Handmade Greeting Card Company

Heartsongs

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Kansas City, MO 64106

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Heartsongs is a start up company that will begin operations in September of 2005. Currently, the company is developing its product lines, creative designs, inventory, and distribution base. The first Heartsongs samples/portfolio will be available by May 2005 and they will be used to target boutiques and charities within the Kansas City Metro area. Our main consumer base will be primarily women, as they purchase roughly 80% of all cards sold, and for this reason we will sell Heartsongs to small boutiques, specialty stores, florists, and gift shop owners. At this time, we are seeking several boutiques and non–profits within the Kansas City area who might be interested in carrying Heartsongs. They are awaiting the first preview of our portfolio.

The following business plan provides information regarding our product description, management and growth strategies, and financial objectives. The plan is intended to provide you with information regarding Heartsongs so that you might offer us your expertise as we seek to better our plan and business goals/objectives.

EXECUTIVE SUMMARY

What was once a creative hobby for two sisters and a central part in their efforts to stay in touch has turned into a passion, as the two sisters spend hours designing, stamping, cutting, and assembling, habitually filling each other's mailbox with cards and envelopes. This passion for cards has spread to other individuals as well, as these sisters are now skillfully creating cards that are handcrafted, personalized, and unique so that the others might benefit from and enjoy such a gift. Handwritten cards are a means of communication that touch lives, as they distinctly identify thoughts, words, and activities; they comfort, inspire, celebrate, and stir a vast range of emotions. Heartsongs is a business whose motivation is to craft that "special" card with tender hands, so that others might also be able to celebrate those meaningful moments, express their innermost thoughts, and communicate with those they cherish. Greeting cards are one of our culture's foremost tools of communications, and the greeting card industry has a constant and continual need for art and alternative designs.

Heartsongs is a newly founded organization incorporated as a limited liability company located in Kansas City, Missouri. The company's sole product is a collection of hand made greeting cards consisting of three different product lines. Heartsongs is committed to creating the finest hand made greeting cards available; each card being designed and assembled with great care by individuals who have an eye for detail. Our objective is to create hand made greeting cards, for every occasion, of unmatched quality, originality, and uniqueness. We are committed to creating an exceptional product, as our product is a direct reflection of our name and our philosophy. We want our customers to make a statement when they use our greeting cards, expressing our tagline, "Let Your Heart Sing". We have a strong work ethic that is at the core of our commitment to the values of respect, integrity, fairness, and responsibility.

Objectives

To create hand made greeting cards, for every occasion, of unmatched quality, originality, and uniqueness.

Mission

Heartsongs is committed to creating the finest hand made greeting cards available. Each card being designed, embossed, stamped, cut, and assembled with great care by individuals who have an eye for detail.

Tagline Motto

Let Your Heart Sing

Philosophy

Crafting hand made cards which create a memory, stir emotion, and touch the lives of others.

OPERATIONS

Company Name

Heartsongs

Legal Title (pending)

Heartsongs, L.L.C.

Legal Business Form (pending)

Heartsongs is incorporated as an LLC.

Management Summary

Heartsongs' management team currently consists of a CEO, a Director of Business & Organizational Development, and a Director of Product Design. Research, business and product development, and financial analysis/feasibility have been completed by both the CEO and the Director of Business & Organizational Development; all additional help has come primarily from the advisory board, legal advisors, and academics.

- Martha Ritter, President & CEO
- Caryn Thomas, Director of Business & Organizational Development
- Frances Black, Director of Product Design

The President & CEO, Martha Ritter, has been a wife for 27 years and mother of two children ages 21 and 17. Currently, she lives in Kansas City, MO and is working at St. Patrick's Christian Academy as an Administrative Assistant to the Guidance Department, Special Services Department, and College Department. She is a registered nurse by education and had worked 18 years in the medical field concentrating mostly in Oncology. She has always had a desire to be creative; enjoying stenciling, sewing, scrap–booking, wreath–making, and home decorating. In the past five years, she has created hand made cards for her family and friends to enjoy, all the while having people tell her that she should start a card business. She feels that now is the time to get started and is looking forward to the next adventure in her life.

The Director of Business & Organizational Development, Caryn Thomas, is a student at Saint Louis University, graduating, with honors, in May 2005. She has selected majors in both International Business &

Management, and will also be receiving a certificate in Service Leadership. Caryn possesses excellent writing and critical–thinking skills, as well as, a commitment to the challenge of Management, Public Relations, International Business, and Marketing activities. Her experience stretches domestically and abroad as she has both lived and traveled internationally, receiving a variety of cultural viewpoints concerning various ethnicities. While studying at the University, a variety of course work and campus involvement has allowed her to gain leadership, team experience, and public relations skills, and has helped to develop her organizational ability in order to maintain a sense of balance.

Extracurricular activities and work experience has led Caryn to actively volunteer at Employment NOW, where she has been given the opportunity to write annual reports, serve as an assistant to the director of operations and development, and promote strategies for sponsorship, grants, and new clientele. During the summer of 2004, she served as an intern/assistant to the Director of International Strategies at the RCA Dome, Indianapolis and was able to broaden her experience and sales/marketing knowledge through communication with local and international clientele and new member prospects, performing market research, assisting with responses to foreign business inquiries, and assimilating/summarizing international business contracts. Currently, she serves as an intern at Federal Bank's corporate office, gaining experience in both product management and the banking industry, while continuing weekly at her second job at Thai Bistro.

Director of Product Design, Frances Black, is the sister of Martha Ritter and aunt of Caryn Thomas. She has been a wife for 26 years and is a mother of two daughters. Residing in Ann Arbor, Michigan, she works two days per week as a public health nurse. Her off days are filled with creative design as she, like her sister, makes hand made cards and is a home decorator; she also serves as a mentor and a design coordinator for local events within the Ann Arbor community. She sees her creative background and the ambitions of her sister as a means of achieving her goal of working towards and participating in a small business.

Management-Business Ownership

Although there are three members of Heartsongs management team, each with their own title, the ownership of the business is not evenly distributed throughout the team. President & CEO, Martha Ritter will maintain 95% ownership of the business as she will be responsible for funding and growing the business over its first 3 years in existence. Martha will carry out the day–to–day activities of the business, complete a large majority of the inventory, be responsible for locating distributors within the Kansas City metro area, and manage a large portion of the finances and operations of the business. Director of Product Design, Frances Black will maintain 5% of the business as her main contribution towards Heartsongs startup initiatives and initial business will involve only creative product design inputs. The 95/5 ownership split between these two women will go unchanged within the first three years, and will only be altered in accordance with labor/product inputs and/or when Heartsongs shifts its focus to new locations within Ann Arbor, Michigan. Director of Business & Organizational Development, Caryn Thomas, will require and claim absolutely no ownership of the business as her only role is developing the business plan and growing the business in its infancy. She contributes little by way of creative input, labor, and operations of the business long–term.

Board of Advisors

These individuals have been added as members of the advisory board to serve as a complementary management team. These individuals are professionals who have expertise and/or knowledge of business planning, finance, business development, marketing, and design. Advisory members are as follows:

1. Fred Pryce-Pryce's Construction Materials, Inc. Experienced product manager and business planner.
2. Deborah & Bonnie Plaint-Bonnie Plaint's Boutique. Experienced boutique owners/managers.
3. Additional Advisors will be those who have experience within boutiques, as they possess both industry and product knowledge.

Outside Management & Support

CPA/Accountant-Greer & Associates

1. Maintain the books and financial records
2. Recommend and advise on finances and taxes
3. Certify validity of financial statements

Corporate Attorney-Interviews are underway to determine the appropriate law firm

1. Prepare and file necessary legal documentation
2. Secure trademark-name, tagline, & icon

Design Team-as needed

Martha Ritter & Frances Black will initially be the sole members and contributors of the design team

Staffing & Recruitment

Individuals subcontracted or hired as necessary, based upon the growth of the company and/or the unexpected need for additional inventory. Martha Ritter & Frances Black are currently the only staff determined as necessary to fulfill and maintain demand within the first 3 years of business.

COMPANY HISTORY

The inspiration of turning a hand made greeting card hobby into a successful business was conceived in August of 2004 between the CEO, Martha Ritter, and Director of Business & Organizational Development, Caryn Thomas, after reading of the opportunities available for female entrepreneurship. Martha had been looking for a new and unique challenge after being unfulfilled in her current job at a local private high school. She enjoyed the luxury of staying at home when she had raised her two children, and was looking once again for the chance to return home, yet did not wish to forgo the extra income.

Martha and Caryn had found that most of the women who started their own businesses were just everyday adults, teens, or kids living normal lives, however, all sharing a similar motivation. All the women who were able to attempt and/or successfully run their own business dared to strive for something they were passionate about, letting the learned abilities come along with the trial and error of pursuing their own small business and dreams. Martha realized what she was passionate about was her own crafts and artistic ability; more specifically, creating cards.

The stamping and crafting of hand made greeting cards had actually begun as a hobby between Martha and her sister, Frances Black, who used this activity as a central part of their efforts to stay in touch. The two habitually designed and assembled their own cards that became a signature item given to family and friends. Craft rooms were soon created in each woman's home as supplies and inventory grew. This leisurely hobby has now become an obsession, and the thrill of becoming an entrepreneur along with the challenge of making their business a success is the driving force behind Heartsongs creation.

Heartsongs is a start up company that will begin operations by the end of 2005. Currently the company is creating its portfolio and initial inventory, stocking/gathering necessary and additional supplies, and securing boutique locations and philanthropic placement. The preliminary Heartsongs inventory will be complete by May 2005 and available for retailers and consumers within the months following. During the first year, the company is only targeting the Kansas City metro area, as it is the location where the management team will have the most control. We will be directing our attention towards several boutiques, craft fairs, individual salespersons, and charitable events that may have an interest in distributing Heartsongs; however, such groups are awaiting the first preview of the available line. Within the years which follow initial start up, Heartsongs may move into boutiques within Ann Arbor, Michigan because that is the second location of greatest management influence/command. However, a set of boutiques, craft fairs, and individuals remain to be fully

explored with the Kansas City area, and once performance within the region is determined only then will a shift to Ann Arbor be fully considered. A definite list of retailers, contingency agreements, and contracts will be locked down in the months prior to Heartsongs finalization of its necessary start up inventory (primarily between the months of May–August). Heartsongs is committed to creating the finest hand made greeting cards available. Each card being designed, embossed, stamped, cut, and assembled with great care by individuals with an eye for detail. Heartsongs … Let Your Heart Sing.

PRODUCTS

Heartsongs is a company which meticulously creates hand made cards and envelopes by individuals with an eye for detail; allowing its customers to expect nothing less than the extraordinary. Each card is hand–embossed or hand–stamped on only the finest papers and card stock available; designed, embossed, stamped, cut, and assembled with great care, making them an original gift, much to the enjoyment of each recipient. Heartsongs creates a product which is just as distinctive, personalized, and unique as the greeting written inside.

Product Features

- Design-Our greeting cards are more than simply cards or computer generated stationery, rather each and every greeting card is seen as a hand made work–of–art. The message is seen at Heartsongs to be an emotional piece of one–self and that is why Heartsongs seeks to provide the best representation of thoughtfulness and character with each and every hand made card.
- Quality-Martha Ritter and Frances Black are creative and extremely talented artists who construct all greeting cards completely by hand. There are no machines involved in the process of making these hand made greeting cards; rather, each card is hand cut, hand stamped, and hand wrapped before being delivered to the customer.
- Craftsmanship-While manufactured greeting cards are generally designed by artists or computer–generated before being printed in mass quantities in factories oversees, all of Heartsongs' products and greeting cards are hand made within the U.S., stamped by the design team, and delivered in a timely manner.
- Customization/Personalization-Heartsongs is happy to discuss any means of personalization or customization of a batch of cards, as our design team is adept in creating those cards which meet the desires and tastes of each individual customer, boutique owner, and/or non–profit organization.

Because Heartsongs creates a product which is both unique and incredibly time–consuming all of the items within the line possess unmatched beauty and charm. Both the embossed and stamped designs offer a spectacular variety of texture, color, and appearance that cannot be generated in mass quantities. The company will initially offer three main products which are intended to appeal to a variety of individuals with very different personalities, preferences, and buying power.

- Boxed Sets-Ideal for the individual who composes a number of cards and does a significant amount of correspondence. Such an individual enjoys color, variety, and a uniqueness that expresses his/her own personal style and character. Boxed sets are sold in groups of 10, and likewise have 10 variations in both simplistic and elaborate designs; Christmas and Valentine's Day are the only holidays available in a boxed set. The designs will change and be updated quarterly. Invitations and place cards are specialty cards which will only be available in boxed sets. Boxed sets will sell at two different price points. Simplistic sets will sell for $15.00 and elaborate sets will sell for $20.00. The differences between simplistic and elaborate boxed sets vary and are determined by the supplies used and labor involved in creating the cards.
- Individual Cards-Designed for those individuals who pride themselves on finding just the "right" card for any occasion. Individual cards have multiple variations under the following categories: Holiday (Christmas, Father's Day, Mother's Day, Valentine's Day, and Graduation), Anniversary, Baby, Congratulations, Encouragement, Get Well, Love/Marriage, Miss You, Sympathy, Thank You, and Just

for Fun. These individual card categories were selected as they are the most demanded themes and cover the largest variety of topics; such categories will also allow Heartsongs to expand its card lines as demand increases. The individual card line commands a much more progressive variety in both simplistic and elaborate cards, priced $5.00 and $7.00 respectively.

- Personalized/Custom Cards-Designed for the individual that wants a personal touch of elegance and a card which will suit his/her tastes or will make a much desired statement. This individual exudes a longing for value, quality, and a look like no other. Such personalized/custom cards will be collectively designed by both the customer and the design team, and then constructed in a fashion that is timely and meets the exact and perfect requirements of the customer. Personalized/Custom Cards can only be purchased in boxed sets of three or more. It is important to note that specific boutiques may require a specific card that fits the niche and/or style of the shop; such requests will be managed by the design team and the boutique owner/manager and laid out within the contract. Price for such card sets will vary and be determined on the basis of the supplies necessary and the labor involved in order to complete the order.

COMPETITION

Greeting cards are already in existence within the marketplace and greeting card companies are pursuing our same clientele as they too can be found in our target boutiques. Such cards vary from computerized, mass–produced, and hand made cards which range in price from $.50-$8.50. Industry leaders are the familiar Hallmark, Inc. and American Greetings companies; also, in addition to paper cards, some companies have adapted to Internet demand and make available many lines of cards intended for electronic transmission.

Alternative greeting card companies, such as ourselves, design and publish greeting cards for all occasions and in many varieties, targeting our sales toward a specific niche; there is however, quite a bit of variation in terms of price, quality, and locations of such companies. Nevertheless, in instances of both industry giants and alternative companies, these cards and many of the lines produced by these card companies are published for mass sale, leaving hand–crafted cards and other one–of–a–kind crafted cards intended for individual sale, on a much smaller scale both competitively and in terms of market share. As the marketplace is becoming more diverse and small vendors/boutiques continue to seek new ways of meeting the needs of their customers and increase sales, Heartsongs and its closest competitors seek to provide the market with a new and fresh choice/alternative. A recent survey conducted for Greetings etc. (Greeting Card Association) polled retailers on numerous topics related to their business, from which product category has been selling best to what their top–selling license consisted of. Their answers provided few surprises, but did offer a snapshot of which products are doing best on their shelves. When asked whether retailers had seen an increase or decrease in certain product categories in the last 12 months, by far the category that respondents mentioned most as seeing an increase in is greeting cards; greeting cards and boxed cards were also most mentioned as the product category that retailers plan to add to their store in the next 12 months.

Heartsongs has identified five major competitors within the St. Louis metro area, all of which create hand made cards and are currently distributing their product in local boutiques. Although all of the cards being produced by our closest competitors are hand made, the creative designs and price vary greatly. The four identified and most aggressive competitors of Heartsongs are Open Please Cards, Ribbons and Bows, Pulp Products, and Peter's Cards. Heartsongs is currently updating its cards so that it might be a distinctive hand made card company which offers a product that is far different, by design, than its competition.

Competitive Advantages

What separates Heartsongs from everyone else is our commitment to design, quality, customization, and impractical replication. Our company seeks to continuously seek out the newest trends and incorporate them into our product, never compromising the use of the best products, technique, and artistic craftsmanship. Heartsongs also provides a unique pricing and product structure so that we can sell our cards in a manner that

is compatible with the market and does not upset our boutiques/retailers. Heartsongs understands that the success of individual boutiques depends on the specialty store's own uniqueness of product; as distinguished product offerings allow each boutique the ability to differentiate itself from another. The creative ability of the design team allows Heartsongs to be extremely adaptable to the market and in its desired areas of distribution; this adaptability is one specific area of Heartsongs exclusivity. Heartsongs understands the objective and the related success of boutiques as each seeks to offer a specialty good and in doing so fill a specific market niche. The design team at Heartsongs is unlike the teams of many other card makers as they possess the creative ability and flexibility in order to match the product niche of a specific boutique; such adaptability allows Heartsongs to enter various boutiques and markets, all the while keeping a uniqueness of product with very few repetitive designs. By understanding the product, objective, and niche of each individual boutique, Heartsongs hopes to become a dominant card maker within boutiques in the Kansas City metro area. Heartsongs is determined to stay one step ahead of the other hand made card makers by incorporating both trends and concentration of consumers and retailers. By maintaining and deepening Heartsongs relationship with its small business distributors, Heartsongs will be recognized by boutique owners as a company that is committed to uniqueness of product, as a result, offering a product which their customers desire as it matches the theme/niche of each specific store. It is Heartsongs loyalty to its specialty store distributors and its creative ability to small market scope that allows Heartsongs to gain the competitive advantage.

Aside from Heartsongs adaptability to specific boutique niche, Heartsongs has gained an advantage over other hand made card distributors by targeting non–profit organizations and local charities. Heartsongs is targeting this market because of each charity's distinct mission and reoccurring fundraisers/events. Heartsongs seeks to meet the need of these charities by offering its services for mailing distributions, adapting to the uniqueness of each charity and theme of the event/fundraiser in order to create a card/mailing which will gain the desired result.

We understand the importance of valuing the relationships of both our customers and boutique owners, priding ourselves on customer service and quality assurance; therefore, if our cards do not live up to these standards, we give our customers our guarantee that we will do everything in our ability to rectify the problem and satisfy those most important to us.

PRODUCTION

Heartsongs is dedicated to its vision and the maintenance of quality, originality, and uniqueness in all of it products; therefore, absolutely every card which is produced will be designed and crafted by hand. We feel that Heartsongs is an exceptional company because it prides itself in its hand made and hand crafted ability; therefore, we would never wish to compromise its standards.

Heartsongs productions are currently operating under the sole discretion and preparedness of the two individuals of the design team, and they will be the only producers of cards through the first few years of existence; Martha Ritter being held responsible for roughly 95% of all production within the first three years. However, as the company develops production, and ultimately business ownership, will balance between the two members of the design team. Additionally, supplementary designers/employees may be needed to in order to maintain adequate production and growth of the company.

Once Heartsongs establishes itself and its orders are large enough, we will review our method of supply. At present, all of our supplies come directly through retail stores within the Kansas City, Missouri and Ann Arbor, Michigan metro areas. We realize this is costly and as a result decreases our profit margins, however, it is necessary as our sales and demand have not yet been fully utilized or determined; nonetheless, as we develop, we seek to make a majority of our supply purchases from various wholesalers and card stock suppliers. Specific wholesalers that Heartsongs is considering are online distributors: PaperProducts.com, JosephLittle.com , and CraftySupplies.com .

The subsequent tables/spreadsheets, within the financial statements, will reveal the production cost that

Heartsongs will incur as well as the profit margin for each individual card and/or boxed set sold; this production cost assumes that all supplies are purchased directly through retail stores.

MARKET ANALYSIS

Market Opportunity

After researching and analyzing the market, the founders of Heartsongs have determined that our hand made cards can compete in the greeting card market, especially when positioned in high–end boutiques and specialty stores which are known for commanding a higher price for higher quality items. Heartsongs desires to have a name that is recognizably known for quality, originality, and uniqueness; delivering a product which is far different than those cards which are computerized, mass produced, and/or hand made. Our cards will be sold in boutiques and specialty stores, as such stores sell only those unique and specialty goods; these stores will allow us to gain name recognition so that we will be much more recognizably known as a source of our greeting cards and an alternative selection.

Industry Analysis

Heartsongs falls into a category with a variety of other businesses in the greeting card industry; SIC code 2771 and NAICS code 511191. In 1997, the Census Bureau compiled the following table with regards to greeting card publishers (http://www.census.gov/epcd/ec97sic/def/I2771.TXT).

Greeting card industry analysis

Year	Establishments	Revenue, in thousands	Annual payroll, in thousands	Number of paid employees
1997	106	5,338,986	1,262,869	20,518

Research done by the Greeting Card Association has pointed to specifics about the greeting cards industry; such facts are as follows:

1. The greeting card industry generates more than $7.5 billion in retail sales from consumer purchases of more than 7 billion cards.
2. Of the total greeting cards purchased annually, roughly half are seasonal, and the remaining half is for everyday card–sending occasions.
3. Christmas is the most popular card–sending holiday; sales of Christmas cards account for over 60% of all seasonal card purchases. Sales of Valentine's Day cards (the next most popular season occasion) account for 25% of seasonal card sales.
4. Birthday cards account for 60% of the sales volume of everyday card purchases, with anniversary cards following at a distant 8%.
5. Most American households purchase 35 greeting cards each year.
6. The average American receives 20 cards, of which one third are birthday cards.
7. Women purchase more than 80% of all greeting cards.
8. There are over 2,000 greeting card publishers in America, ranging from small family businesses to major corporations, many of which license designs from freelance artists.

Not only does Heartsongs fall within the greeting card industry, SIC 2771 and NAICS 511191, but it is also within a category for independent artists and services, SIC 8999. In 1997, the Census Bureau compiled the following table with regards to Services, Independent Artists.

Independent artists services industry analysis

Year	Establishments	Revenue, in thousands	Annual payroll, in thousands	Number of paid employees
1997	5,729	2,200,797	935,019	12,366

With regards to Services, Independent Artists (SIC 8999) the Census Bureau (http://www.census.gov/epcd/ec97sic/def/I8999.TXT) classified it as follows:

1. Establishments primarily engaged in furnishing scientific or related consulting on a contract or fee basis.
2. Establishments primarily engaged in writing books and articles; composing music; painting; sculpturing; and in similar creative arts–related activities.
3. Establishments primarily providing services not elsewhere classified, such as lecturers, radio commentators, editors, and inventors working on their own account.
4. Establishments primarily engaged in environmental consulting on a contract or fee basis.

Customer Profile & Analysis

Heartsongs is looking to provide a product which is distinguishable from other greeting cards available within the market. In doing so, Heartsongs will express a desire for uniqueness for those who enjoy the finer things in life and are committed to inspire, celebrate, and communicate a range of emotions through greeting cards. Therefore, Heartsongs is targeting a specific customer who is looking for merchandise that is unique and not mass produced. Heartsongs has compiled a list of data primarily from the Census Bureau and has correlated the information as to match demographic characteristics with specific consumer behavior patterns. Heartsongs looked primarily to the profile and demographics of those within Kansas City, since that is the focus of business within the first 3 years.

There are 5,505,963 people within Missouri, 2,658,831 are male and 2,847,132 are female; roughly 2,361,500 fall within a bracket of 25–55 year olds. Among these individuals, 1,513,836 live within family households and 205,975 falls within Heartsongs targeted household group with an income of $100,000 and over. The median household income within Missouri as a whole is $49,853 (2002 Census Bureau data). The individuals within our targeted segment enjoy a high–quality, healthy, and active lifestyle full of outdoor activities and travel; many of whom are technologically savvy, highly networked, possess a variety of hobbies and interests, donate to charitable causes, and enjoy arts, crafts, and collectibles (Lifestyle Market Analyst).

Boutique Profile & Analysis

Boutiques are defined as small stores that sell specialty goods or services, and because they carry specialty items they often sell their products at a premium. Boutiques, according to the national census, are in a category of gift, novelty, and souvenir stores which are primarily engaged in retailing new gifts, novelty merchandise, souvenirs, greeting cards, seasonal/holiday decorations, and curios (SIC 5947 & NAICS 453220). In 1997, data was taken on such specialty stores and it is outlined within the table that follows.

Specialty stores industy analysis

Year	Number of establishments	Revenue, in thousands	Annual payroll, in thousands	Number of paid employees
1997	37,285	14,497,296	2,056,666	208,371

Of those nationally established boutiques, Missouri has 775 whose annual sales are over $292,262,000 (2.02% of national sales); this profile provides Heartsongs with a large retail base of distributors.

It is important to note that the customers we are targeting would fit the profile of those customers shopping at boutiques, as they are the individuals who live within the upscale/suburban areas where many boutiques are located; these are also the individuals who can afford such specialty goods.

MARKETING & SALES

Heartsongs overall marketing strategy is promoting quality, creativity, originality, and uniqueness in order to build a strong brand image. We believe that creating and protecting our brand image is of utmost importance as it is an image that is committed to creating the finest hand made greeting cards available. We understand that we must first prove our product in the boutique arena in order to build our brand; therefore, we will focus on exceptional design, assembly, care, quality, customer service, delivery, and new product development within our retail markets. Once a strong customer base has been developed and strengthened we will begin to focus our attention to a wider variety of hand made cards and stationary and/or on–line clientele which will be a strong secondary market.

Marketing Approach

Heartsongs is taking an approach which is more than strictly sales, where the customer exists for the business, rather our mindset and marketing outlook states that the business exists for the customer. The marketing concept is a management plan that views all marketing components as part of a total system that requires effective planning, organization, leadership and control. Market research has been compiled to help us define our business for our customer's interests, not our own. It is the process of learning what customers want or need and determining how to satisfy those wants or needs. The dilemma for Heartsongs' management is that, properly done, market research is quite expensive, takes time, and often requires professional expertise. Based on our limited budget, we are going to have to develop the skills to hear what our customers and potential customers are telling us. Some techniques we considered are as follows:

1. User and focus groups
2. Informal surveys
3. Suggestion boxes
4. Comparison shopping
5. Customer analysis

Boutique/Retail Sale & Charities

Once Heartsongs becomes a more common brand name and boutiques begin to know us better and understand the unique differences of our product, then specialty stores will be able to differentiate themselves from other card carriers as they stock the Heartsongs line. We have identified the type of consumer boutiques where we wish our greeting card line to be available and such stores will be targeted through direct mail, phone conversations, and personal appointments. The boutiques and specialty good businesses that we are currently looking into are as follows:

1. Red Flower-Three locations within the Kansas City metro area
2. Cloverleaf-One location within the Kansas City metro area
3. Lizzy Libby-One location within the Kansas City metro area
4. Stems and Petals-One location within the Kansas City metro area
5. Cards and Paper-Two current locations & one location on the way within the Kansas City metro area
6. Stuck on Ourselves-One location within the Kansas City metro area
7. Bunches and Bushels-One location with 8 other surrounding boutiques under different names, but the same ownership
8. Home Sweet House-One location within the Kansas City metro area
9. Sweet Pea-One location within the Kansas City metro area

10. Maggie & Jack-One location within the Kansas City metro area
11. Fruit Salad-One location within the Kansas City metro area
12. Little Children's Boutique-One location within the Kansas City metro area

Interestingly, only Red Flower, Cloverleaf, and Sweet Pea carry a line of hand made cards & it is also important to note that a majority of these specialty stores do not carry a line of cards and our goal is to push them to consider making an addition to their product selection based on the uniqueness of the Heartsongs product line and how it ties in with each individual shop.

There are also a number of charities within the Kansas City metro area who have annual fundraisers and events to support their own specific cause. The following is a list of some of the major charities within the Kansas City area that Heartsongs will be specifically targeting:

1. Multiple Sclerosis Foundation
2. Cystic Fibrosis Foundation
3. American Cancer Society

Craft/Artisan Events

The availability of Heartsongs at small craft fairs and artisan events can be helpful in building brand image. Regionally recognized events such as the Artisans Conference and MissouriFest might also allow us to identify new clientele, boutiques/retailers which foster the most appealing environment for our product, or a number of wholesalers who could provide us with less costly supplies. The exhibit that Heartsongs is most intrigued about is the Kansas City Art Fair. Kansas City Art Fair is a not–for–profit visual arts co–op gallery, organization, and advocate exhibiting work by established and emerging artists from the Kansas City region. The mission statement of Kansas City Art Fair specifically states that the organization is a visual art organization that creates exhibition, support, and growth opportunities for emerging and established contemporary artists. This organization is one which interests Heartsongs as it has featured hand made card makers and artisans, such as Open Please Cards, and presented their work in original exhibitions, educational programming, and support services to benefit artists and the community.

Another decision which we will ultimately have to make is whether we wish to market ourselves or work with an agent. The advantage of agents is that they have contacts with creative directors at a number of companies so that our work might be seen by the right people. They could also be a help and a guide as we develop our portfolio, negotiate partnerships with companies/boutiques, locate wholesale distributors, and find potential creative employees. The disadvantage of working with an agent is that they generally take a 40%–50% commission. This agent decision, will not however, be one which is made until after year 3.

Additional Marketing

Because Heartsongs is targeting the upscale market of boutiques and charity donors, Heartsongs marketing strategy needs to be directly in line with the desired niche market. For this reason, outside of personally/directly targeting boutiques, charities, and distributors, Heartsongs also desires to place ads in upscale local magazines/papers such as the Art on the Town or Kansas City Happenings. It is not enough that name recognition is built by boutiques/charities themselves, but Heartsongs feels that to become a more distinguished and desirable line it needs to be a company which does not only seek distributors, but is also sought by consumers with specific card/invitation needs. Such ads will communicate to a widened audience that Heartsongs is a company which creates a product which can be created and customized for the consumer to meet their needs and unique reasons behind a mass distribution of cards. Word of mouth is to be Heartsongs cheapest and most effective marketing strategy within the first few years of existence. Therefore, if Heartsongs can build a clientele base outside of boutiques and charitable foundations, then such individuals will be able to not only pass the Heartsongs name along to those they know who desire cards made for a specific event, but all those who receive a card for specific events will be touched by the unique designs and creative difference of Heartsongs product lines.

Additionally, today's free–distribution papers are different from paid–circulation newspapers. Although the shopper type papers contain mostly advertising and little feature material, they remain a highly productive advertising medium. Such mediums offer the advertiser most of the advantages of paid– circulation papers, including the permanence of print, the versatility of color and graphics, and high readership of personal want ads. One advantage over paid–circulation papers is their ability to reach a very high percentage of the market area. Because they are free, they are delivered to every home. Penetration and acceptance of free newspapers are estimated at more than 90 percent. One free newspaper that we are considering is the Metropolitan Circular.

Sales Strategy

Heartsongs' sales strategy is aimed at direct sales to the boutique owners and charities; additional sales to the consumer will be fulfilled through strategic ad placement within local magazines/papers. Heart-songs seeks to have five retail accounts secured within the first months of start up while additional inventory is being secured. One additional retailer/boutique within Kansas City will be added every month and one additional not–for–profit will be added every two months based upon the success of sales and Heartsongs' ability to maintain demand within Kansas City, Missouri. Sales will be accomplished as follows:

1. Direct mail, personal cold calls, and personal appointments targeting boutiques within Heartsongs' immediate surroundings.
2. Test marketing will be performed in initially in Kansas City and later in Ann Arbor, MI. Such markets are chosen based upon location and the close proximity of both the design team and additional family members who are knowledgeable of the stores in these areas.
3. Personal cold call selling is imperative to create a positive first impression of the brand. We will contact boutiques whose forte is in specialty goods and whose existence is to distribute very specific and identifiable goods.
4. To increase awareness of the Heartsongs brand name, we are seeking to develop invitations or mailers for a charitable event(s) or school fundraiser within our target markets.

Upon initial meeting with boutiques, charities, and potential customers, we hope to leave behind samples of our product for personal use for the owner or for display. Such 'leave behinds' will be left with individuals based upon the CEO and design teams' discretion. The months between May and August 2005 have been set aside in order to adequately target boutiques and charities, make proper sales, and increase inventory. Follow up, observation, and organization of distribution will be an ongoing process in order to determine sales and how well the product is being received within the market. Surveys and questionnaires will also be directed at retailers and consumers in order to monitor the performance of the Heartsongs product lines. Heartsongs projected sales timeline is as follows:

- Month One prior to Start up-begin selling to St. Louis boutiques. The market contains over 70 boutiques according to census data.
- Month Two prior to Start up-review feedback from the St. Louis test markets and based upon Heartsongs success we will begin to sell to charities.
- Month Three prior to Start up-continue with follow-up of both charities and boutiques and organize distribution, orders, and pricing with each individual charity or boutique.
- Month Four prior to Start up-process and deliver orders. Begin advertisements within local magazines and newspapers.

Marketing & Promotions

1. Provide target boutiques with cards to solicit sales
2. Send cards to family, friends, co–workers, & retail owners to build recognition of the product
3. Approach national boutiques in order to create distribution on a wider scale under one retail name
4. Price breaks and a percentage discount offered based on the quantity of purchase and bulk orders

Test Marketing

Test marketing has been completed at St. Patrick's Christian Academy where CEO, Martha Ritter, is currently employed. This initial sales attempt was performed at the school's carnival which included a small craft fair. This craft fair was unique because it is one which features a number of hand made items (ex. jewelry, artwork, and even cards). Although Heartsongs was competing with small scaled competitors, who are not foreseen as long term threats, Heartsongs was able to stand out on the basis of price, uniqueness, quality, and creative craftsmanship. It was obvious that our cards had considerably more detail, revealing the higher level of care that was taken in our products creation. These factors brought the customer to our booth and caused them to select and purchase our hand made cards. On the basis of such test marketing efforts, we feel that we will have congruent results when our products are sold within specialty stores and against some of our major competitors.

Not only are individuals purchasing our cards at various craft fairs, but our cards are being distributed and are in circulation, as they have been given as gifts and used in various forms of correspondence.

Heartsongs competitive edge will remain in the ability of our management team as we seek to stay ahead of our competitors. To put it differently, it is Heartsongs objective to approach the boutiques and charities, who currently do not supply a line of hand made cards, FIRST. Time is of the essence and if Heartsongs is able to get into these markets and to such retailers/distributors first, than we will have a dominant command/hold on a particular store; and, for specialty good stores, which pride themselves on diversity and uniqueness of product, they will not wish to stock multiple varieties of hand made cards. Heartsongs has approached boutiques and inquired about their interest in hand made cards, and those who did not currently have a selection of hand made cards seemed interested but wished to see some samples and/or a portfolio of Heartsongs product lines.

Pricing

The prices of Heartsongs products are based upon what the market commands, what our customers are willing to spend, what is listed by our closest competitors, and the labor which is involved in the creation of single card. Prices are also based on the costs associated with the product as each line is priced based on the intricacies, complexities, detail, and products necessary for construction/creation. Three price points are covered for our products based upon the three different lines; however our financials are based solely on the price points of boxed sets and individual cards as the prices for customized cards and special orders are subject to change based upon the size of the order, labor, and materials involved. Heartsongs will accept sales on such customized cards as additional revenue, but because of the variation of pricing and inconsistency of the orders we feel that there is not enough stability to make it a valid category within the financial statements. These price points were developed based upon the type of card, cost of materials, and competitive pricing; we feel that these price points provide options for our customers. It is important to note that within the price points and for the three product lines there are two additional categories for pricing-simple & elaborate-based upon the complexity, craftsmanship, and decorative nature of the card itself.

Research in the retail industry shows that specialty items sell for roughly double the price of cost. Heartsongs took this information into consideration when determining its retail target prices and worked backwards. We will, however, review our pricing structure and its effects on margins quarterly. Customer and retailer feedback will also be a valuable source in order to determine our pricing strategy as compared to the value of our cards. Adjustments for pricing will be reviewed much more frequently within the first three years of production in order to ensure the greatest profit margins for the company and best marketability of our product.

It is important to note that Heartsongs competition tends to price their cards $1–$3 higher than our products, and we feel that by commanding a lower price point we can once again be set apart, not only because of affordability, but also because of the quality and the uniqueness of card as it relates to the price. Heartsongs price points are definitely in line with the higher prices which are commanded by boutiques; however, our product remains noticeably lower than our competition.

The pricing structure for boutiques will be different from charities. Some charities will be provided with Heartsongs pro bono, in order to build name recognition and a status within the eyes of non–profit groups; however, Heartsongs cannot run a business for free, therefore the price point for charitable groups will be lower than boutiques and much closer to cost ($2 per card). Additionally, cards which are sold to not–for–profit groups will require a 100 simplistic card minimum, and prices are based upon the simplicity of card, $200 minimum respectively.

There are a number of pricing strategies Heartsongs can use to achieve our growth goals. Each has the potential of producing a profit, and most are tied to the critical relationship of price–to–sales volume and stock turnover.

Pricing Strategies

- Multiple Unit Pricing-Heartsongs is using this strategy in order to increase the size of our individual sales by offering a meaningful discount for larger purchases, especially during our start up phase. For example, if a customer/retailer were going to purchase ten individual cards they would pay anywhere for $50-$70; however, boxed sets are sold for $15 and $20.
- Keystone Pricing-This is an approach taken by a few of the boutiques that we have talked to and are considering as a distributor of our product. Keystone pricing refers to the practice of setting the retail price at double the cost figure, or a 100 percent markup. If such an approach were taken, boutiques would essentially be taking 50 percent of our profits.
- Price Lining-By offering three different product types with two different pricing points, based on the complexity of the card, Heartsongs feels that this technique of stocking merchandise in several different price ranges will allow our customers to buy our product with different uses in mind and with different expectations for quality.
- Competitive Advantage-By using competitive advantage to determine price we have followed the prices set by our competition, and based on our image, set our prices equal or a little below those of our competition.
- Consignment-Some of the boutiques that we have contacted have stressed concerns over inventory build–up, especially with new products featured within the store; the solution that many had come to discover lies in consignment sales. With consignment sales, Heartsongs would maintain its own inventory and stock the boutiques as necessary, typically once a month. Heartsongs' incentive for such risk is that boutiques would only take 40 percent of profits earned on the cards. This is the approach which is listed within the financials as well as the approach that Heartsongs would prefer in our business relationship to boutiques and specialty stores.

RISK FACTORS

Heartsongs understands that there are critical risks involved in entering a market with several competitors, but be believe that our hand made greeting cards can successfully compete. We have reviewed our risks and have planned accordingly, preserving a low risk status through frequent assessment of market risk, as we stay ahead of the market and on top of the trends within the industry.

Risks

1. Duplication of our products or an increased availability of hand made cards within the market.
2. Increased use of Internet cards, rather than hand–written communication.
3. Too much inventory or overstock of a particular card. Our pre–start projections should eliminate this problem, along with negotiations and contracts with the boutiques.
4. More demand by boutiques, not–for–profit groups, and consumers than can be supplied in a timely fashion. Demand outshines production.
5. Increased penetration of specialty stores, by our competitors, of hand made cards.
6. Lower price is seen as lower quality.
7. An unforeseeable event targeting one of the members of the management team.

Opportunities

1. Introduction of new products to boutiques, charities, and consumers.
2. Test marketing within Kansas City before moving into the Ann Arbor market; this providing us with the information about our product, consumer response, pricing strategy, and distribution maintenance.
3. Contingency contracts during the initial start up phase to determine demand and provide us with an additional hedge of protection.
4. Minimal sales of hand made cards by local boutiques and charities.
5. The opportunity of Internet sales, long–term.

EXIT STRATEGY

Our exit strategy includes two options, private label or licensing our work for a fee to larger companies. Once established, we will approach companies or private label manufacturers to determine an interest level in purchasing Heartsongs to be produced for another company. If we were to develop our own private label there would be definite expansion of product lines available within the "gifting" industry. Additionally, licensing would give another company the right to reproduce our card designs for a certain time, in a certain territory, for a predetermined fee. Heartsongs would also be open to a "work–for–hire" agreement, depending upon the agreement and terms listed within the contract. The advantage of a charged licensed agreement is that we would have the money up front, and we would no longer be dependent on our cards selling successfully before we could earn additional income of them. A career as a freelance artist would essentially be another side business for our management team if we felt we were no longer capable of running our own business. There are numerous opportunities to freelance in the greeting card industry, but it does take a lot of time and effort to find a greeting card company that wants to publish artists' work. Having our own line of cards along with our own business will establish credibility, which is important in getting freelance work if Heartsongs ever decides to exit the market.

ASSUMPTIONS

Costs

1. Costs are based upon expenses occurred to date and include, but are not limited to, projected future costs.
2. Legal charges are determined by a per hour charge and are subject to change based upon our choice of legal firm.
3. Supplies are based on the retail rate and are subject to change when and if we identify a wholesaler.
4. Project inventory takes into account a increase in sales per month. Sales and inventory will grow based upon Heartsongs' increased penetration of boutiques and charities (monthly).
5. Payment for product is assumed at 100% upfront in the financials. The cost of the card covers packaging.
6. Only retail shops will earn a commission on card sales.
7. Heartsongs is assuming very few personalized/custom card orders.

Financial Summary

1. Heartsongs will use a capital investment of $3000.00, incurred solely by the CEO, to start the business. This investment will cover the supplies and materials necessary for starting the business. This capital investment is factored into Year 1 within the financial statements.
2. Payment for product is assumed at 100% upfront in the financials. Negotiations surrounding such terms will occur as Heartsongs becomes more established.
3. Once Heartsongs is able to break even, no additional capital investments will be needed unless high demand forces Heartsongs to produce a greater supply and/or if there is an unexpected need for an additional employee/designer.

4. Heartsongs is operating with a very simple and conservative balance sheet until demand forces us to seeking financing for product production. Initially Heartsongs will be debt free and all inventory will be regarded as assets of the company.
5. Heartsongs is assuming very few personalized/custom card orders until our brand image has been established; therefore, additional revenue earned from these sales is not taken into account.
6. Heartsongs seeks to add one boutique every month, in addition to the five we begin with, and work for one non–profit organization every two months. Profit from non-profit organizations will come from sales estimated in batches of 500 cards per transaction.
7. Heartsongs is a low risk company with little capital investment.

Balance sheet

	Beg. balance	Year 1	Year 2	Year 3
Total assets				
Cash	$ 3,000.00	$ 1,484.10	$ 4,818.20	$ 7,151.70
Investments	$ -	$ -	$ -	$ -
Accounts receivable	$ -	$ -	$ -	$ -
Notes receivable	$ -	$ -	$ -	$ -
Inventory/supplies	$ -	$ -	$ -	$ -
Fixed assets	$ -	$ -	$ -	$ -
Total assets	$ 3,000.00	$ 1,484.10	$ 4,818.20	$ 7,151.70
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Accrued expenses	$ -	$ -	$ -	$ -
Total liabilities	$ -	$ -	$ -	$ -
Owners equity				
Founders invested capital	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00
Additional paid in capital	$ -	$ -	$ -	$ -
Retained earnings	$ -	$ 1,515.90	$ 1,818.20	$ 4,150.30
Total shareholder equity	$ -	$ -	$ -	$ -
Total liabilities & shareholders equity	$ 3,000.00	$ 1,484.10	$ 4,818.20	$ 7,151.70

Annual cash flow

	Year 1	Year 2	Year 3
Net income	$ 1,515.90	$ 3,334.10	$ 2,333.50
(Pretax w/o COGS)			
Change in working capital accounts			
Current assets			
Accounts receivable	$ -	$ -	$ -
Current liabilities			
Accounts payable	$ -	$ -	$ -
Total change in current accounts	$ -	$ -	$ -

	Year 1	Year 2	Year 3
Net operating cash flows	$ (1,515.90)	$ 3,334.10	$ 2,333.50
Beginning cash balance	$ 3,000.00	$ 1,484.10	$ 4,818.20
Ending cash balance	$ 1,484.10	$ 4,818.20	$ 7,151.70

Annual income sheet

	Year 1	Year 2	Year 3
Net sales	$ 20,161.00	$ 60,151.00	$ 91,175.00
Cost of goods sold	$ 9,712.50	$ 28,806.50	$ 43,921.50
Gross income	$ 10,448.50	$ 31,344.50	$ 47,253.50
Operating expenses (overhead)			
Internet access	$ -	$ -	$ -
Phone	$ -	$ -	$ -
Insurance	$ 500.00	$ 500.00	$ 500.00
Legal	$ 1,500.00	$ 750.00	$ 750.00
Supplies	$ 2,650.00	$ 250.00	$ 250.00
Total operating expenses	$ 4,650.00	$ 1,500.00	$ 1,500.00
Sales & marketing expenses			
Salary & commission	-	$ 4,000.00	$ 8,000.00
Travel	$ -	$ -	$ 500.00
Gas	$ 350.00	$ 350.00	$ 350.00
Marketing materials	$ 500.00	$ 500.00	$ 500.00
Retail/site earnings: 40%	$ 6,464.40	$ 21,660.40	$ 34,070.00
Total sales/marketing exp.	$ 7,314.40	$ 26,510.40	$ 43,420.00
Net operating income	$ (1,515.90)	$ 3,334.10	$ 2,333.50

Assumptions:

- Figures are based upon retail and charitable sales.
- There will be no need for additional employees.
- Business will be run out of the home.
- Cost of cards includes any additional packaging.