

# Business Plan 2011– 2012



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<http://dl.dropbox.com/u/5046837/Gotham%20Hardware/Preview/index.html>



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## EXECUTIVE SUMMARY

Gotham Hardware was formed in September 2011 as a specialty hardware store. The company plans to uniquely package hardware products into kits that provide customers with all the products needed to complete a project or prepare for an event. These kits include: an eco-friendly paint kit which includes all supplies needed to paint a room or a piece of furniture, kits to update furniture accessories which include all supplies needed to update handles and knobs on a piece of furniture, a college kit, a travel kit, and a computer repair kit. We also plan to sell several traditional hardware products such as hammers, saws, paint, etc.

Gotham Hardware will primarily target the Virtual Enterprise (VE) Teen consumer which we have separated into three distinct market segments. We have created kits specifically for each of these market segments. Teenagers are not the traditional market for these types of products, so we believe we are creating demand by identifying a market segment that is unserved or underserved. Our secondary target market will be Business-to-Business clients who demand more traditional hardware products.

Our business strategy is to sell our products at a premium price. We plan to penetrate the market by offering high-quality products at different price points. We also have identified several VE firms we would like to form alliances with to bundle products. With a weak dollar, we will pursue overseas markets and our goal is to form at least three Practice Enterprise Network (PEN) alliances to encourage international trade. We also plan to attend at least two trade fairs, which we expect to be our largest revenue source.

Our competitive analysis indicates that the only other VE hardware firms are international, but our belief is that all VE firms are direct competition. In the VE environment, every firm is vying for VE customers who don't actually receive a product, so they are not as concerned with how they spend their disposable income as customers who purchase real products.

In our first year of operation, we expect a loss of approximately \$16,463, but expect to reverse this in subsequent years as we ramp up sales efforts. Based on an analysis of other VE firms, our expenses appear to be in-line.

## **COMPANY DESCRIPTION**

Gotham Hardware, headquartered at 122 Amsterdam Avenue, New York, New York is a start-up VE firm created for the primary purpose of selling unique hardware kits. Gotham Hardware began its first year of operations in September 2011 with twenty-five employees. The company filed with VE Law and became organized as a C Corporation on October 1, 2011. The company markets hardware product kits to teens that are both decorative and functional. The company also offers some traditional products to both VE customers and businesses. Our plan is to take a product that has typically not been marketed to teens and brand it to appeal to that market so that the company will stand out among the VE competition.

This plan provides a blueprint that will guide Gotham Hardware through set-up, implementation, and operation of its business, as well as providing a future growth strategy.

## **MISSION STATEMENT**

Gotham Hardware's mission is to allow our customers to add beauty, reflect their personality and express themselves through home and business improvement products. We will provide the highest quality and most unique products with a high level of customer service. We help to realize our customers' home improvement dreams. Our brand means the following: excellent customer service, quality products, value, increasing shareholder value, and building strong customer and supplier relationships.

## **PLANNING**

Any successful VE business will set short-term and long-term goals. This will help management steer the company in the right direction and gives our employees clear expectations of what the business is trying to achieve. Gotham Hardware's goals are as follows:

*Short (within the first year of operation)*

- Launch website by December 2011
- Sales of \$100,000 in the first fiscal year of business.
- Convert at least 15% of website visitors into sales.
- Attend at least two trade fairs in the first fiscal year; one local and one national, with a goal of increasing sales, creating strategic alliances and increasing brand awareness.

- Uncollectible accounts should be no greater than 15% of sales on account. This has typically been a challenge for virtual businesses.

*Medium/Long (after one year of operation)*

- Fundraise to attend at least one international trade fair in the fiscal year to continue to increase sales, create strategic alliances and increase brand awareness.
- To achieve a 95% or greater satisfaction rating from customers on their Gotham Hardware shopping experience; to be monitored through surveys.
- Create strategic alliances with other virtual entities that will enhance our product offerings and increase profitability.
- Develop three PEN International alliances that strengthen our relationships with virtual international companies we can sell to in order to increase revenues.
- Achieve 10% sales growth for FY12/13, 15% in FY13/14 and 20% in FY14/15 by expanding products lines, increasing market share and developing alliances.

Strategies we will employ to achieve these goals will be discussed in the following sections entitled Organizing, Directing, and Controlling.

## **ORGANIZING**

Gotham Hardware has taken the following organizational issues into account: who is in charge, how we are structured to distribute the workload and responsibilities, how we properly train our employees, how we implement financial controls and the systems we have put in place that are designed to maximize operational efficiency. We also intend to use the Matrix Management philosophy whenever possible which involves assigning employees from different departments to work together as a project team. This philosophy has already been used on completing this Business Plan where diverse perspectives have been essential and will also be used to prepare the Annual Report.

Gotham Hardware will have four departments. Each department will have a manager who reports to the Chief Operating Officer (COO) and leads the department. The COO reports directly to the Chief Executive Officer (CEO). Reporting to the COO will be the Human Resources Manager, the Sales and Marketing Manager, the Accounting and Finance Manager



and the Administrative and Operations Manager. Several company activities will require inter-department collaboration such as payroll, purchasing, and preparing to attend trade fairs. All company positions will have a job description outlining that position's tasks and responsibilities that will be included in the Human Resources manual.

The Human Resources Department is responsible for attendance, tracking employee tasks completed and workshops attended, recruiting, employee portfolio management and preparing the Human Resources manual. The department also administers benefits such as healthcare and the 401(k) plan. Human Resources is responsible for required employee workshops on company policies and procedures, 401(k) administration, etc.

The Sales and Marketing Department is responsible for meeting sales and profitability goals, meeting trade fair attendance objectives, conducting market research, new product development and design, advertising and public relations, branding and brand identity, social media and customer service. Customer Service will also work closely with the Administration and Operations Department to ensure it is efficiently addressing customer needs, problems and concerns. This department is also responsible for sourcing and evaluating opportunities for strategic alliances including PEN relationships.

The Finance and Accounting Department is responsible for payroll, accounts receivable, collection of accounts, accounts payable, online bank management, financial reporting, budget versus actual analysis, and financial planning and analysis. This department also oversees the internal audit function which will conduct both financial and process audits.

The Administration and Operations Department is responsible for all aspects of the order fulfillment process and for maintaining a strong relationship with our supplier. Information Technology (IT) is a part of this department which includes website design, maintenance and support. The IT Department will be responsible for launching the website, monitoring web traffic analytics and supporting our e-commerce aspect so we can attain our goal of 20% online sales.

## **DIRECTING**

Gotham Hardware will start each day with a company-wide meeting to discuss the day's agenda. After this meeting, employees will break into departments and department managers will assign daily tasks and ensure that all employees understand their specific goals before beginning the day's work. End of day meetings led by department managers will assess if employees have stayed on task and objectives have been met. At this time, a to-do list is created, by department, for the following day's tasks. Managers will assess the work that is completed daily. The CEO and the COO will meet daily to evaluate and adjust daily activities and make sure they continue to be in line with the company's mission, goals and projections.

The department managers will assess their employee needs in terms of training to ensure that they are being appropriately supported. Human Resources will be responsible to execute any training sessions.

## **CONTROLLING**

End-of-day department meetings will be held to assess and monitor daily productivity and weekly meetings to assess the over-arching operational and project management goals. Monthly meetings will be an opportunity for the CEO and COO to share actual results versus projections with the entire company. Department heads will periodically observe and formally evaluate employees monthly to determine if the assigned work has been satisfactorily completed and staff will have the opportunity, by an 'upward' survey, to evaluate company management.

There will be monthly recognition meetings and incentives to reward high-performing employees and keep morale up. We will consider implementing a 'Gotham Bucks' program whereby employees earn Gotham Bucks in recognition of their accomplishments.

## **CURRENT ECONOMIC CONDITIONS**

We will discuss some key overall indicators and some that are relevant to the hardware industry.

### *Overall Economic Indicators*

According to the Bureau of Economic Analysis (BEA), the GDP increased at a rate of 3.1% for 4th quarter 2010 and at a rate of 1.9% for first quarter 2011.<sup>1</sup> According to the BEA, one reason for the marginally positive increase in GDP was because of increased consumer spending.<sup>2</sup> But, GDP growth of 1.9% is still weak, and there is widespread concern that the economy continues to slow.<sup>3</sup> Stronger GDP growth, above 3% is expected in the second half of 2011.<sup>4</sup> Generally speaking, we expect hardware sales to mimic GDP growth.

According to the Bureau of Labor Statistics, the unemployment rate in June 2011 was 9.2% and in October 2010 it was 9.7%.<sup>5</sup> These numbers are discouraging, when people aren't earning an income, there will be less demand for retail products. But, this does provide companies with an opportunity to hire qualified people to support growth objectives.

Interest rates are historically low in an attempt to stimulate the economy. A 30-year fixed mortgage rate in June 2011 was 4.51% as compared to June 2001 when the rate was 7.16%.<sup>6</sup> This encourages people to spend on 'big-ticket items' such as new homes and take out loans for home improvement projects which translates into hardware sales. Lower interest rates also stimulate the economy by encouraging businesses to borrow so they can increase hiring, develop new product lines or expand their businesses to experience growth.

By May 2011, US imports were greater than exports by \$50.2 billion dollars. This means that the US is buying more goods than they are selling, which is called a trade deficit.<sup>7</sup> A widening deficit weakens the US dollar against foreign currencies. When the dollar is weaker, more foreign customers are encouraged to purchase US-made goods because they are more affordable. This could favorably impact international sales.

<sup>1</sup> US Economy at Glance: Perspective from the BEA Accounts, <http://www.bea.gov/newsreleases/glance.htm>, (August 2, 2011).

<sup>2</sup> National Income and Product Accounts, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>, (July 29, 2011).

<sup>3</sup> Jim Isidore, <http://money.cnn.com/2011/06/24/news/economy/gdp/index.htm>, (June 24, 2011).

<sup>4</sup> Barbara Hansen and Juan Thomassie, Tracking the Pulse of the Economy, <http://www.usatoday.com/money/economy/story/Economic-Outlook/35290148/1>, (August 1, 2011).

<sup>5</sup> Databases, Tables and Calculators by Subject, [http://data.bls.gov/timeseries/LNS14000000?data\\_tool=XGtable](http://data.bls.gov/timeseries/LNS14000000?data_tool=XGtable), (August 7, 2011).

<sup>6</sup> 30-Year Fixed Mortgages Since 1971, <http://www.freddiemac.com/pmms/pmms30.htm>, (2011).

<sup>7</sup> US Goods and Services Deficit Increases in 2011, <http://www.census.gov/indicator/www/ustrade.html>, (July 12, 2011).



Inflation rates have been increasing and in June 2011, they were 3.6% higher from the previous year.<sup>8</sup> What this means is that the price of consumer goods was higher than last year. A rise in inflation lowers demand for products because consumers have less purchasing power.

### *Hardware Industry Economic Indicators*

Homeownership rates significantly influence demand in the hardware industry, when there are more homeowners, more consumers will need supplies for hardware and renovations. Until 2005, the housing market was booming, however, when the subprime mortgage crisis hit, people lost their homes and fewer were able to obtain bank mortgages to purchase new ones.<sup>9</sup>

Home ownership rates have *decreased* by 2%; from 69.2% to 67.2% from 2005 to 2011.<sup>10</sup> The uncertainty of the housing market creates some uncertainty in projections for the hardware industry. In 2012, per capita disposable income and consumer sentiment are expected to rise by 2.0% and 5.4%, respectively, therefore consumers are expected to begin more Do-It-Yourself (DIY) projects as their incomes and confidence in the economy rise.<sup>11</sup>

In summary, at the time of this business plan, the US economy has been struggling to recover from an extended recession. Household wealth levels and specifically housing have yet to recover from pre-recession levels.

## **INDUSTRY ANALYSIS**

### *Real Industry Analysis*

Companies in the hardware industry primarily sell a broad range of home renovation equipment and supplies. Hardware, plumbing, electrical tools and paint-related supplies are the most commonly stocked goods. Consumers purchase about 90% of the goods supplied by this industry for private use, while contractors purchase a small share of the goods.<sup>12</sup> In 2010, there were

<sup>8</sup> Current Inflation Rates: 2001 – 2011, <http://www.usinflationcalculator.com/inflation/current-inflation-rates>.

<sup>9</sup> Mary Gataas, "Hardware Stores in the US", Ibisworld Industry Report 44413, page 7, (July 2011).

<sup>10</sup> Mary Gataas, "Hardware Stores in the US", Ibisworld Industry Report 44413, page 7, (July 2011).

<sup>11</sup> Mary Gataas, "Hardware Stores in the US", Ibisworld Industry Report 44413, page 9, (July 2011).

<sup>12</sup> Mary Gataas, "Hardware Stores in the US", Ibisworld Industry Report 44413, page 16, (July 2011).

approximately 16,000 hardware stores in the US that earned revenues of \$21.3 billion with net profits of \$468.6 million.<sup>13</sup> The gross profit margin was approximately 35% for hardware stores researched with a net profit percentage of 2.2%.

Since 2006, the hardware industry has faced difficulties. During the real estate boom, there was an increase in demand for hardware products, but as the real estate market weakened, demand declined and in the past 5 years industry revenue has remained unchanged. Besides the weakened housing market, single-site hardware stores have also been impacted by lower overall consumer spending and increased competition from ‘big box’ home improvement stores such as Home Depot and Lowe’s. In an attempt to attract more customers, smaller hardware stores have been diversifying product lines. IbisWorld, a market research organization, estimates that in the next year, industry revenues will increase by 1.3% and are projected to continue increasing over the next five years, although as mentioned above, there is still uncertainty.<sup>14</sup> Spending on home improvement projects is expected to increase in 2011. The growth of DIY projects has allowed many consumers to undertake their own home improvements, therefore increasing demand for hardware.<sup>15</sup>

### *Virtual Industry Analysis*

While there are no direct domestic competitors in the VE network, there are many international companies that are in direct competition. A few examples are Electronic Power Tools and Domag from Germany and Magnus Plattner from Austria. With the high cost of shipping overseas and a favorable exchange rate we don’t expect the international hardware stores to effectively compete with us domestically. Furthermore, the weak dollar would make it favorable for international customers to purchase our products.

In VE, we are competing for student discretionary income to purchase virtual products. We consider all VE companies that don’t sell a required product to be direct competitors. In NYC there are 53 firms with approximately 20 students per firm. These students work approximately

<sup>13</sup> Mary Gataas, “Hardware Stores in the US”, Ibisworld Industry Report 44413, page 4, (July 2011).

<sup>14</sup> Mary Gataas, “Hardware Stores in the US”, Ibisworld Industry Report 44413, page 5, (July 2011).

<sup>15</sup> Mary Gataas, “Hardware Stores in the US”, Ibisworld Industry Report 44413, page 6, (July 2011).

20 days per month and earn on average \$15 in a 90-minute period (\$15 per day). This equates to monthly buying power by the NYC VE teen consumer market of \$318,000. The total domestic VE market has approximately 500 VE firms. Using the same formula, their buying power would translate into monthly buying power of \$3,000,000. We are hoping to translate .03% of this buying power into online sales by using aggressive sales and marketing strategies such as daily e-mail blasts and direct mailings.

## TARGET MARKET AND MARKET SEGMENTATION

Gotham Hardware's primary real target market includes teen consumers that are a part of the DIY home-handyperson sector. A secondary target market is all VE firms and specifically those in industries such as hospitality, electronics, etc.

Based on market research conducted by our Sales and Marketing Department using a web-based survey tool, NYC customers interested in our products tend to be between the ages of 15-20, earn on average \$300 per month, are completing high school, intend to pursue higher education, and live with their parents/guardians who rent their apartments. Most people surveyed rarely/never used tools, expressed an interest in several of Gotham Hardware's prepackaged products including, but not limited to, the Eco-Friendly Paint Kit, the College Kit, the Travel Kit and the Computer Repair Kit. Survey results also showed that attractive packaging was important to our customer.

### *Market Segmentation*

Gotham Hardware's virtual target market includes VE employees and alumni, VE businesses and guests who attend the trade fair. Markets have been segmented by demographics, psychographics and geographics. Market segmentation allows us to direct our marketing efforts. Our markets are being segmented demographically and psychographically into subsets:

1. VE and Alumni Teen Consumers; we have segmented this market as follows:
  - a. *DIY Teen Consumers*. This subset of the teen consumer market has not been addressed in the mainstream VE market and we expect it to be to our advantage to capitalize on a market that we believe has been overlooked.





both decorative and functional items. They are used for an event (i.e. going to college) or a project (i.e. painting a room).

The hardware industry has little product differentiation and operates in a competitively priced environment. We are differentiating ourselves by offering many of our products attractively packaged as unique specialty items, which allow us to charge a premium price. Our Customer Service Department will provide a high-quality experience for our customers and our policy will be satisfaction guaranteed, or you can exchange the product or your money will be fully refunded.

Our primary customer base is unique and diverse so we have expanded our product offerings to meet their demands. These include products specifically geared toward the VE Teen Consumer and VE Alumni market such as the following attractively packaged kits. These reduce the stress of having to buy each item individually.

- An Eco-Friendly Paint Kit for bedrooms and bedroom furniture that includes environmentally friendly paint in the color of your choice, stencils or wall stickers and everything you need to paint a room or a piece of furniture.
- A Hardware Accessory Kit to update and modernize handles, pulls, light switches and other room and furniture accessories.
- A College Kit for college students that includes a cordless fan, flashlight, combination lock, picture hooks, hanging strips, etc.
- A Travel Kit for students who are planning a trip that includes luggage tags, a travel document holder, a voltage adaptor, a night light, an alarm clock, cosmetic toiletry bottles and roll-up bag, etc.
- A 30-Piece Computer Repair Toolkit that includes pliers, screwdrivers, and a variety of other tools.

Products being marketed to VE businesses include tools and a Trade Fair Booth Kit. We also see an opportunity in the virtual marketplace to align with other VE businesses and provide a product bundle. This would enhance both companies' products and add value to the businesses as well as their respective customers and is a part of our short and medium/long-term goal

planning. We have identified some co-branding opportunities in the hospitality and electronics industry where they can potentially offer their products bundled with our Travel Kit and Computer Repair Kit respectively.

## **PRICE**

At Gotham Hardware we plan to combine several different pricing strategies.

**Premium/High End Pricing:** We offer a unique, specialty product so we plan to price our products, using cost-based pricing, at a premium. Using this strategy, we plan to achieve higher than average margins to help us reach our profitability goals.

**Psychological Pricing:** We will use price as a measurement of quality. Our prices will be premium and the psychological draw of our premium brand will move consumers to spend more for a product than they might otherwise.

**Price Points:** We will offer products at different price points to appeal to our target market's budget. We will offer options for kits in price ranges starting at \$25. Our premium pricing strategy will still apply regardless of price point of product.

## **PLACEMENT**

We are an online retailer selling direct to customers both online and at various trade fairs. We will be at the NYC Trade Fair and plan to be at the Bakersfield Trade Fair in our first year of operations so we can present our product to our customers face-to-face.

It is important for us to have a website that is both user-friendly and aesthetically pleasing to our customers who will use it throughout the school year. There will be high-quality product photos, an inventory tracking system and we will continually update the website with new product offers, promotional items, etc. We will maintain an e-mail address database of site visitors and customers, and plan to send out daily e-mail blasts and monthly newsletters to registrants.

We will also market to non-VE customers. Under VE rules, contractual sales are allowed up to 75% of projected salaries.

We expect our sales to breakdown as follows:

SOURCE OF SALES	PROJECTED AMOUNT OF SALES	PERCENTAGE OF TOTAL PROJECTED SALES
Online Sales	\$ 25,000	20%
NYC Trade Fair	\$ 60,000	48%
Bakersfield Trade Fair	\$ 10,000	8%
Contractual Sales	\$ 30,000	24%
<b>TOTAL</b>	<b>\$ 125,000</b>	<b>100%</b>

We estimate salary expense to be \$40,000 in our first year of operations and contractual sales can be 75% of that. Shipping is done through ChampionShip and customers will pay for all shipping costs.

## PROMOTION

We will focus on two key strategies in our promotional plan: branding and advertising. We are projecting a promotional budget of approximately 12% of revenues. The strategies we employ will focus heavily on driving potential customers to our website, which is a consistent source of revenue and cash flow and has typically been a challenge for VE firms.

We plan to uniquely brand our products so that our brand is recognizable, memorable, unique, and reflects the mission of the business. We are currently researching the possibility of using Carpe Diem to support us with our branding needs. We will also offer products designated with the Gotham Hardware Eco-Friendly Logo identifying them as environmentally friendly.

We plan to spend capital on advertising to attract new customers. We will research using Carpe Diem and OVEA to secure advertising space. We have budgeted to spend approximately \$14,000 on online advertising so any student accessing the US Network Bank or Data Portal will view our advertisement. We would also consider advertising our product on other VE firms'

websites. This strategy is two-fold; it gives us more exposure in the VE market and will help us develop a stronger relationship with these other companies encouraging cross-trading. We have identified companies with well-developed websites, such as New Horizons, to contact. We plan to implement an aggressive direct mail campaign focusing on the VE companies in the states where we will attend trade fairs.

Other strategies we plan to employ include:

- *E-mail Blasts.* We plan to send out daily e-mails to website registrants that include any promotions we are offering. This is eco-friendly and reduces paper usage.
- *Word-of-Mouth.* Registered customers will be encouraged to ask VE colleagues to join our mailing list so they can also receive our e-mails and newsletters.
- *Direct Mail.* Direct mail promotion efforts are expensive and will be focused on New York and California since we plan to attend trade fairs in those states and we expect the trade fairs to be largely comprised of companies from within each respective state.
- *Social Media.* We intend to maintain a Facebook Page, Twitter site and Tumblr blog to stay connected to our primary target market that is computer savvy. Our IT Department will ensure that all of our websites are secure.
- *Newsletters.* They will be e-mailed monthly and can include articles of interest on home improvement projects (i.e. “Do You Want Your Bedroom to Look like Beyonce’s?”, “How to Turn Your Room into a Yankee Shrine”, or “How to get the College Bedroom of Your Dreams”).
- *Corporate Responsibility.* Members of our firm will be encouraged to participate in community service events and activities such as tutoring elementary students and volunteering at a soup kitchen.

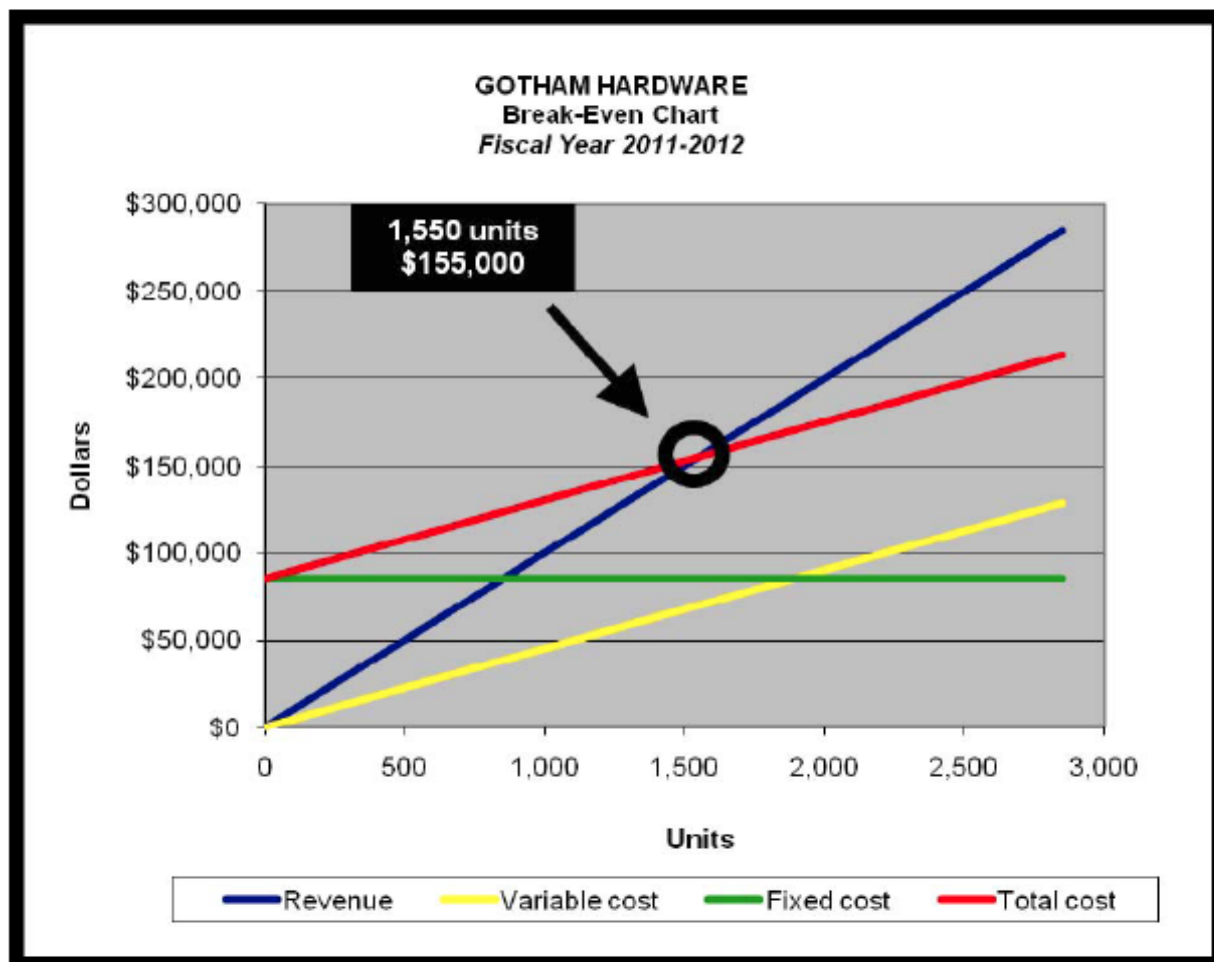
## POSITIONING

We plan to differentiate ourselves from our VE competition by offering quality, branded hardware products that are functional yet appealing to our target market. These products will sell our customers an experience, will solve one of their home improvement problems and will be sold as ‘life-style kits’. They are unique, specialty items, which allow us to sell them at a premium price.



Our specialized kits are differentiated enough from other VE product offerings to appeal to a broad range of customers. We intend to brand our product so that when our customer thinks of their home improvement needs, they think of us or tell their friends who may have a need for our products. We also plan to be at the forefront of the eco-conscious teen consumer's mind.

## BREAK EVEN ANALYSIS



In its first year of operations, Gotham Hardware estimates that it will not reach its break-even point. Gotham Hardware expects to have total annual fixed expenses of \$85,213. Based on a gross profit margin of 55%, an average selling price of \$100 per kit, and an average cost of \$45 per kit, Gotham Hardware would have to sell 1,550 kits to break-even for a total revenue amount

of \$155,000. In this fiscal year, we expect to sell approximately 1,250 units for total revenue of \$125,000.

## FINANCIAL DATA

<b>GOTHAM HARDWARE</b>									
Income Statement									
For the Year Ended April 30, 2012									
	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	TOTAL
<b>Sales Revenue</b>									
Online Sales	-	1,000	2,000	3,000	4,000	5,000	5,000	5,000	25,000
NYC Trade Fair	-	-	-	-	-	-	60,000	-	60,000
Bakersfield Trade Fair	-	-	-	10,000	-	-	-	-	10,000
Contractual Sales	-	-	30,000	-	-	-	-	-	30,000
<b>Total Sales Revenue</b>	-	1,000	32,000	13,000	4,000	5,000	65,000	5,000	125,000
<b>Cost of Goods Sold</b>	-	450	14,400	5,850	1,800	2,250	29,250	2,250	56,250
<b>Gross Profit</b>	-	550	17,600	7,150	2,200	2,750	35,750	2,750	68,750
<b>Operating expenses</b>									
Salaries	-	6,100	6,100	5,200	6,100	5,200	6,100	5,200	40,000
Payroll tax	-	467	467	398	467	398	467	398	3,060
401(k)	-	183	183	156	183	156	183	156	1,200
Rent	958	958	958	958	958	958	958	958	7,667
Utilities	575	575	575	575	575	575	575	575	4,600
Depreciation	-	1,167	1,167	1,167	1,167	1,167	1,167	1,167	8,169
Supplies	188	188	188	188	188	188	188	188	1,500
Advertising	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000	14,000
Promotion	-	-	-	250	-	-	500	-	750
Trade Fair Booth	-	-	-	575	-	-	575	-	1,150
Accounting and Legal Fees	83	83	83	83	83	83	83	83	667
Insurance	42	42	42	42	42	42	42	42	333
Interest	-	317	312	307	303	298	298	288	2,118
Bad Debt	-	-	-	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>1,846</b>	<b>12,079</b>	<b>12,074</b>	<b>11,899</b>	<b>12,065</b>	<b>11,064</b>	<b>13,131</b>	<b>11,055</b>	<b>85,213</b>
Income from Operations	(1,846)	(11,529)	5,526	(4,749)	(9,865)	(8,314)	22,619	(8,305)	(16,463)
Other Gains and Losses	-	-	-	-	-	-	-	-	-
<b>Net Income Before Taxes</b>	<b>(1,846)</b>	<b>(11,529)</b>	<b>5,526</b>	<b>(4,749)</b>	<b>(9,865)</b>	<b>(8,314)</b>	<b>22,619</b>	<b>(8,305)</b>	<b>(16,463)</b>
Corporate Income Tax	-	-	-	-	-	-	-	-	-
<b>Net Income After Taxes</b>	<b>(1,846)</b>	<b>(11,529)</b>	<b>5,526</b>	<b>(4,749)</b>	<b>(9,865)</b>	<b>(8,314)</b>	<b>22,619</b>	<b>(8,305)</b>	<b>(16,463)</b>

**NOTES:**  
 Gotham Hardware began operations in September 2011.  
 September and October 2011 are actual amounts; November 2011 through April 2012 are projected amounts.  
 Accounting and Legal Fees and Insurance are paid in October, but expensed equally over the year.

## GOTHAM HARDWARE

### Balance Sheet

	Actual as of October 31, 2011	Projected as of April 30, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	67,773	47,561
Accounts Receivable	602	22,625
Supplies	375	188
Other Current Assets	2,208	4,333
Merchandise Inventory	-	-
<b>Total Current Assets</b>	<b>70,958</b>	<b>74,706</b>
<b>Fixed Assets</b>		
Computers	45,000	45,000
Less: Accumulated Depreciation	750	5,250
Furniture and Fixtures	15,000	15,000
Less: Accumulated Depreciation	250	1,750
Office Equipment	10,000	10,000
Less: Accumulated Depreciation	167	1,169
<b>Total Fixed Assets</b>	<b>68,833</b>	<b>61,831</b>
<b>TOTAL ASSETS</b>	<b>139,791</b>	<b>136,537</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	160	988
Salaries Payable	2,603	2,219
Sales Tax Payable	44	5,688
Payroll tax Payable	933	1,729
401(k) Payable	366	312
Corporate Tax Payable	-	-
Other Payable	244	452
<b>Total Current Liabilities</b>	<b>4,350</b>	<b>11,387</b>
<b>Long Term Liabilities</b>		
Loan Payable	78,816	71,614
<b>TOTAL LIABILITIES</b>	<b>83,166</b>	<b>83,001</b>
<b>Shareholders' Equity</b>		
Common Stock, \$10 Par Value	70,000	70,000
Additional Paid-In-Capital	-	-
Retained Earnings	(13,375)	(16,463)
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>56,625</b>	<b>53,537</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S</b>	<b>139,791</b>	<b>136,537</b>

**ASSUMPTIONS:**

Other Current Assets include Prepaid Insurance, Prepaid Rent and Prepaid Accounting and Legal Fees.

A Just-In-Time inventory system is used to manage inventory and keep inventory carrying costs low.

Accounts Payable includes balance owed for supplies and shipping charges collected from customers and owed to ChampionShip.

Other Payable includes payroll taxes withheld from employee paychecks.

**GOTHAM HARDWARE**  
Cash Budget  
For the Seven Month Period Ended April 2012

Description	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012
<b>Cash Balance at Beginning of Period:</b>	-	67,773	81,178	62,199	53,855	47,530	46,181
<b>Receipts of Cash:</b>							
Sales - Internet	602	1,204	1,806	2,408	3,009	3,009	3,009
Sales - Trade Fairs	-	-	-	-	-	37,425	-
Sales - Contractual	-	37,425	-	-	-	-	-
Trade Fair Receivables			5,800	2,900	2,030	870	18,713
Internet Receivables		421	1,023	1,625	2,227	2,829	3,009
Loan Proceeds	80,000						
Other							
<b>Total Receipts</b>	<b>80,602</b>	<b>39,050</b>	<b>8,629</b>	<b>6,933</b>	<b>7,266</b>	<b>44,133</b>	<b>24,731</b>
<b>Beginning Balance and Cash Receipts</b>	<b>80,602</b>	<b>106,823</b>	<b>89,807</b>	<b>69,132</b>	<b>61,121</b>	<b>91,663</b>	<b>70,912</b>
<b>Payments:</b>							
Cost of Merchandise	450	14,400	5,850	1,800	2,250	29,250	2,250
Sales Tax Payable	-	-	2,756	-	-	525	-
Shipping Payable	-	180	5,120	2,080	640	800	10,400
Salaries	2,603	5,206	4,822	4,822	4,822	4,822	4,822
Payroll Tax	-	-	1,867	-	-	2,525	-
State Tax	-	-	488	-	-	660	-
401(k)	-	366	366	312	366	312	366
Rent	2,875	1,438	1,438	1,438	1,438	1,438	1,438
Utilities	1,150	575	575	575	575	575	575
Supplies	750			750			
Advertising/ promotion	2,000	2,000	2,250	2,000	2,000	2,500	2,000
Trade Fair Booth	-	-	575	-	-	575	-
Accounting and Legal Fees	1,000	-	-	-	-	-	-
Insurance	500	-	-	-	-	-	-
Loan Payment	1,501	1,501	1,501	1,501	1,501	1,501	1,501
Corporate Tax	-	-	-	-	-	-	-
<b>Total payments</b>	<b>12,829</b>	<b>25,645</b>	<b>27,607</b>	<b>15,277</b>	<b>13,591</b>	<b>45,482</b>	<b>23,351</b>
<b>Cash Balance at End of Period</b>	<b>67,773</b>	<b>81,178</b>	<b>62,199</b>	<b>53,855</b>	<b>47,530</b>	<b>46,181</b>	<b>47,561</b>
<b>Net Increase or Decrease in Cash</b>	<b>67,773</b>	<b>13,405</b>	<b>(18,978)</b>	<b>(8,345)</b>	<b>(6,325)</b>	<b>(1,349)</b>	<b>1,380</b>

**NOTES:**

There is no cash activity May 2011 through September 2011.  
October 2011 information is actual; November 2011 through April 2012 is projected.

**ASSUMPTIONS:**

Internet Sales - 50% collected the month of, 35% the following month and 15% the month after.  
All sales made and collected within the same month are reported as 'Sales' on the cashflow budget and not as a receivable.  
Bad Debt is expected to be 15% of sales on account but will be written off in the next fiscal year.  
Half of trade fair sales are check deposits and collected immediately and half are on account.  
50% of internet sales are coming from NY residents, so subject to VE sales tax.  
All NYC Trade Fair sales are subject to VE Sales Tax. No Bakersfield Trade Fair sales are subject to VE Sales Tax.  
Most kits sold have an assumed average price of \$100 with a shipping cost of \$8.  
Receipts of cash for sales and receivables are inclusive of sales tax and shipping charges.  
Payroll, state and sales taxes are paid quarterly.



## FINANCIAL WRITE-UP

### *Income Statement*

As a new operation, we won't begin making sales until October 2011. We expect our sales to start conservatively and increase during the fiscal year as we become more established within the VE community and our marketing efforts begin to pay off. We expect sales to be significantly higher in the months of November, December and March. In November we expect to make a contractual sale at our school and in December and March we plan to attend trade fairs. Trade fair sales are projected to be 56% of our total revenues. Cost of Goods Sold accounts for 45% of revenues; translating to a gross profit margin of 55%; which is above industry standards, but in line with our premium pricing strategy. Our largest projected operating expense is our Salary Expense which at \$40,000 is 32% of projected annual revenues. We expect a net loss for the fiscal year of \$16,463.

### *Balance Sheet*

As of October 31, 2011, we had \$67,773 of cash on hand, which we will continue to use to grow our business. We had total assets of \$139,791 and total liabilities of \$83,166. Cash is the largest asset on our balance sheet which primarily came from the \$80,000 loan we received in October 2011. Our fixed assets are valued at \$68,833 as of October 31, 2011, and were purchased for us by VE Corporate in return for issuing them \$70,000 of common stock as an investment in Gotham Hardware. At the end of the fiscal year, we expect to have cash on hand of \$47,561, total assets of \$136,350 and total liabilities of \$82,813.

### *Cashflow*

To establish our business, Gotham Hardware received a loan of \$80,000 in October 2011. At the end of April 2012, we expect to have \$47,561 of cash on hand and an account receivable balance of \$22,625. A decrease in the cash balance is common among new businesses and is not necessarily bad. As long as the number of customers continues to increase, through organic growth financed by profits, we expect to ultimately be profitable. Also, we are aware that collecting receivables is a common VE challenge and our plan is to aggressively manage our collection efforts.

Expected key ratios at the end of the fiscal year are as follows:

Current Ratio – Current Assets/Current Liabilities	6.65
Gross Profit Margin Ratio	.55
Debt to Asset Ratio	.61

## SWOT ANALYSIS

The SWOT analysis provides us with an opportunity to evaluate our businesses strengths, weaknesses, opportunities and threats to help us identify areas for development. They are as follows:

<p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>• We offer a unique, specialty product.</li> <li>• The website is easy to navigate.</li> <li>• Online retailing makes products more accessible than a traditional storefront.</li> <li>• Exceptional customer service.</li> <li>• Eco-friendly products that give us a socially responsible and environmental platform.</li> </ul>	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>• We are not yet an established firm with business experience.</li> <li>• We won't have many face-to-face customer opportunities.</li> <li>• Anticipated high turnover due to employee graduation.</li> </ul>
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> <li>• No direct domestic VE competition.</li> <li>• We are targeting a market that has been unserved or underserved in the VE Network.</li> <li>• There is growth in DIY customers.</li> <li>• A favorable exchange rate allows us to explore opportunities in international trade.</li> <li>• We have identified alliance opportunities for product bundling and building strong relationships</li> <li>• There is substantial growth and opportunity in online retail spending.</li> </ul>	<p><i>Threats</i></p> <ul style="list-style-type: none"> <li>• There is intense pressure from well-established VE retailers.</li> <li>• There is the potential failure of technology which includes website security and viruses.</li> <li>• There is a low barrier to entry. Once our competitors see the way we have uniquely marketed our products, they may try to copycat and offer similar products to customers.</li> </ul>

## DISCUSSION OF BUSINESS RISKS

We have identified several risks our business has and have determined ways to mitigate them.

We intend to set up a consultation with Invest, a VE affiliate, to determine if there are additional risks we will need to manage.

RISK IDENTIFIED	RISK ADDRESSED
We may not be able to penetrate the market and will not reach our sales goals because there is indifference towards hardware products in the VE Teen Consumer Market.	We can address this with market research efforts directed at our target market to ensure we are addressing their product needs.
The business shouldn't rely on one person for each position. We should be prepared for the unexpected.	We will identify backup roles to ensure daily tasks are accomplished in an employee's absence. We will continue to assess the programs we have in place to increase morale and reward high-performing employees.
There is a fluctuation in currency exchange rates. This impacts Gotham Hardware because exchange rates may change during the time period when we make our sale and when we are paid, creating foreign currency exchange risk.	Our Finance and Accounting Department will determine what the best way to manage this foreign currency exchange risk is and assess whether it might be hedging our position in some way.

**GOTHAM HARDWARE**  
Loan Amortization Table

Loan Information:		Summary:	
Loan Amount (Principal)	80,000	Rate (per period)	0.3958%
Annual Interest Rate	4.75%	Number of Payments	60
Term of Loan In Years	5	Total of Payments	90,033.18
# of Payments per Year	12	Total Interest	10,033.18
Payment Type	End		
Monthly Payment	(\$1,500.55)		

Payment	Principal	Interest for the Period	Total Balance Outstanding	Payment for the period	Principal Reduction	Revised Balance
1	\$ 80,000.00	\$ 316.67	\$ 80,316.67	\$ 1,500.55	\$ 1,183.89	\$ 78,816.11
2	78,816.11	311.98	79,128.09	1,500.55	1,188.57	77,627.54
3	77,627.54	307.28	77,934.82	1,500.55	1,193.28	76,434.26
4	76,434.26	302.55	76,736.82	1,500.55	1,198.00	75,236.26
5	75,236.26	297.81	75,534.07	1,500.55	1,202.74	74,033.52
6	74,033.52	293.05	74,326.57	1,500.55	1,207.50	72,826.02
7	72,826.02	288.27	73,114.29	1,500.55	1,212.28	71,613.73
8	71,613.73	283.47	71,897.20	1,500.55	1,217.08	70,396.65
9	70,396.65	278.65	70,675.31	1,500.55	1,221.90	69,174.75
10	69,174.75	273.82	69,448.57	1,500.55	1,226.74	67,948.02
11	67,948.02	268.96	68,216.98	1,500.55	1,231.59	66,716.42
12	66,716.42	264.09	66,980.51	1,500.55	1,236.47	65,479.96
13	65,479.96	259.19	65,739.15	1,500.55	1,241.36	64,238.60
14	64,238.60	254.28	64,492.87	1,500.55	1,246.28	62,992.32
15	62,992.32	249.34	63,241.66	1,500.55	1,251.21	61,741.11
16	61,741.11	244.39	61,985.50	1,500.55	1,256.16	60,484.95
17	60,484.95	239.42	60,724.37	1,500.55	1,261.13	59,223.82
18	59,223.82	234.43	59,458.24	1,500.55	1,266.13	57,957.69
19	57,957.69	229.42	58,187.11	1,500.55	1,271.14	56,686.55
20	56,686.55	224.38	56,910.94	1,500.55	1,276.17	55,410.39
21	55,410.39	219.33	55,629.72	1,500.55	1,281.22	54,129.17
22	54,129.17	214.26	54,343.43	1,500.55	1,286.29	52,842.87
23	52,842.87	209.17	53,052.04	1,500.55	1,291.38	51,551.49
24	51,551.49	204.06	51,755.55	1,500.55	1,296.49	50,255.00
25	50,255.00	198.93	50,453.92	1,500.55	1,301.63	48,953.37
26	48,953.37	193.77	49,147.14	1,500.55	1,306.78	47,646.59
27	47,646.59	188.60	47,835.19	1,500.55	1,311.96	46,334.64
28	46,334.64	183.41	46,518.05	1,500.55	1,317.15	45,017.49
29	45,017.49	178.19	45,195.69	1,500.55	1,322.36	43,695.13
30	43,695.13	172.96	43,868.09	1,500.55	1,327.59	42,367.54
31	42,367.54	167.70	42,535.25	1,500.55	1,332.85	41,034.69
32	41,034.69	162.43	41,197.12	1,500.55	1,338.12	39,696.57
33	39,696.57	157.13	39,853.70	1,500.55	1,343.42	38,353.15
34	38,353.15	151.81	38,504.96	1,500.55	1,348.74	37,004.41
35	37,004.41	146.48	37,150.89	1,500.55	1,354.08	35,650.33
36	35,650.33	141.12	35,791.45	1,500.55	1,359.44	34,290.90
37	34,290.90	135.73	34,426.63	1,500.55	1,364.82	32,926.08
38	32,926.08	130.33	33,066.41	1,500.55	1,370.22	31,555.86
39	31,555.86	124.91	31,680.77	1,500.55	1,375.64	30,180.21
40	30,180.21	119.46	30,299.68	1,500.55	1,381.09	28,799.12
41	28,799.12	114.00	28,913.12	1,500.55	1,386.56	27,412.57
42	27,412.57	108.51	27,521.07	1,500.55	1,392.04	26,020.52
43	26,020.52	103.00	26,123.52	1,500.55	1,397.56	24,622.97
44	24,622.97	97.47	24,720.43	1,500.55	1,403.09	23,219.88
45	23,219.88	91.91	23,311.79	1,500.55	1,408.64	21,811.24
46	21,811.24	86.34	21,897.57	1,500.55	1,414.22	20,397.02
47	20,397.02	80.74	20,477.76	1,500.55	1,419.81	18,977.21
48	18,977.21	75.12	19,052.33	1,500.55	1,425.43	17,551.77
49	17,551.77	69.48	17,621.25	1,500.55	1,431.08	16,120.70
50	16,120.70	63.81	16,184.51	1,500.55	1,436.74	14,683.95
51	14,683.95	58.12	14,742.08	1,500.55	1,442.43	13,241.52
52	13,241.52	52.41	13,293.94	1,500.55	1,448.14	11,793.39
53	11,793.39	46.68	11,840.07	1,500.55	1,453.87	10,339.51
54	10,339.51	40.93	10,380.44	1,500.55	1,459.63	8,879.89
55	8,879.89	35.15	8,915.04	1,500.55	1,465.40	7,414.49
56	7,414.49	29.35	7,443.83	1,500.55	1,471.20	5,943.28
57	5,943.28	23.53	5,966.81	1,500.55	1,477.03	4,466.25
58	4,466.25	17.68	4,483.93	1,500.55	1,482.87	2,983.38
59	2,983.38	11.81	2,995.19	1,500.55	1,488.74	1,494.64
60	1,494.64	5.92	1,500.55	1,500.55	1,494.64	0
<b>TOTAL</b>	<b>\$</b>	<b>10,033.18</b>	<b>\$</b>	<b>90,033.18</b>	<b>\$</b>	<b>80,000.00</b>



# GOTHAM HARDWARE

## Organization Chart

