

## Executive Summary

### Smiling Mushroom Indonesia: a Better Quality for Better Business

Smiling Mushroom Indonesia (SMI) Corporation is a start-up business situated in West Java province, Indonesia, focusing on oyster mushroom cultivation and production.

Oyster mushroom (*Pleurotus Oystreatus*) is an edible, low-fat mushrooms that contains high protein, fibers, and carbohydrates. People are now more concerned consuming organic, environmental-friendly foods. Oyster mushroom has good characteristics to deal with blood cholesterol, hypertension, and diabetes mellitus. It also maintains vitality and endurance. The delicate textures are used for various recipes and processed foods, such as nugget mushroom, crispy snack, burger patty, and meatballs.

This business idea was initiated after studying the vast gap fresh oyster mushroom demand and *supply* in Indonesia. The industry is still at early growth. Nowadays, volume of *supply* in Indonesia is nearly twenty thousand tons and the gap is around thirteen thousand tons. SMI operations can *supply* 2.5 tons per day – equivalent to USD 4,000 – based on Indonesia's market price - IDR 16,000 and increase until seven tons per day in the fifth year.

As the first-mover, SMI has advantages to achieve economies of scale in production, operational facility, and distribution channel utilization. SMI is the first large-scale producer with projected net sales of USD 3 million in the fifth year, equivalent to 16% of the total market.

SMI builds R&D center to develop high quality mushroom seeds — not only to meet environmental standards, but as integral part of business strategy. High quality seed is necessary to ensure productivity and profitability in fostering beneficial relationships with the partners (the local farmers). SMI builds competitive edges through seed quality, the operations, and the business model.

SMI will do a partnership with local farmers in production. SMI provides systems, training, and supports whereas the local farmers can do farming, harvesting, sorting, and packaging every five kilograms, according to the targeted. The collaboration is to integrate process and output quality as well.

In partnership with 60 local farmers, SMI is to *supply* almost 810 tons fresh mushroom in the first year. In fifth year, SMI — partnership with 120 local farmers — will reach full production capacity which is two thousand tons. After the fifth year of operations, SMI will expand to other potential markets. With such scheme, SMI afford to reach more than 16% of market share in the fifth year.

Operations strategy is to achieve high quality and optimum quantity of output. Focuses will be on standardizing procedure, performance improvement, increasing productivity & efficiency, and increasing partnership engagement with the local farmers.

Operationally, SMI do several things. First, SMI minimize the contamination (reject log) level, by applying 5-S principle and Quality Control Circle both in production level and in the partnership system. Through these programs, SMI target contamination level in first year is 10% and in fifth year is approaching 8%. Second, SMI combine semi-modern and modern processes in two working shifts to produce log with high quantity level. SMI also replace dried corn with paddy grain for seed media, because not only cost effective, it is also already proven successful and produce seed as well as corn. To control output product in customer level, SMI apply barcode system in packages to track partner's performance if there any complaints from the customers (wholesale markets). By implementing this strategy, SMI is able to provide good products with competitive price. SMI operation will be led by a director with 5-year experience in production, while R&D will be chaired by an agriculture expert with 8-years experience in mushroom industry.

SMI will penetrate wholesale markets first, and then, modern markets, and nearby provinces wholesalers. SMI form partnership with wholesale parties in wholesale market to create a long term relationship. SMI main wholesale parties are located in West Java. SMI maintain relationship with them by held a gathering of community, seminars about maintaining the freshness of oyster mushroom, evaluating their performance, giving advice to increase their performance, and also make competition event to make creative foods from oyster mushroom such as nugget, burger, or meatball mushroom. These activities not only create emotional bonding and loyalty, but also increase the awareness and knowledge of

oyster mushrooms, and maintains customer retention that. SMI have cultivation system that advances in both basic knowledge and practical technology relevant to mushroom seed, production system, mushroom farming, employment system. These principles can be applied globally if implemented according to locally available substrates, labor and climate.

SMI is projecting net sales of USD 1 million in the first year, and USD 3 million in the fifth year. The initial investment is approximately USD 850,000 - financed by the business free cash flows. SMI expects to have payback period of 2.7 years, NPV of USD 292,000 and IRR of 40% for the first five year period, assuming the project is liquidated in the end of the fifth year.

