



Caroline Center Upholstery
Business Plan

April 2005

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I. Executive Summary

Caroline Center Upholstery (CCU) is a custom, retail upholstery shop providing services to both residential and commercial customers in the Baltimore Metropolitan area. CCU's core services consist of the (re)upholstering of all types and styles of furniture. CCU offers quality workmanship, competitive prices and turnaround times, as well as the added benefit of supporting the training and employment of Baltimore City women.

CCU is a natural outgrowth of a training program in upholstery initiated in 2001 by Caroline Center Inc., its parent organization. Caroline Center Inc. provides job-training skills in various disciplines to low-income women in Baltimore City. As of fiscal year 2005, Caroline Center Inc. began transitioning its upholstery program into a self-sustaining business that will continue to provide job training, while contributing profits back to its parent organization. CCU's financial success and its support of Caroline Center Inc. can help make a significant impact on the lives of Baltimore women.

The marketplace has proven very receptive to upholstery services. Recent years have shown a growing interest in remodeling, home improvement and interior design. Home improvement sales in 2004 were \$271.4 billion representing a 12.8% increase over 2003. And sales are estimated to continue growing and reach a level of \$329.1 billion by 2009⁽¹⁾. CCU's primary market is medium to high-income (\$50,000 - \$250,000) residential households in the Baltimore Metropolitan Area, of which there are over 950,000. This market has helped to fuel the region's spending of over \$2 billion dollars in home improvement and design in 2004 – making the Washington, Baltimore, Northern Virginia area the nation's ninth highest-ranking market⁽²⁾.

CCU is also pursuing a secondary commercial market. Primary targets are healthcare organizations, educational institutions (particularly Catholic colleges) and smaller hotels. CCU's research has shown these customers to be open to the consideration of reupholstering versus replacing furniture, as long as the pricing and turnaround time are competitive. This market appears to be somewhat untapped due to the diminishing number of upholstery retailers and the lack of aggressive marketing in the industry.

Caroline Center Upholstery is positively positioned to compete in the regional market for upholstery services. CCU has the marked advantage of building its marketing efforts upon the established reputation of its parent organization, as well as, upon its own training program. The beginnings of a "Caroline Center" brand have already been established through the Board, donors, friends, and past and current customers of the upholstery program.

CCU competes in this market as a quality shop with mid-level pricing, offering customers excellent value and service. Through its well-trained workforce, CCU aims to compete on quick turnaround times and the capacity to handle larger jobs – critical competitive advantages in an industry predominated by small shops. Moreover, CCU has the confidence of using workers trained by Caroline Center itself and the ability to increase the workforce by expanding the training program as needed – a significant benefit in this trade.

Caroline Center Upholstery's marketing strategy concentrates on building strong brand awareness and increasing referrals and direct sales.

CCU will target the private market through distinct marketing activities including advertising, public relations and direct mail. CCU will target commercial customers through relationship marketing, direct sales and website development. At the same time, CCU will continue to promote itself to all potential customer groups through networking and referrals from current customers and contacts obtained through its board and staff members. Though commercial customers currently make up about 10% of the business, CCU projects this market to comprise up to 30% of upholstery revenue by fiscal year 2007.

CCU recognizes that a strong management team is key to the success of a new enterprise and is confident it has the right mix of skills and experience in place. CCU is led by Ann Cunningham, Manager, who has come on board with 30 years of business and technical experience to transition Caroline Center Upholstery into a self-sustaining social enterprise. Ms. Cunningham works closely with Herb Davis, Master Upholsterer and a business owner for more than 45 years in the Baltimore Metropolitan area. Margaret Colleluori, who led the initial venture feasibility study, continues to provide expertise to CCU in her new capacity as Associate Director of Caroline Center. CEO Sr. Patricia McLaughlin SSND, whose extensive experience includes founding and growing several successful non-profit social-services organizations, as well as top-management roles in large, educational institutions, supports the venture.

CCU has the full support of its parent organization. Caroline Center Inc. is a well-managed, successful job-training organization, established in 1996 by the School Sisters of Notre Dame as an extension of their mission to educate women. The Center has seen continuous growth and now supports a staff of 20 – 25 people and conducts training programs for up to 200 low-income women annually. With a Board of Directors representing business, education and social services, it has an annual budget of over \$700,000 and an endowment of \$400,000. The management and Board of Caroline Center Inc. have committed their resources, both managerial and financial, to assisting and sustaining CCU through its growth stage.

CCU's initial objectives are to increase revenues by 150% in fiscal year 2006 and reach profitability in fiscal year 2007, through an aggressive marketing campaign, steadily increasing staff, adopting market pricing and initiating the sale of fabric. CCU will continue to provide top quality (re)upholstery services to its customers and purposeful work training and employment to women in Baltimore City.

CCU will function as a venture under Caroline Center's 501c3 umbrella, thus continuing to share some management and operational resources.

II. Business Description

Caroline Center Upholstery (CCU) is a natural outgrowth and extension of its parent organization, Caroline Center Inc., which provides job training in diverse areas, including certified nursing assistant, certified child-care provider, and pharmacy technician to unemployed or under-employed Baltimore City women. The upholstery program appeals to women who may not have obtained a high school diploma, whose abilities are more craft-oriented, or even those with a criminal background who have great difficulty in finding employment. Caroline Center's mission is to empower women, through employment, to create a future for themselves and their families. To progress this mission, it is imperative that the revenue generated by CCU is passed on in part, to its women, offering them a viable career. In addition, CCU plans to contribute a portion of its profits to help increase the range of programs, training and opportunities Caroline Center provides its clientele.

The upholstery-training program of Caroline Center Inc. offers women the opportunity to learn the upholstery trade while Caroline Center Upholstery subsequently offers them the opportunity to practice, utilize and earn money from the trade.

Mission and Objectives

Caroline Center Upholstery's mission is to provide customers with high quality reupholstering services and to create employment/career opportunities for the low-income women in Baltimore City who are trained through CCU's parent organization, Caroline Center Inc. CCU hopes to function profitably so it may return financial assistance to Caroline Center Inc., enabling an increasing number of women to find gainful employment.

CCU short-term business objectives include:

- Increase revenues by 100% in fiscal year'05, with the implementation of a marketing strategy, competitive prices and fabric sales.
- Generate cumulative revenues of more than \$700,000 over the next three years.
- Become profitable by end of fiscal year'07.
- Become independent of Caroline Center by fiscal year'07.
- Provide employment for three full-time Upholsterers by fiscal year'07, with opportunity for 5 commission-based upholsterers and 8 commission-based apprentices.
- Act as a constant promotional vehicle in support of Caroline Center Inc., through upholstery services and marketing activities.

Service and Product Description

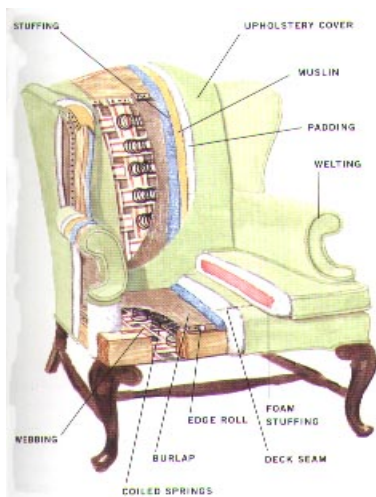
Caroline Center Upholstery reupholsters furniture. Most upholstered furniture utilizes a supporting structure of springs, cushions and coverage material that is built upon a wood frame and used for seating. Over time, high usage will damage the frame and wear down the support structure necessitating the need for reupholstering. In addition to wear and tear, changes in design trends for the home and furniture will drive many customers to seek out the services of an upholsterer.



Caroline Center Upholstery provides custom retail upholstery services to customers who purchase or inherit fine furniture or antique pieces and are interested in maintaining the quality and beauty of those items. CCU has responded to this market need with a well-trained workforce, quality services and value for consumers.

To serve its customers, Caroline Center Upholstery begins by providing a comprehensive estimate of all job components, including the cost of labor, the amount of fabric required and the estimated turn-around time for completion and delivery.

Once an agreement is reached, the process of reupholstering a piece of furniture begins by skillfully removing the existing cover material and support structure to get down to the springs and wooden frame – usually using hammers and tack pullers.



Any loose sections of frame and wood are then refurbished as needed. Broken springs are fixed and the webbing (the cloth mat seat cushions rest upon) is replaced.

Finally, the upholstery cover is reconstructed. “First the fabric is measured for the arms, backs, seats, sides and other surfaces and then is cut – leaving as little waste as possible. The fabric pieces are then sewn together and attached to the frame with tacks, staples or glue. To finish, any ornaments, such as fringes, buttons or rivets are affixed to the completed piece.”⁽⁶⁾

CCU recently began selling fabric in response to the expressed needs of its customers. Fabric is sold exclusively for the furniture CCU reupholsters. Currently CCU collaborates with one fabric wholesaler but plans to expand with additional vendors, to take full advantage of the significant profits available through fabric sales. If CCU does not carry the specific fabric of interest to a customer, it will continue to offer the complementary service of providing the names of trustworthy retail vendors, as well as, consultation and suggestions on appropriate fabric types for specific projects.



Fabric, as the outer most visible piece of furniture, is an essential element of the overall quality and durability of an upholstery job. CCU and its staff bring a wealth of experience and knowledge in this area and work with clients to find the best solution for their furniture.

CCU has contracted with Christopher Place Academy to provide delivery and pick-up service, for which customers pay an additional fee. As a result, CCU staff can focus on its core reupholstery services.

III. Industry & Market Analysis

Market Trends

Upholstery, a time-honored craft which has been practiced by artisans for hundreds of years, is carried on today in much the same manner. It is a unique trade, which does not lend itself to automation and this fact contributes to both the challenges and the benefits of the industry. As experts in the field report, much upholstered furniture has become a commodity today, but there's still great demand for custom work and for restoring well-built furniture. Market research ranks Baltimore as the nation's 14th largest market for upholstery and predicts a 4.9% CAGR growth from 2005 – 2010⁽⁴⁾.

Some of the current trends affecting the upholstery industry are:

Small shops:

According to the Bureau of Labor Statistics, approximately 30 percent of upholsterers are self-employed – three times the average for all craft workers. The majority of shops offering reupholstering services are small, with two or three craftsmen. According to the US Census Bureau, shops with only 1 – 4 employees have dominated the market since 1998 representing over 70% of the market⁽⁵⁾. Often the main proprietor is an older person who has been in the business for many years. Maryland mirrors the US market with shops employing 1 – 4 employees representing 71% of all upholstery shops⁽⁵⁾. Due to the labor-intensive character of the work, these shops are only able to accommodate a limited amount of workflow.

Workforce scarcity & lack of training programs:

Reupholstery is a manual labor job. Workers need good hand eye coordination, manual dexterity, physical stamina and the ability to perform repetitive tasks for long periods of time⁽⁶⁾.

The craftsmen's guilds are long gone and have not been replaced by professional associations in this field. The consensus seems to be that very few people are entering the field and thus, as older upholsterers retire and others close shop, the number of places offering quality upholstery services continues to shrink. In its 2002 Economic Census report, the US Census Bureau notes an overall 2% decline in the number of reupholstery and furniture repair shops nationwide and a 4.5% decline in Maryland⁽⁷⁾.

Given the decrease in available training programs, Caroline Center Upholstery feels it is providing a valuable and increasingly unique service to its employees. Of the available training programs, most are part of vocational institutes and technical schools. However, a recent list of training programs in *Upholstery Journal* cited only 29 such programs in 17 states⁽³⁾. On-the-job training, though critical to the success of the industry, requires significant time and manpower taken away from productive work – a critical drain on revenue and efficiency.

Some of the larger upholstery shops have been looking for innovative solutions to this dilemma and have begun to hire immigrant workers, many of whom are women.

Reupholstering vs. buying new:

The continuously growing craze for things “disposable” exists within the furniture industry as well. *Furniture Today's* 2004 consumer buying trends survey found that 50% of Americans who bought upholstered furniture did so because their old furniture had worn out⁽⁸⁾.

“Fine furniture”, however, remains a stalwart of our society. Those who can afford better quality home furnishings sustain the market demand for these products. Once a person owns a piece of fine furniture, either antique or more contemporary, the tendency is to keep it and preserve its integrity through reupholstering and refinishing. This trend seems to exist in both the residential and commercial markets.

Interestingly, several commercial facilities managers CCU surveyed locally admitted they were not aware of reupholstery options but would consider it if it were proven cost-effective. This indicates some of the local market decline may be attributable to a lack of consumer awareness.

Increase in home improvement:

A very promising trend today is the huge popularity of “makeovers” in every sector - which translates into a surge in home remodeling and home improvement. The major retail outlets devoted to home improvements, Lowe's and Home Depot, have had four-year CAGR sales growth of 8.1% and 13.4% respectively since 2002 and are good indicators of the sustainability and degree of consumers' interest.

TV shows about how to remodel and beautify your home are very popular leading to theme programs like “Trading Spaces” and “Extreme Makeover: Home Edition” - which premiered in 2003 and has cracked the top 20 shows in primetime as of March 23, 2005 ranking at #15. Other shows such as “Decorating Cents” and “Decorator's Challenge” soon followed.

The boom in home sales caused by low interest rates in the last couple of years has added even greater momentum to this emphasis on interior design and decorating. In Maryland alone, 91,000 brokered real estate transactions contributed \$20.5 billion dollars to the local economy⁽⁹⁾.

All of these factors have created a very favorable market for services like reupholstering and indicate there is a strong future market potential as well.

Minimal marketing:

The marketing and promotion of upholstery services is done almost exclusively through referrals and word of mouth. This is most likely due to the small size of the majority of upholstery shops, the diminishing number of craftspeople practicing the trade and the fact that most upholstery work is conducted within the customers' local market.

A survey of local businesses confirmed this trend, with most retailers saying they listed in the Yellow Pages and gave out business cards, but did no further promotions. An extensive

internet search revealed that less than 1% of shops nationwide are using the web as a promotional tool.

Market Segmentation & Success Factors

The upholstery industry has two major segments: upholstering of new furniture, which is a part of the manufacturing process and the reupholstering of used furniture. Within the reupholstering sector, there are specializations in automobile interiors and marine interiors, but these niche markets do not usually overlap with furniture reupholstering, even though many of the techniques are the same.

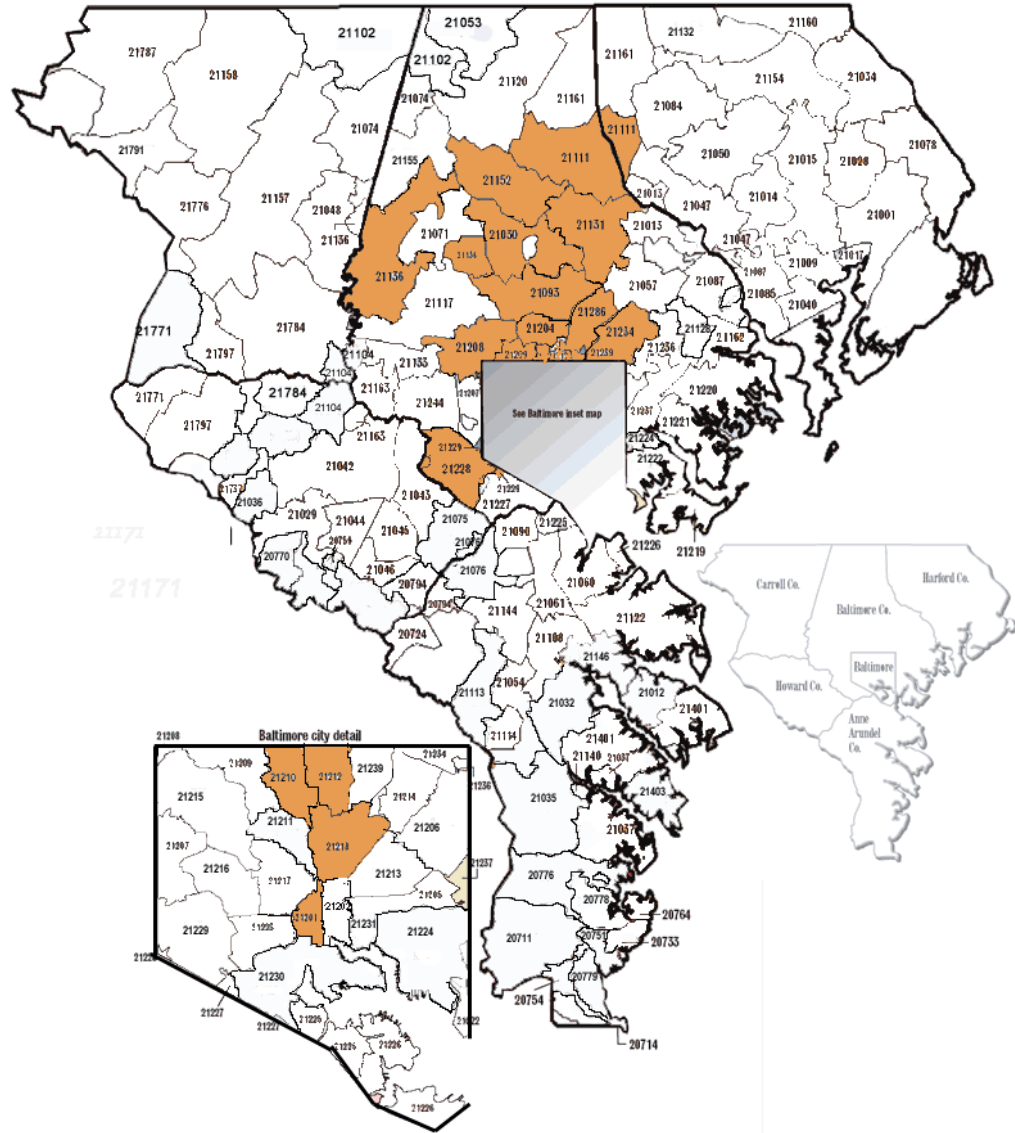
In furniture reupholstering, most craftspeople are generalists – they work on a vast array of types and styles. Distinguishing characteristics among shops can consist of specialization in antiques and/or a concentration on complete furniture restoration (in which reupholstering would be only a part of the process). The major characteristic which differentiates one shop from another is size and therefore, capacity.

Since the residential upholstery market deals mainly with furniture of value, quality work is unquestionably the top factor for success. In order to compete, the workmanship must be excellent and the materials used must be of a quality appropriate to the project. The top three characteristics shopped for by Americans who bought upholstered furniture in 2003, were quality, durability and comfort⁽⁸⁾. Competitive pricing is also important, as consumers are comparing the cost of restoration with that of replacement. Often the most critical factor in the success of an upholstery retail business is turnaround time. Given that capacity in the great majority of shops is limited by their size, the ability to accept and turn around a project in an acceptable time frame can often clinch the buyer's decision.

Target Market

Caroline Center Upholstery's services are targeted at two market segments identified through a comprehensive review of current clients, product mix and external market research:

The largest target market, which currently makes up over 90% of CCU's business, is concentrated in the reasonably affluent communities of medium-to-high income (\$50,000 - \$250,000/yr) residential households within the Northern Baltimore Metropolitan Region highlighted in the map below.



In 2003, Maryland ranked behind New Jersey in median income, becoming the second most affluent state, rising from 5th in 2002. The Baltimore Metropolitan Region, itself, consists of over 950,000 households with a median household income of over \$50,000. (U.S. Census Bureau, American Community Survey).

Caroline Center Upholstery feels this market is ideal for the customers it wants to attract. Of the residential customers served by CCU over the last 18 months, 85% reside in the affluent areas highlighted on the map. Based on a survey of past CCU customers, it is expected that most residential customers will continue to supply piecework (1-3 pieces at a time) and will continue to make purchase decisions based on CCU's areas of strength (quality of work, price, turnaround time and personal referrals).

CCU also recognizes a secondary, commercial market that consists primarily of healthcare organizations, hotels, and educational institutions – all of which are generously represented in CCU’s service region.

In fact, there are 34 hospitals and 514 Nursing and Residential Care Facilities within the Baltimore Metropolitan Region. The hospitality industry is also well represented with over 100 hotels, motels and inns in the Greater Baltimore area. Additionally, there are more than 15 institutes of higher learning concentrated within a 10-mile radius of Caroline Center. This secondary target market provides multiple opportunities for both bulk work (10+ pieces at a time) and piecemeal (1-3 pieces at a time), as well as, for long-term commercial relationships. According to a random survey of local institutions conducted by CCU, commercial customers seem to base purchase decisions primarily on price and turnaround time, but also listed quality considerations as an important element.

CCU will continue to utilize the strong network of contacts existing between its parent non-profit agency and the many other Catholic organizations (health care and educational) in the area to build its commercial business. In the last two years, Caroline Center Upholstery has provided services to four educational institutions and one hospital within this group of Catholic-run organizations and has leveraged this commercial experience to obtain contracts with Johns Hopkins Hospital, as well as with a local hotel group.

Competitive Analysis

Caroline Center Upholstery believes it is in a competitive position to transition its job-training program into a retail business. Through a combination of its Master Upholsterer and trained workers currently in place, CCU has extensive expertise and experience in the industry. The organization has created a reputation among its customers for quality work at very reasonable prices and can leverage this reputation to build brand recognition in its local target market areas.

After conducting a competitive analysis, Caroline Center Upholstery has come to the conclusion that the market is far from saturated, leaving ample opportunity for a relative newcomer to expand its services. Based on the analysis results, there also appears to be a significant amount of potential for flexibility in its current pricing structure for upholstery services, opening the door for increased revenues while maintaining its competitive position. CCU possesses several competitive advantages, which include the relationship with and network of its parent organization, the contribution and support of women within its organization and its access to an available skilled workforce.

Competition

Key Competitors:

Within a 20-mile radius of Caroline Center Upholstery, there are approximately 70 upholstery businesses, the bulk of which are small operations run by experienced upholsterers who have been practicing the trade for a significant period of time. One larger business (5-6 Master Upholsterers) has an exceptional reputation, built up over many years. This shop's customer base represents the "upper tier", including architects, interior designers and others who are looking for custom work and expect to pay higher prices for it. CCU does not consider this shop as a direct competitor.

Between the high-end, designer retailer and the many small, 1-2 person shops, there is a tier of mid-sized upholstery businesses catering to the savvy consumer who demands quality work, but is looking for good value as well. Caroline Center Upholstery has positioned itself within this niche. Consequently, there are six shops which are considered major competitors.

The following are results from a survey of mid-sized upholstery businesses in the Baltimore Metropolitan area:

Company and Location	Services Offered	Variables			
		Current Price	Turnaround Time	Delivery Cost	Business Hours
Caroline Center Upholstery (CCU)	Custom upholstery, refinishing and minor repair of furniture, and fabric sales	Sofa - \$450 Recliner - \$400	3-4 weeks	\$30-\$40 both ways	Mon- Fri 9:00-3:30
Begleiters Baltimore	Custom upholstery, window treatments, wood refinishing, furniture repair, fabric.	\$1100 for sofa and recliner	2-3 weeks	\$40-\$50 each way	Mon-Fri 10-6:30
Randolph Upholstery Reisterstown	Custom upholstery, draperies, window treatments, fabric.	Sofa-\$650 Recliner-\$350	3 weeks	\$30 both ways	Tues-Fri 10-5 Sat 9-3
Weiland's Glen Burnie	Custom upholstery, slip covers, autos and boats.	Sofa-\$750-\$800 Recliner \$450	3-4 weeks	\$45 both ways	Varies
Chesapeake Upholstering Baltimore	Custom upholstery	Sofa-\$700 Recliner-\$450-\$500	3 weeks	Included in Price Quote	Mon-Fri 9-12 or by appt.
Joseph's Columbia	Custom upholstery, refinishing, furniture repair, fabric.	Sofa-\$700-\$900 Recliner \$550-\$700 Plus 20% cutting fee	3-4 weeks	\$75 both ways	Varies

The competitive data suggests the following conclusions regarding Caroline Center Upholstery's ability to compete in this market.

- CCU can increase profit margins significantly and continue to offer very competitive pricing.
- CCU provides the necessary core services to compete successfully.
- Standard turnaround time, an average of three weeks, is a workable timeframe.
- Delivery charges vary somewhat, but the acceptable rate enables CCU to out-source and still cover costs.
- Many of the businesses surveyed offer the sale of fabric as part of their operation, supplying a secondary revenue source with a high profit margin.

Competitive Differentiation

Caroline Center Upholstery is uniquely positioned to garner a significant share of the upholstery market in the Baltimore Metropolitan Region. Based on the more than 45 years of experience and expertise of its Master Upholsterer, CCU has already established itself as a quality shop within the community.

It offers additional benefits to customers, which differentiate Caroline Center Upholstery from its competition:

Relationship with Caroline Center Inc.:

CCU is intrinsically linked to its parent organization's mission, "...to train women to find work in a career with potential for growth and advancement, thus creating a future full of hope for themselves and their families." Many customers who have used the upholstery training program's services have said they decided to bring their furniture to Caroline Center in order to assist the good work being done here. Some came exclusively for this reason. CCU customers help strengthen their community with no incremental monetary cost.

Network:

The strong network of Caroline Center Inc. is a distinct advantage for Caroline Center Upholstery. Founded by the School Sisters of Notre Dame, Caroline Center is well known and respected within the Catholic community, as well as, in the growing non-profit arena. Caroline Center connections have led to projects for CCU within both its residential and commercial target markets. CCU anticipates Caroline Center will continue to offer numerous additional opportunities in the future for several reasons.

First, there are a considerable number of religious orders and Catholic-run organizations located in the Baltimore Metro Region. Second, Caroline Center's network includes an extensive number of friends, donors, board members and volunteers who fit CCU's target customer profile of middle to upper income households in the Northern Baltimore Metro Region. And last, Caroline Center Inc. allows CCU to market its services to this base of approximately 2,500 potential customers at low to no cost through existing publications and events.

Contribution and Support of Women:

In an industry historically dominated by men, Caroline Center Upholstery’s workforce is overwhelmingly female. The craftspeople who perform the upholstery services, under the guidance of the Master Upholsterer, are all graduates of the Caroline Center job-training program for women in Baltimore City. With the exception of the Master Upholsterer, women also hold all management positions.

As an organization helping unemployed and underemployed women, CCU feels the image it embodies is an important one. The female trainees and workers see that women can hold not only hourly staff jobs in business, but can also be part of management. Often times, the workers feel the staff “can relate” and “know where they are coming from” regarding issues or problems they may be experiencing in their lives.

To CCU’s customers and the business community, image is a powerful tool. The vast majority of American business is dominated by men (in 2004, only 8 of the Fortune 500 companies were run by female CEOs). Being a woman run and operated business appeals to the significant number of women in the local business community, as well as, to homemakers. This is critical since women comprise approximately 90% of upholstery services customers.

Workforce Availability & Quality:

Caroline Center Upholstery has the distinct advantage of training its own workforce in its upholstery training program. Thus, CCU provides its own workforce. Currently, there are four women who have been promoted to upholsterers from the apprenticeship program. There are four apprentices and four trainees in the pipeline. Rather than suffering from a shortage of trained workers, CCU is able to grow its workforce by enrolling additional women in the training program.

Producing its own craftspeople also enables CCU to be sure of the skill level, proficiency and work ethic of its workforce.



IV. Marketing Plan

Caroline Center Upholstery bases its marketing strategy firmly on the reputation in the community of both its parent organization and its own training program. The beginnings of the “Caroline Center” brand have been established – providing a substantial foundation upon which CCU’s reputation as a quality service provider within the local reupholstering market can continue to be built.

Marketing Objectives

Caroline Center Upholstery plans to utilize its marketing strategy to achieve the following:

- Increase product and service awareness within its target market and geographic area by 25% in three years.
- Inform target market about features, benefits of its products, and competitive advantage, more than doubling sales in 3 years.
- Serve as a public relations beacon for Caroline Center Inc. helping to increase public awareness of its training programs.

Marketing and Promotion Strategy

Caroline Center Upholstery plans a promotional campaign, which continues to emphasize the residential market but also begins to include significant out-reach efforts to potential commercial customers, as well. All efforts are meant to reinforce the overall strategy of building CCU’s image within the marketplace.

A new focus on commercial business will help grow this segment of CCU’s customer base. CCU plans to use its current and past projects with commercial institutions to grow its portfolio by demonstrating the quality and service offered commercial customers. CCU plans to concentrate the first wave of effort towards facilities managers who are often the decision-makers for commercial upholstery services.

Reinforcing this effort is a strong campaign to build brand awareness that emphasizes customer satisfaction and service. Over the past year in particular, Caroline Center has established good name-recognition through press coverage in *The Baltimore Sun* and being selected “Baltimore’s Best” job training center by *Baltimore* magazine (see Appendix I).

In addition to adapting to the needs of the marketplace, CCU must insure it keeps its competition in scope as well. The virtual lack of promotion by its competitors has so far enabled CCU’s promotional efforts to achieve significant impact, resulting in its market share being unchallenged. CCU plans to continue monitoring the competition and will readdress its strategy should they begin to actively promote themselves in the marketplace.

CCU’s marketing strategy focuses on building an image and ensuring its consistency of delivery throughout all marketing and promotional activities:

Image:

Caroline Center Upholstery has developed an image package consisting of a logo, organizational colors and fonts and specifications. The package thus creates the “look” of Caroline Center Upholstery and is the basis for image building and recognition in all promotional initiatives.

Print materials:

Based on the image developed above, CCU has designed and is producing:

- Business letterhead stationery, envelopes and business cards
- Brochure (3-panel, 2-fold, 2-color) 9” x 4” – to be used for multiple purposes
- Print advertisement

Web:

CCU’s website is crucial for companies, individuals and interested parties seeking information on CCU, its mission, services, work portfolio and contact information. The web serves to reinforce CCU’s identity as a top quality upholstery shop and as a vehicle through which women of Baltimore City are re/building their lives – differentiating it from competitors. Caroline Center Upholstery intends to continuously update its website with the latest information available. All promotional materials clearly reference the website.

Pricing Strategy

Several factors are critical in determining the pricing strategy for Caroline Center Upholstery:

1. Previous pricing

At its inception, CCU priced its upholstering services significantly below market, based on the fact that it was a training program. In moving towards operating as a professional shop, pricing increases have occurred incrementally over time, in order to retain the current customer base. However, CCU is now more aggressively closing the price gap with competitors.

2. Competitive pricing

Based on an analysis of local competitors (see chart under Competitive Analysis, p.13), CCU has proven significant opportunity exists for CCU to absorb the planned price increases and still be positioned as offering quality services at reasonable rates. CCU does not intend to compete at the top end of the price scale, nor at the lower end. Its strategy is to appeal to the much larger mid-level market, where its target market traditionally shops.

3. Gross margin

Current pricing of upholstery services and fabric is based on a minimum gross margin of 21%. In order to ensure profitability, it is CCU’s intention to maintain this minimum level in setting prices going forward.

4. Pricing to manage inventory

Pricing is also used as a tool to manage the types of services CCU provides. Thus, competitive prices are maintained for work which is most profitable, while higher pricing can be used for more labor-intensive pieces, in order to limit the number of these pieces in the shop and maximize resources.

5. Residential v. commercial projects

CCU can take advantage of economies of scale in larger commercial projects involving many of the same piece. This is a key factor in price bids for commercial work. In the initial phase, CCU is not using separate pricing for residential and commercial customers.

Residential focused promotional initiatives include:

- **Advertising** – Extremely targeted print ad placement in two local magazines: *Style*, a glossy lifestyle magazine covering home design, fashion, etc., mailed to 45,000 affluent households in the Baltimore area; and *Baltimore* magazine’s “Details” feature, which is a shopper’s guide to the latest trends including home décor, where “58% of readers remodeled/decorated parts of their home in the past 12 months” and “35% visited a specific store because of an ad in *Baltimore* magazine”
- **Public Relations** – Given the amount of business that has resulted from word-of-mouth referrals following CCU’s recent press exposure, CCU will continue to utilize its contacts to obtain press coverage. CCU is currently collaborating with *The Catholic Review* on an article about its upholstery business.
- **Direct Mail** -- Promotional materials, including brochures, business cards, stuffers, etc. will be used in direct mailings to targeted audiences, such as former customers, new homeowners, Caroline Center donors, etc.
- **Brochure Distribution** – CCU is working on forming cooperative relationships with numerous consignment stores in its target market to display promotional brochures and other materials. CCU is also pursuing participation in local design events, such as the “Decorators’ Showhouse” as a means of showcasing its upholstery services.
- **Partnerships** – Partner with organizations, non-profit and/or business, who deal with CCU’s target market to raise brand awareness. For example, Caroline Center is currently partnering with a women’s wine tasting and educational group associated with a local wine shop. This group promotes Caroline Center on its website and donates a percentage of dues to the Center.
- **Product Placement** – Place items for sale with high-end consignment shops. In this way, CCU is reaching large segments of its target market, women with sufficient income who appreciate fine furnishings.

Commercial focused promotional initiatives include:

- **Relationship building** – Through frequent contact and excellent customer service, CCU will solidify existing business relationships, leading to both repeat business and referrals.
- **Sales calls** – Promotions targeted at new commercial work can be based on CCU’s contacts and experience in the field. Commercial customers will be pursued through direct sales calls and requests for in-person meetings.
- **Website** – Businesses habitually use the web as an information source and as validation of a professional entity. Therefore, it is critical that CCU have an effective presence on the web. Commercial relationship building and sales call efforts will include references and information regarding the website.

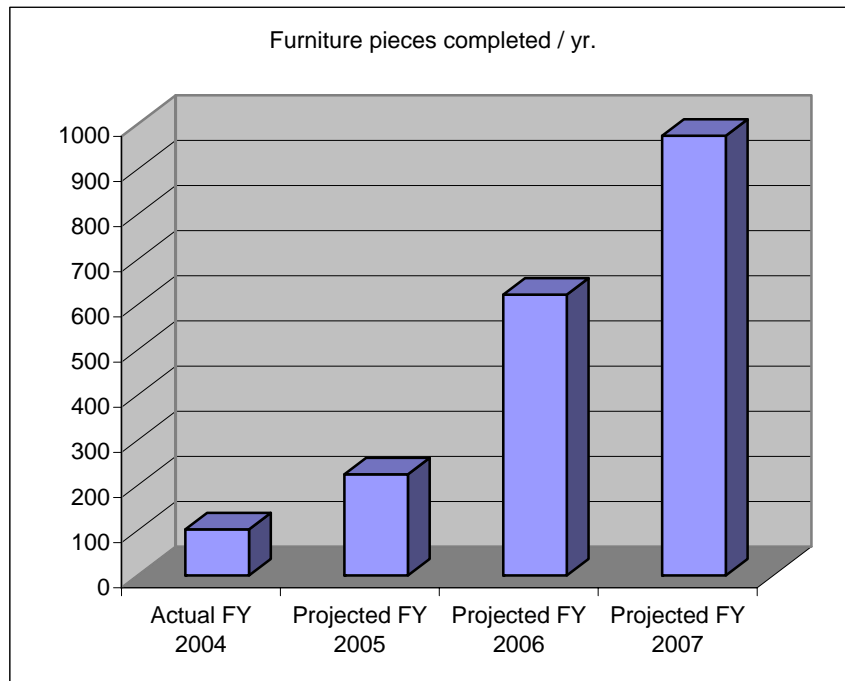
CCU has enjoyed energetic support from Caroline Center’s base and will continue to promote its upholstery services to both residential and commercial customers through its parent organization at low to no cost through:

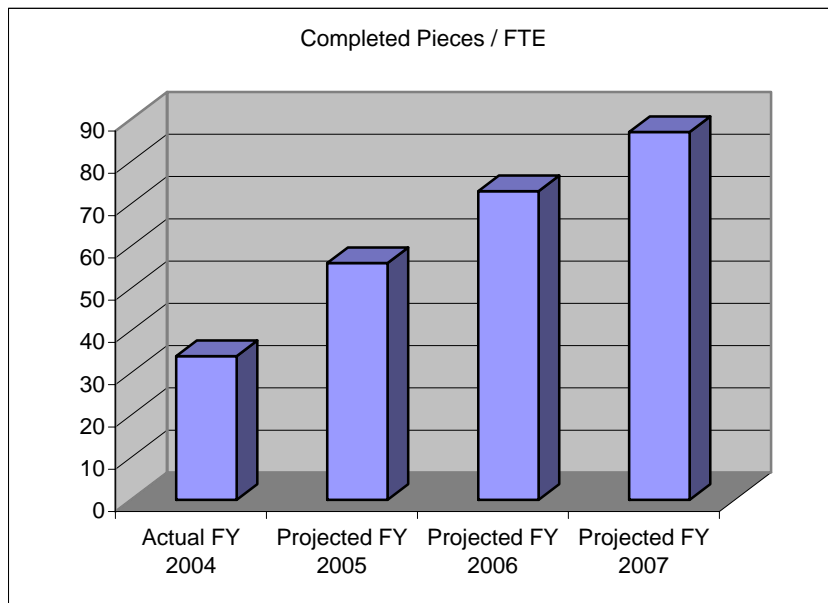
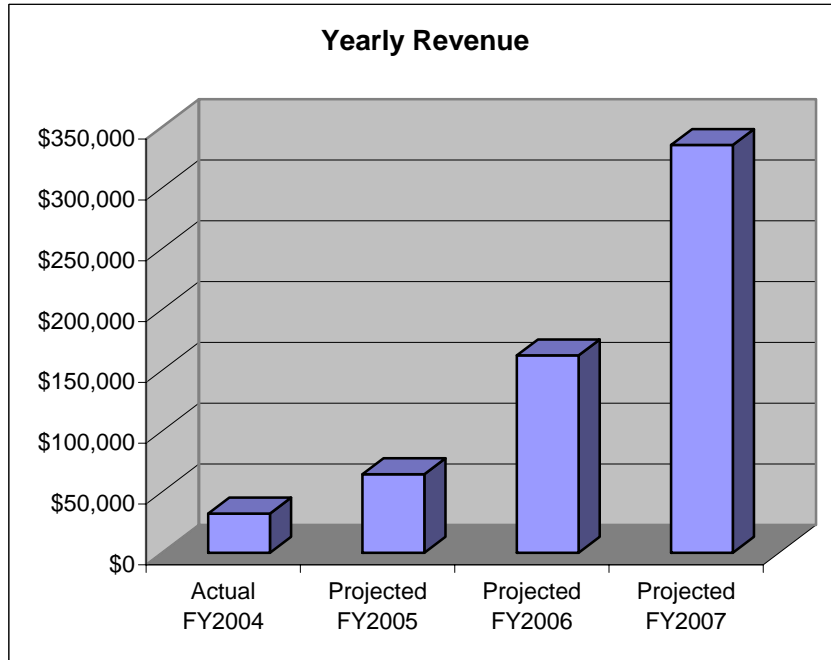
- Communications – quarterly newsletter, annual report, fund-raising requests, etc.
- Events – fundraisers, receptions, award ceremonies, etc.
- Board – meetings, communications, appeals, networking

Performance Milestones

Caroline Center Upholstery feels it is necessary to track key performance indicators to measure the success and impact of specific marketing and promotional activities - the most important being annual revenues and the number of pieces of furniture completed. In addition, the average completed pieces per FTE will help track overall productivity, and the proportion of completed items that are residential versus commercial will help to monitor the success of efforts to increase commercial business.

These factors are illustrated in the following charts:





CCU utilizes a customer order system for all incoming jobs, which records the data for analysis of promotional strategy and tactics. The system captures the information in the charts above, as well as referral source and demographics.

Customer service/satisfaction:

CCU's primary goal is quality and customer satisfaction. CCU will regularly measure customer satisfaction by survey and direct, follow-up calls to all customer segments.

V. Management Plan

Caroline Center Upholstery recognizes that a strong management team is key to the success of a new enterprise and is confident that the right combination of skills and experience is in place. The CCU management team has a well-balanced, complementary mix of the management, financial and industry skills necessary to build a solid business base from which it can experience healthy growth and profitability.

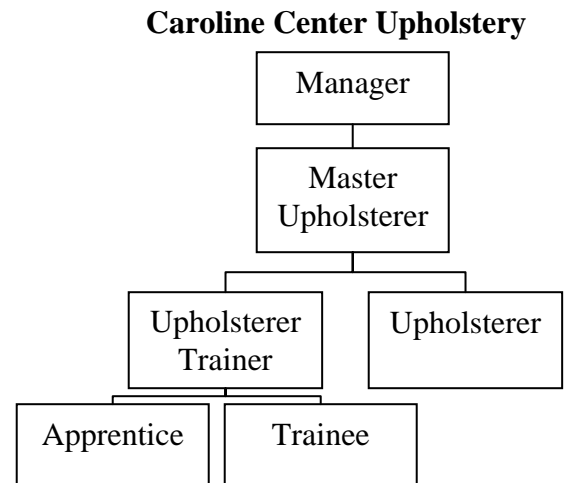
The management structure presently in place is deemed to be sufficiently strong and stable to enable growth of the business without necessitating additional personnel at the management level, for a minimum of two to three years.

The CCU management team consists of the following:

ManagerAnn Cunningham
 Master Upholsterer ... Herb Davis

The management team is supported by:
 Executive Director/CEO: Sr. Patricia McLaughlin, SSND
 Financial Director: Sr. Kathleen Steinkamp, RSM.
 Associate Director: Margaret Colleluori

CCU has formed a separate Advisory Board to assist in guiding the venture. Members are:
 Sue Weetenkamp, RSM – 20 yr. upholstery business owner.
 Richard Mandy – CEO, Maryland Office Interiors, Inc.
 Margaret Colleluori –Associate Director, Caroline Center Inc.
 David Uhlfelder – Caroline Center Inc. Board member and CPA



Organizational Structure:

The most critical role in the management team is that of **Manager**, as this person makes the key decisions driving the organization’s growth and vitality. Caroline Center Upholstery is very excited about the new addition of Ann Cunningham to the team. Ann joins CCU with 30 years of business experience focused on technology and business operations. CCU felt it was important to bring on a fresh perspective and technology savvy business leader to progress past the initial phase of transition from a program into a self-sustaining social enterprise. Ann also has a good understanding of upholstery and fabric based on her hobby as a seamstress and upholsterer.

The Manager is responsible for managing all day-to-day operations, maintaining a steady stream of customer work in order to sustain revenue levels, cash flow, and workplace morale. She is also responsible for the oversight of the upholstery-training program for Caroline Center Inc. She cultivates and maintains customer relations and communications, guaranteeing a high standard of customer service at all times. She handles all outside vendors, especially outsourced services, such as pick-up and delivery. She oversees all accounting processes and is responsible for all human resources functions, including final approval for all staffing decisions. The Manager is

also responsible for developing and refining the marketing strategy and insuring the smooth implementation of all marketing and promotional activities. Ms. Cunningham receives an annual salary and benefits.

CCU's **Master Upholsterer**, Herb Davis, is a highly skilled, expert craftsman who owned and managed his own upholstery business in Baltimore City for over 45 years. Mr. Davis has extensive experience in all facets of the upholstery trade, both residential and commercial, as well as in the business management aspects of setting up and running an upholstery shop. Mr. Davis brought a base of customers and contacts to CCU, which has helped provide a foundation for CCU's work. His reputation in the trade and among satisfied customers is a significant boost to establishing CCU as a quality service provider.

The Master Upholsterer has primary responsibility for the implementation of all customer jobs, which consists of oversight of the workmanship, ensuring that all customer work is performed competently and efficiently and according to the specifications agreed upon with the customer. He is responsible for quality control of all work, assuring that the workmanship consistently meets the highest standards. He handles the evaluation of the skill level of all personnel working in the upholstery shop, determines training needs and staff increases/decreases and assigns work. The Master Upholsterer also assists the Manager with establishing pricing for services, providing job estimates, establishing basic marketing strategies and tactics and carrying out direct sales when appropriate. Mr. Davis receives both an annual salary and a percent of each piece of furniture completed in the shop. He receives full benefits.

The **Upholsterer Trainer**, Art Sudler, works closely with the Master Upholsterer overseeing the upholstery work. He has over 25 years of experience in upholstery. He handles the more difficult pieces, as well as provides training and supervision as needed to the Upholsterers, Apprentices and Trainees. Mr. Sudler fills a full-time position, is compensated on an hourly basis and receives benefits from Caroline Center Inc. His salary and benefits will become a part of CCU's expenses in fiscal year 2007.

The **Upholsterers** report to the Master Upholsterer and work under his guidance and direction. The Upholsterers carry out the various tasks involved in reupholstering furniture and must demonstrate sufficient competency/expertise in the skills necessary to carry out these tasks and to be able to work independently and efficiently. The Upholsterers fill a full-time position and are compensated on either an hourly basis, receiving benefits, or on a piecework basis.

The **Apprentices and Trainees** report to the Upholsterer Trainer but are also under the guidance of the Master Upholsterer to carry out various tasks. They are involved in all aspects of upholstery in order to learn the trade from beginning to end. The Apprentices and Trainees must demonstrate sufficient competency/expertise in the skills necessary to carry out these tasks in order to progress to the next level of Upholsterer. The training period usually lasts fifteen weeks and culminates in advancement to the apprentice program. The apprentice period usually lasts two to three years, depending on the individual. The Apprentices and Trainees are compensated for work they complete by receiving a small percentage of each sale worked upon.

CCU's **Chief Executive Officer**, Sr. Patricia McLaughlin, SSND, is also the Executive Director of CCU's parent, Caroline Center Inc., which she has spearheaded since its inception in 1996.

The CEO's role in Caroline Center Upholstery is to provide general oversight on the management and business functions of the entity and to give final approval to the budget. Based on her considerable experience and contacts in the community, the CEO provides high-level guidance and support to the Manager. Sr. Patricia's participation in CCU is estimated to engage approximately 10% of her time, with the remaining 90% being dedicated to Caroline Center. Sr. Patricia's salary is paid by her order, the School Sisters of Notre Dame.

The **Financial Director**, Sr. Kathleen Steinkamp, RSM, holds the position of Financial Manager within Caroline Center Inc. and has over 25 years experience in not-for-profit financial management.

The Financial Director of Caroline Center Upholstery oversees all budgetary and financial functions of the organization. The Financial Director works with the Manager to set up all accounting procedures and track and report on revenue and expenses. Sr. Kathleen's role as Financial Director has been estimated to comprise approximately 10% of her time and thus 10% of her compensation is reflected as cost to CCU. CCU pays Sr. Kathleen on an hourly basis with no additional benefits.

Growth Plans:

CCU currently has four Upholsterers, three Apprentices and four Trainees. CCU plans to expand the number of Upholsterers by at least four women and the number of Apprentices by five women by the end of fiscal year '07. The number of women in the training program will be approximately 1 to 2 per class. Since upholstery is such a labor-intensive service, the amount of business that CCU can accommodate will depend largely on staff size. CCU has the advantage of recruiting trained personnel from its upholstery training program, which will provide a reasonably steady stream of trained workers over time.

VI. Operations Plan

Service Delivery

Caroline Center Upholstery recognizes that a complete service experience for the customer begins with his/her first contact with CCU and does not end until the furniture has been delivered in a timely manner, with quality workmanship and at a price that reflects value.

The Manager will handle the bulk of customer contacts and relations, in order to present a seamless experience to the customer and to build and sustain these relationships. The Manager will receive all incoming calls from customers/potential customers requesting information about CCU's services, status of on-going projects and/or questions regarding invoices/payment. She is responsible for giving estimates on pricing and fabric. If a site visit is required, the Master Upholsterer will visit the customer, review the project and provide the estimate.

The Manager handles all administrative functions regarding taking customer orders, generating internal work-orders, scheduling jobs and assigning jobs to the supervision of the Master Upholsterer . She maintains all customer/work information databases and tracks productivity and efficiency. She is in charge of contracting and working with outside vendor(s).

Once a job has been brought into the upholstery shop and given to the Master Upholsterer, it is then his responsibility to oversee that the work is performed according to standard. He assigns the work to the Upholsterer Trainer, an Upholsterer, an Apprentice or a Trainee. He monitors performance for quality craftsmanship and materials, provides direction and gives hands-on assistance when necessary. The Master Upholsterer maintains all tools and equipment and acquires all materials and supplies needed to complete the work in a timely manner.

When the job is complete, the Manager notifies customers, schedules delivery, creates the invoice and updates the accounts receivable.

Product Delivery

Caroline Center Upholstery has contracted with Christopher Place Academy for its pick up and delivery needs. Christopher Place Academy provides job skills training, employment and independent living assistance to formerly homeless men of Baltimore City. Christopher Place Academy, in conjunction with its corporate partner Mayflower Transit Company, offers a delivery training program which will service the CCU account. To ensure consistency and quality of the customer interface, a Christopher Place Academy staff member will participate in each CCU pick up and delivery.

Facility

Caroline Center Upholstery is currently located with its parent organization, Caroline Center Inc., in East Baltimore. The space is comprised of two workrooms, a total of 1,680 square feet, which was renovated in 2002 for the specific use of the upholstery group. This provides sufficient workspace for its current workforce. However, to grow the business as desired, CCU must relocate to provide the space needed for additional staff, equipment and storage. The current space is equipped with a designated area for cutting and sewing and space for the normal tasks involved in recovering the furniture. Completed furniture is displayed in the 'fabric salon' (pending delivery) which is a separate room in Caroline Center. Furniture to be worked on is stored in the basement. The facility also accommodates a smaller office space, where the Manager is situated.



CCU plans to relocate in fiscal year 2006 and has initiated a real estate search to find facilities that would meet its space, usage, price, location and service needs. Initial efforts have identified three possibilities and CCU has initiated contact with each (see facilities briefs in Appendix H)

Equipment & Supplies

CCU has sufficient tools and equipment to accommodate its current staff. Equipment now includes two industrial sewing machines, two air compressors, six staple guns and hand tools. As the workforce expands, in conjunction with increased work intake, the need for equipment should also increase incrementally. At the time of relocation, CCU plans to purchase \$6,000 of additional equipment, including sewing machines, air compressors, and fabric racks.

Minimal supplies are currently stocked. Materials and supplies are purchased according to work-flow needs, in a just-in-time system. There is one major supplier of upholstery materials and supplies in the Baltimore Metropolitan area, TEDCO. Caroline Center Upholstery has a solid, long-standing working relationship with this vendor.

Quality Control

Quality control is of maximum importance to Caroline Center Upholstery, as it is the one factor in its service equation which cannot be compromised. Based on experience, there is never a

situation when a customer values price or turnaround time so much as to be willing to accept less than the highest quality workmanship. Therefore, to assure that CCU provides customers with this level of service, the following procedures have been established:

- Each job is entered into the database system at in-take including:
 - Description of furniture received
 - Detailed description of work to be performed
 - Estimated cost to customer
 - Date of intake, projected turnaround time, due date to customer
 - Upholstery team to whom it is assigned
- Work-order containing this information is generated and accompanies the project at all times
- Fabric sales information is entered into the database system:
 - Type of fabric purchased
 - Quantity of fabric purchased
 - Fabric Supplier
 - Purchase order
 - Relevant Dates (fabric order and estimated delivery, received)
 - Fabric payment
- The Master Upholsterer monitors the job throughout the entire work process, checking all details against the work order and assuring quality work at each phase
- Each completed piece is examined and approved by the Master Upholsterer before leaving the shop
- Final control of job completion entails checking the finished job against the work order to assure all work has been performed according to the customer's requirements

The pick-up and delivery service is a fundamental part of the customer's experience. CCU works closely with Christopher Place Academy to ensure that the furniture is handled with care, that the personnel entering customers' homes is trained in dealing with the customers politely and that the entire process takes place in an efficient and convenient manner for the customer. CCU is proud to have chosen as its contractor another human service organization that is focusing on strengthening the community of Baltimore City.

Customer Satisfaction is measured by brief phone interviews conducted within 2-3 days after each job has been completed and delivered. The intention is to obtain as much customer feedback as possible regarding key satisfaction factors while the experience is still fresh in the customers' minds. These factors include quality of work, competitive pricing, good turnaround time, convenient delivery, accessibility of staff, etc. At the same time, with each positive contact, CCU is reinforcing in the customer's awareness the image of CCU as a quality provider. Other modes of evaluating customer satisfaction result from tracking repeat customers, as well as referrals, which is information obtained through the job in-take process.

Any incidents of customer dissatisfaction are handled immediately by responding quickly to the customer's request for adjustments or corrections to the work at no extra fee.

Product Development

There are several secondary lines of home products which complement the upholstery business, such as window treatments and slip covers. Two of CCU's workers have already received training in the production of window treatments. CCU will monitor customer inquiries and requests for these types of products, bringing them into the product mix as demand warrants.

VII. Financial Plan

Income Statement

The Income Statement shows CCU's projections for the current year, fiscal year 2005, and for the next two years, through fiscal year 2007. Based on assumptions of market opportunity and CCU capacity, projected revenue growth (after in-kind donations) over that time frame is 103% in fiscal year 06 and 75% in fiscal year 07.

Income Statement Caroline Center Upholstery			
	FY2005	FY2006	FY2007
Revenues			
Upholstery	\$59,139	\$139,490	\$282,869
Fabric	\$2,417	\$14,774	\$40,268
Delivery	\$3,086	\$8,969	\$14,466
Donations/In-kind contributions	<u>\$41,000</u>	<u>\$51,040</u>	<u>\$36,596</u>
Total Revenues	\$105,642	\$214,273	\$374,199
Cost of Sales			
Upholstery Supplies	6,704	14,757	23,802
Fabric Supplies	1,201	8,534	22,217
Direct Labor	<u>43,241</u>	<u>82,231</u>	<u>150,596</u>
Gross Profit	13,496	57,711	140,988
Operating Expenses			
Management Salaries	71,003	79,030	80,285
Facility Overhead	3,696	24,617	32,500
Equipment Purchases	-	6,000	-
Advertising & Marketing	3,400	2,900	2,900
Delivery	1,576	6,727	10,850
Depreciation	-	-	-
Total Operating Expenses	<u>79,675</u>	<u>119,274</u>	<u>126,535</u>
Net Profit/(Loss)	(66,179)	(61,564)	14,453

The underlying assumptions for these net profit/loss estimates and descriptions of line items are as follows:

Revenues – The major drivers of rising upholstery revenue are the increase in the number of pieces and a mix shift toward higher priced items. Reupholstered pieces are expected to increase from an estimated 350 for fiscal year 2005 to 623 and 974 in the following two years, annual increases of 78% and 56%, respectively. Mix is expected to shift away from lower priced items

such as dining room chairs to higher priced ones including love seats and side chairs. Price increases across all categories will accompany strong volume growth. Caroline Center Upholstery expects weighted average price increases of 17% from fiscal year 2005 to 2006 and of 30% from fiscal year 2006 to 2007.

To complement its reupholstery business, CCU has expanded into fabric sales during fiscal year 2005. Previously, customers had to provide their own fabric to use on the furniture piece. Fabric sales are attractive as they require little labor and space, while yielding high profit margins. Fabric sales are projected at \$2,417 for fiscal year 05 or 4% of total revenue growing to \$40,268 or 12% of total revenue by FY07.

Delivery revenue is another component of CCU's total revenue. CCU charged \$30 per trip (pick up and delivery) inside the Baltimore Beltway and \$40 per trip outside of the Beltway. CCU continues to set the prices for the service Christopher Place Academy currently performs and retains a small portion of the profit.

Included in total revenue are the in-kind donations that are received both from current employees, local retailers and the parent organization. These in-kind donations are projected at \$41,000 for fiscal year 05 and at \$51,040 for fiscal year 06. As CCU becomes a more financially independent operation, it expects these in-kind donations to decline. For this reason, in-kind donations are expected to drop to \$36,596 for fiscal year 07.

Cost of Sales – CCU's costs include all upholstery supplies, such as foam, batting, staples, etc. which become a part of the finished product. Based on past experience, these supplies are currently estimated between \$19 and \$24 per piece depending upon the piece style. Direct supply costs are projected at \$23 per piece and CCU does not expect any upward pressure on these costs beyond inflation.

The fabric cost reflected in this category represents the direct cost of the fabric from the wholesaler. Fabric will be purchased only upon customer order and will not be stocked as inventory at CCU's expense.

Compensation – Direct Labor- CCU's direct labor costs are its largest expense and reflect the commissions paid to shop personnel. Fiscal year 05 reflects direct labor costs of \$43,241; by fiscal year 06 this should increase 90% to \$82,231 and another 83% to \$150,596 for fiscal year 07. The commission scale varies for each class of employee, but all are paid as a percentage of upholstery service revenue (this does not include fabric or delivery revenue).

Trainees are expected to complete 5% of the total work at the beginning of the training program with that percentage increasing to 15% - 20% by the end. Current Trainees receive 25% commission, although as the program develops and a new class enters, the commission percentage is expected to drop to 20% starting in July. As a group, Apprentices are expected to complete approximately 35% of the work and beginning in July will receive commission of 35%. The remainder of the work is completed by the Upholsterers. CCU hopes to eventually move all Upholsterers to salaried positions but currently non-salaried upholsterers receive a 45% commission (beginning in July) while salaried upholsterers receive a 20% commission.

Gross Profit - CCU expects \$13,496 in gross profit for fiscal year 05 reflecting a 20.9% gross profit margin. Gross profit margin should increase throughout fiscal year 06 (36.5%) and fiscal year 07 (41.9%) as pricing increases and the commission schedule changes take hold. Fabric sales will also contribute to an expanding gross profit margin as fabric sales carry a greater than 40% gross profit margin.

Compensation – Management- This line item reflects the compensation of various members of the management team. Management salaries total \$71,003 for fiscal year 05 and are expected to be \$79,030 for fiscal year 06 and \$80,285 for fiscal year 07. These figures reflect management costs of operating this business but do not necessarily reflect the actual cash payments as some members receive portions of their compensation from Caroline Center Inc. as detailed in the Management Plan section

Though CCU's Manager receives a below market salary, the income statement reflects the market cost as the donated labor. As CCU hopes to transition the Upholster Trainer's salary to CCU by January 2007, his salary is included here, even though Caroline Center Inc. currently pays it.

Operating Expenses – Operating expenses include facility overhead, sales and marketing, equipment purchases, delivery expense, and depreciation. CCU estimates \$79,675 in fiscal year 05 for these expenses with a 50% increase in fiscal year 06 and another 6% increase in fiscal year 07. Fiscal year 2006's large increase takes into account the anticipated move into a new facility.

- *Facility overhead* – Currently CCU receives donated facility, rent free, from its parent organization, Caroline Center Inc. The space CCU occupies is at a low to zero opportunity cost to Caroline Center Inc. as the parent organization cannot rent out this space and the space is not appropriate for its other training programs. However, Caroline Center Inc. does charge CCU for administrative supplies, utilities, insurance and maintenance. For fiscal year 05 expenses for these items are estimated at \$3,696, increasing to \$24,617 in fiscal year 06. The increase reflects CCU's plan to rent its own space beginning in October 2005.
- *Equipment Purchases* – CCU expects to purchase additional equipment in October 2005 when it transitions into its own space. These will be cash purchases and include such things as sewing machines, cutting tables and fabric racks. These purchases are expected to cost \$6,000.
- *Advertising & Marketing* – CCU receives a large portion of its advertising materials through donations. The printed material is all produced at no cost. CCU expects that its advertising expenses will come from advertisements in magazines and church bulletins. During fiscal year 06 CCU will work to update its website in conjunction with Caroline Center's existing one. Caroline Center Inc. will maintain both websites. However, the expense estimates reflect CCU's full costs as if materials were not donated. Projected expense for fiscal year 05 is \$3,400, while projected expense for fiscal year 06 and fiscal year 07 is \$2,900 per year. The higher cost in fiscal year 05 reflects the website design in that year.

- *Delivery* – These expenses primarily reflect a customer pass through. CCU out-sources its delivery to Christopher Place Academy.

Cash Flow

CCU’s cash flow projections through fiscal year 07 are shown below:

Cash Flow Statement			
Caroline Center Upholstery			
	FY2005	FY2006	FY2007
<u>Cash Flow from Operations</u>			
Cash from Upholstery Sales	59,139	139,490	282,869
Cash from Fabric Sales	2,417	14,774	40,268
Cash from Delivery	3,086	8,969	14,466
Cash Received	64,642	163,233	337,603
Cash Paid to Suppliers	(9,500)	(45,912)	(77,090)
Cash Paid for Commissions	(37,701)	(62,287)	(117,356)
Cash for Benefits	(9,825)	(19,563)	(25,593)
Cash Paid to Management Salaries	(27,718)	(30,872)	(53,836)
Cash Paid for Delivery	(1,576)	(6,727)	(10,850)
Cash Paid for Equipment	-	(6,000)	-
Cash Disbursed	(86,320)	(171,360)	(284,726)
Cash Flow from Operations	(21,678)	(8,127)	52,878
<u>Cash Flow from Investing</u>			
Capital Expenditures	-	-	-
<u>Cash Flow from Financing</u>			
Grants	30,000	-	-
Cash at Beginning of Period	-	8,322	8,158
Increase/Decrease in Cash	8,322	(8,127)	52,878
Cash Balance	\$8,322	\$195	\$53,073

CCU received significant grants in fiscal year 05 to begin its operations. The Sisters of Mercy contributed \$15,000 payable in installments in July and January. CCU also received another grant for \$15,000 from the Harry and Jeannette Weinberg Foundation in February 2005. Both of these grants are considered one time in nature and are not expected to reoccur.

Balance Sheet

CCU's balance sheet reflects the organization's primary cash operating basis.

Balance Sheet			
Caroline Center Upholstery			
	FY2005	FY2006	FY2007
Current Assets			
Cash	\$8,322	\$195	\$53,073
<i>Total Current Assets</i>	8,322	195	53,073
<i>Total Assets</i>	8,322	195	53,073
Current Liabilities			
Accounts Payable	3,501	5,897	7,726
<i>Total Current Liabilities</i>	3,501	5,897	7,726
Net Assets			
Grants	30,000	30,000	30,000
Donations	41,000	92,040	128,636
Retained Earnings	(66,179)	(127,743)	(113,290)
<i>Total Net Assets</i>	4,821	(5,703)	45,346
Total Liabilities & Net Assets	8,322	195	53,073

Social Return on Investment

Caroline Center Upholstery aims to achieve the dual goals of financial and social return on investment. As has been reiterated throughout this plan, CCU is part of the continuum of Caroline Center Inc.'s mission to aid women in attaining independence through training and employment. Consequently, CCU will judge its financial success through revenues and its social impact through the criteria described below:

Direct benefit to women:

CCU will offer training and employment to an increasing number of low-income women, enabling them to obtain independence and stability for themselves and their families. Many of these women would not otherwise be able to find employment due to their education level, socio-economic status, and/or criminal background. Training in upholstery will enable these women to move from the unskilled workforce to the skilled upholsterer workforce. The average salary for CCU trainees is \$2500, but the training received will enable them to command a higher salary upon completion of the program. Based on information from the Bureau of Labor Statistics, minimum wage is \$5.15 per hour while a skilled upholsterer's hourly rate is \$11.77. Therefore, a skilled upholsterer can earn \$10,327 more per year. It should be noted that most upholsterer positions are paid at an hourly rate and benefits are not offered. The annual figures cited are based on a 30-hour work week.

Higher salary is certainly a major benefit of a skilled labor position, but upholstery also offers additional advantages. The hours of an upholstery shop are more conducive to a family lifestyle. Rather than working night or evening shifts at a restaurant or grocery store while their children are at home, women upholsterers are able to work during the day while their children are at school and be home with them at night.

Furthermore, turnover in skilled labor positions is traditionally lower than in unskilled ones allowing for greater stability emotionally and economically.

Direct benefit to Caroline Center Inc.:

The benefits to CCU's parent organization are considerable:

- CCU serves as a tangible illustration that the population Caroline Center aims to assist is receptive to training and can perform as qualified, reliable employees.
- By becoming self-sustaining, CCU will enable Caroline Center to redirect the resources it has been utilizing to maintain the upholstery training program to other training programs and disciplines, thereby increasing the number of women assisted each year.
- By becoming profitable, CCU will provide a steady stream of income to Caroline Center Inc., which will help it to become less dependent on outside funding, promoting its stability as an on-going entity.
- CCU serves as an effective promotional tool for Caroline Center Inc. given its high visibility within the potential donor community. Through CCU's efforts to increase awareness of its services to this population, it brings attention and publicity to the Caroline Center and its mission to train women in the inner city for employment.

Community impact:

CCU serves as a vibrant role model and stabilizing presence in the inner city by maintaining its facility within and employing the people from Baltimore City. Its outreach and service to customers in other parts of the Baltimore Metro Region brings additional attention and resources to the community, which would not otherwise have existed.

Caroline Center Upholstery must be viewed and evaluated as a social enterprise. Its success will be measured by the ability to function as a fiscally healthy entity, as well as by the positive impact on the women CCU trains and employs, on the Caroline Center Inc., and on the community of Baltimore City as a whole.

VIII. Risk Analysis and Contingency Plan

Caroline Center Upholstery recognizes that with any business venture there are risks that need to be considered and strategies developed to manage these risks if the venture is to be successful.

CCU considers its major risk factors to be the following:

Loss of industry-skilled personnel:

As upholstery is such a non-mechanized, labor-intensive industry, the most fundamental need is skilled staff with the necessary expertise to do the work. CCU requires two levels of experience and skills in its staff.

The most crucial is the Master Upholsterer, who is responsible for training and overseeing the workers, as well as quality assurance. Since CCU's current Master Upholsterer, Herb Davis, has surpassed the average retirement age of 65 years old and suffers from some health problems, the ability to find a replacement has been CCU's top priority. Caroline Center Inc. has hired an Upholsterer Trainer, Arthur Sudler, who is currently working very closely with Mr. Davis in all aspects of the upholstery shop and training program. In this position, Mr. Sudler has become familiar with CCU's staff and with the established training requirements and quality standards. He supervises the work of the Apprentices and Trainees, as well as the Upholsterers in Mr. Davis' absence, and independently handles a portion of customer work. CCU is confident that Mr. Sudler could handle the position of Master Upholsterer if Mr. Davis should decide or need to leave. Being prepared to fill this critical gap has added a substantial measure of confidence to the venture team. At the same time, CCU continues to cultivate an extended network of contacts within the industry to ensure further resources, if necessary.

CCU must also continue to focus on retaining a sufficient number of skilled workers, in order to maintain the level of productivity desired. CCU management staff will need to continue working closely with management at Caroline Center Inc. to guarantee that a steady stream of qualified applicants continues to enter the upholstery training program. CCU's Manager has developed a targeted recruitment initiative, together with Caroline Center Inc.'s staff, as part of CCU's promotional strategy. Its goal is to maintain five to six apprentices and trainees in the program at all times.

Sales above projected levels:

There are two crucial success factors that would be impacted by sales exceeding projections. Due to the labor-intensive nature of upholstery work, volume is directly dependent on the size of the workforce. Should CCU sell more work than it is able to deliver in a timely manner, it risks damaging customer relations, resulting in both loss of future business, and more importantly, negative word-of-mouth references – which are, of course, more powerful than positive referrals.

In order to manage sales levels, CCU has developed an efficient database-tracking system which allows the Manager to determine the amount of work entering the shop, based on work-in-progress, workforce capacity, delivery deadlines, and future obligations. The system should enable CCU to maintain a steady flow of work without risking over-extension and customer dissatisfaction. Moreover, CCU has back-up assistance available through Apprentices and Trainees. When determining work capacity in the shop, the apprentice/trainees comprise only a small fraction, meaning their work potential can be available to assist in compensating for shop overages.

Sales below projected levels:

An economic downturn or an increase in competition could result in sales below projected levels. CCU recognizes that in a slow economy, some customers may decide to put off spending on such items as home remodeling and/or decorating. Alternatively, even in a strong economy increased competition and substitutes like low cost furniture stores (i.e. IKEA) could dampen CCU's projected sales.

CCU has a number of strategies for responding to the potential of lower than expected sales:

- Given that a major cost of production is direct labor and CCU's pay structure contains a commission element, expenses can be reduced in proportion to the workflow.
- The ability to lower its prices to maintain demand could help CCU survive a sustained period of low sales.
- CCU can also be partially insulated by diversifying further into the commercial reupholstery business, which may experience different demand patterns from the residential market. Expansion of complementary services such as window treatments and slipcovers is another good source of diversification.
- Its ongoing relationship with repeat customers and its strong brand should help CCU compete with its competition or potential substitutes.

CCU conducted two volume based sensitivity analyses, which demonstrated the effects of a 25% and a 50% decline in projected volume in fiscal year 06 and in fiscal year 07. While adjusting prices to compensate for lost volume is an option, given CCU's aggressive movement towards market prices, it does not believe that to be completely viable. With a 25% decline in units, fiscal year 06 Total Revenue would be \$197,387 and CCU would experience a cash shortfall of almost \$7,000. Two means by which CCU can address this problem are first, to request additional support from its parent organization or second, to postpone plans to move to a new facility. If CCU's unit expectations underperformed by 50% then Total Revenue for fiscal year 06 would be \$180,471 and \$258,767 for fiscal year 07. CCU would experience a \$14,135 cash shortfall in fiscal year 06 and would have to postpone its move to a new facility. The postponement of this move would save CCU approximately \$25,000 in fiscal year 06. If CCU wants to maintain its current moving plans and financial plan, units received can fall no lower than 95% of projected volumes.

Supplier risk:

While CCU currently enjoys a strong relationship with its upholstery supplier, reliance on one supplier is always a potential risk. CCU has initiated conversations with two additional

reputable vendors, Oklahoma Upholstery Supply Co. and Gary's Upholstery Products, regarding establishing a supply relationship.

Space constraints:

Again, as a result of the technology-resistant nature of the upholstery trade, which requires increases in staff in proportion to business growth, combined with the fact that the furniture being worked on is large and cumbersome, space is critical. Consequently CCU has looked very closely at its space needs over both the short and long term.

In order to expand business, CCU must relocate to a larger space in fiscal year 06. CCU is currently reviewing options that meet its requirements (see Appendix H). The risk to CCU would be in not securing the relocation expense of approximately \$40,000 (as discussed in Section VII Financial Plan). In the case that sufficient financing is not available, CCU will reduce its growth rate to accommodate the financing timetable available to it.

IX. Citations

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