

Organic Grower and Supplier: Great Lakes Organics

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"EXECUTIVE SUMMARY"

If you ask any farmer, chef, or consumer about their personal preferences regarding their foods, they will tell you the importance of organics. Organic foods are grown free from unnecessary additives. They are pure to taste, healthy for the body and an enjoyment for every individual who eats them. This preference for organic foods can be seen across the nation. Markets, chefs and farmers are realizing the amazing potential of organic produce.

However, over the past several decades, farmers have realized the profitability of growing their foods with high efficiency. This entails applying dangerous chemicals to the soil, practicing hazardous tilling procedures and genetically altering seeds, among many other potentially harmful practices. Over the years, applying these techniques have damaged our soils and have made organic growing a time-consuming venture. Currently, modern farmers that till the soil are agitating natural processes that may have serious consequences.

Tillage practices degrade the fertility of soils, cause air and water pollution, intensify droughts, destroy wildlife habitats, waste energy, and contribute to global warming. These tillage methods are also draining tons of soil into the Gulf of Mexico each year and making America's breadbasket into an arid desert. Other farmers, in warm and tropical climates, have capitalized off of their year-round production and ship their herbs into the Lansing market daily. Importing herbs from warmer climates is an inefficient method. Importing produces excessive water and air pollution. Both of these practices are wearing on an already-fragile environment.

Great Lakes Organics utilizes the concept of hydroponics to grow natural herbs, locally. We are planning to be the first major organic, hydroponic grower in the Lansing area to target local grocers, markets and restaurants. Growing locally will encourage the Lansing community to be involved in the process while encouraging sustainable practices in agriculture. Additionally, Great Lakes Organics will eliminate the high costs associated with shipping by growing locally all year round.

Currently, there are no year-round hydroponic herbal gardens in the Midwest that operate on a commercial scale. There are smaller, seasonal gardens located across the region but none use hydroponic technologies. There are also plenty of seasonal gardens located across the warmer regions of the United States. In addition to these farms, there are large amounts of imported herbs from warmer climates. These competitors all have high-quality and organic products; however, they are far from our region. This leads to higher shipping costs and lowers efficiency. Great Lakes Organics specializes in supporting the local market, year-round. This local production helps our community, implements new techniques, and promotes efficiency and sustainability.

Creating our greenhouses in the Lansing area will not only help support local markets, grocers, and restaurants, but they will also help educate Midwest farmers about hydroponic technologies. The greenhouses at Great Lakes Organics will also help retail customers support their environmental values.

Greenhouse growing in Michigan:

- Eliminates the need for large shipping infrastructures
- Promotes sustainability
- Grows organic food that is better for our bodies and environment

Customers are becoming increasingly aware about where and how their food is grown. Consumer uncertainty is a large factor when it comes to purchasing foods. Many imported foods are not monitored by USDA growing standards. In addition to where and how their food is grown, consumers like to be certain about quality and care measures associated with their foods. Pesticides, herbicides and insecticides are all potential carcinogens. This creates fear in the customer, and drives them closer to the organic markets.

The greenhouse will not only be supported by a superior staff, but an experienced support network of organic champions will support the greenhouse and operations. Experts from each area of the agriculture industry will provide advice and knowledge. Along the path of Great Lakes Organics origin, many industry alliances have already been made. Sales discussions have already begun with one of Lansing's largest organic grocers. Purchase inquiries have also been noted by two local chefs. Great Lakes Organics will provide the local market with fresh, organic herbs for many years. Our greenhouses are meant to multiply on our current location in Ann Arbor. There are also plans to expand across the Midwest, to support multiple cities with the ability to self-sustain. Many cities located in northern latitudes require greenhouses to grow locally and year-round.

Four critical elements are brought together under the glass roofs at Great Lakes Organics:

- Rich, organic compounds
- Experienced horticulturists
- High quality seeds
- Superior, year-round production

Below is the projected financial summary for Great Lakes Organics for the first four years.

	2014 Totals	2015 Totals	2016 Totals	2017 Totals
Gross sales	82,715	973,847	1,508,042	1,739,997
Total COGS	41,388	389,507	595,565	706,584
Gross margin	41,327	584,340	912,477	1,033,412
Operating expense	111,531	334,011	415,650	455,091
Dividends paid	0	40,118	99,366	115,665
Net income	(76,659)	192,934	382,409	451,806
Year-ending cash balance	96,457	143,700	444,698	852,235

"MISSION"

Great Lakes Organics provides Lansing with quality organic herbs at a fair price. We provide our customers with healthier options that are grown in an environment that fosters global sustainability.

Great Lakes Organics' mission is to produce the highest quality, locally grown organic herbs. With the utilization of hydroponics and safe, nutrient-rich fertilizers, Great Lakes Organics will grow high quality herbs for the beneficial use of our customers. Only serving locally will allow us to ensure product quality. We will conduct operations prudently and strive to grow steadily, increasing profits, size, and market share. Great Lakes Organics shares the world's obligation to protect the environment and will carry out all operations accordingly.

Great Lakes Organics's Mantra

“Year–Round, Organic Quality”

The 4 Keys to Our Success

1. Reliable and year–round product delivery. This enables us to capture peak produce prices in the winter.
2. Promotion and use of hydroponics. This allows us to grow organically with scientific accuracy and efficiency.
3. Community involvement. By creating a friendly greenhouse environment and sharing our processes with the community, we promote sustainability and educate consumers.
4. Industry alliances and organizations. Fraternizing with our vendors, competitors, customers, and affiliations will create an ideal business environment.

"OBJECTIVES"

As a local grower, Great Lakes Organics strives to provide the Lansing market with locally grown produce. Each year, companies around the world spend unnecessary funds on shipping produce from warmer climates, where the production takes place, to colder climates, where many of the buyers live. In addition to the money spent, energy and resources are wasted by the transfer of these products. Great Lakes Organics' goal is to ease the strain on our environment and on markets by producing food locally.

Local production of these goods will also ensure quality control. Any of our buyers or end–users can visit our grow houses, year–round. This will not only showcase our high quality methods and products, but it will also serve as an education tool for many Lansing families and schools. By educating the end user about our product we can reduce uncertainty factors about the production process of the herbs.

Providing our customers the best organic product is crucial for our success. Not only will we strive to make organic products, but the best. Many organic products lack quality due to prolonged shipping methods, premature harvesting, and too much handling. Our locally grown goods will not be subject to any of their methods and, therefore, none of the repercussions.

Great Lakes Organics will sell high–demand herbs that include basil, mint, and chives, in the Lansing area, where the market for organic produce has not yet reached its full potential. The final system will be composed of five greenhouses, located south of Lansing, that will use modern hydroponics to increase quality control and crop yields. Through automation of the greenhouse and hydroponic systems, the amount of labor required (which is the largest expense in operating a greenhouse) will be reduced (USDA).

Great Lakes Organics will serve the Lansing area with consistent and reliable service. Our products will be recognized as local and organic; this will show our customers that we have higher level of

quality control, and give them an opportunity to see it firsthand. We plan to be the first large scale organic greenhouse to serve the Lansing area.

Hydroponics

As mentioned above, we will use a hydroponics system to grow our produce. Hydroponics is the method of growing plants in nutrient rich water, instead of soil. Plants can be grown with their roots directly in this solution or in an inert medium like gravel.

More hydroponics greenhouses in the United States are becoming certified as organic. Aiding this increase are companies like Water Aid that offer hydroponic packages that are certifiable and other certified operations that act as a precedent.

To meet the UDSA standards we will be required to use fertilizer that is not synthetic and contains no refined elements. In other words, the fertilizer will need to be composed of 100 percent organic materials. In the past, these types of fertilizers were difficult to find; however, more companies are producing products that meet these requirements. These companies include Friendly Fertilizer, which makes an organic hydroponic fertilizer, and Hydroponics Inc., which has several products for hydroponics that are 100 percent organic.

The hydroponics system utilized at Great Lakes Organics will make the most of limited greenhouse space. The system used in our greenhouses is the Great Lakes Vertical System. The system is designed so one can stack growing pots on top of each other to obtain the maximum plants per square foot. The stackable pots are manufactured with high density polystyrene foam that will help insulate roots during both hot and cold weather. The stacks of pots are able to be rotated, which allows uniform light absorption for each plant. Rotation also allows for easy harvesting and planting. The Vertical System's direct watering system reduces the amount of water and fertilizers that are required. Vertical System claims that fertilizers and water usage can be reduced by up to 80 percent when compared to other conventional systems. Also, because there is no soil used, there is no chance for soil born diseases. There will be less harm caused by insects and no need for weeding or herbicides. The cost to equip each greenhouse with the hydroponic system will be \$9,000.

The Vertical System will increase our growing space within the greenhouse. Because the Vertical System stacks pots vertically, more plants can be grown per square foot than traditional greenhouse growing. "Grow strawberries, lettuce, herbs and many other crops vertically in 80 percent less space." (Vertical System's marketing material).

Growing hydroponically and vertically will help us grow more plants per square foot, conserve energy and water, and control pests.

"OPERATIONS"

Location

Our location will be in Lansing. The reason this site was chosen is because it is owned by the parents of the owner and will be used rent-free. The tract we will use is in a field on top of a hill. We will have access to a well for water and power lines are less than 100 yards away. Gaining access to this site will be done with ease since there is an existing road that goes to the location. This location also has good access to roads. We are in close proximity to both I-96 and US-23.

Because of our location, we expect to need little security. It is located off the main road in an area where people do not lock their doors. If security does become a problem, a chain link fence will be

purchased for an estimated \$8,250, and some of the greenhouse lights will be lit at night as a deterrent. Additional precautions may be taken if necessary (i.e. cameras and guards).

Greenhouses

The greenhouses that will be used at Great Lakes Organics will be purchased from York Greenhouse Manufacturing. These greenhouses offer many options that will allow Great Lakes Organics to design a greenhouse that best fits our needs. The model that will be used is the Great Greenhouse because it offers the most square feet per dollar. This greenhouse has a total of 3,264 square feet and will cost around \$19,500 for a per square foot cost of \$6.

The greenhouses will be equipped with modern equipment that will reduce labor and increase control of the environment. Some of the features include: automatic vents, temperature controls that will be linked to the furnace and cooling fans, and, among other things, insulated wall ends.

The purchase price for each greenhouse will break down as follows:

Frame	9,520
Plastic	Included
Doors	765
Vents	3,775
Wallends	3,225
Gear box	645
Roll up side vents	735
Automated vent control	900
Total	19,565

Using a Corn Stove as a Heat Source

In using a corn stove, we will not only be saving money by burning a less expensive fuel, but will also be burning a renewable resource that will add to our image of being green. It was calculated that in the coldest part of winter we will need the ability to produce 2 million BTUs per hour, with a yearly total of 1 billion BTU hours. Our estimated heating expense for using different energy sources is as follows:

		Annual cost
Wood	\$150 per cord	\$10,300
Corn	\$6 per bushel	\$17,680
Wood pellets	\$260 per ton	\$21,630
Electric	11 cents per kilowatt hour	\$30,470
Fuel oil	\$4.55 per gallon	\$40,625
Propane	\$3.45 per gallon	\$46,980

The reason corn was chosen over wood is because a wood stove requires more around-the-clock attention than a corn stove does. Using corn will allow for more control over the price of fuel. With fuels like electricity and propane, you are limited on who you can purchase from. However, with the numerous farming contacts near the greenhouse location, Great Lakes Organics can likely purchase fuel at a discounted and more consistent rate.

Using an external corn stove will allow for low cost per BTU and will reduce the labor required to feed the stove when compared to a wood stove.

Lighting

In order to maintain consistent production rates, we plan to supplement light in order to maintain a minimum of 12 hours of light a day. On the shortest day of the year, the winter solstice, 3.5 hours of light will be supplemented. Supplemental lighting also gives us more control in the quantity produced. If demand shrinks, we can cut back on the quantity of light to slow growth.

The lamp we chose is a metal halide. Metal halide lamps provide a full light spectrum and are more comfortable to work under than other lamps. They are the best lamp for promoting plant growth. This color of light promotes plant growth and is excellent for green leafy growth. The average lifespan of a bulb is about 10,000 hours so a bulb will last for years.

Lights will be hung 4–6 feet above plants for optimal lighting. Each 1000 watt bulb will light 140 square feet. A total of 23 lights will be needed per greenhouse at a purchase price of \$450 per fixture. Bulb replacement cost will be around \$90. The expected electric expense for operating 5 greenhouses, at a kilowatt hour costing \$0.15, will be \$18,000. The cost for equipping each greenhouse will be \$12,000.

Using Metal halide bulbs will encourage plant growth and provide pleasant working conditions for employees.

Propagation

Through the year some plants will inevitably die. Therefore we will have a propagation system that will allow us to take cuttings from existing plants and grow them into actual plants. Through propagation from plant cuttings instead of from seeds, a plant will be able to be harvested in about half the time. A propagation system can be as simple as a tray of moist sand. Plants can be grown from cuttings instead of seeds which saves time.

Typical Work Day

In going through the day: the day will begin with a 10 minute meeting to discuss any current and potential problems, as well as give praise and feedback for positive items. The meeting will also be used to motivate employees and try to help their job from being monotonous. Employees will have a 15 minute break midmorning, and a half hour lunch. They will be given the option of working through lunch if they desire. This option will not be encouraged because we want to develop community in employees and social times like a lunch break together will help this. Mornings at the greenhouse will consist of harvesting and packaging in order to allow same-day deliveries. Afternoons will be used to propagate plants, and perform any maintenance on the operational systems.

Also, since there is only so much that can be done in a greenhouse, employees will be able to leave early if they accomplish their required jobs. We will not allow this option to be abused, but will allow some leeway because employees will get limited time off during holidays.

Legal Structure

Great Lakes Organics will be structured as a Limited Liability Company. There are several advantages of forming an LLC. First of all, Great Lakes will have limited liability protection. This will not only be good for the company, but also the owners. We will also be a pass-through entity that allows Great Lakes Organics to pass the tax on profits to the owners; this will be helpful, especially during the startup phase. Other advantages of an LLC include flexibility in operations and no ownership restrictions. In Michigan, becoming an LLC is very easy and inexpensive.

"ADVERTISING"

Packaging

Labels and clamshells will be purchased in bulk in order to reduce the per unit cost. Labels will be purchased online. If we purchase 10,000 at a time, labels will cost 1.7 cents each. Clamshells will be purchased from a company called Jones Specifications. The one ounce packing clamshell we will purchase will cost 11 cents each. Several companies make appropriate packing bags that cost 3 cents each. The yearly total for packaging supplies per greenhouse will be around \$22,000. Purchasing packing supplies will reduce the per unit cost.

"BUSINESS STRATEGY"

There are three unique features of Great Lakes Organics that will aid in becoming an organic competitor in the Lansing market.

The first unique feature of Great Lakes Organics is that the produce will be grown in a greenhouse. This will allow for year-round production that will offer a stable revenue stream as well as provide customers with consistent service and produce. Year round production has a two-fold effect. Not only will we be receiving year round profits, but market price on herbs can increase during the winter months. Additionally, the control of production will increase with the use of a hydroponics system. Further benefits from the greenhouse and hydroponics approach include providing a sanitary environment for product growth, temperature and fertility control, elimination of soil-borne diseases, and availability of technical assistance for the hydroponics system.

The second feature is the locality factor of our business, will provide a competitive advantage over more commercialized, non-local companies. In 2013, 43 percent of consumers typically sought out food grown by local producers whether they were organic or not. Great Lakes Organics will cater to the needs and desires of consumers by promoting our product in the local market, involving the community, and offering the freshest organic produce. Currently, 47 percent of consumers worry that more commercialized, non-local organic companies are not following the production regulations as laid out by the USDA. Concern about the production standards of other companies is a legitimate concern. Several "organic" producers have had pesticides found on their farms (likely being transferred from a nearby farm by the wind). There have also been reports of companies buying nonorganic produce and packaging it as organic. The community-centered nature of Great Lakes Organics could alleviate many of these concerns. By holding greenhouse visitations, other community events, and offering more information for consumers on our production standards and techniques, we can establish a more loyal and committed relationship with the community. Through public awareness we will increase sales of our product and taxable revenue within the community. Being a local grower would also create more job opportunities for the community and, in so doing so, add to the local economy. Another advantage of the locality feature exists in the reduction of transportation costs. Less money is required for shipping since Great Lakes Organics does not ship our products cross-country. The distance a product travels from the farm to its destination and its impact on fuel costs and global warming is a growing concern among consumers.

The third advantage arises from the positive attitudes consumers hold toward organics. For instance, 48 percent of consumers believe organic foods are more nutritious than non-organic, while 30 percent of consumers say that organic food tastes better. Many people are concerned with maintaining a healthy lifestyle. Another benefit for the health-minded consumer is that organic food is not grown using any harmful, potentially cancer-causing chemicals, including pesticides, herbicides, and fungicides. Avoidance of these chemicals is especially important during the pre-natal and early development stages of children. Due to their sensitive systems, small children, pregnant women and consumers with allergies who are especially vulnerable will benefit most from the avoidance of pesticide and chemical use. By switching to organic products, children can lower their pesticide levels in only five days, making for a healthier development process. In addition to growing organics free of chemicals known to be harmful, they also contain no Genetically Modified Organisms, or "GMOs", of which 56 percent of all consumers are concerned about digesting.

Risk Factors

One of the largest threats to the organic food market is the perishable quality of our produce. The inability to sell all of our finished products due to the fact that produce only stays fresh for a short period of time, could lead to lost profits. Organic food is labor intensive and as a result, organic produce costs more than non-organic. This is significant because 67 percent of consumers say they would buy more organics if the cost was less. Therefore, monitoring price and understanding our consumer becomes invaluable as the high price of organics proves to be a barrier for the consumer.

One way around limitation of perishability is value-added activities. These activities can include dehydrating herbs and selling to a packaging company or creating soup or dip packages.

Due to the high margins that can be associated with selling organic food, the USDA published organic regulations in October of 2002 in order to try and regulate the market. Among the most pertinent prohibited materials and practices include the avoidance of genetically engineered seeds and materials, the mandatory waiting period when applying proper composting techniques, and the banning of irradiation and sewage sludge. Complying with these USDA standards can be time consuming and expensive, and claiming to be better than a competitor can be a difficult task with the uniform standards.

We realize that this segment of business can fluctuate and make it difficult to compete. Because of the system Great Lakes Organics will use, there is the option to change what is grown. The existing hydroponics system can be used to grow other products like tomatoes, lettuce and even flowers. Or the hydroponics system can be moved out and replaced with materials that are for growing mushrooms or potted plants.

"MARKET ANALYSIS"

Popularity of organic foods continues to grow within the continental United States. In fact, the sales of this segment increased nationwide 115 percent at current prices, or 89 percent after adjusting for inflation, from 2007–2012. Sales are expected to continue increasing for future periods, which makes it an ideal opportunity to enter the market.

There is a continuous increase in sales of organic food. The constant increase in growth supports the premise that organic foods are becoming more acceptable—and more in demand by consumers looking for foods they consider to be more healthful. With this trend, the industry continues to grow at a rapid pace, as demand for organically grown food in local markets is also likely to rise, indicating encouraging trends.

Agricultural trends also point to the organic produce market as being one of the fastest growing segments of US agriculture. The organic food industry is in the growth stage. Additionally, there seems to be a trend towards eating healthier in the United States, which includes organic foods. Rising nutritional awareness and a preference for a produce-rich diet across the nation has a positive effect on demand for fruit and vegetables generally, including those grown under cover. A general concern for well-being boosts the market for healthy foods such as organic fruits and vegetables.

In 2000, the organic food industry hit a milestone when traditional supermarkets became the primary venue for organic foods. An organic product reaching the shelves of places such as Schnucks, Dierbergs, Wal-Mart, and other large grocers represents an important step for organics. It signifies that the growth of a product and the demand for the product is still increasing. Large retailers such as Wal-Mart have started to stock organic foods to regain and retain many customers siphoned away by retailers such as Whole Foods. In 2006, retail giant Wal-Mart announced it will increase the variety of organic food in its stores, which is expected to lead to a faster adoption of organic farming.

Through mainstream retailers seeking to stock organic foods, the industry becomes self-promoting. Retailers will respond to a rise in demand by increasing their orders. Therefore, those growers who are able to provide year-round service can reap the benefits of the grocery stores and larger retailers' increasing need for inventory.

Competition

Local competition from large-scale organic greenhouses in Michigan is limited. The current herb industry is located primarily in California, Florida, Colorado, Arizona, Ohio, Texas, Pennsylvania as

well as Mexico, Canada, Holland, and Israel. The lack of large regional competitors will reduce the chance of more established companies driving Great Lakes Organics out during our introduction to the market. We will establish a niche market characterized by our locally-grown, year-round products in order to compete with organic growers who may not use a greenhouse but have established themselves in the Michigan market and supply to grocery retailers.

In order to obtain local supply and demand data for the Lansing produce industry, we interviewed the store manager of a prominent grocery store in the area. However, he could not supply exact figures because they were considered confidential. He said that the sales of organic food varied greatly within the city and that consistent suppliers are hard to come by.

Not only is the demand for local produce increasing, produce prices are increasing across the board. This is largely due to the fact that fuel prices have increased substantially over the past decade and that there is a higher demand internationally.

Industry Trends

Currently the organic produce industry is experiencing high growth in all sectors; locally, nationally, and globally. Not only are there higher standards being set by shoppers, but higher standards are also being set by governments. Regulations on USDA organics have been around for a long time; however, new restrictions on pesticide sprays, irrigation practices, and fungicides have been mounting on the industry.

The most important industry trend is driven by our consumers. Each year the demand for organic produce increases. Studies are increasingly showing grocery shoppers the benefits of eating organic foods, and they are willing to pay the premium. Online polls, grocery store surveys and industry reports are all pointing in the same direction. Organic foods are important to consumers and will be in the foreseeable future.

Organic farming is practiced in approximately 100 countries throughout the world, with more than 37.5 million hectares now under organic management. Australia leads with approximately 12 million hectares, followed by Argentina, with approximately 3.6 million hectares; both have extensive grazing lands. Latin America has approximately 6.8 million hectares under organic management, Europe has more than 11.2 million hectares, and the United States has nearly 2.2 million hectares.

Organic is a niche, but a very profitable niche. Give consumers what they truly want/need and they will dig deeply into their pockets. Organic is here to stay, not a fad marching by in the night. Others will likely get involved. Whether you opt in or not, it certainly is a category worth watching. It gives us one more window into the minds of consumers.

"CUSTOMERS"

Everyone deserves and enjoys high quality produce; however Great Lakes Organics will focus on the early majority and late majority adopters. Our efforts will also be focused on higher-end stores. We are selling our products at local grocery stores which will include Whole Foods, Schnucks, and Dierbergs. We will also focus on smaller, local markets. Most of these grocers buy in smaller increments, fitting for our first year. Many markets and grocers are facing higher demand, due to elevated demand on organic products. This makes it easier for our product to be recognized around the community and our end-user. Placing our products in high-end community supermarkets will facilitate our opportunity to expand quickly. Launching our products to higher-end consumers is vital since they have more disposable income to spend on quality products. As the local community becomes aware of our product, it will be easier for us to expand to other grocery markets that will be attracted in selling our product.

We plan to target areas that have customers who purchase organic food on a regular basis. Many of these areas are easy to find because the stores already exist. Stores like Whole Foods, Trader Joe's, etc. draw in a certain demographic. The main two are income and ethnicity. Middle and upper class people purchase the majority of organic food, likely because of the higher price tag that is associated with it. Also, people of Asian ethnicity purchase the largest amount of organic products per capita.

Each business and individual's adoption processes has an effect on our business. Even though Great Lakes Organics does not sell directly to the retail consumer, their preferences still impact our business. Out of adopters the early majority and innovators are going to be our primary end-users. The early adopters and innovators are consumers who want to buy local products. These are the consumers who desire to eat locally to promote local economic development and reduce the externalities caused by importing goods and shipping goods across the country.

Shoppers who are interested in our products will typically shop at stores that stock organic products. These customers will be interested in locality, organic quality, and price. The main grocers serving these customers are as follows.

- Whole Foods
- Jones and Peters
- Trader Joe's
- Several smaller, local stores

Each of our adopters takes on a different process for perceiving and purchasing new goods. In the case of Great Lakes Organics, we want to know where these adopters are, even though we are not selling directly to them. By understanding the purchasing and adoption habit of the end user, we will be able to better understand the following:

- Where they will go to purchase new/trendy goods
- How much they are looking to spend on organic goods
- And, exactly what kinds of goods they are looking for

Economic Factors

Organic food is one of the fastest growing agricultural markets in the U.S. With a growing presence in supermarkets and satisfied consumer, organic food is an expanding market. Food quality, freshness, and food safety is what makes organic food more demanding.

Each year, the demand for organic foods increases. However, farmers are not increasing their organic production rate at the same rate of the increasing demand. This means a lot for our business. As the demand for organic goods rises, grocers will be struggling to meet demand needs.

We are currently facing a recovering economy, where disposable income is still thin. Our organic produce can be up to ten times the price of normal produce. Knowing that our economy is recovering and budgets are still tight, we will focus on the middle and upper class, and their grocers. We are targeting higher income consumers who are able to spend more on a higher-end product. International consumers spend around 14 percent of their income on quality food, compared to U.S. consumers which spend around 7 percent. Grocery shoppers that are cost consumers will not be our targets. Most of these shoppers purchase goods at Wal-Mart, Costco, and Sam's Club.

One positive aspect of the economic hard times is that it will add protection from foreign competition as the dollar becomes weak. As the dollar weakens, it could become less profitable for foreign companies to export to the United States.

"MARKETING & SALES"

Our sales and marketing strategy will rely primarily on personal sales abilities as well as market situations. Most of our sales positioning and pricing will be in response to the markets. Our distribution methods will be unique to Great Lakes Organics and our approach to advertising will be a cold call sales tactic, relying on personal selling capabilities.

Informing, Persuasion, and Reminding

The process of *informing* will revolve around defining the technology of hydroponics in simple terms. Most have a general idea of what “organic” entails but we have a responsibility to make sure we educate ourselves as well as our customers when the terminology is vague or unclear. We must also reassure the organic buying customers that our version of hydroponics produce is just as natural, safe, and as organic as soil grown fruits and vegetables. Assuring product quality will also be an important aspect of informing. If our products do not own up to the best organic competitors, they will reject the hydroponics method.

Organic agriculture is an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.

Not only are we trying to grow a healthy food but also a food that is safer for the consumer and the environment. Although this is a business, we will show that we care about the environment and our production of organic goods will reflect our dedication.

Persuasion of organic products comes naturally, derived from the sale of organic foods, and their continuance to flourish throughout the various lines. The sale of organic foods continues to flourish throughout the various lines. “Products labeled as natural or organic have seen double-digit sales growth in recent years and now represent close to \$29.22 billion annually.” Currently, in the Lansing market, stores like Whole Foods cannot buy enough produce to stock their shelves.

We will continue to *remind* our customers and the retail buyers about the benefits of organic foods (more nutrients, less harmful to humans and the environment, etc.) We also must remind our customers of the environmental advantages of locally grown produce and hydroponics produce. These characteristics use less energy to distribute and are less harmful to the land. We will also remind them that fruits and vegetables grown organically show significantly higher levels of cancer-fighting antioxidants than conventionally grown foods.

Advertising

Our main sources of advertising will come through local newspapers with strong editorial columns pertaining to food (*Sauce Magazine*, Trader Joe's and Whole Foods newspapers/letters, supermarket newspapers) as well as Internet capabilities (online clubs, newsletters, etc).

Sauce Magazine
Whole Foods' Newsletters
Lansing newspapers
Local radio and television shows

Sales Strategy

Positioning

We will position our product against others as being locally produced and of high, organic quality. There are very few distinguishable differences with herbs. Most of our customers will be seeing the

same products offered, at similar prices. Great Lakes Organics will sell to grocers and restaurants by positioning ourselves against the competition as a local provider. This characteristic will help us stand out in terms of sustainability. We will also use it to show how shipping our products 30 miles to our customers will give way to better products. Local products will not be subjected to days of unnatural shipping methods, or border crossing. Producing herbs locally, as mentioned, during the winter and colder months will be a competitive advantage.

Another positioning method against wholesale distributors and other sellers is that we will be local and have dependable service. Many of our competitors will depend on distributors to ship their product across the country. This process can be disrupted by weather, infrastructure, and contamination. By providing a local product, Great Lakes Organics will not be at the mercy of conditions around the country. This will let us boast about our unique, dependable service.

Pricing

The price of our product will fluctuate with the supply and demand of the market. In the summer time the market supplied with additional locally produced herbs. Because of this, prices will drop and people will buy more. In the winter, when supply is not as abundant, prices go up. However, if we are able to establish brand recognition, we could likely charge a higher price year round. Selling directly to Michigan chefs and restaurants could pose a lucrative pricing opportunity. Typically, restaurants are much more particular about their products, but they will pay a much higher price. During the winter months, some restaurants will pay up to eight times the summer market price for high quality produce.

Personal Selling

We must make it clear that we are well educated in what we produce and how it is done in order to ensure that our clients and potential clients can confidently purchase our products. We will cold call in order to set up appointments. Setting up appointments, giving free samples, and demonstrating the hydroponic method will be the objective for many of our appointments. Through writing this plan, Great Lakes has made several contacts that could be potential buyers. Between the founders, over fifteen years of sales experience has been accumulated. We will rely on this heavily for our establishment in the organic food markets. Initially we will court our existing contacts. Throughout our research, the founders of Great Lakes Organics have established over ten reputable industry contacts. This will be our base for sales. Our plan will be to establish territories, then split them up and place personal cold calls. Salespersons will earn a base salary of \$750 per month plus 7 percent of gross margin.

Indirect Sales/Distribution

We plan to be a selective seller and sell directly to grocers and markets. There is a chance that we could partner with a company like Whole Foods and supply them exclusively. But we may not want to limit ourselves in such a manner. If we grow an excess we could sell to a wholesaler, however they may demand we sell it at a lower price because they become the middle man.

In the winter months we will sell 70 percent of goods to retailers and 30 percent to restaurants. In the summer when there is more local competition, 55 percent will be sold to retailers, 30 percent to restaurants, and 15 percent will be sold wholesale or will participate in value-added activities.

"COMPETITION"

Great Lakes Organics will only have a handful of competitors in a market seeking an increasing supply. Additionally, our unique advantages will help us stand out amongst this small group of local growers.

Primary Competitors

We currently have a few primary competitors. They are all somewhat local and are producers of organic produce. Several currently have multiple farms and greenhouses all within 150 miles of Lansing. Their ability to produce locally cuts down on their costs, and is more appealing to locavores. They also operate out of greenhouses in the winter months, allowing them the ability to reap the high profits from winter months.

Secondary Competitors

We have two different types of secondary competitors: Local, but not organic and Organic, but not local. These competitors come from a wide range of locations and operations. Secondary competitors also represent all imports from other countries. Countries such as Poland, Italy, and China have organic farms in place and provide fresh organic goods to their respective regions. Due to their location, lengthy shipping and unknown practices of shipping these goods, international organic goods only represents a small number of producers that will concern our business. Nevertheless, these producers should still be taken into account as we assess the competitive environment surrounding our business.

We will deal with this competition by targeting smaller retail locations during the summer and selling our products as higher quality than those exposed to the unnatural elements found on outdoor farms and nonorganic produce.

Unique Competitors

We will also be dealing with unique competitors. These competitors either grow different products, pose an opportunity to partner, or operate under a different business model. The People's Farm, for instance, is located in the heart of Saginaw, Michigan. They grow organic produce of all sorts, year round, but under the model of a CSA (Community Supported Agriculture). CSAs will collect funds and labor from a neighborhood and provide fresh fruits, vegetables, herbs, and meat for a small community. This CSA will not be seen as a threat to our business, but an opportunity to advertise, give back to the community, and promote Great Lakes Organics.

Competitive Advantages

Great Lakes Organics' competitive advantages can be summarized in four concise bullets:

Greenhouse Growing—By growing our foods in a greenhouse, we obtain a clear competitive advantage over our competitors. Growing indoors allows us to grow our foods year-round. We will be able to take advantage of higher market prices. Greenhouse growing also allows us to control our environment and therefore our quality. We will not be subject to the elements; floods, high winds, drought, etc. The threat offered by insects and animals can be greatly reduced in using a greenhouse. And lastly, we control our outputs. Conventional farms destroy native environments with water and chemical runoff and organic matter. We will not partake in destructive practices but will focus on sustainability.

Organic Produce—Growing organic produce is the obvious advantage. With prices up to ten times as much as modern produce, organics will increase our profit margins while keeping our customers healthy.

Grow System—Using a hydroponic system allows more control over production. It eliminates the need for pesticides, herbicides and soil borne diseases. It also provides higher production and requires less time required per unit produced. The growing medium, perlite, holds water content and is an excellent vehicle for delivering nutrients to

plants. Using automated greenhouses allows for labor savings and year round production reliability.

Local—Being a local provider will cut our costs significantly. We will not have to pay any tariffs or fuel costs for shipping. We will also become more attractive to our customers, more dependable, and environmentally sound.

"MANAGEMENT SUMMARY"

Thomas Graham—Thomas graduated from Southern Illinois University with honors and a BSBA with a concentration in entrepreneurship. He established his first LLC at the age of 19 and purchased a piece of investment property while a freshmen in college. Thomas has worked in construction since he was 13 and qualified for the advanced placement plumbing apprentice program while still in high school. Much of his family are farmers and he grew up on a plot of land where his chores included maintaining a garden, and tending to small livestock.

Alice Wearen—Alice recently graduated from Central Michigan University. She received a BSBA, with a concentration in entrepreneurship. Alice studied environmental science as well, taking courses focusing on global sustainability and environmental issues. At Central Michigan University, she served as a board member of the Collegiate Entrepreneurs' Organization. For the past 3 years, she has focused on marketing efforts at a local cancer treatment center and office supply company.

Erik Clive—Erik recently graduated from Michigan State University where he received a BSBA with concentrations in Marketing and International Business and a supporting concentration in Entrepreneurship. Erik worked as a Leasing Agent for a local real estate company learning valuable personal selling and interpersonal communication skills.

Pilar Christopher—Pilar recently graduated from Michigan State University where she received a BSBA, with a concentration in entrepreneurship. She gained many interpersonal and human relation skills through her experiences in her previous positions working at local banks. Being naturally from Puerto Rico, her language skills in English as well as in Spanish have helped her excel in the business world. In addition, her strong background in business throughout the years have helped her acquire the experience needed to succeed in this changing and competitive field.

Job Descriptions

The horticulturist's primary job is to monitor the system and make any necessary adjustments to nutrient level, Ph level, lights, and temperature. This portion of his job should become routine because of the automated control systems that will be installed. The horticulturist will also be in charge of ordering materials, such as packing materials, seeds, fertilizers and other regularly needed materials. The horticulturist will also be in charge of supervising the laborers. He/she will need to give laborers direction, make any changes, and keep other employees motivated. The horticulturist will report to the owner and inform about any problems with personnel, production, etc. With the automation of the greenhouse, day-to-day tasks should not have a great deal of variation.

Laborers will have the job of harvesting, packing, and propagating plants, as well as any maintenance on the system the horticulturist sees needed. They will also have the task of record keeping that will be reported to the book keeper and owner. We are looking to have tours (to qualify for educational grants) on Friday afternoons; the laborers will be in charge of conducting the tours and answering any questions.

At the beginning, the owner will make deliveries to restaurants and retailers. Most deliveries will be made in the late morning, and early afternoon. The owner will be at the greenhouse much of the time and will be able to monitor the operation and help things run smoothly.

Strategic Alliances

We have the ability to join groups and organizations throughout the United States. Though joining various organizations we will form a network with those who have similar businesses to ours and offer sound advice in an effort to efficiently run our business.

State-Level Organic Association: Shows our desire to help educate Michiganders on the benefits of organically grown foods.

Organic Co-op: A co-op that offers grants and other funding to help start-up organic growers fund their projects in order to start their businesses.

Ecological Farming Association: Shares concerns about the duties as agriculturalists to protect the earth and provide an economically practical quality product.

World Wide Opportunities on Organic Farms (WWOOF-USA): Started by the EFA in an effort to spread global awareness about the benefits of organically grown foods.

Organization places volunteers at organic farms to assist in the daily operations. In return, the volunteers receive education about living the organic lifestyle and its benefits for the world.

Organic Trade Association: Offers free business listings in its group sites and reduced advertisement costs on its website(s) to those who sign up for membership.

All Things Organic (Trade Show): Sponsored by OTA and held in Chicago, IL, this would be an event to consider attending (if held beyond the upcoming show) in order to move our business to a national level and increase brand recognition.

Mentors and Support Network

Through developing this plan we have made several contacts that will aid Great Lakes Organics in the future. Some of these contacts include:

Marc Ford: Marc believes in the benefits of organic food and wants to develop the market of organic food. Marc is working to develop a co-op that will provide people with locally grown and organic food.

Gina Spivey: Gina works at the intellectual property office at the University of Michigan. She previously worked for NASA and has an understanding and interest in hydroponics.

York Greenhouses: York is the company who we are purchasing greenhouses from. They offer a good product with a wide range of options that will allow us to choose the exact options we want for what we are growing. York also offers support information during the construction stage and any maintenance issues that will arise in the future.

Henry Wallabee: Henry is the produce forager for the local Whole Foods Market. He has worked in agricultural business his entire life and has been a valuable mentor for the Great Lakes Organics development team. She has offered her advice for business planning, business development and strategic positioning. She has also helped in networking across Lansing's organic industry.

"FINANCIAL ANALYSIS"

Additional Revenue Streams

There are several options that will allow for value added activities for any goods that are not able to be sold. We are looking into activities like dehydrating and selling to organic dry herb packagers. We are also considering selling to a salsa or sauce manufacturer or even creating dehydrated soup packages. Value-added activities will protect Great Lakes Organics from lost revenue.

Start-Up Expenses

In order to start business, a first investment will be secured. A total of \$270,000 will be needed to cover expenses incurred during that startup phase. Currently there is \$97,500 available in the owner's equity provided by the founders. An additional \$45,000 has been pledged from the family of one of the owners. A loan of \$105,000 will be secured, likely through Whole Foods who has a loan program to aid local growers become established. Even though this loan is through a grocer, it does not limit us in who we sell to, but requires us to supply Whole Foods for at least 3 years. The \$22,500 difference in funding will come from grants for the promotion and education of sustainable agriculture or a line of credit secured by one of the owners.

Annual income summary

	2014 Totals	2015 Totals	2016 Totals	2017 Totals
Gross sales	82,715	973,847	1,508,042	1,739,997
Total COGS	41,388	389,507	596,565	706,584
Gross margin	41,327	584,340	912,477	1,033,412
Operating expense	111,531	334,011	415,660	465,091
Dividends paid	0	40,118	99,395	115,605
Net income	(76,659)	192,934	382,409	451,608

Income statement

	For the year ending December 31st 2015						
	Jan	Feb	Mar	Apr	May	Jun	Jul
Gross sales	57,144	57,144	57,144	57,144	53,493	80,240	80,240
COGS							
Labor	15,879	15,879	15,879	15,879	15,879	23,819	23,819
Growing material	1,203	1,203	1,203	1,203	1,203	1,727	1,727
Packing material	5,225	5,225	5,225	5,225	5,225	7,838	7,838
Total	22,307	22,307	22,307	22,307	22,307	33,383	33,383
Gross margin	34,838	34,838	34,838	34,838	31,188	46,859	46,859
Operating expenses							
Salaries	15,680	15,680	15,680	15,680	17,886	20,339	20,339
Depreciation	1,316	1,316	1,316	1,316	1,316	1,593	1,593
Other expenses	9,161	7,925	6,962	5,267	3,752	3,767	3,827
Total operating expenses	26,157	24,921	23,958	22,263	22,953	25,699	25,758
Operating income	8,681	9,917	10,880	12,575	8,234	21,159	21,099
Dividends paid	1,736	1,983	2,177	2,516	—	—	—
Interest expense	1,074	1,307	1,286	1,511	1,484	1,457	1,430
Net income	5,871	6,627	7,419	8,558	6,750	19,703	19,670
	Aug	Sep	Oct	Nov	Dec	Totals	
Gross sales	78,879	107,828	114,864	114,864	114,864	973,847	
COGS							
Labor	23,819	31,757	31,757	31,757	31,757	277,874	
Growing material	1,727	2,252	2,252	2,252	2,252	20,202	
Packing material	7,838	10,449	10,449	10,449	10,449	91,430	
Total	33,383	44,457	44,457	44,457	44,457	389,507	
Gross margin	45,497	63,389	70,407	70,407	70,407	584,340	
Operating expenses							
Salaries	20,229	22,859	23,426	23,426	23,426	234,645	
Depreciation	1,593	1,871	1,871	1,871	1,871	18,843	
Other expenses	3,827	5,981	7,805	9,779	11,723	80,523	
Total operating expenses	25,649	30,710	33,101	35,075	37,019	334,011	
Operating income	19,848	32,680	37,307	35,333	33,389	250,328	
Dividends paid	3,959	6,533	7,461	7,067	6,678	40,118	
Interest expense	1,403	1,374	1,347	1,319	1,290	16,277	
Net income	14,477	24,753	28,499	26,948	25,419	193,934	

Cash flow summary

	2014	2015	2016	2017
Beginning cash	270,000	56,457	143,702	444,696
Net income	(76,659)	192,934	382,409	451,608
Depreciation expense	5,831	18,843	23,561	25,781
Cash flow from operations	199,172	289,954	549,671	922,085
Less capital investments	122,327	64,277	32,138	0
Cash flow from investing	166,000	0	0	0
Long term borrowing	105,000	0	0	0
Principal paid	21,138	62,006	72,836	69,849
Year ending cash	56,457	143,702	444,696	852,236

Break even analysis

	2014			2015			2016			2017		
	Basil	Mint	Chives	Basil	Mint	Chives	Basil	Mint	Chives	Basil	Mint	Chives
Total units in ounces	61,866	24,747	24,747	721,769	288,708	288,708	1,072,341	428,937	428,937	1,237,317	494,927	494,927
Unit price	1.35	0.90	1.35	1.35	0.90	1.35	1.35	0.90	1.35	1.35	0.90	1.35
Gross sales	52,740	15,869	14,105	582,803	230,076	160,967	924,038	344,544	239,480	1,065,062	390,790	276,116
COGS	24,833	8,277	8,277	233,705	77,901	77,901	357,339	119,114	119,114	423,061	141,317	141,317
Gross margin	27,906	7,592	5,828	349,098	152,175	83,066	566,699	225,431	120,347	641,141	257,474	134,799
Gross margin/unit	0.68	0.47	0.36	0.72	0.80	0.44	0.80	0.80	0.42	0.78	0.78	0.41
Operating expenses	66,918	22,307	22,307	200,408	66,803	66,803	249,390	83,130	83,130	273,054	91,019	91,019
Break even units needed	148,346	72,719	94,719	414,345	126,738	232,181	471,911	158,175	296,289	526,069	174,959	334,184
Surplus (shortage)	(86,480)	(47,972)	(69,972)	307,424	161,835	56,526	600,432	270,762	132,648	710,358	319,968	160,743

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