

## **Executive Summary**

# **FOOD TECHNOLOGY CENTER BUSINESS PLAN FOR YEAR ONE**

### **Vision**

To transform the Egyptian food processing industry, especially its exporting sector, to a knowledge-based industry, manufacturing highly value-added products in a sustainable and competitive manner.

### **Strategy**

To develop a local market for technical services among the food industry which is driven by demand and priced competitively.

### **Objectives**

- A. Develop the Food Technology Center (FTC) as a world-class technical services organization that will transfer technical knowledge to the Egyptian food industry in a sustainable manner
- B. Self-sufficiency by end of Year 3.

### **Mission**

The FTC is to work as a catalyst to help meet the technological needs of the Egyptian food processing industry and its export sector to become competitive in a sustainable manner. FTC will bridge the gap between the industry's technological needs, market demands and technical resources available locally and abroad.

### **The Organization**

The FTC was founded in 2001 and currently employs approximately ten people, including clerical staff. By the end of Year I, FTC is envisioned to employ approximately 30 people: food technologists, quality specialists, agricultural experts and administrators. All will be expected to present workshops in their field as they are demanded by industry. The management team will consist of a Steering Committee (with representatives from industry, MFTI and IMC) working closely with FTC's Managing Director.

Line groups are to consist of Quality Systems, Product/Process/Package Development, Agricultural Research and Training. Areas of support will include training & technical assistance, development (product/process/package) and agricultural research.

## Services:

### Training & Technical Services

Most of the services envisioned to be demanded by industry fall into the general category of training and technical service. In this context, “Technical Service” refers to consulting services.

- Training and technical assistance in product development, product improvement, processing technology, packaging and creativity;
- Training and technical assistance on Quality Management Systems (QMS) including good agricultural practice systems;
- Training and technical assistance for introducing new varieties that are more amenable to growing and processing under local conditions;
- Training and technical assistance on the operation and maintenance of field coolers, cooling/packing sheds, refrigerated warehouses & transport;
- Training and technical assistance on post harvest handling techniques;
- Training and technical assistance in production planning;
- Training of trainers;
- Providing feasibility studies to assess the impact of new equipment on the over-all operation;
- Providing industry-specific training and technical assistance in developing Market Information Systems (MIS) data;
- Providing training on computer and Internet skills;
- Having available the services of native English, French and German speakers for editing and proof-reading labels, applications for import, ad copy & other promotional material and newsletters. This activity could also include regulatory compliance for labels and other regulatory compliance issues in target export markets.
- Encouraging the local manufactures of industrial bulk commodities to replace some of their production with branded or private label retail packages.

### Other Services

Those services that do not fit the category “Training and Technical Services” are referred to as “Other Services:”

- Developing internally, or upgrading existing institutions where appropriate, analytical services that are critical to certain sectors of Egyptian industry. These include but are not limited to *Salmonella* for the spice industry and pesticide residue for processors who have inputs of raw agricultural commodities. This also includes FTC’s current sensory evaluation laboratory, the only such facility in Egypt;
- Encouraging and helping organize contract farming practices between processors and growers;

- Developing training manuals and templates (where none exist) on subjects important to the food industry such as HACCP, GMP, productivity, quality, etc.;
- Establishing a database of local and key export market regulations;
- Encouraging the local manufactures of industrial bulk commodities to replace some of their production with branded or private label retail packages.

The continuation of any service will depend on its acceptance and use by industry. Some programs will continue; some will not continue and be replaced by programs that are better accepted.

### **The Market**

Previous studies by IMC point out clearly what the Egyptian food industry needs. What the industry “needs” should not be confused with what the industry “wants” and what it will pay for. Hard market research data in this area are difficult to find and/or develop. Market research is further complicated by donor agencies that have distorted the market for training and technical services for some twenty years. The effects of these programs are twofold:

- The cost of training in the more “popular” subjects such as food safety is heavily subsidized by donor agencies. For example, the BRC’s offer training & technical assistance in food safety for only 30% of the direct cost of the consultant. This level of subsidy makes it impossible for any entity to offer the same training and recover its costs without itself being funded by a donor agency.
- Since donor agencies have been funding training for such a long time in the food sector, the food industry has grown reluctant to pay the full cost of training.

These two effects present both a problem and two opportunities. The problem is that FTC can not expect to offer training in many of the subjects most demanded by the industry and even come close to recovering its cost. The opportunities lie in solutions to the problem:

- FTC could itself become funded by donor agencies to provide training in subjects that are now subsidized.
- Rather than focus on general topics, FTC should focus on what these donor groups generally either avoid or do not execute crisply: problems specific to a certain sector of the industry and/or to individual companies. This opportunity may involve convincing the companies that there is a problem. This process of convincing could take many forms but all would focus on product and process inadequacy of a specific company.

FTC will always have to be testing the market in an iterative way, improving and adding programs where needed and dropping programs that are not successful in the market.

## **Keys to Success and Sustainability**

- Funding from MFTI over the first three years to build FTC into a nationally and internationally recognized sustainable center of technical excellence for the food industry. This funding includes LE 2,226,000 over three years, capital costs of LE 647,700 for Year I only and the continued use of the FTRI facility. Included in this funding is LE 10,750 per month for which the Managing Director will have unilateral authority to spend for out-of-pocket expenses (see Appendix II, Out-of-Pocket Expenses, Year I; also see Appendices III and IV, “Office Equipment to be Acquired During Year I,” and “Laboratory Equipment to be Acquired During Year I,” respectively).
- The ability to tap into donor agencies (like IMC) to provide training and technical services.
- Recruiting a highly motivated staff and having the ability to reward them accordingly and train them appropriately (see proposed salary grades in Appendix IV, “Proposed Staffing”).
- Encouraging entrepreneurship and risk-taking among FTC staff by allowing unsuccessful programs to fail without recrimination.
- The ability to hire outside services without a tender process.

The focus of FTC, therefore, needs to be away from the areas which are serviced effectively by these organizations and become self sufficient by:

- Leveraging FTC’s association with MFTI, which has the ability to provide technical facilities to support exports in exchange for FTC management and/or technical assistance. One such example is the proposed spice sterilization facility;
- Conducting at least some of the technical training and technical assistance currently funded by donor agencies;
- Offering targeted, company specific training and technical services that are not offered elsewhere.

## **Market Analysis**

FTC does not envision competing with other entities for business using strategies like pricing. Rather FTC intends to focus on the un-met needs of the industry and turn them into “wants” through a strategy of entrée, described herein. The size of the market of un-met needs in Egypt is difficult to quantify but is certainly large enough to sustain a laboratory of some thirty people. The difficult part will be turning “needs” into “wants.”

## **Market Size**

The size of the market of un-met needs is difficult to identify. Various groups measuring only the size of the processing industry tend to count by varying commodity groups and

company size. According to one study, there are some 300 medium to large food processing facilities in Egypt, employing a workforce of about 64,000.

This same study also reports that the Food Commodity Council (FCC), whose members are exporters, includes a total of 136 companies (of which, frozen: 20, dairy: 14, fruits & concentrates: 16, olive products: 12). At the same time, the Chamber of Food Industries (CFI) listed a total of 1970 processors whose capitalization exceeds LE 5000 or payroll exceeds 25.

The ALEB Directory listed 388 processors and 485 companies servicing processors ("service companies"). The ALEB directory included no criteria for size and a few of the processors listed are actually farms, brokers and/or exporters.

The number of processors who were even minimally involved with ALEB on anywhere near a consistent basis was about 50 (or 12% of the total). The number of service companies was about five (slightly over 1%). Although ALEB was considered to be a highly successful project, its penetration into the market was not impressive, even after six years of operation. This one disappointing aspect of ALEB's performance may be a reflection of the industry's reluctance to participate in training and technical assistance to improve their operations even if that assistance is provided free or at substantially subsidized rates.

Yet the needs exist. The same study lists Egypt as having the third largest agro-food sector among the eleven southern-Mediterranean countries yet has the highest employment in the sector. This disparity speaks to Egypt's labor productivity which is the lowest among these same countries. Its share of value-added production also ranks last.

### **Market Trends**

The market for food related training and technical services in Egypt is predominately determined by the donor agencies. While USAID is reducing some of its activities and is expecting to be out of Egypt by 2009, other, mostly European entities, seem ready to fill any vacuum that USAID may create by its absence. Until recently donor agencies have concentrated on broad issues of policy and sector reform, largely avoiding specific consulting services to individual companies to solve specific problems. The BRC's are changing this situation by offering just that: a processor can request a specific consultant and the BRC will provide even expatriate consultants at a fraction of their direct costs.

Of course, exports of Egyptian processed food will continue in the future, thus increasing demand for many of FTC's services, but the market trends for food related technology will be determined, in the short and medium terms, by the donor agencies.

### **Market Growth**

The growth of the market for food-related technical services in Egypt will not be driven by growth in the food industry or even by growth of food exports. This growth, perhaps 7% annually, pales to insignificance when compared to the un-met technical needs that exist in the industry. Therefore, the key to growing the market for FTC's services lies not in the growth of its customers. Rather it lies in its ability to tap into these un-met "needs" and turn them into "wants" that the industry (or organization) will pay for.

## Strategy and Implementation Summary

The strategy of FTC will be to gain entrée to individual companies through leveraging current or future strengths and using this entrée to market other services:

- A new varieties program will gain entrée first to grower/processors, then to processors and finally to their growers. This contact can lead to assisting growers and processors with contract growing agreements, QMS and any of the training and technical services that FTC might be offering.
- The sensory evaluation laboratory can recognize and quantify deficiencies in existing products. The quantification can be an entrée to the company manufacturing the deficient product for a formula, process or package improvement. Such a project, of course, could lead to others.
- Detentions or recalls of exported products are usually a matter of public record. Any company on such a list is unusually amenable to technical assistance for the specific reason of the regulatory action. As with the other entrees, this strategy can also lead to other projects.
- The agreement between MFTI and the spice industry can create a steady market for *Salmonella* analyses, sensory training, QMS and other technical services.
- Offering training and technical services through donor agencies (such as IMC) and their intermediaries (such as Expolink to the BRC's) is not only an end unto itself but, if managed well, with on-site follow-up, can also serve as an entrée to other services.
- Companies will continue to come to FTC on a more-or-less random basis with specific things they want done. FTC staff will not only concentrate on the specific request but will make every effort to visit the factory to determine what else could be done.

It is unlikely that FTC will be able to grow, or even maintain itself, on the basis of current cash flow. Other than the sensory laboratory, FTC currently has little capability that would interest the industry and as such, it has few entrées to that industry. FTC will not be in a position to offer technical capabilities to the industry in a cost-effective manner unless those capabilities exist. Therefore, the implementation strategy for Year I will be to hire an essentially full staff<sup>1</sup> and to market service through entrées as they become available.

## Competitive Edge

Since FTC is unlikely to be competing with other laboratories on price, FTC's competitive advantage must be in its people and its service. The salaries proposed for the various positions (Appendix I) are significantly higher than what might be described as "the market" and certainly above what FTC is paying its people now. It is roughly in line (but slightly lower) than what ALEB was paying its local staff (and people still ask "Why was ALEB such a successful project?"). Of course recruiting a highly motivated and competent staff involves more than paying high salaries: the key word is recruiting. Recruiting must be done aggressively yet selectively and ALEB can serve as a good model.

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<sup>1</sup> FTC could possibly defer hiring a chemist, a meat specialist and a packaging engineer until Year II.

As for service, FTC must execute quickly and crisply without a hint of bureaucracy. This is why it is essential that the Managing Director have a budget and the unilateral authority to sign for a certain amount each month.

### **Income**

The income targets for FTC are projected to grow more-or-less geometrically: 1/6 sustainable after Year I, 1/3 & 2/3 after Years II and III respectively and 100% sustainable after that. To meet the income targets for Year I, FTC must accomplish either the following or its financial equivalent:

- Put on seven workshops, attended by an average of only eleven people each of whom would pay an average of LE 1000 to attend.
- Win two contracts from donor agencies for workshops which, in the aggregate, would net FTC LE 61,375.
- Perform sixty-one days of technical interventions, each priced at LE 1000.
- Perform thirty to sixty Sensory panels, each priced at LE 1000 to 2000 OR perform 3000 tests for *Salmonella* priced at LE 100.