Maternity Aid

BUSINESS PLAN

NEST IN COMFORT

1116 Logen St.
Santa Fe, NM 62024

March 1989

This following plan for this small enterprise outlines the qualities necessary to take a European-born product and successfully market it in the United States. The plan features a discussion of the use of direct mail and an overview of requirements, as well as a Pro Forma Income Statement and a Cash Flow Forecast.

THE PRODUCT

Nest in Comfort is a pillow that was originally developed in Holland by a mother, pregnant with twins, for her own use based upon her experiences with previous births.

The final product proved successful and resulted in demands from family and friends. A cottage industry evolved and subsequently grew into a full-time business. Approximately three years later, the pillow is established and latest information indicated a desire to expand into other European countries, starting with West Germany.

This is the only known product devised specifically for use both during and after pregnancy. In use, the pillow adjusts to individual needs and conforms gently, but firmly, to body contours. Unlike conventional pillows, the wrap-around styling does not flatten or lose shape and "stays put" in whatever shape into which it is molded.

The distinctive features are the consequence of its curved configuration and the composition of its filling medium. Considerable research and testing were conducted to determine the type and amount of filling which would provide optimum performance. The filling medium is precisely metered into an inner casing to ensure the correct balance between firmness and flexibility.

For the expectant mother, the innovative U-shaped design provides comfort for relaxation and sleep while it helps maintain supported positions recommended by childbirth educators. Mother-to-be users report that sleeping on one side without turning is considerably easier than the sleep-interrupting routine of tossing and turning while trying to rearrange three or four ordinary pillows.

New mothers confirm that the Nest in Comfort provides firm back and arm support as well as gentle cradling for their nursing infants. Use of the pillow helps hold the nursing baby in the correct position, thereby eliminating difficulties sometimes associated with breast feeding. Breast feeding twins is made simple since each baby can be cradled on opposite sides of the pillow.

The emphasis on breast feeding and the fact that the pillow's inventor was a mother of twins influenced the design of the original brochure and the marketing thrust. This, in turn, translated in to the emphasis which we —neophytes in the maternity market—followed in our approach to the U.S. market.

As a result, we discovered the hard way that:

1. The brochure is unsuitable for the U.S. market.
2. Breast feeding, although increasing, is still less favored in the U.S. than formula feeding, and is still a controversial subject.
3. Pre-natal use is the preferred emphasis.

Aside from its intended use, there is a variety of additional potential applications and markets. These include: chiropractic, the elderly, the bedridden and chair-bound and - more frivolously — "couch potatoes", audiophiles, bedtime bookworms, golfers, gardeners etc.

Nest in Comfort comprises a sealed inner casing containing the filling material and a removable, machine washable outer case, which features a recessed zipper for safety and convenience.

The pricing structure is $39.95 for the pillow and a choice of nursery design outer covers for $ 18.95, or plain covers for $ 12.95. UPS shipping and handling $5.00.

Of the 100 units sold, one customer ordered the pillow without a cover, one ordered the plain cover, and three requested patterns other than "bright colored nursery prints." The latter requests were met by shipping muted-striped covers from original samples.

The goal is to avoid opening and resealing boxes, plus avoid mixed inventory. Therefore, the plain cover option should be eliminated, but if sufficient demand impacts sales, a neutral option should be offered, at $18.95.

THE MARKET

Annual birthrate for the United States during 1989 and 1990 is projected at 3.8 million.

Discount. 8 million for multiple births, teenage pregnancy, etc., and assume 3 million as total national market.

Assume 10% as potential achievable long-term share. 300,000 units annually × $58.90 = $ 17,670,000 gross sales. Assume gross profit of $35 per unit = $ 10,500,000 GP. A 2% market share would yield $3,500,000 in sales and a GP of $2,000,000.

History

The product has been well proven in Holland, where it was first developed. It sells there for around $80, and as far as is known, sales average 200 units per month after 2 1/2-3 years. Since the population of Holland is relatively low, it is sold there mostly by word of mouth.

The product is unique. There are one or two "nursing pillows" available at around $30 and one "Puff as I Grow", but none are as well-designed, and none are dual-purpose.

We first became actively involved with the pillow in April, 1988. Our first ad ran in the summer issue of "Maternity" magazine.

In retrospect, it was a poor ad, possibly offensive to some and emphasizing the breastfeeding use of the pillow. Orders were received, but not enough to justify the ad costs. An upgraded version of the ad was used for regional and local advertising with better, but still not cost-effective results.

A total of $15,000 was invested in space advertising and brochure printing for a return of $2,800 in sale. Obviously, the $15,000 included "first time" photography and production costs. The summer ad in "Maternity" entitled us to an accompanying listing in their "Parenting Directory" of booklets and samples. They failed to do this and by way of recompense offered a free listing in "the next available issue", Fall 1988. That listing, without any accompanying ad, produced 1204 inquiries. We carried out a test mailing to 500 of these during the last two weeks of November, and by December 12, had received six orders, a return of 1.29%. By the end of December, we had recorded a return of 1.8%; after 60 days, we had 2.4% with no more product to ship. 3.0% took a total of 120-180 days.

Conclusions

1. Space advertising is not the way to go in terms of yield and cost effectiveness, yet, it should still be included in the overall scenario for purposes of exposure.
2. Our initial emphasis was wrongly placed on breastfeeding, when it should have been pre-natal use.
3. The original brochure definitely works against us. A four-color brochure (tri-fold) is assembled and ready for production. I believe that a return of 5% would have probably been achieved using a brochure.
4. Cost per mailing was approximately $ 1.00 using brochure, envelope, and regular postage. Assembly time was approximately 1 hour per 100 pieces. These would both be considerably reduced with a tri-fold self mailer using bulk postage rates.
5. Telemarketing professionals with whom we have consulted indicate that the normal 1-2% return on direct mailing is increased to 25% - 35% nationally. This holds true for telemarketing targeted market segments. Mailing lists of pregnant women are available at $70 per 1,000; minimum 10 lists. These are available by state, by zip code and by month of pregnancy, plus phone numbers. We would use lists that provide the names of women in their 5th or 6th month of pregnancy. 80,000 new names are added weekly.

FINANCIAL TABLES

Pro-Forma Income Statement

Scenario #1 (Budget) 2% Return on Mailing, 10% on Telemarketing

Month	1	2	3	4	5	6	7	8	9	10	11	12	Totals
Gross Sales-Units													
Start-Up			200	200	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	8,400
Gross Sales-$													
Start-Up			11,780	11,780	58,900	58,900	58,900	58,900	58,900	58,900	58,900	58,900	494,760
Mailing		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,000
Telemarketing				5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	85,000
Finished Goods		3,000	3,000	3,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	129,000
Bank Charges (Visa)			360	360	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	14,856
Total Cost of Sales (57%)		8,000	8,360	13,360	31,767	31,767	31,767	31,767	31,767	31,767	31,767	31,767	283,856
G.P.(43%)		(8,000)	3,420	(1,580)	27,133	27,133	27,133	27,133	27,133	27,133	27,133	27,133	210,904
Total G&A (22%)	5,845	7,095	7,995	8,795	8,795	8,795	10,460	10,625	10,625	10,625	10,625	10,625	110,875
NBT (20%)	(5,845)	(15,095)	(4,575)	(10,375)	18,338	18,338	16,673	16,508	16,508	16,508	16,508	16,508	99,999
Provision for Taxes					4,585	4,585	4,168	4,127	4,127	4,127	4,127	4,127	33,973
Net Earnings	(5,845)	(15,095)	(4,575)	(10,375)	13,753	13,753	12,505	12,381	12,381	12,381	12,381	12,381	66, 026
Retained Earnings Period Begin		(5,845)	(20,940)	(25,212)	(35,890)	(22,137)	(8,384)	4,121	16,502	28,883	41,264	53,645	
Retained Earnings Period End	(5,845)	(20,940)	(25,515)	(35,890)	(22,137)	(8,384)	4,121	16,502	28,883	41,264	53,645	66,026	66,026

Month	1	2	3	4	5	6	7	8	9	10	11	12	Tot
Gross Sales-Units													
Start-Up			200	200	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	8,4
Gross Sales-$													
Start-Up			11,780	11,780	58,900	58,900	58,900	58,900	58,900	58,900	58,900	58,900	494
Mailing		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,
Telemarketing				5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	85,
Finished Goods		3,000	3,000	3,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	129
Bank Charges (Visa)			360	360	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	14,
Total Cost of Sales (57%)		8,000	8,360	13,360	31,767	31,767	31,767	31,767	31,767	31,767	31,767	31,767	283
G.P. (43%)		(8,000)	3,420	(1,580)	27,133	27,133	27,133	27,133	27,133	27,133	27,133	27,133	210
Total G&A (22%)	5,845	7,095	7,995	8,795	8,795	8,795	10,460	10,625	10,625	10,625	10,625	10,625	110
NBT (20%)	(5,845)	(15,095)	(4,575)	(10,375)	18,338	18,338	16,673	16,508	16,508	16,508	16,508	16,508	99,
Provision for Taxes					4,585	4,585	4,168	4,127	4,127	4,127	4,127	4,127	33,
Net Earnings	(5,845)	(15,095)	(4,575)	(10,375)	13,753	13,753	12,505	12,381	12,381	12,381	12,381	12,381	66,
Retained Earnings													
Period Begin		(5,845)	(20,940)	(25,212)	(35,890)	(22,137)	(8,384)	4,121	16,502	28,883	41,264	53,645	
Retained Earnings													
Period End	(5,845)	(20,940)	(25,515)	(35,890)	(22,137)	(8,384)	4,121	16,502	28,883	41,264	53,645	66,026	66,

Accompanies Scenario #1 Income Statement Forecast

Источник бизнес-плана: ***http://www.referenceforbusiness.com***

Cash Flow Forecast

	1	2	3	4	5	6	7	8	9	10	11	12	TOTALS
Cash-													
Beg. of Per.	100,000	66,155	51,060	46,485	36,110	54,448	63,976	80,649	97,157	101,243	117,751	134,259	100,000
Cash From A/C													
Receivables													
Start-Up	11,780	11,780	58,900	58,900	58,900	58,900	58,900	58,900	58,900	58,900	494,760		
Cash Paymts:													
Op Exps	(9,000)	(8,000)	(9,360)	(13360)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(292,856)
	(5,845)	(7,095)	(7,995)	(8,795)	(8,795)	(8,795)	(10,460)	(10,625)	(10,625)	(10,625)	(10,625)	(10,625)	(110,905)
Payment of Income Taxes					(9,170)			(12,422)			(12381)	(33,973)	
Total Cash:													
Provided by													
(OrAppld)													
Ops.	(14,845)	(15,095)	(4,575)	10375	18338	9,528	16,673	16'08	4,086	16308	4,127	57386	
Inventory													
Purchases	(3,000)												(3,000)
Office													
Fixtures	(6,000)												(6,000)
Operating													
Eqpmt	(10,000)												(10,000)
Total Cash													
(Appld)	(33,485)	(15,095)	(4,575)	(10375)	18338	9,528	16,673	16308	4,086	16308	16308	4,127	38386
Cash:													
End Per	66,155	51,060	46,485	36,110	54,448	63,976	80,649	97,157	101,243	117,751	134,259	138,386	138,386

	1	2	3	4	5	6	7	8	9	10	11	12
Cash-Beg, of Per.	100,000	66,155	51,060	46,485	36,110	54,448	63,976	80,649	97,157	101,243	117,751	134,25
Cash From A/C												
Receivables												
Start-Up	11,780	11,780	58,900	58,900	58,900	58,900	58,900	58,900	58,900	58,900	494,760	
Cash Paymts:												
Op Exps	(9,000)	(8,000)	(9,360)	(13,360)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,767)	(31,76
	(5,845)	(7,095)	(7,995)	(8,795)	(8,795)	(8,795)	(10,460)	(10,625)	(10,625)	(10,625)	(10,625)	(10,625
Payment of Income Taxes					(9,170)			(12,422)			(12,381)	(33,97
Total Cash:												
Provided by (Or Appld)												
Ops.	(14,845)	(15,095)	(4,575)	10,375	18,338	9,528	16,673	16,508	4,086	16,308	4,127	57,386
Inventory												
Purchases	(3,000)											
Office												
Fixtures	(6,000)											
Operating												
Eqpmt	(10,000)											
Total Cash (Appld)	(33,485)	(15,095)	(4,575)	(10,375)	18,338	9,528	16,673	16,308	4,086	16,308	16,308	4,127
Cash:												

	1	2	3	4	5	6	7	8	9	10	11	12
End Per	66,155	51,060	46,485	36,110	54,448	63,976	80,649	97,157	101,243	117,751	134,259	138,38

Accompanies Pro-Forma Income Statement Scenario #1 Salaries:

G&A Support Details

Officers	2,000	2,000	2,000	2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	30,000
Office	1,500	1,500	1,500	1,500	1,500	1,500	1,650	1,650	1,650	1,650	1,650	1,650	18,900
Warehouse		1,500	1,500	1,500	1,500	1,500	1300	1,650	1,650	1,650	1,650	1,650	17,250
Total	3,500	5,000	5,000	5,000	5,000	5,000	6,150	6,300	6,300	6,300	6,300	6,300	66,150
Pyrll Tax	450	600	600	600	600	600	715	730	730	730	730	730	7,815
Insurance	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Phone	200	200	200	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,600
Utilities	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Travel	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Auto	100	100	100	100	100	100	500	500	500	500	500	500	3,600
Dprciation	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Accounting	125	125	125	125	125	125	125	125	125	125	125	125	1300
Rent	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc	100	100	100	100	100	100	100	100	100	100	100	100	1200
Total G&A	5,845	7,095	7,995	8,795	10,460	10,625	10,625	10,625	10,625	10,625	10,625	10,625	110,875

Officers	2,000	2,000	2,000	2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	30,000
Office	1,500	1,500	1,500	1,500	1,500	1,500	1,650	1,650	1,650	1,650	1,650	1,650	18,900
Warehouse		1,500	1,500	1,500	1,500	1,500	1,500	1,650	1,650	1,650	1,650	1,650	17,250
Total	3,500	5,000	5,000	5,000	5,000	5,000	6,150	6,300	6,300	6,300	6,300	6,300	66,150
Pyrll Tax	450	600	600	600	600	600	715	730	730	730	730	730	7,815
Insurance	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Phone	200	200	200	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,600
Utilities	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Travel	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Auto	100	100	100	100	100	100	500	500	500	500	500	500	3,600
Dprciation	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Accounting	125	125	125	125	125	125	125	125	125	125	125	125	1300
Rent	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Total G&A	5,845	7,095	7,995	8,795	10,460	10,625	10,625	10,625	10,625	10,625	10,625	10,625	110,875

BACKGROUND TO PROPOSAL

Nest in Comfort was first introduced to Harold Monroe by an old friend, Sonya Dennings, a Danish citizen living in Southern California.

The two decided to embark on a joint venture whereby Harold and his then partner, Marty Richmond, co-owners of Chesapeake Industries, Inc., would market the product in the U. S., with exclusive marketing rights. Sonya Dennings and her then partner, Mary Jane Landis, would manufacture the product.

This came at a time when Chesapeake Industries was plodding along at a break-even point after 2 1/2 years in business and was looking for new ventures outside the local Santa Fe market.

Six months later and some $30,000 into this joint venture, Sonya Dennings suddenly developed a serious illness resulting in her leaving the U.S. Mary Jane was unwilling to continue alone, so the manufacturing source was gone.

Marty Richmond decided that he preferred to devote Chesapeake's remaining resources to supporting some embryonic computer software projects which the partners were developing concurrent with the pillow marketing plan. Eventually, Harold and Marty decided to go their separate ways.

Chesapeake Industries still exists as a corporation, but it is not actively trading. It is solvent, carries no debt and has excellent trade references. Fiscal year end was June 30, and liquidation of assets has occurred, other than residual cash on hand reserved to cover any tax liabilities. All that remains is to dissolve the corporation unless either party wishes to re-activate as sole owner.

Harold Monroe has been assigned full rights to the pillow by Sonya Dennings, and it is his view that unless any advantage can be seen in assuming full ownership of Chesapeake, he will soon be forming a new corporation.

In order to attract working capital for start-up and operating over the first six months, sale of stock in the corporation of up to 25% is envisaged.

PURPOSE OF THE BUSINESS PLAN

This plan was created by Harold Monroe for two distinct purposes:

The first goal is to design a set of strategies to maximize opportunities for success. In the context of a unique and constantly regenerating market segment, it is essential to determine objectives and the strategies necessary to achieve them. This cannot be done in the abstract, and the objectives only become meaningful when the means to achieve them are analyzed in detail.

Please keep in mind that such a planning apparatus is associated with the type of opportunity where the challenge lies in determining what needs to be done, not simply how to do it. Honors go first to those who accurately identify, then act upon those needs.

The second goal is to attract innovation-oriented investment banking/venture capital relationships to achieve funding with which to formally commence company operations. According to forecast, working capital after six months will be provided from receivables (cash) with no need for receivables financing or inventory encumbrance.

OVERALL PHILOSOPHY

Nest in Comfort is a small, low-profile operation, employing minimum personnel. It has high gross profit, minimum overhead, and is computerized. Marketing is implemented primarily via mail order to targeted market segments. The company is structured to go from low to high volume rapidly without the corresponding increase in space requirements and overhead.

Focused on maternity/children's market, initially with own unique product, the company follows the child from prenatal through teenage years by adding specialty products (imports from Europe) and developing a mail order catalog. The company is building its own mailing list from the initial customer list.

As new products are added, we intend to test market from the mailing list of existing customers and, for real "winners," extend exposure to commercial mailing lists.

The goal is to build a profitable, high cash flow mail order based business with unique and specialty products aimed at a specific, constantly regenerating, market.

The ultimate objective is to generate wealth by selling the company to a large firm (Johnson & Johnson, Fisher-Price etc.), or by public offering. This objective will be met by two conditions:

1. An unencumbered, enforceable patent being issued.
2. Successful results from direct mail and telemarketing strategies which will generate the profit margins and cash flow to grow the organization.

MARKETING STRATEGY

Based on Scenario #1

1. Direct mailing of 10,000 per month commencing month two from start up date.
2. Telemarketing commences month four from start up date.
3. Review at end of month six to decide whether to:
    1. maintain mailing and telemarketing activity levels through year end.
    2. increase levels of either or both.
    3. discontinue either or both.

Step 3a would be logical and prudent if results were as forecast.

Step 3b would be determined by whether a clear difference in returns was obvious. If a return of better than 5% was achieved via direct mail, it would be easy to increase the volume and maintain the telemarketing at existing levels. Equally, given the cash flow available, it would be possible to increase the telemarketing, but care would be needed to assess the impact on administration capability.

Step 3c would be activated if mailings were running at 5% plus and telemarketing was at the same level. To save cost, the company would discontinue telemarketing and double up on mailing activity.

4. Set up agents (eventually 100) nationwide. A $ 100 investment buys them one demo pillow, 100 brochures, and a set of pictures or slides. We drop-ship to the customer, agent pre-pays us and collects from customer, $15 discount (25%).

5. We also have two requests on file from maternity stores wishing to offer the pillow. This is an area for periodic review, with considerations being reduced margins versus increased administration inherent to marketing in this way.

6. Test additional applications and markets for the pillow. Space advertising in general circulation magazines is cheaper than specialized publications—in some cases free for new products. This is a good way to test mail order type products.

7. Research new products for the targeted market, for inclusion in own mail order catalog.

DIRECT MAILING: THE CRUCIAL NUMBERS

Cost of direct mailing to 10,000 prospects

1st 10,000	Per Piece	Total
Four color brochure, tri-fold mailer, includes one-time production costs	.30	3,000
List cost@ $70 for 1,000	.07	700
Affix pressure sensitive address labels	.01	100
Bulkmailing	.01	100
Postage (third class)	.167	1,670
Mailing permit, good for one year	.006	60
Total	63.5	5,630

1st 10,000	Per Piece	Total
Four color brochure, tri-fold mailer, includes one-time production costs	.30	3,000
List cost @ $70 for 1,000	.07	700
Affix pressure sensitive address labels	.01	100
Bulk mailing	.01	100
Postage (third class)	.167	1,670
Mailing permit, good for one year	.006	60
Total	.563	5,630

Brochure price comes down to .20 and possibly. 18 on regular volume, with prices guaranteed for one year. The labeling and bulk mailing, including free delivery to the post office, is done by the mailing list company, whether we use their list or supply our own.

Brochure	.20	2,000
List	.07	700
Labels	.01	100
Mailing	.01	100
Postage	.167	1,670
Total	.457	4,570

2nd and subsequent 10,000

Brochure	.20	2,000
List	.07	700
Labels	.01	100
Mailing	.01	100
Postage	.167	1,670
Total	.457	4,570

Assume:

1. Gross profit of $35 per unit
2. Sales of 200 units @ 2% return on mailing

1st 10,000 mailings @ .563	=	$5,630				
Gross profit @ $35 per unit	=	7,000				
Less cost of mailing	=	1,370	=	12%	of gross sales	
3% return would give GP of		10,500				
Less cost of mailing	=	4,870	=	28%	of gross sales	

1st 10,000 mailings @ .563	=	$5,630			
Gross profit @ $35 per unit	=	7,000			
Less cost of mailing	=	1,370	=	12%	of gross sales
3% return would give GP of		10,500			
Less cost of mailing	=	4,870	=	28%	of gross sales

5% return would give GP of		17,500		
Less cost of mailing	=	11,870	=	40%
2nd and subsequent mailings				
@$.45	=	4,570		
GP	=	7,000		
After mailing	=	2,430	=	21%
3% return GP	=	5,930	=	34%
5% return GP	=	12,930	=	44%

5% return would give GP of		17,500		
Less cost of mailing	=	11,870	=	40%
2nd and subsequent mailings				
@$.45	=	4,570		
GP	=	7,000		
After mailing	=	2,430	=	21%
3% return GP	=	5,930	=	34%
5% return GP	=	12,930	=	44%

See how critical the numbers are at the lower percentage return, versus "cost of sales" (mailing). If you add seven cents each to the first 10,000 mailing costs, a 2% return is dragged down to a profit of $670 from $ 1,370. This is what kills a lot of newcomers to mail order. If you can get your production costs (printing) to equal your mailing costs, then you are ahead, and this is what the big mail order houses aim to achieve.

Things for us to look closely at are: minimizing printing costs, consistent with employing the best possible quality sales tool; seeing if the mailing list prices come down with regular quantity orders and, of course, going for a 5% return as the first target.

Actual experience on our 500 piece test mailing proved a return of 1.8% during the first 30 days, 2.4% after 60 days and 3.0% took a total of 120 - 160 days.

Although I believe that with the right brochure our return would probably have been 5%, it is prudent to use the 2% number for our own projections and planning purposes. 3% makes a whole world of difference and really accelerates things, so the layout and quality of the brochure are key in accomplishing maximum response.

CAPITAL REQUIREMENTS

Incorporation	1,000
Patent	5,000
Brochure Design	1,000
Office/Warehouse	6,000
Computer/Phones	10,000
Filling Equipment	1,500
Printing and Supplies	500
Raw Materials and Packaging	3,000
	$28,000
Operations - first 6 months	
	$36,000
Reserve	$36,000
Total	$100,000

Start-up	
Incorporation	1,000
Patent	5,000
Brochure Design	1,000
Office/Warehouse	6,000
Computer/Phones	10,000
Filling Equipment	1,500
Printing and Supplies	500
Raw Materials and Packaging	3,000
	$28,000
Operations - first 6 months	
	$36,000
Reserve	$36,000
Total	$100,000

PERSONNEL REQUIREMENTS

1. Harold Monroe will function as General Manager
2. Office Supervisor will be responsible for order entry, data input, and coordinating telemarketers.
3. Warehouse Manager will also be trained for order entry.
4. Telemarketers (3). One full-time supervisor, plus four part-time, each working four hours per day. There will be trial and error here, covered separately under "support details". It could be that six part-timers under the direction of the office supervisor will be the most viable. $5,000 per month has been budgeted for this function under "cost of sales". This includes an incentive structure with override for the supervisor, designed to maintain performance levels.

FACILITIES REQUIREMENTS

Assume

1. Combined offices/warehouse. Cerrillos - White Rock - Santa Fe area.

   a. Offices sufficient to house
   one General Manager
   one Office Supervisor
   three Telemarketers
   one Warehouse Supervisor   1,000 square feet.

   b. Warehouse area sufficient to stock one month's inventory (approximately 1,000 units) plus filling and shipping.

   Pillows, boxed are 6 × 16 × 20 inches.
   An area 20 ft. × 50 ft. will hold 1,920 units, 10 per pallet, 2 pallets high.
   1,000 square feet.

Total requirement for year 1 =   2,000 square feet.

COMPUTER REQUIREMENTS

ITT Model 316 has sufficient capacity to handle all data associated with sales up to 2,000 units per month. Beyond that level, a "mini-mainframe" computer would be needed. Capital cost would be $50,000-$70,000. Existing software would be used on the larger system.

Software developed at Chesapeake handled:

1. New customer entry (for own mailing list)
2. Invoice
3. Shipping label

Needed to complete the picture is the program to be written to generate UPS data. A provision has been made for this under "software support". This facility would automatically generate all UPS data upon order entry, with printout appearing in warehouse, eliminating manual entries in UPS books, etc.

TELEPHONE COSTS

Incoming 800 calls. (Order lines)

   $250 per line deposit.
   Free installation until October 10, 1989.
   $20 per month fee plus usage for incoming over local line.
   Day rate 22 - 25 cents per minute.
   5% discount after $50
   10% discount after $351

Outgoing Watts lines (3 for telemarketing)

   "Pro 2" Program
   24-26 cents per minute (30 seconds on bill if client hangs up).
   Assume average call of 2 minutes = 50 cents per call = approximately 5,000 per month for 10,000 calls.

Note: Outgoing Watts will be a fixed cost of sales.

Incoming 800 calls (orders) can be assumed for budget purposes at 20% of unit sales.

FREIGHT AND SHIPPING

No freight costs are shown in the P&L projection. This is because freight is pre-paid by the customer. A charge of $5.00 per unit is made which covers UPS charges plus a small profit.

In the case of shipping to agents, we would charge the actual UPS cost and allow discretion to the agent whether to absorb or pass on charges to their customers.

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Organization

As of the date of this forecast, March 1, 1989, "The Company" has not been formally or legally organized. It is the intention of Harold Monroe to utilize this forecast to obtain capital funding monies with which to formally commence company operations.

Once the necessary funding has been achieved through a funding agreement, the company will commence sub-contract manufacturing and direct-mail marketing of Nest in Comfort, simultaneously applying to complete or renew the patent application. It is recognized that this is probably not the customary sequence, however it is felt that sufficient "de facto" protection exists in view of the prior history of manufacture and sale of the product. From a marketing perspective, the best protection lies in getting the product established as a "must have," generic product as rapidly as possible. Further, the method of marketing via direct mail/mail order ensures a low profile whereby high volume sales can be generated without attracting the attention of would-be competition.

A vigorous pursuit to secure the patent is essential for ultimate protection and to enhance the value of the company. A positive outcome to the patent application is indicated by the patent attorney who was originally retained.

Financial Forecast

The financial forecast is Harold Monroe's estimate of the most probable results of operations for the forecast period. Accordingly, the forecast is his best judgement, based on present circumstances, of the most likely scenarios and their outcomes. The assumptions disclosed herein are those which he believes are significant to the forecast or are key factors upon which the financial results of the company depend. Some assumptions may not materialize and unanticipated events and circumstances may occur subsequent to March 15, 1989, the date of these forecasts. Therefore the actual results achieved during the forecast period may vary materially from the forecast.

Sales Revenue

Sales revenue will be generated initially from one source, Nest in Comfort. The retail selling price is $58.90. The test marketing program, plus input from childbirth educators, indicates this price is appropriate. Future sources of potential additional revenue include:

1. Additional markets for the pillow; same pillow, different cover; different applications, e.g., "Gardener's Pillow," "Night Reader's Pillow," etc.
2. Additional specialty products for mail order to the targeted market via our own catalog. Some excellent quality developmental toys, games, etc. are available, particularly in Europe. Several manufacturers

whom we have contacted have shown a keen interest in entering the U.S. market. From time to time, small domestic entrepreneurs generate new products.

Direct Cost of Sales

Will be comprised of three factors:

1. Direct mailing costs.
2. Telemarketing costs.
3. Finished goods (sub-contract manufacture).

Based on actual experience and recent quotes, the cost of the pillow should be a maximum $12.00. For forecasting purposes, a conservative approach has again been taken by assuming a cost of $15.00. This allows for any possible increases to cover filling and packaging, whether this is to be done by the manufacturing sub-contractor or in-house at our facility.

Additional "headroom" is also available by eliminating the vinyl interior cover in favor of plain cotton. The vinyl cover was introduced to address the hospital market which is now considered non-viable in the short-term and best eliminated from future planning.

This combined "headroom" also allows for payment of the $ 1.00 per shipped unit to Harold Monroe. A separate line item headed "Royalties" would record these transactions on a formal income statement as standard operating procedure.

Operating Expenses

These have been forecast based on expectations of monthly recurring costs. Throughout the forecast periods, the monthly operating expenses have been increased where appropriate to reflect the natural progression of increased costs to support corresponding growth in sales.

Interest Expense

As it is intended to procure the monies necessary to commence operations by way of capital contributions, (sale of stock), no interest expense has been provided for in this forecast.

Interest Income

This forecast provides for no earnings on retained cash, since it is not possible to determine the necessary cash requirements of increasing various expenditures for rapid expansion.

Income Taxes

Income taxes have been provided for at the rate of 25% of the net operating earnings before taxes.

Depreciation

Depreciation has been computed on the straight-line method over estimated useful lives of five years of operating equipment and office furniture.

SUMMARY OF CASH FLOW ASSUMPTIONS

Cash Receipts

1. Due to the cash nature of the business, a rapid cash flow is forecast as a direct consequence of sales.
2. In vestment cash received: this forecast includes the receipt of $ 100,000. Received through the sale of company stock.

Cash Disbursements of Direct Costs (Cost of sales)

It has been forecast that the direct cost of finished goods, mailings, and telemarketing will be paid in the month incurred. In the case that it is the second month, this in effect means "prior to" for mailing and finished goods.

Cash Disbursements of Operating Costs

It has been forecast that all monthly operating costs will be paid in the month incurred.

Income Taxes

The forecast provides for income tax to be paid on a quarterly basis in compliance with Federal & State requirements.