



2003

STRATEGIC PLAN



*Cut a check to
Tarra Emiliano
for \$200.00*

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Mission

Kudler Fine Foods is committed to providing our customers with the finest selection of the very best foods and wines so that your culinary visions can come true.

Vision

Kudler Fine Foods will be the premiere gourmet grocery store for those savvy shoppers who are searching for the finest meats, produce, cheeses, and wine.

Social Responsibility Statement

Kudler Fine Foods uses only the finest organic ingredients. Whenever possible, we purchase local produce from organic farmers. We use unbleached flour in our bakery goods and we don't add unnecessary preservatives to our products. Food is rotated from the shelves on an ongoing basis. Those items that are still in "good" condition are donated to local homeless shelters and food kitchens.

Background

Kudler Fine Foods was established in 1998 when Kathy Kudler fulfilled her vision of establishing her own gourmet food store. Kathy had a passion for gourmet foods but found that her particular neighborhood just did not have a wide selection of products to choose from. Although she had no experience in operating a gourmet food shop, she believed that a one-stop shopping experience at a place with lots of variety and reasonable prices would be successful.

Kathy opened her first store and then a second and recently a third. The La Jolla store continues to grow while the Del Mar store has been having some difficulties. The store in Encinitas has just opened, but sales seem brisk. Kathy works seven days a week, visiting and

working at each store sometimes daily. Kathy has hired a manager and an assistant manager for each store to handle much of the day-to-day details, cashiers to check people out and some part-time, local college students to help with stocking the shelves and constantly tending to the inventory to make sure that fresh product is always on the shelf. She also has hired specialists who advise and assist clients with their culinary needs. These specialists are located in each store, usually during regular business hours.

Since the beginning, Kathy has handled all of the buying for the stores. In order to get the best price possible for products, Kathy buys in bulk for all three stores. While this approach saves Kathy money, ordering for all three stores on a weekly basis takes so much of her time, that she hardly has time to interact with the customers anymore. Because customers expect a high-quality product, Kathy makes sure that the product is pulled from the shelf and replaced as soon as possible if the turnover rate is less than expected.

Kathy intends to continue providing fine quality foods to the local area, while expanding and opening new stores in the process. While cash flow is good, buildings are leased and not purchased and thus far, Kudler Fine Foods (KFF) has been able to operate without any outside investors.

Current Locations

Kathy opened her first store in 1998 in La Jolla, California. La Jolla was selected because it is the area in which Kathy's initial needs assessment illustrated that a gourmet market is needed. La Jolla's population was 44,424 and growing at 1.9% per year. The average median house price is just over \$2 million. Kathy's assumption that La Jolla would be a great place to open a gourmet store was quickly proven to be correct as her sales were strong from the beginning and continues to grow.

Since the doors opened, Kathy spends most of her time at the stores, selecting and ordering product, occasionally running the cash register, and sometimes even stocking the shelves after the store closes or before it opens in the morning. Kudler Fine Foods was a success since it launched. In La Jolla, locals would stop by the store on their way home from the tennis court or the golf course or the office and purchase fresh produce and other products. As sales continued to increase, Kathy began to think about opening another store using the same model.

The La Jolla location had not only generated sales, but produced enough cash flow so that two years later Kudler opened its second store in Del Mar, CA. Del Mar is just far enough north of La Jolla that residents of Del Mar don't want to fight the I-5 traffic to visit La Jolla so this offered a great opportunity for growth. The two stores are only about 35 minutes apart on the freeway

and Kathy can easily visit both locations for control and monitoring and to finalize the weekly inventory list and order product. Del Mar's median household income in 2000 was \$98,257. The population was only 4,389 people but the area was considered to be economically strong enough and it has been able to support the second store, just above break-even.

In early 2003, as part of her expansion plan, Kathy opened a third store in Encinitas. Although Encinitas is located just a little more in-land than the other two locations, the average age of its residents was 39.7 and is expected to be a very good target market for gourmet foods. The average household income is just over \$75,000 and with a population base of just over 50,000 people, we think that the Carlsbad, CA area might be a good area for the next store. The Del Mar store would be consolidated into the Carlsbad store once it is open. This will be discussed later in the marketing plan section.

Store Departments

Each store consists of the following departments:

Bakery

Each of our stores has its own modern European-Style Bakery. In the wee hours of the morning, our bakers begin mixing their dough and creating fresh breads and pastries including fruit tarts, table loaves, flat bread, and the flakiest croissants in Southern California.

Our breads and pastries are made from old world recipes and the finest ingredients—Irish butter, organic eggs, and unbleached flour.

Kudler's bakery products do not contain preservatives. We use only the freshest ingredients and rotate our inventory daily. We donate day-old bakery products to local charities who feed the homeless.

The slogan for our bakery department is:

**If you aren't satisfied that our baked goods are
among the best you have tasted, your purchase is
free!**

Meats

Our meat and seafood are procured from certified organic producers.

The meat and seafood products are fresh and prepared in the store to order. The butcher shop in each store carries:

- Dry, aged beef
- A variety of poultry including turkey, duck, pheasant, quail, and chicken
- Lamb
- Home-made sausages—made without preservatives

The slogan for our Meat department is:

**We will be happy to handle any special requests
you may have.**

Produce

Our produce department offers over 350 fresh fruits, vegetables, herbs, and spices.

We stock 16 different varieties of apples as well as a wide range of tropical fruits from around the world.

Experienced cooks know that the right combinations of herbs and spices will turn a good meal into a great meal. Herbs and spices are most flavorful when they are fresh, and we carry the freshest herbs and spices in the area.

We have an Asian Specialty Produce department where we carry the produce, herbs, and spices that are the staples of Asian cooking.

We know that our customers are interested in maintaining a healthy lifestyle while also trying to live within their budgets. We address these concerns by offering most of our produce in both organic and non-organic varieties.

The slogan for our Produce department is:

**If you don't see it, let us know and we will special
order the item for you!**

Cheese and Dairy

Our stores carry a complete line of the finest dairy products including Irish butter and organic milk.

We are known for our wide assortment of gourmet cheeses. We carry over 250 varieties of cheese from 21 countries. Our stores offer cheese made from cow, goat, and sheep's milk. We will also special order any cheese you may want that we do not carry in stock.

The slogan for our Cheese and Dairy department is:

**Stop by any of our stores on a Saturday morning
and experience a sampling of our cheese
selections.**

Wine

We have traveled the world to bring you an extensive collection of domestic and imported wines and spirits.

Whether our customers want to mix the quintessential martini or find the perfect wine to serve at their next dinner party, Kudler's is the place to shop. They will find that our stores carry a wide variety of spirits and at prices that will meet any budget.

While we are proud of our wide selection, we certainly don't want our customers to be intimidated, so each of our stores has a Wine Steward who will be more than happy to assist customers in making their selection. We also hold monthly wine appreciation classes so customers can learn the nuances of our wines.

SWOT

STRENGTHS	WEAKNESSES
<p>Our STRENGTHS are:</p> <ol style="list-style-type: none"> 1. Small organization 2. No direct competition 3. Lots of choices for the consumer 4. Very customer oriented 5. Good store locations 6. Kathy's personal relationship with the staff 7. Repeat customers 	<p>Our WEAKNESSES are:</p> <ol style="list-style-type: none"> 1. Deal in mainly perishable goods 2. Specialty shops with high pay-roll 3. Small management team with lots of responsibilities 4. The Del Mar location is not doing as well as expected 5. Geographic expansion limitations
OPPORTUNITIES	THREATS
<p>Our OPPORTUNITIES are:</p> <ol style="list-style-type: none"> 1. Geographic expansion throughout California 2. Delegate purchasing process to someone with more time and experience 3. Offer more catering services 4. Add more product line as we grow 5. Spread our brand outside of California as we grow 6. Opportunity to be acquired 	<p>Our THREATS are:</p> <ol style="list-style-type: none"> 1. Competing gourmet shops 2. The economy declining

STRENGTHS

1. **Small organization.** We are able to control and monitor all activities on a daily and weekly basis.
2. **No direct competition.** There are no other gourmet stores in our geographic area. Specialty stores are limited and, with the exception of major grocery chains and smaller, independent wine stores, we have no direct competition.
3. **Lots of choices for the consumer.** We offer 16 different kinds of apples, wines from all over the world, 250 variety of cheeses, and 350 fresh fruits and vegetables. No one, including the major grocery chains, offers such a diverse product variety.
4. **Very customer oriented.** Whenever possible, Kathy works the counter and spends time out in the store interacting with customers. She encourages the clerks to be friendly and helpful to the customers and ask if they found everything they were looking for. If several customers request the same item, Kudler orders that item for the shelves or will even offer to special order it for the customer.
5. The **locations of the stores** are in mid- to upper-range economic regions where potential customers can afford to pay "gourmet prices" for the better quality and healthy products and the greater variety.
6. **Kathy is able to interact with all of the staff each week.**
7. **Repeat customers.** Once customers come into the store, they tend to return every 7 to 10 days to purchase more products. Kudler Fine Foods has a great reputation in our neighborhoods.

WEAKNESSES

1. **Deal in mainly perishable goods.** Because we do not use any preservatives, approximately 12% of our perishable goods are rotated out of inventory every two or three days, either by being thrown away or donated to local charities. Donated food is still in good condition, but not excellent condition so it is removed from the shelves on an ongoing basis.
2. **Specialty shops with high pay-roll:** Butcher, baker, wine steward, etc. Payroll of these specialty positions is higher than that of the clerks and stock personnel. It is also difficult to find qualified people for these positions when someone quits or when we open a new store. Our pay is a little bit below average so we allow all employees to take home some of the perishable goods to share with their family. While this does help put food on the table, it does not help some of our employees who have high living expenses.
3. **Small management team with lots of responsibilities.** When Kathy is sick or on vacation, no one is able to order replacement inventory or deal with major business issues.
4. **The Del Mar location is not doing as well as expected.** Although the area meets the economic demographics for a successful area, the town is too small to really support the store. Once the Carlsbad location is opened a few miles south, the Del Mar store will be phased out when the rental agreement expires.
5. **Geographic expansion limitations.** While there are many areas, just within California that would make great sites for future stores, it gets more and more difficult for Kathy to visit each store and maintain inventory and ordering. While we are planning to open the Carlsbad location and close down the Del Mar store, we are also considering San Francisco as our next “out-of-the-area” expansion, which will make it difficult for Kathy to use her current management approach.

OPPORTUNITIES

1. **Geographic expansion throughout California.** There are many more potential areas for new stores including San Diego, Palm Springs, San Francisco and Santa Barbara. Other areas will be considered with Carlsbad next on the list and then possible sites in the San Francisco area. The Asian Specialty Produce Department has been doing quite well and Kudler believes that the largest concentration of Asians in California is in the San Francisco area.
2. There is an **opportunity to bring in outside management to help** run the operation. With multiple locations, Kathy is quickly recognizing the fact that she is having a difficult time doing everything that needs to be done. She is thinking about hiring someone to help with purchasing and inventory tracking. These areas keep her in the back office of the stores instead of out front with the customers, which is the part that she enjoys.
3. There is an opportunity to offer more **catering services.** Kudler has provided some catering services upon request and in general, the customers have been very pleased with the service. Since Kathy handles the delivery, set-up, distribution, and clean-up for

the event, she is able to keep costs down and the profit margin is 25% better than product profit margin in the stores. In addition, Kathy has received tips on top of the profit that basically pays her expenses to travel and set up the event.

4. **Opportunity to add more product line** as we grow. Customers are always asking if we carry a specific item or product. If we receive several requests for the same product, we ask our wholesalers if they can provide the product on a trial basis. Recently, we had a few people request Hungarian Wax Peppers which are commonly found on the East Coast of the United States but difficult to find on the West Coast.
5. **Opportunity to spread our brand outside of California as we grow.** Most specialty stores are in the eastern half of the United States so the entire west coast offers great opportunities – particularly for those who have moved from New York, New Jersey and Philadelphia who are used to the specialty gourmet stores. We believe there are some additional opportunities in Naples, FL and Greenwich, CT that will be explored in the future as well.
6. **Opportunity to be acquired.** As we continue to grow, there is always the possibility that we may be acquired by another company. Kathy could consider such a move in the future as part of her retirement plan.

THREATS

1. While we currently don't have any competition, **another gourmet shop** could open in our geographic area. If we offer fresh and healthy products at a reasonable price, hopefully we can keep competitors from entering the marketplace.
2. **Economy** could change and customers could stop buying gourmet foods. Gourmet foods (imported foods and organically grown food) cost just a little bit more than what you normally find in the grocery store. If the economy declines and people's cash flow is decreased, customers may buy fewer gourmet items and purchase products at the local grocery store.

Risk Assessment and Mitigation Strategies

	Risk	Potential Impact	Likelihood	Detection Difficulty	Value
5.1	Deal with perishable goods	7	7	3	147
5.2	Gourmet food concept may fail	10	6	3	180
5.3	Economic downturn	8.5	9	7	535.5
5.4	Competitors entering marketplace	8.5	8	8.5	578
5.5	Founder's health	10	7	10	700
5.6	Earthquake	7.5	7.5	10	562.5
5.7	Weather	8	7	7	392

1. **We deal in perishable goods.** They have a short shelf-life and we often turn the inventory, either through sales or replacing product, to keep the inventory fresh. We have begun a program to track sales versus the time of year so we can more accurately order the correct quantities from year to year and location to location. We don't believe this is a significant risk.
2. There is always the possibility that the **concept of a gourmet store might fail.** The fact that Zabar's in New York, Andros in Philadelphia and Provisions Gourmet Market in St. Louis, other well-known gourmet stores, have been in business sixty years or more indicates that this can be a very stable business once it is established. Many people living in Southern California have migrated from the East Coast and are unable to get some of the specialty foods they are accustomed to in the regular supermarket. We offer a viable alternative for them.
3. There is always the risk that **the economy in Southern California** could decline and not support gourmet stores. Right now, the economy is solid. Even though the area just went through a downturn due to the high-tech bubble, Northern California – the San Francisco and Silicon Valley area absorbed most of the impact. While the economy is a concern, we can't control it so all we can do is watch our trends and order accordingly.
4. There is the risk of **a major competitor entering the marketplace** and taking market share away. Right now we don't see this happening. Trader Joe's does have some stores in the area but we offer a more diverse and specialized product line for our select customers. We don't see anyone else opening a gourmet specialty store that would compete with us in the marketplace and try to take our market share away. We have repeat customers who are happy with our service.
5. Although **Kathy's health** is great at the current time, there is always the possibility of something happening to her that would jeopardize the business. This is a concern as Kathy manages most of the financial aspects of the business, as well as making the final decisions on inventory and ordering. We plan to install an electronic, automated system in the future that will allow us to track these ordering.
6. There is always the possibility of an **earthquake** in Southern California that could alter the demographics and the economic stability of the region. We can't do anything about it and other competitors would be in a similar position.
7. There is the possibility that the **weather** could dramatically affect crop yields and our suppliers could dramatically increase the cost of perishable goods to us. This is another area that we can't control and the effect would be the same to our competitors.

Stakeholder Analysis

We do have some stakeholders that we monitor. We view stakeholders as those entities, internal or external, who could affect our organization or be affected by our organization. The following list is not inclusive, but ones that we do keep in mind:

- **Staff** – Our team of clerks and shelf-stock individuals are critical to our operation. Although Kathy visits each store, much of her time is spent doing back-office work so the staff members are really the ones having the day-to-day contact with the customers. While the work environment is not stressful, whenever someone quits or is fired, the whole store has to pick up the effort while a new person is hired and trained.
- **Customers** – We try to take very good care of our customers. Clerks are encouraged to keep track of comments or requests, and share them with Kathy when she comes into the store. Some free samples of food are offered for tasting on a limited basis and we have monthly wine appreciation meetings. If a customer requests a product, we see if it is feasible for us to stock that item. If we can't, we offer to special order it. We take complaints about product or service very seriously and try to address any and all problems quickly.
- **Wholesale Suppliers** – Our product comes to us from local, national and international suppliers. We purchase our fresh, organic fruits and vegetables locally from distributors who ensure that the product is of the highest quality. Our dairy products are offered locally and we receive our meats from all over the country. Some of our wine and cheese is imported through national and international wholesalers. We have good financial terms with suppliers and even though we order on a weekly basis, most allow us to pay in 30 days.
- **Banks** – Our banks extend credit terms to Kathy when we are launching a new store and around the holiday season when we need to purchase more product than normal. Kathy also sometimes uses her credit line during the summer slow months to help carry the stores through. We have a great credit rating and relationship with our local banks.
- **Competition** – Our competition locally is minimal and consists of a few specialty shops, major supermarket chains and some online gourmet shops. We think there is room for our stores in each of the marketplaces we are in and intend to move into.
- **Kathy Kudler** – Kathy not only has the vision of the organization, she has established the culture and is the main management person. She hires new people, fires those not working out, finalizes the inventory numbers, places the weekly orders and controls the finances making sure all of the vendors get paid.

Competitive Analysis

All of the stores are surrounded by multiple locations of traditional supermarkets such as Ralphs, Vons and Albertsons. These stores sell many of the products that Kudler's sells and they are beginning to advertise specialized sections offering organic produce and free-range meat. However, Kudler's is positioned to attract a more narrowly focused customer. KFF appeals to the person who sees themselves as a discriminating gourmet. Such people are looking for more than organic foodstuffs. They want the best foods, excellent customer service and the utensils necessary to create gourmet meals. As such, KFF is not in direct competition with the traditional supermarkets.

There are a number of health food stores located near each of Kudler's locations; stores such as Trader Joe's and Whole Foods. These stores concentrate on the organic nature of their products. While KFF stresses organic produce and meats, we don't see these stores as our direct competition. Our customers are more focused on the cooking and dining experience rather than the health conscious lifestyle. Also, our customers are less price conscious than the typical health food store customer.

Given the diversity of the population of Southern California, it is not surprising that there are a number of stores featuring international foodstuffs. The better known ones are the International Market & Grill, Aria International Market, Indian International Food and the Balboa International Market. These stores are focused on foreign foods and not on the gourmet experience. Our employees have heard many customers relate how they had come to Kudler's after frequenting one of the international food stores because, while they may have had a particular ingredient, they didn't have the selection, tools, expertise or service that we provide.

While KFF doesn't have any direct competition, there are some businesses that are vying for the same customer base. One such store is Jonathan's Market located in La Jolla. Jonathan's is a specialty food store and restaurant. The main distinction between Jonathan's and Kudler's is that Jonathan's is more focused on its restaurant business and its wine department. They do have a large wine selection and a full-time sommelier. They also hold regular wine tasting events. Their meat, seafood and produce selections are somewhat limited and their meat and seafood seem to be priced a little high. While KFF and Jonathan's are both seeking to attract a wealthier clientele, the persons frequenting Jonathan's are not gourmards, but people who are attracted to the restaurant and the wine shop. While Jonathan's is not a direct threat, Kathy needs to recognize that many of Jonathan's clients could be enticed to shop at KFF. Jonathan's should be considered competition for the La Jolla store and, perhaps, the Del Mar location. At a distance of over 10 miles, it probably isn't significant competition for the Encinitas location.

The Kitchen Witch is a gourmet kitchen utensil store located in Encinitas. In addition to selling utensils, the store also holds cooking classes. Although it is physically located in Encinitas, it has a Web site where it sells its products and takes registrations for its cooking classes. Because of its e-commerce site, it has to be viewed as competition for all of the KFF locations. Because it

only sells utensils, the Kitchen Witch can stock a much more extensive selection of cooking tools. While Kudler's carries many of the same brands as the Kitchen Witch, we cannot match the depth of the selection since most of our store space is devoted to the grocery items we carry.

Harvest Ranch Market has stores located in Del Mar and Encinitas. The stores feature organic foods, an esoteric selection of wines and a deli. The stores are small and the prices seem a bit steep. We should recognize that we will have some competition from the Harvest Ranch Markets, but KFF should come out ahead based on our greater range of services (catering and classes), a larger selection and by paying close attention to prices.

Our most serious competition is the Cardiff Seaside Market. The market has been in business since 1985. It offers produce, meats and seafood and caters to the gourmet market. It offers catering services. Located within 2 miles and 4 miles of the Encinitas and Del Mar locations respectively, the Cardiff Seaside Market does present competition to those locations. At a distance of over 12 miles from the La Jolla location, the Cardiff Market is not a serious concern. To date, the owners of the market have not been willing to expand. As Kudler's continues to expand into new markets and grows in size, the effect of the Cardiff Seaside Market should diminish.

Marketing

Kudler's has budgeted \$368,200 for sales and marketing efforts for the year 2004. When Kathy started the first store in La Jolla, her sales and marketing efforts consisted of some internal and external signage. While she did some advertising in the local school yearbook and other small efforts, those ads were placed mainly to help other members of the community. As the store became a success and the second store was opened, she decided to take a more formal approach to sales and marketing.

Based upon the businesses' brief historical data, Kathy recognizes that it has two times a year when it receives the most sales. The first time of year, which is actually the second highest grossing period, is around the Easter holiday. Sales really spike beginning in October, through the Thanksgiving holiday all the way up through New Years. During these peak times of approximately 16 weeks, Kudler prints a flyer that is inserted into the local La Jolla Village News, the North County Times, and the Gay & Lesbian Times. Throughout the rest of the year Kudler's has a monthly flyer printed and distributed through the newspapers.

Kudler's also occasionally advertises in local printed materials that advertise in mid- to upscale restaurants as well as some local radio station spots on an infrequent basis.

Kathy also has had printed up tri-fold brochures that advertise the catering business. These brochures are placed in the stores for customers to pick up if they wish and Kathy has them laying out at the events that she caters. She has also given out business cards at these events

and has had others call her to cater their special event. Recently, she also has noticed that some of the attendees of the catered events have been coming into the stores as well.

Flyers are often printed for the wine and cheese tasting and other special events as well.

In the future, Kudler's wants to place advertisements in the San Diego-area telephone directories. Kudler's also wants to design and launch a website that offers many of its products to consumers as well as marketing the catering side of the business. This will be discussed more in the section regarding growth.

Future Growth

We are currently assessing other geographic areas in Southern California to continue our growth. We are interested in the Carlsbad, California area and we are looking at a site on Carlsbad Village Drive between Interstate 5 and the highway leading up the coast. The only major stores in that area are a Vons, an Albertsons, a Prontos' Gourmet Market and a few convenience stores. There is a Japanese restaurant in this block, Sushi Taisho, which has been there for many years and is usually quite busy. During the summertime, many people come to Carlsbad to go to the beach and we expect our summer sales to be quite high. This will be described in more detail below.

If we continue to be successful, we hope to use our cash flow to expand into this market within the next few five years.

We are also looking at expanding into the San Francisco area. Even though this is several hundred miles from our current locations, we believe our Asian Specialty Produce department would be very successful in that area. After we open the Carlsbad location we will begin to scout sites in San Francisco.

Our ultimate goal is to compete in high-end areas in other cities as well. Our long-term plan includes possible sites in: Scottsdale, Arizona; Naples, Florida; and Greenwich, Connecticut.

Website

Most of the more well-established gourmet food stores have launched very extensive websites that not only let local customers know what is going on, but also allow for people outside the driving area to purchase product direct. Our goal is to launch our first version of the website in June 2004. We will start with a basic site and add e-commerce capabilities as we fully automate all of our inventory and ordering system so that we can track sales and order replacement product.

New Locations

Our Del Mar location is not doing as well as expected due to the small population base of the area. Beginning in October 2006, we will begin the site selection process for a new location in Carlsbad, CA. Specifically; we are searching for a location that is on Carlsbad Village Drive between Interstate 5 and the ocean. The population in Carlsbad is around 90,000 and Oceanside (which is located next to Camp Pendleton) has a population of around 160,000 and is only five miles north of Carlsbad Village Drive.

Because our Asian Produce Department does quite well, we believe those going to Sushi Taisho would be customers for our store. We also think our wine selection might be of interest to those who visit the wine tasting stores or micro-breweries in the area.

We are hoping to have the new Carlsbad location open and operating by no later than June 2009. We also plan to close the Del Mar store and redirect those customers to the Carlsbad store. Since there are only a few exits on the I-5 freeway that separates Del Mar and Carlsbad, we feel sure that we will be able to service our current customers at the new store.

Telephone Directory Advertising

Since directory advertising costs hundreds of dollars a year, we have elected not to advertise in the local directories; however, we believe that once we have standardized our ordering procedures, we might be able to encourage potential customers from San Diego to occasionally make the 40 minute drive up the freeway to shop at our gourmet store.

Catering

So far, the catering side of the business has not really been promoted, but it has been proven to be a profitable venture. Kathy handles all of the catering activities which usually require no on-site staff other than herself. She generally receives sizeable tips which helps add to the revenue stream as well. Although we do have some flyers posted in the stores advertising the catering service, we intend to promote this side of the business more, as we can charge more for the product as well as the service. We intend to have 10,000 multicolored flyers printed up. As customers check out, the clerks at each store will place the flyer into the bag until the 10,000 are distributed. Once the website is developed, a Catering link will be placed on the site with information on the service.

Coffee & Tea

Most gourmet stores offer a wide selection of coffees and teas. This is one area that can be expanded within the store. Profit margins are high on these products and the shelf life is longer than that of the fresh fruits and vegetables. These are also great products to offer on the website and to potential customers outside of our geographic area.

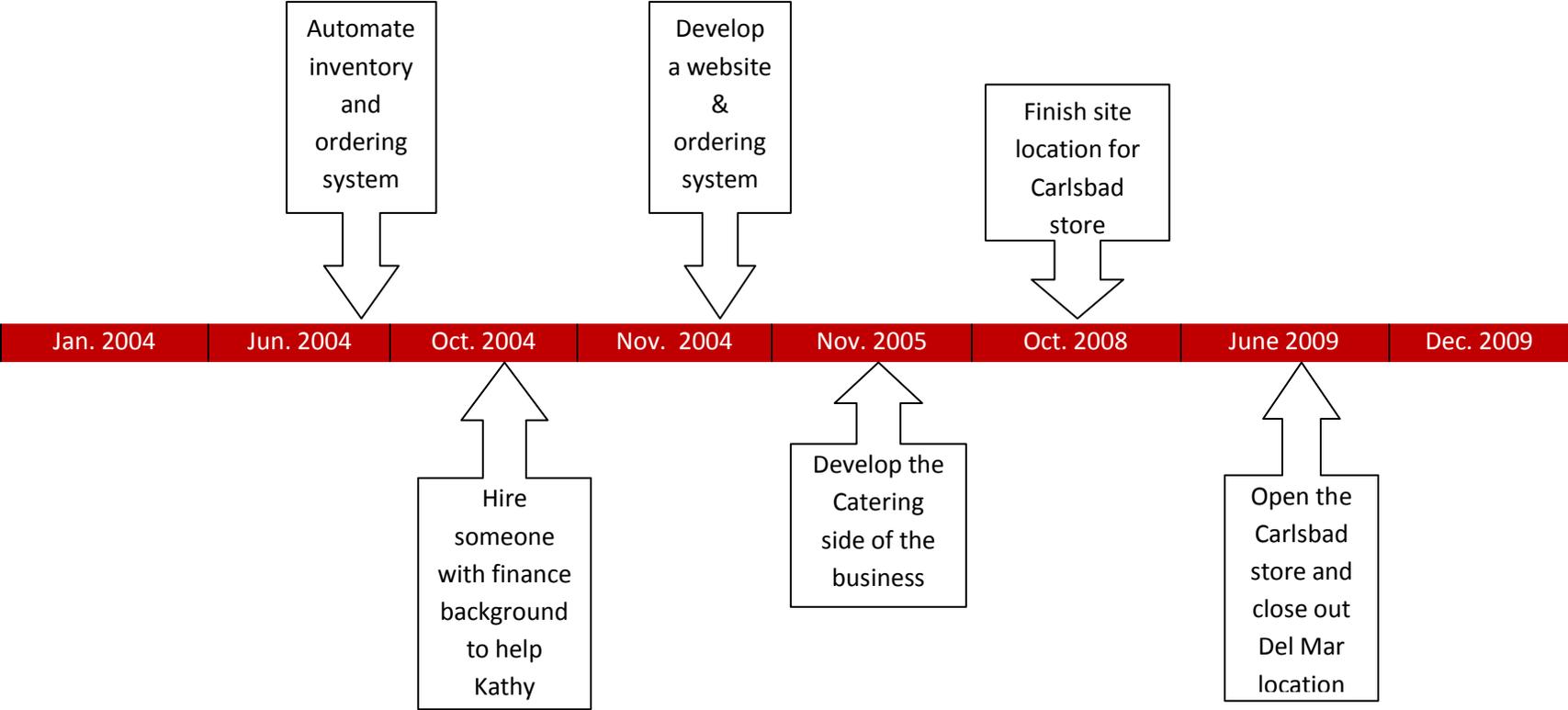
Fish Counter

Some of the East Coast gourmet stores offer fresh seafood in their stores. Since we are so close to the Pacific Ocean, we intend to expand our offerings by installing a fish counter in each of our stores. Our local wholesale food distribution company carries fresh fish and can simply add this to our order each week. We are hoping that this will help with summer sales as people are doing outdoor activities.

Deli

Although we have a meat department and a cheese department, we really don't have a deli where people can come in and select a product and quantity and have it cut or sliced the way they like. As part of our growth we intend to install a deli counter in each store to offer some of our products prepared to order. We will even offer samples of product for customers to try.

GANTT CHART



Financials

2003 Income Statement

Net Sales	\$10,796,200	
Less: Cost of Goods Sold	\$6,965,118	
Gross Income		\$3,831,082
Operating Expenses		
Advertising	\$263,000	
Amortization	\$88,390	
Bad Debts	\$2,300	
Bank Charges	\$23,750	
Charitable Contributions	\$10,975	
Systems & Network Contract	\$10,975	
Credit Card Fees	\$691,456	
HR Payroll Outsource	\$8,499	
Depreciation	\$127,234	
Dues & Subscriptions	\$2,559	
Insurance	\$65,000	
Custodial Contract	\$49,200	
Interest	\$41,747	
Maintenance Contract	\$42,000	
Misc.	\$37,560	
Office Expenses	\$8,300	
Operating Supplies	\$5,500	
Software Licenses	\$8,200	
Permits & Licenses	\$3,500	
Bonuses - Discretionary	\$1,330	
Postage	\$46,000	
Office Lease	\$25,530	
Telephone	\$575	
Travel	\$4,000	
Utilities	\$3,060	
Vehicle Expenses	\$13,046	
Wages	\$933,917	
Total Expenses		\$2,520,228

Net Income Before Taxes	\$1,310,855
Plus: Interest Income	\$7,150
Less: Income Taxes	\$563,292
Less: Profit Sharing Bonus	\$75,470
Net Income After Taxes	\$679,243

2004 Pro Forma Income Statement

Net Sales	\$12,955,440	
Less: Cost of Goods Sold	\$7,174,072	
Gross Income		\$5,781,368
Operating Expenses		
Wages	\$971,274	
Utilities	\$3152	
Insurance	\$65,000	
Advertising	\$368,200	
Vehicle Expenses	\$13,700	
All Other Expenses	\$1,279,471	
Total Expenses		\$2,700,797
Net Income Before Taxes		\$3,080,571
Less: Income Taxes		\$591,457
Net Income After Taxes		\$2,489,114

Cash Flow Pro Forma Statement

January 2004 - December 2004

(In Thousands)

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>TOTAL</u>
Revenues	\$719	\$719	\$719	\$1,440	\$719	\$719	\$719	\$719	\$719	\$1,440	\$2,159	\$2,159	\$12,955
Expenses													
Cost of Goods Sold	\$399	\$399	\$399	\$797	\$399	\$399	\$399	\$399	\$399	\$797	\$1,196	\$1,196	\$7,174
Wages	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$81	\$971
Utilities	\$.158	\$.158	\$.158	\$.158	\$.236	\$.315	\$.394	\$.473	\$.394	\$.315	\$.236	\$.157	\$3
Insurance	\$0	\$0	\$16	\$0	\$0	\$16	\$0	\$0	\$16	\$0	\$0	\$16	\$65
Advertising	\$20	\$20	\$41	\$20	\$20	\$20	\$20	\$20	\$41	\$61	\$61	\$20	\$368
Vehicle Expenses	\$.913	\$.913	\$.913	\$.913	\$.913	\$.913	\$.913	\$.913	\$.913	\$.913	\$2	\$3	\$14
All Other Expenses	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$107	\$1,279
Total Cash Flow	\$112	\$112	\$75	\$433	\$112	\$96	\$112	\$112	\$75	\$392	\$713	\$736	\$3,081

Contingency Plans and Exit Strategies

We try to carefully plan our operations and order product when we think our sales will be the highest. Because we deal quite a bit in perishable goods, we need to be aware of our buying patterns. Although we are in the process of automating the inventory and ordering process, we have been manually controlling and monitoring product as we go along.

When our sales volume fluctuates more than 10% in either direction, that is a red flag, and we evaluate and try to determine why we missed our expectations. Sometimes we fail to recognize local community events that bring people into the community who then stop by the store. We conduct a “lessons learned” on all of these fluctuations and try to improve our performance for the next ordering cycle.

If our sales are less than expected, we will make a note to do some extra promotional activity at that same time next year. If our sales exceed our expectations, we try to assess the reason why. Sometimes it is weather related, while other times it is related to special events or our marketing efforts.

We try to monitor which products sell well and which ones we don’t want to order anymore. The automated system will help us monitor this more but we still watch this closely, particularly as related to the perishable foods.

Kathy Kudler is the vision behind the organization. She intends to grow and expand the business for 10 – 15 years, at which time she will reach retirement age. Her intent is to sell the entire organization at that time and no longer be involved in the operations.