

MN COSMETICS & DAY SPA BUSINESS PLAN

Prepared For
Ms. Entrepreneur

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Prepared By

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EXECUTIVE SUMMARY

Background

Ms. Entrepreneur proposes to start a new MN Cosmetic & Day Spa in Small City, Alberta – currently one does not exist. Dual opportunities exist for Ms. Entrepreneur; 1) The business idea, and 2) the location. MN Cosmetics and Day Spa owners are experiencing significant annual growth (40% annual growth in cosmetics, and 60% annually growth in spa services) and there are no immediate signs of this trend reversing. The business will be incorporated with Ms. Entrepreneur as sole shareholder and director. Besides the owner, two other estheticians will be employed – remuneration will be commissioned based. Ms. Entrepreneur also has the full support of MN headquarters in Los Angeles.

An optimal location has been selected and the lease contract of ten years negotiated; however, the building does not yet exist and dates for construction are not available. Therefore, because Ms. Entrepreneur cannot find a suitable location in St Albert within a reasonable time-frame, this project has been postponed to an indefinite period of time.

Project

Total project costs are \$210,000 and consist of the following: Leasehold improvements (\$76,500), shop and office equipment (\$31,500), furniture and fixtures (\$42,000), signage (\$7,000), inventory (\$21,400), operating capital (\$21,600), and GST (\$10,000). Financing is as follows: Shareholder contribution (\$55,000), Canadian Youth Business Foundation (\$15,000), and bank small business loan (\$140,000). Forecasted statements illustrate the repayment of debt with no significant hindrance to cash flows.

Highlights

- First-year forecasted revenues are \$282,720;
- First-year forecasted net income is \$5,758;
- First-year return on income is 2.0 percent;
- First-year return on assets is 3.0 percent;
- First-year's working capital is \$20,808;
- First-year's debt to equity is 2.2 : 1;
- First-year's total salaries is \$85,212;

START UP COSTS		SOURCES OF FINANCING	
Capital Assets	\$157,000	Shareholder Cash Contribution	\$55,000
Inventory	\$21,400	Canadian Youth Business	\$15,000
Operating Capital	\$21,600	Bank Small Business Loan	\$140,000
GST	\$10,000		
Total Project Costs	\$210,000	Total Sources of Financing	\$210,000

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- Tentative Lease Contract
- Quote – Business Insurance
- Quote – Leasehold Improvements
- Quote – Signage
- Quote – Linen / Supplies
- Quote – Spa Equipment
- Quote – Computer Equipment
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- MN Marketing Incentive
- Other Marketing Rates
- Proof of Equity

3. SUPPLEMENT DOCUMENTATION

- Pictures of Proposed Store Location / Blueprints
- MN (Picture / Articles / Franchise Costs / Financials)
- Statistics Canada Research
- Cosmetic Industry Report
- Other Research
- Financial Performance Indicators for Canadian Businesses
- Small Business Profiles
- Service List / Pricing
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1.0 OVERVIEW

1.1 The Project

The Entrepreneur is capitalizing on her business experience and esthetic education by establishing a new MN cosmetics store in Small City, Alberta. Currently, there are no other MN Cosmetics within Small City, Alberta.

The proposed location does not yet exist. The property managers of the proposed building are requiring all six spaces be filled before construction will commence – including MN, there will be a total of four businesses interested situating at that location; this building will be situated in the retail centre. Existing businesses within this retail centre include: Walmart, Totem, Save on Foods, Tim Hortons, Extreme Pita, Alberta Treasury Branch, McDonalds, Quiznos, Liquor Barn, EB Games, Everything for a Dollar, and First Choice Haircutters.

Total start up costs for this MN Cosmetics and Day Spa venture amount to \$210,000 and categorized as follows: Capital Assets (\$157,000), Inventory (\$21,400), Operating Capital (\$21,600), and GST (\$10,000). Capital assets include: leasehold improvements to the new location (\$76,500), furniture and fixtures (\$42,000), shop and computer equipment (\$31,500), and signage (\$7,000). Inventory consists of cosmetics and spa products. Operating capital consists of legal fees, loan admin fees, rent / deposit, marketing, telephone and utility hook ups and charges, training, and wages for a month.

Financing is as follows: Shareholder's cash contribution (\$55,000), a government guarantee small business loan through a Big Bank (\$140,000), and loan through Canadian Youth Business Foundation (\$15,000). The financial projections illustrate the repayment of debt with no significant hindrance to the cash flows.

1.2 Business Profile

The business will be incorporated with The Entrepreneur as sole shareholder and director. Besides The Entrepreneur, the business will employ two other full-time estheticians.

1.3 Opportunities

Dual opportunities exist for The Entrepreneur; 1) The business idea, and 2) the location.

Cosmetics and Day Spa owners are experiencing significant annual growth (40% annual growth in cosmetics, and 60% annually growth in spa services); there are no immediate signs of this trend reversing.

A recent interview was conducted with a Cosmetic owner located in Another Small City within Alberta. This particular outlet was chosen because of the similarities regarding population and services offered.

Market Comparison

	<u>Chosen City, Alberta</u>	<u>Another City, AB</u>
# of Outlets in Area	1 [∞]	1
Total City Population (2004)	54,600	40,225
Average Population Growth Per Year	2.0% increase per year	3.6% increase per year
Total # of Buyers (Females 15-64)	19,100	12,800
Percentage of Population are potential buyers	35% of population	32% of population
Average Household Income	\$85,000	\$66,500
Total # of Households (2005 estimated)	20,750	15,900

Note: ∞This includes The Entrepreneur’s proposed venture.

Cosmetics & Day Spa: Another City

Number of Employees:	Number of Years in Business: 23 Years
Location	8 Full Time Employees
Annual Growth – Cosmetics:	Strip Mall
Annual Growth – Day Spa:	40% per Year
Total Number of Clients (Cosmetics):	60% - 70% per Year
Average Expenditure per Buyer (Cosmetics):	3000 buyers every six weeks
Total Number of Clients (Spa Services):	\$30 Each
Average Expenditure per Buyer (Spa Services):	35 per Day
Estimated Annual Revenues (Cosmetics):	\$750,000
Estimated Annual Revenues (Spa Services):	\$420,000

The second opportunity is securing a retail outlet within a new mall development located within City, Alberta.

1.4 Strengths and Weaknesses

The following as The Entrepreneur’s business strengths and weaknesses:

Strengths:

- Previous business experience;
- Business opportunity of starting a successful franchise;
- Financial stability;
- Support from spouse;

Weaknesses:

- Cannot secure a suitable location;
- High start up costs particularly in leasehold improvements;
- Situated in a place other than the one she lives in – spouse will stay in Calgary;
- May have difficulties securing financing;
- Inventory levels may be too low;

1.5 Future Goals

The Entrepreneur will model her business around other MN Cosmetics / Spa businesses. Within the franchise, a cooperative exists, and each outlet shares trade secrets, successes, as well as failures. The plan is to grow the business to reflect the success other MN stores are experiencing.

1.6 Risk Analysis

Financial Risk	High Risk – Likely & Detrimental if Occurred	Low Risk - Not Likely to Occur	Entrepreneur’s Score
Likelihood of start-up cost overruns	5	0	3.5
Sales not occurring as quickly as forecasted	5	0	3.5
Operational cost overruns	5	0	3.0
Inability to service debt	5	0	2.5
Financial controls / management not in place	5	0	2.0
Alternate sources of credit unavailable	5	0	2.0
Higher than average accounts receivable	5	0	1.0
High personal & business debt ratio	5	0	3.0
Primary source of household income	5	0	2.0
	45	0	22.5
Market Risk			
Chance of failure introducing an unproven product	5	0	1.0
Chance of failure introducing an unproven market	5	0	2.5
Rely on one supplier / customer	5	0	3.0
Lots of competition	5	0	3.0
Limited market area / size	5	0	4.0
Industry downturn	5	0	2.5
	30	0	16
Operational Risk			
Unsuitable or outdated technology	5	0	1.5
Mechanical Failure of equipment	5	0	0.0
Environment regulations stricken	5	0	0.0
Location Instability	5	0	5.0
Additional Labour Reliability	5	0	5.0
	25	0	11.5
Overall Total	100	0	50

One concern is the uncertainty of future construction costs. Although a quote was received from the contractors, there are no guarantees that costs will not increase in the near future. If the leasehold costs are not sufficiently financed, hindering cash deficits may occur. A second concern is the forecasted time to secure a location and complete the leasehold improvements – delays are both possible and probable. Additionally, there are risks associated with starting a retail business, such as, choosing the right location for the product and services offered – whether frequent by the business’ buyers; starting with enough inventory; implementing effective marketing incentives to inform and entice the buyer. Overall, this is a good opportunity for the entrepreneur and should be pursued once the location and leasehold costs / timing are solidified.

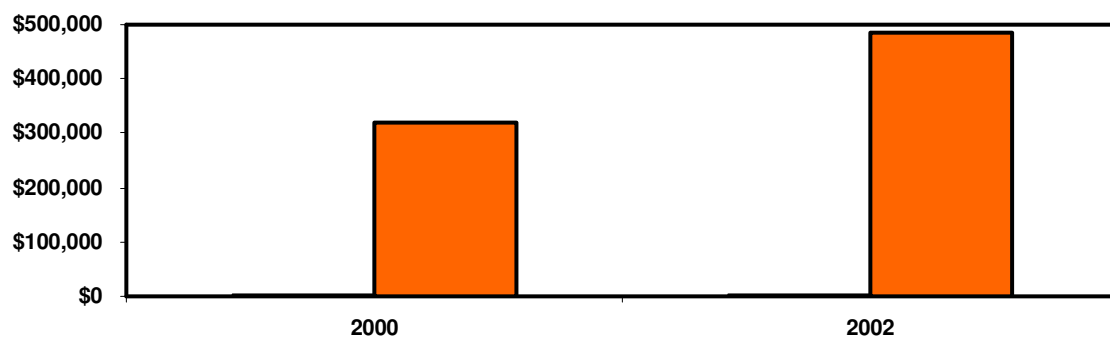
2.0 THE MARKETING PLAN

2.1 The Canadian Cosmetic / Spa Industry Cosmetics

In an age when beautiful people dominate the magazine covers, television sets, and movie screens, it is apparent that the North American society is obsessed with appearances. People want to look their best and they often turn to cosmetics to achieve this (TVB Cosmetics Report 2005).

As of 2002 in Alberta, revenues for cosmetic businesses averaged \$484,000 per year per business. This is an increase of 51 percent since 2000.

Alberta: Average Cosmetic Revenues Per Establishment



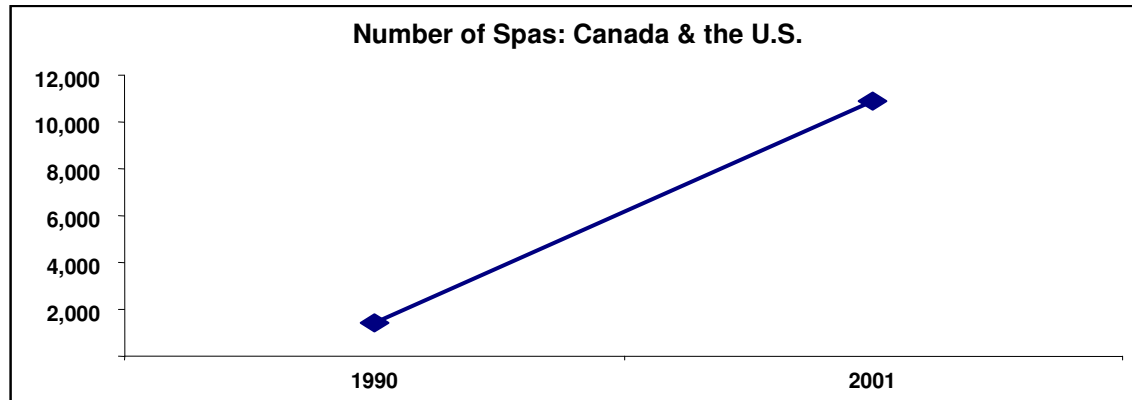
Source: Statistics Canada

Here are other industry facts:

- Cosmetics is a \$30 billion worldwide industry with an annual growth rate of 20%;
- Cosmetics are recession proof – they are an affordable indulgence;
- Cosmetics are a high margin product;
- Brand loyalty exists;
- An estimated 11,179,692 Canadians use cosmetics per week;

Day Spas

Stress levels in Canada are on the rise, and an increasing number of Canadians visit spas for relief and a healthier lifestyle. In just over eleven years, the number of spas has increased by 678 percent – an average of 62 percent per year.



Other interesting findings are as follows:

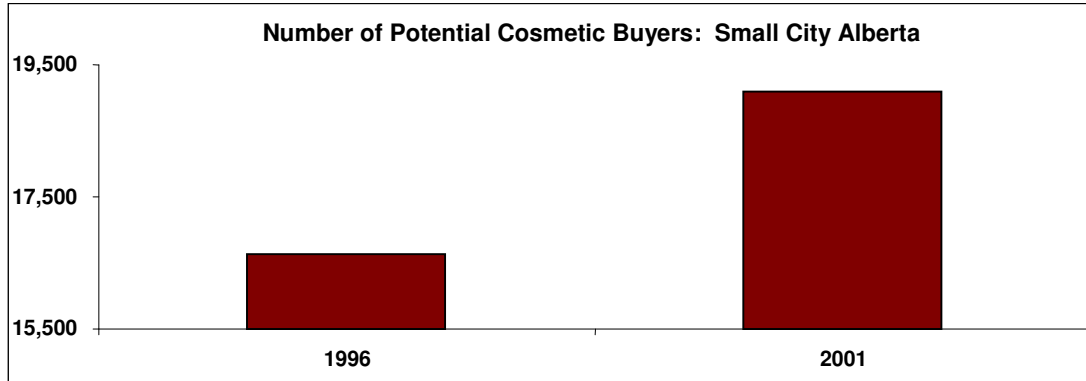
- The Canadian spa industry is growing at an average rate of 16% annually – ahead of other recreational activities;
- Current revenues for the Canadian spa industry are approximated at \$1.125 billion;
- Day spas are by far the most popular, followed by hair salon/spas;
- An ISpA study conducted in 1999 found that age groups between 31 – 44 and 45 – 54 represent more than half of all spa consumers;
- Demand is steadily increasing among 20 – 30 year olds, and spa visitors, while mostly women, now include men and children in growing numbers;
- ISPA (2004) estimates that there are about 2100 spas in Canada with 75 percent categorized as day spas – approximately 257 exist in Alberta;
- The average number of visits per spa in 2003 was 10,100 with average revenues of \$752,000;
- Treatment rooms, retail space, dedicated relaxation areas and beauty salons are the core program for most spas;

Refer to appendix three for complete details on the cosmetic and day spa reports.

2.2 The Target Market: Small City, Alberta

Buyers

In five years, the potential number of cosmetic buyers (women ages 15 to 64) increased by 14.8 percent (from 16,640 in 1996 to 19,105 in 2001). This represents an average growth of three percent per year. The number of potential day spa buyers (women ages 31 to 54) was nearly 11,000 in 2001, an increase of 13.8 percent in five years.



Source: Alberta Government

Total Market Revenues Potential

Average Household Expenditure: Makeup, Skin Creams, Lotions, Etc.

Number of Households:	
St. Albert (2005 Extrapolated)	20,753 Households
Morinville (2005)	2,324 Households
Total Number of Households in Market Area:	23,077
Average Expenditure per Household:	
Makeup, Skin Creams, Lotions, Etc (2005 Extrapolated)	\$108 / Household
Personal Services – Facials, Manicures, Etc (2005)	\$89 / Household
Combined Expenditure per Household	\$197 / House / Year

Total Potential Annual Market Revenues for Target Area:	\$4,546,169
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2.3 Cosmetics and Day Spa

MN stores are reputable throughout Canada and the United States for providing a quality high-end cosmetic and skin care products along with exceptional customer service. MN started her retail chain in 1931 and has since grown to nearly 2,000 studios. MN ranked #1 in “Entrepreneur’s Franchise 500” cosmetic category, and #23 in the franchise500 spa category. MN does not charge a franchise fee, nor do they charge monthly royalties; instead, the franchisor is dedicated to purchasing MN products for retail. Mark up is typically between 100 to 120 percent.

In addition to cosmetic products, the owners are allowed to offer “day spa services”. Services include: facials (\$50 per hour), massages (\$60 per hour), body bronzing (\$75 per hour), manicures (\$25 to \$40), and pedicures (\$60 to \$75). Refer to appendix three for complete services and pricing. The Entrepreneur plans to introduce “Hellerwork” – stress reduction muscular therapy, which is currently being offered in Calgary. See appendix three for brochure.

Another interview was conducted with a “Cosmetic and Day Spa” owner in Calgary and findings were parallel to the interview with the Grande Prairie owner:

Interview with an Existing MN & Day Spa – Calgary Location

- Eight years in business and located in a strip mall. The total studio area is 1,500 square feet – area dedicated to MN products is 600 sq’;
- In eight years, revenues increased by 400 percent and are now well over \$1 million per year;
- The studio belongs to a co-op with the other MN owners in Calgary. All members pool marketing efforts and collaborate on a pricing system so that no one is under or over pricing the other studio;
- Staff has increased from 7 to 15 and are booked all day every day for the spa services;
- Each staff member sells \$6,000 to \$15,000 in products and services per month;
- For the first three months of employment, staff earn a wage, then they are converted to commission – 15% for products sold and 30% for services rendered;
- The profits come from the spa services – have an average annual growth of 22 percent per year;
- Best marketing methods include: direct mail (with coupons), newspaper, and television – co-op advertising works very well. Marketing should be four percent of revenues;

Final advice:

- Maintain an excellent staff base and motivate them;
- Build relationship with other MN owners;
- Customer services is #1;
- Hire a good / reliable accountant;

2.4 Marketing Strategy

1. Grand Opening:
 - ∞Newspaper ad;
 - ∞Mail invitations;
 - ∞Inviting VIPs in the community;
 - ∞Photographer and press release;
 - ∞Banners;
 - ∞Gifts with purchase / shopping spree draws;
2. Tradeshows:
 - ∞Bridal Show (January)
 - ∞Women Show (April)
3. Public Relations:
 - ∞Corporate packages;
 - ∞Maintain a database of all customers and mail them correspondence such as thank-you cards;
4. Advertising:
 - ∞Magazines;
 - ∞Flyers (with coupons);
 - ∞Local newspaper;

- ∞Billboard;
- ∞Website development;
- ∞Radio (local if possible);

5. Seminars:

- ∞Lunch hour / evening sessions;
- ∞Make up classes;
- ∞Invite laser clinics / dermatologists / herbalists / etc to speak;

A start up budget of \$5,500 has been budgeted and an annual expenditure of \$10,000 is budgeted to cover the abovementioned marketing tactics. MN reimburses 40 percent of allowable marketing expenditures. In addition to reimbursements, MN has various marketing / advertising templates that the owner can use in advertising mediums.

2.5 Revenue Forecast

Projected cosmetic and day spa revenues in the first year of operation are estimated to be \$282,720. This represents approximately 6.2 percent of the total cosmetic / spa revenues in City, Alberta (Refer to section 2.2). Refer to the following table:

COSMETICS & DAY SPA 1ST YEAR REVENUE FORECAST			
2006	Estimated # of Buyers	Estimated Expenditure / Buyers	Total Revenues
Cosmetic Sales	5,952	\$35	\$208,320
Spa Sales	1,488	\$50	\$74,400
Total	7,440		\$282,720

To achieve this forecast, Ms. Entrepreneur needs approximately six percent of the potential buyers (992 women out of 19,100) to loyally purchase MN products once every two months (992 female buyers x \$35 per purchase x 6 purchases per year = \$208,320). Additionally, the same logic applies for Spa sales – Ms. Entrepreneur needs 25 percent of the cosmetic buyers to purchase on a regular basis (248 loyal buyers x 6 purchases per year x \$50 per purchase = \$74,400).

The following table examines revenues using: 1) Inventory Levels, 2) Average Inventory Turnover, and 3) Average Cost of Goods Percentage. Inventory turnover (Cost of Goods Sold ÷ Average Inventory Level) ranges from 1.5 times per year to seven times per year. Given that s is a well-known franchise, an inventory turnover of five is assumed. Cost margins also range from forty to fifty percent – these forecasts assume a conservative level of 48 percent. Based on interviews with other MN outlets, it is expected that at least 25 percent of the cosmetic buyers will also purchase spa services.

3.0 THE OPERATIONS PLAN

3.1 Location / Facilities

The proposed location for this Cosmetic venture is in amongst the Walmart / Totem / Save on Foods stores along the Ville and St Somewhere Road in Small City, Alberta. Refer to appendix three for an aerial view and pictures for the future site. A date for the construction of the building is undecided. Tentatively, besides MN, the building will also host Bell Mobility, Chatters, and ladies fashion – the other two spaces within the building have not been decided and is primarily the reason for construction delay.

Once built, the proposed space will be 1,400 square feet with a ten-year lease. Rent costs for the first five years are \$18.25 per square foot then \$19.25 per square foot for the remaining five years. A deposit of \$4,375 is required. A tenant allowance of \$15.00 per square foot is available. Refer to appendix two for the complete lease contract. Given the building exists, tentative plans are to have all leasehold improvements completed by February 2006 and open the store by March 2006 in time for the spring line.

3.2 Hours / Work Capacity

Proposed hours are:

Monday, Tuesday, Wednesday, Saturday & Sunday	10:00 am to 6:00 pm
Thursday and Friday	10:00 am to 9:00 pm

Spa services are available by appointment only. The length of time for appointments will range from 30 minutes to two hours. The average appointment will be one-hour. Therefore, each esthetician should be able to see at least seven clients per day or approximately 140 clients per month.

3.3 Suppliers & Inventory

The initial product packages range from \$16,000 to \$20,000 for new studio owners. MN requires 55 percent of the package cost up front and the remainder to be paid in three installment payments beginning two months after opening. Interviews with other MN's indicate they hold at least \$30,000 plus in inventory; therefore, to achieve the revenue levels forecasted, The Entrepreneur will order the \$20,000 package.

3.4 Franchise / Insurance

MN does not charge a franchise fee, nor do they charge royalty fees. The only requirement from MN is that they are the only supplier of cosmetics. Refer to appendix three for further details and financial overview. Currently, there are twenty other MN outlets in Alberta – six in Calgary and three in Edmonton. Commercial insurance is quoted at \$1,983 per year and includes \$5 million general liability, employee dishonesty, loss, and \$180,000 content coverage.

4.0 THE HUMAN RESOURCE PLAN

4.1 Owner / Manager

The Entrepreneur brings six years experience as an esthetician to this venture. Besides providing esthetics services, The Entrepreneur was also responsible for managing the store – ordering, scheduling, and promotions. In addition to her esthetic education, The Entrepreneur participates in continuous learning within her field.

As cosmetic and spa owner / operator, The Entrepreneur's duties will include:

- Opening & closing facility;
- Scheduling staff;
- Monitoring customer service to ensure high quality experiences – handling customer complaints;
- Making daily deposits;
- Monitoring and ordering inventory and daily supplies;
- Analyzing reports on the types and numbers of services / treatments rendered – developing strategies to increase sales;
- Being an expert on spa equipment to train others how to use properly;
- Understanding spa industry regulations ensuring the studio conforms to changing trends;
- Effectively formulating and implementing a marketing plan;
- Being able to supervise, coach, and inspire employees to create a professional team;
- Recruiting, interviewing, hiring, and training new employees;
- Responsible for payroll – using a computer accounting system or hiring a payroll service;
- Submitting payroll source deductions on a monthly basis;
- Submitting GST on a quarterly basis;
- Ensuring all suppliers, lending agencies, and all others who enter into a business contract are paid consistently and according to their expectations;

The Entrepreneur will be required to fly to Los Angeles for two weeks training at 's headquarters. Training includes management processes, computer software – Perspective, products, and selling skills. The Entrepreneur is responsible for airfare, accommodations, and food. This cost is estimated at \$2,000.

Management Salary / Employer's CPP Contribution:

1 st Year - \$2,000 per month x 12 months x 1.0495 (CPP) =	\$25,188
2 nd Year - \$3,000 per month x 12 months x 1.0495 (CPP) =	\$37,782
3 rd Year - \$4,000 per month x 12 months x 1.0495 (CPP) =	\$50,376

4.2 Estheticians

Two full-time estheticians will be hired. Requirements are experience and customer service orientated. They will also be expected to participate in cosmetic training and successfully sell cosmetics.

For the first three months of employment, estheticians will be paid hourly and then their earnings based on commission. The wages will be \$8.00 per hour, commission is 10 percent of product sold and 50 percent of services rendered.

2006 / 2007 Earnings

Wages (1st 3 months):

40 hrs / wk x \$8 / hr x 4.33 weeks x 3 months x 1.07722 (CPP / EI) x 2 = \$8,986

Commission (last 9 months):

Cosmetic Sales of \$183,322 x 10% = \$18,332

Spa Sales of \$65,472 x 50% = \$32,736

Total Earnings: **\$60,054**

4.3 Business Support

EFC Business Services will provide the following support:

- Set up accounting system
- Monthly bookkeeping
- CRA registration and monthly/quarterly GST/payroll tax payment reconciliation
- Quarterly financial analysis providing recommendations on the company's financial situation
- Year end financial statements
- Annual Corporate Return
- Yearly market analysis
- Annual Inventory Analysis

5.0 THE FINANCIAL PLAN

5.1 Projects Costs

Capital Costs

Leasehold Improvements			
General Contractor	\$50,500		
Electrician (includes light fixtures)	<u>\$24,000</u>	\$76,500	
Furniture / Fixtures			
Cabinets / Counters / Shelving	\$27,500		
Office / Shop Accessories	\$1,000		
Spa / Nail Accessories / Linen	\$3,500		
Acrylic Display / Chairs / Desks / Mirrors (MN)	<u>\$10,000</u>	\$42,000	
Signage		\$7,000	
Equipment			
Spa Equipment (incl. manicure / pedicure)	\$26,000		
Computer Equipment (incl. Perspective software)	<u>\$5,500</u>	\$31,500	
Total Capital Costs			\$157,000
Inventory (Cosmetics / Spa Products)			\$21,400
Operating Costs			
Legal Fees		\$1,000	
Loan Admin Fees		\$3,500	
Rent & Deposit		\$6,500	
Marketing		\$5,000	
Telephone / Utilities / Insurance / License		\$1,600	
Training		\$1,000	
Wages (staff)		\$3,000	
Total Operating Costs			\$21,600
GST			<u>\$10,000</u>
TOTAL PROJECT COSTS			<u>\$210,000</u>

5.2 Sources of Funds and Financing

Equity Contribution

Shareholder's Contribution	\$55,000		
Total Equity Contribution			\$55,000
Debt Financing			
Bank SBL Program (90% of capital assets)	\$140,000		
Canadian Youth Business Foundation	\$15,000		
Total Debt Financing			\$155,000
TOTAL FUNDS AND FINANCING			<u>\$210,000</u>

5.3 Financial Summary

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Statement Summary			
1. Revenues	\$282,720	\$353,400	\$424,080
2. Net Income	\$5,758	\$10,850	\$27,658
3. Depreciation	\$17,275	\$32,153	\$27,979
4. Current Portion of Loan	\$30,986	\$32,864	\$34,878
5. Total Current Assets	\$51,799	\$63,816	\$86,589
6. Total Current Liabilities	\$30,986	\$32,864	\$34,878
7. Total Net Assets	\$191,524	\$171,389	\$166,183
8. Total Liabilities	\$130,766	\$99,781	\$66,917
9. Total Salaries	\$85,212	\$110,322	\$137,424
Ratio Summary			
10. Profit Margin	2.0%	3.1%	6.5%
11. Return on Assets	3.0%	6.3%	16.6%
12. Return on Equity	9.5%	15.2%	27.9%
13. Current Ratio	1.7 : 1	1.9 : 1	2.5 : 1
14. Working Capital	\$20,808	\$30,952	\$51,711
15. Debt to Equity	2.2 : 1	1.4 : 1	0.7 : 1
16. Gross Margin (Cosmetics)	50%	50%	50%
17. Times Interest Coverage	1.4X	2.3X	6.1X
18. Inventory Turnover	5X	5X	5X

5.3 Sensitivity Analysis

	Forecasted: Inventory TO = 5X Gross Margin = 50%	Sensitivity #1	Sensitivity #2	Sensitivity #3	Sensitivity #4
		Inventory TO = 4.5X	Inventory TO = 5.5X	Gross Margin = 45%	Gross Margin = 55%
Revenues	\$282,720	\$244,286	\$298,571	\$282,720	\$282,720
Net Income	\$14,455	-\$9,442	\$11,384	-\$3,520	\$14,455
Current Ratio	2.0	1.2	1.9	1.4	2.0
Profit Margin	5.1%	-3.9%	3.8%	-1.2%	5.1%
Return on Investment	20.8%	-20.7%	17.1%	-6.8%	20.8%

Inventory turnover rate measures the number of times the inventory is sold and replaced during the year – the industry average for cosmetics is five, which means an average business is totally replenishing its inventory every ten weeks. According to our analysis, the average or higher is optimal – a decrease (i.e. replenishing every twelve weeks) produces a profit loss and a negative return on investment.

The gross margin measures what is left over after a company pays for its inventory (and other direct costs). The industry average is 50% - purchasing goods for more or selling at a greater discount will also have negative effects on the business' profitability.

Conversely, to excel over the industry average will enhance the financial position.

5.5 Industry Ratio Comparison

	MN Cosmetics / Spa	Industry 2004 Average
Profitability Ratios:		
Net Profit Margin	2.0%	3.0%
Gross Profit Margin	50.0%	50.0%
Return on Total Assets	3.0%	6.4%
Return on Equity	9.5%	17.3%
Liquidity Ratios (Ratio to 1):		
Working Capital (to 1)	1.7	2.0
Debt to Equity (to 1)	2.2	1.7
Liability to Assets (to 1)	0.7	0.6
Interest Coverage (# of times)	1.4	6.2
Total Revenues:	\$282,720	\$639,900
Average Inventory Amount	21,400.0	65,500
Number of Employees:	3	4
Balance Sheet Structure (%):		
Assets:		
Accounts Receivable	0.0%	3.4%
Inventory	11.2%	21.8%
Capital Assets	73.0%	39.9%
Liabilities:		
Accounts Payable	0.0%	28.9%
Total Liabilities	68.3%	62.9%
Total Shareholder's Equity	31.7%	37.1%

Comparing this venture's forecasted with industry averages suggests that:

- The forecasted revenues and profitability are conservative,
- The gross profit margin is aligned with the industry average,
- The majority of the liquidity ratios are consistent with the industry average with the exception of interest coverage – one suggestion is amounts borrowed are higher than average (given the slightly higher liabilities and lower shareholder's equity),
- Inventory levels are an indicator of revenues – for this venture to increase its revenues, the inventory levels will also need to increase,
- Capital assets are significantly higher which may suggest the leasehold improvements for this start up are unusually high,
- The forecasted financials assume all bills will be paid as received,
- Although slightly different, neither total liabilities nor shareholder's equity are significantly different than industry averages,
- Revenue earned per employee is \$94,240 for this venture and \$159,975 as the industry average, which is significantly higher. Ms. Entrepreneur should consider starting this venture with fewer employees until the revenue per employee is consistent with the industry.

APPENDIX 1

FINANCIAL PROJECTIONS

THAT WOULD BE INCLUDED

Notes to Financial Statements

Three-Year Projected Income Statement

Three-Year Projected Balance Sheet

Statement of Change in Financial Position

One-Year Projected Cash Flow

Break Even Analysis

Loan Schedules

Sensitivity Analysis: What If Inventory TO is 4.5 Times

Sensitivity Analysis: What If Inventory TO is 5.5 Times

Sensitivity Analysis: What If Gross Margin is 45%

Sensitivity Analysis: What If Gross Margin is 55%