



CONFIDENTIAL

# *Hopping Paws*

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**Business Plan**  
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## 1. Executive Summary

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*Hopping Paws* is a new company that offers healthy pet food solutions to environmentally conscious “pawrents” of both cats and dogs. All our products are made with insect flour, a sustainable and healthy protein alternative to traditional livestock. Insect flour has increased in popularity over the last few years and is regarded as a sustainable and healthy alternative to conventional livestock. This new protein source is the primary point of difference between *Hopping Paws* and competitors, as it offers pawrents an option that is both good for their pet’s health and right for the planet.

Although there are many large and small niche players in the pet food and treats industry, *Hopping Paws* is the first pet food company with insect based food solutions for both common household pets; cats and dogs.

With majority of our sales being generated online, we will dominate in digital marketing activities. Content marketing, paid and organic advertising are our primary marketing efforts. Offline we will be present in pet trade fairs in North America, as well as in select pet stores and veterinarian clinics.

Our target market consists of health and environmentally conscious pet owners who purchase quality food for themselves, and consequently for their pets who they view as a part of the nuclear family. They earn above average incomes, and are apt to pay a higher price for premium goods.

We will enter the market with our first product launch of cat and dog treats in 2016, and branch off to new products and recipes in year 2. The primary revenue stream will be product sales on our e-commerce website and amazon.com store.

Initial investment of \$40,000 will be split between crowdfunding, personal investment, and a small business loan. At a premium price of \$9.99 per 100 gram bag, we will turn a profit in year 3. To support our projected sales volume, an additional cash injection of \$57,800 will be required over a 3 year period. A conservative outlook as

## 2. General Idea Description

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*Hopping Paws* is a new venture of innovative and alternative ready-to-eat foods made with highly sustainable protein source– insect flour . All *Hopping Paws* product are eco-friendly, delicious and readily available online. Under the *Hopping Paws* umbrella, the first product launch *Hopping Paws* is a brand of eco-friendly cat and dog treats made of cricket flour, an extremely low carbon footprint protein source. Our treats are locally sourced in Ontario, Canada, are sustainable, organic, gluten and meat free, and 100% healthy.

### 2.1 – Mission & Vision

Our mission at *Hopping Paws* is to make the world a better place today by providing alternative pet food solutions that are healthy and eco-conscious that you can't find in your grocery store. Our vision is to be the reference for sustainable healthy pet food solutions, and a conscious choice for those who prioritize the health of their pets and sustainability of their product choices. Together, we will make the world a better place, one bite at a time.

### 2.2 – Value Proposition

*Hopping Paws* provides alternative food choices for environmentally conscious consumers and their loved pets that they cannot find in their local grocery store. All *Hopping Paws* products are made with locally sourced and environmentally friendly ingredients, with the hero ingredient always being insect flour.

Insects are packed with protein, fibre, healthy fatty acids, vitamins and minerals which are critical the health of our loved pets (Carman, 2015). Our insects are raised in a controlled environment where they are fed grain rich diets and are turned into flour through a humane and efficient process of freezing and milling. No antibiotics are used to the insects. In general, insects are a very efficient source of protein, requiring up to six times less feed than cattle and emit far less greenhouse gases and other hazardous air pollutants than conventional protein sources (Arnold van Huis, 2013). Insects also offer more protein per gram than a traditional meat source. A small serving of crickets, for example, can contain the same amount of protein as a similar sized serving of beef, but contains less fat and fewer calories (Economist, 2014). With the looming scarcity of land, water, and non-renewable energy, insects are a viable, healthy and sustainable protein solution to our global resource scarcity problem.

Additionally, our products are accessibly priced and can be shipped worldwide. With the limited alternative foods options available to the general society in their grocery retailers, *Hopping Paws* is able to bring international access to ``better for you and the earth`` products that every pet owner with internet and a credit card can now benefit from.

## 3. Problem & Solution

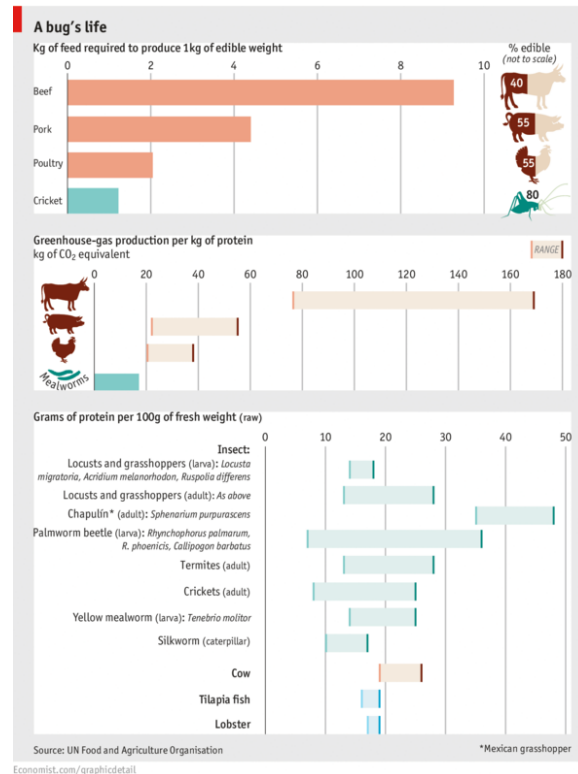
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The team identified the need for meat alternative and sustainable food options that don't require a sacrifice on taste. With the population expected to grow to 9 billion people by 2050, we will need to double our current food production to feed the additional billions of mouths, a feat experts have warned is not viable (Arnold van Huis, 2013). With 70% of our agriculture land already used to raise livestock (Arnold van Huis, 2013), and with the issues of overfishing and

climate change threatening our ability to raise crops without disease, the need for a more efficient and sustainable protein source has never been so dire.

Furthermore, the commonly found pet food solutions available on the market do not address the need for quality foods that are also right for the sustainability of the planet. Mass produced pet food products are not concerned with pet health or the environment, which leaves pawrents with limited food alternatives they can feel good about feeding their pets. Of the alternatives available on the market, many are cumbersome to purchase, and come with a hefty price tag. Additionally, there are very limited meat-free pet food solutions that are high in protein and other important nutritional values such as minerals and omegas. With meat being a major allergen leading to bad skin and itching, concerned pawrents are seeking meat-free/irritant-free

According to a report released in 2013 by the Food and Agriculture Organisation, a part of the United Nations, eating insects yields more protein per kg than that of livestock. A cow, for example, requires 8kg of feed to produce 1kg of beef, but only 40% of the cow can be eaten while crickets require just 1.7kg of food to produce 1kg of meat, and 80% is edible (Arnold van Huis, 2013). Additionally, insects require less space and water, and emit significantly lower greenhouse gases than livestock.



**Figure 1** Crickets versus livestock values (Source: UN Food and Agriculture Organisation)

Although insects are one solution to our threat of a looming world hunger problem, there is an obvious barrier; culture and the inevitable “icky” factor. With over 2 billion people estimated to already eat insects as part of their daily nourishment, the Western world has not been open minded to eating creepy crawlies. The solution is to make the insects unidentifiable and baked or cooked into familiar looking foods, such as cookies, burger, treats etc. Baking and cooking familiar food options that carry positive sentiments such as treats reduces the stigma, by way of appealing to the emotional over the rational side of one’s conscious.

## Hopping Paws

Our first launch, *Hopping Paws* pet treats, are made with unidentifiable crickets that were milled into fine flour. They are baked into sweet heart shaped cookies, no cricket legs in sight. Even to the most discerning eye, the treats have no visible trace to anything that crawls; they look merely scrumptious and smell delicious even to the human nose.

Furthermore, our pet treats are human grade, all natural, high in protein, grain free, and don't cause itching. All these components are a part of a proper pet nutrition. The lack these components can result in some problems like malnourishment and other chronic diseases.

An example of those pathologies is the so-called celiac disease. It is the inability to digest and absorb proteins called gluten found in wheat, rye, and barley. Celiac disease, a growing concern amongst veterinarians and pawrents, as it causes damage to the lining of the small intestine and prevents absorption of nutrients. Grain free pet treats and food have grown in popularity as a consequence of this rising concern.

Itching has also been of grave concern to pawrents caused by common allergens that are found in mass produced food and treats made with inexpensive fillers and meat and fish by-products. In a study conducted by Hills Pet Nutrition (veterinary exclusive pet food brand) it was discovered 93% of allergies in dogs are caused by beef, dairy, wheat, lamb, chicken, chicken egg, and soy. While for cats, 80% of allergies are caused by beef, dairy and fish. *Hopping Paws'* treats are made with none of these common dog and cat allergens.

Currently veterinarian exclusive dog and cat brands have addressed this concern, introducing meat and gluten free food to the market. However, pet treats are still made with these allergens. *Hopping Paws'* treats close this gap of itch-free, hypoallergenic treats not found in stores and in veterinarian clinics.

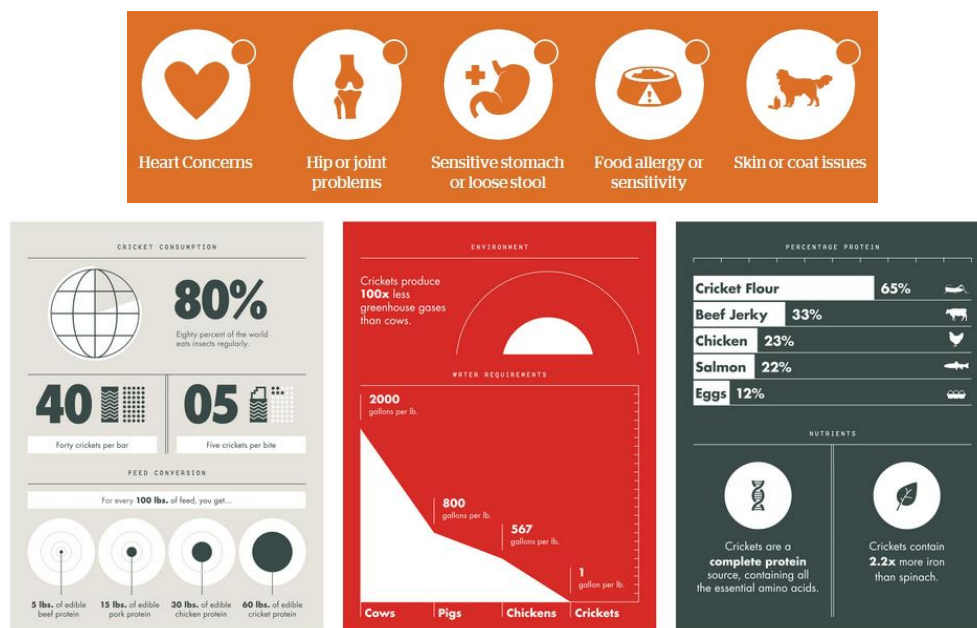


Figure 2 Interesting facts concerning crickets: Health & Sustainability (Source: *Exo* cricket bars)

## 4. Business Model

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### Value Proposition:

*Hopping Paws* provides discerning and environmentally conscious pawrents with alternative solutions they are not able to buy in their local grocery store. Our food options are healthy, environmentally friendly and priced accessibly. We are the only manufacturers of insect based pet food for dogs and cats.

Our consumers can place their orders from anywhere around the globe over the internet and receive our product at their doorstep without ever having to leave their homes.

### Customer Segment:

#### Healthy Environmentalist Pawrents

Health and environmentally conscious consumers who actively seek out the best food solutions for themselves, and in turn their pets as they see their loved furry friends as an extension of self. They are concerned with the nutritional value of their pet food choices, and place great importance on food that is healthy and sustainable for the planet.

They are early adopters of innovations that allow them to reduce their carbon footprint without significant loss of enjoyment (including taste). They want to know the foods they buy are made with high quality ingredients that deliver great health benefits. They seek ingredients in pet food that promote their pet's health. They believe their personal choices have a direct impact on the world, and are therefore opt for eco friendly products.

Our consumers shop online and in specialty stores. They value quality over convenience, and are willing to pay a premium for quality foods which deliver the health benefits they seek. They have higher than average purchasing power.

#### Our consumer depicted in examples:



#### Meet Ginger's Pawrent:

- Income of \$85,000/ annum, Marketing Executive
- 34 years old
- Sensitive to environmental issues
- Lives in the city core
- Owns a hybrid car
- Buys green versions of products



#### Meet Benny's Pawrent:

- Income of \$250,000/ annum, Entrepreneur
- 43 years old
- Environmentalist
- Takes public transport to work
- Buys groceries at Whole Foods
- Researches product ingredients online before purchasing

**Customer Relationship:**

Our relationship with our customers is critical to our success. Our communication with our customers at any touch-point must be honest, timely, and helpful. We will maintain our relationship through our monthly e-newsletter to email addresses of subscribers and purchasers. Social media platforms will keep us engaged with our audience, inviting the sharing of photos, comments, and stories about their experiences, stories and other sustainable products they wish to share with the online community. We will be actively involved in local Canadian shelters (including Humane Society of Toronto, Montreal, Calgary and Vancouver) and Animal Rights groups by donating our time and product, where appropriate and possible.

Pet experts, such as veterinarians and trainers, will be leveraged for direct to consumer communication as will our presence in pet trade fairs.

**Channels:**

*Hopping Paws* products will be primarily sold over the internet through our e-commerce site (powered by shopify website) as well as amazon.com. Via our online website and channels, we will sell direct to consumer and direct to distributors and retailers wishing to carry our products. A retail starter pack consisting of a pre-pack display for a store counter will be made readily available under the wholesale section of our e-commerce site.

Pet trade expos fairs will be a secondary channel. They represent an opportunity for direct communication and selling to consumer and industry experts. Pet trade fairs under current consideration include, the Global Pet Expo (largest industry expo in the world), SuperZoo (annual non-profit event, showcasing new innovations in the pet industry), and Woofstock (annual festival for pets and their pawrents to have fun and sample/purchase new products).

**Partners:**

Our partnership will be with our flour supplier, Next Millennium Farms located in Ontario, Canada.

We recognize the defining role partnerships have in overcoming the cultural barrier associated to *Hopping Paws'* products. Due to the use of insect flour in our treats, some resistance may be felt in entering the market. The support of professionals in pet's health and wellbeing (veterinarians, pet trainers & associations) will help *Hopping Paws* overcome issues and doubts that may arise about the nutritional value of the product

**Key Activities:**

The key activity we will need to dominate is digital marketing as our product is primarily sold online, and must therefore have a strong online presence and management. Other key activities will consist of purchasing of raw materials for production, logistics including the shipping and receiving of product, production and packaging, selling of product, as well as market research to find and test new product ideas and recipes. Although there is no requirement by the FDA for pet foods to have pre-market approval (FDA, 2015), we will need to ensure our labels meet regulatory requirements set forth by the Administration.



**Key Resources:**

Our key resources are our main ingredient insect flour as well as the ancillary baking ingredients (such as eggs, nuts, etc.), our e-commerce website, and a baking facility (home kitchen in 2016, industrial kitchen 2017 onwards) where production will take place as well as a warehouse distribution and fulfilment facility to store and distribute our inventory. Research and development of new recipes will also be a key ongoing resource.

**Costs:**

The anticipated costs include the production of product, the selling and marketing of our product and brand, shipping and receiving.

**Revenues:**

Our revenues will come solely from the sales of products and of merchandise such as branded t-shirts.

**Pricing:**

Due to the premium nature of our products we will pursue a premium pricing strategy. Our prices will be 30-50% higher than the mass market brands. For a 100gram bag of pet treats, the price will be \$9.99+HST which is in line with our premium pricing strategy, however, priced 5-20% lower than competitors.

Our branded T-Shirts will sell for \$19.99+HST on our website.

**Risks:**

The major risk we anticipate is the lack of market acceptance to our products. Although much has been done to validate our idea and philosophy, we are among the pioneers in this segment and with any first mover, you run the risk of a slow (or lack of) market adoption.

Another concern relates to research and legal affairs. The process of finding a nutritious and balanced recipe for our ready-to-eat foods that fulfils all legal requirements (proper labelling and handling) will be a task with some uncertainty attached (time and investment required). Additionally insect flour is fairly unregulated, as it has not reached a volume of sales to warrant government interest. Although most insect ranches and farms have certifications such as the internationally recognized EcoCert certification, there may be concerns of product being detained at customs due to the unregulated main ingredient which may pose a threat to some isolated countries (such as New Zealand, Australia) which may cause returned product and unsatisfied customers (lost revenue).

**Time to Market:**

*Hopping Paws* will need to respect shelf life of products, hence fast turnaround from the moment an order is placed to when it is shipped is crucial to the success of the business model.

Our e-commerce website will take approximately 2 months (photos, product description, setting up transacting software, security etc.) to be up and running. Production currently takes 1hour to produce 10 packages of 100 grams, plus 1 minute per bag for labelling and packaging. We aim to have our first sale in March 2016.

In our first year, we will focus our resources solely on pet treats. In year 2, we will optimize our production processes and learn new innovative recipes with cricket flour. As we delve deeper into the pet industry and become experts, we hope to launch other niche pet food options, such as training treats, diet treats and food, heart health treats and food, and size/age specific treats and food (small breed, medium, large, puppy, adult).

## 5. Market

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### ALTERNATIVE PROTEIN MARKET

Entomophagy, the practice of eating bugs, has gained momentum in Western countries. Since 2012 over 25 cricket ranches have popped up in North America, selling whole insects and milled (insect flour) to end consumers and start-ups turning these insects into ready-to-eat foods. Insect's efficiency (high yield per gallon of water and space required), health benefits (high in lean protein and omegas) have made this alternative protein popular among people looking for sustainable meat alternatives. The reality television show Shark Tank brought mass awareness to this new trend in the food market, with the creator of EXO Bars, all natural protein bars made with cricket flour, landing a deal with the investor Mark Cuban. Since the airing of the show, EXO like other start-ups across the U.S and Canada are gaining traction selling insect flour as a direct alternative to grain flour to bake cookies, bread, pancakes etc. and whole roasted critters for the more adventurous. Nearly 50 new concept restaurants have also emerged across North America serving menus abundant in insect based dishes. Internationally acclaimed food consultants Baum and Whiteman forecasted in 2014 insect flour would be among the hottest trends to come in the food industry for 2015 and beyond, along with other alternative protein sources such as oysters and bizarre vegetables. The success of entomophagy start-ups proves the consultants forecasted correctly. Today, there are hundreds of new entrants to the market hoping to get their share of the latest food craze.

Chapul, the first a company to sell cricket protein bars earned nearly \$400,000 from online and specialty store sales in 2013, while the next runner up EXO is estimated to have raised over \$1.2 Million since their launch in late 2013. Majority of companies in this market sell flour, protein bars, or cookies.



Image 2 Cricket flour products currently available on the market

## PET MARKET

There are features which make pet food different from other consumer markets; the prime being that the end user is not the purchasing decision maker. Further competition comes from products which have no consumer value (eg. human's leftovers). There is also a fashion element; breeds of cat and dog can vary in popularity on a frequent basis.

The pet food market is known for its high competition, but also for its high variety of products and has an estimated global value of around USD 29.9 Billion in 2015 (Markets, 2015) . In Canada, pawrents (pet parents) are spending an estimated \$6.5 billion a year on their furry little friends, according to Pet Industry Joint Advisory Council of Canada and is expected to rise to \$8.3 billion by 2018 (Hanes, 2013). The pet products industry has grown steadily by 4% in the last 5 years, while "pawrentship" has remained more or less the same (Brough, 2013). The greatest contributors to the increasing spend are premium products and services. The increasing demand for premium pet products and services has been brought on by a change in attitudes and sentiments towards pets, as more and more families consider their furry friends to be part of the nuclear family, the more pawrents are willing to spend. This increased personification of pets has driven this increasing market of pawrents to seek human grade food they feel good about feeding their furry little ones.

Within the dog and cat food market, we can distinguish between dry food, wet food, snacks and treats and beverages. Dogs take the biggest share pet food sold globally (Ayton, 2014). Although cats consume less as they tend to have smaller stomachs than dogs, they represent a higher per gram selling price than dogs (Ayton, 2014).

In this industry there are a vast number of players of varying sizes. Large corporations and small family businesses compete in this segment, distributing their pet food and treats in a multitude of channels including retail locations (mass grocery and specialty stores), e-commerce, and veterinarian clinics. In Canada, mass grocery stores represent the most sales volume (International Markets Bureau, 2012). According to a Canadian Indicator report on Pet Food trends in Canada, this is due to the combination of competitive pricing and convenience (International Markets Bureau, 2012). When quality is an overriding factor over price and convenience, pawrents seek out specialty pet stores for premium and high quality products. In Canada Global Pet Foods, PetSmart and Pet Valu dominate the specialty pet store market, with thousands of conveniently located retail locations across the nation (International Markets Bureau, 2012). It is not uncommon to find a grocery retailer such as Walmart or Loblaws adjacent to a PetSmart, for example. Smaller "mom and pop" shops offer a smaller selection of premium products. These smaller retailers typically carry locally sourced products and are staffed with knowledgeable staff offering tailored service. Veterinarian clinics sell veterinary exclusive pet food products for specific health benefits.

In the U.S, a proxy market for Canada, e-commerce sales of pet food increased by 38% in 2014 (PR Newswire, 2015). The shift to online has resulted in 1 in every 3 purchases were made online (PR Newswire, 2015). Online pet product retailers target pawrents with specific requirements or those who simply demand the highest quality products for their furry little ones. The shift of a third of the market to digital has opened doors for small, niche players

looking to enter the market. By eliminating the brick and mortar retailer new entrants can effectively market and sell their products direct to purchasers, maintaining greater margins allowing small players to compete with the existing dominant players. Prior to e-commerce, a small player would not survive the retail fees, margin erosion, and competition from large players with economies of scale advantages no new entrant could compete with. Dominant players are now facing competition from the most unlikely of places; niche players offering organic, high quality, locally sourced food options for the most discerning pawrents.

In Canada, the largest manufactures of petfood are Mars and Nestle Purina PetCare Co, according to Euromonitor International (Euromonitor, 2015). Smaller niche players have in the most recent years stolen market share from these mega players. In the last few years, some niche brands have been acquired by the conglomerates, as was the case with Vitakraft, Zuke's and Natural Balance. Iams (P&G) suffered a loss of market share in 2014 while niche manufacturers like FreshPet planned their IPO that same year (Euromonitor, 2014).

According to Euromonitor, the premium pet (cats and dogs) in Europe increased in importance (sales volume) from 10% to 25% (Euromonitor, 2014). The trend towards grain free for humans and pets may be attributed to this growth, as the highest growth brands claim Grain-Free as their key value proposition. Furthermore, rather obscure brands such as Green Dog (out of the UK), with dog food based with caviar and lobster have reached mainstream status (Euromonitor, 2014). Eco-Friendly products in pet care and food are also gaining traction and visibility, such as Coco Cat (Italy).

Naturally, the markets are more aware of the need of caring about their consumer pet health. The products that currently exist in the market distinguish the size of the animal, their level of activity, but also the ingredients input in the product. It is also the team's observation pets are increasingly being 'humanized' by their owners, whereby the lines are blurred between a pet and a child/family member.

## 6. Competition

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### **Direct and Indirect Competition – Products on the Market**

There are currently no mass producers of insect based ready-to-eat products. The market is composed of start-ups in incubator, growth, and performance stages. No competitor has been around for longer than 3 years.

The following are the top insect based products with the claim of lean source of sustainable protein:

Chapul (<http://www.chapul.com/>) – edible insect based energy bars. Bars are sold online and in select health food stores across the U.S. Made a deal on Shark Tank reality T.V show with Mark Cuban.

Bitty Foods (<http://bittyfoods.com/>) – cricket flour and cricket flour cookies. Products sold internationally over the internet and 7 all natural food stores across Canada and the U.S. Founder guest speaker on TedTalks and Wired2015. 1 package of 12 cookies sells for \$9.99 US (\$.83 per cookie).

EXO Cricket Protein Bars (<https://www.exoprotein.com/>) – Crowdfunded start-up with home base in the U.S. Product line of cricket flour protein bars sold online and in select health food stores. 12 bars sell for \$42 US (\$3.5 per bar).

Six Foods (<http://www.sixfoods.com/>) – start-up selling cricket based tortilla chips Chirps Chips. 5oz bag for \$16 (\$3.2 per oz)

BugGrub (<http://www.eatgrub.co.uk/>) – edible insect packs sold in the UK. Full sized insects.

Hopper Foods (<http://www.hopperatx.com/>) – kickstarter funded. Selling cricket based granola, based in Austin Texas. 9oz for \$10 (\$1.1 per oz)

Crickers (<http://www.crickerscrackers.com/>) – cricket based crunchy crackers. 35 crackers for \$6 (\$.17 per cracker).

Next Millennium Farms (<http://www.nextmillenniumfarms.com/>) – insect industrial sized farm. Sell wholesale cricket flour and powder, and white-label cricket cookies and roasted crickets. Based out of Ontario, Canada.

### Hopping Paws

In 2015 three new start-ups have come to market with pet treats made with insect flour and pose direct competition to *Hopping Paws*.

EntoBento (<http://entobento.myshopify.com/>) – dog treats made with a combination of meat and cricket powder. Based in California, U.S, this startup sells their treats on their e-commerce website.

Chloe`s Treats (<http://www.chloestreats.com/>) – all natural cricket protein treats. Grain and soy free. 4oz for \$9.99 U.S (\$2.5 per oz). Sold exclusively online

Bug Bites (<https://www.kickstarter.com/projects/bugbites/bugbites-dog-treats-made-from-cricket-flour>) – new (October 2015) start-up funded on kickstarter, based out of Montreal, Ontario. Protein rich, sold exclusively online for now. 80grams for \$9.99 CAD (\$0.125 per gram or \$3.45 per oz)

Over and above the direct competition from like products, naturally *Hopping Paws* is in competition with other natural, grain free premium treats. Grain free has gained momentum in the last few years, as more pawrents seek to feed their pets with better, healthier foods. The following are major brands with strong distribution throughout North America

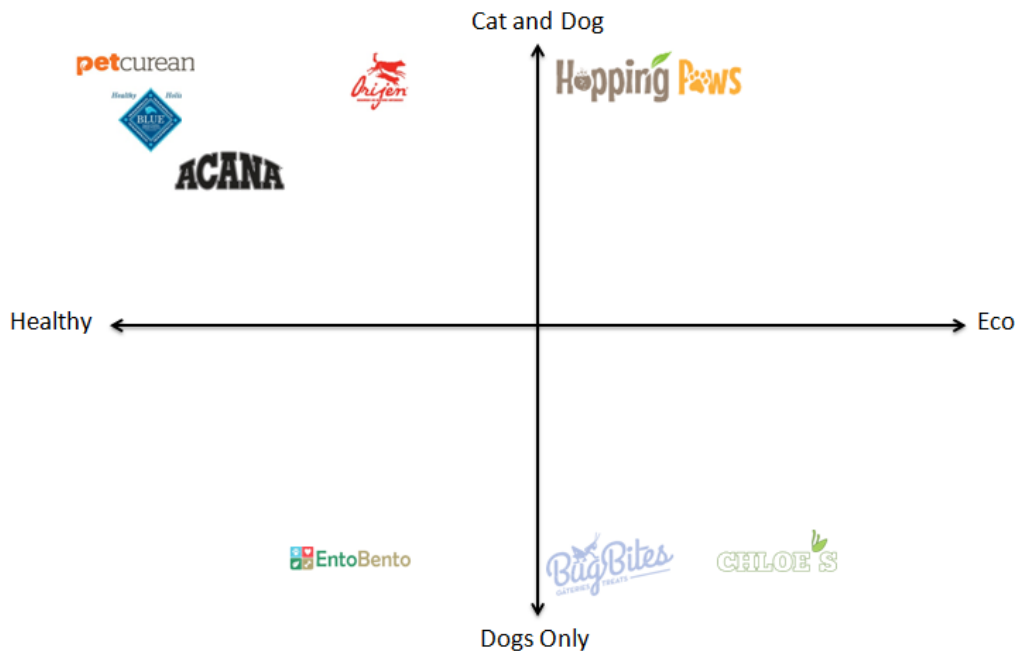
Petcurean (<http://www.petcurean.com/>) – fresh pet food and treats sold in grocery retailers. Merchandised in newly installed fridges in the pet food aisle. Meat based feed options. Premium priced with an average of 30% higher than competing brands.

Blue Buffalo (<http://bluebuffalo.com/>) -premium cat and dog food and treats, sold in specialty pet stores. High quality ingredients such as blueberries and other fruits blended

Orijen (<http://www.orijen.ca/>) - freeze dried premium food and treats locally sourced in Canada. Sold in select specialty pet stores across Canada and online.

Acana (<http://acana.com/>) – biologically appropriate locally sourced, fresh ingredients. Distribution across North America in specialty pet stores and online.

## Positioning Matrix:



## 7. Marketing Strategy

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*Hopping Paws* lends itself well to a niche digital marketing strategy. Our efforts are very specialized and targeted. We aim to zero in on strategically selected online platforms that have a high concentration of our target customer for stronger conversions.

Our first product launch, target market will be reached primarily online (SEO, PPC, social media platforms) and selective distribution channels (retailers, veterinarians and clinics). Communication and brand image will remain consistent across all mediums, ensuring a 360 degree marketing strategy deployment.

### 7.1- Market Selection and Approach

With the main team member residing in North America, it will be the main geographical area of focus. However, as we gain traction and sell internationally, we will look to increase our international efforts.

For *Hopping Paws*, our criteria for market selection were based on pawrentship strength and growth, value placed on pet's diet and overall health as well as willingness to spend on pets. The markets which exhibited these traits were Canada, USA, Australia, Germany, France, and Brazil. Each market represents a unique set of barriers, challenges, and opportunities. Since each country varies greatly in their culture, the team will need to test the minimal viable product in each respective country, as success in one market does not guarantee success in other.

For the first year, we will be open to selling to all geographical markets, however will focus marketing dollars on North America exclusively for year 1 of sales. As we gain traction and

recognition in the industry, we hope to be balance our marketing efforts in specialized pet stores and veterinarian clinics where we achieve listings.

## 7.2 – Marketing Plan

### Target Customers

Our customers are primarily

- Pet loving pawrents
- Health conscious
- Environmentally conscious
- Early adopters
- 20-45 years of age
- Comfortable with online shopping

Health conscious pawrents looking to supplement their cats and/or dogs diets with healthy and sustainable treats that make them feel good about their choice. These pawrents share our philosophy that our choices today shape our future of tomorrow, hence are willing to pay a premium for a sustainable alternative to their current mass produced pet treat choices. They are early adopters of product and technologies that share their beliefs and values. Furthermore, these pawrents place a high value on hypoallergenic (gluten free, grain free), all natural and lean protein options for themselves and subsequently, for their pets. In regards to purchasing behavior, these pawrents are open to shopping online, and are highly receptive to new products. They pay regular check up visits at their veterinarian and place preference on all natural remedies should their pet have an ailment.

### Unique Selling Proposition

*Hopping Paws* offers cat and dog owners an all natural, high in lean protein, hypoallergenic, and sustainable treat made with no additives (meat or sugar) or artificial flavors.

### Distribution Plan

- Primary Channels: Direct selling between *Hopping Paws* and customer

Online: E-commerce website lends itself well to a global distribution strategy, and allows for higher margins, profits and cash flows. Our e-commerce website powered by Shopify, [www.hoppingpaws.com](http://www.hoppingpaws.com) will be both transacting website an a medium for customer data collection and engagement. Products will also be sold on amazon.ca, and are subject to a 15% referral fee.

- Secondary Channels: Selling through intermediaries

Pet Shops: a retail starter pack will be sold online for premium pet stores and veterinarians looking to stock our products in their stores/clinics. This starter pack will be in the form of a store friendly display (counter or floor stand) and carry 6 -12 units of our main recipe. Wholesale pricing will apply.

BarkBox: subscription based online program sending a box of pet treats, food, and toys on a monthly basis to subscribed pet lovers. With over 2 million subscribers in North America, Barkbox presents a unique opportunity to raise sales and awareness of *Hopping Paws* effectively and efficiently with little cost.



Image 3 BarkBox image

### **Our Offers**

For our consumer base to grow more rapidly, we will engage in seasonal promotional offers via our e-commerce website. National Pet Day and Christmas are retailing weeks a discounted or bundled offer will be made.

### **Pricing**

Premium pricing, 20-40% above mass brands. Our prices are as follows:

- 100gram Biscuit Bag : \$9.99 CAD + tax
- Retail Starter Kit: 12 units of 100g bags at \$96 + tax

### **Marketing Materials**

Our e-commerce website, business cards, display merchandisers will be designed by a low cost, high quality designer [www.fiverr.com](http://www.fiverr.com). This will ensure we are respecting budgetary constraints, but also maintaining a consistent image and communication across all collateral. Content will be written by the team.

### **Promotions Strategy**

Will reach new customers through online advertising, content marketing, event marketing (food expos such as Wired2015), and guerilla marketing. Online advertising will consist mainly of paid online advertising (PPC) and organic advertising (SEO) through search engines and social media platforms. Content marketing will consist of daily posts on Facebook and Twitter, promoted by the team members and eventually the community/client base. Guerilla marketing will involve promotional sampling in the first year of selling on the major streets of cities such as Toronto, Vancouver, Calgary, New York and select European cities by a branded street team.

### **Digital Marketing Strategy**

Leveraging Google Adwords Keyword search tool, we have identified over 1 million monthly search queries for grain-free pet food and treats. This represents the highest searched keyword



of any of our unique selling propositions, and will therefore be the keyword used for Google Ads with the intention of increasing our quality traffic to our website, resulting in higher conversions. Facebook represents a prospective 35,000,000 pool of customers to which we may advertise the *Hopping Paws* page. For Google Adwords and Facebook Advertising our target client acquisition cost has been determined to be 5 dollars for the first year, and will decrease by 20% for every year thereafter as our awareness and repeat purchases increases.

SEO: daily management of keywords and content on website to ensure we show up more prominently for organic searches to be managed by Marketing team.

Paid Online Advertising: PPC and Facebook Advertising with call to actions to increase conversions. We will monitor which cities/regions are most receptive and engage in GeoTargetted advertising should it makes sense to do so (we can GeoTarget to specific cosmopolitan cities, area, and postal codes in North America).

Social Media Strategy: engage with our clients and prospective clients through posts, sharing stories, photos and relevant content. Organic [www.reddit.com](http://www.reddit.com) and youtube.com videos posts will be engaging and captivating, thereby increasing virality of our brand story, and subsequently our e-commerce website.

## **Operations**

### **Locations & Facilities**

For 2016 production will take place in a home kitchen to save on cost. Kitchen size of 75 sq ft will allow for the required units projected to sell in 2016. Labeling and shipping and administrative tasks will be conducted out of same.

In 2017, if unit sales move as projected, a larger industrial kitchen will be rented on an as needed basis for mass production of treats. Administrative tasks are expected to still be conducted out of a home office.

### **Technology**

Shopify was selected as the e-commerce platform. The platform is easy to use, secure, offers accessible monthly pricing, and is integrated with inventory management software. Shopify is SEO and PPC friendly, offering customizable title and meta tags, as well as SEO friendly url's. Additionally, setting up a new Google AdWords account is simplified with the platform.

The transaction cost (outside of credit card transaction fees) is 2.9% + 30c per transaction under the basic plan.

### **Equipment & Tools**

All baking tools required for the production of the treats are already in possession. These include all baking sheets, mixers, large bowls, cookie cutters, cake spoons and other ancillaries. It is expected these tools will need replenishing at year end.

As production increases and we move to an industrial kitchen, additional baking equipment and tools will be necessary to speed up the process as we automate some of steps such as cookie cutting and mixing.

## 8. Financials

Product sales generate the primary revenue stream for *Hopping Paws*. As such, our projections are based on product sales forecast.

Production supplies will be purchased on a as needed basis to keep waste to a minimum. Since production times are relatively short, this is a viable option.

Should sales exceed projections, we will increase our supply order to meet the demand. If revenues do not allow for the increased inventory purchases, the team will look to renegotiate terms with suppliers and for external financing (business line of credit or loan).

### 8.1 -Key Assumptions

An initial investment of \$40,000 will be required. This money will be raised through personal investment, crowd funding on Kickstarter, and other Government of Canada grants for innovations and small businesses.

We have assumed we will reach 75% of our \$20,000 goal on kickstarter; \$15,000. The remaining funds will be a raised through a culmination of grants from the government and personal/family investment. Should there be additional funds required, a bank loan or line of credit will be taken at an interest rate of 6.9%.

Projections have not been adjusted for inflation.

### 8.2 - Financial Plan

In year 1 our earnings before interest and tax will be negative as we spend heavily on digital marketing to build awareness and convert new buyers. We will turn a small profit in year 3, followed by a healthy year 4 and 5 as we foster a loyal consumer based, thereby reducing our cost per acquisition of a new customer.

Summary Income Data	2016	2017	2018	2019	2020
Gross Profit (Sales - Cost of Goods Sold)	48,125.41	92,649.84	181,944.38	394,238.12	934,092.44
Other Costs	54,625.08	95,529.97	178,291.66	266,135.72	449,113.87
<b>EBITDA</b>	<b>-6,499.68</b>	<b>-2,880.13</b>	<b>3,652.72</b>	<b>128,102.40</b>	<b>484,978.57</b>
Depreciation	0.00	0.00	0.00	0.00	0.00
<b>Pretax profit</b>	<b>-6,499.68</b>	<b>-2,880.13</b>	<b>3,652.72</b>	<b>128,102.40</b>	<b>484,978.57</b>
Taxable profit	0.00	0.00	0.00	122,375.31	484,978.57
Tax (13%)	0.00	0.00	0.00	15,908.79	63,047.21
<b>Aftertax profit</b>	<b>-6,499.68</b>	<b>-2,880.13</b>	<b>3,652.72</b>	<b>112,193.61</b>	<b>421,931.36</b>

### 8.3- Revenues

The team assumed sales will kick off with 250 units in the first month. For the first two months, a 10% growth rate was assumed, followed by a 20% growth on June-Aug due to increased exposure at summer expos, falling back to 10% September to end of year 2016. After year one once we establish a loyal consumer base new recipes and formulas will be introduced.

Sales		2016	2017	2018	2019	2020
Jan	#	0				
Feb	#	0				
Mar	#	250				
Apr	#	275				
May	#	303				
Jun	#	363				
Jul	#	436				
Aug	#	523				
Sep	#	575				
Oct	#	632				
Nov	#	696				
Dec	#	765				
Year Total		4,817				
Growth Factor	%		75%	80%	100%	120%
Year Total	#		8,430	15,175	30,349	66,769
Units	#	4,817	8,430	15,175	30,349	66,769
Avg. price per unit	\$/Unit	9.99	10.99	11.99	12.99	13.99
<b>Total</b>	<b>CAD</b>	<b>48,125.41</b>	<b>92,649.84</b>	<b>181,944.38</b>	<b>394,238.12</b>	<b>934,092.44</b>

### 8.4 –Expenses

Distribution costs in year 1 are relatively high as we pay referral, transaction, and shipping fees. As sales volume increases, our average distribution cost will decrease.

A sales/account manager is anticipated to be hired in year 3 as retailer and veterinarian clinics list our products and require an account manager/executive to maintain the day-to-day relationship, ensuring adequate stock levels and timely delivery amongst other account management duties. Salary of account manager is expected to rise by an average of \$2,000 per annum should performance merit the salary increase.

Costs	2016	2017	2018	2019	2020
<b>Distribution Costs</b>	<b>9,625.08</b>	<b>18,529.97</b>	<b>27,291.66</b>	<b>59,135.72</b>	<b>140,113.87</b>
% of revenues paid	20%	20%	15%	15%	15%

<b>Facility Rent</b>	<b>0.00</b>	<b>6,000.00</b>	<b>8,000.00</b>	<b>10,000.00</b>	<b>15,000.00</b>
<b>Marketing</b>	<b>25,000.00</b>	<b>30,000.00</b>	<b>50,000.00</b>	<b>60,000.00</b>	<b>70,000.00</b>
<b>Production Supplies</b>	<b>20,000.00</b>	<b>31,000.00</b>	<b>43,000.00</b>	<b>85,000.00</b>	<b>170,000.00</b>
<b>Salaries</b>	<b>0.00</b>	<b>10,000.00</b>	<b>50,000.00</b>	<b>52,000.00</b>	<b>54,000.00</b>
Team	0.00	0.00	0.00	0.00	0.00
Sales Team	0.00	10,000.00	35,000.00	36,000.00	37,000.00
<b>Total</b>	<b>54,625.08</b>	<b>95,529.97</b>	<b>178,291.66</b>	<b>266,135.72</b>	<b>449,113.87</b>

## 8.5- Cash-Flow / Break Even Analysis

We anticipate to break even in our 3<sup>rd</sup> year in business.

From our cumulative negative cash flows we know we will require \$57,800 investment from investors ( not inclusive of CAPEX of \$40,000) to support the business until 2019 when we run on a positive cash flow. The NPV of the project, discounted 5 years is positive.

	2016	2017	2018	2019	2020
<b>Cash Flow From Operations</b>	<b>-6,499.68</b>	<b>-2,880.13</b>	<b>3,652.72</b>	<b>112,193.61</b>	<b>421,931.36</b>
Working capital	28,052.25	38,604.10	75,810.16	164,265.88	389,205.18
<b>Change in Working Capital</b>	<b>28,052.25</b>	<b>10,551.85</b>	<b>37,206.06</b>	<b>88,455.72</b>	<b>224,939.30</b>
<b>Investment (CAPEX)</b>	<b>40,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Free Cash Flow</b>	<b>-74,551.93</b>	<b>-13,431.98</b>	<b>-33,553.34</b>	<b>23,737.88</b>	<b>196,992.06</b>

## Valuation

Discount rate/ Opportunity cost of capital

15.00%

<b>NPV (Net Present Value)</b>	CAD	<b>14,465.95</b>
Using NPV manual formula	CAD	14,465.95
<b>IRR (Internal Rate of Return)</b>		<b>19.90%</b>

<b>Payback *</b>	Years	<b>3 Years</b>
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## 8.6- Financing Required

Summing up the negative cumulated negative cash flows, we will require a total of \$97,800 investment/financing. This investment will cover start-up costs including initial recipe development, branding, website and content marketing, paid advertising, packaging and initial production of product. Additionally, we will require cash flow to purchase supplies on a as needed basis.

## 9. Team

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### 9.1- Team

#### *Partner I – (CEO)*

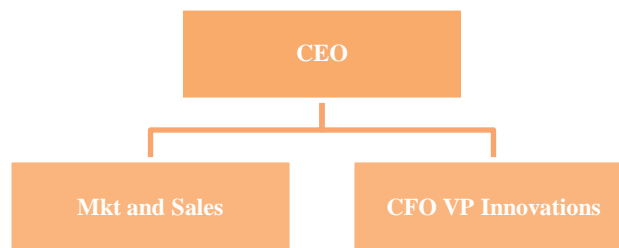
- President of the executive board is responsible for the strategic planning and ensuring the fulfilment of the company's vision; is supported by Mkt and COO in the partnership establishments.
- Responsible for managing operations, conducting an efficient control of the business with an extra task of regularly reporting to the CEO.

#### *Partner II – (Mkt and Sales)*

- Coordinate marketing and selling activities in the company through the development of projects for the product, proposing internal and external sales actions, merchandising and advertising; has the capability to establish new partnerships for the company.

#### *Partner III - (CFO and VP Innovation)*

- Responsible for risk administration and company's financial planning; has autonomy to manage company funds and attract investors or partners to ensure initial investment.
- Responsible for finding new recipes or new opportunities for business' innovation; keeps track of all new developments and trends in the sector.



**Figure 1** Frisky Foods Organizational Structure

### 9.2- Advisory Board

The team has approached key individuals in the pet industry that are knowledgeable of the industry and or small-business counsellors.

- Pet's health and nutrition
  - Veterinarians (diet specialists): Ana Regalado who consults with the pet industry to ensure they meet the dietary needs for cats and dogs;
- Pet organizations
  - Welfare: Nuno Salgado, from Dog Walking Cascais, dog walking, pet sitting and transportation services (veterinarians, groomers);
  - Social organization: Filipe Portela, who runs a *Laika* a social project for dogs in Portugal
- Small business counsellor

- Project Financing: Paola Abate and Jason Zan, Canadian venture capitalists who have financed small businesses in Canada

In speaking with our advisory board, we received advice as to product specifications (recipe, nutritional values, market trends) and enthusiasm from these professionals. The board is excited to be advising such an exciting project, and have asked to be kept abreast of the development and are at our disposal for any concerns.

## **Wrap Up**

*Hopping Paws* will be a game changer in the pet food industry. We will be the international reference for healthy and sustainable pet food solutions. With our passion and enthusiasm for pets and pet health, we hope to grow this niche market into mainstream market.

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