

# A Sample Feasibility Study<sup>1</sup>

## PET ÉLAN

### I. DESCRIPTION OF YOUR BUSINESS

In recent years, there has been an increase in the number of households that have pets, especially dogs and cats. Further, there is emerging a steadily growing group of pet owners that is willing to purchase upscale, unique products for these important members of their family. Pet Élan is an upscale boutique for these discriminating pet owners. Pet Élan will offer high-quality pet products to discerning individuals who wish their pets to enjoy a healthy, fun, and elegant lifestyle while being pampered. By carefully selecting luxurious accessories made with superior materials, Pet Élan will provide an elite product line that celebrates the uniqueness of each animal's personality.

### II. THE PRODUCT/SERVICE

#### Unique Features: Benefits

Pet Élan will offer products that promote a healthy, fun, and elegant lifestyle for dogs and cats. Our products are grouped into three primary categories: dietary products, playtime products, and accessories.

#### Dietary Products

Pet Élan will offer all-natural pet food and treats, full of essential vitamins and nutrients to promote a healthy diet. We will carry two to three top-selling brands of organic pet food from the industry leaders such as Newman's Own Organics,<sup>2</sup> Natura Pet Products,<sup>3</sup> and Organix.<sup>4</sup> We will also feature snacks and treats from Old Mother Hubbard,<sup>5</sup> Three Dog Bakery,<sup>6</sup> Flint River Ranch,<sup>7</sup> and Howling Hound Bakery.<sup>8</sup>

#### Playtime Products

Playing with one's pet is also a key ingredient for a pet's healthy lifestyle. Pet Élan will offer products that enable owners and their pets to play in style. For dogs, we will offer toys for chewing, retrieving, tugging, and chasing. For cats, we will offer toys stuffed with premium grade catnip and other toys to chase and fetch. We will offer exclusive toy brands such as Happy Dog Toys,<sup>9</sup> KONG Toys,<sup>10</sup> and Fat Cat, Inc.<sup>11</sup>

#### Accessories

Pet Élan will make walking or traveling with a dog or cat an extension of the owner's unique style with leashes, collars, and travel bags that make a statement. We will also offer pet home accessories including food and water bowls, pet furniture and pillows, and pet clothing made from fine fabrics such as silk, suede, and faux fur.

Unlike other pet stores, Pet Élan will target clientele who demand top quality in pet couture. To fulfill this demand, Pet Élan will order pet clothing and accessories from the trendiest brands such as Woof: The Small Dog Company,<sup>12</sup> Dogz Togz,<sup>13</sup> and Ruff Ruff and Meow.<sup>14</sup>

#### Unique Features: Limitations

One of the largest threats to the luxury pet accessory industry is the presence of online stores. Pet Élan will compete with these online retailers, as well as other local pet stores. Consumers have the opportunity to comparison shop on the Internet, so Pet Élan will need to carefully determine the pricing strategy for each line of accessories to remain competitive. However, it is likely that pet owners will want to sample and view unique products we carry and will be willing to come to our store for its one-of-a-kind shopping experience—and bring their pets with them.

The rise of larger chain pet stores, like PETCO and PETSMART, has made it much easier for pet owners to satisfy all their pet needs in one place. These stores are now offering pet apparel, pet furniture, and natural pet food. Pet Élan will offer a higher quality, but more expensive, product mix that may overlap with these stores in some areas. To counter this, Pet Élan will showcase the products we carry that cannot be obtained at the larger retailers.

#### Competitive Advantage

Pet Élan's competitive advantage is quality and the ability to provide customers with the feeling that pampering their pets is an integral part of a healthy, fun, and contemporary lifestyle. Pet Élan must establish this reputation through *high quality products* and *selective advertising* and through *exceptional customer service*.

## Stage of Development

Pet Élan is currently in the idea stage. This feasibility study is the first step in exploring the market potential for a luxury pet store. The current time frame for introducing Pet Élan is one year. Pet Élan has set the following milestones to accomplish prior to launch:

- Complete feasibility study: month 1.
- Begin and complete business plan: months 2–4.
- Pursue start-up capital: months 5–6.
- Receive start-up capital: month 7.
- Identify store location and secure appropriate permits: months 7–8.
- Plan and order inventory: month 9.
- Receive inventory and set up store: months 10–11.
- Store launch: month 12.

## Legal Restrictions and Rights

Pet Élan will operate as a Sub-Chapter S Corporation to ensure limited personal liability and for tax advantages. Pet Élan will have one owner, who will have day-to-day responsibility for running the business. The corporation will receive all income generated by the business and pay the owner a salary and/or reinvest in the store. A board of directors will be appointed by the owner.

## Insurance Requirements

Although business insurance may not be *required*, Pet Élan will purchase insurance to protect the corporation's assets and to benefit employees:

- Property insurance will cover the business in the event of damage or loss to the business property. The insurance will need to cover the store location's fixtures, cash registers/computers and any other equipment, any store furniture such as display tables and shelving, as well as inventory and supplies.
- Liability insurance will protect the business against the unfortunate situation of a customer or employee being injured on the property and suing.<sup>15</sup>

As an employer, Pet Élan will also need to secure additional insurance for:

- **Workers' compensation insurance:** The Workers' Compensation and Workers' Occupational Diseases Acts require

employers to provide insurance for accidental deaths, injuries, and occupational diseases of employees arising in the course of employment. Temporary workers who normally do not receive company benefits are still provided workers' compensation. The Illinois Workers' Compensation Act requires all employers to post a notice in the workplace that explains workers' rights and lists the name and address of the workers' compensation carrier.

- **Unemployment insurance:** Since Pet Élan will most likely employ one or more workers in each of 20 or more calendar weeks, the business will be required to make unemployment insurance contributions to the Illinois Department of Employment Security.<sup>16</sup>

## Trends Related to the Product or Service

Several studies show that pet ownership is at an all-time high and that people are taking better care of their pets and spending more money on them than previously. Surveys conducted every two years by the American Pet Products Manufacturers Association, Inc. (APPMA) show that 63.4 million households have a pet, compared to 52.6 million households a decade ago.<sup>17</sup> Pet Élan will cater to the increasing number of customers that consider their pets a full-fledged member of the family.

### *Trends in Customer Demographics*

The demographics of the typical customers of the pet industry have been shifting over recent years from married with children, to younger, cohabitating couples who are waiting longer for marriage, as well as married baby boomers looking to fill their empty nests, and single households composed of divorcees and seniors looking for companionship. In fact, only one-third of all pet owners today are married with children.<sup>18</sup>

### *Trends in Pet Products*

The pet products industry is booming. The upscale pet services industry was named as a hot market by *Entrepreneur* magazine in its annual prediction of the hottest business ideas for both 2004 and 2005.<sup>19</sup> The APPMA also cites luxury, natural, and hygiene products as the top three amongst its top ten trends in pet gifts.<sup>20</sup> In fact, the APPMA further notes that high-tech and high-end products such as luxury doghouses are showing the most growth.<sup>21</sup>

Similar to the human food industry, pet food trends are moving toward more organic and natural products. The Organic Trade Association reported that organic pet food sales are up by 63 percent from last year and are growing at almost three times the rate of human organic food sales.<sup>22</sup>

### III. THE INDUSTRY AND MARKET

#### Current Industry

Americans spent a total of \$34.4 billion on pet food, care, and supplies in 2004, and the industry is estimated to increase to \$35.9 billion in 2005. Sixty-five percent of this estimated total was spent on food and supplies alone (*supplies also included medicine*).<sup>23</sup>

This growing industry is made up of a diverse customer base. Although families have been the traditional focal point of pet-related businesses, only one-third of all pet owners today are married with children.<sup>24</sup> Pet Élan plans to not only target this traditional market, but also to reach out to newer niche markets such as seniors, young unmarried, and middle-aged couples who are married but have no children.

Thirty-nine percent of Americans between the ages of 55 and 64 own a pet.<sup>25</sup> One of the largest percentages of pet owners is 18- to 34-year-old married Americans without children (52 percent). Of this group, 36 percent own a dog and 26 percent own a cat. In addition, this group is 33 percent more likely than the average American to own more than one pet.<sup>26</sup> Finally, 52 percent of married 35- and 54-year-olds without children have a pet and 31 percent have two or more.

#### Market Potential for This Industry

One out of three U.S. households owns a dog or cat,<sup>27</sup> and over 80 percent of pet owners purchased at least one accessory for their pet during the past year.<sup>28</sup> In 2003, MarketResearch.com predicted that the pet supplies industry would be an \$8 billion market by 2007.<sup>29</sup> Business Communications Co. projects that the pet services industry as a whole (including pet food, pet services, and pet supplies) will grow to \$36.3 billion by 2008.<sup>30</sup>

Despite this promising growth and if the economy continues to contract, customers may have less disposable income. The percentage they intended to spend on their cat or dog may be diverted for necessity purchases. However,

according to pet industry analyst Julia Dvorko, “Owners tend to pamper their pets even when they have to cut back on [household] spending. After all, even during economic downturns, people give gifts to family members and buy special treats for their children.”<sup>31</sup>

#### The Competition

Pet Élan plans to open in the 60657 zip code area of Chicago, Illinois, locally known as Lakeview. There are 22 pet-related businesses in this zip code: nine are veterinarians, three are pet sitting/walking services, three are pet grooming services, three large chain pet stores (one PETsMart, two PETCO), two combination pet grooming/accessories stores, a combination boarding/training store, a pet adoption/accessories store, and one boutique called “Sam & Willy’s: A Bow Meow Boutique.”

While not competing directly in the 60657 area code market, national companies including Paul Mitchell, Omaha Steaks, Origins, Harley Davidson, and Old Navy are now offering lines of pet products ranging from dog shampoo, pet attire, and name-brand toys to gourmet treats and food.<sup>32</sup> Although these companies have recognizable brand identities, they do not specialize in the pet retail market. They do not carry a full line of pet products as Pet Élan will, and they cater more to impulse buyers rather than discerning pet owners.

The following table compares the strengths and weaknesses of a subset of the competitor pet stores in the 60657 area code, as well as online retailers, and highlights the differentiating features of Pet Élan.

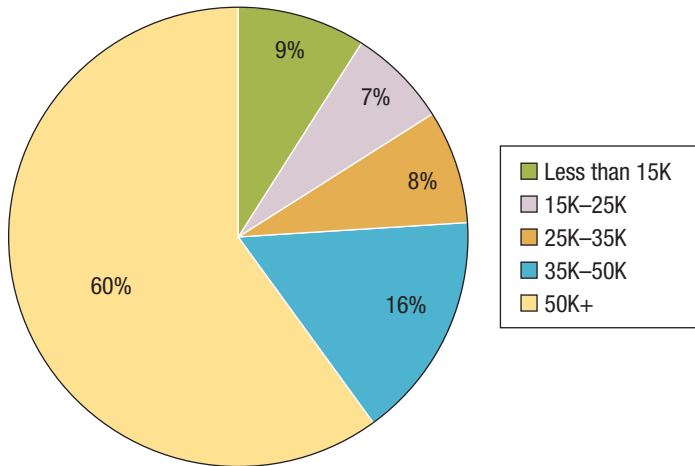
#### Customers

According to the APPMA, 62 percent of households in the United States own a pet, and 46 percent of households own more than one pet. Also, as mentioned earlier, dogs or cats are found in at least one out of three households (in the United States).<sup>33</sup> Data collected on dog owners show that they are likely to be married high school graduates who own their homes. As income increases, the percentage of households with a dog increases as well.<sup>34</sup> In fact, 75 percent of the households with dogs have a combined income of greater than \$35,000. This is consistent with the specific market profile of the clientele Pet Élan plans to target in the 60657 zip code.

## Competitive Analysis of Pet Stores

Competitor Pet Stores in Zip Code	Strengths	Weaknesses	Differentiating Features of Pet Élan
Area pet grooming/ accessories stores	<ul style="list-style-type: none"> <li>Customers whose pets are being groomed can browse while they wait for their pets</li> </ul>	<ul style="list-style-type: none"> <li>Limited selection</li> <li>Pet grooming is core competency, not selling accessories</li> </ul>	<ul style="list-style-type: none"> <li>Core competency and primary focus of store are on selecting and selling luxury pet products and accessories</li> </ul>
PETCO <sup>35</sup>	<ul style="list-style-type: none"> <li>Well-established brand identity</li> <li>All-in-one brick-and-mortar stores</li> <li>Wide selection of basic pet necessities</li> <li>Online shopping</li> </ul>	<ul style="list-style-type: none"> <li>Does not sell pet food because of high shipping costs</li> <li>Limited number of brands in pet clothing and accessories</li> <li>Inexperienced sales associates</li> </ul>	<ul style="list-style-type: none"> <li>Caters to discerning pet and owner tastes by providing high-end pet products and accessories</li> <li>Store owner builds personal relationships with customers based on knowledgeable service that focuses on their individual preferences and pet's personality</li> </ul>
PETsMart <sup>36</sup>	<ul style="list-style-type: none"> <li>Well-established brand identity</li> <li>All-in-one brick-and-mortar stores</li> <li>Wide selection of basic pet necessities</li> <li>Online shopping</li> </ul>	<ul style="list-style-type: none"> <li>Sells pet food online, but consumer faces high shipping costs</li> <li>More pet clothing and accessories brands than PETCO, but not high-end brands</li> <li>Inexperienced sales associates</li> </ul>	<ul style="list-style-type: none"> <li>Caters to discerning pet and owner tastes by providing high-end pet products and accessories</li> <li>Store owner builds personal relationships with customers based on knowledgeable service that focuses on their individual preferences and pet's personality</li> </ul>
Omaha Steaks <sup>37</sup>	<ul style="list-style-type: none"> <li>Customers may add on pet treats as an impulse when shopping for themselves or for gifts</li> </ul>	<ul style="list-style-type: none"> <li>Limited selection—only offers one variety of pet treats</li> </ul>	<ul style="list-style-type: none"> <li>Pet Élan will offer a wider variety of pet treats (all organic)</li> </ul>
Old Navy/Harley Davidson <sup>38</sup>	<ul style="list-style-type: none"> <li>Recognizable brand</li> <li>Can target impulse buyers who are making other purchases</li> </ul>	<ul style="list-style-type: none"> <li>Products are not currently available on Web site</li> <li>Very specific target audiences</li> </ul>	<ul style="list-style-type: none"> <li>Pet Élan will target customers that look for the latest pet couture by focusing on brands made exclusively for pets</li> </ul>
Sam & Willy's: A Bow Meow Boutique <sup>39</sup>	<ul style="list-style-type: none"> <li>Provides accessories and gifts to pets and their owners in a boutique setting</li> <li>Provides variety of organic pet food brands</li> </ul>	<ul style="list-style-type: none"> <li>Static Web site</li> <li>Sponsor local animal shelters but doesn't have social entrepreneurial mission</li> </ul>	<ul style="list-style-type: none"> <li>Web site will provide tips and trends for hip pet owners</li> <li>Five percent of pretax profits will go to a local no-kill animal shelter</li> </ul>

### Household Income for Lakeview Residents



Seventy-six percent of Lakeview households have a combined income of \$35,000 or more (see chart).<sup>40</sup>

Additionally, 30 percent of Lakeview residents own their homes, and 94 percent of residents over age 25 are high school graduates. The average family size is 2.56 with 7,523 residents below the age of 16 and 7,706 senior residents (65+). The median household income is \$63,695.<sup>41</sup> Of the approximately 49,534 employed residents 16 years and older in the 60657 zip code area (as of the 2000 census), 64 percent are in “management, professional, and related occupations.”<sup>42</sup>

#### Market Penetration

Pet Élan will serve customers in a boutique setting where pets are welcome to browse along with their owners. The store will operate with a social entrepreneurial mission and will donate 5 percent of pretax profits to a local no-kill animal shelter. Consistent with this socially responsible mission, Pet Élan will work with other area pet-related businesses to form a network of highly qualified veterinarians, as well as well-established boarding, grooming, in-home sitting, and training service providers. By connecting Pet Élan customers with reliable service providers, Pet Élan will also benefit from the reciprocal referrals from these service providers.

Pet Élan will also maintain a Web site, but initially only to provide the location and hours of operation. As the business grows, the Web site could include tips and trends information for current and future consumers to keep up with the latest in pet fashion accessories. Pet Élan will

seek assistance from a local college or Small Business Development Center for the Web site and market research assistance.

When the Pet Élan storefront opens, we plan to advertise by hosting a series of pet fashion shows, combined with an adoption event with local pet shelters. The events will raise awareness among clientele and would help a good cause. Until Pet Élan breaks even, the store will rely on the advertising and public relations from partnering with other service providers to draw customers into the store.

### IV. FINANCIAL PROJECTIONS

#### Pricing

Pet Élan will price the merchandise it intends to sell using cost-plus pricing. The base cost will be the wholesale cost of the pet product, and the markup component will be the profit Pet Élan will make on each product. For purposes of this feasibility study, Pet Élan will assume a 54 percent margin on goods sold. Because Pet Élan will be selling luxury products and because the target clientele is customers with a large percentage of disposable income, we will work to maximize the profit from each item sold.

The store will also follow a price skimming strategy, meaning it will set relatively high prices on the newest luxury products when they are first released, and then lower the price over time. By maintaining a wide selection of the newest fashions and accessories for cats and dogs, Pet Élan will be able to charge a higher price for newly released items, reducing prices as the trend becomes more mainstream.

The social entrepreneurial mission is to donate 5 percent of pretax profits to a local no-kill animal shelter, and this amount will be donated quarterly based on pretax profits from that quarter. Pet Élan made the following assumptions in putting together the sales revenue forecast for the first three years of operations:

- Pet Élan will sign a three-year rental agreement for a 2,000 square-foot storefront location. The rental property will be priced at \$35 per square foot, with an additional real estate tax of \$9.50 per square foot per annum.
- Pet Élan will be open for business six days a week (Monday through Saturday) from ten o'clock in the morning until seven o'clock in the evening. The store will be closed on Sunday.
- It is estimated that the average Pet Élan customer will spend \$18 per visit and will visit the store, on average, two times per month.
- Pet Élan will contribute 5 percent of pretax profits to a local no-kill animal shelter on a quarterly basis. This contribution has been accounted for in the pretax net profit (loss) forecast.

Based on these assumptions and a break-even analysis, Pet Élan's break-even sales will be \$263,699, or \$21,975 per month. This was calculated by determining the total fixed costs in the first year and by dividing it by a gross margin expressed as a percentage of sales.

### **Sales Revenue Forecast**

Pet Élan forecasts gross revenues during year one of operations to be \$296,740. The gross revenues for year two and year three are predicted to increase to \$404,448 and \$458,304, respectively.

### **Cost Forecast**

Pet Élan will maintain an inventory of products in each of the three primary areas of focus mentioned earlier: dietary products, playtime products, and accessories. As products are purchased, Pet Élan will reorder monthly to maintain a sufficient inventory to serve its customers' needs. Pet Élan has estimated that initial inventory will cost \$20,000. The wholesale cost of inventory for the first year is estimated to be \$147,000. As the customer base grows, Pet Élan will need to have a significantly higher amount of inventory

on hand to support increased demand. The future cost of inventory is forecast to be \$186,880 for year two and \$211,730 for year three.

### **Gross Margin**

The gross margin (sales minus cost of goods sold) for Pet Élan during the first three years of operation is estimated to be \$159,620, \$217,568, and \$246,574 respectively.

### **Operating Expenses**

There are several operational costs associated with running a pet store like Pet Élan, and these are also accounted for in the budget forecast for the first three years of operation. These operational expenses include items such as rent, utilities, advertising costs, and professional services assistance. These operational costs are summarized in total operating expenses and are forecast to be \$147,907 for year one, \$190,881 for year two, and \$201,744 for year three.

The owner will be the primary employee of Pet Élan for the first three months of operation. Beginning in the fourth month of operation, Pet Élan will hire one full-time sales associate. As the business grows, Pet Élan anticipates hiring a second full-time sales associate during the second year of operation. The full-time sales associates will assist the owner with customer service and other retail functions. Pet Élan will pay the sales associate approximately \$12.25 per hour (or \$25,500 per year) for the work.<sup>43</sup>

### **Profitability**

The expected net profit of Pet Élan for the first year of operation is \$10,660. This profit is expected to grow significantly in the future two years as some of the initial start-up costs are defrayed and the customer base becomes larger. In year two the net profit is forecast to be \$25,345, and in year three it is estimated to be \$42,589.

## **V. FUTURE ACTION PLAN**

### **Start-up Capital**

To start the business, Pet Élan will need to have enough start-up capital to cover leasing costs to secure the storefront location. The start-up capital will also need to cover insurance and operating expenses including appropriate licensing, store utilities, and professional services such as legal and accounting assistance. Initial inventory,

as well as retail equipment needs (such as a cash register) will require a large initial investment. These needs will be funded through the start-up capital that Pet Élan secures prior to opening. The amount needed is estimated to be \$70,000.

### **Sources of Start-up Capital**

The start-up capital of \$70,000 is composed of 45 percent (or \$31,500) of the owner's personal savings, 25 percent (or \$17,500) of a bank loan, in addition to two equity investors (one family member of the owner and one local veterinarian), each with a 15 percent stake (or \$10,500) in the company.

### **Further Information Needed**

To ensure the successful opening of Pet Élan, we must have a deeper understanding of the customer needs in the area. Conducting market research in the 60657 zip code area, using techniques such as surveys and/or focus groups of customers in Pet Élan's target market, could assess these needs. Pet Élan should also begin to approach other pet service providers in the area to explore potential partnership opportunities that could help raise awareness about both Pet Élan and the partnering business. This would also allow the owner of Pet

Élan to form a network within the local pet products and services industry.

### **Writing a Business Plan**

Pet Élan's next step is to create a business plan to further explore the business model of Pet Élan from an objective point of view. By identifying strengths and weaknesses, opportunities and threats for Pet Élan as compared to other market competitors, the company will have a much better chance of reaching the business and financial objectives outlined in this feasibility study. The business plan will also provide vital information about the business to potential investors and allow them to evaluate the viability of Pet Élan's business model.

### **Support Needed**

Pet Élan will seek guidance from a local Small Business Development Center. Pet Élan will review the initial draft of the business plan with a volunteer from the Service Corps of Retired Executives (SCORE), which is associated with the Small Business Association, to learn from his or her experience. Pet Élan will also form an advisory board made up of small business owners and members of the pet retail industry.

## FINANCIALS—SUMMARY

	Year 1	Year 2	Year 3
<b>Revenue</b>	\$296,740	\$404,448	\$458,304
<b>Cost of Goods Sold</b>	137,120	186,880	211,730
<b>Gross margin</b>	<u>159,620</u>	<u>217,568</u>	<u>246,574</u>
<b>Operating expenses</b>	<u>\$147,907</u>	<u>\$190,881</u>	<u>\$201,744</u>
<b>Net profit (loss) pretax</b>	<u>\$ 11,713</u>	<u>\$ 26,687</u>	<u>\$ 44,830</u>
<b>Net profit (loss) pretax and post contribution (5%)</b>	<u><u>\$ 10,660</u></u>	<u><u>\$ 25,345</u></u>	<u><u>\$ 42,589</u></u>



## FINANCIALS—YEAR 1

	Month 1 September	Month 2 October	Month 3 November	Month 4 December	Month 5 January	Month 6 February
<b>Sales</b>	<b>\$11,620</b>	<b>\$16,900</b>	<b>\$20,060</b>	<b>\$27,460</b>	<b>\$20,060</b>	<b>\$21,120</b>
Less Cost of Goods Sold	\$ 5,370	\$ 7,810	\$ 9,270	\$12,690	\$ 9,270	\$ 9,760
<b>Gross Margin</b>	<b>\$ 6,250</b>	<b>\$ 9,090</b>	<b>\$10,790</b>	<b>\$14,770</b>	<b>\$10,790</b>	<b>\$11,360</b>
<b>Operating Expenses</b>						
Utilities	185	160	165	180	200	200
Salaries	2,500	2,500	2,500	2,500	2,500	2,500
Labor	—	—	—	2,125	2,125	2,125
Payroll Taxes and Benefits	313	313	313	578	578	578
Advertising	300	300	300	300	300	300
Website	20	20	20	20	20	20
Office Supplies	150	75	50	50	50	50
Insurance	250	250	250	400	400	400
Maintenance and Cleaning	50	50	50	50	50	50
Legal and Accounting	350	350	350	350	350	350
Licenses	300	—	—	—	—	—
Bags, Paper, etc.	150	150	200	250	250	250
Telephone	85	85	85	85	85	85
Miscellaneous	200	200	200	200	200	200
Rent	5,833	5,833	5,833	5,833	5,833	5,833
<b>Total Operating Expenses (Fixed Costs):</b>	<b>10,686</b>	<b>10,286</b>	<b>10,316</b>	<b>12,921</b>	<b>12,941</b>	<b>12,941</b>
<b>Gross Profit (Loss)</b>	<b>(4,436)</b>	<b>(1,196)</b>	<b>475</b>	<b>1,849</b>	<b>(2,151)</b>	<b>(1,581)</b>
<i>Contribution to Charity (5% of net):</i>	—	—	24	92	—	—
<b>Net Profit (Loss) Pre-Tax:</b>	<b>(4,436)</b>	<b>(1,196)</b>	<b>451</b>	<b>1,756</b>	<b>(2,151)</b>	<b>(1,581)</b>
<b>First year fixed costs (FC)</b>	\$ 147,910					
<b>Contribution Margin Ratio (CMR) ((sales - cogs)/sales)</b>	53.8%					
<b>Annual breakeven sales (FC / CMR)</b>	\$ 274,970					
<b>Average monthly breakeven sales</b>	\$ 22,910					

Month 7 March	Month 8 April	Month 9 May	Month 10 June	Month 11 July	Month 12 August	Total
\$ 24,290	\$ 26,400	\$ 28,510	\$ 31,680	\$ 35,900	\$ 32,740	\$ 296,740
\$11,220	\$12,200	\$13,170	\$14,640	\$16,590	\$15,130	\$137,120
\$13,070	\$14,200	\$15,340	\$17,040	\$19,310	\$17,610	\$159,620
180	170	165	185	185	185	2,160
2,500	2,500	2,500	2,500	2,500	2,500	30,000
2,125	2,125	2,125	2,125	2,125	2,125	19,125
578	578	578	578	578	578	6,141
300	300	300	300	300	300	3,600
20	20	20	20	20	20	240
50	50	50	50	50	50	725
400	400	400	400	400	400	4,350
50	50	50	50	50	50	600
350	350	350	350	350	350	4,200
—	—	—	—	—	—	300
300	300	300	300	300	300	3,050
85	85	85	85	85	85	1,020
200	200	200	200	200	200	2,400
5,833	5,833	5,833	5,833	5,833	5,833	69,996
12,971	12,961	12,956	12,976	12,976	12,976	147,907
99	1,239	2,384	4,064	6,334	4,634	11,713
5	62	119	203	317	232	1,054
94	1,177	2,265	3,861	6,017	4,402	\$ 10,660

## FINANCIALS—YEAR 2

	September	October	November	December	January	February
<b>Sales:</b>	<b>\$31,680</b>	<b>\$33,790</b>	<b>\$35,900</b>	<b>\$35,900</b>	<b>\$29,570</b>	<b>\$32,740</b>
Less Cost of Goods Sold	\$14,640	\$15,610	\$16,590	\$16,590	\$13,660	\$15,130
<b>Gross Margin</b>	<b>\$17,040</b>	<b>\$18,180</b>	<b>\$19,310</b>	<b>\$19,310</b>	<b>\$15,910</b>	<b>\$17,610</b>
<b>Operating Expenses</b>						
Utilities	195	170	175	190	210	210
Salaries	2,500	2,500	2,500	2,500	2,500	2,500
Labor	4,250	4,250	4,250	4,250	4,250	4,250
Payroll Taxes and Benefits	844	844	844	844	844	844
Advertising	400	400	400	400	400	400
Website	30	30	30	30	30	30
Office Supplies	100	100	100	100	100	100
Insurance	550	550	550	550	550	550
Maintenance and Cleaning	60	60	60	60	60	60
Legal and Accounting	400	400	400	400	400	400
Licenses	300	—	—	—	—	—
Bags, Paper, etc.	400	400	400	400	400	400
Telephone	100	100	100	100	100	100
Miscellaneous	225	225	225	225	225	225
Rent	5,833	5,833	5,833	5,833	5,833	5,833
<b>Total Operating Expenses:</b>	<b>16,187</b>	<b>15,862</b>	<b>15,867</b>	<b>15,882</b>	<b>15,902</b>	<b>15,902</b>
<b>Gross Profit (Loss)</b>	<b>853</b>	<b>2,318</b>	<b>3,443</b>	<b>3,428</b>	<b>8</b>	<b>1,708</b>
<b>Contribution to Charity (5% of net):</b>	<b>43</b>	<b>116</b>	<b>172</b>	<b>171</b>	<b>0</b>	<b>85</b>
<b>Net Profit (Loss) Pre-Tax:</b>	<b>811</b>	<b>2,202</b>	<b>3,271</b>	<b>3,257</b>	<b>8</b>	<b>1,623</b>

March	April	May	June	July	August	Total
\$31,680	\$32,740	\$34,850	\$35,900	\$33,790	\$35,900	\$404,448
\$14,640	\$15,130	\$16,100	\$16,590	\$15,610	\$16,590	\$186,880
<b>\$17,040</b>	<b>\$17,610</b>	<b>\$18,750</b>	<b>\$19,310</b>	<b>\$18,180</b>	<b>\$19,310</b>	<b>\$217,568</b>
190	180	175	195	195	195	2,280
2,500	2,500	2,500	2,500	2,500	2,500	30,000
4,250	4,250	4,250	4,250	4,250	4,250	51,000
844	844	844	844	844	844	10,125
400	400	400	400	400	400	4,800
30	30	30	30	30	30	360
100	100	100	100	100	100	1,200
550	550	550	550	550	550	6,600
60	60	60	60	60	60	720
400	400	400	400	400	400	4,800
—	—	—	—	—	—	300
400	400	400	400	400	400	4,800
100	100	100	100	100	100	1,200
225	225	225	225	225	225	2,700
5,833	5,833	5,833	5,833	5,833	5,833	69,996
<b>15,882</b>	<b>15,872</b>	<b>15,867</b>	<b>15,887</b>	<b>15,887</b>	<b>15,887</b>	<b>190,881</b>
<b>1,158</b>	<b>1,738</b>	<b>2,883</b>	<b>3,423</b>	<b>2,293</b>	<b>3,423</b>	<b>26,687</b>
58	87	144	171	115	171	1,334
<b>1,100</b>	<b>1,651</b>	<b>2,739</b>	<b>3,252</b>	<b>2,179</b>	<b>3,252</b>	<b>\$ 25,345</b>

## FINANCIALS—YEAR 3

	September	October	November	December	January	February
<b>Total Sales:</b>	<b>\$35,904</b>	<b>\$33,792</b>	<b>\$38,016</b>	<b>\$42,240</b>	<b>\$33,792</b>	<b>\$35,904</b>
Cost of Goods Sold:	\$16,590	\$15,610	\$17,560	\$19,510	\$15,610	\$16,590
<b>Gross Margin</b>	<b>\$19,314</b>	<b>\$18,182</b>	<b>\$20,456</b>	<b>\$22,730</b>	<b>\$18,182</b>	<b>\$19,314</b>
<b>Operating Expenses</b>						
Utilities	205	180	185	200	220	220
Salaries	2,750	2,750	2,750	2,750	2,750	2,750
Variable Labor	4,674	4,674	4,674	4,674	4,674	4,674
Payroll Taxes and Benefits	928	928	928	928	928	928
Advertising	400	400	400	400	400	400
Website	32	32	32	32	32	32
Office Supplies	120	120	120	120	120	120
Insurance	570	570	570	570	570	570
Maintenance and Cleaning	70	70	70	70	70	70
Legal and Accounting	440	440	440	440	440	440
Licenses	300	—	—	—	—	—
Bags, Paper, etc.	420	420	420	420	420	420
Telephone	125	125	125	125	125	125
Miscellaneous	225	225	225	225	225	225
Rent	5,833	5,833	5,833	5,833	5,833	5,833
<b>Total Operating Expenses:</b>	<b>17,092</b>	<b>16,767</b>	<b>16,772</b>	<b>16,787</b>	<b>16,807</b>	<b>16,807</b>
<b>Net Profit (Loss) Pre-Tax:</b>	<b>2,222</b>	<b>1,415</b>	<b>3,684</b>	<b>5,943</b>	<b>1,375</b>	<b>2,507</b>
Contribution (5%)	111	71	184	297	69	125
<b>Final Net Profit (Loss) Pre-Tax:</b>	<b>2,111</b>	<b>1,344</b>	<b>3,500</b>	<b>5,646</b>	<b>1,306</b>	<b>2,382</b>

March	April	May	June	July	August	Total
<b>\$38,016</b>	<b>\$40,128</b>	<b>\$40,128</b>	<b>\$40,128</b>	<b>\$40,128</b>	<b>\$40,128</b>	<b>\$458,304</b>
\$17,560	\$18,540	\$18,540	\$18,540	\$18,540	\$18,540	\$211,730
<b>\$20,456</b>	<b>\$21,588</b>	<b>\$21,588</b>	<b>\$21,588</b>	<b>\$21,588</b>	<b>\$21,588</b>	<b>\$246,574</b>
200	190	185	205	205	205	2,400
2,750	2,750	2,750	2,750	2,750	2,750	33,000
4,674	4,674	4,674	4,674	4,674	4,674	56,088
928	928	928	928	928	928	11,136
400	400	400	400	400	400	4,800
32	32	32	32	32	32	384
120	120	120	120	120	120	1,440
570	570	570	570	570	570	6,840
70	70	70	70	70	70	840
440	440	440	440	440	440	5,280
—	—	—	—	—	—	300
420	420	420	420	420	420	5,040
125	125	125	125	125	125	1,500
225	225	225	225	225	225	2,700
5,833	5,833	5,833	5,833	5,833	5,833	69,996
<b>16,787</b>	<b>16,777</b>	<b>16,772</b>	<b>16,792</b>	<b>16,792</b>	<b>16,792</b>	<b>201,744</b>
<b>3,669</b>	<b>4,811</b>	<b>4,816</b>	<b>4,796</b>	<b>4,796</b>	<b>4,796</b>	<b>44,830</b>
183	241	241	240	240	240	2,242
<b>3,486</b>	<b>4,570</b>	<b>4,575</b>	<b>4,556</b>	<b>4,556</b>	<b>4,556</b>	<b>\$ 42,589</b>

## INITIAL CALCULATIONS

### Cost Assumptions First Year of Operations

Fixed Costs (FC)	Monthly	Annually
Lease payment (\$35 / sq. foot)	\$ 5,833	\$ 70,000
Utilities	200	2,400
Insurance	833	10,000
Salary of Owner	2,500	30,000
Salary of Sales Assistant	2,125	25,500
Advertising	200	2,400
General supplies	300	3,600
Professional Services	667	8,000
Miscellaneous Expenses	417	5,000
Website	20	240
<b>Total</b>	<u>13,095</u>	<u>157,140</u>

Variable Costs (VC)	Monthly	Annually
Cost of Goods Sold	11,427	137,120
<b>Total</b>	<u>28,250</u>	<u>339,000</u>

Break-Even Amount	Monthly	Annually
Contribution margin ratio (CMR)	53.8%	53.8%
Breakeven (FC \ CMR)	\$ 24,340	\$292,082
	<b>Daily</b>	<b>Monthly</b>
Breakeven number of customers	45	1,352
		486,803

#### Assumptions:

Rental location will be 2,000 square feet

Average customer spends \$18 per visit and comes to the store on average twice per month.

#### One Time Startup Costs

Licensing & permits	\$ 300
Decorating	\$ 800
Signage	\$ 5,000
Beginning Inventory	\$40,000
Fixtures and Equipment	\$ 6,000
Professional fees (accountant, attorney)	<u>\$ 5,000</u>
<b>Total</b>	<u>\$57,100</u>