# ABC, LTD.

## BUSINESS PLAN

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## EXECUTIVE SUMMARY

ABC will be an online retailer of premium home automation products. From the external analysis presented in this business plan it can be concluded that the company will operate in **a good business climate**: North Carolina is a politically stable country that offers a simple application process for business licenses and permits. The state's economy is rated 15$^{th}$ in the US country economies' analysis and **1$^{st}$ in lowest state and local business tax burden** and its current-dollar GDP in 2016 was $517.9 billion. The analysis of the social environment resulted in a conclusion that both Raleigh and North Carolina are experiencing a population growth and have a good educational infrastructure.

Regarding the global home automation market, the research shows that the 2017 smart home market revenue amounts to $33,448 million, with **US being the biggest market in regards to sales revenue** ($15,422 million) and **highest forecasted annual growth rate** in the years 2017-2022 (16.3 %). With Raleigh being one of the most **exclusive neighborhoods** in NC and a city with an average income higher than the state's, ABC can expect many potential customers. Since the industry is clearly on the rise and the market is expanding, it is no longer that there are many competitors on the market. However, the competition analysis of 9 direct competitors shows that only one other company offers installation services and others mainly offer free shipping only. Besides the direct competitors, there are 3 categories of indirect competitors: manufacturers who sell their products online, gigantic online retailers that sell products in many departments including home automation products and companies that primarily offer installation services but also sell home automation products. The supplier research resulted in 9 well-known companies similar to NEST that offer **cheaper high-quality products**.

The internal analysis had a positive outcome as well: ABC will offer high-quality home automation products and their price will be set above the average price level since the company will be implementing a **premium pricing strategy**. The main promotional goal will be to raise awareness of the company's existence by using the **online promotional channel**, via social media, e-mail marketing, etc.

From the SWOT analysis conducted by summarizing the information gathered in the external and internal analysis, the **company's strengths and the market opportunities**

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**outnumber the company's weaknesses and potential threats** on the market. For the identified weakness and possible threats, risk strategies are suggested.

The company's three year financial results show great promise: In the first year, the company will operate with a **$27,241 net profit**. The second year, a minor loss of $1,696 is expected, due to the employment of the installation worker, but the company will recover from this loss very soon, with a net profit of $8,485 in the third year.

## INTRODUCTION

In today's business world, innovation is the key to success. With the rapid technology growth, the market offers endless possibilities for starting a business that offers creative solutions. The possibility to make a product available online creates many opportunities, such as expanding on further located markets with very small additional expenses, increasing sales by offering people a simple and fast way to shop from home, using the Internet as the key promotional channel and many more.

In order to reduce the chances for failure, a good external analysis of the environmental factors is crucial.

To determine whether the business climate is attractive, it is necessary to research all the possible business aspects by doing a PEST analysis: an analysis of the political, economic, social and technological environment. The external analysis also includes a market and an industry overview. They are necessary in order to determine the market situation and the industry trends that the business will work in.

## EXTERNAL ANALYSIS

The external business environment consists of political, economic, social and technological factors that can influence the business's work and have a significant impact on its performance.

In order to analyze these external forces, it is necessary to have all the available information about the market and industry in which the business operates, accompanied with a PEST analysis to understand the business climate, which leads to good decision making.

Additionally, the competition must be identified and analyzed in order to determine the potential market share that the business would own. What is also valuable is to learn if the

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leading competitors are the ones that take up most of the market share, as well as any entrant barriers that condition new players in the market.

## PEST ANALYSIS

The PEST analysis's purpose is to identify the situation in each segment separately: Political, Economic, Social and Technological. Considering the business will operate in USA, North Carolina, the PEST analysis will be done for the before mentioned country. Many of the factors that dictate the business climate in North Carolina will be identified and presented in the following paragraphs.

### POLITICAL ENVIRONMENT, LAWS, AND REGULATIONS

The government of North Carolina is divided into three branches: **executive** (The Council of State), **legislative** (North Carolina General Assembly), and **judicial** (North Carolina Supreme Court).

**The Council of State**'s elections in North Carolina were held in November 2016, resulting in 6 Republicans and 4 Democrats winning. The current governor of North Carolina is Republican Pat McCrory. **The North Carolina General Assembly** is the state legislature of the U.S. state of North Carolina that drafts and legislates the state laws, also known as the General Statutes. The General Assembly is a bicameral legislature, consisting of the North Carolina House of Representatives and the North Carolina Senate. **The Supreme Court** of the State of North Carolina is the state's highest appellate court and its primary function is to resolve issues that originate from the lower courts and before state administrative agencies.

According to an article on Research Triangle Region, one of the most important factors for the good business climate in North Carolina is the **Government that understands business**. This source states that North Carolina has supportive government officials, both local and state, who make strategic, lasting investments in education, workforce development, infrastructure, and technology. Their sound and stable fiscal policy is provided through a constitutionally mandated balanced budget, reasonable tax rates, a right-to-work labor environment and a rare AAA bond rating.

Regarding the laws and regulations for starting a small business in North Carolina, Start or Grow a Business – a section on the website of Economic and Development Partnership of

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North Carolina offers various information and Business Link North Carolina (BLNC) division offers free phone consultations for startups and small-business owners.

According to this source, **North Carolina's legal climate was ranked one of the best in the US**, due to the recent tort reform and the strengthening and streamlining of the business courts in the state. The US Chamber Institute for Legal Reform ranked North Carolina's **Legal Climate as 7th** and **Overall Treatment of Tort and Contract Litigation as 5th** in the US. The well-known global media company Forbes, ranked North Carolina **7th in Best Regulatory Environment.**

The process of starting a business is explained in the Start a Business section of the Economic and Development Partnership, on North Carolina's website.

According to this guide, **the third step when starting a business is to get license requirements**. The State of North Carolina does not issue a single business license, so the business may be subject to state, city, county and/or federal requirements.

When forming an LLC, the personal assets are protected in the event of the business being sued, which is a crucial aspect of reducing personal liability.

Another source - How to start an LLC?, in the section legal considerations state that a Certificate of Occupancy is typically required for a businesses operating out of a physical location. A CO confirms that all building codes, zoning laws, and government regulations have been met. What is also important to note, is that most businesses are required to collect sales tax on the goods or services they provide. Get sellers permit is a guideline that can help understand the process.

SBA's reference to state licenses and permits offers additional information about the legal requirements for starting a small business.

**To summarize, the political environment in North Carolina is stable, offers good legal climate (ranked one of the best in the US by many sources) and the application process for licenses and permits is relatively simple.**

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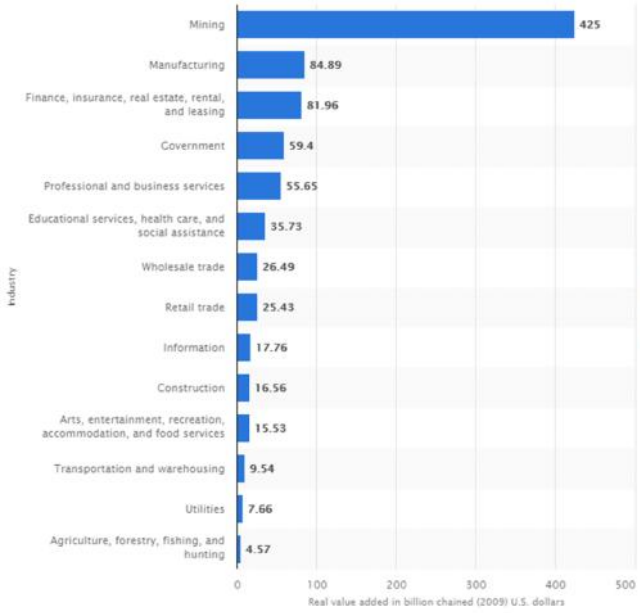
## ECONOMIC ENVIRONMENT

When analyzing the economy, the most important indicator is the GDP (Gross Domestic Product) indicator. According to a report by BEA (Bureau of Economic Analysis), **North Carolina's current-dollar GDP was $517.9 billion in 2016 and ranked 10th in the United States.** When looking back 10 years later, it is noticeable that the economy in North Carolina is experiencing slow but steady growth with **a compound annual growth rate of 0.8% in the years 2006-2016**.




Regarding the GDP by industries, Statista's research represents the real value added to the GDP of North Carolina in 2016, by industry (in billion).

The Mining industry is the biggest GDP contributor with $425 billion, followed by manufacturing ($84.89 billion).

In order to properly analyze the economic climate of North Carolina, besides the GDP, there are many other indicators to be considered: economic growth, tax rate, labor cost, business cost etc.

According to 2017's Best & Worst State Economies – a report by the personal finance website Wallet Hub, **North Carolina is ranked 15th in the US countries economy analysis**, with an index score of 57.34 out of 100. In terms of **economic health**, the state is **ranked 11th** and **ranked 12th** for **innovation potential**.

The Business Climate section on EDPNC (Economic and Development Partnership of North Carolina)'s website states the following ratings:

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- Tax climate - Tax Foundation in 2017 ranked North Carolina with a **3% Corporate Income Tax Rate** as the lowest in the Southeast, Ernst & Young in 2016 ranked North Carolina **1st in Lowest State and Local Business Tax Burden** and Tax Foundation and KPMG in 2015 ranked North Carolina **5th in Lowest Effective Tax Rate for Mature Corporate HQs.**
- In terms of low business costs, North Carolina's business climate was ranked by Forbes as the **2nd state with the lowest business costs**, 10.3% below the national average. Area Development's Top States for Doing Business rated North Carolina **5th in Competitive Utility Rates.**
- Regarding the labor climate, the US Bureau of Labor Statistics in 2016 rated NC as the **2nd state with lowest unionization rate** in the US, with labor costs that are 11% below the national average - 4th lowest in the country. Area Development in 2016 ranked North Carolina 3rd in the Most Competitive Labor Climate category.

Regarding the Raleigh economic climate, Raleigh4U offers information about the current (2017) taxes in Raleigh:

- Sales and Use Tax: 6.75%
- Personal Income (Flat Tax Rate): 5.75%
- Corporate Income Tax: 3%

**From the information amassed from a plethora of credible sources, it is safe to conclude that the economic climate in North Carolina and Raleigh is very favorable, with attractive low taxes and labor costs, ranked highly in the US countries' economy analysis.**

## SOCIAL ENVIRONMENT

North Carolina, situated on the East coast of the United States is the 8th largest state in the country, with relatively high population density, and a current population of 10,258,390 people, according to World Population Review. The state has a healthy growth rate of 1.13%, which ranks 14th in the nation.

Regarding the workforce, according to the July 2017 analysis by NC State Human Resources, the working population age distribution is as follows:

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- 20-29 years - 11.3%,
- 30-39 years - 19.7%,
- 40-49 years - 26.9%,
- 60-69 years - 11.9%,
- 0.8% - people older than 70,
- 0.04% - people younger than 20.

From the age segmentation of the working population, it can be concluded that the biggest segment in the working population is the 40-49 years age segment with 26.9%, followed by the 30-39 years age segment with 19.7%.

The education in North Carolina is one of the state's strengths; according to Point2Homes **North Carolina has 1,370,971 people or (29.1%) with college diplomas**, followed by 1,142,384 people or (24.3%) with Bachelor's degree, 570,466 people (12.1%) with a graduate degree, and 547,613 people (11.6%) with Associate Degree.

Regarding the city that business is located in, Forbes ranked **Raleigh as 4th city in America's 20 Fastest Growing Cities**. Suburban Stats' analysis - Population Demographics for Raleigh, North Carolina in 2016 and 2017 states that the city's population is 403,892 with 384,366 households. **The number of occupied homes in Raleigh is 162,999.**

Forbes also ranked Raleigh 2nd for Best Places for Business and Careers; with **median household income of $84,288 and job growth of 3.7%.** Another fact worth mentioning is that Forbes also states that **technology is one of the major industries in Raleigh** with 4.5% High-Tech Employment. The city's education rate is also high, with 91.6% High School Attainment and 47.2% College Attainment.

**The presented information above allows for drawing a conclusion that North Carolina and Raleigh both have growing population trends, with attractive social standards.**

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## TECHNOLOGICAL ENVIRONMENT

The technological environment in a certain country can be of crucial meaning to every industry nowadays, considering the massive use of technology. When analyzing North Carolina's technological environment, many sources claim that North Carolina is experiencing technology growth and this trend is expected to continue with even bigger growth rates.

According to a press release by the tech association CompTIA, **the tech sector accounts for an estimated 6.6% ($32.8 billion) of the overall North Carolina economy**. North Carolina ranks 13th in tech employment and 20th in innovation. The annualized average wage for a North Carolina tech industry worker was 99% higher than the average state wage ($46,700), amounting to an estimated $93,200 in 2016.

This report also states that North Carolina has 16,605 tech business establishments, where the technology industry employment grew by nearly 6% in 2016.

Another source - North Carolina in The Global Economy states that North Carolina enjoys a modestly strong position in the IT industry in the IT Industry overview of the state. **The two key trends that North Carolina's technology industry is experiencing are Innovation and Globalization**. These trends are shaping the technology industry in North Carolina and have a positive influence on it.

Regarding the hardware trends specifically, according to the same source, hardware manufacturing in North Carolina has experienced an increase in industry concentration due to new entrants into the market in the last decade. A negative trend was also identified: The US-based companies that were able to remain competitive during that increased industry concentration was due to their outsourcing practice of component production in Asia.

However, after the end of 2010, the hardware manufacturing industry managed to recover, thanks to the increased market demand. The improved software systems have reduced the costs for experimentation in hardware design and created an opportunity for startup companies to enter the market and become competitive players on a market that is no longer dominated by lead firm giants.

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## MARKET OVERVIEW

As an essential part of human's nature, the need to feel safe is one of the basic emotional needs that people must satisfy. Today, there are many alternative solutions on the market available to satisfy this need and they are becoming more and more sophisticated with every passing day. The innovative business idea for home automation that offers high-end solutions using advanced digital technology to automate the products and systems at home, holds great potential for success. These solutions are becoming more and more popular due to the main benefit they offer: A safer, more efficient and connected home – a smart home.

According to Global Home Automation System Market 2015-2019 – a report by Technavio, the automation of home and household activities consists of centralized lighting control, HVAC control system, security and access control system, entertainment control system, and the control of other appliances in the home.

The process involves the integration of electrical devices with each other, where these integrated devices are managed and controlled via a computer network with remote internet access.

According to Home Automation System Market by Protocol and Technology - a report by the market research company Markets and Markets, the home automation system market is expected to grow, driven by factors such as cost reduction enabled by home automation systems, presence of a large number of manufacturers expanding their product portfolios, and the increasing interest in home monitoring from remote locations. The same source states that **the global home automation system market was valued at $39.93 Billion** in 2016 and **is expected to grow at a CAGR of 11.3%** during the years 2017-2022.

Another source, Smart Homes, United States – a market analysis by the statistical portal Statista states that The Smart Home Market include:

- Digitally connected and controlled devices within a house that can be remote controlled.
- Sensors, actuators and cloud services that support automation in any way.
- Control hubs to connect sensors and actuators with remote controls and to each other.
- B2C hardware and software sales as well as subscription fees.

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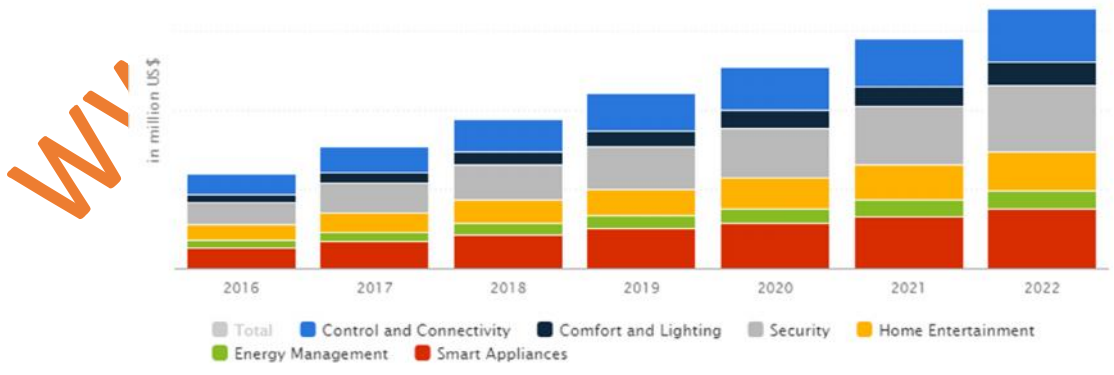
According to the same source, **the revenue in the global Smart Home market amounts to $33,448 Million in 2017** and is forecasted to experience a stable growth in the following years. After analyzing the global Smart Home market, Statista's analysis showed that the most revenue is generated in the United States, **with a market volume of $15,422 million in 2017.** Revenue in the US market is expected to show an annual growth rate (CAGR 2017-2022) of 16.3 %, resulting in **a market volume of $32,806 Million in 2022**.

According to Future Market Insight's report: Home Automation Market: Global Industry Analysis and Opportunity Assessment 2015-2025, **the home automation market can be segmented by product, application, networking technology, region and software and algorithm.**

The most common segmentation used in most statistics is the segmentation by an application that defines the following segments:

- Safety and Security
- Lighting
- Entertainment (Audio and Video)
- Heating, Ventilation and Air conditioning
- Others

Statista uses a different market segmentation by an application that defines the segments presented in the graph: Control and Connectivity, Comfort and Lightening, Security, Home Entertainment, Energy Management and Smart Appliances.

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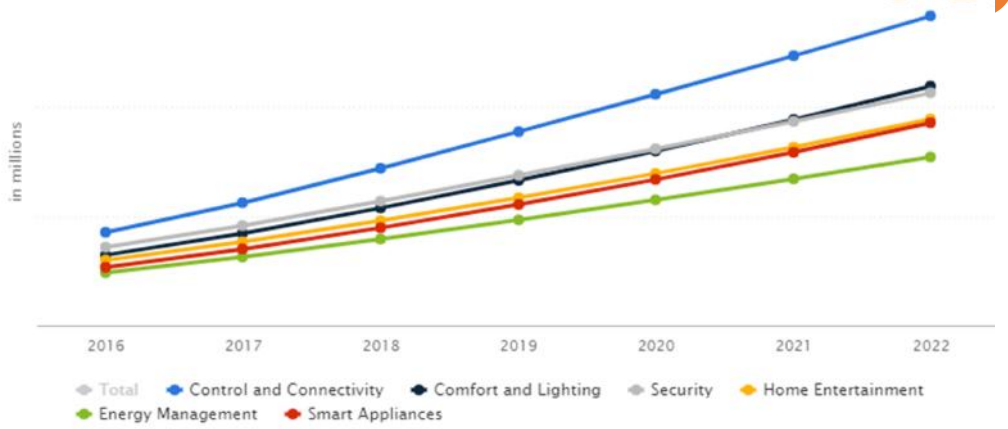
Statista's graph above presents the forecasted revenue growth in the US Smart Home Market and the presence of each sub-segment: Control and Connectivity, Comfort and Lightning, Security, Home Entertainment, Energy Management and Smart Appliances.

Statista's research also showed **that the average revenue per installed Smart Home in the US currently amounts to $150.07**. Household penetration is at 10.2 % in 2017 and is expected to hit 20.5 % by 2022. The graphic below represents the penetration rate in the US Smart Home market:




As the graph clearly shows, the **penetration rate is the biggest in the Control and Connectivity market segment**, in which the number of active households is expected to amount to 56.7 Million by 2022, followed by the two segments with almost identical penetration rate growth: Comfort and Lightning and Security.

## POTENTIAL CUSTOMERS

The potential customers' analysis has a goal to determine the most likely target group of customers that would show interest, and eventually purchase the product. In the following paragraphs, the **general segmentation** of the households in the North Carolina will be done, in order to define the target segment for the Home Automation business.

The demographic analysis showed that North Carolina according to **24/7 Wall Street** is on the 40th place on the list of the richest countries in the USA. According to Wikipedia, Census Bureau and Suburban Stats, North Carolina has 3,745,155 occupied homes and over 2.800.000 owner-occupied housing units. There are **2,158,869 family households** (families), and **973,144 nonfamily households** that would be potential buyers of home automation mostly for security and bigger comfort.

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Since the potential customers are defined as people with higher income that live in the exclusive neighborhoods, a research to identify the **exclusive neighborhoods in North Carolina** was fashioned.

According to The Financial Word, homes in neighborhoods like Rex in Robeson County have an income of $148,073, and communities like Marvin, a village outside of Charlotte, is tops in North Carolina with 46.7% of its households having incomes of $150,000 or higher. Biltmore Forest near Asheville was second with 45.2%, and Westport, which is near Lake Norman, came in third.

According to HomeSnacks cities like Oak Ridge, Porters Neck and Summerfield are some of the best places to live in North Carolina. They are also home to some of the richest people in the Tar Heel State. Oak Ridge, in particular, has the richest residents in the state thanks, in part, to a median household income of $101,667 and a ridiculously low poverty rate of 1.9%. The richest places in North Carolina share common characteristics such as having a genius-level populous, sky-high home prices, and a Pleasantville level of married couples.

According to Best Places To Live In North Carolina 2017 – a search on Area Vibes (a website that measures the livability score by analyzing different factors), the **best places to live in North Carolina are Eastover, Freedom Park, Dilworth – all in Charlotte**, North Carolina. Other top-rated cities are Raleigh (Wade and Five Points), Davidson, Biltmore Forest, Chapel Hill and Cary. It should be noted that this search was done by using three filters: Amenities, Employment, and Housing marked very important.

Regarding the **segmentation of household's income** in North Carolina, according to the Census ACS and Data USA, there are three main segments:

- Low-income households - less than $48,072 per year.
- Median household income - $30,604 to $91,812 a year.
- High household income - more than $91,812 a year.

According to City data- North Carolina, **the estimated median household income in Raleigh in 2015 was $56,910**, which is higher than the estimated household income for North Carolina for the same year - $47,830.

The analysis for **purpose of buying** showed that a lot of the people think that home automation is an attractive option, however, they are not very informed on the topic. This

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emphasizes that despite liking the sound of Home Automation, the concept has not completely reached people's awareness due to lack of knowledge.

According to the research Home Automation - The Target Market Analysis, **the main motivation to adopt Home Automation is the security with 30% of the answers,** keeping it safe and secure is a top priority for many homeowners. Other reasons for purchasing home automation products is the **comfort** whit 26%, next reasons are the **increased life quality** and the **convenience** with 18% each. Lastly with 9% is the motivation hobby.

The downside is the cost-efficiency. A lot of people think that the products/services are high priced, as well as the acquisition, installation, and maintenance are the leading cause of not purchasing it. The main reason for changing their minds is the **affordable price** followed by the transparency of the investment and cost, demonstration of efficiency and timely and regular maintenance.

Going into how much people are willing to pay for home automation that will satisfy their needs, revealed that **the average amount of money spent on home automation per house is between $1,000 and $5,000**.

In order to fully understand the target segment, an inquiry was necessary to determine whether people in the USA usually **buy online or not**.

The e-commerce market in the United States has been constantly evolving over the past decade according to the research provided by Statista. **Retail e-commerce sales in the United States are projected to grow at a fast pace in the coming years, going from $322.17 billion in 2016 to just over $485 billion in 2021**.

**Customer satisfaction with online retail in the U.S. is relatively high**. However, online sales still represent only a small share of all retail sales in the U.S. – about 8.3% as of the fourth quarter of 2016. In spite of that, an estimate of 77% of Internet users in the United States, representing 67% of the entire population, had purchased products online in 2016. In

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the same year, 42% of Internet users in the U.S. stated purchasing items via the Internet at least once a month, and nearly a quarter said they shopped online once or twice per week.

In North Carolina, the number of people that shop online is raising every year. The most common thing that people are buying online from NC and other parts of America are books and electronics.

## COMPETITION

In order to identify the business competitors, it is important to understand the different products on the market that qualify as alternatives or substitutes. The US smart home market has yet to meet the expectations many observers had in the earlier parts of this decade, but the newfound popularity of the smart home voice control has revolutionized smart home ecosystems across the country and convinces more consumers to equip their homes with smart devices on a daily basis.

Despite the many alternatives in the North Carolina market, there is always room for innovative solutions with new competitive advantages.

After understanding the company's offer – **an e-commerce retail for home automation that also does installation services,** the competition can be defined:

**Direct competitors are companies in the NC that offer high-quality home automation products that can be bought online.**

Once defined, the direct competitors on the market can be easily pinpointed and analyzed by using several criteria, such as product features, price, users etc.

Regarding the indirect competition, it is important to identify the **indirect competitors** because of the influence they can have on the company's market share. Although these companies **don't have a direct impact on the company's work**, some customers may choose them as alternatives.

In the spaces below, the detailed direct and indirect competition analysis will be presented.

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## DIRECT COMPETITORS

In this part of the business plan, the closest 9 competitors are chosen and furthermore analyzed. After reviewing the suggested websites and deciding if they are relevant, the 9 most popular companies with similar products were chosen. Other websites like Similar Web and Owler were used to find more information about the competitors such as the year they were founded, their headquarters, estimated revenue and estimated number of employees.

| | |
|---|---|
| **Company: Powers IoT** | |
| **Company info**: Founded: 2013, Headquarters: 407 East Main Street, Suite 3, Port Jefferson, NY, 11777.<br>**Estimated employees:** 15. | |
| **Product** | Door Locks, Lights, and switches, Nest products and services. |
| **Competitive advantage** | Offers Installation service and service work |
| **Price:** | August Door Lock + Installation-$399.00,<br>Nest Thermostat 3rd Generation with Install- $369.00,<br>Philips 468058 Hue White A19 Light Bulb + Installation-$29.00,<br>Lutron Caseta Wireless In-Wall Dimmer Kit + Installation-$149.00. |
| **Company: Refresh Smart Home** | |
| **Company info:** 118 N Bedford RdSte 100 Mount Kisco, NY 10549.<br>**Estimated employees:** 09 | |
| **Product** | Amazon Echo, August Smart Lock Pro, Nest Learning Thermostat 3rd Gen, Air things Wave etc. |
| **Competitive advantage** | Free shipping throughout the United States. |
| **Price:** | August Smart Lock Pro-$ 229.00,<br>Nest Learning Thermostat 3rd Gen-$ 249.00. |
| **Company: Only Elites** | |
| **Company info:** USA. | |
| **Product** | Home Automation, Smart Access, Security Cameras, Personal Care, Passions. |
| **Competitive advantage** | Free shipping to the USA. |
| **Price:** | Sannce SE-I41CZ0103: Smart Cam-$77.27, Livolo VL-C903R-12: Touch Switch Sale price-$40.97. |
| **Company: Home Controls** | |
| **Company info:** Founded:1989, Headquarters: San Diego, California, USA.<br>**Estimated Revenue (TTM):** $14.5M.<br>**Estimated Employees:** 50. | |
| **Product** | Smart home systems, remote lighting and appliance controls, home security and video surveillance, home theatre, audio and video distribution, networking, telephones and intercoms, climate controls. |
| **Competitive advantage** | Free automation and networking design services, exceptional, genuinely friendly customer service, high-quality dealer/installer referrals for homeowners. |
| **Price:** | Aeotec Z-Wave LED Light Bulb, Gen5-$54.99,<br>SmartBus Wi-Fi Enabled Video Doorbell-$79.99. |

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| | |
|---|---|
| **Company: SmartHome** | |
| **Company info:** Founded: 1992, Headquarters: Irvine, California, USA.<br>**Estimated Revenue (TTM):** $16.2M.<br>**Estimated Employees:** 90. | |
| **Product** | Smart Hubs & Kits, Smart Lighting, Appliance & Outlet Control, Smart Thermostats etc. |
| **Competitive advantage** | Has grown from a distributor of technical products to one of the world's largest home automation retailers. |
| **Price:** | Nest Learning Thermostat, 3rd Generation, Stainless Steel-$249.00,<br>August AUG-SL03-C02-G03 Smart Lock Pro + Connect, Dark Gray-$279.99,<br>Philips 461004 Hue White Ambiance A19 Bulb- $29.99,<br>Lutron P-PKG1W-WH Caseta Wireless Dimmer & Pico Remote Kit, White $51.16. |
| **Company: Smarthomeusa** | |
| **Company info:** Founded: 1995, Headquarters: 1820 Arnold Industrial WA, Concord, California, 94520-5365.<br>**Estimated Employees:** 2. | |
| **Product** | Home Controllers, Lighting & appliance control, security, surveillance & property protection. |
| **Competitive advantage** | Test equipment and tools from most of the industries' leading manufacturers. |
| **Price:** | Vera Lite Z-Wave based Home Automation, Monitoring, and Internet Control System - $179.00,<br>Aeon Labs Aeotec Z-Wave Heavy Duty Smart Energy Appliance Switch - $89.95,<br>Aeon Labs Aeotec Z-Wave Home Energy Meter, 2nd Edition-$92.18,<br>ELK Power Distribution Module ( a.k.a. ELK-PD9DC12 )-$42.79. |
| **Company: Thex10shop** | |
| **Company info:** Founded: 2002. | |
| **Product** | Security Systems, Camera Accessories, Motion Sensors. |
| **Competitive advantage** | USPS First Class Mail shipping as an option in addition to Priority Mail. |
| **Price:** | X10 Powerhouse PR511 Motion Detecting Floodlights-$69.99,<br>X10 KR10A Wireless Security System Keychain Remote Pre KR32a-$14.99. |
| **Company: The home automation store** | |
| **Company info:** Headquarters: 2515 Tarpley Rd #120, Carrollton, TX 75006, USA. | |
| **Product** | Cameras, Home security, Switches. |
| **Competitive advantage** | Providing discount pricing for the products. |
| **Price:** | SR751 Smart RF (Radio Frequency) Repeater Module-$28.49,<br>XX51A Airsight Indoor Wireless P2P WiFi IP Network Camera with Easy Scan for IOS and Android Devices-$44.95,<br>Wijit 2 piece SYSTEM - $14.99. |
| **Company: Z-Wave Products** | |
| **Company info:** Headquarters: 70 Commercial Ave.Warehouse A Moonachie, NJ 07074.<br>**Estimated Employees:** 6. | |
| **Product** | Light Switch Dimmers, Motion Detectors and Sensors, Thermostat. |
| **Competitive advantage** | Providing technology including security, lighting, energy monitoring. |
| **Price:** | GE Z-Wave Plug-In Smart Dimmer-$39.50,<br>NEXIA / SCHLAGE Z-Wave Plugin Dimmer Module-$49.99,<br>GOCONTROL Z-Wave Smoke Heat & Freeze Detector-$83.99,<br>FIBARO Fibaro FGMS-001 ZW5 Motion Sensor with Z-Wave Plus Multisensor-$59.99,<br>TRANE Z-Wave HVAC Thermostat-$99.99,<br>Xia Home Automation Z-Wave Thermostat-$166.99. |

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From the competition's analysis above it can be concluded that only one company - Powers IoT of all 9 analyzed competitors offers installation services. The analysis also shows that there are many different products in each competitors offer and prices vary a lot due to the products' variety.

## INDIRECT COMPETITION

The indirect competition consists of all the companies on the market that can influence the company's market share by offering alternatives. For the home automation business, the indirect competition can be divided into the following categories:

- **Companies that are manufacturers of home automation products and use e-commerce to sell their products online**, such as Ecobee, Belkin, Nest, etc. These companies offer the same product or a very similar one and can influence the company's market share.
- **Gigantic web stores that offer products from various categories, including home automation**, such as Amazon, Wallmart, BestBuy etc. These companies don't specialize in home automation retail, but they sell home automation devices among the many other product categories.
- **Companies that primarily offer home automation installation services, but also sell such products**, such as Synergy Integrated Systems. This company, for example, offers home automation installation service but is also a Creston and Nest dealer in Raleigh. Considering that people may choose not to use e-commerce and buy the products from the company that offers home automation services, these companies can also be perceived indirect competitors and influence the company's market share.

# SUPPLIER RESEARCH

In order to identify the possible suppliers on the market besides Nest, a research was made on Owler – a website that identifies the most relevant direct competitors of a certain website.

When the analysis is applied to Nest, the website identifies 7 competitors. After all of them were researched, the following 4 companies were considered for alternative suppliers:

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| Company | Products | Price |
|---|---|---|
| **Ecobee**<br>**Founded: 2007**<br>**HQ: Toronto, CA** | • Smart thermostats,<br>• room sensors,<br>• energy management system. | Ecobee4: $249<br>Ecobee3 lite: $169<br>Room sensor: $79<br>Smart Si: $179<br>EMS Si: Price not available (Energy management system) |
| **Netatmo**<br>**Founded: 2011**<br>**HQ: Boulogne, FR** | • Weather,<br>• energy,<br>• security,<br>• air care products | Netatmo presence: €299.99 ($349.67)<br>Netatmo welcome: €199 ($231.95)<br>Healthy Home Coach: €99.99 ($116.55)<br>Smart thermostat for individual boiler - €179<br>Starter pack for collective heating – €199.99<br>Netatmo weather station - €169 |
| **SimpliSafe**<br>**Founded: 2006**<br>**HQ: Boston, MA, USA** | Smart camera with sensors for burglary, fire, CO, freeze, and flood. | Simplicam - $99 (smart camera) |
| **Piper**<br>**Founded:2012**<br>**HQ: Ottawa, Ontario, CA** | Home automation device with lightning and appliance control, security perimeter extension, and home vitals. | Piper Classic: Price not available.<br>Piper NV: Price not available. |

Additionally, several lists and reviews on best home automation brands were analyzed, such as Top 9 Home Automation Companies by Inc. Magazine for business news, 9 Reputable Smart Home Brands on Make Use Of, Top 50 Home Automation Companies on The Home Automation Reference Site, etc.

After thorough analysis, the following 5 companies were selected as the best well-known brands for home automation that appeared on most of the lists:

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| Company | Products | Price |
|---|---|---|
| **Belkin**<br>**Founded: 1983**<br>**HQ: California, USA** | Smart: plugs, switches, cameras | Wemo dimmer: $79.99<br>Wemo light switch: $49.99<br>Wemo mini plug: $29.99<br>Belkin HD cam: $99.99 |
| **SmartThings**<br>**Founded: 2012**<br>**HQ: California, USA** | Many home security and home automation devices: hubs, sensors, switches, etc. | SmartThings Hub: $49.50<br>Home Monitoring Kit: $149<br>Lighting Kit: $99<br>Motion Sensor: $29.99<br>Dimming Outlet: $33.74 |
| **FirstAlert** | Detectors, Cameras, Security Systems, Sensors, Thermostats | Single digital wireless indoor/outdoor camera: $119.95<br>Touchscreen Wi-Fi Thermostat: $249.99<br>Motion Sensing Light Socket: $24.99 |
| **Creston**<br>**Founded: 1971**<br>**HQ: New Jersey, USA** | Many devices: Shading, lighting, environment, audio, video | Prices not available. |
| **Iris** | Many devices: switches, cameras, sensors, lighting, etc. | Smart Switch: $39.99<br>Iris Lighting Pack: $94.99<br>Iris in/outdoor cam: $149<br>Iris contact sensor: $24.99 |

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The supplier's products vary due to the different product features, but these are all companies similar to Nest, that offer high-quality devices for smart home solutions. The choice can be easily made if the company decides to work with a few suppliers instead of one and offer a wide assortment of products.

## INTERNAL ANALYSIS

After the completion of the external analysis and information gathering on the business climate, what's left is to analyze the company, to fully understand how the business will work.

The internal analysis focuses on detailed analysis of the company's business model, organizational structure, business's unique selling point and the marketing mix.

The company's mission and vision are the starting point for this analysis since they can help create an image about the business and understand its purpose.

## MISSION AND VISION

**Mission**: *"Our Company's goal is to bring the home automation process closer and make it more accessible to people by offering them high-quality products that make your home take care of you."*

**Vision**: *"Our dedication and hard work are focused on offering the best smart home solutions on an expanding market."*

## BUSINESS MODEL

ABC, LLC is an online web store that specializes in home automation retail and offers installation services. The company's goal is to simplify the process of buying and installing home automation products by offering the best products on the market online with additional installation service.

To implement the online payment process, the company will use an invoice software. Additionally, email response panel will be used to establish communication with the customers.

The shipment process in the begging will be outsourced, but it holds future prospects of being done in-house, once the business grows.

The added value of the products that are about to be sold is seen in the installation service that the company offers.

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## MARKETING MIX (4P) ANALYSIS

The marketing mix analysis is focused on analyzing the four crucial elements of the business: the product, its price, the promotion and the distribution (place).

The product's positioning and characteristics must be precisely defined, as well as the pricing strategy that will be used, the promotional tactics that the business will use to achieve the set promotional goals and the marketing channels that will be used for distributing the product.

### PRODUCT

ABC, LLC will sell high-quality smart products from well-known manufacturers on an online web store. The web store will offer a wide assortment of products by the best manufacturers and will offer installation service.

Considering this information, **the product's positioning** concept will be both **functional and symbolic**. The functional concept appeals to the products' quality, highlighting the high-tech features and well-known brands, while the symbolic concept addresses self-image enhancement, ego identification, belongingness and social meaningfulness with the product's premium status.

The wide assortment creates an opportunity for different kind of offers: products can be sold in packages adapted to certain target sub-segments and therefore the offer can be **differentiated**, in order to satisfy different groups of potential customers. The offers can be differentiated by price (Ex: Standard/Premium Package like SimpliSafe's packages), by application (Ex: Lighting Package, Security Package, Climate Package, etc.), by manufacturer: (Nest package, Ecobee package, etc.) or they can be customized for each customer.

Offers can also be **standardized** by only offering single products at a standardized price.

### PRICE

The price will be adequate to the company's offer and will be set at a higher level than the average price level.

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ABC, LLC will implement the **premium pricing strategy**, which is applicable due to the nature of the business. The premium pricing strategy sets the prices at a high level in order to associate a premium product/service. The target segment was defined as people with higher income who live in exclusive neighborhoods and the theory suggests that these people **correlate the price with the product quality** and are willing to pay more as a result to their beliefs: the higher the price - the better the product.

Another strategy that can be used and implemented is the **competition based pricing**. This strategy can be successfully implemented when there are many similar products on the market and the product can be easily substituted. Considering that the business will sell products by other manufacturers, their prices must be reviewed. The company will offer the products online and with additional installation service, so the price can be set a little **higher than the competition's price level**, because of the added value that the company's product offers.

To determine the product's price, the potential suppliers' prices of 5 product categories were analyzed:

| | **Product** | **Price** | **Company** |
|---|---|---|---|
| **Camera** | Nest Cam IQ indoor | [redacted] | NEST |
| | NetCam HD+ Wi-Fi Camera with Glass Lens and Night Vision | [redacted] | Belkin (Wemo) |
| | SimpliCam | [redacted] | SimpliSafe |
| | Netatmo Presence | [redacted] | Netatmo |
| | Single digital wireless indoor/outdoor camera | [redacted] | FirstAlarm |
| **Thermostat** | Nest Learning Thermostat | [redacted] | NEST |
| | Smart Si Thermostat | [redacted] | Ecobee |
| | ecobee3 lite Smarter Bundle | [redacted] | Ecobee |

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| | | | |
|---|---|---|---|
| | Smart Thermostat for individual boiler | [illegible] | Netatmo |
| | Touchscreen Wi-Fi Thermostat | [illegible] | FirstAlert |
| **Sensors** | Motion Sensor | [illegible] | SimpliSafe |
| | Samsung SmartThings Motion Sensor | [illegible] | SmartThings |
| | Room Sensors 2 pack | [illegible] | Ecobee |
| | Motion Sensing Light Socket | [illegible] | FirstAlert |
| **Smoke & CO** | Halo+ Smart Smoke & CO Alarm with Weather Alerts | [illegible] | SmartThings |
| | Carbon Monoxide Sensor | [illegible] | SimpliSafe |
| | Smoke Detector | [illegible] | SimpliSafe |
| | Smoke & CO Alarm | [illegible] | NEST |
| | Netatmo Smart Smoke Alarm | [illegible] | Netatmo |
| | Combro Smoke/Fire & CO 10-year battery | [illegible] | FirstAlert |
| **Plugs and switches** | Wemo® Insight Smart Plug | [illegible] | Belkin (Wemo) |
| | Wemo® Wi-Fi Smart Light Switch | [illegible] | Belkin (Wemo) |
| | Leviton In-Wall Switch | [illegible] | SmartThings |
| | Samsung SmartThings Outlet | [illegible] | SmartThings |

The price analysis showed that prices vary a lot due to the product's specifications.

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The camera category's price range is [redacted], the thermostat's price range is [redacted], the prices for sensors vary between [redacted], for smoke & CO products the prices are set between [redacted] and [redacted], and plugs and switches have a price of [redacted] up to [redacted].

| Cameras | Thermostats | Sensors | Smoke & CO | Switches and Plugs |
|---|---|---|---|---|
| Price Range/Average Price | Price Range/Average Price | Price Range/Average Price | Price Range/Average Price | Price Range/Average Price |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

It is safe to assume that the company's products will be sold at a similar price within the presented price range for each category. From the analysis, **the average price and price range for ABC, LLC's products can be calculated**:

## PROMOTION

For a start-up company, the **promotional goals** should be set with the main focus on **raising awareness**, so people can be acquainted with the company's work. Later in the business, the promotional goals can be more quantitative and precise as well as linked to the **sales goals**.

Primarily, ABC, LLC can use **online marketing,** using social media, advertisements, and banners on websites that the potential customers visit often, viral and guerilla marketing, database marketing, etc.

The **social media**'s rapid growth and usage have made this an important promotional channel. The most popular social media for promotion are Facebook, Instagram, and Twitter. The advantage of this channel lies in it being cost-effective.

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**Advertisements and banners** on websites that are visited by the targeted segment can also be a good choice for promotion, considering the digital opportunities for the advertisement that can make it noticeable to attract customer's attention.

Another popular choice for many companies that have a low promotional budget is the **guerilla marketing** strategy that promotes the products in an unconventional way. This concept is based on creativity and imagination and focuses on grasping the audience attention in more personal and memorable level.

Similar to the guerilla marketing, the **viral marketing** is also a good choice for raising awareness and creating a marketing buzz. The idea behind this technique is to create a video, game, image, text message, etc. that is so memorable that people will share it massively on their social media and the advertisement will replicate itself like a virus. It is also cost-effective.

The **database marketing** – e-mail marketing based on a database of potential customers is probably the most effective method, considering that it reaches only the targeted audience and creates an opportunity for customized one to one marketing – offers can be adapted to the potential customers' needs. The process includes identification of the potential customers, segmentation (so a few offers can be created to satisfy each sub-segment) and communication – sending the offer by email and waiting for a response. Another advantage of this strategy is that its effectiveness can be precisely measured.

Later in the business, when the company registers its own brand and logo, the **IMK (Integrated marketing communication) concept** can be implemented. This concept focuses on synchronization of the company's communication, so every promotional channel will send the same promotional message and synergy will be achieved, with reducing the chances of sending mixed messages. This synchronization refers to all the promotional channels: mass media, online channel, publicity and public relations, etc.

## PLACE (DISTRIBUTION)

ABC, LLC's products will only be available for buying online, so the only possible channel for distribution is the **digital channel**.

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The channel will be direct, the company will sell the products directly to the customers. If the whole process from manufacturer to customer is analyzed, the company is an **intermediary** between the manufacturer and the customers.

The shipment process will be outsourced to Amazon, although later the company may do the shipment in-house.

## ORGANIZATIONAL STRUCTURE

As a startup business, the company will be operated by one person in the beginning and employ other people later.

The ABC, LLC' CEO – Mr. XYZ will be responsible for every aspect of the business, from purchasing the products from the suppliers to installing the products. The main responsibilities of Mr. XYZ can be divided into 7 categories:

- **Supply-related activities**: Reach an agreement with each supplier regarding the order quantity and regency, price, discounts, product specifications, product guarantee, reclamation policies, etc.
- **Web store maintenance activities**: Ensuring that the web store is working, implementing a payment system, invoice software and email response funnel.
- **Marketing activities**: Setting promotional/sales goals that should be reached in a defined period and making efforts to achieve the goals, using online marketing channels to promote the business.
- **Financial activities**: Keeping a record of the finances, accounting and tax paying.
- **Outsourcing activities**: Making sure the shipment process that is outsourced is done properly and on time.
- **Installation activities**: Doing expert installation of the products and answering customers questions regarding the product's features.
- **HR activities**: Later in the business, the CEO will be responsible for the hiring process and deciding about the job positions that need to be filled.

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## PROCESS WORKFLOW

The process workflow of ABC, LLC can be divided into 8 stages. The initial stage consists of developing the web store, an imperative, in order to start the business.

The second and third stage are focused on finalizing the web store development with the communication and payment processes included. Once the web store is ready for usage, it is necessary to organize the product supply and determine the supply terms. Additionally, decisions about the installations terms should be finalized, such as scheduling and service area.

The sixth stage is focused on promoting the company in order to ensure web traffic and product purchases. While the promotional campaign still lasts, any problems and concerns about the shipment outsourcing must be resolved.

Once the business starts running, it is very important to constantly improve the web store and simplify the buying process.

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## SWOT & RISK MANAGEMENT

The SWOT Analysis is a strategic planning method used to evaluate the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats and it helps you identify the Strengths and Weaknesses, and also for understanding the Opportunities and Threats that you may face. The strength and weaknesses are **internal** factors which means that the strength is a positive internal factor and the weakness is a negative internal factor. The opportunities and threats are **external** factors, which means that the opportunity is a positive external factor and the threat is a negative external factor.

### STRENGTHS

The strength is an internal positive factor that can make the business run smoothly and also allows the business to operate at its optimum level. The strengths are rising from the company's organization, structure, culture, etc. and can be very important for succeeding in the market. Below are presented the Smart Home, LLC's strengths:

- **Strong unique selling point (USP).**

One of the strengths that ABC, LLC possesses is the unique selling point that the company offers. This USP distinguishes the ABC, LLC from others smart home automation companies with its installation service. On a market where the competition is fierce, the USP can be a crucial factor for survival.

- **Well, known supplier brands.**

A strong brand name is a major strength in the Smart home automation industry. That is why ABC, LLC is collaborating with some of the biggest names in the industry like NEST. Reselling well-known brands name products like NEST and other successful companies is one of the biggest business strengths. Because of the self-promotion and marketing the brands provide for themselves, consumers are aware of the quality and the future of the product. This gives Smart home automation the ability to charge higher prices for their products because consumers place additional value on the brand.

- **Experience in management and Home Automation industry.**

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For a startup company, the experience can have a vital meaning, it can help the company to reduce chances of failure and speed up the business growth process. The CEO's professional skills in project management, communications and customer service along with his technical knowledge and expertise, the company is in safe hands.

- **Simple and easy purchasing process.**

The nature of the business as part of the e-commerce industry implies that the most important aspect of the business in the online customer experience. With a website that uses an invoice software and mail response funnel, the purchasing process will be simple enough to create a satisfying customer experience.

## WEAKNESSES

Within a SWOT analysis, weaknesses are negative internal factors that take away from your business or leave you at a disadvantage. In the following paragraphs, the explanations of the weaknesses for the home automation platform based on the external analysis findings will be presented:

- **Potential difficulties in finding new suppliers.**

This weakness refers to potential disagreements with the suppliers and incapability to determine attractive terms regarding the discounts, MOQ (minimum order quantity), product guarantees and reclamation, etc. A good and trusted supplier is a very important aspect of the work and suppliers must be chosen wisely.

- **Location restriction for the installation service.**

This weakness refers to the company's incapability to offer installation service to every one of the customers, no matter their geographical location.

- **New on the market.**

The promotional goals must be set on raising awareness and the company must make big efforts in the begging, so this weakness doesn't slow down the business growth. The sooner people meet the company, the sooner they can become customers.

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- **Low initial capital**

As almost every startup company, ABC, LLC deals with low initial capital and will have to wisely allocate its resources in order to achieve financial stability.

## OPPORTUNITIES

The opportunities are an external factor which means that the business has no control over this matter. They tend to happen because of external reasons such as political, economic, social or even technological factors and occurrences that give birth to opportunities.

- **Wide choice of well-known multiple brands.**

A big opportunity for the company is that there is a variety of different suppliers with well-known brands that the company can choose from.

- **Good business climate**

From the PEST analysis that was made, it can be concluded that North Carolina has a very good business climate, with a lot potential in the home automation business.

- **Home Automation and E-commerce industries on the rise.**

With the home automation and E-commerce that's been on the rise for the last decade, it can be concluded that the home automation business has very big opportunities in the foreseeable future.

- **Market's consumption power for home automation products.**

New markets allow ABC, LLC to expand their business and diversify their products portfolio and services to a new group of potential buyers.

Arguably the biggest advantage of entering a new market is simply having a whole set of new consumers at your fingertips who are edging to buy the product and service. Not only there are more people who could potentially purchase what the business is offering, but there is also a lesser risk of failure because the business is not totally dependent on one market. In a case of market recession, there is still a functioning consumer base elsewhere.

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## THREATS

Threats are negative and external and they are elements in the environment that could cause trouble for the business. This means that threats do not benefit your company, but there is nothing you can do to stop them from coming about.

Threats are like opportunities in that you cannot change their frequency, or purposefully bring them about, but you can still choose how to approach them and deal with them.

- **Many competitors on the market.**

This may be a threat to the company because there are many authors competitors who are direct or indirect that don't have a big market product placement.

- **Many alternatives on the market.**

Big threats in the home automation market are the alternatives that sell products that offer similar or sometimes same futures. A substitute product is a product that offers similar benefits to the consumer as the product produced or sold by the firms within the industry. The availability of substitute products hurts Smart home automation's ability to raise prices because customers can easily switch to another product or service.

- **Customers may choose less-expensive products.**

Choosing less-expensive products has always been a big threat to the E-commerce companies because of the diversity of the products with superior features and characteristics that are sold online.

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| Strengths: | Weaknesses: |
|---|---|
| • Strong unique selling point (USP).<br>• Well, known supplier brands.<br>• Experience in management and Home Automation industry.<br>• Simple and easy purchasing process. | • Potential difficulties in finding new suppliers.<br>• Location restriction for installment.<br>• New on the market.<br>• Low initial capital. |
| **Opportunities:** | **Threats:** |
| • Wide choice of well-known multiple brands.<br>• Good business climate.<br>• Home Automation and E-commerce industries on the rise.<br>• Market's consumption power for Home Automation products. | • Many competitors on the market.<br>• Many alternatives on the market.<br>• Customers may choose less-expensive products. |

## RISK ANALYSIS

Risk analysis is the systematic study of uncertainties and risks that we encounter in business, public policy, and many other areas. Risk analysts seek to identify the risks faced by an institution or business unit, understand how and when they emerge and estimate the impact (financial or otherwise) of adverse outcomes.

**The purpose of the risk management section is to look at the weaknesses and threats of the business more closely, view and assess the risk of failure, as well as provide possible solutions on how to avoid them if possible.**

The probability of the "risk" occurring, will be rated on a scale to 5, with 1 being the lowest and 5 the highest grade and the "risk" impact on the business will be rated in the same

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manner. When the risk probability and impact values are multiplied, a total risk value is gained. The total risk value presents the intensity of the risk it has on the business, where 25 is the highest and 1 is the lowest value.

The project was for opening a Home Automation e-commerce platform in North Carolina, USA.

| Risk | Probability | Impact | Total | Action |
|---|---|---|---|---|
| **Potential difficulties in finding new suppliers** | **3** | **5** | **15** | **Risk Acceptance**<br>Every new and upcoming business faces a period of potential difficulties when they will need to find a new supplier. Certain terms must be discussed and determined in advance, such as discounts, MOQ, guarantees, reclamation, etc. It is important to find reliable suppliers so that the business can run smoothly. The risk strategy is acceptance since half of the terms are dictated by the supplier and ABC, LLC can either accept or decline the offer. |
| **Location restriction for installment** | **4** | **3** | **12** | **Risk Mitigation**<br>This risk is likely to occur, considering the 1-hour location restriction, meaning that the customers outside this area will not be included. This risk can be reduced by offering discounts for customers that live in further neighborhoods, or by widening the installment area. |
| **New on the market** | **5** | **5** | **25** | **Risk Mitigation**<br>This weakness can be overcome by creating a strong brand image. More time should be spent on promotion, in order to increase brand awareness and customer loyalty. The IMK (Integrated marketing communications) can be a good choice for reducing this risk. |
| **Low initial capital** | **2** | **3** | **6** | **Risk Acceptance**<br>This company's weakness is predictable, considering the business is a start-up. Risk Acceptance Strategy was chosen due to the low initial costs needed to start up a web store. |
| **Many competitors on the market** | **4** | **4** | **16** | **Risk Avoidance/Risk Acceptance**<br>Although there are many competitors on the market, none of them are market leaders and the market share is divided into many small competing market shares. This situation can have a positive outcome for the company if ABC, |

| | | | | |
|---|---|---|---|---|
| | | | | LLC focuses on serving a market segment that is not targeted by the competition. This risk can also be accepted, considering that the market has a great consumption power and the demand is higher every day. |
| **Many alternatives on the market** | **5** | **5** | **25** | **Risk Mitigation**<br><br>Although there are many alternative products that are similar ore the same in the home automation industry, they all have different futures and quality standards. This risk can be reduced with the company's strong USP and suppliers' brand loyalty. Between the many alternative choices, customers are more likely to choose a well-known premium brand from a company that offers added value – installation. |
| **Customers may choose less-expensive products** | **2** | **5** | **10** | **Risk Avoidance**<br><br>This risk can be avoided by customizing the offers: different packages can be offered to different sub-segments, including a basic package that can be sold at a lower price. |

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# FINANCIAL PLAN

A financial plan is a comprehensive evaluation of an investor's current and future financial state by using currently known variables to predict future cash flows, asset values, and withdrawal plans. These metrics are used along with estimates of asset growth to determine if an entity's financial goals can be met in the future, or what steps need to be taken to ensure that they are. In the following paragraphs, each section of the financial plan will be separately detailed and thoroughly explained. The financial plan will cover the income statement, the cash flow statement, break-even analysis, and the balance sheet. But before that, we will present our numbers upon which all of our assumptions are based.

## ASSUMPTIONS

In order to present the business environment as objectively as possible, we made some general assumptions regarding the:

- **Annual Growth rate percentage** - We assume that there will be **10%** a year over year increase in the sales, which also means **10% growth rate** of the direct costs.
- **Pricing**– We assume that the business will operate in a competitive market, so calculations are based upon competitive price comparisons and established prices in the marketplace. The model is built upon a **premium pricing strategy** which sets the prices **above the average price level.** Considering the wide assortment, we divided the home automation products into **5 categories: Cameras, Thermostats, Sensors, Smoke & CO detectors and Plugs & Switches.** For each category, we calculated an average price and then set the company's prices by adding 20% of the average price on those prices. As mentioned before in the Price subsection of the Marketing Mix analysis, the average price is calculated by using the direct competitors' prices.
- **Personal Income Tax –** After a thorough research, we found out that an LLC in North Carolina only needs to pay a personal income tax of **5.5% in 2017.**
- **Order quantity –** We couldn't find any information about the average order quantity for home automation products, so we made order quantity assumptions for each

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product category per month: 20 cameras, 20 thermostats, 40 sensors, 70 smoke & CO detectors and 100 plugs & switches. The company will sell **250 units per month.**

- **Direct costs –** The direct costs are divided into 3 categories: **Supply costs** (the manufacturers' prices), **Shipping costs** (Amazon's prices for shipping per order) and **Installation costs** (costs for fuel and salary for the employee who will do the installation). We assume that the supply cost per product will be [redacted] of the product's selling price. The shipping cost is set on [redacted] per order, based on the Amazon Fulfillment prices, and we made an assumption that the cost per installation will amount to [redacted]. Out of the [redacted] units sold in a month, we made an assumption that **50** orders will include installment, and [redacted] will require shipment.

- **Indirect costs –** The salary for Mr. XYZ was set close to the small [business owner's average salary] in Raleigh, North Carolina, and the salary of the employee in the second year is set lower than the CEO's, based on our assumption - [redacted] and [redacted] respectively, which is [redacted] and [redacted] per month. The salary for the employee is not calculated in the first year, and Mr. Lodge's salary is calculated from day one.

  We assume that the cost for website maintenance will be [redacted] per month, and marketing, utilities, and business licenses expenses are [redacted] per month each.

- **Depreciation expenses - Depreciation expenses** refer to the computer, van and installation equipment. The depreciation period for the laptop is **2 years**, and considering the tools are small and not too expensive equipment, they also have a depreciation period of **2 years**. The van, however, is an expensive investment and its depreciation period can be more than 10 years, but we set it on **10 years** since we assume it is used. The price assumptions are: Laptop – [redacted], tools - [redacted] and van - [redacted].

- **Startup Costs** - We made an assumption that the initial capital will amount to [redacted], out of which [redacted] is the cost of the laptop, [redacted] is the cost of the tools,

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and [redacted] is the cost of the van – that makes a total of [redacted]. The rest [redacted] will be used as a working capital.

For our financial projection, we used various sources such as, forums, websites, blogs, reports, and articles to help us display a model with numbers and figures that are common, realistic and generally found at other restaurant businesses.

## INCOME STATEMENT

An income statement is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities (direct and indirect costs). It also shows the net profit or loss incurred over a specific accounting period.

The income statement will begin with displaying the anticipated total revenues that Smart Home, LLC will earn per year, **$292,800** in the first, **$322,080** in the second, and **$354,288** in the third year of operations.

Next, our income statement showcases the direct costs that are necessary for the business's work. In this category, the total costs for supply, shipping, and installation per year will be displayed. After adding together those costs, the figure that we'll get will represent the total direct costs for that particular year, **$198,024**, **$217,826** and **$239,609** for each year respectively.

| Profit & Loss Statement | | | |
|---|---|---|---|
| | 1st year | 2nd year | 3rd year |
| **Total Revenues** | 292,800 | 322,080 | 354,288 |
| ***Direct cost:*** | | | |
| Direct costs for supply | [redacted] | [redacted] | [redacted] |
| Direct costs for installation | [redacted] | [redacted] | [redacted] |
| Direct costs for shipping | [redacted] | [redacted] | [redacted] |
| **Total Direct Costs** | [redacted] | [redacted] | [redacted] |
| **Gross Profit** | [redacted] | [redacted] | [redacted] |
| % of Revenues | [redacted] | [redacted] | [redacted] |
| ***Indirect cost:*** | | | |
| Salaries | [redacted] | [redacted] | [redacted] |
| Marketing expenses | [redacted] | [redacted] | [redacted] |

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| | | | | |
|---|---|---|---|---|
| Business Licenses | | [illegible] | [illegible] | [illegible] |
| Utilities | | [illegible] | [illegible] | [illegible] |
| Website Maintenance | | [illegible] | [illegible] | [illegible] |
| Depreciation | | [illegible] | [illegible] | [illegible] |
| **Total Overheads** | | [illegible] | [illegible] | [illegible] |
| | | | | |
| **Earnings Before Interest & Tax (EBIT)** | | [illegible] | (1,696) | [illegible] |
| *% of Revenues* | | [illegible] | [illegible] | [illegible] |
| Interest Expenses | | [illegible] | [illegible] | [illegible] |
| **Earnings Before Tax (EBT)** | | [illegible] | (1,696) | [illegible] |
| Less: Corporate Tax | 5.5% | [illegible] | [illegible] | [illegible] |
| **Net Profit** | | [illegible] | (1,696) | [illegible] |
| *% of Revenues* | | [illegible] | [illegible] | [illegible] |
| **Cumulative profit** | | [illegible] | [illegible] | [illegible] |

Subtracting the total revenues per year with the total direct costs will equal the gross profit for that particular year, meaning [illegible] for the first year, [illegible] for the second and [illegible] for the third year of operations.

The indirect costs represent the costs that are not directly connected to the products. Our business recognizes the indirect costs for salaries, marketing expenses, utilities, website maintenance and depreciation. Once those indirect costs are added together, the total overhead expenses will be established. Those overhead expenses are the expenses that the business must cover, no matter if the business does or does not possess the necessary financial funds.

Earnings before interest & tax (EBIT) is an indicator of the company's profitability, calculated as total revenues minus total direct and total overhead expenses, excluding tax and interest. They are [illegible] in the first year, in the second year the business will experience a minor loss of [illegible] – due to the second employee that will start working this year, and the third year the company will get back on track with EBIT of [illegible].

Lastly, the net income is calculated by subtracting the yearly income tax (5.5%) from the earnings before tax. The net profit prognosis for the first year is that the business will operate at a surplus of around [illegible]. In the second year, the second employee will cost the

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company a minor loss of [redacted], but starting from the third year, the company will continue to operate normally with a net profit of [redacted] in the third year.

## BALANCE SHEET

A balance sheet is a financial statement that summarizes a company's assets, total liabilities and owners' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders. Our balance sheet will showcase the financial health of the business at the beginning of the period.

| Balance Sheet at beginning of period | |
|---|---|
| **Current Assets** | |
| Cash | [redacted] |
| Accounts receivable | [redacted] |
| Inventories | [redacted] |
| Other Current Assets | [redacted] |
| **Total Current Assets** | [redacted] |
| **Non-Current Assets** | |
| Fixed Assets | [redacted] |
| Intangible Assets | [redacted] |
| Less: Accumulated Depreciation | [redacted] |
| Fixed Assets (NBV) | [redacted] |
| **Total Non-Current Assets** | [redacted] |
| **Total Assets** | [redacted] |

| | |
|---|---|
| **Current Liabilities** | |
| Accounts payable | [redacted] |
| **Total Current Liabilities** | [redacted] |
| **Non-Current Liabilities** | |
| Long-Term Debt | [redacted] |
| Less: Current portion of LTD | [redacted] |
| **Ending Balance** | [redacted] |
| **Owners' Equity** | |

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| | |
|---|---|
| Paid in Capital | [redacted] |
| Accumulated retained earnings | [redacted] |
| **Total Owner's Equity** | [redacted] |
| **Total Liabilities & Owners' Equity** | [redacted] |

What we can see from the balance sheet, is that the currently available assets are comprised of [redacted] in cash and about [redacted] in Inventories.

The non-current assets, or more commonly known as fixed assets, in our case, are the laptop, van and tools for installation that are needed for the normal functioning of the company. Their total financial value is [redacted]. If we add the total current assets and total non-current assets, we get the value of the total assets, which is [redacted].

The current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include current liabilities, short-term debt etc. In our case, the current liabilities are represented by the Inventories, which are equal to [redacted].

The company has no long-term debt since it doesn't get a loan. The company is a limited liability company and will have a single owner, so all the initial capital invested in the company which amounts to [redacted] will belong to Mr. XYZ.

After we add the total current liabilities, the ending balance, and the total owners' equity, we acquire the total liabilities & owners' equity, which is equal to [redacted].

## CASH-FLOW STATEMENT

The cash flow statement details the amount of cash and cash equivalents entering and leaving a company. The CFS also allows investors to understand how a company's operations are running, where its money is coming from, and how it is being spent.

| Cash Flow Statement | | | |
|---|---|---|---|
| | 1st year | 2nd year | 3rd year |
| Net Income | [redacted] | [redacted] | [redacted] |
| Interest | [redacted] | [redacted] | [redacted] |
| **Cash Flow from Operating Activities** | [redacted] | [redacted] | [redacted] |
| Sale of investments | [redacted] | [redacted] | [redacted] |

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| | | | |
|---|---|---|---|
| Investment | [redacted] | | |
| **Cash Flow from Investing Activities** | [redacted] | [redacted] | [redacted] |
| Bank Overdraft | [redacted] | [redacted] | [redacted] |
| Loan Principle | [redacted] | [redacted] | [redacted] |
| Paid-in Capital | [redacted] | [redacted] | [redacted] |
| **Cash Flow from Financing Activities** | [redacted] | [redacted] | [redacted] |
| | | | |
| **Net Cash Flow** | [redacted] | [redacted] | [redacted] |
| Add: Beg, Cash | [redacted] | [redacted] | [redacted] |
| End, Cash | [redacted] | [redacted] | [redacted] |

Cash flow from operating activities includes changes in the working capital such as increases or decreases in inventory, short-term debt, accounts receivable and accounts payable. The cash flow from operating activities is the value gained after the interest expense for a particular year is subtracted from the net income for that same year. The cash flow from operating activities for the first three years is as follows: [redacted] for the first, [redacted] for the second year and [redacted] cash flow from operating activities in the third year.

Cash flow from investing activities is an item on the cash flow statement that reports the aggregate change in a company's cash position resulting from any gains (or losses) from investments in the financial markets and operating subsidiaries and changes resulting from amounts spent on investments in capital assets such as plant and equipment. Since the company's owner will only invest in the first year, the cash flow from investing activities in the first year will amount to [redacted] and will be zero in the second and third year. Cash flow from financing activities shows investors the business' financial strength. A positive number for cash flow from financing activities means more money is flowing into the business than flowing out, which increases the business' assets. Negative numbers can mean the business is servicing debt.

The cash flow from financing activities equals to the sum between the bank overdraft (the yearly installment the business needs to pay for the bank loan), the loan principal (the total amount of the loan) and the Paid-in Capital. The cash-flow from financing activities [redacted] representing the working capital of the investment, and it will be zero in the second and third year since there will be no investment.

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The net cash flow is calculated after the cash flow from operating, investing (operating and investing activities reduce the business' finances) and financing activities are added up together, and it's equal to a [redacted] in the first year of operations, [redacted] in the second and [redacted] in the third year.

The cash at the end of the period is equal to a sum of the net cash flow and the cash at the beginning of the period. For the first year, the cash at the end of the year will be equal to [redacted]. For the second year, the cash at the end of the year will be [redacted] and [redacted] for the third.

## BREAK-EVEN ANALYSIS

The break-even analysis analyses different price levels relating to various levels of product/service demand so that an entity can determine what level of sales are needed to cover the total fixed costs.

| Break-Even Analysis | | | |
|---|---|---|---|
| | 1st year | 2nd year | 3rd year |
| Expected number of sold units | [redacted] | [redacted] | [redacted] |
| Average revenue per unit (ARPU) | [redacted] | [redacted] | [redacted] |
| **Total Revenues** | [redacted] | [redacted] | [redacted] |
| ***Variable Costs:*** | | | |
| Variable Costs for supply: | [redacted] | [redacted] | [redacted] |
| Variable Costs for installation: | [redacted] | [redacted] | [redacted] |
| Variable Costs for shipping: | [redacted] | [redacted] | [redacted] |
| **Total Variable Costs** | [redacted] | [redacted] | [redacted] |
| **Variable cost per unit** | [redacted] | [redacted] | [redacted] |
| ***Fixed Costs:*** | | | |
| Salaries | [redacted] | [redacted] | [redacted] |
| Marketing expenses | [redacted] | [redacted] | [redacted] |
| Business Licenses | [redacted] | [redacted] | [redacted] |
| Utilities | [redacted] | [redacted] | [redacted] |
| Website Maintenance | [redacted] | [redacted] | [redacted] |
| Depreciation | [redacted] | [redacted] | [redacted] |
| **Total Fixed Costs** | [redacted] | [redacted] | [redacted] |

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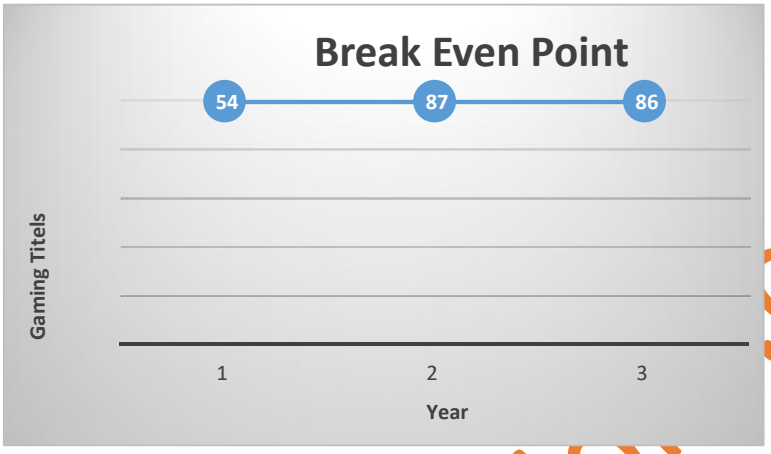
| | | | |
|---|---|---|---|
| **Break-Even Point** | **54** | **87** | **86** |




Judging from the break-even analysis and the chart provided, the point where the business will cover all of its fixed costs while making no extra profits, is at the **54** units in the first year of operations, **87** units in the second and **86** units in the third year.

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