NEW HERITAGE DOLL COMPANY PROJECT FEASIBILITY STUDY

PJM6075: Project Finance

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Executive Summary

The following is a business case analysis and proposal for two future project options for the New Heritage Doll company production division. Option one is a project named Match My Doll Clothing Line Expansion. This project would expand on an existing product line of matching kids and doll clothes to provide year around "All Seasons" options. Option two is a project named Design Your Own doll. This project would create an online website where customers could design a doll with an exact likeness of themselves to enhance the effect of kinship with the doll.

The Match My Doll Clothing Line Expansion project has a lower initial investment and the opportunity for a quick launch since it is an expansion of an existing product line. However, the doll company would rely on external expertise for the quality garments and keeping up with trends will be an ongoing endeavor. The NPV (Negative Predictive Value) for the project is high and the project would net cash positive quickly. The Match My Doll Clothing project is the preferred project in this analysis.

The Design Your Own Doll project has a high investment but could be more attractive to the current customer base. The actual manufacture of the dolls is familiar to the company but there are risks in the development of the technology required for the product. The high initial investment and late return of net cash positive makes it the least attractive project in this analysis.

Background

Emily Harris, vice president of New Heritage Doll Company's manufacturing department, was reviewing proposal in mid-September 2010 for the company's impending capital planning meetings in October. Two concepts distinguished out for their possibility of extending the division's creative product offerings and generating future development. Nevertheless, Harris was aware that due to financial and administrative resource limits, the firm's corporate finance board may refuse to accept both initiatives. She also recognized that New Heritage's licensing and retail departments would push their own appealing initiatives. As a result, Harris had to be ready to promote one of her initiatives over another.

Doll retail sales in the United States were $3.1 billion in 2008 and were expected to increase by 3% per year to $3.6 billion by 2013. Dolls were divided into three categories: giant, soft, and tiny, as well as doll clothes and other accessories. The phenomena of "age compression," or younger children acquiring dolls normally designated for older girls, slowed development in the "baby-doll" sub-segment. Doll makers competed fiercely, since a limited number of significant companies targeted comparable audiences and sold the dolls through the same media.

Benefits

- This company's doll makers and brands provide consumers with a wide range of options.
- Brick-and-mortar establishments as well as internet merchants are examples of diverse points of sale.
- Engineering and design businesses, prototyping operations, and full-scale production facilities all have considerable potential for the creation of new goods and improvements.

- On a local, regional, and worldwide scale, doll makers and retailers have access to powerful and cost-effective marketing platforms. Children's entertainment provides a wealth of marketing potential.

Financial Analysis

Match My Doll Clothing Line (MMDC):

The projected revenue growth over the years is 8%. Net Profit is projected to grow by 15% to 1324.2 by the year 2020. FCF is projected to grow 857.54 till 2020 and cumulative FCF be 15777.22. The cash in hand is maintained 3% of the revenue. Corporate tax is assumed 40%. The financial analysis showed that Payback Period is 7.37 years. Net Present Value is $ 5,470.84. IRR is 22%. ROI is 155.32 %.

Design Your Own Doll Line (DYOD):

The projected revenue growth over the years is 6%. Net Profit is projected to grow by 13% to 2231.4 by the year 2020. FCF is projected to grow 1443.8 till 2020 and cumulative FCF be 19366.15. The cash in hand is maintained 3% of the revenue. Corporate tax is assumed 40%. The financial analysis showed that Payback Period is 10.5 years. Net Present Value is $ 4463.63. IRR is 16%. ROI is 76.81%.

The Financial Analysis has displayed that MMDC will attract the sponsor because the payback period is low. The value generating is high, the rate of return and ROI is also much higher than the DYOD. The initial expenditure is also high and the risk involved is also higher than the MMDC.

Risk Analysis

The market of dolls was projected to increase to $.5 billion from 2008 to 2013. Majority of the market share was governed by dolls rather than video games and launch of two new proposals added: *Match My Doll Clothing Line* & *Design Your Own Doll Line* added to their already growing customer base. Different kinds of doll designs were crafted to cater all aged females. Both of their product lines were captivating and have ample investment available, but identification of risks and their mitigation techniques should be ready to enact.

Increasing Production capacity at their facilities for manufacturing more dolls is the sensible decision the firm should make. For *Match My Doll Clothing Line*, the production team does not possess enough experience in clothing and had to hire a contract manufacturer for doll's fashion apparels. The market research team should collect new fashion data for *Match My Doll Clothing Line.* On the other hand, customizing dolls from the *Design Your Own Doll* has a niche audience and thus have low production. Customization businesses always face variety limitation and thus it can become risky for the company, resulting in higher cost payback time.

Business Analysis

Every brand requires continuous monitoring and change to grow and enhance customer base. Product Development through feature enhancement would the company profitable if they expand the product line. They can target a greater number of buyers comprising of med-high price ranges. New quality materials, new supplier and better production facility can make them grab the audience's sweet liking spot. An initial estimated $3.5 million investment would be consumed in the same. This can greatly improve the business strategies of the New Heritage management practices. People are attracted to their personal choices and products who get to these close specifications are their target. New Heritage Doll Company can leverage the opportunity by giving the customers an opportunity to have a doll according to their liking. Creating such products benefit by having repeat customers. Their websites was one of the buying methods and so can be improved with attractive graphics and user interface.

Competitive Analysis

To measure the competitiveness of both project proposals, before proceeding to the financial analysis and projections, qualitative SWOT (Strength, Weakness, Opportunity, Threat) analysis should be conducted

Strengths:

For New Heritage Doll Company, the company's greatest strength is its ability and resources as a first mover in the industry. Company's ability to focus on project management techniques, risk control, analysis, forecasting and designation of strategies for projects through finance and experience. Managing regulations and their own business model help the company to select projects with strictly moderate risk. Promising investment models and model calculations help companies to invest in diverse projects to improve returns and other metrics. From a resource point of view, the company is still able to recruit good designers or buy rights compared to other companies in the same industry. This is due to the company's high reputation and market position. In terms of products, the company's diversity ensures customer retention and the growth of new customers.

Weaknesses:

The company's weaknesses are internal management, lack of talent, and customer feedback. The internal management is more in the sense that the company's management model is inadequate, resulting in the departments not receiving the right information and even missing opportunities. Inefficient management leads to problems with the company's inventory. The lack of technology-based talent can lead to the company's inability to progress with the times, especially in the environment of big data, and the lack of relevant technology talent can cause other companies in the same industry to overtake. Customer feedback has always been one of the issues for all companies. Therefore, the company needs to focus on improving after-sales service issues for its customers.

Opportunities:

The opportunities for the company lie more with the consumers. The economic growth of the country will lead to an increase in the disposable income of the consumers thus increasing the purchasing power of the consumers. As technology innovates, the functionality of the products will be updated. Novelty products will influence the shopping preferences of consumers through the innovations given by designers. Not only will old customers be retained, but new and younger customers will be attracted. The diversity of product offerings affects the saturation of the market.

Threats:

The threat to the company is more to the consumers as well as the innovation of technology. In the future, as the economy fluctuates, the disposable income of consumers will also affect the company's sales because dolls as a non-essential and consumable item in all industries will not change the basic consumption of consumers. Consumer buying preferences are also based on newer iterations of the product. The lack of creativity in the product leads to visual fatigue of the consumer and finally affects consumer preference. Technology's newer iterations of the same industry also always threaten the company.

Assumptions

- The company has a good project management team, but they lack talent which can cause problems during the design phase of the product in the project lifecycle
- The financing of the project will be a problem because of limitations in finance and administrative resources.
- Not practicing customer feedback can lead to risk of quality being harmed due to which project can be considered unsuccessful.

Constraints

- Internal Management of the company being not so great is leading towards negative behavior within the organization due to which teams are competing rather than working together
- Limited company resources are also one of the major barriers in terms of selecting the initiative
- Internal competition between Harris and the License and Retail Department is leading to negative effects in terms of initiative selection

References:

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