INTRODUCTION

Principal is proposing to start a retail children=s clothing store. The Fort Frances area has limited clothing selection. The current retail outlets do not seem to focus efforts at this consumer group. Parents are very interested ensuring their children maintain the latest styles and fashions. In addition, Principal is going to offer specialty items at various times throughout the year. These specialty items may include christening dresses, confirmation, communion, and graduation outfits. The Fort Frances area does not have a store which targets specifically children=s clothing.

Principal plans to open the retail store at the Mall. The Mall is a business offering commercial space. The route is well travel. The lots has ample parking space. Utilities and services are included in the lease. Very limited leasehold improvements are required and limited to decorating. The purpose of this analysis is to examine whether or not this venture is feasible.

Section A.

MARKET FEASIBILITY

1. TOTAL MARKET POTENTIAL AND MARKET SHARE

Information on the Total Market Potential was determined by the number of private dwellings in the Rainy River District, which according to the ASelected Characteristics for Census Divisions and Census Sub Divisions, 1991 Census, was 8,325. The number of households was multiplied by the Clothing category in the Family Expenditure in Canada, within the average household income for the Rainy River District, which was as follows:

- Girls Wear (4-13 years) 107
- Boys Wear (4-13 years) 129
- Infants Wear (under 4 years) 61

We further estimated that the number of households within the Koochiching County in Northern Minnesota is 4,307. We also estimated the average expenditure within each category to be similar to Canadian residents of the area.

Total Estimated Rainy River District Market Potential	$2,472,525
Total Estimated Koochiching County U. S. Market Potential	$1,279,179
Total Estimated Market Potential	$3,751,704

2. MARKET SHARE

We studied the business in the area and found that competitors and the retail space, that are selling similar merchandise are as follows:

	Competitor 1	2,700
	Competitor 2	4,120
	Competitor 3	7,000
	Competitor 4	120

A)	Competitive Floor Space	13,940
B)	Proposed Floor Space	1,350
C)	Market Share Percentage	10 (Rounded from 9.7)
D)	Sales	375,170

Competitive floor space only takes into consideration usage associated with the target products.

3. VALUE OF SALES

Based on the Total Market Potential and the Estimated Market Share, the value of sales is estimated to be $375,170. A five per cent growth is be targeted.

	1997	*1998*	*1999*	*2000*	*2001*
Sales	375,170	393,929	413,625	434,306	456,021

Section B.

OPERATING FEASIBILITY

1. FACILITY AND EQUIPMENT REQUIREMENTS

The facility and equipment has the capacity of operating approximately 300 days per year. The business will operate on a 9 hour basis.

EQUIPMENT REQUIREMENTS

Point of Sale Terminal	*5,000*
Counter	*500*
Desk and Chair	*400*
Sign	*1,500*
Decorating	*500*
Hooks/racks, shelving	*3,000*
Computer/fax	*2,500*
Total	*13,400*

The owner is contributing antique wardrobe and dresser.

The owner is proposing to lease a space in the Mall. The space does not require leasehold improvements. Leasing fee includes property taxes, hydro, water, sewer, garbage, and snow removal.

2. DIRECT COSTS

	1997	*1998*	*1999*	*2000*	*2001*
Sales	*375,170*	*393,929*	*413,625*	*434,306*	*456,021*
Cost of Goods Sold	*202,592*	*212,722*	*223,358*	*234,525*	*246,251*
Gross Profit	*172,578*	*181,207*	*190,267*	*199,781*	*209,770*

Within the clothing industry, the cost of goods sold estimate using the Standard Industrial Codes is 54%.

3. LABOUR COSTS

With an average wage rate of $6.85 per hour and a 24 hour work week and utilizing a 11% benefit rate, the labour costs per person is as follows:

Employees	*Annual Wage*	*Benefits*	*Total Labour Costs*
1	*$10,400*	*$1,144*	*$11,544*

Section C

FINANCIAL FEASIBILITY

Set out below are the following schedules:

- *a) Cash Operating Expense Schedule*
- *b) Capital Costs of Fixed Assets Schedule*
- *c) Initial Working Capital Requirements Schedule*
- *d) Principal and Interest Schedule*
- *e) Depreciation Schedule*

(a) CASH OPERATING EXPENSES SCHEDULE:

EXPENSE	AMOUNT
Manager	*33,200*
Benefits	*3,652*
Sales Clerk P/T	*11,544*
Insurance	*2,000*
Office Supplies	*300*
Repairs and maintenance	*300*
Telephone	*500*
Advertising	*1,000*
Licenses	*130*
Business Taxes	*1,500*
Bank Charges	*300*
Lease	*19,200*
Bookkeeping	*4,800*
Visa/Interac	*700*
Business Support	*4,000*
Total	*83,099*

Transient Business license is $500.00. A resident business license is $30.00. Operating expenses are estimated to increase by 2% per year.

(b) CAPITAL COSTS OF FIXED ASSETS SCHEDULE:

FIXED ASSET		AMOUNT
Point of Sale Terminal		*5,000*
Counter		*500*
Desk and Chair		*400*
Sign		*1,500*
Decorating		*500*
Hooks/racks, shelving		*3,000*
Computer/fax		*2,500*
Pricing Gun		*50*
	Total Capital Costs	*13,400*
Contributed Assets		
Antique Wardrobe and Dresser		*1,000*

c) INITIAL WORKING CAPITAL REQUIREMENTS SCHEDULE:

CATEGORY	AMOUNT
Inventory	*40,000*
Accounts Receivable	*3,100*
Startup Costs	*5,000*
Working capital requirement	*48,100*

d) PRINCIPAL AND INTEREST SCHEDULE:

YEAR	PAYMENT	INTEREST PORTION	PRINCIPAL REPAYMENT	BALANCE OF PRINCIPAL
				21,500
1	*5,384*	*1,720*	*3,664*	*17,836*
2	*5,384*	*1,427*	*3,957*	*13,879*
3	*5,384*	*1,110*	*4,274*	*9,605*
4	*5,384*	*768*	*4,616*	*4,989*
5	*5,388*	*399*	*4989*	*0*

5 year loan at 8% assumed.

e) DEPRECIATION SCHEDULE

YEAR	DEPRECIATION EXPENSE	BALANCE TO BE DEPRECIATED
		13,400
1	*2,010*	*11,390*
2	*3,417*	*7,973*
3	*2,392*	*5,581*
4	*1,674*	*3,907*
5	*1,172*	*2,735*

*30% *depreciation rate assumed. In year of aquisition, 50 % of the rate is assumed.*

Based on the previous schedules, we have prepared a pro forma profit and loss together with a cash flow schedule for the years 1997 to 2001 inclusive.

PRO FORMA PROFIT AND LOSS, AND CASH FLOW SCHEDULE 1997 TO 2001

Year	*1997*	*1998*	*1999*	*2000*	*2001*
1. Sales	*375,170*	*393,929*	*413,625*	*434,306*	*456,021*
2. Cost of Sales	*202,592*	*212,722*	*223,358*	*234,525*	*246,251*
3. Gross Profit	*172,578*	*181,207*	*190,267*	*199,781*	*209,770*
4. Cash Operating Expenses	*83,009*	*84,670*	*86,363*	*88,090*	*89.852*
5. Interest -- Term Loan	*1,720*	*1,427*	*1,110*	*768*	*399*
6. Interest -- Demand Loan					
7. Depreciation	*2,010*	*3,417*	*2,392*	*1,674*	*1,172*
8. Total Expenses	*86,739*	*89,514*	*89,865*	*90,532*	*91,423*
9. Net Profit before Taxes	*85,839*	*91,693*	*100,402*	*109,249*	*118,347*
10. Income Tax (@25%)	*21,460*	*22,923*	*25,100*	*27,312*	*29,587*
11. Net Profit after Taxes	*64,379*	*68,770*	*75,302*	*81,937*	*88,760*

12. Depreciation	*2,010*	*3,417*	*2,392*	*1,674*	*1,172*
13. Cash Flow from Operations	*66,389*	*72,187*	*77,694*	*83,611*	*89,932*
14. Repayment of Principal	*3,664*	*3,957*	*4,274*	*4,616*	*4,989*
15. (Demand Loan)/Bank Balance					
16. Actual Cash Flow	*62,725*	*68,230*	*73,420*	*78,995*	*84,943*

Note: The above calculations do not include owner=s drawings.

Section D.

VENTURE FEASIBILITY

The gross profit margin is 46%. The break even sales are estimated at $188,563. The safety margin is 50%.

The average rate of Return on Owner=s $20,000 equity investment, over a five year period, that can be realized from the venture is 103%. When this is compared to a rate on a fixed deposit; it is apparent that the venture is feasible.