EXECUTIVE SUMMARY

"PHOTOY is a robust business concept as it addresses a safe, profitable niche market and requires no fixed assets, moderate initial investment, mostly in inventory, and typically enjoys a negative working capital position"

INTRODUCTION: Business proposition

At the beginning of this century main camera producers decided to focus their efforts on the digital area ceasing production of analogue cameras. In 2006, Kodak, the last analogue camera producer, decided to discontinue manufacturing these cameras, leaving those analog users frustrated, unable to buy new film cameras. Although the manufactures were aware of the existence of this niche market, it wasn’t big enough to justify keeping the production.

Being aware of this fact, PHOTOY has decided to capture part of this market, composed of both, nostalgic users and those who enjoy toying with old technology/ gadgetry to satisfy this residual emotional demand by offering them a mix of products related to analogue photography. All these products will be imported from reliable, quality approved suppliers in South East Asia.

OPPORTUNITY

Nowadays, there are several factors that strengthen the attractiveness of entering this market:

- **Only one player**: Lomography is the only company that provides an alternative for this niche market and year by year they have been increasing their sales worldwide, in spite of the fact that they are continuously increasing their prices. Hence, there is room for PHOTOY.

- **Ease of doing international business**: in the last years, barriers for international commerce have sharply decreased thanks to the internet, international trade agreements, reduction of tariffs, etc., but the most important thing for our business is the current easiness to reach and deal with Asian manufacturers and customers worldwide.

- **Robust Niche market with growth potential**: Analogue photography is an emotional and thus loyal niche market. Although it is not large, it is likely to grow bigger since many potential customers are still unaware of the existence of these products.
PHOTOY Executive Summary

BUSINESS MODEL

PHOTOY offers the opportunity to dive into the traditional photography in this world blinded by the digital siege.

A preliminary study of the potential market has been used to define two business lines, Products and Services that will be adapted to fit the requirements of our clients in order to fulfill all their expectations regarding film photography:

- **Products**: we will provide our users with all the items needed to live the analogue photography experience; product line and product mix.
  - Cameras: standard and high quality replicas
  - Films: several models of 35mm, 120mm and Polaroid, with different features (Asa, Redscale, etc)
  - Gadgets: flashes, camera cases, albums, etc.
- **Services**: we will offer our clients the possibility of developing their films and printing copies. Instead of doing it ourselves we are outsourcing it to a professional and efficient lab in Madrid.

PHOTOY will invest in R&D and continuous market research to broaden our product mix and deepen the product lines in order to surprise, excite and bond our customers to our brand.

As regards product pricing, next figure; Table 0.1 shows the average weighted costs and selling prices (before VAT):

<table>
<thead>
<tr>
<th>Items</th>
<th>Weighted average cost</th>
<th>Weighted average price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard cameras</td>
<td>8,40€</td>
<td>33,85€</td>
</tr>
<tr>
<td>High quality cameras</td>
<td>96,98€</td>
<td>142,06€</td>
</tr>
<tr>
<td>Films</td>
<td>2,51€</td>
<td>4,09€</td>
</tr>
<tr>
<td>Developing</td>
<td>5,73€</td>
<td>10,13€</td>
</tr>
<tr>
<td>Gadgets</td>
<td>6,25€</td>
<td>12,50€</td>
</tr>
</tbody>
</table>

We will open a store in a prime location in Madrid as well as a webpage were all our products and services will be available to make them accessible worldwide, although our efforts will be initially focused in the Spanish market.
MARKET OVERVIEW

Early this century the market saw the advent of the digital camera which saw a massive increase in sales to the detriment of the analogue cameras as we can see from the Table 0.2.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITS SOLD (x 1000)</td>
<td>305</td>
<td>1.162</td>
<td>2.192</td>
<td>2.397</td>
<td>2.717</td>
<td>2.901</td>
<td>2.825</td>
<td>2.646</td>
<td>2684</td>
</tr>
</tbody>
</table>

Table 0.2

In March 2005 the last new analogue camera model was launched and in mid 2006 production of analogue cameras was discontinued, and this left a certain unsatisfied residual market coexisting with the massive digital cameras market (3.5 million digital cameras users in Spain in 2010).

Nowadays, there are just two ways to find analogue cameras: through the second hand market (eBay, flea markets, antique shops…) and Lomography, which sells toy functional cameras. Therefore, there is an unsatisfied market which is willing to change from second hand markets to brand new replica cameras.

POTENTIAL MARKET

Last available data about traditional cameras sales belongs to 2007. The evolution of traditional cameras sold from 2005-2007 according to official data is shown in the Table 0.3.

According to our research, we estimate that there are 55,000 potential buyers of analogue cameras. This conclusion is predicated on the following:

- Lomography community: 10,000 users in Spain
- Lomography Facebook followers: 16,600 in Spain and more than 300,000 in Europe and US
- EBay: more than 25,000 ads
- Cufae.org: Comunidad de Usuarios de Fotografía Analógica en Español: 38,756 users.
- Twitter: 31,615 lomo followers
- Own encouraging survey (see annex 1)

We expect sales not only to this unsatisfied market but also to:

- Digital users nostalgic of this old technology.
- One time users, mainly tourists (Madrid receives almost 10 million visitors a year).
- People who follow trendy and retro movements which are aligned with our products.
Based on our research, the expected evolution of the market size in Spain and our expected sales in Madrid and through the internet are as shown in the table 0.4.

![Analogue cameras sales in Spain](image)

COMPETITIVE ADVANTAGE

Nowadays there’s only one strong player supplying this market in Spain. Even though they are in a good and strong position we are confident to capture a profitable share of this market through effective differentiation from them in camera portfolio and services. Our competitive advantages can be defined as follow:

- **Best camera replicas sellers from all times**: Apart from the standard, basic cameras we also include in our portfolio replicas of the iconic and best-selling analogue cameras of all times, unlike Lomography. Hence, we cover an unsatisfied demand that has been left aside.

- **Premium place**: Being located in a premium area, unlike Lomography, will make us more accessible to our potential customers and passers-by thus giving us a strategic lead.
- **Competitive price positioning:** Since we do not intend to cream this market, unlike Lomography, we will be able to undercut the established player.

- **Innovation:** We intend to grow demand and anticipate and create customer’s needs through a continuous product line expansion.

- **Different backgrounds:** Two engineers, one marketing expert and a translator all with an international MBA. Their task will be aligned according to their skills: engineers will be in charge of the technical and operational division, the marketing expert will design the communication and marketing division and the translator will help with the negotiations and international expansion.

**MARKETING PROPOSITION**

Our marketing expenditure vary from 23% of our net profits in the first years, to build our brand and create brand awareness, to a minimum of 7-8% once the business is established. They are very potential customer focused. All the communication will be focused on reaching our customers heart, appealing to the romantic idea of analog photography. We want to catch as many potential customers as possible. We don't want to reach quantity but quality. Our actions will include “above the line” (ATL) and “Below the line” (BTL) strategies, supported with Public Relations. These actions will include SEO (Search Engine Optimization), CPC (Cost per Click) and advertising campaigns on Facebook. A strong effort will be made using Internet as a tool, taking advantage of all the Social Networks and Platforms: Facebook, Tuenti, Twitter, Flickr, Vimeo and Youtube. All these will be reinforced with promotional activities taking place all year round, activities specialized designed for customers, photographers meetings and parties. Agreements with restaurants and amusements parks will reinforce all our marketing actions. Another important tool will be our website, which will allow us to keep our customers informed and sell online all our products. Finally regarding packaging, it will be designed in a creative and appealing way. Moreover, the instruction will be found inside and those will be explained in such a way that our clients find it easy and funny to use.
PHOTOY Executive Summary

FINANCIALS

In the financial plan we will analyze the economic viability of PHOTOY, using the analysis of economic and financial statements of the company and a sensitivity analysis based on the main facts that could affect somehow our business. All the figures guaranty successful competitiveness and give us the possibility of keeping expanding our brand through Spain in the short term (Barcelona) and going international in the mid-long term.

The evolution of the total sales vs. total costs in the first 5 years taking into account the opening of the new store in Barcelona in the year 2014 as well as the growing balance mix of sales are shown in the tables 0.5 and 0.6.

Cash outlay can be shown in the table 0.7
A summary of the Profit and Loss statement for the five years can be shown in table 0.8.

We begin with a share capital of 125,000€: 50,000€ from external investors and another 75,000€ from ourselves. In addition, we will ask for a 80,000€ loan from the ICO (Instituto de Crédito Oficial) given through the Banco Popular with a 1 year grace period with an amortization period of three years at an interest rate of 8%.(see annex 8 in the business plan).

The Balance Sheet and the Cash flow Statement are shown in the tables 0.9 and 0.10.

**Balance Sheet Table 0.9**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Software/ licences/webpage</td>
<td>7,000,00</td>
<td>7,000,00</td>
<td>7,000,00</td>
<td>7,000,00</td>
<td>7,000,00</td>
<td>7,000,00</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>0,00</td>
<td>350,00</td>
<td>-1,600,00</td>
<td>-2,500,00</td>
<td>-3,400,00</td>
<td>-4,200,00</td>
</tr>
<tr>
<td>Equipment</td>
<td>42,700,00</td>
<td>42,700,00</td>
<td>42,700,00</td>
<td>42,700,00</td>
<td>42,700,00</td>
<td>42,700,00</td>
</tr>
<tr>
<td>Refurbishment</td>
<td>37,400,00</td>
<td>37,400,00</td>
<td>37,400,00</td>
<td>37,400,00</td>
<td>37,400,00</td>
<td>37,400,00</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>0,00</td>
<td>1,185,00</td>
<td>5,925,00</td>
<td>10,665,00</td>
<td>15,395,00</td>
<td>20,125,00</td>
</tr>
<tr>
<td>Stock</td>
<td>0,00</td>
<td>22,990,46</td>
<td>22,990,46</td>
<td>22,990,46</td>
<td>22,990,46</td>
<td>22,990,46</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Cash/Banks</td>
<td>76,300,00</td>
<td>76,300,00</td>
<td>76,300,00</td>
<td>76,300,00</td>
<td>76,300,00</td>
<td>76,300,00</td>
</tr>
<tr>
<td>Net Fixed Assets</td>
<td>125,000,00</td>
<td>108,847,50</td>
<td>113,341,38</td>
<td>193,317,07</td>
<td>236,507,65</td>
<td>239,680,26</td>
</tr>
<tr>
<td>Total Assets</td>
<td>125,000,00</td>
<td>108,847,50</td>
<td>113,341,38</td>
<td>193,317,07</td>
<td>236,507,65</td>
<td>239,680,26</td>
</tr>
</tbody>
</table>

**Cash Flows Statement Table 0.10**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>-123,763,02</td>
<td>36,064,72</td>
<td>69,908,65</td>
<td>44,059,05</td>
<td>182,530,37</td>
<td>211,517,17</td>
</tr>
<tr>
<td>Interest Paid</td>
<td>0,00</td>
<td>1,484,44</td>
<td>6,475,70</td>
<td>5,183,28</td>
<td>3,116,62</td>
<td>2,545,14</td>
</tr>
<tr>
<td>Amortization/Depreciation</td>
<td>0.00</td>
<td>1,535,00</td>
<td>6,140,00</td>
<td>6,140,00</td>
<td>11,190,00</td>
<td>11,015,00</td>
</tr>
<tr>
<td>Net Investments in Fixed Assets</td>
<td>-48,700,00</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>-4,500,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Investments in NOF</td>
<td>0,00</td>
<td>-4,620,05</td>
<td>27,220,65</td>
<td>7,630,08</td>
<td>49,737,54</td>
<td>37,821,77</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>125,000,00</td>
<td>108,847,50</td>
<td>113,341,38</td>
<td>193,317,07</td>
<td>236,507,65</td>
<td>239,680,26</td>
</tr>
</tbody>
</table>

Balance Sheet Table 0.9

Cash Flow Statement Table 0.10
In the tables 0.11, 0.12 and 0.13 we compare the NPV and the IRR of the first five years in the three possible scenarios: the realistic, the pessimistic and the optimistic.

According to the data from different markets (retail shops), we used a discount rate of 18% but even if that discount rate would become higher, the project is consistent enough and could face it with no problems as it is shown in the table 0.14.
**Sensitivity analysis**

We have done a sensitivity analysis in terms of the internal rate of return with the main factor that could affect directly to our Cash Flows. The analysis is shown in the following graph.

![IRR sensitivity graph](image)

As it is shown in the graph, PHOTOY is going to be more sensitive to an increase/decrease of the sales price. Anyway, a war price with Lomography is not very likely to happen due to their international presence. However, the appearance of new competitors will be possible in the future and maybe then we will have to reduce our prices but always taking into account that we have very competitive prices.

**Risk management**

Main risks we face are as shown in the following figure. The most important one is what we call the imitation. In case a new competitor appears imitating our products we have to be innovative, always looking for new products and increase the difference in the service provided and that is why we have planned 3 trips/year to Thailand and China in order to keep on improving our suppliers portfolio as well as finding new products that increase our portfolio.
We are aware about the easiness of being copied due to the low barriers of entry of our business but we are also concerned about the low barriers of exit as the initial investments are really low (really low CAPEX).

**PHOTOY ROAD MAP**

- **March**
  - External & Internal Analysis
  - Marketing research
  - Benchmarking

- **June**
  - Store & refurbishment licenses
  - Brand registration and company set up
  - Searching and contact suppliers
  - Webpage and ERP design

- **August**
  - Portfolio development
  - Logistic partnership & Lab contact

- **August**
  - HR recruitment process
  - First Order
  - Refurbishment

- **September**
  - Opening practice
  - Opening party

- **OCTOBER**
  - 3rd October Opening Day