Master Class: Creation of a Retail Enterprise Syllabus (Preliminary)
B 8698
Fall 2018

Thursdays
2:15 PM-5:30 PM
416 Warren Hall

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Course Description:

This course will trace the path of a retail enterprise from ideation to implementation. The course will migrate from a macro to micro view of all activities which must be engaged in to actually launch a retail enterprise. A retail enterprise may take the form of a “brick and mortar” store, a catalog, a web based business, or, any combination thereof. We will focus on both a brick and mortar and a web based effort. The retail enterprise created on desktop will potentially be an actual opportunity which students may have the opportunity to join, in an actual real world setting, once the course work has been completed.

Initial ideas will be identified, discussed, and then a specific idea or ideas will be selected with respect to market capacity, competitive opportunity and economic viability. (I have a selected target strategy, but rather expect the class to bring their own idea forward). From this starting point a business plan will be created, a financing strategy will be crafted, and organizational, operational, merchandising, and marketing plans will be formulated. The course will be presented through a combination of structured lectures, team assigned work projects, workshops and presentations, and guest appearances of individuals whose specific area of expertise will aid the class in accomplishing its final objective: the launch of a viable retail business. These outside “experts” will represent a variety of functional areas such as merchandising, marketing, investment banking, systems design, real estate planning, and store planning and design, etc.
An example of an actual prior class' project work is attached for illustrative purposes at the end of this syllabus.

**Class Organization:**

The class begins promptly at 2:15PM. We will break at 3:45-4:00PM then resume at 4:00-5:30PM.

If you must be late or absent for any class, consistent with the policy of the school, you must e-mail or call me in advance. In deference to guest speakers, you must not be late for a guest presentation or leave early.

Because of the interactive and team nature of this course, consistent attendance and participation are critical requirements of enrollment.

**Course Methodology:**

The class will function as both a single unit, and, will also be broken up into three functional teams. These teams will represent master activity centers in building our selected enterprise. Choosing an appropriate enterprise will be our initial task. Our objective is to hold a virtual “ribbon cutting” 12 weeks later at the completion of the semester.

The teams’ functional activity centers will be:

- Financial Planning and Control
- Merchandise. Merchandising and Marketing
- Administration, Operations and Logistics

Leaders will be assigned to each team.

**Guest Speakers: Schedule to be announced**

Guest speakers will enhance our knowledge of specific topics as described above in the course description.
Grading:

30 percent individually based, determined by class participation
30 percent team based determined by the quality of each teams’ work
40 percent class based determined by the overall quality of the enterprise project created

Retail Fundamentals:

We will rely heavily on five baseline retail fundamentals, notably, dimensions of:

- Product
- Price
- Presentation
- Productivity
- People

These dimensions will be reviewed in depth in our first session. A Glossary of Retail terms and other related material will be provided as well.

Session #1: Thursday September 6, 2018

Topics:

- Course objectives and methodology
- Retail fundamentals, Glossary of Terms
- Team descriptions, responsibilities and assignments
- Idea selection and process
Session #2: Thursday, September 13, 2018

Topics:

- Idea presentations (Team)
- Idea selection (Class)
- Project work flow review
- Business plan design/control

Assignment:

- Each team to submit one possible project idea

Session #3: Thursday, September 20, 2018

Topics:

- Financing Strategy review, market capitalization
- Internal business planning, budgets

Assignment:

- TBD

Session #4: Thursday, September 27, 2018

Topics:

- Organizational design/staffing/budgets
- Operational planning/logistics
- Systems/controls

Assignment:

- TBD
Session #5: Thursday, October 4, 2018

Topics:

- Merchandise planning
- Real estate planning
- Channel strategy (e.g. store, web, catalog)

Assignment:

- TBD

Session #6: Thursday, October 11, 2018

Topics:

- Merchandise strategy

Assignment:

- TBD

Session #7: Thursday, October 25, 2018

Topics:

- Merchandise Strategy/competitive review

Assignment:

- TBD
Session #8: Thursday, November 1, 2018

Topics:

- Merchandising Strategy/pricing/promotional strategy
- Merchandise Presentation requirements
- Project status review

Assignment:

- TBD

Session #9: Thursday, November 8, 2018

Topics:

- Store planning and design strategy
- Visual merchandising/merchandise presentation strategy

Assignment:

- TBD

Session #10: Thursday, November 15, 2018

Topics:

- Marketing strategy and planning

Assignment:

- TBD
Session #11: Thursday, November 29, 2018

Topics:

- Marketing implementation
- Launch plan strategy

Assignment:

- TBD

Session #12: Thursday, December 6, 2018

Topics:

- Project launch
- Performance evaluation
- Next steps

- Please insert Spring 2013 Master Class Project power point deck here*
The Concept of Flirt
Flirt is a novel "lifestyle" retail store with a high-end aesthetic and mid-range, upward biased price points. Unlike typical low-end adult stores that often associate or are associated with "sleaze," Flirt will differentiate itself through a carefully selected product assortment and services. The store will project a clean and modern atmosphere through its use of furnishing, music, scent, and colors. The concept encourages couples shopping together or individuals for themselves or gift ideas. The use of natural materials, fresh materials, draped fabrics and soft pillows would draw people into the store to shop for goods, to browse literatures on the sofas, to attend massage classes, or even to plant their next bachelorette all while basking in the radiance of high-end store.

Flirt will target customers age 25-45 and product price range would be benchmarked between Victoria Secret's and Anthropologie. Flirt expects to have some price flexibility through unique packaging and special events. Although Flirt would generally maintain its price level throughout the seasons, Flirt may price its products more competitively where appropriate.

Signature Look
In order to differentiate Flirt from existing competition (see below for description of competitors’ store style), we will achieve a branded look and feel that is clean and modern, and signature colors are inspired by the Orchid.

We will have a "base" color of white, with highlights of a deep purple and gold. The majority of our competition is focused around either a black or pink palate with more dark and fetishistic overtones, and we want Flirt to have an entirely new feel.
Competitive Landscape

We closely reviewed the product and service offerings and store presentation of five major competitors: 1) Kiki de Montparnasse; 2) Coco de Mer; 3) Ann Summers; 4) Toys in Babeland; and 5) La Petite Coquette.

Kiki de Montparnasse and Coco de Mer are very dark in presentation, while Ann Summer, Toys in Babeland, and La Petite Coquette are brightly colored. Based on the range and “taste level” of products offered (not price), we believe that Kiki de Montparnasse and La Petite Coquette are our best competitive comparables. Both are bedroom heavy, with Kiki de Montparnasse on the higher end with tasteful sex-play/bondage undertones and black and white colors, and La Petite Coquette on the more romantic, frilly end with a pink presentation.

ASSORTMENT PLAN
Assortment Summary

Products will be presented within the following groups:

**Sleep**—will include apparel and accessories; it will account for approximately 28% of floor space and 35% of sales volume.

**Play**—will include sex toys, accessory gear, and erotic games for couples and groups; it will account for approximately 19% of floor space and 17% of sales volume.

**Home**—will include décor items such as novelty pillow cases and cards; it will account for approximately 5% of floor space and 11% of sales volume.

**Both & Body**—will include consumables in the intimate, bath, and message categories; it will account for approximately 12% of floor space and 8% of sales volume.

**Art**—will include books, music, stationary, and art; it will account for approximately 20% of floor space and 13% of sales volume.

**Gift**—will include Flirt's signature pre-arranged gift boxes, which will be designed using items from other product categories; it will account for approximately 10% of floor space and 6% of sales.

**Experience**—will include both free promotional events and fee-based hosted parties and workshops, which will require seating and event space; it will account for approximately 20% of floor space (we include the cash register area in this category) and 13% of sales.

Floor space percentages are based on a 4x5 grid block and do not include back room square footage. We assume an overall store space of 2000 sf, with 20-30% dedicated to back room/inventory.

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**Sleep**

**Apparel**—Apparel will be biased towards women's lingerie, but will also include a few key men's items. Flirt will offer three different looks: 1) traditional cut lingerie in black, white, and nude; 2) modern cut lingerie in seasonally-adjusted colors; and 3) Flirt's private label items in our signature color palate. Prices would be competitive or at a slight premium to other sellers of similar products (e.g. Victoria's Secret, La Petite Coquette).

**Accessories**—Accessories will include basic items (e.g. hosiery and sleep masks), as well as erotic sex-play items (e.g. blindfolds and wrist ties). We want to provide the bondage items that our customers are looking for, but in more playful, less-intimidating styles than what is typically offered by our competitors (e.g. silk bow wrist ties as opposed to chain and leather hand cuffs). Prices would be competitive with other vendors of similar products.
**Play**

**Toys** – Toys will include a limited selection of well-designed, discrete items across the full range of device types. Items are intended to be used by couples or individuals, and be tailored as appropriate to gender and sexual orientation. Preferred brands will include JimmyJane, Lelo, nJoy, Phalix, Exotic Glassworks, and Fun Factory, and be purchased wholesale from the manufacturer. Prices will be competitive with mass on-line device sellers (e.g. Amazon.com and Toys in Babeland).

**Play**

**Gear** – Gear will include a limited selection of non-apparel sex-play items, such as paddles and feather ticklers. Prices will be competitive with other lifestyle retailers. Preferred manufacturers will include Idea Leather, Co., Spanking Paddles by Walt, and wholesalers such as The Stockroom.

**Games** – This category will include erotic games for couples, as well as risqué games for adventurous groups. Prices would be competitive with other lifestyle retailers and novelty shops. Games will be sourced from wholesaler RipnRoll.com.
Home

Overview of Category: Home will be a relatively small category that includes décor and ambience items. All linens will be sourced at wholesale from traditional companies such as Wamsutta, and then locally custom screen printed with Flirt branded words/details. Candles and incense would similarly be sources from a company like Yankee Candle, but packaged with Flirt labeling.

Bath & Body

Overview of Category: Finances permitting, we would prefer the majority of these items to be Flirt branded. Condoms, lubes, etc. can be sourced as private label from ripnroll.com. Other brands that would fit the Flirt store include Kama Sutra, and Blaeq (which include Miso Cote, Dirty Girl, and Bitch lines).

Love Potions: This category will include intimate consumables. Prices would be slightly above the mainstream brands like K Y, due to additional costs of packaging private label items. Overall, prices would be competitive with mass retailers (e.g. Amazon.com, Drug stores) and other high-end private label consumables (e.g. Kiki de Montparnasse).
Bath & Body

**Bath** – Bath items with include consumables (e.g., soaps and bubble bath) and personal/grooming items (e.g., hair and nail brushes). Prices would be competitive with other bath specialty stores (e.g., Bath & Body Works). Consumables in this category would be as described above for the category generally. Brushes and sponges would be sourced from a premier craft company such as Wido.

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**Massage** – This category would include a selection of massage-specific (not necessarily sexual) consumables and devices, such as hot stones and aromatherapy oils. Prices would be competitive with other retailers (e.g., Whole Foods). To fit Flirt’s image and product selection, the majority of massage items can be sourced from toy provider JimmyJane, or consumables manufacturers like Kama Sutra.
Art

Overview of Category: Art books would be sources from a company like Taschen, and other titles would be sources directly from appropriate publishers or wholesalers like bookdepot.com.

Books – Books will include a broad, but not exhaustive, range of titles within art, sexed, and erotic literature categories (approximately 20 titles per category). These should be visually appealing and tastefully, and not be oriented towards porn. Our goal it so offer thrilling, yet tasteful and classic options for a sensual library. Prices would be comparable to other major book stores.

Prints/Objects – Artworks would include a selection of prints and objects. Ideally, Flirt could partner with an outside gallery to showcase current artists works along with classics. Reproductions could be sources at wholesale from poster companies like art.com, or directly from contemporary artists.

Stationary – Stationary would include a range of typical items, including post cards, occasion/gift cards, and stationary (paper/envelope sets). Prices would be competitive with other stationary specialty stores (e.g. Papyrus). Private label items would be sourced from Cranes, and additional selections could be sourced from Kate’s Paperie.

Music – Only Flirt compilations will be sold. They will be produced at Razor and Tie.
Gift

Overview of Category: Pre-selected gift boxes are intended to be a major Signature category for Flirt. Boxes will vary in theme and price so that there are suitable options for every occasion and every type of gift-giver (by gift-giver, we are referring to the level of intimacy between the giver and recipient). By specializing in gift boxes, people will be able to shop with ease and can avoid the possible headache or embarrassment of compiling their own selections. Prices will range from an inexpensive gift for a friend to a more luxury gift for a special person, $30-$150.

Signature item: Signature packaging will make shopping fun and easy. Boxes will be white metal lunch boxes with a different graphic or accent color to identify the theme of the contents. The lunch box provides a playful and fun shape while the white color and graphic design provide a modern, adult aesthetic.

Presentation: Holiday and seasonal packages will be featured at the front of the store and will form the basis for promotional campaigns. There will also be a selection of packages offered year-round for personal occasions as well as fun themes. While wedding and honeymoon is a personal occasion that will be offered year-round, it will be particularly featured for the summer months.

Experience

Events (paid) – Flirt will specialize in hosting entertaining and educational events that are open to the public (but requiring RSVP for attendance) or arranged for private groups. Events will include erotic literary reading and a monthly book club, private parties (e.g. bridal showers, girls’ night out), special workshops (e.g. couples massage classes), and private photo shoots. In addition, product demo parties could be offered as either free promotional events or private events for a fee.

Services (free) – Additional free services will make Flirt a top-tier, inviting lifestyle retailer. These services will include a loyalty program, private shopper assistance, gift registry, and online sexologist education center. They are services that customers will expect to be available and will play a significant role in our marketing plan.
Target Consumer

The target population will be adults age 25-45. Flirt's marketing and promotions will primarily target the female segment of this demographic, but there will be efforts to appeal to the male population through product display and some promotional events. The experience in the store is expected to appeal to women shopping for themselves, couples shopping together, and men shopping for gifts. Therefore, the key target customers to acquire and retain through marketing outreach will be the females aged 25-45.

Flirt's marketing will also be designed to reach those that do not work/live in the neighborhood of the store. The population of 25-45 year olds accounts for 38.3% of the population of Manhattan, or 588k people in 2000. Of this, 52.5% are women (309k) and 47.5% are men (279k). This potential customer base can be expanded by including females and males aged 25-45 who reside in the greater New York metropolitan area. For the New York-Newark-Bridgeport NY-NJ-CT-PA Combined Statistical area, the 2008 estimate for the 25-45 demographic was 6.2 million people (3.2 million females and 3 million males):

<table>
<thead>
<tr>
<th>Area</th>
<th>Total</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>588,000</td>
<td>309,000</td>
<td>279,000</td>
</tr>
<tr>
<td>New York City</td>
<td>2,500,000</td>
<td>1,300,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>NY-Northern New Jersey-Long Island NY-NJ-PA</td>
<td>5,300,000</td>
<td>2,750,000</td>
<td>2,550,000</td>
</tr>
<tr>
<td>New York-Newark-Bridgeport NY-NJ-CT-PA</td>
<td>6,200,000</td>
<td>3,200,000</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>
Advertising

Flirt’s advertising will be characterized by small, targeted advertising in alternative media, as well as social networking.

Alternative Media Advertising
Email newsletters/websites such as dailycandy and thrillist will allow us to reach our target customers with relatively low cost. Each of these subscription-based email newsletters allows advertisers to send an email blast to its distribution lists.

• dailycandy
  o Description: “DailyCandy is a handpicked selection of all that’s fun, fashionable, food related, and culturally stimulating in the city you’re fixated on.”
  o Website appeals to young urban women who like to keep informed on latest fashion trends.
  o Marketing messages can announce opening, special events, and unique products. Can be a conduit for RSVP’ing for events.

• thrillist
  o Description: “Thrillist fearlessly sifts through the crap every day to uncover your city’s finest new food, drinks, gear, travel, and entertainment.”
  o Website caters to male, urban professionals in their twenties and thirties.
  o Marketing messages can announce couple events and describe a lingerie store where a guy can easily and comfortably buy a gift for his significant other.

Social Networking
Flirt will be heavily reliant on word of mouth. As such, Flirt will use social networking sites such as Facebook to create a community for our customers and a place generate positive buzz. Facebook users will have the option of becoming a fan of Flirt, and as a result, inform their networks about Flirt and its offerings.

Promotions

Generally, Flirt will keep pricing stable throughout the year and not engage in storewide discounting promotions. Instead, Flirt will use bundling to move featured product, and will instead offer promotions in connection with specific events and its loyalty program.

Signature Gift Boxes

One of the major aspects of the Flirt’s promotional strategy is unique, pre-packaged gift boxes. Gift boxes will feature seasonal and themed packaging meant to draw customers into the store for various occasions and holidays throughout the year, and also make selection easy and discreet for the more timid shoppers. Like different flavors of lip gloss, boxes will vary in aesthetic even if the contents do not vary much in function (i.e. a candle and body scrub in different scents and colors as well as a toy that correlates with the theme or holiday). They will be fun to collect because the packaging makes each one unique and the bundle of contents make the shopping experience easy and convenient.

Holiday and seasonal packages will be featured at the front of the store and will form the basis for promotional campaigns. Additional promotional materials including fliers, posters and displays in the store will feature the latest gift box theme. There will also be a selection of packages offered year-round for personal occasions as well as fun themes. While wedding and honeymoon themes will be offered year-round, it will be particularly featured for the summer months. Packages will include:

• Holidays/Seasonal – Valentine’s, Mardi Gras, Mother’s Day, Father’s Day, Graduation, Summer Lovin, Independence Day, Back to School, Halloween, Thanksgiving, Hannukah, Christmas, New Year’s Eve
• Personal – Birthday (men and women versions), Anniversary, Honeymoon
• Themes – Banana Split, Café au Lait, Tea Time, Soda-Pop, Nightcap
• Celebrity – Packages featuring favorite items hand-selected by artists, actors and musicians.
**Store Launch**

Flirt is the kind of store that we want people to happen upon and feel comfortable entering. It is a word of mouth store that will not need advertising. The launch, however, is key to establishing Flirt's initial presence and identity.

The store launch will be first and foremost a party that is representative of our typical in store events, but on a grander scale. The launch will be a large party that offers product demos, aphrodisiac food and wine tasting, erotic poetry performances, free massages and an opportunity for customers to sign up for the gift registry and learn about all of the services provided by Flirt throughout the year. If Flirt can obtain celebrities that live a Flirt lifestyle to attend the launch this would be desirable. Such celebrities include P. Diddy, Kim Kardashian, Paris Hilton, the Pussy Cat Dolls, Usher and other celebrities with similar mass appeal who portray what Flirt is all about.

**Floor Plan**

<table>
<thead>
<tr>
<th>Music &amp; Books</th>
<th>Books</th>
<th>Art</th>
<th>Stationary</th>
</tr>
</thead>
<tbody>
<tr>
<td>[arm chair w/ side table]</td>
<td>[step up]</td>
<td>[step up]</td>
<td>[arm chair w/ side table]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Play</th>
<th>Cash Register</th>
</tr>
</thead>
<tbody>
<tr>
<td>[primary location for display and storage of devices and gear]</td>
<td>[payment and packaging, etc.]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Apparel</th>
<th>Bath</th>
<th>Body</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>[apparel and accessories – traditional]</td>
<td></td>
<td></td>
<td>[apparel and accessories – modern]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Home/Play</th>
<th>Lounge/Event Seating</th>
<th>Play</th>
</tr>
</thead>
<tbody>
<tr>
<td>[home w/ featured play items mixed into display]</td>
<td>[large coffee table and couches]</td>
<td>[home w/ featured play items mixed into display]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Apparel</th>
<th>Gift</th>
<th>Gift</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>[apparel and accessories – traditional]</td>
<td>[entry]</td>
<td>[entry]</td>
<td>[apparel and accessories – modern]</td>
</tr>
</tbody>
</table>
Real Estate Strategy

• 2,000 SF of retail space

• $14,000/month

• $168,000 Annualized

• On busy street with good assortment of clothing boutiques, bars and restaurants

• Currently occupied by sample sale pop-up
ORGANISATIONAL STRUCTURE

OWNER / MANAGER

SALES CLERK
SALES CLERK
SALES CLERK
SALES CLERK
Hiring Strategy

• Craig’s List Posting
• Retail Job Websites
• In-Store Hiring
<table>
<thead>
<tr>
<th>HOUR</th>
<th>FULL-TIME EQUIVALENT</th>
<th>TASKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-12</td>
<td>1</td>
<td>OPENS STORE</td>
</tr>
<tr>
<td>12-13</td>
<td>3</td>
<td>BOOKKEEPING</td>
</tr>
<tr>
<td>13-14</td>
<td>3</td>
<td>HOUSEKEEPING</td>
</tr>
<tr>
<td>14-15</td>
<td>3</td>
<td>MERCHANDISING</td>
</tr>
<tr>
<td>15-16</td>
<td>3</td>
<td>SOME SALES</td>
</tr>
<tr>
<td>16-17</td>
<td>3</td>
<td>PEAK SALES</td>
</tr>
<tr>
<td>17-18</td>
<td>3</td>
<td>PEAK SALES</td>
</tr>
<tr>
<td>18-19</td>
<td>3</td>
<td>PEAK SALES</td>
</tr>
<tr>
<td>19-20</td>
<td>3</td>
<td>PEAK SALES</td>
</tr>
<tr>
<td>20-21</td>
<td>2</td>
<td>BOOKKEEPING</td>
</tr>
<tr>
<td>21-22</td>
<td>2</td>
<td>CLOSES STORE</td>
</tr>
</tbody>
</table>

Flirt Posting for Online Job Sites

Flirt
Flirt is a lifestyle retail store dedicated to lingerie, sex toys and specialty items. It provides consumers with a tasteful and elegant shopping experience through its lovely décor, expert sales associates and special events.

Position: We are seeking enthusiastic sales associates, who have a passion for and knowledge of the lifestyle category, which Flirt specializes in. Prior retail and apparel experience is not required, though would be a plus. The associate would work at our store on Lafayette and Houston.

Responsibilities: Include consulting and advising consumers on the merchandise, completing the sale by checking consumers out, conducting inventory checks, assisting with the design of the merchandise presentation, making sure the merchandise presentation is in order at all times, assisting with running special events in-store after hours and depending on the schedule each week, alternate between opening and closing the store.

To Apply: Please send your cover letter and your resume to Jobs@Flirt.com. Please describe in your cover letter how you fit our target of an enthusiastic sales associate, who has a passion for and knowledge of the lifestyle category which Flirt specializes in.
**Interview Process**

* After screening submissions through the online job site, the Flirt Manager will contact candidates and invite them for a 30 minute interview at the store.
* The Manager should begin by describing the Flirt philosophy and explaining in detail the Sales Associate position and its responsibilities.
* The Manager should then take the candidate through the interview using the following questions:

1. Why are you interested in working for Flirt?
2. A major part of your responsibilities will include consulting consumers on the merchandise. Please describe your relevant sales experience.
3. Do you have any apparel or lingerie experience? If so, please describe.
4. One of the responsibilities of the sales associate will be to assist with special events after hours. Do you have any event planning experience? If so, please describe.
5. Flirt specializes in a unique lifestyle category. What is your favorite product within this category and please explain what you like about it.
6. (Place a Flirt product in front of candidate) Pretend that I am a consumer and I approach you asking for your opinion of this product. Act out how you would advise me.

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**Employee Handbook**

**Table of Contents**

- Flirt Brand Philosophy
- Sales Associate Responsibilities
- How to Look Like You Flirt
- Selling Strategies
- Merchandise Guide
- Special Events Guides
- Seasonal Updates

**Training**

- New Sales Associates will go through an extensive orientation session, which will entail the Manager walking him or her through the Employee Handbook.
- The Manager will create seasonal updates to apprise associates of new merchandise and new category trends. When these updates are added, the Manager will conduct a reorientation session to walk associates through the update.
Vendor Requirement

1. Software & hardware package
2. Scalable
3. Package
4. Vendor Financing

STORE CONCEPT

- Under $10M USD & Less Than User <50
- 512K Lease Line
**Radio Frequency ID Recommendation**

The Printronix Smart Label RFID tags combine the technology of thermal transfer, pressure-sensitive labels with RFID tags. Smart Label RFID tags use the popular "squiggle" design to ensure readability from multiple orientations. These EPC Class 1, 96 bit (read/write) tags function in the 902 to 928 MHz (UHF) range. The labels are manufactured to demanding specifications and quality tested to ensure best performance.

27 FOR $143.70
## IT Expenditure

### HARDWARE
- Apple iMac20-inch; 2.66GHz (k2) $2,398
- Taisker POS (k2) $1,520
- Brother Multi-Function Wireless Printer (MFC-9840CDW) $699
- Apple TimeCapsule (2TB) $499
- Star Micronics TSP-100 Receipt Printer with Auto-Cutter $374
- Honeywell Voyager Barcode Scanner $219
- APG Vasario Cash Drawer (VP554-BL1416-USD) $249
- Dymo LabelWriter 450 Turbo $219
- ID Tech Mini Mag Credit Card Swipe $80
- Network Cable Cat 6e; 25ft (k2) $10

**Total Hardware Cost: $6,337**

### SOFTWARE
- LightSpeed 2.8 (Better Bundle) $2,375
- Apple iWork '09 $79

**Total Software Cost: $2,454**

### WEBHOSTING
- FatCow Webhosting $45

### DETECTION SYSTEMS
- Snsomatic Ultra Post Primary Antenna $2,500
- Samsung CCTV Camera (GVI Security SCC-B5395H) $375
- Snsomatic-Ultramax-OR-Labels $275
- GE 45142 Choice-Alert Wireless Alarm System $30

**Total Detection Systems Cost: $3,180**

**TOTAL COST: $12,076**
**Store-based Storage**

- All products arrive directly in store
- Delivery through FedEx, UPS, etc
- System requirements:
  - Check-in (PDA)
  - Automatic inventory
- Each store independently handles inventory
- Enables easy replenishment for online retail operation

**Inventory Management Set-Up**

1. **CLASSES** and **FAMILIES** are set in the Product card from these pre-defined lists.

1. **CLASSES** are Product categories – speakers, accessories, dresses, chairs, etc.

1. **FAMILIES** are normally set as the name of the manufacturer – Apple, Sony, Honda, Nike, etc.
Warehouse Layout

- The Warehouse will be split into four storage categories:

Once the PO is processed, it is ready to have the Product marked as Received when it arrives from the Supplier:
## Income Statement

<table>
<thead>
<tr>
<th>Income Statement ($USD)</th>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
<th>Y4</th>
<th>Y5</th>
<th>Y6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$1,000,000</td>
<td>$1,200,000</td>
<td>$1,400,000</td>
<td>$1,500,000</td>
<td>$1,600,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>$600,000</td>
<td>$720,000</td>
<td>$821,000</td>
<td>$910,000</td>
<td>$1,001,000</td>
<td>$1,102,000</td>
</tr>
<tr>
<td><strong>% of sales</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>$400,000</td>
<td>$480,000</td>
<td>$551,000</td>
<td>$607,000</td>
<td>$600,020</td>
<td>$734,712</td>
</tr>
<tr>
<td><strong>Profit Margin</strong></td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>SG&amp;A</strong></td>
<td>$16,250.00</td>
<td>$18,500.00</td>
<td>$13,025.00</td>
<td>$13,025.00</td>
<td>$14,020.00</td>
<td>$15,422.00</td>
</tr>
<tr>
<td>% of sales</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Legal/Accounting</strong></td>
<td>$10,000</td>
<td>$8,500</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td><strong>IT</strong></td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Insurance Expense</strong></td>
<td>$12,000</td>
<td>$14,400</td>
<td>$11,540</td>
<td>$18,216</td>
<td>$20,038</td>
<td>$22,043</td>
</tr>
<tr>
<td><strong>Rent Expense</strong></td>
<td>$144,000</td>
<td>$151,200</td>
<td>$151,760</td>
<td>$166,698</td>
<td>$175,033</td>
<td>$183,780</td>
</tr>
<tr>
<td><strong>Salaries Expense</strong></td>
<td>$147,410</td>
<td>$154,810</td>
<td>$161,339</td>
<td>$170,083</td>
<td>$175,217</td>
<td>$188,171</td>
</tr>
<tr>
<td><strong>Housekeeping Expense</strong></td>
<td>$7,200</td>
<td>$7,500</td>
<td>$7,938</td>
<td>$8,335</td>
<td>$8,752</td>
<td>$9,180</td>
</tr>
<tr>
<td>% of sales</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Maintenance Expense</strong></td>
<td>$0.740</td>
<td>$0.804</td>
<td>$0.864</td>
<td>$0.944</td>
<td>$1.031</td>
<td>$1.134</td>
</tr>
<tr>
<td>% of sales</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Renovations Expense</strong></td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>($56,053)</td>
<td>($6,523)</td>
<td>$31,811</td>
<td>$56,872</td>
<td>$184,859</td>
<td>$316,704</td>
</tr>
</tbody>
</table>
Income Statement Assumptions (1 of 2)

• Revenue and COGS
  – Revenue: Base revenue in year 1 determined using assumption of $500 in sales per square foot
  – Growth rate: Assume YOY growth rate to be 20% in year 1, 15% in year 2, and 10% thereafter
  – COGS: Assume COGS is 60% of sales based on comparables from similar retail stores (e.g. Limited Brands)

• Marketing
  – Marketing expense for year 1 includes following items:
    • $27,500 for launch party
    • $27,750 for holiday events (e.g. Valentine’s Day and Christmas)
    • $31,000 for other PR-related Expenses
  – Marketing expense for years 2-6 based on percent of sales of year 1, which was 9%

• Legal & Accounting: Assume flat $10,000 for legal and accounting fees in year 1 due to store openings and incorporation and then $5,000 thereafter. We hope to utilize friends and network to find legal/accounting services for reasonable fees.

• IT: Lease IT equipment and licenses for $15,000/year

• Insurance: Insurance expense expected to be 2% of COGS

Income Statement Assumptions (2 of 2)

• Rent
  – Rent for year 1 assumed to be $144,000 ($12,000 per month)
  – Rent assumed to grow 5% YOY after year 1

• Salaries
  – Salary expense includes the following
    • 1 manager salaried at $50,000
    • Equivalent of 1.5 FTEs paid $14 per hour
    • 1 Part-time employee paid $12 per hour
    • 1 Unpaid intern
  – Benefits are included in total salary expense and assumed to be 7% of the salaries.
  – Salary expense assumed to grow 5% YOY after year 1

• Other building expenses
  – Housekeeping expenses: Expected to be 5% of annual rent expense
  – Maintenance: Expected to be 4% of annual rent expense
  – Renovation: Assumed to cost total of $40 per square foot over four years, which implies a total cost of $80,000 and annual cost of $20,000 for years 1-4
  – Depreciation: Assume straight line depreciation of $45,000 worth of furniture and supplies procured in year 1; thus if spread over five years, depreciation costs $9,000 per years
Balance Sheet

<table>
<thead>
<tr>
<th>Balance Sheet (US$)</th>
<th>Y1</th>
<th>Y2</th>
<th>Y3</th>
<th>Y4</th>
<th>Y5</th>
<th>Y6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$191,000</td>
<td>$237,000</td>
<td>$273,240</td>
<td>$303,564</td>
<td>$330,620</td>
<td>$383,642</td>
</tr>
<tr>
<td>(2x turnover)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>$5,479</td>
<td>$6,575</td>
<td>$7,562</td>
<td>$8,318</td>
<td>$9,150</td>
<td>$10,005</td>
</tr>
<tr>
<td>[Assume 2 days of sales]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent deposit</td>
<td>$37,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.5 months 1 working capital</td>
<td>$100,000</td>
<td>$60,000</td>
<td>$27,600</td>
<td>$15,180</td>
<td>$16,698</td>
<td>$18,368</td>
</tr>
<tr>
<td>[10% of net sales for first year: 5% for 2nd year: 2% for 3rd and 1% thereafter]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furnishings and supplies</td>
<td>$45,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td></td>
<td>$23,760</td>
<td>$54,641</td>
<td>$89,169</td>
<td>$99,186</td>
<td>$109,185</td>
</tr>
<tr>
<td>[Assume minimal at start-up: 10% in first year: 20% in second year and 30% thereafter]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total working capital</td>
<td>$341,279</td>
<td>$280,415</td>
<td>$253,754</td>
<td>$231,893</td>
<td>$257,262</td>
<td>$283,039</td>
</tr>
<tr>
<td>Increase (decrease) in working capital</td>
<td>$341,279</td>
<td>$280,415</td>
<td>$253,754</td>
<td>$231,893</td>
<td>$257,262</td>
<td>$283,039</td>
</tr>
<tr>
<td>Fixed asset investment</td>
<td>$45,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$(433,932)</td>
<td>$(63,341)</td>
<td>$(67,47)</td>
<td>$(85,533</td>
<td>$(96,469</td>
<td>$(75,017)</td>
</tr>
<tr>
<td>Capital Requirements</td>
<td>$(433,932)</td>
<td>$(63,341)</td>
<td>$(67,47)</td>
<td>$(85,533</td>
<td>$(96,469</td>
<td>$(75,017)</td>
</tr>
</tbody>
</table>

Recommended total capital requirement: $1,100,000

Total Start-up Capital Required: $1,100,000

Balance Sheet Assumptions

- **Inventory**: Assume inventory is a multiple of 2x inventory turnover and COGS

- **Receivables**: Assume 2 days of sales

- **Rent deposit**: Assume 3 months rent is due for deposit in year 1

- **Cash**: Assume need 10% cash on hand for year 1 and then 5%, 2%, 1% for years 2, 3, and 4 respectively.

- **Furniture and supplies**: Initial cash outlay of $45,000 to purchase initial furniture, etc.

- **Payables**: Assume minimal at start-up; 10% in first year; 10% second year and 30% thereafter
External Financing Plan

[Based on typical progression of financing for consumer-oriented start-up companies]

- (1) Founders' sweat equity, savings, and credit cards
- (2) Family and friends' equity: Typically $100,000-$1M in total
- (3) Early stage Institutional Investors/Venture Capital: Typically $1-5M in total
- (4) Mid/Late-stage Institutional Investor/Venture Capital/PE Firms: Typically $5-25M in total

We will likely rely on initial Founders' and Family/Friends equity for year 1 and approach institutional investors/venture during years 2 or 3.

Note: Based on typical progression of financing from Peter LaFleche, Managing Director, Morgan Joseph Inc.