

HOW TO BUDGET FOR A DISPLAY PROJECT

Deciding what to spend on a display or kiosk is fundamentally a dollars-and-sense question. The best display in the world is worthless if it doesn't make financial sense for your company to produce it. Bottom line, you need to be confident that your display will generate a reasonable return on your investment in a reasonable period of time, and that the project is affordable in your company's broader context.

The chart we develop in this document can help you make those determinations. Once you've plugged what-if numbers into the chart you're comfortable with you can move forward with your project with a much greater degree of confidence in its financial success.

The first question to ask is—how much more money can I make if I put a display in a store?

To answer this question, start by building a simple spread sheet showing your existing monthly sales projections for the products to be showcased by the display, in units per store (see our example, next page), and multiply those quantities by the gross profit per unit to arrive at the gross profit you now expect to make each month in an average store. You probably have these figures already. They'll provide the base line for our display considerations.

Then guesstimate the percentage increase in unit sales the introduction of a display might generate for you in a store each month (these are the only guesstimates you'll have to make and you can adjust your guesses later). Every month's sales projection is probably different (Christmas push, end of season sales, etc.), so run the figures starting from a few months before you're thinking of rolling out the display and carry the calculations forward month by month as far in the future as you want. Multiply that percentage by the gross profit you now make from the store to get a reasonable guess about how much more money a display might make for you each month.

Four representative months are spread-sheeted on the following page to suggest the thinking involved. In our example March is preseason, generating modest widget sales (150 units). Store traffic is haphazard. A display in the store wouldn't improve things much (6% increase). June is mid-season with lots of sales. A great display might increase those sales by as much as 10%. September is end-season, with great volume but at clearance margins (\$1 vs. \$2). Eye catching 'sale!' graphics on a display might bump that volume 12%. November is off season (no displays in store).

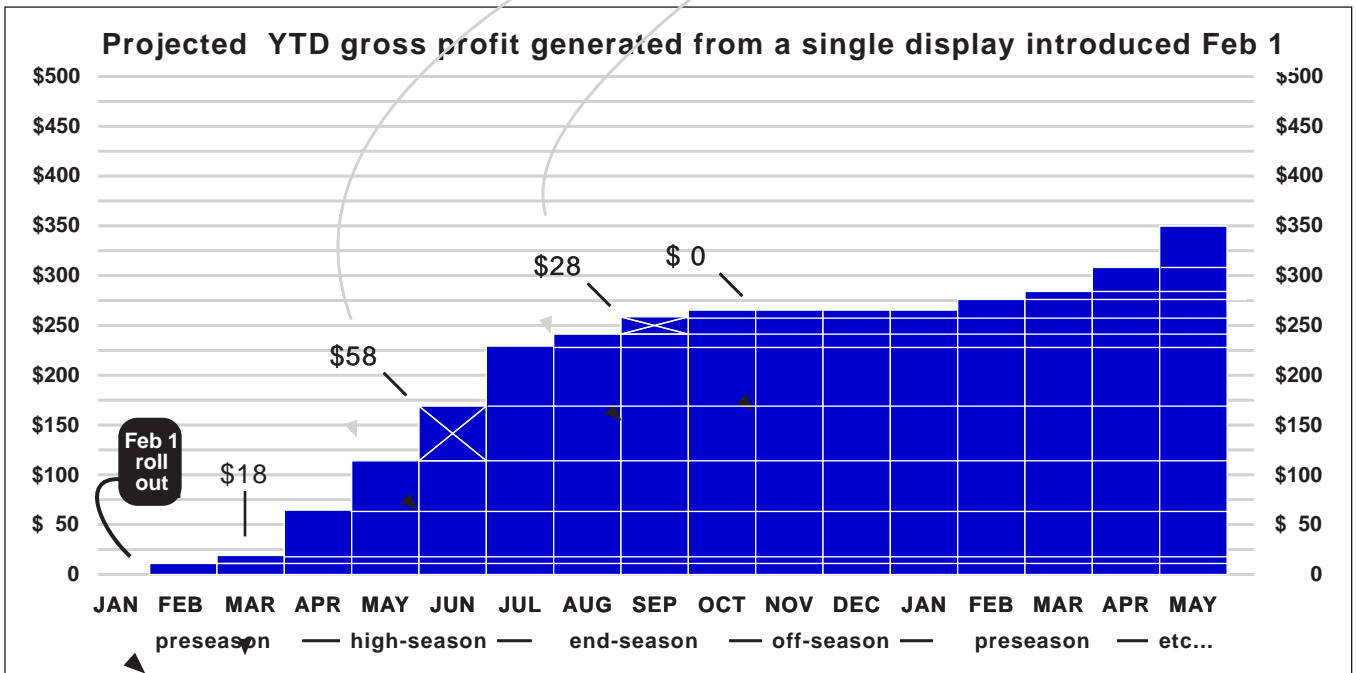
Use your spread sheet to construct a bar chart similar to ours for your numbers. Put the bars of an overlay because we'll want to move them around later. Or go high tech and use Excel.

Our representative months are tabulated below to suggest the thinking involved:

- Mar is preseason, generating modest sales (150 units). Store traffic is haphazard. A display in the store wouldn't improve things much (6% increase).
- Jun is mid-season with lots of sales. A great display might increase those sales by as much as 10%.
- Sep is end-season, with great volume but at clearance margins (\$1 vs. \$2). Eye catching 'sale' graphics on a display might bump that volume 12%.
- Nov is off season (no displays in store).

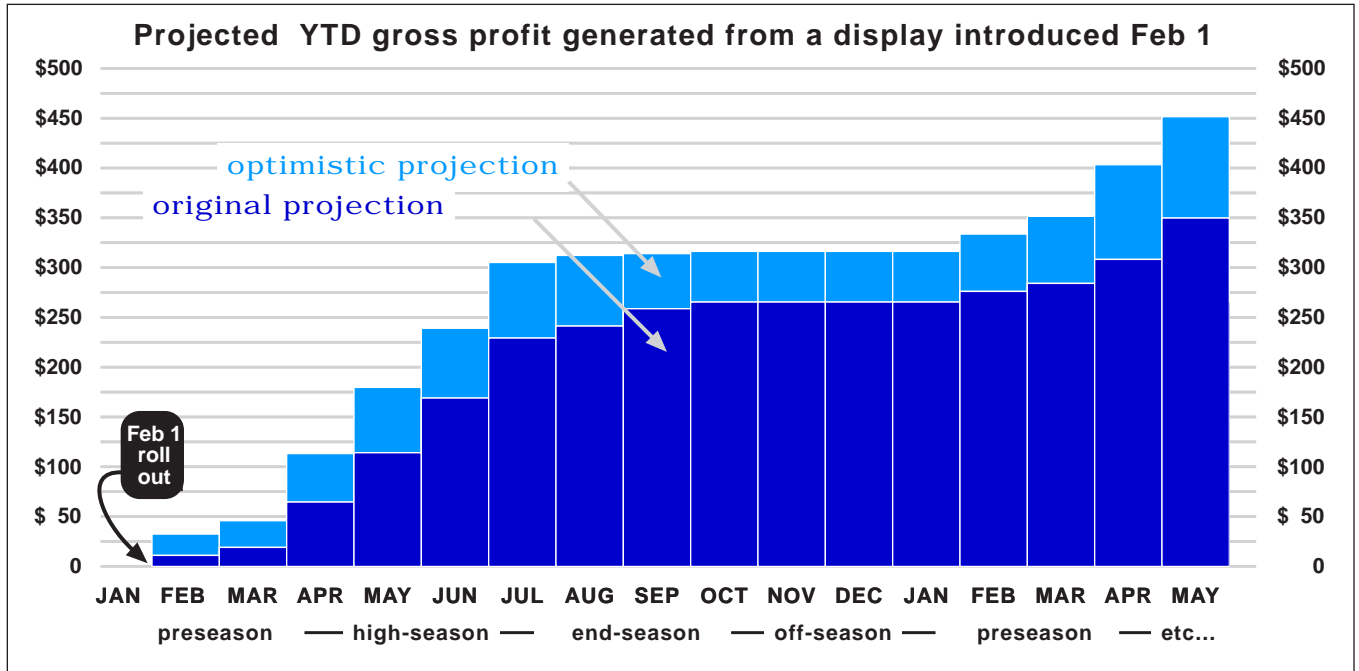
MONTHLY PER STORE SALES PROJECTIONS SPREADSHEET		(a few representative months)			
	MAR	JUN	SEP	NOV	
Gross profit per widget	\$2	\$2	\$1	\$2	(a)
Unit sales per store without a display	150	290	233	0	(b)
Gross profit per store without a display	\$300	\$580	\$233	0	(c = a x b)
% increase in sales with a display	0.06	0.10	0.12	--	(d)
Add'l profit per store with a display	\$18	\$58	\$28	--	(e = c x d)

The bar chart below plots the additional display profit in accumulated year-to-date fashion assuming an arbitrary Feb 1 roll out. Each month's display earnings build on the preceding month. You'll see why we plot the bar chart this way in a minute.

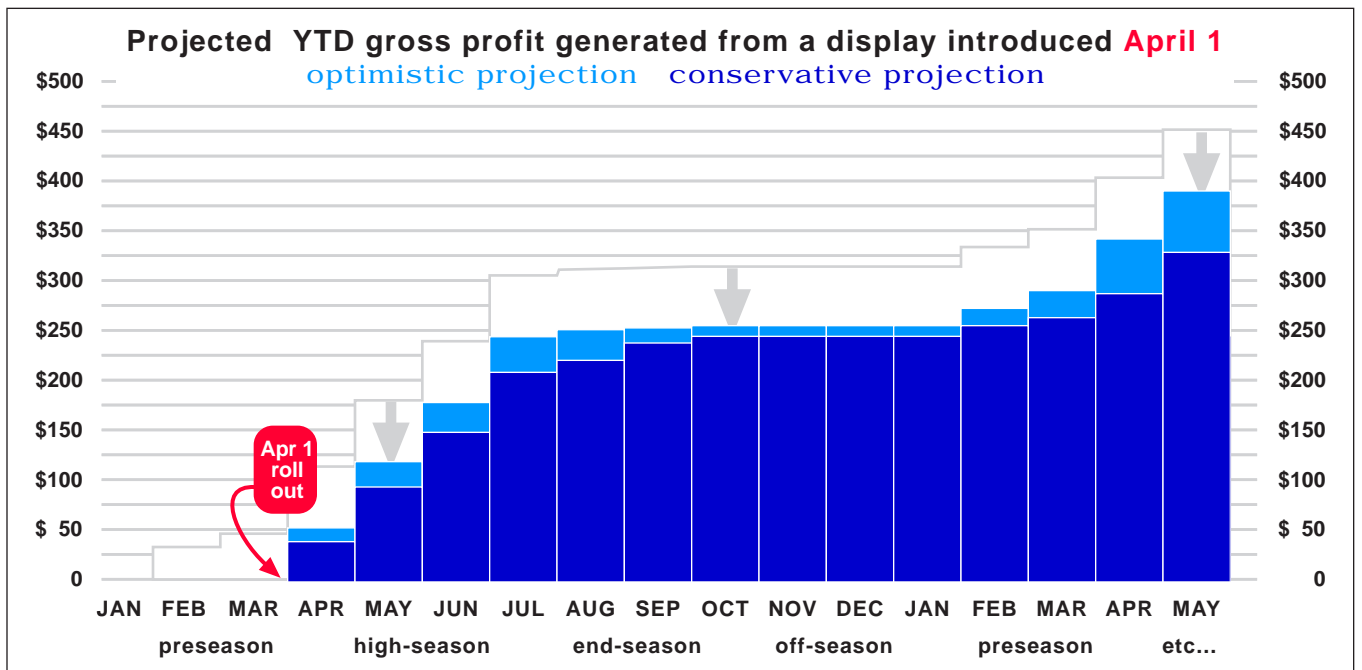


But first - what if we're wrong about the impact we're guessing our display will have? Let's add another set of projections to our chart based on different expectations.

Now we have both conservative and optimistic projections plotted, and the impact of the display is almost certain to fall in the range between them (see chart below). You have realistic range of financial projections to base the project's budget on.



Now let's see what happens if we change the roll out date. To reflect a different roll out date for the display, move the bar overlays down to reflect zero profit attributable to the display in the month prior to its introduction in the store (makes sense, doesn't it?). For an April roll out, move the bars down to reflect \$0 gross profit in March. The conservative and optimistic bar-sets will have to be moved by different increments to zero them for March, so be sure to move each overlay individually (compare the size of the light blue areas visible in the charts above and below).

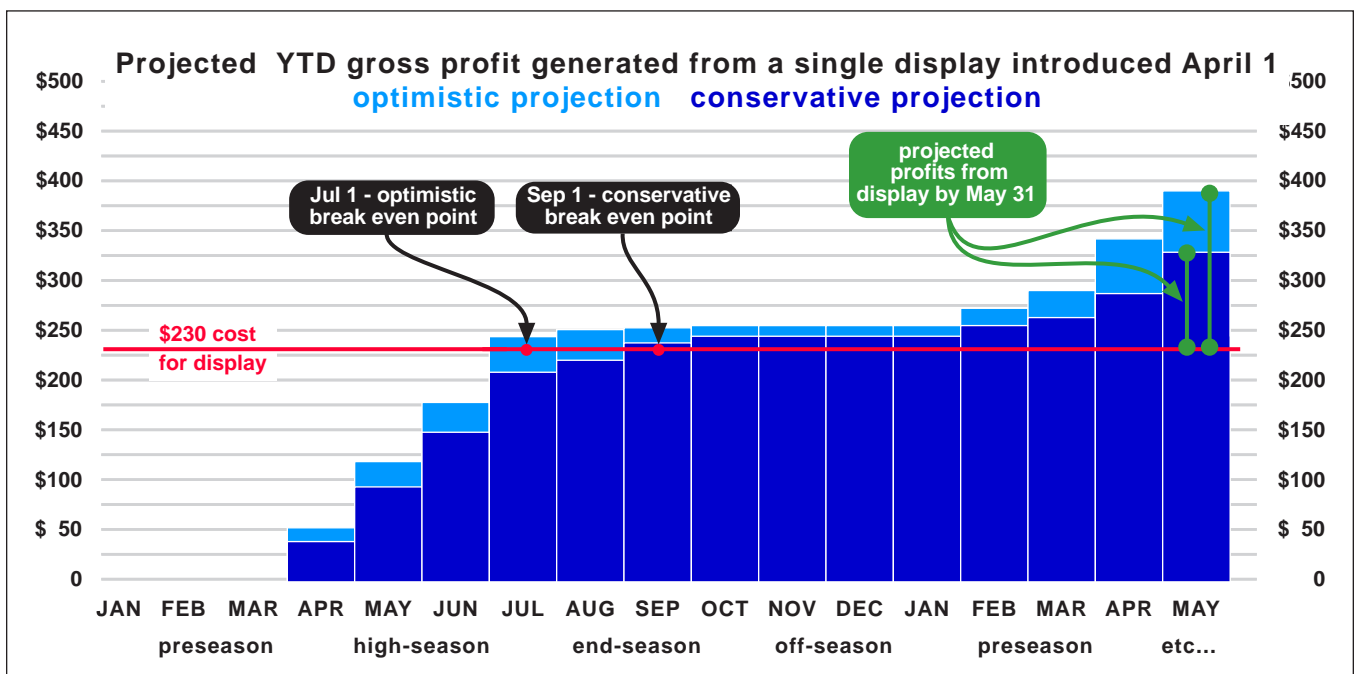


(This chart is helpful in budget meetings. You can slide the bars up and down to reflect any scenario—even conservative projections based on a February display roll out vs. optimistic projections based on an April introduction. Very nice.)

Now that we know what good things a display can do for us we can consider how much we want to spend for one.

Before we start it's worth recognizing that there are probably two intuitive, do-not-exceed numbers you need to identify before considering display budgets. First there is a limit to the total amount of money you'd be willing to invest in the whole display project, regardless of project specifics. Second, there is a limit to the amount of money you'd be willing to invest in a single display (or single store), regardless how nice the display. It makes sense to establish the price ceiling those numbers imply right from the start so you don't wind up with a display project that looks fine on paper but that, deep down, you're unwilling to commit to when the time to write the check arrives.

We've done that in red below, based on an arbitrary \$230 cost per display.



It's easy to see that a \$230 display, introduced April 1, will have paid for itself somewhere between July and September. Half of its cost will have been recovered around May-June. By May next year it will have generated \$90 to \$165 in real dollars, above and beyond it's cost. (Indirectly, the heights of the bars also suggest what additional product inventory will be needed to address the additional sales the display is projected to generate.)

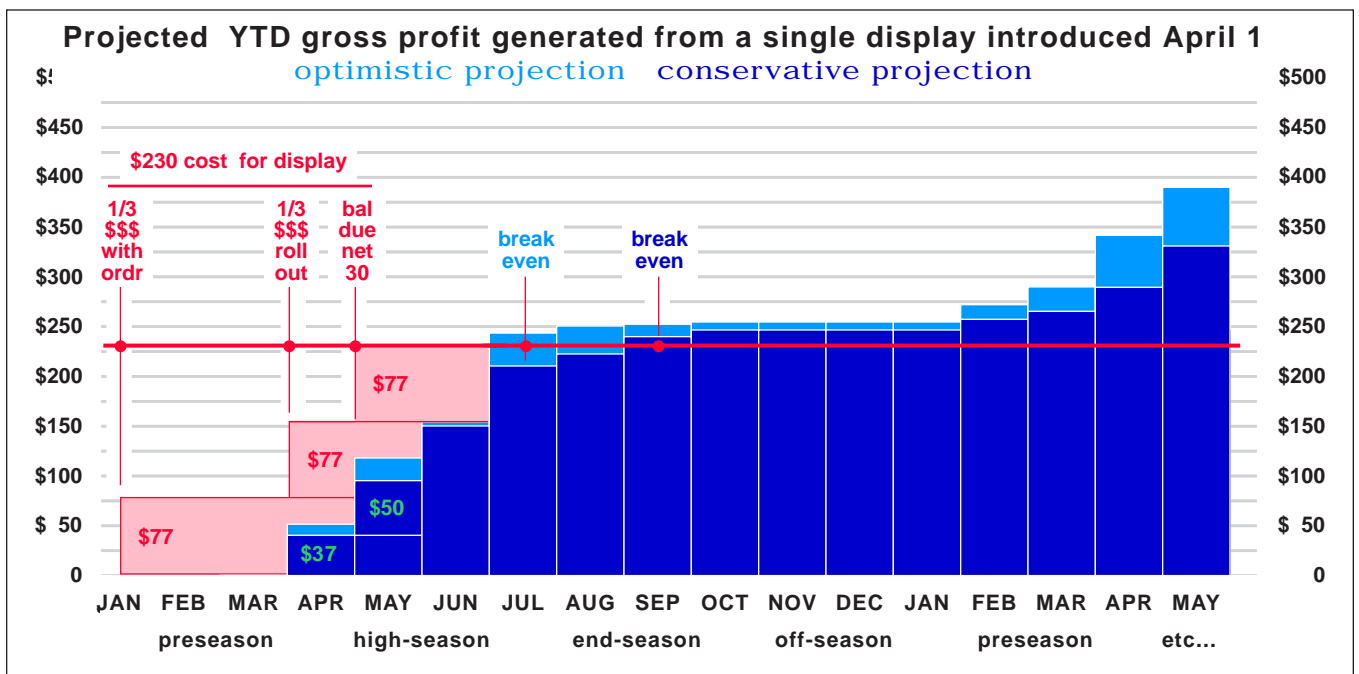
So is \$230 reasonable? We can't tell you—but this chart makes it easy to explore the ramifications if that's the number you're exploring. By shifting the bars up and down, and adjusting the display's cost you can quickly evaluate any display scenario you'd like—all without changing your underlying sales projections.

Your chart can be embellished to answer a variety of other important questions having to do with display projects. With some thought the financial impact of special allowances and dealer load-in programs could be reflected on the chart, as could the cash flow benefits of partial roll outs (and production) of the displays over an extended period of time. The chart can also be used to track actual store sales to see how close your projections are to what actually happens.

As an example, we've overlaid the display's production costs to show how the chart can be used to identify the project's cash flow needs at any point in time.

In our example, \$77 will be paid to the fabricator when the display is ordered January 1. Another \$77 will be paid on order completion April 1 (at display roll out). But notice this—conservatively, \$37 will have been earned by the display by that time making the net draw down on cash April 1 only \$40.

The final \$77 is due May 1 but the display will have earned another \$50 by that time reducing the May 1 outlay to \$27. (This analysis is simplistic of course—it assumes that payment to you will be received instantly when products are sold off the display—but you get the idea.)



So where are we at this point?

The numbers on the chart, multiplied by the quantity of displays you're planning on, can give you a good sense of what the project might do to enhance your bottom line and a feel for how you might best tackle the project in terms of timing, budget and cash flow. When you have those parameters comfortably established you're ready to consider what sort of display might fit the bill and that, of course, is where we come in.

I look forward to an opportunity to work with you.

Jim Redfield, CEO

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