APPENDIX

A

Business Plan for a Retailer Seeking Startup Capital

WaterWorks Inc. is a retail food-service operation seeking startup capital. Its business plan is succinct, carefully thought out, and well-documented. Particular attention has been paid to studying the national sales trends for the beverages WaterWorks will serve. The plan provides adequate financial data, including a three-year income statement projection and a month-by-month cash flow projection for the first year.

The primary purpose of this plan is to facilitate a $30,000 bank loan so the two partners can launch their business and get through the first six months. From that point on, the business will be able to sustain itself on cash flow. When the partners need additional financing to open their second location in a couple of years, they should have little difficulty in obtaining a second loan for expansion.

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I. Executive Summary

Market

According to *Beverage Digest* (April 2012), still, or noncarbonated, water beverages are the trendiest new drinks since gourmet coffee. The market for still-water drinks has been building steadily for three years and now appears ready to enter an accelerated period of growth.

Still-water drinks are different from the mass-produced carbonated beverages sold by the soft-drink giants like Coca-Cola. They are usually produced in small quantities by small operations, product quality is high, and they often include functional additives, such as nutriceuticals, that differentiate them from mass-market soft drinks and appeal to health-conscious consumers.

Business Description

WaterWorks will sell still-water beverages through a retail outlet in Austin, Texas. The store will have a bar and seating area as well as a service counter and will serve beverages prepared on the premises for consumption there or off-site, along with prepackaged products like baked goods.

The store, which will also include a drive-through window, will be located in an existing facility near the intersection of Loop 1 and Enfield Road in central Austin.

Products

The product line, all purchased from outside vendors, will consist of approximately 20 different still-water and functional beverages, in addition to a selection of freshly baked breads, muffins, cookies, and other locally produced foods.

Management

WaterWorks is registered as a partnership owned in equal shares by Albert Walter and Matthew Strang. Mr. Walter will serve as President and Mr. Strang as Chief Executive Officer. Mr. Walter and Mr. Strang are both experienced in food-service operations. (See "Management" for more information.)

Financing Needs

WaterWorks needs $30,000 in short-term financing to cover startup costs, purchase necessary equipment, and provide working capital until the business can support itself from cash flow. The owners will invest $20,000 of their own cash and would like to borrow $20,000 initially, with the remaining $10,000 available as a line of credit over the next 180 days. Interest payments will begin after the first month. After 10 months, operations will generate sufficient cash to pay down the balance of the loan in two balloon payments, which will result in the loan being paid off by the end of the first year. The owners are prepared to pledge personal assets as collateral for this loan.

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II. Business Mission and Strategy

Mission Statement

WaterWorks will sell still water and functional beverages to health-conscious consumers in Austin, Texas. Customers will include students, faculty, and staff from the nearby University of Texas, the nation's largest institution of higher education, and residents of the well-educated, affluent surrounding neighborhoods.

Strategic Elements

The WaterWorks strategy embodies several key elements:

- The store will be the first of its kind in Austin, a major metropolitan area of more than one million people.
- The location is near Sixth Street and Lamar Boulevard, one of the city's busiest intersections and hottest retail environments.
- Only products of the highest quality will be offered.
- Austin has one of the country's highest per-capita rates of consumption of natural foods and beverages.

Strategic Objectives

- To repay initial bank loans by the end of the first year of operation.
- To produce a net profit of at least $75,000 by the third year of operation.
- To expand to three additional retail locations by the end of the fifth year of operation.
- To explore additional expansion through the creation of more company-owned or possibly franchised outlets after year five.

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III. Sources and Uses of Funds

Startup Costs Summary

Startup costs will be approximately $55,000, which includes initial lease payments, leasehold improvements, inventory, permits, and other expenses. Startup costs will be financed primarily through a combination of bank borrowing and investment by the partners.

Sources and Uses of Funds

USE OF FUNDS	
Capital Expenditures	
Leasehold Improvements	$10,000
Equipment	10,000
Total Capital Expenditures	**$20,000**
Working Capital	
Legal	$1,000
Permits and Licenses	1,500
Printing	1,000
Graphic Design	1,000
Insurance	2,500
Rent (three months)	10,000
Salaries	10,000
Startup Inventory	5,000
Other Business Activities	3,000
Total Working Capital	**$35,000**
TOTAL USE OF FUNDS	**$55,000**
SOURCES OF FUNDS	
Partner Investments	$20,000
Trade Credit	5,000
Bank Loan	30,000
Total Sources of Funds	**$55,000**

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IV. Products

WaterWorks will sell still-water drinks and baked goods to customers in Austin, Texas.

Company Locations and Facilities

WaterWorks will be located near the intersection of Loop 1 and Enfield Road in Austin, Texas, an attractive retail location near desirable residential areas, the state capitol complex, and the University of Texas main campus.

An existing 900-square-foot facility with seating and a drive-up window will be leased. Improvements will include additions to the seating area, a water bar, and landscaping. A second location is planned for the third year of operation at a site to be determined.

Products

The primary products sold through WaterWorks will be functional still-water drinks in three categories:

1. *Nutriceuticals.* Nutriceutical waters include still waters to which minerals such as potassium and calcium, vitamins including C or D, or other substances such as caffeine have been added.
2. *Bacteria-Free Still Water.* Bacteria-free still waters are processed using techniques that eliminate microorganisms, including associated flavors and particles, from the water.
3. *Exotic Waters.* Exotic waters are bottled and imported from locations such as Alaska, Canada, France, Hawaii, Sweden, and Russia.

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V. Markets and Competition

Still-Water Sales Trends

Still water is the fastest-growing segment of the alternative beverage industry. Sales for 2013, the most recent year available, were up 25 percent, almost double the industry average of 13 percent. Other alternative beverages include juices, teas, sport drinks, sparkling waters, and natural sodas.

Still-water sales totaled 731 million cases, making the category the dominant one in alternative beverages, whose total sales neared 1.9 billion cases. Still water's share of the alternative beverage market exceeded 39 percent, up 3.7 percent from the previous year, when 585 million cases of still waters were sold. Other strong categories included sport drinks and teas. *Source*: *Beverage Digest*, February 2013.

Industry Analysis

Alternative beverage producers include some of the beverage industry's largest companies. The graph on the following page shows the top alternative beverage producers and their respective market shares.

Suppliers

The following products will be supplied by various vendors: Aqua Health, Water for Life, Nutri-Water, Hydration Technologies, Guava Cool, and Soft Beverages. Vendors supply a variety of beverages with features such as nutriceutical content, bacteria-free processing, and a number of organic flavorings including berries, other fruits, and spices.

Suppliers are for the most part located in the continental United States. While they are not currently available for wholesale distribution in Austin, which partially explains the lack of local retail distribution, all operate existing distribution systems with representatives in other Texas cities, including Houston, San Antonio, and Dallas. No problems in obtaining adequate supplies of important products are anticipated.

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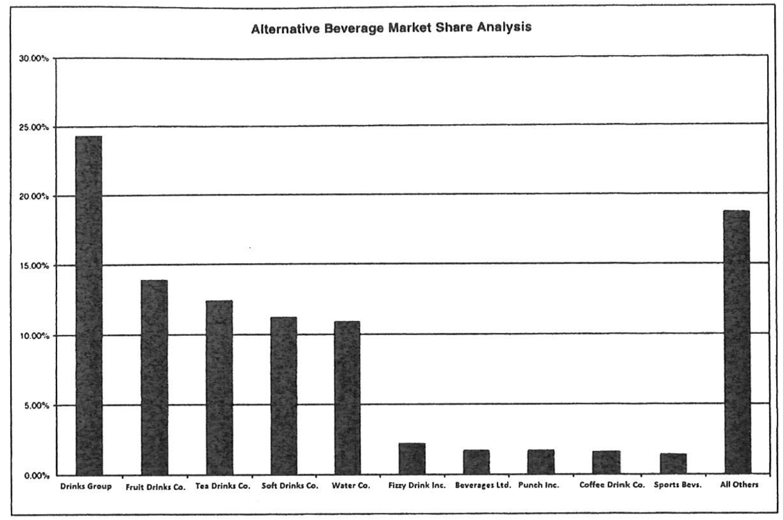

Source: Beverage Week

Market Analysis Summary

Austin, the capital of Texas, is located near the center of the state, approximately 70 miles north of San Antonio and 200 miles south of Dallas. The city has a population of nearly 2 million people and was the fastest-growing city in America in 2014, as listed in *Forbes* magazine. Austin is home to the nation's largest university, many offices related to the state government, and a booming business community that includes the headquarters of Dell Computer Corporation and Whole Foods Market, the nation's largest retailer of natural foods.

Austin has one of the highest percentages of adults with college degrees of any American city and is generally regarded as a center of progressive lifestyles in the Southwest.

WaterWorks is an ideal business for Austin given a market of this size and demographics. Based on average individual transactions of approximately $2.25, including still-water drinks and related products, the business has the potential to gross more than $400,000 in sales by the third year of operation.

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Competitive Analysis

No other business in Austin focuses exclusively on the still-water market. This opportunity provides considerable flexibility in pricing and allows WaterWorks to create a great deal of customer awareness and brand loyalty.

While no retail businesses devoted exclusively to water beverages exist in Austin, water beverages are sold at Whole Foods, Whole Earth Provision, Randall's Markets, and other grocery retailers.

Research in San Francisco reveals information on six still-water beverage retail locations. The oldest has been in operation for slightly more than two years. These businesses are thriving, selling still-water drink units at prices ranging from $1.25 for small, counter-prepared beverages to be consumed on the premises to $24 for larger bottles to be installed off-premises in water coolers.

The owner of one of the older San Francisco businesses indicated that first-year sales in his market, which, like the WaterWorks location, is near a university and an affluent residential district, were 200 units per day, yielding a first-year revenue potential of $117,000, assuming minimal average transaction value of $1.75. Considerable price flexibility is likely to exist in markets where competition is lower or nonexistent.

Competition and Buying Patterns

Still-water retailing will be new to Austin. Competitors primarily sell mass-market waters through grocery-store-type locations and do not focus on the still-water beverage market. There are no retail providers of counter-prepared still-water beverages for consumption on the premises—so-called water bars.

WaterWorks' success will come from educating consumers about the appeal and benefits of still-water beverages and from providing high-quality products not available in grocery stores. Price competition will be a minimal concern given current market conditions.

VI. Marketing

Marketing Strategy

WaterWorks's overall marketing strategy will be to educate consumers about the benefits of still-water beverages and to promote the availability of these products through WaterWorks. Customers will be reached through fliers, newspaper advertisements, and special events.

Location also plays an important role in marketing and promotion, with the business being located near a high-traffic retail area in central Austin.

Target Markets and Market Segments

WaterWorks will target health-conscious and generally well-educated and affluent consumers who are interested in trying new products and dissatisfied with the limited selection and lack of personal service found in grocery-store-type water retailers.

Pricing Strategy

Still-water fountain drinks will be offered at the following prices:

Small: $1.50
Medium: $2.25
Large: $3.75

In addition, larger sizes of water will be sold for customer carryout or delivery. They will range in size from one-liter bottles to 20-liter plastic jugs at prices from $3.75 to $35.00.

Products will be sold on a cash basis to retail customers. Corporate customers, expected to represent an insignificant proportion of sales at the beginning, will be invoiced and given 30 days to pay.

Promotion Strategy

WaterWorks will promote its still-water drinks to customers through:

- Regular newspaper advertisements focusing on the benefits of still-water beverages.

- A publicity campaign that will spotlight company owners on health-related TV and radio broadcasts and position them as experts in print publications.
- Educational and promotional fliers that are distributed to residences within a one-mile radius.
- Discounts offered to groups such as health-food cooperatives, organic gardening clubs, and cultural associations.

Distribution Strategy

- Primary distribution of still-water drinks will be through the retail facility.
- Secondary distribution will consist of deliveries of bottled water to restaurants, retailers, and corporate locations.
- Additional distribution will be through temporary booths set up at athletic and cultural events such as bicycle races and concerts.

Sales Projections

Sales will start in January 2015. Sales forecasts are based on experiences of similar startups in San Francisco. Forecasts include retail sales consistent with similar markets with significant competition and may be considered conservative. Corporate sales include sales of bottles for office water coolers and beverages for corporate parties. Special-events sales include products sold through booths set up at concerts, races, and other events. Third-year sales are projected to include partial results from opening a new retail location.

Sales Forecast

Year	2015	2016	2017
Retail walk-in	$147,000	$183,000	$390,000
Corporate	0	6,000	12,000
Special events	15,000	18,000	30,000
Total	$162,000	$207,000	$432,000

VII. Management

Albert Walter has five years' experience in the retail restaurant industry. He served for three years as manager of the Java Coffee Beanery and for two years as assistant manager of the Travis Bagel Shop. He is a 1999 graduate of the University of Texas at Austin business school, where he earned an MBA.

Matthew Strang has seven years of experience in the hospitality industry. He served as assistant general manager of the Hill Country Bed & Breakfast in Fredericksburg, Texas, for five years and as manager of Bee Cave Bar & Grill in Austin for two years.

WaterWorks will hire one part-time employee to assist with the business. The partners will perform the bulk of the duties required to operate the initial store.

VIII. Financial Data

Financial Plan

WaterWorks will finance growth through cash flow. Expansion will begin in year three and will include the opening of a second location, an increase in corporate sales, and added emphasis on special-event promotions.

Seasonal Data

As a result of Austin being a "college town," seasonal variations will be most pronounced in June, July, and August. During these months, many between-term college students leave the city, causing a significant—but temporary—reduction in the size of Austin's market.

Break-Even Analysis

The following table and chart show break-even analysis for year one. The owners have determined that the business will require sales of approximately $12,591 per month to break even during the first year of operation. Assumptions include average monthly fixed expenses of $9,443 (general and administrative expenses less depreciation divided by 12) and a gross profit margin of 75 percent.

Break-Even Analysis

$$\frac{\$9{,}443}{75\%} = \$12{,}591$$

Projected Profit and Loss

Profits for the next three years are projected to equal:

2015: $1,581
2016: $24,086
2017: $78,022

Projected Income Statement

	2015	2016	2017
INCOME			
Gross Sales	$157,500	$207,000	$432,000
Less Returns and Allowances	0	0	0
Net Sales	157,500	207,000	432,000
Cost of Sales	40,500	49,653	99,360
Gross Profit	$117,000	$157,347	$332,640
Gross Profit Margin	74%	76%	77%
OPERATING EXPENSES			
General & Administrative Expenses			
Salaries and Wages	$45,360	$54,750	$121,500
Employee Benefits	2,721	3,285	7,290
Payroll Taxes	2,268	2,738	6,075
Sales Commissions	0	0	0
Professional Services	1,725	1,725	2,400
Rent	29,400	29,400	58,800
Maintenance	1,350	1,350	2,250
Equipment Rental	1,650	2,250	3,375
Furniture and Equipment Purchase	1,875	2,400	3,375
Insurance	2,820	3,000	6,300
Interest Expenses	2,025	2,025	3,000
Utilities	3,225	3,375	3,840
Office Supplies	1,350	1,425	1,800
Postage	1,125	1,388	1,575
Marketing and Advertising	15,225	19,875	26,138
Travel	825	1,125	1,500
Entertainment	375	450	600
Bad Debt	0	0	0
Depreciation and Amortization	2,100	2,700	4,800
TOTAL OPERATING EXPENSES	**$115,419**	**$133,261**	**$254,618**
Net Income before Taxes	$1,581	$24,086	$78,022
Provision for Taxes on Income	608	2,406	7,802
NET INCOME AFTER TAXES	**$973**	**$21,680**	**$70,220**

Notes to projected income statement:

1. Figures for 2015 include added income and operating expenses from second location.
2. Cost of Sales reflects slight but steady increase in gross profit margins.
3. Salaries and Wages include one part-time employee the first two years of operation, three part-time employees the third year of operation (when two locations will be staffed), and the following annual salaries for each partner in lieu of draw:

   2015: $18,000

   2016: $22,500

   2017: $45,000

Projected Cash Flow

Projected cash flow for the next three years is estimated as follows:

2015: $6,750
2016: $22,300
2017: $93,000

Projected Cash Flow Statement for 2015

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	TOTAL
CASH RECEIPTS													
Income from Sales													
Cash Sales	$3,000	$7,500	$10,500	$10,500	$16,500	$15,000	$15,000	$15,000	$16,500	$16,500	$18,000	$18,000	$162,000
Collections	0	0	0	0	0	0	0	0	0	0	0	0	$0
Total Cash from Sales	**$3,000**	**$7,500**	**$10,500**	**$10,500**	**$16,500**	**$15,000**	**$15,000**	**$10,000**	**$16,500**	**$16,500**	**$18,000**	**$18,000**	**$162,000**
Income from Financing													
Interest Income	0	0	0	0	0	0	0	0	0	0	0	0	$0
Loan Proceeds	15,000	0	0	3,750	0	0	3,750	0	0	0	0	0	$22,500
Total Cash from Financing	15,000	0	0	3,750	0	0	3,750	0	0	0	0	0	$22,500
Other Cash Receipts	15,000	0	0	0	0	0	0	0	0	0	0	0	$15,000
Total Cash Receipts	**33,000**	**$7,500**	**$10,500**	**$14,250**	**$16,500**	**$15,000**	**$18,750**	**$15,000**	**$16,500**	**$16,500**	**$18,000**	**$18,000**	**$199,500**
CASH DISBURSEMENTS													
Expenses													
Cost of Goods	750	1,875	2,625	2,625	4,125	3,750	3,750	3,750	4,125	4,125	4,500	4,500	$40,500
Operating Expenses	18,750	6,225	6,600	7,200	7,538	9,488	7,875	8,587	9,825	9,975	10,087	10,350	$112,500
Loan Payments	0	225	225	225	225	225	225	225	225	225	11,362	11,363	$24,750
Income Tax Payments	0	0	0	0	0	0	0	0	0	0	0	0	$0
Equipment Purchase	7,500	0	0	3,750	0	0	0	0	0	0	0	0	$11,250
Contingency	0	0	0	0	0	0	0	0	0	0	0	3,750	$3,750
Owner's Draw	0	0	0	0	0	0	0	0	0	0	0	0	$0
Total Cash Disbursements	**27,000**	**$8,325**	**$9,450**	**$13,800**	**$11,888**	**$13,463**	**$11,850**	**$12,562**	**$14,175**	**$14,325**	**$25,959**	**$29,963**	**$192,750**
Net Cash Flow	**6,000**	**-825**	**1,050**	**450**	**4,612**	**1,537**	**6,900**	**2,438**	**2,325**	**2,175**	**-7,950**	**-11,963**	**$6,750**
Opening Cash Balance	0	6,000	5,175	6,225	6,675	11,288	12,825	19,725	22,163	24,488	26,663	18,713	$0
Cash Receipts	33,000	7,500	10,500	14,250	16,500	15,000	18,750	15,000	16,500	16,500	18,000	18,000	$199,500
Cash Disbursements	–27,000	–8,325	–9,450	–13,800	–11,887	-13,463	-11,850	–12,562	–14,175	–14,325	–25,950	–29,963	–$192,750
Ending Cash Balance	**$6,000**	**$5,175**	**$6,225**	**$6,675**	**$11,288**	**$12,825**	**$19,725**	**$22,163**	**$24,488**	**$26,663**	**$18,713**	**$6,750**	

Notes to projected cash flow statement:

1. Cash sales reflect summer slowdown due to college students being out of town.
2. Other Cash Receipts consist of investment by partners.
3. Contingency fund set up at year-end to provide cash reserves.
4. Owners receive nominal salaries instead of draws.
5. Loan Payments cover interest at 10 percent on $30,000 loan until balance of principal and interest are repaid in two third-quarter balloon payments.
6. April equipment purchase is for trailer, portable equipment, and booth, to prepare for promotions at outdoor events.

Balance Sheet Projection

Projected shareholders' equity and net worth after one year of operation is $29,250.

Projected Balance Sheet

for Year Ending
December 31, 2015

ASSETS	
Current Assets	
Cash	$6,750
Accounts Receivable	0
Inventory	4,125
Prepaid Expenses	3,750
Total Current Assets	**$14,625**
Fixed Assets	
Land	$0
Buildings	0
Equipment	3,000
Furniture	7,500
Fixtures	7,500
Less Accumulated Depreciation	3,375
Total Fixed Assets	**$21,375**
Other Assets	**0**
TOTAL ASSETS	**$36,000**
LIABILITIES	
Current Liabilities	
Accounts Payable	$4,125
Accrued Payroll	2,250
Taxes Payable	375
Short-Term Notes Payable	0
Total Current Liabilities	**$6,750**
Long-Term Liabilities	
Long-Term Notes Payable	$0
Total Long-Term Liabilities	**$0**
Net Worth	**$29,250**
Retained Earnings	0
Total Net Worth	**$29,250**
TOTAL LIABILITIES & NET WORTH	**$36,000**

Note to projected balance sheet:

1. Accounts receivable will be minimal in the first year because all business will be conducted on a cash basis.