

SET-UP GUIDE

HOT BREAD SHOP

Business Profile Summary

You will need a market that can support sales of at least K594 per day.

You will need around K100,000 to start the business.

Profit potential for this business is around K50,000 per year.

Sales

You will need a market that can support the sale of around 500 loaves and 1000 rolls per day.

There exists a strong demand for bread products. In some areas such as the National Capital District, there are a large number of bakeries. Hence a careful study of the market place should be undertaken. In other parts of PNG, there is much less competition and excellent opportunities exist for setting up a hot bread shop.

Location

A hot bread shop will require a building of approximately 60-80 square metres floor space. This should be set up in an area that has high customer traffic to ensure you can sell the required amount of product each day. The building should also have hot water, phone and three phase power.

Try and select a building which already conforms to your specifications and will not require extensive repairs or renovations. You should not spend more than K5,000 on preparing the premises for the new business.

While each business will be different, a suggested plant layout has been included in the brochure section of this guide.

The food preparation area must be clean and hygienic. This should include fly screening on all windows, proper flooring, finished ceilings etc.

Selecting a Building

Use the following checklist when selecting a building for your new business:

	Yes	No
1. Will the building and zoning departments allow your business to operate in the site you have chosen ?		
2. Will the Health Department allow you to operate a bakery in the site ?		
3. Is there sufficient electrical power? Are there enough outlets?		
4. Will the landlord allow you to make the alterations that you need for the business ?		
5. Does the building require repairs and or renovations of less than K5,000?		
6. Will the delivery of materials and goods to the building be easily accomplished?		
7. Is the site clean & dry?		
8. Is the site secure to ensure safety for your equipment and other assets including cash?		
9. Is there enough parking space for customers?		
10. Is there any indication of roof leaks?		
11. Is there a hot water heater?		
12. Is there sufficient lighting?		

Note: The answers should be “yes” to all of the questions in the above table. If you have too many no answers you should determine the cost to correct the problems. If too costly you should look for another site.

Pricing

Most bakeries put at least a 100 % mark up on the cost of their products. This is an appropriate mark up as running a hot bread shop is very hard work and involves certain risks such as food spoilage, hold ups etc.

Costing the Business

Equipment cost

The following list represents a range of possible equipment needed for establishing a hot bread shop:

Item	Estimated Cost - Kina	Purpose	Update Cost
Equipment			
50 Kg mixer	13000	mixing dough	
3 deck (9 tray) oven	20000	bake bread & rolls	
Bench slicer	3000	slice bread	
Knock out bench	1200		
2 door refrigerator	7000	store processed food	
Bread tins, baking trays, 3 cooling racks	5000		
Production benches, sinks etc	8000		
Total equipment	57200		

The prices used are estimated average cost based on Port Moresby prices at the time this guide was prepared. A column has been provided for the user to update these cost.

Staff

A hot bread shop could be started by an owner/manager, baker, two production assistants and two sales personnel.

Position	Main Responsibility	Monthly Salary
Owner/Manager	Manage business- decide products and prices, supervise all staff, keep records.	1200
Baker	Organise & supervise production	1000
Production assistants (2)	Assist baker	400
Sales personnel (2)	Sell & deliver finished product	400
	Total monthly staff cost	3000

Raw Materials

The hot bread shop can use either premixed or self mixed ingredients. Special suppliers or flour companies will provide you with a premix which includes all ingredients needed to make bread to include flour, yeast, milk and salt. You only add water and shortening.

When mixing your own ingredients you will need:

- Flour
- Yeast
- Shortening
- Salt
- Sugar
- Baking soda
- Packaging material include bread bags, and, delivery cartons.

Raw material calculations for bread and rolls follow:

Raw material calculations based on 25 kg bag of flour

Ingredients	500 gr. loaf		1000 gr. loaf		100 gr. roll	
		Cost		Cost		Cost
Flour	25 kg	27.50	25 kg	27.50	25 kg	27.50
Yeast	500 gms	2.05	500 gms	2.05	500 gms	2.05
Shortening (fat)	750 gms	3.30	750 gms	3.30	750 gms	3.30
Salt	250 gms	1.50	250 gms	1.50	250 gms	1.50
Sugar	250 gms	1.50	250 gms	1.50	250 gms	1.50
Total cost		35.85		35.85		35.85
Number per 25 kg bag		75		38		375
Cost per item		0.48		0.94		0.10
Packaging cost per item		0.04		0.06		0.01
Total raw material cost		0.52		1.00		0.11
Suggested Selling Price		1.10		2.00		0.25

Your raw material cost per day is calculated as follows:

Sale per day				Cost of raw materials per day			Total raw material cost per day	Total raw material cost per month (30 days)
Kina	Quantity			500gr. loaf	1000gr. loaf	Rolls		
	500gr. loaf	1000gr. loaf	Rolls					
600	250	100	500	130	100	55	285	8550
1000	500	125	800	260	125	88	473	14190
1250	600	150	1160	312	150	128	590	17700
1500	700	200	1320	364	200	145	709	21270

Licences/Registration

The size and nature of this business may require company registration, especially if you are planning to borrow funds to start the business.

Please contact the nearest provincial authority or NCDC to obtain details of licences required. Usually a minimum trading licence and a health certificate will be required to start a hot bread business.

Company formation and licensing costs are estimated as follows:

Item	Cost
Company registration	200
Business licence	100
Health certificate	50
Total registration/licence	350

Operating cost

A hot bread shop has certain operating costs. Some of these costs are:

- paid once when you establish services such as water, electricity;
- paid yearly such as insurance; and
- some are paid on a monthly basis.

When you start your business you will need working capital (money) to establish services, pay certain yearly expenses and to meet some of your monthly operating cost until the business can generate enough income to meet these costs.

In the case of a hot bread business this will depend upon length of credit you offer your customers. Generally a hot bread business will start generating enough income to cover all of its costs by the third month of operation.

Below is a table showing the start-up and monthly operational cost associated with a hot bread business.

Operating Cost	Initial Working Capital	Monthly
Rent - Building (Deposit + 2 Months)	6000	2000
Electricity Charges (Initial + 2 months)	1000	250
Water charges (Initial + 2 months)	200	50
Depreciation*		358
Gas (Initial + 2 months)	1200	400
Insurance (Year)	3000	0
Repairs & Maintenance	3000	1000
Office supplies	300	100
Cleaning supplies	450	150
Miscellaneous	600	200
Total Operating Cost	15750	4508

*** Depreciation calculation**

Depreciation is a business cost that takes account of the “wearing out” of assets, equipment, tools and vehicles. It is a non-cash expense of a business but is still a cost. We need to calculate depreciation for assets with a long life.

Based on the Papua New Guinea Income Tax Act, the following depreciation rates are applicable to most small businesses.

Income Tax Act, Depreciation Rates - Prime cost method

<u>Asset</u>	<u>Annual Depreciation Rate</u>
Tools and Equipment	7.5%
Motor Vehicles	20.0%
Office Furniture	7.5%
Retail Building	2.0%
Factory Building	7.5%
Land	None

To calculate depreciation for a hot bread shop we have to apply the required rate to the assets with a long life as follows:

Equipment	
50 Kg mixer	13000
3 deck (9 tray) oven	20000
Bench slicer	3000
Knock out bench	1200
2 door refrigerator	7000
Production benches, sinks etc	8000
Total equipment	52200

Depreciation = 7.5% X 52,200 = K3,915 per year or K326 per month.

Start-up Costs

You will need money to meet a number of other cost in to start your business as shown in the following table:

Item	Total	Update
Equipment	57200	
Staff (first month wages)	3000	
Raw materials (Two months)	17100	
Licences & Registration	350	
Operating cost	15750	
Total Start-up Cost	93400	

The cost to start a hot bread shop is around K94,000.

Optional cost-delivery van

If you cannot locate your shop in the middle of town or some other very high traffic area you will need to purchase as delivery van which will add a minimum of K30,000 to your start up cost.

Profitability

Monthly Profit and Loss

	Break even Sales			
Sale per day	594	1000	1250	1500
Sales per month (26 days)	15452	26000	32500	39000
Cost of Raw Materials	7726	13000	16250	19500
Gross Profit	7726	13000	16250	19500
Operational Expenses				
Rent	2000	2000	2000	2000
Wages	3000	3000	3000	3000
Electricity	250	250	250	250
Water	50	50	50	50
Depreciation	326	326	326	326
Gas	400	400	400	400
Insurance	250	250	250	250
Repairs & Maintenance	1000	1000	1000	1000
Office supplies	100	100	100	100
Cleaning supplies	150	150	150	150
Miscellaneous	200	200	200	200
Total	7726	7726	7726	7726
Operating Profit per month before tax	0	5274	8524	11774

Break even sales

If we assume a mark-up of 100% on all products then the break even sales for this business is K594 per day. This means that if you sell less than K594 per day, you will make a loss. If you sell more than K594 per day, you will make a profit.

Financing the Business

It is assumed that the business has been financed using savings rather than borrowed funds. However it is possible to approach various lending institutions to supplement savings with borrowed funds. Your local branch of the Small Business Development Corporation should be able to assist you in identifying these institutions.

Please be aware of the following facts about borrowed funds:

- 20 % of the project cost must be financed using savings, before the lending institution will consider lending the funds.
- The above expenses and profit must be adjusted to take into account the additional interest expense.
- A detailed projected cash flow statement must be prepared to ensure that the business generates enough cash to repay the loan.
- Borrowed funds introduce greater risk in a business. In general the greater the level of borrowed funds, the greater the risk.

- While SBDC may assist you in approaching lending institutions, it cannot guarantee the success of any loan application.

The start up cost for a hot bread business is around K94,000.00. Assuming we finance the business with a loan from a lending institution for 80 % of the start-up cost @ 14 % rate of interest as follows:

Start-Up Cost	=	94,000
Own Funds 20 %	=	18,800
Loan Funds 80 %	=	75,200
Interest @ 14 %	=	10,528 per year or 877 per month

Business Planning

Before turning your idea into an operating business, collect information and make plans to see if your business will be successful. Just like an engineer who prepares a plan before building a bridge, a business owner needs to prepare a Business Plan.

A Business Plan is a written document that describes in detail all aspects of your business. Preparing a Business Plan will help you to think carefully and find out if there are any weaknesses in your business idea.

Most importantly, a Business Plan gives an opportunity to try out your business idea on paper rather than in reality. It is much better to do a Business Plan and find out that the idea is not good than to start a business that will fail.

Where can you get help?

There are a number of organisations that can help you establish this business to include:

Name of Organisation	Address	Phone/Fax	Assistance
Small Business Development Corporation	P O Box 286 Waigani P.O. Box 1106 Kokopo P.O. Box 1613 Mt. Hagen P.O. Box 1092 Wewak	Ph 3250100 Fx 325-0801 Ph 982 8201 Fx 982 8664 Ph 542 1067 Fx 542 1275 Ph 856 3201 Fx 856 3204	Start Your Business training and business advise and assistance.
Small Business Development Corporation	P.O. Box 103, Lae	Ph 472 1677 Fx 472 3876	Technical training in food processing. Advice and assistance. Sourcing of equipment
Appropriate Technology & Community Development Institute	Private Mail Bag Lae, Morobe Province	473-4781 473-4303	Technical information and books Skills training. Technical advice.
Food Technology Section of the Department of Applied Science	Private Mail Bag Lae Morobe Province	Ph 473-4555 Fx 472-4067	Training and on-the-job experience

Suppliers

Contact Addresses/Numbers

Name of Supplier	Location	Mailing Address	Phone	Fax
Bakery Equipment, Turnkey Bakery Plant				
T.E. (PNG) Pty Ltd	Waigani Port Moresby Voco Point Lae	P O Box 1388, Boroko	3256322	3250350
		P O Box 669, Lae	4726262 4726246	4721323
Rutec by Variform PNG Pty Ltd	Port Moresby	P O Box 304, Waigani	3211592	3217301
Raw Material Suppliers				
Associated Mills	Port Moresby Lae	P O Box 486, Port Moresby	3214055	3212732
		P O Box 1906, Lae	4723555	4723424
Patrick Transport	Gabutu, Port Moresby	P O Box 1758, Boroko	3217490 3217300	3217228
P&B Cheung Pty Ltd	Koki, Port Moresby	P O Box 573, Port Moresby	3213733 3214562	3217607
Choulai Trading Co	Badili, Port Moresby	P O Box 168, Badili	3200888	3213618
Alotau Enterprises	Alotau	P O Box 27, Alotau	6411246 6411366	6411270
Garamut Enterprises Pty Ltd	Wewak	P O Box 96, Wewak	8562106 8562356	8562324
	Maprik	P O Box 166, Vanimo	8581219	
George Seto & Co Pty Ltd	Wewak	P O Box 69, Wewak	8562822	8562439
Jimm Trading Pty Ltd	4-Mile, Port Moresby	P O Box 1026, Boroko	3255891 3258980	3250934
Seeto Kui	Lae	P O Box 1988, Lae	4721111 4720906	4721335 4720890
	Gordons, Port Moresby	P O Box 1405, Boroko	3254700 3254215 3254761	3257208
Kabuka Trading Pty Ltd	Dobel, Mt Hagen	P O Box 264, Mt Hagen	5451355	
Steamships Trading Co Ltd., Wholesale Division	Gerehu, Port Moresby	P O Box 1, Port Moresby	3261243	3261419
	PMF, Badili, Port Moresby	P O Box 1, Port Moresby	3220276	3211275
Packaging Material Suppliers				

Name of Supplier	Location	Mailing Address	Phone	Fax
W H Industries Pty Ltd	Port Moresby	P O Box 5020, Boroko	3251155	3251308
Lam's Trading Pty Ltd	Waigani, Port Moresby	P O Box 88, Boroko	3253321 3232382 3232313	3232802
NPC & Austraphane Marketing	Port Moresby	P O Box 1175, Boroko	3253211 3253182	3255618

