

Course: TRMT 324

Student Financial Plan - Shared with Permission



THE HUB INC.

FINANCIAL PLAN

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Introduction:

The HUB is a tourist destination for gamers, providing them with premium rentals of gaming equipment, tournaments, concessionary services, and arcades as well as customized gamer merchandise. Furthermore, The HUB will offer a very interactive and attractive atmosphere with backlights, laser projectors and other special effects.

Vision statement

“The HUB will become the number one gaming tournament center in B.C., increasing its members to over 1000 gamers within the first seven years of operation, by becoming nationally renowned for its superior equipment, programs and services to its customers through its structured community for gaming, professional tournaments and captivating atmospherics.”

Mission statement

“To provide customers with a HUB of gaming opportunities and captivating atmospherics within a casual and professional setting by building a strong gaming community, developing a professional tournament system and by providing patrons with a location, equipment and the programs that they require.”

Location:

The Location of The HUB will be located in the center of Nanaimo within a 2000 square foot commercial building. Nanaimo was picked for The HUB’s location of choice due to the role Nanaimo has on the island acting as its “Hub”. Nanaimo is also easily assessable for most of the island and Vancouver, making a very large customer base for The HUB.

Revenue streams

The Hub currently has five revenue streams which are broken down into each department as follows:

- ***The computer rental department:*** will consist of 30 state of the art gaming computers that will be pay per hour.
- ***The arcade department:*** will consist of 20 arcade machines that range from newer gamers to old school games such as Packman.
- ***The merchandise department:*** will provide customers with targeted gamer merchandise to promote The HUB's brand as well as provide gamers with the gaming culture merchandise they desire.
- ***The concessionary services department:*** will provide gamers with convenience snacks, soft drinks and energy drinks for nourishment.
- ***The tournament organization department:*** will organize sanctioned tournaments for gamers and have a ranking system to promote loyalty and retention among customers.

Competition:

There are a few competitors for each of The HUB's departments and will be examine and are as follows:

- ***Computer rental department:*** This department will have to compete with local internet cafes. This, however, is not a large threat to The HUB due to very weak competition in this area.
- ***Arcade department:*** This department will have to compete with such organizations as cyber city and mall arcade businesses. This is not a big threat to The Hub because the arcade is only a secondary source of revenue which will be generated by the customers pulled in from its other departments.
- ***Tournament organization department:*** Is one of the primary ways The Hub hopes to bring in customers, as well as archive high levels of customer retention. This is because

there are currently no other organizations within Nanaimo area that offer structured gaming tournaments.

- **Concessionary services department:** will be competing with local food services, primarily 7-11. The concessionary services at The HUB will comprised of energy drinks, soft drinks and convenience foods.
- **Merchandise department:** will be competing with other clothing and merchandise businesses but more specifically “The Dogs Ear” a custom t-shirt company. However, The HUB plans on selling specific gamer merchandise towards their target audience; selling custom t-shirts, hoodies, hats and other gamer appeal.

Capital Equipment and Furniture

The total startup costs for The HUB is \$238,165.27 as seen in Table. These capital costs were spent on leasehold improvements, furniture, security equipment, merchandise and advertising equipment, computer gaming equipment and arcade equipment.

Leasehold improvements

As seen in Table 1, The HUB has heavily invested in backlights, laser projectors and UV sensitive murals and posters to create interactive and captivating atmospherics. The HUB has also invested in metal bar reinforced windows to prevent theft.

Furniture

As seen in Table 1, The HUB has invested in comfortable furniture for patrons with:

- Custom computer tables
- Computer gaming chairs
- Couches

Security Equipment

As see in Table 1, The Hub has invested in automated security devices to prevent theft of the expensive electronics. These security devices are as follows:

- Retail security camera system (8 camera set)

- Security systems computer
- Security system software for computer
- Security chains and locks for all equipment
- Data backup drives

Merchandise and Advertising equipment

As see in Table 1, The HUB has invested in equipment for custom merchandise and advertising equipment. A list of equipment is as follows:

- Image editing and merchandise computers
- Computer imaging software
- Digital heat press machine for t-shirts, hats and hoodies.
- Laser printers
- Scanners
- Hardware tool bench and tool for electronics

Computer gaming equipment

As see in Table 1, The HUB has made a very substantial investment in high end gaming equipment as well as equipment to charge and monitor patron usage. This equipment is listed as follows:

- Gaming computer
- Gaming monitors
- Computer projectors
- Electrical power bars
- Network switches
- Wireless network routers
- Modems
- Computer ID card readers
- Computer timer locks
- Computer token dispensers

Arcade Area

As see in Table 1, The HUB has made an investment in Arcade machines and arcade machine token dispensers.

Business Objectives

The Hub currently has 12 primary business objects, which are as follows:

- I. To achieve a customer base of over 100 members by the year 2010, over 500 members by 2013, and over 1000 members by 2016.
- II. By the year 2012, to offer every major gaming console platform with supporting equipment for members at an affordable rate.
- III. By the year 2013, to offer tournaments for every major gaming console platform on a weekly basis.
- IV. To provide members with at least 20% of the major gaming titles realised every fiscal year.
- V. To provide members a non-threatening and culturally unbiased environment to socialize and network.
- VI. To provide paid jobs to outstanding members, to organize and coordinate community gaming events and tournaments.
- VII. To minimize financial risks by employing a technology specialist to keep managers up-to-date on new and immerging technological trends, opportunities and threats.
- VIII. To provide customers with outstanding service and obtain a reputation as the leader in customer satisfaction for gamers within British Columbia.
- IX. To provide superior equipment, tournaments and services for gamers.
- X. To promote and sponsor at least 20% of local gaming community events.
- XI. To provide staff with exceptional, benefits, intrinsic rewards and supportive and encouraging supervisors to maintain an exceptionally low employee turnover.
- XII. Begin working on a gaming school to provide members an education within the areas of professional gaming, tournament organization, computer hardware modification and computer programming by 2013.

Sales Assumptions

Since The HUB's primary target groups are university students and high school students The HUB predicts the highest sales months will be May, June, July and August when the students have free time and extra money to spend during the summer. Since students will have less time during their study periods The HUB predicts its low months of sales to be during the months of September, October, November, December, January, February, March and April.

Computer rentals:

Within The HUB's computer rental section there will be 30 high-end gaming computers that will be rented out by the hour. As seen in Table 10, the current price per hour for this gaming computer is \$3.00 per hour year round.

The HUB projects that the months of May, June, July and August will be their highest months of sales. Computer rental sales within these months, as seen in table 10 are predicted to be six hours per day per computer with a total of 180 hours per month.

The projected months that will have low sales are September, October, November, December, January, February, March and April. Computer rental sales within these months, as seen in table 10 are predicted to be four hours per day per computer with a total of 120 hours per month.

Other computer rental assumptions:

- All computer rentals are planned to be 20% less during the first two months of operation.
- All computer rentals are projected to have 40% of sales on credit.
- All computer rentals are planned to be rented an average of 30 days per month.

Merchandise:

Within the Hub's Merchandise revenue stream there will be four merchandise products offered, t-shirts, hats, custom mouse pads and hoodies. The projected high months of sales for merchandise are May, June, July and August and the low months are September, October, November, December, January, February, March and April.

T-shirts: As seen in Table 10, the price for t-shirt is \$20.00 year round. Within the high months, The Hub projects an average of five t-shirts to be sold per day and only one T-shirt per day sold in the low months.

Hats: As seen in Table 10, the price for hats is \$15.00 year round. Within the high months, The Hub projects an average of four hats to be sold per day and only one hat per day sold in the low months.

Custom mouse pads: As seen in Table 10, the price for custom mouse pads is \$25.00 year round. Within the high months, The Hub projects an average of five custom mouse pads to be sold per day and only one custom mouse pad to be sold per day in the low months.

Hoodies: As seen in Table 10, the price for hoodies is \$50.00 year round. Within the high months, The Hub projects an average of four hoodies to be sold per day and only one hoodie to be sold per day in the low months.

Other merchandise assumptions:

- All merchandise are planned to be 20% less during the first two months of operation.
- All merchandise is projected to have 25% of sales on credit.
- All merchandise is planned to be sold an average of 30 days per month.

Arcades:

Within The HUB's arcade section, there will be 20 arcade machines that will collect tokens. As seen in Table 10, the current price per token for these machines is \$0.25 per hour, year round.

The HUB projects that the months of May, June, July and August will be their highest months of sales for the arcades. Arcade sales within these months, as seen in table 10, are predicted to be 200 tokens day per machine with a total of 4000 tokens per month.

The projected months that will have low sales are September, October, November, December, January, February, March and April. Arcade sales within these months, as seen in table 10 are predicted to be 50 tokens day per machine with a total of 1000 tokens per month.

Other arcade sales assumptions:

- All arcade sales are planned to be 50% less during the first two months of operation.
- All arcade sales are projected to have 40% of sales on credit.
- All arcade sales are planned to be sold an average of 30 days per month.

Concessionary:

Within the Hub's concessionary revenue stream there will be five concessionary products offered, Soft drinks, bags of chips, candy bars, energy drinks and protein bars. The projected high months of sales for concessionaries are May, June, July and August and the low months are September, October, November, December, January, February, March and April.

Soft Drinks: As seen in Table 10, the price for soft drinks is \$1.00 year round. Within the high months, The Hub projects an average of 40 soft drinks to be sold per day and 20 soft drinks sold per day in the low months.

Bags of Chips: As seen in Table 10, the price for a bag of chips is \$1.50 year round. Within the high months, The Hub projects an average of 35 bags of chips to be sold per day and 10 bags of chips sold per day in the low months.

Candy Bars: As seen in Table 10, the price for soft drinks is \$1.00 year round. Within the high months, The Hub projects an average of 35 candy bars to be sold per day and 20 candy bars sold per day in the low months.

Energy Drinks: As seen in Table 10, the price for energy drinks is \$3.50 year round. Within the high months, The Hub projects an average of 40 energy drinks to be sold per day and 20 energy drinks sold per day in the low months.

Protein Bars: As seen in Table 10, the price for protein bars is \$3.00 year round. Within the high months, The Hub projects an average of 30 protein bars to be sold per day and 5 protein bars sold per day in the low months.

Other concession assumptions:

- All concession is planned to be 50% less during the first two months of operation.
- All concession is projected to have 40% of sales on credit.
- All concession is planned to be sold an average of 30 days per month.

Tournament Registration:

Within the Hub's tournament registration revenue there will be various tournaments offered to participants for an entrance fee of \$15.00, as seen in Table 10. The projected high months of sales for tournament registration sales are May, June, July and August and the low months are September, October, November, December, January, February, March and April.

Within the high months, The Hub projects an average of 30 participants per day and 5 participants per day in the low months.

Other computer rental assumptions:

- All computer rentals are planned to be 50% less during the first two months of operation.
- All computer rentals are projected to have 20% of sales on credit.
- All computer rentals are planned to be sold an average of 30 days per month.

Financial Assumptions

This section will examine the financial assumptions within Table 7 and is as follows:

The HUB currently has a corporate income tax rate at 26%, which will come to a total of (\$24,576.15), as seen in Exhibit D. The leasehold expense, which covers rent, hydro, internet and utilities, is currently \$8,333.33 per month, as seen in Table 7 and \$100,000 a year, as seen in Exhibit C. The interest rate for The HUB's five year term loan is 9%.

Financing Sources

The section will examine the financing sources needed to start up The HUB shown on Table 8.

- An investment of \$53,712.00 from a majority shareholder makes up 30% of The HUB's capital costs.
- An Investment of \$17,904.00 from a minority share capital investment makes up 10% of The HUB's capital costs.
- An Investment of \$107,424.00 from a chattel mortgage over 10 years makes up 60% of The Hubs capital costs.
- An Investment of \$59,125.27 from a term loan to pay for any additional start up costs.
- A line of credit of \$5,000 for low months.

After obtaining these financing sources, The HUB will be able to run at full operational capacity.

Risk Factors

Although the HUB is a very innovative and new type of business with extraordinary potential, there are risks that need to be examined. These risks include staffing, technology trends, competitors, economic recession, hydro prices, reputation, amortization of equipment and business partners.

Staffing:

The HUB will require extremely hard working and skilled staff that are proficient in the areas of computer modification, computer programming, tournament organization and customer service as well as knowledgeable in the areas of gaming culture. It will be imperative for The HUB to maintain and obtain these staff for it to run its services and maintain its reputation. By providing staff with exceptional benefits, intrinsic rewards and supportive and encouraging supervisors, The HUB plans to maintain an exceptionally low turnover rate. Furthermore, by actively training and offering job opportunities to members within The HUB's customer base the HUB hopes to maintain a qualified and skilled employee pool of candidates.

Technology Trends

Emerging technology is a major threat for The HUB, new tournament systems or even new console platforms could easily make The HUB obsolete if not kept track of carefully. Being that The HUB will have to maintain new and emerging technology for gaming and entertainment, it is important that The HUB researches and is careful when expanding into new products which

could cost The Hub thousands of dollars if the product flops or does not catch on. By dedicating an expert technology specialist to keep managers up-to-date on new and emerging technological trends, opportunities and threats The HUB hopes to reduce this financial risk effectively.

Competitors:

Currently there is very little competition for The HUB within Nanaimo specific to gaming culture and tournament organization. However, if other competitors started to emerge after the success of The HUB, many of The HUB's valuable customers and employees could be stolen. The HUB is very dependent on its strong membership community; By providing superior service and good relations with staff and customers, the HUB plans to maintain its numbers if such competitors were to enter the market.

Economic Recession

If people have less expendable income they may be more inclined to saving their money instead of spending it on The HUB's rental or tournament fees.

Hydro prices

Being that the HUB has tremendous amounts of equipment that require enormous amounts of electricity, an increase in hydro prices could cost The Hub a significant amount of money.

Reputation

Within gaming culture, organization reputation can either make or break it. Many gamers are extremely dedicated to the gaming community and will often boycott organizations that do not fulfill their needs, or provide inferior service or equipment. This delicate balance of customer relations is very important if The Hub wishes to maintain its customer base. By continually updating equipment and offering superior customer service, The Hub plans to avoid such boycotts and maintain its prominent reputation.

Amortization of Equipment

Due to the sheer amount of advanced and new technological equipment The HUB will have to purchase in order to maintain its reputation, there will be extraordinary amortization costs. These costs could devastate The HUB in a slow year. By building all of its own computers from

scratch and through the use of The HUB's technologically skilled staff, The HUB plans to reduce costs of gaming computers by over 50%. Not only will this be cheaper, but the staff will be able to modify each computer to maximize its performance to a standard that exceeds anything that can be purchased at a retail store. This cost will further be reduced with The HUB's partnerships with computer part distributors such as NCIX in Vancouver, which will be able to provide The HUB with discounts on mass purchases.

Business Partnerships

It is important for The HUB to maintain business partnerships to reduce its immense technology purchase costs.

Scenario Analysis

Most likely Scenario

As seen in Exhibit D, the most revenue streams and expenses will maintain stable with a reduction in revenue within the first two months with low sales months of September through April and high sales months of May, June, July and August. Within this scenario, The Hub will incur a corporate income tax rate of 26% and a line of credit interest rate of 10%. The net income after taxes as seen in Exhibit D is \$69,947.51.

Worst Case Scenario

In our worst case scenario, The HUBS will experience its many of its primary financial risks factors. These financial risk factors are the new entrance of computers, an economic recession, and The HUB not being able to effectively build and promote its brand image and reputation. This will result in the following changes to the year's incomes statement.

- A decrease in computer rental sales of 60%
- A decrease in mechanise sales of 80%
- A decrease in concessionary sales of 50%
- A decrease in arcade sales of 20%
- A decrease in tournament registration of 80%
- An increase in facilities expense of 10%

- A decrease of cleaning/janitorial supplies expense of 20%
- A decrease of salaries expense of 20%
- An increase in advertising expense of 200%
- A decrease in amortization of furniture of 30%
- A decrease in amortization of leasehold improvements of 5%
- Corporate income tax rate of 26%

The net loss as seen in Exhibit D is -\$129,697.42 for this scenario.

Best case scenario

Within the best case scenario, The HUB incurs a greater than expected customer base with increased income in all revenue streams and a few additional expenses as a result.

- An increase in computer rental sales of 30%
- An increase in mechanise sales of 40%
- An increase in concessionary sales of 40%
- An increase in arcade sales of 20%
- An increase in tournament registration of 80%
- An increase in facilities expense of 30%
- A decrease of cleaning/janitorial supplies expense of 50%
- A decrease of salaries expense of 20%
- A decrease in amortization of furniture of 30%
- A decrease in amortization of leasehold improvements of 5%
- Corporate income tax rate of 26%

The net income after taxes as seen in Exhibit D is \$333,232.86 for this scenario.

Future Development:

After The HUB has established itself and had a dedicated customer base The HUB plans implementing three more departments and are as follows:

- I. To implement ***console rental departments*** for the Xbox, Playstation and Wii, offering customers a premium gaming environment with such things as high definition projectors with over 200 inches of screen, high definition surround sound systems and comfortable seating, all for an affordable price.
- II. To implement a ***tournament organization department*** for these consoles. This will bring in customers to play on these premium rentals as well as create hype and social value when playing on these rentals.
- III. To implement a ***gamer school department*** where gamers can register for classes and receive a complementary diploma in advanced gaming, which will be a way of training future employees.

Examples of courses that may be offered are as follows.

- How to build a new computer 101-400
- How to overclock and modify a computer 101-400
- Professional gamers' tips and training 101
- Gaming History 101
- Gaming Culture 101
- Electronics consumer saving 101

- Gaming modification and coding 101
- Web forum administration 101
- Gaming tournament organization 101

Conclusion

The HUB is a new and innovative business that has the potential to capture a new market within the gaming community. If risks are properly managed and The HUB's positive reputation is spread, there is a great potential for enormous profitability, as seen within the scenario analyses. The HUB also has very large start up and amortization costs, which can result in losses if The HUB's customer base is not maintained. Overall, The HUB is ready to become a powerhouse within the gaming community with its strategies for superior services, programs and equipment to become BC's professional gaming tournament center.

In closing, The HUB will be a one of a kind organization that will satisfy the needs of the vastly growing population of gamers. Through the use of its departments, The HUB will be able to retain customers, create its own culture and grow exponentially once it has become established within the gaming community.

Appendix

- I. Table 1: Capital Costs
- II. Table 2: Amortization of Capital Assets
- III. Table 3: Supplies
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- V. Table 5: Other Expenditures
- VI. Table 6: Start-up Cost summary
- VII. Table 7: Financial Assumptions
- VIII. Table 8: Financial Sources and Cost of Capital
- IX. Table 9: Loan Amortization
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Table 1: Capital Costs

Table 2: Amortization of Capital Assets

Table 3: Supplies

Table 4: Inventory

Table 5: Other Expenditures

Table 6: Start-up Cost summary

Table 7: Financial Assumptions

Table 8: Financial Sources and Cost of Capital

Table 9: Loan Amortization

Table 10: Sales Assumptions

Exhibit A: Monthly Sales and Expenses

Exhibit B: Cash Budget

Exhibit C: Income Statement

Exhibit D Income Statement

Exhibit E: Balance Sheet