

# **Business Plan for Apaven Enterprise of Post-Trauma Rehabilitation Center**

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## I. Executive Summary

### *Description of the Business Concept and the Business*

The Professional Rehabilitation Department (PRD) of the Post-Traumatic Rehabilitation Center (PTRC) specializes in the reeducation of paraplegic invalids who are not able to continue their former work. There are three grave problems, however, that hinder the work of the PRD.

First, most of those invalids who complete their re-training at the PRD remain unemployed. Second, despite the great help of the Armenian government and the International Committee of the Red Cross, the PRD and its parent body, the PTRC, face a very difficult financial situation. Third, there are many products, created in the course of the re-training, that, if sold, could financially help the PTRC. The PTRC as a budget organization, however, does not have legal basis for selling these products and using revenues from these sales. As a budget organization, they are not able to incorporate these revenues into their budget. Besides, according to the presidential decree directors of budget organizations does not have rights to engage in commercial activities which automatically precludes organizations they manage from such a participation.



The Apaven Commercial Center that will be created may help solve these problems. Apaven will be a not-for-profit organization and all of its earnings will be spent for the purposes stated in its statutes. The venture will manage the marketing of souvenirs made at PRD. It will also provide jobs for invalids by organizing the production of sewn goods, knitware, and shoes. Currently, PTRC has a large production facilities that were donated by different organizations. This production capacity, however, is not being used to its full potential.

#### ***The Opportunity and Strategy***

Currently, the PRD teaches eight specialties: sewing, shoe making, carpet making, knitting, handiwork, claw knitting, and wood and metal souvenirs making. The equipment of the PRD can be used after teaching hours. Contacts already exist with such important potential customers as the Ministry of Defense and the Ministry of Internal Affairs. These ministries promise large orders of uniforms, shoes and linen sets.

#### ***The Target Market and Projections***

Other products made at PRD are Armenian souvenirs. These enjoy a great interest and demand from overseas visitors. Considering that their number in

Armenia keeps increasing, production and marketing of Armenian souvenirs to such customers seems quite reasonable.

### ***The Competitive Advantages***

Currently, approximately one thousand visitors come to Armenia each month from Western countries. These people may be considered as a target market for the souvenirs made at PRD<sup>1</sup>. As the prices of souvenirs sold by PRD and the study of foreigner's opinions show, these visitors are willing to pay 20%-100% more for items made by disabled persons as compared to the regular market prices for similar products.

Additionally, the PTRC has very close relations with the International Red Cross, and this fact allows us to expect the support of the Red Cross in exporting the souvenirs made in the PRD. Considering the scope of this enterprise we can expect the support of the Ministry of Social Security. If we also take into account the fundamental tax benefits provided by the Armenian government to the enterprises employing the disabled, the comparative advantages of the venture appear very strong.

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<sup>1</sup> The number was obtained from the AUA project group that conducted marketing research at "Zvartnots" airport.

### ***The Economics and Harvest Potential***

Apaven will have up to 100% mark-up on the production cost of souvenirs. The mark-up or profitability level for other goods is at the industry's level: approximately 10%-30%. Our figures show that on average Apaven can have about \$500 of net profit monthly right from the start. The profit will be spent to improve the social situation of the disabled, to acquire raw materials and equipment for the PRD, and to improve the social conditions of PTRC patients.

### ***The Contribution of our Group***

Our group has compiled a business plan that would allow our clients to present it to potential benefactors or investors. They, in turn, would provide the funds that would allow work to start. For this purpose, we have carried out market research, made sales forecasts and financial projections. We have also recommended organizational structures and procedures for the PTRC. Finally, we have suggested management and operational plans for Apaven.

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## II. The Industry and the Company and Its Products

### *The Industry*

The larger part of the Professional Rehabilitation Department production unit is in the applied arts industry. The PRD teaches eight specialties: making shoes, carpets and needlework, claw knitting, knitting, sewing, metal and wood carving. All these specialties are highly developed in Armenia. There are a number of companies and many individual producers that are involved in these businesses.

While companies have their own shops to market their souvenir products, individuals market their production mostly through art-shops or through the "vernissage", a well-known and accepted market of art-work. This market is open every Saturday and Sunday in the center of Yerevan. Many locals and foreigners visit art-shops and the "vernissage". There is a large market as these items make very suitable presents.

With the improvement of the general economic situation in Armenia, the handicraft industry will experience quick growth because the production offers luxury products rather than necessities. The increasing number of visitors in Armenia is also a positive factor leading to the growth of the industry. With the development of technology, more and more consumer



goods and clothes are machine-made. Despite their higher quality, many people prefer more individuality in their products. Thus, hand-made products become luxuries and their prices increase.

Other products that will be produced at PRD are different model shoes and sewn goods. These industries are highly developed in Armenia and because they have relatively fewer problems with raw materials, these manufactured products are still available even under the current critical economic conditions of Armenia. While many Armenian industries became unoperative after the collapse of the Soviet economic system and continue to suffer under the energy blockade the textile and shoe industries continue their existence and extensively expand into the private sector.

### ***The Company and its Concept***

The business concept for Apaven is the management of the marketing of goods produced at the PRD and in homes by other disabled people. The financial resources generated would purchase materials and equipment for the PRD and its workers. Also, Apaven has to arrange a successful incentive policy in the PRD.

The objective of Apaven will be to coordinate the activities of handicapped people who would like to work at homes or at future industrial facilities of

Apaven. The main customers of artwork-producing units of the venture would be visitors who may like to purchase Armenian souvenirs while helping these artisans. For the shoe-makers and sewers, Apaven will find orders from governmental agencies such as the Ministry of Defense, the Ministry of Internal Affairs, and the Ministry of Health.

Apaven will market its souvenir products by means of shop. This shop is to be located in the center of Yerevan and would become a site known to visitors. Also, Apaven will actively participate in exhibitions as these may be the most effective way to advertise and promote our products. Other advertising policies will also be necessary. With proper coordination, Apaven may become one of the major producers of hand-made carpets, gobelins and other art-work in Armenia.

Every year approximately 30 people complete their training at the PRD and we can expect at least 50% of them to cooperate with Apaven. In five years Apaven can have up to 80-100 handicapped employees, who would work privately and for the venture as well. However, if the venture could attract more people by suggesting work tools and guaranteeing payment for their production, the number of workers could be much higher.

The venture has several distinctive advantages over its competitors. First, its parent body, the PTRC, has close connections with the International Red Cross. This may help Apaven organize exhibitions abroad and become known outside Armenia. Second, as employees of the venture will be disabled people, this may help to get government support, particularly, that of the Ministry of Social Security. Important tax benefits are of interest in this context. Furthermore, the fact that these souvenirs are to be produced by disabled people will allow to set the prices 20-50% percent higher than on similar goods in other shops.

### **III. Market Research and Analysis**

#### ***Customers***

A questionnaire was distributed during the "vernissage". It was intended to study foreign interest in Armenian souvenirs and recent prices trends. According to the results of the questionnaires, overseas visitors comprise the overwhelming majority of customers for Armenian souvenirs. (See Appendices I and II.)

According to some, locals are buying art-work less than visitors only because of their difficult financial situation. If this is true, we can assume that once the economic situation improves, the market will rapidly grow due to the



growing number of visitors in Armenia and the growing purchasing power of locals.

### ***Market Size and Trends***

According to the results of a survey conducted by a group of AUA students at "Zvartnots" airport, approximately 1,000 visitors enter Armenia monthly. The results obtained from the 100 questionnaires that were distributed by our team indicate that these visitors spend an average of \$393 annually to buy souvenirs (see Appendix II). Since all of them stay in Yerevan proper for some period of time during their visit to Armenia, we can consider most of them as our potential customers.

### ***Competition and Competitive Trends***

The souvenir industry is highly developed in Armenia. The competitors of Apaven in this industry are the "vernissage" souvenirs' sales and a few art-shops in Yerevan. Since most vendors at the "vernissage" produce the souvenirs they sell, the prices are relatively low as compared to prices in art-shops. Besides, bargaining is also possible at the market but not in shops.

While these considerations strengthen the position of the "vernissage" market, art-shops do have their advantages too. Many foreigners visit



Yerevan for only a few days and are not able to attend the "vernissage" on weekends. Art-shops that operate during week-days would be very convenient. The results of our survey indicate that many people would prefer to go to a shop rather than the market (see Appendix II). Thus, the idea of having an art-shop seems to be valid.

Although the "vernissage" and other art-shops represent strong competition to Apaven, the new venture has some important advantages over its competitors that will enable Apaven to develop. First, the producers-sellers at the "vernissage" represent individuals, whereas Apaven will focus the efforts of many producers, provide them raw materials at wholesale prices, as well as equipment at cost. In other words, Apaven will be able to use economies of scale.

The second advantage is included in the very nature of the enterprise, which is to help invalids by employing them, paying them for their work, and using their proceeds for helping improve the social and economic situation of the disabled. Buying products at the Apaven store will be a matter of prestige. Questionnaires and prices of products indicate that many people are willing to pay more for products so as to help invalids. Tax benefits for enterprises employing the disabled are the third advantage.

Apaven will be manufacturing clothing and shoes. Possible customers for these products are government agencies like the Ministry of Defense, the Ministry of Internal Affairs, and the Ministry of Health. Although the latter now has no financial resources to place orders, the former two have already expressed their intentions to put in for large orders of these goods.

The market size for these products in Armenia is rapidly growing. The Ministry of Internal Affairs is changing the uniforms of its cadres, and the Ministry of Defense is in the process of creating an Army that also will require uniforms. Both of these can partly be provided by Apaven, and, considering that tending to the disabled is an all-national concern, the probability of receiving orders from these institutions is very high.

The information obtained from the questionnaires is shown in Appendices VI and VII in form of graphics and tables.

#### **IV. The Economics of the Business**

The business that will be created as a result of the present plan is unique in Armenia. All the specialties that are currently taught in the PRD are well developed in Armenia. Markets for such goods are very competitive. We will stress not so much the functional value of the products sold in Apaven as the

beneficiary character of the buy. Many aspects of this particular business are unlike other business and these special attributes will be highlighted in this business plan.

### ***Gross and Operating Margins***

Gross and operating margins are calculated for the three cases, Best, Expected, and Worst. (See Appendices V - VII.)

	Best	Expected	Worst
Gross Margin	21.94%	21.45%	19.07%
Operating Margin	10.40%	7.45%	1.83%

### ***Fixed and Variable Costs***

In discussing the economics of the business two categories of employees must be dealt with separately. First, there are people who would work in their apartments with their own equipment and raw materials. The second group would consist of students in their final stage of studies who are already experienced enough to produce and be rewarded for quality

products within their studies using the PRD's equipment and raw materials provided by Apaven.

In the second case the person will receive payment for his/her work equivalent to 70 percent of the amount Apaven will pay to its associates. The instructor of the student will receive a bonus equaling 30 percent of the amount Apaven would pay to its associates.

Thus, the production for sale will cost Apaven the same whether it be made by a student or an associate. The financial plan describes gross margins in cases of different quantities and prices. The fixed costs of Apaven are:

Manager's Salary	\$250
Sales Manager's Salary	\$150
Transportation	\$100
Utility	\$50
Maintenance	\$50
<b>Total</b>	<u>\$600</u>

### ***Months to Breakeven***

Initially, Apaven will be engaged in producing and selling eight types of products. Two of these are industrial, namely, sawing and shoe making. They will be produced in batches specified by orders. The remaining six types are souvenirs. The figures in the Financial Plan show that the breakeven level of



sales can be reached during the first month. Initially, the industrial part of Apaven will work only to fulfill orders which, as our surveys show, are abundant.

## **V. Marketing Plan**

### ***Overall Marketing Strategy***

As was already mentioned, the visitors show a great interest in Armenian souvenirs. Foreign guests and visitors to PTRC have been the only purchasers of the items produced at PRD. Considering this reality, Apaven's marketing strategy will target the market created by foreign guests.

Most of the distribution of products will take place within the shop to be located in the center of Yerevan. While the initial producers of souvenirs will be PRD students, Apaven will subsequently attract and coordinate other disabled persons who may wish to sell their products in the shop. Any wholesale orders for products will also be handled in this shop. Moreover, Apaven will actively seek channels to export its souvenirs abroad. Apaven will use the International Red Cross amongst others, to accomplish this. Apaven may thus become the first exporter of Armenian souvenirs.

### *Pricing*

The management of Apaven will establish the prices to be paid to producers. These prices will be close to market prices and the amount will be paid when the product is sold. Products sold at the shop will have a minimum 50-100% mark-up on costs.

In its retail pricing strategy, Apaven will differ from other souvenir sellers. Its prices will be 20-50% higher than those of its competitors. A price analysis of sales shows that the purchasers have paid from two to three times above the average prices as found in shops or at the "vernissage". Carpets are sold for \$15-\$20 at the "vernissage", while PRD has sold similar carpets for \$35-\$60.

The situation is the same with other products: gobelins at the "vernissage" are sold for \$20, while similar items at PRD are sold at \$30. Other items like metal or wood souvenirs or clothing items have been sold at prices that were approximately twice as high as those on the market. We can conclude that for those who would like to purchase goods at Apaven's store, price does not play a primary role, while quality does. Apaven will therefore strive to improve the quality of its items. With the anticipated increase in the fashionableness of the store, more and more people may visit it.

### *Sales Tactics, Advertising, and Promotion*

Although the exhibition itself is a good means to advertise, Apaven will also advertise its shop. Since visitors are the targeted market, and the short-term visitors stay at the "Armenia" and "Dvin" hotels, Apaven will arrange for the distribution of attractively designed booklets to be made available at the airport and in these two hotels. The booklets will contain information about Apaven, our products, our address, and our store's business hours. Apaven will also advertise in local English newspapers and on all local English TV and radio programs. Furthermore, a catalog of products will be prepared within a year. It will be published in Armenian, Russian, English, Spanish, and French and will be sent abroad for distribution all around the world.

For large orders, Apaven will offer up to a 50% quantity discount. Later, based on the growth of the number of products, the mark-up on costs may be reduced to maintain a successful operation.

## **VI. Design and Development Plans**

### *Development Status and Tasks*

Small hand-made carpets and gobelins produced in the PRD have proven to be very fashionably designed and attractive. Knitting and needlework are also tastefully designed. The instructors at the PRD have considerable

experience, knowledge and skills to maintain the required level of design and quality standards for these products.

The wooden or metal souvenirs, however, need additional efforts by the instructors who are also the designers and quality-control personnel for these products. Apaven will subsequently have to study the demand of differently-designed products to reveal the ones that have the greatest appeal. These products would then be ordered from those workers who lack the necessary creative skills in their specialty. In other words, while Apaven would encourage innovation amongst its associates it will also care for those who need instruction and other specific help in the design and development of souvenirs.

### ***Proprietary issues***

Apaven's trademark will be the logo of the PTRC. It depicts a person on a wheelchair with a cross in the upper left-hand corner. This logo will not only emphasize the psychological and ethical aspects of the business, but will also allow the firm to become known here, in Armenia, and abroad. The role of a trademark is very important in our competitive souvenir market.



## VII. Manufacturing and Operations Plan

### *Geographical Location*

Since most visitors live and do their shopping in downtown of Yerevan, Apaven's store will be located in this district. The headquarters of Apaven will be at the PTRC.

### *Facilities and Improvements*

The shop will be opened by March, 1995, by which time students at the PRD will already have a high-quality output. The shop will need a special design and layout. Consequently, renting a space for the shop is not appropriate. Apaven's business is likely to expand and the purchase of a space is justified by the sales forecasts. According to the real-estate market in Yerevan, the funds needed to acquire a space on a prestigious central street are approximately \$10,000 - \$15,000. An additional \$1,000 may be required to design and to acquire equipment before the shop begins operations.

### *Strategy and Tactics*

Apaven will follow a special policy concerning the equipment on its premises. To ensure its better preservation, Apaven will not be the owner of such equipment. Rather it will sell it to those who operate it. The

implementation mechanism of this policy will be to use its profits to purchase additional equipment and raw materials and sell them on credit to the disabled who wish to cooperate with Apaven while not having the necessary financial resources.

These workers will then repay the cost of the purchased equipment, according to a special schedule drawn up by Apaven. This schedule would allow an associate to earn money right from the beginning. For example, a \$90 loom and \$36-worth of inventory is required for six carpets. A carpet-maker may produce six to ten 40x40 cm carpets in one month. Thus, to sign-on one carpet maker, an initial investment of \$126 is needed. Apaven will pay its associates \$9 for one good quality carpet of that size. After making the first six carpets, Apaven will pay the maker \$24, lowering the debt of the associate to Apaven by \$30 ( $6 \times \$9 - \$24 = \$30$ ). Thus, the carpet maker will pay back the debt in four months.

For the souvenir producing specialties, possible subcontractors may be businessmen who might wish to export Armenian souvenirs. However, this prospect is initially impractical since Apaven will have to prove the competitive quality of their production. In cases of large orders for souvenirs, a substantial price discount may be made.

Sewing and shoe-making, however, are somewhat different. Unlike souvenir makers, this production may bring profits owing to large production volumes rather than high prices. Production of these items is very competitive in Armenia. Nevertheless, considering the prices-quality factor, the desire to order from the disabled to provide work and to allow them earn a living should prevail.

Presently, there are good prospects of large contracts from the Ministries of Defense and Internal Affairs for underwear, uniforms, shoes, and linen sets, as well as from the Ministry of Health for medical uniforms. The Ministry of Internal Affairs, for example, is willing to order 10,000 sets of linen (1 sheet, 2 pillow cases, and 1 blanket case) and 5,000 pairs of shoes. They are also willing to order military visor caps and insignia. Furthermore, PRD shoemakers have good relations with different shoe factories and can expect to have orders from them.

The shop would mainly sell the production of the PRD graduates. We can assume that people who provide their products to Apaven have the necessary professional education. In order to be competitive, Apaven will have to market only high quality products. The sales manager would be responsible for quality control.

### *Regulatory and Legal Issues*

There are several legal issues of concern to Apaven. As was stated in the Article #23 of the Income Tax Law, voted in on 01.18.92, enterprises with a minimum of half their work force designated as disabled have a fifty percent income-tax benefit. Consequently, PRD instructors and others who are not disabled will be able to participate in the production process and be paid as long as this number is less than fifty percent. According to the same Article, the taxable income of the organizations that are involved in benevolence and are in the list of such organizations made by the government is lessened by the amount of their benevolent expenses. Since Apaven will transfer all of its income for benevolence, the management of the PTRC should apply for adding Apaven to that list.

The only tax that Apaven will have to pay is the tax on added value in accordance with the Law about the Tax on Added Value, voted in on 06.08.93.

Law #360, voted in on 11.24.1993, on Not-for-profit Organizations, states that a not-for-profit organization must spend its profits exclusively for the purposes outlined in its regulations. They cannot provide earnings to the owners. Article #8 of the same law requires that the enterprise have its special trademark on each unit of production or services.



Since the employees of Apaven are disabled people, they will need health certificates in order to be employed by Apaven. This policy will be strictly enforced. No person without the approval of the PTRC medical staff will be employed by Apaven. The operation cycle of the facilities will be organized in such a way as to minimize idle time, subject only to requirements of study and medical constraints of the disabled workers.

### **VIII. Management Team**

#### ***Organization***

Apaven will be the daughter enterprise of the Post-Trauma Rehabilitation Center. It will have its own bank account that, in the beginning, will be managed by the Apaven manager and the PTRC accountant. The interrelationship between Apaven and PTRC is shown in Appendix III.

#### ***Key Management Personnel***

During the first stage, the personnel of the enterprise will consist of the manager and the shop supervisor who will be sales person. The manager of the firm will be appointed by the PTRC management and will be accountable to it. The manager will be an English-speaking person who will have good command of various office equipment with experience in business writing in

Armenian, English, and Russian. The shop supervisor will also be English-speaking. Both members of the staff will have good communication skills.

As the scope of the firm's operations expands, it will employ a production manager, an accountant, salespeople, and other personnel as needed. The conditions of their employment will be decided on an individual basis. The firm may periodically seek the help of professional advisors in the field of arts to improve design, assortment, and prices. This help may be provided either as a benevolent contribution or on a contractual basis with payments on a case-by-case basis.

#### ***Management Compensation***

The level of compensation for the staff will be competitive with that of similar jobs in Armenia. Currently, the salary of an office manager, having the above-mentioned skills and employed by foreign organizations, is \$200-\$250 per month. The shop supervisor's salary will be \$150 per month. Commissions of 5% on sales may be considered for the manager and the shop supervisor.

## **IX. Overall Schedule**

We assume that the following dates are critical. The registration of Apaven is to be done by 12.10.94. Usually, it takes two weeks from the application date. Obtaining start-up investment is vital to the implementation of this project. It is projected to have the necessary financial resources by 12.20.94. After securing investment, the manager of Apaven must be hired to implement the subsequent steps of this business plan. The role of the manager is very important. Thus, the search for a good manager must be started well before the investment has been obtained.

Since sewing machines have already been installed and the production of linen sets does not require high labor skills, it can start on hiring the manager. Thus, the first contract of goods has to be signed by 01.15.95. Consequently, the order for all necessary materials must be done by 01.17.95. The starting of production is the next stage of this business plan. This stage must follow right after the materials are purchased, not later than 01.20.95. Delivery of the first sale has to be done by 02.20.95 and within two weeks, by 03.05.95, the first payment of accounts receivable must be completed.



While the production of goods may start on acquiring raw materials, the marketing of souvenirs, may be completed before opening the store which must be acquired by 02.01.95. The search for a good location must be start from the moment of registration. Remodeling inside of the shop may last about one month. By 02.25.95, just prior to opening the shop, the sales manager must be hired. The shop ought to open its doors for the first customers by 03.01.95.

The summary schedule for the business plan is shown in Appendix IV.

### **X. Critical Risks, Problems, and Assumptions**

The current business plan is based on the assumption that the visitors will be primary buyers of Apaven's products. The local population's economic situation precludes them from the market. While research at the "vernissage" indicates that locals are potentially more viable customers, their financial capabilities will not allow them to become active buyers of the invalids' production for some time to come.

Presently, the results of our research indicate that the Apaven's goods would be of interest to visitors. The situation might change, however, if the political situation changes. While recent trends indicate greater calm in Armenia, it is

yet much too soon to be sure of anything. Today, there are no guarantees that the political situation might not deteriorate. This would create an exodus of foreigners and the subsequent collapse of the market for Armenian souvenirs. In such a case the potential orders for from the Ministries of Defense and Internal Affairs will be of great help.

The nature of Apaven makes it invulnerable to many risks that threaten ordinary businesses. Thus, running out of cash is improbable because, if such threat arises, Apaven may, temporarily, either refuse to buy its workers' production, or accept it only to sell on a commission basis. However, since the cash requirements of Apaven are not expected to be very high, the risk of running out of cash is very low. To attend to the problem of running out of cash, Apaven will try to find contracts with pre-payment. That will allow Apaven to purchase raw materials from the very beginning of the enterprise.

Any unfavorable industry-wide trends will also hardly affect Apaven's activities since Apaven will not be in the production or retail business, but rather in the benevolent "industry" of helping the disabled. The basic reason for buying from Apaven will not be so much to acquire a much needed item, but to help an individual.

Difficulties or long lead times that may be encountered in the procurement of parts or raw materials may represent a more serious hazard. Since Apaven will be the major supplier of such items for its workers as well as to the PRD, such problems may potentially create great difficulties in the PRD teaching process and shortages in Apaven's inventory. However, assuming that the nature of the PRD activities is benevolent and the quantities of the raw materials and parts needed are not great, such risks can be dismissed.

Several assumptions are critical to the current business plan. First, there should be sufficient number of visitors in Armenia willing to buy souvenir items produced by the disabled. The shop will be only one, although major, part of Apaven's business. Another area where Apaven might be engaged is in founding contacts with its sister establishments abroad and an active participation in international exhibits around the world. Interest in this type of production is apparent and several invitations have already been received.

## **XI. Financial Plan**

The monthly fixed expenses that will be incurred by Apaven (included in the Income Statement) are estimated as follows: Manager's Salary will equal \$250; Sales Manager's Salary -- \$150; Transportation Expenses -- \$100; Utility expenses --\$50; Maintenance Expenses -- \$50. Total: \$600 (\$7,200 annually).

The Spreadsheets in the Appendices of the Business Plan depict various business situations where the projected sales levels are not attained, or are underestimated. Appendix V contains projected Sales, Income Statement, and Balance Sheet. The Appendix VI shows worst-case scenarios for Sales, Income Statement, and Balance Sheet. Appendix VII shows best-case scenarios for Sales, Income Statement, and Balance Sheet. Appendix VIII contains the breakeven sales and Income Statement. Appendix IX contains projected Operating Cash Flows on the monthly basis.

## XII. Proposed Company Offering

### *Desired Financing*

The initial investment needed for Apaven is:

Space Acquisition	\$15,000
Design and Equipment	\$1,000
Start-up Inventory	\$6,000
Start-up Capital	\$1,200
<b>Total</b>	<u>\$23,200</u>

Space Acquisition reflects current real estate prices in the center of Evan. The Design and Equipment amount to those that would be needed bringing the shop to an operational status. Some portion of the start-up



Inventory has already been acquired. Thus, \$6,000 in additional expenses for raw materials should be enough to initiate production in all domains of Apaven. Start-up Capital will allow Apaven to cover fixed expenses during the first two months.

### *Offering*

Presently, there are many international organizations in Armenia whose areas of activities lie in charitable or small business development. Any one of these organizations may be a potential investor for Apaven.

The initial capital for the amount described previously may be acquired in one of the following ways:

A benevolent contribution from one or several organizations, or individual donors.

An interest-free loan for a three to five-year term from one or several organizations or individuals.

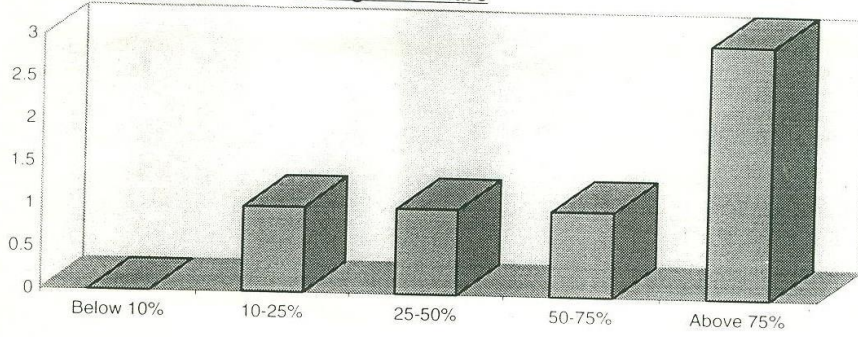
PTRC with its established good image will actively seek investors and act as a guarantor for the proper use of acquired funds.

Vernisage Sellers' Answers Summary

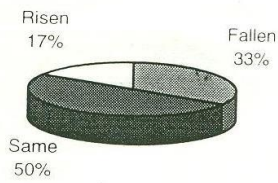
		Percentage	R/F	L/H
Carp Count	Spec. Carp	25-50%	Fallen	No difference
	Carp	Above 75%	Fallen	Pay Higher
	Carp	10-25%	Risen	Pay Higher
	Carp	50-75%	Same	No difference
	Carp	Above 75%	Same	Pay Higher
	Carp	Above 75%	Same	Pay Higher
Gob Count	Gob	Above 75%	Fallen	Pay Higher
	Gob	25-50%	Risen	No difference
	Gob	Above 75%	Same	No difference
	Gob	Above 75%	Same	No difference
	Gob	Above 75%	Same	Pay Higher
	Gob	10-25%	Same	Pay Lower
Hand Count	Hand	25-50%	Fallen	Pay Higher
	Hand	10-25%	Fallen	Pay Higher
	Hand	Above 75%	Fallen	Pay Higher
	Hand	25-50%	Risen	Pay Higher
	Hand	10-25%	Risen	Pay Higher
	Hand	Above 75%	Same	No difference
	Hand	25-50%	Same	Pay Higher
Knit Count	Knit	Below 10%	Fallen	Pay Higher
	Knit	10-25%	Fallen	Pay Higher
	Knit	25-50%	Fallen	Pay Higher
	Knit	10-25%	Risen	No difference
	Knit	25-50%	Risen	Pay Higher
	Knit	Above 75%	Same	No difference
	Knit	Above 75%	Same	No difference
	Knit	25-50%	Same	Pay Lower
Met. C Count	Met. C	10-25%	Fallen	No difference
	Met. C	25-50%	Fallen	No difference
	Met. C	25-50%	Fallen	Pay Lower
	Met. C	Above 75%	Risen	No difference
	Met. C	Above 75%	Risen	Pay Lower
	Met. C	Above 75%	Same	No difference
	Met. C	50-75%	Same	Pay Higher
Wood C Count	Wood C	Above 75%	Fallen	No difference
	Wood C	25-50%	Fallen	Pay Higher
	Wood C	Above 75%	Risen	No difference
	Wood C	50-75%	Risen	No difference
	Wood C	25-50%	Risen	Pay Higher
	Wood C	Above 75%	Same	No difference
Grand Count				

### Carpet

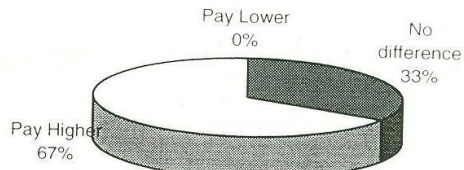
Foreigners' Share



Prices

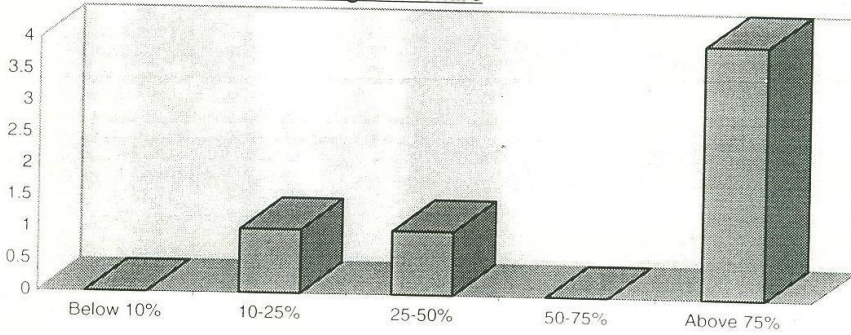


Foreigners Compared with Locals

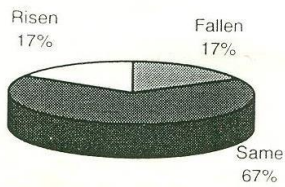


### Gobelen

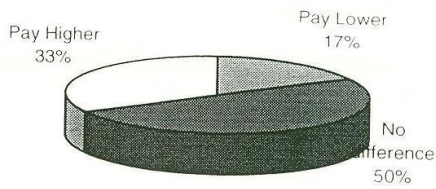
Foreigners' Share



Prices

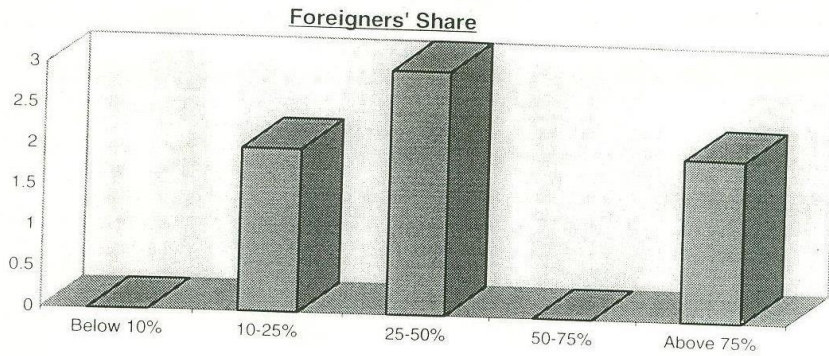


Foreigners Compared with Locals

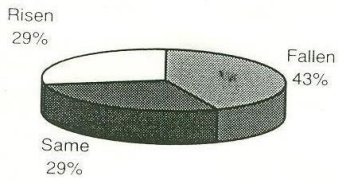




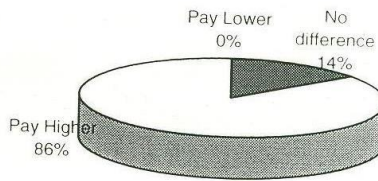
### Handicraft



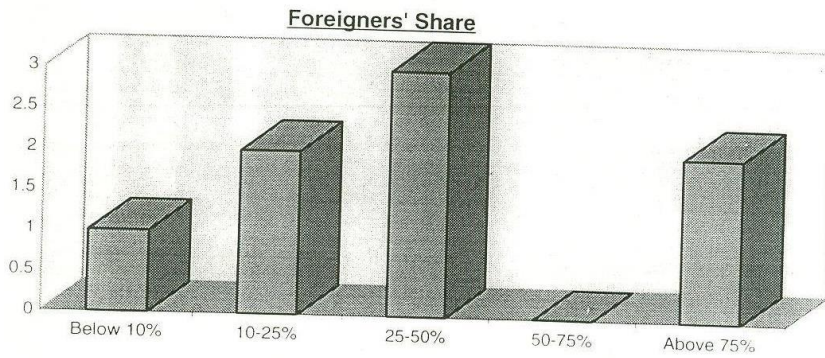
#### Prices



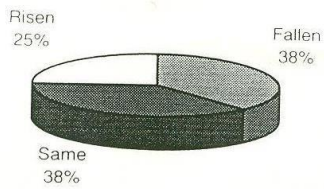
#### Foreigners Compared with Locals



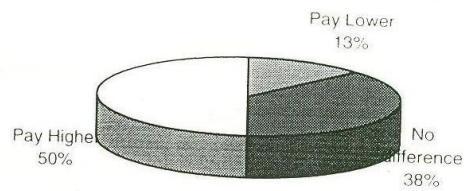
### Knitting



#### Prices



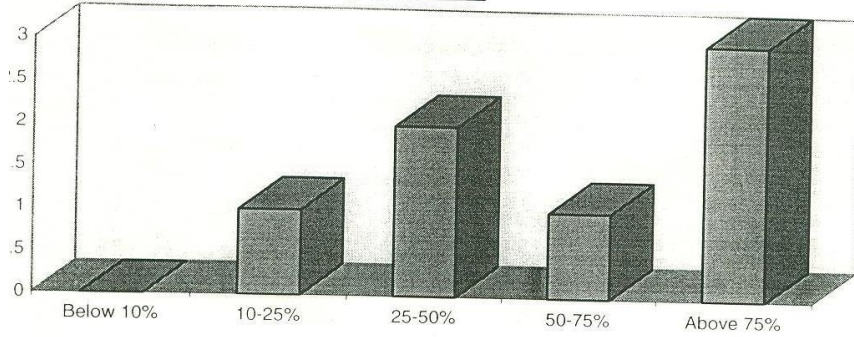
#### Foreigners Compared with Locals



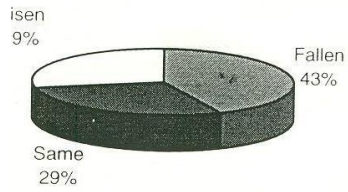


### Metal Carving

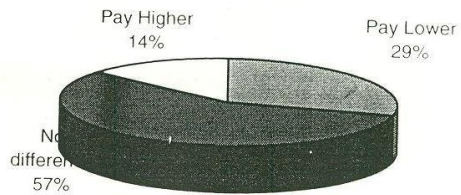
Foreigners' Share



Prices

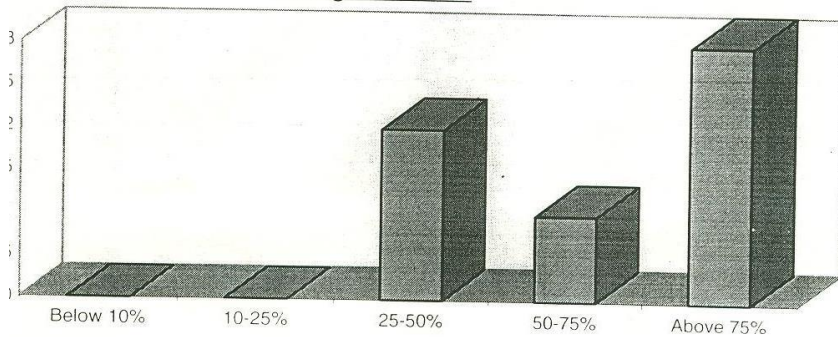


Foreigners Compared with Locals

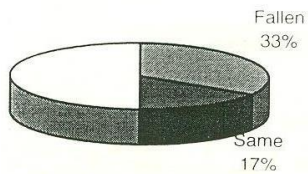


### Wood Carving

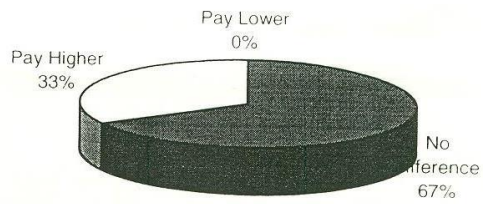
Foreigners' Share



Prices



Foreigners Compared with Locals



## Questionnaire

Please fill in this questionnaire. Your answers will help us to conduct a survey about foreign interest to Armenian souvenirs. Thank you.

1. What product do you sell

- Carpet
- Gobelen

- Handicraft
- Knitting

- Metal Carving
- Wood Carving

2. Which percentage of your products is bought by foreigners?

- Below 10%
- 10-25%
- 25-50%
- 50-75%
- Above 75%

3. How have the prices of your products in US\$ changed during the last two years?

- They have risen
- They have fallen
- They have remained the same

4. Do the foreigners pay higher or lower than locals?

- They Pay Higher
- They Pay Lower
- There is no difference

Appendix II

Buy	Kind	Interest (1-2-3...)							Place of Acquisition	Anuall Spend	Pay More	How Much More	Visit
		S.Carp	W.Carp	H_Cr.	Met.C	Gob.	Knit.	Wo.C.					
Y	Arm.	2	1	3	7	6	4	5	Store	\$500	Y	5%	Y
N	Arm.	1	3	3	3	3	3	2	Mark.,Spec.	\$3,500	Y	20%	Y
Y	Ant.	1	3	2	7	7	7	7	Mark.	\$100	Y	50%	Y
Y	Trad.	1	3	4	7	6	5	2	Store	\$650	Y	15%	Y
Y	Arm.	2	1	5	6	3	7	4	Vern.,Store	\$400	Y if sure	10%	Y
Y	Arm.	1	2	1	3	7	5	1	Mark	\$500	Y	?	Y
N	Arm.	1	3	7	4	6	5	2	Mark.	\$20	Y	10%	Y
N	Trad.	4	6	3	2	1	7	3	Vernis.	\$400	?	?	Y
Y	Arm.	2	4	3	7	6	5	1	Store	\$150	Y	10%	?
N	Arm	2	3	1	6	7	4	5	Yerevan	\$10	Y	50%	Y
Y	Arm	7	1	2	5	7	4	6	Store	\$50	Y	20%	N
Y	Trad.	7	1	2	3	5	4	7	Vernis.	\$200	Y	10%	Y
Y	Arm	5	4	3	6	2	7	1	Different	?	Y	?	Y
Y	Arm	1	1	1	7	7	2	1	Market	\$500	Y	20%	Y
Y	Arm	2	4	3	7	7	7	1	Market	\$100	Y	10%	Y
Y	Arm	7	5	3	4	2	6	1	Mark.,Spec.	\$400	Y	20%	Y
Y	Arm	5	4	3	6	2	7	1	Different	?	Y	?	Y
Y	Arm.	1	3	4	7	6	5	2	Store	\$300	Y	15%	Y
N	Ant.	4	6	3	2	5	5	3	Vern.,Store	\$400	Y	10%	Y
N	Arm.	2	4	3	7	6	5	1	Store	\$500	Y	?	Y
N	Arm.	7	5	4	3	2	6	1	Store	\$500	Y	50%	Y
N	Arm.	2	4	3	6	7	5	1	?	\$500	Y	?	Y
Y	Arm	2	3	1	6	7	4	5	Mark.	\$75	Y	10%	Y
N	Arm	7	4	2	5	7	1	6	Store	\$100	?	?	?
Y	Arm	7	6	2	3	5	4	1	Market	\$150	Y	10%	?
Y	Arm	5	4	3	6	2	7	1	Store	\$50	Y	50%	Y
Y	Arm	1	1	1	7	7	7	1	Store	\$50	Y	20%	?
Y	Trad.	2	4	3	7	7	7	1	Vernis.	\$200	Y	10%	?
Y	Arm	1	1	1	7	7	7	1	Market	\$1,000	Y	?	Y
Y	Arm	2	4	3	7	7	7	1	Market	\$100	Y	10%	Y
Y	Arm	7	5	4	3	2	6	1	Mark.,Spec.	\$2,000	Y	20%	Y
Y	Arm	2	3	1	6	7	4	5	Mark.	\$75	Y	10%	Y
Y	Arm.	1	3	4	7	6	5	2	Store	\$650	Y	15%	Y
N	Ant.	4	6	3	2	5	5	3	Vern.,Store	\$400	Y	50%	Y
N	Arm.	2	4	3	7	6	5	1	Store	\$500	Y	?	Y
Y	Arm	2	3	1	6	7	4	5	Mark.	\$150	Y	10%	Y
N	Arm	7	4	2	5	7	1	6	Store	\$1,000	?	20%	?
Y	Arm.	2	1	3	7	6	4	5	Mark.	\$500	Y	5%	Y
N	Arm.	1	3	3	3	3	3	2	Store	\$1,500	Y	20%	Y
Y	Ant.	2	3	1	7	4	5	6	Mark.	\$100	Y	50%	Y
Y	Trad.	4	3	1	7	6	5	2	Store	\$650	Y	15%	Y
Y	Arm.	2	1	5	6	3	7	4	Vern.,Store	\$400	Y	10%	Y
Y	Arm.	1	3	1	7	4	5	2	Store	\$500	Y	?	Y
N	Arm.	1	3	6	4	7	5	2	Store	\$75	Y	10%	Y
N	Arm	4	6	3	2	5	1	3	Vernis.	?	N	10%	?
Y	Arm.	2	1	3	5	7	7	4	Vern.,Store	\$400	N	10%	Y
Y	Arm.	2	7	2	5	6	4	1	Yerevan	\$500	Y	?	Y
N	Arm.	1	3	4	6	7	5	2	Store	\$75	Y	10%	Y
N	Trad.	4	6	3	2	5	5	3	Yerevan	?	?	?	Y
Y	Arm.	2	4	3	7	6	5	1	Vernis.	\$150	Y	10%	N
Y	Ant.	2	3	1	6	7	4	5	Store	\$400	?	10%	Y

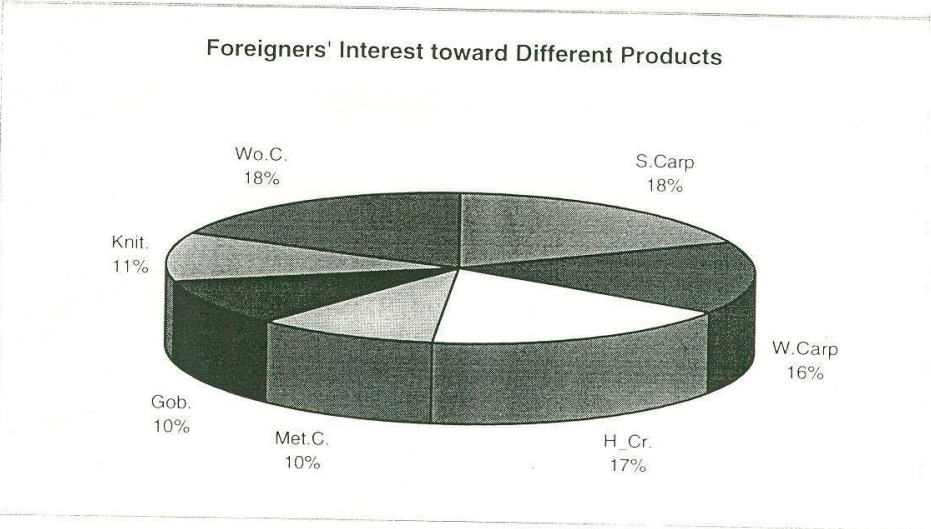
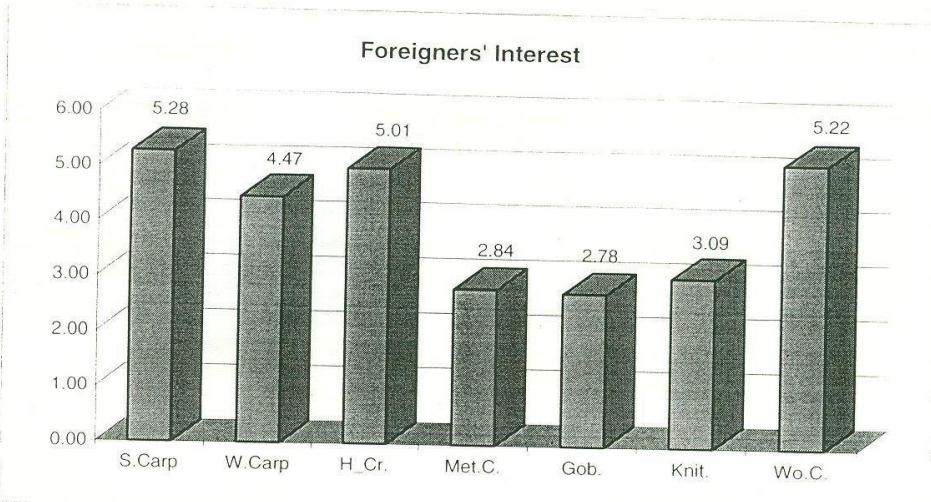


Appendix II

?	Arm	7	4	2	5	7	1	6	Vernis.	\$500	Y			
Y	Arm	2	1	3	7	6	4	5	Mark.	\$100	Y	50%	Y	
Y	Arm	1	3	3	3	3	3	2	Vernis.	?	?	10%	Y	Y
Y	Arm.	2	1	6	5	3	7	4	Vern.,Store	\$400	Y	10%	Y	Y
Y	Arm.	1	4	3	7	6	5	2	Mark.	\$500	Y	?	Y	Y
N	Arm.	1	3	7	4	6	5	2	Mark.	\$75	Y	10%	Y	Y
N	Arm.	4	6	3	2	5	5	3	Vernis.	\$200	Y	50%	?	?
Y	Arm.	2	4	3	7	6	5	1	Market	\$150	Y	10%	N	N
N	Arm	2	3	1	6	7	4	5	Yerevan	\$10	Y	50%	Y	Y
Y	Arm	7	4	2	5	7	1	6	Yerevan	\$50	Y	20%	?	?
Y	Arm	7	6	2	3	5	4	1	Yerevan	\$200	Y	10%	?	?
Y	Arm	7	5	4	3	2	6	1	Mark.,Spec.	\$400	Y	20%	Y	Y
Y	Trad.	2	1	6	5	3	7	4	Store		Y	20%	?	?
Y	Arm.	1	4	6	7	3	5	2	Store	\$650	Y	50%	Y	Y
N	Arm	4	6	3	2	5	5	3	Vern.,Store	\$400	Y	10%	Y	Y
N	Arm.	2	4	3	3	2	6	1	Mark.,Spec.	\$600	Y	?	Y	Y
Y	Arm	2	3	8	6	2	7	1	Different	?	Y	10%	Y	Y
N	Arm	1	4	7	3	6	5	2	Store	\$650	Y	?	N	N
Y	Arm	7	6	2	2	5	5	3	Store	\$400	N	10%	?	?
Y	Arm	5	4	3	7	6	5	1		\$500	Y	50%	Y	Y
Y	Arm	1	2	1	7	6	5	1	Mark.,Spec.	\$500	Y	20%	?	?
Y	Arm	2	4	3	7	6	5	1	Vernis.	\$500	Y	10%	?	?
Y	Arm	1	1	1	6	7	4	5	Store	\$20	Y	?	Y	Y
Y	Arm	2	4	3	5	7	1	6	Vernis.		?	10%	Y	Y
Y	Arm	1	5	4	3	5	4	7	Market	\$150	Y	20%	Y	Y
Y	Arm.	2	3	1	6	2	7	1	Yerevan	\$10	Y	10%	Y	Y
Y	Arm.	1	5	1	7	6	7	1	Yerevan	\$50	Y	?	Y	Y
N	Arm.	1	3	4	2	7	7	1	?	\$200	Y	10%	Y	Y
N	Trad.	2	1	3	7	4	7	5	Market	?	Y	50%	N	N
Y	Arm.	2	4	3	2	7	7	1	Market	\$100	Y	10%	?	?
N	Arm	2	3	1	3	2	6	1	Mark.,Spec.	\$1,000	Y	50%	Y	Y
Y	Arm	1	4	2	7	3	4	5	Mark.	\$75	Y	20%	?	?
Y	Arm	1	6	2	4	7	5	2	Store	\$650	Y	10%	?	?
Y	Arm	7	5	4	2	5	5	3	Vern.,Store	\$400	Y	20%	Y	Y
Y	Ant.	2	3	3	4	5	7	1	Mark.	\$500	Y	10%	Y	Y
Y	Arm.	2	4	3	7	6	5	1	Mark.	\$200	Y	15%	N	N
N	Arm	2	3	1	6	7	4	5	Vernis.	?	?	?	Y	Y
N	Arm.	1	6	2	5	7	4	1	Store	\$500	Y	40%	Y	Y
Y	Arm	2	1	3	7	6	4	5	Mark.	\$75	Y	10%	Y	Y
N	Arm	1	7	4	6	3	3	2	Yerevan	\$400	?	?	?	?
Y	Arm.	2	1	3	7	6	4	5	Mark.	\$500	Y	10%	Y	Y
N	Arm.	1	7	2	3	3	3	2	Mark.,Spec.	\$50	Y	20%	Y	Y
Y	Ant.	1	3	2	4	5	7	6	Store	\$100	Y	50%	?	?
Y	Trad.	4	3	1	7	6	5	2	Store	\$650	Y	15%	Y	Y
Y	Arm.	2	1	6	5	3	7	4	Vern.,Store	\$400	N	5%	Y	Y
Y	Arm.	6	7	5	4	3	2	1	?	\$500	Y	?	Y	Y
V	Arm.	1	3	7	4	6	5	2	Mark.	\$75	Y	10%	N	N
Y	Arm.	2	1	3	7	6	5	4	Mark.	\$50	Y	10%	Y	Y
Y	Arm.	1	4	5	7	6	3	2	Mark.	\$500	Y	30%	Y	Y
##		5.28	4.47	5.01	2.84	2.78	3.09	5.22	28%	\$ 393	86%	19.94%	75%	
		18.4%	15.6%	17.5%	9.9%	9.7%	10.8%	18.2%						



Appendix II



Questionnaire

r Sir/Madame,

project is dedicated to the improvement of the physically impaired people's situation in Armenia and finding means for their employment. Presently they are taught the production of souvenirs in the Professional Rehabilitation Department of the Post-Traumatic Rehabilitation Center in Yerevan. One of the main purposes of our project is to help the PRD to overcome great difficulties concerning the employment of their graduates and in subsequent distribution of their production. Your answers to the questions below will help us greatly in our work. Thank you for your time.

Do you want to participate in helping physically impaired people by buying their production?

- Yes                       No                       Cannot tell

Do you usually buy souvenirs?

- Yes                       No                       Cannot tell

What kind of souvenirs?

- Armenian                      Other (Please, specify) \_\_\_\_\_

Please, grade from 1 to 7 your interest in the following items (1 signifies the best interest):

- \_ Small Carpet
- \_ Wall Carpet
- \_ Handicraft
- \_ Metal Carving
- \_ Gobelen
- \_ Knitting
- \_ Wood Carving

Where do you usually acquire such items?

\_\_\_\_\_

Approximately what amount you would spend for such items annually?

between \_\_\_\_\_

Appendix II

Would you pay more for such items if you knew that the proceeds would go to help the handicapped?

- Yes                       No                       Cannot tell

Yes, how much more?

Up to \_\_\_\_\_ percent of the average price for such an item.

If you knew that there is a shop in Yerevan that sells souvenirs produced by handicapped, and that the proceeds from that sales go for the improvement of their situation, would you go and buy anything in such a shop?

- Yes                       No                       Cannot tell

*answer, please, some questions about yourself.*

Country of origin: \_\_\_\_\_

Age: \_\_\_\_\_

Education: \_\_\_\_\_

Sex

- Male                       Female

What is the purpose of your visit?

- Business               Tourism               Other (Please, specify) \_\_\_\_\_

If "Business" which organization do you represent?

\_\_\_\_\_

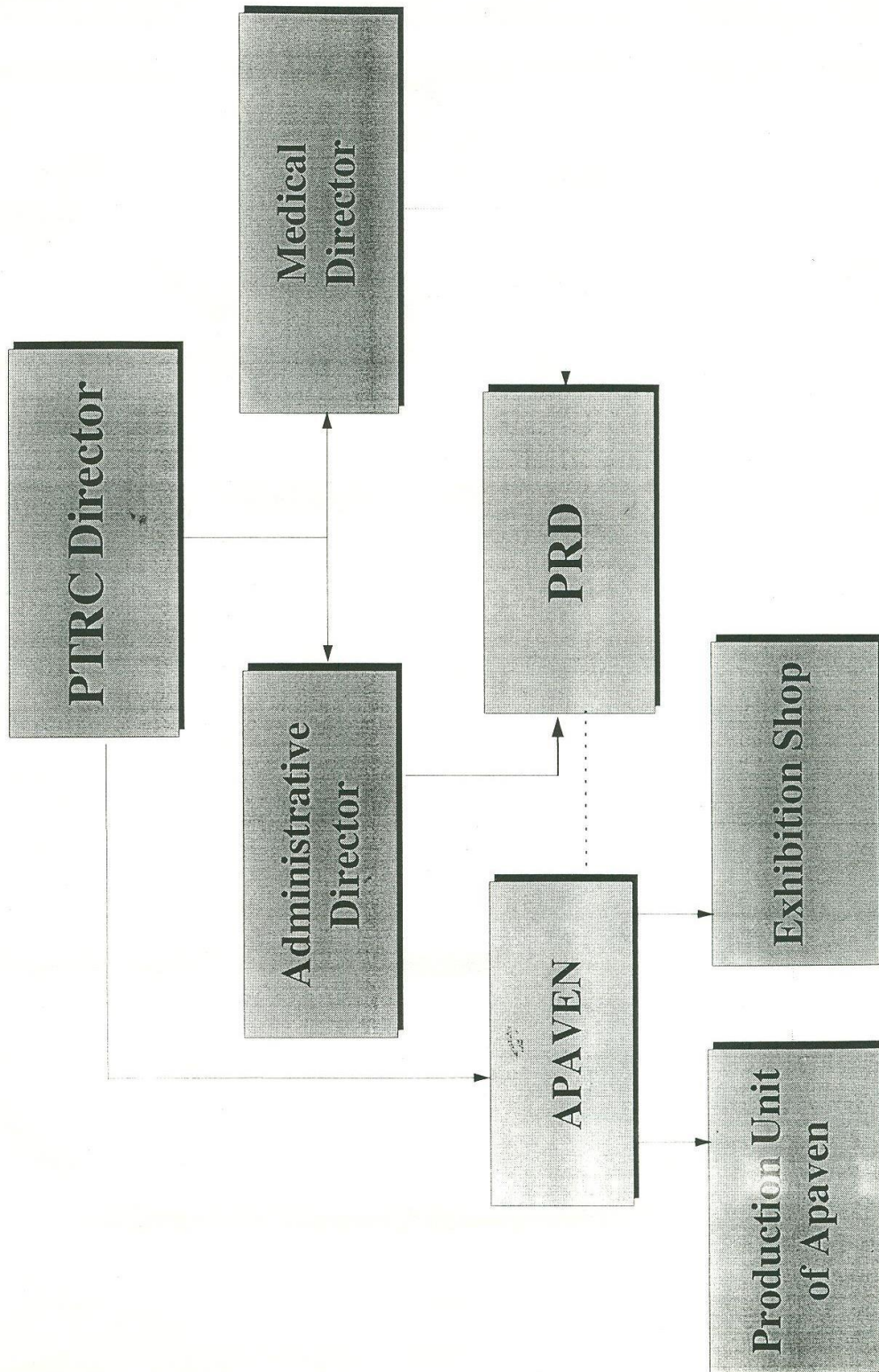
What is the duration of your stay in Armenia? \_\_\_\_\_

Do you plan to come to Armenia again?

- Yes                       No                       Cannot tell



# Organization Chart of Post-Traumatic Rehabilitation Center





ID	Name	Duration	Scheduled Start	Scheduled Finish	er			er																		
					December	January	February	March	April	May																
1	Registration of APAVEN	15d	11/21/94	12/10/94	20	27	4	11	18	25	1	8	15	22	29	5	12	19	26	5	12	19	26	2	9	
2	Getting the start-up investment	20d	11/23/94	12/20/94																						
3	Hiring manager	17d	12/19/94	1/10/95																						
4	Signing the first contract for industry goods orders	8d	1/4/95	1/13/95																						
5	Ordering of materials in production quantities	5d	1/11/95	1/17/95																						
6	Starting of production or operation	5d	1/16/95	1/20/95																						
7	Acquisition of space for the shop	21d	1/4/95	2/1/95																						
8	Delivery on first sale	20d	1/24/95	2/20/95																						
9	Hiring sales manager	25d	1/23/95	2/24/95																						
10	Opening the shop	25d	1/26/95	3/1/95																						
11	Receiving the first payment on accounts receivable	7d	2/24/95	3/6/95																						

### Annual Expected Sales Projection

	Raw materials cost	Labor cost	Total unit cost	Annual Quantity	Annual Labor Cost	Annual Material Cost	Unit Price	Total Variable Cost	Revenue	Gross Profit	Tax on Added Value
<b>Industry Goods</b>											
Linen Sets	\$8.00	\$0.50	\$8.50	7,000	\$3,500	\$56,000	\$9.50	\$59,500	\$66,500	\$7,000	\$1,750.35
Shoes	\$6.25	\$3	\$9.25	200	\$600	\$1,250	\$15	\$1,850	\$3,000	\$1,150	\$291.73
<b>Souvenirs</b>											
40x40 Carpets	\$5.50	\$9	\$14.50	250	\$2,250	\$1,375	\$30	\$3,625	\$7,500	\$3,875	\$1,021.04
Gobelens	\$2.66	\$10	\$12.66	200	\$2,000	\$532	\$30	\$2,532	\$6,000	\$3,468	\$911.52
Sweaters	\$7.37	\$10	\$17.37	250	\$2,500	\$1,842.50	\$30	\$4,342.50	\$7,500	\$3,157.50	\$943.11
Handicraft	\$0.40	\$2	\$2.40	500	\$1,000	\$200	\$5	\$1,200	\$2,500	\$1,300	\$383.41
<b>Total</b>					\$11,850	\$61,199.50		\$73,049.50	\$93,000	\$19,950.50	\$5,301.14

Depreciation	\$517.00
Fixed costs	\$7,200
Taxable Income	\$6,932
Income Tax	\$ 1,040
Net Income	\$5,893

Apaven Enterprise													
Pro Forma Income Statement (Expected)													
for the period March 1, 1995 - March 1, 1996													
	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Annual
Sales Revenue	\$6,967	\$7,437	\$8,142	\$8,612	\$8,612	\$8,612	\$9,082	\$8,612	\$7,437	\$6,732	\$6,262	\$6,497	\$93,000
Less													
Material Cost	\$4,968	\$5,047	\$5,166	\$5,245	\$5,245	\$5,245	\$5,324	\$5,245	\$5,047	\$4,929	\$4,850	\$4,889	\$61,200
Labor Cost	\$729	\$884	\$1,117	\$1,272	\$1,272	\$1,272	\$1,427	\$1,272	\$884	\$652	\$497	\$574	\$11,850
Gross Profit	\$1,269	\$1,505	\$1,859	\$2,095	\$2,095	\$2,095	\$2,331	\$2,095	\$1,505	\$1,151	\$915	\$1,033	\$19,951
Tax on Added Value	\$333.1	\$398.3	\$496.1	\$561.3	\$561.3	\$561.3	\$626.4	\$561.3	\$398.3	\$300.5	\$235.4	\$267.9	\$5,301
Depreciation Expense	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$517
Fixed Cost													
Top Manager Salary	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,000
Sales Manager Salary	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
Advertising	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Utility Expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Maintenance Expense	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Transportation expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Taxable income	\$293	\$464	\$720	\$891	\$891	\$891	\$1,062	\$891	\$464	\$208	\$37	\$122	\$6,932
Income Tax (15%)	\$43.9	\$69.6	\$108.0	\$133.6	\$133.6	\$133.6	\$159.3	\$133.6	\$69.6	\$31.1	\$5.5	\$18.3	\$1,040
Net Income	\$249	\$394	\$612	\$757	\$757	\$757	\$902	\$757	\$394	\$176	\$31	\$104	\$5,893

The tax on added value is computed as follows: (Selling Price - Material Cost) x 0.1667. The seasonality of souvenir production and sales are taken with the following proportion:

Annual Sales Percentage	5%	7%	10%	12%	12%	12%	14%	12%	7%	4%	2%	3%	100%
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<b>Apaven Enterprise</b>		
<b>Pro Forma Balance Sheet (Expected)</b>		
<b>as of March 1, 1996</b>		
<b>Assets</b>		
Current Assets:		
Cash		\$329
Accounts Receivable		\$2,896
Raw Materials Inventory		\$2,385
Finished Goods Inventory		\$1,788
Total Current Assets		\$7,399
Fixed Assets:		
Shop Building	\$15,000	
Less: Depreciation	\$300	
Net Shop Building		\$14,700
Shop Equipment	\$1,000	
Less: Depreciation	\$67	
Net Shop Equipment		\$933
Production Equipment	\$3,000	
Less: Accumulated Depreciation	\$150	
Net Production Facilities and Equipment		\$2,850
Total Fixed Assets		\$18,483
<b>Total Assets</b>		<b>\$25,882</b>
<b>Liabilities and Owner's Equity</b>		
Current Liabilities:		
Accounts Payable		
Accrued Salaries and Wages	\$3,181	
Accrued Taxes	\$200	
Total Current Liabilities		\$3,404
Long Term Liabilities:		
Debt		
Total Long Term Liabilities	\$1,000	\$1,000
Owner's Equity:		
Founder's Equity		\$17,585
Withdrawal	\$2,000	
Retained Earnings		\$3,893
Total Owner's Equity		\$21,478
<b>Total Liabilities and Owner's Equity</b>		<b>\$25,882</b>

Notes: Net earnings of Apaven are counted in Pro Forma Income Statement and are equal \$5,893. Thus, we retained Earnings equal \$3,893 since \$2,000 withdrawal was made. Accounts Receivable equal half a month of shoe and sewing production,  $(\$66,500 + \$3,000) / 24 = \$2,896$ . Raw Materials Inventory is maintained for month average for all the production. Finished Goods inventory is maintained on the level of one week's production for both the souvenirs and industrial goods. Accounts Payable are on the level of twenty days' material. Accrued Salaries and Wages represent salaries of the manager and sales manager for half a month. Depreciation is counted on a straight line bases. The lives are considered to be for the shop building 50 years, for the equipment 15 years and for the production equipment 20 years. This policy allows to have sufficient amount of cash on hand in this case.



Annual Worst Sales Projection

	Raw materials cost	Labor cost	Total unit cost	Annual Quantity	Annual Labor Cost	Annual Material Cost	Unit Price	Total Variable Cost	Revenue	Gross Profit	Tax on Added Value
<b>Industry Goods</b>											
Linen Sets	\$8.00	\$0.50	\$8.50	\$5,000	\$2,500	\$40,000	\$10	\$42,500.00	\$47,500	\$5,000.00	\$1,250.25
Shoes	\$6.25	\$3	\$9.25	\$150	\$450	\$937.50	\$15	\$1,387.50	\$2,250	\$862.50	\$218.79
<b>Souvenirs</b>											
40x40 Carpets	\$5.50	\$9	\$14.50	\$180	\$1,620	\$990	\$25	\$2,610.00	\$4,500	\$1,890.00	\$585.12
Gobelens	\$2.66	\$10	\$12.66	\$180	\$1,800	\$478.80	\$25	\$2,278.80	\$4,500	\$2,221.20	\$670.33
Sweaters	\$7.37	\$10	\$17.37	\$200	\$2,000	\$1,474	\$25	\$3,474.00	\$5,000	\$1,526.00	\$587.78
Handicraft	\$0.40	\$2	\$2.40	\$400	\$800	\$160	\$5	\$960.00	\$2,000	\$1,040.00	\$306.73
<b>Total</b>					\$9,170	\$44,040.30		\$53,210.30	\$65,750	\$12,539.70	\$3,619.01

Depreciation	\$517.00
Fixed costs	\$7,200
Taxable Income	\$1,204
Income Tax	\$180.55
<b>Net Income</b>	<b>\$1,023</b>

Apaven Enterprise													
Pro Forma Income Statement (Worst Expectations)													
for the period March 1, 1995 - March 1, 1996													
	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Annual
Sales Revenue	\$4,946	\$5,266	\$5,746	\$6,066	\$6,066	\$6,066	\$6,386	\$6,066	\$5,266	\$4,786	\$4,466	\$4,626	\$65,750
Less													
Material Cost	\$3,567	\$3,629	\$3,722	\$3,784	\$3,784	\$3,784	\$3,846	\$3,784	\$3,629	\$3,536	\$3,474	\$3,505	\$44,040
Labor Cost	\$557	\$681	\$868	\$992	\$992	\$992	\$1,117	\$992	\$681	\$495	\$370	\$432	\$9,170
Gross Profit	\$822	\$956	\$1,156	\$1,290	\$1,290	\$1,290	\$1,423	\$1,290	\$956	\$756	\$622	\$689	\$12,540
Tax on Added Value	229.92	272.92	337.42	380.42	380.42	380.42	423.42	380.42	272.92	208.42	165.42	186.92	\$3,619
Depreciation Expense	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$517
Fixed Cost													
Top Manager Salary	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,000
Sales Manager Salary	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
Advertising	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Utility Expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Maintenance Expense	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Transportation expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Taxable income	(\$51)	\$40	\$176	\$266	\$266	\$266	\$357	\$266	\$40	(\$96)	(\$186)	(\$141)	\$600
Income Tax (15%)	\$ -	\$ 6.0	\$ 26.4	\$ 39.9	\$ 39.9	\$ 39.9	\$ 53.5	\$ 39.9	\$ 6.0	\$ -	\$ -	\$ -	\$1,204
Net Income	(\$51)	\$34	\$149	\$226	\$226	\$226	\$303	\$226	\$34	(\$96)	(\$186)	(\$141)	\$1,023

The tax on added value is computed as follows: (Selling Price - Material Cost) x 0.1667. The seasonality of souvenir production and sales are taken with the following proportion:

Annual Sales Percentage	5%	7%	10%	12%	12%	12%	14%	12%	7%	4%	2%	3%	100%
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<b>Apaven Enterprise</b>		
<b>Pro Forma Balance Sheet (Worst)</b>		
<b>as of March 1, 1996</b>		
<b>Assets</b>		
Current Assets:		
Cash	\$332	
Accounts Receivable	\$2,073	
Raw Materials Inventory	\$1,706	
Finished Goods Inventory	\$1,264	
Total Current Assets		\$5,375
Fixed Assets:		
Shop Building	\$15,000	
Less: Depreciation	\$300	
Net Shop Building		\$14,700
Shop Equipment	\$1,000	
Less: Depreciation	\$67	
Net Shop Equipment		\$933
Production Equipment	\$3,000	
Less: Accumulated Depreciation	\$150	
Net Production Facilities and Equipment		\$2,850
Total Fixed Assets		\$18,483
<b>Total Assets</b>		<b>\$23,858</b>
<b>Liabilities and Owner's Equity</b>		
Current Liabilities:		
Accounts Payable	\$2,729	
Accrued Salaries and Wages	\$200	
Accrued Taxes	\$0	
Total Current Liabilities		\$2,929
Long Term Liabilities:		
Debt		\$3,000
Total Long Term Liabilities		\$3,000
Owner's Equity:		
Founder's Equity	\$16,906	
Retained Earnings	\$1,023	
Total Owner's Equity		\$17,929
<b>Total Liabilities and Owner's Equity</b>		<b>\$23,858</b>

s: Net earnings of Apaven are counted in Pro Forma Income Statement and are equal \$1,023. Thus, we ned Earnings equal \$1,023 since no withdrawal was made. Accounts Receivable equal half a month s of shoe and sewing production,  $(\$47,500 + \$2,250) / 24 = \$2,073$ . Raw Materials Inventory is maintained for h average for all the production. Finished Goods inventory is maintained on the level of one week's for both the souvenirs and industrial goods Accounts Payable is raised to the level of twenty four days' penses. Accrued Salaries and Wages represent salaries of the manager and sales manager for half a epreciation is count on a straight line bases. The lives are considered to be for the shop building 50 years, for uipment 15 years and for the production equipment 20 years. This policy allows to have sufficient amount of nd in this case.



**Annual Best Sales Projection**

	Raw materials cost	Labor cost	Total unit cost	Annual Quantity	Annual Labor Cost	Annual Material Cost	Unit Price	Total Variable Cost	Revenue	Gross Profit	Tax on Added Value
<b>Industry Goods</b>											
Linen Sets	\$8.00	\$0.50	\$8.50	10,000	\$5,000	\$80,000	\$9.50	\$85,000	\$95,000	\$10,000	\$2,500.50
Shoes	\$6.25	\$3	\$9.25	250	\$750	\$1,562.50	\$15	\$2,312.50	\$3,750	\$1,437.50	\$364.66
<b>Souvenirs</b>											
40x40 Carpets	\$5.50	\$9	\$14.50	300	\$2,700	\$1,650	\$35	\$4,350	\$10,500	\$6,150	\$1,475.30
Gobelens	\$2.66	\$10	\$12.66	250	\$2,500	\$665	\$35	\$3,165	\$8,750	\$5,585	\$1,347.77
Sweaters	\$7.37	\$10	\$17.37	300	\$3,000	\$2,211	\$30	\$5,211	\$9,000	\$3,789	\$1,131.73
Handicraft	\$0.40	\$2	\$2.40	600	\$1,200	\$240	\$5	\$1,440	\$3,000	\$1,560	\$460.09
<b>Total</b>					\$15,150	\$86,328.50		\$101,478.50	\$130,000	\$28,521.50	\$7,280.04

Depreciation	\$517
Fixed costs	\$7,200
Taxable Income	\$13,524
Income Tax	\$ 2,029
Net Income	\$11,496



Apaven Enterprise													
Pro Forma Income Statement (Best Expectations)													
for the period March 1, 1995 - March 1, 1996													
	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Annual
Sales Revenue	\$9,792	\$10,417	\$11,354	\$11,979	\$11,979	\$11,979	\$12,604	\$11,979	\$10,417	\$9,479	\$8,854	\$9,167	\$130,000
Less													
Material Cost	\$7,035	\$7,130	\$7,273	\$7,369	\$7,369	\$7,369	\$7,464	\$7,369	\$7,130	\$6,988	\$6,892	\$6,940	\$86,329
Labor Cost	\$949	\$1,137	\$1,419	\$1,607	\$1,607	\$1,607	\$1,795	\$1,607	\$1,137	\$855	\$667	\$761	\$15,150
Gross Profit	\$1,807	\$2,149	\$2,662	\$3,003	\$3,003	\$3,003	\$3,345	\$3,003	\$2,149	\$1,636	\$1,295	\$1,466	\$28,522
Tax on Added Value	\$459.5	\$547.8	\$680.3	\$768.5	\$768.5	\$768.5	\$856.8	\$768.5	\$547.8	\$415.4	\$327.1	\$371.2	\$7,280.0
Depreciation Expense	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$517
Fixed Cost													
Top Manager Salary	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,000
Sales Manager Salary	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
Advertising	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Utility Expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Maintenance Expense	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Transportation expenses	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Taxable income	\$705	\$958	\$1,338	\$1,592	\$1,592	\$1,592	\$1,845	\$1,592	\$958	\$578	\$325	\$451	\$13,524
Income Tax (15%)	\$105.7	\$143.7	\$200.7	\$238.7	\$238.7	\$238.7	\$276.7	\$238.7	\$143.7	\$86.7	\$48.7	\$67.7	\$2,028.7
Net Income	\$599	\$814	\$1,137	\$1,353	\$1,353	\$1,353	\$1,568	\$1,353	\$814	\$491	\$276	\$384	\$11,496

The tax on added value is computed as follows: (Selling Price - Material Cost) x 0.1667. The seasonality of souvenir production and sales are taken with the following proportion:

Annual Sales Percentage	5%	7%	10%	12%	12%	12%	14%	12%	7%	4%	2%	3%	100%
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Appendix VII

<b>Apaven Enterprise</b> <b>Pro Forma Balance Sheet (Best)</b> <b>as of March 1, 1996</b>		
<b>Assets</b>		
Current Assets:		
Cash		
Accounts Receivable	\$1,293	
Raw Materials Inventory	\$4,115	
Finished Goods Inventory	\$3,398	
Total Current Assets	\$2,500	\$11,306
Fixed Assets:		
Shop Building	\$15,000	
Less: Depreciation	\$300	
Net Shop Building	\$14,700	
Shop Equipment	\$1,000	
Less: Depreciation	\$67	
Net Shop Equipment	\$933	
Production Equipment	\$3,000	
Less: Accumulated Depreciation	\$150	
Net Production Facilities and Equipment	\$2,850	
Total Fixed Assets		\$18,483
<b>Total Assets</b>		<b>\$29,789</b>
<b>Liabilities and Owner's Equity</b>		
Current Liabilities:		
Accounts Payable	\$2,719	
Accrued Salaries and Wages	\$200	
Accrued Taxes	\$776	
Total Current Liabilities		\$3,695
Long Term Liabilities:		
Debt	\$0	
Total Long Term Liabilities		\$0
Owner's Equity:		
Founder's Equity	\$18,598	
Withdrawal	\$4,000	
Retained Earnings	\$7,496	
Total Owner's Equity		\$26,094
<b>Total Liabilities and Owner's Equity</b>		<b>\$29,789</b>

Notes: Net earnings of Apaven are counted in Pro Forma Income Statement and are equal \$11,496. Thus, we retained Earnings equal \$7,496 since \$4,000 withdrawal was made. Accounts Receivable equal half a month of shoe and sewing production,  $(\$95,000 + \$3,750) / 24 = \$4,115$ . Raw Materials Inventory is maintained for month average for all the production. Finished Goods inventory is maintained on the level of one week's production for both the souvenirs and industrial goods. Accounts Payable are on the level of twelve days' material purchases. Accrued Salaries and Wages represent salaries of the manager and sales manager for half a month. Depreciation is counted on a straight line bases. The lives are considered to be for the shop building 50 years, for the equipment 15 years and for the production equipment 20 years. In the best case Apaven has paid the debt back. Inventory allows to have sufficient amount of cash on hand in this case.

Annual Breakeven Sales Projection											
	Raw materials cost	Labor cost	Total unit cost	Annual Quantity	Annual Labor Cost	Annual Material Cost	Unit Price	Total Variable Cost	Revenue	Gross Profit	Tax on Added Value
<b>Industry Goods</b>											
Linen Sets	\$8.00	\$0.50	\$8.50	4,500	\$2,250	\$36,000.00	\$9.50	\$38,250.00	\$42,750	\$4,500.00	\$1,125.23
Shoes	\$6.25	\$3	\$9.25	170	\$510	\$1,062.50	\$15	\$1,572.50	\$2,550	\$977.50	\$247.97
<b>Souvenirs</b>											
40x40 Carpets	\$5.50	\$9	\$14.50	150	\$1,350	\$825.00	\$25	\$2,175.00	\$3,750	\$1,575.00	\$487.60
Gobelens	\$2.66	\$10	\$12.66	150	\$1,500	\$399.00	\$25	\$1,899.00	\$3,750	\$1,851.00	\$558.61
Sweaters	\$7.37	\$10	\$17.37	110	\$1,100	\$810.70	\$25	\$1,910.70	\$2,750	\$839.30	\$323.28
Handicraft	\$0.40	\$2	\$2.40	391	\$782	\$156.40	\$5	\$938.40	\$1,955	\$1,016.60	\$299.83
<b>Total</b>					<b>\$7,492</b>	<b>\$39,253.60</b>		<b>\$46,745.60</b>	<b>\$57,505</b>	<b>\$10,759.40</b>	<b>\$3,042.51</b>

Depreciation	\$517.00
Fixed costs	\$7,200
Taxable Income	(\$0)
Income Tax	(\$0)
Net Income	(\$0)



Apaven Enterprise Pro Forma Income Statement (Breakeven) for the period March 1, 1995 - March 1, 1996	
Sales Revenue	\$57,505.00
Less	
Material Cost	\$39,253.60
Labor Cost	\$7,492.00
Gross Profit	\$10,759
Tax on Added Value	\$3,042.51
Depreciation	\$517.00
Fixed Costs	
Top Manager Salary	\$3,000
Sales Manager Salary	\$1,800
Advertising	\$600
Utility Expences	\$600
Maintenance Expense	\$600
Transportation expenses	\$600
Taxable income	(\$0)
Income Tax (15%)	\$0
Net Income	(\$0)

The tax on added value is computed as follows:  
 $(\text{Selling Price} - \text{Material Cost}) \times 0.1667$



Apaven Enterprise												
Statement of Cash Flows (Expected)												
for the period of March 1, 1995 - March 1, 1996												
	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Cash Flows from Operating Activities												
Net Income	\$249	\$394	\$612	\$757	\$757	\$757	\$902	\$757	\$394	\$176	\$31	\$104
Increase in Accounts Receivable	\$0	(\$2,896)	(\$50)	\$70	\$55	(\$40)	(\$30)	\$10	\$35	\$10	\$20	(\$80)
Increase in Inventories	(\$99)	(\$39)	(\$59)	(\$39)	\$0	\$0	(\$39)	\$39	\$99	\$59	\$39	(\$20)
Decrease in Accounts Payable	(\$100)	(\$10)	(\$10.0)	(\$20.0)	\$0.0	\$30.0	\$20.0	\$20.0	\$10.0	(\$10.0)	(\$20.0)	(\$30.0)
Decrease in Accrued Wages	(\$200)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Increase in Deferred Income Taxes	\$377	\$468	\$674	\$872	\$695	\$829	\$1,053	\$695	\$602	\$535	\$241	\$292
Net Cash Inflow from Operating Activities	\$227	(\$2,083)	\$1,166	\$1,640	\$1,507	\$1,576	\$1,906	\$1,522	\$1,139	\$771	\$312	\$266

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