

Impact Analysis Report

Generation Next

Megan Clark

Michelle Endo

Lisa Hyams

Dinah Rogers

Hello! Baby

Neurosmith

4/13/2002

ABSTRACT

Many children love the toys produced by Neurosmith. A nice addition to the span of educational toys being produced today is Hello! Baby. It is conventional and sophisticated. It expands a child's mind at a reasonable price. The product will not change the scope of Neurosmith in a financial way. The only changes will be the amount of awards given to Neurosmith. This Impact Analysis is a detailed description of the product, financial aspects, marketing and sales procedures and organizational projections.

1.0 PRODUCT ANALYSIS

1.1 The product is going to be manufactured in China. The design will be handled by Generation Next.

1.2 There are many government restrictions that pertain to the safety of crib toys. On the box and in the manual of any electrical toy, especially for children, has to be prominently labeled in bold print. Certain areas of the product have to be labeled. This includes any area that may exude heat and areas surrounding a battery pack. Toys must undergo "use and abuse" test procedures. Any switches or batteries and wires must be securely mounted, so no damage can occur (CPSC). Any toy with an area for a child to place items in has to have ventilation to ensure that no small parts can be inhaled. Any rotating devices have to be securely molded of one piece or welded. All parts have to be too large to stay in a child's mouth. The American Society for the Testing of Materials' Specification on Toy Safety requires that a toy's volume cannot exceed 135 decibels of sound (Intense Toys Can Damage Kids' Hearing).

1.3 See Projected Financial Statement.

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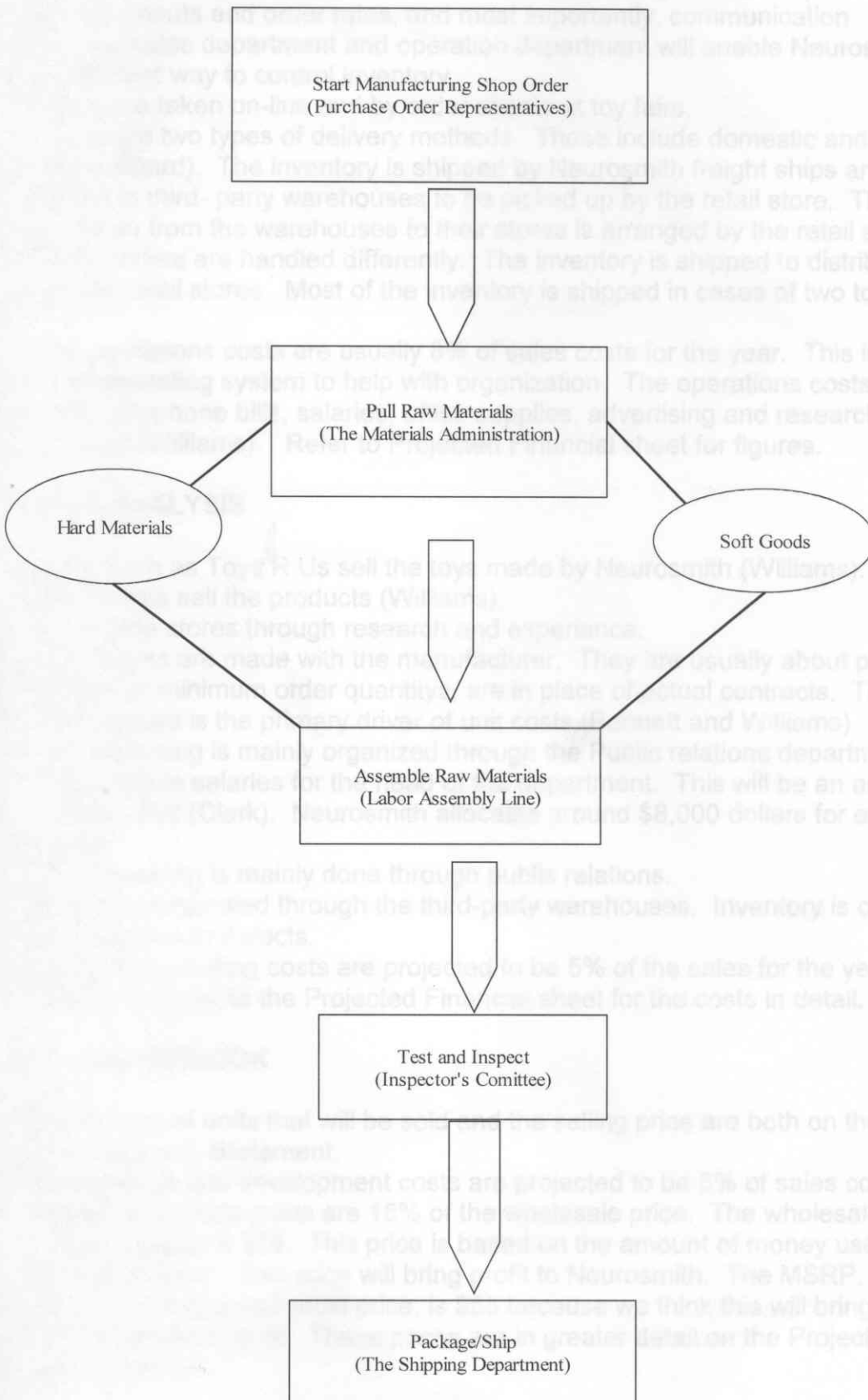
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1.3 See Projected Financial Statement.

Manufacturing Process Flow Chart



Projected Timeline

January 1, 2004- The soft goods will begin to be delivered to the manufacturing site

- The electronics will start to arrive at the manufacturing site
- Tooling will begin to be arranged (calibrations, and building)
- Packaging will be arranged

February 28, 2004- The arrival of soft goods is completed

March 10, 2004- All tooling will be completed

March 17, 2004- All packaging arrangements will be completed

April 7, 2004- The electronics will be ready

April 14, 2004- Production will start

- Testing will begin

April 21, 2004- The product will start to be shipped and advertised

- Testing will also

Resources Consulted

Bennett, Eve. Personal Interview. 11 March 2002.

“Child Proofing Toys”. Arizona Child Care. 12 March 2002

< <http://arizona childcare.org/childproof/infantsfty.html>>.

Clark, Shannon. Personal Interview. 14 March 2002.

“CPSC Publication”. CPSC. 12 March 2002

<<http://www.cpsc.gov/cpscpub/pubs/287.html>>.

Fess, Warren. Accounting Principles. Cincinnati: Western Publishing Company, 1984.

“Interactive Toys Can Damage Kids’ Hearing”. *USA Today* brief article. April 2001

<http://www.findarticles.com/cf_dls/m1272/2671_129/73236142/p1/article.jhtml>.

Williams, Amy. Electronic Interview. 12 March 2002.

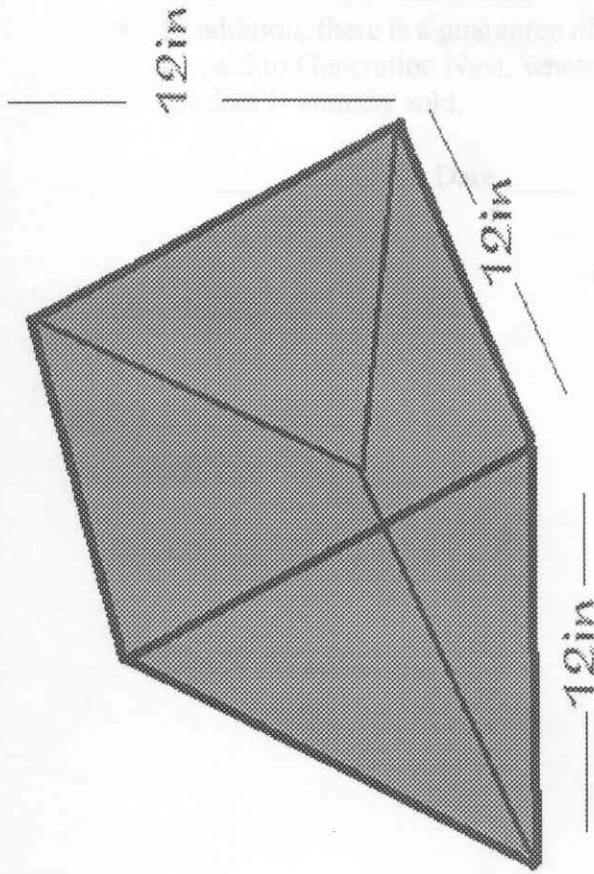
| | Year 1 | Year 2 | Total | Year 1 | Year 2 | Total |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 10,000 | 10,000 | 10,000 | 20,000 | 10,000 | 10,000 | 20,000 |
| 15,000 | 15,000 | 15,000 | 30,000 | 15,000 | 15,000 | 30,000 |
| 20,000 | 20,000 | 20,000 | 40,000 | 20,000 | 20,000 | 40,000 |
| 25,000 | 25,000 | 25,000 | 50,000 | 25,000 | 25,000 | 50,000 |
| 30,000 | 30,000 | 30,000 | 60,000 | 30,000 | 30,000 | 60,000 |
| 35,000 | 35,000 | 35,000 | 70,000 | 35,000 | 35,000 | 70,000 |
| 40,000 | 40,000 | 40,000 | 80,000 | 40,000 | 40,000 | 80,000 |
| 45,000 | 45,000 | 45,000 | 90,000 | 45,000 | 45,000 | 90,000 |
| 50,000 | 50,000 | 50,000 | 100,000 | 50,000 | 50,000 | 100,000 |
| 55,000 | 55,000 | 55,000 | 110,000 | 55,000 | 55,000 | 110,000 |
| 60,000 | 60,000 | 60,000 | 120,000 | 60,000 | 60,000 | 120,000 |
| 65,000 | 65,000 | 65,000 | 130,000 | 65,000 | 65,000 | 130,000 |
| 70,000 | 70,000 | 70,000 | 140,000 | 70,000 | 70,000 | 140,000 |
| 75,000 | 75,000 | 75,000 | 150,000 | 75,000 | 75,000 | 150,000 |
| 80,000 | 80,000 | 80,000 | 160,000 | 80,000 | 80,000 | 160,000 |
| 85,000 | 85,000 | 85,000 | 170,000 | 85,000 | 85,000 | 170,000 |
| 90,000 | 90,000 | 90,000 | 180,000 | 90,000 | 90,000 | 180,000 |
| 95,000 | 95,000 | 95,000 | 190,000 | 95,000 | 95,000 | 190,000 |
| 1,000,000 | 1,000,000 | 1,000,000 | 2,000,000 | 1,000,000 | 1,000,000 | 2,000,000 |

Generation Next Pro-Forma Income Statement

| Projected Income Statement - Summary of Years 1 to 5 | | | | | | |
|---------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Year 1: | Year 2: | Year 3: | Year 4: | Year 5: | Totals |
| Units | 68,000 | 75,000 | 58,000 | 44,000 | 32,000 | 277,000 |
| Unit sale Dollars average sale | 35.00 | 34.50 | 34.00 | 33.00 | 32.00 | 169 |
| Sales | | | | | | |
| Sales Hello, Baby! | 2,380,000 | 2,587,500 | 1,972,000 | 1,452,000 | 1,024,000 | 9,415,500 |
| Other | | | | | | 0 |
| Total Sales | 2,380,000 | 2,587,500 | 1,972,000 | 1,452,000 | 1,024,000 | 9,415,500 |
| Unit Cost materials 25% | 8.75 | 8.63 | 8.50 | 8.25 | 8.00 | 42.13 |
| Unit Cost Labor \$1.45/hour Ten people per unit /60 units per hour | 8.70 | 8.72 | 8.75 | 8.80 | 8.85 | 44 |
| Unit Cost of Overhead (2%) | 0.17 | 0.17 | 0.18 | 0.18 | 0.18 | 1 |
| Unit Cost of Transportation and Imports (1%) | 0.09 | 0.89 | 0.09 | 0.09 | 0.09 | 1.25 |
| Raw Materials | 595,000 | 646,875 | 493,000 | 363,000 | 256,000 | 2,353,875 |
| Labor | 591,600 | 654,000 | 507,500 | 387,200 | 283,200 | 2,423,500 |
| Overhead 2% cost | 11,832 | 13,080 | 10,150 | 7,744 | 5,664 | 48,470 |
| Other Transportation/Import 1% | 6,034 | 6,671 | 5,177 | 3,949 | 2,889 | 24,720 |
| Total Cost of Goods Sold | 1,204,466 | 1,320,627 | 1,015,827 | 761,894 | 547,753 | 4,850,566 |
| Gross Profit | 1,175,534 | 1,266,873 | 956,173 | 690,106 | 476,247 | 4,564,934 |
| Operating Profit Margin % | 49.4% | 49.0% | 48.5% | 47.5% | 46.5% | 48.5% |
| Operating Expenses | | | | | | |
| Salaries % of current emp. | 245,000 | 225,000 | 220,000 | 180,000 | 140,000 | 1,010,000 |
| R&D Salaries & Expense | 329,000 | 160,000 | 40,000 | 40,000 | 40,000 | 609,000 |
| Employee benefits 30% | 73,500 | 67,500 | 66,000 | 54,000 | 42,000 | 303,000 |
| Payroll taxes | 62,475 | 57,375 | 56,100 | 45,900 | 35,700 | 257,550 |
| Rent % of existing space | 60,000 | 60,000 | 60,000 | 50,000 | 40,000 | 270,000 |
| Utilities | 26,000 | 26,000 | 24,000 | 22,000 | 20,000 | 118,000 |
| Repairs and maintenance | 24,000 | 24,000 | 23,000 | 21,000 | 19,000 | 111,000 |
| Insurance | 22,000 | 22,000 | 22,000 | 21,000 | 20,000 | 107,000 |
| Travel | 12,000 | 12,000 | 12,000 | 11,500 | 8,000 | 55,500 |
| Telephone | 10,000 | 10,000 | 9,500 | 9,500 | 8,500 | 47,500 |
| Postage | 8,000 | 7,500 | 7,400 | 7,200 | 7,200 | 37,300 |
| Office supplies | 5,000 | 4,500 | 4,200 | 4,000 | 3,800 | 21,500 |
| Advertising | 8,000 | 7,500 | 7,200 | 7,000 | 6,500 | 36,200 |
| Marketing/promotion | 15,000 | 12,000 | 11,500 | 8,500 | 7,500 | 54,500 |
| Professional fees | 22,000 | 20,000 | 19,500 | 14,000 | 12,090 | 87,590 |
| Training and development | 12,000 | 11,000 | 11,000 | 8,000 | 6,500 | 48,500 |
| Bank charges | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 6,000 |
| Depreciation | 15,000 | 15,000 | 15,000 | 13,000 | 12,000 | 70,000 |
| Miscellaneous | 6,000 | 6,000 | 6,000 | 4,000 | 3,500 | 25,500 |
| Other | 2,000 | 2,000 | 2,000 | 1,500 | 1,200 | 8,700 |
| Total Operating Expenses | 958,175 | 750,575 | 617,600 | 523,300 | 434,690 | 3,284,340 |
| Operating Income | 217,359 | 516,298 | 338,573 | 166,806 | 41,557 | 1,280,594 |
| Net Operating Profit % | 9.1% | 20.0% | 17.2% | 11.5% | 4.1% | 13.6% |
| Nonoperating Inc/Exp | 0 | 0 | 0 | 0 | 0 | 0 |
| Income (Loss) Before Taxes | 217,359 | 516,298 | 338,573 | 166,806 | 41,557 | 1,280,594 |
| Income Taxes | 108,679 | 258,149 | 169,287 | 83,403 | 20,779 | 640,297 |
| Net Income (Loss) | 108,679 | 258,149 | 169,287 | 83,403 | 20,779 | 640,297 |
| Cumulative Net Income (Loss) | 108,679 | 366,828 | 536,115 | 619,518 | 640,297 | 640,297 |

| Break Even Analysis | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 | Month 12 | Totals |
|--------------------------------------------------------------------|----------|----------|----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|-----------|
| Units | 0 | 0 | 0 | 0 | 0 | 0 | 8,000 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 68,000 |
| Unit sale Dollars average sale | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 |
| Sales | 0 | 0 | 0 | 0 | 0 | 0 | 280,000 | 420,000 | 420,000 | 420,000 | 420,000 | 420,000 | 2,380,000 |
| Sales Hello Baby! | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Sales | 0 | 0 | 0 | 0 | 0 | 0 | 280,000 | 420,000 | 420,000 | 420,000 | 420,000 | 420,000 | 2,380,000 |
| Unit Cost materials 25% | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 |
| Unit Cost Labor \$1.45/hour Ten people per unit /60 units per hour | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 | 8.70 |
| Unit Cost of Overhead (2%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 |
| Unit Cost of Transportation and Imports (1%) | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 |
| Raw Materials cost | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 70,000.00 | 105,000.00 | 105,000.00 | 105,000.00 | 105,000.00 | 105,000.00 | 595,000 |
| Labor | 0 | 0 | 0 | 0 | 0 | 0 | 69,600 | 104,400 | 104,400 | 104,400 | 104,400 | 104,400 | 591,600 |
| Overhead 2% cost | 0 | 0 | 0 | 0 | 0 | 0 | 1,392 | 2,088 | 2,088 | 2,088 | 2,088 | 2,088 | 11,832 |
| Other Transportation/Import 1% | 0 | 0 | 0 | 0 | 0 | 0 | 710 | 1,065 | 1,065 | 1,065 | 1,065 | 1,065 | 6,034 |
| Total Cost of Goods Sold | 0 | 0 | 0 | 0 | 0 | 0 | 141,702 | 212,553 | 212,553 | 212,553 | 212,553 | 212,553 | 1,204,466 |
| Gross Profit | (0) | (0) | (0) | (0) | (0) | (0) | 138,298 | 207,447 | 207,447 | 207,447 | 207,447 | 207,447 | 1,175,534 |
| Operating Profit Margin % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 49.4% | 49.4% | 49.4% | 49.4% | 49.4% | 49.4% | 49.4% |
| Operating Expenses | 0 | 0 | 0 | 0 | 0 | 0 | 37,500 | 40,000 | 40,000 | 40,800 | 40,900 | 45,000 | 245,000 |
| Salaries % of current emp. | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 329,000 |
| R&D Salaries & Expense | 45,000 | 45,000 | 37,000 | 27,000 | 25,000 | 25,000 | 11,250 | 12,240 | 12,240 | 12,240 | 12,240 | 13,500 | 79,500 |
| Employee benefits 30% | 0 | 0 | 0 | 0 | 0 | 0 | 9,563 | 10,200 | 10,200 | 10,404 | 10,430 | 11,475 | 62,475 |
| Payroll taxes | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 60,000 |
| Rent % of existing space | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 2,167 | 2,167 | 2,167 | 2,167 | 2,167 | 2,167 | 26,000 |
| Utilities | 2,167 | 2,167 | 2,167 | 2,167 | 2,167 | 2,167 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 24,000 |
| Repairs and maintenance | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 22,000 |
| Insurance | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 833 | 833 | 833 | 833 | 833 | 833 | 10,000 |
| Travel | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 667 | 667 | 667 | 667 | 667 | 667 | 8,000 |
| Telephone | 833 | 833 | 833 | 833 | 833 | 833 | 417 | 417 | 417 | 417 | 417 | 417 | 5,000 |
| Postage | 667 | 667 | 667 | 667 | 667 | 667 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 15,000 |
| Office supplies | 417 | 417 | 417 | 417 | 417 | 417 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 22,000 |
| Advertising | 667 | 667 | 667 | 667 | 667 | 667 | 100 | 100 | 100 | 100 | 100 | 100 | 1,200 |
| Marketing/promotion | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 500 | 500 | 500 | 500 | 500 | 500 | 6,000 |
| Professional fees | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 1,833 | 167 | 167 | 167 | 167 | 167 | 167 | 2,000 |
| Training and development | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bank charges | 100 | 100 | 100 | 100 | 100 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 500 | 500 | 500 | 500 | 500 | 500 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 167 | 167 | 167 | 167 | 167 | 167 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | 65,683 | 65,683 | 57,683 | 47,683 | 45,683 | 45,683 | 103,996 | 102,883 | 104,127 | 104,127 | 104,283 | 110,658 | 958,175 |
| Operating Income | (65,683) | (65,683) | (57,683) | (47,683) | (45,683) | (45,683) | 34,302 | 104,564 | 103,320 | 103,320 | 103,164 | 96,789 | 217,358 |
| Net Operating Profit % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 12.3% | 24.9% | 24.6% | 24.6% | 24.6% | 23.0% | 9.1% |
| Nonoperating Inc/Exp | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income (Loss) Before Taxes | (65,683) | (65,683) | (57,683) | (47,683) | (45,683) | (45,683) | 34,302 | 104,564 | 103,320 | 103,320 | 103,164 | 96,789 | 217,358 |
| Income Taxes | (32,842) | (32,842) | (28,842) | (23,842) | (22,842) | (22,842) | 17,151 | 52,282 | 51,660 | 51,660 | 51,582 | 48,394 | 108,679 |
| Net Income (Loss) | (32,842) | (32,842) | (28,842) | (25,842) | (22,842) | (22,842) | 17,151 | 52,282 | 51,660 | 51,660 | 51,582 | 48,394 | 108,679 |
| Cumulative Net Income (Loss) | (32,842) | (65,683) | (94,525) | (118,367) | (141,209) | (164,050) | (146,899) | (94,617) | (42,958) | 8,702 | 60,284 | 108,679 | 108,679 |

HELLO! BABY



Dimensions