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**A new business venture proposal in the
South African tea industry
Business case for The Novel Tea Brewing Company**

Submitted by

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[Feb 2018]

DECLARATION

I, Christopher A. Shilubane, declare that this business venture proposal is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signed at Bedfordview on the 19th day of February 2018

Christopher A Shilubane

ACKNOWLEDGEMENTS

Thank you to my fiancée, Afua, who endured many days of unrequited love throughout this process but was still kind enough to keep me full, warm and happy. I love you.

Thank you to WBS for giving me the opportunity to do my MBA. It is a life-changing course and I am eternally grateful for all the lessons I learnt during this uncomfortable process.

Finally, I'd like to thank the plant, *Camelia sinensis*; from you came the magical drink tea, which sparked this idea. The drink has kept me warm, focussed, healthy and out of trouble.

SUPPLEMENTARY INFORMATION

Supervisor: Dr Len Konar

Word count †: 14 751

Supplementary files: [Appendix](#)

† Including Executive Summary, References, etc.

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EXECUTIVE SUMMARY

The Novel Tea Brewing Company (NTBC) is a quick service retailer specialising in the creation and sale of innovative tea products and tea merchandise. Leveraging off increasing health and fitness trends in South Africa, the growth in the number of rooibos and ready-to-drink (RTD) tea drinkers and the looming sugar tax on sugar-sweetened beverages (SSBs), NTBC provides a variety of tea and coffee products but specialises in a niche category of sweet, low calorie teas which it positions as an alternative to sugar-sweetened beverages (SSBs) and fruit juices.

Direct competitors to NTBC include retailers such as The Tea Merchant, The Bubble Tea Company and Starbucks. Due to the size, experience, global presence and recent venture into the tea industry via its Teavana® brand, Starbucks is NTBC's biggest threat.

The unique value proposition (UVP) for NTBC is to promote a healthy lifestyle by offering innovative tea products and providing consumers with technology-led convenience. To achieve this, NTBC will invest in product Research and Development (R&D) as well as a robust and extensive Information Technology (IT) infrastructure to ensure sustainability in the long-term. Through a strategic partnership with FitChef®, NTBC will also provide a healthy food offering to its consumers. NTBC products are aimed at specialist tea drinkers and it plans to acquire 2% of this target market, which is estimated to grow to 222 000 consumers by 2022.

The primary distribution channel for NTBC products will be its retail stores in Gauteng where it will offer customers quick battery-charging stations and free Wi-Fi. In-line with the UVP, it will position itself in malls and areas close to fitness centres and it will exclusively make use of electronic and mobile payment systems.

NTBC is forecasted to achieve a net operating profit (NOP) of R4.4 million by 2022 with two company-owned retail stores and three "pop-up stores". Start-up capital of R4.3 million in capital funding is required for the purchase of equipment and setup costs. The business venture has a net present value (NPV) of R7.1 million after 5 years of operations.

NTBC will consider franchising as a growth strategy after the review period and the organisational strategy is aligned to support that business model.

CHAPTER 1. INTRODUCTION

1.1. PURPOSE OF THE STUDY

The purpose of this study is to develop a business case for a sustainable new business venture within the South African tea industry.

1.2. CONTEXT OF THE STUDY

1.2.1. Global food and beverage trends

According to a Food Engineering article from Schug (2016), some of the major global food and beverage trends for 2017 are:

- Clean labels – consumers are looking for “cleaner” labels and are avoiding foods that have labels that indicate colourants, flavourants or any synthetic additives.
- Plant-based meats and dairy products such as tofu, almond milk and soy patties are becoming popular options due to their natural, organic appeal and are perceived as a healthier alternative to meat and conventional dairy products.
- Consumers are avoiding sugar but still crave sweetness in certain foods and beverages.
- Consumers are focussing on more authentic, craft or artisanal food and beverage offerings e.g. craft beer.
- Consumers are less likely to follow conventional breakfast-lunch-dinner eating patterns and “snacking” has become a big trend.

Tea is a beverage that can be positioned to take advantage of these trends. It has several health benefits (Sharma, Bhattacharya, Kumar, & Sharma, 2007), is plant-based, can be enjoyed with or without sugar, and can be consumed on many occasions in a relatively brief period of time.

1.2.2. Global tea economics

According to reports from Transparency Market Research (2015), the global tea market was worth \$38.2 billion in 2014 and is projected to grow to \$47.2 billion by 2020. Tea is the second most consumed beverage in the world and it is estimated that 3 billion cups of tea are consumed daily worldwide (Chen, Apostolides, & Chen, 2012). Tea has experienced a global compound annual growth rate (CAGR) of 7.7 % since 2009 and 5 million tons of tea was consumed in 2015 (Bolton, 2016).

Tea is a price elastic commodity. A report from the Food and Agriculture Organisation of the United Nations (FAO), states that a 10% increase in the price of black tea can lead to an 8% decrease in demand. Similarly, a 10% increase in the price of green tea can lead to 10% decrease in demand. The average tea prices for 2015 was relatively flat at \$2.60/kg and are projected to increase to \$2.80/kg by 2023 (Chang, 2015).

1.2.3. Local tea economics

According to the SA Tea Industry Landscape Report by Insight Survey (2016), the major drivers for tea in the industry are health trends, global demand for rooibos, quality certifications and speciality tea, whilst the major restraints are the impact of the drought in 2015, high pricing and low GDP growth rate (Figure 1).

EXECUTIVE SUMMARY: INDUSTRY DRIVERS AND RESTRAINTS

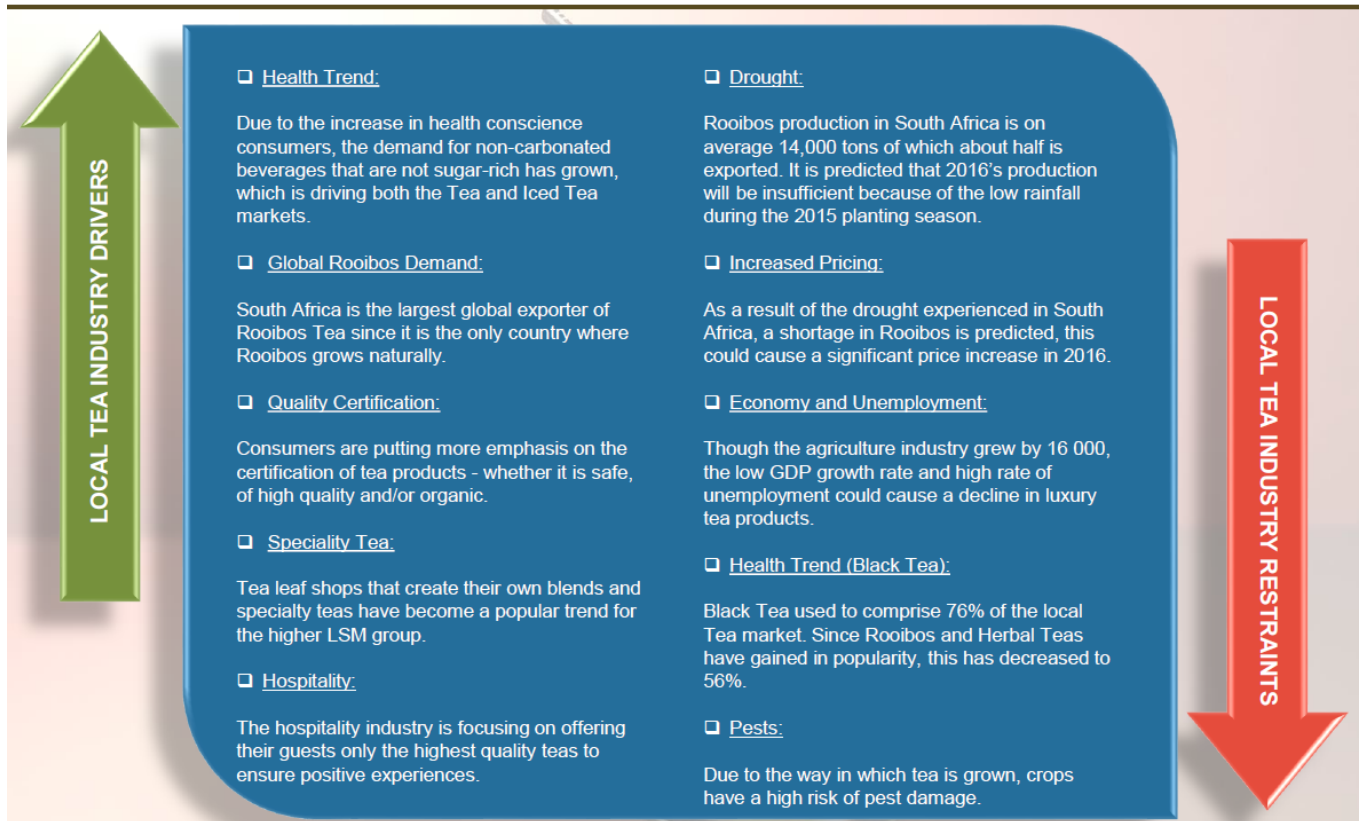


Figure 1: Industry Drivers and Trends for the South African Tea Industry. Reprinted from the South African Tea Landscape Report (Insight Survey, 2016)

1.3. PROBLEM

Whilst the global outlook on tea is profitable, drought, labour costs and global competition has severely impacted South African tea production and made it difficult for tea producers to compete in this industry.

Tea manufacturing is dominated by a few, well-established international players in the tea industry and several restaurants and retailers offer tea products (Insight Survey, 2016). The largest tea consumers in South Africa are also the poorest and are extremely price sensitive to increases in the price of tea.

1.4. MARKET OPPORTUNITY

Summarising the initial assessment of the global and local tea industry, the following market opportunities exist:

- Black tea is the dominant tea type grown in South Africa but is perceived as less healthy by consumers in comparison to other teas, such as rooibos or green tea.
- South African consumers are becoming more health conscious and looking for healthier alternatives to sugar-sweetened beverages. This is putting the soft drinks and sweetened fruit juice industry at risk.
- Consumers are becoming more aware of their labels and are taking an interest in where a product comes from and the overall benefits it provides.
- The versatility of tea allows it to be included in several foods and beverages and consumed at any time of the day. It can also be consumed hot or cold, sparkling or flat and sweetened or unsweetened.
- The growth of specialist tea retailers like The Tea Merchant confirms that there is interest from South Africans in other teas, such as herbal and fruit teas.
- Unlike specialist coffee shops or craft breweries, there are few quick service restaurants in South Africa that have a specific focus on tea.

1.5. SOLUTION

In reviewing the challenges and opportunities in the South African tea industry, there is a possible gap in a specialist tea shop that combines the current health trend with the craft appeal and authenticity of independent tea retailers as well as the convenience and speed of quick service restaurants and retailers.

CHAPTER 2. LITERATURE REVIEW

2.1. INTRODUCTION

The aim of this literature review is to further identify and understand the market opportunities, based on the previous section, for a new business venture within the tea industry. This section will focus on discussing possible opportunities, constraints and management theories identified from the literature that will impact the success of a new business venture in the tea industry and the various strategies that are relevant to the scope of the business venture. By further highlighting these opportunities and constraints, a business case can be developed that is grounded on researched and peer-reviewed literature.

2.2. BACKGROUND

2.2.1. A brief history of tea

Tea was accidentally discovered by Emperor Shennong in 2737 BC when a few leaves from a *Camelia sinensis* tree landed in his boiling water whilst he was asleep (K. Smith, 2016). Tea was later cultivated in monastery gardens in Eastern China as a medicinal tonic to relieve vomiting and fatigue. Tea grew in popularity for its taste and medicinal properties and became an important part of demonstrating wealth and culture for the ruling cultures in China (K. Smith, 2016).

Tea was then introduced to Japan by Buddhist monks and it became a drink that was said to bring “spiritual balance”. Tea became a ceremonious drink in Japan and this inspired innovation in tea production which resulted in popular varieties such as Gyroku and Matcha (K. Smith, 2016).

Whist trading with the Far East, the French, Dutch and British were introduced to tea. Tea became particularly popular in Britain and was first sold as a health beverage in London at Garaways Coffee House in 1657 (Serafini, Del Rio, Yao, Bettuzzi, & Peluso, 2011).

In 1876, Thomas J. Lipton, opened his first tea shop in Glasgow and developed Thomas J. Lipton Co. (now known as Lipton) in 1893 (Lipton, 2017). In 1904, Englishman Richard Blechynden created iced tea during a heat wave in St Louis (Serafini et al., 2011) and in 1908, American Thomas Sullivan inadvertently created the teabag by sending tea to clients in silk bags who mistakenly steeped the whole bags. In 1953, the world’s first instant tea was produced (Serafini et al., 2011).

2.2.2. Tea production and tea types

After tea leaves are plucked, they undergo various phases of processing, consisting of withering, heating, and drying to produce a variety of tea types (Figure 2). The most common teas are white tea, green tea, oolong tea and black tea.



Figure 2: Tea Production Process. Reprinted from TNAU Agritech Portal (2017)

There are several other tea types that have also seen significant interest in various parts of the world, such as pu'erh tea, yerba mate, matcha and kombucha (Crum & LaGory, 2016; Insight Survey, 2016; K. Smith, 2016).

2.3. HEALTH AND WELLNESS BENEFITS OF TEA

With the increased availability of information in the digital age, the health-conscious consumer is more educated and more aware of healthy foods and beverages and is quick to switch to healthier ways of living to support their lifestyles. Health-conscious consumers are likely to purchase foods that have health claims, particularly if those claims are government approved (Williams, 2005). Research from Kozup, Creyer, and Burton (2003) also found that consumers displayed more favourable attitudes and purchase intentions towards products with health claims.

For centuries, tea has been an important medicinal remedy in many cultures across the globe (K. Smith, 2016) and the health benefits of tea have been well researched. Some of the researched health claims for tea are that it has anti-oxidant properties (Dreosti, 1996; Kievit, 2011; Sharma et al., 2007), anti-cancer properties (Gao, McLaughlin, Blot, Ji, Dai, & Fraumeni, 1994; Ji, Chow, Hsing, McLaughlin, Dai, Gao, Blot, & Fraumeni, 1997; Kono, 1992), improves mental alertness (Bryan, 2008; Kievit, 2011; Nobre, Rao, & Owen, 2008) and can be used for weight loss management (Dulloo, Duret, Rohrer, Girardier, Mensi, Fathi, Chantre, & Vandermander, 1999; Rains, Agarwal, & Maki, 2011).

Whilst tea has a significant amount of well-researched potential health benefits that would appeal to the health-conscious consumer but not all the health claims have been substantiated and there are several conflicting results linked to claims for weight loss (Wang, Wen, Du, Yan, Guo, Rycroft, Boon, Kovacs, & Mela, 2010) and cancer reduction (Dreosti, 1996; Goldbohm, Hertog, Brants, van Poppel, & van den Brandt, 1996).

2.4. NEW BUSINESS VENTURE STRATEGY AND MANAGEMENT THEORIES

2.4.1. Business Strategy

Business strategy is defined as the long-term direction of an organisation. Scholes, Regner, Johnson, Whittington, and Angwin (2014) have developed an Exploring Strategy Model which breaks down strategy into 3 dimensions; 1) Strategic position which is concerned with the impact on strategy of the environment, the business resources and the businesses' culture 2) Strategic choices which involves the strategic direction and methods by which the strategic objectives are pursued 3) Strategy in action which refers to how business strategies are created and implemented. **Error!**

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Figure 3: Exploring Strategy Model. Reprinted from Scholes et al. (2014, p. 11)

Several frameworks are available to assess the strategic position of a business and analyse the complex and changing landscape that they find themselves in. Organisations operate within multiple layers of the business environment. These layers include 1) the macro-environment 2) the industry 3) competitors and markets and 4) the organisation.



Figure 4: Layers of the business environment. Reprinted from Scholes et al. (2014, p. 33)

The PESTEL framework and scenario planning is used to assess the macro-environment. Porter’s Five Forces Model assesses business industries or sectors. Competitors are grouped into strategic groups and their relative positions analysed using a strategic canvas. Markets are categorised into market segments. Finally, the strategic capabilities of businesses can be assessed using the VRIO framework and SWOT analysis (Scholes et al., 2014).

New business venture strategies are often different from organisational strategies due to resource scarcity and relative invisibility (Scholes et al., 2014). These aspects greatly hinder new business ventures choice when it comes to new markets or established markets and typically a conservative strategy is employed to mitigate losses in the advent of retaliation from larger firms (Scholes et al., 2014).

2.4.2. New business venture success factors

Over 40% of new business ventures fail within the first 2 years and more than 66% are out of business within the first 6 years (Scholes et al., 2014).

New businesses suffer from being unknown and often need to build up legitimacy to consumers, suppliers, partners and regulatory bodies. Zimmerman and Zeitz (2002) highlight three sources of legitimacy; socio-political regulatory legitimacy such as licences and certifications. Socio-political normative legitimacy such as norms and societal values, acquired through networks and association and cognitive legitimacy which involves addressing “widely” held beliefs such as a qualified founder and top management will benefit the new venture.

In generating a framework for new business venture survival, Shepherd, Douglas, and Shanley (2000) discuss the mortality risk of new ventures, the probability that the firm will become bankrupt, being a function of three dimensions of novelty; novelty-to-market (degree to which customer is uncertain about the new venture), novelty-in-production (degree to which production team have

experience with technology) and novelty-to-management (degree to which entrepreneur has start-up experience, business skill and industry-specific experience). The mortality risk of a firm increases with each degree of novelty that a firm has and declines over time, as the firm gains experience.

Venture capitalists provide capital and support to new business ventures and have experience in predicting the success of new business ventures. Shepherd (1999) found that the level of knowledge and experience about the industry being entered into (industry-related competence) and the availability of key resources to overcome market ignorance through education (educational capability) were the key characteristics that venture capitalists looked for in successful entrepreneurs. Delmar and Shane (2006) confirm these findings in their research and numerous studies from other researchers on venture capitalist decisions have confirmed that the entrepreneur and management team are the most vital component of the success of the new business venture (Dixon, 1991; Hisrich & Jankowicz, 1990; Khan, 1987).

2.4.3. Organisational growth

With regards to organisational growth, the decision to outsource is key for most organisations but more importantly so for new business ventures due to their limited resources. Companies outsource to reduce costs (Alexander & Young, 1996; Belcourt, 2006), increase access to specialised technology and expertise (Kakabadse & Kakabadse, 2002; Kumar & Eickhoff, 2005), to allow the organisation to focus on their core competencies (Alexander & Young, 1996) and to improve quality and service levels (Belcourt, 2006; Lacity, Hirschheim, & Willcocks, 1994). Numerous case studies have highlighted the merits and pitfalls of outsourcing but a common theme that has developed in the literature of outsourcing is for organisations to not outsource strategic capabilities but to instead keep these in-house (Hietalahti & Kuoppala, 2009; Kumar & Eickhoff, 2005). The International Institute for Advanced Purchasing & Supply (2017) developed the following strategies to prevent outsourcing failures such as contractual risk mitigation, stakeholder management and ensuring that only tactical non-critical assets are outsourced.

Franchising is an established outsourcing growth strategy for most organisations and has contributed significantly to the growth of several companies worldwide (Combs & Ketchen Jr, 2003). The advantages of franchising are rapid market penetration at lower capital costs which is important for new business ventures (Hoffman & Preble, 1991). Franchises have also had better success rates than independent ventures, with 77% of franchisees surviving after the first 5 years of operation (Hoffman & Preble, 1991), likely due to the support provided by the franchisor company.

2.5. MARKETING STRATEGY AND MANAGEMENT THEORIES

2.5.1 Marketing strategy management theory

Profitable marketing begins with understanding the needs of the consumer and then developing the marketing mix to satisfy these needs (Peter & Donnelly, 2000). The marketing mix is the set of controllable variables that must be managed to satisfy the needs of the target market and meet organisational objectives (Peter & Donnelly, 2000). The four traditional marketing mixes are product, price, promotion, and place.

2.5.2. Marketing strategy for new business ventures

Due to limited resources, entrepreneurs typically do not have the same marketing strategies as corporate organisations and would require a different approach in marketing effectively to attract new customers (Phua & Jones, 2009).

In contrast to corporate organisations that focus on precise target segmentation and positioning for few products to a market, entrepreneurial organisations focus more on new products and serve few new customers as they gradually expand their base (Morris, Schindehutte, & LaForge, 2002).

With regards to the marketing mix, entrepreneurs find the corporate approach to the marketing mix a challenge due to resource constraints and focus more on purpose, practices, processes and people (Martin, 2009).

The product is used as a strategic marketing tool for the entrepreneur and can allow the consumer to differentiate themselves from other, larger organisations (Martin, 2009). The product or service price is largely dependent on the organisational strategy e.g. cost leader or differentiation. A differentiation strategy which can give them the ability to charge prices higher than larger organisations in their sector.

The promotional strategy of choice is personal selling. This process is more intimate and informal and emphasises relationship-building with customers (J. Day, Dean, & Reynolds, 1998). This approach facilitates more intimate engagement with the customer and allows the entrepreneur to better understand their customers and due to their small size and agility, are in a better position to quickly provide better offerings for customers than their larger organisational counterparts (Zontanos & Anderson, 2004).

CHAPTER 3. RESEARCH METHODOLOGY

3.1. INTRODUCTION

This section will discuss the research methodology as well as the reasons for the selection of the research methodology and paradigm, the data collection method, the sample population size, the steps taken to improve the validity and reliability of the research and finally a discussion on the ethical considerations.

3.2. PARADIGM

This research is approached from a positivist paradigm. Wilson (2014) states that individuals conducting research from a positivistic framework view reality as a construct that is independent from social construction. Positivistic researchers are ideally objective observers that neither participate nor influence the subject matter being studied or investigated. Positivist researchers are limited to data collection and interpretation through an objective approach.

This method is appropriate for this study as the research objectives are aimed at conducting an analysis based on the information obtained from the sources of data.

3.3. METHOD OF DATA COLLECTION

Research data will be sourced from a combination of scholar and non-scholar sites such as Google Scholar, SAARF, industry reports, market research reports, periodicals, newspaper articles, magazine articles and internet resources.

3.4. METHODOLOGICAL APPROACH

An exploratory research approach will be conducted for this feasibility study and a variety of analytical tools will be used for various sections of the report (Table 1).

Table 1: Analytical tools used for key sections of the business report (Own research)

Category	Analytical tools
Macro-environment	PESTEL Analysis
Industry	Porter's Five Forces Competitor Analysis
Market	Market research
Financial	NPV Sensitivity analysis Monte Carlo Analysis

In addition to the above analyses, a further screening method (R-W-W screen) developed by G. Day (2007) will be used to determine the effectiveness and sustainability of the new business venture (Figure 5).

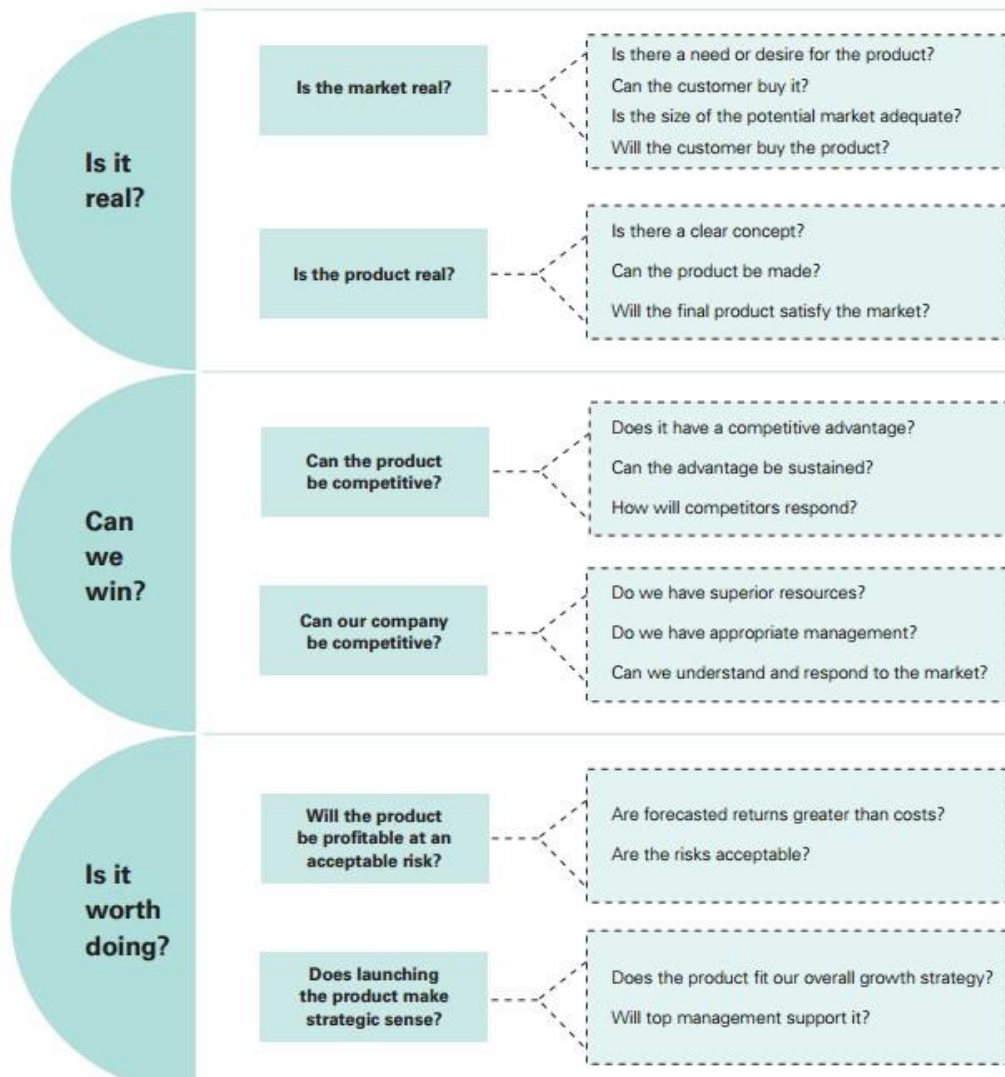


Figure 5: R-W-W screen. Reprinted from G. Day (2007)

The new business venture success criteria will then be based on the following criteria:

1. Positive NPV after a 5-year period
2. A comprehensive plan to address the risks highlighted in the risk analysis
3. A comprehensive plan to address the gaps highlighted in the R-W-W screen

3.5. POPULATION FOR DATA COLLECTION

Due to the nature of the study, the focus will be on the South African, adult (16+ years) tea drinking population.

3.6. LIMITATIONS

Due to the deductive nature of the research paradigm, there will be no context to describe the behaviour of consumer trends relating to the market analysis.

3.7. VALIDITY

Internal validity is the degree to which a study establishes a cause and effect relationship (Slack & Draugalis, 2001). It is important for ensuring that the observed change identified during the research programme is a result of the intervention and not an alternative cause. Internal validity is only relevant for studies that try to establish a causal relationship and because of that, internal validity has been ignored in this feasibility study, as it is a descriptive study that is not aimed at establishing a causal relationship.

External validity is the ability to draw conclusions about a large population from a small sample (Calder, Phillips, & Tybout, 1982). Generalisability of an effect cannot occur if the cause and effect relationship cannot be established (Slack & Draugalis, 2001). Since internal validity does not apply to this study, it follows that external validity also does not apply since there is no cause and effect relationship to generalise to a larger population.

3.9. RELIABILITY

Reliability is the consistency, precision, and accuracy in which the data is collected throughout the research process (Saunders, 2011). The data from the research will make use of reliable sources for secondary data such as peer-reviewed journals, market research reports and government agencies and triangulation methods will be employed to ensure accuracy. SAARF data will be used to obtain a representative sample of the South African population.

3.10. ETHICAL ISSUES AND UNINTENDED CONSEQUENCES

No ethical issues were expected from this study as the information obtained is from publicly available data. Due to the focus on health benefits of tea an unintended consequence could be that tea will be used to treat cancer and reduce obesity. It is important to note that all the researched benefits associated with tea have not been substantiated and. Any health lifestyle change should be done in consultation with a health practitioner.

CHAPTER 4. SITUATIONAL ANALYSIS

4.1. PESTEL ANALYSIS

In 2013, South Africa was the 14th largest tea producing country in Africa (FAO, 2016). The South African socio-economic and political narrative is very different from Africa and the rest of the world. A PESTEL analysis was conducted to determine the macroeconomic factors that specifically affect the South African tea industry.

4.1.1. Political analysis

South Africa currently has an unstable political climate and corruption and “State Capture” has taken the centre stage in the political arena. Broad-Based Black Economic Empowerment (BBBEE) is an important element in doing business in South Africa and government promotes the development of BBBEE enterprises and incentivises other corporations for making use of BBBEE firms (SEDA, 2017). The Department of Trade and Industry (DTI) encourages entrepreneurship and provides grants for the development of small, medium and micro-sized enterprises (DTI, 2013).

4.1.2. Economic analysis

As of June 2017, South Africa has been in a technical recession and a low GDP growth of 1.3% has been forecasted for 2017 (National Treasury, 2017). South Africa has a high unemployment rate of 27.7% in Q1 2017 (Trading Economics, 2017b) and a particularly high youth unemployment rate of 54.3%. The inflation rate increased by 5.1% year-on-year and food inflation has increased to 6.9% (Trading Economics, 2017c). There has also been a decrease in consumer confidence and year-on-year retail sales have only increased by 1.7% (Trading Economics, 2017a). South African consumers real disposable income remains under pressure and high food inflation has caused them to reprioritise spending on essentials (C. Smith, 2016). The overall South African tea industry has seen little growth and it is forecasted to decrease by a CAGR of -1% by 2019, whilst specialist teas such as rooibos is forecasted to increase by 4.2% and RTD teas by 0.7% (Insight Survey, 2016).

4.1.3. Social analysis

South Africa has a population of 55 million that is growing at 1.6% of which 65% is urbanised (World Bank, 2017a, 2017b). South Africa has a growing middle class (UCT Unilever Institute of Strategic Marketing, 2012) and according to information from the Bureau of Market Research, the middle income is categorised into two groups; the lower middle class earning R19 501 – R31 500 per month, and the upper middle class earning R31 501 – R65 250 per month (BusinessTech, 2016). There has also been an increase in health and wellness amongst the urban population and this trend is seen by the investment that large players in the health and fitness space such as Virgin Active and Planet Fitness are making in South Africa (Iwuoha, 2015). According to a report from market research firm Blue Magnet, South African consumers make use of various forms of social media to interact with companies and demand quick responses to their concerns (Blue Magnet, 2016).

4.1.4. Technological analysis

South African consumers have become more tech-savvy and more customers are making use of online and mobile shopping (Statista, 2017). Within the global tea industry, mechanisation has become an essential part of

the harvesting and production processes (Bolton, 2015) but due to strict labour requirements this has not been realised in most of the South African tea estates (Khumalo, Chasomeris, Munapo, & Adeyeye, 2015). New manufacturing and preparation processes such as cold brewing and nitrogenation and innovations in the retail tea industry have recently become a trend in the tea industry (Dobos, 2017; World Tea News, 2015) but these applications have not been seen in the South African tea industry.

4.1.5. Environmental analysis

South Africa has recently recovered from a severe drought. The South African climate is getting warmer and is forecasted to be double the mean global temperature which will have an impact on tea estates in certain parts of the country (DEA, 2016). Water restrictions, predominantly in the Western Cape, have put farmers under further pressure. Consumers are also in favour of more sustainable and environmentally-friendly processes and there has been an increase in demand for pesticide-free products (Insight Survey, 2016).

4.1.6. Legal analysis

South Africa is planning to implement a 20% fiscal sugar tax on sugar-sweetened beverages (SSBs) in 2018. South Africa also has a very protective labour and consumer protection legislation regime. The minimum wage is comparatively higher in South Africa than other tea-producing countries which has put tea estates under pressure and made them less competitive (Khumalo et al., 2015).

Summarising the PESTEL analysis (Table 2), the South African macro-environment is politically unstable, has low forecasted GDP growth and is recovering from a drought but opportunities exist for new business ventures in terms of government funding and a growing middle class.

Table 2: South African Tea Industry PESTEL Analysis

POLITICAL	ECONOMIC	SOCIAL
<ul style="list-style-type: none"> • Unstable political climate • “State Capture” and corruption • BBBEE important for business • Funding available for SMMEs from DTI 	<ul style="list-style-type: none"> • 1.3% GDP growth forecasted for 2017 • 27.7% unemployment rate • Low consumer confidence • Volatile rand-dollar exchange rate • -1% CAGR forecasted for tea industry by 2019 	<ul style="list-style-type: none"> • 55 million South Africans • 65% urbanisation • Growing middle class • Increase in health and wellness awareness amongst middle and upper class • High use of social media such as Facebook, Twitter and Instagram
TECHNOLOGICAL	ENVIRONMENTAL	LEGAL
<ul style="list-style-type: none"> • Lack of mechanization in tea farms • Lack of technological innovation in tea retail industry • Increased use of online and mobile shopping amongst consumers 	<ul style="list-style-type: none"> • South Africa recovering from drought • Water restrictions in Western Cape • Consumers shifting towards environmentally-friendly products 	<ul style="list-style-type: none"> • 20% sugar tax on SSBs • High minimum wage in comparison to other tea-producing countries

4.2. INDUSTRY ANALYSIS

The South African retail tea industry can be divided into three groups: department stores, such as Pick 'n Pay, speciality stores, such as the Tea Merchant, and restaurants such as the Seattle Coffee Shop.

The Porter's Five Forces framework was used to determine the factors impacting the tea retail industry across all segments.

4.2.1. Threat of new entry

As a manufacturer of tea products, there are high barriers to entry due to high setup costs. By comparison, the barriers are much lower for setting up a restaurant or speciality shop.

4.2.2. Threat of substitution

Coffee can be easily substituted for tea. A standard cup of cappuccino at a coffee shop or restaurant retails at an average price of R25 whereas a cup of green tea retails at an average price of R20 (Insight Survey, 2016).

4.2.3. Buyer power

Tea consumers are dispersed and fragmented across various geodemographic and socio-economic segments and there are low switching costs associated with buyers moving to different tea retailers. There are a few, big retail buyers that can control the price and reduce profit margins on retail products.

4.2.4. Supplier power

There are many raw material suppliers that exist both locally and globally and there are relatively low switching costs between them.

4.2.5. Competitive rivalry

There are high fixed costs and exit costs associated with tea manufacturing and packaging for retail stores and the industry is dominated by a few large players.

Summarising the industry analysis (Table 3), the threat of substitution for tea products is high compared to supplier power. This shifts focus towards ensuring and retaining customer loyalty to the product and also leveraging the high number of suppliers to keep input costs down. The speciality store and restaurant industry have low barriers to entry thus it is important to have a differentiated product that can encourage customer loyalty.

Table 3: South African Tea Industry Porter's Five Forces Summary

	Tea manufacturers	Speciality stores	Restaurants
Threat of new entry	Green	Red	Red
Threat of substitution	Red	Red	Red
Buyer power	Red	Green	Red
Supplier power	Green	Green	Green
Competitive rivalry	Red	Green	Green

RED = High, Green = Low

4.3. COMPETITOR ANALYSIS

NTBC has identified four strategic groups of competitors:

1. Specialist coffee outlets e.g. Starbucks, Seattle Coffee Company
2. Specialist tea retailers e.g. The Tea Merchant
3. Specialist tea outlets e.g. The Bubble Tea Company
4. Ready-to-drink tea manufacturers e.g. Lipton

4.3.1. Specialist coffee outlets

Coffee outlets have undergone a rapid surge in the country with over 100 stores currently in operation (SME South Africa, 2015). The strategic focus for most of the smaller coffee outlets will be on continuous innovation within the coffee space. Specialist coffee outlets outnumber specialist tea outlets and whilst these stores sell tea but this is not a strong focus for them. Starbucks has launched the Teavana® range in South Africa in June 2017 (WomenStuff, 2017) but will still prioritise coffee products over tea products. This is an avenue for Starbucks to test the consumer's receptiveness of the Teavana® brand and could allow them to setup Teavana® stores in South Africa. Due to their experience, they could setup Teavana® stores in multiple cities in South Africa in a relatively brief time and they pose the biggest risk to NTBC.

4.3.2. Specialist tea retailers

The Tea Merchant has the biggest retail footprint of all tea retailers within the country. They are currently offering a variety of tea blends and accessories for home use and have not publicly indicated interest to venture into the foodservice space. It is unlikely that they will venture into foodservices as it is not aligned with their current operational strategy. They have strong experience in tea merchandising and dry tea sales (loose-leaf teas, tea bags and tea blends) and will be a strong competitor in this space. Yswara is another specialist tea retailer operating in the premium tea market and currently selling a variety of tea blends to strategic partners such as The Four Seasons Westcliff, The Saxon Hotel & Villas and Life Grand Café as well as various other hotels and restaurants in the rest of Africa. It has one store in Maboneng Precinct where they sell and prepare tea without any food service offering. They also offer exclusive high tea services as well as corporate and private gift hampers. It is unlikely that they will venture into the foodservice space and it is assumed that it will maintain its premium position within the tea retail industry.

4.3.3. Specialist tea outlets

The Bubble Tea Company has twelve stores in South Africa and is a specialist tea outlet, focussing on a variety of bubble teas with limited food offerings. The company has branded itself as a company that specialises in the offering of bubble teas, which is a very niche market. The company could include additional tea types under its current offering but this is in stark contrast to its current image and strategy. It is possible for The Bubble Tea Company to quickly undergo a rebranding exercise to incorporate additional RTD tea products. A merger or partnership could be considered with this company in future.

4.3.4. Ready-to-drink tea manufacturers

The focus for RTD tea manufacturers has been on conventional tea drinks such as rooibos and green tea but they have also ventured into fruit juice blends and sparkling teas. These industries will be affected by the 20% fiscal tax and very few have a low-calorie alternative. Their current focus is on providing RTD product for sale to retailers and it is not expected that they will move into a food service, retail space.

The critical success factors, factors that are perceived to be valued by customers, were also evaluated in terms of whether they were threshold or distinctive capabilities (Table 33). These were then mapped against assumptions of the perceived performance of competitors (Figure 6) to get an understanding of where the strategic gaps lie that NTBC can operate in and add value to.



Figure 6: Competitor value curve for tea industry. Adapted from the tea industry strategic group critical success factors and capability characteristics (Table 33 - own research)

Based on the Competitor Value Curve (Figure 6), there are three distinctive capability critical success factors that are being underserved by the competition.

These are most likely not specific focus areas of the competitors and these strategic gaps are referred to as Blue Oceans and will inform the NTBC unique value proposition.

CHAPTER 5. UNIQUE VALUE PROPOSITION AND MARKET ANALYSIS

5.1. UNIQUE VALUE PROPOSITION

Based on the application of the management theory in Chapter 4, the following distinctive capabilities will inform the NTBC unique value proposition;

5.1.1. Innovative brand and products

In South African retail markets, tea is served hot, with limited variants such as rooibos, black or green tea (Insight Survey, 2016). To take advantage of the limited offering and lack of product development in the South African tea landscape, NTBC can include a unique and diverse mix of specialty, craft tea products such as sparkling teas, fermented teas, fruit tea blends and loose-leaf teas.

5.1.2. Healthy lifestyle

There has been an increase in gym memberships, health and fitness loyalty memberships, the growth of running clubs and fitness trends on social media such as Instagram (Iwuoha, 2015). NTBC will extend the healthy lifestyle concept by introducing a healthy food offering. NTBC will partner with FitChef® to provide food packages to sell in NTBC stores. FitChef® focuses on natural foods that are low in carbohydrates and high in fibre (FitChef, 2017).

5.1.3. Technology-led convenience

Based on the PESTEL analysis, NTBC will leverage on the tech-savvy nature of South African consumers and make us of technology across the value chain to provide convenience to their customers. To address pain points such as the low battery associated with the perceived high cellphone usage of our target market, NTBC will provide benefits such as wireless cell phone charging points.

By focusing on innovative brands and products, health and technology, it is believed that NTBC will provide a unique offering to consumers and distinguish itself from the competition.

5.2. MARKET ANALYSIS

According to a market research report from Insight Survey (2016), South Africa is estimated to have 37 million regular purchasers of tea products. 50% of the South African population regularly purchases tea for consumption at home and 52% of tea purchased in 2016 was black tea (Insight Survey, 2016). The total number of regular consumers of rooibos tea drinkers drink rooibos tea and RTD tea are 30% and 17% respectively (Insight Survey, 2016). These tea drinkers will be referred to as specialist tea drinkers. The discussion on the target market is based on information obtained from the South African Audience Research Foundation (SAARF).

5.2.1. Target market attitudes

NTBC will offer a variety of teas and tea blends and will target a consumer that is health-conscious, appreciates innovation, is time-constrained, is socially and environmentally aware and is well-educated. The SAARF attitudes that best-fit these characteristics are the “Rooted” individuals and “Global Citizens” (SAARF, 2014b). “Rooted” individuals are concerned with social issues such as the environment, health, education and unemployment whereas the “Global Citizens” embrace change, technology and innovation.

5.2.2. Target market income level

The “Rooted” and “Global Citizen” groups make up 46.5 % of the LSM 7- 10 group (SAARF, 2014b) and this will be the key income group that NTBC will serve. This LSM group has an average household income that is higher than the South African average household income. Within this group, 43.4 % have an average household income of R8 000 to R19 999 per month. The LSM 7 group makes up the majority (> 30%) of this group (Chronis, 2012).

5.2.3. Target market geodemographic

According to data from (SAARF, 2014b), the highest concentration of the LSM 7-10 group live in Gauteng (38.8%), followed by Western Cape (18.5%) and KZN (16.7%). These target market groups will be the focus areas for the initial establishment of our operations and marketing initiatives.

NTBC will target specialist tea drinkers within the Gauteng, Western Cape and KwaZulu Natal provinces that are in the LSM 7-10 group and have attitudes that are described by the SAARF characteristics for “Global Citizens” and “Rooted” individuals.

5.3. TARGET MARKET SIZE

Based on the SAARF (2014a) data, 11.3 million (80% of the LSM 7-10 market) earns between R8000 – R20 000+ and 10.6 million (75% of the LSM 7-10 market) are based in Gauteng, Western Cape and KwaZulu Natal. This represents an average of 10.9 million of the targeted geodemographic and income segments. A population growth rate of 1.6% (World Bank, 2017a) was applied to the 2014 data to get projections for these numbers till 2022.

Data from the Insight Survey (2016) market research report was used to determine the specialist tea drinkers. Based on the report, in 2015 the number of rooibos drinkers was 11.6 million and the number of iced tea drinkers was 6.4 million. Projections of these two market segments was obtained by applying a 4.2% and 0.7% (Insight Survey, 2016) to the rooibos and iced tea drinkers respectively, up to 2022.

The average of the rooibos tea drinkers and iced tea drinkers was then used to determine the specialist tea drinking market, which was projected to reach 9.8 million in 2018.

Based on the financial and legitimacy challenges associated with start-ups (Morris et al., 2002; Shepherd et al., 2000; Zimmerman & Zeitz, 2002) NTBC will follow a conservative approach and aim to serve 1% of this target market in 2018. It will then grow to achieve 2% of the 2022 specialist tea market which is expected to be 222 000 customers (Table 4).

Table 4: Market statistics of NTBC target market.

	2018	2019	2020	2021	2022
South African population	57 699 665	58 622 860	59 560 826	60 513 799	61 482 020
Total LSM 7-10 population	15 002 978	15 243 026	15 486 915	15 734 705	15 986 460
Average target LSM 7-10 market	11 684 746	11 871 702	12 061 649	12 254 635	12 450 710
Number of rooibos tea drinkers in South Africa	13 086 512	13 636 145	14 208 863	14 805 635	15 427 472
Number of iced tea tea drinkers in South Africa	6 619 077	6 665 411	6 712 068	6 759 053	6 806 366
Average specialist tea drinkers in South Africa	9 852 794	10 150 778	10 460 466	10 782 344	11 116 919
Novel Tea Brewing Company target market	98 528	120 760	148 009	181 406	222 338
Novel Tea Brewing Company % market share	1,0%	1,2%	1,4%	1,7%	2,0%

Note: Adapted from data in Demographics of the 10 SAARF LSM® groups for SAARF AMPS® Dec 13 and SAARF AMPS® Jun 14 (SAARF, 2014a) and the SA Tea Industry Landscape Report (Insight Survey, 2016). For additional workings in the Appendix (Table 32)

Based on the projections, the average specialist tea market is projected to grow at a CAGR of 3.06% and for NTBC to achieve 2% market share in 2022, it needs to grow at a CAGR of 18% (Table 32).

CHAPTER 6. ORGANISATIONAL STRATEGY

6.1. STRATEGIC CAPABILITIES

According to management theory strategic capabilities are the capabilities of an organisation that contribute to its long-term survival or competitive advantage (Scholes et al., 2014).

The mission for NTBC will be to provide ***innovative leadership within the tea industry*** and to achieve this focus NTBC will focus its efforts on research and design of innovative tea products to grow its product offering.

The strategic goals of NTBC are:

- 1. To design and develop innovative tea products**
- 2. To grow its market share within the tea industry to 2% in the next 5 years**
- 3. To leverage technology and data to best serve customers and control costs**

NTBC is a start-up organisation, it has limited access to capital and is relatively unknown. In line with management theory and literature linked to start-up organisations, the operational strategy for NTBC will be to grow its retail operations by eventually using a franchising model and by outsourcing and creating strategic alliances for non-core activities that are not aligned with the NTBC strategic goals.

Due to the importance of the management team to a new business venture (Dixon, 1991; Hisrich & Jankowicz, 1990), the organisational strategy will focus on the head office resources that will provide support and guidance to the retail stores.

6.2. HEAD OFFICE SUPPORT STRUCTURE

The founding member of NTBC has manufacturing experience from two large FMCG companies. He is a qualified brewer with a passion for mixology and creating new beverages. He will take over the operational, technical and R&D role of the business. He has limited experience in retail and will need a store manager with strong retail experience to manage the day-to-day operations of the retail stores. As the company grows, some of these positions may be filled by Operations and Technical Executives.

6.2.1 Core strategic business units

Retail store operations, R&D and supplier and partner relationship management are core strategic processes that NTBC will focus on initially. The procurement, technical and operations business units will be maintained in-house (Table 5).

Table 5: In-house head office business unit roles and responsibilities. Adapted from own application of research.

Procurement	<ul style="list-style-type: none">•Development and management of supplier relationships•Management of business alliances e.g. FitChef or Planet Fitness•Focus on cost avoidance and reduction strategies
Operations	<ul style="list-style-type: none">•Day-to-day operations in retail stores•Eventual support to franchisees•Training and sourcing of staff for retail stores
Technical	<ul style="list-style-type: none">•Development and implementation of R&D strategy•Knowledge management of internal and external innovations within tea industry•Manage R&D budget = 5% of total revenue

6.2.2. Non-core strategic business units

The marketing, logistics and IT business units will be outsourced during the start-up phase to allow NTBC to focus on product development, procurement of raw materials, strategic business partners and service providers and the setup and operations of the retail business. The marketing and IT business units will be incorporated in-house from the third year of business operations (Table 6).

Table 6: Outsourced head office business unit roles and responsibilities. Adapted from own application of research.

Marketing	<ul style="list-style-type: none">•Development and implementation of marketing strategy•Focus on digital and social marketing and data analytics•Recommend promotional activities, track sales and give feedback on marketing strategies•Manage marketing budget = 5% of retail gross profits
Information Technology	<ul style="list-style-type: none">•Development and implementation of technology strategy•Development and sourcing of software for data analysis across supply and demand chain•Development of online and mobile applications•Mitigate cybersecurity risks•Source technology to enhance in-store experience•Manage IT budget = 5% of total revenue
Logistics	<ul style="list-style-type: none">•Manage inbound, storage and outbound logistics•In-house development and consulting of inventory management system•Service provider will be managed by Procurement Executive•Logistics costs = 2% of retail gross profits
Legal and financial services	<ul style="list-style-type: none">•Assistance with the creation of supplier, service provider and business partnerships and service level agreements•Legal advice around franchise agreements and labour legislation practices•Generation of monthly reports, annual statements, payroll submissions, tax planning and general book-keeping•Legal and financial costs = R20 000 per month in 2018

6.2.3. Salaries and remuneration

Due to limited resources and expertise, NTBC will need to recruit experienced executives and will thus pay annual salaries slightly above the median for these positions based on the salary information obtained on Payscale (2017). It is assumed that these executives will be experienced enough to train junior members reporting to them to offset the costs. All non-executive hires will be within the lower 25% quartile of the Payscale® salaries. These will be young, inexperienced hires and it is assumed that these positions will be easily filled at the lower salary scale due to the high local youth unemployment rate. Salary increases are budgeted at 9% increase per year (Table 7).

Table 7: NTBC Executive Remuneration Schedule.

Position	R/month	R/year	25%	Median	75%	2018	2019	2020	2021	2022
Founder	R 30 000	R 360 000	R 620 000	R 1 021 416	R 2 000 000	R 360 000	R 385 200	R 412 164	R 441 015	R 471 887
Procurement Executive	R 32 000	R 384 000	R 240 000	R 394 388	R 640 000	R 384 000	R 410 880	R 439 642	R 470 417	R 503 346
Marketing Executive	R 30 000	R 360 000	R 230 000	R 352 829	R 530 000	R 0	R 0	R 412 164	R 441 015	R 471 887
IT Executive	R 35 000	R 420 000	R 260 000	R 400 133	R 560 000	R 0	R 0	R 480 858	R 514 518	R 550 534
TOTAL STAFF COSTS			R 4 642 000	R 7 374 271	R 11 220 000	R 744 000	R 796 080	R 1 744 828	R 1 866 966	R 1 997 653

Note: Median, upper and lower quartile figures adapted from data obtained in Payscale (2017).

As NTBC grows, additional executives and non-executives will be hired to support the implementation of the organisational strategy.

CHAPTER 7. MARKETING STRATEGY

NTBC aims to establish itself as the leading innovative tea retail and foodservice outlet in major cities in South Africa and set itself up for increased growth of these products into the market to grow its market share to 2% within the 5-year period. The marketing mix management theory will be expanded upon in this section.

7.1. PRODUCT STRATEGY

NTBC will initially focus on a product development strategy, to provide new and innovative tea beverages into existing markets.

NTBC beverages and tea products will operate within the sweetened, low-calorie (< 50 calories per serving) space of the beverage industry. This is an underserved space for tea beverages and the space is currently occupied by flavoured waters and diet sodas (Figure 7). Due to the negative perceptions associated with soft drinks and a growing preference for more natural, flavoursome beverages, this space represents an ideal avenue for growth.



Figure 7: Beverage industry product positioning map. Adapted from own application of research

To satisfy the niche market, NTBC beverage offering will consist of a mix of low calorie, conventional and unorthodox teas such as kombucha, sparkling teas, fruit tea blends and loose-leaf teas (Figure 8).

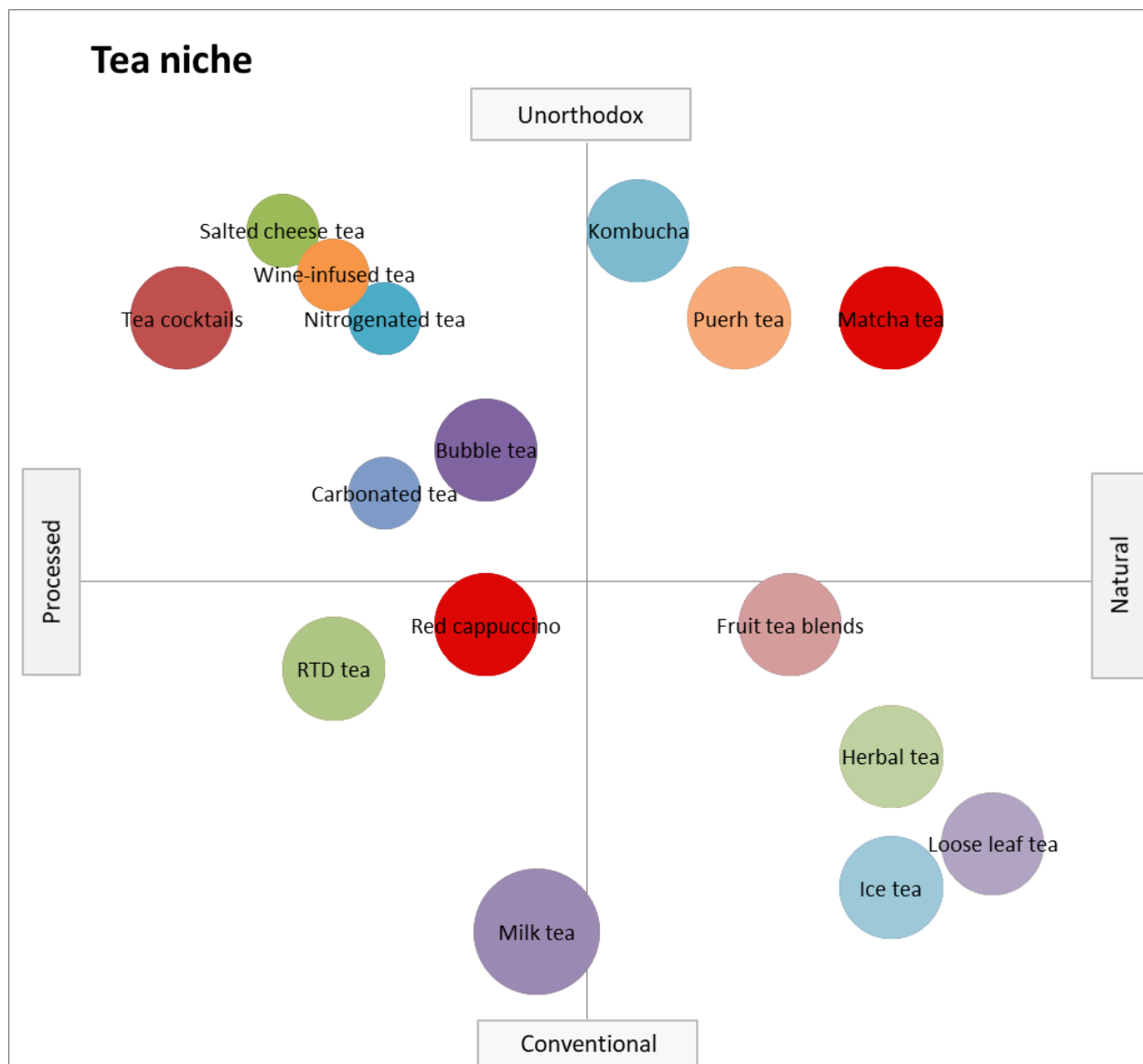


Figure 8: Tea niche industry product positioning map. Adapted from own application of research

NTBC will focus on reducing the use of natural sweeteners (e.g. fruit juice, sugar or honey) in its products and will not use any artificial sweeteners. It will achieve a sweet, low calorie offering by using innovative methods to enhance sweetness by making use of other taste points such as smell e.g. sweet-smelling teas with jasmine or ginger teas, mouthfeel e.g. carbonated or nitrogenated teas, temperature to enhance or reduce certain flavours e.g. correct tea temperature to prevent excessive bitterness from polyphenols in certain teas and introduce consumers to other flavours such as sour (e.g. lemon tea), salty (e.g. salted cheese tea) or bitter teas that could be complemented and balanced with other meals.

7.2. PRICING STRATEGY

NTBC is a value-focused business and will not focus on a cost-based pricing model. By targeting the LSM 7-10 market, NTBC will follow a high return, skimming strategy instead of a low price, penetration strategy. Since NTBC has positioned its product as a niche offering in the beverage space, most of its sales focus will be on its tea product offerings.

7.2.1. Average consumer spend

The premium positioning of NTBC products allows it to charge a price on par with competitors offering such niche products in other sectors of the industry e.g. Starbucks. Based on information from Zomato® on several coffee companies and online tea retail stores, **the average customer spend for NTBC will be R150/person.**

7.2.2. Sales mix and gross profit margins

Gross margins for tea are in excess of 85% for hot tea and dispensed iced tea and 60 – 70% for packaged iced tea (Technomic Inc, 2005). Coffee has similar gross profit margins of 85% (Butner, 2012) and food costs have gross profit margins of 70% (Hill, 2013). Since NTBC will be sourcing food and merchandise from other suppliers, it will make 10% gross profit on those sales. Based on the targeted sales mix (Table 8), **NTBC will have an average gross profit margin of 60%.**

Table 8: NTBC product sales mix and pricing. Adapted from application of own research

Product	Sales mix	PPU	GP margin (%)	GPPU	CPU
Conventional tea e.g. rooibos tea	3%	R25	85%	R21	R4
Unorthodox tea e.g. kombucha	8%	R45	75%	R34	R11
Loose-leaf tea e.g. oolong tea	8%	R40	75%	R30	R10
Other beverages e.g. coffee	5%	R30	85%	R26	R5
Food e.g. breakfast meal	15%	R65	10%	R7	R59
Merchandise e.g. tea accessories	3%	R350	10%	R35	R315
Retail tea products	60%	R150	65%	R98	R53

Note: PPU = price-per-unit; CPU = cost-per-unit; GP = gross profit; GPPU = gross profit-per-unit

7.2.3. Discounts and exclusive offers

Discount and exclusive offers will be available exclusively to registered users of the online and mobile application. Consumers will have the opportunity to earn points for purchases and use those points to get discounts on future purchases. These points can also be used for selected community or marketing initiatives e.g. for donation to charity or environmental organisations.

7.2.4. Payment system

NTBC will maintain its innovation strategy across its payment systems. This is possible due to the technology savvy customer market that they are targeting. Payment terms will be by credit card, debit card, mobile payments, in-house app payments and eventually to cryptocurrency payments such as Bitcoin. **NTBC will not have a cash-handling facility**, which will minimise the risks and costs associated with handling cash but has risk and cost implications for privacy and cybersecurity. These risks will need to be mitigated as part of the IT strategy.

7.3. PROMOTIONAL STRATEGY

The promotional strategy will focus primarily on personal selling and social media to drive brand awareness to customers (Table 9).

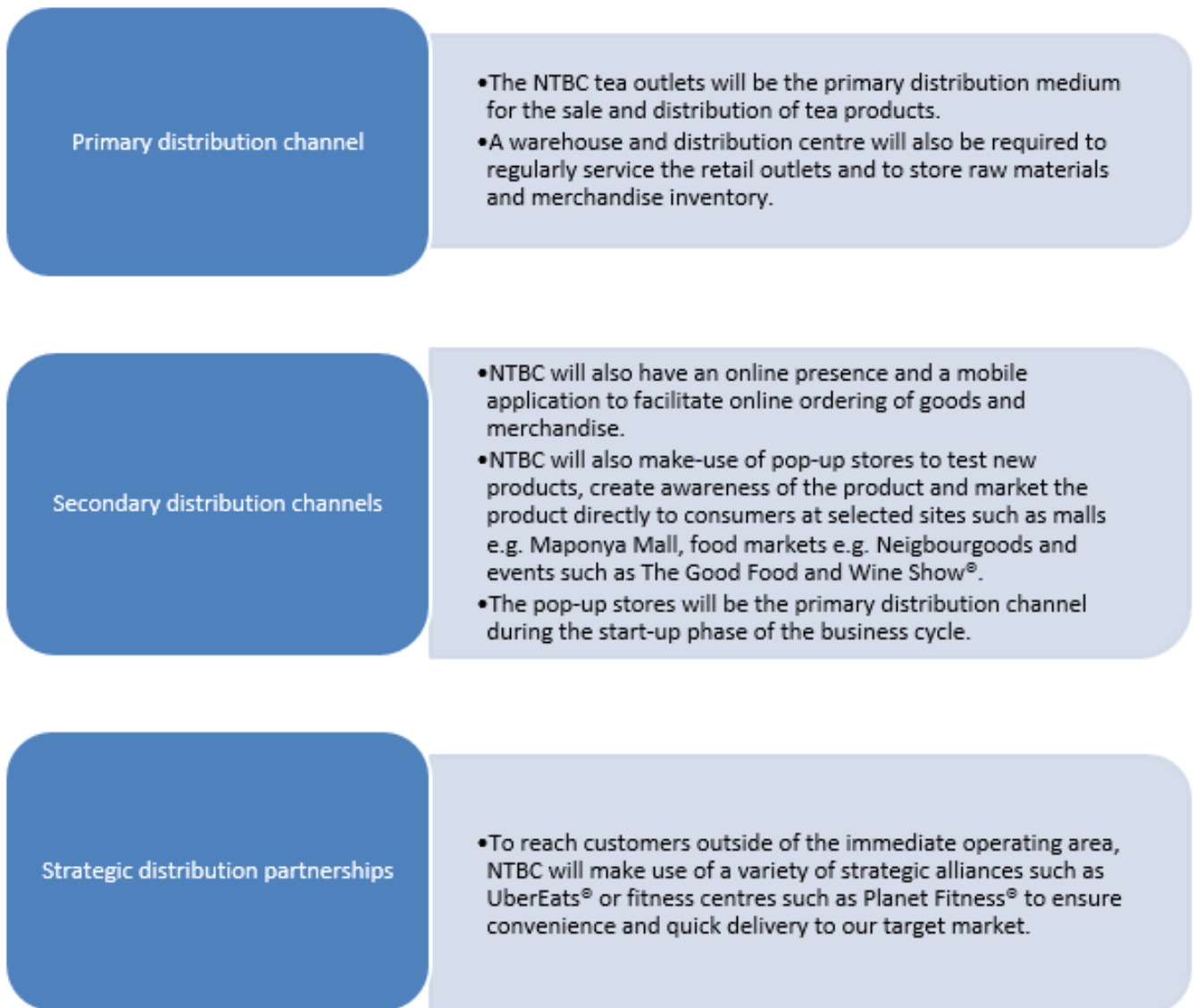
Table 9: Promotional strategy for NTBC

Personal selling	<ul style="list-style-type: none">• This approach is to inform the customer of the benefits of the product.• This will include face-to-face sales in-store as well as at selected strategic sites and events.• In-house as well as outsourced promotional staff will be trained on the different product offerings to enable them to best serve the customers.
Social media	<ul style="list-style-type: none">• Dedicated resources will be required to send out product communication on social media and respond to consumers' questions and comments.• The targeted social media platforms are Facebook®, Twitter®, Instagram®, LinkedIn® and Zomato®.
Sales promotion	<ul style="list-style-type: none">• Sales promotion activities will focus on getting the consumer to try new tea products and to reward consumer loyalty.• Sales promotional activity will include seasonal promotions as well as customer-specific promotions based on customer buying behaviour e.g. discounts on loose-leaf teas if customer predominantly buys RTD tea.• All sales promotions will be done via the mobile application and consumers will earn loyalty points for all purchases made in-store and online.
Advertising	<ul style="list-style-type: none">• Due to the high expenses associated with advertising, the majority of NTBC advertising will be done in-store and will rely on its internal branding on the product packaging and merchandise to advertise the brand.• To limit advertising expenditure, external advertising initiatives will be limited to print media that is able to adequately reach the target market e.g. Women's Health® magazine.

7.4. DISTRIBUTION STRATEGY

NTBC will make use of a variety of distribution channels and strategic partnerships to ensure that it successfully satisfies its target market.

Table 10: Distribution strategy for NTBC



7.5. MARKETING STRATEGY SUMMARY

For NTBC to achieve 2% market share by year 5, it will focus on providing niche tea offerings in the sweet, low calorie drinks category. NTBC will follow a skimming pricing strategy and the primary distribution channel will be retail stores. Additional distribution channels include online ordering, delivery via UberEats® and pop-up stores.

CHAPTER 8. OPERATIONAL STRATEGY

Operations management theory is concerned with the design and control of business operations for the production of goods and services (Stevenson & Hojati, 2007). To serve the target market across the various distribution channels, NTBC will need to ensure that its retail operations are equipped with sufficient stores, space and resource requirements. NTBC will grow using a combination of company-owned and franchise stores to support its growth strategy.

8.1. PROCESS CAPACITY AND DESIGN

To support the growth strategy, NTBC retail stores, delivery services via UberEats and the online store will be open 7 days a week for 52 weeks per year. For every retail store opened, it opens another locational market for more UberEats® deliveries. The pop-up stores will be in selected food market stalls and will operate on weekends only. It is assumed that NTBC will operate at 80% operating efficiency in 2018 as it establishes its operating processes and customers become more familiar with the brand.

To determine the capacity limits per distribution channel, the maximum number of customers served was assumed to be 350 customers per day for the retail stores, operating from 07:00 – 19:00 and 50 customers per day for pop-up stores, operating from 09:00 – 15:00.

The peak times for the retail stores and deliveries are estimated to be between 07:00 – 09:00, 11:00 – 13:00 and 15:00 – 17:00. It is estimated that double the hourly customer throughput will occur during these periods, this is a maximum of 60 customers served per hour for the retail stores when stores are operating at maximum capacity

NTBC customers are looking for convenience so it is assumed that only 40% of the daily customers will be seated for an average time of 45 minutes to take advantage of the f quick charging stations and free Wi-Fi.

The total year one potential target market is 98 528 customers (Table 4). To serve this target market NTBC will open one store in Johannesburg. To calculate the inventory costs per store required to serve this market, the raw material costs were determined from the cost-per-unit (Table 8) and the inventory days and inventory costs were calculated (Table 11).

Table 11: NTBC inventory stock holding and costs. Adapted from application of own research

	Units per day	Inventory days	Monthly top-ups	Inventory cost
Conventional tea e.g. rooibos tea	49	7	4	R 5 101,86
Unorthodox tea e.g. kombucha	67	3	8	R 18 220,92
Loose-leaf tea e.g. oolong tea	76	30	1	R 22 776,15
Other beverages e.g. coffee	67	7	4	R 8 503,10
Food e.g. breakfast meal	93	3	8	R 131 190,63
Merchandise e.g. tea accessories	3	30	1	R 27 331,38
Retail tea products (dry loose leaf tea)	161	30	1	R 252 967,12

The total inventory costs will be R466 091 per month. The store will have 1 weeks' worth of conventional tea, coffee and packaging materials which will be sourced locally. For perishables such as food and kombucha, NTBC

will have 3 days of inventory. Certain loose-leaf tea and merchandise will be imported and the stores will have 30 days of stock holding.

8.2. STORE GROWTH STRATEGY

To achieve 2% of the target market by 2022, NTBC needs to grow at a CAGR of 18% over the review period.

Based on those projections NTBC will need 2 retail stores by 2022 to serve its target market (Table 12).

Table 12: NTBC store requirement over review period. Adapted from the application of own research

	2018	2019	2020	2021	2022
Total number of customers per year	98 528	120 760	148 009	181 406	222 338
Number of retail customers per year	68970	84532	103606	126984	155637
Average customer spend	150	150	150	150	150
Revenue projections	R 14 779 191,46	R 18 114 002,88	R 22 201 288,97	R 27 210 839,87	R 33 350 757,59
Number of retail customers per day	152	232	285	349	428
Number of deliveries per day	51	62	76	93	115
Number of pop-up store customers per day	59	73	89	109	134
Number of online customers per day	1	1	2	2	3
Number of retail stores required	1	1	1	1	2
Number of pop-up stores required	1	2	2	2	3

8.3. LOCATION STRATEGY

To ensure that NTBC is successful, the retail and pop-up stores need to be positioned in a location that will allow for high foot traffic of its target market.

8.3.1. Pop-up store location

Pop-up stores will be the initial entry route into the market. These will be positioned at selected food markets such as Neighbourgoods, Fourways Food Market and Market on Main. The pop-up stores will also be at selected events such as the Good Food and Wine Show or the DSTV Food Festival. All event and market locations are chosen strictly based on target market penetration.

8.3.2. Retail outlet location

The retail outlets store size will be 100 – 150 m² and located in selected shopping centres and trading places in urban centres that caters for a high percentage (> 75%) of households within the LSM 7-10 target market. The shopping centre must have high foot traffic and the target market must also be frequent weekly visitors of the shopping centre. The shopping centre should be close to offices or contain an office block to allow NTBC to target office workers who are on their lunch breaks. Since NTBC is targeting consumers who are health-focussed, it is best to position these stores near or within fitness centres such as Planet Fitness® or Virgin Active®. This could allow NTBC to maximise on breakfast, lunch and dinner offerings. Melrose Arch satisfies most of the location criteria required for NTBC and will be the flagship store for the brand (Table 13).

Table 13: Melrose Arch leasing costs. Adapted from data obtained (Anvil Property Smith, 2017; Property 24, 2017)

Shopping Centre	Location	Fitness Centre	R/m ²	R/month
Melrose Arch	Johannesburg	YES	280	42 000

8.4. JOB DESIGN AND HUMAN RESOURCES

To fulfil the operational requirements of the retail stores, NTBC will have the following manning requirements (Table 14);

Table 14: Retail store job design and human resources. Adapted from application of own research

Express counter	<ul style="list-style-type: none">•Area where food and beverage orders are placed, paid for and collected•Must accommodate peak requirement of 60 customers served per hour•3 individuals will be required to work in this area; cashier, barista and tea server
Retail counter	<ul style="list-style-type: none">•This is where retail merchandise and loose-leaf teas will be sold to customers•1 individual will be required to serve and collect payments from customers for retail goods
Seating area	<ul style="list-style-type: none">•Must accommodate 40% of customers, with an average peak requirement of 24 customers per hour•2 waiters will be required to serve these customers, assist them with mobile application queries, wi-fi and quick charging station queries and inform them about various teas and merchandise available for purchase
Back-of-house	<ul style="list-style-type: none">•Cleaning of crockery and cutlery•Management of inventory and general back-of-house duties•2 individuals will be required to work in this area

All customer-facing staff will be supported by training in tea production, flavour profiles and the origin and history of various tea products. A general manager and assistant manager, both with retail experience, will be key staff requirements to support the retail staff. The managers will assume the role of the cashier during peak periods.

The staff will work shifts and the total staff requirement is 22 workers per retail store. The proposed shift plan is contained in Table 44 in the Appendix. The total staff cost for the retail stores is R45 521 per month. Only one individual is required to run the pop-up store and this will be at a monthly cost of R1500 per month.

CHAPTER 9. FINANCIAL PROJECTIONS AND PLANNING

The financial projections presented in this chapter are based on assumptions described in preceding chapters and summarised in the Appendix. Financial management theories and conventions such as financial statements, long-term financial planning and discounted cash flow valuations have been applied in this chapter.

9.1. SALES FORECAST

Based on the marketing pricing strategy and the operational process strategy, within the first year of operations, NTBC retail stores will service 152 customers per day, spending an average of R150 each. The year one revenue is forecasted to be R8.3 million and a gross profit of R5 million (Table 15).

Table 15: NTBC revenue per store forecast for year one operations. Adapted from application of own research

Product	Sales mix	GP margin (%)	Revenue	Gross profit
Conventional tea e.g. rooibos tea	10%	85%	R 837 487,52	R 711 864,39
Unorthodox tea e.g. kombucha	25%	70%	R 2 093 718,79	R 1 465 603,15
Loose-leaf tea e.g. oolong tea	25%	70%	R 2 093 718,79	R 1 465 603,15
Other beverages e.g. coffee	10%	85%	R 837 487,52	R 711 864,39
Food e.g. breakfast meal	25%	30%	R 2 093 718,79	R 628 115,64
Merchandise e.g. tea accessories	5%	15%	R 418 743,76	R 62 811,56
TOTAL			R 8 374 875,16	R 5 045 862,29

9.2. PROJECTED SALES GROWTH

It is assumed that the average customer spend will remain at R150 per person over the review period. Based on a CAGR of 18% and a gross profit margin of 60%, sales are projected to reach R33 350 757 with a gross profit of R20 010 454 (Table 16).

Table 16: NTBC revenue projections. Adapted from application of own research

	2018	2019	2020	2021	2022
Average customer spend	150	150	150	150	150
NTBC revenue projections	R 14 779 191,46	R 17 391 685,81	R 20 465 986,66	R 24 083 726,82	R 33 350 757,59
NTBC gross profit projections	R 8 867 514,88	R 10 435 011,49	R 12 279 592,00	R 14 450 236,09	R 20 010 454,55

9.3. OPERATIONAL EXPENDITURE

9.3.1. Income statement

Based on the NTBC income statement, operational costs are projected to reach R13 176 497 with an EBITDA of R6 833 958 by 2022 (Table 17).

Strategic costs such as R&D and technology development account for 26% of the operating expenses (Figure 9). These costs are a percentage of revenue and are key operational costs to fund the sustained longevity of the business via its R&D and information technology strategies.

NTBC Average Operating Expenses

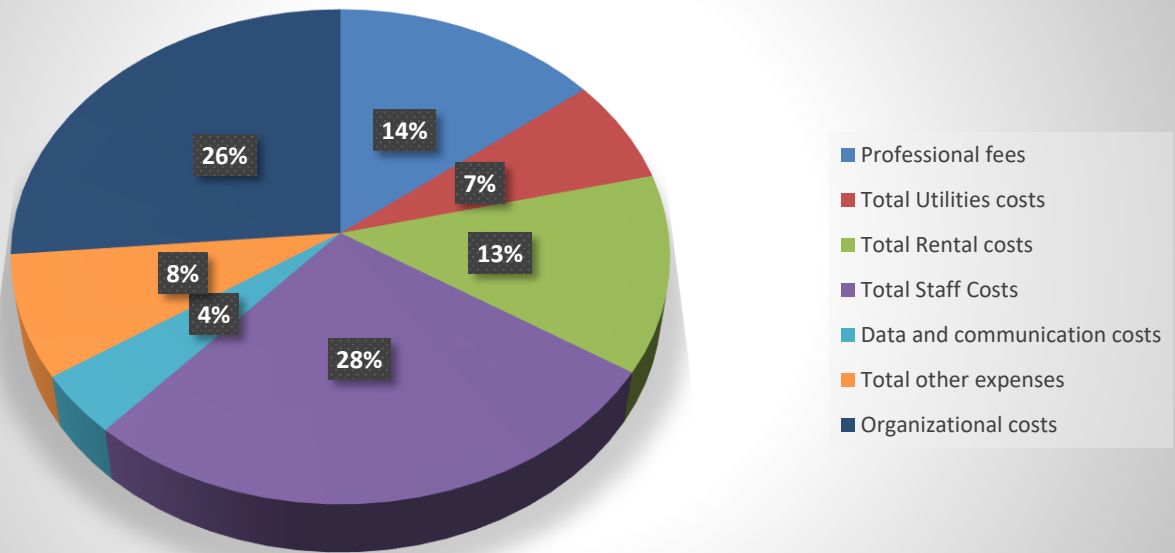


Figure 9: NTBC average operating cost expenses. These costs are adapted from the income statement (Table 17) and represent the percentage contribution to the overall operating expenses over the review period.

Outsourced costs represent 14% of the operating expenses and this is to ensure that the NTBC executive team has specialist skills to focus on tactical, non-core tasks whilst it executes on its strategy.

Staff costs are the most significant cost and are 28% of the operating expenses. Staff costs are typically the highest retail costs followed by rent and marketing costs (Hetrick, Hoffman, & Swartz, 2015).

Table 17: NTBC income statement

	2017	2018	2019	2020	2021	2022
Revenue from own stores	R 14 779 191	R 17 391 686	R 20 465 987	R 24 083 727	R 33 350 758	
Revenue	R 14 779 191	R 17 391 686	R 20 465 987	R 24 083 727	R 33 350 758	
COS	R 5 911 677	R 6 956 674	R 8 186 395	R 9 633 491	R 13 340 303	
Gross profit	R 8 867 515	R 10 435 011	R 12 279 592	R 14 450 236	R 20 010 455	
R&D Costs	R 738 960	R 869 584	R 1 023 299	R 1 204 186	R 1 667 538	
Technology costs	R 738 959,57	R 869 584,29	R 1 023 299,33	R 1 204 186,34	R 1 667 537,88	
Organizational costs	R 1 477 919	R 1 739 169	R 2 046 599	R 2 408 373	R 3 335 076	
Legal and financial services	R 120 000	R 123 600	R 127 308	R 131 127	R 135 061	
IT consultancy fees	R 120 000	R 123 600	R 127 308	R 131 127	R 135 061	
Logistics fees	R 177 350	R 208 700	R 245 592	R 289 005	R 400 209	
Marketing fees	R 443 376	R 521 751	R 613 980	R 722 512	R 1 000 523	
Professional fees	R 860 726	R 977 651	R 1 114 187	R 1 273 771	R 1 670 854	
Water	R 54 000	R 58 957	R 67 230	R 83 710	R 112 851	
Electricity	R 330 000	R 360 294	R 421 978	R 563 790	R 830 118	
Total Utilities costs	R 384 000	R 419 251	R 489 208	R 647 500	R 942 969	
Basic rent	R 684 000	R 719 640	R 813 886	R 1 055 080	R 1 840 398	
Rates and taxes	R 36 000	R 37 620	R 41 343	R 50 326	R 78 752	
Pop-up stall rental costs	R 28 800	R 30 528	R 32 360	R 34 301	R 36 359	
Total Rental costs	R 748 800	R 787 788	R 887 589	R 1 139 707	R 1 955 509	
Staff costs	R 1 217 280	R 1 389 638	R 2 469 581	R 2 844 179	R 3 466 783	
Skills Development Levy (SDL)	R 24 346	R 27 793	R 49 392	R 56 884	R 69 336	
Unemployment Insurance Fund (UIF)	R 12 173	R 13 896	R 24 696	R 28 442	R 34 668	
Workman's Compensation	R 12 173	R 13 896	R 24 696	R 28 442	R 34 668	
Total Staff Costs	R 1 265 971	R 1 445 224	R 2 568 364	R 2 957 946	R 3 605 454	
3G & wi-fi costs	R 120 000	R 127 200	R 148 315	R 204 378	R 311 963	
Email, internet and printing costs	R 48 000	R 49 440	R 50 923	R 52 451	R 54 024	
Telephone	R 84 000	R 87 240	R 93 317	R 106 439	R 129 923	
Data and communication costs	R 252 000	R 263 880	R 292 555	R 363 269	R 495 911	
Cleaning	R 180 000	R 189 000	R 211 969	R 269 942	R 457 484	
Repairs and maintenance	R 84 000	R 88 320	R 99 619	R 128 415	R 221 989	
Business Insurance	R 120 000	R 125 400	R 137 812	R 167 753	R 262 507	
Miscellaneous expenses	R 60 000	R 62 700	R 68 906	R 83 876	R 131 254	
Licences & Accreditations	R 30 000	R 31 800	R 37 079	R 51 095	R 97 488	
Total other expenses	R 474 000	R 497 220	R 555 385	R 701 080	R 1 170 723	
Total operating expenses	R 5 463 416	R 6 130 183	R 7 953 887	R 9 491 646	R 13 176 497	
EBITDA	R 3 404 098	R 4 304 829	R 4 325 705	R 4 958 590	R 6 833 958	
Depreciation	R 311 333	R 311 333	R 336 333	R 350 660	R 709 304	
PBIT	R 3 092 765	R 3 993 496	R 3 989 372	R 4 607 931	R 6 124 654	
Interest	R 160 464	R 128 371	R 96 279	R 64 186	R 32 093	
PBT	R 2 932 301	R 3 865 124	R 3 893 093	R 4 543 745	R 6 092 561	
Tax	R 821 044,24	R 1 082 234,77	R 1 090 066,07	R 1 272 248,63	R 1 705 917,12	
Net profit	R 2 111 257	R 2 782 889	R 2 803 027	R 3 271 496	R 4 386 644	

9.4. CAPITAL REQUIREMENTS

9.4.1. Capital spend and depreciation

The initial capital outlay for the NTBC retail store and head office in the first year is R1 585 000 and R240 000 respectively. Straight line depreciation will be used for all assets. Detail on the costs and useful life for various equipment and fixtures is contained in the NTBC Depreciation Schedule (Table 43) in the Appendix. It is assumed that the capital costs per store will increase at 6% per year for every new store opened to account for inflation and currency fluctuations for imported equipment.

Table 18: NTBC non-current asset projected requirements. Adapted from the application of own research and data

	2018	2019	2020	2021	2022
Retail stores	R 1 585 000	R -	R 267 979	R -	R 2 121 088
Head office	R 240 000	R -	R 250 000	R 40 000	R -
TOTAL	R 1 825 000	R -	R 517 979	R 40 000	R 2 121 088

NTBC will open two company-owned stores and incur a total capital spend of R4 504 066 (Table 19) over the 5-year period and at the end of the financial review period the salvage value of the non-current assets is projected to be 2 485 102 (Table 43).

9.5. WORKING CAPITAL MANAGEMENT

9.5.1. Working capital requirements

Accounts receivables will be paid within 7 days due to the no cash policy, customers will pay using credit cards. Average stock holding will be 7 days, with a maximum of 30 days on certain products (Table 11), to ensure that raw materials are available for operations and minimise the probability of lost sales. Due to the start-up nature of the business, it is assumed that NTBC will not get favourable credit terms initially from suppliers and the best-case scenario for accounts payable will be 30 days. The initial working capital for NTBC prior to operations is R1 457 674 which is 3 months of inventory costs.

9.6. FINANCING REQUIREMENTS

9.6.1. Capital structure

NTBC requires a total investment of R 4.3 million over the review period for the funding of net non-current assets and 3 months of working capital and operating expenses (Table 19). The initial capital structure it will employ is to have a debt-to-equity ratio of 0.3. This is due to limited collateral that the start-up will have to secure a business loan and also to ensure that the business is not perceived as risky to potential future investors and to minimize the solvency risk.

Table 19: NTBC seed capital requirements

Expense category		Total
Capital expenditure	R	1 825 000,00
Working capital expenditure	R	1 457 674
Operating expenditure	R	996 374
Start-up seed capital	R	4 279 047,99

9.6.2. Debt financing

Based on the debt-to-equity ratio, NTBC will require R1 283 714 in debt financing (Table 20). NTBC will make use of loans from government-backed institutions such as the National Empowerment Fund (NEF) as well as government grants such as the Black Business Supplier Development Programme (BBSDP) and the National Youth Development Program (NYDP) to fund future growth (Entrepreneur, 2016). These loans are assumed to be low interest loans (12.5%) to be repaid over a 5-year period and a maximum of R1 500 000 can be obtained from these loans.

Table 20: NTBC projected loan schedule.

	2017	2018	2019	2020	2021	2022
Beginning balance	R 1 283 714	R 1 283 714	R 1 026 972	R 770 229	R 513 486	R 256 743
Payments	R -	R 256 743	R 256 743	R 256 743	R 256 743	R 256 743
Ending balance	R 1 283 714	R 1 026 972	R 770 229	R 513 486	R 256 743	R -
Interest expense		R 160 464	R 128 371	R 96 279	R 64 186	R 32 093

9.6.3. Equity financing

The balance of the seed capital will be obtained from equity financing. Twenty percent of the required equity

funds will come from the founder and the balance from friends and family, angel investors and venture capitalists. The rate of return is assumed to be 25%. Using a conservative price-to-earnings ratio of 3 x EBITDA, the projected valuation for NTBC by 2022 is R20 501 878 (Table 21). This is a compound annual return on equity of 47%. No dividends will be issued during the review period and all profit will be kept as retained earnings.

Table 21: NTBC projected equity statement

	2017	2018	2019	2020	2021	2022
P/E ratio	3	3	3	3	3	3
EBITDA	R -	R 3 404 098	R 4 304 829	R 4 325 705	R 4 958 590	R 6 833 958
Market value	R -	R 10 212 295	R 12 914 487	R 12 977 115	R 14 875 771	R 20 501 874
Founder equity	R 599 067	R 599 067	R 599 067	R 599 067	R 599 067	R 599 067
Investor equity	R 2 396 267	R 2 396 267	R 2 396 267	R 2 396 267	R 2 396 267	R 2 396 267

9.7. SUMMARY OF FINANCIALS

9.7.1. Cash flow

Prior to operations, R2.5 million of the seed capital will be used for working capital and operating expenses in 2018. Due to the positive profit before tax (PBT) and working capital management policy, cash flow from operations is expected to remain positive from 2018 (Table 22).

Investment activities throughout the review period include the purchase of short useful life equipment such as computers, tablets, cleaning equipment and crockery at the end of 2019 for retail stores and at the end of 2020 for the head office, as well as the purchase of equipment and shop fitting costs for another retail store at the end of 2021.

Table 22: NTBC projected cash flow statement

	2017	2018	2019	2020	2021	2022
Beginning cash	R -	R 2 454 047,99	R 4 376 394,78	R 6 612 916,62	R 9 397 822,81	R 10 574 235,56
Cash flow from operating activities						
PBT	R -	R 2 932 300,86	R 3 865 124,19	R 3 893 093,11	R 4 543 745,10	R 6 092 561,15
Depreciation	R -	R 311 333,33	R 311 333,33	R 336 333,33	R 350 659,53	R 709 303,99
Interest expense	R -	R 160 464,30	R 128 371,44	R 96 278,58	R 64 185,72	R 32 092,86
Operating profit before working capital changes	R -	R 3 404 098,49	R 4 304 828,97	R 4 325 705,02	R 4 958 590,36	R 6 833 957,99
Working capital changes						
Inventory changes	R -	R -485 891,23	R -85 890,23	R -101 072,90	R -118 939,40	R -304 669,50
Accounts payable changes	R	R 525 827,49	R 53 013,43	R 102 320,80	R 120 407,88	R 319 934,99
Accounts receivable changes	R	R -283 436,55	R -50 102,63	R -58 959,19	R -69 381,32	R -177 723,88
Cash generated from operations	R 3 160 598,21	R 4 221 849,54	R 4 267 993,72	R 4 890 677,52	R 6 671 499,60	R 6 671 499,60
Tax paid	R	R -821 044,24	R -1 082 234,77	R -1 090 066,07	R -1 272 248,63	R -1 705 917,12
Net cash flow from operations	R 2 339 553,97	R 3 139 614,77	R 3 177 927,65	R 3 618 428,89	R 4 965 582,48	R 4 965 582,48
Cash flow from investing activities						
Beginning net non-current assets	R -	R 1 825 000,00	R 1 513 666,67	R 1 720 311,93	R 1 423 978,60	R 3 194 406,61
Ending net non-current assets	R 1 825 000,00	R 1 513 666,67	R 1 720 311,93	R 1 423 978,60	R 3 194 406,61	R 2 485 102,62
Change in non-current assets	R 1 825 000,00	R -311 333,33	R 206 645,27	R -296 333,33	R 1 770 428,01	R -709 303,99
Depreciation	R -	R 311 333,33	R 311 333,33	R 336 333,33	R 350 659,53	R 709 303,99
Net cash flow from investment activities	R -1 825 000,00	R -0,00	R -517 978,60	R -40 000,00	R -2 121 087,54	R 0,00
Cash flows from financing activities						
Interest paid	R	R -160 464,30	R -128 371,44	R -96 278,58	R -64 185,72	R -32 092,86
Dividends paid	R	R -	R -	R -	R -	R -
Change in long-term debt	R -	R -256 742,88	R -256 742,88	R -256 742,88	R -256 742,88	R -256 742,88
Change in short-term debt	R	R -	R -	R -	R -	R -
Change in share capital	R 4 279 047,99	R -	R -	R -	R -	R -
Net cash flow from financing activities	R 4 279 047,99	R -417 207,18	R -385 114,32	R -353 021,46	R -320 928,60	R -288 835,74
Net increase in cash	R 2 454 047,99	R 1 922 346,79	R 2 236 521,85	R 2 784 906,19	R 1 176 412,75	R 4 676 746,74
Ending cash balance	R 2 454 047,99	R 4 376 394,78	R 6 612 916,62	R 9 397 822,81	R 10 574 235,56	R 15 250 982,30

9.7.2. Balance sheet

NTBC is forecasted to generate R15 250 982 in cash from operating, investment and financing activities and

R1 096 463 in inventory by 2022 (Table 23). The cash will be used for future growth opportunities to increase market share.

Table 23: Balance sheet projections of the Novel Tea Brewing Company as at end of financial year for 2018 to 2022

	2017	2018	2019	2020	2021	2022
ASSETS						
Net fixed assets	R 1 825 000	R 1 513 667	R 1 720 312	R 1 423 979	R 3 194 407	R 2 485 103
Inventory	R -	R 485 891	R 571 781	R 672 854	R 791 794	R 1 096 463
Accounts Receivable	R -	R 283 437	R 333 539	R 392 498	R 461 880	R 639 604
Cash	R 2 454 048	R 4 376 395	R 6 612 917	R 9 397 823	R 10 574 236	R 15 250 982
TOTAL ASSETS	R 4 279 048	R 6 659 389	R 9 238 549	R 11 887 154	R 15 022 316	R 19 472 152
EQUITY						
Founder's equity	R 599 066,72	R 599 066,72	R 599 066,72	R 599 066,72	R 599 066,72	R 599 066,72
Investor's equity	R 2 396 266,87	R 2 396 266,87	R 2 396 266,87	R 2 396 266,87	R 2 396 266,87	R 2 396 266,87
Retained earning's	R -	R 2 111 256,62	R 4 894 146,04	R 7 697 173,07	R 10 968 669,55	R 15 355 313,57
TOTAL EQUITY	R 2 995 334	R 5 106 590	R 7 889 480	R 10 692 507	R 13 964 003	R 18 350 647
LIABILITIES						
Long-term debt	R 1 283 714,40	R 1 026 971,52	R 770 228,64	R 513 485,76	R 256 742,88	R -
Accounts payable	R -	R 525 827,49	R 578 840,92	R 681 161,72	R 801 569,60	R 1 121 504,59
TOTAL LIABILITIES	R 1 283 714,4	R 1 552 799,0	R 1 349 069,6	R 1 194 647,5	R 1 058 312,5	R 1 121 504,6
TOTAL LIABILITIES & EQUITY	R 4 279 048,0	R 6 659 389,2	R 9 238 549,2	R 11 887 154,1	R 15 022 315,6	R 19 472 151,8

9.7.3. Financial ratios

NTBC inventory holding does not have a significant impact on liquidity due to the maximum inventory holding of 30 days. By 2022, for every rand invested in assets, NTBC will generate R1.70 in sales and turnover its entire inventory 3 times. Gross profit is expected to stay at 60% and this will be achieved by the Procurement strategy. Net operating profit margin is expected to reach 13.2% by 2022 (Table 24).

Table 24: NTBC financial ratio projections

	2017	2018	2019	2020	2021	2022
Short-term solvency ratios						
Current ratio	0,0	9,8	13,0	15,4	14,8	15,1
Liquid ratio	0,0	8,9	12,0	14,4	13,8	14,2
Long-term solvency ratios						
Total debt ratio	0,3	0,2	0,1	0,1	0,1	0,1
Debt-equity ratio	0,0	0,3	0,2	0,1	0,1	0,1
Asset utilization ratios						
Turnover/total assets	0,0	2,2	1,9	1,7	1,6	1,7
Inventory turnover	0,0	3,0	3,0	3,0	3,0	3,0
Profitability ratios						
Gross profit margin	0%	60%	60%	60%	60%	60%
Net profit margin	0,0%	14%	16%	14%	14%	13,2%
Return on equity	0%	41%	35%	26%	23%	24%
Return on assets	0%	32%	30%	24%	22%	23%
Other ratios						
Rent as % of turnover	0%	5%	5%	4%	5%	6%
Staff costs as % of turnover	0,0%	9%	8%	13%	12%	10,8%
Organizational costs as % turnover	0%	10%	10%	10%	10%	10%
Professional fees as % of turnover	0%	6%	6%	5%	5%	5%
Other costs as % of turnover	0%	3%	3%	3%	3%	4%

9.7.4. Discounted cash flow

Based on the debt interest rate of 12.5% and cost of equity of 25% (Table 47), the WACC is 21.3%. Discounting the cash flows over the review period resulted in an NPV of R7 083 191 and an IRR of 124.3% (Table 25). The positive NPV indicates that the project will be profitable over the review period.

Table 25: NTBC projected discounted cash flow statement

	2017		2018		2019		2020		2021		2022	
PBIT	R	-	R	3 092 765	R	3 993 496	R	3 989 372	R	4 607 931	R	6 124 654
Depreciation	R	-	R	311 333	R	311 333	R	336 333	R	350 660	R	709 304
Tax	R	-	R	821 044	R	1 082 235	R	1 090 066	R	1 272 249	R	1 705 917
Operating cash flow	R	-	R	2 583 054	R	3 222 594	R	3 235 639	R	3 686 342	R	5 128 041
Beginning net non-current assets	R	-	R	1 825 000	R	1 513 667	R	1 720 312	R	1 423 979	R	3 194 407
Ending net non-current assets	R	1 825 000	R	1 513 667	R	1 720 312	R	1 423 979	R	3 194 407	R	2 485 103
Change in non-current assets	R	1 825 000	-R	311 333	R	206 645	-R	296 333	R	1 770 428	-R	709 304
Depreciation	R	-	R	311 333	R	311 333	R	336 333	R	350 660	R	709 304
Net capital spending	R	1 825 000	R	-	R	517 979	R	40 000	R	2 121 088	R	-
Additions to net working capital	-R	243 500	-R	82 979	-R	57 711	-R	67 913	-R	162 458	R	-
FREE CASH FLOW	-R	1 581 499,72	R	2 666 033,68	R	2 762 326,89	R	3 263 551,79	R	1 727 712,58	R	5 128 040,87
WACC		21,3%		21,3%		21,3%		21,3%		21,3%		21,3%
DISCOUNTED CASH FLOW	-R	1 581 499,72	R	2 198 790,66	R	1 878 934,23	R	1 830 818,39	R	799 363,85	R	1 956 783,34
CUMULATIVE CASHFLOW	-R	1 581 499,72	R	617 290,94	R	2 496 225,17	R	4 327 043,56	R	5 126 407,42	R	7 083 190,75
NPV	R	7 083 191		IRR	124,3%							

CHAPTER 10: RISK ANALYSIS

10.1. SENSITIVITY ANALYSIS

A sensitivity analysis was conducted on the NTBC business the range over which various external inputs will have an adverse effect on NPV. Eight sets of inputs were used for the sensitivity analysis which represent the worst case, base case and best case (Table 26).

Table 26: Inputs for NPV sensitivity analysis

Parameter	Variables			NPV			
	UOM	Worst	Base	Best	Worst	Base	Best
Average spend	R	75	150	200	-R 2 954 462,00	R 7 083 191,00	R 13 774 959,00
Gross profit	%	40	60	75	-R 864 308,00	R 7 083 191,00	R 13 043 815,00
Cost of equity	%	40	25	20	R 5 325 707,00	R 7 083 191,00	R 7 838 055,00
D/E ratio	%	10	30	50	R 6 545 888,00	R 7 083 191,00	R 7 673 325,00
Inflation rate	%	8	6	4	R 6 738 822,00	R 7 083 191,00	R 7 410 660,00
Lending rate	%	20	12,5	10	R 6 699 554,00	R 7 083 191,00	R 7 218 581,00
Population growth rate	%	1	1,6	3	R 7 083 191,00	R 7 083 191,00	R 7 083 191,00
Industry growth rate	%	0,5	3	5	R 7 200 306,00	R 7 083 191,00	R 6 985 411,00

The resultant NPVs for all cases were positive with the exception of average consumer spend and gross profits. These two parameters have the most significant impact on profitability and need to be carefully monitored and controlled. The marketing and procurement strategies have the most significant impact on these variables

The break-even average spend was calculated at R97.80 per customer and the break-even gross profit at 42.18%

10.2. MONTE CARLO ANALYSIS

A Monte Carlo analysis was done to quantitatively determine the level of risk based on the uncertainty and variability on the assumptions made (Wood & Knott, 1997).

The industry growth rate was the selected variable due to the low and uncertain growth within the South African tea industry. The industry growth rate was assumed to represent a normal distribution curve with a mean on 3% and a standard deviation of 5%. A negative growth rate was allowed due to the current challenges in the South African economic climate discussed in the PESTLE analysis.

The NORM.INV function was used in Microsoft Excel to calculate the growth rate variable given a probability. To represent the levels of uncertainty associated with the growth rates, the probability value was randomised using the RAND() function. This calculated growth rate was then used to determine the PBIT values for the project period to allow for the DCF calculations.

The only variables that were impacted in the DCF calculations were the PBIT, tax and additions to net working capital, all other variables remained fixed (Table 45).

The NPV was calculated over 1000 iterations of various growth rates within the mean and standard deviation to determine the average NPV values that can be expected over the 5-year period (Table 27).

Table 27: Monte Carlo Simulation NPV results

Parameter	Value
Number of samples	1000
NPV mean	R 5 300 253,20
NPV standard deviation	R 320 730,64
Minimum	R 4 314 113,60
Maximum	R 6 443 760,06

Whilst the average NPV of R5.3 million from the Monte Carlo analysis differs from the base case NPV of R7.1 million, the business venture is still feasible, due to the positive NPV.

CHAPTER 11. BUSINESS PLAN CRITIQUE

Critical thinking theory is the objective analysis of facts and information to form a judgement (The Foundation for Critical Thinking, 2007). This has been applied to the chapter where the limitations and criticisms of key assumptions of the business plan are discussed.

11.1. High growth rate for NTBC compared to tea industry growth rate

To achieve a market share of 2% by 2022, NTBC will need to grow at a CAGR of 18% compared to the forecasted industry growth rate of 0.9% (Insight Survey, 2016). This is an ambitious plan but based on the growth success of retailers like the Tea Merchant, the introduction of Teavana by Starbucks and the consumer health trends, it is possible to achieve high growth rates in the current economic climate.

11.2. Heavy reliance on FitChef® for food

The product strategy for NTBC relies on the strategic alliance with FitChef® to provide food. Whilst food is not a strategic focus for NTBC, it is a strategic, non-core asset that is a key complementary product. The business plan does not cater for the provision of food preparation facilities and it is essential that the sourcing of a food service provider such as FitChef® is obtained and well-managed to ensure continued success of the business operations.

11.3. Own assumptions used to determine critical success factors for competitors

The critical success factors used to determine the Blue Ocean gaps and UVP are based on assumptions and perceived values. Extensive marketing research is required to establish realistic values. Personal selling through the NTBC pop-up stores will allow NTBC to better understand its consumer's preferences and align its UVP and strategy accordingly.

11.4. Limited detail on R&D and technology strategy

10% of revenue will be used for the R&D and technology strategy that will support the overall organisational strategy, but no detail is provided on what the strategy is. It has been identified that product innovation and technology-led convenience are two essential components of the UVP and are thus essential for the future growth of the business. The discussion of the strategies is beyond the scope of this proposal and will need to be further developed and discussed.

CHAPTER 12. BUSINESS PLAN REVIEW AND RECOMMENDATIONS

The R-W-W Screen is a tool used to explore assumptions in the development of a project or concept, identify gaps in knowledge as well as sources of potential risk (G. Day, 2007). The R-W-W Screen was used to determine the feasibility of the NTBC business venture by answering key questions linked to an aspect of the R-W-W Screen.

12.1 Is it real?

NTBC has a real market for its product and tea products have been bought at various retailers and restaurants. The current specialist tea market has 9.8 million potential customers and NTBC plans to acquire 2% of the market by 2022. Due to the growth of tea retail stores like the Tea Merchant, the emergence of e-commerce stores, the introduction of Teavana by Starbucks and the forecasted growth for rooibos and RTD teas, it is expected that the customer will buy the products offered by NTBC.

There is a clear concept, which based on the UVP is to offer innovative tea products and technology-led convenience. The NTBC tea products can be made using conventional tea manufacturing and preparation processes and the technology to produce the product is readily and easily available. NTBC products are able to satisfy a consumer need for a sweet, low calorie beverage but also complements the diet and nutritional needs of consumers who are interested in healthier offerings (Table 28).

Table 28: R-W-W Screen – Is it real? Adapted from own research applied to R-W-W screen (G. Day, 2007)

		Key questions	Reference	Status
IS IT REAL?	Is the market real?	Is there a need or desire for the product?	1.2.1. Global food and beverage trends 1.2.4.7. South African tea consumer	
		Can the customer buy it?	1.2.4. South African tea industry 5.3. Competitor analysis	
		Is the size of the potential market adequate?	6.2. Market analysis 6.3. Target market size	
		Will the customer buy the product?	1.2.4.7. South African tea consumer	
	Is the product real?	Is there a clear concept?	6.1. Unique value proposition 8.1. Product strategy	
		Can the product be made?	2.2.2. Tea production and tea types 8.1. Product strategy	
		Will the final product satisfy the market?	1.4. Market opportunity 8.1. Product strategy	

12.2. Can we win?

NTBC has identified a niche opportunity which provides value for health-conscious consumers and also has a strategy for obtaining direct customer preferences and tastes to allow for future modifications of the product. The company combines a retail and express tea and food service which is not what the majority of its direct competitors are doing and not something that NTBC expects competitors to venture into immediately. To sustain the competitive advantage, NTBC will focus on continuous innovation and product development and invest in technology to provide more convenient ways to offer customers our products.

Since NTBC is a start-up it currently has no resources and needs to employ an appropriate management team. The

managerial requirements have already been identified and NTBC will make use of outsourcing to manage IT, marketing, legal and financial tasks until all management positions are filled (Table 29).

Table 29: R-W-W Screen - Can we win? Adapted from own research applied to R-W-W screen (G. Day, 2007)

		Key questions	Reference	Status
CAN WE WIN?	Can the product be competitive?	Does it have a competitive advantage?	6.1. Unique value proposition	Green
		Can the advantage be sustained?	6.1. Unique value proposition	Yellow
		How will the competitors respond?	5.2. Industry analysis 5.3. Competitor analysis	Yellow
	Can our company be competitive?	Do we have superior resources?	Chapter 7. Organisational strategy	Red
		Do we have appropriate management?	7.2. Head office support structure	Red
		Can we understand and respond to the market?	8.3. Promotional strategy 8.4. Distribution strategy	Yellow

12.3. Is it worth doing?

NTBC is forecasted to generate a positive NPV over the review period and generate 13% NOP and 24% ROE by 2022 (Table 24). A risk analysis has been done and the NPV remains positive over a broad range of scenarios and growth rates. The product offerings of NTBC are aligned with the current global and South African consumer trends as well as the company organisational strategy and UVP (Table 30).

Table 30: R-W-W Screen - Is it worth doing? Adapted from own research applied to R-W-W screen (G. Day, 2007)

		Key questions	Reference	Status
IS IT WORTH DOING?	Will the product be profitable at an acceptable risk?	Are forecasted returns greater than costs?	10.6.3. Financial ratios 10.6.4. Discounted cash flow	Green
		Are the risks acceptable?	11.1. Sensitivity analysis 11.2. Monte Carlo analysis	Green
	Does launching the product make strategic sense?	Does the product fit the overall growth strategy?	Chapter 7. Organisational strategy 6.1. Unique value proposition 8.1. Product strategy	Green
		Will top management support it?	Chapter 7. Organisational strategy	Green

13.4. Conclusion

Based on the success criteria in the methodological approach in Chapter 3, it is recommended that the NTBC business venture is pursued due to;

1. A positive NPV after the five year review period,
2. A positive NPV for both the sensitivity and Monte Carlo analysis and,
3. A comprehensive plan to address the gaps highlighted in the R-W-W screen.

CHAPTER 13. IMPLEMENTATION PLAN AND EXIT STRATEGY

In the first 7 months of business, NTBC will focus on product development and consumer trials using pop-up stores at selected markets. The NTBC initial executive team will also focus on securing contracts and providers for raw materials, packaging and equipment as well as finalizing the alliance agreement with FitChef® and securing financing from all shareholders (Table 31).

Table 31: NTBC implementation schedule

	MONTHS							YEARS				
	1	2	3	4	5	6	7	1	2	3	4	5
Preparation												
Product development												
Product testing using pop-up stores in markets												
Registration of business												
Recruitment of initial executive team												
Secure contracts and providers for raw materials and packaging procurement												
Secure contracts and providers of tea and coffee equipment procurement												
Develop alliance with FitChef®												
Secure financing												
Start-up												
Secure lease for flagship store												
Secure premises for head office operations												
Develop alliances with key strategic partners												
Launch stores												
Operations												
Recruitment of marketing team												
Recruitment of IT team												
Market business to franchisees												
Milestones				X			X	X			X	X

At the end of the five-year period, the following business options should be considered to ensure future growth for the start-up:

1. Company growth via franchising,
2. Company growth by acquisition, and
3. Company growth by diversification.

The organisational strategy is designed to accommodate franchising in future and investors will have the option to sell their shares to the founder and management team at an agreed market value.

APPENDIX

MARKETING STRATEGY

TARGET MARKET ASSUMPTIONS

Target market numbers based on SAARF LSM 7-10 data from 2014 and 1.6% population growth rate applied from 2014 to 2022 for the South African population (Table 32). The average target LSM 7-10 group is the average between all LSM 7-10 individuals within the group earning > R8000 per month and all LSM 7-10 individuals staying in Gauteng, Western Cape and KwaZulu Natal. The number of rooibos and iced tea drinkers is based on data from the Insights Survey Report and a growth rate of 4.2% and 0.7% has been applied respectively from 2014 to 2022. The average specialist tea drinkers is the average between the rooibos and iced tea drinkers.

Table 32: Target market calculation sheet

Target Market Size									
South African population (2014)	54 150 000								
Table 1: LSM 7-10 income data for 2014 (Source: SAARF)									
	LSM 7	LSM 8	LSM 9	LSM 10					
Population	4 719 000	3 248 000	3 661 000	2 452 000					
R8000 - R10999	20,8	16,1	11,2	3,5					
R11000 - R19999	28,6	31,7	29,2	13,8					
R20000+	15,4	30,8	50,1	81					
% LSM group within income range	64,8	78,6	90,5	98,3					
Total LSM 7-10 population	14 080 000								
Total targeted LSM 7-10 population (based on income)	11 334 361								
% of LSM 7-10 population	80%								
Table 2: LSM 7-10 geographic data for 2014 (Source: SAARF)									
	LSM 7	LSM 8	LSM 9	LSM 10					
Population	4 719 000	3 248 000	3 661 000	2 452 000					
W. Cape	19	19,8	21	16,6					
KwaZulu Natal	14	15,2	15,7	22,4					
Gauteng	39,9	39,6	38,5	41,8					
% LSM group within selected provinces	72,9	74,6	75,2	80,8					
Total LSM 7-10 population	14 080 000								
Total targeted LSM 7-10 population (based on geographic distribution)	10 597 447								
% of LSM 7-10 population	75%								
Average 2014 target market size	10 965 904								
Table 3: South African Tea Consumer Market Size									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
South African population	54 150 000	55 016 400	55 896 662	56 791 009	57 699 665	58 622 860	59 560 826	60 513 799	61 482 020
Total LSM 7-10 population	14 080 000	14 305 280	14 534 164	14 766 711	15 002 978	15 243 026	15 486 915	15 734 705	15 986 460
Average target LSM 7-10 market	10 965 904	11 141 358	11 319 620	11 500 734	11 684 746	11 871 702	12 061 649	12 254 635	12 450 710
Number of rooibos tea drinkers in South Africa	11 351 000	11 567 000	12 052 814	12 559 032	13 086 512	13 636 145	14 208 863	14 805 635	15 427 472
Number of iced tea tea drinkers in South Africa	5 932 000	6 482 000	6 527 374	6 573 066	6 619 077	6 665 411	6 712 068	6 759 053	6 806 366
Average specialist tea drinkers in South Africa	8 641 500	9 024 500	9 290 094	9 566 049	9 852 794	10 150 778	10 460 466	10 782 344	11 116 919
Novel Tea Brewing Company target market					98 528	115 945	136 440	160 558	222 338
Novel Tea Brewing Company % market share					1,0%	1,1%	1,3%	1,5%	2,0%
Tea growth rate (CAGR %)	3,06%								
NTBC CAGR (%)	18%								

Excerpts from the Insight Survey 2016 SA Tea Industry Landscape Report is obtained below. This provides the numerical data on South African tea drinkers and growth projections.

COMPETITOR ANALYSIS ASSUMPTIONS

Scorings for all critical success factors based on own experience and perceptions.

Table 33: Tea industry strategic group critical success factors and capability characteristics

Critical success factor	Capability	Characteristics Description	Scoring		Strategic group			
			Low	High	1	2	3	4
Retail footprint	Threshold	Store size and channel access to consumers	1	10	7	6	5	10
Price	Threshold	High or low price	1	10	9	9	5	4
Customer service	Distinctive	Perceived focus on customer service	1	10	9	7	5	4
Specialist tea services	Distinctive	Specialist focus on tea products and accessories	1	10	5	10	7	4
Diverse product offering	Distinctive	Number of products offered in-store	1	10	7	6	6	6
Customer benefits	Distinctive	Number of benefits offered to customers	1	10	8	4	4	2
Health focus	Distinctive	Specific focus on health and wellness	1	10	4	5	3	4
Food service	Distinctive	Specific focus on producing and selling food in-store	1	10	8	0	4	0

Note: 1 = Starbucks, 2 = The Tea Merchant, 3 = The Bubble Tea Company, 4 = Lipton

MARKETING STRATEGY ASSUMPTIONS

Table 34: Marketing inputs

Parameter	UOM	Value
Rooibos tea drinker growth rate	%	4,2
Iced tea drinker growth rate	%	0,7
Initial market share	%	1
Market share after 5 years	%	2
Gross profit margins	%	60

Gross Profit

Parameter	UOM	Value
Conventional tea e.g. rooibos tea	%	85
Unorthodox tea e.g. kombucha	%	70
Loose-leaf tea e.g. oolong tea	%	70
Other beverages e.g. coffee	%	85
Food e.g. breakfast meal	%	30
Merchandise e.g. tea accessories	%	15

Product Sales Mix

Parameter	UOM	Value
Conventional tea e.g. rooibos tea	%	5
Unorthodox tea e.g. kombucha	%	25
Loose-leaf tea e.g. oolong tea	%	25
Other beverages e.g. coffee	%	5
Food e.g. breakfast meal	%	35
Merchandise e.g. tea accessories	%	5

Distribution Mix

Parameter	UOM	Value
Retail stores	%	70
Delivery via UberEats®	%	15
Pop-up stores	%	5
Online store	%	10

ORGANISATIONAL STRATEGY

ORGANISATIONAL STRATEGY ASSUMPTIONS

Table 35: Organisational inputs and head office salaries

Parameter	UOM	Value
R&D (% of revenue)	%	5
Technology (% of revenue)	%	5
Salary (% increase)	%	7

Table: Head office salaries

Position	UOM	Value	Salaries (R/year)	25%	Median	75%	Variance
Founder	R/month	R 30 000	R 360 000	R 620 000	R 1 021 416	R 2 000 000	R -661 416
Procurement Executive	R/month	R 35 000	R 420 000	R 240 000	R 394 388	R 640 000	R 25 612
Channel Manager	R/month	10000	R 120 000	R 144 000	R 236 633	R 384 000	R -116 633
Finance Manager	R/month	10000	R 120 000	R 360 000	R 525 195	R 690 000	R -405 195
Bookkeeper	R/month	7500	R 90 000	R 110 000	R 156 354	R 210 000	R -66 354
Operations Executive	R/month	25000	R 300 000	R 190 000	R 303 306	R 490 000	R -3 306
Store Manager	R/month	8640	R 103 680	R 114 000	R 181 984	R 294 000	R -78 304
Regional Manager	R/month	15000	R 180 000	R 152 000	R 242 645	R 392 000	R -62 645
Training Manager	R/month	10000	R 120 000	R 200 000	R 329 327	R 460 000	R -209 327
Training Co-ordinator	R/month	7500	R 90 000	R 130 000	R 163 045	R 240 000	R -73 045
HR Manager	R/month	10000	R 120 000	R 220 000	R 330 592	R 480 000	R -210 592
Logistics Manager	R/month	15000	R 180 000	R 180 000	R 308 793	R 490 000	R -128 793
Technical Executive	R/month	39000	R 468 000	R 260 000	R 463 000	R 600 000	R 5 000
Tea Master	R/month	15000	R 180 000	R 182 000	R 324 100	R 420 000	R -144 100
Research Specialist	R/month	15000	R 180 000	R 240 000	R 320 628	R 440 000	R -140 628
Food Technologist	R/month	10000	R 120 000	R 120 000	R 174 386	R 240 000	R -54 386
Marketing Executive	R/month	30000	R 360 000	R 230 000	R 352 829	R 530 000	R 7 171
Data Analyst	R/month	12500	R 150 000	R 170 000	R 243 821	R 340 000	R -93 821
Digital Marketer	R/month	12500	R 150 000	R 200 000	R 306 669	R 450 000	R -156 669
IT Executive	R/month	34000	R 408 000	R 260 000	R 400 133	R 560 000	R 7 867
Applications Developer	R/month	12500	R 150 000	R 120 000	R 222 856	R 310 000	R -72 856
Technology Specialist	R/month	12500	R 150 000	R 200 000	R 372 172	R 560 000	R -222 172

Table 36: Input costs for year one of head office operations

Parameter	UOM	Value
R&D Costs	% of revenue	5
Technology costs	% of revenue	5
Legal & financial services	R/month	10000
IT consultancy fees	R/month	10000
Logistics fees	% of gross profit	2
Marketing fees	% of gross profit	5
Water	R/month	2500
Electricity	R/month	7500
Basic rent	R/month	15000
Rates and taxes	R/month	1500
Skills Development Levy (SDL)	%	2
Unemployment Insurance Fund (UIF)	%	1
Workman's Compensation	%	1
Email, internet and printing costs	R/month	4000
Telephone	R/month	5000
Cleaning	R/month	5000
Repairs and maintenance	R/month	2000
Business Insurance	R/month	5000
Miscellaneous expenses	R/month	2500

An inflation rate of 6% is applied across the review period for all operating costs.

Table 37: NTBC head office capital expenditure depreciation schedule

Asset description	Cost	Purchase year	Life	2018	2019	2020	2021	2022	Salvage value
Furniture	R 100 000	2018	5	R 20 000	R 20 000	R 20 000	R 20 000	R 20 000	R -
R&D equipment	R 250 000	2020	10	R -	R -	R 25 000	R 25 000	R 25 000	R 175 000
Computer	R 30 000	2018	3	R 10 000	R 10 000	R 10 000	R -	R -	R -
Tablets	R 10 000	2018	3	R 3 333	R 3 333	R 3 333	R -	R -	R -
Computer	R 30 000	2021	3	R -	R -	R -	R 10 000	R 10 000	R 10 000
Tablets	R 10 000	2021	3	R -	R -	R -	R 3 333	R 3 333	R 3 333
Fixtures	R 100 000	2018	10	R 10 000	R 10 000	R 10 000	R 10 000	R 10 000	R 50 000
TOTAL	R 530 000			R 43 333	R 43 333	R 68 333	R 68 333	R 68 333	R 238 333

OPERATIONAL STRATEGY

OPERATIONAL STRATEGY ASSUMPTIONS

Table 38: Operational inputs

Retail store and delivery service operational inputs

Parameter	UOM	Value
Number of days per week	Days	7
Number of weeks per year	Weeks	52
Operating hours per day	Hours	11
Operating efficiency	%	80
Retail store customers per day		250
Delivery via UberEats® customers per day		50

Pop-up store operational inputs

Parameter	UOM	Value
Number of days per week	Days	2
Number of weeks per year	Weeks	52
Operating hours per day	Hours	8
Operating efficiency	%	80
Pop-up stores customer per day		50

Online store operational inputs

Parameter	UOM	Value
Number of days per week	Days	7
Number of weeks per year	Weeks	52
Operating hours per day	Hours	24
Operating efficiency	%	100
Online stores customers per day		5

Table 39: Raw material input costs

Parameter	UOM	Value
Water	R/kL	17,65
Milk	R/L	10
Sugar	R/box	100
Loose-leaf tea	R/kg	1500
Plain tea	R/teabag	3,6
Matcha	R/kg	10000
Coffee	R/kg	200
Disposable cups and lid	R/cup	2
Ice	R/kL	17,65

Table 40: Input costs for year one of retail operations.

Parameter	UOM	Value
Water	R/month	2000
Electricity	R/month	20000
Waste management and removal	R/month	1000
Rent	R/month	42000
Pop-up store rental	R/weekend	500
Rates & taxes	R/month	1500
Training	R/year/employee	2500
Uniform	R/year/employee	3000
Skills Development Levy (SDL)	%	2
Unemployment Insurance Fund (UIF)	%	1
Workman's Compensation	%	1
Wi-fi	R/month	10000
Email, internet & POS systems	R/month	0
Phone	R/month	2000
Crockery & cutlery	R/month	10000
Packaging & consumables	R/month	10000
Cleaning	R/month	10000
Repairs & maintenance	R/month	5000
Security & CCTV	R/month	0
Business insurance	R/month	5000
Licences & accreditation	R/month	2500
Miscellaneous expenses	R/month	2500

An inflation rate of 6% is applied across the review period for all operating costs

Table 41: Staffing schedule for retail store operations

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
General Manager	FULL	FULL	FULL	FULL	OFF	OFF	OFF
Assistant Manager	OFF	OFF	OFF	FULL	FULL	FULL	FULL
Retail server 1	FULL	FULL	FULL	FULL	OFF	OFF	OFF
Retail server 2	OFF	OFF	OFF	FULL	FULL	FULL	FULL
Team 1	MORNING	MORNING	AFTERNOON	AFTERNOON	OFF	OFF	OFF
Team 2	AFTERNOON	AFTERNOON	OFF	OFF	OFF	MORNING	MORNING
Team 3	OFF	OFF	OFF	MORNING	MORNING	AFTERNOON	AFTERNOON

Table 42: Staff salary requirements for retail store operations

Position	Store requirement	Salaries (R/hour)	Hours per week	R/month	Total monthly cost
General Manager	1	R45	48	R8 640	R8 640
Assistant Manager	1	R30	48	R5 760	R5 760
Retail server	2	R25	48	R4 800	R9 600
Express tea servers	6	R20	24	R1 920	R11 520
Waiters	6	R15	24	R1 440	R8 640
Back-house staff	6	R10	24	R960	R5 760

Table 43: NTBC retail store capital expenditure depreciation schedule

Asset description	Purchase year	Equipment life	Cost	2018	2019	2020	2021	2022	Salvage value
Furniture	2018	5	R 500 000	R 100 000	R 100 000	R 100 000	R 100 000	R 100 000	R -
Tea equipment	2018	10	R 140 000	R 14 000	R 14 000	R 14 000	R 14 000	R 14 000	R 70 000
Coffee machines	2018	10	R 100 000	R 10 000	R 10 000	R 10 000	R 10 000	R 10 000	R 50 000
Storage equipment	2018	10	R 50 000	R 5 000	R 5 000	R 5 000	R 5 000	R 5 000	R 25 000
Dispensing equipment	2018	5	R 25 000	R 5 000	R 5 000	R 5 000	R 5 000	R 5 000	R -
Water filtration system	2018	5	R 25 000	R 5 000	R 5 000	R 5 000	R 5 000	R 5 000	R -
Cleaning equipment	2018	3	R 40 000	R 13 333	R 13 333	R 13 333	R -	R -	R -
Cleaning equipment	2020	3	R 47 641	R -	R -	R -	R 15 880	R 15 880	R 15 880
Customer equipment	2018	3	R 30 000	R 10 000	R 10 000	R 10 000	R -	R -	R -
Customer equipment	2020	3	R 35 730	R -	R -	R -	R 11 910	R 11 910	R 11 910
Cooking and heating equipment	2018	5	R 20 000	R 4 000	R 4 000	R 4 000	R 4 000	R 4 000	R -
Computer & POS	2018	3	R 30 000	R 10 000	R 10 000	R 10 000	R -	R -	R -
Computer & POS	2020	3	R 35 730	R -	R -	R -	R 11 910	R 11 910	R 11 910
Tablets	2018	3	R 75 000	R 25 000	R 25 000	R 25 000	R -	R -	R -
Tablets	2020	3	R 89 326	R -	R -	R -	R 29 775	R 29 775	R 29 775
Fixtures & shopfitting	2018	10	R 500 000	R 50 000	R 50 000	R 50 000	R 50 000	R 50 000	R 250 000
Crockery and cutlery	2018	3	R 50 000	R 16 667	R 16 667	R 16 667	R -	R -	R -
Crockery and cutlery	2020	3	R 59 551	R -	R -	R -	R 19 850	R 19 850	R 19 850
Furniture	2022	5	R 669 113	R -	R -	R -	R -	R 133 822,56	R 535 290
Tea equipment	2022	10	R 187 352	R -	R -	R -	R -	R 18 735,16	R 168 616
Coffee machines	2022	10	R 133 823	R -	R -	R -	R -	R 13 382,26	R 120 440
Storage equipment	2022	10	R 66 911	R -	R -	R -	R -	R 6 691,13	R 60 220
Dispensing equipment	2022	5	R 33 456	R -	R -	R -	R -	R 6 691,13	R 26 765
Water filtration system	2022	5	R 33 456	R -	R -	R -	R -	R 6 691,13	R 26 765
Cleaning equipment	2022	3	R 53 529	R -	R -	R -	R -	R 17 843,01	R 35 686
Customer equipment	2022	3	R 40 147	R -	R -	R -	R -	R 13 382,26	R 26 765
Cooking and heating equipment	2022	5	R 26 765	R -	R -	R -	R -	R 5 352,90	R 21 412
Computer	2022	3	R 40 147	R -	R -	R -	R -	R 13 382,26	R 26 765
Tablets	2022	3	R 100 367	R -	R -	R -	R -	R 33 455,64	R 66 911
Fixtures & shopfitting	2022	10	R 669 113	R -	R -	R -	R -	R 66 911,28	R 602 202
Crockery and cutlery	2022	3	R 66 911	R -	R -	R -	R -	R 22 303,76	R 44 608
			R 1 852 979	R 268 000	R 268 000	R 268 000	R 282 326	R 640 971	R 2 246 769

FINANCIAL STRATEGY

FINANCIAL STRATEGY ASSUMPTIONS

Table 44: Financial strategy assumptions

Financial strategy assumptions		
Parameter	UOM	Value
Corporate tax rate	%	28
Loan repayment period	Years	5
Loan interest rate	%	12,5
Cost of equity	%	25
D/E Ratio	%	30
Days sales in inventory	days	30
Days sales in receivables	days	7
Days purchases in payables	days	30
WACC	%	21,25

MONTE CARLO ANALYSIS ASSUMPTIONS

Table 45: NTBC Monte Carlo Analysis Input and DCF worksheet

Data							
Initial investment	R 2 995 333,59						
Cash flow year 1	R 3 092 765,16						
Growth rate	3%	Sted dev	5%				
Discount rate	25%						
Time	5						
Year		0	1	2	3	4	5
Growth			1,91%	8,87%	0,01%	-5,58%	2,47%
PBIT		R 3 092 765,16	R 3 367 245,19	R 3 367 632,66	R 3 179 753,56	R 3 258 437,40	
Depreciation		R 311 333,33	R 311 333,33	R 336 333,33	R 350 659,53	R 709 303,99	
Tax		R 821 044,24	R 893 911,15	R 894 014,02	R 844 137,27	R 865 025,67	
Operating cash flow	R -	R 2 583 054,25	R 2 784 667,37	R 2 809 951,98	R 2 686 275,82	R 3 102 715,71	
Beginning net non-current assets	R -	R 1 825 000,00	R 1 513 666,67	R 1 720 311,93	R 1 423 978,60	R 3 194 406,61	
Ending net non-current assets	R 1 825 000,00	R 1 513 666,67	R 1 720 311,93	R 1 423 978,60	R 3 194 406,61	R 2 485 102,62	
Change in non-current assets	R 1 825 000,00	-R 311 333,33	R 206 645,27	-R 296 333,33	R 1 770 428,01	-R 709 303,99	
Depreciation	R -	R 311 333,33	R 311 333,33	R 336 333,33	R 350 659,53	R 709 303,99	
Net capital spending	R 1 825 000,00	R -	R 517 978,60	R 40 000,00	R 2 121 087,54	R -	
Additions to net working capital	-R 243 500,28	-R 248 161,83	-R 270 185,96	-R 270 217,05	-R 255 141,73	-R 261 455,28	
Cash flows	-R 1 581 499,72	R 2 831 216,08	R 2 536 874,73	R 3 040 169,03	R 820 330,02	R 3 364 171,00	
Discount cash flow factor	1	0,8	0,64	0,512	0,4096	0,32768	
Discount cash flow factor	-R 1 581 499,72	R 2 264 972,87	R 1 623 599,83	R 1 556 566,54	R 336 007,17	R 1 102 371,55	
Cumulative discount cash flow	-R 1 581 499,72	R 683 473,15	R 2 307 072,98	R 3 863 639,52	R 4 199 646,69	R 5 302 018,24	
NPV results	R 5 302 018,24	Mathematical Formula					
NPV results	R 5 302 018,24	Excel Formula					
IRR	171%						
Payback period	0,8	years					

SOUTH AFRICAN TEA LANDSCAPE SURVEY

The following tables were obtained from the 2016 Insight Survey Market Research Report on The South African Tea Landscape (Insight Survey, 2016). Insight Survey is a business-to-business (B2B) market research company.

Table 46: Tea, Rooibos, Iced Tea Consumption Trends: 2011-2015

TEA, ROOIBOS, ICED TEA CONSUMPTION TRENDS: 2011-2015



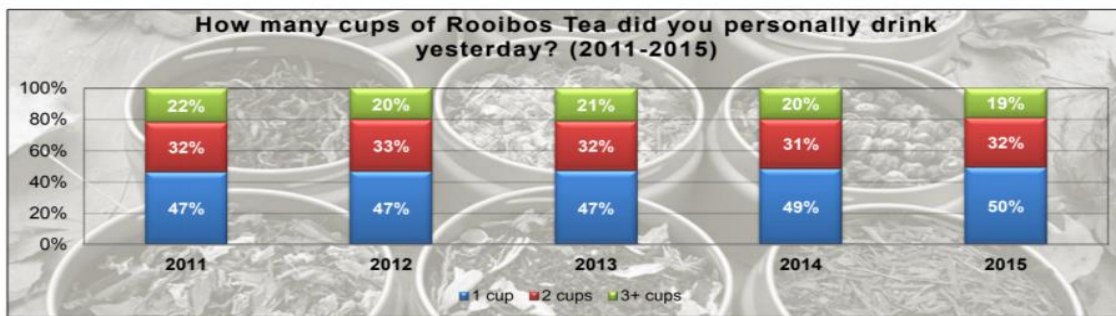
	2011	2012	2013	2014	2015
Total Adult population (16+ years)	34,038,000	34,067,000	36,449,000	36,932,000	37,452,000
Total number of Tea (excl. Rooibos) Consumers (16+ years) – drank yesterday	19,931,000	19,577,000	20,861,000	20,230,000	19,270,000
% of Total Adult Population (16+ years)	58.6%	57.5%	57.2%	54.8%	51.5%
Total number of Rooibos Consumers (16+ years) – drank yesterday	10,019,000	10,211,000	10,659,000	11,351,000	11,567,000
% of Total Adult Population (16+ years)	29.4%	30.0%	29.2%	30.7%	30.9%
Total number of Iced Tea (16+ years) Consumers – drank yesterday	6,409,000	6,045,000	6,256,000	5,932,000	6,482,000
% of Total Adult Population (16+ years)	18.8%	17.7%	17.2%	16.1%	17.3%

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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Table 47: Rooibos tea volume trends (drank yesterday): 2011-2015

ROOIBOS TEA VOLUME TRENDS (DRANK YESTERDAY): 2011-2015



Year	1 cup	2 cups	3+ cups	Total
2011	4,662,000	3,172,000	2,185,000	10,019,000
2012	4,775,000	3,384,000	2,052,000	10,211,000
2013	5,026,000	3,392,000	2,242,000	10,659,000
2014	5,531,000	3,574,000	2,246,000	11,351,000
2015	5,732,000	3,664,000	2,171,000	11,567,000

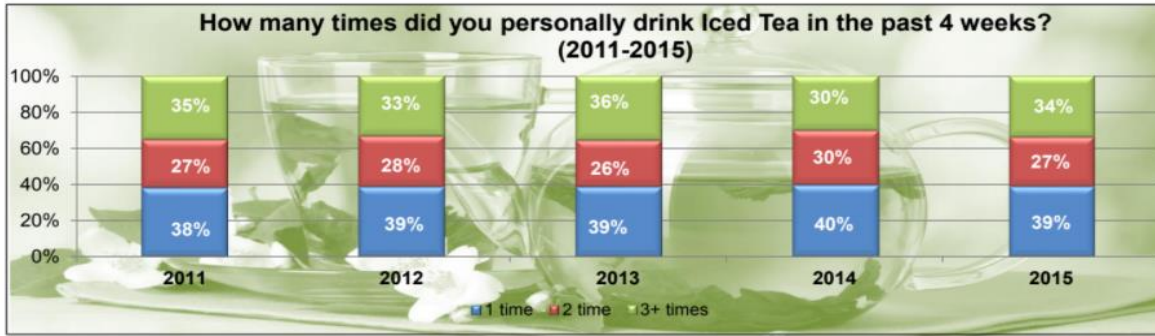
- Between 2011 and 2015, the volume trends among consumers who had personally drunk Rooibos Tea had declined with 50% drinking 1 cup per day in 2015, compared with 47% in 2011.
- In 2015, 50% (5.7 million) of Rooibos Tea consumers had personally drunk 1 cups yesterday, 32% (3.7 million) had drunk 2 cups and 19% (2.2 million) had consumed 3+ cups.

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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Table 48: Iced tea volume trends (yesterday): 2011 - 2015

ICED TEA VOLUME TRENDS (YESTERDAY): 2011-2015



Year	1 time	2 times	3+ times	Total
2011	2,441,000	1,700,000	2,268,000	6,409,000
2012	2,338,000	1,684,000	2,023,000	6,045,000
2013	2,417,000	1,599,000	2,240,000	6,256,000
2014	2,354,000	1,779,000	1,798,000	5,932,000
2015	2,516,000	1,766,000	2,200,000	6,482,000

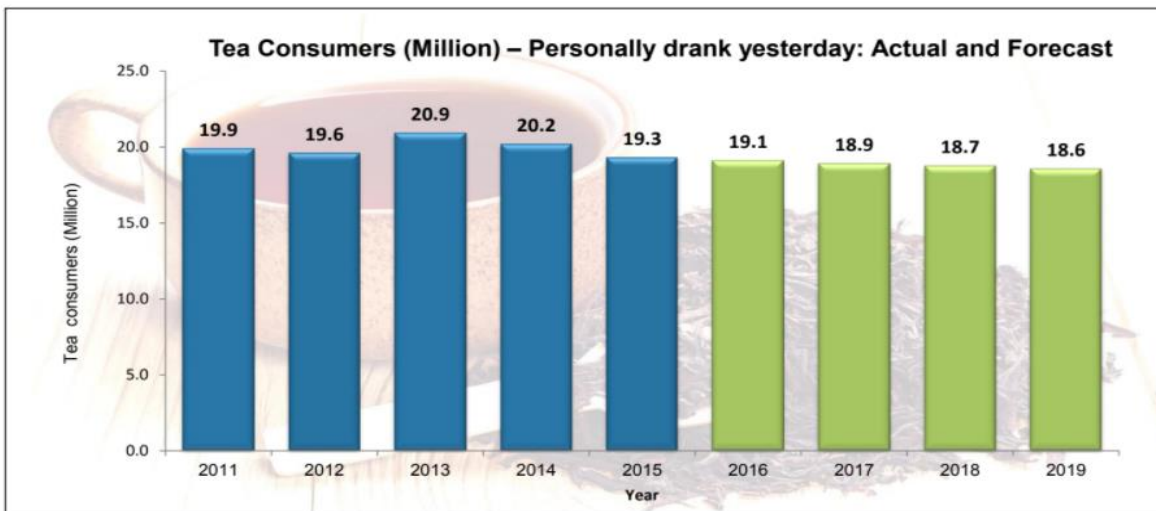
- Between 2011 and 2015, the volume trends among consumers who had personally drunk Iced Tea had remained relatively stable.
- In 2015, 39% (2.5 million) of Iced Tea consumers had personally drunk 1 serving yesterday, 27% (1.8 million) had drunk twice and 34% (2.2 million) had consumed 3+ times in the previous 4 week period.

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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Table 49: Consumer actual (2011-2015) and forecast (2016-2019) - Tea

CONSUMER ACTUAL (2011-2015) AND FORECAST (2016-2019): TEA



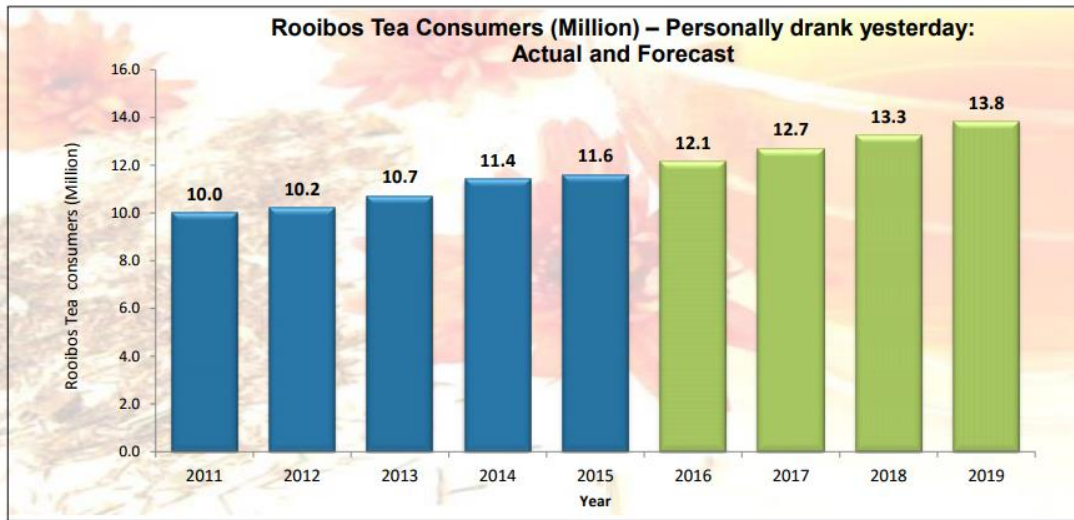
- The number of South Africa's Tea consumers, who had personally drunk a cup on the previous day, are expected to decrease by an annual growth rate (CAGR) of -1.0% to 18.6 million consumers in 2019, from the 19.3 million recorded in 2015.

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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Table 50: Consumer actual (2011-2015) and forecast (2016-2019) - Rooibos

CONSUMER ACTUAL (2011-2015) AND FORECAST (2016-2019): ROOIBOS



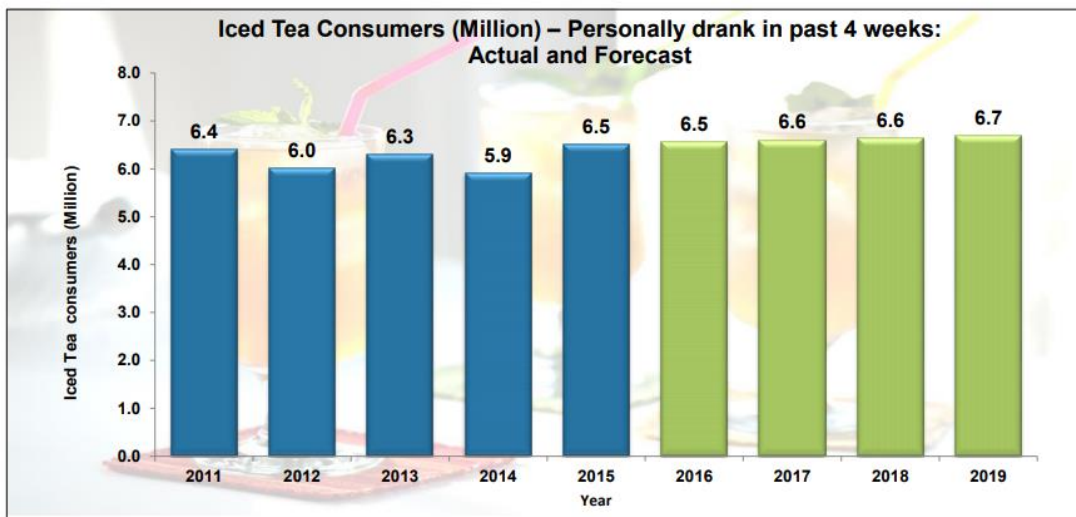
□ The number of South Africa's Rooibos consumers, who had personally drunk a cup on the previous day, are expected to increase by a compound annual growth rate (CAGR) of 4.2% to 13.8 million consumers in 2019, from the 11.6 million recorded in 2015.

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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Table 51: Consumer actual (2011-2015) and forecast (2016-2019) - Iced tea

CONSUMER ACTUAL (2011-2015) AND FORECAST (2016-2019): ICED TEA



□ The number of Iced Tea consumers, who had personally consumed a serving on the previous day, are expected to increase by a compound annual growth rate (CAGR) of 0.7% to 6.6 million consumers in 2019, from the 6.5 million recorded in 2015.

Source: AMPS 2011A-2015A (Adult population 16+ years)
 Sample Size: 24 527 (2011); 24 528 (2012); 24 882 (2013); 25 060 (2014); 25 079 (2015)
 Based on weighted numbers

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