Strategy formulation for the Phd Health Market (Pty) Ltd – franchise group

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Masters of Business Administration

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By

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CONFIDENTIAL

Declaration

I, Henk Heath, hereby declare that this research thesis is my own original work and that all the sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

H Heath **20 November 2007**

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Abstract

Phd Health Market (Pty) Ltd was born from the vision of Anton Dupper and Advocate Jan Grobler, to turn a health store in Welkom, South Africa, into a national health franchise in the health & fitness industry. Phd Health Market has a vision to radically change society as a whole by changing nutritional eating and instilling a healthy lifestyle as a whole, which could be easily adapted by all. Phd Health Market is a small developing franchise group, requiring a much needed strategic plan in order to develop into a major role player in the Health industry of Southern Africa and Internationally.

The purpose of this mini-dissertation is three fold. Firstly to investigate and determine the process and criteria associated with the strategic planning process from relevant literature and to formulate a process of evaluation for the company. This is done by determining the "building blocks" for a strategic plan as well as the key areas to focus on that will give Phd Health Market a distinct advantage over other players in the health industry and ultimately play a key role in changing the South Africans way of healthy living and thinking.

Secondly to determine the state of the company and how it measures up to the formulated strategic planning process. This is done by evaluating the internal as well as the external factors that could have an impact in the short and long term on the company. This evaluation is based on the process made famous by dr. Michael Porter, namely Porter's five forces model.

Thirdly to draw conclusions from the comparison between the developed formulation and the actual findings, which would lead to action plans based on the company's internal strengths and weaknesses as well as the external forces that the company may have no control over, threats.

The winning strategy must fit the company's external and internal situation, build a sustainable competitive advantage and improve the company performance based on the strategy formulation.

The principal sources of information were publications of strategy and strategic planning as well as health orientated companies, industry associations, consultants and the internet. A number of interviews with key stakeholders were also conducted within Phd Health Market. In order to apply the strategic planning process to the Phd Health Market (Pty) Ltd franchise group various informal interviews were conducted with key personnel in the company. Visionary aspects of Phd Health Market were discussed with Adv. Jan Grobler the CEO of the company, while operational and industry aspects were discussed with Anton Dupper.

Further recommendation follow that the strategic assessment be performed on an annual basis in order to adapt the action plans plan to the then current situation. The strategic plan should be organically developed on an ongoing basis.

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List of abbreviations

BBBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
COGS	Cost of Goods Sold
FASA	Franchise Association of Southern Africa
GP	Gross Profit
NP	Net Profit
Phd	Phd Health Market (Pty) Ltd
ROA	Return on Assets
ROE	Return on Equity
SWOT	Strength Weaknesses Opportunities & Threats

1 INTRODUCTION

Phd Health Market (Pty) Ltd (Phd) started from the vision of Anton Dupper and Advocate Jan Grobler, to turn a health store in Welkom, South Africa, into a National Health franchise in the health & fitness industry. Their learning curve included exposure to all the main suppliers in South Africa, a broad customer base, partnering with many para-medical practitioners and continued requests to open more shops elsewhere in South Africa (Phd, 2006a:7).

Phd Health Market has a vision to radically change society as a whole by changing nutritional eating and living habits. By promoting a healthy lifestyle and the basics of nutrition, Phd aims to assist society to achieve their optimum health, vitality and wellness levels. Being the first of its kind in South Africa, Phd opened in June 2006 in Pretoria and burst out of its seams within the first 6 months. Subsequent stores have been opened in the South and West of Johannesburg to try and meet the demand for the company's products and assessments.

1.1 *Phd Health Market (Pty) Ltd*

Phd combines food, products and services to provide their franchisees with the best combination of exposure to a retail environment where health conscious people can feel at home and enjoy:

- Fantastic fresh, healthy and tasty food
- Healthy take-aways
- Healthy corporate platters
- Scientific body assessments
- Selected ranges of organic medicines, supplements, beauty and skincare products, healthy food ingredients and African herbal products
- Access to comprehensive information on the dynamic world of health and well-being through their trained staff, books and the internet
- Participate in mainly food-based body make-over programs focusing on exercise and healthy eating plans

- The only fully e-commerce enabled website that can handle repeat orders and through which new customers join the health movement daily.

Phd will have a ripple effect on society starting from the epicentre of South Africa, and will reach more than 1 million people within the first 3 years of operation. A total of 10 Master Franchises will be license-awarded for 2007/2008 outside of South Africa. Contenders for these master licenses include Namibia and Australia, both of whom have succeeded in progressing to a second round of negotiations (Phd, 2006a:12).

1.2 *The health and wellness industry*

The health and wellness industry in South Africa is materially influenced by the following players and forces;

1.2.1 Stakeholders

Some of the major players in the health industry include international companies as well as governments. During the May 2007 Commonwealth Health Ministers Congress in Geneva, decisions on the nutrition of our nation greatly impacted the strategy for Phd Health Market (Pty) Ltd. It was during this congress that Phd attempted to forge ties for future expansion into Africa, Australasia and Europe.

The wellness industry in South Africa is dominated by gymnasium groups, Virgin Active, Planet Fitness, and smaller singularities. Both Virgin Active and Planet fitness have clientele ranging from 2000 members per gym to over 14000 members. Smaller gymnasiums have clientele of between 200 and 400 members. For both Phd and the gymnasiums, this opportunity offers a source of clients and solutions to the members' nutritional needs rather than a threat of competition.

Future expansion and development of a Phd Personal Trainer group, focusing on one-on-one and one-on-two training for the affluent of society will pose a threat to these groups.

Medical Aid Schemes in South Africa are key players in the health industry, not due to their connection to the payment of medical bills, but rather due to the fact that members of these schemes are running out of their savings account balance prematurely. This negatively impacts on the medical aid schemes as members tend to shop around for better deals. If illnesses requiring chronic medication could be reduced, the scheme would have greater credibility.

Weleda, Jucy Lucy and Nature's Way are all health-related stores focusing on one value stream in the wellness industry; Weleda and Nature's Way on the minerals and supplements, Juicy Lucy on deli and foods.

1.2.2 Driving forces

There are a variety of driving forces that may impact Phd Health Market directly or indirectly. Some of these driving forces are;

- Pharmacy dispensing fees being regulated through legislation are leading to the bankruptcy of pharmacies
- Retailers trying to enter shopping centres ahead of the Soccer World cup 2010, are leading to landlords pushing up rentals as high as R1080-00/m^2.
- The customer is becoming more aware of the environment, and is being sensitised to a healthier lifestyle
- Consumers are taking control of their own health by becoming more preventative rather than curative.
- Baby boomers are reaching retirement age, and this will put extra strain on the health insurance industry.

1.3 *Problem statement*

Phd Heath Market is a small developing franchise group, requiring a much needed strategic plan in order to develop into a major role player in the Health industry of Southern Africa and internationally. To date, Phd does not at this stage have a documented strategic plan in place. The lack of such a plan does not guarantee the success or strength of the decisions made in the past 18 months of operation.

In chapter 2, the basis for a strategic plan will be investigated as well as the key areas to focus on that will give Phd Health Market a distinct advantage over other players in the health industry

1.4 *Study objectives*

The primary purpose of this mini-dissertation is to develop a strategic business plan for the Phd Health Market Franchise group for the period 2008 to 2010. A secondary objective is to develop the Action Plans for 2008 to 2010, and to ultimately develop a winning strategy for Phd.

1.4.1 Inclusions

Even though retailers such as Dischem, Alpha Pharm and other major dispensaries offer a competitive "prescriptive" product that could not be obtained in any Phd Health Market or any other Health store that does not have a Pharmacist on the premises, they have been included as a competitive offering serving the same ends. The Strategic Plan will include the following;

(a) Franchise Group marketing & Franchisee regional branding.

(c) Brand Registration & Quality Mark accreditation.

(d) Mentor programmes.

(e) Key person employment.

(f) Provision of key market information.

(g) Food & Franchise trade fairs and exhibitions

1.4.2 Exclusions

For the purposes of this mini-dissertation, the fast food industry has been excluded form the evaluation, as the health industry is a direct contradiction of the traditional fast food perceptions. It is however recognised that the total fast food industry offers an alternative product offering to the health food industry.

1.5 *Outline of the study*

The mini-dissertation is divided into four chapters. Excluding this introductory chapter in which the problem is defined, the research motivated, and the aim and the method of the study provided, the chapters are organised as follows:

1.5.1 Chapter 2 – Literature review

The literature review section is divided into several main headings, which are aligned with the research goals. The headings are as follows:

- Organisation profile
- Organisational goals
- Macro Environment 2007-2010
- Operational Environment
- SWOT analysis
- Strategic action plans

And finally, a conclusion of the literature review

1.5.2 Chapter 3 – Formulation of a strategic plan for Phd Health Market (Pry) Ltd.

The theoretical principles developed in chapter 2 are applied to the practical situation in which Phd finds itself in 2008. Based on these strategic principles, the different strategic "building blocks" relevant to Phd from 2008 to 2010 are developed. These building blocks are integrated into a number of strategic action plans. Successful implementation of these action plans should lead to strategic success and the realization of its strategic objectives for Phd.

1.5.3 Chapter 4 – Conclusion

This chapter will show, assuming that the results have been achieved, the learning points through understanding strategic planning and management and its applicability to franchising Phd Health Market (Pty) Ltd in the South African health industry. The chapter will also contain the formulated strategic plan for the

business as well as action plans that will see the strategic business plan to fruition. Furthermore this chapter will comment on the importance of the implementation of these action plans in order to negotiate the road to a health future.

2 LITERATURE STUDY

2.1 *Introduction*

Why is strategy so important? There are two main reasons; firstly, a compelling need exists for managers to proactively shape how a company's business will be conducted and secondly, a strategy-focused company is more likely to be a strong bottom-line performer than one that views strategy as secondary. (Thompson, Strickland & Gamble, 2007:15)

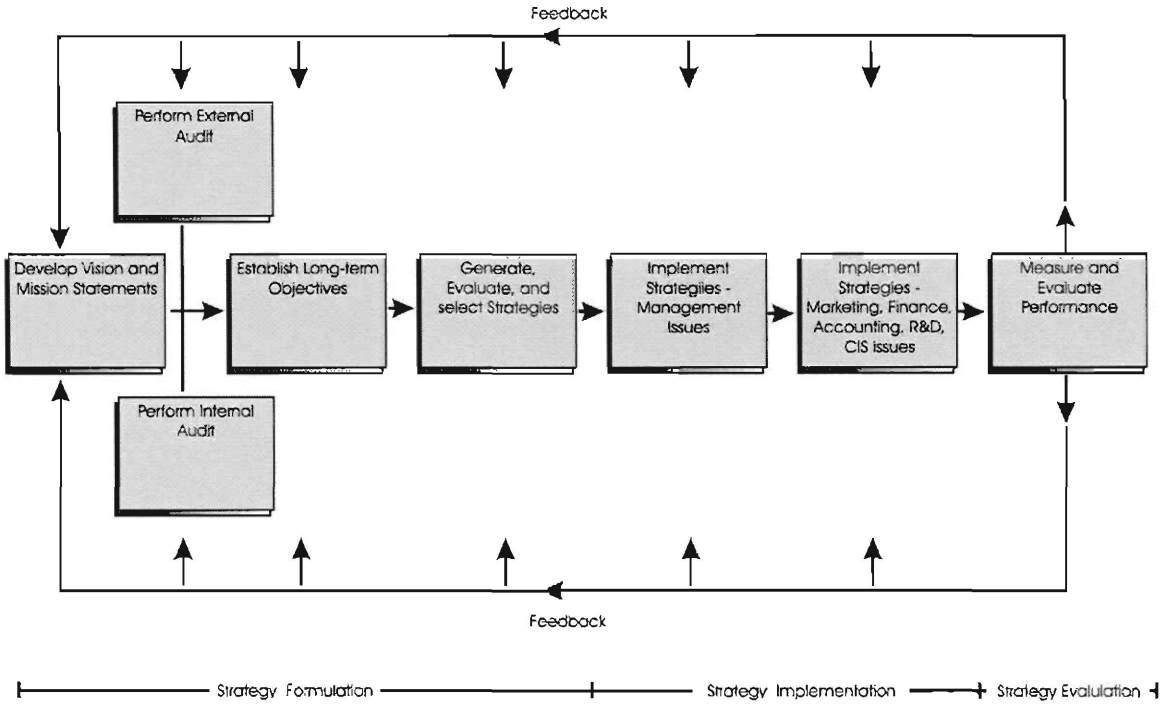
To be able to develop a comprehensive strategic plan, it is necessary to review the key aspects of planning as well as the elements of a strategic plan. What makes a good or even a winning strategy? A winning strategy must fit the company's external and internal situation, build a sustainable competitive advantage and improve the company's performance (Thompson *et al.*, 2007:13). Just like individuals, organisations need constantly moving reference points to keep pace with the changing business environment (Lindgren & Bandhold, 2003:124). This is done to increase shareholder value. Shareholders expect a return on their investment and one of the key principles according to Alfred Rappaport, is to make strategic decisions that maximise the expected value, even at the expense of lowering earnings in the near-term (Rappaport, 2006:68)

Hellriegel, Jackson and Slocum (2002:28) maintain that there are only 3 basic steps to a good plan, by determining;

1. which goal should be pursued?
2. how should the goal be attained?, and
3. how should resources be allocated.

This forms the basis of this mini-dissertation, the "what", "how" and "with what". David (2001:13) supplies a comprehensive model for the development of a strategic or long range plan.

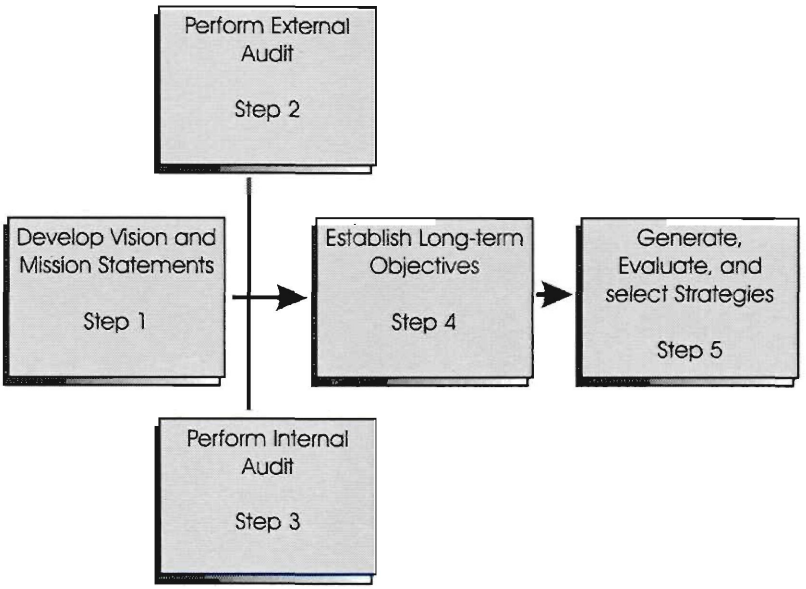
Figure 2.1: Comprehensive strategic-management model.



Source: David, 2001:13

This mini-dissertation however, only focuses on the Strategy formulation that forms part of the model and could therefore easily be reduced to a model that only encompasses the planning phase.

Figure 2.2: Comprehensive strategic-management model



Source: Adapted from David, 2001:13

To start the planning process one would need to take a look at "what the business is", and "why one should do business". This can be done by evaluating the vision, mission and values of the company, and the status of the company as it now exists. In step 2, the environment in which it operates needs to be defined. The next step would be to evaluate the company internally in terms of its strengths, weaknesses, capabilities and competencies. This will give direction as to which objectives are pursuable and which are not. Once the objectives have been narrowed down, one would choose suitable strategies to achieve the set objectives. This would be the basis of the strategic action plan.

2.2 Step 1: Purpose objective

The purpose objective is the reasoning behind the existence of the company, what it should do and achieve (Kotzé, 2007:36), and can be defined as the culmination of the following 4 components, the vision, the mission, the values in the company and the outlook as it is reflected in operational objectives.

2.2.1 Vision statement

According to Fred R. David (2001:52), the vision of a company should answer the question; what do we want to become? Thompson, Strickland & Gamble (2007:21) warn that the vision statement of a company needs to be specific to the company and should avoid being generic feel-good statements that cover almost any company and situation. They further warn that the vision should not have the shortcomings of being vague and incomplete. The company vision should be the apex of all planning, and should offer a realistic, attractive and credible future for the organisation (Smit, 1999:128)

2.2.2 Mission statement

According to Brian Tracy (2003:35), a mission statement is essential as it gives the people in the company a sense of meaning and purpose while Smit (1999:128) argues that a mission must consist of four (4) concepts; strategy, purpose, the behavioural standards as well as the values of the company. Burgleman (1995:21) concludes that leaders in any industry should realise that the bulk of their sales are generated from a single product line or closely related product mix and should

therefore, not have a divergent set of mission statements. David argues the converse, stating that the mission statement should not be excessively specific as this may limit the potential of creativity and growth for the organization. According to Thompson *et al.* (2007:23), the mission statement should be a brief overview of the current purpose of the company's activities and a reason for competing in the operating environment.

2.2.3 Values

The values in the organisation are seen as one of the main success factors, as they would determine the attitude and behavioural guidelines by which the business would conduct itself (David, 2001:128). According to Thompson *et al.* (2007:29) young companies, with weak or incomplete sets of values, usually adopt the values that best complement the vision and mission statement and then communicate these to managers for their input. They further also warn that a very real threat is the divergence of the stated values and the company's actual practices. These values are commonly found as part of the mission statement and not as separate statements.

2.2.4 Strategic objectives

The strategic objectives of a company are a set of goals formulated from the vision and the mission of the company for the short to medium term. This establishes the outlook of the company for a time line of approximately 3 years from the present. The difference between the now and the then is the gap that needs to be filled in the next 3 years. This is also commonly called a Gap Analysis.

On the financial side objectives such as turnover expectations, cost of sales, gross and net profit margins and more would be projected. Objectives could also encompass social responsibility goals and business compliance / cohesion goals such as BBBEE rating targets and social awareness programs.

Rouach & Santi (2001:552) point to the fact that trends and forces are changing industry structures and altering the rules of competition. To succeed in such circumstances, it is critical that companies establish a capability to continuously monitor and analyse the dynamics in the external environment. Such a capability

could assist a company to act timeously in response to any changes that may impact on its strategic direction in the future.

2.3 *Step 2: External environment*

An audit or assessment of the external environment is done to generate a list of possible opportunities that could benefit the company and threats that should be avoided. The purpose is however not to list every eventuality that might exist, but rather to develop key indicators that could be used in action plans (Wrigley, 2000: 891).

The external assessment consists of an analysis of the macro environment, the operational environment (the industry in which the company operates) and the development of the opportunities and threats dimensions of a SWOT analysis. Once these steps have been completed, one is able to determine the strategic issues.

2.3.1 Macro environment

The macro environment would provide an indication of the forces in the market that none of the players have any control over in the next 2-3 years (Kotzé, 2007:33). An attempt is made to identify the likely changes in the economical, socio-political and technological trends for the next 3 years.

The trends that need to be defined or identified are those that will have a substantial impact on the company and might lead to a "make" or "break" situation.

The aim of identifying these trends in the Macro Environment is to position the employees to expect the changes, rather that be caught off guard.

2.3.2 Operational environment

Analysis of the operating environment supplies an overview of the industry and contributes to setting the scene in which all of the players in the industry are operating. The main difference between the Macro Environment and the Operational environment is the ability of the company to affect the operational

environment, whereas the company has little to no effect on the Macro Environment. Kotzé (2007:35) claims that the Operational Environment can best be defined by formalising the following;

- The critical characteristics of the industry affecting all the players in the industry as it exists in the present,
- Driving forces in the industry and how they would change the industry in the medium term (2 -3 years),
- The present competitors in the industry and their distinguishing features or characteristics,
- Determining whether the company is positioned optimally in the industry via the development of an industry group map,
- Key success factors critical to success that apply to all the players in the industry,
- Measurement of the company's performance in relation to these key success factors, and
- Identifying the core and distinctive performance competencies currently in the company and comparing these to the competencies needed for future success and identifying any major competence gaps.

According to Kotzé (2007:52), determining the key success factors are critical as they are the cornerstone on which the strategy is built.

According to Thompson *et al.* (2007:146) there are four "Best" Strategic Approaches to building a Sustainable Competitive Advantage.

- Being the industry's low-cost provider (a cost-based competitive advantage),
- Incorporating differentiating features (a "superior product" type of competitive advantage keyed to higher quality, better performance, wider selection, value-added services, or some other attribute),
- Focusing on a narrow market niche (winning a competitive edge by doing a better job than rivals of serving the needs and preferences of buyers comprising the niche), and
- Developing expertise and resource strengths not easily imitated or matched by rivals (a capabilities-based competitive advantage).

Thompson *et al.* (2007:21) identify tasks that are fundamental to the achievement of success in implementing a business strategy. These tasks are:

- Developing a concept of the business and forming a vision of where the organization needs to be headed,
- Converting the mission into specific performance objectives,
- Crafting a strategy to achieve the targeted performance,
- Implementing and executing the chosen strategy efficiently and effectively, and
- Evaluating performance, reviewing the situation, and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

All of these combined form the business plan that provides the guidelines by which the organization will operate.

2.4 *Step 3: Internal environment*

Understanding a company's resource strengths and competitive capabilities provides a good overview of whether a company's overall situation is healthy or unhealthy (Thompson *et al.*, 2007:97). These can manifest in several forms like a specialized skill, valuable physical asset, human or intellectual capital, valuable organisational assets, or valuable core competencies.

2.4.1 Resources

Resources can be grouped as tangible and intangible assets. According to Hitt, Ireland and Hoskisson (2005:80) the most common resources are;

1. Tangible resources
    a. Financial – the company's ability to borrow funds as well as to generate internal funds,
    b. Organisational – the structure, planning, controlling and reporting systems of the company, and
    c. Physical – plant & equipment and the location of these.

d. Technological – such as patents, trademarks, and copyrights

2. Intangible resources
    a. Human – this would encompass aspects such as knowledge, trust, managerial capabilities and the routines followed in the organisation,
    b. Innovation – the ability of the company to create, innovate and to develop, and
    c. Reputation – customer loyalty, brand awareness, perceptions, etc.

2.4.2 Capabilities

Capabilities are the company's ability to correctly apply the resources at it's disposal into an integrated purpose. (Hitt *et al.*, 2005:81). According to Thompson, Strickland & Gamble (2007:101) these capabilities would be things that the company does well, and is normally the culmination of experience, knowledge and a build-up of proficiency.

2.4.3 Competencies

Core Competencies are activities that are central to the operations of the company (Thompson *et al.*, 2007:101). One of these aspects is the culture within the company capturing the subtle, elusive and largely unseen forces that shape the working environment and can represent a major strength or weakness in the company (David, 2001:127).

2.4.4 SWOT analysis

An analysis of the Strengths, Weaknesses, Opportunities and Threats (SWOT analysis) is needed to determine the position of the company in relation to the environment and competitors. The strengths and weaknesses are controllable activities that are being performed particularly well or poorly. (David, 2007:10)

Strengths and weaknesses are usually determined relative to the competitors but also relative to past performance of the company.

Opportunities and threats are external factors that the company normally has no control over. These opportunities may include the passage of law relative to the

industry of operation, new products being released from competitors, declining or increasing value of the currency or international trends.

The SWOT analysis is summarized in a SWOT matrix.

2.4.5 Financial resources & historical performance

The financial position of a company is often equated to the competitive position of the company and the overall attractiveness of its positioning in the related overall market. Horne (1974:10) explains that there are three decisions to be made when analyzing a company's financial position;

1. Investment decisions – the allocation and reallocation of capital and resources to projects, assets and divisions in the company.
2. Financing decisions – determining the best capital structure as well as the sourcing of additional capital funding, and
3. Dividend decisions – determining whether or not to pay dividends and the best retention ratio.

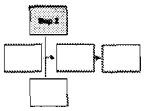
2.5 *Step 4: Strategic issues*

The final step in the development of the strategic plan is to determine which issues or problems the management of the company should address, which take centre stage and which may be sidelined for now. This step involves the analysis of the industry competitiveness and the company's own competitiveness and drawing inferences from a comparison of these (Thompson *et al.*, 2007:125).

In this process, the strategic building blocks developed to this stage, are combined and re-combined critically, in order to identify the relevant strategic issues.
Deciding on which strategy to follow and which action plans to implement can only be done once the list of strategic issues have been developed and organised in order of importance.

2.6 *Conclusion*

A competently done evaluation will expose the company's strengths and weaknesses indiscriminately and will indicate the attractiveness or unattractiveness of the company's competitive position in the industry. This will enable managers to craft a strategy using the strengths to gain a competitive advantage and attempt to eliminate the weaknesses so that shortcomings can be rectified. It will also provide a distinct direction to follow and an indication of a suitable strategy to be used to craft / gain the competitive advantage needed in order to be a sustainable and viable business in the future.



3 Formulation of a strategic plan for Phd Health Market (Pty) Ltd

3.1 *Introduction*

In order to apply the strategic planning process to the Phd Health Market (Pty) Ltd franchise group, various informal interviews were conducted with key personnel in the company. Visionary aspects of Phd Health Market were discussed with Adv. Jan Grobler, the CEO of the company, while operational and industry aspects were discussed with Anton Dupper. Anton has owned and conducted business in the Health and Wellness industry for the past decade. The insights of a number of industry insiders were solicited as well. This involved a number of face-to-face, as well as telephonic interviews.

3.2 *Step 1: Purpose objective*

As discussed in the literature review of chapter 2 the need exists to determine the purpose of the company. This is achieved through the analysis of the vision, mission, values and the strategic objectives as compared to the literature reviewed.

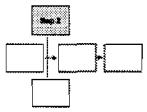
3.2.1 Vision of Phd

The vision of Phd ***(Appendix A)*** reproduced here;

> *"Phd Health Market rivals the best international standards in combining healthy food, healthy products and easy access to information and assistance to help our customers reach their health and well-being goals."*

The vision is clear and concise giving clear direction as to the needs amongst the best health related businesses in the industry and the world. It sets the stage for 3 separate goals namely;

- Be the best in health food offering,
- Supply healthy products, and
- Information and assistance (customer education).



This vision does offer a credible future as required by Smit (1999:128) and does not fall into the trap of being vague or incomplete.

3.2.2 Mission statements of Phd

The mission statement of Phd ***(Appendix A)*** reproduced here;

> *"To give our customers the best health- food-, beverage and product values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, company spirit and a social responsibility."*

This mission sets the behavioural standards as is required by Tracy (2003:32), with the following statement *"...with a sense of warmth, friendliness, fun, individual pride, company spirit and a social responsibility."* The mission statement also addresses the purpose and strategy by providing a clear indication that the company seeks to be "*...the best health- food, beverage and product values that they can find anywhere ...*". This satisfies the requirements set by Smit (1999:127) as well as Tracy (2003:35).

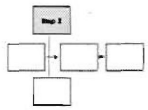
Although the mission statement conveys a clear direction and scope of the company's proposed activities, there is little to indicate the current actions and operations of the company. This makes the mission somewhat vague and the operational scope is determined or inferred by the reader.

3.2.3 Values

The values of Phd are included in the mission statement. This is not uncommon, according to Thompson *et al.* (2007:29). No further inclusions or development of a separate Value Statement is required. Management of Phd is not aware that a set of values need to be expressed in the form of a value staement

3.2.4 Strategic objectives

The strategic objectives of the company would encapsulate the future state of the company represented by goals for the next 3 years. These goals would



define the company as envisaged in 2010. The goals for Phd can be categorised in three sections, namely financial, strategic and social.

3.2.4.1 Financial

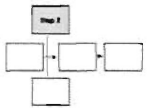
The financial goals for the Phd group, excluding the franchises, reflect the following goals;

- 25% increase in annual revenues,
- Profit margin increase of 10% via rebates,
- Increased shareholder value,
- Strong bond and credit ratings,
- Sufficient internal cash flows to fund 100% of new capital investment,
- Sufficient internal cash flows to refund 100% of loan accounts, and
- Stable earnings during periods of increased interest rates and recessions.

These goals however are vague and do not reflect any of the important financial indicators associated with a company. It is imperative that these goals be adapted to include meaningful deadlines. Kotzé (2007:27) suggests that a tabular format be used. This tabular format will be applied to all 3 sections of the goal set. The financial objectives can best be tabled as an income statement as this would address all of the financial goals for the company, and would be easy to communicate visually to staff.

Table 3.1: Financial objectives for Phd Health Market (Pty) Ltd 2008 – 2010

Consolidated Income Statements (R 000)			
Description	**'08**	**'09**	**'10**
Turnover	12,161	15,201	19,002
Cost of sales	8,673	9,856	11,200
Gross profit	3,488	5,346	7,802
Operational costs	3,189	3,479	3,795
Operational Income before financing charges	298	1,867	4,007
Financing charges	2	50	50
Operational profit	296	1,817	3,957
Income from investments	12	12	12
Net operating profit before tax	308	1,829	3,969
Tax	89	530	1,151
NOPAT	219	1,298	2,818



Source: Phd internal document

The turnover goals are a result of the general direction provided by the Board of Directors. A total of 50 franchises are to be sold by the end of the 2010 calendar year. This would mean that a total of 10 franchises need to be sold in 2008, 15 in 2009 and 25 in the 2010 calendar year. The profit margins have been adapted to include the 10% reduction in cost of sales and the rebates from the suppliers.

Increase in shareholder value is created through the establishment of a stronger brand with a national footprint. During the 2009 financial year there will be sufficient profit generated to be able to provide some 50% alleviation to the current loan accounts, and the balance of the loan accounts will be settled by the end of 2010.

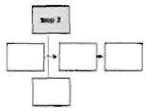
3.2.4.2 Strategic

The strategic goal set is focused on the future direction of the company. The company goals have been extracted from the performance appraisal sets from various staff members (Phd, 2007a:4). These goals are the following;

- Winning a *50 %* market share by 2010,
- Overtaking key competitors on product performance or quality or customer service,
- Achieving technological leadership,
- Having better product selections than rivals,
- Strengthening company's brand name appeal,
- Having stronger national or global sales and distribution capabilities than rivals, and
- Consistently getting new or improved products to market ahead of rivals.

3.2.4.3 Social objectives

Not all of the objectives of Phd are financial or structural. Phd has broader social involvement in the health community and the business community.



- *Government relations:* To provide effective and credible representation with government on behalf of the independent retailers and wholesalers,
- *Fair competition:* To preserve, maintain, and strengthen the competitive marketplace by assertively advancing the interests of Phd,
- *Consumer relations:* To increase consumer loyalty to the independent sector and public awareness of the important role Phd plays in providing consumers with a diverse, competitive, and safe food supply,
- *Research and education:* To facilitate timely and useful research and educational activities relating to the operations of Phd,
- *Communications:* To be the credible and timely information source on behalf of the health industry, and
- *Industry relations:* To foster productive trade and association relations among all sectors of the food industry.

3.3 *Step 2: External environment*

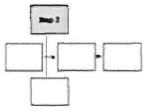
The second step in the development of the strategic plan is the analysis of the external environment. The analysis will concentrate on the macro economic and the operational environment.

3.3.1 Macro environment

Analysing the macro environment is the first step in thinking about important external factor that shape the competitive playing field. Important macro environmental factors include:

3.3.1.1 Economic variables

According to the Absa Group Ltd, a strong global growth environment is aiding domestic growth and should continue to expand, albeit at a slower pace. The expected economic growth is foreseen to range between 4 and 5% per annum over the next three years and will remain bullish beyond 2010 (Absa, 2007:1).



The household debt-to-income ratio has risen to 75,9%, compared with 69,4% in 2006. Household disposable income growth rose to 7,5% in the first quarter after being at 6,9% in the corresponding period in 2006 (Absa, 2007:13). The resilient appetite for spending, and consequently debt finance, continued unabated in early 2007, despite the 200 basis point interest rate hike in the second half of 2006 and the further 150 basis point hikes till October 2007 (SARB, 2007:32).

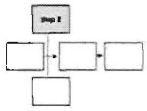
In the first eight months of 2007, the resources sector recorded a growth of 22 per cent. Industrial share prices increased by 14 per cent while the financial sector only recorded a gain of 4 per cent. This is due to the rising interest rate environment as well as the constraining effects of the National Credit Act on business (SARB, 2007:41).

Inflationary pressures in the economy have increased, with producer price inflation increasing to above 10% and CPIX inflation breaching the upper limit of the inflation target of 6% (SARB, 2007:42) between April and June 2007. These trends in consumer and producer prices can be related to the oil price, the rand exchange rate and domestic fuel price movements, as well as rising food price inflation as a result of adverse weather conditions and shortages of certain food products, such as milk (Absa, 2007:22). A summary of the forecasts from Absa economists indicate alleviation in important indicators in the medium to long run.

Table 3.2: Key variables and projections

SA inflation rates (%)	2006	2007	2008	2009
PPI total	7,6	8,8	6,0	5,8
PPI imported	7,8	8,1	7,1	5,5
PPI domestic	7,6	9,1	5,7	5,9
CPI headline	4,6	6,6	5,8	5,4
CPI food	7,2	8,4	6,5	4,4
CPIX	4,6	5,9	5,8	5,5

Source Absa:2007



Investec economists agree that retail activity is likely to slow remarkably in 2008 on the back of high interest rates and the new credit rules. They further expect the interest rates for the remainder of this year to remain flat, but there is no guarantee the SARB won't hike in December as CPIX inflation approaches 7.0% and push up inflation expectations (Investec, 2007:1).

3.3.1.2 Technological

There are virtually no technological advances in the health retailing and wholesale industry. To substantiate this fact, one merely has to look at the technology used by suppliers as well as the level of education. The majority of suppliers are still invoicing by hand and delivering their own goods.

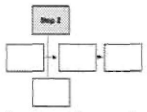
The increased use of the internet and the availability of information will increase awareness of the content, nutritional information and side effects of the products in the health industry. This will result in a significantly better educated consumer. This will have the advantage that customers will seek healthier alternative to their usual products used.

The converse is also true that with an educated customer, staff in the health industry will be expected to have a superior knowledge of the product range, the benefits and associated side effects.

3.3.1.3 Social

Relatively high levels of wasting and stunting was found in a national food consumption survey of 1999. A series of strategies to improve nutrition were implemented which included (GIS, 2004:8):

- the fortification of maize meal and wheat,
- promoting exclusive breast feeding, and
- Implementing food-based dietary guidelines.



In addition, a range of strategies to promote poverty alleviation, food security and the prevention and management of malnutrition were implemented. These include:

- implementing the integrated nutrition program which involves nutritional education, micro-nutrition supplementation, food fortification etc,
- promoting community based growth monitoring,
- strengthening nutrition interventions at facilities and community levels,
- poverty relief, and
- development of community gardens.

A school health policy with implementation guidelines and a Youth and Adolescent Health Policy have been developed to provide strategic directions regarding the health care of school-aged children, youth and adolescents. (GIS, 2004:8).

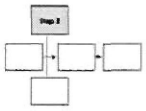
Governments drive towards a healthier youth will greatly aid Phd in its efforts to become a viable alternative to fast foods (Health Guide, 2005:15). The South African government's second priority as listed in the strategic priorities plan of 2004 to 2009, is wellness. The goals set for this period include;

- Strengthen health promoting schools initiative,
- Initiate and maintain diabetes movement,
- Develop & implement strategies to reduce chronic diseases of lifestyle, and
- Implement activities and interventions to improve key family practices that impact on child health.

These goals all aid Phd in developing strategies with government in mind, assuming that Phd is able to attain a BEE status of 60%.

3.3.1.4 Political/Legal

South Africa is heading into the next general election in 2008. The issue of presidential succession in South Africa remains unresolved and tensions surrounding succession within the ruling party have



heightened. The outcome of this issue has the potential to undermine the major recent improvements in key economic and risk indicators (GCR, 2006:1). In the absence of measurable progress in alleviating acute socio-economic challenges (such as high unemployment, poverty and a severe HIV/AIDS pandemic), political stability and continued support for orthodox economic policy could be undermined in the medium term. Initiatives and recent changes in policy towards promoting broad-based economic development (BBBEE) are viewed favourably (GCR, 2006:2).

Although there are major changes pending in legislation as well as economic changes where the interest rate is concerned, for the next 3 years, Phd is capable of utilising this knowledge in order to establish an advantage over the industry and to be a leader where the technology implementation is concerned.

3.3.2 Operational environment

The operational environment is the immediate surroundings in which the company operates. This is the environment that the company might be able to influence through it's strategies. This operational environment is defined by the characteristics of the industry in which the company is competing as well as the forces associated with this industry.

3.3.2.1 Characteristics of the industry

The health Industry in South Africa is in the growth phase showing a 15.1% y/y growth rate (Investec, 2007:1). There is a major shift from government and the private sector to move to a healthier lifestyle. Companies are introducing health and wellness programs, ensuring their staff are cared for emotionally and physically, not just through remuneration.

Phd would most likely engage a number of different market development strategies at any given time. It is common in the food franchising industry due to rapid changes, and the current growth of 41% annually in the franchise industry (FASA, 2007:3).

During the May 2005 International Franchise Expo, a questionnaire was completed by visitors to the expo. The results are reflected in the following two tables;

Table 3.3: Price sensitivity of the prospective franchisee

Price range looking at spending	Total	Percentage
R0 - R50 000	1 003	13.75 %
R50 001 - R250 000	1 590	21.80 %
R250 001 - R500 000	2 214	30.35 %
R500 001 - over 1 Million	2 693	36.92 %
Not Specified	860	11.79 %

Source: FASA:2007

Table 3.4: Sector of interest of the prospective franchise owner

What type of Franchise interests you?	Total	Percentage
Automotive	1 307	17.92 %
Building, Home Service	1 768	24.24 %
Childcare & Education	888	12.17 %
Entertainment & Leisure	2 070	28.38 %
Food Concepts	3 795	52.03 %
Health & Body	1 265	17.34 %
Retailing	2 509	34.40 %
Other	605	8.29 %
Not Specified	678	9.30 %

Source: FASA:2007

3.3.2.2 Porter's five forces model

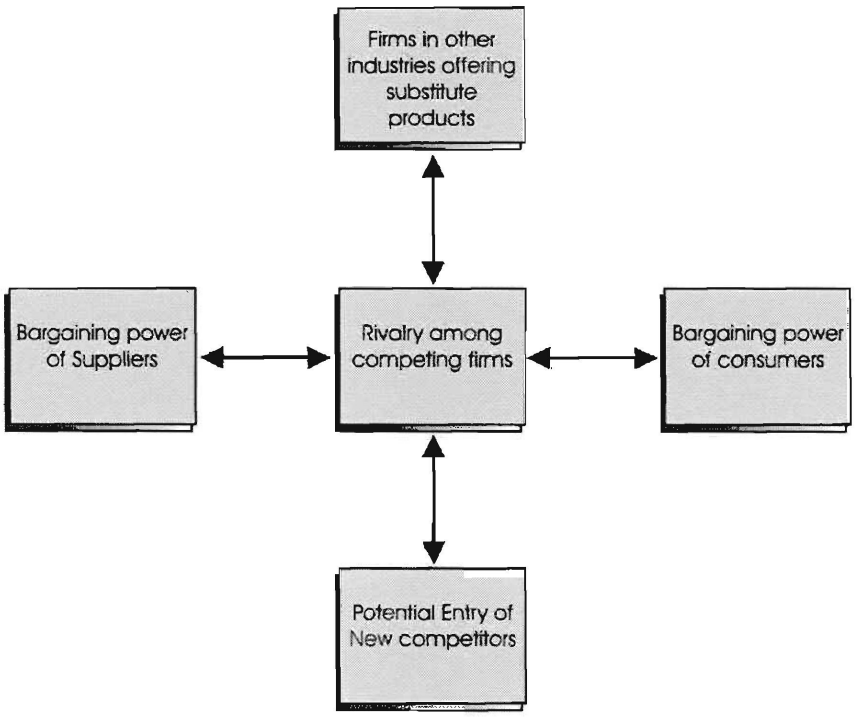
Made famous by Harvard Business School professor Michael Porter, in his famous book *Competitive strategy: techniques for analysing industries and competitors*, published in 1980, he created an analytical technique that has been the foundation for determining the competitive forces associated with any business.

This integrated model has become widely known as the five forces model. According to this analytical model, the profitability of an

industry, as indicated by its rate of return on capital relative to its cost of capital, is determined by five forces of competitive pressure (Thompson *et al.*, 2007:65).

Identification of these competitive forces highlights a company's critical strengths and weaknesses as well as the company's position in its industry. Porter (1980:4) concurs that an understanding of these sources is essential in order to consider different strategies for the company. This model envisaged by porter can be illustrated by the diagram below.

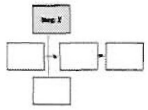
Figure 3.1: Porter's five forces model



Source: Adapted from David, 2001:13

Potential competitors (new entrants): Strong
Buyer demand; (-)

With the increasing demand for a healthy lifestyle and health and wellness products, there has been an increase in retailers and restaurateurs alike to enter the health market. New entry can take the form of small specialty health markets, as well as entry from companies with existing operations in other markets.

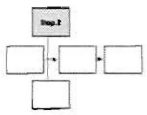


- Larger retailers and wholesalers are prime candidates, especially chains not currently operating in the health industry
- There are sizable economies of scale in the supermarket business—large chains have substantially greater bargaining power with suppliers than small enterprises like Phd Health Market
- Brand preferences and customer loyalty do play a role in this industry
- Capital requirements are moderate and can be overcome by small local enterprises, as evidenced by Phd health Market
- Fast industry growth (which assists additional entry), but growth in niche markets like Vegetarian and Vegan foods are likely to be much slower
- High cost of marketing/promotion would be required to overcome customer loyalties and build its own clientele, which is a slow and costly process. (-)

Rivalry among established companies: fierce

There are a large number of competitors in the health industry, but they are locally isolated. There are no national groups competing with Phd except for Kauai franchise group.

- Fast industry growth
- High fixed costs (rentals in shopping centers range from R150/m^2 to R900+/m^2). This amounts to a substantial monthly overhead in excess of R30,000-00 per month for a 100m^2 retail space (SASSC, 2007:26).
- Consumers have low switching costs between health stores, pharmacies, supermarkets and pharmaceutical discounters
- Companies in the industry are employing diverse competitive strategies
- There are high exit barriers in terms of fixed assets and commercial leases



Bargaining power of buyers: moderate

Switching cost low (+)

Manufactures' need for broad retail exposure through health stores and pharmaceutical discounters ensures that even the smallest health store is able to bargain for better wholesale prices. Having various competitor products (switching cost between brands is low) ensures that rivalry amongst the manufacturers of health products for visibility and percentage share giving the health retailers significant bargaining power. Customer could choose to shop elsewhere, with little consequence to them.

Customers do however set the trend in the health industry. The demand for extraordinary products is becoming the norm. These requests include;

- Wheat and gluten free bread,
- Organic cheese,
- Sugar free products,
- Organic chocolates, and much more.

In trying to satisfy the need, health stores become stocked with a highly diversified range of products. Buyers purchase in small quantities and there are few health related retailing outlets.

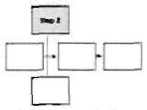
Bargaining power of suppliers: weak

Importance of a single component (+)

While health products constitute 60% of the revenues in the health industry, suppliers are unable to exert bargaining power by initially attracting sales through lowering prices and then increasing prices for replacement orders.

Low switching cost (-)

Health Stores can easily switch between health product suppliers as there are very few health retailing outlets in Southern Africa and



manufacturers are in need of shelf space and exposure. For this reason health stores can keep their costs low/competitive. They are also able to switch manufacturers as they are able to receive discounts from new manufacturers and suppliers from the start. The level of business acumen and lack of technology ensures that any health store is able to negotiate successfully with a supplier. Examples of these are;

National Medicinal Services (NMS) uses Pastel as the accounting package to wholesale their product. The product however is kept in single store in 3 generic packaging sizes, with a printed label distinguishing the content.

Geluksfontein Farm a supplier of goats milk delivers on demand to their extensive distribution channel. Their product is still hand-filled and capped and the invoice is still handwritten.

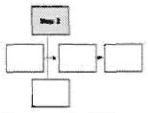
Fushimi Food a supplier of organic and healthy food to Phd Health Market as well as the Mugg & Bean group has converted to computer printed invoices during 2007, as generated manually through MS Excel.

Threat of substitute products:

There are very few substitute products for the health conscious, although any fast food retailer, could be considered to have a replacement product, customers are fanatically loyal to a healthy lifestyle and healthy habits. Phd's mission is to be so competitive that the customer would prefer shopping at Phd rather than any other health store.

Comparability of quality and performance of substitutes (-)

Since the actual benefits of the substitutes are different, the strength of this factor is limited.



Porter suggests that the strength of these factors determines the ability to earn above average profits.

3.3.2.3 Present and future competition

A competitor analysis was undertaken in March 2007 as well as in July 2007. The results of the analysis are contained in *Appendix H.* The analysis revealed that the health industry consists on a number of successful health store combinations in and around the area where Phd Lonehill, Johannesburg is to open, but none pose a threat to the Phd Health Concept as they all lack one or more of the value streams.

There are currently rumours in the health industry that a major retailer is looking to venture into the health industry. These are however still rumours and no physical link could be established to "Wellness Warehouse"

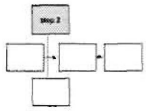
Should these rumours be valid, this may pose a significant threat to the Phd group, as it will see a second wholesaler such as Dischem enter the market. It will also have an impact nationally, should this be a national retailer wanting to enter the market.

In October 2007, one other Health Store Franchise – One Life, based in Centurion was reactivated after a dormancy period of 4 years but no information is forthcoming from the group as their franchised operation has not been defined (One Life, 2007).

There are other franchised food outlets trying to adopt a "health life" image, with little impact on Phd. These include McDonalds and Nando's.

The market development challenges identified during the review included;

- lack of marketing skills and low levels of product marketing,

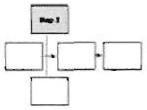


- limited home markets,
- growing competition in the local Health markets,
- difficulties in accessing export markets due to the export controls, and
- the threats from strong international brands and retail concentration.

3.3.2.4 Key success factors

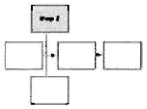
Key success factors are those competitive factors that are instrumental to the company's ability to prosper in the industry. These factors are important to future competitiveness in the industry;

- the ability to negotiate better wholesale prices from the suppliers as result of critical mass (pricing strategy),
- business intelligence (product selection),
- ability to supply healthy fresh food,
- ability to link or partner with national companies to enlarge the footprint as well as to ensure a organically growing customer base,
- supply chain management. Smaller health stores have to manage their whole chain, while Phd is able to manage the supply chain for the group. Franchisees do not need to focus purely on procurement, allowing time to render service excellence,
- differentiation: customer service and value for the money. For any health orientated retailer to generate customer loyalty, it must differentiate itself from the other players in a sparsely populated industry. Dischem's strategy is low price; rivals cannot compete with Dischem on price, but competitors such as Phd must provide a shopping experience that their customers find to be informative, friendly and in touch with their health issues, and
- customer service and value appear to be the key factors for successful differentiation in the health industry.



3.3.2.5 Performance and competition profiles

A Competitive Profile matrix of the Health Retail Industry shows the relative position of the immediate competition in and around Lonehill, Johannesburg.



Weighted Key Success Factor to the Health Retail Industry

Table 3.5: Competitive Profile matrix of the Health Retail Industry

	Key Success Factor to the Industry Scale 1 – 10. 10 being best.	Weight	Phd	Kauai	Dischem	Nutri-Balance	Fruitz & Rootz	Morningview Health
1	Marketing							
1.1	Pricing Strategy	0.10	6	6	7	5	5	5
1.2	Promotions	0.05	5	6	8	5	5	6
1.3	Product quality	0.10	7	8	6	8	8	6
1.4	Product & food development	0.15	7	7	6	6	6	6
1.5	Image and reputation	0.10	6	8	6	8		5
2	Customer Service							
2.1	Product and industry knowledge	0.25	8	6	6	8	5	8
2.2	Service excellence	0.15	6	6	5	8	5	5
3	footprint	0.10	6	6	9	3	3	3
			6.70	**6.55**	**6.35**	**6.75**	**4.75**	**5.85**

Source: Summarised from appendices

3.4 *Step 3: Internal environment*

The process of performing an internal audit follows much in the same way as the external audit. All employees within the company were asked to determine and discuss the company's strengths and weaknesses. The information collated from the employees were then prioritized and described.

3.4.1 Background

Phd health Market (Pty) Ltd is a franchised business, with Health Store orientated outlets. The outlets or franchises combine 5 revenue streams to differentiate from the competition in the health retailing market (Phd, 2006:13).

A Franchise is acquired for R800,000-00, which includes shop fit, equipment and initial trading stock. Prospective Franchisees with an adequate equity structure, are required to invest a mere R250,000-00, in order to be approved for a financial package from one of the larger financial institutions in South Africa. The purchase of a franchise offers an established brand and strong central support. Franchisees agree to maintain Phd's standards regarding inventory availability, procurement, signage, and customer service (FASA, 2007)

Companies being analysed consists of various subsystems (Tracy 2003:24) or could be described as a collective of tangible and intangible resources that should be organised, combined and deployed properly in order to become a source of sustained competitive advantage. This is crucially important as Haanes & Fjeldstad (2000:53) suggest, intangible resources are increasingly becoming critical drivers of competitive advantage.

3.4.2 Resources

A company's sustainable competitive advantage is heavily based on the dynamics of the way the organisation's resources are acquired and managed.

Phd has very little in terms of tangible resources such as offices and supply networks. Offices are rented and the office equipment are on leases.

3.4.3 Capabilities

Phd Health Market consists of a highly successful team, Adv Jan Grobler a seasoned franchise veteran and entrepreneur, is in charge of providing overall direction and strategy for the PHD franchise group. Anton Dupper, uses his experience in running health shops and opening stores to manage the turnkey process of opening a franchised store. Anton has earned national colours and international results as a body builder. Gavin Drysdale had an illustrious career owning and managing some of the biggest brand restaurant chains in South Africa. Our all-rounder MD ensures that the customer stays King and vote with their feet. Hennie Swart is the financial guru in Phd business with both government and private sector experience locally and international experience in the Middle East. Hennie's strengths in business processes and finance ensure that the business runs according to GAAP and ensures the sound financial relationships will all stakeholders. Perri Aspland brings over 20 years international retail skill and experience to Phd Health Market. She streamlines all retail processes by implementing training programs to ensure the company maintains superior customer service, excellent standards in merchandising and display, profitability, loss prevention, product knowledge and oversees branding and marketing.

Ronell Grobler is the company's public relations expert and strategic marketing manager. Ronell meets & screens potential franchisees and links successful candidates to carefully selected sites for their dream franchise. Tarin Bennet oversees the office management function, keeping bookkeeping under control and ensuring a work / play balance. Dedre Groeneveld an award winning restauranteur and is in control of the Food & Beverage part of or business. Dedre's passion for Healthy & Fresh food permeates the business. Daphney Matsunyane, a walking library in all things health & wellness related is constantly scanning the ever-evolving wellness landscape

for new products and related services. Daphney assists franchisees to source & stock relevant ranges to ensure customer delight!

Communities benefit from the shops' outreach efforts. Community outreach campaigns are executed by franchisees. They go beyond simple product demonstrations by providing community support for disease prevention, identification, and treatment.

3.4.4 Competencies

A mentor introduced by Phd head office is useful to facilitate market development for the franchisee. Phd offers the services of an experienced business person to facilitate advice and guide the marketing development activities of the particular franchisee in their immediate surroundings.

Through the process of internal evaluation the human resources were evaluated. Three areas were perceived by the company that there is a specific weakness, procurement of health products, food and beverage and senior management. Phd made the key appointments of specialists to facilitate the development of these functions.

3.4.5 SWOT analysis

The SWOT analysis revealed that Phd is in a strong position with various opportunities

Resource strengths

- Private ownership – no need to answer to external shareholders
- Current management team
- Variety of offerings and income streams (natural, organic, conventional, and gourmet).
- Quality of offerings, especially in food service, meat, and produce. Combination of complimentary income streams

Resource weaknesses

- Lack of a succession plan
- Declining financial performance

- Under Capitalization
- Relatively weak buying power

Opportunities

- The amount of Health food being purchased is increasing
- Increasing demand for health products and supplements
- Consumers are changing to a health conscious food shopping pattern
- Local competitors are small and localized with a small market share
- Rapidly growing industry

External threats

- Intensifying industry competition
- Traditional competitors such as Weleda and Morningside Health Shop are expanding into prepared food
- Whole Foods expansion
- Fast food franchises pursuing health food concepts
- Substitution in the form of fast food, casual dining, etc.
- Rising fuel prices and interest rates or other downside factors taking money out of shoppers' pockets

3.4.6 Financial performance

The financial performance of Phd can be measured through a few simple ratios and values. These will give an indication of the company's efficiency, ability to meet short term obligations and what leverage the company has in order to generate activities.

Profit ratios:

Measure the efficiency with which the company uses its resources.

Gross profit margin:

$$GP_{Products} = \frac{(Sales - COGS)}{Sales} \qquad GP_{Franchise} = \frac{(Sales - COGS)}{Sales}$$

$$GP_{Products} = \frac{(334083 - 303234)}{334083} \qquad GP_{franchise} = \frac{(550000 - 333488)}{550000}$$

$$GP_{Products} = 9.23\% \qquad GP_{Franchise} = 39.37\%$$

The Gross profit (GP) margin for product sales are in line with expectations as Phd wholesales to franchisees at a set contractual rate of 10% (Phd 2006:16). The deviation from the standard 10% is due to costs for marketing absorbed

into the cost of sales. Such is the case in the development of menus, where photographs are needed of all of the food items. The Retail GP margin is generated through the franchisee. The industry standard ranges from 5% on bodybuilding supplements to 100%+ on certain deli items. These margins however are for the franchisee and not for Phd Health Market (Pty) Ltd.

According to Bingham & Ehrhardt (2005:494) the lower the gross profit margin the higher the need will be for external finance.
The gross profit margin on the sale of the Clearwater franchise is absorbed by the running costs.

Return on total assets:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

$$ROA = \frac{-1064442}{350900}$$

$$ROA = -3.0335$$

The Net Loss is as a result of all of the consultants needed to establish the company as well as the menus needed. There is no intention that the business will be able to deliver a viable return on to shareholders (Bingham & Ehrhardt, 2005:454).

Net profit margin:

$$NP = \frac{Net\ Income}{Sales}$$

$$NP = \frac{-1064442}{905519}$$

$$NP = -1.1755$$

Return on shareholders' equity:

$$ROE = \frac{Net\ Income}{Shareholders\ Equity}$$

$$ROE = \frac{-1064442}{1155576}$$

$$ROE = -0.9211$$

Liquidity ratios:
Measure the company's ability to meet short-term obligations.

Current ratio:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

$$Current\ Ratio = \frac{314237}{266379.39}$$

$$Current\ Ratio = 1.1797$$

Quick ratio (Acid test):

$$Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

$$Quick\ Ratio = \frac{314237 - 18460}{266379}$$

$$Quick\ Ratio = 1.1104$$

Both the current ration and the quick ration is healthy above 1.00. This means that even though Phd has recorded a loss of over R1m, the company is able to meet any short-term obligation (Bingham & Ehrhardt, 2005:446).

Activity ratios:
Measure how effectively the company is managing its assets.

Inventory turnover:

$$Inventory\ Turnover = \frac{COGS}{Inventory}$$

$$Inventory\ Turnover = \frac{303234}{18460}$$

$$Inventory\ Turnover = 16.4265$$

The high inventory turnover ration will offset the need to seek external finance as result of the low gross profit margin (Bingham & Ehrhardt, 2005:447).

Leverage ratios:
Measure the balance between debt and equity, or the *capital structure*. Debt has lower cost because creditors take less risk than investors, but increases risk to company since bankruptcy can occur if company is unable to make principal and interest payments.

Debt ratio:

$$Debt\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

$$Debt\ Ratio = \frac{1421955}{350900}$$

$$Debt\ Ratio = 4.0523$$

Debt-to-equity ratio: $$Debt : Equity = \frac{Total\ Debt}{Total\ Equity}$$

$$Debt : Equity = \frac{1421955}{1155576}$$

$$Debt : Equity = 1.2305$$

The debt ratio is extraordinarily high at 405.23% (Bingham & Ehrhardt, 2005:450) as suppliers prefer a small ratio to cushion losses in the event of liquidation. Phd is clearly under capitalized as the total debt exceed the total equity in the business.

3.4.7 Need for franchising

The franchising model has been chosen as a vehicle to replicate the success achieved by the stores in Welkom and Arcadia. Benefits of the franchising model are three fold (Phd, 2006:3);

- The capital needs to expand the group and to achieve economies of scale generated through the selling of franchises,
- It is a scalable model that is self sustaining, with just the necessary input and interjection from the franchisor, and
- local entrepreneurs from the community are drawn to franchising as the franchising model offers some security.

It is therefore a rapidly expanding group through capital investment from Franchisees. Currently franchising is growing at 41% annually y/y (FASA, 2007). A further benefit of the franchising model is the limitation of over-exposure at any given financial institution. Since the franchisee signs surety for the term loan and the lease for the shopping centre the franchisor is not over-exposed at the banking institution.

3.4.8 Technological

David (David, 2001:11) explains from examples such as Barnes & Noble versus Amazon.com that businesses should not hesitate in adopting the internet as a separate income stream to the traditional brick-and-mortar format of retailing. Hesitation and caution will ensure that market share is lost. Phd health market is at the forefront of the health industry with an active website, e-commerce and an own developed Point of Sale System, suited to the health retailing environment. A common 'technical architecture' and set of

development standards underpinning integrated needs to be defined with national and local components. This is to ensure that standards and integration are consistent.

3.4.9 Communications

Consistent electronic communication with all franchisees occurs through the Phd Net Retail package as well as e-mail. This ensures that the communications from the company to the public and to the franchisees are seen to originate from one source inside Phd.

3.4.10 Education and training

The franchisor provides all relevant staff with the necessary education and training essential to effective management and operation of the franchised system. This training module lasts for two weeks and is approved by the Franchise Association of South Africa.

3.5 Step 4: Strategic objectives

From the SWOT and the key success factors associated with the industry it is possible to combine the results into a new matrix which would result in defining the strategic issues for the company. The present situation is known from the analysis of the environment and the company. The present situation is used to guide the company towards the future state required. This future state was defined by the Gap analysis.

During a strategy meeting held on the 15th August 2007 the company was evaluated in terms of strengths and weaknesses, to determine the possible projects to be pursued. Present at this strategy meeting was Adv. Grobler, Anton Dupper, Gavin Drysdale, Henk Heath and Hennie Swart. The meeting produced characteristics as tabled hereafter;

Table 3.6: Strategic SWOT analysis

SUBSTANTIAL STRENGHTS	CRITICAL WEAKNESSES
• IT enabled company • Quality of product and food • Core competencies in health food • Core competencies in health products • Core competencies in body assessments • Fast pace development • Franchised model	• Weakening economy • No clear strategic direction • Not marketing orientated • Under-capitalized • High overheads • Under Financed franchisees
NUMEROUS OPPORTUNITIES	**MAJOR THREATS**
• Sell Franchises • New niche-markets (black market) • Added organic food to external parties • Added Body-Assessments • Cross-sell to gyms, para-medicals • Sell platters to corporate markets • Developing a House Brand • Own centralized Kitchen	• Cheaper competitors (pharmacies) • Lack of funding to grow market share • New franchise groups in the health industry • National Credit Act

Source: brainstorming session 15 August 2007

The strategic SWOT analysis supplies the building blocks for the strategies required to achieve the desired future;

- the critical weaknesses need to be mitigated,
- the major threats need to be countered or steered clear of, and
- the substantial strengths and numerous opportunities need to be exploited to their maximum.

Further discussions ensued regarding the future of Phd and the specific strategies to follow. Another urgent meeting was held on Friday 9th November 2007 to continue discussions. This meeting was attended by Adv Grobler, Anton Duppe and Hennie Swart. The results of this meeting culminated in the combining the different cells from the SWOT matrix to reveal strategies that maximise the effects the combinations provide.

Table 3.7: Strategies

Offensive strategies Combination of the Strengths and the Opportunities	• Acquire a kitchen to supply franchisees, companies, corporates and gymnasiums with pre-packed health food • Target BEE candidates to open Phd franchises in the predominantly black areas, as this is a new unexploited market. • Develop a house brand in order to increase the margins and to generate overwhelming brand awareness.
Diversification strategies Combination of the Strengths and the Threats	• Develop the Phd Net system to be customised and to be sold to other franchised health businesses under a different brand name.
Defensive strategies Combination of the Threats and the Weaknesses	• Seek an investment partner to ensure an increased capital base. • Select franchisees with sufficient equity
Turnaround strategies Combination of the Weaknesses and the Opportunities	• An investment partner is needed to enable Phd to acquire a kitchen. This will ensure greater profits to franchisor and franchisee. • A Marketer needs to be appointed to take the product to market. Currently there are no sales representatives in the franchisor company of the franchised outlet.

Source: brainstorming session 9 November 2007

3.6 *Step 5: Action plans*

Henderson (1989:140) sees strategy as a deliberate search for a plan of action that will determine a company's competitive advantage, and thus its drive to achieve it. The success of the strategy is not so much its quality but

the organisation's ability to execute it (Kaplan & Norton 2001:1). It is essential to ascertain what the strategy entails and how it will be execute with regard to the dynamics of the competitive environment.

From the strategies defined, Phd's action plans can be grouped into four distinct areas of focus. These areas are;

- Building a larger and broader franchise base
- Develop the viability and sustainability of the franchise
- Invest in a positive and stable workforce
- Invest in and embrace partnerships that support the company's goals

These action plans have been detailed in appendix F and is aimed at reducing the gap between the present and the future successfully.

3.6.1 Action plan 1: Enlarging the footprint

To ensure that Phd is a force to be reckoned with in the future, it is imperative to expand the group and to achieve critical mass. This will afford Phd the ability to bargain with suppliers, landlord of shopping centres and strategic partners. Currently Phd has a small footprint, two outlets. The volumes of sales through these outlets currently do not rival a single Dischem outlet, but does outperform individual health stores. Once the enlarged footprint, twenty franchises, is attained the margins on product sold will increase above the standard discounts afforded to any outlet of any size.

The enlarged footprint will also strengthen the brand and increase brand awareness. Once this has been achieved, financing franchises through the financial institutions will be substantially easier, and the National Credit Act will have less of an impact as the concept has proven itself and the risk on the side of the financial institution has been mitigated.

3.6.2 Action plan 2: Develop viability and sustainability

The current financial situation of the company is worrying. There is insufficient equity in the business to sustain any form of growth. With the debt to equity ration exceeding the 1:1 ratio it is apparent that the shareholder

need to seek investors to expand the equity base and to alleviate some of the risk on the side of suppliers to Phd.

Excess capital could be generated through the sale or licensing of the Phd Net software that was developed for the health industry. This however will afford competitors with the Business Intelligence (BI) that Phd possesses. The counter argument is also true, that the distribution of the software will afford Phd the opportunity to use the BI to act as the procurement house for health stores nationally.

3.6.3 Action plan 3: Invest in a positive & stable workforce

A Company is a collection of tangible and intangible assets, focused on key activities, in its search for a competitive advantage. This implies that a company is unable to function on its own, but is driven by human decisions. Nel (2002:1) impresses this even further by the utterance "human factor" is the single most important determinant of such survival and growth. Humans determine which assets to apply and not to apply, and, consequently, when to act and not to act.

Against this reasoning, knowledge about the human behaviour that drives a competitive force, and in particular that of its management cadre, as well as the group dynamics of such a management team, could have a prominent influence on determining how such a competitive force will approach the possible opportunities, uncertainties and threats of the future business environment.

3.6.4 Action plan 4: Invest in partners that support Phd goals

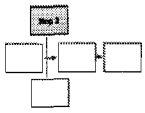
With the lack of current systematic skills and operational skills in the industry, Phd will be able to forge the way forward with an integrated business and e-commerce model that could potentially bind / bring cohesion in the industry. Capitalising on the technological advances Phd possesses, Phd might be able to, instead of selling new franchise, lure individual health store to become franchisees. The benefit to such a strategy would be that the health store is able to capitalise on the Phd brand exposure, central procurement and the current technology.

Obtaining or partnering with a kitchen or catering company where the margins could be kept to a minimum, is the key investment needed. This will allow Phd to be in line with other food retailers. Currently the margins are high on the side of the kitchen (Fushimi Foods) and radically lower on the side of the franchisee.

3.7 Conclusion

The strategy formulation process included an analysis of the purpose objective of the company, the rational behind the decision to be in business. The vision, mission, values and strategic objectives were evaluated and in some instances corrections were suggested. These suggestions were aimed at defining the company more clearly as some of the statements were vague or incomplete. An analysis of the environment in which the company intended to operate was also conducted. This included the macro economic environment and the effects that this environment currently has on the industry as well as the possible impact that these forces will have in the future. The external assessment set out to define the characteristics of the industry in which the company will operate. The forces impacting on the company and the industry were investigated using the renowned Porter's five forces model. After completing the external environment analysis, the focus was drawn to the internal environment of the company. This internal analysis focussed on the core capabilities, competencies and resources of the company. An analysis was done to determine the strengths and weaknesses of the company (internally) and the opportunities and threats in the market (externally). Once the purpose objective, external and internal environment were analised the key success factors of the industry was define. These factors are critical to future competitiveness in the industry.

The SWOT analysis along with the key success factors of the industry formed the bases of the strategic issues to be addressed leading to four distinct action plans to achieve the strategic objectives. These action plans will used as the basis to bridge the gap between the present and the desired future and to create a sustainable competitive advantage.



4 CONCLUSIONS AND RECCOMENDATIONS

4.1 Findings

Variances were identified between the suggested standards as found in the literature and the actual situational analysis of Phd. Omissions in the vision and mission were identified as well as the non-existence of a value statement. These variances are rectified and will presented to the management team of Phd.

The variances identified are corrected as follows;

4.1.1 Vision of Phd

Although the vision of Phd is suitable there are some suggested changes that would afford the company a better image. Spelling mistakes in the vision statement would not be acceptable to neither the South African nor the International markets. It is for this reason that the vision statement for 2008 to 2015 has been corrected to read as follows;

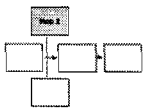
"Phd Health Market rivals the best international standards in combining healthy food, healthy products and easy access to health-related information and assistance to help our customers reach their health and well-being goals."

With the change affected the vision is better suited to Phd for the long term.

4.1.2 Mission statements of Phd

With changes made to the mission statement to include some of the current structural aspects of the company, the mission statement better suits the requirements for a mission statement as formulated in chapter 2. The suggested changes would have the mission statement for 2008 – 2010 to read as follows;

"Our franchisees provide the best health food, beverage and product values that customers can find in a retailing outlet anywhere with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, company spirit and a social responsibility. We aim to provide our customers with the information required on all health-



related topics, enabling them to make well informed buying decisions both in the franchise group as well as on the ecommerce portal."

This mission statement as adapted from the original ***(Appendix A)*** encompasses more of the functional and structural aspects of the company and will indeed be able to guide the actions of the employees and franchisees in their daily tasks.

4.1.3 Values

There is no values statement for Phd, and even though it is not uncommon to find the values included in the mission statement, Phd may consider developing a value statement that could be used as a code of good practice.

4.1.4 Strategic objectives

The strategic objectives of the company would encapsulate the future state of the company represented by goals for the next 3 years. These goals would define the company as envisaged in 2010. The goals for Phd can be categorised in three sections, namely financial, strategic and social.

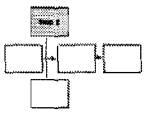
4.1.4.1 Financial

The financial goals for the Phd group, excluding the franchises, reflect the following goal sets;

Table 4.1: Financial objectives for Phd Health Market (Pty) Ltd 2008 – 2010

Consolidated Income Statements (R 000)			
Description	**'08**	**'09**	**'10**
Turnover	12,161	15,201	19,002
Cost of sales	8,673	9,856	11,200
Gross profit	3,488	5,346	7,802
Operational costs	3,189	3,479	3,795
Operational Income before financing charges	298	1,867	4,007
Financing charges	2	50	50
Operational profit	296	1,817	3,957
Income from investments	12	12	12
Net operating profit before tax	308	1,829	3,969
Tax	89	530	1,151
NOPAT	219	1,298	2,818

Source: Phd internal document



4.1.4.2 Strategic

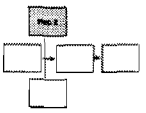
The strategic goal set is focused on the future direction of the company and these should be encapsulated in the activities undertake by Phd in order to uphold the mandate of the vision and the mission.

- Winning a *50 %* market share by 2010
- Overtaking key competitors on product performance or quality or customer service
- Achieving technological leadership
- Having better product selections than rivals
- Strengthening company's brand name appeal
- Having stronger national or global sales and distribution capabilities than rivals
- Consistently getting new or improved products to market ahead of rivals

4.1.4.3 Social objectives

The social objectives of Phd are just as important as the more traditional financial or structural objectives. In an environment charged with emotion and feelings of wellbeing Phd has an obligation to be socially involved in the health community and the business community, and must be seen to make a difference. The focus areas should be;

- Government relations,
- fair competition,
- assertively advancing the interests of Phd,
- increasing consumer loyalty,
- researching and educational activities relating to the operations of Phd,
- communicate information on behalf of the health industry as a whole, and
- to foster productive trade and association relations among all sectors of the food industry.



With substantial strengths with Phd the critical weaknesses need to be mitigated and the major threats need to be countered or steered clear of while the substantial strengths and numerous opportunities need to be exploited to their maximum.

Table 4.2: Strategies

Offensive strategies Combination of the Strengths and the Opportunities	• Acquire a kitchen to supply franchisees, companies, corporates and gymnasiums with pre-packed health food • Target BEE candidates to open Phd franchises in the predominantly black areas, as this is a new unexploited market. • Develop a house brand in order to increase the margins and to generate overwhelming brand awareness.
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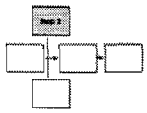
Turnaround strategies Combination of the Weaknesses and the Opportunities	• An investment partner is needed to enable Phd to acquire a kitchen. This will ensure greater profits to franchisor and franchisee. • A Marketer needs to be appointed to take the product to market. Currently there are no sales representatives in the franchisor company of the franchised outlet.

Source: brainstorming session 9 November 2007



4.2 Strategic plan culminating in action plans

The plans needed to ensure that Phd will most likely have a better future and achieve better results are;

4.2.1 Action plan 1: Enlarging the footprint

- expand the group and to achieve critical mass
- ability to bargain with suppliers, landlord of shopping centres and strategic partners
- Enlarging the footprint will also strengthen the brand and increase brand awareness.

4.2.2 Action plan 2: Develop viability and sustainability

- There is insufficient equity in the business to sustain any form of growth.
- seek investors to expand the equity base and to alleviate some of the risk on the side of suppliers to Phd.
- Excess capital could be generated through the sale or licensing of the Phd Net software.

4.2.3 Action plan 3: Invest in a positive & stable workforce

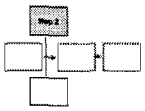
- Employ key procurement personnel and
- employ dietician.

4.2.4 Action plan 4: Invest in partners that support Phd goals

- Integrated business and e-commerce model,
- lure individual health store to become franchisees, and
- expose Phd brand, central procurement and the current technology.

4.3 Implementation of action plans

The four action plans best suites the priority and the route to be followed by Phd to likely ensure success in the next 3 years. Armed with the best suited vision, best suited mission and carefully formulated action plans, Phd will be able to venture forward to 2010. These goals are to be communicated to the



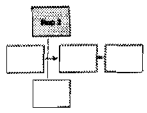
staff of Phd as well as developed into shorter term goals. These shorter term goals should be incorporated into the budgets as well as the individual staff member's quarterly performance & appraisal targets. This will ensure that the progress with these action plans are controlled and communicated on a regular basis

4.4 Recommendations

Although the plans formulated in this strategy formulation process will aid Phd the most critical of the plans in the short term would be to obtain investors in the concept. The unacceptable high debt ratio of 1.23 should be the primary focus for management of Phd in the short term. Without the necessary funding, Phd wil not be able to invest in a stable workforce, nor build the brand nationally.

4.5 Conclusions

The aim of the mini-dissertation was to formulate a strategy for Phd Health Market (Pty) Ltd. This was done by reviewing the relevant literature and assessing the state of Phd in accordance with the literature. From the assessment of Phd the identified core competencies were used to formulate as strategic route to 2010. Phd was found to be lacking and corrections have been recommended. From these recommendations 4 action plans were formulated. Diligence in the application of the action plans develop and the monitoring of the progress of the individual action will ensure that Phd Health Market (Pty) Ltd. is in a better state of control over the pre-defined future rather than continue on a route presumed to bet the best road ahead for the group.



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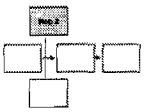

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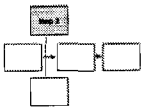
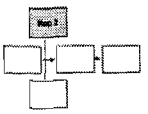


Appendices



Appendix A – Vision & Mission

Vision

Phd Health Market rivals the best international standards in combining healthy food, healthy products and easy access to information and assistance to help our customers reach their health and well-being goals.

Mission

To give our customers the best health- food-, beverage and product values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, company spirit and a social responsibility.

Appendix B – SWOT Analysis

SWOT 2006

Introduction

A health shop in Welkom requested Curator Project Management (Pty) Ltd, a well-known franchise consultancy, to do a proof of concept to establish the franchisability of their well-established store.

The Store was first evaluated on a due diligence basis and scored:

- Business continuity : 70%
- People management : 75%
- Financial management : 65%
- Marketing management : 40%
- Product management : 80%
- Strategic management : 45%

Noting the weaknesses in strategy and marketing, Curator proceeded with a SWOT analysis. Highlights were:

Table B.1: SWOT Matrix 2006

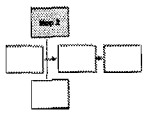
STRENGHTS	**WEAKNESSES**
• Well-known & respected entrepreneur • Trading track-record • Low overheads	• Weak economy • Not marketing orientated • Under-capitalised • Business systems
OPPORTUNITIES	**THREATS**
• Franchise the business • New niche-markets (black market) • Add organic food • Add Body-Assessments • Cross-sell to gyms, para-medicals • Sell platters to corporate markets	• Cheaper competitors (pharmacies) • Lack of funding to grow market share

Source: Phd 2006:22

CONCLUSION

Curator recommended that the business is franchiseable if:

- A professional company is appointed to handle the project management
- Capital is raised to finance the change in business model
- A strong brand identity is created
- The business offering is enhanced to multiple income streams (see "Opportunities" above



SWOT 2007

PHD Health Market (Pty) Ltd conducted a SWOT analysis as at May 2007. Highlights were:

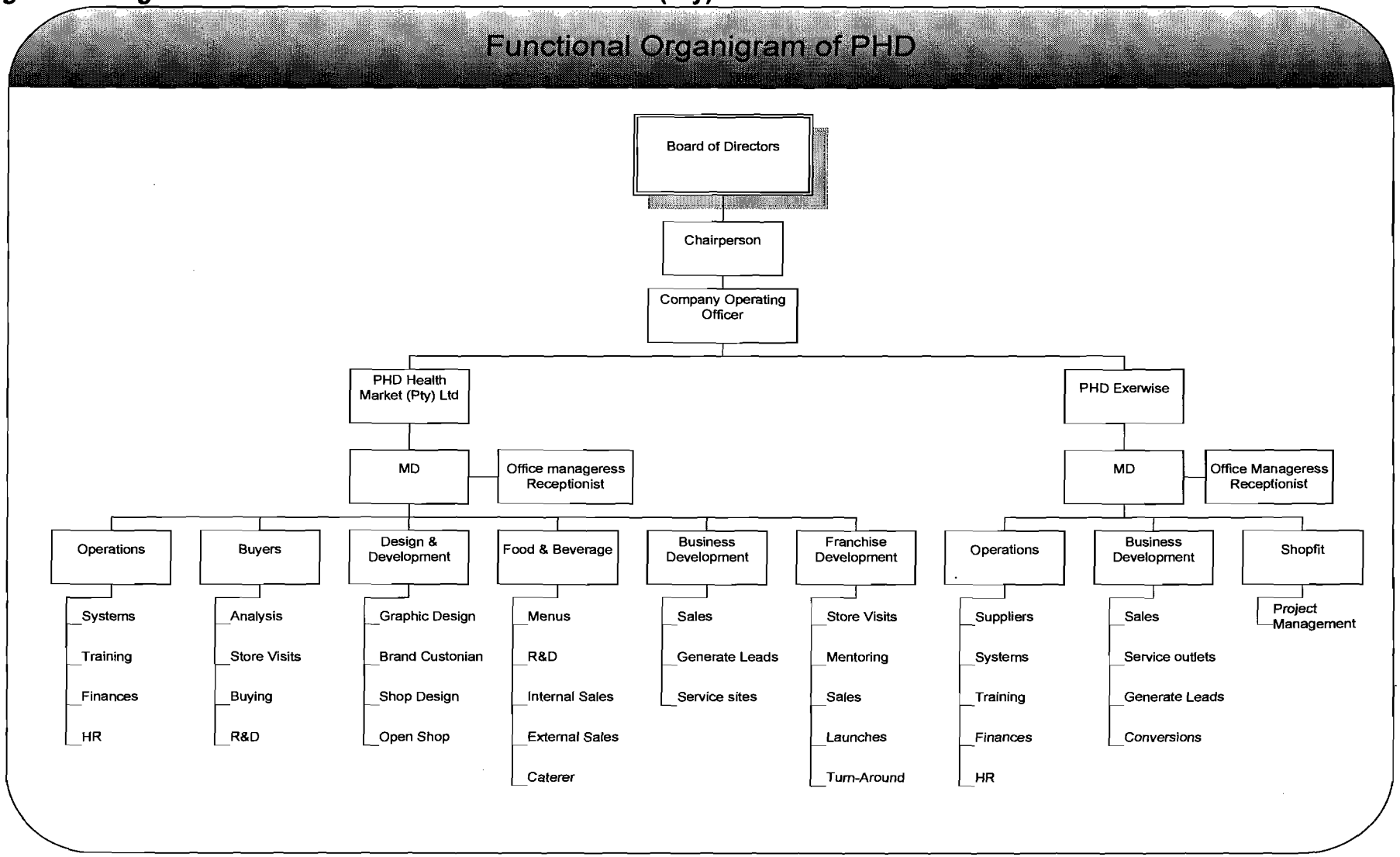
Table B.2 : SWOT Matrix 2007

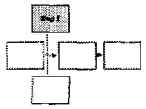
STRENGHTS	**WEAKNESSES**
• Well-known & respected entrepreneur • Trading track-record • Core competencies of the staff • Fast pace development	• Weak economy • Not marketing orientated • Under-capitalized • Business systems • High overheads • Under Financed franchisees
OPPORTUNITIES	**THREATS**
• Franchise the business • New niche-markets (black market) • Add organic food • Add Body-Assessments • Cross-sell to gyms, para-medicals • Sell platters to corporate markets • Developing a House Brand • Own centralized Kitchen	• Cheaper competitors (pharmacies) • Lack of funding to grow market share • New franchise groups in the health industry • National Credit Act

Source: Phd 2007a:23

Appendix C – Organization Structure

Figure C.1 Organizational Structure of Phd Health Market (Pty) Ltd.





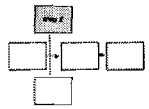
Appendix D – PHD Financials

Table D.1: Head Office Budget 2008

PHD HEALTH MARKET
FRANCHISOR / HEAD OFFICE

		March Budget	April Budget	May Budget	June Budget	July Budget	August Budget	September Budget
Income		R 833,000.00	R 1,771,000.00	R 2,027,000.00	R 2,283,000.00	R 2,539,000.00	R 2,796,000.00	R 3,051,000.00
	Franchise sales	R 700,000.00	R 1,400,000.00	R 1,400,000.00	R 1,400,000.00	R 1,400,000.00	R 1,400,000.00	R 1,400,000.00
	Stock Sales	R 110,000.00	R 330,000.00	R 550,000.00	R 770,000.00	R 990,000.00	R 1,210,000.00	R 1,430,000.00
	Management Fee	R 14,000.00	R 28,000.00	R 56,000.00	R 84,000.00	R 112,000.00	R 140,000.00	R 168,000.00
	Marketing Fee	R 4,000.00	R 8,000.00	R 16,000.00	R 24,000.00	R 32,000.00	R 40,000.00	R 48,000.00
	Consulting	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00
Cost Of Sales		R 564,000.00	R 1,138,000.00	R 1,166,000.00	R 1,194,000.00	R 1,222,000.00	R 1,250,000.00	R 1,278,000.00
	Franchise sales	R 550,000.00	R 1,100,000.00	R 1,100,000.00	R 1,100,000.00	R 1,100,000.00	R 1,100,000.00	R 1,100,000.00
	Stock Sales	R 10,000.00	R 30,000.00	R 50,000.00	R 70,000.00	R 90,000.00	R 110,000.00	R 130,000.00
	Marketing Fee	R 4,000.00	R 8,000.00	R 16,000.00	R 24,000.00	R 32,000.00	R 40,000.00	R 48,000.00
Gross Income		R 269,000.00	R 633,000.00	R 861,000.00	R 1,089,000.00	R 1,317,000.00	R 1,546,000.00	R 1,773,000.00
Less Expenses		R 260,591.91	R 209,591.91	R 228,091.91	R 258,591.91	R 209,591.91	R 209,591.91	R 228,091.91
	Accounting Fees	R 800.00	R 800.00	R 800.00	R 800.00	R 800.00	R 800.00	R 800.00
	Bank Charges	R 700.00	R 700.00	R 700.00	R 700.00	R 700.00	R 700.00	R 700.00
	Cleaning	R 300.00	R 300.00	R 300.00	R 300.00	R 300.00	R 300.00	R 300.00
	Electricity	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00
	Entertainment	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00
	Salaries	R 77,576.15	R 77,576.15	R 77,576.15	R 77,576.15	R 77,576.15	R 77,576.15	R 77,576.15
	Anton	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38
	Maryke	R 10,468.93	R 10,468.93	R 10,468.93	R 10,468.93	R 10,468.93	R 10,468.93	R 10,468.93
	Henk	R 16,540.46	R 16,540.46	R 16,540.46	R 16,540.46	R 16,540.46	R 16,540.46	R 16,540.46
	Ronel	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38	R 17,533.38
	Buyer	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00
	Data Capturer	R 3,500.00	R 3,500.00	R 3,500.00	R 3,500.00	R 3,500.00	R 3,500.00	R 3,500.00
	Contractors	R 90,000.00	R 90,000.00	R 90,000.00	R 90,000.00	R 90,000.00	R 90,000.00	R 90,000.00
	Jan	R 80,000.00	R 80,000.00	R 80,000.00	R 80,000.00	R 80,000.00	R 80,000.00	R 80,000.00
	Cede Business Solutio	R 10,000.00	R 10,000.00	R 10,000.00	R 10,000.00	R 10,000.00	R 10,000.00	R 10,000.00
	Rent	R 12,540.00	R 12,540.00	R 12,540.00	R 12,540.00	R 12,540.00	R 12,540.00	R 12,540.00
	Advertising	R 62,500.00	R 11,500.00	R 27,500.00	R 60,500.00	R 11,500.00	R 11,500.00	R 27,500.00
	Branding	R 45,000.00			R 45,000.00			
	Website	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00
	Printed media	R 6,000.00	R 10,000.00	R 6,000.00	R 10,000.00	R 10,000.00	R 10,000.00	R 6,000.00
	Shows	R 6,000.00		R 20,000.00	R 4,000.00			R 20,000.00
	Computer		R 30,000.00					
	Equipment Lease	R 4,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00	R 12,000.00
	Insurance	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00	R 1,500.00
	SARS	R 4,775.76	R 4,775.76	R 4,775.76	R 4,775.76	R 4,775.76	R 4,775.76	R 4,775.76
	UIF	R 775.76	R 775.76	R 775.76	R 775.76	R 775.76	R 775.76	R 775.76
	PAYE	R 4,000.00	R 4,000.00	R 4,000.00	R 4,000.00	R 4,000.00	R 4,000.00	R 4,000.00
	Stationery & Printing	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00
	Sundry Expenses	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00	R 2,000.00
	Travel	R 2,500.00	R 2,500.00	R 5,000.00	R 2,500.00	R 2,500.00	R 2,500.00	R 5,000.00
	Telephones	R 4,700.00	R 4,700.00	R 4,700.00	R 4,700.00	R 4,700.00	R 4,700.00	R 4,700.00
	Smart Access	R 1,700.00	R 1,700.00	R 1,700.00	R 1,700.00	R 1,700.00	R 1,700.00	R 1,700.00
	Landline	R 3,000.00	R 3,000.00	R 3,000.00	R 3,000.00	R 3,000.00	R 3,000.00	R 3,000.00
t / (Loss) Before Tax		R 8,408.09	R 423,408.09	R 632,908.09	R 830,408.09	R 1,107,408.09	R 1,336,408.09	R 1,544,908.09

Table D.2: Franchisee Financials



ADDENDUM B
PROJECTED INCOME STATEMENT
MONTHLY - YEAR 1
Franchise Purchase Price: R700,000 excl VAT financed through secondary bond

	%	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Fin Year End Total
Turnover		205,000	225,500	248,050	272,855	300,141	348,456	394,282	421,082	449,931	486,571	526,290	569,356	4,447,515
Product Sales		60,000	66,000	72,600	79,860	87,846	96,631	106,294	116,923	128,615	141,477	155,625	171,187	1,283,057
Deli		60,000	66,000	72,600	79,860	87,846	105,415	121,227	127,289	133,653	143,009	153,020	163,731	1,313,651
Assessments (1)		20,000	22,000	24,200	26,620	29,282	32,210	35,431	38,974	42,872	47,159	51,875	57,062	427,686
Fast Foods (2)		50,000	55,000	60,500	66,550	73,205	87,846	101,023	106,074	111,378	119,174	127,518	136,443	1,094,709
Platters (3)		15,000	16,500	18,150	19,965	21,962	26,354	30,307	31,822	33,413	35,752	38,255	40,933	328,413
Less: Cost of sales (4)		133,500	145,850	159,435	168,379	184,816	214,830	243,073	258,747	275,576	297,288	320,789	346,232	2,748,515
Product Sales	70%	42,000	46,200	50,820	55,902	61,492	67,641	74,406	81,846	90,031	99,034	108,937	119,831	898,140
Deli	60%	36,000	39,600	43,560	47,916	52,708	63,249	72,736	76,373	80,192	85,805	91,812	98,239	788,190
Assessments (1)	50%	10,000	10,000	10,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	66,000
Fast Foods	70%	35,000	38,500	42,350	46,585	51,244	61,492	70,716	74,252	77,964	83,422	89,261	95,510	766,296
Platters	70%	10,500	11,550	12,705	13,976	15,373	18,448	21,215	22,276	23,389	25,027	26,778	28,653	229,889
Gross Profit		71,500	79,650	88,615	104,477	115,324	133,625	151,209	162,336	174,355	189,284	205,501	223,123	1,698,999
Less: Expenses		68,555	69,069	69,633	70,255	70,938	72,147	73,294	73,965	74,687	75,804	76,598	77,676	872,420
Accounting Fees (5)		800	800	800	800	800	800	800	800	800	800	800	800	9,600
Bank Charges		500	501	502	503	504	506	507	508	509	510	511	512	6,073
Computer Expenses		700	700	700	700	700	700	700	700	700	700	700	700	8,400
Credit Card Commisions (6)		5,125	5,638	6,201	6,821	7,504	8,711	9,857	10,527	11,248	12,164	13,157	14,234	111,188
Finance cost (7)		7,480	7,480	7,480	7,480	7,480	7,480	7,480	7,480	7,480	7,480	7,480	7,480	89,760
Insurances		1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,600
Franchisee/manager Salary		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Marketing (8)		6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
Miscellaneous		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Licensing and Fees (9)		250	250	250	250	250	250	250	250	250	250	250	250	3,000
Printing, Stationery & Postages		800	800	800	800	800	800	800	800	800	800	800	800	9,600
Rent and Municipal Charges (10)	100m²	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Salaries and wages (11)		12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Telephone & Fax		1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	19,200
OPERATING PROFIT		2,945	10,581	18,982	34,222	44,386	61,479	77,916	88,371	99,668	113,479	128,903	145,447	826,579
Less: Franchisor's Management Fee	7%	14,350	15,785	17,364	19,100	21,010	24,392	27,600	29,476	31,495	34,060	36,840	39,855	311,326
Less Advertising Fee	2%	4,100	4,510	4,961	5,457	6,003	6,969	7,886	8,422	8,999	9,731	10,526	11,387	88,950
PROFIT BEFORE TAX		(15,505)	(9,714)	(3,343)	9,665	17,374	30,117	42,430	50,473	59,174	69,688	81,537	94,205	426,303
Less: Provision for TAX	29%	-	-	-	2,803	5,038	8,734	12,305	14,637	17,160	20,268	23,646	27,320	131,911
Less: Provision for VAT (12)			-		4,245		10,009		16,367		21,429		27,964	
PROFIT AFTER TAXES		(15,505)	(9,714)	(3,343)	6,862	12,335	21,383	30,125	35,836	42,014	49,620	57,891	66,886	294,392

Assumptions:

* *It is assumed the PHD Health Market is a full time business, operating normal retail hours*

Note: Return on Investment within 18 months

Note: Phd intends to keep on negotiating better deals from suppliers

The tax calculation was based on the current tax rate of 29% for companies and closed corporations

The inflation rate of 5 % is assumed to stay constant for the next 5 years.

From Year 2 a 15% growth is projected, with the following years reflecting an 8% growth. Conservative bearing inflation at 5% in mind.

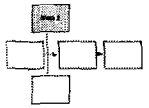
1 Assessments: Paying R 10000 for the first 3 months to outsourced assessor, thereafter R4000-00 for a fulltime employee.
Assessments: Assume outsourced to professional on 50% fee split. Assume starting at 2 assessments per day, building up to 8 per day at a rate of 1 per day per month.

2 FastFoods refer to our twin products: Phd Fast Foods (Monthly Meal Plans) and Phd Fast Food Active (Food Catalogue Orders)

3 Platters: 2 per day in the first month, increasing gradually per month

4 Is based on the Reccommended Retail Price (Different mark-ups apply).

5 We recommend budgeting for R12000-00 for an annual audit around May.

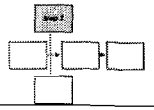


Appendix E – Competitor Analysis

Table E.1: Competitor Kauai

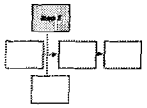
Objectives and Strategies

Competitive Scope	Strategic Theme	Market Share Objective	Advertising Strategy	Competitive Strategy
• Local • Regional • Provincial • National • International ✓	• Dominant Market Leader ✓ • Catch Up with present Market leader • Resorts under top 5 in industry • Attempting to resort under top 10 • Wants to move up a notch • Wants to maintain present Position • Just Survive	• Aggressive international and External Growth ✓ • Internal Growth • External: Merger and Acquisitions • Maintain present market share: grow at same rate as industry • Sacrifice market share for higher profitability	• Particularly Offensive • Particularly Defensive • Combination of offensive and defensive ✓ • Aggressive risk taker • Conservative follower	Low cost leadership Niche Markets • High end ✓ • Low end • Geographic • Buyers with special requirements ✓ • Other Differentiation • Quality ✓ • Service • Technological excellence • Breadth of Product / Service line ✓ • Image and reputation • Other attributes



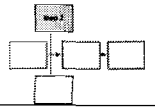
Strengths	Weaknesses
a) They are the only other Health food Franchise in South Africa b) Building a reputation of being one of the market leaders in South Africa c) Very Successful Approach to servicing the broader spectrum of health conscious person d) Education ability of the market in terms of health and well-being e)	a) Only Food and Health Beverages such as juices and smoothies b) Have on geographical competition to gauge their true competitiveness c) Poor progression d) e)

Table E.2: Competitor Dischem



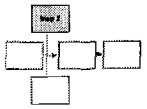
Objectives and Strategies

Competitive Scope	Strategic Theme	Market Share Objective	Advertising Strategy	Competitive Strategy
• Local • Regional • Provincial • National ✓ • International	• Dominant Market Leader ✓ • Catch Up with present Market leader • Resorts under top 5 in industry • Attempting to resort under top 10 • Wants to move up a notch • Wants to maintain present Position • Just Survive	• Aggressive international and External Growth ✓ • Internal Growth • External: Merger and Acquisitions • Maintain present market share: grow at same rate as industry • Sacrifice market share for higher profitability	• Particularly Offensive ✓ • Particularly Defensive • Combination of offensive and defensive • Aggressive risk taker ✓ • Conservative follower	Low cost leadership ✓ Niche Markets • High end • Low end • Geographic • Buyers with special requirements • Other Differentiation • Quality • Service • Technological excellence • Breadth of Product / Service line ✓ • Image and reputation • Other attributes



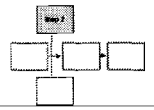
Strengths	Weaknesses
a) Well trained staff b) Very broad selection of product c) *Affordability / Low cost leader* d) Easily expandable service to more comprehensive services i.e. Assessments and food, as hey already have a supply chain in place e) Stocks health products and pharmaceuicals	a) perception of "too big to care" b) Have on geographical competition to gauge their true *competitiveness* c) Stocks health products and pharmaceuicals d) e)

Table E.2: Competitor Nutri Balance



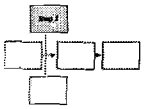
Objectives and Strategies

Competitive Scope	Strategic Theme	Market Share Objective	Advertising Strategy	Competitive Strategy
• Local ✓ • Regional • Provincial • National • International	• Dominant Market Leader • Catch Up with present Market leader • Resorts under top 5 in industry • Attempting to resort under top 10 • Wants to move up a notch ✓ • Wants to maintain present Position • Just Survive	• Aggressive international and External Growth ✓ • Internal Growth • External: Merger and Acquisitions • Maintain present market share: grow at same rate as industry • Sacrifice market share for higher profitability	• Particularly Offensive • Particularly Defensive • Combination of offensive and defensive ✓ • Aggressive risk taker • Conservative follower	Low cost leadership Niche Markets • High end ✓ • Low end • Geographic ✓ • Buyers with special requirements ✓ • Other Differentiation • Quality ✓ • Service ✓ • Technological excellence • Breadth of Product / Service line ✓ • Image and reputation ✓ • Other attributes



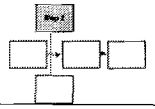
Strengths	Weaknesses
a) Location, Location, Location b) Reputation within the health industry (suppliers) and health conscious public c) Extensive product range d) Very Knowledgeable staff e) Assessments are offered	a) Only One store b) Will not be able to compete on a national level c) d) e)

Table E.2: Competitor Morningview Health



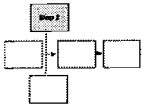
Objectives and Strategies

Competitive Scope	Strategic Theme	Market Share Objective	Advertising Strategy	Competitive Strategy
• Local ✓ • Regional • Provincial • National • International	• Dominant Market Leader • Catch Up with present Market leader ✓ • Resorts under top 5 in industry • Attempting to resort under top 10 • Wants to move up a notch • Wants to maintain present Position • Just Survive	• Aggressive international and External Growth ✓ • Internal Growth • External: Merger and Acquisitions • Maintain present market share: grow at same rate as industry • Sacrifice market share for higher profitability	• Particularly Offensive • Particularly Defensive • Combination of offensive and defensive • Aggressive risk taker ✓ • Conservative follower	Low cost leadership ✓ Niche Markets • High end • Low end • Geographic • Buyers with special requirements ✓ • Other Differentiation • Quality • Service ✓ • Technological excellence ✓ • Breadth of Product / Service line ✓ • Image and reputation • Other attributes



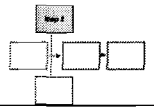
Strengths	Weaknesses
a) Always willing to try new products and ranges b) Opened a restaurant section that seems to be doing well c) Competitive prices d) Success in the Health Industry e)	a) Store looks cluttered, and a feeling of claustrophobia may prevent browsing customers b) Do not have the infrastructure of technology to expand provincially / nationally c) Do not have a marketing plan in place d) e)

Table E.2: Competitor Fruitz and Rootz

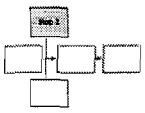


Objectives and Strategies

Competitive Scope	Strategic Theme	Market Share Objective	Advertising Strategy	Competitive Strategy
• Local ✓ • Regional • Provincial • National • International	• Dominant Market Leader • Catch Up with present Market leader • Resorts under top 5 in industry ✓ • Attempting to resort under top 10 • Wants to move up a notch • Wants to maintain present Position • Just Survive	• Aggressive international and External Growth • Internal Growth • External: Merger and Acquisitions • Maintain present market share: grow at same rate as industry ✓ • Sacrifice market share for higher profitability	• Particularly Offensive • Particularly Defensive • Combination of offensive and defensive • Aggressive risk taker • Conservative follower • Relies on Word of mouth and reputation ✓	Low cost leadership Niche Markets • High end ✓ • Low end • Geographic • Buyers with special requirements • Other Differentiation • Quality ✓ • Service ✓ • Technological excellence • Breadth of Product / Service line • Image and reputation • Other attributes



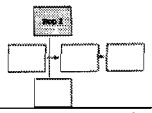
Strengths	Weaknesses
a) Pioneers in one-stop health offering b) Also involved in distribution of House branded products c) Highly trained staff d) Reputation of "uncompromising" e)	a) Too set in their ways b) Only in JHB c) One branch Closing down d) Do not have the resources to compete on a national level. e)



Appendix F – Strategic Actions 2008 - 2010

Table F.1: Strategic action plans

STRATEGIC DIRECTIONS	KEY RESULT AREAS	OUTCOMES 2007 - 2010
1. BUILD A LARGER AND BROADER FRANCHISE BASE	1. Provide new services that respond to franchisee needs and expectations and demonstrate value for money.	1.1 Business case has been prepared for packages of integrated preventative health care 1.2 Focus has expanded revenues by 15%
	2. Anticipate and plan for change in the health environment	2.1 Service agreements with DoH and health insurance by 2008 2.2 Commonwealth funding for Nutritional programs has been reviewed and potential opportunities identified
2. DEVELOP OUR VIABILITY AND SUSTAINABILITY	1. Use technology widely to underpin clinical care and operations wherever analysis indicates it is feasible	1.1 Five Year Information Communications and Technology Plan has been completed 1.2 SQL technology for Communications & connection has been evaluated 1.4 Franchisee information connections with data systems (like the software package 'PHDNet') are established
	2. Prioritize increased speed and effectiveness of responses to franchisee needs in existing and new services	2.1 Productivity study has been undertaken and recommendations implemented 2.2 Responsiveness evaluation has been completed and joint workshop undertaken 2.3 Responsiveness reporting and marketing strategy has been implemented
	3. Increase new and expanded business contracts to reduce reliance on government grants	3.1 New business project study has been undertaken and recommendations implemented.
	4. Build expertise by investing in new models of care and in clinical, administrative and leadership training	4.1 Clinical governance framework review has been completed and improvement strategy approved 4.2 New clinical and operational research program has been determined and negotiated



		4.4 New service agreements with Education Centres have been negotiated
	5. Build the brand to enhance public and government support for expanded activities	5.1 Media strategy for 2008 approved by Board May 2007 5.2 Increased recognition and understanding by public and government of preventative health system is indicated by responses to media stories and events.
	6. Seek and secure an Investors.	6.1 bring the debt to equity ration in line, from 1:1 to at least 1:3.
3. INVEST IN A POSITIVE AND STABLE WORKFORCE	1. Develop a positive organizational culture through effective leadership, management and communication	1.1 Comprehensive Workforce Strategy has been formulated and approved by the Board 1.2 Outcomes of the 2007-2008 Communications Project have been implemented
	2. Promote innovation and continuous improvement through education and technology support	2.1 Team leader and management training updates have been completed for all relevant people
	3. Apply employment practices and conditions which balance franchisee, staff and operational needs	3.1 New Enterprise Agreements have been negotiated for Nursing and Administrative staff 3.2 Staff satisfaction rate has exceeded 80% 3.4 Staff voluntary resignation rate is less than 8% pa
4. INVEST IN PARTNERSHIPS THAT SUPPORT OUR GOALS	1. Develop, advocate for and participate in models of collaborative services which are responsive to and meet the needs of franchisees, the health system and the community	1.1 Franchisee consultation and participation is built into planning, delivery and evaluation of services 1.2 Multi sector forum has been conducted with suppliers, health and other agencies on responsiveness and assessment issues
	2. Participate in projects which contribute to the sharing of information, resources and knowledge and add value to franchisee services and operations	2. PHD is active members of FASA and serves of the BBBEE committee of the organization