

Capstone Project Summary

Business Plan: Expansion and market entry of family business in home textiles to West Europe case of Luxembourg

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Introduction

This business plan is developed by request of Client organization which operates successful family business distribution and sales of Turkey produced home textile products and accessories in Turkmenistan.

The family business operates since 2012 and grown its operations having multiple sales locations in major malls and commercial markets in Turkmenistan. From the beginning of business journey Client pioneered the market of luxury home textiles goods and accessories produced in Turkey by having exclusive distribution agreements between large scale production factories. The competition of sales of home textile products in local markets is very intense since Turkmenistan produces its own home textiles goods and cheaply priced counterfeit products from China. However, Client saw opportunity in selling and distributing exclusive luxury home textiles products which are produced with innovative and eco-friendly sustainable technologies and, providing unique customer service experience that satisfies the needs of most the advanced customer's tastes. Client currently seeks to expand business operations into Western Europe with market entry to Luxembourg because it is in middle of developed consumers market and attractive location.

Following questions and problems were addressed to perform the market research and develop business plan including financial plan:

- Market research home textiles products in Western Europe through justification of problem and solution approach, competitor's analysis (SWOT, PESTEL) and target market
- Choice of business model to use when entering market, i.e. opening of traditional shop, development e-commerce page, drop shipping services, or combination of all approaches and present potential competitive business model with recommendations.
- What will be financial and legal requirements of starting new venture in Luxembourg, assessment of business assumptions, and availability of access to funding.
- Execution of operations, strategy for sales and marketing tools, available locations and technologies to use to build online presence and viable options
- Produce Financial plan for next 3 years income statement, balance sheet and cashflow statement for first year of operations. Demonstrate the forecast in example of one specific brand products. Profitability analysis and potential cost computations.
- Recommendations and Conclusions if any based-on research and financial plan.

Turkey is among leaders in export of home textiles to U.S, and European countries such as France, United Kingdom, Germany, and Netherlands. Turkish home textiles have unique features which are produced with innovative technologies and fulfills the demand of customer needs. Client works and collaborates with Turkey famous brands Companies and factories where each specializes home textiles products such as bed and bath linen, pillows, duvets, mattress covers, décor accessories and home cosmetics. Main drivers of home textiles market are increased consumer spending and self-awareness of changing home decoration trends. Due to Covid-19, people spend more time at home environment and comfort became important part of our lives. Therefore, distribution of luxury home textiles is great idea to fulfill sophisticated customer needs. Conducted market research for home textiles in Luxembourg considering intensity of competition based on price of goods, quality, value, customer experience. Luxembourg home textile market is very matured since it has mass produced brands IKEA, H&M home, Zara home and highly specialized brands Hastens, Yves Delorme which cater to customers from various income levels. However, there are not many brands that provide unique customer experience and affordable price value products. Client's carried Turkish brands will be good fit for local competition since the home textiles are produced using innovative technologies and sustainable raw materials which are appreciated by many dynamic and modern customers.

Luxembourg has very attractive target market because it easy to open register business, affordable access to funds for small and medium businesses, population is 605,000 and it borders with developed countries such as Germany, France, Belgium which covers big population of customers. Also, Luxembourg has very advanced infrastructure for logistics and transportation which well connected to Western European markets. Luxembourg total GDP is 66.8 billion among highest in world ranking and GDP per capita is \$112,000. Luxembourg's strong customer purchasing power will serve well potential target customers for sales and distribution of luxury home textiles.

Business model for sales of luxury home textiles will be to open the traditional shop and once the turnover and sales volume reached to incorporate drop shipping service through building online presence in one of e-commerce platforms Shopify.

Financial Approach and Methodology

The financial approach of the business plan is supported by an Excel file which is automated to integrate adjustable assumptions. The aim was to make an evolving tool that could adapt to the different phases of the client's business development. Below is quick description of each tabs and functionality of the spreadsheet.

1. Assumptions:

- Luxemburg policies, which sums up the requirements as well as cost of setting up a business in Luxemburg.
- The choice of business model, between traditional shop and dropshipping, which enables to see the revenues depending on the type of business – even though both activities should be combined once the business is up and running.
- Investment hypothesis: a simulation of the level of investment and proportion of self-financing vs. bank loan or outside investment, to be able to compute quickly the amount that need to be invested from the start.

2. Start-up expenses

- “check-list” of the initial expenses for first 3 month of business operations for setting up the business activity
- Computed that approximately \$21,000 investment needed for launching the business.

3. Income Statement

It is a provisional income statement that encompasses potential revenues and expenses based on the assumptions taken. For the first year, used a monthly income statement, to get a more realistic view from the start, and for years 2 and 3 used the regular format of a quarterly report.

4. Sales & COGS details

The list of products used to simulate sales volumes at the start of the business, as well as the computations of sales and cost of goods sold (using the retail price determined in the operational approach), as well as dropshipping revenues based on the commission defined in the Assumptions tab.

5. Cash-Flow projections

This sheet shows the prospective Cash Flow Statement –used a monthly basis for the first year.

6. Balance Sheet

This tab shows the prospective balance sheet after one year of business operations.

Conclusion and Recommendations

The financial approach of the business plan shows that the business idea seems like a sound economic decision. The sales and expenses projections, and resulting prospective income statement, show that the business should achieve a profit of nearly \$118,000 from the first year, in our base case scenario which is 200% mark up used. In the scenario where reduced mark up to 150%, well under the market's norms, the net income still reaches \$73,500. The net income should increase over the second and third year (estimated at \$234,000 in year 2 and \$262,000 in year 3 in the base scenario), as the business gains public recognition and attracts new digital customers through its online presence and dropshipping sales.

Also, marketing expenses shouldn't be ignored at the start as it would help to increase volumes drastically, and a marketplace presence would be a good idea for the business to gain visibility, attract digital consumers, increase brand recognition, and improve sales. In the expenses included an advertisement budget of 50\$ per month the first year, 100\$ per month the second year and 150\$ per month the third year, to keep momentum with customer attraction and retention and allow the business to grow as much as possible.

The dropshipping activity would be interesting to develop as an additional income but only once the business has reached levels of sales high enough to have the attention of the factories for dropshipping contracts. Thus, included dropshipping revenue from the seventh month forward, with a steady growth rate (see tab "Sales & CoGs detail").

Regarding the legal form of the company, it would be easier to start as a sole proprietorship, to be able to start with the least administratively demanding form, however it would mean that the owner would have to declare his revenues and to pay income taxes in Luxemburg. Once €22,569 of revenues are reached though, it would be financially more advantageous to change the status to a capital company. Indeed, with levels of net income before taxes above the €100,000 threshold, the sole proprietorship would be taxed at rate between 40 and 42%, while a capital company would only be taxed between 15 and 17%. Moreover, switching from sole proprietorship to capital company

will allow the client to detach from the legal entity of the company and to no longer be liable in case of bankruptcy, court judgements involving the company.