

Business Plan of Gelato Café

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By

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Entitled

The Business Plan of Gelato Café

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We hereby certify this project thesis submitted by Robin S. Painter conforms to acceptable standards, and as such, is fully adequate in scope and quality. It is therefore approved as partial fulfillment of the Project thesis requirement for the degree of Bachelor of Science, Management and Organizational Development.

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STUDENT CERIFICATION STATEMENT

I hereby certify that this project thesis constitutes my own product, that where the language of others is set forth, quotation marks so indicate, and that appropriate credit is given where I have used the language, ideas, expressions, or writings of another.

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Abstract

The purpose of this project thesis was to determine the feasibility of opening Gelato Café, an Italian Ice Café, in Sanford, North Carolina's historical district. To ascertain the likelihood for Gelato Café's success, a comprehensive business plan needed to be developed.

To develop this business plan many steps needed to be accomplished. First, a review of relevant literature was required to identify issues, trends, customer buying patterns, and local competitors within the industry. Then, a company summary had to be developed to specify the type of company proposed, including its management, organization, and technology plans. Next, a marketing analysis needed to be conducted to determine the businesses target market, perform a SWOT analysis, and clarify a marketing strategy. Additionally, a financial plan needed to be prepared to include important assumptions, forecasts, and projections to provide detailed financial information. And finally, a comprehensive business plan needed to be pieced-together from all the information obtained throughout this project.

Once the business plan was complete, a final analysis had to be accomplished to determine if opening such a business in Sanford, North Carolina would be profitable.

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Chapter I. Description of the Business

Gelato Café is a typical Italian Ice-Café that will provide its customers a unique European atmosphere, homemade Italian ice cream, and an assortment of European specialty coffees. Gelato Café is the answer to an increasing public demand for a place to sit back and relax while taking a break from day-to-day stress. Combined with homemade Italian ice cream and an assortment of European specialty coffees, Gelato Café will become the location of choice for not only working adults, but for people of all ages will enjoy the friendly, relaxing European atmosphere.

Throughout Western Europe, Italian Ice-Cafés are extremely popular. People from all walks-of-life regularly visit these cafés to enjoy homemade Italian ice cream and freshly brewed specialty coffee in a relaxing yet classy atmosphere. In the United States most restaurants, ice cream stands, and coffee shops operate in a fast food type environment. People are so consumed by high-speed fast food service, it seems as if many of them are no longer able to just sit back and enjoy the good things in life.

Gelato Café will change all that. Gelato Café, a typical Italian Ice-Café, is set up to operate just like those in Western Europe. It will serve homemade Italian ice cream and an assortment of European specialty coffees in a relaxing but classy atmosphere, specifically tailored to provide people a place to sit back and enjoy life for a while. The interior will be decorated in a typical European café theme with round tables and chairs in the center of the room, booths around the walls, and marbled tiled floors. There will be an outside seating area with round tables and chairs positioned under a green, white,

and red awning to protect patrons from the elements. Servers will provide primary service to seated customers, but there will also be a walk up counter for customers who prefer to order take out items. Servers will be smartly dressed in black pants or skirts with black shoes and white shirts. The Italian ice cream will be homemade in the café with only fresh ingredients (no preservatives), and coffee beans will be freshly ground and brewed by Italian style coffee machines.

Startup Problem Summary

In today's highly competitive market, it has become increasingly difficult to find a place to sit back, relax, and take a break from day-to-day stress. Just about all restaurants, ice cream shops, and or coffee houses are set up in a fast-food type environment...move people in and out as quickly as possible to maximize profit. There are very few places customers can go, to sit back, relax, and enjoy some homemade ice cream or a cup of freshly brewed specialty coffee.

Statement of Purpose

The purpose of this project is to develop a comprehensive business plan for opening an Italian Ice-Café. The project includes a review of related literature, a company summary, a marketing analysis, and a financial plan. The final plan will ultimately determine whether the proposed business is viable in today's market.

Setting of the Business

Gelato Café will be located in the heart of Sanford, North Carolina's historic district on South Steele Street, between Carthage Street and Wicker Street ("City of Sanford North Carolina," n.d.b). Set up to operate like a small family run Italian Ice-

Café in Western Europe, Gelato Café will provide a unique European atmosphere, homemade Italian ice cream, and an assortment of European specialty coffees for patrons visiting the Sanford, North Carolina historical district.

To provide customers the ambiance of a classy Italian Ice-Café, Gelato Café's décor, employee dress code, and service will set the stage. The interior will be decorated with round tables and chairs in the center of the room, with booths along the walls, and the floor will be covered with marble tiles. The exterior will have a secondary seating area with round tables and chairs under a red, white, and green striped awning, typical of Italian Ice-Café's. Servers will be smartly dressed in black pants or skirts with black shoes and white shirts. Full table service will be provided to seated customers and there will be a walk up counter for customers who prefer to order items to go.

Gelato Café's organizational structure and staffing will consist of the owner, one full-time employee, and four part-time employees. In October 2003, over 1,800 people were out of work in Lee County; unemployment rates were set at 7.0 percent, 0.9 percent higher than the North Carolina average; finding prospective employees should be relatively easy ("North Carolina Department of Commerce," n.d.b).

Sanford, North Carolina's historic district is a perfect location for Gelato Café. The city is currently experiencing a renaissance, bringing in new activities and drawing people back in to the downtown area ("City of Sanford North Carolina," n.d.c). Over the last decade, April 1990 to April 2000, the city of Sanford grew from a population of 14,775 to 23,220; a 57.2 percent increase in just one decade ("Lee County Economic Development," n.d.). The Sanford/Lee County 2020 Land Use Plan projects Sanford's

population will continue to grow at an annual rate of at least 2 percent for the next 17 years (“City of Sanford North Carolina,” n.d.d). Current economic characteristics identify Sanford as having an average household of 2.6 occupants, with a per capita personal income of over \$25,000, and a median family income of over \$48,000 (“City of Sanford North Carolina,” n.d.a). Sanford’s median family income is well over Lee County’s median household income of \$38,900 (“Lee County Economic Development,” n.d.). With the ongoing revitalization, projected population growth rate, and above average family incomes, Sanford, North Carolina’s historic district is the optimal location for launching Gelato Café.

Scope of the Project

The scope of this project, a comprehensive business plan, will contain a review of relevant literature, company summary, marketing analysis, and financial plan.

Information contained in this plan is limited to information gathered from interviews with local entrepreneurs within Sanford, North Carolina’s historical district; information available from the Internet and local government agencies; and verbal estimates obtained from local contractors, real estate agents, and suppliers.

Each chapter will contain detailed information as follows: Chapter II, a review of relevant literature, will include general industry and market issues; small business or startup issues in the industry; identification of market trends; identification of technology trends within the industry; market size and growth trends; environmental, regulatory, or legislative issues in the industry; market and/or consumer needs; review of industry participants; and general competition and customer buying patterns. Chapter III, the

company summary, will consist of company ownership; strategy review; liabilities and risks; management team and gaps; HR/OD plan; and IS and technology plan. Chapter IV, a marketing analysis, will contain markets; suppliers and competitors; and marketing strategy. Chapter V, the financial plan, will cover a summary of financial needs; important assumptions; parameters (sales forecast projections); monthly period expense projections; beginning asset projections, manufacturing cost projections; profit planning projections; cash flow projections; income projections; balance sheet projections; ratio analysis; and final analysis.

Important (Significance) of the Project

This plan will show the viability of this proposed business. Each section will provide detailed information to prospective financiers to demonstrate the high likelihood of success for this business in today's market. The review of relevant literature will identify issues, trends, and local competitors within the industry. The company summary will specify the type of company proposed, including its management, organization, and technology plans. The market analysis will help determine its target market, perform a SWOT analysis, and clarify a marketing strategy. The financial plan will include important assumptions, forecasts, and projections to provide detailed financial information. The end product will be an all-encompassing business plan developed to gain financial backing from local financiers to enable startup of the proposed business.

Definition of Terms

The following terms are commonly used in this industry and will be found throughout this plan:

Gelato - Italian word meaning ice cream.

Mean – A measure of central tendency, the arithmetic average.

Medium – A measure of central tendency that is the midpoint; the value below which half the values in a sample fall.

Mode – A measure of central tendency; the value that occurs most often.

SWOT - Strengths, weaknesses, opportunities, and threats

Gelato Café is a typical Italian Ice-Café that will provide customers a unique European atmosphere, homemade Italian ice cream, and an assortment of European specialty coffees. Its friendly atmosphere will provide a place for customers to go where they can sit back, relax, and enjoy some homemade ice cream and/or a cup of freshly brewed specialty coffee. The purpose of this project is to develop a comprehensive business plan for launching Gelato Café. The setting of the business is in the heart of Sanford, North Carolina's historic district on South Steele Street, between Carthage Street and Wicker Street ("City of Sanford North Carolina," n.d.b). The scope of this project will include a review of relevant literature, company summary, marketing analysis, and financial plan. In the end this plan will show the viability of the proposed business, by providing an all-encompassing business plan, developed to gain financial backing from local financiers. To better understand the need for Gelato Café, a review of relevant literature is required.

Chapter II. Review of Relevant Literature

In this chapter a review of relevant literature will help determine the likelihood of success for Gelato Café. Certain information, such as general industry/market issues should be considered. Small business or startup issues require evaluation. Market trends need to be identified. Technology trends should be identified. Market size and growth trends have to be analyzed. Environmental, regulatory, or legislative issues must be identified. Market and/or consumer needs require consideration. Review of industry participants should be accomplished. General competition and customer buying patterns need to be considered.

General Industry/Market Issues

A special industry study conducted by the North Carolina Economic Policy and Research Division (“North Carolina Department of Commerce,” n.d.a) stated “The state recorded strong economic growth during the 1980s and 1990s and this economic surge is expected to be sustained into the 21st century. North Carolina’s economic expansion has consistently outperformed both the national and southeast region economies.”

In a survey published by Adweek magazine, ice cream was recognized by their readers as one of the top two favorite comfort foods, tying with pasta, each acquiring 26 percent of the vote (Dolliver, M., 2000). In a national survey conducted by the University of Illinois, Food and Brand Lab, published in American Demographics (Wansink, B., & Sangerman, C., 2000), ice cream was identified as America’s second most favored comfort food. Of the 1,005 people surveyed, 74 percent of the females, and

77 percent of the males identified ice cream as their top comfort food. Bon Appétit magazine accredited ice cream as America's third most favored comfort food, and first choice for guilty pleasures when no one is watching ("How America," 2003).

A recent Food Service Director article ("Coffee drinking," 2003) identified that in the United States the adult coffee drinking population grew to 166.6 million in 2003, an increase of 5.4 million people, more than doubling the increase from 2001 to 2002. The increase is attributed to both new and wider variety of products attracting occasional and special-event coffee drinkers. Additionally, a recent Beverage Industry article ("Coffee goes," 2003) reported that even though most brands of coffee decreased in sales over the last year, ground coffee down by 1.8 percent; premium coffees sales maintained growth, whole bean coffees increased by 2.2 percent. Even though 7 out of 10 Americans drink coffee away from home at least occasionally, an American Demographics article (Dawidowska, K., 2002) identified that only one-third of them frequent gourmet coffee shops. To continue growth, gourmet coffee shops may want to cater to other demographics or socioeconomic groups.

Small Business or Startup Issues in this Industry

Considering that both ice cream ("Ice cream," 2002) and gourmet coffee sales ("Coffee goes," 2003) enjoy success in today's market, Gelato Café is on the cutting edge of a new market; a market where the needs of customers from two independent markets can be satisfied by one business. Its primary objective is to overcome established norms and draw customers from both the ice cream industry and the gourmet coffee industry. Sanford, North Carolina's population is large enough to support this endeavor, but the

market is currently unknown. Establishing and maximizing a customer base in this untested niche market will prove to be Gelato Café's biggest challenge.

Identification of Market Trends

Market trends continue to show an increase in popularity of gourmet coffee shops, but a recent study suggests that business should consider catering to other demographic or socioeconomic groups in order to continue growth (Dawidowska, K., 2002). Ice cream has been identified in multiple surveys and studies as one of America's favorite comfort foods; Adweek magazine recognized ice cream as one of the top two favorite comfort foods (Dolliver, M., 2000); American Demographics rated ice cream as America's second most favored comfort food (Wansink, B., & Sangerman, C., 2000); and Bon Appétit magazine accredited ice cream as Americas third most favored comfort food, and first choice for guilty pleasures when no one is watching ("How America," 2003). Considering the overwhelming popularity of gourmet coffee and ice cream, providing a single location for patrons to acquire both products should prove to be very profitable.

Identification of Technology Trends within the Industry

Technology within the ice cream making and coffee shop industries is relatively low. Ice cream and coffee making machines have been around for quite some time and there are currently no foreseeable changes coming. Gelato Café will maintain a low-level of technology by utilizing off-the-shelf equipment as much as possible (i.e. cash register, facsimile machine, and personal computer). Additionally a credit card reader will be installed as well as a locally procured, installed, and monitored security system.

Market Size and Growth Trends

Gelato Café's immediate market of 23,220 Sanford, North Carolina residents can be extended to include an additional 25,820 Lee County residents, increasing the local market to 49,040 possible patrons ("Lee County Economic Development," n.d.). With a projected annual growth rate of 2 percent ("City of Sanford North Carolina," n.d.d), the local market should have already surpassed 52,000 potential customers. Specific data concerning annual visitation rates to Sanford's historical district are currently unavailable. The area has just recently been designated a historical district ("City of Sanford North Carolina," n.d.c); revitalization efforts are currently underway.

Environmental, Regulatory, or Legislative Issues in the Industry

Gelato Café will have to register with the North Carolina Department of the Secretary of State, Business License Information Office, to become a Limited Liability Company. Additionally, Gelato Café will establish its name as a trademark. In the state of North Carolina, registration of a trademark is completed through the North Carolina Department of the Secretary of State. At the federal level, registration is completed through the United States Patent and Trademark Office, an Agency of the United States Department of Commerce.

As a Limited Liability Company with employees, Gelato Café will require a Federal Employer Identification Number from the Department of Treasury, Internal Revenue Service, and a North Carolina Sales and Use Tax and Income Tax Withholding Identification Number from the North Carolina Department of Revenue. Additionally, Gelato Café will need to provide Unemployment and Workers' Compensation Insurance

for its employees. Unemployment Insurance can be initiated by establishing a North Carolina Unemployment Tax Number with the Employment Security Commission of North Carolina. Workers' Compensation Insurance can be initiated by contacting the North Carolina Department of Insurance.

Gelato Café will require licenses for the manufacture of and use of frozen dessert dispensing devices, and an alcoholic beverage culinary permit to allow use of alcohol in some of its homemade ice creams. Frozen dessert licenses can be obtained through the North Carolina Department of Agriculture and Consumer Services. An alcoholic beverage culinary permit can be obtained from the North Carolina Alcoholic Beverage Control Commission.

Prior to initial startup, Gelato Café will require an inspection certificate from the Commissioner of the North Carolina Department of Agriculture. Licenses and inspection certificates are issued on an annual basis and must be renewed each year. In addition to license and inspection certificate requirements, Gelato Café will be subject to routine unannounced inspections and product testing from the North Carolina Department of Agriculture, Food Branch of the Food and Drug Protection Division. Inspections and product testing will ensure compliance with the North Carolina Food, Drug, and Cosmetic Act and adopted regulations to ensure safety of products for consumption and use.

To ensure occupational safety and health standards are maintained for employees, Gelato Café is subject to standards enforce by both the North Carolina Department of Labor and the United States Department of Labor. The North Carolina Department of

Labor administers and implements the Occupational Safety and Health Act (OSHA) of North Carolina. The Department offers free services to help employers bring their business into full compliance with OSHA standards. Additionally, the United States Department of Labor administers and enforces the federal OSHA. Information regarding compliance with state and federal standards can be obtained by contacting the North Carolina Department of Labor or the North Carolina Department of the Secretary of State.

Market and/or Consumer Needs

Gelato Café will fill a market void in the Sanford, North Carolina area. There are currently no businesses within the local area capable of providing customers both homemade ice cream and gourmet coffee. Considering the statistics, nearly two-thirds of all adult Americans drink coffee away from home (Dawidowska, K., 2002), and ice cream has been identified as one of America's favorite comfort foods (Dolliver, M., 2000; "How America," 2003; Wansink, B., & Sangerman, C., 2000), Gelato Café should do extremely well in this market.

Review of Industry Participants

There are five primary competitors within Sanford, North Carolina's historical district.

Fairview Dairy Bar is a locally owned competitor that serves coffee, commercially manufactured ice cream, a wide variety of fast-food items (i.e. hamburgers, hot dogs, and french fried potatoes), and specialty dishes such as homemade soup.

Java-Express Coffee House is a locally owned competitor that serves a variety of specialty coffees, an assortment of fast-food items (i.e. hamburgers, hot dogs, and french fried potatoes), and on occasion doughnuts and/or bagels.

Mrs. Lacy's Magnolia House is a locally owned competitor that serves coffee, tea, and a wide variety of lunchtime meals (i.e. sandwiches, grilled sandwiches, salads, homemade soups, and homemade desserts).

Sandra's Bakery is a locally owned competitor that serves coffee and an assortment of homemade pastries (i.e. doughnuts, pies, cakes, bagels and muffins).

Yarborough's Ice Cream is a locally owned competitor that serves coffee, homemade ice cream, and an assortment of fast-food items (i.e. sandwiches, hot dogs, hamburgers, and french fried potatoes).

General Competition and Customer Buying Patterns

While interviewing Paul Freedle, owner of Fairview Dairy Bar, he would not go into specific customer buying patterns, but he did point out that his business is booming. He highly recommended opening a business such as Gelato Café in Sanford's historical district. He identified that Sanford's continuing growth and revitalization efforts have significantly increased his restaurant's patronage. Additionally, he made it a point to identify Sanford as having more than enough customers to support opening additional restaurants and café's. Fairview Dairy Bar has seating for approximately 100 customers, and according to the owner, the restaurant is usually full. Even though Fairview Dairy Bar operates mainly as a fast-food type restaurant, it gives a strong indication of the opportunities available in Sanford, North Carolina.

During an interview with Joel and Wendy Valentine, co-owners of Java-Express Coffee House, they estimated sales of gourmet coffee account for 35 percent of their total income. With an average cup of coffee selling for 2 dollars and 25 cents, they estimate daily sales to be in the neighborhood of 90 to 100 cups, bringing in approximately 200 dollars. It must be noted that Java-Express Coffee House is in dire need of remodeling. The interior looks as if it was once used as a fast-food take-out restaurant. There are very few places for customers to sit, four or five tables inside, four tables outside, and a very small counter in front of the kitchen area with three or four stools.

In an interview with Fay Schulz, owner of Mrs. Lacy's Magnolia House, she was very positive about the business opportunities available in Sanford's historical district. She did not go into specific sales patterns, but was highly confident that any type of Ice-Café would be very successful in the local area. Mrs. Lacy's Magnolia House has seating for approximately 80 customers. The owner identified that during opening hours, lunchtime service only, the restaurant is usually full with people waiting in line to get in the door. Even though Mrs. Lacy's Magnolia House is a full service, lunchtime only restaurant, its overwhelming success clearly identifies major opportunities for other service-oriented establishments.

In an interview with Sandra Duty, owner of Sandra's Bakery, she identified that Sanford's historic district would be an optimal location for Gelato Café; there are currently no such Ice-Café's within the local area. Sandra's Bakery is a walk-in bakery with no available seating; customers purchase baked goods and/or custom ordered items to go. All baked goods are freshly made in the bakery's kitchen. The owner identified

that coffee sales are a very minor portion of the business; the only real time they sell coffee is during the morning rush hour when people are on their way to work. She also identified that coffee sales are not a major concern for the business, she only sells regularly brewed coffee and an occasional instant cappuccino or hot chocolate (made from hot water and powder). Considering the fact that Sandra's Bakery is not in the business of selling coffee as a primary revenue builder, it does not seem very likely that it will be much of a competitor for Gelato Café.

An interview with the floor manager (name withheld) at Yarborough's Ice Cream identified that ice cream sales account for approximately 25 percent of their daily income. Homemade ice cream sells for 1 dollar per scoop and an additional 50 cents for the cone. Daily income ranges from 1,500 dollars a day in the winter to 3,000 dollars a day in the summer. Patronage is very steady throughout the seasons, doubling in the summer months. It must be noted that Yarborough's Ice Cream is housed in an old run down building, outside of the main walking area, and operated primarily as a fast-food restaurant. All attempts to contact and interview the owner have failed.

This chapter has provided a review of the relevant literature, specifically in the areas of general industry/market issues; small business or startup issues; identification of market and technology trends; market size and growth trends; environmental, regulatory, and legislative issues; market and/or consumer needs; industry participants; general competition and customer buying patterns. After an in-depth review of the relevant literature, it is clear Gelato Café has a high likelihood for success.

Chapter III. Company Summary

This chapter provides a complete company summary for Gelato Café's.

First, the company's ownership is discussed, various legal structures are review, and one legal structure is selected. Then, the company's strategy is presented where basic strategy, goals, and objectives are identified and an implementation plan is outlined.

Next, a liability and risk assessment is made to identify liability for products and services, internal concerns, and vulnerabilities. Subsequently, the management team is identified and gaps are ascertained. After that, human resources and organizational development plans are reviewed to identify the employee base, organizational structure, training (startup and long-term), benefits, and performance appraisals. Finally, the information systems and technology plan is discussed.

Company Ownership

Gelato Café will be owned by Mr. Robin S. Painter and will be legally structured as a single member (single owner) limited liability company. Mr. Painter has no other business interests and as sole owner will have no potential conflicts of interests. As a limited liability company, Gelato Café will provide its owner limited personal liability for actions of the business and special tax treatment to prevent what some consider "double taxation" ("North Carolina Department of the Secretary of State," n.d.). Many legal structures were considered before selecting the limited liability company. The following information provides a brief overview the different legal structures considered:

Sole Proprietorship: A business owned and operated by an individual for profit. The owner is personally and legally responsible for his or her actions; including actions taken on behalf of the business (personal assets are at risk). All profits belong to the owner and are only taxed once. Profits and losses are reported on the owner's individual tax returns ("North Carolina Cooperative Extension Service," n.d.; "North Carolina Department of the Secretary of State," n.d.).

General Partnership: A business formed by two or more persons who agree to contribute money, labor, and/or skill to share profits, losses, and management. All partners are typically held legally responsible for their own actions and the actions of the other partners, including actions taken on behalf of or in the name of the partnership (personal assets are at risk). All profits belong to the partners and are only taxed once. Each partner reports profits or losses on his or her individual tax returns ("North Carolina Cooperative Extension Service," n.d.; "North Carolina Department of the Secretary of State," n.d.).

Limited Partnership: A business formed by two or more individuals, partnerships, corporations or other associations. Limited partnerships have both general and limited partners. General partners are directly involved in operating and managing the business and are therefore subject to unlimited liability for the acts and debts of the partners (general partners personal assets are at risk). Limited partners are usually only involved as investors and are therefore subject to limited liable for the actions and debts of the partnership, normally only to the extent of his or her investment (limited partners personal assets are not at risk). All profits belong to the partners and are only taxed once.

Each partner reports profits or losses on his or her individual tax returns (“North Carolina Cooperative Extension Service,” n.d.; “North Carolina Department of the Secretary of State,” n.d.).

Corporation: A distinct entity that has a legal status or existence separate from both the individuals who form it and its owner. A corporation is an artificial entity that can be thought of as a “person.” Owners are called shareholders and are generally protected from personal liability for the actions and debts of the business (personal assets are not at risk). All profits belong to the corporation and are subject to double taxation. Taxes are initially paid at the corporate level and then again at the shareholder level on his or her individual tax returns (“North Carolina Cooperative Extension Service,” n.d.; “North Carolina Department of the Secretary of State,” n.d.).

S-Corporation: A distinct entity that has a legal status or existence separate from both the individuals who form it and its owner. A corporation is an artificial entity that can be thought of as a “person.” Owners are called shareholders and are generally protected from personal liability for the actions and debts of the business (personal assets are not at risk). All profits belong to the shareholders and are only taxed once. Each shareholder reports his or her share of the profits or losses on their individual tax returns (“North Carolina Cooperative Extension Service,” n.d.; “North Carolina Department of the Secretary of State,” n.d.).

Limited Liability Partnership: A type of partnership that has only general partners, but affords protection from personal liability to those partners who are not personally involved in or personally responsible for acts that result in liability. Each

partner is typically held legally responsible for his or her own actions (personal assets are at risk). Personal service businesses such as law firms, doctor's offices, dentist's offices, etc... are often structured as limited liability partnerships. All profits belong to the partners and are only taxed once. Each partner reports profits or losses on his or her individual tax returns ("North Carolina Cooperative Extension Service," n.d.; "North Carolina Department of the Secretary of State," n.d.).

Limited Liability Company: An unincorporated association, legally distinct and separate from its owner(s). A limited liability company offers its owners both limited personal liability for actions of the business (personal assets are not at risk) and special tax treatment to prevent double taxation. All profits belong to the owner(s) and are only taxed once. The owner(s) reports profits and losses on his or her individual tax returns ("North Carolina Cooperative Extension Service," n.d.; "North Carolina Department of the Secretary of State," n.d.).

After close scrutiny of the various legal structures, it was determined that a single member (single owner) limited liability company would be the best structure for Gelato Café. By establishing Gelato Café as a limited liability company, the owner will be provided limited personal liability for actions of the business and special tax treatment to prevent what some consider to be "double taxation" ("North Carolina Department of the Secretary of State," n.d.).

Strategy Review

Strategy: Gelato Café's primary strategy is differentiation. Gelato Café will provide people visiting Sanford, North Carolina's, historical district a unique European

atmosphere where they can relax and enjoy high quality homemade Italian ice cream and European specialty coffees at a reasonable price.

Goals:

1. Establish a unique European atmosphere where patrons can relax and enjoy themselves.
2. Provide high quality homemade Italian ice cream and European specialty coffees for patrons at a reasonable price.
3. Obtain and maintain a dedicated workforce to provide superior customer service.
4. Establish and maintain a customer base large enough to sustain year-round operations and provide for future growth.
5. Open one additional café within central North Carolina by the end of year five.
6. Open additional café's at a rate of one to two per year starting in year five.
7. Be a recognized chain throughout North Carolina by the ten-year point.

Objectives:

1. Obtain funding from a local finance company to cover initial startup and operating costs for the first year of operation.
2. Lease a facility with an option to purchase on South Steele Street, between Carthage Street and Wicker Street, in Sanford, North Carolina's historic district.

3. Purchase and/or lease required equipment, furniture, and supplies to enable initial startup.
4. Establish contracts and/or accounts with local distributors to provide timely delivery of required products.
5. Hire and train employees capable of providing superior customer service.

Implementation Plans: Prior to startup, Gelato Café's owner will obtain funding from a local finance company to cover initial startup and operating costs for the first year. This business plan will be used to convince local financiers of the high likelihood for success Gelato Café will have.

After funding has been secured, a facility large enough to accommodate the business will be leased, with an option to purchase, from local realtors. In an interview with Chad and Richard Blackwelder, co-owners of Bella Italian Restaurant, 133 South Steel Street, they stated the average cost to lease a facility on South Steele Street is \$0.90 to \$1.00 per square foot. Considering Gelato Café will need to be housed in a facility with 2,000 to 2,500 square feet, estimated cost will be \$1,800 per month.

Specialty equipment will be leased or purchased from Taylor Company, specializing in commercial refrigeration and A Best Kitchen, specializing in commercial restaurant equipment. General restaurant equipment will be purchased or leased from Serv-U, specializing in general food service, restaurant, and bar equipment.

Contracts and/or accounts will be established with some of the following distributors Cisco, Pate Dawson, U.S. Foods, Dawn, Best Brand, Piedmont Provision, and Sam's Club for general food products and restaurant supplies. Additionally, a

contract and/or account will be established with Counter-Culture to purchase fresh coffee beans.

Gelato Café will hire personnel (one full-time and four part-time employees) from the local area and provide in-house training prior to opening. All personnel will be trained on customer service and product preparation. The one full-time employee will receive additional training on the production of the ice cream and cash register/credit card reader operations. Each employee will receive one-on-one evaluation and qualification by the owner prior to opening of the café.

Gelato Café's grand opening will be on 30 May 2005, Memorial Day. All customers entering the establishment will be given one coupon for a free small ice cream or small specialty coffee. All purchases beyond the initial free sample will be sold at a twenty-five percent discount. By providing free samples at the grand opening most customers will likely purchase additional items that day, or come back at some point in the future. Throughout the rest of the first week, all products will be sold at a twenty-five percent discount. Even though losses will be significant the first week, this tactic should provide enough incentive for customers to try some of Gelato Café's products and establish it as a customer friendly business.

Within the first ninety-days, Gelato Café plans to cultivate enough patronage to enable year-round operations. By opening on Memorial Day (children having just finished school for the year and summer vacationing in full swing) patronage in Sanford's historic district will be at its highest point, and the outside temperature will be on the rise. As the outside air temperature increases to an average high of more than 85

degrees Fahrenheit, from June to August, Gelato Café will become the location of choice for people to take a break and cool down (“NBC-17 Weather,” n.d.).

By the end of the first ninety-days, Gelato Café plans to add a multitude of pastries and alcoholic beverages to the menu. Pastries will be purchased daily from Sandra’s Bakery, and will become a main stay throughout the year. Particular emphasis will be placed on these items as the temperature outside decreases and ice cream sales decline. The addition of alcoholic beverages will also help to broaden the café’s clientele by providing a wider variety of specialty drinks available to adult patrons. These changes will not only help to maintain patronage throughout the year, but will convert Gelato Café to more of a European style café capable of year-round operations.

At the six-month point Gelato Café will be entering the Christmas/New Year holiday season. Sales are expected to rise steadily until Christmas, as more and more people shop for gifts along South Steele Street, and then drop significantly until mid January. During this period Gelato Café will close for a period of three weeks to enable employees to enjoy the holidays and save operating costs (all employees are paid on an hourly basis, there will be no salaries to maintain). If sales have gone as planned prior to the holiday season, each employee will receive a Christmas bonus (hopefully in the realm of four-week average pay to help cover their losses while the café is closed and provide a little extra incentive for their continued support).

By the end of the first year, Gelato Café plans to expand its employee base by hiring two to four additional employees, full- and/or part-time, as required. Additional employees will enable the café to accommodate a predicted sales increase during the

summer months and allow initial employees to take a one-week paid vacation. New employees will be hired from the local area and provided the same in-house training as the initial employees.

If all goes as planned, Gelato Café will start to see a profit within the first two- to three-years and hopes to open at least one additional café within central North Carolina by the end of year five. Additional café's are planned at a rate of one to two per year starting in year five. At the ten-year point Gelato Café hopes to be a recognized as a chain throughout North Carolina and will consider changing its legal structure from a single member (single owner) limited liability company to a corporation and will start to look into franchising.

Liability and Risks

As a limited liability company, the owner of Gelato Café will not be personally liable for actions of the business (personal assets are not at risk). Even though the owner's personal assets are not at risk, all other company assets are. It is extremely important for the owner to consider this fact when investing in the company. Additionally, Gelato Café's owner will strive to mitigate or minimize the impact of as many liabilities and risks as possible before opening the company.

Liability for Products and Services: As a food producing customer service organization, Gelato Café's primary concern should be the health and welfare of its patrons. To ensure compliance with all federal, state, and local requirements and provide high quality products to its customer, Gelato Café will strive to meet or exceed all industry standards.

Prior to initial startup, Gelato Café will obtain an inspection certificate from the Commissioner of the North Carolina Department of Agriculture, and will obtain licenses from the North Carolina Department of Agriculture and Consumer Services for the manufacture of and use of frozen dessert dispensing devices and the North Carolina Alcoholic Beverage Control Commission for an alcoholic beverage culinary permit to allow the use of alcohol in some of its products. Additionally, Gelato Café will be subject to routine unannounced inspections and product testing from the North Carolina Department of Agriculture, Food Branch of the Food and Drug Protection Division. Inspections and product testing will ensure compliance with the North Carolina Food, Drug, and Cosmetic Act and adopted regulations to ensure safety of products for consumption and use.

In addition to compliance with all federal, state, and local requirements, Gelato Café will also obtain general liability insurance. According to the North Carolina Department of Insurance (n.d.), general liability insurance covers a wide range of liability exposures, generally grouped under premises and operations liability, products and completed operations liability, and liability for various intentional torts (wrongful act, injury, or damage for which civil action can be brought).

Internal Concerns: As a limited liability company with employees, Gelato Café will have many internal concerns. To minimize the likelihood for problems, Gelato Café's owner will ensure all laws and regulations pertaining to the company are strictly adhered to.

Labor Laws: Businesses within North Carolina must comply with all federal, state, and local laws. The North Carolina Department of Labor is charged with upholding labor laws in North Carolina and has published a “Labor Laws” guide that can be found on its website (“North Carolina Department of Labor,” n.d.c).

Wage and Hour Act: The 1979 North Carolina Wage and Hour Act requires all North Carolina businesses not subject to the United States Department of Labor, Fair Labor Standards Act (businesses with an annual dollar volume of more than \$500,000), to adhere to specific provisions when dealing with minimum wage, overtime, youth employment, wage payment, and record keeping (“North Carolina Department of Labor,” n.d.b).

Gelato Café will fall within this category, as sales are not expected to surpass \$500,000 the first year. If sales increase and the annual dollar volume surpass \$500,000, Gelato Café will be required to adhere to the Fair Labor Standards Act, enforced by the United States Department of Labor.

Occupational Safety and Health Act: All small businesses within North Carolina are required to establish safety and health programs in accordance with the federal Occupational Safety and Health Act (OSHA). In North Carolina, the Department of Labor is responsible for enforcing these standards, and has published “*A guide to OSHA for small businesses in North Carolina*” to help small business owners (“North Carolina Department of Labor,” n.d.a). Gelato Café will use this guide to establish and manage its safety and health programs.

Child Labor Laws: In North Carolina, child labor laws are spelled out in the Wage and Hour Act cited above. For businesses that employ persons under the age of 18, there are very specific guidelines that must be followed. For example “14- and 15-year olds may be employed no more than three hours a day when school is in session” and “16- to 17-year olds who are enrolled in grades 12 or lower may not be employed between 11 p.m. and 5 a.m. when there is school for the youth the next day” (“North Carolina Department of Labor,” n.d.b). Due to the fact that Gelato Café will have an Alcoholic Beverage Commission license, youths under the age of 18 will not be hired.

Workers’ Compensation: Workers’ compensation is a form of no-fault insurance provided by the employer for the employee (“North Carolina Department of Insurance”, n.d.). Within the state of North Carolina any employer who employ’s three or more employees is required to provide workers’ compensation coverage (“North Carolina Industrial Commission,” n.d.). The law provides compensation to an employee or an employee’s family in the event of personal injury or death by accident occurring during work hours. Gelato Café will have a minimum of one full- and four part-time employees and will therefore be required to provide workers’ compensation coverage.

Immigration Laws: The Immigration and Reform and Control Act of 1986 (IRCA) identify specific requirements that must be met before an employee can be hired. These requirements have been established to ensure persons applying for work are eligible to work in the United States. Employers may only hire persons who may legally work in the United States, i.e., citizens and nationals of the United States and aliens authorized to work in the United States. Employers must verify the identity and

employment eligibility of persons to be hired by completing an Employment Eligibility Verification Form (I-9). Employers must keep each I-9 on file for three years or one year after employment ends, whichever is longer (“United States Department of Labor,” n.d.).

Discrimination Laws: Federal law prohibits employment discrimination in the following areas:

1. Title VII of the Civil Rights Act of 1964 (Title VII) prohibits employment discrimination based on race, color, religion, sex, or national origin.
2. The Equal Pay Act of 1963 (EPA), protects men and women who perform substantially equal work in the same establishment from sex-based wage discrimination.
3. The Age Discrimination in Employment Act of 1967 (ADEA), protects individuals who are 40 years of age or older.
4. Title I and Title V of the Americans with Disabilities Act of 1990 (ADA), prohibit employment discrimination against qualified individuals with disabilities in the private sector, and in state and local governments.
5. The Civil Rights Act of 1991, provides monetary damages in cases of intentional employment discrimination.

The United States Equal Employment Opportunity Commission (EEOC) enforces these laws and provides oversight and coordination of all federal equal employment opportunity regulations, practices, and policies (“United States Equal Employment Opportunity Commission,” n.d.).

Sexual Harassment: Even though sexual harassment is covered under Title VII of the Civil Rights Act of 1964, it deserves special attention due to recent changes in the labor market. According to Noe, R., Hollenbeck, J., Gerhart, B., & Wright, P. (2003a), sexual harassment refers to unwelcome sexual advances and it can take place in two basic ways, “Quid pro quo” or “hostile working environment.” Due to Gelato Café’s hiring plan of non-discrimination, the likelihood is high it will have employees from both genders. The owner will personally coach employees on sexual harassment and establish a policy of complete intolerance. Employees will understand that sexual harassment has no place in Gelato Café and substantiated accusations will result in immediate termination of employment for the perpetrator.

Vulnerabilities (Startup): As with any new business, Gelato Café will have a multitude of different vulnerabilities to compensate for. Many can be reduced or eliminated by obtaining different types of business insurance.

Automobile Insurance: Gelato Café does not plan to have an automobile; therefore no automobile insurance will be required.

Fire and Extended Coverage Insurance: Fire and extended coverage insurance covers both real and business personal property. Two types of policies exist within this insurance, peril and all risk (“North Carolina Department of Insurance,” n.d.). Gelato Café will require this type of insurance and will purchase it through a local insurance agent.

Business Interruption Insurance: To protect against financial loss when a business is damaged from an insured peril, business interruption insurance will continue

to pay the business its normal income. This type of insurance enables the business to continue to pay its employees, debts, and contractual obligations (“North Carolina Department of Insurance,” n.d.). Even though this insurance would be great to have, the cost is just too high for Gelato Café. Initially Gelato Café will go without this type of coverage, but will consider implementing it at a later date.

In addition to liabilities covered by business insurance, Gelato Café will need to prepare for possible break-ins and theft. To help reduce this risk, a security system with video recording will be installed and monitored by a local security company. Furthermore, applicants’ references will be verified and background checks completed prior to hiring each employee. Even though none of these things will completely eliminate the possibility of break-ins and/or theft, they will help to reduce the likelihood.

Management Team and Gaps

As a single member limited liability company, Gelato Café’s management team will consist solely of the owner. As a retired Chief Master Sergeant in the United States Air Force, the owner has over 22 years experience leading and managing personnel. His final position in the Air Force was that of Chief Enlisted Manager for over 1,150 enlisted personnel. Additionally, the owner is currently enrolled in Mount Olive College and will complete his baccalaureate degree in Management and Organizational Development prior to opening Gelato Café.

Even though the owner has significant experience in leading and managing personnel, he has limited experience in the financial and legal aspects of operating a

business. For this reason, he will hire a certified public accountant to help maintain financial records and provide financial guidance, and retain a lawyer for legal advice.

As Gelato Café's business begins increases, the owner will train full-time employee(s) to become managers and assistant managers, slowly shifting responsibility and authority to a new mid-level. This process will serve three purposes (1) increase responsibility and authority for full-time employee(s), (2) provide back-up managers to run the store when the owner is absent, and (3) groom managers to operate new stores as the business expands.

In the event the owner is no longer able of run Gelato Café the café(s) will either be sold by the owner's family or succession will pass to his children. The final option will be coordinated through the company's lawyer.

HR/OD Plan

Employee Base: In October 2003, over 1,800 people were out of work in Lee County; unemployment rates were set at 7.0 percent, 0.9 percent higher than the North Carolina average ("North Carolina Department of Commerce," n.d.b). Recruiting and hiring employees from the local area should be relatively easy.

Organizational Structure: Gelato Café's organizational structure and staff will initially consist of the owner, one full-time employee, and four part-time employees. By the end of the first year, Gelato Café plans to expand its employee base by hiring two to four additional employees, full- and/or part-time, as required. As the business expands and new café's are opened additional employees will be hired and managers will be promoted from within whenever possible.

Training (Startup and Long-term): The owner will provide both startup and long-term training in-house. Prior to opening Gelato Café all employees will be trained on customer service and product preparation. The one full-time employee will receive additional training on the production of the ice cream and cash register/credit card reader operations. Each employee will receive one-on-one evaluation and qualification by the owner prior to opening. As time-passes long-term training will be begin. The owner will train full-time employee(s) to become managers and assistant managers, slowly shifting responsibility and authority to a new mid-level. This process will serve three purposes (1) increase responsibility and authority for full-time employee(s), (2) provide back-up managers to run the store when the owner is absent, and (3) groom managers to operate new stores as the business expands. As new employees are hired, the owner and/or one of the managers will provide in-house training as required.

Benefits: Employees will initially be offered no benefits and pay will be strictly on an hourly basis. Depending upon Gelato Café's success, annual cash bonuses and paid vacation time are planned to begin within the first year. If sales go as planned prior to the Christmas/New Year holiday season, employees will be eligible to receive a cash bonus of up to four-week average pay (individual productivity will be a major consideration in determining the amount of cash bonus). If the first year goes as planned and business continues to grow, employees will be given a one-week paid vacation after working for the company for at least one year. Both benefits are planned to continue in future years. Annual cash bonuses will remain dependent upon holiday season profits and employee productivity, and vacation time will be dependent upon employee seniority

(one-week for employees with one to five years, and two-weeks for employees with more than five-year seniority).

Performance Appraisals: Due to Gelato Café's orientation as a customer service type organization, performance appraisals will be established using the behavioral approach as defined by Noe, Hollenbeck, Gerhart, and Wright (2003b). A behavioral observation scale will be developed for each position within the company. The owner will formally sit down with each employee to evaluate the employee's job performance on an annual basis. In addition, the owner will establish a formal feedback program where each employee will receive feedback at the six-month point between each job performance evaluation.

IS and Technology Plan

Gelato Café's information systems and technology plan is fairly simple. Technology in the ice cream making and coffee shop industries is relatively low. Ice cream and coffee making machines have been around for quite some time and there are currently no foreseeable changes coming. Gelato Café will maintain a low-level of technology by utilizing off-the-shelf equipment as much as possible (i.e. cash register, facsimile machine, and personal computer). Two telephone lines will be required, one in the office with high-speed Internet service for the manager and one behind the counter for employees. Additionally a credit card reader will be installed as well as a locally procured, installed, and monitored security system with video recording.

This chapter has provided a complete company summary for Gelato Café, specifically in the areas of company ownership; strategy; liability and risks; management

team and gaps; human resources and organizational development; and information systems and technology. After review of the company summary, it is clear that the owner of Gelato Café is on the right track for complete success.

Chapter IV. Marketing Analysis

This chapter contains a complete marketing analysis for Gelato Café. It examines the markets in which Gelato Café plans to operate, including segmentation, pertinent factors, target market segment, strategies, customer groups, geographic composition, and features of its products and services. Additionally, it provides an assessment of suppliers and competitors, focusing on an in-depth supplier assessment and a competitive review, including a Strengths, Weaknesses, Opportunities, and Threats (SWAT) analysis. Finally, it covers Gelato Café's marketing strategy, to include promotion and advertising, and sales.

Markets

Gelato Café is faced with an exciting opportunity of being the first-mover in an untapped niche market. As an Italian Ice Café, Gelato Café will combine the products of two independent services, ice cream and specialty coffee into one location. In addition, Gelato Café will improve on both services by providing homemade Italian ice cream and made-to-order European specialty coffee in a unique European atmosphere.

The consistent popularity of ice cream and gourmet coffee has created significant markets for both products. Combining and customizing these products, and providing a unique European atmosphere, will enable Gelato Café to tap into already existing markets to develop a new niche market.

Segmentation: Gelato Café's customers can be divided into two independent groups; people who consume ice cream and people who consume coffee.

Surveys published by Adweek magazine (Dolliver, M., 2000), American Demographics (Wansink, B., & Sangerman, C., 2000), and Bon Appétit magazine (“How America,” 2003), recognized ice cream as one of America’s top comfort foods. In addition to these surveys, it’s well known that children of all ages enjoy ice cream. Even in today’s fast paced ever-changing market, one thing remains the same, children run home to ask mom or dad for a dollar so they can buy ice cream from a truck that just pulled up outside. Ice cream, an old time favorite for children, still remains an enticing treat for people of all ages, and will likely continue into the future.

Articles published in American Demographics (Dawidowska, K., 2002), Food Service Director (“Coffee drinking,” 2003), and Beverage Industry (“Coffee goes,” 2003), identified that 7 out of 10 Americans drink coffee away from home, and adult coffee drinking, particularly in the specialty coffee market, continues to grow. Even though most brands of coffee decreased in sales over the last year, whole bean (gourmet specialty) coffee showed an increase of 2.2 percent. These figures show a recent trend in American coffee drinking, slowly shifting their preference from regular brewed coffee to gourmet specialty coffee.

Pertinent Factors: Gelato Café will be located in the heart of Sanford, North Carolina’s historic district. Sanford is currently experiencing a renaissance of sorts, bringing people back in to the downtown area (“City of Sanford North Carolina,” n.d.c). Over the last decade Sanford’s population grew by 57.2 percent, an increase from 14,775 to 23,220 in just 10 years (“Lee County Economic Development,” n.d.). Sanford’s population is expected to continue growth at an annual rate of a least 2 percent for the

next 17 years (“City of Sanford North Carolina,” n.d.d). Additionally, Sanford’s immediate population can be extended to include an additional 25,820 Lee County residents, increasing the local market to 49,040 possible patrons (“Lee County Economic Development,” n.d.).

Additional factors Gelato Café must consider when developing its strategy are major age groups within the population, average household size, and median family income. The five major age groups are: under 18 years of age, 26 percent; between 18 and 24 years of age, 9 percent; between 25 and 34 years of age, 16 percent; between 35 and 54 years of age, 26 percent; and over 55 years of age, 23 percent (“Lee County Economic Development,” n.d.). The average household size is 2.6 persons and the median family income is \$48,600 (“City of Sanford North Carolina,” n.d.a).

Target Market Segment: Gelato Café’s intent is to cater to the bulk of the population. By focusing primarily on persons between the ages of 25 and 55, 41 percent of the population will be targeted. As a byproduct of this targeting, an additional 26 percent of people (those under 18 years of age) will become patrons simply by accompanying their parents or legal guardians. The end result will be 77 percent of the population will be targeted by focusing on two primary groups, those between 25 and 34, and those between 35 and 55 years of age.

Strategies: Gelato Café’s primary strategy is differentiation; it will distinguish itself from competitors through high quality products and service. Furthermore, a focus strategy will be implemented to concentrate on a specialty products and the regional

market. By combining differentiation and focus strategies, Gelato Café will establish a competitive advantage that will stimulate success and be difficult for others to imitate.

Through its differentiation strategy, Gelato Café will focus on its high quality homemade products, emphasizing the absence of chemical preservatives. A smartly dressed staff, ready to cater to your every need, will provide top-notch service. A unique European décor will provide patrons a relaxing yet classy atmosphere where they can sit back and enjoy life for a while.

Gelato Café's focus strategy will concentrate on its distinctive products of homemade Italian ice cream and European specialty coffees. It will provide regional customers high quality specialty products not normally available within the community, at prices comparable to locally available domestic products.

Customer Groups: Gelato Café's primary customer group is working adults between the ages of 25 and 55. Within this group, Gelato Café expects people will stop by on their way to work in the mornings, come in for breaks, and come in with their children when they are not working. Located on the main shopping street in Sanford's historical district, Gelato Café is in a perfect location to cater to people who are shopping or visiting Sanford's historical district. People will come in just to get a well-deserved break from shopping and/or sight seeing, and Gelato Café will be more than happy to accommodate them.

Geographic Composition: Gelato Café is in a perfect location, directly in the heart of Sanford's historical district. Because Sanford is the largest city in Lee County, and right in the middle of the county, people come to Sanford daily for business and/or

pleasure. With 49,040 possible patrons living in Lee County (“Lee County Economic Development,” n.d.), Sanford is an optimal location for Gelato Café.

Features of Products and Services: Gelato Café’s distinctly unique products and service will be its competitive advantage. Its products, homemade Italian ice cream and European specialty coffees will provide its customers high quality specialty products normally unavailable within the community, at prices comparative to locally available products. Its high quality products will not only taste great, they will provide patrons completely natural foods free from preservatives or imitation flavors. In addition to its high quality products, Gelato Café’s staff will provide first-class service to its patrons, catering to their every need. The unique décor will stimulate a relaxing European environment where patrons can sit back and enjoy life for a while.

Suppliers and Competitors

Supplier Assessment: Gelato Café will be able to choose from a multitude of local suppliers for its daily inventory items and general restaurant equipment, but only a few for specialty equipment.

Daily inventory items, such as fresh milk and cream, fruit, paper products, etc... will be purchased from local distributors including Cisco, Pate Dawson, U.S. Foods, Dawn, Best Brand, Piedmont Provision, and Sam’s Club. Four out of five local industry participants, Fairview Dairy Bar, Java-Express Coffee House, Mrs. Lacy’s Magnolia House, and Sandra’s Bakery all use at least one of these suppliers for daily inventory items. According to the owners of each establishment, they have never had any difficulty obtaining daily inventory items and the prices are very competitive.

General restaurant equipment, such as furniture, dishes, silverware, glassware, etc... will be purchased from local distributors mentioned above. Other items, such as a dishwasher, refrigerator, freezer, and certain display units will be purchased from A Best Kitchen or Serv-U; both companies are nation-wide general restaurant equipment suppliers.

Specialty equipment, including Batch Ice Cream Freezer's and Shake Freezer's will be purchased from Taylor Company, a sole source provider within the United States for Italian Ice Cream making machinery. Additionally, Counter-Culture, out of Durham, North Carolina will provide European specialty coffee making machines free of charge as long as Gelato Café purchases coffee beans directly from them.

Competitive Review: Gelato Café has five primary competitors in the Sanford, North Carolina's historical district: Fairview Dairy Bar, Java-Express Coffee House, Mrs. Lacy's Magnolia House, Sandra's Bakery, and Yarborough's Ice Cream. Each competitor has specific strengths and weaknesses. By understanding these strengths and weaknesses, Gelato Café will be able expound upon available opportunities and avoid threats.

Fairview Dairy Bar is a locally owned competitor that serves coffee, commercially manufactured ice cream, a wide variety of fast-food items, and specialty dishes such as homemade soup. Its common organizational strength of providing local patrons sit down meals at an acceptable cost will not create significant competition for Gelato Café.

Java-Express Coffee House is a locally owned competitor that serves a variety of specialty coffees, an assortment of fast-food items, and on occasion doughnuts and/or bagels. Its distinctive competency is specialty coffee. It has not been able to fully capitalize on its distinctive competency due to its poor location outside the normal pedestrian pathway in Sanford's historical district. Additionally, the poor condition of its facilities has a tendency to ward off potential customers, simply due to its sub-standard appearance. Java-Express Coffee House will provide some competition for Gelato Café, but due to its location, Gelato Café will more than likely steal away customers from Java-Express.

Mrs. Lacy's Magnolia House is a locally owned competitor that serves coffee, tea, and a wide variety of lunchtime meals. Its common organizational strength of providing lunchtime meals, sandwiches, grilled sandwiches, salads, homemade soups, and homemade desserts at a reasonable price has enabled it to gain a competitive advantage over other common strength establishments within the area. Due to its focus on common strength, it should not pose a significant threat to Gelato Café's distinctive competency opportunities.

Sandra's Bakery is a locally owned competitor that serves coffee and an assortment of homemade pastries. Its distinctive competency of providing doughnuts, pies, cakes, bagels, and muffins for take-out has enabled it to enjoy relative success in that market. Gelato Café's distinctive competency is different than Sandra's Bakery and will therefore not be competing in the same market.

Yarborough's Ice Cream is a locally owned competitor that serves coffee, homemade ice cream, and an assortment of fast-food items (i.e. sandwiches, hot dogs, hamburgers, and French fried potatoes). Its distinctive competency of providing homemade ice cream has seemed to fade over the years. Currently, Yarborough's Ice Cream is more of a fast-food restaurant that serves homemade ice cream than an ice cream shop that serves additional items. Even though patronage is steady, its poor location on Carthage Street, more than one block away from the normal pedestrian pathway, has definitely stifled its ability to lure customers. Yarborough's Ice Cream will provide some competition for Gelato Café, but due to its location, Gelato Café will more than likely steal away customers from Yarborough's Ice Cream.

SWOT Analysis (strengths, weaknesses, opportunities, and threats):

Strengths – Gelato Café's distinctive competency of providing homemade Italian ice cream and made-to-order European specialty coffee in a unique European atmosphere will provide it a competitive advantage over its local competition. As a first-mover in an untapped niche market, Gelato Café is faced with an exciting opportunity to establish a new market by combining products from two independent services, ice cream and specialty coffee.

Weaknesses – Gelato Café's major organizational weakness is its lack of qualified personnel to handle accounting and legal issues. Due to this lack of talent, Gelato Café will utilize a professional accountant to maintain its financial records and will hire a lawyer as required to take care of any legal issues.

Opportunities – Gelato Café’s opportunities are incredible. As a first-mover in an untapped niche market, the opportunity for success is enormous. By combining products from two highly successful markets, Gelato Café could be on the verge of establishing an entirely new niche market. With over 49,000 possible patrons in the local area (“Lee County Economic Development,” n.d.), Gelato Café could be on the verge of major success.

Threats – Gelato Café’s major threats are rivalry, the threat of substitution, and the threat of new entrants. As discussed earlier, the current threat of rivalry is minimal. Local competition is either focused on a common organizational strength, different from Gelato Café’s, or a distinctive competency that only focuses on one of Gelato Café’s products. The threat of substitution and the threat of new entrants will probably increase once this new niche market is established. But, by the time these threats occur, Gelato Café will have already established itself by providing high quality products and service that will be difficult for others to imitate.

Marketing Strategy

Gelato Café’s primary strategy is differentiation; it will distinguish itself from competitors through high quality products and service. But, to successfully implement its differentiation strategy it must effectively utilize promotion and advertising, and come up with a successful sales strategy.

Promotion and Advertising: Promotion includes advertising and direct customer interaction (“United States Small Business Administration,” n.d.b). Good salesmanship will be essential for Gelato Café, and its staff will utilize direct customer interaction as

much as possible once a customer enters the establishment. Advertising on the other hand will require a more in-depth review.

Advertising is an investment in your businesses future that can provide large audiences information about products and service your business can provide. To effectively utilize advertising, Gelato Café will evaluate the different types of advertising available and select options to fit its specific needs. Some of the most common types of advertising are listed below (“United States Small Business Administration,” n.d.a; “United States Small Business Administration,” n.d.c):

- Newspaper advertisements are relatively inexpensive and provide local businesses an opportunity to reach a large audience within their local community.
- Magazine advertisements are generally more expensive, than newspaper advertisements, and are normally utilized by larger businesses for national advertisement campaigns.
- Radio advertisements are generally inexpensive and reach a large audience within the local area.
- Television advertisements are considered to be the most effective way to advertise, but they are also the most expensive. Television advertisements are usually employed by large businesses that want to reach an extended audience.
- Telephone book (yellow pages) advertising is another relatively inexpensive way for local businesses to reach patrons within the local community.

- Outdoor advertising is one of the most misunderstood forms of advertisement. Most people think only of billboards when they think about outdoor advertisements, but outdoor advertisements can also include benches, poster, signs on vehicles (buses, taxicabs, trains, subways, etc...). Outdoor advertising is relatively inexpensive and can reach a very large audience within the local area.
- Specialty advertising is another inexpensive form of advertising. It includes giveaways, where the business gives away pens, pencils, buttons, calendars, refrigerator magnets, and anything else they can think of. Many businesses find this type of advertising to be very inexpensive and use it extensively.
- Signage can also be utilized as a type of advertisement. For many businesses the most cost effective way to advertise is through the use of on-premise signage. Signs provide potential customers information about your business before they walk in, creating awareness for the products and service your business can provide.

Gelato Café will primarily utilize signage, outdoor advertising, and specialty advertising. In addition, telephone book, newspaper, and radio advertisements will be used on an as-needed basis when additional advertising is required. Television and magazine advertisements are not currently planned.

Sales Strategy: Gelato Café's primary sales strategy will be to differentiate its high-quality products and service from its competitors. It will place special emphasis on the difference between homemade Italian ice cream and manufactured ice cream, keying

in on the fact that Gelato Café's ice cream has no artificial flavors or preservatives and is made fresh in the Café. Additionally, it will emphasize the high quality of its made-to-order specialty coffees and its unique European atmosphere.

This chapter has provided a complete marketing analysis for Gelato Café, focusing on the markets in which it plans to operate, its suppliers and competitors, and its overall marketing strategy. After an in-depth analysis, it has been demonstrated that Gelato Café's marketing strategy is clearly defined, and should prove to be quite successful.

Chapter V. Financial Plan

This chapter contains a complete financial plan for Gelato Café. It provides a summary of financial needs, important assumptions, parameters (including sales forecast projections), and monthly period expense projections, beginning asset projections, manufacturing cost projections, profit planning projections, cash flow projections, income projections, balance sheet projections, ratio analysis, and a final analysis.

Summary of Financial Needs

The owner will require \$95,000 to launch Gelato Café. Mr. Painter, the single owner of Gelato Café, will use personal assets to fund approximately 36 percent of the initial costs (\$35,000). Additional funding will be obtained from BB&T Bank in the form of a small business loan (\$60,000). Mr. Ken Nazardhyk of BB&T Bank, Business Loan Division, Eutaw Branch, Fayetteville, North Carolina, identified to Mr. Painter in a telephone conversation on 7 September 2004, that assuming Gelato Café qualifies for a Small Business Association (SBA) loan, his bank would be willing to consider a 5-year loan of up to \$100,000 at a variable interest rate of 6.5% (current prime interest rate of 4.5% plus 2%).

Important Assumptions

Many important assumptions have been made while formulating Gelato Café's financial plan. First, the prime interest rate of 4.5% will remain the same throughout the life of the small business loan (5 years). Next, sales will average 240 items (coffee or ice cream) per day, 6 days a week, at an average sale price of \$3.00. Additionally, the

estimated income tax rate of 25%, variable costs, and fixed costs will not change within the first 2 years of operation.

Parameters (Sales Forecast Projections)

Gelato Café's initial parameters include: beginning and minimum cash balances, sales collection forecasts, sale price per unit requirement, estimated income tax rate, line of credit interest rate, and a two-year sales forecast. Accuracy of these parameters is critical to Gelato Café's success and will make or break the company.

Even though all the above parameters are critical to Gelato Café's success, the most significant parameters are sale price per unit and two-year sales forecast. Miscalculation of either parameter could result in financial ruin for Gelato Café.

Gelato Café will need to price its products slightly higher than its local competitors in order to survive. Each unit (coffee or ice cream) will need to sell for \$3.00, and sales will need to average 240 per day to ensure profitability. Gelato Café's differentiation strategy, identified in chapter IV, is extremely critical to the success of this business.

Monthly Period Expense Projections

Gelato Café's monthly period expenses of \$9,660.99 will include: rent, utilities, salaries, employee wages, workers' compensation insurance, unemployment insurance, business insurance, business license, limited liability company annual report, alcoholic beverage commission, frozen desert license, certified public accountant, lawyer retainer, advertising budget, telephone, internet, security monitoring, and credit card reader.

All period expenses have been estimated from information obtained from sources previously identified in earlier chapters, obtained via direct quote from sales personnel, or estimated from the life long experiences of the owner.

Beginning Assets Projections

Gelato Café's beginning assets of \$87,831.39 include: store remodeling and furniture costs, two batch ice cream freezer's (model 220), one shake freezer (Model 490), two frozen display's (TA-TGF-13F), one freezer (GW-GST-49DF 2 Door), one refrigerator (T-TR2R-2S), one dish washer (JET-F-18DP), two stainless steel kitchen work table's (AE-PTGS2472), one drink mixer (WAR-DMC20), one desk top computer, one facsimile machine, two telephones, dishes, one cash register (ROYN-0583), one security/surveillance system (LRXV-5044), beginning inventory, utility deposits, limited liability company set-up fee's, license fee's, trademark fee's, prepaid insurance fee's (business owners & workers' compensation), pre-opening wages and unemployment insurance, advertising, signage, and printing costs, credit card reader, and line of credit set-up fee's.

All beginning asset expenses have been estimated from information obtained from sources previously identified in earlier chapters, obtained via direct quote from sales personnel, or estimated from the life long experiences of the owner.

Manufacturing Cost Projections

Manufacturing costs of \$0.35 per unit were established by determining the cost of materials used to make each unit of coffee or ice cream, and by estimating overhead costs based on an average amount of condiments (cream, sugar, cocoa powder, napkins, paper

cups, plastic spoons, etc...) used per unit in a typical coffee or ice cream shop. These costs were estimated from information obtained during interviews with local competitors identified in chapter II.

Profit Planning Projections

Profit planning provides an analysis to determine the number of units required to be sold to break-even, estimate profit above the break-even point based on an average number of units sold per month, and determine Gelato Café's operating leverage.

Gelato Café's break-even point is to sell an average of 203 units per operating day (6 days per week, or 26 days per month). Currently, Gelato Café plans to sell 240 units per day, providing a buffer of 37 units per day. Considering the fact that this is not very large buffer, the owner is willing to reduce his salary of \$3,000 per month as required to ensure the business will survive. Completely eliminating the owner's salary would enable the business to continue operation by selling just 159 units per day, 81 units lower than originally planned.

Gelato Café's profit estimation of \$1,946.31 is the amount of profit the company will make above the break-even point as long as it maintains an average sale of 6,240 units per month. Additionally, Gelato Café's operating leverage of 8.50 identifies a significant profit potential.

Cash Flow Projections

Gelato Café's projected cash flow shows a continuous positive cash flow even during quarters with significant reductions in sales. On average, cash flow projections are approximately \$12,000 per quarter, with the exception of the third quarter in each

year. During the third quarter of each year (December through February), Gelato Café plans to close for three weeks to allow employees to enjoy the Christmas and New Year holiday season. During these closures, cash flow projections are still estimated at approximately \$125 per quarter.

Income Projections

Gelato Café's projected income shows a continuous positive net income of approximately \$13,000 per quarter, with the exception of the third quarter in each year. During the third quarter, when Gelato Café plans to close for three weeks over the Christmas and New Year holiday season, net income projections are still estimated at well over \$5,000 per quarter.

Balance Sheet Projections

Gelato Café's balance sheet projections identify a continuous increase in total assets from \$92,831 initial start-up to \$164,551 at the end of year two, a 56% increase in overall worth within just two years.

Ratio Analysis

Gelato Café ratio analysis includes: current, quick, debt to equity, debt to asset, return on asset, return on equity, working capital to assets, working capital to equity, and times interest earned ratios. All ratios (except return on assets and return on equity) identify a positive direction. Even with projected sales decreases during the third quarter of each year, overall ratio projections are positive.

Current and quick ratios identify an increasing trend throughout the first two years, from 4.84 to 17.98, and mirror each other due to the fact that Gelato Café will have

no marketable securities, current receivables, or inventory of complete units. These ratios are simply based on the amount of cash on hand divided by the amount of income tax owed. Minor setbacks in each of the fourth quarters reflect the reduction in sales from the previous quarter due to the company's closure over the Christmas and New Year holiday season.

Debt to equity ratio continually decreases from 1.39 to 0.36 over Gelato Café's first two years of operation. This projected decrease is a clear indication of financial strength and will help the company's owner obtain financing from BB&T Bank.

Return on assets and return on equity are both very low, ranging from 0.11 to 0.03 and 0.25 to 0.05 respectively. Considering Gelato Café is a new business, assets and equity are very high, and initial sales forecasts are limited, these numbers do project the business is profitable.

Working capital to assets and working capital to equity are both very small initially, 0.05 and 0.32 respectively, but continuously grow over the first two years to 0.40 and 0.63 respectively. The small ratios are simply due to Gelato Café being a new business. Current projections identify a steady increase in both ratios due to a faster increase in working capital compared to the increases in assets and equity.

Times interest earned ratios ranging from 6.5 to 20.9 are very promising. This projection will definitely help Gelato Café obtain funding from BB&T Bank. It projects earnings well above what most long-term creditors are looking for.

Final Analysis

In final analysis of Gelato Café's financial plans, a decision must be made as to the feasibility of such a business in Sanford, North Carolina's historical district. In today's market, a business such as Gelato Café would be very likely to succeed and prosper. In Sanford, North Carolina, with an overall population of 49,040 possible patrons, Gelato Café should be able to obtain and maintain the needed patronage to satisfy required sales ("Lee County Economics Development," n.d.). After considering all the pertinent factors, it seems evident that Gelato Café has a very good chance of survival and should even prosper if it were to open in Sanford's historical district.

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Appendix A

Reflections

Looking back on this project, I can honestly say I learned more than I expected. Initially, I thought the project would be overwhelming considering the amount of work I was already doing just to keep up with the class. In the end, even though it was very strenuous and quite a bit of work, it was achievable. The biggest single thing that helped me accomplish this project was the way each chapter was split out throughout the MOD program (due at different times). By concentrating on one chapter at a time, I was able to focus my attention and provide a complete product at each of our scheduled milestones.

The literature review was by far the most important and time-consuming chapter of the project. To complete the literature review, I used a lot of information provided during research methods. What I learned during this class enabled me to determine the types of information needed and helped me discriminate between sources to ensure only relevant material was used.

The company summary presented yet another challenge. I had to make decisions on everything from a basic legal structure to what information systems and technology would be used. The most difficult part of this chapter was unearthing all the different regulations and laws that businesses must adhere to. Again, I reverted back to what I learned in research methods and it enabled me complete the summary on time.

I found both the marketing analysis and financial plan to be relatively simple. Research from previous chapters had already provided me all the information I needed; it was just a matter of putting everything together.

Although the project proved pretty much as I expected, it is much more expensive to operate a business than I originally thought. Even though initial startup costs are quite high for my particular type of business (I figured they would be), the real surprise was to find that insurance costs are so much more than I expected. After discovering this, I'm convinced that if someone wants to open a business, even if they plan to finance it themselves, they really should complete a comprehensive business plan to ensure they understand everything opening a business entails.

I really didn't find any major roadblocks while completing this project. It was sometimes difficult to get information (especially price quotes) from people when you tell them you're doing a business plan, but not actually opening the business in the immediate future. But in the end, being honest seemed to work; I obtained all the information I needed.

After all was said and done, what can I say about the MOD program? Overall I'm very pleased with the program. I was able to continue working full time, see my family everyday, and complete the program. What more can you ask for? I don't believe the program had any negative affect on my family life. If anything, it proved to my children that no matter what you're doing in life and no matter how old you are you can still go back to school. I'm very happy I made the decision to take this program. It has provided me a solid education and I had a pretty good time doing it. I would and will recommend the MOD program to others!

Appendix B

Figure 1: Parameters

Beginning Cash Balance	\$5,000.00				
Minimum Cash Balance	\$5,000.00				
Sales collected in next quarter	0%				
Sales not collected (Bad Debts)	2%				
Sale Price per Unit	3.00				
Income Tax Rate	25%				
Interest Rate on Line of Credit	6.25%				
					Ending
	Units	Units	Dividends		Inventory
	Manufactured	Sold	Dollars		Units
Quarter 1 Year 1	17640	17640	0		0
Quarter 2 Year 1	18720	18720	0		0
Quarter 3 Year 1	14400	14400	0		0
Quarter 4 Year 1	18720	18720	0		0
Quarter 1 Year 2	18720	18720	0		0
Quarter 2 Year 2	18720	18720	0		0
Quarter 3 Year 2	14400	14400	0		0
Quarter 4 Year 2	18720	18720	0		0

Figure 2: Monthly Period Expense Projection

Item	Amount
Rent	1800
Utilities	740
Salaries	3000
Employee Wages	3120
Workers' Comp Insurance	70.83
Unemployment Insurance	37.44
Business Insurance	419.92
Business License	4.17
LLC Annual Report	16.67
ABC Licenses	83.34
Frozen Dessert License	1.67
CPA Fee	200
Lawyer Retainer Fee	50
Advertising Budget	25
Telephones	25
Internet	35
Security/Monitor System	21.95
Card Reader	10

Figure 3: Beginning Asset Projection

NAME	Useful Life	Residual Value	Purchase Price	Amount Financed	Interest Rate	Number Months Financed
	Years	Dollars	Dollars	Dollars	Percent	Months
Store Remodel / Furniture	20	20000	25000	21000	6.50%	60
2 x Batch Ice Cream Freezer's (Model 220)	10	25000	31800	28000	6.50%	60
Shake Freezer (Model 490)	10	5000	7800	4000	6.50%	60
2 x Frozen Display (TA-TGF-13F)	10	1800	2900	2000	6.50%	60
Freezer (GW-GST-49DF 2 Door) / Refrigerator (T-TR2R-2S) / Dish Washer (JET-F-18DP)	10	5000	8770	5000	6.50%	60
2 x Stainless Steel Kitchen Work Table (AE-PTGS2472)	10	200	430	0.01	0.01%	24
Drink Mixer (WAR-DMC20)	10	50	195	0.01	0.01%	24
Computer / Facsimile / Phones	5	200	1050	0.01	0.01%	24
Dishes	5	200	1200	0.01	0.01%	24
Cash Register (ROYN-0583)	5	100	207	0.01	0.01%	24
Security/Surveillance System (LRXV-5044)	5	350	745	0.01	0.01%	24
Begin Inventory	0	0	3000	0.01	0.01%	24
Utility Deposits	20	740	740	0.01	0.01%	24
LLC Set-Up/License/Trademark Fee's	0	0	1925	0.01	0.01%	24
Prepaid Insurance (Business Owners and Workers' Comp)	0	0	490.75	0.01	0.01%	24
Pre-Opening Wages and Unemployment Insurance	0	0	728.64	0.01	0.01%	24
Advertising/Signage/Printing	0	0	400	0.01	0.01%	24
Card Reader/Line of Credit Set-Up Fee's	0	0	450	0.01	0.01%	24

Figure 4: Manufacturing Cost Projection

Item	Cost for one unit
Materials	\$ 0.30
Labor	\$ -
Overhead	\$ 0.05

Figure 5: Profitability Planner

Total Fixed Costs	\$13,940.92	
Variable Cost/Unit	\$0.35	
Revenue/Unit	\$3.00	
Break-Even Point (units)	5,260.72	units
Enter a number of units	6240	
Profit Estimation	\$1,946.31	
Operating Leverage	8.50	

Figure 6: Cash Flow Projection

	Year 1				Year 2			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Operations:								
Add Net Income before income tax	14,853	17,703	6,568	17,812	17,868	17,925	6,795	18,044
Add Depreciation	551	551	551	551	551	551	551	551
Subtract Cost of Goods Manufactured	-	-	-	-	-	-	-	-
Add decreased in Accounts Receivable	-	-	-	-	-	-	-	-
Add decrease in Inventory	-	-	-	-	-	-	-	-
Subtract Income Taxes Paid (Delay 1 qtr)	-	3,713	4,426	1,642	4,453	4,467	4,481	1,699
Cash Flow from Operating Activities	15,405	14,541	2,694	16,721	13,966	14,010	2,865	16,896
Investing:								
Add Loan used to buy assets	60,000	-	-	-	-	-	-	-
Subtract Payment used to buy assets	(60,000)	-	-	-	-	-	-	-
Cash Flow from Investing	-	-	-	-	-	-	-	-
Financing:								
Subtract Principle Reduction on Debt	2,429	2,481	2,535	2,590	2,646	2,703	2,762	2,822
Dividends Paid	-	-	-	-	-	-	-	-
Add Received Loan on Line of Credit	-	-	-	-	-	-	-	-
Subtract Payment of Loan on Line of Credit	-	-	-	-	-	-	-	-
Cash Flow from Financing Activities	(2,429)	(2,481)	(2,535)	(2,590)	(2,646)	(2,703)	(2,762)	(2,822)
CASH FLOW	12,976	12,060	159	14,131	11,320	11,306	103	14,074
Beginning Cash Balance	5,000	17,976	30,036	30,194	44,325	55,645	66,952	67,055
Ending Cash Balance	17,976	30,036	30,194	44,325	55,645	66,952	67,055	81,129

Figure 7: Income Statement Projection

	Year 1				Year 2			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Revenue	52,920	56,160	43,200	56,160	56,160	56,160	43,200	56,160
Cost of Goods Sold	6,174	6,552	5,040	6,552	6,552	6,552	5,040	6,552
Gross Profit	46,746	49,608	38,160	49,608	49,608	49,608	38,160	49,608
Period Expenses:								
Depreciation Expense	551	551	551	551	551	551	551	551
Bad Debt Expense	1,058	1,123	864	1,123	1,123	1,123	864	1,123
Interest Expense	1,300	1,247	1,194	1,139	1,083	1,025	967	907
Rent	5,400	5,400	5,400	5,400	5,400	5,400	5,400	5,400
Utilities	2,220	2,220	2,220	2,220	2,220	2,220	2,220	2,220
Salaries	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Employee Wages	9,360	9,360	9,360	9,360	9,360	9,360	9,360	9,360
Workers' Compensation Insurance	212	212	212	212	212	212	212	212
Unemployment Insurance	112	112	112	112	112	112	112	112
Business Insurance	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260
Business License	13	13	13	13	13	13	13	13
LLC Annual Report	50	50	50	50	50	50	50	50
ABC Licenses	250	250	250	250	250	250	250	250
Frozen Dessert License	5	5	5	5	5	5	5	5
CPA Fee	600	600	600	600	600	600	600	600
Lawyer Retainer Fee	150	150	150	150	150	150	150	150
Advertising Budget	75	75	75	75	75	75	75	75
Telephones	75	75	75	75	75	75	75	75
Internet	105	105	105	105	105	105	105	105
Security/Monitor System	66	66	66	66	66	66	66	66
Card Reader	30	30	30	30	30	30	30	30
Total Expenses	31,893	31,905	31,592	31,796	31,740	31,683	31,365	31,564
Income before Taxes	14,853	17,703	6,568	17,812	17,868	17,925	6,795	18,044
Income Tax Expense	3,713	4,426	1,642	4,453	4,467	4,481	1,699	4,511
Net Income	11,140	13,277	4,926	13,359	13,401	13,444	5,096	13,533

Figure 8: Balance Sheet Projection

	Beginning	Year 1				Year 2			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Assets:									
Cash	5,000	17,976	30,036	30,194	44,325	55,645	66,952	67,055	81,129
Accounts Receivable	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-
Store Remodel / Furniture	25,000	24,938	24,875	24,813	24,750	24,688	24,625	24,563	24,500
2 x Batch Ice Cream Freezer's (Model 220)	31,800	31,630	31,460	31,290	31,120	30,950	30,780	30,610	30,440
Shake Freezer (Model 490)	7,800	7,730	7,660	7,590	7,520	7,450	7,380	7,310	7,240
2 x Frozen Display (TA-TGF-13F)	2,900	2,873	2,845	2,818	2,790	2,763	2,735	2,708	2,680
Freezer (GW-GST-49DF 2 Door) / Refrigerator (T-TR2R-2S) / Dish Washer (JET-F-18DP)	8,770	8,676	8,582	8,487	8,393	8,299	8,205	8,110	8,016
2 x Steel Kitchen Work Table (AE-PTGS2472)	430	424	419	413	407	401	396	390	384
Drink Mixer (WAR-DMC20)	195	191	188	184	181	177	173	170	166
Computer / Facsimile / Phones	1,050	1,008	965	923	880	838	795	753	710
Dishes	1,200	1,150	1,100	1,050	1,000	950	900	850	800
Cash Register (ROYN-0583)	207	202	196	191	186	180	175	170	164
Security/Surveillance System (LRXV-5044)	745	725	706	686	666	646	627	607	587
Begin Inventory	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Utility Deposits	740	740	740	740	740	740	740	740	740
LLC Set-Up/License/Trademark Fee's	1,925	1,925	1,925	1,925	1,925	1,925	1,925	1,925	1,925
Prepaid Insurance (Business & Workers' Comp)	491	491	491	491	491	491	491	491	491
Pre-Opening Wages and Unemploy Insurance	729	729	729	729	729	729	729	729	729
Advertising/Signage/Printing	400	400	400	400	400	400	400	400	400
Card Reader/Line of Credit Set-Up Fee's	450	450	450	450	450	450	450	450	450
Total Assets	92,831	105,256	116,765	116,372	129,952	140,721	151,476	151,027	164,551

	Beginning	Year 1				Year 2			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Liabilities and Equity									
Line of Credit	-	-	-	-	-	-	-	-	-
Income Taxes Payable		3,713	4,426	1,642	4,453	4,467	4,481	1,699	4,511
Long term debt	60,000	57,571	55,090	52,555	49,965	47,319	44,615	41,853	39,032
Equity	32,831	43,971	57,249	62,175	75,534	88,935	102,379	107,475	121,008
Total Liabilities and Equity	92,831	105,256	116,765	116,372	129,952	140,721	151,476	151,027	164,551

Figure 9: Ratios

	Quarter							
	1	2	3	4	5	6	7	8
Current Ratio	4.84	6.79	18.39	9.95	12.46	14.94	39.47	17.98
Quick Ratio	4.84	6.79	18.39	9.95	12.46	14.94	39.47	17.98
Debt to Equity	1.39	1.04	0.87	0.72	0.58	0.48	0.41	0.36
Debt to Assets	0.58	0.51	0.47	0.42	0.37	0.32	0.29	0.26
Return on Assets	0.11	0.11	0.04	0.10	0.10	0.09	0.03	0.08
Return on Equity	0.25	0.23	0.08	0.18	0.15	0.13	0.05	0.11
Receivables Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Day's sales in Inventory	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Average Collection Period	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Working Capital to Assets	0.05	0.12	0.22	0.22	0.28	0.34	0.41	0.40
Working Capital to Equity	0.32	0.45	0.46	0.53	0.58	0.61	0.61	0.63
Times Interest Earned	12.4257	15.19235	6.502761	16.64246	17.50514	18.48404	8.029453	20.8978

Figure 10: Graphs

