

The Daily Perc Business Plan*

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1.0 Executive Summary

The Daily Perc (TDP) is a specialty beverage retailer. TDP uses a system that is new to the beverage and food service industry to provide hot and cold beverages conveniently and efficiently. TDP provides its customers the ability to drive up and order (from a trained Barista) their choice of a custom-blended espresso drink, freshly brewed coffee, or other beverage. TDP offers a high-quality alternative to fast-food, convenience store, or institutional coffee.

The Daily Perc offers its patrons the finest hot and cold beverages, specializing in specialty coffees, blended teas, and other custom drinks. In addition, TDP will offer soft drinks, fresh-baked pastries, and other confections. Seasonally, TDP will add beverages such as hot apple cider, hot chocolate, frozen coffees, and more.

The Daily Perc will focus on two markets:

The daily commuter. Someone who is traveling to or from work, shopping, delivering goods or services, or just out for a drive.

The captive consumer. Someone who is in a restricted environment that does not allow convenient departure and return for refreshments or where refreshments stands are an integral part of the environment.

The Daily Perc will penetrate the commuter and captive consumer markets by deploying drive-through facilities and Mobile Cafés in highly visible, accessible locations. The drive-through facilities are designed to handle two-sided traffic and dispense customer-designed, specially ordered cups of premium coffee in less time than is required for a visit to a locally owned café or one of the national chains.

In addition to providing a quality product and an extensive menu of delicious items, we will donate up to 7.5 percent of revenue to local charities to increase customer awareness of and loyalty to our business and to generate good publicity coverage and media support.

The Daily Perc's customer service process is labor intensive, and TDP recognizes that a higher level of talent is essential to success. The financial investment in its employees will be one of the greatest differentiators between TDP and its competition. For the purpose of this plan, the capital expenditures of facilities and equipment are financed. We will maintain minimum levels of inventory on hand to keep our products fresh and to take advantage of price decreases when they should occur.

The Daily Perc anticipates an initial combination of investments and short- and long-term financing of \$365,670 to cover start-up costs. This will require TDP to grow more slowly than might be otherwise possible, but our growth will be solid, financially sound, and tied to customer demand.

The Daily Perc's goal is to become the drive-through version of Starbucks between the mountains, eventually obtaining several million dollars through a private offering that will allow the company to open 20 to 30 facilities per year in metropolitan communities in the North, Midwest, and South with populations of more than 150,000. The danger

in this strategy is that competitors could establish a foothold in a community before the arrival of TDP, causing a potential drain on revenues and a dramatic increase in advertising expenditures to maintain market share. Knowing these risks—and planning for them—gives TDP the edge needed to make the exit strategy viable.

By year 3, we estimate a net worth of \$1,075,969, a cash balance of \$773,623, and earnings of \$860,428, based on 13 drive-throughs and four Mobile Cafés. At that point, a market value of between \$3.5 million and \$8.6 million for the company is reasonable. At present, coffee chains are trading in multiples of 4 to 10 times earnings. Using the midpoint of that range (7) provides an estimated value of \$6 million by the end of year 3.

The figure on page 654 summarizes the forecasts for TDP's sales, gross profit, and net income for the first three years of operation.

1.1 Objectives

The Daily Perc has established three objectives it plans to achieve in the next three years:

1. Thirteen drive-through locations and four fully booked Mobile Cafés by the end of the third year
2. Gross profit margin of 45 percent or more
3. Net after-tax profit above 15 percent of sales

1.2 Mission

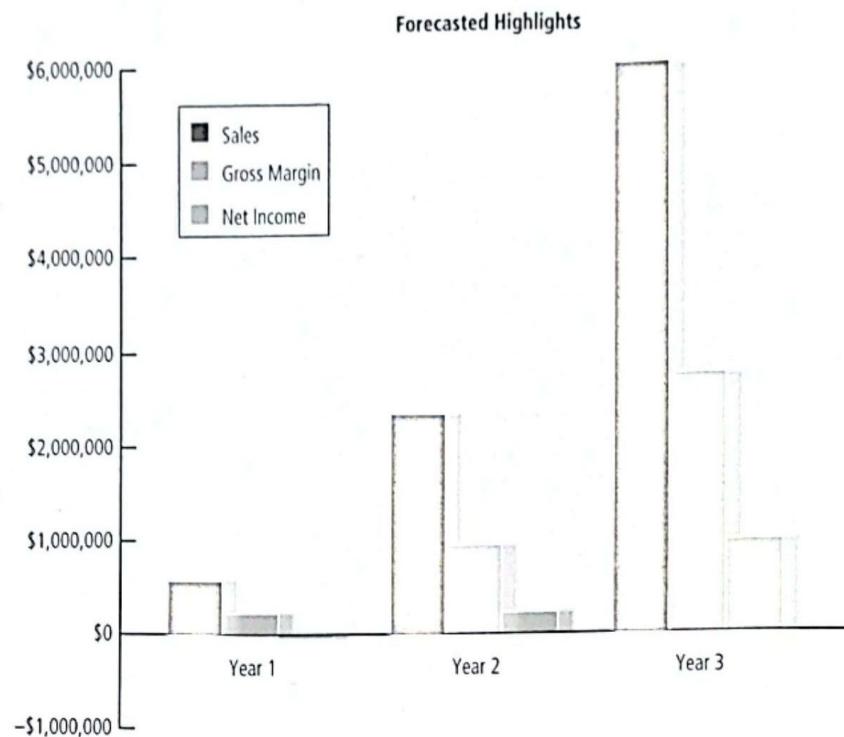
The Daily Perc's mission is threefold, with each being as integral to our success as the next.

- **Product mission.** Provide customers the finest quality beverages in the most efficient way
- **Community mission.** Support the local communities in which we operate
- **Economic mission.** Operate and grow at a profitable rate by making sound business decisions

1.3 Keys to Success

There are four keys to success in this business, three of which are virtually the same as in any food service business. It is the fourth key—the Community Mission—that gives TDP the extra measure of respect in the public eye.

1. The best locations, characterized by highly visible, high traffic counts, and convenient access
2. The best products, featuring the freshest coffee beans, cleanest equipment, premium serving containers, and most consistent flavor
3. The friendliest servers who are well trained, cheerful, skilled, professional, and articulate
4. The finest reputation that generates word-of-mouth advertising and promotes our community mission and charitable giving



2.0 Company Summary

The Daily Perc is a specialty beverage retailer. TDP uses a system that is new to the beverage and food service industry to provide hot and cold beverages conveniently and efficiently. TDP provides its customers the ability to drive up and order from a trained Barista their choice of a custom-blended espresso drink, freshly brewed coffee, or other beverage. TDP offers a high-quality alternative to fast-food, convenience store, and institutional coffee.

2.1 Company Ownership

The Daily Perc is a limited liability company. All membership shares are currently owned by Bart and Teresa Fisher, who intend to use a portion of the shares to raise capital.

The plan calls for the sale of 100 membership units in the company to family members, friends, and private (angel) investors. Each membership unit in the company is priced at \$4,250, with a minimum of five units per membership certificate, or a minimum investment of \$21,250 per investor.

When TDP completes its financing, Bart and Terri Fisher will maintain ownership of 51 percent of the company.

2.2 Start-Up Summary

The Daily Perc's start-up expenses and funding are shown in the following tables and charts. The majority of these funds will be used to build the first facility, pay deposits, and provide capital for six months of operating expenses, initial inventory, and other one-time expenses. The Daily Perc also will need operating capital for the first few months of operation.

Table: Start-Up Expenses and Assets

Start-Up	
Requirements	
Start-Up Expenses:	
Legal	\$3,500
Office Equipment	\$4,950
Drive-Through Labor (6 months)	\$65,000
Drive-Through Finance Payment (6 months)	\$12,300
Drive-Through expenses (6 months)	\$8,520
Land Lease (6 months)	\$7,200
Vehicle Finance (6 months)	\$3,700
Administration Labor (6 months)	\$54,000
Web Site Development and Hosting	\$5,600
Identity/Logos/Stationery	\$4,000
Other	\$5,000
Total Start-Up Expenses	\$173,770
Start-Up Assets:	
Cash Required	\$25,500
Start-Up Inventory	\$35,000
Other Current Assets	\$0
Long-Term Assets	\$131,400
Total Assets	\$191,900
Total Requirements	\$365,670

Table: Start-Up Funding

Start-Up Funding	
Start-Up Expenses to Fund	\$173,770
Start-Up Assets to Fund	\$191,900
Total Funding Required	<u>\$365,670</u>
Assets	
Noncash Assets from Start-Up	\$166,400
Cash Requirements from Start-Up	\$25,500
Additional Cash Raised	\$0
Cash Balance on Starting Date	<u>\$25,500</u>
Total Assets	<u>\$191,900</u>
Liabilities and Capital	
Liabilities	
Current Borrowing	\$9,000
Long-Term Liabilities	\$131,400
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities (Interest Free)	\$0
Total Liabilities	<u>\$140,400</u>
Capital	
Planned Investment	
Partner 1	\$10,000
Partner 2	\$10,000
Partner 3	\$10,000
Partner 4	\$10,000
Partner 5	\$11,500
Partner 6	\$10,000
Partner 7	\$11,500
Partner 8	\$10,000
Partner 9	\$11,500
Partner 10	\$10,000
Partner 11	\$11,500
Partner 12	\$11,500
Other	\$97,770
Additional Investment Requirement	<u>\$0</u>
Total Planned Investment	<u>\$225,270</u>
Loss at Start-Up (Start-Up Expenses)	<u>(\$173,770)</u>
Total Capital	<u>\$51,500</u>
Total Capital and Liabilities	<u>\$191,900</u>
Total Funding	<u>\$365,670</u>

drive-through in the Colonial Square Shopping Center will serve as the commissary for the first mobile unit.

The demographic and physical requirements for a drive-through location are the following:

- Traffic of 40,000+ cars per day on store side
- Visible from roadway
- Easy entry, preferably with a traffic light
- Established retail shops in area

The founders identified TDP's first location with the help of MapInfo's Spectrum Location Intelligence Module, a mapping and geographic analysis software package that enables users to visualize the relationships between demographic and traffic count data and geography to produce maps that show the best locations for businesses. We will use this software to choose the company's future locations in the metropolitan area. As TDP expands into other cities, managers will supplement the insight that MapInfo provides with the tools in ZoomProspector, another useful location analysis tool, to identify the cities that are most likely to be home to other successful TDP locations.

3.0 Products

The Daily Perc provides its patrons the finest hot and cold beverages, specializing in specialty coffees and custom-blended teas. In addition, TDP will offer select domestic soft drinks, Italian sodas, fresh-baked pastries, and other confections. Seasonally, TDP will add beverages such as hot apple cider, hot chocolate, frozen coffees, and more.

3.1 Product Description

The Daily Perc provides its customers, whether at a drive-through facility or at one of the Mobile Cafés, the ability to custom-order a beverage that will be blended to their exact specifications. Each of TDP's Baristas will be trained in the fine art of brewing, blending, and serving the highest-quality hot and cold beverages with exceptional attention to detail.

Besides its selection of coffees, TDP will offer teas, domestic and Italian sodas, frozen coffee beverages, seasonal specialty drinks, pastries, and other baked goods. Through the Web site and certain locations, TDP will market premium items bearing the TDP logo, such as coffee mugs, T-shirts, sweatshirts, caps, and more.

2.3 Company Locations and Facilities

The Daily Perc will open its first drive-through facility on Manchester Road in the Colonial Square Shopping Center. We will locate 12 more drive-through facilities throughout the metropolitan area over the next three years. The

3.2 Competitive Comparison

The Daily Perc considers itself to be a player in the retail coffeehouse industry. However, we understand that competition for its products range from soft drinks to milk shakes to adult beverages.

The Daily Perc's primary competition will come from three sources:

1. National coffeehouses, such as Starbucks and Panera
2. Locally owned and operated cafés
3. Fast-food chains and convenience stores

Two things make TDP stand out from all its competitors: The Daily Perc will provide products in the most convenient and efficient way, either at one of the two-sided drive-through shops or at one of the Mobile Cafés. This separates TDP from the competition in that its customers won't have to find parking places, wait in a long lines, jockey for seats, and clean up the mess left by previous patrons. The Daily Perc's customers can drive or walk up, order their beverages, receive and pay for them and quickly be on their way.

The second differentiator is TDP's focus on providing a significant benefit to the community through a 7.5 percent contribution to customer-identified charities, schools, or other institutions.

3.3 Sourcing

The Daily Perc purchases its coffees from PJ's Coffee. It also has wholesale purchasing agreements for other products with Major Brands, Coca-Cola, Big Train, Al's Famous Filled Bagels, L&N Products, and Royal Distribution.

The drive-through facilities are manufactured by City Stations, and the Mobile Cafés are manufactured by Tow Tech Industries.

Fulfillment equipment suppliers include PJ's Coffee, City Stations, Talbert Ford, and Retail Image Programs. The Daily Perc's computer equipment and Internet connectivity are provided by NSI Communications.

3.4 Technology

The Daily Perc's delivery system uses state-of-the-art, two-sided drive-through facilities to provide convenience and efficiency for its clientele. An architectural exterior diagram of the drive-through building can be found in the appendix (not included in this sample plan).

The Daily Perc also has designed state-of-the-art Mobile Cafés that will be deployed on high school and college campuses, on corporate campuses, and at special events.

3.5 Future Products

The Daily Perc will offer products that reflect the changing seasons and customers' changing demand for beverages. During the warm summer months, TDP will offset lower hot beverage sales with frozen coffee drinks as well as soft drinks and other cold beverages. The Daily Perc will also have special beverages during holiday seasons, such as eggnog during the Christmas season and hot apple cider in the fall.

The Daily Perc's primary desire will be to listen to its customers to ascertain which products they want and to provide them.

4.0 Market Analysis Summary

The Daily Perc will focus on two markets:

1. *The daily commuter.* Someone traveling to or from work, out shopping, delivering goods or services, or just out for a drive
2. *The captive consumer.* Someone who is in a restricted environment that does not allow convenient departure and return while searching for refreshments or where refreshment stands are an integral part of the environment

4.1 Market Segmentation

The Daily Perc will focus on two different market segments: commuters and captive consumers. To access both of these markets, TDP has two different delivery systems. For the commuters, TDP offers the drive-through coffeehouse. For the captive consumer, TDP offers the Mobile Café.

Commuters are defined as anyone in a motorized vehicle traveling "from point A to point B." The Daily Perc's principal focus will be on attracting commuters heading to or from work and those on their lunch breaks.

Captive consumers include those who are tethered to a campus environment or to a restricted-entry environment where people's schedules afford limited time to make purchases. Examples include high school and college campuses, where students have limited time between classes, and corporate campuses, where the same time constraints are involved.

The following table and pie chart reflect the number of venues available for the Mobile Cafés and the growth we expect in those markets over the next five years. For an estimate of the number of Captive Consumers, we multiplied the total number of venues by 1,000. For example, in year 1, we estimate that there are 2,582 venues at which we might position a Mobile Café. That would equate to a captive consumer potential of 2,582,000 people.

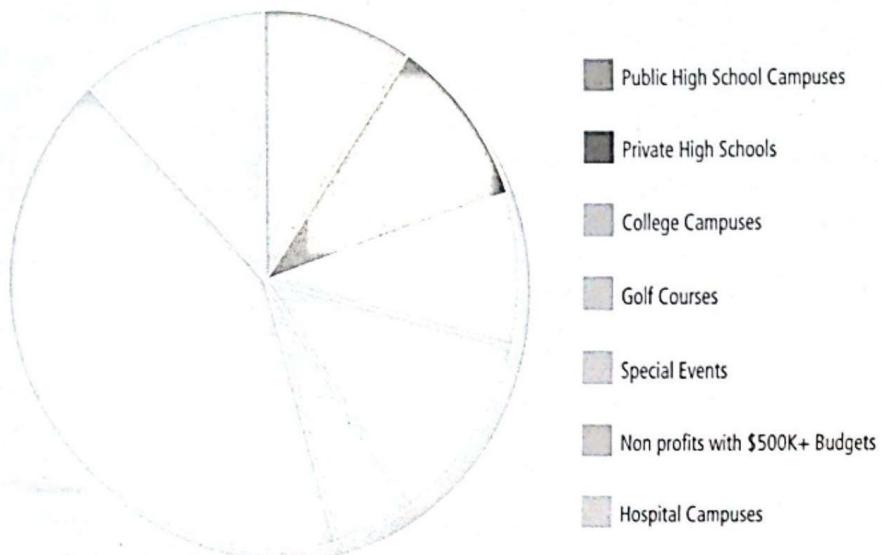
Similarly, there are more than 2,500,000 commuters in the metropolitan area as well as visitors, vacationers, and others. Some of these commuters make not just one beverage purchase a day but, in many cases, two and even three beverage purchases.

The chart also reflects college and high school campuses, special events, hospital campuses, and various charitable organizations. A segment that the chart does not show (because it would skew the chart greatly) is the number of corporate campuses in the metropolitan area. There are more than 1,700 corporate facilities that employ more than 500 people, giving us an additional 1,700,000 potential customers, or a total of 2,582 locations at which we could place a Mobile Café.

Table: Market Analysis

Market Analysis	Growth	Year 1	Year 2	Year 3	Year 4	Year 5	CAGR
Potential Customers							
Public High School Campuses	1%	80	81	82	83	84	1.23%
Private High Schools	0%	88	88	88	88	88	0.00%
College Campuses	0%	77	77	77	77	77	0.00%
Golf Courses	0%	99	99	99	99	99	0.00%
Special Events	3%	43	44	45	46	47	2.25%
Nonprofits with \$500K+ Budgets	2%	362	369	376	384	392	2.01%
Hospital Campuses	0%	100	100	100	100	100	0.00%
Total	1.10%	849	858	867	877	887	1.10%

CHART: MARKET ANALYSIS (PIE)



Source: Based on data from the National Coffee Association.

4.2 Target Market Segment Strategy

The Daily Perc's target market is the mobile customer who has more money than time and excellent taste in the choice of a beverage but no desire to linger in a café. By locating the drive-throughs in high-traffic/high-visibility areas, these customers will patronize TDP and become our regular guests.

Our Mobile Cafés will allow TDP to take the café to the customer! By using the community support program that TDP is instituting, we will make arrangements to visit high schools, college campuses, or corporate campuses once or twice a month. (We also will offer to visit these facilities for special games, tournaments, recruiting events, or corporate open houses.) We will return a portion of the revenue from each beverage or baked goods sold to the high school or college, allowing the institution to reap a financial reward while providing a pleasant and fulfilling benefit to their students or employees.

4.2.1 MARKET TRENDS Nearly 20 years ago, a trend toward more unique coffees began to develop in the United States. There had always been specialty coffee stores, such as Gloria Jeans and others, but people began to buy espresso machines for their homes and offices. Coffee tastings in stores became popular, and later espresso bars began to appear. Then along came Starbucks, the quintessential bastion of upwardly mobile professionals who wanted to take control over how their beverages were made.

Since Starbucks arrived on the scene, people have become more pressed for time. The same customers who helped push Starbucks's sales to nearly \$10 billion are now rushing to get their kids to soccer practice and basketball games, running to the grocery store, and trying to get to work on time and back home in time for dinner—or to get to the next soccer game. Yet they still have the desire for that refreshing, specially blended coffee each morning.

Recently, we have seen the introduction of beverage dispensers at convenience stores that spit out overly sweet, poorly blended cappuccinos in flavors such as French vanilla or mocha, and consumers are paying as much as \$3.00 for these substandard beverages.

The market is primed for the introduction of a company that offers a superior quality, specially blended product in a convenient, drive-through environment at a price that is competitive with national coffeehouses.

The Daily Perc is a member of the National Coffee Association and the National Specialty Coffee Association. These two trade associations provide useful information on the relevant trends in the industry, information for making comparisons to other companies on financial performance, and educational workshops and seminars.

4.2.2 MARKET GROWTH The 183 million Americans who drink coffee consume 146 billion cups of coffee per year. In addition, more than 173 million people in the United States drink tea. According to industry statistics, the consumption of coffee and flavored coffee products is growing rapidly, and 34 percent of coffee drinkers go to “premium” coffee outlets to purchase their beverages.

The segment of the market we are targeting is the commuter, and the number of people who commute to work is increasing by about 6 percent per year. In the metropolitan area, as with many metropolitan areas in the country, there is a migration away from the cities as people choose to live in quiet suburban areas and drive to work in the city.

The United States is home to 128.3 million commuters. Using census data, we estimate that more than 2.5 million commuters drive to and from work each day in our defined market. In addition, research shows that 54 percent of Americans drink coffee every day and that the typical coffee drinker consumes three nine-ounce cups of coffee per day. Nearly 65 percent of coffee consumption takes place in the morning, 30 percent occurs between meals, and 5 percent occurs between meals. Therefore, TDP has a significant daily target for its beverages, particularly during the morning drive time.

4.2.3 MARKET NEEDS The United States is a very mobile society. With the introduction of the automobile, we became a nation that thrived on the freedom of going where we wanted when we wanted. The population of the United States is 315 million people, and there are more licensed vehicles in the country than there are people. The population’s mobility has created a unique need in our society for products available “on the go.”

Our market is made up of consumers who have busy schedules, a desire for quality, and adequate disposable income. As much as they would like the opportunity to sit in an upscale coffeehouse and sip a uniquely blended coffee beverage and read the morning paper, they don’t have the time. However, they still have the desire for a uniquely blended beverage as they hurry through their busy lives.

4.3 Industry Analysis

Consumers in the United States drink 450 million cups of coffee per day and spend \$40 billion a year on coffee-based drinks. The coffee industry in the United States has grown rapidly in the United States over the last five years. Sales of specialty coffees are growing at a rate of 20 percent per year. Even general coffee sales have increased, with international brands such as Folgers, Maxwell House, and Safari coffee reporting higher sales and greater profits. The United States is the leading coffee-consuming nation in the world, and the coffee industry is reaping the rewards.

4.3.1 DISTRIBUTION PATTERNS The café experience comes from the Italian origins of espresso. The customer enters a beautifully decorated facility surrounded by wondrous aromas and finds himself or herself involved in a sensory experience that, more often than not, masks an average product at a premium price. However, the proliferation of cafés in the United States proves the viability of the market. It is a duplication of the same delivery process as currently exists in Europe.

4.3.2 COMPETITION AND BUYING PATTERNS There are four general competitors in TDP’s drive-through market. They are the national specialty beverage chains, such as Starbucks and Panera; local coffeehouses—or cafés with an established clientele and a quality product; fast-food restaurants; and convenience stores. There is a dramatic distinction among the patrons of each of these outlets.

Patrons of Starbucks or of one of the local cafés are looking for the “experience” of the coffeehouse. They want the ability to “design” a custom coffee, smell fresh pastries, listen to soothing Italian music, and read a newspaper or visit with a friend. It is a relaxing, slow-paced environment.

Patrons of fast-food restaurants or convenience stores expect just the opposite. They have no time for idle chatter and are willing to overpay for whatever beverage the machine spits out—as long as it’s quick. They pay for their gas and are back on the road to work. Although they have ability to differentiate between a good cup of coffee and a bad one, time is more valuable to them than quality.

Competitors of the Mobile Cafés on campuses include fast-food restaurants (assuming that they are close enough so that customers can get there and back in the minimal allotted time), vending machines, and company or school cafeterias. The customers in this environment are looking for a quick, convenient, fairly priced, quality beverage that allows them to purchase the product and return to work, class, or other activity.

Competitors of the Mobile Cafés at events such as festivals and fairs include all the other vendors who are licensed to sell refreshments. Attendees of these events expect to pay a premium price for a quality product.

4.3.3 MAIN COMPETITORS The Daily Perc has no direct competitors in the drive-through segment of the market in the metropolitan area. The Daily Perc will be the first double-sided, drive-through coffeehouse in the city. However, we

face significant competition from indirect competitors in the form of traditional coffeehouses, convenience stores, fast-food outlets, and other retailers.

National Chains: In 2013, Starbucks, the national leader, operated more than 11,400 retail outlets in the United States (and nearly 8,400 foreign outlets) that generated operating revenue of \$14.9 billion, which represents an increase of 12 percent over 2012. The average annual revenue for a Starbucks outlet is \$754,000, or \$89,558 in revenue per employee.

Panera Bread had revenues of \$2.11 billion, an increase of 12.2 percent over 2012. Annual sales at the average Panera Bread outlet are \$2.5 million. Coffee beverages are not the primary focus of Panera Bread's menu.

Despite its name, Dunkin' Donuts's primary emphasis is on selling coffee. The company has more than 11,000 outlets worldwide, 7,000 of which are in the United States. Constructing a Dunkin' Donuts retail store costs about \$500,000, and average sales at a Dunkin' Donuts outlet in the United States are \$845,000. The company's stronghold on market share is greatest in the Northeast, where it originated.

The Daily Perc believes it has a significant competitive advantage over these chains because of the following benefits:

- Drive-through service
- Superior customer service
- Community benefit
- Mobile Cafés
- Greater selection
- Higher product quality

Local Cafés: The toughest competitor for TDP is the established locally owned café. The Daily Perc knows the quality and pride that the local café has in the products their customers purchase. Local cafés typically benefit from their loyal, highly educated customers. The quality of beverages served at an established café surpasses those of the regional or national chains.

The competitive edge TDP has over local cafés is based on the following:

- Drive-through service
- Supply discounts
- Mobile Café
- Consistent menu
- Community benefit
- Quality product

Drive-Through Coffeehouses: There are no drive-through specialty beverage retailers with a significant market presence in the central United States. The only company

with similar depth to that of TDP is Quikava, a wholly owned subsidiary of Chock Full 'o Nuts. However, Quikava has limited its corporate footprint to the East Coast and the Great Lakes region.

In the drive-through specialty beverage market, TDP has a competitive edge over these competitors, including Quikava, because of the following:

- Mobile Cafés
- Consistent menu
- Community benefit
- Quality product
- Supply discounts
- Valued image
- Greater product selection

Fast-Food and Convenience Stores: Most national fast food chains and national convenience store chains already serve coffee, soda, and some breakfast foods. The national fast-food chains understand the benefits and value that drive-through service provides customers; 70 percent of the typical fast-food outlet's sales come from drive-through customers. In addition, nearly 80 percent of the growth in the fast-food industry in the last five years has come through outlets' drive-through windows. Customers who buy coffee at fast-food and convenience stores shop primarily on the basis of price rather than quality and, therefore, are not TDP's primary target customers. The Daily Perc's advantage is that the quality of the products it sells is much higher than those sold at fast-food and convenience stores. Soft-drink sales for the typical quick-serve store account for a large portion of beverage sales. The Daily Perc believes that the quality of its products and the convenience of speedy drive-through service give it a competitive edge over fast-food and convenience stores.

Other Competition: The Daily Perc understands that once it has entered the market and established a presence, others will try to follow. However, TDP believes that although imitators will appear, they cannot duplicate its corporate mission, organizational design, or customer value proposition. The Daily Perc will constantly evaluate its products, locations, service, and mission to ensure that it remains a leader in the specialty beverage industry in its market segment.

4.3.4 INDUSTRY PARTICIPANTS There is only one national drive-through coffee franchise operation in the United States that poses a threat; a subsidiary of Chock Full 'o Nuts called Quikava. Quikava operates primarily on the East Coast and in the upper Great Lakes region. The East and West coasts and even some Mountain and Midwest states have smaller local drive-through chains such as Caffino, Java Express, Crane Coffee, Java Drive, Sunrise Coffee, and Caffe Diva. However, other players in the premium coffee service industry include Starbucks, Gloria Jean's, Caribou Coffee, Panera Bread, and locally owned and operated coffee shops or "cafés."

5.0 Strategy and Implementation Summary

The Daily Perc will penetrate the commuter and captive consumer markets by deploying drive-through facilities and Mobile Cafés in highly visible, high-volume, accessible locations. The drive-throughs are designed to handle two-sided traffic and dispense customer-designed, specially ordered cups of specialty beverages in less time than required for a visit to the locally owned café or one of the national chains.

The Daily Perc has identified its market as busy, mobile people whose time is already at a premium but who desire a refreshing, high-quality beverage or baked item while commuting to or from work or school.

In addition to providing a quality product and an extensive menu of delicious side items, TDP pledges to donate up to 7.5 percent of revenue from each cup sold in individual drive-throughs to the charities that its customers choose.

5.1 Strategy Pyramid

The Daily Perc's strategy is to offer customers quality products, convenient accessibility, and a community benefit. To execute this strategy, TDP is placing the drive-throughs and Mobile Cafés in well-researched, easily accessible locations throughout the metropolitan area. The Daily Perc is pricing its product competitively and training the production staff to be among the best Baristas in the country. Prices for TDP's products are at or slightly below the national average. Through coupons and display ads at its locations, TDP will involve customers in community support efforts by donating a portion of each sale to a charity of their choosing.

In so doing, TDP has accomplished the following:

1. Provided a customer with a quality product at a competitive price
2. Provided customers with a more convenient method for obtaining their desired products

3. Demonstrated how TDP appreciates their loyalty and patronage by donating money to a meaningful cause

5.2 Value Proposition

The drive-through facilities provide a substantial value proposition because our customers do not have to find parking places, exit their vehicles, stand in long lines to order, pay premium prices for average products, find places to sit, clean up the previous patron's mess, and then enjoy their coffee—assuming that they have sufficient time to linger over the cup.

The Daily Perc's concept is that the customer drives up, places an order that is filled quickly and accurately, receives a high-quality product at a competitive price, and drives away, having invested little time in the process.

The Daily Perc is also providing a significant community value on behalf of customers who patronize TDP. For every purchase a customer makes from us, TDP will donate up to 7.5 percent of each sale to a local charity selected by our customers.

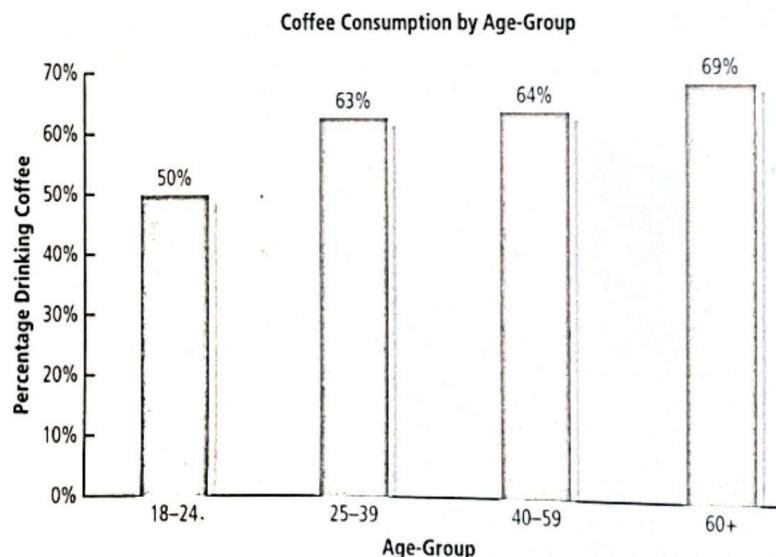
5.3 Competitive Edge

The Daily Perc's competitive edge is simple. TDP provides a high-quality product at a competitive price in a drive-through environment that saves customers valuable time.

5.4 Marketing Strategy

The Daily Perc will be placing its drive-through facilities in highly visible, easily accessible locations. They will be located on high-traffic commuter routes and near shopping centers and concentrations of complementary retail shops to catch customers who are traveling to or from work, going out for lunch, or venturing on a shopping expedition. The drive-throughs' design is very unique and eye-catching, which will be a branding feature of its own.

As the following chart indicates, TDP's target audience skews older.



Therefore, TDP will implement a low-cost advertising campaign that includes traditional advertising media, such as drive-time radio and a few strategically located outdoor ads. However, because a significant portion of our target customers is younger than 40, we also will use social media tools extensively.

The Daily Perc will rely on building relationships with schools, charities, and companies to provide significant free publicity through its community support program. When TDP makes charitable contributions to these institutions, they will get the word out to their students/faculty/employees/partners about TDP. Word-of-mouth advertising has long been one of the greatest advertising techniques a company can use. In addition, we will encourage the media to cover the charitable aspects of TDP, giving the company the opportunity for more exposure every time TDP writes a check to a nonprofit organization.

The Daily Perc will use social media marketing tools such as Twitter and Facebook as well, particularly to promote the locations of its Mobile Cafés. We will send tweets to our followers to alert them to the location of our Mobile Cafés. We also will post the Mobile Cafés' locations on Facebook.

5.4.1 PROMOTION STRATEGY

The long-range goal is to gain enough visibility to expand the TDP brand into other regions and generate inquiries from potential inventors. To do that, TDP must employ the following:

- A public relations service at \$1,000 per month for the next year to generate awareness of TDP among newspapers, magazines, bloggers, and reviews. We anticipate that the school fund-raising program will generate a publicity on its own and eventually will minimize—or even eliminate—the need for a publicist.
- Advertising expenditures of \$1,000 per month focused on drive-time radio and strategically selected billboards. The Daily Perc will experiment with different stations, keeping careful track of results. We will select billboards that are near our existing locations to serve as reminders of our locations for passing motorists. As with the school fund-raising program, TDP expects its storefronts and signage to be a substantial portion of our advertising.
- A social media presence on Facebook, Twitter, and YouTube. We can use these tools to reach our target customers at very little expense. We will promote daily specials on selected items on Facebook and Twitter and will post videos of our Best Barista Contest on YouTube. We also plan to involve our customers through a contest that offers free coffee for one year to the customer who posts the best YouTube video promoting TDP. We also will sponsor a “Fan of the Day” contest by randomly drawing one person who likes TDP on Facebook to receive a free cup of coffee and announcing the winner on Facebook and on Twitter.

5.4.2 DISTRIBUTION STRATEGY The Daily Perc will locate its drive-through facilities in high-traffic areas of the city where it knows working commuters will be passing. Our first outlet will be located at the corner of Main Street and Broughton Road, which has a traffic count of 42,200 cars per day.

The Daily Perc will also make arrangements for the Mobile Cafés to be at as many schools, businesses, and events as possible every year to promote TDP to new customers.

5.4.3 MARKETING PROGRAMS

Distinctive Logo: Our logo, “Papo,” is a very happy and conspicuous sun. The sun touches every human being every day, and TDP wants to touch its customers every day. Papo is already an award-winning logo, having won the “New Artist Category” of the 2013 Not Just Another Art Director’s Club (NJAADC).

Distinctive Buildings: The Daily Perc is using diner-style buildings for its drive-through facilities and has worked closely with the manufacturer to make the building distinctive so that it is easy to recognize and functional.

The Mobile Café: The Mobile Café will be a key marketing tool for TDP. The similarities between the Mobile Cafés and the drive-through facilities will be unmistakable. The exposure that these units provide is difficult to measure directly but is extremely important to the company’s growth. The Daily Perc will negotiate visits for its mobile units at schools, hospitals, companies, and special events. A portion of all sales made while at these locations will go to a nonprofit entity of the organization’s choice. The organization will promote its presence to its constituency and encourage them to frequent TDP’s drive-through establishments to support their charitable cause. This will give those patrons an opportunity to taste the products and become regular customers of the drive-through facilities. The Mobile Cafés will also appear at community events, such as fairs, festivals, and other charitable events.

Advertising and Promotion: In the first year, TDP plans to spend moderately on advertising and promotion, with the program beginning in June, prior to the opening of the first drive-through. This would not be considered a serious advertising budget for any business, but TDP believes that the exposure will come from publicity and promotion, so we will spend most of the funds on a good publicist who will get the word out about the charitable contribution program and how it works in conjunction with the Web site. The Daily Perc also believes that word-of-mouth advertising and free beverage coupons will be better ways to drive people to the first and second locations.

In the second year, TDP will increase the budget because it will need to promote several locations, with particular emphasis on announcing these openings and all the other locations. The Daily Perc will continue to use publicity as a key component of the marketing program because TDP could be contributing more than \$70,000 to local schools and charities.

In the third year, TDP will double its advertising and promotion budget, with the majority of the advertising budget being spent on drive-time radio to reach our commuting target audience. As in the previous years, TDP will get substantial publicity from the donation of nearly \$200,000 to local schools and charities.

5.4.4 PRICING STRATEGY The national average price for a cup of brewed coffee is \$1.38, and the average price of an espresso-based drink is \$2.45. The Daily Perc's pricing will be slightly below those of the national chain coffeehouses but very similar to those of local cafés to reflect the value-added feature of immediate, drive-through service and convenience. Costs to make a 6-ounce cup of coffee are as follows:

Coffee	\$0.25
Cup, lid, and sleeve	0.22
Milk	0.21
Total	\$0.68

Additional ingredients add anywhere from \$0.02 (sugar) to \$1.08 (mocha syrup) to the cost of a single 6-ounce cup of coffee for a total cost that ranges from \$0.70 for a basic cup of premium coffee to \$1.76 for a café mocha.

5.5 Sales Strategy

We will rely on several in-store sales strategies, including posting specials on high-profit items at the drive-up window. The Daily Perc also will use a customer loyalty program that awards a free cup of coffee to customers who have accumulated the required number of points by purchasing 12 cups of coffee. Customers also can earn points by telling others about their purchases at TDP on Facebook, Twitter, and other social media sites. The Daily Perc will also develop window cross-selling techniques, such as the Baristas asking whether customers would like a fresh-baked item with their coffee.

5.5.1 SALES FORECAST In the first year, TDP anticipates having two drive-through locations in operation. The first location will open on July 15. The second drive-through will open six months later. The Daily Perc is building in a few weeks of "ramp-up" time for each facility while commuters become familiar with its presence. The drive-throughs will generate 288,000 checks in the first year of operation.

In the second year, TDP will add two more drive-throughs, and in the third year, TDP will add an additional nine drive-through facilities. The addition of these facilities will increase the revenue from drive-throughs with a total of more than 1,000,000 checks in the second year and 2,675,000 checks in the third.

In addition to the drive-throughs, TDP will deploy one mobile unit in the fourth quarter of the first fiscal year and expects this mobile unit to generate 10,000 checks at an average check of \$2.45 (including baked goods).

In the second quarter of the second fiscal year, TDP will deploy its second and third mobile units and expects all three mobile units to generate a total of 150,000 checks in the second year. In the third fiscal year, with the addition of a fourth mobile unit, TDP expects to generate 264,000 mobile unit checks.

The Daily Perc also will generate revenue from the sale of "The Daily Perc" T-shirts, sweatshirts, insulated coffee mugs, prepackaged coffee beans, and other items. The Daily Perc is not expecting this to be a significant profit center, but it is an integral part of the marketing plan and an important part of developing our brand and building product awareness. The Daily Perc expects revenues from this portion, which will begin in the second fiscal year, to reach as much as \$3,000 per month in the third fiscal year.

We forecast total first year unit sales will reach 298,402 cups. The second year will see unit sales increase to 1,177,400 cups. The third year, with the addition of a significant number of outlets, we will see unit sales increase to 2,992,000 cups.

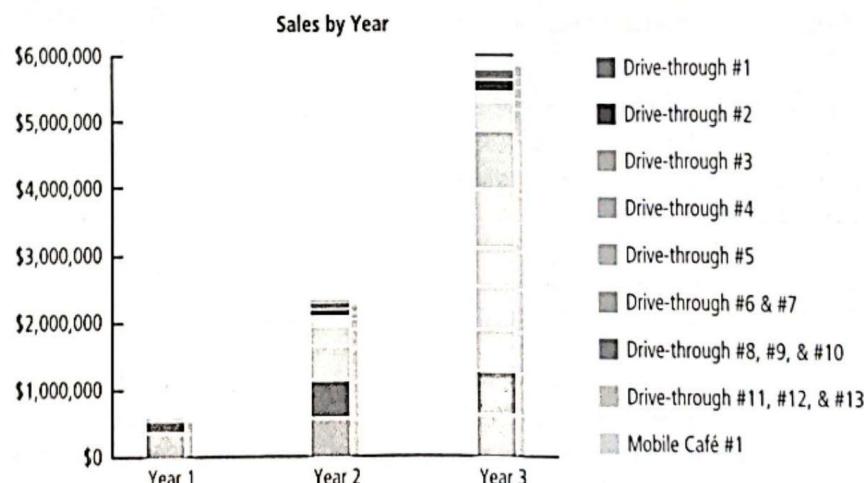


Table: Sales Forecast

Sales Forecast	Year 1	Year 2	Year 3
Unit Sales			
Drive-Through 1	202,913	300,000	325,000
Drive-Through 2	85,489	300,000	325,000
Drive-Through 3	0	275,000	325,000
Drive-Through 4	0	150,000	325,000
Drive-Through 5	0	0	300,000
Drive-Throughs 6 and 7	0	0	450,000
Drive-Throughs 8, 9, and 10	0	0	450,000
Drive-Throughs 11, 12, and 13	0	0	225,000
Mobile Café 1	10,000	60,000	66,000
Mobile Café 2	0	45,000	66,000
Mobile Café 3	0	45,000	66,000
Mobile Café 4	0	0	66,000
Web Site Sales/Premium Items	0	2,400	3,000
Total Unit Sales	298,402	1,177,400	2,992,000
Unit Prices	Year 1	Year 2	Year 3
Drive-Through 1	\$1.85	\$1.90	\$1.95
Drive-Through 2	\$1.85	\$1.90	\$1.95
Drive-Through 3	\$0.00	\$1.90	\$1.95
Drive-Through 4	\$0.00	\$1.90	\$1.95
Drive-Through 5	\$0.00	\$1.90	\$1.95
Drive-Throughs 6 and 7	\$0.00	\$1.90	\$1.95
Drive-Throughs 8, 9, and 10	\$0.00	\$1.90	\$1.95
Drive-Throughs 11, 12, and 13	\$0.00	\$1.90	\$1.95
Mobile Café 1	\$2.45	\$2.50	\$2.55
Mobile Café 2	\$0.00	\$2.50	\$2.55
Mobile Café 3	\$0.00	\$2.50	\$2.55
Mobile Café 4	\$0.00	\$2.50	\$2.55
Web Site Sales/Premium Items	\$0.00	\$11.00	\$12.00
Sales			
Drive-Through 1	\$375,389	\$570,000	\$633,750
Drive-Through 2	\$158,154	\$570,000	\$633,750
Drive-Through 3	\$0	\$522,500	\$633,750
Drive-Through 4	\$0	\$285,000	\$633,750
Drive-Through 5	\$0	\$0	\$585,000
Drive-Throughs 6 and 7	\$0	\$0	\$877,500
Drive-Throughs 8, 9, and 10	\$0	\$0	\$877,500
Drive-Throughs 11, 12, and 13	\$0	\$0	\$438,750
Mobile Café 1	\$24,500	\$150,000	\$168,300
Mobile Café 2	\$0	\$112,500	\$168,300
Mobile Café 3	\$0	\$112,500	\$168,300
Mobile Café 4	\$0	\$0	\$168,300
Web Site Sales/Premium Items	\$0	\$26,400	\$36,000
Total Sales	\$558,043	\$2,348,900	\$6,022,950

(continued)

Table: Sales Forecast (*continued*)

Sales Forecast	Year 1	Year 2	Year 3
	Year 1	Year 2	Year 3
Direct Unit Costs			
Drive-Through 1	\$0.64	\$0.61	\$0.59
Drive-Through 2	\$0.64	\$0.61	\$0.59
Drive-Through 3	\$0.00	\$0.61	\$0.59
Drive-Through 4	\$0.00	\$0.61	\$0.59
Drive-Through 5	\$0.00	\$0.61	\$0.59
Drive-Throughs 6 and 7	\$0.00	\$0.61	\$0.59
Drive-Throughs 8, 9, and 10	\$0.00	\$0.61	\$0.59
Drive-Throughs 11, 12, and 13	\$0.00	\$0.61	\$0.59
Mobile Café 1	\$0.64	\$0.61	\$0.59
Mobile Café 2	\$0.00	\$0.61	\$0.59
Mobile Café 3	\$0.00	\$0.61	\$0.59
Mobile Café 4	\$0.00	\$0.61	\$0.59
Web Site Sales/Premium Items	\$0.00	\$6.50	\$6.50
Direct Cost of Sales			
Drive-Through 1	\$129,864	\$183,000	\$191,750
Drive-Through 2	\$54,713	\$183,000	\$191,750
Drive-Through 3	\$0	\$167,750	\$191,750
Drive-Through 4	\$0	\$91,500	\$191,750
Drive-Through 5	\$0	\$0	\$177,000
Drive-Throughs 6 and 7	\$0	\$0	\$265,500
Drive-Throughs 8, 9, and 10	\$0	\$0	\$265,500
Drive-Throughs 11, 12, and 13	\$0	\$0	\$132,750
Mobile Café #1	\$6,400	\$36,600	\$38,940
Mobile Café #2	\$0	\$27,450	\$38,940
Mobile Café #3	\$0	\$27,450	\$38,940
Mobile Café #4	\$0	\$0	\$38,940
Web Site Sales/Premium Items	\$0	\$15,600	\$19,500
Subtotal Direct Cost of Sales	\$190,977	\$732,350	\$1,783,010

5.5.2 SALES PROGRAMS

Corporate Tasting Events. The Daily Perc plans to host at least one tasting event for customers each quarter. In addition, TDP will adjust its menu to reflect the changing seasons in the flavors it served.

Drink Coupons. At fund-raising events for schools and corporate events, we will give away drink coupons as door prizes or awards. These giveaways are inexpensive and encourage new customers to come in to claim a free beverage and bring a friend or buy a baked item or a package of our premium coffee. The drive-through units will also distribute coupons for special menu items or new product introductions.

Chamber of Commerce and Professional Memberships. Because of the need to promote its drive-through locations and its Mobile Café services, TDP will be an active

member in the regional and local chambers of commerce, food service associations, and two national coffee associations. The exposure and education that these organizations provide is outstanding, but equally important are the contacts and opportunities made available for deploying a Mobile Café—or even two—at a special event.

5.6 Milestones

The Milestone table reflects critical dates for occupying headquarters, launching the first drive-through and subsequent drive-throughs as well as deploying the mobile units. The Daily Perc also defines our break-even month, our Web site launch and subsequent visitor interaction function, and other key markers that will help us measure our success.

Table: Milestones

Milestones	Start Date	End Date	Budget	Manager	Department
Launch Web Site	6/1/2015	8/15/2015	\$5,600	COO	Marketing
Open First Drive-Through	7/15/2015	8/31/2015	\$105,400	COO	Administration
First Break-Even Month	12/1/2015	12/31/2015	\$0	COO	Finance
Open Second Drive-Through	12/15/2015	2/1/2015	\$105,400	COO	Administration
Receive First Mobile Unit	3/1/2016	3/30/2016	\$86,450	COO	Administration
Launch Web Site Voting	5/1/2016	6/1/2016	\$12,500	COO	Marketing
Open Third Drive-Through	4/15/2016	6/1/2016	\$105,400	COO	Administration
Receive Second and Third Mobile Units	7/15/2016	9/1/2016	\$172,900	COO	Administration
Open Fourth Drive-Through	12/15/2016	2/1/2017	\$105,400	COO	Administration
Install Point-of-Sale System	12/1/2016	2/1/2017	\$21,000	CIO	MIS
Occupy Headquarters	4/1/2017	5/15/2017	\$45,000	COO	Administration
Open Fifth Drive-Through	4/15/2017	6/1/2017	\$105,400	COO	Administration
Receive Fourth Mobile Unit	4/15/2017	6/1/2017	\$86,450	Equipment	Administration
Open Drive-Throughs 6 and 7	7/15/2017	9/15/2017	\$210,800	COO/Director	Management
Open Drive-Throughs 8, 9, and 10	10/15/2017	12/15/2017	\$316,200	COO/Director	Management
Open Drive-Throughs 11, 12, and 13	1/15/2018	3/1/2018	\$316,200	COO	Administration
Expand to Kansas City	1/15/2018	6/1/2018	\$176,943	COO	Management
Open First Franchise	10/31/2017	9/1/2018	\$45,000	CFO	Finance
Initiate Exit Strategy	10/1/2018	1/1/2019	\$100,000	CFO	Management
Totals			\$2,122,043		

6.0 Management Summary

The Daily Perc will maintain a relatively flat organization. Overhead for management will be kept to a minimum, and all senior managers will be "hands-on" workers. We have no intention of creating a top-heavy organization that drains profits and complicates decision making.

At the end of year 3, TDP will have four executive positions: chief operating officer, chief financial officer, chief information officer, and director of marketing. There will be other midmanagement positions, such as district managers for every four drive-throughs and a facilities manager to oversee the maintenance and stocking of the Mobile Cafés and the equipment in the drive-through facilities.

6.1 Management Team

The Daily Perc has selected Mr. Barton Fisher to perform the duties of chief operating officer. Bart has an entrepreneurial spirit and has already started a company (NetCom Services, Inc.) that was profitable within three months of start-up and paid off all of its initial debt within six months. Bart's experience, leadership, and focus and three years of research in specialty drinks and drive-through service make him the ideal chief operating officer for TDP.

Ms. Mary Jamison will fill the position of bookkeeper and office manager. Mary has been the business administrator

of Jones International, Inc., for the last four years. Jones is a \$4 million company that retails vitamins and other nutritional products. During her four years with Jones International, Mary has written numerous corporate policies and directed the financial reporting.

Mr. Tony Guy will perform the duties of corporate events coordinator on a part-time basis. Tony has more than five years of experience in business-to-business sales. Last year he sold more than \$250,000 in sales of promotional material to corporate and educational clients.

Mr. Chuck McNulty will fill the position of warehouse/trailer manager. Chuck has been working for Nabisco, Inc., as a service representative for more than 10 years; before that, he was involved in inventory control for a Nabisco factory. His experience in account services, merchandising, and inventory control is a welcome addition to the TDP team. Chuck will use his knowledge to establish inventory and warehouse policies. The warehouse manager is responsible for the inventory of all products sold by TDP. In addition, knowledge of regulations and health requirements are important. Chuck will be responsible for ensuring that TDP maintains proper levels of inventory. He will work closely with the mobile and drive-through Baristas to make sure that all of the products they sell are fresh, appetizing, and available in the appropriate quantities at the right time.

6.2 Management Team Gaps

The Daily Perc will require several additional management team members over the next three years. We will hire one district manager for every four drive-throughs. These district managers will oversee the quality of the products sold, the training of the Baristas, inventory management, and customer satisfaction. Eventually, the goal is to promote from within, particularly from our Mobile Café and drive-through teams, for these positions.

By the beginning of the third year, TDP will have hired three key senior managers: a chief financial officer, a chief information officer, and a director of marketing. We will discuss the roles of each of these managers in subsequent sections of this plan.

6.3 Organizational Structure

The organization will be relatively flat; most of TDP's employees are involved in production, and our goal is to maintain a small core of qualified managers who empower employees to make decisions that are in our customers' best interest.

There are three functioning groups within the company: production, sales and marketing, and general and administrative. For purposes of this plan—and to show the details of adding senior-level management—TDP has broken management down as a separate segment, but it is an integral part of the general and administrative function.

Production involves the Baristas, or customer service specialists, who will be staffing the drive-throughs and Mobile Cafés and blending the beverages for the customers. The sales and marketing staff will coordinate the promotion and scheduling of the Mobile Cafés as well as the promotion of the drive-throughs and the Community Contribution program. General and administrative personnel will manage the facilities, equipment, inventory, payroll, and other basic, operational processes for the company.

6.4 Personnel Plan

The Daily Perc forecasts its first year to be rather lean because we will have only two locations and one mobile unit,

none of which will be in operation for the entire year. The total head count for the first year, including management, administrative support, and customer service (production) employees, is 15. The payroll expenditures are shown in the following table.

In the second year, with the addition of two drive-throughs and two mobile units, TDP will add customer service personnel, its first district manager, and some additional support staff at headquarters, including an inventory clerk, equipment technician, and administrative support staff. The head count will increase by nearly 100 percent in the second year to 29, causing a significant increase in payroll expense.

In the third year, we will see the most dramatic growth in head count—180 percent over year 2—because of the addition of nine drive-throughs and another mobile unit. Total payroll for the third year will reflect this increase as well as the significant increase in the senior management team with the addition of a chief financial officer, a chief information officer, and a director of marketing. The Daily Perc also will add two more district managers and a corporate events sales executive. Total personnel will reach 81.

The chief financial officer will be brought in to manage the growing company's finances. The chief information officer will be responsible for the expansion of our existing point-of-sale computerized cash register system that will make tracking and managing receipts, inventory control, and charitable contributions more robust. Ideally, this person will have both point-of-sale and inventory control experience that will allow him or her to provide real-time sales and inventory control information for accurate decision making at every level in the company. In addition, the chief information officer should begin building the foundation for an Internet-based information system that will support franchisees in the future.

The director of marketing will be charged with managing the relationships with advertising agencies, public relations firms, the media; keeping the TDP Web site current; and coordinating the company's social media marketing efforts.

Personnel Plan			
	Year 1	Year 2	Year 3
Production Personnel			
Drive-Through Team	\$135,474	\$439,250	\$1,098,650
Mobile Café Team	\$9,400	\$172,800	\$225,600
Equipment Care Specialist (Headquarters)	\$0	\$22,000	\$77,000
Other	\$0	\$12,000	\$24,000
Subtotal	\$144,874	\$646,050	\$1,425,250
Sales and Marketing Personnel			
District Manager (Four Drive-Throughs)	\$0	\$22,000	\$77,000
Corporate Events Sales Executive	\$0	\$0	\$36,000
Director of Marketing	\$0	\$0	\$72,000
Other	\$0	\$0	\$0
Subtotal	\$0	\$22,000	\$185,000

Personnel Plan	Year 1	Year 2	Year 3
General and Administrative Personnel			
Bookkeeper/Office Administrator	\$24,500	\$46,000	\$54,000
Warehouse/Site Manager	\$7,000	\$42,000	\$48,000
Inventory Clerk	\$0	\$12,000	\$42,000
Other	\$0	\$6,000	\$12,000
Subtotal	\$31,500	\$106,000	\$156,000
Other Personnel			
Chief Operating Officer	\$66,000	\$72,000	\$78,000
Chief Financial Officer	\$0	\$0	\$96,000
Chief Information Officer	\$0	\$0	\$84,000
Other	\$0	\$0	\$0
Subtotal	\$66,000	\$72,000	\$258,000
Total People	15	29	81
Total Payroll	\$242,374	\$846,050	\$2,024,250

7.0 Financial Plan

Although we forecast a loss of about \$29,000 for TDP in its first year of operation, the company's long-term financial picture is quite promising. Because TDP is a cash business, its cash requirements are significantly less than other companies that must carry extensive amounts of accounts receivable. However, because our process is labor intensive, TDP recognizes that we must hire employees with more talent. The financial investment in our employees will be one of the greatest differentiators between TDP and its competitors. In this plan, we assume that we are financing the cost of our facilities and equipment. These items are capital expenditures and will be available for financing. We will maintain a minimum of inventory to ensure the freshness of our coffee products and baked goods and to take advantage of price decreases when and if they occur.

The Daily Perc forecasts that the initial combination of investments and long-term financing will be sufficient without the need for any additional equity or debt investment other than the purchase of additional equipment and facilities as it grows. This strategy will require TDP to grow more slowly than might be otherwise possible, but the company's expansion will be solid, financially sound growth based on its success in meeting customers' needs.

7.1 Important Assumptions

The following table shows the underlying assumptions used to build the financial forecasts for TDP:

- A slow-growth economy but no major recession.

- No unforeseen changes in public health perceptions of its products.
- Access to equity capital and financing sufficient to maintain its financial plan as shown in the tables.

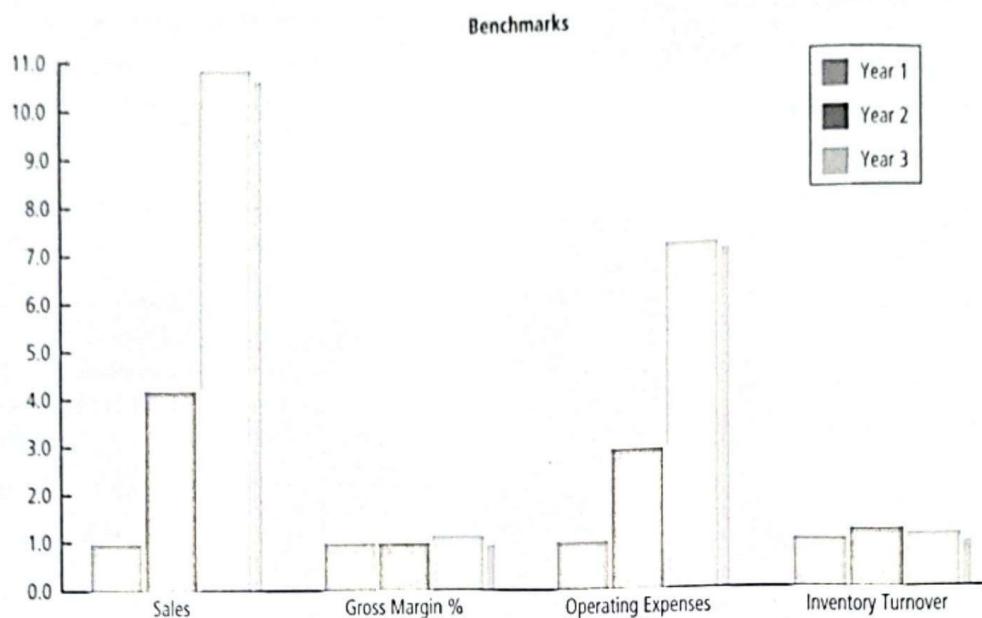
Table: General Assumptions

General Assumptions	Year 1	Year 2	Year 3
Short-Term Interest Rate	8.00%	8.00%	8.00%
Long-Term Interest Rate	9.00%	9.00%	9.00%
Tax Rate (LLC)	0.00%	0.00%	0.00%

7.2 Key Financial Indicators

The following chart shows changes in key financial indicators: sales, gross margin, operating expenses, and inventory turnover. The expected growth in sales exceeds 250 percent each year. The Daily Perc forecasts its gross profit margin in year 1 to be 40 percent; by year 3, we expect it to reach 45 percent.

Projections for inventory turnover show that TDP will maintain a relatively stable amount of inventory in its warehouse so that it has no less than one week of inventory on hand but no more than two weeks of inventory so that products stay fresh. The only time we will consider holding larger stores of inventory is if there is some catastrophic event that would cause shortages in the supplies of its coffees or teas.



7.3 Break-Even Analysis

Assuming average revenue per unit of \$1.87 and fixed operating costs of \$19,457 per month, TDP estimates its break-even point to be \$29,580 per month. This is the equivalent of selling 15,817 cups of coffee per month, or 527 cups per day.

Break-Even Analysis

Monthly Units Break-Even	15,817
Monthly Revenue Break-Even	\$29,580
Assumptions:	
Average Per-Unit Revenue	\$1.87
Average Per-Unit Variable Cost	\$0.64
Estimated Monthly Fixed Cost	\$19,457

7.4 Projected Profit and Loss

The Daily Perc is expecting dramatic growth in the next three years, reaching strong sales and a healthy gross profit margin by the end of its first year of operation. Expenses during the first year will, however, produce a net loss of about \$29,000.

Aside from production costs of 60 percent, which include actual purchases of products and commissions for sales efforts, the single largest expenditures in the first year

are in the general and administrative (G&A) area, which total 23 percent of sales. G&A includes expenses for rents, equipment leases, utilities, and payroll for all employees.

Sales increase by nearly 400 percent in the second year because of the addition of two more drive-throughs and two more Mobile Cafés. Although operating expenses double in the second year, TDP forecasts a net profit of \$217,000, which represents a net profit margin (net income ÷ sales) of 9.24 percent. In that same year, TDP will make substantial charitable contributions in the communities in which it operates.

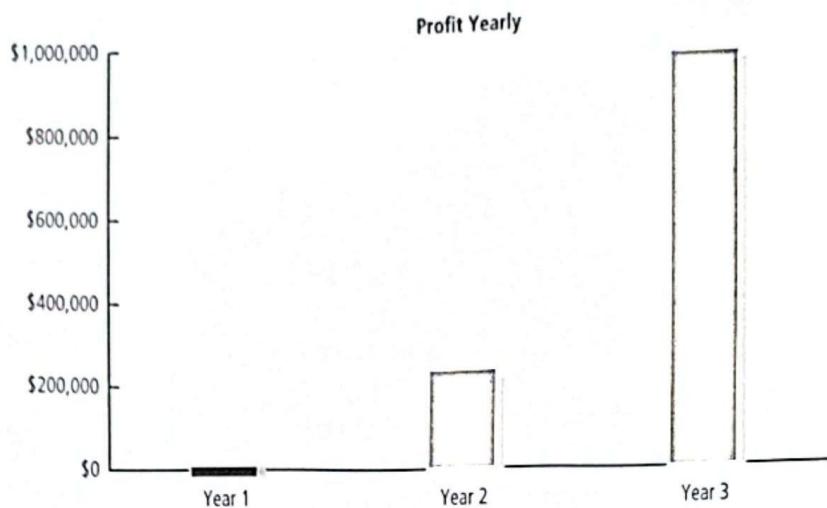
The third year is when TDP has the opportunity to break into markets outside the metropolitan area. The Daily Perc will open nine additional drive-through facilities in the third year, which will increase sales faster than production costs, which improve the company's gross profit margin. Several expenses increase substantially in year 3, including advertising, charitable donations, and payroll (because TDP will add several key management team members). Once again, the company's two largest expenses are production costs and G&A expenses. However, the G&A expenses decrease from 23 percent of sales in year 1 to 18.5 percent of sales in year 2 and 15.0 percent of sales in year 3. By year 3, operating efficiencies push the company's net profit margin to 16 percent.

Pro Forma Profit and Loss

	Year 1	Year 2	Year 3
Sales	\$558,043	\$2,348,900	\$6,022,950
Direct Cost of Sales	\$190,977	\$732,350	\$1,783,010
Production Payroll	\$144,874	\$646,050	\$1,425,250
Sales Commissions	\$1,416	\$35,234	\$90,344
Total Cost of Sales	\$337,267	\$1,413,634	\$3,298,604

Pro Forma Profit and Loss

	Year 1	Year 2	Year 3
Gross Margin	\$220,776	\$935,267	\$2,724,346
Gross Margin %	39.56%	39.82%	45.23%
Operating Expenses			
Sales and Marketing Expenses			
Sales and Marketing Payroll	\$0	\$22,000	\$185,000
Advertising/Promotion	\$18,000	\$36,000	\$72,000
Web site	\$1,000	\$15,000	\$22,000
Travel	\$4,000	\$7,500	\$15,000
Donations	\$3,332	\$70,467	\$180,689
Total Sales and Marketing Expenses	\$26,332	\$150,967	\$474,689
Sales and Marketing %	4.72%	6.43%	7.88%
General and Administrative Expenses			
General and Administrative Payroll	\$31,500	\$106,000	\$156,000
Sales and Marketing and Other Expenses	\$0	\$0	\$0
Depreciation	\$21,785	\$92,910	\$196,095
Leased Offices and Equipment	\$0	\$6,000	\$18,000
Utilities	\$9,640	\$19,800	\$41,100
Insurance	\$12,570	\$32,620	\$63,910
Rent	\$16,800	\$50,400	\$126,000
Payroll Taxes	\$36,356	\$126,908	\$303,638
Other General and Administrative Expenses	\$0	\$0	\$0
Total General and Administrative Expenses	\$128,651	\$434,638	\$904,743
General and Administrative %	23.05%	18.50%	15.02%
Other Expenses:			
Other Payroll	\$66,000	\$72,000	\$258,000
Consultants	\$0	\$0	\$0
Legal/Accounting/Consultants	\$12,500	\$24,000	\$36,000
Total Other Expenses	\$78,500	\$96,000	\$294,000
Other %	14.07%	4.09%	4.88%
Total Operating Expenses	\$233,483	\$681,605	\$1,673,431
Profit before Interest and Taxes	(\$12,707)	\$253,662	\$1,050,915
EBITDA	\$9,078	\$346,572	\$1,247,010
Interest Expense	\$16,165	\$36,639	\$77,102
Taxes Incurred	\$0	\$0	\$0
Net Income	(\$28,872)	\$217,023	\$973,812
Net Income/Sales	-5.17%	9.24%	16.17%



7.5 Projected Cash Flow

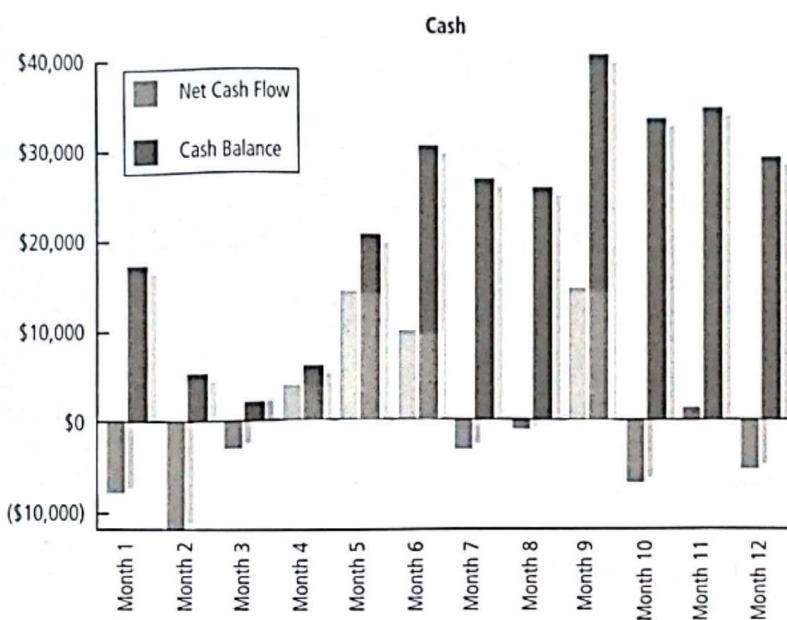
As in any business, managers must manage cash extremely carefully; however, TDP has the benefit of operating a cash business. Forecasts show that the business generates positive cash flow, even in year 1. The greatest challenge that TDP faces in managing cash flow results from the seasonal dips in coffee sales during warm weather, but TDP will attempt to offset those declines by adding seasonal menu items, such as iced cappuccinos, iced mochas, and others.

With sufficient initial financing, TDP anticipates no cash flow shortfalls for the first year or beyond. In year 1, the months of March and May produce the greatest cash drains because TDP will incur the cost of adding second drive-through and a second mobile unit. In addition, TDP experiences heavier-than-normal cash disbursements in December and January because accounts payable come due then.

Pro Forma Cash Flow			
	Year 1	Year 2	Year 3
Cash Received			
Cash from Operations			
Cash Sales	\$558,043	\$2,348,900	\$6,022,950
Subtotal Cash from Operations	\$558,043	\$2,348,900	\$6,022,950
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest Free)	\$0	\$0	\$0
New Long-Term Liabilities	\$181,463	\$253,970	\$729,992
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-Term Assets	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0
Subtotal Cash Received	\$739,506	\$2,602,870	\$6,752,942
Expenditures			
Expenditures from Operations			
Cash Spending	\$242,374	\$846,050	\$2,024,250
Bill Payments	\$273,191	\$1,236,069	\$2,880,058
Subtotal Spent on Operations	\$515,565	\$2,082,119	\$4,904,308

Pro Forma Cash Flow

	Year 1	Year 2	Year 3
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$1,500	\$2,000	\$5,000
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-Term Liabilities Principal Repayment	\$26,469	\$27,000	\$50,000
Purchase Other Current Assets	\$0	\$0	\$0
Purchase Long-Term Assets	\$191,850	\$429,700	\$1,356,993
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$735,384	\$2,540,819	\$6,316,301
Net Cash Flow	\$4,122	\$62,051	\$436,641
Cash Balance	\$29,622	\$91,673	\$528,315

**7.6 Projected Balance Sheet**

The Daily Perc's projected balance sheet shows a significant increase in net worth in year 2, at which point the company will generate an impressive 90.5 percent return on investment (ROI). As the financial projections indicate, TDP

expects to build a company with strong profit potential and a solid balance sheet that will be asset heavy and flush with cash at the end of the third year. The Daily Perc has no plan to pay dividends before the end of the third year; instead, the company will use the cash it generates to fuel its growth.

Pro Forma Balance Sheet

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$29,622	\$91,673	\$528,315
Inventory	\$35,159	\$134,826	\$328,253
Other Current Assets	\$0	\$0	\$0
Total Current Assets	\$64,781	\$226,499	\$856,568

(continued)

Pro Forma Balance Sheet		Year 1	Year 2	Year 3
Long-Term Assets		\$323,250	\$752,950	\$2,109,943
Accumulated Depreciation		\$21,785	\$114,695	\$310,790
Total Long-Term Assets		\$301,465	\$638,255	\$1,799,153
Total Assets		\$366,246	\$864,754	\$2,655,721
Liabilities and Capital				
Current Liabilities				
Accounts Payable		\$49,724	\$106,240	\$248,402
Current Borrowing		\$7,500	\$5,500	\$500
Other Current Liabilities		\$0	\$0	\$0
Subtotal Current Liabilities		\$57,224	\$111,740	\$248,902
Long-Term Liabilities		\$286,394	\$513,364	\$1,193,356
Total Liabilities		\$343,618	\$625,104	\$1,442,258
Paid-In Capital		\$225,270	\$225,270	\$225,270
Retained Earnings		(\$173,770)	(\$202,642)	\$14,381
Earnings		(\$28,872)	\$217,023	\$973,812
Total Capital		\$22,628	\$239,651	\$1,213,463
Total Liabilities and Capital		\$366,246	\$864,754	\$2,655,721
Net Worth		\$22,628	\$239,651	\$1,213,463

7.7 Exit Strategy

There are three scenarios for the investors and managers to recover their investment, two of which produce significant returns on each dollar invested.

Scenario 1: The Daily Perc becomes extremely successful and begins selling franchises. When one considers the wealth that successful franchisers such as McDonald's, Wendy's, Five Guys Burgers and Fries, and others have created, the potential to franchise a well-run system is considerable. However, developing a franchise can be extremely costly, takes years to build, and can be diminished by a few franchisees who fail to deliver the consistency or value on which the founding company has built its reputation.

Scenario 2: The Daily Perc becomes the drive-through version of Starbucks, obtaining several million dollars through a private offering that allows the company to open 20 to 30 outlets per year in the region of the country between the mountain ranges in both metropolitan and micropolitan communities. This is the preferred exit strategy of the management team. The danger with this exit strategy is that once TDP becomes successful, competitors will attempt to

enter high-potential markets with copycat concepts before TDP can expand into those markets, resulting in lower revenues and a dramatic increase in advertising expenditures to maintain market share. Understanding these risks—and planning for them—gives TDP the edge required to make this scenario work.

Scenario 3: By the third year, the growth and community support for TDP is creating a buzz in cities beyond the metropolitan area. Competitors such as Starbucks or Quikava will realize the value proposition that TDP offers its customers and identify the company an attractive target for buyout.

Taking a conservative approach to valuation, we estimate that TDP would be valued at \$7.5 million. Assuming that all 250 units of ownership in TDP are distributed to investors, a cash purchase of TDP would net each unit \$30,000. With each unit selling at \$4,250, that price constitutes an ROI of 705 percent over the three years. However, any buyout will most likely involve a cash/stock combination, which is preferable because tax consequences of the transaction for the sellers would be more favorable than in an all-cash deal.

Pro Forma Cash Flow	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Cash Received												
Cash from Operations	\$0	\$0	\$0	\$32,375	\$42,637	\$44,769	\$42,530	\$42,637	\$77,144	\$85,167	\$95,392	\$95,392
Cash Sales	\$0	\$0	\$0	\$32,375	\$42,637	\$44,769	\$42,530	\$42,637	\$77,144	\$85,167	\$95,392	\$95,392
Subtotal Cash from Operations	\$0	\$0	\$0	\$32,375	\$42,637	\$44,769	\$42,530	\$42,637	\$77,144	\$85,167	\$95,392	\$95,392
Additional Cash Received												
Sales Tax, VAT, HST/GST Received	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Current Borrowing		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Other Liabilities (Interest Free)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Long-Term Liabilities		\$0	\$0	\$5,300	\$0	\$0	\$0	\$0	\$0	\$98,184	\$0	\$77,979
Sales of Other Current Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales of Long-Term Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Investment Received		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Received	\$0	\$0	\$5,300	\$32,375	\$42,637	\$44,769	\$42,530	\$42,637	\$175,328	\$85,167	\$173,371	\$95,392
Expenditures												
Expenditures from Operations												
Cash Spending	\$5,500	\$5,500	\$5,500	\$16,000	\$18,100	\$17,050	\$18,800	\$19,500	\$28,624	\$30,700	\$38,200	\$38,900
Bill Payments	\$112	\$3,349	\$2,987	\$7,228	\$10,030	\$17,719	\$27,251	\$24,342	\$26,320	\$54,407	\$46,831	\$52,615
Subtotal Spent on Operations	\$5,612	\$8,849	\$8,487	\$23,228	\$28,130	\$34,769	\$46,051	\$43,842	\$54,944	\$85,107	\$85,031	\$91,515
Additional Cash Spent												
Sales Tax, VAT, HST/GST Paid Out		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Principal Repayment of Current Borrowing		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$500	\$1,000
Other Liabilities Principal Repayment		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Liabilities Principal Repayment		\$2,500	\$3,116	\$0	\$5,166	\$0	\$0	\$0	\$0	\$7,216	\$0	\$8,471
Purchase Other Current Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Purchase Long-Term Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$105,400	\$0	\$86,450	\$0
Dividends		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Spent	\$8,112	\$11,965	\$8,487	\$28,394	\$28,130	\$34,769	\$46,051	\$43,842	\$160,344	\$92,323	\$171,981	\$100,986
Net Cash Flow		(\$8,112)	(\$11,965)	(\$3,187)	\$3,981	\$14,507	\$10,000	(\$3,521)	(\$1,205)	\$14,984	(\$7,156)	\$1,390
Cash Balance		\$17,388	\$5,422	\$2,236	\$6,217	\$20,724	\$30,724	\$27,203	\$25,998	\$40,982	\$33,826	\$35,216
												\$29,622