



Tobacco/Magazines

BUSINESS PLAN

STANDARD TOBACCO & NEWS

1170 Promenade Ave.
Traverse City, WA 43856

December 20, 1991

Standard Tobacco & News provides magazines, newspapers, tobacco products, and candy to upscale shoppers. Its proprietors intend to follow the successful formula, with amendments, created by their chief competitor. They outline the steps in the following plan, giving detailed consideration to each aspect of their business .

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EXECUTIVE SUMMARY

The Complete Source for Periodicals and Smoking Products

Our Business

Standard Tobacco & News is a new retail store offering magazines, newspapers, tobacco products and a limited selection of candy. It is registered with the State of Washington Department of Commerce. This business is a partnership owned by Dwayne and Samantha Peters.

We will specialize in magazines and tobacco products so as to appeal to both female and male customers. We are targeting the upscale shopper who is looking for value in the products that they buy. We will serve these customers by offering a broad selection of products at competitive prices while providing friendly service and attention to their special needs. In the longer term, we will seek to earn a premium for our higher level of service. It is our goal to become recognized as the premier news and tobacco store in the Traverse City Metro area.

To achieve this goal we have chosen to model ourselves after a large, successful competitor, Jeff's Cigar Store. Jeff's, that sells the same mix of products that we will offer and achieves annual sales in excess of \$1,000,000. The successful track record of Jeff's has provided us with an ongoing validity check on the details of our business plan. However, we do not intend to blindly follow the formula employed by Jeff's. Our business plan details the actions we will take to improve upon this formula.

Our store will be located in the Town Center area, thus allowing us to draw upon the regional customer base

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that shops there. With only one tobacco competitor and no magazine competitors, North County represents an under-served market for a specialty retailer.

Our store will be designed using light colors and an uncluttered, open layout to provide a pleasant shopping environment. We will utilize personal computer technology and an integrated point-of-sale (POS) and accounting software program to provide us with a significant enhancement of our customer service as well as to improve the operational performance of our store. The system will allow us to track sales on a daily basis, thus enabling us to adjust inventory levels in response to demand and improve upon the operational performance of the store. This improved performance will be measured by higher than industry averages for stockturns and improved cashflow. The system will also enhance our ability to track our performance by providing financial reports on demand.

We established a management structure that will meet our needs as we grow. This structure provides for an allocation of responsibilities and authority to the individual manager with appropriate oversight by the General Manager and Partners.

Management Team

Our General Manager will be responsible for managing the day-to-day affairs of the business. Reporting to the GM will be three managers: a Magazine Department Manager, a Tobacco Department Manager and a Systems Manager. The Department Managers will be responsible for the selection, ordering, pricing and sale of products. They will jointly act to hire, train, supervise and dismiss employees. The Systems Manager will be responsible for the selection, setup and maintenance of the support systems.

We will employ an experienced management team at standard. Samantha Peters will be the General Manager and Magazine Department Manager. She has over 19 years of bookkeeping experience, including the last five years at Rich's Cigar Store. Her work experience at Rich's included responsibility for all of the day-to-day bookkeeping, management of a successful mail order business and preparation of written operating procedures. Previous to this, she was a partner in a bookkeeping and tax preparation service. Most recently, she completed the Greenhouse Small Business Development Course offered by our community college.

Dwayne Peters will be our Tobacco Department Manager. He has 14 years of sales experience with over 11 years in tobacco shops. He has worked for his present employer for the past 10 years and has held successively higher levels of responsibility. Dwayne is currently the operations manager for three tobacco shops and is responsible for all aspects of the operation. Dwayne, while continuing in his present position as an application engineer with General Electric, will serve as the Systems Manager. He has worked for GE since 1974 and brings over 14 years of sales, marketing and engineering experience to bear on the issues facing Standard Tobacco & News.

MARKET OPPORTUNITY

The following table summarizes the size of the available market in the metro area for each of the products which we will offer. This represents the market located within 25 minutes driving time of our location.

Product	Retail Market
Tobacco	\$66,530,000
Magazines	\$13,125,000
Candy	\$39,940,000

Product	Estimated Available Retail Market
Tobacco	\$66,530,000
Magazines	\$13,125,000
Candy	\$39,940,000



PROJECTED FINANCIAL SUCCESS AND NEEDS

The primary competitor we are modelling ourselves after is Jeff's Cigar Store. This business has annual sales of over \$1.0 Million with sales split 63.2%/33.8%/2.5%/0.5% between tobacco, magazines, candy and miscellaneous. Based upon the previous calculations of metro market size, Rich's commands shares of 1.0%/2.7%/0.06% respectively.

Based upon our evaluation of the market and the success of Rich's, we are projecting the following sales goals and associated market shares. For our purposes, we are assuming constant 1991 dollars for the comparison.

	Brkvn	Yr.1	Yr.2	Yr.3	Yr.4	Yr.5
Tobacco	0.41	0.51	0.80	0.94	1.01	1.05
Magazines	1.11	1.37	2.14	2.51	2.70	2.82
Candy	0.03	0.03	0.05	0.06	0.06	0.07

Market Share

	Brkvn	Yr.1	Yr.2	Yr.3	Yr.4	Yr.5
Tobacco	0.41	0.51	0.80	0.94	1.01	1.05
Magazines	1.11	1.37	2.14	2.51	2.70	2.82
Candy	0.03	0.03	0.05	0.06	0.06	0.07

We have projected that we will achieve monthly breakeven sales of \$36,000 by the end of our fourth month in operation. Our losses during this period are expected to total \$10,000. Projected first year profits are expected to be \$32,000, excluding owners' draws. Projected profits for the following years are: Year2-\$136,000, Year3-\$174,000, Year4-\$183,000 and Year5-\$190,000. The partners will not take any draws from the business until the monthly income exceeds \$3,400. The monthly draws will then be limited to \$3,400 per month through the end of the first year.

We have established that the following are our financial needs:

Capital/Equipment Needs.....	\$57,165
Leasehold Improvements.....	\$26,250
Start-up Inventory.....	\$61,672
Prepaid Expense & Deposits.....	\$4,489
Loan & Lease Fees.....	\$5,812
Miscellaneous Start-Up Costs.....	\$7,005
Cash Reserve.....	\$42,697

Total.....\$205,100

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Total	\$205,100

These financial needs will be met through a blend of bank loans, equipment leases and personal cash investment. At present, we anticipate that we will meet our capital/equipment needs by leasing \$48,590 of equipment and fixtures. We will seek a startup capital loan in the amount of \$96,500.

The loans and leases will be secured by the value of the capital equipment purchased, the value of the inventory. In addition, Dwayne will continue in his present position at GE thus providing a personal guarantee of payment. The remainder of the funds will come from a personal cash investment of \$60,000.



SUMMARY

We are establishing a retail store that will become the premier tobacco and magazine store in the metro area. Our business plan shows that we have researched our market, have evaluated our competitors and recognize what we will need to do to break into these markets so as to take share away from these competitors. We have put together an experienced management team with the necessary retail, marketing and financial experience. Most importantly, we have the talent and vision necessary to make Standard Tobacco & News a success.

THE COMPANY

Introduction

Standard Tobacco & News will be a new retail store offering magazines, newspapers and tobacco products. Our specialization in magazines and tobacco products is intended to appeal to both female and male customers. We are targeting the upscale shopper who is looking for value in the products that they buy. We will serve these customers by offering a broad selection of products at competitive prices while providing friendly service and attention to their special needs. In the longer term, we will seek to earn a premium for our higher level of service. It is our goal to become recognized as the premier news and tobacco store in the metro area.

Standard will be located in the Promenade shopping mall in North County, the fastest growing area in the state. This area was selected because it is a relatively unserved market for both magazines and tobacco thus providing us with an excellent opportunity. Our strategy for success is to draw upon the existing base of southeast metro consumers by becoming recognized as "The" specialty store for these products. Our location near the Town Center will give us the opportunity to meet the needs of a much larger regional customer base. We can offer these customers a pleasant and attractive alternative to downtown-based competitors. Our growth will be driven by drawing upon this larger regional customer base.

Features

Layout

The store will feature an open floor plan and will use a blend of modern colors and natural wood finishes to create a convenient and attractive place to shop. The store layout features a separation of the tobacco products from the periodicals. This will serve to minimize the objections of the non-smoking shopper. Magazine selections will be displayed such that titles that might appeal to the smoker will be located near the smoking section while titles that appeal to the non-smoker will be located farthest away from the tobacco section.

Magazines and newspapers will be displayed in racks arranged in a "sawtooth" manner and mounted against the outside walls. This arrangement results in a succession of open alcoves in which a shopper can stand to browse the large selection of titles without being disturbed by other shoppers. This is in contrast to the typical magazine store that uses back to back racks with narrow aisles.

The tobacco products will be showcased through the use of a serpentine display case arrangement that fronts a large 10 foot by 20 foot walk-in humidor. The humidor will feature private lockers that can be rented by our customers to store their cigars. The friendly service of our staff will be enhanced by providing a smoking area. This area will allow our customers the opportunity to sample new tobaccos or savor their latest purchase. The ventilation system will vent the air from this area directly outside.

Computer System

It is recognized that the operating efficiency of a retail establishment is key to long term profitability and success. Mass retailers and supermarkets have adopted the use of computerized point-of-sale systems and



inventory management systems to improve their operating efficiency. Specialty retailers who sell magazines and tobacco products coexist with these large, low-price competitors by offering a broader range of products and a superior level of customer service. However, the specialty retailers have been slow to adopt the efficient methods of their larger competitors. Currently, none of the area retailers who specialize in magazines and tobacco use computerized point-of-sale systems.

Standard will make extensive use of a personal computer-based integrated accounting and point-of sale terminals and bar-coding of products. The system provides for real-time updating of all records, which will give us excellent control of inventory, reduce the time spent processing inventory, immediate updating of pricing, reduction in bookkeeping effort and faster training of employees. This will allow us to maximize profits by minimizing our costs through tight control of our inventory and improvements in our operational efficiency.

The system will also provide us with on demand reports of our financial status performance as all key reports are easily generated by the software. The system will help us to achieve a level of efficiency and profitability superior to that of our specialty store competitors and, most importantly, enhanced customer service.

Customer Service

The use of a computerized point-of-sale system is also intended to supplement the personalized service our staff will provide. This system will be unobtrusive and not detract from the appearance or atmosphere of the store. It will serve to enhance the knowledge and responsiveness of our staff. This will give us a competitive edge in satisfying our customers' needs.

The POS system will help us to quickly and efficiently serve the needs of our customers through on line support of our sales personnel. Product information will be available in the form of computer databases for our tobacco products and magazines. The tobacco database will include characteristics of tobaccos and cigars that we carry along with sources of supply for non-stocked items so that we can special order these items. Similarly, the magazine database will provide an easy way to identify which magazines, both stocked and non-stock, meet the special interests of our customers.

Special orders can be quickly processed through the POS system. If a customer chooses not to place an order, a record of the inquiry can be made thus providing immediate feedback on lost sales opportunities. Prompt action can be taken to assure that our customers' needs are met in the future by stocking requested items.

The POS system will further enhance customer service by allowing easy location of stocked items in the store. It will speed responses to customer telephone inquiries as to the current availability of any item. Rather than waste the customer's time while the employee searches the magazine racks, the POS system will provide for immediate checks on stock levels and allow us to quickly indicate when we can get a non-stocked item.

Goals

As was stated previously, our primary goal is to become recognized as the premier news and tobacco store in the metro area. As we seek to achieve this goal, there are a number of financial and operational measurements that will be key to meeting this goal. Among these are:

Our short term goal to achieve breakeven sales of \$36,000 per month by the end of our fourth month in business. These breakeven sales do not include any draws by the owners. Our first year sales goal is \$540,000. Achieving this first year sales goal will result in a gross margin of over \$230,000 and net profit to the owners, exclusive of draws, of \$32,000.

Our longer term goal (3 to 5 years) is to achieve sales of \$1,115,000, which results in a gross margin of \$482,000 and a net profit to the owners of \$190,000. We will need to double our market share to achieve these goals.



The market shares necessary to support our sales goals are as follows:

Market	Breakeven	First Year	Long Term
Tobacco	0.41%	0.51%	1.00 to 1.05%
Magazines	1.11%	1.37%	2.70 to 2.80%
Candy	0.03%	0.03%	0.07%

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The location of the store in a relatively unserved suburban market area will help to support these goals.

Another measure of our success will be to meet industry average turnovers for each of our product lines during our first year and improve on those values in succeeding years. Our three year goal will be to improve upon these averages by a minimum of 25%.

As we focus on our primary goal of becoming the premier news and tobacco store, our success will allow us the opportunity to seek out other unserved suburban markets in the metro area. Our long term goal is to achieve growth through expansion into these unserved markets.

Products and Services

Introduction

The sale of tobacco products and magazines in the same store is a retail marriage of two diverse and unrelated products that has a history of success. This combination provides us with an improved opportunity for success as we can tap into two established markets. The market demographics of each product are complementary to each other and will allow us to reach a broader base of consumers than would be possible with either market alone. The selection of products we offer in each market will appeal to the mid- to upper-income consumer. Quality and value will be emphasized in the products we offer.

We have targeted Jeff's Cigar Store as the example of a combined smokeshop and magazine store wish to emulate. This large downtown based competitor has annual sales of approximately \$1,050,000. Of this, approximately \$100,000 is out-of-state tobacco sales. Their product sales are split 63.2% tobacco, 33.8% magazines, 2.5% candy and 0.5% miscellaneous. The size of their store is 1850 square feet.

The size of our store will be 1875 square feet. We are entering an untapped market for a magazine specialty store. There is only one tobacco shop competitor within 5 miles of our location. Our market data shows that it is reasonable to expect that we can achieve the same product mix as Jeff's. For purposes of evaluating our expected performance, we are using a split of 63.8%/33.7%/2.5% for tobacco, magazines and candy, respectively. The market data also supports the potential to achieve an equivalent sales volume as Jeff's once we become established. Our anticipated gross margin for each product is 45%/31%/35% respectively with a composite gross margin of 39%. Detailed information on each product follows.

Tobacco

A wide variety of tobacco products will be carried to meet all the needs of the discriminating smoker. This will include imported and domestic cigarettes, cigars, bulk tobacco and pipes. Other smoking accessories will be offered such as humidors, lighters and pipe stands. Table 1 summarizes the mix of tobacco products we will offer and our anticipated gross margin. We have established expected levels based upon the industry averages and the actual mix for Rich's. This mix has further been adjusted to reflect actual experience in the North County market.



Tobacco Merchandise	Jeffs		Industry Averages		
	% of Sales	% of Sales	Gross Mrgn	% of Sales	Gross Mrgn
Domestic Cigarettes	8.3	25.2	26%	18.0	30%
Imported Cigarettes	13.6	4.7	42%	12.0	40%
Cigars	38.0	31.0	39%	30.0	40%
Pipe Tobacco	14.5	11.6	59%	14.0	57%
Pipes	3.6	11.6	62%	11.0	60%
Tobacco Accessories	18.1	9.3	58%	9.0	60%
Lighters	3.8	4.7	55%	4.0	55%
Smokeless Tobacco	N/A	1.9	37%	2.0	30%
Composite			43%		45%

Source: Industry averages are from the "1991 Industry Report," *Smokeshop*, September/October, 1991.

Table 1 - Tobacco Sales Mix and Gross Margin

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Jeffs Industry Averages

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Pipes	3.6	11.6	62%	11.0	60%
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Lighters	3.8	4.7	55%	4.0	55%
Smokeless Tobacco	N/A	1.9	37%	2.0	30%
Composite			43%		45%

Strong emphasis will be placed on the service aspects of tobacco sales. Pipe cleaning services will be offered on a complementary basis. Private lockers in our humidor will be offered for lease to our patrons for storage of cigars. Smoking clubs will be established for cigar and pipe smokers that will allow these customers to gather together and sample new products. We will strive to become known as the complete source for this upscale and profitable segment of the tobacco market.

Unlike Jeff's, we are not projecting a high level of out-of-state mail order business during our initial year of operation. We do anticipate that we will establish a level of business comparable to that of Jeff's Cigar Store. This will tend to increase the respective shares of product sales for tobacco and cigar categories as these are the primary mail order items handled by tobacco stores.

Magazines and Newspapers

Standard Tobacco & News will carry over 1500 magazine titles. The selection includes the popular news, entertainment, sports, women's and business titles normally carried by the mass retailers and supermarkets. This consists of a base of 250 to 400 titles upon which our list will build. We have expanded on this list to provide a much broader selection and variety of titles on each of these subjects. We will also carry the special interest magazines such as Fine Homebuilding, Architectural Digest, Harvard Business Review, and regional magazines not found at larger retailers and supermarkets. We will also offer a limited selection of foreign language magazines to meet the needs of the growing international community in the metro area. Our title list comprises 72% domestic and 23% foreign titles.

Attention will be focused on stocking magazines that meet the special interests of the geographic market we are serving. Emphasis will be placed on customers' requests. If we don't carry a magazine a customer is looking for we will make every effort to locate a copy for them. Surveys of customer interests will be conducted to



provide guidance. Sales experience with our title list will be tracked and adjustments made accordingly. We anticipate that this list will be held constant for at least the first four months that we are in business and then adjustments will be made to this list as we gain experience.

In keeping with our image of an upscale retailer, we will not offer any of the magazines that feature nudity or sex (also known as "men's sophisticates"). Our decision to do so eliminates any need to provide a restricted access area for these magazines. We will also avoid offending the female customers we want to attract into our store.

The list of newspapers we will carry includes those papers which are easily found at other retailers, such as the New York Times, Wall Street Journal, Daily Journal of Commerce, etc., along with papers from regional centers such as Seattle, Spokane and Boise. We will also carry newspapers from the major national cities, such as the Washington Post, Los Angeles Times, Boston Globe and San Francisco Chronicle.

The gross margin that can be earned on magazines is a combination of the distributor discount and the publishers' retail display allowances (RDAs). The discount we will receive on domestic magazines ranges from 20% to 45% depending upon the distributor. With this wide range of discounts, the proper management of the title list and sourcing of the magazines will have a big impact on our bottom line. By sourcing as many titles as possible from the distributors offering the higher discounts, we expect to earn a gross margin of 31% on our domestic titles.

The discount we will receive on our foreign titles ranges from 20% to 35%. The market for these magazines, however, allows for mark-ups above the suggested retail. We will price all foreign titles with a 35% gross margin. This results in a composite gross margin of 32% for the magazines.

This margin can be increased by the collection of retail display allowances from the publishers. Typically, publishers will pay the retailer an RDA in return for featuring the publishers' titles through full-cover displays and by placement of the magazines in high-traffic areas. To collect the RDA, the retailer must sign a contract with the publisher. Typically, the RDA is equal to 10% of the coverprice. In practice, they equal 7%. Not all publishers offer RDAs.

The collection of the RDAs is no small task as significant documentation is required by the publishers before they will pay the RDA. There are collection services available to assist the retailer in collecting the RDA. These firms will negotiate these contracts on behalf of the retailer and file the necessary paperwork with the publisher to collect the RDA. In return, the collection agency keeps 10% to 20% of the RDA. RDAs are typically paid quarterly with a 6-month time lag between the request for payment and receipt of the RDA.

Candy

Standard will also carry an assortment of specialty candy and popular brands to satisfy our customers sweet tooth. Although we do not anticipate that the sales of candy will be very large, candy represents a profitable retail product that generates sales without a lot of effort. Since it is primarily an impulse purchase item, sales will be supported by locating the candy near the cash registers.

Candy will be priced to provide a gross margin (GM) of 40%. This compares to the tobacco shop average of 34% and a GM of 39% for convenience stores. Efforts will be made to increase this level based upon consumer demand and our need to remain competitive.



THE INDUSTRY PERSPECTIVE

Tobacco

The Market

The market for tobacco products is a mature one with the 1980's being marked by a declining number of smokers. This decline can be attributed to increased public pressure against smoking in public and increased awareness of the potential health hazards. In spite of this, The Tobacco Institute reported in its "Tobacco Industry Profile 1990" that sales of tobacco products reached an all-time high of \$40.9 billion in 1989. This represents an increase of 8% over 1988. Most of this growth can be attributed to increased taxes and prices. Per capita consumption of cigarettes continued to decline to 2,926. This marks the 16th straight year of decline.

The decline in the number of smokers has led to a decline in the number of retailers. This has resulted in increased traffic flow for the remaining tobacco shops. The positive aspect for these shops is that they are primarily dependent upon the sales of higher margin tobacco products rather than domestic cigarettes. As reported in *Smokeshop*, these products provide a much higher gross margin (37%-62%) when compared to domestic cigarettes (25%). The lower margin on domestic cigarettes reflects the effects of competition from other outlets, while the higher margins on the other products reflects reduced competition, the emphasis on quality products and the personal service offered by these outlets.

It should be noted, however, that the margin earned by the tobacco shops on domestic cigarettes is much higher than that earned by the mass retailers (12%-17%) or the discount merchandisers (7%-14%), the major sellers of this product. These low margins reflect the fact that these outlets are high volume, low service suppliers.

The demographics of the tobacco products market has also demonstrated a slow but steady change. This includes a shift to more female customers at tobacco stores. In 1987 about 55% of all smokers were female, while only 30% of the tobacco store customers were female. Since then, the percentage of female customers has increased to 35%. This trend is expected to continue. Another reason for this increase is that women are purchasing tobacco products and accessories as gifts for their husband or friends. These gifts tend to be higher margin items.

The other significant demographic shift is the aging of the baby boomers. Historically, as smokers aged they have increased their pipe smoking. This is expected to result in a 14.7% increase in pipe tobacco users from 1988 to 2000 and an overall growth for tobacco products of over 9.5%.

These changes are expected to drive growth in premium cigars, cigarettes, pipe tobaccos and accessories. The successful tobacco retailer of the 90's will adapt to meet the needs of these customers, particularly the women. The retailer will do so by providing convenient shopping and excellent customer service in a clean, pleasant environment.

Social Environment and Trends

The smoking of tobacco is no longer socially acceptable. There are many restrictions on when and where people may smoke. These smoking restrictions are going to be expanded in the future. There have been restrictions for cigar and pipe smokers for several years, but now cigarette smokers are facing the same restrictions. We probably can gauge the response of the cigarette smokers by reviewing the previous experience of cigar and pipe smokers.

The restrictions on cigar and pipe smokers caused a few smokers to quit altogether, but the majority adapted and choose to continue to smoke. This required them, in many cases, to seek refuge in their home or to smoke out of doors if they were at work. Even at home, the cigar smoker did not find refuge as their wives would not allow cigar smoking inside the home, so the cigar smokers went out to the patio or garage to smoke. For many, they chose to become a recreational smoker by enjoying an occasional good cigar or pipe tobacco.



The hard-core cigarette smokers will find future restrictions difficult, but they will adapt as the cigar and pipe smokers already have. Some will quit altogether, but others will choose to continue smoking or become a recreational cigarette smoker; i.e., people who like to smoke an occasional cigarette and are willing to pay a premium price for a premium cigarette. For these smokers, price is not a deterrent because the cigarettes are only bought once in a while and are viewed as a reward or treat. Others will choose to switch to the occasional cigar or become a pipe smoker. In any case, the full service tobacco shop will benefit by the transition as they can meet the needs of the smokers who choose to continue to smoke, but change their habit from cigarettes to premium tobaccos.

It will be many years before America is a "smoke-free" society, if ever. It is unlikely that the current level of tobacco users (over 25% of the population) will ever decrease to zero. Industry projections are that the reduction in the overall percentage of the population that smokes will be offset by a real increase in the number of smokers. There will be additional restrictions placed on smoking in public, but the current view is that it is unlikely that a complete prohibition on smoking is possible. The core group of smokers teamed with the tobacco industry will organize against any such effort.

Economic Impacts

The recession coupled with the Mid-east war had significant impacts on the sales of tobacco in 1990. *Smokeshop* magazine prepares an annual report on the tobacco industry based on surveys of tobacco specialty shops. The 1990 Report, which reflected 1989 results, showed that the average tobacco store experienced an increase in tobacco product sales of 2.3%. The 1991 Report showed a decline in revenues for tobacco shops of over 20% for tobacco products. The biggest decrease came in the sales of domestic cigarettes and tobacco gift items. The bright spot in this report continued to be sales of imported cigarettes.

A closer examination of this Report shows that there are other factors involved in this report that may have caused the significant decrease. The Report shows that there was a significant shift in the makeup of the stores that responded to the survey. A total of 309 stores responded for 1990 with 52.7% (163) of them located in an urban setting and 46.3% (143) of them located in a suburban setting. This compares to a total of 208 stores responding for 1989 with only 28% (58) being urban while 63% (131) were suburban. The impact of the additional urban stores that reported was not evaluated in the report, but they probably had as much of an impact on the average per store sales as the economic climate did. A conversation with Chris Ebel, the author of the report, supported this viewpoint.

Government/Legal Issues

In 1991, the Washington Legislature enacted tougher laws and penalties for minors who possess tobacco products and for selling tobacco to minors. Uncontrolled purchases of cigarettes by minors was reduced with the elimination of vending machines. The laws require retail tobacco sellers to be as diligent in checking the identification of people buying tobacco products as a bartender is in checking the identification of a young person attempting to buy a drink in a tavern. Store clerks need to be trained to check identification and be made aware of the penalties for selling tobacco products to minors.

The rising cost of tobacco products resulting from new taxes has caused a decline in the number of cigarette smokers. The per capita consumption of cigarettes has shown a continued decline since 1974. However, 1989 sales of tobacco products hit an all-time high with an increase of 8% over 1988. A major portion of this increase can be attributed to increased taxes.

Both the Federal and state governments impose significant taxes on tobacco products. The Federal government collects a tax on tobacco based upon the weight of the product. This tax is paid by the distributor/producer prior to the product being shipped into the State, thus the retailer need not be concerned with paying this tax.

The State of Washington collects a tax on all tobacco products sold in the state. The cigarette tax is collected by selling stamps which are then affixed to the packs of cigarettes. The retailer can choose to buy pre-stamped



cigarettes or stamp them himself. The state tax on cigars and bulk tobacco must be paid by the person or business that brings the tobacco into the state. It is based upon gross dollar value of the product brought into the state less discounts, returned merchandise and products shipped out-of-state. Credit is given for the taxes paid to the Federal Government.

The retailer's ability to avoid paying state taxes for products shipped out-of-state has helped to create mail order business for tobacco retailers in Washington. At present, the retailer is not required to collect sales or tobacco taxes due the state in which the product is being sold. The obligation to pay the state taxes rests solely with the purchaser. This right of the retailer has been established in court cases that have been decided by the U.S. Supreme Court. The Supreme Court has viewed the states' attempt to collect these taxes from the retailers as a restraint of interstate commerce. The states, which are in need of additional revenues, are continuing to challenge this right in the Federal Courts. The Supreme Court will once again be making a decision on this matter during the current court session. A decision in favor of the states will serve to eliminate most of this market, but would be offset by increased sales to in-state customers.

Technological Issues

While the retail sale of tobacco products and magazines is not "hi-tech", "hi-tech" tools to sell these products are available, specifically the use of computerized point-of-sale and accounting systems. The use of these systems supports the control of inventory and improves cashflow. These are key factors in improving the profitability of these stores if they are to survive in the long term. A visit to any of the tobacco or magazine stores in the metro area shows that these stores are typically "mom and pop" operations with little evidence of computerization.

This technology is already being used by the large retail outlets for tobacco and magazines. The supermarkets and mass retailers have been utilizing point of sale systems for a number of years. The volume of products sold by these stores has required that they invest in the costly systems that were available for NCR, Nixdorf and others. The adoption of Universal Pricing Codes has simplified the implementation of these systems.

The cost of these systems has been the primary barrier to the small retailer's adoption of this technology, even if they wanted to adopt such a system. The advent of personal computers and development of small business software now allows the small retailer to adopt this technology in a cost-effective manner. In spite of this, the local tobacco/magazine shops have not made any move to these systems.

We perceive that the main reason that these stores have not adopted point of sale technology in tobacco stores has been the outdated thinking of the owners. It seems to be a commonly held view of tobacco store owners in the Northwest that they have too many products and are too small to justify the expense and effort involved in implementing a point of sale system. However, the potential for increasing operating efficiencies by decreasing inventory and increasing product turns is too great to be ignored. An interview with the owner of a Seattle-based store that recently implemented a PC based inventory system was very revealing. He stated that he expects to increase his inventory turns from 3.75 to 4.25 turns each year with an attendant decrease in inventory. The net result expected by this individual is increased positive cashflow with less money tied up in inventory.

Magazines

The Market

The magazine market has also experienced relatively flat sales growth through the 80's, but was marked by an upturn (6% to 10%) '87-'89 period followed by a downturn (4% in 1990). The upturn was attributed to the increase in regional and special interest magazines. These magazines typically command a higher price than the mass market magazines and afford the opportunity for higher gross margins. Sales in the first half of 1990 were on track to continue the growth of '87-89, but fell apart in the second half of 1990. This downturn was



attributed to the recession and the war fears.

Magazines are brought to market by two primary means; direct subscription sales and single copy retain sales. The president of the Periodicals Institute, John E. Fitzmaurice, estimates that direct subscription sales of magazines captures 70% of the physical volume. Due to discounting, this represents an estimated 58% of the sales dollars (see Section D, Market Analysis). Retail magazine sales for the U.S. market were \$3.57 billion in 1990. This was a 0.43% decrease in sales from 1989.

The consumer's choice of one of these market paths over the other is driven by the perceived benefits of one outlet over the other. A recent study of the magazine market revealed that people are just as likely to buy magazines through retail outlets as they are through subscription sales-"59% buy both ways vs. 24 percent who buy magazines through subscription and 17 percent who only purchase single copies." Direct subscription is the least expensive (discounts of 35% to 65%) and most convenient means (direct mail) for the consumer to purchase magazines. On the other hand, retail purchasers of magazines believe that they are saving money because they can try out the magazine first before committing to a subscription. They also believe they can obtain the best value by buying only those magazines that have a story or feature that interests them.

The retail outlets for magazines include: mass retailers, grocery stores, convenience stores, discount stores, newsstands, smokesshops and magazine stores. The relative shares for each of these outlets are given in Table 2.

Retail Outlet	Market Share
Supermarket	54%
News Stand	11%
Convenience Store	10%
Drugstore	9%
Bookstore	7%
Discount Dept. Store	2%
Other	7%

Source: Periodicals Institute 1990 Databook

Table 2 - Magazine Market Sales Through Retail Outlets

Source: *Periodicals Institute 1990 Databook*

Retail Outlet	Market Share
Supermarket	54%
News Stand	11%
Convenience Store	10%
Drugstore	9%
Bookstore	7%
Discount Dept. Store	2%
Other	7%

Mass retailers, grocery stores and discount stores offer a limited selection (250-400 titles) with some discount (5% to 15%) and are primarily offering one stop shopping for the consumer. Convenience stores offer a much more limited selection (50-100 titles), typically do not discount and offer convenience for the impulse buyer. Newsstands, smokesshops and magazine stores will offer a much broader selection (1000-2000 titles), but typically do not discount. Their focus is on service.

Social Environment and Trends

The issues facing the magazine industry in the social arena are relatively minor when compared with the tobacco industry. The primary area of concern is the free speech issues surrounding men's sophisticate magazines. These magazines while being big sellers, are found to be offensive for a variety of reasons, including concerns for children who might see them and their exploitation of women. A vocal minority has expressed it's displeasure with these magazines by picketing and boycotting stores that carry them. The most notable case of this was the boycott of some local convenience stores. Picketing and the resultant loss of



business contributed to the stores' financial problems which in turn led to the corporation filing for Chapter 11 bankruptcy. There has been some activism on this issue in the metro area.

Economic Impacts

The past year marked the most significant recession that the United States has experienced since the early 80's. The recession coupled with the Gulf War had significant impacts on the sales of magazines. 1990 magazine sales decreased, primarily in the second half of the year, by a little over 4% when compared with 1989. On the positive side, overall revenue growth for magazines in the 80's was over 7% compounded annually. This growth represents a positive trend for the magazine retailers in spite the slowdown in 1990.

As was the case for all communications media, magazine publishers experienced an accompanying slowdown in their advertising receipts. This slowdown has been reported in the popular press and has resulted in reduced profitability for the publishers. Some publishers have responded by raising the retail price for single copy sales of their magazines, while others have gone out of business. The impact of these actions on retail sales has yet to be determined, but one can envision a period of reduced retail magazine sales for the industry as a whole.

Technological Issues

The use of "high-tech" tools to sell magazines was covered in the discussion in a previous section. The use of a point-of-sales systems in tracking sales of magazines and in managing inventory can have significant impact on the profitability of the retailer.

In researching the current state of the magazine business, it has become apparent that the retailers, especially small stores, place a heavy reliance on the local distributor to select and manage the titles the stores carry. This appears to be true for all retailers, including the mass retailers. The adoption of a computerized inventory control system allows the retailer to control his own destiny. With these systems, market preferences can easily be identified thus allowing for shifts in the mix and quantity of magazines offered. This, in turn, will increase the profitability of the store as sales will be increased relative to inventory carried and the labor wasted on the processing of the unsold magazines will be reduced.

MARKET ANALYSIS

Tobacco

Demographics/Psychographics

A broad overview of the tobacco market shows that use of all categories of tobacco is fairly constant across all age groups with usage falling off among those people age 65 or older (see Table 3). The exception is among users of smokeless tobacco where the 18 to 25 year olds are the biggest users with usage dropping off to a constant percentage among users 45 and older. The 35 to 44 age group, the baby boomers, is the exception to this as their use of smokeless tobacco is 50% less than that of the next largest group of users.

Pipe tobacco represents the other significant variant from the pattern of constant use among all age groups. Pipe tobacco usage among those under age 35 is constant at 2% of that age group. Traditionally, the incidence of pipe smoking increases with age with an observable shift occurring at age 35. From this age on, the percentage of any population age group smoking pipes remains constant with a slight upturn at age 65. The aging of the baby boomers with their higher levels of disposable income bodes well for the pipe tobacco market with the growth in the number of users predicted to be the highest for any of the tobacco products. Along with this increased use in pipe tobacco comes an increase in sales of high margin pipes and smokers' accessories.



Product	18-24	25-34	35-44	45-54	55-64	>65	Total
Pipetobacco	2.0	2.1	3.5	3.5	3.5	4.1	3.0
Cigarettes	10.1	12.4	14.6	14.5	13.2	5.3	11.7
Cigars	5.1	4.3	4.5	4.4	4.4	3.6	4.4
Cigarillos	2.0	2.3	1.5	2.1	1.5	1.3	1.8
Smokeless	11.0	7.1	2.6	5.7	6.2	5.1	6.3

Source: "What's Hot, What's Not," *Supermarket Business*, March, 1988

Tobacco Use by Age (In Percent of Population)

Source: "What's Hot, What's Not," *Supermarket Business*, March, 1988

Product	18-24	25-34	35-44	45-54	55-64	>65	Total
Pipe tobacco	2.0	2.1	3.5	3.5	3.5	4.1	3.0
Cigarettes	10.1	12.4	14.6	14.5	13.2	5.3	11.7
Cigars	5.1	4.3	4.5	4.4	4.4	3.6	4.4
Cigarillos	2.0	2.3	1.5	2.1	1.5	1.3	1.8
Smokeless	11.0	7.1	2.6	5.7	6.2	5.1	6.3

The demographics of the tobacco store customer shows a 2 to 1 split of male versus female customers. This is to be compared with the fact that approximately 55% of the smokers are female. The reasons for this difference can be traced to the products used by each group.

The products a typical tobacco shop offers are primarily used by men. The male smokers who frequent a tobacco shop are looking for a quality tobacco or cigar that suits their taste. They are typically willing to spend more than the average cigarette smoker to get the product that they want. Both cigar and pipe smokers tend to be loyal to a particular product, but in general, are willing to try something new. Both user groups also expect to receive a high level of customer service and expect attentive service from sales people. This requires that the sales personnel be knowledgeable of the tobacco products offered.

Another characteristic of the pipe smoker not readily apparent to the non-smoker is that they continue to purchase additional pipes over the years. The reasons for doing this may be as simple as "it feels good in my hand" to they just want to have a new pipe. This desire for a new pipe fuels an ongoing market that would not be justified if one were to simply look at the number of pipe smokers.

The tobacco products women tend to smoke are cigarettes, domestic and imports, with a few women smoking small cigars/cigarillos. These products are easily purchased at the stores where women shop regularly. They do not need to take time to stop at the local tobacco store. The tobacco store, while offering these products, is primarily focused on the higher price/value segment of the market. This includes cigars, bulk tobacco, pipes and accessories. Typically, women do not smoke pipes, while a small minority will smoke cigars. The majority of women customers who shop at tobacco shops do so to purchase gifts of tobacco products and accessories for their spouses or male friends.

The primary growth opportunity with women smokers is to focus on getting them to switch from domestic cigarettes to the "price/value" market of import cigarettes. It is unlikely that women will change to cigar or pipe smoking although this represents an intriguing approach to increasing sales of these items. This opportunity results in a focus on women who are age 25 to 50, with a household income of over \$25,000. This age group is more likely to be interested in trying something different and they will have the disposable income to afford it.

The target market among men is much broader, with all male smokers from age 25 to 65+ being part of our primary market. This market can be narrowed down to those households with income of \$25,000 or more as the products we will offer require that the household have more disposable income available.

Market Size

The research we have conducted reveals that there exists no direct measure of the metro tobacco, magazine and candy markets. There are two methods which can be used to give us an indication of the relative size of each of



these markets. Briefly, they are as follows:

Method 1 - This approach uses the overall sales figures for the various retail outlets for the metro market and multiplies them by the industry average for percent of sales for each product by retail outlet. The result is an estimate of the sales of each product attributable to each retail sales channel. The sum of all sales channel figures gives an estimate of the total retail market for the metro area. Retail sales figures are reported in the "1987 Census of Retail Trade for Washington" and industry averages are reported in the "1990 Data Book".

Method 2 - This method estimates the available market by multiplying the average consumer unit expenditures for each product by the appropriate number of consumer units for our market area. Consumer expenditures are reported in the "Consumer Expenditure Survey, 1987." Information on numbers of consumer units in our market area is found in the "Market Data Report - Town Center Area."

Using Method 1, we arrive at a total metro tobacco market of \$66,530,269. Method 2 gives us a total of \$53,637,215. The two Methods provide values that match fairly well, thus giving a reasonable estimate of market size. A complete presentation of the market calculations are available upon request.

Competitors

Information on types of competitors was presented in under subsection **1. Tobacco** of **Section C. The Industry Perspective**. The following provides specific information for a representative sampling of the competitors.

Name: Jeffs Cigar Store

Type of Business : Tobacco Shop & Magazine Store

Location: Downtown/Northwest Store

Size: 900 Sq.Ft. (Northwest) - 400SF for tobacco & gifts.

1850 Sq. Ft. (Downtown) - 850SF for tobacco & gifts.

Strengths:

- A well-established store.
- Has more than one store in the metro area thus allowing for easy customer access.
- Downtown location provides them with a steady flow of foot traffic.
- Downtown location places them in the center of a large population base.
- They have a large inventory of tobacco products and accessories.
- They have an excellent tobacco mail order business.
- Low prices for tobacco products.

Weaknesses:

- Parking is limited resulting in a long walk to get to either store.
- The layout of the downtown store is congested. It can be extremely difficult to get around in the store.
- They are not automated.
- Downtown location limits their appeal to suburban customers.
- Competition is stiff with numerous competitors within 1 mile.

Name: Superway

Type of Business: Supermarket

Location: Various (chain) Store

Size: 200 to 300 Square Feet (Tobacco Department)

Источник бизнес-плана: <http://www.referenceforbusiness.com>



Strengths:

- They have low domestic cigarette prices due to volume sourcing.
- Easy access when shopping for groceries.
- Conveniently located.

Weaknesses:

- They have a limited stock and selection of tobacco products.
- Limited selection of smoker's accessories, and no imported cigarettes.
- Limited level of customer service.
- Except for cigarettes, tobacco products may be hard to find.

Name: Thompson's

Type of Business: Mass Retailer

Location: Various (Chain-One location is adjacent to our site)

Size: 200 to 300 Sq. Ft. (Tobacco Department)

Strengths:

- Same as Supermarkets plus, Variety allows for one-stop shopping.

Weaknesses:

- Same as for Supermarkets.

Magazines

Demographics/Psychographics

In 1990, Publishers Clearinghouse, in consultation with the Magazine Publishers of America, commissioned the first comprehensive study since 1976 of how and why magazines are purchased. "The Study of Magazine Buying Patterns," was conducted by Audits & Surveys, and provides significant insight into the market drivers. This survey forms the primary basis for our discussion of the demographics of the magazine market.

The magazine market represents a contrast to the tobacco market. While it can be viewed as one large segment of the communications market, it can be broken down into a number of special interest topics such as business/financial, cars, regional, general editorial, house and gardening, motorcycles, news, men's, women's, outdoor, entertainment, sports, teen/music, tabloids and social. It is this variety that provides this market with something for just about everyone.

The idea that magazines represent something for everyone is borne out by the fact that 81 percent of all adults buy magazines. Of these buyers, 27 percent are classified as being "Heavy Purchasers." "Heavy Purchasers" buy at least 7 magazines per month and accounted for 58 percent of all magazine purchases. Of the "Heavy Purchasers," 59% have household incomes of \$35,000 or more. Of this group, over 61 percent of the chief wage earners attended college. A recent issue of Magazine & Bookseller summarized this report with the headline, "Magazine Readers Are Smarter and Richer."

The sales channels for magazines are retail sales and subscription sales. The typical retail magazine purchase is an impulse purchase (68% of sales), while the typical subscription purchase is planned (70% of sales). The swapping of buyers among these two categories is relatively stable with an equal number changing from one



source to the other. This would indicate that this market is relatively mature with the sales approaches used by each channel having reached their maximum level of effectiveness. This may also indicate that this market is ripe for a new approach.

The following table and observations are excerpted from the study:

	% Subscriptions	% Single Copies	% Both
Sex			
Male	48	43	47
Female	52	57	53
Age			
18-34	28	50	52
35-54	33	35	30
55 and over	39	15	18
Household Income			
\$35,000 or more	47	37	52
\$15,000-\$34,999	38	43	32
Less than \$15,000	15	20	16
Education—Chief Wage Earner			
Some college or more	51	38	60
Completed high school	31	38	22
Some high school or less	18	24	18
Occupation—Chief Wage Earner			
Prof./Mgr/Owner	32	20	41
White-collar	12	14	9
Blue-collar	24	47	33
Retired/not employed	31	19	17

Note: Households are classified as mainly subscription or single copy if 60% or more of total titles were bought by one channel.

Demographic Profiles of Subscription and Single-Copy Buyers

Note: Households are classified as mainly subscription or single copy if 60% or more of total titles were bought by one channel.

	% Subscriptions	% Single Copies	% Both
Sex			
Male	48	43	47
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Age			
18-34	28	50	52
35-54	33	35	30
55 and over	39	15	18
Household Income			
\$35,000 or more	47	37	52
\$15,000-\$34,999	38	43	32
Less than \$15,000	15	20	16
Education — Chief Wage Earner			
Some college or more	51	38	60
Completed high school	31	38	22
Some high school or less	18	24	18
Occupation — Chief Wage Earner			
Prof./Mgr/Owner	32	20	41
White-collar	12	14	9



Demographic Profiles of Subscription and Single-Copy Buyers

Blue collar	24	47	33
Retired/not employed	31	19	17

Basis: Adults in Magazine Households Buying Mainly by Subscription (475), Single Copy (318) and Equally (167); Magazine Households Buying Mainly By Subscription (375), Single Copy (255), and Equally (131).

Demographic Profiles Of Subscription and Single-Copy Buyers

"Subscription buyers tend to have higher socioeconomic levels than those who purchase single copy. These households have the life-style and economic position to commit to the regularity afforded by subscription magazines while single-copy purchasers are more apt to" begin subscribing with advancement in age, occupation and income.

"Subscribers are better-educated and more affluent than single-copy purchasers. In half of the subscriber households the chief wage earner is college-educated and the annual household income exceeds \$35,000 (47%). Comparatively, single-copy buyers are younger - 50% between 18-34 years - and only one in five chief wage earners have reached the professional/managerial/owner occupational level."

"The households buying subscriptions and single copies in equal proportions may represent the most active and eager group of magazine purchasers. These dual purchasers buy the greatest number of magazine titles (7.5 per year) of any group and represent 21% of the magazine volume (Table 12)."

"Demographically, the dual-purchasing households enhance the quality characteristics of the subscription buyers while maintaining the youth factor of single-copy purchasers. Over half of these buyers are between the ages of 18-34, 60% are college educated, four out of ten have achieved professional/managerial occupational status, and 52% have household incomes exceeding \$35,000."

A review of the data in Table 17 of the report, shows that split between female and male purchasers of magazines conforms closely to the split in the population as a whole.

Approximately 56% are women and 44% are male. The report does provide some additional information on female vs. male buying patterns that appears to contradict the data in Table 17. In a commentary on who made the purchasing decision, the report states "Females play a dominant role in the purchasing transaction of both subscriptions and single copies. Three out of every four single-copy titles are claimed to be bought by females and two of every three subscriptions are ordered by females. Males buy one-fourth of single-copy and subscription magazines." The report goes on to state that, "While 25% of all types of magazines are bought by men, 32% of single copies and over 40% of subscriptions are acquired for men."

The survey also provided insights into the interests of magazine buyers. The buyers of magazines are likely to be owners of electronic/video equipment. Among the heavy buyers of magazines, in excess of 80% own a VCR, over 71% have cable TV and 93% rent movies. In the same vein, 54% of all buyers have listened to records, audio tapes or CDs at home. Other activities that buyers indicated that they had engaged in the last twelve months include: 48% cooked or baked, 33% fixed or built things around the house, 45% went out to eat in a restaurant or cafe, 42% attended a religious service and 44% have read a book. Each of these interests provides vital insights that will be of significance when planning our advertising program.

A summary observation regarding the purchasers of single copies is that over 80% are between 18-54 and over 80% have household incomes in excess of \$15,000 per year. The Consumer Expenditure Survey (see Table 4) shows that there are fairly uniform buying practices by all age groups within given income bands. Also, within all age groups, the amount expended on magazines increase with increasing household income.



Age	<25	25-34	35-4	44-54	55-74	>64
Income:						
\$40,000 or More	73	116	136	128	137	178
\$30,000 to 39,999	77	74	84	95	91	110
\$20,000 to 29,999	47	63	79	71	73	92
\$15,000 to 19,999	43	56	58	63	64	70
\$10,000 to 14,999	30	41	44	43	54	61
\$5,000 to 9,999	33	25	38	45	46	40
Under \$5,000	19	32	46	53	38	27

Note: The CES provides data for the broad category of "Reading." The above table was derived by assuming 1/12 of the dollars spent on reading was spent on magazines.

Source: Consumer Expenditure Survey, 1987, U.S. Dept. of Labor, Bureau of Labor Statistics, June, 1990.

Average Annual Expenditure per Consumer Unit With Reference Person by Age

Note: The CES provides data for the broad category of "Reading." The above table was derived by assuming 1/12 of the dollars spent on reading was spent on magazines.

Source: *Consumer Expenditure Survey, 1987*, U.S. Dept. of Labor, Bureau of Labor Statistics, June, 1990.

Age	<25	25-34	35-4	44-54	55-74	>64
Income:						
\$40,000 or More	73	116	136	128	137	178
\$30,000 to 39,999	77	74	84	95	91	110
\$20,000 to 29,999	47	63	79	71	73	92
\$15,000 to 19,999	43	56	58	63	64	70
\$10,000 to 14,999	30	41	44	43	54	61
\$5,000 to 9,999	33	25	38	45	46	40
Under \$5,000	19	32	46	53	38	27

In summary, the mix of demographics means that the successful magazine retailer will offer a wide variety of titles to meet the varied interests of both men and women as well as all age groups. The target market will be both men and women with emphasis on women as they tend to buy more magazines. The target customer will be those household units that are likely to spend over \$60 per year. This results in our focusing on all households with an income greater than \$20,000 and the reference person being 25 and older. The magazine buyer will also be better educated with at least a high school diploma. College educated buyers should be the biggest purchasers. This encompasses the same market that we are focusing on for tobacco.

Market Size

Using Method 1 (see description of Method 1 under Tobacco) to calculate market size, we arrive at a total retail (single-copy sales) market of \$13,124,945. Method 2 gives us a total magazine market (single-copy sales + subscription sales) is \$27,514,812. While we are interested in the size of the total market, we are primarily interested in the retail portion of this market.

We can breakdown this second figure by sales channel by recognizing that 1) 70% of the physical volume of magazine are sold through subscription sales and 2) subscription prices for each magazine are approximately 55% of the retail price. If we multiply the physical volume by the unit price we get an Equivalent Sales Volume (ESV) for each sales channel. Thus, the ESV for subscription sales is \$0,385 (70% * \$0.55) and the ESV for retail sales is \$0.30 (30% * \$1.00). The total market ESV is \$0,685. Dividing the individual sales channel ESV by the total market ESV gives us a sales dollar percentage for each channel. Thus, subscription sales can be estimated to be 56% (\$0.385/\$0.685) of the total market sales dollars and retail sales represent 44% (\$0.30/\$0.685).

Multiplying the Method 2 figure by this percentage gives estimated retail sales of \$12,062,000. This compares favorably with the Method 1 figure, thus validating our estimate of the retail magazine market in the metro area.



Competitors

General information on types of competitors was presented in under subsection **1. Tobacco** of section **C. The Industry Perspective**. Detailed information for a representative sampling of the competitors is as follows:

Name: Jeffs Cigar Store

Type of Business: Tobacco Shop & Magazine Store

Location: Downtown/Northwest

Size: 1850 Sq.l Ft. (Downtown)-1000 SF for magazines
900 Sq. Ft. (Northwest) - 500 SF for magazines

Strengths:

- A long time established store.
- They have more than one store in the metro area thus allowing for easy customer access.
- Their downtown location provides them with a steady flow of foot traffic.
- Downtown location places them in the center of a large population base.
- They carry approximately 2000 titles at the downtown store.

Weaknesses:

- Parking is limited resulting in a long walk to get to either store.
- The layout of the downtown store is congested. It can be extremely difficult to get around in the store.
- The store has the appearance of being crammed full. It can be intimidating or aggravating depending upon your perspective.
- They are not automated.
- Downtown location limits their appeal to suburban customers.
- Competition is stiff with numerous competitors within 1 mile.

Name: 7-11 & Metro Mini-Mart

Type of Business: Convenience Store

Location: Various (chains)

Size: 2000 Sq. Ft. - 50SF for magazines

Strengths:

- They are conveniently located in neighborhoods.
- Parking is convenient.
- Magazine sales are primarily impulse purchases.

Weaknesses:

- Selections limited to approximately 200 to 250 titles.
- Customer service is extremely limited.
- No special orders.

Name: Superway

Type of Business: Supermarket

Location: Various (chain)



Size: 200 to 300 Sq. Ft. (Magazine Department)

Strengths:

- They discount their magazines by 10%
- Easy access when shopping for groceries.
- Conveniently located.

Weaknesses:

- Selections limited to 300 to 450 titles.
- Limited level of customer service.
- No special orders.

Name: Thompson's

Type of Business: Mass Retailer

Location: Various (Chain-One location is adjacent to our site)

Size: 200 to 300 Sq. Ft. (Magazine Department)

Strengths:

- Same as for Supermarkets plus,
- Variety allows for one stop shopping.

Weaknesses:

- Same as for Supermarkets.

Candy

Recognizing that candy sales will represent a minor part of our sales volume, we have not conducted as extensive analysis of this market segment. The following is a brief summary of the conditions for this market.

Demographics/psychographics

Over 90% of the population purchases candy at least once a month. This figure holds true for both males and females, and all age groups except adults aged 50 and over. The purchase of candy is split evenly between planned and spontaneous purchases. Candy's popularity is derived from it being a relatively inexpensive pleasure/reward, with 72% of the purchases being for \$1.49 or less and 50% being for less than \$1.00.

Market Size

Using Method 1, the metro retail candy market is estimated to be \$39,939,000.

Competitors

Please refer to the information provided for the tobacco and magazine competitors.



Market Specifics

Location Selection

The establishment of a retail store that sells tobacco products, magazines and newspapers requires a review of the market opportunity. Suffice it to say that none of these products represents a high growth market when viewed within the context of the overall economy. Within the metro market, however, there are geographic areas experiencing rapid population growth and as such represent a growth opportunity. It is this opportunity that led to the selection of the location for

A review of the population growth statistics for the metro area shows that North County is one of the fastest growing areas in the state. The number of people living within 5 minutes travel time of Town Center is expected to increase by 30% from 67,000 to 87,000 people during the 1990-2005 period. This compares to a predicted growth of 20% for the overall metro area during the same period.

An evaluation of the retail outlets that serve this area reveals that there is only one major tobacco store in this area. The remaining tobacco stores are primarily located downtown. National averages reveal that one tobacco shop can be supported by a population base of 82,000. While the 5 minute travel time population base of 67,000 would not indicate that two stores could be supported, the 15 minute travel time population base of 484,000 will easily support two stores. The Regional draw of the area also supports the use of the 15 minute travel time population base.

As for magazine and newspaper sales in the metro area, the primary outlets are the book stores, mass retailers and grocery stores. Typically, these outlets offer a limited selection of 200 to 400 titles. There are a number of smokeshops and magazine stores downtown that offer upwards of 1800 titles. In North County, there is no outlet that offers the large selection of titles that we intend to, which leaves the market wide open to support such a specialty store.

Our stated goal to become recognized as the premier news and tobacco store in the metro area also influenced our site selection. The selection of a location in an area which is already established as a regional shopping center enhances our ability to fulfill this goal. Towards this goal, we have tentatively selected a location in the Promenade shopping mall. Promenade is adjacent to Town Center. Alternate locations were explored including various neighborhood malls as it offers us significantly better opportunity to meet our goal of becoming a regional presence. Further, the lease rates offered by Promenade are competitive with the neighborhood malls and will not place an undue burden on our business.

Area Demographics

A review of the demographics for the area shows that a population base of only 23,000 lives within two miles of this area. Clearly, this base is not large enough on its own to support the established retail base that exists in the area. The market demographics for the Town Center shopping mall shows that in 1988 the car count in the parking lot ranged from a low of 18,355 cars per day to a high of 31,285 cars per day. Traffic counts for the adjacent shows an average of 31,000 cars per day drive by the planned location of Standard Tobacco and News.

The area is recognized as a regional shopping center. Clearly, the traffic volume demonstrates that the area serves a regional market. An estimated 1,242,895 people comprising over 500,000 households are located within a 25 minute drive. Of these, approximately 40% are within a 15 minute drive. Locating the store in the area allows us to draw on the regional market that the area serves.

The location of the store in the Town Center area also places us approximately 15 minutes to 25 minutes travel time away from all of our major competitors except for one tobacco store located in the Town Center. The size of the tobacco market available within 25 minutes travel time is estimated to be \$66,000,000. The magazine market for this same area is estimated to be \$213,000,000. With only 0.4% of the tobacco market and 1.1% of



the magazine market, we can achieve a breakeven sales level. It is our belief that market shares of 1.0%-1.05% of the tobacco market and 2.7%-2.8% of the magazine market are achievable in this market within 3 years of opening. The resulting monthly sales are projected at \$67,000 to \$85,000.

By comparison, Jeff's Cigar Store, one of the major downtown competitors, has monthly tobacco sales of \$55,200 (1.0%), magazine sales of \$29,400 (2.7%) and total sales of \$84,600. This is based upon a store having a total of 1850 square feet of space. The space we have selected in Promenade had 1875 square feet of space. Assuming the same level of success, monthly sales as projected above are achievable.

Advantages

The selection of the location in the Promenade offers a number of significant advantages:

Transportation Freeway access to the location is excellent. Future traffic improvements will only serve to improve the accessibility.

Parking Parking is close to the store and it is free. This offers us a significant advantage over our downtown competitors. Further, the convenience of the parking and easy store access will help to draw customers from the tobacco store in Town Center.

Existing Market Base Local businesses include a large Hospital, three hotels, a community college and Washington Institute of Technology satellites, and the retail businesses of the area.

Growth While the immediate population base is small, it is growing fast. The immediate area represents a significant growth opportunity for the stores of the area.

Market Opportunity With only one tobacco competitor and no magazine competitors, the North County represents an under served market for a specialty retailer such as Standard. The demographics of the area support our target market of men and women over the age of 25 with incomes in excess of \$25,000. Over 60% of the population within our market area is 25 years of age or older and approximately one half of the households earn over \$25,000.

Complementary Business Our location in Promenade places us near a number of businesses that offer the activities that magazine readers are likely to engage in. These activities include dining out, renting video tapes and purchasing audio tapes or CDs. Our store will be located between two restaurants and three other restaurants are located within 500 feet of the store. Other complementary businesses include a store that sells audio and video tapes, and CDs and rents video tapes and a software retailer.

Sales Projections and Market Share

Previously we stated our goals and presented information on sales projections and market share. The primary competitor we are modeling ourselves after is Jeff's Cigar Store. This business has annual sales of over \$1.0 million with sales split 63.2%/33.8%/2.5%/0.5% between tobacco, magazines, candy and miscellaneous. Based upon the previous calculations of the metromarket size, Jeff's commands shares of 1.0%/2.7%/0.06% respectively.

Tables 5 and 6 summarize our projected sales and market shares for breakeven sales and for the first five years that we are in business. For our purposes, we are assuming constant 1991 dollars for the comparison. Detailed projections are provided in the financial section.



Product	Breakeven	Year1	Year2
Tobacco	\$275,600	\$341,500	\$532,800
Magazines	145,600	180,400	281,400
Candy	10,800	13,400	21,900
<i>Total Sales</i>	<i>\$432,000</i>	<i>\$535,300</i>	<i>\$835,100</i>

Product	Year3	Year4	Year5
Tobacco	\$622,600	\$670,000	\$700,000
Magazines	329,000	354,000	370,000
Candy	24,400	26,000	27,000
<i>Total Sales</i>	<i>\$976,000</i>	<i>\$1,050,000</i>	<i>\$1,097,000</i>

Sales Projections

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<i>Total Sales</i>	<i>\$976,000</i>	<i>\$1,050,000</i>	<i>\$1,097,000</i>

Product	Breakeven	Year1	Year2
Tobacco	0.41	0.51	0.80
Magazines	1.11	1.37	2.14
Candy	0.03	0.03	0.05

Product	Year3	Year4	Year5
Tobacco	0.94	1.01	1.05
Magazines	2.51	2.70	2.82
Candy	0.06	0.06	0.07

Note: Market shares are based upon 1987 dollars.

Market Share (%)

Note: Market shares are based upon 1987 dollars .

Product	Breakeven	Year1	Year2
Tobacco	0.41	0.51	0.80
Magazines	1.11	1.37	2.14
Candy	0.03	0.03	0.05
Product	Year3	Year4	Year5
Tobacco	0.94	1.01	1.05
Magazines	2.51	2.70	2.82
Candy	0.06	0.06	0.07



MARKETING STRATEGIES

Market Approach

General

Standard will initially offer a wide variety of tobacco products and accessories, newspapers and magazines and specialty candy. It is our plan to add complementary gift products, such as steins or knives, at some later date. Our initial product offerings will be sourced from a variety of reputable suppliers. The following sections will provide additional detail on each of these product areas.

Our target market is households with income in excess of \$25,000. We are targeting both men and women of all ages, with primary focus on those between the ages of 25 to 55. Our image is upscale as befits our location in a new suburban mall with significant effort being made to offer our products in an attractive environment. We will emphasize personalized customer service. The computerized point-of-sale system with product databases will support our service without intruding on the store setting.

Specific Thrusts

Our plan for meeting the needs of our customers and establishing a customer base are threefold. The first part is to have a good location from a customer viewpoint. Our proposed location, in the Promenade, provides an attractive alternative for the Southeast Metro purchaser of magazines and tobacco products. Once a customer decides to shop at our store, they will find that access is easy and convenient from the road. We are located only 100 feet off of the street and 1/4 mile from the freeway exit. Our location near the entrance of the mall provides us with good visibility from the road. Upon arriving at the store, customers will find plenty of free parking with a short walk in to the store.

The second part of our plan is to provide a pleasant shopping environment. Visually, this will be accomplished by the use of light interior colors and woods to create a pleasing and inviting atmosphere. This is in contrast to most tobacco stores that use dark colors and woods. This is intended to draw in the female customers as well as males. On the practical side, the layout of the store will be open allowing for a traffic flow pattern that will make it very easy for the customer to shop without having to step over and around other customers.

Customer convenience will be enhanced by the separation of the magazines and tobacco sections. The magazines will be in front of the store and tobacco in the rear. This will allow our non-smoking magazine customers to avoid the tobacco section. Direct ventilation will be used in the tobacco section to carry any unwanted smoke directly outside.

The customer will find it easy to locate their favorite magazine title as the magazine and newspaper racks will have category signs above the different sections. The magazine racks are designed with a minimum depth so that the customer will be able to view all titles without crouching. The magazines will be displayed individually with the full masthead or cover visible. Typically, magazine stores overlap the magazines in an attempt to squeeze in the largest number of titles possible. This tends to make it difficult to locate specific titles. We prefer to sacrifice the additional titles for the sake of customer convenience. We will also maintain the clean and neat appearance of the store by avoiding the stacking of magazines on the floor. Mobile magazine carts will be used on the days we are putting out new titles and pulling the old ones off of the shelves.

The tobacco section will be organized with our display cases devoted to particular products, i.e. one for pipes and pipe accessories, one for cigar and cigarette accessories. The cases will not be so crammed with merchandise that the customer is overwhelmed with options. The cases will front a large 10' by 20' walk-in humidor. The inside of the humidor will be visible from the main floor through windows.

The third part of our plan to create and keep our customers is service. We will place emphasis on employing a knowledgeable and pleasant staff. We will pay close attention to our customers needs by responding to special



requests for both magazines and tobacco. We will always try and get the customer the item they are looking for even if we have to get it from our competition. We will enhance our tobacco selection by providing extra services such as the rental of lockers in our humidor for storage of the customer's favorite cigars and we will offer free pipe cleaning.

Our capable staff will be assisted in their duties by the use of our integrated computer system. The system will allow us to answer customers' questions quickly and efficiently. The system will help in locating stock, providing information on the availability of items, immediate ordering of new items and will even allow us to provide information on the products. Our product database will enable even the newest staff member to answer customer questions concerning our cigars and tobacco merchandise, such as it's characteristics, where it is made and what similar products are available. As with the tobacco products, a database will be maintained to assist in identifying magazines that are of special interest to our customers.

The system will also allow us to maintain an inventory which is responsive to the needs of our customers. We will be able to easily identify which titles are not selling and remove them from the shelves while replacing them with new titles of interest. Our goal of improving stockturns will allow us to maintain a magazine and tobacco inventory that is new and fresh thus maintaining customer interest.

We believe that our threefold plan will meet with the approval of our customers and will make us the premier magazine and tobacco store in the metro area.

Pricing

Products will be priced with moderate to premium margins. We will not attempt to be a low price discounter. A store of our size cannot afford to attempt to meet the loss leader levels offered on domestic cigarettes and magazines by the mass retailers and supermarkets. Our focus will be on those products the consumer cannot find in the limited tobacco and magazine departments of these competitors.

We do intend to be price competitive with the specialty tobacco and magazine stores in the area. We will use our computer based pricing to optimize our sourcing and will work to improve our turns so that we can achieve lower costs. This should allow us to improve upon the margins used in our financial projections. Specific information on price levels and margins can be found in **Section:** Management and Operating Plan.

Marketing Programs

We intend to implement a number of programs to keep our customers aware of us and to ensure that they are satisfied when they leave the store.

Tobacco Inventories We will use our inventory tracking system to monitor inventory levels of cigars or tobacco, project usage levels and adjust inventories to meet indicated trends. Improved stockturns will allow us to maintain a new and exciting inventory. This will entice pipe buyers and lighter aficionado to stop in and visit on a more frequent basis.

Magazine Title List We will use our POS system to monitor magazine & newspaper sales. Inventories will be adjusted to make certain that we stock a sufficient quantity of the titles that are of interest to our customers. Titles that do not sell will be removed from our buy list to make room for other titles that meet the interests of our customers.

Smoker's Clubs We will sponsor pipe and cigar smoker's clubs. This will consist of reserving special times for the clubs to meet and affording them the chance to sample new tobaccos and cigars. This will provide us with a unique opportunity to draw in these high-end customers as there are no such clubs in the metro area.

Newsletter A bi-monthly newsletter will be sent out to interested customers. This newsletter will provide details on new magazines and tobacco products as well as special promotions.

New Product Announcements Postcards announcing new additions and features will be mailed out to



interested customers as a supplement to our newsletter.

Market Surveys We will conduct regular surveys of our customers to establish a database of information on demographics, interests and comments on our service. This information will be used to make improvements where necessary and insure that we continue to pay attention to the needs of our customers.

Demographic data regarding customers will be routinely logged in to the computer as each sale is made. This will include sex and age of the customer. This will provide us with a database upon which we can draw as we tailor our advertising and future expansion plans.

Advertising A key factor in achieving our short term goals will be the initial phase of our advertising. During this phase we will strive to make our presence known on a regional basis. A multi-media campaign is planned that will include radio, newspaper and some direct mail to known tobacco consumers. The advertising plan will be developed and implemented by an outside advertising consultant.

Beyond the initial advertising program, we plan to have an on going advertising program to keep our name out in front of the regional consumer. This will include yellow page advertisements under 4 different classifications, occasional radio ads and ongoing newspaper ads rotated among local newspapers. This will include advertising in the county papers so as to draw Washington state residents shop in the area.

MANAGEMENT AND OPERATING PLAN

Structure & Personnel

Standard Tobacco & News is registered with the State of Washington Department of Commerce. This business is a partnership owned by Dwayne and Samantha Peters. The business will use a defined organization intended to support long term growth plans. This organization delegates authority to the lowest levels thus motivating our workforce to perform to the best of their ability.

The General Partners (GPs) will jointly direct the long term affairs of the business and establish general operating procedures. All purchasing and financing of capital equipment will require approval of the GPs. The GPs will also act upon items brought to them for review by the General Manager.

The day to day affairs of the business will be managed by the General Manager (GM). The GM is responsible for the maintenance of all financial records, approval of purchases of products and supplies, payment of bills, marketing programs and advertising, approval of hiring and firing of all employees with specific responsibility for office and support service employees, establishment of specific operating procedures and all other matters that do not require approval of the partners. The GM will also oversee the maintenance and upkeep of the store, computer systems and capital goods.

The position of Systems Manager (SM) will be established. The SM will report to the GM. The SM will be responsible for the selection, setup and maintenance of the support systems. This includes the computer hardware, computer software, and the telephone system. Dwayne Peters, while continuing in his present position with General Electric, will serve as the Systems Manager.

The store will have two department managers, a Tobacco Department Manager (TDM) and a Magazine Department Manager (MDM). The TDM and MDM will report to the GM. The TDM and MDM will have joint responsibility for the hiring and firing of employees. All hiring and firing actions must be approved by the GM.

The TDM will have responsibility and authority for the selection and sale of cigarettes, cigars, tobacco, pipes, lighters and other tobacco accessories. The TDM will have the authority to purchase and price tobacco goods within the limits defined by the GM. The TDM will have responsibility for the training and supervision of employees who work in the Tobacco Dept. The TDM will also be responsible for direction of all sales personnel when the TDM is on duty. Marianne Johnson will be the Tobacco Department Manager.

The MDM will have responsibility and authority for the selection and sale of magazines, newspapers, candy



and other gift items. The MDM will have the authority to purchase and to price magazine goods within the limits defined by the GM. The MDM will have responsibility for the training and supervision of employees who work in the Magazine Dept. The MDM will have responsibility for the direction of all sales personnel when the TDM is not on duty. Ken Boardman will be the Magazine Department Manager.

Resumes

The following are abbreviated resumes for the principals.

Samantha Peters brings over 19 years of bookkeeping experience with various levels of responsibility to Standard. During the past 4 1/2 years, she worked as the bookkeeper at there Cigar Store. Her duties at Jeff's included all maintenance of financial records, payment of bills, and billing of customers.

During this period, her achievements included:

- Implementation of a new, comprehensive, bookkeeping system
- Development of mail order business
- Development of written operating procedures for employees
- Integration of the bookkeeping records for a new store

Through her position, she gained knowledge of products and suppliers that will be applied in the operation of Standard. She also gained an extensive understanding of the operation of a smokeshop and magazine store and the duties of a general manager. Her position required her to answer customer telephone inquiries, process magazine returns and assist in taking inventory. She acted as an advisor to the owner of Jeff's and was a key contributor in the day-to-day operation of the store.

During 1991, she completed a Small Business Development course of study at the community college.

Dwayne Peters has worked for General Electric (GE) since graduation from college in 1974. He moved to this area in 1978, where he has held various positions with GE's Utility Sales Department. He is presently a Senior Application Engineer in Utility Sales with responsibility for applying electrical equipment in utility systems, system application engineering and economic and technical evaluations of equipment and financing alternatives. He has attended numerous General Electric Company courses including Sales Leadership, Managing Account Potential and Modern Marketing I.

Dwayne has also been involved with the implementation of personal computers (PC) at GE. This includes set up of equipment, installation of soft ware and general troubleshooting of equipment and software problems. He has been an active member of a GE field sales PC work group that has advised management on problems and recommended solutions for implementation on a Division wide basis.

While continuing to work for GE, Dwayne will bring his considerable sales, marketing, financial and technical expertise to bear on the issues facing Standard.

Marianne Johnson 14 years of sales experience with over 11 years in tobacco shops. She has worked for her present employer for the past 10 years and has held successively higher levels of responsibility. She currently is the operations manager for three tobacco shops and is responsible for all aspects of the operation.

Her responsibilities as operations manager include the hiring and training of employees and store managers, selection and purchase of inventory and maintenance of the same. Marianne's experience allows her to effectively manage her employees as she knows what is required to be a successful retail sales person. She has extensive knowledge of all of the tobacco products. This knowledge and experience allows her to effectively work the counter as well as train employees.

Ken Boardman also brings an established reputation with tobacco suppliers. This reputation coupled with his knowledge and experience will allow Standard to hit the ground running. He will provide instant credibility with suppliers and with knowledgeable customers. His extensive experience as a manager will make him a vital part of the management team at Standard His retail expertise and knowledge of tobacco products will be a



key to our achieving the sales projections.

Labor Requirements

Standard Tobacco and News will require only one type of labor, namely sales clerks. We intend to source our clerks from the existing pool of retail clerks, but will consider hiring people with no prior experience as is necessary. Training of employees is the responsibility of the Department Managers. All employees will be expected to perform all tasks including cleaning. We do, however, expect to have some of our full time employees specialize in either tobacco or magazines. Specialized tasks, such as accepting delivery of goods and preparing returns of magazines will be assigned to specific employees. These tasks may be performed by other employees, but the work will be performed under the direction of the assigned employee.

We plan to establish a multilevel system for classifying our sales clerks. All beginning clerks will be classified as Assistants, a probationary position. They will be on probation for a minimum of 3 months to a maximum of 6 months. At the end of the probationary period they will either advance to the position of Sales Clerk or be terminated. Their promotion or termination will be based upon having demonstrated a basic working knowledge of the systems used at Standard, shown a capability for retail sales and consistently followed the work rules established by the Managers. The individual who continues in the position of sales clerk will have a similar opportunity for advancement to the position of Senior Sales Clerk based upon demonstrated performance. Of course, advancement to a higher level will result in a higher pay level.

We intend to use a blend of full time and part time workers to meet our staffing needs. We have established an employment level based upon achieving a target level of \$160,000 of sales per employee. This compares to an estimated tobacco shop average of \$90,000 convenience store average of \$115,000 and supermarket average of \$200,000.

Based upon our projected sales and target sales per employee, we arrive at the following 5 year estimate of our employment needs:

Employee Type	Yr1	Yr2	Yr3	Yr4	Yr5
Magazine Dept. Mgr.	1	1	1	1	1
Tobacco Dept. Mgr.	1	1	1	1	1
Full Time Clerk	1	1.75	2	2.75	3
Part Time Clerk	1.2	1.5	2	1.7	1.8
Total # of Employees	4.2	5.25	6.0	6.4	6.8
Sales per Employee	\$127,839	\$159,068	\$163,786	\$161,031	\$163,140

Projected Number of Employees

Employee Type	Yr1	Yr2	Yr3	Yr4	Yr5
Magazine Dept. Mgr.	1	1	1	1	1
Tobacco Dept. Mgr.	1	1	1	1	1
Full Time Clerk	1	1.75	2	2.75	3
Part Time Clerk	1.2	1.5	2	1.7	1.8
Total # of Employees	4.2	5.25	6.0	6.4	6.8
Sales per Employee	\$127,839	\$159,068	\$163,786	\$161,031	\$163,140

Accounting Plan & System

Accounting Plan

We will make use of an integrated accounting and point of sale software program operating on a network of personal computers. The use of a computerized system will enhance the operation of the store by automating all facets of inventory management and control, bookkeeping and financial reporting. This will allow us to



have day to day oversight of our financial status.

Inventory management and control will be enhanced through the use of computer generated bar code stickers on all products. This code will include the stock number and source of each product. Levels of inventory will be monitored by tracking the flow of products from the time they are ordered, received, placed into stock and are removed from inventory by either being sold or returned to the supplier for credit. Updating of the cost of goods sold will automatically be translated into a new price for approval by the TDM or MDM.

The system will allow for multi-supplier sourcing that will enhance our ability to control costs. The TDM or MDM will be able to determine who the low cost supplier is, thus maximizing margins. Likewise, when items are sourced from two suppliers, such as with magazines, emphasis can be placed on moving the items with the higher margins first so as to maximize profitability.

The system will allow for easy generation of purchase orders, receiving lists and pull lists for merchandise to be returned. Generation of purchase orders and return lists, payment of bills or receipt of payment, whether cash from a customer or a credit from a supplier, will result in the automatic updating of the appropriate accounting modules. The use of this system will reduce the time needed for bookkeeping, thus allowing the TDM, MDM and GM to concentrate on running the store.

The management of the goods carried, particularly the magazines, will be enhanced by the ability to generate sales history reports. Future stock levels can be adjusted upwards or downwards to reflect historical and seasonal trends. Items that don't sell can be eliminated. Ultimately, margins can be improved on the low margin, high volume magazines by using surplus cash to pay for direct subscriptions from the publishers.

Software

The program we have selected is called Store Ware(tm) Act Accounting Series from Cougar Mountain Software of Boise, Idaho. Store Ware(tm) includes:

- Point of Sale
- General Ledger
- Check Reconciliation
- Inventory
- Purchase Order
- Accounts Payable
- Payroll
- Invoicing
- Accounts Receivable
- LYNX (ASCII File Converter)

Cougar Mountain Software has been in business for nearly a decade and has supplied over 60,000 installations of the ACT series integrated accounting packages for businesses. The Store Ware software was introduced in the spring of 1991. It is one of the few truly integrated point of sale and accounting packages available at an affordable price to the small retail store. The software makes extensive use of pull down menus and online help screens to make the program easy to use.

Products, Pricing & Inventory Levels

Tobacco

Pricing

The pricing of the various types of tobacco products is a function of the competitive marketplace in which the



tobacco shop competes. This results in a wide variation in the gross margin which can be earned on tobacco products. For example, the tobacco shop that sells domestic cigarettes and smokeless tobacco must compete against large competitors who are willing to earn a low margin on a large volume of these products. The successful tobacco shop will typically sell these items on a single pack/can basis. This allows the tobacco shop to charge a higher margin than the large competitors, typically 30% versus 7% to 17%. The marketplace for the other tobacco products is much more limited with other tobacco shops being the main competition. This allows the shops to earn a much higher margin of 45% to 60%, depending upon the product.

Inventory Levels

The establishment of the opening inventory levels is a key issue which a new tobacco store faces. The new store must balance the need for the broad selection of products, required to impress new customers with the capital needed to pay for the inventory. Careful attention must be paid to the selection of the products as cashflow will be restricted if too much start up capital is incorrectly spent on slower moving products. Our strategy is to open with a broad, but shallow selection of products.

Our computerized inventory tracking system will support this strategy by allowing us to monitor inventory levels, track sales levels and project the need to reorder stock on a daily basis. Our suppliers, who can deliver goods within 3 to 7 working days following placement of an order, will be relied upon to support this strategy.

Our strategy of maintaining a shallow level of inventory will allow us to support a much broader level of inventory than would otherwise be possible. The wholesale cost of our opening inventory will be \$61,700. This level of inventory will support monthly sales of \$32,000 based upon a composite stockturn of 4 to 4.5.

Due to the variety of tobacco products offered, multiple levels of pricing margins are required. The competitive environment establishes the Gross Margins that can be realized for any given product line. Domestic cigarettes are sold at the lowest levels, while the remainder of the products are priced at levels commensurate with the other smokesops. A review of the prices of selected products at Jeff's Cigar Store shows that the industry average levels are appropriate for establishing our beginning price levels, as well as for use in our financial plans.

The following Table details the various products we will offer, sales splits by product, gross margin, expected stockturns and beginning inventory which will be required to support our first year sales target. As for the mix of products, we are using a level that is an average of the industry averages and the actual mix at Jeff's Cigar Store. This mix has further been adjusted by our TDM to reflect his experience in this market.

Tobacco Merchandise	%of	Target	Beginning Inventory			
	Total Sales	Retail Sales	Stock Turns	Retail Value	Margin	Cost
Domestic Cigarettes	18.0	\$55,700	26	\$2,150	30	\$1,500
Imported Cigarettes	12.0	50,000	20	2,500	40	1,500
Cigars	30.0	120,000	4	30,000	40	18,000
Pipe Tobacco	14.0	53,300	5	10,650	57	4,500
Pipes	11.0	37,500	2	18,750	60	7,500
Tobacco Accessories	9.0	30,000	4	7,500	60	3,000
Lighters	4.0	26,600	3	8,865	55	4,000
Smokeless Tobacco	2.0	7,400	26	285	30	200
Totals & Composites	100.0	\$380,500	4.6	\$80,700	45	\$40,200

Projected Tobacco Sales and Beginning Inventory

Tobacco Merchandise	%of Total Sales	Target Retail Sales	Stock Turns	Beginning Inventory			
				Retail Value	Margin	Cost	
Domestic Cigarettes	18.0	\$55,700	26	\$2,150	30	\$1,500	
Imported Cigarettes	12.0	50,000	20	2,500	40	1,500	



Projected Tobacco Sales and Beginning Inventory

Cigars	30.0	120,000	4	30,000	40	18,000
Pipe Tobacco	14.0	53,300	5	10,650	57	4,500
Pipes	11.0	37,500	2	18,750	60	7,500
Tobacco Accessories	9.0	30,000	4	7,500	60	3,000
Lighters	4.0	26,600	3	8,865	55	4,000
Smokeless Tobacco	2.0	7,400	26	285	30	200
Totals & Composites	100.0	\$380,500	4.6	\$80,700	45	\$40,20

All of the major tobacco suppliers will require cash on delivery for the initial six months of operation. This will require that the beginning inventory be paid in full prior to opening of the store.

Suppliers

We have contacted all of the major tobacco suppliers as well as a number of the smaller suppliers. All have sent us price lists that have been entered into a computer database. The prices have been sorted and evaluated to determine who the low cost suppliers are. Our major suppliers and the products they will provide are listed below.

Supplier	Type of Tobacco Products Offered:			
	Cigars	Tobacco	Pipes	Accessories
International Cigar Hartford, FL	X	X	X	
Monroe Cigar Co. Carson Corners, NY	X		X	
Capital Tobacco Rockford, CA	X	X	X	X
Tobacco Unlimited Turnbridge, GA	X	X	X	X
Johnson & Fredericks Cigars Halstead, CA	X	X	X	X
Wyndham Int'l Ltd. Martin's Point, PA	X	X		

Tobacco Suppliers

Type of Tobacco Products Offered:

Supplier	Cigars	Tobacco	Pipes	Accessories
International Cigar Hartford, FL	X	X	X	
Monroe Cigar Co. Carson Corners, NY	X		X	
Capital Tobacco Rockford, CA	X	X	X	X
Tobacco Unlimited Turnbridge, GA	X	X	X	X
Johnson & Fredericks Cigars Halstead, CA	X	X	X	X
Wyndham Int'l Ltd. Martin's Point, PA	X	X		

Detailed information on each of the above suppliers is available on request.

There are many other smaller suppliers for cigar and tobacco products and accessories we will use. Included among these are two local distributors, Stevenson Distribution and Kelly Tobacco Co. While both of these distributors carry many of the same products, comparison of their price lists shows that Stevenson Distribution has the best prices. A recent survey of local small retail outlets gave Stevenson the highest marks for service



and consistent pricing policies.

The local distributors, along with wholesale outlets will be our primary sources for domestic cigarettes. A number of smaller suppliers will be our sources for import cigarettes. A key factor in one distributors favor is that they will stamp the import cigarettes with Washington cigarette stamps. We intend to purchase either unstamped or stamped cigarettes depending upon the cost savings offered by either approach.

Magazines & Newspapers

Pricing

The pricing of the mass market magazines is dictated by the level of competition and the exclusive distribution arrangements between the publishers and major local distributors. The local distributor typically sells magazines at 20% off suggested retail price. This is the discount offered to all retailers. National distributors offer discounts ranging from 25% to 45%. The wide range of discounts, the proper management of the title list and sourcing of the magazines will have a big impact on our bottom line. By sourcing as many titles as possible from the distributors offering the higher discounts, we expect to earn a gross margin of 31% on our domestic titles.

The discount we will receive on our foreign titles ranges from 20% to 35%. The market for these magazines, however, allows for mark-ups above the suggested retail. We will price all foreign titles with a 35% gross margin, except those titles that are competitively priced with a lower margin. This results in a composite gross margin of 312% for all magazines.

This margin can be increased by the collection of retail display allowances from the publishers. Typically, publishers will pay the retailer an RDA in return for featuring the publishers' titles through full cover displays and by placement of the magazines in high traffic areas. To collect the RDA, the retailer must sign a contract with the publisher. Typically, the RDA is equal to 10% of the coverprice. The level of the margin is dependent upon the number of titles carried and how many of the titles receive full cover display. In practice, they equal 7%. Not all publishers offer RDAs. The design of our racks will allow for full cover display of over 35% of our titles and full masthead display for all remaining titles. This will allow us to maximize our RDA levels.

The collection of the RDAs is no small task as significant documentation is required by the publishers before they will pay the RDA. There are collection services available to assist the retailer in collecting the RDA. These firms will negotiate these contracts on behalf of the retailer and file the necessary paperwork with the publisher to collect the RDA. In return, the collection agency keeps 10% to 20% of the RDA. RDAs are typically paid quarterly with a 6 month time lag between request for payment and receipt of the RDA.

The terms of payment and return policy for the magazines are key elements in maximizing profits. Terms of payment are typically 30 days net, thus allowing the retailer the opportunity to generate cash flow to pay for the magazines. The distributors and publishers return policy allows the retailer to return unsold magazines for a credit so that in essence you are only paying for magazines. This allows the retailer to order sufficient copies to assure that sufficient stock is on hand to meet demand without having to be concerned with absorbing the cost of the extras.

It is imperative that the distributor's policies regarding returns are followed. The period allowed for returning outdated issues is limited and the length of this period varies by distributor. In addition, each distributor requires that you prove that the magazines did not sell. You do so by either returning the masthead, the cover or the whole magazine. Failure to properly follow the distributors requirements can result in rejection of your credit request. All of this requires effective management of the magazine inventory.

The return of the magazines and mastheads results in two other operational issues, shipping costs of returns and disposal of stripped magazines. Shipping costs are minimal since most distributors require the return of only the masthead. Disposal of the magazines can present an ongoing waste disposal cost issue if not properly handled. We will minimize this cost by recycling, when possible.



The management of the magazine inventory will be easily implemented through the use of the integrated accounting and point-of-sale software. This system will provide for swift processing of the magazines with identification of the source of supply via bar code labels. The system will insure that returns are properly handled on a timely basis. The system will also provide us with the ability to source our magazines from the most cost effective suppliers. The system will give us the ability to track the performance of suppliers and to establish sales histories for magazine titles so that stock levels can be adjusted to minimize costs while maintaining a high level of customer service.

Inventory Levels

The typical stockturn for magazines is 4 to 52 with 9.4 being our composite value. Approximately fifty percent of the magazines are typically returned for credit, although we will have a much higher level of returns during startup. To achieve our sales target of \$200,000 in annual sales, we will carry a beginning inventory that supports monthly sales of \$22,000. The retail value of this inventory is \$29,300 and a wholesale cost of \$20,000. Our ability to return unsold titles allows us to maintain a larger inventory than would otherwise be justified. In the longer term we will strive to improve the percentage of magazines sold from 50% to 75% through tight management of inventory levels. If we can achieve this goal, our initial level of inventory will be sufficient to support our long term sales goals, except for seasonal variations.

Suppliers

Traverse Bay News of Leland is the primary distributor for this area and serves the needs of all local magazine outlets. They offer the standard 20% discount off of the suggested list price. On the positive side, Bay provides local delivery. The negative aspects of dealing with Bay are 1) terms of payment are net 7 days, 2) they have a much shorter period for accepting returns 3) they are more likely to reject magazines as not being theirs and 4) their discounts are the lowest available. We will use Bay as our supplier for approximately 45% of our titles.

An alternative to Bay is to purchase magazines from large national distributors, such as Ingram Periodicals, International Periodicals Distributor, or Eastern News. These distributors offer many specialty titles that Bay does not carry along with a number of magazines that Bay does offer and at a discount off suggested retail of 25% to 40%. All of these distributors pay the cost of shipping the magazines. The positives of dealing with these distributors are 1) larger discounts, 2) terms of payment are net 30 days and 3) they are easier to deal with regarding returns. The negative aspect of dealing with these distributors is the time delay due to their remoteness. However, we will actively seek to use these distributors due to the significant increase in margins available to us and the superior terms.

Approximately 28% of our titles will be sourced from these distributors. The net result of this will be to increase our composite margin for domestic magazines to a respectable 31%, exclusive of RDA payments. We will also source a large selection of specialty titles from a number of small distributors and directly from publishers who are willing to deal directly with a retail shop. The discounts available, terms of payment and return policies for these sources are similar to those offered by Ingram, IPD and Eastern.

The remaining 27% of our titles will be foreign magazines and newspapers. We will price all foreign magazines with a minimum gross margin of 35%, thus assuring a decent level of profit on these titles.

Implementation Plan

Facilities

Standard will be located in a leased retail space in the Town Center area. We are presently negotiating lease arrangements for retail space in the Promenade. The space is located in Building 1, Space 1-K. The size of this space, 1,875 square feet supports the space requirements needed for a combined tobacco shop and full line magazine store.



The space will be provided as a standard vanilla shell. This includes finish of all outside interior walls with wallboard ready for final finish, suspended ceiling, electrical service, lighting (100 foot candle level at 4 feet above the floor), complete bathroom, and heating, ventilation and cooling system. In addition, the landlord will reimburse us for up to \$2.00 per square foot of improvements.

The term of the proposed lease is five years. The proposed rent payments are as follows:

Month 1:	\$16.00 per square foot
Months 2, 3, and 13:	\$0.00 per square foot
Months 4 through 12:	\$16.00 per square foot
Months 14 through 18:	\$16.00 per square foot
Months 19 through 36:	\$16.50 per square foot
Months 37 through 60:	\$17.00 per square foot

Month 1: \$16.00 per square foot

Months 2, 3, and 13: \$0.00 per square foot

Months 4 through 12: \$16.00 per square foot

Months 14 through 18: \$16.00 per square foot

Months 19 through 36: \$16.50 per square foot

Months 37 through 60: \$17.00 per square foot

In addition, we must pay for all utilities consumed and our pro rata share of taxes, insurance costs, and common area maintenance. This cost is expected to be \$2.75 per square foot for the first year of our lease.

Capital Requirements: Improvements

The improvements that we will need to make include:

Improvement	Estimated Cost
Interior paint finish of wallboard.....	\$300
Carpeting.....	3,000
Slatwall display board (10 sheets).....	1,000
Humidor (10' by 20').....	20,000
Wall with door to back room.....	500
Special Lighting.....	1,000
Computer electrical outlets.....	1,000
Telephone lines (in building).....	500
Computer cabling.....	500
Direct ventilation duct in tobacco department.....	500
Contingency.....	1,700
Total of Improvements	\$30,000

Improvement	Estimated Cost
Interior paint finish of wallboard	\$300
Carpeting	3,000
Slatwall display board (10 sheets)	1,000
Humidor (10' by 20')	20,000
Wall with door to back room	500
Special Lighting	1,000
Computer electrical outlets	1,000
Telephone lines (in building)	500
Computer cabling	500
Direct ventilation duct in tobacco department	500
Contingency	1,700
Total of Improvements	\$30,000



Capital Requirements: Equipment/Fixtures

Equipment	New/Used	Sourcing	
		Buy	Lease
Magazine Racks	New		\$20,000
Display Counters (10)-6'	Used		4,000
Merchandise Racks 50'	New		5,000
Storage shelves New/	Used		1,000
Humidor Cabinet	Used	1,000	
Newspaper Racks	New	750	
Magazine Stocking Racks	New	300	
POS Counters (3)	New		1,800
Computer & Printer	New		3,300
POS Terminals (3)	New		7,500
Point-Of-Sale Software	New	1,500	
Miscellaneous Software	New	500	
Outdoor Sign	New		4,500
Window Sign	New		1,500
Interior Signage	New	500	
Miscellaneous Tobacco	New	1,000	
Stools	New	100	
Desk	Used	150	
File Cabinet	Used	100	
Safe New/	Used	175	
Phone System	Used	500	
Contingency	Used	2,000	
Total Capital/Equipment Needs		\$8,575	\$48,590

Equipment	New/Used	Sourcing	
		Buy	Lease
Magazine Racks	New		\$20,000
Display Counters (10)-6'	Used		4,000
Merchandise Racks 50'	New		5,000
Storage shelves New/	Used		1,000
Humidor Cabinet	Used	1,000	
Newspaper Racks	New	750	
Magazine Stocking Racks	New	300	
POS Counters (3)	New		1,800
Computer & Printer	New		3,300
POS Terminals (3)	New		7,500
Point-Of-Sale Software	New	1,500	
Miscellaneous Software	New	500	
Outdoor Sign	New		4,500
Window Sign	New		1,500
Interior Signage	New	500	
Miscellaneous Tobacco	New	1,000	
Stools	New	100	
Desk	Used	150	
File Cabinet	Used	100	
Safe New/	Used	175	
Phone System	Used	500	
Contingency	Used	2,000	
Total Capital/Equipment Needs		\$8,575	\$48,590

FINANCIAL

We believe that the initial funding of \$205,100 will be sufficient to carry Standard Tobacco & News through to

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initial profitability. These financial needs will be met through a blend of bank loans, equipment leases and personal cash investment. The loans and leases will be secured by the value of the capital equipment purchased, the value of the inventory. In addition, Dwayne Peters will continue in his present position at GE thus providing a personal guarantee of payment.

We anticipate that we will be able to sustain a minimum gross margin of 39%. We will seek to increase this level through management of our inventory sourcing. We anticipate that, after our initial year of operation, we will be able to sustain a net return on sales of 16% to 17%.

Assumptions underlying our financial projections are:

- Partners contribute \$60,000 cash during startup phase.
- Partners defer taking any draws until monthly income levels exceed \$2,500.
- Loan term is five years with interest fixed at 12% per annum.
- Lease term is five years with an assumed cost of financing of 18% per annum.
- Depreciation is calculated on all equipment assuming a five year recovery period with the regular MACRS method and the half year convention.
- Receivables are not a major factor as all sales are cash sales. Credit card sales are assumed to be 10% of total sales and will be collected through immediate electronic credits. An allowance of 3% for the cost of credit sales.
- Payables are net cash for all tobacco products and candy. Magazines are net 7 days and net 30 days depending upon the supplier.
- The composite inventory turn is 4.8 time per year. The individual turns for each product are as stated in the business plan. Inventory calculations and cashflow requirements are based upon the individual turns figures, not the composite.
- Minimum cash on hand will be maintained at \$20,000 although our projections do not show that we will reach this level. Arrangements have been made with a family member for a \$15,000 line to provide for short term cash needs to maintain this balance.

Detailed budgets underlying the financial projections are available for further review and discussion .

APPENDIX I

Market Size

General

The research we have conducted reveals that there exists no direct measure of the metro tobacco and magazine market. There are two methods that can be used to give us an indication of the relative size of each of these markets. Briefly, they are as follows:

Method 1

This approach takes overall sales figures for the various retail outlets for the metro market and multiplies them by the industry average for percent of sales for each product by retail outlet. The result is an estimate of the sales of each product attributable to each retail sales channel. The sum of all sales channel figures gives an estimate of the total retail market for the metro area. Retail sales figures are reported in the "1987 Census of Retail Trade for Washington" published by the Bureau of the Census, and industry averages are reported in the "1990 Data Book," published by the Periodicals Institute.

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Method 2

This method estimates the available market by multiplying the average consumer unit expenditures for each product by the appropriate number of consumer units for our market area. Consumer expenditures are reported in the "Consumer Expenditure Survey, 1987" published by the Bureau of Labor Statistics. Information on numbers of consumer units in our market area was given in the "Market Data Report - Town Center Area" published by the North County Development Agency.

Tobacco

Method 1

The overall sales figures for various retail outlets can be found in the 1987 Census of Retail Trade for Washington, published by the U.S. Department of Commerce. This is the most recent issue of this publication. Industry averages for percent of sales for various retail outlets can be found in the "1990 Data Book" published by the Periodicals Institute. This Data book provides data on retail sales for magazines, paperbacks, candy and, indirectly, tobacco markets. The Periodicals Institute has compiled information from various industry publications and surveys.

The following Table details the estimated available sales for each market in which Standard will participate.

1987				
SIC	Retail Market Category	Total Sales	% of Total	Tobacco Sales Dollars
		A	B	A x B
531	Dept. Stores	\$1,056,461,000	1.16	\$12,254,948
541	Grocery Stores	1,316,392,000	3.25	42,782,740
549	Misc. food Stores	10,795,000	3.25	350,838
591	Drug Stores	139,012,000	6.20	8,618,744
5993	Tobacco stores	3,364,000	75.00	2,523,000
Total Tobacco Sales				\$66,530,269

1987

Retail Market			Tobacco Sales	
SIC	Category	Total Sales	% of Total	Dollars
		A	B	A x B
531	Dept. Stores	\$1,056,461,000	1.16	\$12,254,948
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591	Drug Stores	139,012,000	6.20	8,618,744
5993	Tobacco stores	3,364,000	75.00	2,523,000
Total Tobacco Sales				\$66,530,269

Method 2

The "Consumer Expenditure Survey, 1987" published by the U.S. Department of Labor, Bureau of Labor Statistics in June, 1990, provides information on expenditures for various consumable and non-consumable products. These expenditures are provided in tabular form for various categories of consumer units. We have used the information provided in Table 2, "Average Annual Expenditures per Consumer Unit by Income Level." These are national averages that need to be adjusted to reflect the usage in our area. We can arrive at a "metro usage factor" by dividing the composite metro average consumer unit expenditure of \$178 by the composite national average of \$232. This gives us a "metro usage factor" of 0.77. The values given in the following table are the adjusted Portland average expenditures for each group of consumer units.



Information on the number of households within a given distance of the Town Center can be found in the "Market Data Report - Town Center Area," published by the North County Development Agency. For our purposes, we will use the figures for numbers of households within 10 miles of the Town Center. This roughly corresponds to the 25 minute travel time that was used in Method 1. The following table summarizes this data and shows the resultant calculation of market size.

	Avg. Ann. Expenditures/ Consumer Unit	# of Hshlds. w/in 10 Mi. of Town Ctr.	Total Sales/ Income
	A	B	A x B
Income			
\$75,000 or more	\$200.20	14,391	\$2,881,033
\$50,000 to 74,999	200.20	28,306	5,666,824
\$35,000 to 49,999	214.83	48,078	10,328,653
\$25,000 to 34,999	204.05	51,111	10,429,205
\$15,000 to 24,999	177.87	63,242	1,248,871
Under \$15,000	141.94	92,172	13,082,629
Total Tobacco Sales			\$53,637,215

Estimated Tobacco Sales in the Metro Market

	Avg. Ann. Expenditures/Consumer Unit	# of Hshlds. w/in 10 Mi. of Town Ctr.	Total Sales/Income
	A	B	A x B
Income			
\$75,000 or more	\$200.20	14,391	\$2,881,033
\$50,000 to 74,999	200.20	28,306	5,666,824
\$35,000 to 49,999	214.83	48,078	10,328,653
\$25,000 to 34,999	204.05	51,111	10,429,205
\$15,000 to 24,999	177.87	63,242	1,248,871
Under \$15,000	141.94	92,172	13,082,629
Total Tobacco Sales			\$53,637,215

Summary

The comparison of the values we have derived for the retail tobacco market in the metro area are consistent. Using Method 1, we arrive at a total of \$66,530,269 while Method 2 gives us \$53,637,215. These values compare favorably, thus validating our approaches. We will use the Method 1 estimate available tobacco market in our performance calculations.

Magazines

An estimate of the magazine market can be derived using the same Methods and information sources as for tobacco.

Candy

In the same manner as above, an estimate of the candy market can be derived.