and to create new memories for those intrigued by mixing cereals and toppings to make their own imaginative blend.

### **Product**

With the current social inclination for customization in mind, we designed *Why So Cereal*, a new restaurant that offers customers complete freedom to design their bowls of cereal exactly how they wish. Our product breadth is based on responses from our marketing survey which presented the value consumers place on having a wide variety of cereals to select from, variety in toppings, and that they are ambivalent towards available milk options. We will offer over 80 different types of cereal, over 20 toppings and 6 types of milk at all times (Exhibit 3). We will offer two different size bowls: regular (16oz) and

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<sup>24</sup> <http://www.sciencedaily.com/releases/2011/08/110815121519.htm>

large (20oz). There is an unlimited number of combinations possible, but we will present a sample menu to our customers in order to assist their creativity if needed (Exhibit 4).

### Brand Image

Due to the volatile nature of the food service industry, it is crucial that we establish a diverse and recognizable brand image. Our brand perception is simple: fun with a side of wit. We are using vibrant colours in order to portray an exciting atmosphere, as seen on our sample cereal bowls and spoons (Exhibit 5). Wit is also important to our customers. Since the average Gen Y is pop culture savvy, we will decorate our walls with posters of movies and artists featuring cereal puns. Furthermore, our uniforms will embody humour and puns, by having jersey names of rappers on the back of our shirts. (Exhibit 6)

### **Place**

*Why So Cereal?* is located at 711 Richmond Street in a spacious 1250 square foot building (Exhibit 7). The exterior of the store will feature a large 3 dimensional sign with our name on it. Richmond Row is extremely popular in the City of London, as it features over 200 businesses including retailers, services, fine dining, and casual cafes.<sup>25</sup> The closest major intersection to our business is Richmond and Oxford, making it easily accessible to an abundance of public-transit travelers, as routes 4, 6, 13, and 17 of the London Transit Commission all service this junction. These routes extend to Western University and Fanshawe College, thus servicing our core target market. Furthermore, majority of the people living near this location fall in the age group of 20-34, with a

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<sup>25</sup> <http://www.shoplondon.ca/richmondrowmerchantsassociation/>



median household income of \$61,860. This location is prime for us as it features students, and it has a high income level, as shown in Exhibit 8. *Why So Cereal?* is also surrounded by retailers such as Urban Outfitters, which will initiate additional foot traffic around our location.

### **Price**

The prices of the regular and large bowls of cereal our café will offer are \$4.99 and \$6.49 respectively. Our prices are based off of projected margins, which will be discussed further in the financial section, as well as corresponding prices to our indirect competition. A regular bowl will be granted one free topping, whereas a large bowl can select up to two free toppings. Each additional topping after the designated limit will cost the consumer an extra \$0.50.

We also analyzed the practicality of determining our prices by weighing the cereal bowl at the end of the customer's journey. We concluded that the diverse densities of the cereals would cause issues the amount of cereal per bowl with respect to the weight. Our flat price per bowl is not only transparent for consumers, but it also provides us with an ideal set of weighted-average margins for both sizes of bowls.

Our price is not expected to be a differentiating factor for our business in the market. Nearby frozen yogurt bars charge anywhere between \$5.00 and \$7.00 and have no difficulty bringing in new and repeat customers. Conversations with Kevin Wu, the owner of Chil Frozen Yogurt, revealed that he determined his prices by analyzing his competitors and evaluating his value proposition,<sup>26</sup> which is the same process we

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<sup>26</sup> Kevin Wu

followed. Hence, we are comfortable positioning ourselves in a similar price range as frozen yogurt companies since multiple brands have priced themselves similarly, and they remain solvent within the concentrated dessert market.

### **Promotion**

#### *Short-term:*

We are planning to have a soft opening of our café to enable us to better predict key success factors needed for daily operations. There will not be any promotional efforts for the soft opening, as we would like to get used to the logistics without the large crowds before the grand opening. The promotion for the grand opening will begin on the day of the soft opening. The promotional efforts will be via social media outlets of Twitter, Facebook, and Instagram (Exhibit 9). In addition, flyers will also be posted and distributed around Richmond Street, Brough Street, Epworth Avenue, Mayfair Drive, Broughdale Avenue, Huron Street, Western University campus and surrounding areas. The promotion for the grand opening will be 50% off all our products. In addition to the grand opening we will also have “Topping Tuesday” where every Tuesday you get an extra topping for your cereal free, as well as “Media Monday” where you get 10% off when you Instagram, Tweet, or Facebook a photo of your cereal creation. Both of these initiatives run during the week to increase sales on days that would otherwise be slow.

#### *Long-Term:*

Loyalty Cards will be introduced to encourage repeat purchases. For every 9 bowls of cereal purchased, the customer will receive their tenth bowl free. We will keep track of these with the cards being stamped for each bowl purchased. Sponsorships will also be investigated for sports teams and charities. This will assist not only in corporate social responsibility but also in community affiliation. These efforts will also be publicized on social media networks and through flyers to the same areas as listed in the short-term component of promotion.

### *Corporate Social Responsibility*

*Why So Cereal?* aims to be environmentally sustainable. All of our bowls will be biodegradable, and we will feature organic bins in our store so customers can compost them on site. Having an environmentally friendly brand image such as this will resonate well with our targeted consumers.

Furthermore, we will also implement a “Local Charity Day” semi-annually where we will donate \$1 from every bowl sold to a local charity in London. Each campaign will feature a different charity, but it would be London based because we feel strongly about making impacts at the grassroots level.

## **HUMAN RESOURCES**

### **Corporate Structure**

As a corporation, four principle shareholders will provide a \$100,000 equity infusion, split evenly, in exchange for shares in the company. Each shareholder will be paid an annual salary of \$10,000.

These shareholders will also be running the day-to-day operations of the café. In shifts, the four shareholders will be working the front-end of our business. Their duties would entail all the customer-service related roles such as welcoming every customer and offering menu suggestions. They would also take and fill orders, while running the register in accordance with the company's cash-control procedures. Furthermore, they would ensure cleanliness of the counter, seating, kitchen, and bathroom areas. Finally, the shareholders would be expected to continually stock milk, topping and cereal containers.

Along with these jobs, the four shareholders would also form the Executive Team for *Why So Cereal?* with the following job descriptions:

*Chief Executive Officer:*

The CEO is responsible for making all final business decisions and managing all human resources and administration related functions. In addition, they will design the strategic plan in conjunction with the three other executives. The CEO will also ensure that the objectives of the business are being met.

*Chief Operating Officer:*

The COO is responsible for maintaining adequate inventory and managing an efficient sales process. They will also seek out optimal supplier contracts to minimize costs.

*Chief Financial Officer:*

The CFO will ensure that the business remains solvent, while taking care of all financial transactions. They will also update annual balance sheets, annual income statements, and monthly cash budgets.

Chief Marketing Officer:

The CMO is responsible for improving the brand image, brand loyalty, and the presence in the market while seeking out and implementing creative marketing tactics. They will also ensure the maintenance of a diverse online portfolio through constant updates on social media outlets and the company website.

**Corporate Culture**

*Why So Cereal?* aims to provide a trendy and fun experience for our customers. Our company colours, Sky Blue and Princeton Orange are bright and playful colours that complement each other and exude our corporate vision, as seen in our Logo in Exhibit 10. From our name to our interior design, we are creating a culture that captures our witty personalities to provide a unique and unforgettable customer experience.

Thus, ensuring a high quality of service is crucial to establishing our brand image. Employees must be outgoing, humorous, and upbeat in order to create a memorable experience. As shareholders in the corporation, we have a vested interest in upholding the corporate culture, making us the ideal set of first employees. By exemplifying our distinct culture, we are building a foundation for future expansion and recruitment.

**OPERATIONS**

**Legal Issues**

As first time entrepreneurs, we will mitigate our risks by incorporating *Why So Cereal?* This will ensure each shareholder is protected from the company's liabilities, while protecting the corporation's assets from any claims. We will complete an online

form filing for federal incorporation for \$220.<sup>27</sup> Liability insurance is included in the monthly rent expense.

The Middlesex-London health unit is required to inspect food premises in the City of London. This includes ensuring each operator meets the minimum standards necessary to minimize foodborne illness.<sup>28</sup> In addition, it is the responsibility of each operator to ensure they do not infract any of the food safety laws which is why we are renovating and cleaning the building prior to opening.

### **Store Location**

The annual rent expense for our 1,250 square foot space is \$28,800 (\$2,400 monthly). The rental agreement includes liability insurance coverage, hydro, and basement storage space. Renovations and leasehold improvements costing \$19,008 will be made to transform the location into the distinctive space we envision for customers (Exhibit 11). The new floor-plan is depicted in Exhibit 12.

### **Store Schedule**

*Why So Cereal?* will be open at the following times, with the exception of statutory holidays:

- Monday – Thursday: 8:00am – 10:00pm
- Friday – Saturday: 9:00am – 12:00pm
- Sunday: 10:00am – 8:00pm

These hours have been focused on the schedules of our target and secondary markets. By opening the store early, we will appeal to consumers seeking a traditional breakfast.

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<sup>27</sup> [https://www.ic.gc.ca/app/scr/cc/CorporationsCanada/hm.html?locale=en\\_CA](https://www.ic.gc.ca/app/scr/cc/CorporationsCanada/hm.html?locale=en_CA)

<sup>28</sup> <https://www.healthunit.com/food-safety-inspections>

Further, late night snack options are optimal for university students who are looking for a break after studying, or after late classes.

If we find that these hours are not compatible with our target market's schedule, or quiet hours are quickly determined, we can modify this schedule accordingly. We believe that our slowest hours will be in the afternoon between lunch and dinner since students will likely be in class, and other individuals will be at work. However, the evening shift can utilize this slow time to restock toppings, clean tables, and prepare the store for the dinner and dessert rush.

### **Logistics**

The customer journey begins by entering the location and walking to the counter at the back of the store. Here, they will view a wall filled with shelves consisting of over 80 different types of cereal and a counter top filled with toppings. We will display a large chalkboard menu with recommended cereal and topping combinations. Customers will then approach our counter and choose between two bowl sizes and indicate which cereals they would like. An employee will either scoop the cereal(s) from drawers lining the walls and counter, or pour directly from a box, depending on the cereal. Next, the employee will shift along the counter with the customer to add their toppings before paying at the cash register. After paying, the consumer will then turn to the milk dispenser and select one of the various milk options to complete their customized bowl of cereal.

This process will take approximately two and a half minutes to complete from the moment the customer begins their order, determined from trial experimentation. Since it

is likely that customers come in groups of two or more, an efficient and speedy process takes next-to-no-time away from whoever they choose to spend their experience at *Why So Cereal?* with.

### **Fixed Assets**

A variety of seating is offered for both individuals and groups. In addition to renovating the location to include booths lining the walls, chairs and tables will be purchased and spread throughout the seating area. A side room will be converted into a lounge complete with a coffee table, end tables, and couches in order to provide a comfortable environment.

Further leasehold improvements will include removing kitchen appliances in the back of the store location, building a countertop, lining walls with shelves, and installing new light fixtures. We also require two milk dispensers, and two commercial refrigerators to store our milk. Each dispenser will hold up to three different types of milk.

### **Inventory Procedures**

Our diverse product offerings will solely be purchased from Sysco Canada, a global leader in supplying the food services industry. Sysco Canada will provide us with all of our topping options, milk varieties, and cereal. The nature of our business requires us to maintain adequate levels of inventory at all times. Sysco requires a weekly minimum order of \$300; this also allows us to restock our inventory every seven days. Sysco's offerings include brand name cereals from Kellogg's, General Mills, and Post Foods we require. Their low prices enable us to maintain a relatively high margin. During the summer months of May- August, we will be expected maintain less inventory than in



the months between September and April, as most cereals will be stored in containers placed in drawers lining the walls behind the counter and underneath the countertop. Other various uncommon cereals will remain in their respective boxes along the walls. Therefore, the wall of cereal boxes serves as a decoration and functional storage. All other boxes of cereal can be stored in the basement of the location. Extra toppings will be stored in the commercial refrigerator that will be kept underneath our shelving units holding the cereal boxes, and will be topped up when necessary. Furthermore, if we were ever to experience a shortage in a particular product, we have the option of purchasing a small amount from a local grocer to avoid disappointing customers.

## **FINANCIAL ANALYSIS**

### **Investments**

The four shareholders will provide a total equity infusion of \$60,000. This investment will permit the purchase of fixed assets, leasehold improvements, initial inventory, and one month of prepaid rent. The \$60,000 equity infusion is more than enough to finance the investments. The leftovers will be utilized to ensure solvency at all times of the year without an operating line of credit.

The total estimated cost for leasehold improvements is \$19,008 and it will be depreciated over five years using the straight-line method. Fixed assets including chairs, tables, two commercial refrigerators, and two milk dispensers will be purchased for a total cost of \$18,189. All investments are broken down in Exhibit 13. These items will be depreciated over five years using straight-line depreciation.

**Fixed Costs (Exhibit 14)**

Fixed costs will include salaries, advertising, rent, insurance, utilities,<sup>29</sup> phone/internet,<sup>30</sup> permits, and domain hosting<sup>31</sup> totalling \$76 660. These fixed costs are relative to the numbers of locations, which we do not anticipate changing in our first three years, leading to constant fixed costs over 3 years.

**Variable Costs (Exhibit 15)**

The total variable costs will total \$56,763 for a low estimate and \$85,144 for a high estimate in our first year of operations. These costs consist of Cost of Goods Sold and various sales discounts. Promotional campaigns resulting in decreased margins are included in this cost. These account for 46.2% of total sales revenue. The make-up of COGS includes estimated spillage and spoilage of 3% of COGS. We will be able to decrease this number after a few months of understanding our consumers' preferences, our supplier's relationship, and recurring patterns of food waste.

**Projected Income Statement (Exhibit 16)**

Our projected income statement was based on market and industry research. Conversations with Kevin Wu provided us with estimates for operating expenses and sales figures. We also analyzed the region to predict the average number of customers in our store.

The business generates \$122,304 in sales in a low estimate, while a high estimate provides \$152,880. COGS was determined from an intensive process of calculating

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<sup>29</sup> Kevin Wu

<sup>30</sup> Rogers

<sup>31</sup> ([http://www.canadianwebhosting.com/hosting/domain\\_hosting.asp](http://www.canadianwebhosting.com/hosting/domain_hosting.asp))

weighted averages for the vast array of products. Each product was broken down to similar units and then given an objective percentage of expected total sales.

Aggressive advertising campaigns have been budgeted in the short term. Continual increases in our local awareness will drive more sales and continue to grow *Why So Cereal?*.

### **Seasonality**

We expect sales to decrease between the months of May and August due to the departure of most university students. We will have two employees operating the store at all hours of the day between the months of September and April, but only one employee during May to August.

We do not expect any significant effects of seasonality on our product offerings. Once we feel that our concept has been successfully established in the market, we will investigate the possibility of diversifying our options to include coffee and hot cereals, such as oatmeal, to improve our sales.

### **Projected Balance Sheet (Exhibit 17)**

*Why So Cereal?*'s balance sheet is driven heavily by its asset and equity accounts. There will be no liabilities with the exception of Income Tax payable, as the shareholders will finance all initial investment costs with the equity infusion. Since our payments to our supplier are due at the end of the month, we will not have any payable accounts either.

As a small business, it is better for to maintain a very low debt to equity ratio<sup>32</sup>. As a result, we will reinvest retained earnings in the business and finance our expansion

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<sup>32</sup> (<https://www.boundless.com/finance/textbooks/boundless-finance-textbook/capital-structure-13/capital-structure-considerations-102/pecking-order-consideration-440-7966/>).

in the 4th year of operations internally. If need be, the owners can determine a fair dividend declaration to allow themselves to benefit from the business' profitability. With this arrangement we are able to expand the business quickly while being able to generate income for our shareholders.

### **Cash Budget Analysis (Exhibit 18)**

As a result of the equity infusion from the four executives, *Why So Cereal?* will not experience any months of overall insolvency. In fact, our forecasted monthly cash levels provide more than enough for a cash float of \$500 and to cover any miscellaneous expenses. We will experience a monthly negative net cash flow during the January, and the summer months between April and August. September and October are expected to be the busiest months for the cafe. Students will return for the academic school year, and the weather is warm enough to walk down Richmond Street. Looking ahead, with the increase in cash on hand, more advertising is planned for our third year to maintain our growth.

### **Ratio Analysis (Exhibit 19)**

*Why So Cereal?* has concerning margins of safety in its first year of operations. Breakeven analysis shows that it is very likely we lose money in our first year, contradicted with one of the goals/objectives. This figure is not a problem however, because by the second and third years of operations *Why So Cereal?* is guaranteed to have a high margin of safety.

Much like margin of safety, return on assets and return on equity are concerning at first glance because they are negative. However, since they are products of first year losses, and have high percentage ratios in the second and third year of operations it is not an issue. High profit margins and low inventory turnover, which is overestimated due to the lack of average inventory, are also positive ratios to see. From analyzing financial ratios it is evident that *Why So Cereal?* will be a successful business

### **Contingency Plan / Risk Mitigation**

Certain extraneous risks must be addressed in order to mitigate their potential harmful effects on *Why So Cereal?*.

*Supplier relationship:* If our relationship with our current supplier in Sysco goes sour, we have potential back-up solutions. We have contacted Post Foods and have established the potential securement of a relationship. In addition, after an immediate falling out with a supplier, we will be able to purchase our products at cost-efficient prices from locations such as Costco and Wal-Mart, while investigating permanent suppliers.

*Lack of demand:* If it is determined that *Why So Cereal?* is not attracting enough consumers, the four shareholders will invest additional funds to create a larger-scale marketing campaign. This would drive more consumers to our location and increase sales.

*Threat of waste:* It will be difficult to truly understand customer's preferences until the café is operating. We predict our food waste will be higher in the initial months while we determine the necessary systems and logistics to minimize our overall food costs.

*Death of executive:* The remaining shareholders will fill the role by selling the deceased shareholders stake in the company.

**Short-term Action Plan**

On September 1st, 2015, the four shareholders will each deposit \$60,000 into *Why So Cereal?* in exchange for equal ownership of the company. They will also file for incorporation online. By September 14th, all leasehold improvements will be completed and the assets and inventory will be purchased. Soon after, a business bank account will be opened. *Why So Cereal?* will begin operations on September 14, 2015 with its grand opening occurring September 18, 2015.

**Long-term Action Plan**

We hope to see consistent revenue and profit growth over the first three years of operations. As the company gains more widespread local awareness, we will evaluate expanding our current product offerings. In the second and third year of operations, new cereals and toppings will be added to create a wide variety of options as we strengthen and diversify our supplier relationships.

In our 4<sup>th</sup> year we will look to expand to a new location. Our second location would be adjacent to a secondary or post-secondary institution to gauge if cereal ‘to-go’ can become a feasible addition to our business model. Our survey results prove in favour of the possibility only if it is in a convenient location, hence our propensity to expand to a location near a school. *Why So Cereal?* plans on entering the market strong, and expanding across Ontario.

**CONCLUSION**

With having completed the analysis for both the quantitative and qualitative aspects of the business, *Why So Cereal?* is feasible. The position we will have the opportunity to obtain through being the first to penetrate the London market with a one of a kind business will ensure our hold on the market share and build our brand .The growth over the first three years shows the profitability and the healthy state the business will be in by the end of the third year. Utilizing the proper marketing strategy to attract the segmented demographic, the cereal café is not only able to remain solvent, but also has the potential for growth and expansion after the 3<sup>rd</sup> year.