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Encore Dance Costume Rental: A Business Plan

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ENCORE DANCE COSTUME RENTAL, INC.

BUSINESS PLAN, 2017

EXECUTIVE SUMMARY

Dance can be very expensive to participate in. One of the things making dance expensive is the high prices of dance costumes. Encore Dance Costume Rental helps solve the problem of expensive dance costumes by renting costumes at half of the retail price. The dance studio market is growing due to the increase in disposable income and the popularity of dance from reality TV. There are currently 795 dance studios in Michigan and 122 of those are in the Grand Rapids and Kalamazoo area, creating a large local target market and room for significant expansion. Encore Dance Costume Rental will provide a cost-effective dance costume solution; we will also be providing services to streamline the costuming process.

Currently there are many dance costume companies that sell costumes with a large range of quality and prices. Our company is introducing a new business model into this mature industry. The way that our company differentiates from our competition is by renting high quality dance costumes for half of the retail price and by providing additional costuming services. Our company is planning to create partnerships with local dance studios and create a working relationship of loyalty and trust.

The target market of Encore Dance Costume Rental consists of dance studios in the Grand Rapids and Kalamazoo area that have recreational dance classes with students ages 4-18. We plan to partner with these dance studios to provide costumes for their recreational dance class performances. Our company is going to rely heavily on obtaining partner studios that are willing to use our costume rentals year after year. We will mainly utilize direct selling to dance studios. We will also engage in social media marketing to continue to connect and communicate with

local dance studios. The costumes that we rent will be high quality but at a lower price than competitors because we are renting and not selling the costumes. Costumes will be rented for a two-week period and will be delivered and picked up directly from the dance studio.

This company was created from personal experience by the founder, Aubrey Utting. She participated in performance dance for fifteen years and her family has purchased over 40 dance costumes. She has a passion for dance and getting more children to participate in dance.

Aubrey will perform all the business tasks in the first few years while employing a seamstress and independent contractors in the peak sales season. For continued support, we will be utilizing an advisory board of three members with diverse skill sets to best guide our company.

Many of the company's expenses are variable and depend on sales. Our inventory is rented, not sold, and will be treated as an asset. Because of this, our company is forecasted to break even in the first year. The cost of the costumes will be recouped within the second rental of each costume. Partner dance studios will receive a 5% stipend on all studio costume rentals to encourage them to use our company. To test the market and allow our company to start small, we plan to start with two product categories in the first year and increase by one product category each year until we have all categories of inventory. Aubrey Utting will be contributing \$10,000 of equity to start the company. Our company is seeking a \$50,000 bank line of credit and anticipates using \$30,000 in year one and \$40,000 in years two and three. This financing will be used for startup and operating costs in the first few years. By the end of year three, equity is forecasted to reach \$55,348.

COMPANY, CONCEPT, AND PRODUCT

Encore Dance Costume Rental will be a place where dance teachers and parents can go to rent costumes for dance performances. There will be a wide variety of costumes that can either be rented for group dances or individually for solo dances. These costumes will be rented for a two-week period to allow time for a dress rehearsal and performance. Our initial target market is dance studios in the Grand Rapids/Kalamazoo area that will partner with our company to provide dance costumes for their dance studio's performances year after year.

VISION STATEMENT

Our vision for this company is to make dance more affordable and accessible for children. In the next ten years, we see this company expanding to the internet and providing services to people across the country. With online sales and shipping capabilities, the market can expand from West Michigan to the Midwest and beyond. We also see this company having the ability to provide other services to dancers and their families through a scholarship fund or a dance apparel/ shoe exchange program. Encore Dance Costume Rental will provide more children with the ability to express themselves through the art of dance.

MISSION STATEMENT

Our mission is to provide affordable dance costumes to young dancers and their parents, thus allowing more young people to have the opportunity to enjoy the art of dance.

VALUES

- We will provide exceptional customer service through our ability to help choose costumes, size students, organize and deliver costumes, as well as fix or alter costumes.
- We will provide cost effective dance costumes for our customers.
- We will provide a wide selection of inventory and costume sizes for our customers.
- We will provide high quality and clean dance costumes to our customers.

GOALS

- Our costume rental prices will not exceed 50% of the retail costume price.
- We will grow the number of leased costumes by 20% a year.
- We will be involved in the community by providing a dance shoe and apparel exchange program by our 5th year in business.

INDUSTRY ANALYSIS

FOCUS

Dance costume rentals fall into two market segments which are Formal Wear and Costume Rental in the US (NAICS: 532220) and Dance Studios in the US (NAICS: 611610). The target

market of Encore Dance Costume Rental is dance studios in West Michigan; thus, market research will be directed toward the dance studios in the US and in West Michigan.

DANCE STUDIOS IN 2016 AND PROJECTIONS

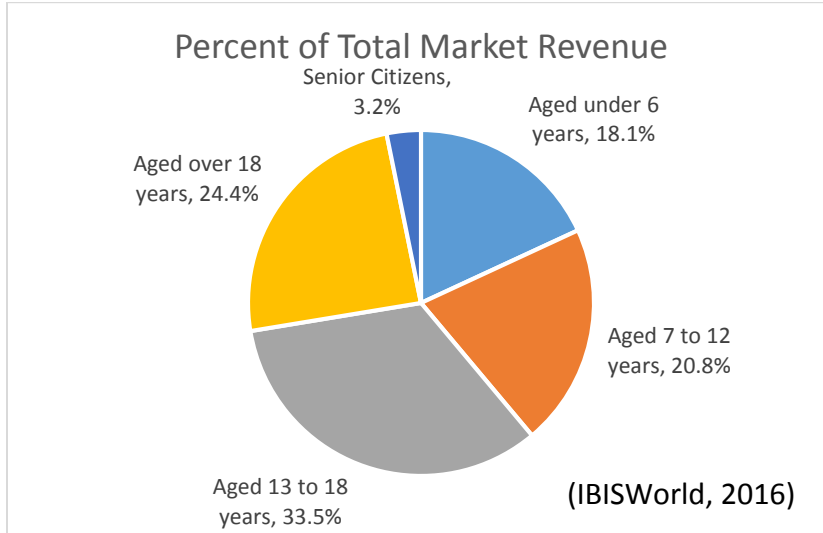
Dance studio revenue of \$2.9 billion was produced in 2016 with \$230.5 million in profit (IBISWorld, 2016). The United States Dance Studio Market will continue to grow over the next five years with an estimated increase at an annualized rate of 1.5% from 2016-2021 increasing revenue to \$3.1 billion by 2021 (IBISWorld, 2016). This market consists of 66,614 national establishments (IBISWorld, 2016). This indicates that the Dance Studio market is increasing and is an attractive target market.

Dance studios are thriving due to increased employment and disposable income which leads to increased spending on leisure activities, such as dance class. Industry growth has been greatly influenced by reality TV shows and the awareness they have brought to dance genres and dance competitions (IBISWorld, 2016). This publicity of dance is encouraging more young people to try dance. This is a large growth factor for dance studios and is a benefit to our company.

The dance studio market is highly fragmented with many individual studios in local markets. The dance studio industry is mature in its life cycle and has projected steady growth in the next 10 years of an average annual rate of 2.8% growth in the number of dance enterprises (IBISWorld, 2016). This means that there is a large number of small dance studios to partner with rather than a few companies that dominate the market and that there is steady growth in the dance studio industry.

According to IBIS World, following the recession “studios opted for less expensive costumes for productions” (IBISWorld, 2016) though merchandise sales have begun to improve. For Encore Dance Costume Rentals, this encourages us that studios are seeking cheaper options for costumes when finances are limited.

The chart below, Percent of Total Market Revenue, breaks down revenue by age of studio customers. We will be focused on the four to eighteen-year-old age range which encompasses 72.4% of the revenue generated by dance studios. This age range includes the majority of the dancers that will be participating in performances and will be purchasing costumes.



MARKET RESEARCH AND ANALYSIS

MICHIGAN MARKET SECONDARY RESEARCH

Michigan contains about 2.3% of the dance studio locations in the US (IBISWorld, 2016). In 2016 there were 795 dance studios in Michigan (Demographics Now, 2016). 122 of those studios are in the Grand Rapids/ Kalamazoo/ Byron Center DMA (designated market area) (Demographics Now, 2016). This indicates that there are a large number of possible customers in the local business area and huge opportunities to expand in the Michigan market.

Dance studio purchases comprised 16.5% of industry revenue in 2016 (IBISWorld, 2016). These purchases include merchandise such as shoes, uniforms, costumes, mats, food and water, as well as office products (IBISWorld, 2016). Dance costumes are in the purchases category. With this information, we were able to make a projected estimate of purchase revenue in Michigan.

Projected Purchase Revenue in Michigan

$\$2.9 \text{ billion } 2016 \text{ Dance Studio Revenue} * 2.3\% \text{ dance studios in MI} * 16.5\% \text{ of revenue spent on purchases} = \$11,005,500 \text{ estimated spent on purchases in MI, including costumes}$

PRIMARY RESEARCH

We have had the opportunity to talk with potential customers including both dance studios and dance families. Dance families are particularly fond of this idea to help cut their dance costume costs. The main concern that they presented was the cleanliness of the costumes rented. Dance

studios were mostly concerned with changing dance costume styles and the margins that dance studios typically get from costume sales. When asked how dancers and their families would feel about renting costumes instead of purchasing, the only concerns were about the child's first recital costume. This first costume is the most cherished costume that a child wears so families may want to keep that costume. The cost of dance affects the amount of participation that dancers have and usually limits the number of dances they perform in.

COMPETITION

There are companies that specialize in themed dance costume rentals, such as for the Nutcracker. There are also other rental companies that lease performance type costumes such as choral uniforms. Because these companies don't offer the same selection of dance costumes, they are not the competitors we are focused on. The biggest competitor to Encore Dance Costume Rental are dance costume manufacturers, specifically low cost costume distributors such as Dance Wear Solutions and Discount Dance Supply. These costumes are usually made with low quality materials but offer families a cheap dance costume option for purchase. Another competitor is dance studios that make their own costumes. When studios create their own costumes, it is often only for competition dance teams or specialty dances, not the costumes for recreational performances. Another threat is studios not using costumes at all for their performances making it free to dance families. Also, used dance costume sales through eBay or companies such as Glitz Again are competitors to our company. It is however difficult to purchase costumes through these used sites for group recreational dance performances.

TARGET MARKET

The target market of Encore Dance Costume Rental is dance studios in West Michigan with students ages 4-18 that use dance costumes for performances. IBIS World finds that "to lower upfront purchasing costs, some operators lease exercise machinery and other equipment instead of buying it" (IBISWorld, 2016). Similarly, dance studios may be looking for ways to create a cheaper operating model and to reduce costs for their students including the cost of purchasing dance costumes.

ECONOMICS OF THE BUSINESS

REVENUE DRIVERS

For our costume inventory, there will be categories for each type of dance style. The costume types include ballet, tap, jazz, hip-hop, lyrical and 2-in-1. In the first year, we will be focused on ballet and 2-in-1 costumes. We estimate ballet costumes to provide 52% of the first-year projected sales and 2-in-1 costumes will provide the remaining 48% of projected sales. These two categories were chosen because they make up a large portion of the dance costumes purchased through a dance studio. Ballet costumes are often expensive and will provide a larger margin and are the most common type of costume used for winter concerts, which creates our second peak sales period after spring recitals. 2-in-1 costumes are used for young dancers, which make up a very influential customer segment that often bases class enrollment on costs. These costumes have a base leotard with different bottoms and accessories that transition the costume between ballet and tap or jazz. This allows the young dancers to perform two styles and not have to change backstage. We plan to add a new product category each year until we can offer all the costume types. This will allow us to start small and test the market to learn how to efficiently run the business before we make a significant investment on costume inventory.

We will be purchasing the new costumes for our inventory at the wholesale price. For the first three years, we will be receiving payment for the costume rentals and using that money to purchase the new costumes. This model will significantly reduce the amount of financing needed to obtain our initial inventory. This will also allow the company to understand demand and purchase the exact number of costume sets needed for our customers. This will reduce the amount of unused inventory in the first few years of operation. Renting the costumes at 50% of the retail price allows us to acquire the cost of each costume in the second rental.

FIXED AND VARIABLE COSTS

Fixed costs include our storage space, advertising, insurance, and office supplies. Variable costs include costume purchases, transportation, and independent contractors. Our company has

many variable costs because our purchases and employment needs are directly linked to the amount of sales we have during each season.

See appendix for startup cost table.

ECONOMIC MODEL

The way our company will make money is by purchasing dance costumes at wholesale prices or used and renting them at half of the retail price. Each costume will be paid off after the second rental. Unfortunately, not all the costumes in the costume set will be used in each group rental and many costume sets will not be rented multiple times in a year. We anticipate 60% of each costume set to be rented by each group, due to having an inventory of multiple size costumes. In the third year, it is our goal to rent each costume set three times a year including two spring rentals and either a winter or summer rental. Each costume has an estimated life of eight rentals. If rented three times a year, this will give each costume about a three-year rental life. After the rental life of the costume, we plan to sell these costumes at a significantly reduced price. These costumes will either be sold to the dance families that have rented the costumes or at our summer blow out sale. This summer sale will help our company to generate revenue during one of our slow rental seasons. Selling these costumes will also help to keep our inventory fresh and up to date in the costume trends, which was a concern of dance studios we talked to. These sales are not represented in our three year financial projections because we will not hold a summer blow out sale until after the three years when costumes have reached the end of their rental life.

BREAK EVEN

The break even in sales for the first year of the company is \$22,728.55 as displayed below. This allows our company to break even in our first year. Because our inventory is treated as assets and depreciated over time and since we are not selling them, this gives us a 100% contribution margin ratio. With this ratio, the company must have sales at or above our fixed expenses to break even.

Total Fixed Expenses:	\$22,728.55
Contribution Margin Ratio	<u>100%</u>
Annual Break Even Sales	\$22,728.55

MARKETING PLAN

MARKETING STRATEGY

Encore Dance Costume Rental will be a low-cost service business. Renting costumes gives us the ability to offer high quality dance costumes at reasonable prices. Not only will this company offer a rental service instead of the typical product purchase option, we will also have the ability to create value in the form of customer service. We will provide services such as helping pick out costumes, size the dancers, alter or fix costumes, and deliver the costumes directly to the studios organized and ready to go.

Our target market is local dance studios that have recreational dance classes with kids ages 4 to 18. This service is going to be initially introduced locally in the Grand Rapids/Kalamazoo area. It is important for us to start locally to be able to test out the business model and make changes when necessary; locally, we can make these changes more easily. A large part of our business model is delivering the dance costumes to the dance studios. It is important to be close to these studios for delivery and extra services such as alterations. With this business, direct sales and relationship building are important to acquiring and creating trust with each partner dance studio. This is not something that can initially be established long distance.

To acquire partner dance studios, our company will use personal selling. We will use marketing tools such as posters, competition programs, and business cards to make our company known and possibly attract new dance studios or families. But, our main source of sales will be our personal selling. We will go to dance studios to talk with owners and teachers about our business and the benefits the company will have for them and their dancers. Direct connections will be used to build relationships with current and future studio partners.

To show the studios our inventory of costumes, including costume photos and size availability, we will have a pdf created that will act as our sales catalog. The costumes will be sectioned by costume type to make it easier to show customers. We will use this catalog to show dance teachers the costumes in our inventory. Studios will then choose the costumes for each dance class from the catalog. In the future, we hope to create an online site that will have the costume inventory. A website with this information will make it easier to keep track of what

costumes and sizes are available at certain times. Our goal is to have a website up and running by our third year in business.

The unique selling proposition for our company is renting costumes to make dance more affordable and accessible to children. This means serving the local dance studios, as well as the dance families in the local area.

PRICING

Our company will rent dance costumes to dance families for 50% of the retail price. This will make our company different than most other dance costume suppliers who charge full retail price for the purchase of the dance costume. Even though the dancers will not be able to keep the costume (unless they purchase it from us at the end of the lease period for a discounted price), our services and pay back program to the dance studios will provide great value to our customers while saving them money.

SELLING CYCLE

Customers will hear of our company through advertisements or by personal selling. If customers become aware of our company through one of our advertisements or by word of mouth they will contact our company. At this point we will set up a meeting with them at their studio or in our office. We will also be calling local dance studios to set up these personal selling opportunities. In both situations, we will sit down with dance studio owners and describe to them the service that we can offer. Our sales team will inquire about the studio needs that our company can satisfy and try to sell our services to them. When studios decide to use our services, we will choose between 20 and 30 classes to start our services with. This will give us the opportunity to create a relationship with the studio and for our company to understand their preferences and needs. When trust has been built and our costume inventory expands, our company will negotiate more dance classes to costume for their future dance performances.

SALES TRENDS

The dance costume market is very seasonal. Dance classes follow a typical school year, starting around September and ending around July. Almost all recreational dance classes participate in

an end of the year performance in June or July. Dance studios often have winter holiday dance shows around November and December. There are summer dance programs, but these are typically only practice programs and summer intensives which do not involve performances. This creates two main performance periods, spring and winter. We anticipate the spring period to generate 70% or more of our sales.

Our company would be wise to seek opportunities to rent costumes in the slow months as well as peak periods. Programs can be developed that involve performance based summer dance classes. This will create a third, summer sales period. With the low prices for costume rental, costumes will be cheaper than ever to enhance these summer programs. We will also be having our summer blow out sales in the summer season to create revenues in this slow sales season.

ADVERTISING

To get our name out to our target market, we will participate in low cost advertising promotions. We anticipate most of our sales to be generated through personal selling and word of mouth.

We will have a Facebook and Instagram account that will help get our company connected with the studios in our target market, as well as stay connected to our customers. These platforms are free and allow for continued communication with target consumers. Both of these social media sites also utilize photos and videos which will be a great way for our company to visually show dancers wearing the costumes that we offer.

For free publicity, we will rely on word of mouth advertising to spread the word about our costume rentals. Our customer service and relationships with dance studios and dance families will encourage word of mouth advertising.

We will create business cards to distribute to dance families and studios. Business cards are low cost and involve a form of personal contact whether the card is given to an interested person by an employee, partner studio, or a dance parent. Posters will be created to be displayed in our partnering dance studios to continue to popularize our company name and our services. Dance competitions attract local dance studios to participate in their competitions. At these competitions, they have programs that have the schedule of dances with advertisements in the

back. Even though we are not targeting competition dancers, having ads in these programs will make us known to many local dance studios that also have recreational dance classes.

DISTRIBUTION

To distribute the rented dance costumes to the local dance studios, we will have independent contractors drive the pre-organized costumes to the studios. They will deliver the costumes and make sure the dance studio is happy with their costume rentals. This creates another point of contact and interaction with the dance studio. This enables us to create more of a relationship with the dance studio and have an extra level of customer service. Independent contractors will also be the ones to go to the studios to pick up the costumes and bring the costumes back to our warehouse to be sanitized after the rental period.

OPERATIONS PLAN

SALES PLAN

Encore Dance Costume Rental will focus mainly on selling to dance studios but will also sell to individual parents or students. When selling to studios we will negotiate a lease plan with the local dance studios. This will include paying the dance studio 5% of sales for participating with our company. This stipend will encourage studios to partner with us not only to help their dance customers save money but also for a small financial gain for their studio. Most dance studios do earn a margin on dance costume sales. We are starting with 5% because our company will be taking over many of the tasks associated with costume sales creating less work for the dance studios. We will however strive to raise that stipend to 10% by the end of year four. As mentioned, we will also advertise and lease individual costumes to dance parents and students for solo performances or small groups.

One of the setbacks to renting costumes instead of purchasing them is that families will not get to keep the costume. Some dancers and their families are sentimental and like to hold on to their children's dance costumes. Because of this, we will sell the leased costumes to families that decide to keep the costume at the end of the lease. As mentioned earlier, when talking

with studios and families they did not think this would be a large percent of students. They were only concerned with families wanting to keep their child's first dance recital costume. We will have two-week dance costume rentals. This time allows for a week of rehearsals and a week of performances and for alterations if needed.

For financial security, there will be procedures put in place in case of damaged or lost items. Credit card numbers will be kept and charged in the case of damage or loss of a costume.

INVENTORY PROCUREMENT

We will obtain costumes in two ways, the purchase of new costumes and the purchase of used costumes. When necessary, we will purchase new costumes in bulk from a national dance costume manufacturer. Because this will be the way we purchase most of our inventory, we will need to create a partnership with a dance costume manufacturer and warehouse in hopes of keeping costs down and maintaining high quality costumes. To purchase used costumes, we will have to negotiate a buyback program with local dance studios to purchase gently used group and individual costumes. There will need to be a system to evaluate the used costumes at the time of purchase.

PURCHASING

Costumes will have to be purchased either through a manufacturer or from a buyback program. Costumes that were purchased used or rented will need to be reviewed for any rips or stains. Repairs will need to be made to costumes with rips and tears. All the costumes will then need to be sanitized, reorganized, and put back into the inventory system.

SALES AND MARKETING

Lease rates will need to be established. Sales will need to be made to studios and individuals. Advertising and promotional material will need to be made and distributed. Social media sites will be maintained with customer communication and content creation.

OFFICE ADMINISTRATION

Paperwork will need to be filled out, as well as many legal forms. Forms that will need to be created and distributed include: lease form for dance studios, lease form for individuals, purchase order form for new costume purchases, buyback purchase form, an independent

contractor agreement, and an employee transportation form. Management of orders and sales will take place, as well as financial documentation.

DELIVERY

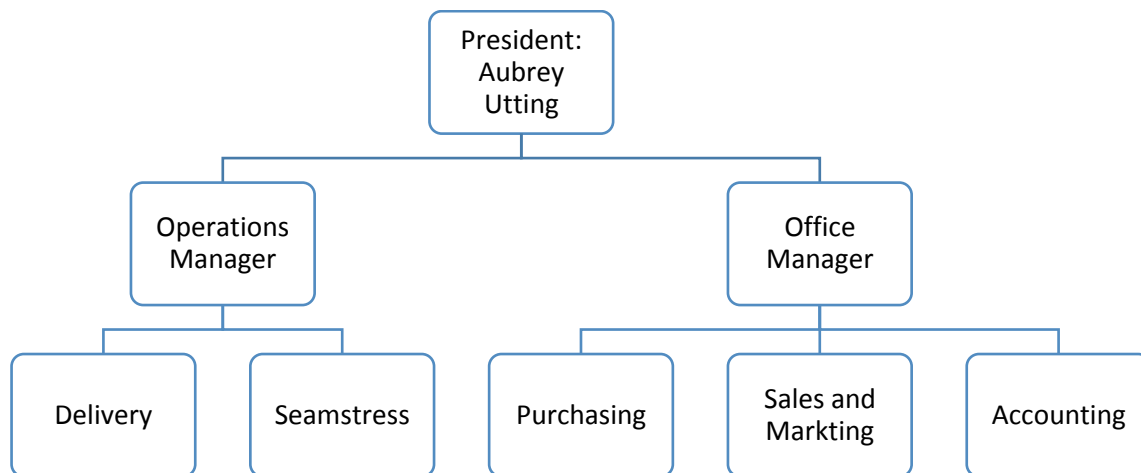
Costumes will need to be delivered to the dance studios at the start of the rental period as well as picked up at the end of the rental period. This will be done by independent contractors that drive their own vehicles to and from the storage space and the dance studios to deliver the costumes that have been rented. Individuals that rent costumes will be expected to pick those up from our office or warehouse.

MANAGEMENT TEAM

ORGANIZATION

Below is an organizational chart of the venture's management and employee roles. Most of these responsibilities will be held by Aubrey Utting in the first year of the business.

Independent contractors will be hired in peak periods for delivery, as well as a seamstress. We will also have an accountant that keeps our books. When the company grows, and is in need of more employees, the bottom row responsibilities will be delegated to new employees.



KEY MANAGEMENT: AUBREY UTTING

Aubrey Utting is the founder and owner of Encore Dance Costume Rental. She has her Bachelors of Business Administration (BBA) in Entrepreneurship from Western Michigan University. She has been a dancer since she was four years old and has had a passion for dance

ever since. What makes her great for this business is that she has experienced the joy of dancing, as well as the financial burden that dance can have on a family.

She has held many diverse job positions. Two of the positions that she learned the most from were her internship with Mills Benefit Group and her internship at TerraVita Wellness. Mills Benefit Group provided Aubrey with the experience of a service business where she participated in meetings with clients for personal selling. Through this internship, she became proficient in creating and utilizing excel spreadsheets and gained professional communication skills. TerraVita Wellness is a holistic health practice that Aubrey helped move from a small home location to a health facility. For this position, she worked directly with the owner of the business to create a professional operation.

Initially, Aubrey will perform the business tasks of purchasing, sales, marketing, and delivery of Encore Dance Costume Rental.

BOARD OF ADVISORS

This company will not have a board of directors, but will have a board of advisors. This group will provide business support to the owner and the company as we start up and grow. Randy Utting will be one of our board members. As a CFO and a board member of both Geneva Camp and Retreat Center and WMU Alumni Association, he will provide financial help as well as a wealth of experiential knowledge. We will be seeking to find two more board members including a dance studio owner and a person who specializes in marketing and sales. Our advisory board with such diverse skill sets will help guide this startup company.

OVERALL SCHEDULE

FIRST YEAR SCHEDULE: 2017

Month	Milestones
June	Bank line of credit, Business LLC incorporation, determine costume wholesaler
July	Purchase laptop, create Excel inventory spreadsheets
August	Create business cards, posters, and Facebook page
September	Continue meeting with dance studios
October	Obtain rental space, purchase racking and storage bins
November	Purchase used inventory
December	Receipt of first orders
January	First payment, costume sizes and costumes chosen
February	Ordering of costume inventory, organize inventory
March	Organization of first rentals
April	Delivery on first sales
May	Buy back of used costumes

YEARLY SCHEDULE

Year	Milestone
1	Incorporation, receipt of first orders, delivery on first sales
2	Add tap inventory category, 8 partner studios, consolidate operations
3	Add jazz category, 10 partner studios, three rentals a year, hire first full time employee

CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS

PROBLEMS AND RISKS

The amount of inventory and the specific styles and sizes are hard to anticipate. Having inadequate inventory is one of the largest risks associated with this business. If a large portion of the inventory goes unused, money is lost and if too little inventory is ordered studios will not have enough options for dance costumes.

Since this is a new business model for this market, market size is hard to determine. The market is defined but the risk is dependent on people being willing to accept costume rental instead of purchase. This is a change that will take getting used to by studios and dance families. It is difficult to determine how this change will be perceived and if action will be taken to change current purchasing patterns.

Competitor risk is very prominent for this business. Dance costume companies can price-cut, creating lower cost costume solutions. Competitors can also modify their business model to incorporate dance costume rental, though it would be difficult for them to imitate the relational aspect of our company. It is also a concern that manufacturers of the dance costumes may be loyal or owned by the costume retailers, thus making it difficult for us to purchase costumes at wholesale prices.

Another large concern is finding dance studios to partner with. Most dance studios earn a margin on dance costumes that they sell. Our company will be taking care of many of the costuming tasks previously done by the studios and will be giving a 5% stipend to studios. However, this may not be a large enough margin for some dance studios creating a push back from studios that make a profit on costume sales.

ASSUMPTIONS

- Average dance class size of 12 students
- Average estimated break down of classes in a dance studio:

Style	Class Breakdown per Studio	Retail Price	Wholesale Price
Ballet	8	\$65	\$32.50
Tap	8	\$45	\$22.50
Jazz	10	\$50	\$25
Hip-Hop	4	\$37.50	\$18.75
Lyrical	6	\$57.50	\$28.75
2-in-1	12	\$42.50	\$21.25

- Average of 48 classes per dance studio
- Retail prices for dance costumes are two times the wholesale cost
- 20 costumes for each costume set: 6 small, 8 medium, 4 large, and 2 extra large
- Partner studios: 5 year 1, 8 year 2, and 10 year 3
- Inventory depreciates over 5 years

FINANCIAL PLAN

FINANCIAL STATEMENTS

See appendix for forecasted Income Statement, Balance Sheet, and the Statement of Cash Flows for years 1-3.

To finance the business Aubrey Utting will be investing \$10,000 into the company and obtaining a bank line of credit for \$50,000. In year one we anticipate to need financing of \$30,000 which will increase to \$40,000 needed in years two and three. With these investments, the company will be having revenues of \$31,875 from the Ballet and 2-in-1 categories in the first year. The company is forecasted to generate profits of \$2,176 in the first year which will be reinvested into the company. The profits and the extra funding will go toward acquiring inventory for the additional product category as well as the increase in sales. Aubrey will be compensated on a

percentage of sales, which will be 25% in the first three years and may need to be reevaluated after this time.

PROPOSED COMPANY OFFERING

DESIRED FINANCING

Aubrey Utting will be putting \$10,000 of her own savings into the company in the form of equity. The company will be seeking a bank line of credit for \$50,000 to cover the startup and operation costs in the first few years of the company. We have decided to get a bank line of credit because loan repayment is not fixed and the line of credit can be paid back when cash is available. This also gives us the flexibility to use up to the \$50,000 amount though we forecast needing \$30,000 in year one and \$40,000 in years two and three.

USE OF FUNDS

The capital will be used for our startup costs which include a storage space, racks and boxes for the costumes, a sewing machine, filing cabinet, MacBook Pro, and the remaining cost of the excess inventory ordered at the time of sales. We will require significantly less financing in the first three years because of our process of receiving orders and payment and using those payments to purchase the costumes. To create a whole costume set we will need to purchase extra sizes in each costume which we will use our funding for. Initially, the company plans to do business out of a home office while storing the costumes in a warehouse.

REFERENCES

Demographics Now. (2016). *Demographics Detail Comparison Lower Michigan DMA's*. Alteryx, Inc. .

IBISWorld. (2016). *Industry Report OD5350 Dance Studios in the US*.

APPENDICES

STARTUP COSTS

Item	Price
Racking (storage supply)	\$50/rack * 20 racks = \$1,000
Storage boxes (Zoro Storage)	\$15/box * 10 boxes = \$150
Sewing Machine (Singer Brilliance)	\$150
Filling cabinet (used)	\$35
Mac Book Pro (Best Buy)	\$1,350
Inventory (estimated price after sales)	Ballet: \$9,425 / 2-in-1: \$10,200
Sales Stipend (5% sales back to studios)	\$1,594
Insurance (year 1)	\$1,000
Legal & Accounting Fees	\$250
Rental of storage unit	\$75 (per month)
Supplies (sewing supplies, paper, Square)	\$250
Ad and Promo (posters, business cards, etc.)	\$1,100
Total	26,579

INCOME STATEMENT

Encore Dance Costume Rental
Income Statement

	End Year 1	End Year 2	End Year 3
Revenue			
Ballet Costumes	\$ 16,575	\$ 30,030	\$ 31,200
2-in-1 Costumes	\$ 15,300	\$ 24,480	\$ 30,600
Jazz Costumes	\$ -	\$ 24,000	\$ 30,000
Tap Costumes	\$ -	\$ -	\$ 21,600
Total Revenue	\$ 31,875	\$ 78,510	\$ 113,400
COGS	\$ -	\$ -	\$ -
Gross Margin	\$ 31,875	\$ 78,510	\$ 113,400
Operating Expenses			
Salary	\$ (7,969)	\$ (19,628)	\$ (28,350)
Payroll Tax	\$ (817)	\$ (2,012)	\$ (2,906)
Contract Labor	\$ (3,500)	\$ (7,000)	\$ (10,000)
Depreciation	\$ (651)	\$ (651)	\$ (651)
Dance Studio Stipend	\$ (1,594)	\$ (3,926)	\$ (5,670)
Storage Rental	\$ (900)	\$ (900)	\$ (900)
Total Operating Expenses	\$ (15,430)	\$ (34,116)	\$ (48,477)
Other Expenses			
Amortized Startup Expenses	\$ (892)	\$ (892)	\$ (892)
Line of Credit Interest	\$ (1,200)	\$ (1,600)	\$ (1,600)
Insurance	\$ (1,000)	\$ (2,000)	\$ (3,000)
Credit Card Fees	\$ (877)	\$ (2,159)	\$ (3,119)
Write Down of Inventory	\$ (10,300)	\$ (19,627)	\$ (31,257)
Total Other Expenses	\$ (14,269)	\$ (26,278)	\$ (39,868)
Total Expenses	\$ (29,699)	\$ (60,394)	\$ (88,344)
Net Profit/Loss	\$ 2,176	\$ 18,116	\$ 25,056

BALANCE SHEET

Encore Dance Costume Rental

Balance Sheet

	End Year 1	End Year 2	End Year 3
Current Assets			
Cash	\$ 1,000	\$ 609	\$ 615
Inventory	\$ 51,500	\$ 98,135	\$ 156,285
Write Down of Inventory	\$ (10,300)	\$ (29,927)	\$ (61,184)
Prepaid Expense	\$ 1,783	\$ 892	\$ -
Total Current Assets	\$ 43,983	\$ 69,709	\$ 95,716
Fixed Assets			
Equipment	\$ 1,500	\$ 1,500	\$ 1,500
Furniture and Fixtures	\$ 1,185	\$ 1,185	\$ 1,185
Other	\$ 1,000	\$ 1,000	\$ 1,000
Total Fixed Assets	\$ 3,685	\$ 3,685	\$ 3,685
Accumulated Depreciation	\$ (651)	\$ (1,302)	\$ (1,953)
Total Fixed Less Dep.	\$ 3,034	\$ 2,383	\$ 1,732
Total Assets	\$ 47,017	\$ 72,092	\$ 97,448
Liabilities			
Bank Line of Credit	\$ 30,000	\$ 40,000	\$ 40,000
Current Liabilities	\$ 4,841	\$ 1,800	\$ 2,100
Total Liabilities	\$ 34,841	\$ 41,800	\$ 42,100
Equity			
Equity: Aubrey Utting	\$ 10,000	\$ 10,000	\$ 10,000
Retained Earning	\$ 2,176	\$ 20,292	\$ 45,348
Total Equity	\$ 12,176	\$ 30,292	\$ 55,348
Total Liabilities and Equity	\$ 47,017	\$ 72,092	\$ 97,448

STATEMENT OF CASH FLOWS

Encore Dance Costume Rental
Statement of Cash Flows

	Year 1	Year 2	Year 3
Beginning Cash	\$ -	\$ 999	\$ 609
Operating Activities:			
Net Profit	\$ 2,176	\$ 18,116	\$ 25,056
Depreciation	\$ 651	\$ 651	\$ 651
Amortization	\$ 892	\$ 892	\$ 892
Write Down of Inventory	\$ 10,300	\$ 19,627	\$ 31,257
Change in Inventory	\$ (51,500)	\$ (46,635)	\$ (58,150)
Change in Other Current Assets	\$ (2,676)	\$ -	\$ -
Change in Current Liabilities	\$ 4,841	\$ (3,041)	\$ 300
Cash From Operations	\$ (35,316)	\$ (9,391)	\$ 615
Investing Activities:			
Purchase of Fixed Assets	\$ (3,685)	\$ -	\$ -
Financing Activities:			
Barrowing on Line of Credit	\$ 30,000	\$ 10,000	\$ -
Issuance of Equity	\$ 10,000	\$ -	\$ -
Ending Cash	\$ 999	\$ 609	\$ 615