
SOMBRERO: PROPOSED FRUIT JUICE OUTLET

Professor John D. McLellan wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Version: (A) 2008-12-17

Moawia had five days to decide. Should he open a fruit juice business in the Al Ain Mall or continue as the operating manager at the Al Qatara bowling alley in the Al Ain Club? He had been very successful running big bowling tournaments attended by people from all over the Gulf region and had saved enough money to start his own business. Was this the right one?

BACKGROUND

Al Ain was a town of 300,000 people in the centre of the Abu Dhabi Emirate, the largest and richest of the seven emirates that are collectively known as the United Arab Emirates (UAE). The United Arab Emirates University was in Al Ain, with a student enrolment of 13,000 UAE nationals. The total population of Al Ain was comprised of 40 per cent UAE nationals and 60 per cent expatriates. Before 2002, there were no malls in the city and people would have to travel to Dubai to shop.

It was March of 2002 and the Al Ain Mall management planned to open the mall soon and was accepting business proposals for the food court to be built on the second floor.

Moawia Abdulla El Hourani had been trained in Poland and Germany in optometry. He had planned to eventually open his own optical store selling prescription glasses in Al Ain when he arrived in 1995 at the age of 29. However, by 2002 there were a number of optical stores operating in Al Ain and three more were planned to open in the new Al Ain Mall.

PROPOSED BUSINESS PLAN

Moawia had first presented to mall management his plan to open a food service business. The mall management would only consider plans for food services from people or organizations that had restaurant experience. Moawia had none. He thought of opening a fresh fruit juice operation because he had enjoyed making a variety of fruit drinks at home for both family and friends and he felt that perhaps mall

management would not require the owner to have restaurant experience for a juice stand. He proposed to offer customers freshly squeezed fruit juices mixed with homemade soft ice cream. The mall management accepted his business proposal. Moawai gathered the financial data required to open the store and now had five days to accept the mall's offer to lease the space.

LEASE AGREEMENT

The Al Ain Mall, like all retail malls, charged rent to businesses depending on the number of square meters the business occupied. Mall tenants paid anywhere from DH2,000 to DH4,000 per square meter per year. The rate depended upon how well-known and how big the company was. Megamart and the Home Center paid at the lower end of the scale, 2,000, whereas small independent stores paid closer to 4,000. Sombrero would have to pay DH60,000 per year to lease the space (3 dirham=Cdn\$1 and 100 fils=1 dirham).

Mall lease agreements were generally for five years and required the tenant, in addition to the lease cost, to pay for electricity, water, mall maintenance and security. Water and electricity were estimated at DH800 per month; maintenance and security would cost DH700 per month.

The mall only leased the space. Moawia would have to put down the flooring and build the walls and ceiling as well as install lighting and air conditioning. These leasehold improvement costs would be an asset of the business to be depreciated over the five years of the lease. Total leasehold improvement costs were estimated at DH12,000. Other start-up costs were as follows:

- Overhead sign 4,000
- Outside sign 3,000
- Display case for fruit 8,000
- Ice cream maker 25,000
- Ice maker 8,000
- Fruit juice extractor 3,500
- Orange squeezer 1,200

All equipment was expected to last five years. To finance the equipment, Moawia would have to borrow DH20,000 from a local bank. The bank would require interest of DH200 a month for the first year and a principal repayment of DH2,000 at the end of the year.

SOMBRERO

Moawia would name his store Sombrero in memory of his roommate in Poland who came from Bolivia. His friend brought with him a huge Mexican sombrero hat and guitar which he would use to entertain friends with his playing and singing of Latin American songs.

The store would operate 98 hours per week and employ four people full-time working nine hour shifts. Two employees would work the 10 a.m. until 3 p.m. and the 8 p.m. until 12 midnight shifts. The other two would work from 2 p.m. until midnight with one hour off. Each employee would be paid DH1,200 per month plus accommodation costing DH400 per month.

FRESH FRUIT JUICES

Sombrero would serve a freshly squeezed fruit drink mixed with ice cream. There would be 30 varieties of fruit cocktails offered by Sombrero. The ice cream would be made on site by mixing an ice cream powder with water in the ice-making machine that slowly mixes the product at about minus 28 degrees Celsius. Soft ice cream would then be poured out of the tap at the bottom of the machine. The ice cream could then be mixed with the different types of fruit drinks.

The average customer order would be DH10. The fruit would cost about DH1.20, the ice cream powder about 35 fils and the cup for serving the juice another 45 fils including the paper and straw accessories.

THE DECISION

Moawia must decide whether to go ahead and start his business. He felt a little afraid because he did not know how many customers he would have to have for the year to cover all his costs and be profitable. He would also like to make a profit of DH30,000 for his first year and wondered how many customers he would need to make that profit. His real concern was the ability of Sombrero to do enough business to pay all its bills and not go bankrupt.