



Magazine Publisher

BUSINESS PLAN

GRAPEVINE MAGAZINE

555 Main St.

Ashland, FL 50945

November 25, 1990

GRAPEVINE is a demo graphically well-positioned magazine catering to a growing segment of the population. Due to developing circumstances and a changing business climate, it is looking for a capital infusion to maintain and further encourage already strong sales. Recent events have created the need to review all aspects of operation .

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MISSION STATEMENT

GRAPEVINE Magazine needs an infusion of capital of approximately \$150,000-200,000.

Nationally known for high quality and its current key position in its market, this company has opportunities beyond the bridge requirement for short-term cash.

Long-term convertible debentures can be retired, probably at substantial discount, opening a major equity position at multiples far below industry average. Current record sales and long-term contracts, coupled with '92 proform a projections, clearly show investment worthiness.

Recent circumstance of events, completely removed from any connection associated to the publication's operations, has created an unprecedented opportunity for participation in a company where industry profits historically grow in excess of 20%.

This is a clean operation and due diligence can be accomplished.



EXECUTIVE SUMMARY

Business Description

GRAPEVINE is a national specialty magazine with highly targeted demographics, designed to reach the top 7% of its market. Through a research driven, "benchmark" system of circulation, it has achieved, and maintains, the second largest advertising market share in its industry and is recognized as one of the four major "sources" in its market.

Business History

Established in November 1978 as a community newspaper distributed by bulk drop-off, it had a circulation of only 7,000. By 1988 through a carefully created network distribution concept, the publication had developed an audited circulation of 233,000. The magazine became the largest consumer lifestyle publication in the state. Impacted by its limited cash and a change in state tax laws, the magazine was bought out in May of 1988 by a public company that took the publication national, as a visible entity to its various subsidiaries. The public company experienced financial difficulties, and the Publication's management took the magazine back in July 1990. In the process of raising cash, convertible debenture financing was secured along investor's communication vehicles. A \$2 million contract was signed with a hotel chain to provide paid circulation for the publication and meet cash flow requirements for the bimonthly circulation of over 400,000. The hotel chain has breached its contract. Simultaneously, a second-class postage application was filed and not approved for 15 months, creating a \$135,000 security deposit for the publication's current investors, who, like the hotel, ended joint-venture operations. These combined series of events have created a cash crunch, in spite of record sales and a new multi-million dollar contract. The publication must either retire its existing long-term debts under new partnership arrangements, or obtain short-term bridge financing to counteract its drastic decrease in cash flow.

Business Highlights

Product

7-3/4" × 10-3/4", saddle-stitched, web offset printed, 4-color, consumer lifestyle magazine. Produced on 34/36 lb. enamel-coated stock, full body text and 60 lb. coated cover stock, the magazine is an award-winning editorial product.

Market

The publication is one of the four major leaders in the industry and serves a highly targeted niche. It has been reported to reach the top 7% of the market place. The publication is considered for quality rather than quantity reached and is positioned specifically in the fast growing segment of the market.

Customer Base

The magazine has the unique stature of being the only publication to have a qualified paid audited circulation in its industry. Qualified paid means the specific demographics are guaranteed to be reached by the publication's circulation. The methodology of its "benchwork" approach to the demographics of its readers has launched its circulation to be the most sought-after marketing approach in the industry.

Sales

The company's sales have grown from \$1,000,235 in 1981 to \$2,708,080 in 1990 with projected growth in

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excess of \$3.3 million in 1992, and net profits in excess of \$450,000.

Management

The management team is made up of those who have been recognized as authorities in their emerging market. The company has a secondary management team that provides uninterrupted continuance. The top management team is in place and hopes to remain.

Potential

Not only does the magazine serve the fastest growing market in the country, it has developed over its tenure a "franchise" into the advertising community. Further, the concept of contract printing as a new revenue stream is being addressed with one contract just being started and two pending.

OVERVIEW

Established in 1978, GRAPEVINE Magazine uniquely serves that segment of the huge and growing senior consumer base that has the following highly targeted characteristics:

- Female
- Between 50 and 64 years old
- Household income \$40,000 plus
- College educated

In short, the publication serves an active, involved readership whose numbers are going to continue to grow for some time as the "baby boom" generation matures. There are now over 63 million people in the over 50 age group with discretionary spending power of over \$78 billion. GRAPEVINE has positioned itself to serve the "Optimal Target Prospect", which is the core of the market as characterized above and defined by Yankelovich Clancy Shulman. A dramatic shift is occurring in the population as the over 50 age group assumes a larger and larger portion of the population.

The importance of this market is best illustrated by the increasing number of publishers who are approaching it and the quality of its industry leaders. In addition to GRAPEVINE, there are MODERN MATURITY, a benefit of membership publication of the American Association of Retired Persons; NEW CHOICES published by the Reader's Digest; and MATURE OUTLOOK published, under contract, by Meredith for Sears Roebuck's Allstate Enterprises' Mature Outlook Club, as a benefit of membership. Other publishers that are attempting to cover the market through the creation of special demographic sections are not direct competition for GRAPEVINE, although they do serve to focus the marketing community on the value and the huge potential of the emerging senior consumer. In fact, Ken Dychwald, president of Age Wave Inc., a search firm, has identified "over 200 newspapers, magazines, and tabloid-styled publications" serving the market in various degrees. According to the Patterson Advertising Lineage report, however, GRAPEVINE maintains the second largest market share by ad page count as of their February '91 quarterly.

Grapevine Senior News, Inc., was acquired by John and Jane Doe in December of 1980. At that time GRAPEVINE was a newspaper having a circulation in London County, Florida of just 7,000. Today the magazine has a national circulation of 400,000. It has enjoyed steady growth in advertising revenue since it was acquired and has developed a unique, targeted circulation marketing program utilizing research that differentiates the title from the rapidly growing field of competitors, and positions the magazine to deliver the top 7% of the entire senior consumer base—"The Optimal Target Prospect".

Having achieved the largest circulation in Florida, the 1988/1989 period was an important time for GRAPEVINE Magazine. The publishers had seen the national advertising revenue base opportunities grow substantially. The title was already attracting national advertising accounts who were seeking to reach the



critically important bellwether Florida market, which has a large concentration of seniors. Management felt that the next step in the development of the title would be to take GRAPEVINE to the national market by extending the circulation coverage and building a stronger base to attract more national advertising dollars. The publishers were able to obtain an interim financial partner to accelerate the growth of the title to the national level. This objective has been accomplished.

To augment the advertising revenue stream, circulation driven, long-term, contract-printing contracts were developed to provide GRAPEVINE Magazine a "Qualified Paid" group subscription magazine for Day's Inn of America's September Day's Club beginning January 1990. A wholesale publishing division was set up in February of 1990 that included corresponding contracts with September Day's Club to produce its 32-page insert; new contracts with Pioneer Financial Services, Inc. to produce two additional magazines for their associations, providing paid circulation revenue and vastly improving, via terms, cash flow; plus a long term corresponding contract with Humana Hospital Corporation.

Current two year contracts are valued at \$1,906,999.

The title is forecast to generate net operating revenues of \$484,470 during the fiscal year December 31, 1992. Revenue growth is expected to accelerate sharply FY 1991 as a result of the company's new, profitable paid, contract circulation revenue streams, the removal of non-profitable contracts created for cash flow benefits, and the increase in national advertising as a result of the company's steadfast "key" position in the market place.

FINANCIAL SUMMARY

	12/89 Act	12/90 Act	12/91 Act	12/92 Est
Gross Ad Revenue	\$1,832	\$1,502	\$1,672	\$1,809
Circulation Revenue	195	564	737	1,323
Other Revenue	6	642	86	176
Gross Revenue	\$2,0338	\$2,708	\$2,495	\$3,051
Less: Agency comm.&disc.	295	268	258	257
Net Revenue	\$1,738	\$2,440	\$2,237	\$3,051
Less: Op. Exps.	\$1,853	\$2,397	\$2,266	\$2,567
Op. Profit/(Loss)	\$(115)	\$43	\$(29)	\$484

FY 1989-FY 1992

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Management's advisors believe that GRAPEVINE represents an exceptionally attractive strategic acquisition or investment opportunity for the following reasons:

GRAPEVINE serves one of the largest and most important emerging markets the affluent senior market.

GRAPEVINE has established a national presence in the advertising community, and has earned top market share.

GRAPEVINE has established a unique audited circulation strategy that effectively differentiates the title from its competition and positions it as delivering the top 7% of the market with an industry exclusive "qualified



paid circulation". This is a niche that empowers the magazine and aligns it with quality rather than with quantity.

The publication is poised for dramatic revenue increases, having made substantial investment expenditures during the three-year national launch periods. (The work is done.)

Operating profits should be able to be enhanced by a number of sales actions not currently employed by management due to lack of resources.

The title has an ongoing development programs to extend its reach into new distribution areas and into additional contract-publishing, revenue-stream opportunities.

The award-winning editorial product is attuned to the market and is recognized as one of the four leading national publications serving the over-50 adult.

GRAPEVINE is the only independent magazine serving its market. National advertising sales are low in '91 due to the recession and war. In spite of the restriction within the advertising industry and compared to the competition, high growth potential in revenues is evidenced by the publication's continued record-breaking revenue issues.

According to Patterson's Advertising's Par Report, GRAPEVINE maintains the second largest market share of advertising lineage in the industry even though its current circulation is the smallest amongst the other three major publications.

Circulation opportunities have only begun to be exploited by management, creating new and inherently profitable sources of revenue. Contract Publishing: 3 contracts pending (not budgeted).

The management team of GRAPEVINE is and has been recognized as national authorities in this emerging Mature Market Industry for over 11 years and has a tremendous appreciation of the market and the advertising and revenue base potentials.

GRAPEVINE represents an ideal opportunity to get into an emerging market, with a nationally accepted quality product having a national advertising "franchise" already in place. The potential of a strong return on investment is assured.

GRAPEVINE is a federally registered magazine trademark.

The company is located at 555 Main St., Ashland, Florida 50945. Ashland is on the west coast of Florida. The offices occupy roughly 1800 square feet and the magazine pays rent of about \$12.88/sqft. The building, a historic site, is owned by the Doe's and leased back to the company at higher than market value in an arm's length transaction. The company has regional sales and support personnel who operate out of rented facilities. These sales offices are in Florida. All operations are handled out of the Fish, Florida headquarters, including editorial, production, marketing and administration.

PERSONNEL

The company employs 15 people as of July 13, 1991. The company offers all normal benefits to employees (except retirement or 401K plans). The following list identifies the employees by position:

Editorial

Doe, Jane.....	Editor-in-Chief/President
Fore, Liza.....	Managing Editor
Pun, Audra.....	Asst. to Editor

Editorial

Doe, Jane	Editor-in-Chief/President
Fore, Liza	Managing Editor
Pun, Audra	Asst. to Editor



Production

Gill, Gilbert.....Art Director
Strange, Keith.....Production Asst./Typesetter

Production

Gill, Gilbert Art Director
Strange, Keith Production Asst./Typesetter

Sales

House
Stick, Susan.....Acct. Exec-Midwest and Florida
Leaf, Barry.....Acct.Exec.-East
Reaves, Chris.....Acct. Exec.-Dir.Resp. plus New England

Contract Representation

Kent, Clark.....Northeast--Tri-city area
Bart Group.....West Coast

Sales

House

Stick, Susan Acct. Exec—Midwest and Florida
Leaf, Barry Acct.Exec.—East
Reaves, Chris Acct. Exec.—Dir.Resp. plus New England

Contract Representation

Kent, Clark Northeast—Tri-city area
Bart Group West Coast

Administration

Doe, John.....Publisher/CEO and Corporate Secretary
Dawson, Geoff.....Executive Asst. to Publisher
Lind, Paul.....Bookkeeper
Turn, Lauren.....Data Processing/Programmer
Brushe, Marie.....Secretary (Sarasota Sales Office)
Pitcher, Sue, ...Accounts Receivable/Sec. to Sales Department

Administration

Doe, John Publisher/CEO and Corporate Secretary
Dawson, Geoff Executive Asst. to Publisher
Lind, Paul Bookkeeper
Turn, Lauren Data Processing/Programmer
Brushe, Marie Secretary (Sarasota Sales Office)
Pitcher, Sue Accounts Receivable/Sec. to Sales Department

As in many entrepreneurial companies, the staff of GRAPEVINE Magazine performs in multiple roles, and the above titles indicate only the primary responsibilities of the individuals.

KEY MANAGEMENT INFORMATION

John Doe-Publisher, CEO, & Corporate Secretary

Role in Company

Responsible for Marketing & Sales, Finance, Administration and Profitability.

Specialty

Marketing & Sales, Business Management. Good motivator with excellent people skills. A visionary with good business acumen.



Background

President (CEO) for several years of a wholly owned subsidiary of a ¼ billion dollar public conglomerate. He took the company from sales of \$2.9 million with a negative bottom line to sales of \$7.4 million with an after-tax profit of 6.7% within 5 years. He had total sales, operations, and P&L responsibility. The company employed 75 people.

Executive Vice President/Director of Marketing for a toy manufacturer; a position he held for several years prior to his assignment to head up the above subsidiary.

Sales Administrator, National Sales Manager, and Assistant to the President of a large juvenile furniture and T. V. toy manufacturer. These positions ultimately led to the assignment of heading up the acquired subsidiary.

Started working at a young age in his family's retail chain business and did so for six years prior to entering private industry.

Education

American University - Bachelor of Business Administration/Marketing Richardson Valley Technical Institute - Accounting and Business law

Jane Doe-Editor in Chief & President

Role in Company

Responsible for Editorial Content, Art and Design of Magazine. Functions as a business partner. Personnel Manager.

Specialties

A ward-winning editorial talent. Great business acumen. Excellent organizational and leadership skills. Has exceptional insight and understanding of peoples' attitudes and feelings, which complements the task of writing and editing for the magazine's audiences. Intuitively in tune with the market's needs and interests.

Background

Successfully organized and started a company, which she ran for many years, that provided substitute Registered Dental Hygienists to dentists. Supervised a staff of twelve hygienists serving over 100 clients. Prior to this, she was a Registered Dental Hygienist for several years.

Education

Florida University - Working on Masters–Health Counseling

Rochester University - Bachelor of Arts

New York City Technical College - Dental Hygiene

Scotch Plains University - Nutrition

Bergen Community College - Counseling Certification

Montclair University - Psychology

EDITORIAL OVERVIEW

GRAPEVINE Magazine is edited for a target audience that is described as the top 7% of all senior consumers. It is that portion of the market between the ages of 50 and 64, well educated, with household incomes over \$40,000. This is a group that represents the new attitude towards the senior years by focusing on quality of life

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rather than years of age. The magazine is editorially tuned to this new sensibility and provides important information to its readers.

The magazine takes a complete lifestyle and psychology of aging approach, with a special award-winning editorial emphasis on the need and interests of the intergenerational adult reader. While addressing the important quality of life areas that make living fun, the additional award-winning design format of the magazine sets a tone of professionalism throughout its pages.

GRAPEVINE has differentiated itself from its competition's editorial in a number of ways. The personality cover concept of GRAPEVINE is a good illustration of this differentiation and industry distinction. Every issue has on the cover a famous role model—an over 50 personality, well-known for accomplishments in entertainment or public life. The editors follow the cover exposure with a feature story inside the issue. The focus of the story is not the glamour that may surround the individual, but the variety of interests that he/she may have and his/her attitude on aging, serving as a public role model for its readers.

They utilize Pulitzer Prize-winning columnists, such as Jane Bryant Quinn, to write authoritatively about subjects that are of importance to the GRAPEVINE reader. When required, expert technological information is disseminated.

One indication of the quality level is the fact that the magazine continually wins awards for its editorial excellence.

CIRCULATION AND MARKETING STRATEGY

The following commentary by management provides background on the history of circulation development for GRAPEVINE, as well as the current operational steps being taken by the title. In brief, management has identified, through cellular analysis, the optimal target prospect. The "key" segment of the over-50 adult market that has proven to be the most desirable marketing target for the advertising community, and thus has created a very valuable, exclusive market niche.

History

When GRAPEVINE was born in November of 1978, it had a circulation of 7,000 in Brewer County, Florida. The method of circulation was bulk drop-off at areas of senior concentration. By December, 1982, there were five regional editions of GRAPEVINE, basically covering the central corridor of Florida. By networking with the biggest businesses in Florida, who also recognized the importance of the 50+ adult, it created a massive distribution network through the Wesley Drug Store chain and Monopoly Supermarkets. Its association with these retailing giants helped to build GRAPEVINE into Florida's largest, statewide, consumer lifestyle publication. By January, 1988, it had a verified audited circulation (VAC) of 233,000.

Marketing Strategy

In preparation for the 1989 roll-out of GRAPE VINE from a regional publication into a national entity, it retained Yankelovich Clancy Shulman to help create, through "cellular analysis," the "optimal target prospect" for its clients. It designed circulation to accomplish a very special marketing plan, not to build "rate base." As you know, in the industry the norm is to acquire subscribers, usually at high first-year premium costs, in order to develop "rate base" (the basis used to establish advertising rates). Not only did the publishers find this to be backwards, but the advertising client was not correctly being served. Their goal was to deliver only the best prospects not "tons" of anybody. Once Yankelovich defined whom the client base identified as its "ideal prospect" (predominantly women, between the ages of 50 and 64, having household incomes of \$40,000 or better), GRAPEVINE simply had to deliver that reader and in so doing it created the uniquely simplified approach to lasered, target marketing. The system, according to Yankelovich, is "benchmark" for the industry and delivers "the top 7% of the entire senior consumer base." Once GRAPEVINE had the methodology of



circulation designed, it brought in BPA and asked it to identify those list houses whose acquisition of names had been approved and audited by BPA. Once identified (TRW and R.R. Donnelley), it simply went out and purchased 400,000 names having the specific criteria of the clients' "ideal prospect." (The database of the national perspective of this specific criteria is 18.3 million.) It then began the process of converting the controlled database into "qualified control requested." This was important, as it gave GRAPEVINE the "requested subscriber" status.

After one and a half years of continual efforts to convert to "qualified requested" subscribers and then to make the second phase of conversion from "controlled requested" to "qualified paid," the circulation has proven to be a marketing tool unique to the magazine industry, exclusive among its competitors and an important marketing edge for our clients.

GRAPEVINE has successfully completed the conversion of its national circulation of 407,513. (282,821 are Qualified Paid, 65,384 are "Qualified Requested," 10,739 are non-qualified paid, and the balance goes to doctors' offices as reception area copies. This additional exposure was carefully incorporated to take advantage of a huge 10 to 15 times "pass-along" opportunity.)

June 27, 1990, BPA completed its audit process-the report audits our circulation and exclusive demographics. GRAPEVINE is the only Senior Publication that has a national "qualified paid" circulation. GRAPEVINE's circulation strategy is to be the best, NOT the biggest. Delivering the "creme de la creme" of the senior market is the unique and exclusive niche it has carved for itself.

A circulation of 407,513 cannot (in many cases) carry the entire media buy. But being able to guarantee that our qualified circulation is delivered to the top 7% of the entire senior consumer base reinforces the business intelligence to be sure it is, at least, included in the media buy.

Since being the biggest is virtually impossible to duplicate, creating the ability to deliver the MOST important segment of the market NOT only filled the void, but it also created a publication with outstanding response factors. Being dramatically different and credible is how management is building GRAPEVINE.

ADVERTISING

Competition

Direct Competition

There is a growing number of publications serving this developing market; however, only a few are currently significant, important competition for GRAPEVINE. These are titles with a proven track record and/or major corporate ownership. It is clear that the advertising community has a number of choices in reaching this market, and each of the titles, except GRAPEVINE, is generic in positioning. What is important to note is that while GRAPEVINE has had national circulation only since February, 1989, its unique positioning—on quality, not quantity—places GRAPEVINE in the select group of primary media properties. As evidenced by its top market share rating over all others, GRAPEVINE maintains a unique key niche in its industry. The oldest and largest title serving the market is MODERN MATURITY. Founded in 1958, MODERN MATURITY is a bimonthly publication distributed to members of The American Association of Retired Persons (AARP) as a "member benefit" communication vehicle, and currently has the largest circulation of any magazine in the U.S. with 22 million member copies distributed. The editorial content is broad general interest with a focus on the interests and activities of AARP members. The average age of the MODERN MATURITY reader is 67.1. While the current marketing focus is to bring the age down to adults over 50, it nonetheless addresses the oldest, limited spectrum of the demographic. The large readership creates a broad demographic profile which requires that the editorial be edited to an "average" reader. The advertising volume is limited by the advertiser's size as the large circulation creates a one-time 4/c page rate of over \$207,000.



NEW CHOICES (formerly 50 PLUS) was established in 1960 and recently purchased by Readers Digest Association. This is a monthly publication with a circulation of 594,807. It is a paid consumer publication sold primarily through subscriptions, both individuals and bulk to corporations. Editorial content is very good and is directed towards the younger end of the demographic who also have better education and higher income/net worth. It is also a good publication and a formidable competitor. Its 4/c page rate is \$20,490. The current marketing shift of the publication is to produce a reader between the 45-64 age group.

MATURE OUTLOOK is a bimonthly publication produced by Meredith Corporation for Sears Roebuck. It has a circulation of 729,254. Like MODERN MATURITY, MATURE OUTLOOK is a member benefit, in this case of the Allstate Enterprises' Mature Outlook Club. The editorial is general interest, skewed toward a male reader, and carries heavy "House" editorial and advertising for the Sears operation. It is fast becoming a "House Organ" for Sears after its attempts to serve the senior market as an editorial product. This title was established in 1984. Its 4/c page rate is \$17,300.

GRAPEVINE's 400,000 national circulation is edited for the "ideal target prospect," a very carefully defined segment of the over 50 demographic. The publication is designed to reach the top 7% of the entire consumer base. This positions the magazine into the niche that affords its clients a competitive advantage, separates it clearly from the older less desirable reach of MODERN MATURITY, and aligns it closely to its best competitor, NEW CHOICES. (MATURE OUTLOOK, by virtue of its predominantly male audience and the publication's marketing strategies to move more in tune with Sears' needs, is removed from close comparison.) GRAPEVINE 4/c page rate is \$15,290.

Depending on Budget Size the "media buy" is:

Full Market Coverage.....	NEWCHOICES
Top of Market.....	MODERNMATURTTY
Reach or Older Skew.....	GRAPEVINE NEWCHOICES
Opportunity Buy.....	MODERNMATURTTY
Bargain Price/Male.....	NEWCHOICES, GRAPEXONE
	MATUREOUTLOOK

Full Market Coverage	NEWCHOICES MODERNMATURTTY
Top of Market	GRAPEVINE NEWCHOICES
Reach or Older Skew	MODERNMATURTTY
Opportunity Buy	NEW CHOICES, GRAPEXONE
Bargain Price/Male	MATUREOUTLOOK

Indirect Competition

There are always new launches that are also claiming to reach the senior market. McCALL's magazine, one of the "seven sisters," introduced a demographic edition, McCALL's SILVER, which is edited for the woman 50-64. Like most demographic editions, McCALL's SILVER, a 4-8 page supplement, is inserted in the regular edition of the magazine and delivered to one million age-selected subscribers. There is little that is new and/or specific for the reader that she wasn't already getting from the national edition. So far, the impact this title has had on the advertising market is not a factor.

Advertising Lineage Data

Advertising lineage information for all titles serving the senior market is not readily available from an independent tracking source. Only the four major titles are tracked for market share and provide some insight into their market standings.

Advertising Sales Background

GRAPEVINE has grown from a small regional publication to a national industry leading title in just 11 years. In the process, it has expanded both its advertising base, its forms of revenue streams, and its sales



organization. The unique ability of the publication to go from carrying local real estate advertising and services for the reader to carrying major national advertising, such as General Foods, GEICO, Coca-Cola, Chrysler, Jockey, and Anacin, as well as advertising, is a testament to the importance and the credibility that GRAPEVINE has established in delivering the most sought after segment of the market. The advertising growth of the title has been impressive.

OPERATING PLAN EXPLANATION

Introduction

The following explanations are written to clarify the logic of the financial projections in the BUSINESS PLAN. Many notes and schedules have been included along with the numbers, when appropriate. However, this section is meant to serve the reader as a reference tool rather than a plan summary.

This Business Plan is designed to provide GRAPEVINE Magazine, with an operating road map. The one and one half years of projections are presented as actual "operating budgets." (Available on request.)

We have tried to envision reality in great detail for the projection period. On the revenue side, it is thought that projections are realistic and ad sales projections are supported by trend-line. While on the expense side, we have gone to great effort to make sure all expenses are included. Therefore, we feel the cash flows and projected profits should be achievable.

Revenue

The format for projecting advertising revenue is based upon the "average page rate method." This means that the projected ad pages are multiplied by the estimated average page rate. Projecting revenue by pages (units) helps keep in line the related variable printing and production costs.

Circulation Revenue is centered primarily around two programs: regular subscriptions and contract bulk sales. Detailed explanations of these are found in the circulation section of the Business Plan and on circulation schedules in the financial section.

Agency Commissions

Advertising agencies charge 15% commission for all ad sales they place for the magazine. Historically, agency sales have represented 79.4% of all sales in the magazine.

Production Expenses

Determining total pages in the magazines is the key to calculating production expenses. Total pages are derived from applying the appropriate editorial/advertising ratio to projected ad pages. The ratio will vary according to the mix of national ads and Florida ads. However, generally the overall ad percentage is running around 45%-50%.

Since printing is the biggest single expense of the company and is based on total pages printed, the ad/editorial ratio is a key factor in publishing economics. The ratio will vary a few percentage points because changes in the number of total pages have to be adjusted in jumps of eight pages-press requirements.

The projections of total pages and related production and printing costs are enumerated in a special schedule in the Operating Plan.



Sales Expenses

Sales expense projections are enumerated on a special schedule in each year's plan. Most of the account titles adequately explain the project expense. The following are a few accounts needing explanation:

Sales Commissions

Are based on an account executive making his/her quota. Each AE receives 10% commission (in addition to base pay) on all sales over their quota. The current quota per sales person is \$48,000 each per issue.

Sales Aids

Mostly media kits and related materials.

Travel & Entertainment

Primarily N. Y. ad agency sales by Publisher.

Telephone Expense

Heavy use of telephone — this is a telemarketing business.

Postage (Marketing & Sales)

Mailing of media kits and promotional materials, much of which is overnight mail. Support of dynamic telemarketing program.

Postage (Magazine Distribution)

Second class postage. 19 cents per copy for the operating plan period.

Label Maintenance

Outside service to handle mail list, mail labels, etc.

General & Administrative

Most G & A expenses are self explanatory. Accounting expenses are for a year end "audit" and tax returns by a "big six accounting" firm. GRAPEVINE has had an accounting "review" for the past several years. Consulting fees are for a financial consultant who serves the proper amounts of liability insurance. Equipment leases are for personal computers, copy and fax machines. Auto leases are two cars assigned to the Publisher and the Editor.

Payroll & Related

Each year's plan contains the details of payroll projections. These projections include strategies to adjust personnel appropriately as the business expands as well as specific pay increases to each employee for the entire operating plan period.

Cash Flow Projections

All numbers in the cash flow model come directly from the Operating Plan, except for balance sheet items for July, 1991, when the projections of cash begin.



The method used to project cash is as follows:

1. Initially, "expected cash receipts" are determined by applying the expected collection percentages (Issue Month, 30, 60, 90 days) to sales projections. It is anticipated that 5% will be collected in the issue month, 45% will be collected in 30 days; 40% in 60 days; and 10% in 90 days. Net sales is defined in the operating plan as gross sales less agency commissions and bad debt expenses.
2. Next, subtract "expected deductions" from "planned expenses." Production expenses are expected to be paid in 60 days. The bulk of this expense is for printing. Payroll, payroll taxes, and postage expenses are paid in the month they are incurred. All other expenses will be paid 30 to 45 days, depends upon specific arrangements with the vendor or the penalty/reward system relating to timing of payments.
3. Depreciation expense is added back since this is a non-cash item.
4. Then, "cash from operations" is derived. The accumulated negative cash balance indicates the amount of cash needed to fund working capital.