THESIS WORK

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2018
Fashion Brand as an Entrepreneurship in Mongolia and its Consecutive Factors

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BA in Business and Management
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1. Introduction

The purpose of this paper is to determine and analyze factors of starting an entrepreneurship in Mongolia in depth. Furthermore, the paper will specifically illustrate the Mongolian fashion industry, as it is an objective of the author to establish a kids’ clothing brand in the country. Given the information and results from conducted analysis further in the paper, it will be derived that establishing a fashion brand in Mongolia will be a beneficial move not only in sense of a financial profit, but possibly gaining competitive advantages as well.

First of all, it is suitable to provide a proper grounding about the chosen thesis topic. As for a business management student, I had a privilege to be taught and shown how a business idea comes to life and how to properly manage the business in such ways that it will have a long-term success in turbulent world of entrepreneurship. Notably, Corvinus University has helped me to envision myself as an entrepreneur by seeking for opportunities and to implement them by running my own firm in Mongolia - the country I come from. Specifically, the fashion industry interests me the most in a sense of its immaturity in the current market of Mongolia. Meaning, the fashion industry is only beginning to be recognized and acknowledged in the country, especially children’s clothing brands, which I am highly interested in to build one, are simply not established yet. Moreover, becoming a mother has urged me to make my aspiration become an objective. Thus, taking sufficient actions by entering the industry as a first mover are expected to provide my firm competitive advantages.

In the theoretical section of the paper, background information of registering an organization in Mongolia will be illustrated. It will deal with all the necessary steps and conditions of registering a newly established enterprise at the State Registry Office. What is more, the mandatory list of documents which must be submitted during the process will be included as well. Coupled with that, the section will cover aspects of operations of Mongolian fashion brands in general. The aim of that is to discover the structure and the way the fashion industry operates, in addition, the links between the sketches and mass manufacturing, branding and media support - all will be roughly discussed. Fashion industry is unique relevantly to other manufacturing and retailing industries in terms of its constant strive to provide customer satisfaction with distinct trendy items that are subject to current trends.

It is critical to highlight importance of marketing and its’ overall effects on strategies of a business and on a reputation of an organization. As the marketing landscape is becoming more diverse and is going through enormous changes conjointly with the developing digital era, it is vital to distinguish the digital arena in addition to the marketing strategies of company. Moreover, current technology and world-wide recognition of social media enable companies throughout the world to build a strong brand awareness and to get in touch with customers one-on-one. As Keller (2001) describes, brand recognition is one of the most important assets of a
company and building it has become a top priority for many organizations, in addition to that, it is taken as one of the sources of financial benefits for a firm. In this sense, steps to build and to promote a brand will be discussed on hypothetical groundings in the theoretical part of the paper. Moreover, ways of acquiring start-up capital will be discussed. Specifically, banks loans to finance working capital of a business will be illustrated based on a Mongolian leading retail bank - the Trade and Development Bank.

In the methodology section of the study discussions will take place about the analyses and research that will be used and conducted in the following analysis section. As the paper is concerned about practices of establishing an organization, a thorough business analysis and tactics are required to be carried out. As a founder and an expected manager of the clothing brand, it is a responsibility of the author to make sure that all the analyzed and implemented strategies are in line with and are supporting the fulfillment of strategic objectives of the organization. To obtain a viable business analysis for a newly established company it is necessary to carry out a proper business plan, SWOT analysis, Porter’s Five Forces Framework and online questionnaire to determine critical success factors and to better understand the current market place. These techniques will help an organization to identify the business environment, analyze performance efforts and the company’s internal factors, identify current market needs and certainly to structure the organization’s strategy.

The analysis section of the paper combines the information gathered from the theoretical and methodology sections and it gives a thorough evaluation of the results carried from the studies and research. Above listed in the methodology section, the analyses techniques will be conducted according to the Mongolian business environment and market economy. Results from carried out researches will be examined and evaluated in terms of the strategies of the kids’ clothing brand specifically. Moreover, the analysis section will include a professional business plan for the clothing brand, from which it will be perceptible to conceive the amount of start-up capital needed and the sources of the capital. The business plan includes thorough financial and economical estimations and projections. All the financial projections will be conducted in 5 years’ time span beginning from the operations of the business. Financial and economic projections will include important estimations for 5 years such as: product cost, sales projection, inventory, income statement, balance sheet and cash flow. Based on these estimations, it will be visible if the business can be profitable and if it should start operating in the first place.

All things considered, this study will serve as an ample interpretation of the Mongolian market economy, by defining it with the help of business analytics tools. Beforehand, the paper will cover those analyses and techniques that are necessary to understand the business environment in general. The paper will give theoretical and methodological groundings to the analyses that are needed to establish an enterprise, specifically a kids’ clothing brand. Not only the establishment of the brand will be supported by theoretical groundings, it will be supported by financial
estimations as well, showing that starting an apparel business for kids will be beneficial to both parties - company and consumers.
2. Theoretical

In this section, all the steps and regulatory rules of starting a business in Mongolia will be discussed and explained. Then, the Mongolian fashion industry will be roughly illustrated in theoretical terms. Moreover, this section of the paper will cover insights to general marketing theories. That will include the effect of social media in business environment in general. Since we live in a time, where branding of a company plays a role as one of the most important assets of the firm, the theoretical part of the thesis will give reasons why is branding vaguely seen as a significant part of companies. From there on, the steps and considerations of building a strong brand are discussed in detail. Finally, funding options in Mongolia specifically bank loans will be reviewed.

2.1 Regulations and historical background

In Mongolia it is recognizable that, in some cases without any work experience, people introduce themselves as founders or CEOs of start-up companies. The reason for this - it is relevantly uncomplicated to start running a business entity in Mongolia than in Hungary or in other Central Asian countries. It might be explained by the relevantly recent transitions of economic relations with other countries in terms of trade and striving political situations. It is said that until 1991, Mongolia had been accounted as a part of the Soviet Union as its’ other constituent republics. Thus, Mongolia’s trade operations were significantly connected to the Soviet Union which accounted to over 90 percent of the trade, and the 25 percent of the GNP was directly traced to benefit the Soviet Union (“Mongolia's Political and Economic Transition: Challenges and Opportunities: A Conference in Celebration of the Tenth Anniversary of the Asia Foundation's Mongolia Program”). Therefore, it is only after the 1991’s fall of the Soviet Union that Mongolia undergone the economic transition and began to build relations with the outside world. Moreover, in this section of the paper, terms and conditions of establishing a business will be discussed as well, as they are another contribution to the fact that establishing an entity or any form of an organization is somewhat straightforward and simpler than any other person owning a business in Hungary could have imagined. Each of the steps of registering a newly established company are discussed precisely in a structure below.

Firstly, a business association can be founded by a resident or a non-resident of Mongolia. Moreover, it is not necessary for the founder to be a shareholder of the company. General partnerships, limited partnerships, limited liability companies and single member companies shall be established in a simple process by filling in applications and paying small amount of fees for registration of the company at the State Registry of Legal Entity. Foremost, a formal meeting of founders and shareholders of the company must be held to sanction company rules and regulations. Elements that are subject to company rules and regulations will be revised later in
the section. The person who has founded the entity or the person who has been accredited by the notary has to come to the State Registry of Legal Entity with his or her identification card in order to register the name of the entity. The State Registry of Legal Entity is currently working on delivering an online platform that registers names of entities. There are high chances of name overlaps due to the fact that citizens want their companies to get registered by 200 thousand common names that were already issued. Therefore, it is advised to have 3 different names in mind, as the person has a right to confirm 3 names a day and it is stated that the entity should be established in 10 days (State Registry of Legal Entity (2018). Registering of a newly established limited liability company).

Secondly, the person has to submit necessary materials at the State Registry of Legal Entity according to the list:

- Filled in application form “Registration of a Newly Established Legal Entity at the State Registry” (see Appendix 1)
- Name verification form of a legal entity with bank certificate of payment (500 tugriks which equals to 0.19 USD as of October 8th 2018)
- Shareholders’ meeting settlements and minutes (in the event of a single shareholder, a document with shareholders’ decision must be submitted)
- Company Rules and Regulations
- Bank certificate of payment for a state stamp
- Proof of a bank account ownership
- Copy of an identification card of the founder or the CEO
- Certificate of legal entity’s address (real estate certificate or rental contract, in the event of registering on own home address the founder ought to bring a certificate of his or her home)
- Declaration of equity capital of the company (State Registry of Legal Entity (2018). Submission of documents for registering a newly established limited liability company).

The application form “Registration of a Newly Established Legal Entity at the State Registry” must be filled in with information about names of a company and its’ founders, shareholders and their respective issued amount of capital, form of a legal entity, address of a legal entity, areas and time extent of activities of a company. Subsequently, after applying all the necessary documents, the founder gets the return paper where the date of receiving the certificate of the company is stated. Moreover, the permission to apply for a stamp of the entity is issued at the State Registry of Legal Entity. It is sufficient to note that the company has to be registered as a taxpayer at the Mongolian Tax Authority within 14 days after receiving the certificate from the State Registry of Legal Entity. With this said, it is not necessary to have an accountant or a lawyer on record to register a company and to start operating as in for example Hungary. In the stated above shareholders meeting settlements and minutes, basically the same subjects as in the application form have to be included, such as names of shareholders, amount of issued capital, areas of activities of the company and the extent of time of operations of the organization.
Similarly, Rules and Regulations of the entity should be submitted when applying for the registration. According to Mongolian Law (2011), The Rules and Regulations of LLC (see Appendix 2) with more than one member should include information on:

1. General provisions such as the name and the address of the entity, names of shareholders and the CEO, areas of activities of the company
2. Company’s rights that the company shall operate independently or as partnership with other legal entities confining to laws and regulations of Mongolia
3. Corporate governance and corporate responsibility include points that state the company must independently decide on income and taxes, consequently pay corporate taxes voluntarily. Here it is stressed that the company ought to issue ordinary shares
4. Company’s joint stock that introduce information of shareholders and their issued number of shares and their value
5. Company’s performance management that indicate precise guidelines specifically for shareholders on how to control and govern operations
6. Surveillance on financial performance and economic activities state that the company can hire an external auditor
7. Bankruptcy procedures

Provided that, these are the legitimate steps to get an organization registered in Mongolia. Despite the fact that the brand is ought to follow all the guidelines and laws of operating business, the author’s plans and strategies on kids’ apparel brand will be described in further sections of the paper.

2.2 Fashion industry in Mongolia

As the purpose of the paper is to provide information on how to establish a fashion brand in Mongolia, basic process of fashion brand operations will be roughly described.

The fashion industry in Mongolia is fairly new to the people and the brands that became familiar to the people when starting out, consisted of 1-2 designers, 3-4 sewers and a management team which included the designers. To give an illustration of a fashion brand in Mongolia, general processes will be roughly discussed in the content herein. To start with, designers come up with new and unique ideas and create a sketch of a collection. Then, they will collect necessary materials, this process often happens to take place in China. As China is a neighboring country to Mongolia, people frequently travel to big cities such as Beijing, Guangzhou and Shenzhen to purchase clothes or clothing materials to then sell for doubled or tripled the original price in Mongolia. Another reason of affordability, besides the low price for a wide range of clothing
Thereupon, the designers can work on their collection themselves or hire professional tailors or sewers. These tailors often choose to work at their own workspace, which in most cases are in the basement of a house. These are the people, who have worked individually for many years obtaining experience and not belonging or depending on an established clothing brand. In such wise, hiring qualified sewers and paying them above what they earn individually, which is eminently low, can be seen as a two-way advantageous decision.

2.3 Marketing in theory

Moreover, to run a successful business, an entrepreneur has to consider marketing and branding techniques as major contributors to a long-term prosperity of a business. It is vital to mention that elements and principles of marketing and branding take place before a company is ready to sell its’ products or offer services. “Marketing is a social and managerial process by which individuals and groups obtain what they want and need through creating, offering and exchanging products of value with others” (Kotler, 1991). Marketing is often understood as a means to advertise and sell products and goods. However, that is an old way of thinking, while marketing represents a whole lot more, it portrays proper way of placing a product or a service; developing the product in such methods that it creates value for customers; understanding and building long-lasting consumer relationship; and most importantly, satisfying customer needs. Often marketing framework can be ruled out in 5 simple steps:

1. Identify the current marketplace and capture consumers’ needs and wants
2. Construct a marketing strategy which creates value for customers
3. Design a marketing program that provide superior value
4. Create profitable customer relationships
5. Gain value from customers to acquire desired profits (“The Big Book of Marketing: Lessons and Best Practices from the World's Greatest Companies”).

According to William G. Zikmund and Michael d’Amico - authors of “Marketing: Creating and Keeping Customers in an e-Commerce World” (2001) - effective marketers seek to build relationship with customers. They refer to it as “relationship marketing” - activities that are aimed to build and support relationship with customers that greatly contribute to a company’s success.

Marketing Mix is a foundation of marketing. The term that was first introduced by E. Jerome McCarthy in 1960. Marketing mix is used broadly to this day. The marketing mix is interpreted as the “set of marketing tools that the firm uses to pursue its’ marketing objectives in the target” (Kotler, 2000). The marketing mix consists of 4 elements: product, place, price and promotion
that can be controlled by the marketer. Product is a good, service, or an idea that provides a complete offering of a “total product” that includes tangible and intangible attributes to satisfy customers. Place includes all attributes of delivering a product to a customer in the right location at the right time. It involves channels of distribution as complete sequences of marketing that focuses on bringing the product to a customer. Channels of distribution are: manufacturer, wholesaler, retailer, ultimate consumer. Promotion involves all forms of marketing communication, meaning - aim of promotion is to inform, remind and persuade potential customers about a certain product or a service using marketing tools. Price, amount of money - or something else of value - that is given for a product or a service. In marketing there is no standard formula for a perfect combination. Marketing mixes vary from company to company. Regarding an ever changing business environment, a marketing mix is advised to be dynamic and flexible (Quirk et al., 2001).

At this moment, general steps of marketing will be discussed. Firstly, the company should divide the market into customer segments. There upon, the company decides on whom to serve and to target with its’ products or services. Thirdly, the firm determines how it will be differentiated in the market arena to successfully stay in the business. There are five foundations of marketing philosophy that the company can acquire in terms of marketing directions according to a marketing author, Philip Kotler (2014).

One of them is a production concept of marketing, which entails production efficiency and having promotional efforts. Organizations that operate under this concept often choose low labor costs, mass distribution and, as it was mentioned above, high production efficiency. However, managers tend to lose focus on quality of products and, most importantly from marketing side of view, they dispossess customer satisfaction in the long-run. On the other hand, there is a product concept that holds principles of those kind of products, which offer the most in quality and performance so that customers favor them upon other products of which even prices are more affordable.

For instance, Apple is one of the companies that portrays the product concept with their phones and tablets with innovative features that are more special to their customers than lower prices of other tech companies. Nonetheless, this concept is believed to be true if the following conditions are satisfied: the product must be designed and packaged attractively; it needs to be delivered through suitable distribution channels; it must give adequate reasons of the product being better and convince customers why they should favor exactly that particular product over others. The third approach of marketing is a selling concept that holds true in events when an organization entails large-scale selling with a promotional attempt. According to Philip Kotler (2014), the selling concept often has the aim to sell what the company has made, rather than making what the customers want.
On the contrary, there is another market direction that is achieved through choosing a *marketing concept*. Marketing concept focuses heavily on customers’ needs, depends on customer satisfaction and seizes it better than competitors do. The aim of the marketing concept is not to identify the suitable customers for the products, but to make the proper products for the customers by enacting sense and respond theory. Thus, the kids’ clothing brand aspires to achieve organizational goals through this exact marketing philosophy under which the brand will construct its’ marketing strategy. Further details on chosen marketing concept will be discussed in the analysis section. Last but not least, *societal marketing concept* believes that sustainable marketing strategy should be the core of reaching organizational goals and improving long-term society’s well-being.

All in all, by selecting one of the guidelines mentioned above the company managers can successfully implement marketing strategies more effectively and efficiently. These guidelines help managers be certain of the company’s priorities and assist them to operate in harmony with the company’s goals and responsibilities. Nevertheless, marketing is not only about choosing the customer segment to serve and means to serve them, but it also undertakes the current market arena in an extent of its’ opportunities that it offers. One of the vital features of today’s marketing landscape is the fact that it is booming with digital technology, which enables companies throughout the world to learn about and to tackle individual customers more selectively and to build products and services tailored to individual customers’ needs and by that to build a two-way customer relationship.

### 2.4 Technology in business

Branding in Mongolia is fairly a phenomenon, which is new to the organizations. There are entirely three million people living in Mongolia, and one million four hundred thousand people in capital city Ulaanbaatar, which are relatively low numbers compared to for instance Budapest, Hungary (National Statistics Office [NSO]. Population, 2018). With this in mind, the market itself is small, the fastest and the easiest way to reach the market and to do branding of the company respectfully is by using aspects and instrumentality of social media wisely. As social media is becoming eminently accessible and highly exposed, many companies especially brands which are just starting out, choose it as an effective marketing tool. In other words, clothes can be advertised and sold if not on the website of the company then via simple Facebook or Instagram page of the company. Customers can get in touch by direct messages, pay from their mobile phones and get their products delivered at their doorsteps. Nevertheless, if the company is willing to expand its market further and tackle its’ unreached sectors, one cannot avoid taking under consideration other efficient marketing means which will be costly. All this considered, this is how numerous of fashion brands made their way to success in Mongolia.
Technological innovations made marketing much more efficient and faster, where even small organizations can operate globally. The booming digital era has brought new ways of marketing communications and online advertising.

“The Internet, as a new medium for our new era, is a macro-environmental force that is having a profound impact. Internet is a communication medium. Communication provides the foundation for all marketing activity. Internet is a distribution medium. Distribution - bridging the physical separation between buyers and sellers - is where marketing’s roots lie. Internet is a transaction medium. Exchange is the essence of marketing. Internet is changing everything - especially commerce.” (Quirk et al., 2001)

It will be hard to imagine a company that would not use an online marketing to promote the brand to customers. Online direct marketing offers a great range of deals to organizations, it is a low-cost marketing with improved efficiencies and it allows marketers to make in-process adjustments in terms of offers and prices. In this part of the thesis, social media will be discussed as a customer-driven means, as opposed to product-driven, to promote a business and generate revenue. According to William G. Zikmund and Michael d’Amico (2001) there are 4 basic Internet business models:

- Selling goods and services online
- Providing access to an audience
- Selling subscriptions to a Web site
- Selling admissions

As Chris Treadaway puts it together in his book “Facebook Marketing: An Hour a Day” (2012), “Social media is a set of tools that, if used properly, can give you a way to reach people in a new way. If it is used improperly, you are sure to spend a lot of money, get frustrated and lose faith in a channel that could be very good to you”. He also derives that when developing a social media strategy, it is important to have an empathy with target consumers. Chris Treadaway (2012) explains in his book that the right question to ask is “what my customers don’t want from us?” whether or focusing what customers actually do want from the company. The reason from this way of thinking are countless commercials, social media advertising, emails and so on that customers get at every turn, and that could potentially reduce customer’s life in regard to the product (Treadaway, 2012). Thus, social media marketing not only changes challenges that marketers face, but it also involves taking into consideration power of consumers. Nick Smith and Robert Wollan describe this phenomenon as a “shift of power” in their book “The Social Media Management Handbook” (2011). That is social media provides a public platform for
customers to share their thoughts and minds about companies activities. Therefore, social media one way or other causes consumers to become co-owners of a company’s brand, argue Nick Smith and Robert Wollan (2011). Thus, companies should engage more in customer-company relationship rather than in “push marketing” on social media by letting customers participate in it, by doing that companies can increase their sales figures, as the relationship deepens and gets stronger, explains Chris Treadaway in his book “Facebook Marketing: An Hour a Day” (2010). Moreover, social media affects business functions across companies. According to Smith and Wollan (2011) social media has different effects on different functions of a business (see Figure 1).

Figure 1. Effects of Social media on business functions

![Figure 1](image)

*extracted from Smith, N. (2011). The social media management handbook: Everything you need to know to get social media working in your business. Wiley.

1). In Figure 1, it is illustrated that front-office functions such as sales, marketing and service are highly affected by social media, as well as IT and HR functions.

From a customer’s perspective sale and marketing functions of a company can be seen as a single channel from which they can learn about a particular product, purchase it and share their thoughts. Correspondingly, the line between sales and service is disappearing as well. Customers view these functions as tied in general knowledge they gain about the company. Essentially, bringing use of social media into business practices will enhance customer relationship and at the same time it will simplify traditional business functions across company.

2.5 Branding in theory

What is more, in today’s ever-growing digital era, branding is becoming far more valuable than some of the tangible assets of organizations. As Seth Godin (2009), one of the best-selling authors on marketing, put: “A brand is the set of expectations, memories, stories and relationships that, taken together, account for a consumer’s decision to choose one product or service over another.”
Though branding is just a name, behind that it covers an ideal package of a logo, slogan, design, information, differentiation from other brands, memory attached to a particular product, trust and loyalty of consumers. Broadly described, branding has more of a definition than the product’s physical characteristics. This is supported by Randal (2004) who explains that it is the customers who define the brand and it is vital that the companies recognize the customers’ perception and delivers value of the brand. Consequently, one can understand that a brand gives a company added value. That added value is interpreted as a brand equity. This term was first introduced during a wave of mergers and acquisitions in 1980s (Kapferer, 1998). In 1980s and 1990s, the term brand equity was described as added value in either financial terms, or from the customer's point of view. However, brand equity must be understood from the customer’s point of view, because source of brand equity is customer’s perceptions (Keller, 1993), that affects brand success. As Richard Rosenbaum-Elliott, Larry Percy and Simon Pervan (2018) put together in their book “Strategic brand management”, brands with strong positive brand equity are brands with a highly loyal core of customers and high market share as a result. Meaning, by having high brand loyalty, companies can charge relatively higher price for its products and maintain higher margins. Another important conclusion the authors of “Strategic brand management” (2018) came up with is that strong brand discourages new competitors from entering the market.

When talking about a brand there are few additional terms that come up: a brand name, brand mark, trademark and a slogan. Often companies focus on delivering their services and products to the target market rather than aiming to distribute the brand that introduces their services and products (Keller, 2001). This has been a struggle for start-up companies as well. In the present business environment, there is a strong competition raging in every market place. Consumers of these markets are able to collect the ‘perfect’ information about the competing firms from various sources, such as television advertisements, newspaper and magazines or simply surfing the internet. All these aspects added up, that is what companies strive for - for consumers to gain the perfect knowledge about the brand so that these firms attain means to develop. Operations that establish and promote the brand involve a management team, R&D team, marketing team, strategic development team and a sales team as well. According to Kevin Lane Keller (2013), professor of marketing and an author of “Strategic Brand Management: Building, measuring, and Managing Brand Equity”, there are four steps in building a strong brand image:

1. Establish a fitting brand identification or brand awareness for customers with a particular customer need
2. Develop a marketing program for a proper brand
3. Measure brand performance
4. Grow and maintain brand equity

Herein, to build a successful brand identity, each step is a prerequisite and stepping stone to the next move, where an appropriate meaning cannot be established unless the brand obtains the
identity. However, the four steps may seem to be straight-forward, it is difficult and time-consuming to implement them, says Kevin Lane Keller (2013). Therefore, to give the process a structure, he introduces the six “building blocks”, that can be gathered as a pyramid of the brand (Keller, 2001).

The correspondent stages of building a brand are illustrated as different layers of the pyramid as illustrated in Figure 2. The core and the basis of the pyramid is brand identity. This foundational building block help marketers by providing vital functions such as: creating a link for customers through brand awareness, which gives the brand meaning; generating brand salience; motivating customers to purchase, in other words increases the involvement of customers. Afterwards going up the pyramid, comes brand meaning, which involves two crucial divisions of brand association - brand performance and imagery.

Brand performance concerns the ability of the product or service to meet customers’ functional wants and needs. These abilities of brand performance include: the products primary functions and secondary characteristics; reliability and durability of the product or service; effectiveness and efficiency of the service; design and appearance; last but not least - price. On the other hand, brand imagery deals with more of an intangible attributes of the brand such as: user profiles, associations concerning the purchase and usage of the brand; brand personality; history and experience of the brand. The third layer of the pyramid illustrates brand responses, which can be described as a customers’ thoughts and feelings about the brand.

*Figure 2. Six building blocks

Consumer judgement involves personal conceptions and conclusions of customers towards the brand. Customers form an opinion based on several performance and imagery linkages with the brand. In contrast, consumer feeling is a building block that deals with customers’ emotional responses towards the brand. The feelings can be positive and negative and soft and extreme. Characteristics of brand building feelings of substance are: warmth, fun, excitement, security, social approval and self-respect. On the top of the brand pyramid there is brand resonance, which identifies relationships of the brand and its’ customers.

That relationship refers to the customers’ bond with the brand, extent to which they feel connected to it. There are several advantages that are tied up with developing a brand. First of all, it is the identity that is formed in consumers’ mind due to the above-mentioned information and knowledge that consumers collect about a specific brand. Another benefit is the security that provides loyalty in customers’ behavior. Thirdly, a uniqueness of a service or a product that differentiates the firm from its competitors on the grounds that the firm develops a strong brand. Finally, a brand must be of added value (Randall, 2004). As a positive outcome, the brand can gain customers’ loyalty, satisfaction, impression of a community with other members of the brand and, active commitment to the brand, where customers are willing to invest their time, money and other resources into the brand.

2.6 Acquisition of start-up capital

Traditional bank loans are one of the attainable economic instruments used to increase current assets and meet short-term financial needs. Bank loans are nearly similar in terms of requirements and conditions across both state and commercial banks in Mongolia. General conditions and requirements can be found in Appendix 3.

Following, loan terms if Trade and Development Bank of Mongolia will be described. Trade and Development Bank (TDB) LLC was established in 1990 and over past decades, has become a leading banking and financial services provider in Mongolia. Figure 3 illustrates loan terms to finance working capital of a business. Requirements for a business loan are as follows:

- Stable business activity for the last 6 months
- No outstanding loan obligations
- Having viable collateral to meet the bank’s requirements
- No bad debt history in the past (Trade and Development Bank. (2015). Loan to finance working capital)

Figure 3. Loan conditions of Trade and Development Bank

<p>| Amount       | Up to 350 million tugriks (which equals to 136,412) |</p>
<table>
<thead>
<tr>
<th>Monthly interest in tugriks</th>
<th>USD October 8th 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.80%-19.20% annually</td>
<td></td>
</tr>
<tr>
<td>1.90%-1.60% monthly</td>
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</table>

<table>
<thead>
<tr>
<th>Term</th>
<th>36 months</th>
</tr>
</thead>
</table>

| Service fee | 0.5% (10,000 tugriks-200,000 tugriks) |


Investment loans, on the other hand, differ in time period. Time period for investment loans are 60 months as opposed to 36 months’ time period of loans to finance working capital. Banks in Mongolia deal with 5-10 loan request per week. Like in any other banks in the world that issue loans, credit officers are liable to collect all the necessary documents from clients, and requests go through a Committee meeting, which is held twice a week or more depending on a bank. After carefully studying client’s documents and collateral, Committee makes a decision whether to issue a loan. Thereafter, standard procedures of monitoring credit take place.

However, Mongolian banks differ in one aspect as regards to European banks. Debtors in Mongolia will not pay a fine, if prepayment of a loan is issued by them. Advantage of a prepayment is - more you pay in advance, less a debtor will pay during the credit period, which means, less interest will be collected by a bank. In this sense, Mongolian banks are somewhat flexible than banks in Europe.
3. Methodology

The following section includes theoretical groundings of the methods and analysis that will be used and carried out to sufficiently generate a successful business plan. These methods include steps of conducting a business analysis, SWOT and Porter’s Five Forces that are derived from business classes. Moreover, a survey that was conducted will be explained from the methodological point of view. These methods enable companies to identify current market needs, sources of financing, amount of start-up capital, type of resources needed and not to spend excess resources.

3.1 Business analysis for a new product

When developing a new product, it is necessary to invalidate irrelevant ideas, obtain an apparent and clear understanding of the market gap that needs to be filled in as well as of the potentials of the business itself, predict and prevent the firm from possible redundant costs. Carrying out the following steps will help conduct a successful business analysis for a new product:

1. Estimate the price of a product
2. Recognize the product’s potential in the current market
3. Estimate the product sales volume
4. Determine the break-even point
5. Determine the lowest sales value per product

By setting a proper price for kids’ clothes and reaching for its’ effectiveness, the brand will assuredly maximize profits whilst sustaining a valuable interrelation with its consumers. In the event of the price set too high the brand might draw out itself from the market, but if the price is set too low the company might lose its’ long-term success. As it was stated in the theoretical section of the paper, the kids’ clothing brand is aimed to sell clothes of high-quality and to target customers with above-average income. The primary goal of pricing the children’s clothes is to cover costs and to make profit, as in every other business. Once the products are priced at a higher level than of the competitor’s which import clothes to Mongolia, it is speculated that lowering prices will be an easier approach than to raising them. The clothes will be priced at a roughly similar level to clothes sold at Zara kids or H&M. If customers in Mongolia are willing to and are paying doubled prices for mass production clothes as for example “Carter’s” that are imported from the United States, it is considered that the consumers will be eager to pay at least the same amount of money for a product that was manufactured locally. The analysis section of the paper will bring further details on the brands’ pricing scheme.
If conducted right, the market research can help the company accomplish competitive advantages in the stages of early life cycle of the business. The competitive advantages can be acquired not only by targeting the right customers, but in addition to that, it is significant to target the right demographic group at the right time by an adequate approach in terms of uniqueness of fashion sense and brand image (Queensland Government. (2018, April 19). Your competitive advantage ). A strong competitive advantage is a critical point of the brand, as it is setting a primary objective to build a brand image by filling out the gap of the fashion industry in Mongolia. When analyzing the fashion industry in Mongolia, Porter’s Five Forces approach can be employed.

As regards to a forecast of sales volume, it is one of the challenging parts of the overall analysis of a new product delivered by a start-up company, mainly because there are no past performances on which to make estimations. Many variables and aspects affected and are needed to be properly analyzed are in fact unknown. There are several ways to forecast a demand for a new product. For instance, conducting and analyzing surveys, observing customer groups will surely demand a lot of commitment of time and money. With this said, it is concluded that it is best to start a pilot of the project, monitor further results and to be prepared and equipped for possible adjustments (Queensland Government. (2018, August 24). Sales: The basics). That is to say, the kids clothing brand will be testing its’ products on a small-scale market firstly before organizing a broad complete launch. As soon as the first results will come in it is necessary then to get a better understanding of the market and its’ reaction, pricing strategy, sales volume. Moreover, it will be a correct time to focus on adjustments according to the important information delivered from the pilot project.

The next step that is needed to be taken in a business analysis, is to determine the break-even point. The break-even point - amount of clothes the brand should sell - is necessary to be figured out in order to be able to cover the fixed costs. In other words, total revenue must be equal to total costs. Moreover, identifying the break-even point helps organizations to decide on pricing strategies and to construct a proper business plan. There are several rules to calculate the break-even point. In the case of the brand, it was discussed earlier to start a pilot of a project which will give figures of variable costs of a project. Thus, the break-even point can be calculated by the following formula ‘break-even point (in units) = fixed costs/ (sales price by unit - variable costs by unit)’ (Queensland Government. (2018, August 08). Calculating your break-even point).

As in any other retailer in fashion industry, the kids clothing brand will have to anticipate discounted price per product to determine the lowest sales figure per product. This will help with marketing projects, revising the pricing scheme and to get a finer or more precise understanding of customer’s reaction.
Finally, a marketing strategy must be implemented in order to conduct a decent business analysis. A proper marketing strategy will help brands to position new products in a current marketplace. In this section of the paper, brief introduction of how to implement the marketing strategy will be covered. A thorough detailed review of the marketing strategy will be discussed and explained in the analysis section of the paper. Firstly, the most important information that will be gained by conducting a marketing strategy is - which market segments the brand should target and how? In this phase, the information and the data collected from the previous steps of the business analysis should be used. By targeting the right market segments, placing the product and delivering their genuine role in the industry, choosing the right marketing tools will help the company to accomplish its’ business goals and build a durable reputation for the brands’ products (Queensland Government. (2018, August 24). Develop a marketing strategy).

3.2 SWOT analysis

All things considered, a SWOT analysis will be conducted as a conclusion to the methodology section of the paper. Properly administered SWOT analysis will help the brand gain understanding of the current market not only in terms of customers, but also evaluate competition. One of the most useful guidelines of the analysis is that it will provide the brand a perception to gain competitive advantages. Moreover, the analysis will help the brand predict possible changes of competitor’s operation or changes in trends that need to be addressed effectively and efficiently (Queensland Government. (2018, April 19). Uses of SWOT analysis).

Firstly, the brand should identify its’ strengths and preferably build competitive advantages on its strengths. Given the current markets’ conditions that there are no kids clothing brands that manufactures clothes in Mongolia, it is counted that it is in strengths of the company to enter the industry as a first mover. Being a first mover offers a great deal of benefits such as gaining a large segment of customers and building brand loyalty. Another valuable and meaningful strength of the brand, for example, can be recognized as a perk of high intervention of social media in today’s lifestyles of modern world.

In order to be successful in the business, it is vital to be rational and realistic about weaknesses of the company and handle them sufficiently. Regarding the kids clothing brand, there are only few weaknesses relevantly to the strengths, which can serve as a good starting point for the business.

A SWOT analysis enables the company to get the picture of opportunities and further ways to incorporate them. The kids clothing brand has numerous of opportunities that were influenced and built up on the brands’ internal strength and weaknesses. These opportunities will be discussed in detail in the analysis section of the paper.
It is believed certain threats might occur to cause difficulties to the business. The most understandable and expected threat may come from possible competition in the market. As it was stated previously, currently there is no competition among manufacturers of kids’ clothes. Other possible threats will be considered in the next section of the thesis.

All in all, by carrying out a SWOT analysis it is possible to conclude that establishing a fashion brand for kids urgently before anyone does in Mongolia has potentials to gain first mover advantages and opportunities to build up brand loyalty and to realize further business expansions for the brand.

3.3 Porter’s Five Forces Framework

When speaking of any business environment, either a certain organization is a first-mover or an industry leader, it is important to formulate a competitive strategy to relate to the environment. According Michael Porter (2004), competition lies deep in the economic structure and goes above and beyond the activities of competitors. Porter introduced five competitive forces that determine the potential of profitability of an organization, where profitability is accounted in terms of long-run investment return (Porter, 1979). Different industries differ in profit potentials. Five forces that help determine the competition in an industry are shown in Figure 4.

In his book “Competitive Strategy” (2004), Porter illustrates and describes five forces that drive competition in an industry in detail. First of all, he explains that competition in an industry does not depend on existing “players” only, meaning - current competitors. There are other competitors, which are buyers, suppliers, substitutes, potential entrants to the market and even consumers are counted as rivals.

Threat of new entrants comes from potential of reduced prices and market share, which can in the result as a decreased profitability. The threat of entry depends on six major barriers to entry (Porter, 2004):

1. Economies of scale - decline in unit costs of an output as the volume of output increases. Economies of scale force potential new entrants to enter the market either at large scale and make existing firms to show strong reactions, or at small scale and put up with cost disadvantage.
2. Product differentiation - new entrants have to heavily invest in differentiating their products or service due to customer loyalties and strong brand images of existing firms.
3. Capital requirements - entrants required to invest largely to compete with existing companies particularly if the capital is needed for high-risk operations
4. Switching costs - costs that buyers pay for switching from one supplier’s products to another’s.
5. Access to distribution channels - new firms have to convince distribution channels to undertake their products, which can be done by having reduced prices or cooperative advertising allowances that reduce profits in general.
6. Cost disadvantages - newly established firms have higher costs due to lack of experiences. Moreover, costs decline with experiences which lead to a barrier of entry.

*Figure 4. Forces which drive industry competition*

According to Porter (2004), the most “dangerous” substitute products are those which (1) subject to trends that improve their price-performance activities, or (2) manufactured by high-profit firms. Substitute products usually are introduced if there is a development that increases competition and results in price reduction and improvement in performance.

In his book, Porter (2004) explains that the bargaining power of buyers’ results in reduced industry profitability and that buyer group can be considered powerful in following scenarios:
- If a certain buyer purchases a large portion of sales
- Buyer is less sensitive to price change, because products that are sold are only a small fraction of buyer’s overall purchases
- If a buyer can get an alternative for a product, because the product is not differentiated
- If a buyer deals with few switching costs
- Buyer receives low profits
- If buyer’s quality of product is dependent on industry’s product

All in all, companies should take buyer groups as a strategic decision when it comes to buyer selection process.
Suppliers, on the other hand, threaten companies to raise their prices and provide low quality products or services. Suppliers with strong power tend to limit organizations on raising prices, monitor activities of firms, and execute lobbying and so on. However, as with buyer’s bargaining power organizations can work on supplier’s power by improving its’ strategies.

Last but not least, rivalry among companies tend to happen and take place when either of firms seeks for opportunity to develop or suffers from pressure from other forces (Porter, 2004). There are different forms of competition according to Michael Porter, for example price competition tends to leave the industry far worse off as reduced prices can be achieved by all firms in the industry resulting in overall industry’s decreased revenue. On the other hand, there is “good” rivalry which results in industry’s overall image that benefits all firms in it e.g. advertising competitions enhance product differentiation and increase demand as well.

3.4 Online questionnaire

In order to get a response from potential customers a start-up firm or any other enterprise can get a use of online surveys. Online surveys serve as a quick, easy and cost-effective tool that can be administered globally and target a large audience if needed. Surveys that are implemented before project work help understand the needs and desires of customers to plan the project more effectively. On the other hand, surveys help get feedback from participants after project operations. As for current projects, online surveys are used to follow through and guide activities that are implemented by the staff and recognize customers’ reactions. It is important to know the end goal of an online survey, in other words, what do we want to find out? Understanding that will help managers to better position questions and attain responses which will clarify uncertainties. After collecting enough responses from the audience, it is vital to analyze and prepare a report from the collected data.

For this paper, when constructing an online survey, those questions were chosen that gave an exact understanding of a customer’s opinion and needs. For example, one of the questions were: “What is more ideal when purchasing kids’ clothes?” and multiple answers were as follows:
   a. Purchase average quality clothes for average price
   b. Purchase as many clothes as possible for low price
   c. Purchase fashionable and trendy clothes even if they are of high price
   d. Purchase as cheap clothes as possible, but also buy clothes for special occasions for high price
   e. I do not care that much about kids’ clothes as long as they are affordable
   f. Other
By having as many detailed multiple-choice questions as possible will help start-up companies to gain a better understanding of how to price, where to position their goods as well as other important aspects about their clients. Further findings from the online questionnaire that was applied will be discussed in the analysis section.
4. Analysis

The analysis section of the thesis will cover a viable business plan for the kids clothing company. The business plan contents are:

- Company overview
- Project overview
- Project implementation and financing schedule
- Industry and market research
- Economic and financial estimations

Based on the carried-out business plan, there will be a conclusion drawn out at the end of this section.

4.1 Company overview

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>“More 4 Kids” LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of establishment</td>
<td>2019.04.01</td>
</tr>
<tr>
<td>Operating field and activities</td>
<td>Retail and boutique of childrens’ clothes aged from 0-6 years old</td>
</tr>
<tr>
<td>Differential features</td>
<td>First online kids clothing brand in Ulaanbaatar; first kids clothing brand in Mongolia specialized in minimalist style</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Four: 2 designers (including CEO - Gantulga Duziimaa), 2 sewers</td>
</tr>
<tr>
<td>Location</td>
<td></td>
</tr>
</tbody>
</table>

4.2 Project overview

<table>
<thead>
<tr>
<th>Project name</th>
<th>Establishment of “More 4 Kids” LLC and developing a website to deliver products online; further opening of a boutiques store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project implementing company</td>
<td>“More 4 Kids” LLC</td>
</tr>
<tr>
<td>Planned date to implement the project</td>
<td>Start: May the 1st 2019</td>
</tr>
</tbody>
</table>
Total loan to implement the project | 20 million tugriks (equals to 7,795 USD as of October 8th 2018)

The project starts from the point of registering “More 4 Kids” LLC (M4K) at the State Registry of the Legal Entity in Ulaanbaatar, Mongolia following the steps discussed in the theoretical section.

Afterwards members of the “M4K” LLC will travel to Guangzhou, China to purchase cotton material, which will serve the company as main inventory. Designers will develop 4 collections each season, collections represent each age range that the company targets. Age categories are: 0-1 year old; 1-2 years old; 2-4 years old; 4-6 years old. However, age group 0-1 year old includes 4 sub-groups: 0-3 months old, 3-6 months old, 6-12 months old, and 6-12 months old. In each collection it is anticipated that it will include from 5-7 clothing products, each clothing product will be produced in 20 pieces.

Clothes will be sold via an online platform. However, it is planned that the company will have its’ own boutique store in 5 years’ time from the beginning of its’ retail operation.

4.2.1 Project groundings

As a mother living in Ulaanbaatar, the author is a representation of many parents who struggle to find their children clothes with average price and that are of high-quality. There are only few imported clothing brands that supply goods for children that are operating through distribution channels. However, there are countless private sellers who import goods from China and sell them in a local bazaar for doubled, sometimes even tripled, prices. More groundings will be discussed in the following paragraphs of the business analysis.

4.3 Project implementation and financing schedule

Following table depicts operational and financing schedule of the project (see Figure 5). The project covers activities and operations beginning from registering the company until the first collection of clothes is ready to be distributed to potential customers.

Financing resources for working capital are expected to be obtained through a bank loan. In theoretical section, steps of registering an entity were illustrated thoroughly. “M4K” will follow those guidelines to obtain a legal status of a business entity. Subsequently, a brand concept takes place as it is a crucial part of establishing the brand and promote it to audience. The management team, which is responsible designing duties as well, is working on the brand concept at the moment. In theoretical section, branding was brought to a highlight in developing a successful
and stable company. In this sense, “M4K” is anticipated to have a strong brand image as a kids’
clothing manufacturer that delivers prime products with average pricing strategy through a
boutique like store, where customers will feel themselves as shopping for a one-of-a-kind
product. Designs of clothes are planned to be exceptional, with few basic items and usually
specializing in outdoor clothes that are manufactured exclusively with pure cotton and with
adult-like minimalist designs. As it is seen, design process is a continuous process in fashion
industry, designers regularly come up with new sketches depending on season, potential trends,
available material and changing demand.

Figure 5. Operational and financing schedule

<table>
<thead>
<tr>
<th>Project operation</th>
<th>05.19 (1)</th>
<th>06.18 (2)</th>
<th>07.18 (3)</th>
<th>08.19 (4)</th>
<th>09.19 (5)</th>
<th>10.19 (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolve financing resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Register the company</td>
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<tr>
<td>Construct a brand concept</td>
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<tr>
<td>Design process</td>
<td></td>
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<tr>
<td>Collection of material from Guangzhou, China (for the next 2 collections of clothes)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Manufacturing process of a first collection</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Marketing process via online platforms</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(Facebook page advertisement, Instagram page post, sponsored posts by accounts with high followings)</td>
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<td></td>
<td></td>
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<tr>
<td>Brand launch (pop-up store)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sales process (reservation of products via online platform, delivering goods to customers)</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Manufacturing process of a second collection</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Complete implementation of the project</td>
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</tbody>
</table>

Process of collecting fabrics and other supporting materials will take place in Guangzhou, China.
“M4K” already has connections with fabric suppliers in Guangzhou. It is expected that travelling
to China to acquire fabric and other supporting materials will eventuate once every quarter, or
every season to manufacture a new collection.

As it is projected, the project will be fully carried out in 6 months’ time span including the sales
of the first collection of clothes and with the next collection ready to be delivered to marketplace.
It is calculated that the manufacturing process will take place continuously as the design process.
Following the design process and when necessary fabrics are brought to “M4K”, 2 sewers will
start fabricating products.
“M4K” desires that the marketing will only be done through social media. First, Facebook and Instagram pages will be running by the CEO. Moreover, prototypes will be sent to several potential customers for free. In this sense, marketing of “M4K” will solely rely on social media posts and advertisements. Afterwards, a pop-up store is anticipated to be one of key roles in launching the brand. The event will take place in a rented venue, where potential customers can see the first collection for themselves, also they can purchase clothes from the collection. Invitations to the pop-up store event will be distributed through social media as well. Thereupon, the company will introduce its’ website where consumers can make reservations and get clothes delivered to their doorsteps.

New collections will be distributed every season, which is why the sales process of one collection is estimated to prolong for 3 months while the next portion of clothes is being manufactured. Moreover, a pop-up store and a start of sales are carefully calculated and expected to be effective if they were at the beginning of August. Firstly, a 3-day national festival called “Naadam” takes place all over the country in the middle of July. Not only Mongolians are on holiday for 7-10 days, they spend excess amount of money on food, on travelling around the country and on purchasing special apparel called “deel” to celebrate a long-resided tradition. In such wise, it is projected that customers might not be as welcoming towards spending money on a new clothing brand after a rage from “Naadam”. Second reason that August is chosen to be a time of the brand launch is that parents tend to shop more before schools and kindergartens start in September as a preparation for a new school year.

4.4 Industry and market research

Although there are several apparel brands that operate successfully in Mongolia, there are none that concentrate in manufacturing clothing for children. Considering a current absence of competing Mongolia brands that specialize in kids’ clothes, there are numerous aspects and advantages to consider when becoming the first mover to the industry. One of the situations to consider is that there are limited knowledge or information on developing a kids’ apparel brand name in the country. While conducting research, members of Mongolian Professional Designers Union (MPDU) have refused to share information of their operations. It is by reasons of a small marketplace, designers are eager to protect their connection with fabric suppliers and compete for customers. Currently, every apparel brand in Mongolia has a vertical organizational structure - at the top, there are designers spreading down the designs to their sewers. Moreover, only those brands which belong to the MPDU have their own sewers, on the other hand, smaller apparel businesses make contracts with a sewer.

As for “M4K”, 2 designers and 2 seamstresses will work together in an office place in 2019. Beginning from 2020, an additional seamstress will be employed by the company to support the
production of clothes. These potential seamstresses have agreed to start working for “M4K” under contact from June 2019. No official contacts are signed yet.

4.4.1 SWOT analysis

Firstly, the brand should identify its’ strengths and preferably build competitive advantages on its strengths. Given the current markets’ conditions that there are no kids clothing brands that manufactures clothes in Mongolia, it is counted that it is in strengths of the company to enter the industry as a first mover. Being a first mover offers a great deal of benefits such as gaining a large segment of customers and building brand loyalty. High demand in childrens’ clothes in Mongolia is another strength of the business. Moreover, as it was stated in the theoretical part of the paper, another strength of the business is - purchasing products that were manufactured and produced locally is becoming a tendency in customers’ purchasing “philosophy”, mainly because of low-quality products that are imported from China or overpriced products that are coming from the US and from European countries. Another valuable and meaningful strength of the brand can be recognized as a perk of high intervention of social media in today’s lifestyles of modern world. To give an example, the brand is expected not to run any advertisement nor marketing campaigns. The brand wants to sell clothes in Mongolia, the community in the country is small, and hence, the company will do marketing solely on social media.

In order to be successful in the business, it is vital to be rational and realistic about weaknesses of the company and handle them sufficiently. Regarding the kids clothing brand, there are only few weaknesses relevantly to the strengths, which can serve as a good starting point for the business. Weaknesses include a possible limited business operation due to above mentioned small community in the country, hence, the brand has to evolve and consider new ways of enduring business quickly without spending time and excess capital in times of “turbulent” business environment. In other words, the brand must undertake constant changes and marketing shifts in every step of the way providing quality products at the same time.

A SWOT analysis enables the company to get the picture of opportunities and further ways to incorporate them. The kids clothing brand has numerous of opportunities that were influenced and built up on the brands’ internal strength and weaknesses. These opportunities include: expanding the business into new product activities such as manufacturing kids’ shoes and furniture for kids’ rooms, secondly, the firm has a vision of expanding its’ activities into new geographical areas by exporting products, thirdly, the firm can launch its’ own website for customers to purchase goods and get them delivered to their doorsteps.

It is believed certain threats might occur to cause difficulties to the business. The most understandable and expected threat may come from possible competition in the market.
Currently there is no competition among manufacturers of kids’ clothes. This particular fact might pursue people to actually start a fashion brand for children’s clothes.

All in all, by carrying out a SWOT analysis it is possible to conclude that establishing a fashion brand for kids urgently before anyone does in Mongolia has potentials to gain first mover advantages and opportunities to build up brand loyalty and to realize further business expansions for the brand.

**4.4.2 Porter’s Five Forces Framework**

It is imaginable to predict low barriers at the entry regarding an anticipated strong brand identity mainly by the reason of an absence of similar brands in the country. In terms of rivalry, to this present day, there is no active company that manufactures kids’ clothes in Mongolia, there are only small organizations or private individuals who import clothes from abroad. The only question that can be inquired is whether the company can create a strong brand loyalty among customers in a short period of time.

There is a low pressure from substitute products as clothes are essential part of our lives especially for kids, who need utmost care and quality when it comes to comfortableness. Bargaining power of suppliers is anticipated to be low considering all the raw materials will be purchased from China, which provides an ample range of textile and fabric for very low fares. The only pressure that could come from all the aspects of the business might be from bargaining power of customers. In case of buyer’s reluctance and unwillingness to purchase the brands’ products, they can easily turn to the above-mentioned importers or to an online shopping. Notwithstanding, it is safe to say that the labor market offers a great deal of talent and experience at low costs in terms of manufacturing. Hence, it is achievable to eliminate eventual pressures that may come from considerable elements of the business by reducing prices, enhancing the company’s bargaining power with suppliers, attracting potential buyers or developing new strategies in a direction of further ventures. Providing that, the potentials for the products of the brand are anticipated to be very high.

**4.4.3 Online questionnaire analysis**

When conducting an online questionnaire only parents were selected to participate. 85 participants successfully responded to the survey. Following substantial and useful findings were subtracted from the questionnaire (see Appendix 4):

- 55.3% of the participants have children from 1-3 years old. Meaning, “M4K” can focus more on that specific age range when manufacturing clothes.
- 34.1% of the participants have an average income of approximately one million tugriks (MNT), and 36.5% have an above average income. According to the government bulletin
(see Appendix 5), 39% of Mongolians have an income from nine hundred thousand MNT (350.1 USD) to two million one hundred thousand tugriks (818.5 USD), and 41.3% spend the same amount of money every month (see Appendix 6). Meaning that people spend the same amount of money they earn. “M4K” is planning to target customers with average income, in the essence that the brand could price its’ clothes on an average basis.

- 38.8% of participants purchase kids’ clothes online, whereas 47.1% buy clothes for their children when travelling abroad. These are considered as strong indicators that kids clothing brands in Mongolia are needed to be developed. However, 52.9% of parents purchase imported clothes for their kids, which also shows that there is a place in the market for a local clothing brand.

- 36.5% of parents are moderately satisfied with the prices of clothes that they buy. They stated that: “it is preferable to buy clothes that are more fashionable and of better quality with the current amount of money that they spend on kids’ clothes at the moment”. It is visible that parents don’t prefer cheap clothes that much, they draw their attention to quality rather than the low price.

- 47.1% of participants shared their thoughts on Mongolian brands - they would like to buy apparel from local brands in the future. However, 33 people out of 85 choose online shopping as a way to purchase apparel for their kids, thus, 32.9% of parents would like to buy clothes from online shops faster and cheaper. With this said, if “M4K” develops a convenient website and delivers goods to customers faster than the international online shops, the company can gain a big portion of kids’ clothes purchasers in a short period of time.

- When asked about link between price and quality, majority of parents don’t mind purchasing clothes for above average price. Only 30.6% of parents prefer to buy average quality clothes for average price. Whereas, 32.9% of parents shop for affordable clothes but are willing to buy expensive apparel if it is worth it, and 24.7% buy few but expensive quality clothes. All in all, the ideal is to buy quality apparel for average price, although parents focus more on quality rather than on affordable price.

- 38.8% of participant parents answered that they buy clothes for their children every season. Another 38.8% buy clothes only when necessary, this indicates that the company has chosen a right sales strategy to distribute collections every season.

- Initially it was speculated that parents would prefer to purchase a onesie for less than 5$. However, it turned out that they are willing to buy a onesie, which will be a main apparel for newborn kids’ collection of “M4K”, for 5-10$. As the brand’s aim is to manufacture apparel only from 100% cotton soft fabric, it is imaginable that parents will purchase “M4K” goods even for 10$. This helps the company to shape a right pricing strategy.

- When asked about style of kids’ clothes, 57.6% meaning 49 parents out 85 shared their interest in minimalist style for kids’ clothes. This is exactly what “M4K”’s intention is - to manufacture 100% cotton apparel with basic style and less printing and logos on them.
• As it is hard to find fabric in Mongolia majority of parents think that it would be hard to establish a clothing brand in the country due to this particular reason. Almost every clothing manufacturer in the country acquires fabric from abroad. The company intends to do the same.

• Moreover, as it was already speculated - 91.8% of participants wish to receive advertisement through social media, which can save the company marketing costs.

• 85.9% of potential customers would like to shop at the store, where they can actually see and examine products. For this matter, “M4K” plans to do a pop-up store as it was discussed previously. Once customers acknowledge the quality and design of clothes at the pop-up store during the brand launch, the company is certain online shopping will be more beneficial for the company in the first years of its’ business regarding costs.

All in all, the online questionnaire greatly assisted in making administrative choices and in taking into consideration pricing decisions. Right pricing strategy helps businesses gain customers, maximize profits, compete in the market as well as earn name recognition. Therefore, after carefully analyzing researches that were conducted and considering findings from the survey - price skimming strategy is chosen to be effective in the early stages of the business. It is best suitable for start-up businesses that are the early adopters in the industry that deliver exclusive products or services. Moreover, “M4K” has a potential to gain a greater share of customers when dropping prices in the future. However, that is speculated to remain an alternative move in the first year of operations.

4.5 Economic and financial estimation

In this part of the analysis section fundamental financial estimations and projections will be discussed. All estimations can be found in Appendixes 7,8,9,10,11 and 12. Financial estimations include: product cost, income statement projection, balance sheet projection and cash flow projection for 5 years respectively.

4.5.1 Sales projection

Sales revenue of “M4K” is estimated based on price of goods to be sold and total number of goods to be sold. As it was illustrated previously; the company will start selling its’ products from August 2019. Although it was stated that the company will introduce clothes for children aged from 0-6 years old, for strategic reasons as it was mentioned in the methodology section of the thesis, the brand will sell goods for 1-2 years old and 2-4 years old kids in the 3rd and 4th quarters of 2019. Strategic reasons for choosing these specific age categories above others:

1) Findings from the online questionnaire, that majority of potential buyers have kids aged from 1-3 years old
2) There are 4 sub-groups in 0-1 year old age range (0-3 months, 3-6 months, 6-9 months, and 9-12 months). Therefore, it will require to produce 4 times bigger amount of clothes for this group. Thus, this group will be added only in 2021 when the company will gain a brand name in the market and stabilizes its’ operations and expenses.

Sales projection differs from quarter to quarter as new products and new age groups are added to the company’s product list. In the following table, sales projection of 2019 and 2020 can be seen (see Figure 6).

Sales of “M4K” is divided into 3 Phases. In Phase 1, only 2 age groups are included (1-2 years old, 2-4 years old). From Phase 2, company will produce clothes for 3 age groups in total. And finally, in Phase 3 “M4K” will cover all 4 age groups that it initially planned to distribute clothes to. As you can see from Figure 5, Phase 3 is not yet included in 2020, that is because it is planned to be added into sales from 2021. This strategic decision to divide products into age groups and to add those age groups one by one every year will enable company to recover in the first year of its’ business and stabilize. As operating expenses are planned to be maintained, as many clothes the brand will sell as greater Net profit it will get. This estimation will be discussed in the next sections of the analysis.

**Figure 6. Sales projection in tugriks for years 2019 and 2020**

<table>
<thead>
<tr>
<th></th>
<th>Quantity of products</th>
<th>Sales Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>Phases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase 1</td>
<td>960</td>
<td>960</td>
</tr>
<tr>
<td>Phase 2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Phase 3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Phases</td>
<td>960</td>
<td>960</td>
</tr>
</tbody>
</table>

**4.5.2 Product cost**

Following cost estimations are based on the information gathered from “Grand Master”, Mongolian clothing brand for adults which acquires materials from China and has contract-based sewers. Figure 7 shows cost projections based on a sweatshirt that “M4K” will manufacture for
2-4 year old kids, which is estimated to use material the most and be produced in large quantities during all Phases of operations.

*Figure 7. Product cost in tugriks*

<table>
<thead>
<tr>
<th>Content</th>
<th>Amount</th>
<th>Measurement unit</th>
<th>Price of a unit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabric</td>
<td>1.5</td>
<td>meters</td>
<td>3,770</td>
<td>5,655</td>
</tr>
<tr>
<td>Support material</td>
<td>3</td>
<td>pieces</td>
<td>126</td>
<td>377</td>
</tr>
<tr>
<td>Salary</td>
<td>363</td>
<td>pieces of clothing</td>
<td></td>
<td>2,204</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>8,236</strong></td>
</tr>
</tbody>
</table>

Cost of 8,236 tugriks is used when calculating COS and Income Statement (see Appendix 8).

4.5.3 Operating expenses

Operating expenses of “M4K” consist of following: rent, salaries, travel, advertising and website marketing expenses. In the beginning of operations (3rd and 4th quarter of 2019), operating expenses take up to margin of 74% from Sales Revenue. However, as sales figures increase beginning from 2020, operating expense margin decreases successfully equaling to 46% at the end of 2021 already (see Appendix 9). The company intends to decrease the percentage as the company wishes to produce more for roughly the same amount of operating expenses.

Firstly, rent is inexpensive in Mongolia. The company will be able to find a 3-room office space in the center of Ulaanbaatar for 600,000 tugriks monthly (233.8 USD as of October 8th 2018). Secondly, traveling to China is also inexpensive especially if travelling by train. Two-way travel by train will cost 500,000 tugriks for one person. Advertising expenses can be kept to a minimum using free social media posts. Advertising expenses include costs of hiring a photographer for a photoshoot, which will be held once a quarter; plus, monetary compensation for models. As it was stated above, “M4K” will do a pop-up store in the beginning of sales to promote the brand. Expenses of a pop-store are included in advertising expenses in the first quarter of 2019. Website marketing expenses are also projected to be low, especially in the first two quarters of operations, when “M4K” will not use a website for communicating with customers but will solely use social media accounts to promote and take reservations. For professional purposes, website will be introduced in 2020.

4.5.4 Investment recovery period

A total of 20 million tugriks will be acquired through a bank loan to finance working capital in the beginning of operations. In Appendix 10, it is possible to see that in one year’s time, meaning
by the end of 2nd quarter of 2020, the brand will fully recover from the loan. Moreover, as the brand is projected to have enough cash as an asset, “More4Kids” is planned to pay out dividends starting from 3rd quarter of 2020 with ratio of 40% until 2nd quarter of 2021, thereafter to raise the ratio to 60% until 2022. Beginning from 2022 another 10% will be added to dividend payout ratio (see Appendix 12). Moreover, as it was mentioned above, the firm is expected to have enough cash, therefore it will wise to acquire savings from it. Interest income rate is calculated as 1% of opening balance of cash every quarter.

Conducting common sizing method when analyzing Income statement and Balance sheet of the company allowed the author to see that activities of the brand are expected to remain steady and promising in terms of profitability (see Appendixes 9 and 11).

Although, the firm experiences losses in the beginning of its operations, it is possible for the brand to recover starting from 2020 already. The reason for a fast investment recovery is that the brand wishes to keep its’ operating expenses to a minimum despite its’ increasing sales volume and gain a large market share by offering affordable products.
5. Conclusion

The aim of the thesis has been to introduce readers to the Mongolian fashion industry in general and to prove that it is justified yet reasonable to establish a children's’ apparel brand in the country. Clothes are an inseparable part of everyday life, especially for children - they need to feel free and as comfortable as possible with clothes on throughout the day and night. For this matter, kids’ apparel must be made out of soft cotton fabric and have suitable style and fit comfortably.

The theoretical section of the paper covered necessary hypothetical groundings that support the idea of establishing an organization in overall in Mongolia, especially going into detail of fashion industry starting to be accepted and developed in the country. Further questions of marketing and branding in today’s business environment have been opposed as theoretical grounding. Moreover, the author has stressed the importance of brand management backing it up with rise of technology, particularly social media. It has been highlighted in this section of the paper, that it is social media that plays a great role in success of business. Overall, properly handled social media serves as a branding tool, and successfully managed branding helps to develop marketing of a thesis.

The methodology section of the thesis serves as a stepping stone for the analysis chapter, where the necessary analyses and research have been conducted and evaluated. In consideration of the chosen topic, the author chose to conduct a full business plan in order to assist the future operations of the kids’ apparel brand. The business analysis consisted of administering methods such as SWOT analysis, Porter’s Five Forces framework and online questionnaire. The author has given a detailed introduction to each chosen analysis and research methods. Moreover, the importance of including these analyses was stressed in view of the topic for the thesis. Furthermore, the business analysis involves steps and methods to invalidate irrelevant ideas, obtain a clear understanding of the market gap as well as of the potentials of the business itself.

The analysis chapter of the paper discusses the potential of the kids’ apparel firm and supports it with the findings from the research introduced in the methodology section and gives a full business plan including economic and financial estimations and projections. These financial projections were carried out for 5 years’ time span beginning from the 3rd quarter of 2019, when the clothing brand will start its retail operations.

When conducting the business plan the author has taken under consideration several strategic decisions. Firstly, the brand has planned to manufacture a limited number of products in the 1st
financial year and gradually increase sales volume as the brand gains a strong brand image and recovers from a bank loan.

Secondly, the firm has intended to keep the operating expenses to a minimum and maintain them throughout the business operations whether the sales volume increase or not. This is believed to increase net income over time and help the firm focus on other strategic moves such as inquiring more expensive fabric and raise prices. Consequently, the brand is expected to collect enough cash to pay off the bank loan in one year’s time and use the cash to pay out dividends and gain interest income from savings. The dividend payout ratio is estimated to equal to 40%. Working capital percentage of EBITDA is also projected to be 40%. These aspects have been concluded that they will enable the brand to open a boutique store after 5 years of operations through an online platform.

Thirdly, the brand has been planned to solely rely on social media to build and promote a brand name. Another strategic resolution of the kids clothing brand is to focus on online retail operations in the first 5 years. Above mentioned strategic decisions have been chosen taking into account the current situation of the market including total income and expenditure of potential customers; the ability of a newly established company to recover from its’ bank loan; the fashion industry environment in the country that shows lack of fabric and professional seamstresses. Although the brand places its’ marketing operations on the top of primer goals, at the same time it plans to save on expenses as much as possible. All this considered, the children’s apparel manufacturer has premise of potentials to gain a leading position in the current fashion industry particularly amongst kids’ clothing manufacturers.

5.1 Looking into the future

Finally, the author of the paper, the future CEO of the childrens’ apparel brand, not only worked on conducting 5 years’ business plan, but sees a potential of long-run operations of brand that will compete in the market on gained loyalty among customers. The brand is expected to rely on customer loyalty strongly that it expects to bring not only apparel, but shoes and kids’ furniture to the market in the future and to receive a positive reaction from its’ existing customers. The apparel brand is anticipated to have a full potential to succeed in supplying new range of products as kids’ shoes and furniture are not being delivered by a single manufacturer that specializes in producing these products in Mongolia. In that sense, the firm will be focusing on building and maintaining profound customer relationship throughout its’ operational lifetime beginning from the first business encounters and deliver exclusive products that will be manufactured locally.
Appendixes

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Appendix 2 - Company rule /aspects that need to be included in Company’s Rules and Regulations when registering Legal entity/
Appendix 3 - “General conditions and requirements” for a bank loan
Appendix 4 - Online questionnaire findings
Appendix 5 - Average income in Mongolia
Appendix 6 - Average expenditure in Mongolia
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Appendix 8 - Income statement projection
Appendix 9 - Income statement projection (common-sizing)
Appendix 10 - Balance sheet projection
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Currency/Doubleday.


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Appendix 1

“Registration of the newly established legal entity at the State Registry” application form

APPLICATION FORM FOR NEWLY ESTABLISHED LEGAL ENTITY IN MONGOLIA

1. Date of submitting the application: ____________________________

2. Name of Legal Entity: ____________________________

3. Form of Legal Entity:  

   □ JSC   □ JV   □ NGOMS  
   □ LLC  □ PC   □ TUC  
   □ GP □ SACCOs □ Fund  
   □ LP □ NGOCS □ RO  
   □ Radio □ Newspaper □ Magazine  
   □ TV □ SOE □ LSOE

4. Legal address and phone number of Legal Entity: ____________________________

   Aimag, city ____________________________  Phone No. 1 ____________________________
   District ____________________________  Phone No. 2 ____________________________
   Microdistrict ____________________________  Email address ____________________________
   Street ____________________________  Postal address ____________________________
   Building No. ____________________________
   Door No. ____________________________

5. Information about the founder of Legal Entity: ____________________________

State Registry of Legal Entity
Appendix 1
5.1 In case of Legal Entity being a subsidiary, name the Head Entity and its’ form:

[Table with columns: Name of founder, ID No., Nationality of founder, Type of property, Capital contribution by amount, Capital contribution by percentage]

5.2 Number of founders of Legal Entity:

5.3 Amount of capital contribution:

6. Time period of Legal Entity’s operation:

7. Areas of operation:

8. The applicant:

8.1 Founder ☐ Executive management ☐
Other persons authorized by the power of attorney

*insert ✓ for correspondent answer

8.2

Family name: 
Surname: 
Name: 
ID No.:

Signature:

Description of abbreviations:

JSC - Joint-stock company
LLC - Limited liability company
GP - General partnership
LP - Limited partnership
JV - Joint venture
PC - Primary cooperative
SACCOs - Savings and credit cooperative organization
CSNGO - Community serving non-governmental organization
MSNGO - Member serving non-governmental organization
SOE - State-owned enterprise
LSOE - Local state-owned enterprise
TUC - Trade union committee
RO - Religious organization
TV - Television

Appendix 2

Company rule /aspects that need to be included in Company’s Rules and Regulations when registering Legal entity/

Company rule shall include: 16.2.1.

16.2.1. The complete identification of the company and the abbreviated identification of the company's name;

16.2.2. The number of authorized and outstanding shares of the company, their type, nominal price, amount of capital;

16.2.3. If the company announces preferred shares, the number of authorized preferred shares and the rights of its holders;

16.2.4. If the company has a Board of Directors, the number of members of the Board of Directors;

16.2.5. Other rights confirmed by shareholders meeting and Board of Directors;

16.2.6. The area of the company’s operations;

16.2.7. Other items specified in this law to reflect in the company rule.

Appendix 3

“General conditions and requirements” for a bank loan

TDB’s working capital loans are suitable for financing all kinds of working capital needs and short-term business expenses. Conditions are as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Up to MNT 350 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly interest in tugriks (MNT)</td>
<td>22.80%-19.20% annually</td>
</tr>
<tr>
<td></td>
<td>1.90%-1.60% monthly</td>
</tr>
<tr>
<td>Term</td>
<td>36 months</td>
</tr>
<tr>
<td>Service fee</td>
<td>0.5% (10,000 tugriks-200,000 tugriks)</td>
</tr>
</tbody>
</table>

Requirements are as follows:

- Stable business activity
- No outstanding loan obligations
- Having sufficient collateral to meet the bank’s requirements

Documents to be submitted are:

For legal entities:
- Company rule
- Shareholder’s approval for loan application
- Financial statement for the last 2-3 quarters
- Operational licenses
- Collateral document (original), collateral evaluation document (exclusion for apartments and houses), land ownership certificate
- Other documents required from the applicant during the loan analysis process

For individuals:
- Notarized copy of personal ID (relevant for co-borrower as well)
- Operational licenses
- Collateral document (original), collateral evaluation document (exclusion for apartments and houses), land ownership certificate
- Marriage certificate
- Other documents required from the applicant during the loan analysis process
| applicant during the loan analysis process |

Appendix 4

Findings from online questionnaire

How many kids do you have?

- 1: 14.1%
- 2: 29.4%
- 3: 53.0%
- 4: 1.4%

How old is your kid?

- 0-1: 11.6%
- 1-3: 14.9%
- 3-5: 18.2%
- 5-9: 14.0%
- >10: 41.3%

What is your monthly salary?

- Average (~1 million tugriks): 21.2%
- Above average: 8.2%
- Below average: 34.1%
- Currently, no income: 36.5%
Appendix 4.1

Where do you purchase your kids clothes from?

- Stores or bazaar in Mongolia: 58.20%
- Online shopping: 38.80%
- When travelling: 52.40%

What would you prefer?

- More local kids clothing brand: 49.5%
- More convenient and faster online shopping to purchase: 32.9%
- I am satisfied with the way I buy clothes for my kid: 17.5%

What would be ideal for you?

- To buy cheap clothes as much as possible: 30.6%
- To buy average quality clothes for average: 32.9%
- To buy fashionable and high quality clothes for high price: 8.7%
- To buy affordable clothes, and purchase more expensive products for special occasions: 24.7%
- I do not pay that much of attention to kids clothes, unless they are comfortable: 8.7%
Appendix 4.2

How often do you purchase clothes for your kid?

Every season: 38.8%
Once or twice a year: 20.0%
Frequently, once every month: 38.8%
Only when necessary

How much would you spend on a baby’s onesie?

Only less than 5$: 35.3%
From 5-10$: 12.9%
From 5-10$, only if it is tredy and of high quality: 10.6%
Could be more than 10$: 36.5%
It is possible to buy during sale period, if it is expensive

Usually kids clothes come with printing and logos on them? What is your take on that?

Clothes with minimal style with no printing and logos: 53.1%
Bright clothes with printing and logos: 38.5%
I only care about comfortableness of clothes: 8.3%
Appendix 4.3

Do you think it is relevantly easy to establish a kids clothing brand in Mongolia?

- Agree, there is little competition in the industry: 14.3%
- Agree, it is easy marketing wise: 58.3%
- Disagree, there is lack of fabric choices in the country: 18.7%
- Disagree, the market is too small: 8.8%

How would you prefer to receive an advertisement for a kids clothing brand?

- TV advertisement: 22.40%
- Newspaper and magazine: 91.80%
- Social media post: 0.00%

What would you prefer?

- To purchase clothes from the store: 85.9%
- To reserve and buy clothes online: 14.1%
Appendix 5

Average income in Mongolia as of end of July 2018

<table>
<thead>
<tr>
<th>Types of Income</th>
<th>2015 Q1</th>
<th>2015 Q2</th>
<th>2016 Q1</th>
<th>2016 Q2</th>
<th>2017 Q1</th>
<th>2017 Q2</th>
<th>2018 Q1</th>
<th>2018 Q2</th>
<th>2018 Q2 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income - Total</td>
<td>1,049,551</td>
<td>1,068,028</td>
<td>935,625</td>
<td>970,308</td>
<td>976,824</td>
<td>1,032,112</td>
<td>1,132,259</td>
<td>1,147,242</td>
<td>111.2</td>
</tr>
<tr>
<td>1. Monetary income - Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>941,460</td>
<td>975,715</td>
<td>849,482</td>
<td>874,392</td>
<td>893,340</td>
<td>925,436</td>
<td>1,030,919</td>
<td>1,053,618</td>
<td>113.7</td>
</tr>
<tr>
<td>Pensions and allowances</td>
<td>490,570</td>
<td>520,912</td>
<td>476,942</td>
<td>488,310</td>
<td>504,555</td>
<td>511,613</td>
<td>556,892</td>
<td>558,037</td>
<td>109.1</td>
</tr>
<tr>
<td>Income from livestock products</td>
<td>152,167</td>
<td>182,070</td>
<td>154,165</td>
<td>160,626</td>
<td>176,984</td>
<td>184,523</td>
<td>201,109</td>
<td>206,932</td>
<td>112.1</td>
</tr>
<tr>
<td>Income from crop products</td>
<td>112,871</td>
<td>98,203</td>
<td>58,880</td>
<td>64,437</td>
<td>64,499</td>
<td>69,610</td>
<td>84,724</td>
<td>91,322</td>
<td>131.2</td>
</tr>
<tr>
<td>Income from non-agricultural production and services</td>
<td>3,739</td>
<td>4,150</td>
<td>2,225</td>
<td>2,482</td>
<td>2,240</td>
<td>1,072</td>
<td>3,358</td>
<td>1,471</td>
<td>137.2</td>
</tr>
<tr>
<td>Other income</td>
<td>91,095</td>
<td>99,271</td>
<td>81,286</td>
<td>83,427</td>
<td>76,370</td>
<td>91,344</td>
<td>89,601</td>
<td>99,125</td>
<td>108.5</td>
</tr>
<tr>
<td>2. Food and nonfood products received from others free of charge</td>
<td>51,410</td>
<td>45,736</td>
<td>52,189</td>
<td>49,553</td>
<td>48,829</td>
<td>55,648</td>
<td>61,914</td>
<td>51,418</td>
<td>92.4</td>
</tr>
<tr>
<td>3. Food consumption from own business</td>
<td>56,681</td>
<td>46,577</td>
<td>33,954</td>
<td>46,443</td>
<td>34,655</td>
<td>50,028</td>
<td>39,426</td>
<td>42,206</td>
<td>84.4</td>
</tr>
</tbody>
</table>

Monthly average income per household, as 1st and 2nd quarters of selected years

Appendix 6

Average expenditure in Mongolia as of end of July 2018

Monthly average expenditure per household, as 1st and 2nd quarters of selected years

<table>
<thead>
<tr>
<th>Types of expenditure</th>
<th>2015 Q1</th>
<th>2015 Q2</th>
<th>2016 Q1</th>
<th>2016 Q2</th>
<th>2017 Q1</th>
<th>2017 Q2</th>
<th>2018 Q1</th>
<th>2018 Q2</th>
<th>2018 Q2 Q1</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Monetary expenditure - Total</td>
<td>1,071,366</td>
<td>1,071,545</td>
<td>1,051,104</td>
<td>1,044,911</td>
<td>1,023,487</td>
<td>1,107,731</td>
<td>1,160,112</td>
<td>1,192,392</td>
<td>1,192,392</td>
<td>107.6</td>
</tr>
<tr>
<td>Food expenses</td>
<td>963,275</td>
<td>979,232</td>
<td>964,961</td>
<td>948,915</td>
<td>940,003</td>
<td>992,555</td>
<td>1,058,772</td>
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Appendix 7

Product cost

Following table indicates product cost of a single sweatshirt that requires fabric the most than other products of “More4Kids”. This calculated cost was used to calculate COS of “M4K”.

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<th>Total</th>
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## Appendix 8

### Income Statement

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### Appendix 9

#### Income Statement (common-sizing)

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### Appendix 10

#### Balance Sheet

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<td>(2,675,000)</td>
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Appendix 11

Balance Sheet (common-sizing)

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<td>17%</td>
<td>10%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Plant, Property and Equipment</td>
<td>43%</td>
<td>66%</td>
<td>82%</td>
<td>37%</td>
<td>55%</td>
<td>39%</td>
<td>31%</td>
<td>26%</td>
<td>22%</td>
<td>21%</td>
<td>17%</td>
<td>39%</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>3%</td>
<td>8%</td>
<td>15%</td>
<td>23%</td>
<td>16%</td>
<td>14%</td>
<td>13%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>62%</td>
<td>72%</td>
<td>61%</td>
<td>35%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Retained earnings</td>
<td>39%</td>
<td>8%</td>
<td>29%</td>
<td>65%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Total Liabilities and Capital</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Appendix 12**

**Cash Flow Statement**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Cash Received from Customers</td>
<td>28,200,000</td>
<td>28,200,000</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>69,600,000</td>
<td>69,600,000</td>
<td>93,280,000</td>
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<tr>
<td>Operating Expenses</td>
<td>20,880,000</td>
<td>20,880,000</td>
<td>25,800,000</td>
<td>25,800,000</td>
<td>29,300,000</td>
<td>29,300,000</td>
<td>42,500,000</td>
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<tr>
<td>Income Taxes</td>
<td>(586,552)</td>
<td>(586,552)</td>
<td>43,029</td>
<td>263,093</td>
<td>1,421,882</td>
<td>1,449,409</td>
<td>1,689,336</td>
<td>1,277,754</td>
</tr>
<tr>
<td>Working Capital Change</td>
<td>(11,536,800)</td>
<td>(11,536,800)</td>
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<td>0</td>
<td>3,391,116</td>
<td>0</td>
<td>(596,272)</td>
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<tr>
<td>Cash from Operations</td>
<td>16,942,952</td>
<td>16,942,952</td>
<td>2,172,391</td>
<td>2,455,227</td>
<td>10,136,822</td>
<td>10,136,822</td>
<td>13,197,096</td>
<td>12,834,490</td>
</tr>
<tr>
<td>Cash Before Financing</td>
<td>19,942,952</td>
<td>19,942,952</td>
<td>2,172,391</td>
<td>2,455,227</td>
<td>10,136,822</td>
<td>10,136,822</td>
<td>13,197,096</td>
<td>12,834,490</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>1,090,000</td>
<td>1,090,000</td>
<td>648,000</td>
<td>432,000</td>
<td>216,000</td>
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<tr>
<td>Interest Income</td>
<td>63,022</td>
<td>63,022</td>
<td>39,723</td>
<td>52,644</td>
<td>216,000</td>
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<td>Debt Repayment</td>
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<td>4,000,000</td>
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<td>-</td>
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</tr>
<tr>
<td>Dividends</td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td>Net Cash Flow</td>
<td>5,926,844</td>
<td>(8,317,477)</td>
<td>(2,415,866)</td>
<td>(963,649)</td>
<td>5,926,852</td>
<td>8,495,856</td>
<td>8,417,457</td>
<td>8,100,639</td>
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</tbody>
</table>

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