
CreativiTea



Business Plan

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Table of Contents

| | |
|-------------------------------|----|
| 1.0 Executive Summary | 3 |
| 2.0 The Company | 4 |
| 3.0 Market Analysis..... | 7 |
| 4.0 The Competition..... | 13 |
| 5.0 Marketing Plan..... | 15 |
| 6.0 Operations Plan..... | 21 |
| 7.0 Development Plan..... | 22 |
| 8.0 Team..... | 24 |
| 9.0 Critical Risks | 26 |
| 10.0 The Offering | 27 |
| 11.0 The Financial Plan..... | 28 |
| 11.0 Financial Appendix | 31 |

1.0 Executive Summary

CreativiTea is a retail tea company that offers consumers the opportunity to create their own customized tea blend. The company allows customers to personalize their own tea, utilizing the Internet. In an interactive online process, customers choose from hundreds of tea leaves, herbs, and spices to create a one-of-a-kind tea blend.

CreativiTea is a new, exciting, and modern way of purchasing tea in which a community actively participates in creating tea blends and sharing tea experiences. This strengthens the involvement of the customer in the CreativiTea experience while encouraging originality and healthy living.

The widespread use of the Internet gives customers the freedom to choose the exact product features they desire. No longer must a consumer settle for a product made for the masses. In other words, the Internet has made *mass customization* possible. The CreativiTea business model is based upon the principles of mass customization, low cost mass production with the flexibility of individual customization.

CreativiTea has an excellent opportunity to become the major mass customization player in an attractive tea industry. The size of the U.S. tea industry grew to over \$7.7 billion in 2010. Due to a shift in customer preference toward healthier drinks, the industry is steadily growing. Specialty tea is predicted to be the fastest growing segment of the tea industry over the next decade. It is expected to double in size in the next few years.

CreativiTea expects to enjoy attractive margins (approximately 65%) due to premium pricing and efficiency of production. CreativiTea expects to become cash flow positive in three year and profitable in year four.

The Offering

CreativiTea is seeking a Series A Round Angel investment of \$125,000. This investment will allow the company to stay cash flow positive until a Series B Round in year two.

In year five, CreativiTea will reach \$20 million in revenues and have earnings before interest and taxes of \$1.5 million. This puts the valuation of the company at \$30 million (20x EBIT or 1.5x Revenues). Post dilution from the Series B Round, Series A Round investors will have a 15% share of the company, valued at \$4.5 million. This final valuation represents a 36X return for the initial investment.

CreativiTea

2.0 The Company

CreativiTea is a tea company that allows customers to create their own individualized tea blends. Customers can choose from hundreds of tea leaves, herbs, and flavors to create their personalized drinks. CreativiTea will make tea bags or package loose leaf tea blends for its customers and ship them to their doorstep. The customer can have a special text or logo printed on the packaging. CreativiTea blends are also a thoughtful and special gift for others.

Through the use of social media, CreativiTea will create a community of tea enthusiasts that will be held together by their passion for tea, where they can learn from each other and share their experiences and creations.

CreativiTea will have a single retail location in Southgate Mall, located in Missoula, Montana. We will use this location to experiment with new tea types and blends and get immediate feedback from our customers that we can use to boost our online sales. In the retail store, we will have touch screens for customers to use to place orders following a process similar to creating and ordering blends online.

2.1 Vision, Mission, and Philosophies

Vision Statement

We envision a future in which CreativiTea is a world leader in online customizable specialty tea sales.

Mission Statement

The mission of CreativiTea is to bring the delights and health-benefits of high-quality customizable teas to the world. The synergy of our online store linked to our retail store and tea community will enable tea lovers to share their tea experiences, creativity, and personalized blends with fellow tea and health enthusiasts.

Values and Philosophies

CreativiTea is an advocate of creative choices, healthy living, and the power of community and communication. We infuse these values in all that we do.

2.2 The Products

Customized tea

CreativiTea

CreativiTea customers will go online and in an easy step-by-step process they will select their types of tea (black, green, white, red, oolong, etc.), herbs (caraway, nettle leaf, raspberry leaf, etc.), and flavors (strawberry, lemon, cinnamon, ginger, anise, etc.). The process is going to be similar to the one of the highly successful Chocomize, a customizable chocolate company and MeandGoji, a customizable cereal company. We will ship the tea bags or loose-leaf blends to the customer or in our Missoula store customers can taste their new creations immediately.

- Customized Loose Leaf Teas - Customers can choose from dozens of high quality loose leaf teas
- Customized Tea Bags – Customers can purchase a single bag or a package of bags of personalized loose leaf tea blends
- Hot Teas and Iced Teas - Our mall location will offer freshly brewed tea

Labeling:

CreativiTea will offer the option of putting texts or logos on packaging. This will make our products attractive as company gifts.

Tea accessories:

We will offer a selection of accessories, such as tea cups, mugs, pots, and cozies, to make tea drinking more enjoyable and special.

2.3 Product Benefits

Customization

Both mall and online shoppers can design their own exciting tea blend bags or loose leaf tea combinations according to their personal tastes and needs. Customers this way get a product that is specifically tailored to their needs. This gives them additional value for their money. Customized products can be differentiated against mass products, and are more attractive.

Health

Tea drinks represent healthy alternatives to coffee and other sugary drinks.

Shopping Experience and Social Community

Our web site and store will make tea purchasing a fun and creative process and a social experience. Shoppers will follow an easy step-by-step method to create personal blends made of tea leaves, flavors, and other ingredients. We use social media, such as Facebook, Twitter, and blogs to create an online community for tea enthusiasts to share their knowledge and experience with each other. In our retail location, customers can make their order via touch screen computers. This will speed up the line and make shopping even more interactive.

CreativiTea

Education

Every tea will have a story. The stories will educate consumers about the history and origins of the tea and about the people involved with the tea, the growers, pickers, sorters and such. The stories will facilitate creation of global awareness and a sense of global community as CreativiTea drinkers become part of the story by drinking the tea and creating their own blends and sharing their experiences and ideas with others.

2.4 Entry and Growth Strategy

CreativiTea will enter the market by launching a retail location at Southgate Mall in Missoula, MT in October, 2011. After we have a good understanding of customer needs and built out reliable supplier relationships, we will launch our website in February, 2012. In July 2012 we will lease a 10,000 square foot warehouse to meet increasing online sales demand.

3.0 Market Analysis

3.1 Industry

Mass Customization

The widespread use of computers and the Internet allow customers to interact with the company they are purchasing from and specify the product features they need. In other words, the Internet made mass customization possible. Today's customers do not want to be treated as masses but as individuals. They are better educated about products and themselves, and they want to make their own decisions. For companies this means that they cannot easily sell on the "one size fits all" model anymore. Customized products fit customer's special needs. Mass customization helps self-expression and makes customers feel good about their purchase.¹

More and more companies understand the trend of mass customization and they design their business according to this new model. In fact, mass customization is such an important trend that many talk about a paradigm shift. There are several examples already in food (MeandGoji), beverages (Starbucks), jewelry (Blue Nile), apparel (Nike), and other product categories. Many of these companies use social media to allow customers to share their creation.

Tea Industry

Tea is the most widely consumed beverage in the world, after water. Tea can be found in almost 80% of U.S. households. On any given day, over 154 million Americans (almost half of the population) drinks tea. The nation's tea consumption is growing².

Important market trends behind the growth of tea drinking:

a) Increasing Health Consciousness

A significant trend of the past few years is growing consumer concern with health and well-being. The baby boom generation is mostly concerned with avoiding serious illness, while Generations X and Y are more interested in wellness and appearance (energy, stamina, body sculpting, clear skin, white teeth, etc.)³

Sales of carbonated beverages in the US are declining, as consumers drink alternative products, such as energy drinks and tea. Growing concerns about obesity create good growth prospects for diet and low-calorie categories.⁴

b) Increasing Acceptance of Tea Products

¹ Insights, Mass customization Trend, 2009

² The Tea Association of the USA, 2011

³ Stewart, K. L., Runestad, T., Shelke, K. (2010). Top 10 Trends in 2010, Multivitamin Direct

⁴ United States Food & Drink Report Q4 2010

The increase in health awareness has resulted in an increased popularity of tea and tea drinks. According to Mintel's Global New Products Database tea is the most popular beverage. In the United States alone, 76% of Americans consume bagged tea and 44% drink RTD (ready to drink) tea products, such as Arizona Tea⁵. Grocery stores and coffee shops alike are carrying more tea products. The importance of this trend is shown by the fact that several Fortune 500 companies -- among them McDonalds -- have launched multi-million dollar marketing campaigns for tea.

Industry size

In 2010 the size of the tea industry was 7.7 billion dollars in sales in the US. In 2010, Americans consumed over 65 billion servings of tea - over 3 billion gallons. Supermarket sales in 2010 was more than \$2.15 billion. Away-from-home consumption has been increasing by at least 10% annually over the last decade. 80% of the tea sold in the US was black tea, 19.5% green tea, and the remaining half percent was oolong and white tea.⁶

A few large tea companies, such as Crystal Light and Lipton dominate the market, but entrepreneurs selling specialty tea are shaking up the market. According to the report: "While these companies may be low in sales dollars as compared to the tea giants, their innovation and rapid expansion make them ripe targets for acquisition".⁷

In 2010 over 65% of the tea in the U.S. was brewed using tea bags. The sales of instant tea is declining and loose tea is getting more and more popular, especially in specialty tea and coffee shops.

Growth

Tea sales have been increasing for 19 consecutive years and are expected to grow steadily and continuously over the next five years in all segments. The potential of tea is great, as the market size of tea is only fraction of the market size of carbonated soft drinks, coffee, and water.

The industry is projected to grow to \$15 billion in sales in 2012 (from \$7.7 billion in 2010, according to the Market Research Group). The main drivers for growth remain health concerns and convenience and the ongoing discovery of specialty tea. Attendance at the World Tea Expo in 2010 was up by 68% compared to 2009 and increased by 387% compared the first event in 2003. According to George Jage, the founder of the Expo, in spite of the great growth of the

⁵ Mintel Oxygen, 2008

⁶ Tea Association, 2011.

⁷ Packaged Facts report, 2007

industry, oversaturation of the market will not happen for another 5-10 years.⁸

Specialty Tea Segment

Specialty tea (including higher quality, organic, and fair trade tea) will represent the fastest growing segment of the tea industry over the next decade. According to Joseph P. Simrany, President of the Tea Association of the USA, Inc., the segment might double its volume over the next five years or might grow even faster (Tea Association, 2009). In 2011 the projected growth of the specialty tea segment is 5-8%.⁹

Specialty tea retailers are successfully expanding because they are able to capitalize on the increased popularity of tea in a way that other tea vendors have not been able to.

3.2 The Customer

Mass Customization

Mass customization is appealing for all generation. Many people (and most of the Americans) like to be treated as a special individual as opposed an invisible member of a large group.

Generation Y is the first generation that grew up with computers. Although many members of this group are still kids, several of them are coming out of college and start to make their own purchases. This generation is tech savvy and very familiar social media. Friendship means a lot to them; they are very team oriented.¹⁰ They are a very diverse group (1 in 4 people in this generation is minority). Generation Y is often quoted to have a sense of entitlement. Self expression and making personal statements with their image are very important for them.¹¹

Generation Y is also called Echo boomers, because of the large increase in birth rate in the 80s and 90s. There are approximately 80 million generation Y in the US¹².

Tea

More and more people are drinking tea for various reasons. Tea's health benefits especially appeal to the baby boom generation.¹³ For younger people (Generation X and Y) tea drinking is a "hot new thing"; drinking tea is "cool".¹⁴ This generation is attracted to products that are connected to wellness and appearance.

⁸ Six of Ten 2011 Trends: Specialty Tea, August 2010.

⁹ Tea Association, 2010

¹⁰ Trunk, P. What generation Y Really Wants. Time, July 5. 2007.

¹¹ NAS, 2006

¹² Leung, R. The Echo Boomers. CBS News, Sept.4. 2005

¹³ Sage Group, 2006

¹⁴ The Tea Site, 2009

The National Marketing Institute NMI found **five distinct consumer segments** on the basis of healthy living and attitudes towards health:

1. *Well Beings* (19%): This group consists of early adopting market leaders who have strong values about healthy living. They lead a healthy lifestyle, consciously seek organics, and consume supplements. They spend a lot on healthy products, and they like to shop on the Internet.
2. *Food Actives* (18%): This group prefers healthy food and healthy life, but is price-sensitive. This group is more mainstream and tries to reach moderation in lifestyle.
3. *Magic Bullets* (24%): This group looks for easy ways to stay healthy. Members of this group hope that they can find simple solutions, such as supplements and pills, to *stay healthy*. This group is not likely to cook at home or exercise.
4. *Fence Sitters* (17%): This group is interested in staying healthy, but they hesitate to take action. They tend to be stressed out, pick up the latest exercise kick to lose weight. They are receptive to eco-friendly appeals and reliant on social media.
5. *Eat, Drink & Be Merries* (22%): This is the least health conscious group. They consist of younger shoppers who indulge themselves in tasty foods. They are not concerned with prevention.¹⁵

We expect Well Beings and Food Actives and, to a lesser extent, Magic Bullets to be CreativiTea's customers.

Channels

a. Online Shopping

Online shopping is very convenient, saves time, and creates the platform for mass customization. It makes a wide variety of products available. Americans like online shopping very much. According to the survey conducted by the Nielsen Company, in the US approximately 85% of customers have already made a purchase online. Around 50% of the people using Internet around the world are active online shoppers.

The number of online shoppers worldwide is approximately 875 million, and with the spreading of smart phones and other mobile devices, this number is expected to grow substantially in the next few years.¹⁶ Online retail is expected to grow by a 10 percent compound annual rate and will reach \$248.7 billion by 2014.¹⁷ Within computer technology mobile devices represent a new fast growing trend. Mobile devices extend the possibilities of internet shopping and social media and this makes them a great platform for customized tea sales. The sales of

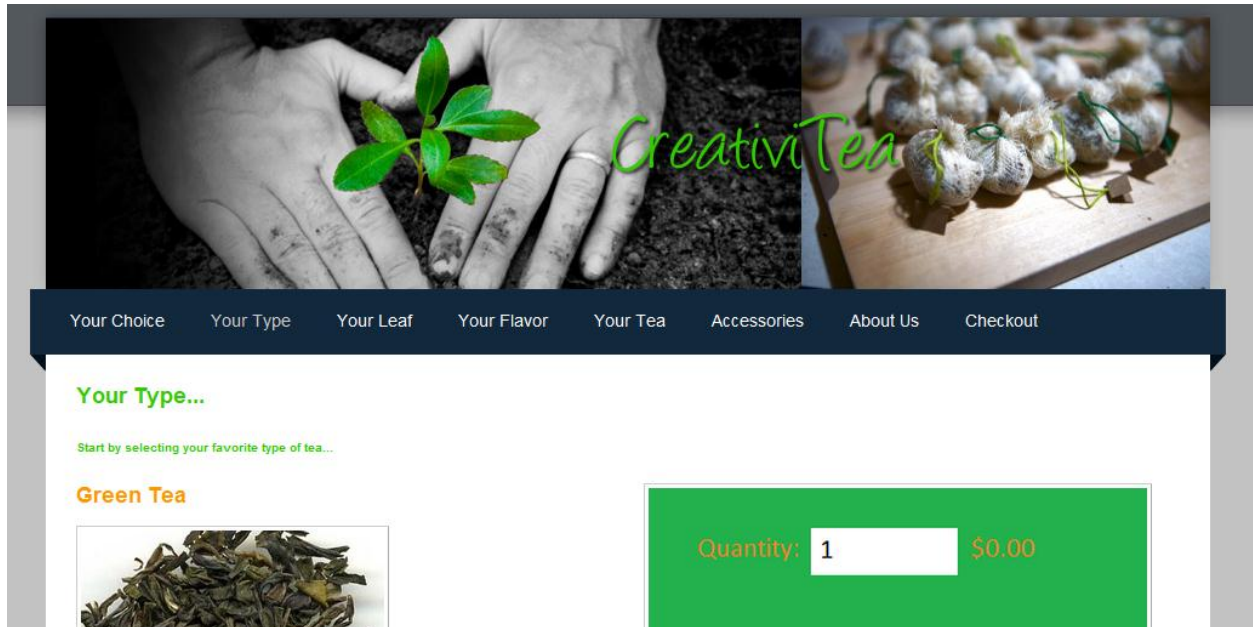
¹⁵ Health and Wellness Trends Report, 2010

¹⁶ Recent Trends in Online Shopping, Big Trend, 2010.

¹⁷ Sloan, D. 5 signs that customer co-creation is a trend to watch. Venture Beat, July 19, 2010

smart phones outnumbered the sales of laptops last year, and IHS predicted that in 2015, 242 million iPads and PC tablets will be sold compared to 20 million last year.¹⁸

Screenshot of Prototype Website



b. Retail Shopping

According to Charles Cain from Adagio Teas, customers need to be educated in order to fully enjoy and appreciate high quality tea. Purchasing and enjoying tea is more similar to purchasing wine than soft drinks. Although cafes and restaurants attract a wider audience than retailers, a tea retail shop provides a better platform to engage and educate customers and has the opportunity to provide them with a unique shopping experience.¹⁹

Mall Location

Malls are typically high traffic locations that make it easy to capture customers. In the US 197 million adults visit a shopping center each month, representing 94% of the adult population. Shopping malls are the third most frequented locations after home and work. They have become community and recreation centers.²⁰ Being in a high traffic location is important in the startup phase of our business.

¹⁸ King, D. Tablets and Smartphones Slow laptop Sales Growth, March 3, 2011

¹⁹ Six of Ten 2011 Trends: Specialty Tea, August 2010

²⁰ JCDecaux North America, 2010.

According to a study conducted by the International Council of Shopping Centers, by 2010, mall shopping had become less focus-driven than it was in the mid 1990s, and for this reason malls can reasonably expect an increase in impulse purchases.

Forty-five percent of mall shoppers make a food court purchase²¹ and a typical mall shopper spends \$5 on food/beverages.

Southgate Mall

According to the management, approximately eight million people go to Southgate Mall each year. The average household income of the Missoula mall shopper was \$56,328 in 2009. The median shopper is age 36. Teenagers are not the majority of Southgate Mall shoppers, they make up only 8.96% of them (age group 15 - 20).



²¹ Vasquez,D. Media Life Magazine, Jan 24, 2011

4.0 The Competition

Online Tea Retailers

There are several online tea retailers, but none of them offer mass customization. The largest competitor in the United States for online tea retail is also Teavana. Teavana focuses on premade blends and it has suggestions for which tea blends well with which one, but does not directly customize its products. Adagio, another major player offers sample tea bags, and also customized labels for special occasions, but not customized tea. The same is true for other major competitors such as Mighty Leaf Tea, Tea Noosh, and a rising number of regional players.

Some customization started to happen on the level of wholesalers. Some of them offer customized tea blends for tea retailers.

| Company | Teavana | Adagio | CreativiTea |
|--|--|---|---|
| Product | Loose leaf tea (focus on blends) Accessories Brewed tea | Loose leaf tea Accessories Tea bags | Loose leaf tea Accessories Tea bags |
| Customization | No Promotes cross blending | No Provides customized labels | Yes Provides customized labels |
| Price | \$5.73/ounce | \$3.83/ounce savings on larger amounts | \$2.49/ ounce |
| Story, country of origin, real name | Description | Description, Production process, Country of origin | Description, Production process, Country of origin |
| Distribution | Shopping Centers Online Store | Adagio | Shopping Centers Online Store |

Beverage Sector

Although the consumption of soft drink is getting flat in many parts of the world, these drinks are still count as major competition.

Southgate Mall has 13 venues where a consumer can purchase a beverage but most of these locations serve sodas, smoothies, and coffee.

Specialty Stores

CreativiTea

The retail tea industry in the United States is highly fragmented; it is dominated by single shop owners or regional firms. In Missoula, Butterfly Herbs, is the only specialty tea shop and it has only one location. The largest competitor in the country is Teavana, which has 168 locations in 34 states (none in Montana) and has seen substantial growth over the past several years.



CreativiTea

5.0 Marketing Plan

5.1 Target Market Strategy

Demographics

The general public of all ages and genders are our potential customers. Most people like the idea of individualized products but because of their tech savvy and although we can expect a large number of our customers to come from the tech savvy generation Y.

Also both genders and all age groups like tea. Our customers will tend to be educated and have at least a medium income level.

Our retail customers will come mostly from Missoula and surrounding areas.

Psychographics

Among online shoppers, we have defined our primary target market in terms of psychographic characteristics. From the National Marketing Institute's five consumer segments (see above) our primary target market is the Well Beings (19%) and the Food Actives (18%): people who lead healthy lives and follow world-wide trends of healthy eating. These two segments represent 37% of the population.

Our secondary target market is consumers who are interested in healthy living but have not yet made the necessary changes in their lives to actually live healthily. This group, the Magic Bullets, represent 24% of the population.

5.2 Product Strategy

CreativiTea will serve creativity and health in the form of tea.

Product

The most important feature of our product is its "Customer co-creation" feature that allows customers to build their own tea. Our customers will create personal blends of loose-leaf tea from high quality ingredients. We will provide an energetic atmosphere, and we build a social community that further encourages creativity and adventure. This will make shopping playful like a video game. We will provide creative suggestions for blending.

CreativiTea will attract and keep customers by making it easy and inexpensive for them to experiment and try new tea taste combinations. CreativiTea is more than tea. It is a safe, easy,

CreativiTea

no-fuss way to be creative in everyday life and to share the joy of creativity and discovery with others.

We are going to carefully select our wide variety of teas. Part of our tea selection will remain constant and part of it will change to keep the product line fresh, interesting, and in line with the seasons. This will keep customers excited about our products.

Cognitive and Emotional Appeal

The customization of tea and the involvement of the customer promote feelings of individuality, control, self-expression, and making responsible choices. Giving the customer the option of creating a customized flavor of tea with the step by step process of putting together tea and our touch screens in the store will create a playful and fun shopping experience. The community of tea drinkers will enhance the fun by letting consumers share all the fun via social media.

The health benefits of our products play to the cognitive and emotional sides of customers. The healthiness of our products will appeal to those who consciously aim to live a healthy life and seek out healthy alternatives to quench their thirst. Our products also play on the emotions of customers. People are afraid of health problems and getting old. Our healthy products can relieve this fear and give people the feeling that they did something good for themselves.

Online shoppers tend to look around on the Internet before making a purchase, read about products, and compare product benefits and prices. Their shopping process is much more cognitive and conscious than that of the mall shoppers. People in malls tend to make impulse purchases on the basis of the look of the store or their thirst. Their shopping process is mostly emotional. Letting people create their own blends will create excitement and push the shopping process towards spontaneity.

5.3 Pricing Strategy

The price of our 10-pack tea blend bags will be an average of \$4.99. This is at a lower price point than what customers pay for premium tea products. This pricing will bring our tea within reach of mainstream consumers.

The price of our loose leaf tea will vary product by product with an average of \$2.49 per ounce. This price is in line with our competitors' prices.

We determined the price of tea on the basis of what our competition is offering. The price of a cup of tea at Cafe Dolce in Southgate Mall is \$1.25. This is a standard tea with a standard tea bag. Smoothies in the Mall range from \$3.75-\$5.25 depending on size and ingredients. Sodas from typical soda fountains are \$1.50-\$3.00. Our price of \$0.99 for a cup of freshly brewed hot tea and iced specialty tea is the lowest in the mall, even lower than what Cafe Dolce charges for

CreativiTea

generic tea bags much cheaper than a smoothie or a soda. We believe that our specialty tea at this price will draw in a large number of customers who will experiment and spread the word of the store as well online as in Missoula.

Our merchandise is priced according to industry standards. We will sell a loose leaf tea mug for \$24.99 with a 56% margin and regular mugs for \$14.99 with a 67% margin.

5.4 Distribution Strategy

In our distribution channels we have no intermediary like in most traditional setups. Direct sales with the help of the Internet will keep the price relatively low for our consumer and makes the company able to respond faster to consumer needs.

Our two sales channels will attract partly overlapping customer groups:

a. Online Store

Our online retail store will attract consumers looking for customized specialty tea products and a new, exciting online shopping experience.

Online shopping is familiar to most consumers. Tea is good for online purchasing as it is light (low shipping cost) and durable.

b. Brick and Mortar Store

Our retail store will be located at Southgate Mall in Missoula, MT. This store will serve mall shoppers interested in purchasing a new, exciting, and individualized beverage while they are shopping and those who are looking to purchase tea and tea-based products to enjoy tea elsewhere or with others.

The retail location will have touch screens that will allow customers to design and order customized teas and store recipes and comments. Customers can access the CreativiTea web site from the store so that they can save their recipes in one place and consult online CreativiTea drinkers' recommendations. Traditional customers can make their purchases the old-fashioned way, by talking to an employee.

The possibility of buying a healthy beverage for \$0.99 is very attractive for many people.

Barrier to distribution

In shopping centers, non-compete clauses might pose a significant barrier to entry. This will limit the number of shopping centers we enter but also protect us from competitors.

CreativiTea

5.5 Advertising and Promotion

Brand

Our brand will focus on emphasizing customer involvement in creating new and exciting beverages and a fun social shopping experience. Tea's already existing healthy lifestyle image will make it easier to create an online community around our products.

Positioning

We are going to position our online customizable loose leaf teas as personalized, healthy, high-quality and fun. Our tea beverages and customizable loose tea bags will be positioned tasty, healthy, convenient, and fun.

Advertising

Image

CreativiTea can take advantage of the growing popularity of customized products and the healthy image of tea to boost sales. We can build on the emotional appeal of customized products and design our advertising around it. It is easy to back up our health claims with recent publications on the health benefits of tea and use them in our advertising.

Look

The look of the store and labels will follow new trends of being natural, clean, and fun. As consumers now look for "negative labels," such as low sodium, low cholesterol, and low calories (Natural Foods Merchandiser, 2010), we will use similar negative statements in our product descriptions (for example: no artificial colors/flavors/preservatives/additives).

Advertising

We set aside 15% of our revenue for sales and marketing. As we are growing our marketing will grow with us and this will probably result in an faster growth in sales.

In our start-up phase, we will pursue advertising with low cash requirements. We will take advantage of cheaper and free online advertising methods, such as search engine optimization, article marketing, link exchange, and email marketing. As the company grows we can start engaging in more expensive online and other marketing channels, such as pay-per-click advertising and trade journals.

Social Media

We will heavily rely on advertising through social media. Our important goal is to create a lively online, ever-growing community of tea drinkers. Facebook and twitter are perfect ways for communicating with our customers about everyday issues, new promotions, and tastes. Forums and blogs will be used to exchange experiences of consuming tea and creating new blends, and also to share news about the tea industry from around the world. Newsletters, promotions, and contests will keep interest and enthusiasm alive.

We recognize that building a social community is a slow process. It takes care and patience, but

CreativiTea

the results are usually rewarding.

Public Relations

Keeping good relationship with the media and maintaining a good image in the community are key to our success. We will work on creative ways to have a continuous presence in the press and local communities. Press releases, public talks, organizing events, giving to charity are all ways to maintain good relationship with local communities.

We will build connections with businesses that promote personal development and healthy living, such as the Open Way Mindfulness Center and the House of Spirit in Missoula, and give presentations and talks about tea and its benefits.

5.6 Sales Strategy

We will use direct sales in all of our channels. Both at the mall locations and online we will sell directly to customers. This is a win-win strategy. Consumers will have pay lower price for our products and our company will have the opportunity to get immediate feedback from our customers.

5.7 Sales Forecast

Online Store

As a result of mass customization we are expecting rapid growth.

Retail Store

In order to forecast our sales at our mall location, we started with the number of mall visitors per year and then drawing on studies and assumptions, derived an estimate of daily sales.

At Southgate Mall, the number of annual mall visitors is 8,000,000. According to a study, approximately 45% of mall visitors purchase a drink. Two thirds (67%) of these people probably purchase food with their beverage, and so 33% will look to buy only a drink. Depending on the location of the store 50% of the people who want a beverage without a lunch or dinner can be expected to walk by CreativiTea (considering the size of Southgate Mall, this is a likely number). Others who are thirsty but are far from the store are not likely to hike to the store to get a tea; they will probably buy something nearby. Thirsty people tend to notice drinks, so we can predict that 90% will notice the store. 61% (Well Beings, Food Actives, and fence Sitters) will be attracted to the health appeal of tea. Considering that 85% of Americans drink tea, we can expect that at least 70% likes tea. We will design a clean looking, modern store, so we can expect than 67% of people will find it appealing. 99% will be attracted to the price of our cup of tea (our price is much lower than the mall average), and 80% will decide to try a CreativiTea:

Our estimation is that $8,000,000 \times 0.45 \times 0.33 \times 0.50 \times 0.90 \times 0.61 \times 0.70 \times 0.67 \times 0.8 \times 0.7 = 85,648$ customers a year or 236 customers a day will purchase a CreativiTea to drink in the mall.

CreativiTea

We estimate that we can sell 100 cups of beverages every day (hot and iced tea). This is a very conservative figure and does not take into account customers who seek out CreativiTea after trying it once.

Other customers will purchase tea products to take home. Out of the 8,000,000 people who come to the mall each year 61% are attracted to the health benefit of tea. 70% of them like tea, and 30% of them are willing to brew tea at home. 60% will be aware of the existence of the store. 67% will like the store and 16% of these will be willing to pay the higher price of specialty tea (16% of tea sales is specialty tea).

$8,000,000 \times 0.37 \times 0.50 \times 0.40 \times 0.6 \times 0.67 \times 0.16 = 39,549$ customers a year or 109 customers a day. We conservatively estimate that we can expect to sell 40 ounces (40 people x 1 ounce for \$2.5/ounce) loose leaf tea and 80 packs of tea bag daily (40 people x 2 packs, 10 bags per pack for \$4.99/pack). There are people who will buy both.

We have further refined our sales forecast to account for seasonality figures given to us by mall tea retailers and for slow start-up sales.

Product Revenue Worksheet Retail Store

| Product Description | Price | Units Sold/Day Retail | Total Daily Revenue | Total Annual Revenue |
|----------------------------|----------|-----------------------|---------------------|----------------------|
| Tea Blend Bag (Single) | \$ 0.99 | 150 | \$ 148.50 | \$ 53,905.50 |
| Tea Blend Bag (10 pack) | \$ 4.99 | 80 | \$ 399.20 | \$ 144,909.60 |
| Iced Tea | \$ 0.99 | 75 | \$ 74.25 | \$ 26,952.75 |
| Loose Leaf Tea (per ounce) | \$ 2.49 | 40 | \$ 99.60 | \$ 36,154.80 |
| Loose Leaf Tea Mug | \$ 24.99 | 5 | \$ 124.95 | \$ 45,356.85 |
| Regular Tea Mug | \$ 14.99 | 10 | \$ 149.90 | \$ 54,413.70 |
| Totals | | | \$ 996.40 | \$ 361,693.20 |

CreativiTea

6.0 Operations Plan

6.1 Operations Strategy

Production Process

At the beginning all production for both retail and website sales will occur at our retail location. In year two, we will move to a 10,000 sqf warehouse. In the first year, we have committed 18 hours of labor per day at the retail location. We expect our employees to be able to fill online orders during the day when sales are slow. For the warehouse, we approximated 18.8% of total revenues to labor costs.

Day-to-Day Operations

In year one we will have a staff of two founders, a CIO, and store manager, and five hourly employees at the initial retail location. The hourly employees will work in the mall six hour shifts a day and have 21 shifts per week to split between the five. In addition to our laborers, the two founders will work 10 hours a day and be on call for one day in the weekend. The CIO and the store manager will be on fixed salary.

Suppliers

There are several well established wholesale tea suppliers that cover the US, such as Maya tea, Teaguys, Rishi, Empire Tea Services, and Starwest Botanical. Tea retailers maintain relationships with several suppliers, because tea prices and quality may change quite often. They purchase from several suppliers to better manage risk.

Initially, we will start out with three different suppliers of tea and tea products. After two months we will add two additional suppliers. During the first six months of operations, we will continue to search for the five most reliable suppliers.

The wholesale price of tea varies greatly by type, quality, rareness, etc. We have determined that we can get good quality tea for \$10-15 a pound.

7.0 Development Plan

The development plan consists of two phases. The first phase consists of launching the retail and website businesses in year one. The next phase (years 2-5) will allow the company to launch an aggressive marketing campaign and grow out its infrastructure to meet increasing sales growth.

Phase I – Bootstrap - Development Timeline

| | April /May 2011 | June/ July 2011 | Aug/ Sept 2011 | Oct 2011 | Nov/ Dec 2011 | Jan 2012 | Feb. 2012 |
|--|-----------------------|-----------------------|----------------------|-------------|---------------------|-------------|--------------|
| Build Advisory Board Team | | | | | | | |
| Secure Series A Funding | | | | | | | |
| Initiate Contact with Suppliers | | | | | | | |
| Financials Begin | | | | | | | |
| John and Emese Start Working Full-Time | | | | | | | |
| Consult and Develop Final Product Offering | | | | | | | |
| Finalize Store Design/ Plans | | | | | | | |
| Order Equipment & Leasehold Improvements | | | | | | | |
| Order Opening Inventory | | | | | | | |
| Start Mall Lease and Construction | | | | | | | |
| Launch Retail Store | | | | | | | |
| Hire Chief Information Officer | | | | | | | |
| Website Development | | | | | | | |
| Launch Website | | | | | | | |

Phase II - High-Growth - Development Timeline

| | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------------------|--------|--------|--------|--------|
| Secure Series B Funding | | | | |
| Launch High-Growth Marketing Campaign | | | | |
| Build High-Growth Infrastructure | | | | |
| Achieve Positive Cash Flows | | | | |
| Achieve Positive Earnings | | | | |
| Series A Investor Exit | | | | |

8.0 Team

8.1 Management Team

John Beltrone has an MBA with a focus in Entrepreneurship. John's technical background comes in accounting. He has passed the CPA examination and is waiting for approval from the state board for his designation. John has worked previously in public accounting and the banking industry. John has been involved in two start-ups companies and currently works for the University of Montana Office of Technology Transfer evaluating new business ideas that come from university research.

Emese Vitalis is an MBA candidate with a focus on entrepreneurship. Her Ph.D. in psychology gives her the tools to understand the psychology of customer behavior and sales. Emese has been part of the founding team of two startup businesses, and she is currently a co-owner of two restaurants at a lake-front resort area.

8.2 Board of Advisers

Laura Filbert

Laura is the store manager of The Tea Smith in Omaha NE. Laura has several years of experiences managing a retail and online tea house. Her experience and insight into the industry makes her an invaluable member of the CreativiTea team. Laura was an excellent direct source of information in forming the financial assumptions for the business plan. Her expertise will be critical during the launch phase of the business.

Simona Stan

Simona is an Associate Professor and the Interim MBA director at the University of Montana, School of Business Administration (SOBA). Simona has a PhD in Marketing, with minors in Psychology and Statistics, from the University of Missouri – Columbia, in 2001. Simona is currently teaching Marketing Management at the Undergraduate and MBA levels. Prior to entering the Academia, Simona has gained industry experience as a project management engineer, and consulted on issues related to service quality improvement. Her knowledge of marketing and industry experience proved to be invaluable for our project.

Michael Braun

Michael received his Ph.D. in Management from the *University of Massachusetts, Amherst*. Prior to academia, he was a director with a Los Angeles-based boutique merchant bank, *Stephens & Partners*, where he initiated, raised capital for, and managed leveraged buyout strategies and transactions for private equity firms. He was also responsible for managing acquisitions and divestitures for private and publicly-traded firms. His early career was spent in business development in publishing, direct marketing, and e-commerce in Los Angeles, New York and Europe, working with clients such as Staples, Auto-by-tel, Conde Nast, 101Communications,

CreativiTea

and Shop2Give. Michael is Swiss by birth and spent his childhood in Zurich, Brussels, and London.

Gary Chumrau

Gary graduated from the University of Montana School of Law in 1977. Gary's practice has historically been focused in the area of commercial law and transactions. Although he still practices banking law, secured transactions and real estate, his primary focus has become hospital and health care law. His current clients include a large community hospital, a managed care provider network, an ambulatory surgery center, cardiac catheterization lab, and numerous physicians and physician group practices. He has been involved in numerous joint venture arrangements between tax exempt health care entities and private physicians.

9.0 Critical Risks

Increase in the Price of Tea

While determining appropriate costs for purchasing Tea at the wholesale level, our team discovered that the price of tea could increase dramatically in the near future. In a phone interview with the CEO of Maya Tea Company, Manish Shah stated that, “there is a very real possibility that tea prices could increase higher than normal in the short-term.” Similar to other commodities, the price of tea is sensitive to the price of oil and has the industry spooked. In order to minimize this risk, CreativiTea intends to build a strong geographically diverse supplier base. Additionally, each tea flavor will be priced to market conditions in order to limit the effect of price change for eroding profit margins.

Unpredictable Online Sales Growth

We have to be able to fulfill a sudden surge in sales orders. Several companies, like Chocomize reached high sales numbers in very short amount of time. If we are not ready our customers might experience huge delays in getting their tea blends. This might have devastating effects to the future of our business.

10.0 The Offering

CreativiTea is seeking a Series A Round investment of \$125,000. This investment, along with \$20,000 from founders, family, and friends will allow CreativiTea to stay cash flow positive for the first year of operations. CreativiTea will have a post-money valuation after the Series A Round of \$500,000.

| Sources of Funds | | Uses of Funds | |
|---------------------------|-------------------|-------------------------------|-------------------|
| Founders, Family, Friends | \$ 20,000 | Inventory | \$ 9,000 |
| Series A Round Investor | \$ 125,000 | Equipment | \$ 3,900 |
| | | Leasehold Improvements | \$ 36,000 |
| | | Working Capital/Contingencies | \$ 96,100 |
| Total | \$ 145,000 | | \$ 145,000 |

In year two, a Series B Round, will raise an additional \$1.5 million. This will allow the company to launch a large sales and marketing campaign and build up the necessary infrastructure to meet increasing growth in sales.

In year five, CreativiTea will reach \$20 million in revenues and have EBIT of \$1.5 million. This puts the valuation for the company at \$30 million (20x EBIT or 1.5x Revenues). Post dilution from the Series B Round, Series A Round investors will have a 15% share of the company, valued at \$4.5 million. This final valuation represents a 36X return ($\$4.5 \text{ million} / \$125,000 = 36$).

CreativiTea

11.0 Financials

11.1 Financial Summary

5 Year Income Statement

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------------|-------------|----------------|--------------|---------------|---------------|
| Revenues | \$ 268,424 | \$ 2,180,797 | \$ 5,132,605 | \$ 10,296,995 | \$ 20,002,768 |
| COGS | \$ 92,827 | \$ 751,504 | \$ 1,767,712 | \$ 3,545,407 | \$ 6,886,343 |
| Gross Profit | \$ 175,598 | \$ 1,429,293 | \$ 3,364,893 | \$ 6,751,588 | \$ 13,116,425 |
| Operating Expenses | \$ 245,104 | \$ 2,569,765 | \$ 3,411,102 | \$ 6,160,231 | \$ 11,558,132 |
| Earnings from Operations | \$ (69,506) | \$ (1,140,472) | \$ (46,209) | \$ 591,357 | \$ 1,558,293 |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ 80,021 |
| Net Earnings | \$ (69,506) | \$ (1,140,472) | \$ (46,209) | \$ 591,357 | \$ 1,478,272 |

5 Year Statement of Cash Flows

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|------------------------------------|-------------|----------------|-------------|------------|--------------|
| Operating Activities | \$ (96,592) | \$ (1,187,006) | \$ (98,683) | \$ 591,357 | \$ 1,253,651 |
| Investing Activities | \$ (39,900) | \$ (100,000) | \$ - | \$ - | \$ - |
| Financing Activities | \$ 145,000 | \$ 1,500,000 | \$ - | \$ - | \$ - |
| | | | | | |
| Increase/(Decrease) in Cash | \$ 8,508 | \$ 212,994 | \$ (98,683) | \$ 449,998 | \$ 1,253,651 |
| | | | | | |
| Cash at Beginning of Period | \$ - | \$ 8,508 | \$ 221,503 | \$ 122,820 | \$ 572,818 |
| Cash at End of Period | \$ 8,508 | \$ 221,503 | \$ 122,820 | \$ 572,818 | \$ 1,826,469 |

5 Year Balance Sheet

| | Begin | 5/31/2012 | 5/31/2013 | 5/31/2014 | 5/31/2015 | 5/31/2016 |
|---------------------------------------|-------------------|------------------|-------------------|-------------------|-------------------|---------------------|
| Assets | | | | | | |
| Cash | \$ 145,000 | \$ 8,508 | \$ 221,503 | \$ 122,820 | \$ 572,818 | \$ 1,826,469 |
| Accounts Receivable | \$ - | \$ 7,614 | \$ 22,081 | \$ 38,719 | \$ 55,357 | \$ 71,995 |
| Inventories | \$ - | \$ 22,303 | \$ 68,111 | \$ 117,939 | \$ 256,653 | \$ 478,627 |
| Total Current Assets | \$ 145,000 | \$ 38,425 | \$ 311,696 | \$ 279,478 | \$ 884,828 | \$ 2,377,091 |
| PP&E (-AD) | \$ - | \$ 37,069 | \$ 123,326 | \$ 109,334 | \$ 95,342 | \$ 81,350 |
| Total Assets | \$ 145,000 | \$ 75,494 | \$ 435,022 | \$ 388,812 | \$ 980,170 | \$ 2,458,441 |
| Liabilities | | | | | | |
| Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Stockholders' Equity | | | | | | |
| Common Stock | \$ 145,000 | \$ 145,000 | \$ 1,645,000 | \$ 1,645,000 | \$ 1,645,000 | \$ 1,645,000 |
| Retained Earnings | \$ - | \$ (69,506) | \$ (1,209,978) | \$ (1,256,188) | \$ (664,830) | \$ 813,441 |
| Total Equity | \$ 145,000 | \$ 75,494 | \$ 435,022 | \$ 388,812 | \$ 980,170 | \$ 2,458,441 |
| Total Liabilities & Equity | \$ 145,000 | \$ 75,494 | \$ 435,022 | \$ 388,812 | \$ 980,170 | \$ 2,458,441 |

CreativiTea

Price and Cost of Goods Worksheet

| Product Description | Price | Cost | COGS% | Gross Margin % |
|----------------------------|----------|----------|-------|----------------|
| Tea Blend Bag (cup) | \$ 0.99 | \$ 0.35 | 36% | 64% |
| Tea Blend Bag (10 pack) | \$ 4.99 | \$ 1.57 | 31% | 69% |
| Iced Tea | \$ 0.99 | \$ 0.32 | 32% | 68% |
| Loose Leaf Tea (per ounce) | \$ 2.49 | \$ 0.95 | 38% | 62% |
| Tea Infuser Mug | \$ 24.99 | \$ 11.00 | 44% | 56% |
| Regular Tea Mug | \$ 14.99 | \$ 5.00 | 33% | 67% |

Average Wholesale Tea Blend Prices Worksheet

| | Per Pound | Per Ounce | Per Gram |
|---------------------------------|-----------------|----------------|------------------|
| Tea Leaf Prices | | | |
| Black tea - 32 flavors | \$ 11.50 | \$ 0.72 | \$ 0.0254 |
| Green Tea - 21 flavors | \$ 13.69 | \$ 0.86 | \$ 0.0302 |
| Chai Tea - 5 flavors | \$ 14.54 | \$ 0.91 | \$ 0.0321 |
| White Tea - 7 flavors | \$ 15.36 | \$ 0.96 | \$ 0.0339 |
| Average Tea Leaf Prices | \$ 13.77 | \$ 0.86 | \$ 0.0304 |
| | | | |
| Herb and Spice Prices | | | |
| Herbs and Spices - 31 flavors | \$ 10.81 | \$ 0.68 | \$ 0.0238 |
| Average Herb Prices | \$ 10.81 | \$ 0.68 | \$ 0.0238 |
| | | | |
| Total blend 3 to 1 price | \$ 13.03 | \$ 0.81 | \$ 0.0287 |

11.0 Financial Appendix

The following eight pages provide a detailed accounting of the 5 Year Income Statement and 5 Year Statement of Cash Flows.