

GRANDMA'S CANDY SHOPPE
BUSINESS PLAN

A Project Presented to the Faculty
of
California State University, Stanislaus

In Partial Fulfillment
of the Requirements for the Degree
of Master of Business Administration

By
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CERTIFICATION OF APPROVAL

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DEDICATION

I dedicate this project work to my family and friends who have been alongside me for encouragement and support in this endeavor. The women in my life who have passed on their faith, love, knowledge, and unconditional love: Great-Grandma Isa Osgood, Grandma Clara Phillips, Mom Judy Lifquist, my daughter Miriam Perkins, and my Aunt Jane Ungelbach who have all shown the most incredible strength I could imagine in facing the struggles of life and the incredible joy of family. The men in my life who have been my strong supporters and examples of what a man should be: Dad Leonard Anderson, my sons William Grieve and Logan Wilson, my cousin Fred Ungelbach, and my dearest Jim Anderson. I finally dedicate this project to my Lord, Jesus Christ, who changed my life years ago by teaching me that “For God so loved the world that He gave His only son that whoever believes in Him will have eternal life.”

ACKNOWLEDGEMENTS

I wish to acknowledge the family and friends who have provided feedback, support, and encouragement during this program.

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ABSTRACT

The project contained herein was developed to explore the necessary financing and feasibility of starting a small candy business in historic downtown Turlock, California, where there are no handmade candy stores within many miles. The business plan investigates the potential market and customers of the business, and illustrates downtown Turlock would be a perfect location of this business. This plan also explains marketing, operating, and management plans which promote sales of the business and make it profitable. The growth of the business will include expansion of other popular products based on customer demands. The business will also expand to host small candy making workshops. The goal is to have the business remain small but profitable to accommodate growth within the area and continue the small-town candy business feel.

CHAPTER I
COMPANY DESCRIPTION

Introduction

The research in this business plan features the details of starting a small confectionary business in historic downtown Turlock, California. Through extensive analysis, the author, who is also the business owner, has been able to create a business plan and marketing strategy that will allow this business to be a market niche in the area. The owner will use personal funds for buying the equipment, construction, permits, signage, and marketing. The business name is Grandma's Candy Shoppe to give the first impression of a nostalgic candy store featuring products that are not readily available at the local market. The products will be diverse to meet the demographics of customers in the surrounding area as well as those looking for products on the business web page, which will also feature specialty items. Grandma's Candy Shoppe will feature hallmark handmade confections that include fruits and nuts hand dipped in chocolate, chocolate-filled truffles, turtles, divinity, and original confections using milk, dark, white, and sugar-free chocolate. The products will be priced by weight so that customers can purchase items within their affordability. The store will have a nostalgic feel that brings the customer to an "old fashion candy store." Candy making classes will be offered to share the experience and skills of candy making used by the author's family for generations.

Mission Statement

The mission of Grandma's Candy Shoppe is to be valued as the neighborhood's favorite candy store by bringing the nostalgic confections of yesteryear to the customers of today. Grandma's Candy Shoppe is dedicated to making available high quality products valued for everyone to enjoy with a pleasant shopping experience.

Vision Statement

Grandma's Candy Shoppe will be a community-inspired establishment that brings people together for a sweet experience. Grandma's Candy Shoppe will reach out to the community to share the passion that our family has had for over 100 years. We will reach, teach, and grow in the community.

Services

The products will be confections made in the commercial kitchen located in the back of the store and will meet the demands of the community demographics. The store will open with a minimal amount of product to determine the needs of the customers. The original products will feature handmade chocolate confections using the owner's grandmother's recipes for fudge, honeycomb, divinity, and caramel and will feature the original PB Quake, After Dark, and Caramel Pretzels. Hand-dipped chocolates will be available with assorted cream centers, caramels, nut clusters, and fruits using Guittard Chocolate. The store will also feature sugar-free chocolate items to meet the needs of those with dietary restrictions. As customer needs and requests become apparent, other products will be added to the store, to include the possibility

of an ice cream or soda fountain, classic bulk candies such as jawbreakers, jelly beans, chewing gum, and nostalgic candies including other handmade items to meet the growing demand. Candy making classes will be offered to teach the art of candy making to share the family tradition, recipes, skills, and techniques that have been used for over 100 years. Classes will include students observing candy making techniques and making their own candies to take home. As business operations become established there will be a consideration to offer a limited selection of the most popular items through internet sales.

CHAPTER II

INDUSTRY AND MARKET ANALYSIS

Industry Description

The candy industry, more formally referred to as the confectionery industry, encompasses small retail stores to large manufacturing facilities. Candy making includes the preparation of candies as well as hard candies, jelly beans, gumdrops, taffy, licorice, cotton candy, chocolates, fudge, caramel, and toffee. The confectionery industry is composed of three segments: chocolate confectionary, sugar confectionary, and gum products. Demand is driven by consumer taste, disposable income, and population growth with peak purchasing seasons being Christmas, Valentine's Day, Easter, and Halloween. Grandma's Candy Shoppe will focus primarily on the chocolate confectionary segment of the industry.

Industry Trends

Of the U.S. Market, confectionery sales amounted to nearly \$34.9 billion U.S. dollars in 2015 and are expected to reach \$38.1 billion U.S. dollars by 2020. Chocolate sales account for \$21.1 billion of the candy industry (Bender, 2016). With the perceived health benefits of dark chocolate such as prevention of certain types of diseases, the growth for chocolate products is expected to rise. The driving trends for 2017 chocolate purchases will be indulgent, premium, healthy, sustainable and tasty. Consumers will pay more for a premium product with the health benefits

that they desire. The trend is in “Soft Health” products, which means that “health and indulgence are no longer mutually exclusive” (Candy Industry, 2017). At the State of the Industry Conference organized by the National Confectioners Association on March 6, 2017, several speakers reinforced the health and wellness trend for confections. Brian Owens, Director of Retail Insights for Kantar Retail, stated at the conference that the confectionary industry needs to zero in on health and wellness (State of the Industry Conference, 2017). Consumers are seeking the indulgence of confections with a reassurance that the product is made with the best ingredients available. Grandma’s Candy Shoppe will use high quality chocolate purchased from a “fair trade” wholesaler, and perishable items such as nuts and fruits will be purchased from the local organic market to assure customers that they are purchasing products that compete with the focus on wellness.

Target Market Description

Turlock is the second largest city in Stanislaus County and is home to a diverse population. Turlock features a large retirement community (55+) that accounts for 12% of the city population; middle-class families account for over 30% of the population of 72,292; middle-class families account for over 30% of the population (Turlock, California, 2017); and the large CSU Stanislaus campus had 9,762 students enrolled in the Fall of 2016 with a staff population of nearly 1,500. These demographics will allow the candy shop to reach the target market with a large population.

There are no handmade confectionary stores in Turlock or the surrounding area with the nostalgic feel and handmade candies that Grandma's Candy Shoppe will offer. Local competitors including See's, a large confectionary chain; Edible Arrangements, specializing in fresh fruit bouquets; Lisa's Cookie Jar, which offers cookies and baked goods; and Vintage Bakery, which specializes in bakery and custom decorated cakes. Chocolate products can be purchased at the local grocery or convenience store, but these are the big name, mass produced candy items, such as Hershey, Mars, and Nestlé that are sold in nearly every store.

The nearest similar candy shops are Nelson's, located 57 miles from Turlock in Columbia, and a second Nelson's location is in Murphy's, 66 miles from Turlock. Sacramento Sweets is located in Old Sacramento, 89 miles from Turlock, and Shurra's in Campbell which is the furthest, at 99 miles from Turlock. If someone is seeking handmade, one-of-a-kind candy it would require driving over an hour to purchase a similar item that could be purchased at Grandma's Candy Shoppe.

The target market can expand 30 miles from Turlock to reach the local cities and still be worth a short drive compared to the competitive candy shops. In the extended market, an even larger population can be served by Grandma's Candy Shoppe. Figure 1 shows population data of the extended market which includes Turlock and several cities that are close in proximity. Turlock accounts for only 16% of the target market which Grandma's Candy Shoppe can reach. The local cities will also bring in customers with the extensive advertising.

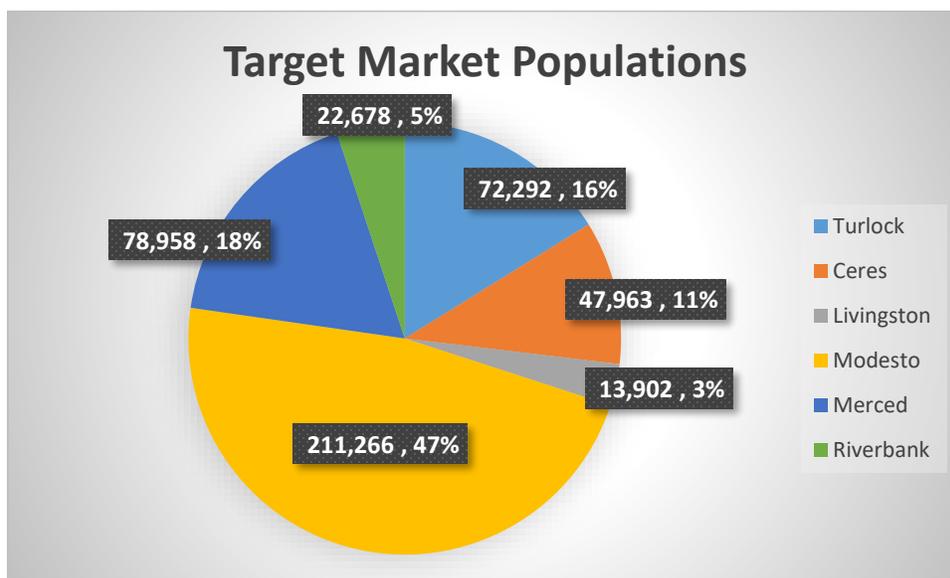


Figure 1. Target market populations. (Population Estimates, 2016)

Grandma’s Candy Shoppe will impress customers by providing the best quality nostalgic candies to generate repeat purchases and create a solid customer base for future store and online shopping.

Location and Target Customers

The target location of downtown Turlock will meet a market niche for a confectionary store. There is not a similar candy store in Turlock and the nearest candy store is a large production store on Geer Road. The Downtown Turlock Property Owners Association has hired a new director and there have been many improvements and renovations to the downtown scene. Turlock has become home to many new restaurants (Hauck’s Grill, Crust & Crumb, and Dust Bowl), upscale bars (Udder Place), novelty stores, and antique stores. In late 2017 there are plans to open a venue featuring billiards, shuffle board, dartboards, live entertainment, and a dance

floor. Downtown Turlock has become a gathering place on evenings, weekends, and special events for the local community.

The target customers of the business will be individuals ages 16 to 65. This target includes local high school and college students, local corporate and business personnel, tourists, retirees, and specific-purchase customers. The downtown area brings in those dining out at the restaurants, visitors going through the many small boutiques, antique stores, specialty stores, customers of the local businesses, and the business owners themselves. The market will be expanded further by featuring products at the local farmer's market, the candy making demonstrations at various local schools, and the candy making classes offered at the store. There is the potential to expand to internet sales in the future as the business grows.

CHAPTER III
MARKETING ANALYSIS AND SALES PLAN

SWOT Analysis

A SWOT analysis was conducted to fully understand the strengths, weaknesses, opportunities, and threats of opening this type of business in the chosen location.

Strengths:

- Unique product that is currently not available in Turlock.
- Downtown Turlock is growing and thriving.
- There is a large generational group that is visiting the market.
- Generations of experience in candy making and business ownership.
- Owner that will encourage customer relations and the sharing of knowledge in the candy making process.

Weaknesses:

- Potential to not meet the profit margin to continue growth.
- Large competitive chain business in the area.
- Business will not start with a large inventory of diverse items.
- The inventory must evolve with customer requests and feedback.

Opportunities:

- Provide unique products and expand inventory.

- Expansion to offer more classes and serve the community.
- Expansion into online business.

Threats:

- Competition with the major retailer candy store in the area.
- Need to market the uniqueness between Grandma's Candy Shoppe products and its competitors.
- Not gaining a large enough customer base, posing a threat to the business.
- Marketing and community outreach not reaching target base.

The analysis gave insight on where to focus the business's design, marketing strategies, and operation management. To fully utilize the strengths of the business, the owner will design the products to satisfy a wide generational group of customers. As mentioned in a prior section, the customers will range in age from 16 to 65 years of age. Therefore, the store will feature different products, along with products for special events to accommodate the preferences of different customers. The marketing tools chosen will also be aligned with the favored communication channel of each age group. To address the possible weaknesses of the business, the business will target the groups that are currently purchasing candy from other well-known chains to bring awareness to the population. The marketing strategy will focus on the strengths of uniqueness, service, and experience to bring awareness to the business, which will ultimately create, sustain, and grow sales. The business design will consider the weakness of not being a large chain and focus on the strength of being a one-of-a-kind handmade confection within the small-town environment. Classes will be

offered to help establish long term relationships with the local community. The candy making classes will aim to bring a richer experience to customers, especially those of younger ages and their parents so that the business will be regarded as a place of not only candy making but fun and enjoyment. At the beginning stage of the business, efforts will focus on brand awareness of the business. The marketing strategies, sales plans, and operation plans will all be designed to win recognition of my customers and the community. The goal is to serve my customers in downtown Turlock, and to create, sustain, and grow sales. I will ultimately expand my service to the extended markets and start the online business when appropriate.

Marketing Plan

The marketing strategy is to focus on the 4P's of marketing (Product, Price, Place, and Promotion). The first consideration in serving the target customer is the product. The product will serve the target customers by offering a varied selection to appeal to different personal tastes. The college student's taste will include items such as chocolate coffee beans and chocolate covered fruits and nuts. Tourists who visit the area will be marketed with boxed items using decorative packaging and items from the Central Valley that they can take home, such as chocolate-covered almonds and strawberries. There will be sugar-free options for those who want to reduce their sugar intake or have dietary restrictions. The American Diabetes Association (2017) states that, "The percentage of Americans age 65 and older is 25.9%, or 11.2 million diagnosed or undiagnosed with diabetes," making the focus to have sugar-free options necessary for the target market. The products will be unique hand-made candies that

will focus on the niche created by the availability of hand-made confections for purchase either in a small quantity or packaged to present as a gift.

There will be a secondary product and promotion marketing strategy that can expand from seasonal specific products featured at the candy shop. During the Valentine's Day season, there will be chocolate items featuring holiday and gift giving options that will draw in customers wanting a one-of-a-kind gift. During the Easter holiday, there will be religious and spring themed items such as solid chocolate crosses and Rocky Road Easter eggs. Mother's Day will bring in those who are seeking a handmade gift for the mother figure in their life, and Father's Day will do the same. During graduation season, there will be gifts for the celebration and brides and grooms can have their one-of-a-kind wedding favors made. The options to market using the popular events and culture can bring in a secondary market that could lead to primary customers.

The pricing strategy is set to reach a diverse market band. Because the prices will be set below the current market trend, the initial price of \$18.99 per pound will appeal to the new market and bring customers into the store. There will be low-cost items for school age students, which will include items such as chocolate pretzels and chocolate dipped cookies, and there will be additional presentation packaging that can be purchased for those who would like to give candy as a gift. A 10% discount coupon will be offered to entice even more first time customers.

The third component of the marketing strategy will be the appearance of the store and its location. The strategy of using the old-time candy store decorated with a

nostalgic design will create interest to bring in new customers. The outside of the store will have signage reflecting the historical candy store feel with paned windows and a wood door with glass paned partial. The historic feel will theme the store and distinguish it as an old-fashioned candy store, such as something that was seen in the early 1900s. Inside, the front of the store will have a traditional wood accent display case that will be visible from the street to showcase and create interest in the store. The candy display cases will have decorative plates adorned with paper doilies for each of the items. There will be wooden shelves to keep the historical value that will feature antique boxes, candy dishes, and seasonal decorations. Downtown Turlock has been developing and rejuvenating the area over the past few years, bringing in many new upscale businesses. The increased traffic from local residents and visitors will increase the flow of foot and car traffic which will allow the business to have more visibility.

The fourth marketing strategy is promotion. Because this is a new business, there must be major promotion of the store and its products. The business will market the nostalgic feel of an old-time candy store featuring the many one-of-a-kind items for specialty gift giving for personal enjoyment. Advertisements will be placed in *Turlock Direct*, a monthly magazine mailed to Turlock residents containing ads from businesses in the community. Direct mail will be used to reach the household market population and will advertise the business, featuring a 10% discount coupon. The business will bring products to the local farmer's market and city events to reach additional customers. A Facebook page will be created to share events, customer

experiences and feedback, and advertisements. Facebook advertising has an average cost per click of \$.28 depending on the area of exposure. Facebook will reach the local market customers who use social media, teenagers through Baby Boomers. Pinterest is a free website primarily used by female millennials. Yelp is free and shares customer feedback. The business will hire a part-time employee through the work experience program of one of the local high schools. Using the work experience program will help to reach the high school age population.

Sales Plan

The sales plan will be established to generate repeat sales and future growth. The business will remain small so the preferred growth rate for the candy sales will be 7% the first year and 10% the second year. The expected growth for the teaching classes is 5% the first year and 8% the second year. The classes are in addition to the candy sales and the sales can grow based on the availability of classes that the owner wants to teach. The business has expected sales in place and to meet those goals. Communication will take place with previous customers to let them know of upcoming specials and holiday promotions, and the store will reach out to the community by visiting community events to promote the business. The goal of the business is not to be the biggest, but to sustain sales and produce a desired quality product.

Grandma's Candy Shoppe will sell all items by weight for \$18.99 per pound. Figure 2 shows the amount comparable small confectionaries charge using the same price structure. The established businesses in Figure 2 are commanding a very large

mark-up because of the niche markets where they are located. The wholesale cost for melting chocolate to make candy is approximately \$4.00 - \$5.00 per pound. The prices of the competitors have a mark-up of up to four times the wholesale price. Grandma's Candy Shoppe will start with a lower price per pound than its competitors to create a customer base.



Figure 2. Comparable small confectionaries, price per pound

A digital food scale will be used to calculate customer sales. The scale will be set to the price per pound as items are weighed and priced by weight. As an example, if a customer is interested in purchasing one caramel turtle the item will be weighed and priced to the closest half ounce (one turtle weighs approximately 2 ounces = \$2.25). The shelf life of confections can be up to 6 months. This business model will keep the inventory for 2 weeks before donating the inventory to a local shelter. The

on-display inventory will be kept small as the candy stock can be replenished in a day.

A database will be generated through a USPS EDDM (Every Door Direct Mail) account. The database can sort by residential areas, household age, household size and household income. The store will also maintain an email list of those who provide their personal email at the time of sale. These databases will help the store focus sales to specific demographic of its products. Postcards will be sent to advertise and promote upcoming holiday items for customers' special occasion purchases.

There will be a purchase incentive program whereby every \$100 purchase will save customers \$5 on their next one-pound purchase (saving them 26% on their next pound purchased). A database will be maintained to keep track of customers who are participating in the incentive program for outreach to them through email and postal mail to keep them updated on their balances and promote special holidays or events to get them into the store. The store will also offer the option of special order to accommodate the need for business and personal gifts, holiday items, and special events.

As the store builds revenue and customer base, 4-hour classes teaching candy making will be offered at a fee of \$35 per person, per class to small groups. The classes will be in groups of less than 10 so that each student can view and participate in a small group setting. The cost for supplies is minimal at approximately \$6 per student. The remaining \$29 covers the class time charge. Students will have the opportunity to participate in hands-on candy making such as chocolate dipping,

using chocolate molds, and handmade confections along with viewing the process of making caramel, fudge, and divinity. Each student will leave with a sample of each item made. The sales forecast for the classes is higher in the summer months as the schedule can expand to offer classes to students are out of school. Sales will also be higher in the Fall when craft and baking is typically higher during the Holiday season.

CHAPTER IV

OPERATIONS

Business Operation

The store will be approximately 900 sq. ft. which includes 400 sq. ft. for the front of store counter, shelves, and foot traffic area; and 500 sq. ft. in the rear of the store, which will incorporate the kitchen. The rent for this size of location will range from \$1.75 - \$2.00 per sq. ft. There will be minimal remodeling of the building, which will include installing a dividing wall between the shopping area and the kitchen, adding proper equipment and structures to operate the functional kitchen, installing wood flooring and lighting throughout the building, installing wall shelving, counters, and wall texturing to create the simple candy store feel. The store will be a sole proprietorship, requiring the purchase of a business license, sellers permit, DBA (fictitious business name registration), Federal Tax ID number, and State Employer number through the State of California to operate and for insurance.

Grandma's Candy Shoppe will accept cash, debit, and credit cards and will utilize the iPad POS system for transactions, at a cost of \$579 to install and a maximum cost of \$29 per month for transactions.

Grandma's Candy Shoppe will be open Tuesday through Thursday from 11:00 a.m. to 5:30 p.m. and Friday to Saturday from 11:00 a.m. to 7:00 p.m. If there is a special event downtown, such as the annual Christmas parade, the hours will be adjusted to participate in the event.

The owner will be a member of the Turlock Chamber of Commerce to represent the business and network within the community. She will join the National Confectioners Association, which provides information on industry insights, networking opportunities, trade shows, and regulatory guidance. She will also become a member of the National Association of Women Business Owners. As a member of the National Association of Professional Women in the past the owner found that the ability to network with other professional women was invaluable.

The confections will be made primarily in the morning before the store opens and inventory will be stocked on an as needed basis with a few pounds of each type of handmade candy. Inventory will be tracked by an Excel database to track supply inventory, candy inventory, and associated costs. There could be potential issues if a customer would like a large quantity of a candy, but orders can be taken and filled within a day. There could also be potential issues if inventory of supplies is depleted but there is a local supplier of confectionary supplies from which purchases may be made at a retail cost. All employees will practice safe food handling procedures and will be trained on and required to follow all safety protocols.

Supplies and Equipment

Inventory and supplies for the business will be purchased at Linnea's Wholesale Distributors located in San Bernardino, California. The owner's family has used Linnea's for many years and everything from chocolate to packaging materials is available at wholesale prices to business owners. Linnea's prices are wholesale and competitive with other wholesale suppliers. Linnea's is located in San Bernardino,

California so product is usually received within a few days. There are other options if Linnea's is no longer in business or does not provide optimal service, but until that happens they will keep the store's business. Perishable items will be purchased primarily at Cash & Carry restaurant supply store and local health food stores. The business has an inventory of supplies in storage that will move to the new store location. Additional equipment, tools, and supplies will be purchased to construct the sales area, kitchen, and office. The sales area will have two wooden refrigerated confectionary display cases, shelves that feature antique candy jars, ceiling fans, cobblestone floor tile, and visually appealing décor. The sales area will also include the scales, registers, and presentation materials including boxes, bags, and ribbons. The constructed kitchen will have two, 30 x 60" stainless steel preparation tables, sheet pan racks, commercial glass door freezer/refrigerator, industrial stove, multicompartment sink, preparation equipment and utensils, shipping and presentation supplies, and all confection preparation supplies. There will be a small office area for financial operations business that will include a desk, personal computer, and office supplies.

Management

The owner will be the sole proprietor and primary operator of Grandma's Candy Shoppe. She will manage the business finances and operations, order and track inventory, and make the candy for the business. Her mother, Judy, will assist in the candy making and will be paid wholesale prices for her confections. One part-time employee will be hired to assist in front counter sales and store operations.

CHAPTER V

FINANCIAL PLAN

Startup Fund and Process

The source of start-up funds will be \$60,000 that the owner has in a personal account from an inheritance. A commercial loan for start-up or for future expansions will not be needed.

Table 1 shows the use of the \$60,000 startup funds. Necessary renovations will be done by the owner and family members to keep costs low. There will be cosmetic renovations to the selling area in the store creating the historic feel and installation of counters, shelves, and cabinetry. The rent, utilities, and insurance will be prepaid for the first month. Advertising funds will be used to purchase print advertising and social media advertising. Depending on the traffic generating by the advertising, the source will be adjusted. The business license fee is \$300 annually for this type of license. Some equipment is already in hand, but new necessities need to be purchased, such as large sheet pans and drying racks for the candy, an industrial freezer/refrigerator, a large commercial stove, commercial sink, a large industrial mixer, preparation tables, storage containers for the prepared items, and pans, utensils, and decorating supplies for making the confections. The POS system will be used for all sales.

Table 1

Use of Funds

Renovations (Leasehold Improvements)	\$ 16,200
Rent pre-payment	\$ 1,575
Utility down payment	\$ 500
Insurance pre-payment	\$ 500
Advertising	\$ 1,600
Licenses	\$ 300
Equipment	
Sheet Pan/Racks	\$ 600
Freezer/Refrigerator combo	\$ 4,000
POS System	\$ 800
Stainless Steel Prep Tables	\$ 900
Commercial Stove	\$ 3,000
Large Mixer	\$ 400
Commercial Sink	\$ 800
Storage Containers	\$ 400
Pans/utensils/decorating supplies	\$ 900
Furniture and Fixtures	
Shelving Units	\$ 800
Confectionary Display Cases	\$ 3,500
Décor	\$ 1,700
Supplies	
Supplies-Perishable (edible)	\$ 2,000
Supplies-Non-Perishable (paper)	\$ 3,000
Inventory	
Product for sale	\$ 12,525
Cash on hand	\$ 4,000
Total Uses	\$ 60,000

The owner will draw a \$1,500 per month salary and will hire a part time student at a rate of \$10.00 per hour for 15 hours per week to assist with counter help. There will be fixed operating expenses that could vary slightly by month. An

estimated \$200 per month will be earmarked for advertising, but this could change based on the traffic received from each advertising source. The credit card, insurance, internet, telephone, and rent costs should remain stable for at least the first year. It is expected that other variable costs will be office expenses, postage and delivery fees, repairs and maintenance, and supplies.

Sales Forecast

The sales forecast is based on the owner's previous business experience of making candy in her home-based business as well as working for a cake and candy supply business. The home-based business sales volume is used as a basis for an estimate of what can be expected in the brick and mortar store, although the sales are based on 10 years ago. Currently, the author's mother has a home-based candy business; her current sales and inventory provide access to sales expectations. The forecast for the brick and mortar store is higher than the current family business due to its proposed location and time available to contribute to expand the business to a store front.

Table 2 shows the sales forecast of the first three years including both candy sales and classes. Sales projections reflect actual candy sales of \$117,000 and class revenue of \$13,720. This estimate of sales is an average based daily and seasonal demands. February is a high sales month due to Valentine's Day, March and April are higher in sales due to Easter, May and June are typically higher with Mother's Day and Father's Day, and October through December are higher due to the Holiday events during those months. Sales are typically lower during the summer months due

The sales forecast for the first year results in an estimated \$130,720 in revenue and \$95,868 (73% of revenue) gross margin after costs of sales are deducted. For the first year, a net income of \$26,232 is expected and it is expected that net income will rise by 26% in Year 2 and 32% in Year 3.

Expenses

As mentioned previously, the startup expenses of \$60,000 will include cash on hand from personal savings from an inheritance. This is a conservative estimate as the building improvements will be done by family and friends who will be donating their time and talents. A large inventory of candy molds and equipment is available, which have been in the owner's family for generations. In addition, when the owner's mother retires, all of the supplies and equipment from that business will be moved to the new business.

The fixed business expenses are minimal for this type of business. The staff will be small and the business operating costs are steady. No capital equipment will be purchased and the fluctuation of the cost of supplies that will be used has remained steady for the last several years.

One high school student will be hired part-time for 15 hours a week at \$10.00 per hour. It is rare to find a high school elective course that teaches the art of candy making and business ownership. The owner expects to hire a student who would like to pursue business ownership or candy making. The owner's compensation will be \$1,500 per month and all payroll taxes will be deducted from the salaries.

Expenses of operation and salary and wages can be found in Appendices A and B respectively.

Financial Results

The projected sales analysis is based on expected candy sales as well as the candy making classes. The opening price per pound will be \$18.99. Projected growth of the candy sales and candy classes over the next two years will be due to a slight increase in price and additional sales. The revenue from the classes can easily fluctuate with the addition of extra classes or participants. A sensitivity analysis was done for both candy sales and classes to identify the breakeven points. Table 3 documents the results of the sensitivity analysis.

Table 3

Sensitivity Analysis

Candy Sales	Year 1	Change	Price	Profit (Price)	Change	Units Sold	Profit (Units)
Unit price	\$ 18.99	-80%	\$ 3.80	\$ (39,048)	-80%	1470	\$ (9,648)
		-60%	\$ 7.60	\$ (11,132)	-60%	2940	\$ 10,918
Units sold	\$ 7,350	-40%	\$ 11.39	\$ 16,783	-40%	4410	\$ 31,483
Unit variable costs	\$ 5	-20%	\$ 15.19	\$ 44,698	-20%	5880	\$ 52,048
Fixed costs	\$ 30,213	0%	\$ 18.99	\$ 72,614	0%	7350	\$ 72,614
		20%	\$ 22.79	\$ 100,529	20%	8820	\$ 93,179
Profit	\$ 72,614	40%	\$ 26.59	\$ 128,444	40%	10290	\$ 113,744
Breakeven		-52%	\$ 9.15	\$ 290	-71%	2160	\$ 5
Class Sales	Year 1	Change	Price	Profit (Price)	Change	Units Sold	Profit (Units)
Unit price	\$ 35.00	-80%	\$ 7.00	\$ (9,411)	-80%	132	\$ (6,243)
		-60%	\$ 14.00	\$ (4,791)	-60%	264	\$ (2,415)
Units sold	\$ 660	-40%	\$ 21.00	\$ (171)	-40%	396	\$ 1,413
Unit variable costs	\$ 6	-20%	\$ 28.00	\$ 4,449	-20%	528	\$ 5,241
Fixed costs	\$ 10,071	0%	\$ 35.00	\$ 9,069	0%	660	\$ 9,069
		20%	\$ 42.00	\$ 13,689	20%	792	\$ 12,897
Profit	\$ 9,069	40%	\$ 49.00	\$ 18,309	40%	924	\$ 16,725
Breakeven		-37%	\$ 22.00	\$ 489	-47%	348	\$ 21

Table 3 shows that the breakeven price could be as low as \$9.15 per pound and the breakeven units sold will be 2,160 pounds. These breakeven points are far below the projected price per pound of \$18.99 (52% lower) and the projected units sold of 7,350 pounds (71% lower). Table 3 also shows the breakeven charge of classes could be as low as \$22.00 per class compared to the projected \$35.00 per class and a minimum 348 people (compared to the projected 660 people) taking classes before incurring loss. Results in Table 3 indicate the sales projection for both candy sales and classes is conservative and reasonable.

Figure 3 is the visualization of the sensitivity analysis presented in Table 3.

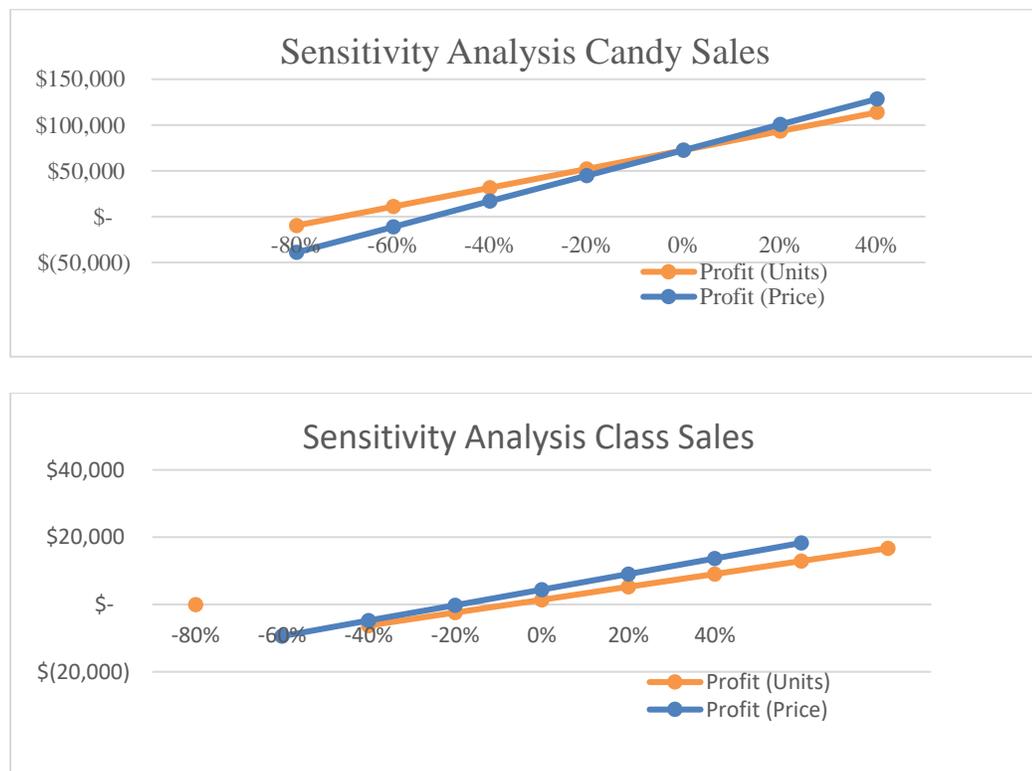


Figure 3. Sensitivity analysis comparison

As shown in Figure 3, the profit of the business is more sensitive to the change of the price because the same percentage change of price leads to a larger change in the profit of the business. However, as indicated in the sensitivity analysis results, the projected price of \$18.99 per pound is more than double the breakeven price which leaves much room for profit of the business. Figure 3 also shows that class sales are more sensitive to the price of the class than the number of attendees of the class. This result gives confidence to the business because price of the class is a more controllable factor compared to the number of attendees. Further, as shown by the breakeven point of class sales, the price per class in the current forecast is \$35 while the breakeven price is \$22 per class. This indicates the business has much room to adjust the price charged if needed. These results in the sensitivity analysis make the business owner very confident of its profitability.

The gross profit margin ratio indicates how much profit is earned on the products without consideration of indirect costs, selling and administration costs. The gross profit margin is expected to be 75% the first year and is estimated to remain the same in next two years. The net profit margin will be increasing steadily from 30.40% in the first year to 31.75% and 34.02% in the next two years. The 3-year summary of Balance Sheet and Income Statement of this business can be found in Appendices C and D respectively. The return on assets (ROA) is the ratio that measures how effectively assets are used to generate a return. The return on equity (ROE) determines the rate of return on investment in the business. Since the business will

not borrow, the two ratios are expected to be the same. The ROE is 45% in Year One and will slow down to 36% in Year Two and 29.8% in Year Three.

There are growth opportunities with expanding classes or increasing sales with internet sales, but the plan is to keep the business small. The goal is to not have a large production candy business, but a small, family owned and operated business featuring quality products and personal service.

The financial ratios of all aspects of this business plan reflect that it would be a wise consideration to risk opening a candy business in Turlock.

CHAPTER VI

OWNER'S STATEMENT AND CONCLUSION

The business plan of a candy store started many years ago when I was a young child. I would watch my Great-Grandma make candy and would enjoy all her specialty items, including her delicious cheese popcorn. My Grandma Clara Phillips taught me her candy making skills and I worked with her and my cousin at a cake and candy supply store to expand my experience. Grandma Clara allowed me to assist her when she taught her various candy making classes and supervised me on my many entries in the Santa Clara County Fair each year. I had a small business making Easter candy out of my home for a few years and small orders throughout the years of the specialty items I enjoy creating. The opportunity to complete a business plan to open a handmade candy store has allowed me to potentially turn this dream into a reality.

Starting a candy business in Turlock is not only my passion but would further develop the thriving community by providing a product unique to the town. It would be set apart by the product, service, and presentation of the business. The small downtown area has grown in upgrades, restaurants, and upscale stores that are bringing in clientele from all over the Central Valley. There is a diverse demographic that would seek the confections for gifts and personal consumption. The historical feeling of downtown Turlock is a perfect fit for an old time candy store and the

increased traffic in the new restaurants, boutiques, antique shops, and small businesses will immediately create a market niche for the products. There are other larger competitors outside of the immediate area, but the price, location, and personal touch of my business will bring in a different experience and sweet treats to the entire community.

The financial investigation showed that the business will be profitable and sustainable. The current price in the projection is well below competitors which makes it possible to be increased slightly in the future if demanded by competition. It is still well within the profit margins and meets the market expectation of a reasonable price for the demographics.

The business plan results show the minimal investment is well worth the risks of starting a new business. I am confident my business will thrive because the price, location, and unique product will keep and continuously attract new customers and contribute to the further development of the community.

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APPENDICES

APPENDIX A

FIXED OPERATING EXPENSES

Grandma's Candy Shoppe
Fixed Operating Expenses

Fixed Operating Expenses	<u>Monthly</u>	<u>Year One</u>	<u>Year Two</u>	<u>Year Three</u>
Percent Change			3.00%	3.00%
Expenses				
Advertising	\$ 200	2,400	2,472	2,546
Car and Truck Expenses	-	-	-	-
Commissions and Fees	-	-	-	-
Contract Labor	-	-	-	-
Credit Card and Bank Charges	200	2,400	2,472	2,546
Customer Discounts and Refunc	-	-	-	-
Dues and Subscriptions	-	-	-	-
Entertainment	-	-	-	-
Insurance (Liability and Property	42	504	519	535
Internet	50	600	618	637
Legal and Professional Fees	-	-	-	-
Office Expenses	100	1,200	1,236	1,273
Postage and Delivery	100	1,200	1,236	1,273
Rent (on business property)	1,575	18,900	19,467	20,051
Rent of Vehicles and Equipment	-	-	-	-
Repairs and Maintenance	100	1,200	1,236	1,273
Supplies	500	6,000	6,180	6,365
Telephone and Communications	100	1,200	1,236	1,273
Travel	-	-	-	-
Utilities	250	3,000	3,090	3,183
Total Expenses	<u>3,217</u>	<u>38,604</u>	<u>39,762</u>	<u>40,955</u>
Other Expenses				
Depreciation	140	1,680	1,680	1,680
Interest				
Commercial Loan	-	-	-	-
Commercial Mortgage	-	-	-	-
Line of Credit	-	-	-	-
Total Other Expenses	<u>140</u>	<u>1,680</u>	<u>1,680</u>	<u>1,680</u>
Total Fixed Operating Expenses	<u>3,357</u>	<u>40,284</u>	<u>41,442</u>	<u>42,635</u>

APPENDIX B
SALARIES & WAGES

Grandma's Candy Shoppe
Salaries and Wages

Salaries and Related Expenses	#	Assumptions	<u>Monthly</u>	<u>Year One</u>	<u>Year Two</u>	<u>Year Three</u>
Percent Change					3.00%	3.00%
Salaries and Wages						
Owner's Compensation	1		\$ 1,500	18,000	18,540	19,096
Salaries			-	-	-	-
Wages						
Full-Time Employees	0		-	-	-	-
Estimated Hours Per Week		-				
Estimated Rate Per Hour						
Part-Time Employees	1		650	7,800	8,034	8,275
Estimated Hours Per Week		15.00				
Estimated Rate Per Hour		10.00				
Independent Contractors			-	-	-	-
Total Salaries and Wages	2		<u>2,150</u>	<u>25,800</u>	<u>26,574</u>	<u>27,371</u>
Payroll Taxes and Benefits						
Social Security		6.20%	133	1,600	1,648	1,697
Medicare		1.45%	31	374	385	397
Federal Unemployment Tax (FUTA)		6.00%	-	-	-	-
State Unemployment Tax (SUTA)		3.40%	-	-	-	-
Employee Pension Programs		0.00%	-	-	-	-
Worker's Compensation		0.00%	-	-	-	-
Employee Health Insurance		0.00%	-	-	-	-
Other Employee Benefit Programs		0.00%	-	-	-	-
Total Payroll Taxes and Benefits			<u>164</u>	<u>1,974</u>	<u>2,033</u>	<u>2,094</u>
Total Salaries and Related Expenses			<u>2,314</u>	<u>27,774</u>	<u>28,607</u>	<u>29,465</u>

APPENDIX C

PROJECTED BALANCE SHEET – FIRST THREE YEARS

Grandma's Candy Shoppe
 Projected Balance Sheet - First Three Years

	<u>End of Year One</u>	<u>End of Year Two</u>	<u>End of Year Three</u>
Assets			
Current Assets			
Cash	4,141	2,938	21,422
Accounts Receivable	-	-	-
Inventory	63,525	109,525	157,525
Prepaid Expenses	9,475	9,475	9,475
Other Current	-	-	-
Total Current Assets	<u>77,141</u>	<u>121,938</u>	<u>188,422</u>
Fixed Assets			
Leasehold Improvements	16,200	16,200	16,200
Equipment	11,800	11,800	11,800
Furniture and Fixtures	6,000	6,000	6,000
Other Fixed Assets	-	-	-
Total Fixed Assets	<u>34,000</u>	<u>34,000</u>	<u>34,000</u>
Less: Accumulated Depreciation	1,680	3,360	5,040
Total Assets	<u>109,461</u>	<u>152,577</u>	<u>217,382</u>
Liabilities and Owner's Equity			
Liabilities			
Total Liabilities	-	-	-
Owner's Equity			
Common Stock	60,000	60,000	60,000
Retained Earnings	49,461	104,578	169,382
Dividends Dispersed	-	12,000	12,000
Total Owner's Equity	<u>109,461</u>	<u>152,578</u>	<u>217,382</u>
Total Liabilities and Owner's Equity	<u>109,461</u>	<u>152,577</u>	<u>217,382</u>

APPENDIX D

PROJECTED INCOME STATEMENT – FIRST THREE YEARS

Grandma's Candy Shoppe
Projected Income Statement - First Three Years

	<u>Year One</u>	%	<u>Year Two</u>	%	<u>Year Three</u>	%
Income						
Candy Sales	139,577		149,347		164,282	
Teaching Classes	23,100		24,255		26,195	
-	-		-		-	
Total Income	<u>162,677</u>	100.00%	<u>173,602</u>	100.00%	<u>190,477</u>	100.00%
Cost of Sales						
Candy Sales	36,750		39,323		43,255	
Teaching Classes	3,960		4,158		4,491	
#	-		-		-	
-	-		-		-	
Total Cost of Sales	<u>40,710</u>	25.03%	<u>43,481</u>	25.05%	<u>47,745</u>	25.07%
Gross Margin	<u>121,967</u>	74.97%	<u>130,121</u>	74.95%	<u>142,732</u>	74.93%
Salaries and Wages						
Owner's Compensation	18,000		18,540		19,096	
Salaries	-		-		-	
Full-Time Employees	-		-		-	
Part-Time Employees	7,800		8,034		8,275	
Independent Contractors	-		-		-	
Payroll Taxes and Benefits	1,974		2,033		2,094	
Total Salary and Wages	<u>27,774</u>	17.07%	<u>28,607</u>	16.48%	<u>29,465</u>	15.47%
Fixed Business Expenses						
Advertising	2,400		2,472		2,546	
Car and Truck Expenses	-		-		-	
Commissions and Fees	-		-		-	
Contract Labor	-		-		-	
Credit Card and Bank Charges	2,400		2,472		2,546	
Customer Discounts and Refunds	-		-		-	
Dues and Subscriptions	-		-		-	
Entertainment	-		-		-	
Insurance (Liability and Property)	504		519		535	
Internet	600		618		637	
Legal and Professional Fees	-		-		-	
Office Expenses	1,200		1,236		1,273	
Postage and Delivery	1,200		1,236		1,273	
Rent (on business property)	18,900		19,467		20,051	
Rent of Vehicles and Equipment	-		-		-	
Repairs and Maintenance	1,200		1,236		1,273	
Supplies	6,000		6,180		6,365	
Telephone and Communications	1,200		1,236		1,273	
Travel	-		-		-	
Utilities	3,000		3,090		3,183	
Total Fixed Business Expenses	<u>38,604</u>	23.73%	<u>39,762</u>	22.90%	<u>40,955</u>	21.50%
Other Expenses						
Amortized Start-up Expenses	-		-		-	
Depreciation	1,680		1,680		1,680	
Interest						
Commercial Loan	-		-		-	
Commercial Mortgage	-		-		-	
Line of Credit	-		-		-	
Taxes	4,447		4,956		5,827	
Total Other Expenses	<u>6,127</u>	3.77%	<u>6,636</u>	3.82%	<u>7,507</u>	3.94%
Net Income	<u>49,461</u>	30.40%	<u>55,116</u>	31.75%	<u>64,804</u>	34.02%