

# Business Plan

## fairafric GmbH



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# 1. Summary

fairafrik works with local partners to produce chocolate in Africa. The company then imports the chocolate into the European Union and sells it through various channels.

The Unique Selling Proposition (USP) of fairafrik chocolate is the fact that each bar is made entirely in Africa – from tree to the packaged bar. This means that the local income is quintupled compared to the pure export of cocoa beans. The so far most common approach to increase the income in the country of origin of the cocoa, *Fairtrade*, only increases the income by about 1 cent per bar of chocolate.

Since fairafrik has been founded, we have produced and sold considerably more chocolate each year, but growth has lagged far behind the full potential due to insufficient production volume. Our current production equipment is simply too outdated. This is why fairafrik is now in the process of planning a new, scalable and modern chocolate factory. We have already raised EUR 1.25 million in equity, and we are about to sign a EUR 2 million loan with DEG. Now we want to collect the remaining funds from private investors.

## 2. Company Description

### 2.1 Company Mission

It is our mission to become "The Made in Africa Company", and to add as much value to resources on the continent as possible.

### 2.2 Company Philosophy and Vision

fairafrik's aim is to promote truly sustainable development on the African continent. We want to do this by pushing towards structural change through local value creation. We understand value creation as processing local resources in the respective country instead of exporting them and in return importing finished products that could be produced locally. With this approach, numerous jobs can be created outside the agricultural sector. This will offer prospects especially for young, well-educated people.

Our vision is to become a world-renowned brand for products made entirely in Africa, including but not limited to chocolate, tea, coffee, dried fruits, nuts, leather products and accessories.

### 2.3 Company Goals

Our goal is to build and commission a solar-powered, modern chocolate factory in Ghana in 2020. In this production facility, we want to produce as much chocolate as demand on the European market requires.

### 2.4 Target Audience

Our target customers are Lifestyles of Health and Sustainability (LOHAS) consumers. Most of our customers buy mainly in organic food stores and make very conscious purchasing decisions. This clientele is a little more difficult to win, but all the more loyal. In retrospect, this has proven to be a major benefit.

## 2.5 Achievements & Company History

### **April 2016 – Initial Kickstarter-Campaign**

In spring 2016 we collected almost 30.000€ (from 15.000€ target) for our first production of fairafric chocolate in Ghana. The official foundation of the company took place on 19 April 2016.

### **August 2016 – First Production**

Four months after we secured the financing, the first 25,000 bars of dark chocolate were produced. These were then exported with a reefer container and were sold out in mid-2017.

### **April 2017 – Organic Certification**

After winning 125 retailers through direct selling and media coverage, we ran another Kickstarter campaign to fund the organic certification of our supply chain and introduce six new varieties. This round resulted in nearly €50,000 (from €20,000 target) and 1200 pre-orders that we delivered in October 2017.

### **June 2017 – Next Organic Startup Award**

This prestigious award was not only a great compliment to everyone involved in the launch of fairafric, but also opened countless doors for us. Not least by winning this prize, we were able to convince one of the largest German organic chains (55 locations) of fairafric.

### **August 2017 – Recognition as a Supplier of the World Shop Association in Germany**

In Germany alone there are more than 800 world shops (fair trade shops), in Austria and Switzerland there are hundreds more. All of them are selling only fair traded and manufactured goods. This is where we meet our core target group. The recognition as a supplier of the World Shop Association was an important milestone for us, as most of the World Shops only buy from certified suppliers. In terms of content, the recognition means that fairafric meets the criteria of fair traded goods.

### **January 2018 – Seedrs Crowdfunding (Equity raise from 264 private investors)**

We have launched an equity crowdfunding campaign on seedrs.com, a platform for start-ups that want to win their customers as shareholders. 264 private investors invested a total of €134,275 in fairafric. Seedrs bundles these investors and officially became a shareholder of fairafric in August.

### **March 2018 – ESOP-Program**

We have launched an ESOP program that allows fairafric to provide up to 12.5% of our equity to our employees. For the future, this is a great opportunity to retain employees for the long term, to build more than just a sense of ownership and to pay great talents in a cash flow-optimized way.

### **October 2018 – The Cocoa Farmers of our Partner Cooperative become Co-Owners of fairafric**

In autumn 2018, we launched another Kickstarter campaign (€61,638, target €27,500) to establish a foundation that will hold shares in fairafric for the benefit of cocoa farmers. The foundation was

established in December 2018 and will use all the funds it raises to purchase shares in fairafric. The purpose of the foundation is to hold these shares and to distribute all future dividends to our cocoa farmers. Furthermore, with this Kickstarter campaign, our chocolate was made climate neutral.

### May 2019 – Equity Raise for chocolate factory

In early 2019 we raised an equity round of 1.4 Million Euros in order to collect the initial money we need to build a state of the art chocolate factory in Ghana.

## 3. Products

### 3.1 Range of Goods

So far fairafric has six different 100g chocolate bars on offer. The future assortment will look as follows:

Product Description	Type	Sales Channel
Dark Chocolate 95%	Bar	All Channels
Dark Chocolate 80%	Bar	All Channels
Dark Chocolate 70%	Bar	All Channels
Dark Chocolate 60%	Bar	All Channels
Dark Chocolate with Nibs	Bar	All Channels
Dark Chocolate with Sea Salt	Bar	All Channels
Dark Chocolate with Almond Slices	Bar	All Channels
Milk Chocolate 57%	Bar	All Channels
Milk Chocolate 43%	Bar	All Channels
Milk Chocolate with Sea Salt	Bar	All Channels
Milk Chocolate with Hazelnut Fraction	Bar	All Channels
Whole Hazelnut Covered in Dark Chocolate	Hand-Made	Subscription
Seasonal Chocolate	Hand-Made	Subscription
Hollow Figures (Christmas, Easter)	Hand-Made	Selection
Chocolate-Covered Coffee Beans	Hand-Made	All Channels
Chocolate-Covered Almonds	Hand-Made	All Channels
Chocolate-Covered Dried Fruits	Hand-Made	Selection

We are committed to bringing as much of our chocolate as an organic-certified product to the market.

All of the chocolates are made from high quality organic cocoa from our partner cooperative Yayra Glover and are perfectly ground and conched. We want to position fairafric as one of the top chocolatiers in the sustainable market and have received a lot of encouraging feedback about our quality.

The ideas for these and subsequent recipes have been developed based on customer feedback, and we plan to expand our range to include new flavours as we learn more about what our clientele appreciates.

## 3.2 Product USP

Our unique selling proposition (USP) is the fact that we produce fairafric in the land of cocoa origin. While competing chocolate companies present themselves as Fair Trade or Direct Trade companies, we go the extra mile: Every step of our chocolate production is local.

We can present the enormous social value of production in Africa in an easily understandable and structured way. We increase the local income by a factor of 5 compared to the pure export of the beans and by a factor of 4 compared to Fairtrade certified beans, which are also always exported.

We see ourselves as pioneers in the field of "Made in Africa" and are working to position ourselves as a sustainable premium brand. In the long term, fairafric's mission is to reduce Africa's dependence on raw material exports and to convert resources such as cocoa beans into high-quality processed export products.

## 3.3 Product Pricing

fairafric chocolate costs € 2.99 per 100g bar (RRP incl. 7% VAT). This price falls into the moderate premium class. Most premium chocolates from fair or direct trade are between € 1.99 and € 4.99 per 100g. Because of this we are confident that consumers see our price as great value from a cost and quality point of view.

We offer industry standard retail and wholesale margins for fairafric but are still able to work with a gross margin of 55% (based on our average selling price) offering enough room for growth and investment in a broader product base.

# 4. Marketing

## 4.1 The Market for Sustainable Chocolate

The turnover with organic chocolate is estimated at almost 900 million US dollars for 2018. The largest part of sales is in Europe, where sales of organic chocolate are rising in an overall declining chocolate market.

Overall, we expect a Total Addressable Market (TAM) of at least 500 million US dollars for truly fair/sustainable chocolate (direct trade/ Made in Africa).

## 4.2 Characteristics of the Target Audience

Consumers who fall into our target market are usually Lifestyles of Health and Sustainability Consumer (LOHAS), a young and fast-growing group. According to a recent study, there are 11 million LOHAS consumers in Germany; another study names the LOHAS consumers in the US spending as much as 290 billion dollars per year.

Fairafric reaches its customers through food retailers, organic shops, world shops/fairtrade shops and various B2C channels.

### **Food Retailers**

With more than 15,000 relevant sales outlets in Germany (no discounters), the food retail sector offers the largest market for fairafric. Through targeted cooperation with independent family businesses in the EDEKA and REWE environment, we are building a basis for rapid scaling in this segment. Experience has shown that listing in the head offices and regional companies can be achieved faster as soon as a product is already being sold in owner-managed stores. Listing of regional companies and head offices can quickly lead to a few hundred additional sales outlets.

### **Organic Shops**

We supply organic shops directly and indirectly through wholesalers. This is a very important market: In Germany alone there are more than 2,000 of these retailers, a very high percentage of whom purchase most of their goods through wholesalers. We aim to be listed with all major wholesalers to make it as easy as possible for organic shops to place fairafric on their shelves.

### **World Shops (Fair Trade Shops)**

Here we have found most of our first customers and are already very strongly represented. Due to their inherent philosophy of selling solely fair products, these types of shops are very open to listing and selling fairafric. A particular advantage here is that employees are keen to offer intensive advice, in which fairafric chocolate is often praised as a positive example of a particularly fairly-traded product. This advice creates a fundamental understanding of the positive social impact of fairafric among customers, who often act as multipliers. We have found our most loyal customers in the world shops.

### **B2C**

We sell directly to consumers via our own online shop, trade fairs and our ambassador program, which we intend to launch at the turn of the year 2019/2020. We have conducted three successful Kickstarter campaigns and are planning further campaigns for future product launches. We exhibit at sustainable consumer shows to reach our target audience directly, tell our story and vision, and increase brand awareness.

## **4.3 Main Competitors**

Our competitors on the DACH market are organic chocolates that have a claim to sustainability. The largest companies are GEPA, Green & Black's, and Zotter. Gepa and Zotter achieve net chocolate sales of around € 15 million and € 20 million respectively. We believe that the turnover of Green & Black is much higher.

## **4.4 Positioning**

We position ourselves clearly with our story. We increase the local income in Ghana by a factor of 5 compared to the pure export of the beans and by a factor of 4 compared to Fairtrade certified beans.

By telling this story over and over again and pointing out the various advantages of our approach, we have already received very broad media coverage from high-profile German newspapers and TV stations. A documentary about fairafric was produced in April 2018. It was broadcast on ZDF, ARTE and DW and reached more than three million viewers. We were also portrayed in programs by Phoenix and Bayerischer Rundfunk.

Through our crowd-based financing, many people have accompanied fairaftric from the very beginning. This way, we have found countless loyal supporters who in turn continue to tell the story of fairaftric themselves. In addition, we will launch an ambassador program to take full advantage of our most supportive clients.

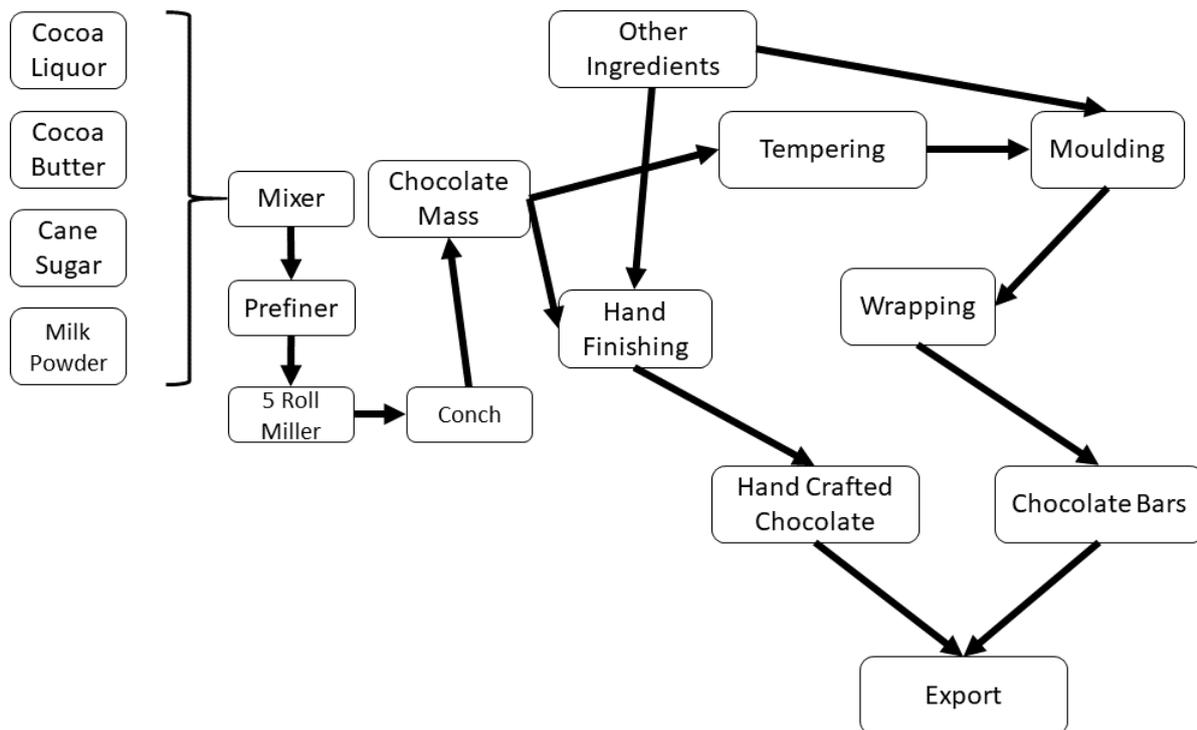
## 4.5 Turnover and Net Income Forecast



## 5. Plant

### 5.1 Chocolate Production

Production Flowchart



Key ingredients in our production process are cocoa liquor, cocoa butter, sugar and milk powder. All key ingredients are usually mixed for 10 minutes. While milk chocolate contains of all the four ingredients, dark chocolate can only consist of liquor and sugar at this stage. Once mixed the mass is transported via a belt into a pre-refiner. The pre-refiner consists of two rolls that roll against each other with different speeds in order to break down the sugar crystals and bind them to the fat.

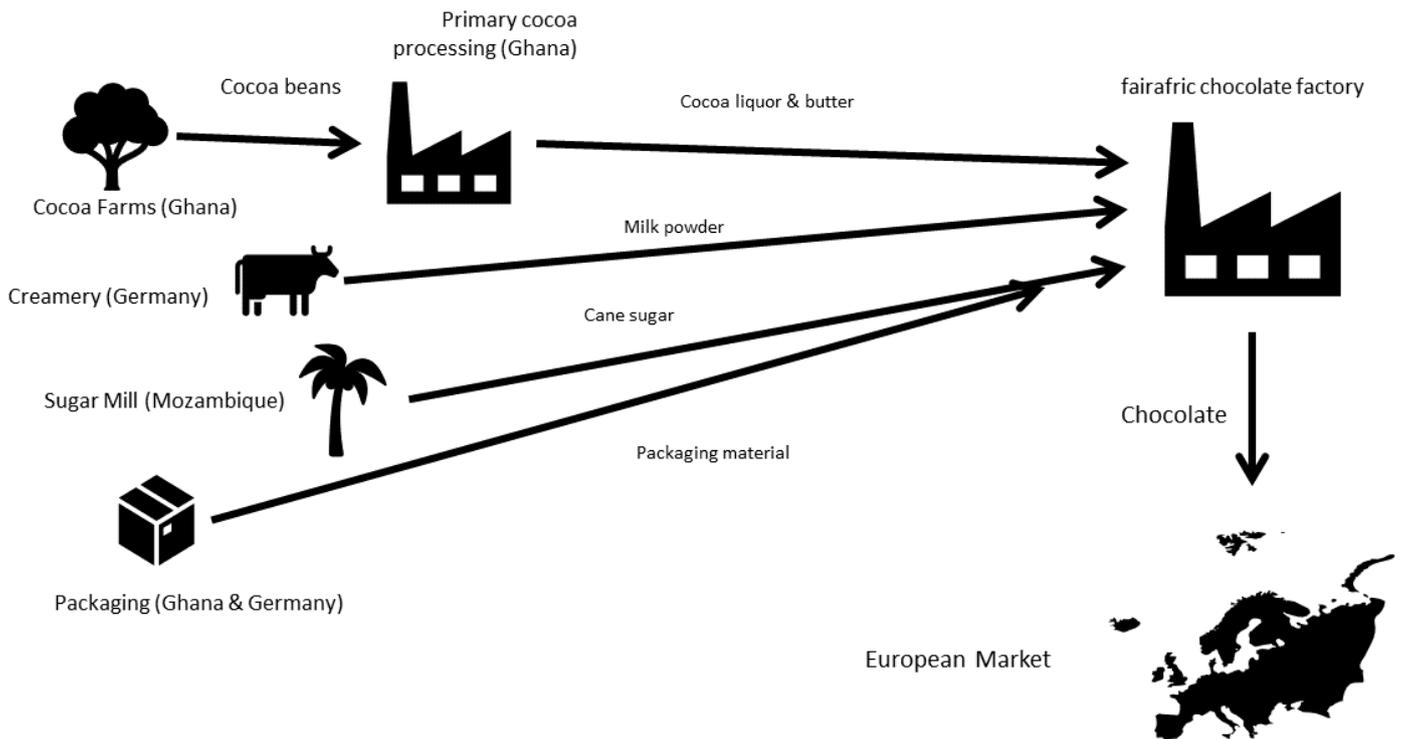
Another belt then transports the, now less viscose, mass into a 5-roll miller. The 5-roll miller breaks the chocolate further down, the maximum particle size goes down from 100 to 150 microns to 15 to 20 microns. The human tongue can't feel any particles any more at this size, the chocolate has a perfect smoothness.

The mass, which at this stage looks like powder, is transported into the conche in which the mass will be conched for an average of 8 to 10 hours. After conching the chocolate mass is ready to be tempered and finally moulded. After demoulding the bars will be automatically fed into the wrapping machine which runs at up to 190 bars per minute.

Our hand-crafted chocolate will take chocolate mass from the conching stage and use various other ingredients to create chocolate specialties and seasonal products such as Easter and Christmas figures.

## 5.2 Supply Chain Management

### Supply Chain Flowchart



The above outlined Supply Chain is already run by fairafric today with the exemption that the chocolate production process lies currently with a local partner. We have taken great care in the selection of our suppliers in terms of sustainability, scalability of supply and of course quality.

While cocoa is sourced from the Ghana COCOBOD (the cocoa marketing board) through a third party which is specialized in facilitating commodity trades, all other ingredients are sourced directly through fairafric. As a free zones company all imports of ingredients and machinery are duty free for us.

Our key suppliers are:

Yayra Glover Ltd.

We have started working exclusively with this Licensed Buying Company (LBC) for the sourcing of organic cocoa beans for more than 2 years. The founder of this cooperative like business has been living in Switzerland for almost 20 years and has supported us from the day we first met. We have also helped the LBC to secure a low interest rate loan from Europe and are working very closely with them to make sure we continue to receive outstanding quality (the beans always test very good on quality). The cooperative is certified for up to 5,000 tons of organic beans of which currently only 1,000 tons are sold. We have just signed an MOU for the purchase of 300 tons of organic beans in the crop season 2019/20, 450 tons in 2020/21 and 750 tons for 2021/22.

Pure Life

Pure Life is a well-known supplier of organic sugar. They have just started a sugar mill in Mozambique which delivers Fairtrade, organic cane sugar. We have started working with Pure Life in 2017 as we were eager to establish a work relationship with them. We are excited to source our sugar from Africa with them now that their African operations have commenced. Other sources of

Fairtrade, organic sugar are currently not available on the continent. The Mozambique project is a massive investment for Pure Life and we will have no shortage of supply.

#### Molkerei Schrozberg

We source all our milk powder from a creamery in Germany that is owned by its farmers and is Demeter certified. Demeter is the highest certification for organic milk in terms of quality and traceability of food and animal well-being. The creamery can supply on short notice almost any amount of milk powder which we can either send directly by container or pool with other inputs before shipping to Ghana. As of now there is no option to source organic milk powder on the African continent.

#### Niche Cocoa

Niche has been our long-standing partner in contract manufacturing. We have a long-term contract manufacturing agreement with Niche for the processing of organic cocoa beans into organic cocoa liquor and cocoa butter. Niche boxes these ingredients into 25KG cartons which are usually exported. We are off-taking these on pallets and store them in our warehouses.

### 5.3 Office

In the future, there will be two offices. One is situated in Munich, where our warehouse is also located. The entire Europe-wide distribution of chocolate is also organized from here. The second office is directly attached to the production hall in Suhum.

### 5.4 Quality Control

We will house our own quality control department. The team is responsible for checking all incoming goods as well as all outgoing goods. We are striving for HACCP, ISO, EU Organic and FDA certification as well as a certification with the Ghana Standards Authority.

All processes in the production are designed to fulfil highest hygienic standards. There are several metal detectors and sieves in the production process that prevent any foreign material to be present in the final product. A rigorous series of sampling product at all stages of the production process makes sure that any contamination of the product is recognised long before any product reaches the consumer.

Since the factory will work on an organic only principle, we will closely work with labs in Europe for residue testing. For the moment there is currently no accredited lab in West Africa that can test for inorganic residues. All other tests can be done locally with the Ghana Standards Board.

## 6. Management & Organization

### 6.1 Management Germany