

The Slackback

Joseph Stasio
Merrimack College

ABSTRACT

It is important to understand and appreciate the mindset of financial investors when they assess all the different aspects of risk relative to investing in an entrepreneurial venture. This teaching case takes one through that process as a group of senior management consultants review and discuss a business plan submitted by a group of undergraduate business students and the merits of this case to determine if they should invest.

Keywords: Entrepreneurship, Business Plans, Financial Analysis

JEL Codes: L26, M13

Introduction

At their weekly management meeting, the three co-founders and senior management executives, Joe Stasio, Jimmy Walker and Tom Mc Laughlin of C-Level Clone, a management consulting firm operating in Massachusetts, are reviewing one of many business plans and innovations from people seeking funding and management help with their ideas. The plan under review, The Slackback was submitted by a group of college students as part of a project they completed in Professor Stasio's course on business analysis and decision-making. In addition to teaching at a local college, Joe Stasio is an accomplished practitioner, having started over a dozen companies in 45 years in business. For thirty-five of those years, Joe has taught entrepreneurship courses in several colleges and universities in the Boston area.

"Gentlemen, have you had an opportunity to review the Slackback business plan?" (See exhibit 1) asked Joe, at their weekly staff meeting. Both Tom McLaughlin and Jimmy Walker said yes. All three are Co-founders and managing partner of C-Level Clone.com (CLC) a management consulting firm, that until recently had specialized in turnaround situations for troubled businesses. Hence the name C-Level Clone designed to suggest how the partners would assume the role of the C level management (chief level) of a company until a new plan was in place and then relinquish those roles back to the rightful team to execute the plan. Often they would assist the company's team until they felt comfortable to leave them on their own. Now, for the past several months, CLC began to work with entrepreneurs in start-up situations seeking funding and helping to growing their businesses. The Slackback business plan was the latest submission to be analyzed by the partners.

Joe, who teaches business management at a local university. As part of a course, teams of students are required to create an innovation, research it, write a comprehensive business plan and present it at the end of the semester. Joe is always searching through these plans for the ones to consider bringing to his partners for consideration. Over the past few years, CLC has invested in two

student created projects: one is an interesting specialty item called the Campustv (See www.campustv.com) and the other an innovative piece of hockey equipment designed to protect players from injuries and ease the discomfort of wearing this piece of equipment. Both projects have been progressing well. The Slackback is another possibility. From the onset, Joe liked the idea. As his students, Jason Evans, Julie Gorman, Brian Clevesy and Terrance Barclay developed the concept and finished writing the plan, Joe asked if his partners could view their presentation with the chance that a deal might materialize after serious analysis and consideration from CLC. The students were enthusiastic about the opportunity and agreed.

“So, whadya think?” asked Joe. Jimmy replied first. “I like it. I really like it.” Tom chimed in, “Ya, me too. I especially like the way they developed the concept.”

Everyone was impressed with their presentation and the quality of their plan.

The Slackback

The Slackback is a universal headphone cord retractor. It will be able to incorporate any style headphone cord. There is a flap that opens the top to reveal the grooved cable entry point. Simply place the center of the cable into the groove, close the top and pull-click and let it in gently to wind it up. This can be used on any headphone, especially those you have already purchased and would like to keep organized. This takes away the possibility of your cables becoming another frustration in your busy day. This simply adapts to your headphones and neatly winds up the excess cord.

“Yes, I like it too.” said Joe, “But I’m afraid it seems to be a bit too confusing to explain how to use. People are busy and like easy, convenient products to use. The manual aspect of the Slackback concerns me. I think people would prefer an automatic version of this product”.

“I know,” says Jimmy,” that is a concern. But I like the idea of growth market. According to their extensive research, the consumer electronics and accessories markets will experience substantial growth over the next few years”. “I think it is a concern worth considering. We could be moving into the

heart of a growth market. Consumers place more value on quality and functionality of the accessories than price when making a purchase decision. One study also found that 75% of accessory purchases are made after the purchase of the underlying device with the majority of those purchases taking place at brick and mortar retailers. Price and convenience were the top factors for consumers in determining where to purchase products". "Besides", said Jimmy, "the manual aspect of this product only occurs once. After you initially set your cable into the Slackback, the only other manual element of the process is winding it up by hand after each use". "Do you think that is enough of a deterrent to detract from the convenience of managing and storing one's headphone cables"? "Remember the main goal of Slackback is to prevent tangled wires".

"What about competition?" asked Tom? "How many other companies or web sites offer similar products"?

Competition

"Tom, I reviewed the competition on line when I was grading the paper to ensure accuracy of information and thoroughness of effort" replied Joe. "Here is what I found. The team identified three levels of competition: wireless headphones, headphones with built in retractors and manual wire organizers. Of the three, only the last category are direct competitors. For example, according to their research by The NPD group, only 5-15% of headphones buyers prefer wireless headphones. This is the lowest of 9 factor on the deciding purchase factor chart".

"For headphones with built in retractors many of them are of low quality. Many customers who purchase headphones of considerable quality would not want to sacrifice that quality to have a retractable cable attribute as part of the device. This leaves the manual wire organizers as their direct competitors.

Many of the ones researched were of inferior quality. They were very small and produced very inexpensively. Most were advertising specialties designed as promotional products to be given away as

part of a marketing program. The others that were of comparable quality seem to break easily after only a few uses.

Tom commented, "I do like the way they have established their product positioning and identified their competitive advantage. The plan says 'The Slackback is a universal product that can be used with any type of headphone, charger, USB cord or any electronic cable. No matter the brand or style product the person has, they will be able to easily snap this device onto their current wires and be ready to go. They speak of its versatility for use on a new iPhone, Smartphone, iPod, mp3player, iPad, laptop; or with any brand of headphones such as Beats by Dre, Skullcandy, Earbuds, Phillips or Sony: chargers for any phone or USB cord.'

Joe replied, "So it appears that competition is not a major factor in Slackback's ability to establish a foothold in the market. But who is their customer"?

"This is interesting," says Jimmy, "They say it is for anyone who listens to their music through headphones for comfort or as a fashion statement. They differentiate between headphones and earbuds. Younger consumers, from tweeners to early 40's primarily use headphones. Older people prefer earbuds. Although the research does not overlook serious overlap in these categories".

"Slackback will target all people between the ages of 13 – 50 which is in the general age range of people who own a portable music player. In the US, 95% of people ages 18-34 own a cell phone. 70% own a laptop computer, 74% own an iPod/mp3player and 63% own a game console, with these numbers growing every year".

Joe added, "Yes and according to The NPD Group's consumer tracking service, for many headphone buyers, brand and quality are equally important, but price is less important."

"So", said Tom, "That should mean that quality is a key factor in the design and manufacturing of the product".

"I agree", says Joe.

“This is interesting”, Joe continues, “the research explains further that many people buy multiple headphones for different purposes like just relaxing and listening, exercising, gaming and traveling. What is more interesting is that each of these purchases is typically a different brand, according to PriceWaterhouseCooper”. “This bodes well for Slackback because no matter the brand, quality or style, the Slackback is designed to accommodate every one”.

Jimmy concludes, “Well we still need to address the issue of price”.

Pricing

“In their plan the students settled on a starting price of \$12.99 with the willingness to lower it to \$9.99 if necessary” said Tom. “As I read through their plan, there was no mention of competitive or comparable prices for their type of retractor”. Jimmy replied, “I don’t think there is much data on comparable priced retractors because many of them are small, ad specialties made very inexpensively to serve as promotional items. The other retractors are of better quality but do not compete directly with Slackback”, at least that is inferred in their plan”.

Joe countered, “I also read they were willing to start the price at \$15. I like the idea of starting the initial price high. It reflects their focus on quality”. “Although it is interesting that they identify an outsourced manufacturing cost of \$2 a unit. At that level, the order amount would have to be quite substantial. The product quality would have to be high to match the value of high end headphones like Beats by Dr. Dre that cost hundreds of dollars”. “Of course margins are the key to any pricing strategy and they are directly tied to distribution decisions. How deep will be their channel? They indicate in the plan an initial direct sales approach through their website. They plan to use internet, telephone and mail order. Will this be enough to achieve market coverage?

Tom replied, “I don’t know, but starting out that way does allow them to maximize their margins. If they can keep manufacturing cost close to that \$2 figure and price the Slackback at \$12.99 that gives them a pretty high gross margin of about 600%”.

“So the key to determining an effective pricing strategy is market acceptance. How well will a direct selling approach work?” asked Joe. “I believe it depends on how well they are able to get the word out about Slackback”, answering his own question.

Advertising and Selling

“Speaking of selling, said Joe, what about their approach to advertising and selling of the Slackback? In their plan, the students indicate that the primary market is people 13-50 who are music lovers and avid listeners”.

Jimmy said, “Right and they identify two advertising approaches to reach those people; a grassroots approach and a social networking approach. After all, those age parameters cover a lot of different types of people. They do not mention any traditional methods of advertising. I wonder if that could be a mistake”.

Tom replied, “They do mention television and possibly QVC, but I don’t think that is realistic given the nature of the product”. There are many other types of media that could be considered given the financial constraints they are likely to face”.

“Very true”, said Joe. “And I do like the idea of social networking too. It cuts across a wide variety of different consumers. Although I do think it favors younger people and more women than men, but it is, in general, an effective medium in today’s hustle, bustle world”.

“The students mention the ideas of creating a ‘BUZZ’ marketing identity with Slackback and that using social media costs nothing; it’s free”. I know Facebook is free, but I wonder about other platforms”.

Jimmy recounted, “The business plan indicated heavy advertising expenses on three different websites: Twitter, Barstool and Facebook. Barstool’s advertising costs would be \$62,000 per year and the other two, \$6000 each for a total of \$74,000”. “This is confusing, said Joe, because earlier in their plan it was stated that Facebook was free advertising”. “There must be some difference”.

Jimmy continued, "The plan also says that this category of spending will increase by an average of \$50,000 per year for more social networking sites and college campus promotions".

"Overall, I like this approach". Said Joe, "It strikes me as being aggressive in the best way possible. But I do wonder about why so much money invested in Barstool. Is it really worth devoting that much more of advertising dollars than the other sites"?

"I think it is, says Tom, Barstool is characterized as an internet blog website that will cover three markets: Boston, New York and Philadelphia. The business plan identifies the sites ability to create a 'BLOGAD' page that will generate about 38,750,907 impressions from the advertising over a three month period and at a cost of \$5000 for the Boston market. New York would cost \$6000, but only generate 12,714,229 impressions and Philadelphia would cost \$4,500 and generate 41,038,681 impressions, over that same three month period.

Joe responded, "I guess I am a bit skeptical. I really don't know that much about these social networking platforms. This numbers sound like a lot. If they can deliver the results, then it would justify the expense". "I do, however, understand Twitter and their 'follow' status. So, if Slackback can create a dynamic advertising campaign, it has the potential to develop many thousands of 'followers' that can, in turn, establish a substantial word-of-mouth dynamic whose effectiveness would be second to none".

"Of course, says Jimmy, let's not overlook the power of their own website as an advertising and sales tool. Much of the language incorporated in the website should be marketing and sales oriented. It needs to explain what is Slackback, how it works, and why anyone should consider using it. The fulfillment page must make it easy for the user to order and pay for their purchase".

"Yes said Joe, and that takes us back to delivering the product once it's ordered. Fulfillment has a logistical component. If the product is going to be outsourced, then transportation, storage, inventory and warehousing become an issue". "

The business plan addresses this, says Tom, It indicates a manufacturing cost per unit of \$2 including shipping from China to a warehouse in Portsmouth, N.H. They will charge \$5.00 shipping fee to their customers. They site UPS charging from \$4 to \$7.50 from Portsmouth to different destinations. They plan does not consider any warehouse, inventory costs and other transportation costs. This oversight needs to be addressed to keep margins and profitability in order”.

“Yeah”, says Joe, “this raises potential questions about the teams financial planning”.

Financial Plan

“I think the financial plan is done well, said Tom. They really thought through all the important issues. They calculated a breakeven analysis and calculated a five-year sales forecast

“Yes, replied Joe, “but is it realistic?” They project selling 50,000 units in year one. That figure seems unrealistic to me”.

Jimmy replied, “I don’t know. They do a reasonable job of explaining how they arrived at that number. They identify the average price paid for a headphone at \$137, the total number of headphones sold last year at 14,598,540 and calculate that they would sell to .0003 % of that market”.

“Sure”, said Joe, “on paper that seems reasonable. But, as a practical matter, is it feasible? How long will it take from the time they launch until customers learn about the product and orders start arriving? It takes time to smooth out operational issues and get thing running well”.

Consequently, first year’s revenue of \$649,500 is also questionable”.

“Well”, said Tom, “They did figure on some sales returns. How many young entrepreneurs have enough sense to think about things like that”.

“I agree”, replied Jimmy, “it’s pretty savvy to calculate close to \$100,000 for an issue like that. I think it is impressive. It says a lot about their business acumen”.

STASIO

“But”, said Joe, “The students may be underestimating their cost of goods. They use the \$2.00 number which risks overstating their potential profit”. But I like the work they did on the overhead for their operation. It is well thought out. The numbers are well researched and are realistic.

“But”, says Jimmy, “if you’re right about the cost of goods number, then that hurts their breakeven analysis. They will have to sell many more than 33,851 units to breakeven”.

“True”, replied Tom, “and, in addition, all the remaining numbers in the 5 year sales projection are overstated. I guess the financial plan is not as well done as I first thought”.

“Yes”, said Joe, “and in addition the plan does not identify how the capital will be raised. It does mention the start-up costs of about \$220,000. Those numbers appear realistic with the exception of the cost of goods, but where does the money come from? How much money will they (4 founders) invest before they ask us for the rest?

“Yes”, replied Jimmy, “and how much equity in the venture will they offer for our investment?”

“Remember”, says Joe, “they are only students. They need our help if we think this idea can be successful.”

Appendix

Exhibit 1



Slackback
"Knot no more"

Business Plan

-Confidential-

The components of this business plan have been submitted on a confidential basis. It neither can be stored, reproduced, copied, or shared in a way, shape, or form. The recipient agrees to these terms by accepting delivery. Do not fax, copy, email, reproduce, or distribute without full permission from an executive of SlackBack Co.

May 2012

TABLE OF CONTENTS

1.	Executive Summary	1
2.	Company Summary	3
	2.1 Company Description	3
	2.2 Tagline	3
3.	Management Summary	3
4.	Product	4
5.	Industry Analysis	5
	5.1 Industry Definition	5
	5.1 A Size and Growth	5
	5.1 B Competitor Analysis	6
	5.1 C Major Players	6
	5.1 D Trends	8
	5.2 Industry Segments	10
	5.2 A Segments	10
	5.2 B Our Segment	10
	5.2 C Size, Growth, Major Players	11
	5.2 D Trends	11
6.	Marketing Strategy	13
	6.1 Entry Strategy	13
	6.2 Growth Strategy: Secondary target audiences to pursue	13
	6.3 Target Market Strategy	14
	6.4 Product/Service Strategy	18
	6.5 Pricing Strategy	18
	6.6 Distribution Strategy	19
	6.7 Advertising and Promotion	19
	6.8 Sales Strategy	19
	6.9 Advertising Strategy	20
7.	Operations Strategy	21
8.	Financial Plan	21
	8.1 Sales Forecast	21
	8.2 Sales Returns	22
	8.3 Cost of Goods Sold	22
	8.4 Fixed Costs	22
	8.5 Break Even Analysis	24
	8.6 Five Year Forecast	24

Appendix

1. Executive Summary

We have all experienced it: finished listening to your iPod after the gym, when you get to class, or on a flight to Canada. You tenderly wrap them around your iPod in hopes that they will stay as neat as the way you just made them as you store them in your pocket or backpack. When you go to grab them next, they look like a ball of yarn attacked by 12 stray cats. You don't even know where to start untangling them. Next thing you know you only have the headphone jack end and the ear buds out with a 3 inch knot ball in the center. They no longer are that streamlined connection between your music and your ears. No matter how careful you are putting them away, they always come out more complicated than a quantum physics final. Last year alone there were over 13 million headphones sold in the United States. SlackBack is the one solution to this aggravating epidemic that millions suffer from every day.

Product

SlackBack Co. is a start-up company based out of North Andover, Massachusetts that looks to revolutionize the way that people today use, organize, and store their headphones. With the SlackBack universal headphone cord retractor, consumers will no longer be struggling with tangled headphones. This product will accept any headphone cord, retract the cord, and store the headphones neatly and compactly. There will be different cord length settings for the SlackBack for customers to achieve desired cord length while in use.

Company

SlackBack was co-founded by four undergraduate students from Merrimack College in North Andover, Massachusetts, who are Julie Gorman, Jason Evans, Brian Clevesy, and Terence Barclay. Jason Evans is current CEO of SlackBack, Co., overlooking all aspects of the company. Julie Gorman (co-owner) holds position of CFO, Brian Clevesy (co-owner) holds position of CMO, and Terence Barclay (co-owner) holds position of COO.

Mission

The mission of SlackBack is to produce the market's only universally adaptable headphone cord retractor and organizer by using the best quality, state-of-the-art materials to provide a durable, yet affordable product for our customers.

Vision

The vision of SlackBack Co. is to establish a globally-known and highly reputable brand name. Along with this, SlackBack looks to become an industry leader in headphone accessories, gain a large stronghold in market share, continue developing our SlackBack product to accommodate other cords to reach a larger demographic, and penetrate other markets to continuously grow SlackBack Co.

Marketing

To gain local, (New England) along with global awareness of our SlackBack product, we will go with a pure-play approach to market SlackBack. With a domain and well-functioning website, we will provide an easily maneuverable shopping experience for our customers. To promote brand awareness for the SlackBack, we will go through popular local websites and social media websites to gain a wide demographic of followers. Going through Barstool Sports (a website aimed at our target demographic in Boston, New York, and Philadelphia), Facebook, and Twitter, we plan to grow our brand awareness exponentially right from the start.

Industry

Nearly half of consumers will shop to replace an accessory included with their consumer electronics purchase, according to results of a study conducted by Consumer Electronics Association

(CEA®). The study also found that 75 percent of accessory purchases are made after the purchase of the underlying device. Fifty three percent of online shoppers made a purchase for an electronic accessory. Unit sales of headphones alone have grown in the U.S. 13% over the past year, and dollar sales have grown 33% which is a 10% growth increase from the rise from 2009-2010. Last year alone, the headphones segment of consumer electronics was valued at \$2 billion. Smartphone sales will mean a rise for headphone sales because of their incorporated music playing and music streaming capabilities, thus making the SlackBack this much more likely to sell. In just 2009, a pair of headphones was sold every five seconds, and the number of headphones has been soaring ever since. Although there has been a slight decrease in the number of iPod and mp3 player sales in the past few years due to the substitution of products such as iPhones and Smartphones, headphones have been riding the sales wave. These statistics prove that the industry and segments that SlackBack plans to enter are not only huge, but are growing rapidly. This is the perfect time for a universal headphone retractor to enter the market. With the right company structure and marketing mix, there is no reason why the SlackBack will not succeed and dominate as it is the only universal headphone retractor out there.

Sales Forecast

Taking a very modest approach, we plan on selling 50,000 units the first year, and 700,000 in 5 years. Below are our 5 year projections for units sold, revenue, expenses, and net income.

Year	Number of units sold	Revenue	Expenses	Net Income
2013	50,000	\$649,500	\$472,027	\$80,047
2014	100,000	\$1,299,000	\$655,902	\$448,247
2015	250,000	\$3,247,500	\$1,220,467	\$1,539,907
2016	425,000	\$5,520,750	\$2,301,902	\$2,390,735
2017	700,000	\$9,093,000	\$4,392,620	\$3,336,429

Start-up Plan

The main components in the start-up plan for SlackBack include the following:

Costs	\$
Patent	10,125
Plastics mold	3,000
Warehouse/office/supplies	30,000
Website	560
Advertising	75,000
Cost of Goods Sold	100,000
Total	218,685

These are the costs associated with starting up SlackBack. This amount of about \$220,000 is relatively low for a start-up company, and our break even forecast is for around 8 months. This initial cost is also low for the amount of revenue we look to be turning in just our first year of operation.

2. Company Summary

2.1 Company Description

SlackBack started in April of 2012 in a small college classroom in North Andover, Massachusetts where it continues to be owned and operated. The company consists of four founders of whom all play

an important role in the business and the realization of this product. This startup company is entering the market with a single focused product of a headphone wire retractor. Headphone sales in the past year alone have jumped 33% making it a promising industry to enter. As the SlackBack brand name flourishes and sales boom, the company hopes to expand into other market segments such as other electronic cables: phone chargers, iPod cords, USB cables and a bigger size for extension cords. SlackBack visions to establish themselves as a high quality, universal headphone accessory in the United States; eventually penetrating its other designated market segments beyond headphone cords and potentially selling around the globe.

2.2 Tagline

The tagline that SlackBack will have is “Knot No More”. We have decided to go with the pun of “Knot” because it emphasizes the problem that we look to solve with our SlackBack product: to efficiently retract customers’ headphones, eliminating the possibility of cords becoming knotted and tangled. Also, “Knot” is a play on “not”, meaning that there will not be any more frustration for customers dealing with knotted headphones and manually wrapping them up.

3. Management Summary

SlackBack is owned and co-founded by four college students at Merrimack College in North Andover, Massachusetts. These four members include Terence Barclay, Julie Gorman, Brian Clevesy, and Jason Evans. Each team member brings their own unique qualities and expertise in specific areas to help the business run efficiently. As the company will continue to expand and grow, the management team and employees will also need to increase. These new members will consist of highly skilled members with knowledge at specific positions.

Jason Evans is the co-founder and CEO of SlackBack. He will have responsibilities such as the decision maker, leader, and manager. He will use his decision making skills to make high-level decisions about the company’s policy and strategy. He will advise the board of directors, motivate employees, and drive change within the organization. As a manager, Jason will preside over the organization’s day-to-day, month-to-month, and year-to-year operations.

Email: Evansjt@merrimack.edu

Julie Gorman is the co-founder and CFO of SlackBack. She will have the responsibility of managing financial risks of the company, along with financial planning and record keeping. She will also work with analysis of data in certain sectors. Julie will also work as a strategic partner and advisor to the CEO.

Email: Gormanj@merrimack.edu

Brian Clevesy is the co-founder and CMO of SlackBack. He will have responsibilities in the marketing area of the company such as sales management, product development, distribution channel management, marketing communications, pricing, market research, and customer service. He will be responsible for the day-to-day activities of functions that are highly analytical and highly creative.

Email: Clevesyb@merrimack.edu

Terence Barclay is the co-founder and COO of SlackBack. He will be responsible for the daily operations of the company. He will be responsible for maintaining and monitoring staffing and expectations while motivating employees to fulfill organizational requirements. He will also be in charge of planning by prioritizing customer, employee, and organizational requirements.

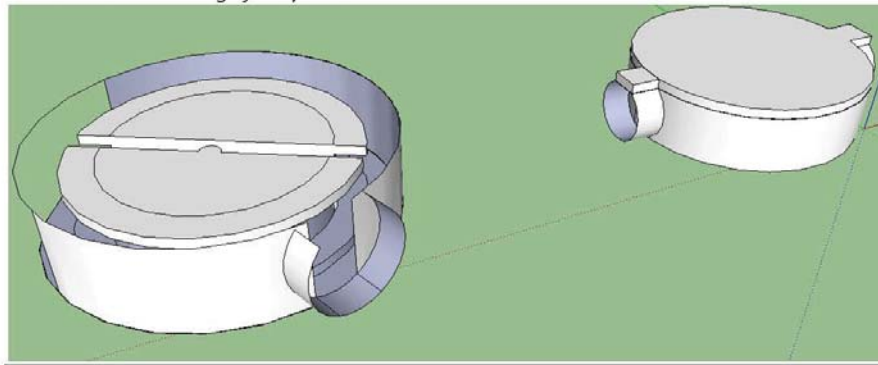
Email: Barclayt@merrimack.edu

4. Product

The SlackBack is a universal headphone cord retractor. It will be able to incorporate any style headphone cord. There is a flap that opens the top revealing the grooved cable entry point. Simply place the center of the cable into the groove, close the top and pull-click and let it in gently to wind it up. This can be used on any headphone, especially those you have already purchased and would like to keep organized. This takes away the possibility of your cables becoming another frustration in your busy day. This simply adapts to your headphones and winds the excess cord up neatly.

SlackBack's competitive advantage is that its product can be simply attached to any set of headphone wires a person already has unlike any product on the market. Its main substitute competitor would be the headphones that come with a wire retractor already attached, but with the SlackBack, it can be put onto the customer's preferred brand, quality, and personalized style headphones that they may already have purchased. There are manual wind-up devices for headphone cables but the SlackBack will automatically and efficiently wind up the cable for you with a simple click. This not only saves time from untangling, but the time it takes for winding up the wires as well. In a society that demands immediate gratification, SlackBack is the perfect solution. SlackBack is a company that understands its customers. It understands the importance of saving time and frustration as well as preserving a music lover's need for high quality sound enabling the use of any preferred headphone.

Below is a basic drawing of our product:



5. Industry Analysis

5.1 Industry Definition

5.1 A Size and Growth

There has been a boom in the demand of consumer electronics accessories business. It is now very convenient for customers to get a particular product that is meeting their requirements. Electronics products and their accessories play a major role in our daily life. A major reason for the purchase and demand of consumer electronics accessories is the need of the people to enhance the working and basic functionality of the devices. Whether the reason behind using the accessories is to listen to music or for connection or power consumers take these accessories as a necessity. The best way to grow in this business of consumer electronics accessories is to mainly target the young generation. The people in the

current generation want everything enhanced and improved. They need all products in a small package and easy to handle. This makes such products in the business an instant hit. *(Refer to Appendix 4)*

Our product SlackBack will address all of the issues customers concern themselves with when purchasing. Our product will enhance the basic functionality of cables by making them neatly organized. It will be in a small package and easy to handle.

Nearly half of consumers will shop to replace an accessory included with their consumer electronics purchase, according to results of a study conducted by Consumer Electronics Association (CEA®). Additionally, consumers will base their accessory purchase decisions on functionality rather than price. The study, called "Accessories Purchasing in the 21st Century" shows 61 percent of online U.S. consumers shopped for accessories in the past year and more than half (53 percent) made a purchase. *(Refer to Appendix 3)* "Product quality, enhancing performance and getting the word out through satisfied customers are key factors for consumers in purchasing accessories," said Rhonda Daniel, manager of market research for CEA. "Consumers place more value on quality and functionality of the accessory than price when making purchase decisions." The study also found that 75 percent of accessory purchases are made after the purchase of the underlying device, with the majority of purchases taking place at brick and mortar retailers. Price and convenience were the top factors for consumers in determining where to purchase the product. *(Refer to Appendix 3)*

This shows our market is big. Fifty three percent of online shoppers made a purchase for an electronic accessory. Our product will be quality and functional which is what consumers place value on. Seventy five percent of accessory purchases are made after the purchase of the underlying device like headphones and cables and our product specifically addresses that market. This product will be suitably priced to match its quality and convenience and be placed in locations convenient to the shopper when the needs must be met. Unit sales of headphones alone have grown in the U.S. 13% over the past year, and dollar sales have grown 33% which is a 10% growth increase from the rise from 2009-2010. Clearly the industry is growing steadily. *(Refer to Appendix 1)*

The global consumer electronics market grew by 1.4% in 2009 to reach a value of \$253.7 billion. In 2014, the global consumer electronics market is forecast to have a value of \$289 billion, an increase of about 4% since 2009. Audio Visual Equipment is the largest segment of the global consumer electronics market, accounting for 91.3% of the market's total value. America's accounts for 47.6% of the global consumer electronics market value. *(Refer to Appendix 2 & 5 for more information)*

5.1 B Competitor Analysis: Gaps SlackBack expects to fill

SlackBack has classified its three main competitors as companies that sell wireless headphones, headphones with the wire retractor built in, and manual wire organizers.

Wireless Headphones:

The main goal of the SlackBack is to prevent tangled wires. Wireless headphones do not have this problem to begin with. This is one product that SlackBack cannot be applied to and competes heavily with. According to the HeadRoom's 20 year leaders in headphone expertise, the top 10 headphones that will be sold this year according to customer preference and unit sales, were the Koss KSC 75, Ultimate Ears UE350, Sennheiser HD 518, Audio Techniqua ATH- M50, Denon AH- D2000, Audeze LCD 2 Bamboo, Denon AH- D7000, JH Audio JH13 Pro, Sennheiser HD 800, and the Audeze LCD 3. All of these headphones happen to have wires. This means wireless headphones have not made a big impact on the market yet and will not do so for at least the next year. This is good news for the SlackBack since it is obviously a wire based accessory. According to research done by The NPD Group, only 5-15% of headphone buyers prefer wireless headphones. This is the lowest of 9 factors on the

deciding purchasing factor chart.

Headphones with built in retractor:

Headphones with an already built in retractor limit consumers' choices of retracting headphones. Most of these headphones with the built in retractor are low quality. The SlackBack enables customers to choose any headphone they wish, high quality or not, and apply the SlackBack retractor to it to keep the cable neat and organized. Many customers would not want to give up their personal headphones of a preferred quality that they have already spent money on just to have retractable wires. The SlackBack provides a way for the customer to save money by keeping their personal set, and preventing the customer from losing a high quality sound and comfort.

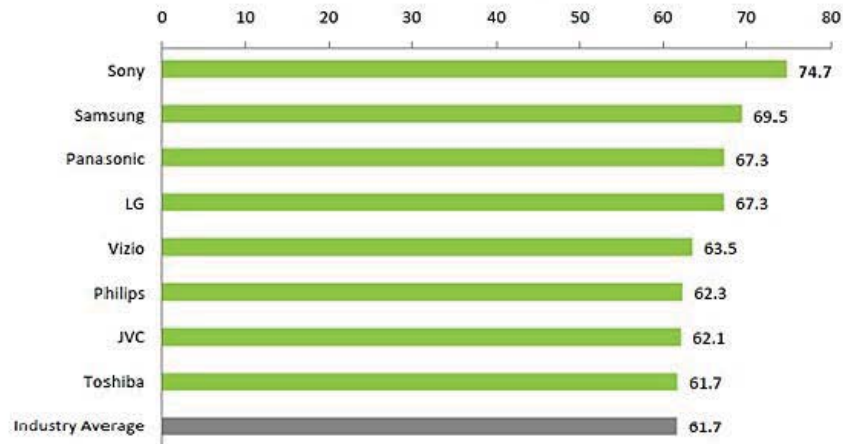
Manual wire organizers:

Manual wire organizers require a person to manually wind up a cable and manually unwind a cable which often takes time. The SlackBack takes out the manual aspect and automatically and quickly winds of the cable for you inside itself to keep it neat and tidy. One can quickly pull out the desired length of wire when headphones are being used.

5.1 C Major Players

The Consumer Electronics industry consists of a range of companies such as Apple, Panasonic, Sony, Samsung, and many others, a dynamic customer base, and a variety of product types. Electronic products and gadgets are used by almost everyone every day. They are used for the purposes of entertainment, communication, and other domestic and business related activities. These products are getting smaller, smarter, and slimmer. Although there are many products being sold, there are a few chief players that take in the majority of the industry's revenue. The industry will be driven chiefly by audio and visual equipment which makes up about 92% of the industry's revenues. The SlackBack is in the industry of mostly audio equipment since it is an accessory for headphones in addition to other products that incorporate cords.

Consumer Electronics Brand of the Year Rankings



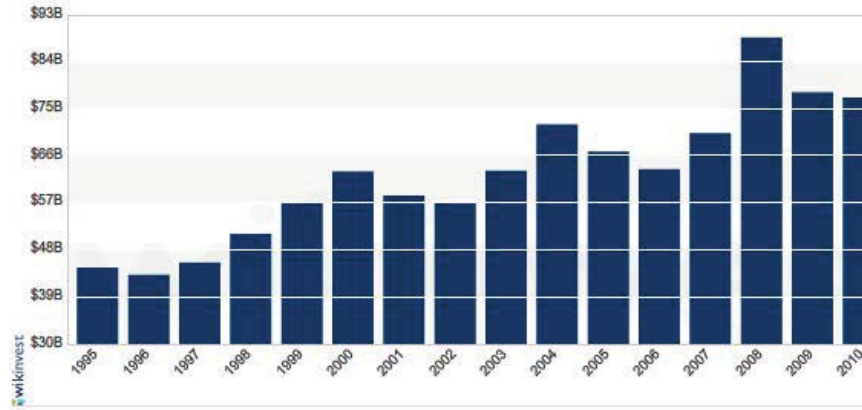
Other Consumer Electronics Brands in Study (Alphabetical)
 Dynex, Insignia, Onkyo, RCA, Sharp, TiVo, Yamaha

2011 Harris Poll EquiTrend®

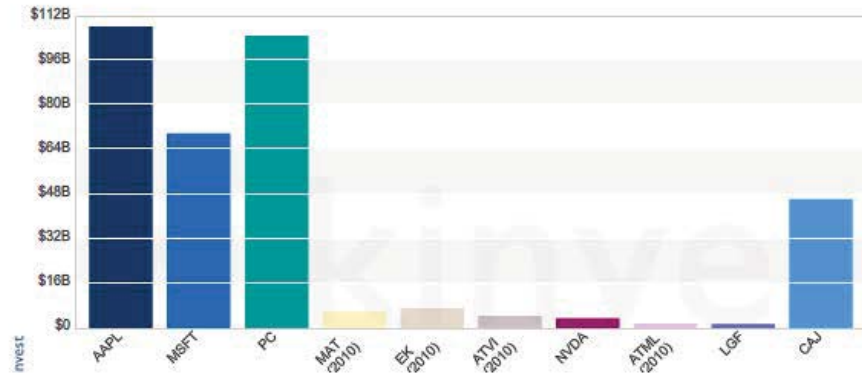
As of now there are ten main players in the Consumer Electronics Industry. They are in descending order of Sony, Toshiba, Panasonic, Samsung, LG, Microsoft, Apple, Intel, IBM, and Nokia. In the United States the top players are Apple, Cisco Systems, Dell, eMachines, Emerson Radio, Hewlett-Packard, IBM, Intel, Sun Microsystems, Texas Instruments, and Zenith.

Sony:

Trend REVENUE



Comparison with Competitors REVENUE



These industries are the leaders in Consumer Electronics. The industry is huge and perfect to enter. It seems as if the top few competitors have a large hold on the market share. This means the SlackBack should target the products these companies sell such as mp3 players, iPods, computers, and their components.

5.1 D Trends

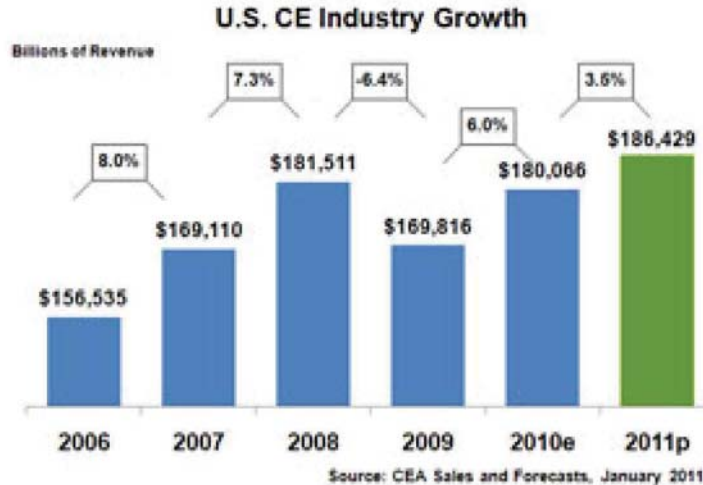
Consumers have increasingly high expectations from the consumer electronics industry. They expect products to have higher quality, be more versatile, have the latest technological features, and be at a lower price. Customers want the products they buy to be able to do what the expensive, high-end products professionals use can do. They also would like their electronics to be compatible with current products they already have. For example, consumers want all of their electronics to be able to link to each other so everything can be virtually connected. This is one of the main trends that the SlackBack will thrive on and will make the product attract the customer's eye. The SlackBack is a universal product that can be used with any type of headphones, chargers, USB cords, or any electronic cable. No matter which brand or style product the person has, they will be able to easily snap this device onto their current wires and be ready to go. This way they will not have to buy a new head phone set, charger, or cable. This satisfies the price concern that seems to be trending among consumers, especially since it will only be priced at a starting price of \$12.99.

The SlackBack is versatile in the sense that it can go on to any of the latest popular products whether it is on the headphones of a new iPhone, Smartphone, iPod, mp3 player, iPad, laptop; or brand of headphones such as Beats By Dre, Skullcandy, Earbuds, Phillips or Sony; charger for any type of phone; or any USB cord. The SlackBack is the perfect product for a society that is constantly listening to music which comes with the necessity of headphones. It is an accessory that will reduce a lot of aggravation for people who cannot stand having their headphones always tangled. In today's day and age people are always on the run and nonstop going, so even the smallest accessory to help save time will be worth the buy.

Audio electronic products have been increasing greatly with the new productions of goods such as the iPad, iPhone, and more which all come with headphones for personal use. With the rise of audio electronics, comes the opportunity for audio accessories to flourish. Within hours of the iPad's unveiling, protective cases from multiple companies such as Scosche, iLuv, Griffin and many more dropped as well. People want the accessories to go along with their new product, so the SlackBack would be a great accompany to any new product that uses headphones.

The main prevailing trend in the consumer electronic products is the falling prices. Because of advances in technology, becoming efficient in operations, and the drop in labor costs, electronic manufacturing has moved to lower-wage countries. The fact that at the given price of a semiconductor that is used in production, the functionality of the semiconductor will increase by 50% each year.

Another trend in the consumer electronics industry is convergence which suggests that different electronic products are evolving to have to ability to perform similar tasks. Because of this, consumers only will have to purchase one product to get many different technological features. New technological products keep coming out because they need to be continuously updated feature-wise in order to satisfy the "convergence" wants of the customers.



Over the past 5 years, the Consumer Electronics industry has grown from \$156,535 billion to \$186,429 billion. It has had an average of 3.7% increase over these past 5 years because of a drop from 2008 – 2009 due to the U.S. recession. Other than this 6.4% drop, the industry has been growing significantly with over a \$6 billion increase in the past year. The electronics industry is at a rise which makes it a perfect one to get into. The SlackBack can be used with any product that requires or can use headphones which can range from computers, to laptops, mp3 players, iPods, iPads, portable DVD plays, televisions, amplifiers, or to any electronic product that has a headphone jack.

5.2 Industry Segments

5.2 A Segments

- Electronic accessories
 - o For use with audio, cellular, and home office accessories including:
 - o Headphones, USB cords, and phone/Mac/MP3 chargers
- Cell Phone Accessories
 - o Smart Phones, standard cell phones
 - o Headphones, Chargers
- Home Office Accessories
 - o For PC's, Mac's, desktops
 - o USB cords, chargers (Mac)

5.2 B Our Segment

Audio Accessories

- For iPod, MP3, MP4, Portable CD players
- o Headphones

5.2 C Size, Growth, Major Players

SlackBack has the opportunity to expand into an industry that as of lately has been booming. The ipod, iphone, and ipad devices have been some of the top selling audio devices in the past decade. With the arrival of new, high end and very fashionable headphones, it has stirred up the market for headphones. This results in a target market to sell accessories such as SlackBack to. Headphones are a mature product segment which was infused with energy over the past decade by headphones that are used with I-Pods and MP3 players, along with I-phones and smart phones.

The size of these headphones segments have grown to nearly a \$2 billion business in the past decade they have been popular. People these days, especially younger adults and teens, tend to buy the fashionable headphones and accessories, while the more mature adults tend to buy the more expensive, brand name headphones and accessories. After taking a hit during the recession, the audio and electronics industry expects to grow due to the anticipating consumers. For every electronic or audio device sold, gives SlackBack the opportunity to sell an accessory with those headphones. The headphones segment and audio electronics is estimated to grow about \$200 million over the next couple of years. This gives SlackBack the opportunity to excel in an expanding industry which people of every age are targets.

Some of the major influential players that SlackBack is going up against are Apple Inc., Beats by Dr. Dre, Zune, Verizon, and AT&T. When people buy audio devices such as iPods and MP3 players, they tend to rely on name recognition and have loyalty to those companies. With companies such as Apple, Zune, and the smart phones services, they sell their audio devices with headphones included making it likely for the consumer to buy any other accessories from that company as well. With Beats by Dr. Dre, they have created a brand name and name recognition over the past couple years after exploding as a major headphone distributor. If consumers own a pair of those headphones, they are more likely to buy a product similar to SlackBack from them. So SlackBack needs to establish a name in the marketplace to be able to complement these brands and their products.

5.2 D Trends

Headphones, in the past decade, have been one of the hottest accessories that people of all ages have been shopping for. One thing to take into consideration the most in this industry is the pricing of headphones and its accessories. Some customers aren't willing to buy the expensive products so they buy the cheap products that might not last as long. Others are willing to buy the expensive products and invest in the purchase because they realize the longevity of the product. Other changes that are taking place over the past couple years are the shapes and sizes of headphones and accessories. Some people prefer the small tubes that fit in the ear for more space to move around. Others prefer the big ear pads that cover most of the ears to make the most noise possible while blocking out the outside noise. Wireless has become a major characteristic that has grown into popularity over the past couple of years. With this being said, SlackBack has the opportunity to provide these consumers with the latest trends of having more space while not having excess cords all tangled up while trying to enjoy audio from electronic devices.

Although SlackBack is a startup company, it has great opportunities and the potential to grow and produce a large profit. This product will catch the eye of any person who owns headphones. Ever since the iPods came along about 10 years ago, headphones have become the symbol for music on the go. Headphones are not only a necessity for any mobile listening device, but a trend that has hit the world running and is not going anywhere fast. In just 2009, a pair of headphones was sold every five seconds, and the number of headphones has been soaring ever since. The number of headphones sold from 2010 to 2011 jumped 13%. Although there has been a slight decrease in the number of iPod and mp3 player sales in the past few years due to the substitution of products such as iPhones and smartphones, headphones have been riding the sales wave. An increasing number of people have even

started expressing themselves with expensive headphones and a range of all styles. Styles such as the oversized 80s geared headphones, and celebrity branded headphones like 50 Cents "Sync" and "Beats" by Dre, have all become appealing to the music lover as well. People are spending \$300 - \$400 on their personal mp3 players and want to let the true sound be released through the best headphones they can get is what it comes down to. Recently people are even going to the extent of buying multiple sets of headphones for different listening purposes. What this means is that headphone sales are on the rise and to create an accessory that will be utilized on any of the personalized sets of headphones that people have already purchased is a profitable opportunity to take hold of.

Unit sales have grown in the U.S. 13% over the past year, and dollar sales have grown 33% which is a 10% growth increase from the rise from 2009-2010. Clearly the industry is growing steadily. The boost in sales is suggested to be from new brands entering the market such as Beats by Dre, as well as product differentiation based on quality and design. It is also due to the amplification of music-capable Smartphone sales over the past few years. According to Ross Rubin, an industry analyst for The NPD Group, "We're seeing headphones manufacturers add microphones to their products to accommodate the calling function, not a consideration prior to the growth of music phones that can access services like Pandora." He also explains how the rise in Smartphone sales will mean a rise for headphone sales, thus making the SlackBack this much more likely to sell. He explains, "We continue to see smartphones grow, and that is a key enabler for mobile music because those products are often tied to a data plan. That opens the door to, for example, live streaming of mobile music. As smartphone penetration continues to grow, there will be more customers looking for better audio solutions than what comes with the device, and to replace those headphones as well." (refer to Appendix 1)

The rise in sales has also had to do with celebrity endorsements by companies such as Monster Cable who have introduced popular lines like Beats by Dre. Finally, headphones have improved their distribution aspect. Skullcandy has topped most competitors, even Monster Cable who is selling these ever so popular celebrity branded sets, because of their availability. These headphones are available in many more locations than they have been in the past, and have a quality and price level that is highly attractive to younger mobile listeners.

It has also been predicted that there will be increases in advertising and freestanding displays in stores in the next few years; this will additionally help sales. These freestanding displays are favored by retailers since they can be placed anywhere in their stores in order to reduce space issues. Headphone producers have also collaborated with Apple to produce a headphone set that is equal quality to the sound their products emit. People are finally starting to feel better about the economy, so are beginning to pay for a high quality headphone priced at a reasonable level.

6. Marketing Strategy

6.1 Entry Strategy

The SlackBack is versatile and universal product that can snap onto any set of headphone wires. For this, the company will enter the market with the intention of selling to any consumers who currently have headphones, or who will be purchasing headphones in the future. We will begin our heavy marketing in the North East of the country because of our current location in Massachusetts, better knowledge of the area trends, and since the highest rates of consumer electronic buyers are located in the North East based on market research. Although as soon as we create our online ecommerce website (SlackBack.com) our company will essentially be global, we plan on first penetrating the market in the United States. We will plan on first selling the product at the appealing price of \$12.99 with a price skimming technique to see if consumers will purchase and sales will boom, but will be willing to lower the price to a more attractive \$9.99 if necessary to generate sales. SlackBack plans to start out with one basic design with variable color choices for consumer preference reasons, but will eventually expand to other shapes and designs.

6.2 Growth Strategy: Secondary target audiences to pursue

SlackBack can appeal to personal preferences and styles in the future such as sports themes with baseball, basketball, soccer ball, and even hockey puck shapes, and professional team logos like NHL, NFL, and MLB teams incorporated on the product itself. They could be offered in different colors in the standard design as well. Since it has become a trend when buying headphones to purchase personalized headphones with specific colors, styles, sizes, and celebrity brands, it makes sense that the customer would be attracted by a product that provides an extra personal touch. With the SlackBack, the customer not only doesn't need to give up their personal headphones to buy headphones with a retractor built in, but they can continue to customize their audio devices with team logos and colors of their choice.

This small version of the SlackBack could be modified to be able to adapt and accept any similar sized cable to organize all household cables like iPod cables, phone chargers, or any other loose cables that get knotted up. Larger versions can even be created to be able to handle extension cords and other large cables. For customers who are concerned with headphone wires being tangled, they are most likely to have issues with other electronic cords. People with mp3 players must use chargers to energize their phones and mp3 players and USB cables to link all of their electronic devices together as studies have shown. If they like the headphone wire retractor they would be inclined to buy a charger or USB cable wire retractor, and eventually even for larger household cords.

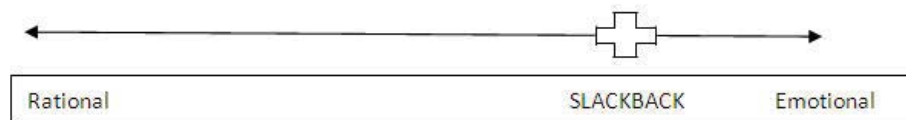
In 2014, the global consumer electronics market is forecasted to have a value of \$289.5 billion dollars. This would be a 14.1% increase from the 2009 value. Since America only accounts for 47.6% of the global consumer electronics market value currently, for SlackBack to not expand globally would be a large, missed opportunity. For the first year, if people from overseas begin buying from our website we will sell to them, but our marketing will be solely to the United States. Once we penetrate the American market and have enough money to begin foreign marketing and operations we plan to do so. We will begin our marketing to overseas consumers by the second or third year depending on how well we establish ourselves in the United States. (*Refer to Appendix 2*)

In the future we will additionally expand from direct online selling, to selling in areas of convenience such as airports, retail stores, and college bookstores that sell similar small accessory products. We will start out exclusively offering our product on our company website. If the product does

well, we could expand to sell it in major retail electronics stores like Best Buy and RadioShack. This way people will be able to touch the product where if buying from our website they cannot. We will be able to hit our target markets at these stores as well as sell to those who have not seen the website. The SlackBack will become an "impulse-buy" product that will be purchased because of its locations.

6.3 Target Market Strategy

Customers make decisions based on a continuum stretching from rational purchases to emotional purchases. For SlackBack, a rational purchase would be considered buying the SlackBack based on its price and functional purpose. On the other hand, customers may want to buy the SlackBack for emotional reasons: if they are constantly frustrated on a daily basis from their headphones being tangled, if they are attracted to the shape and color of the product, or possibly because they like the customized team-look or other style of a particular SlackBack. Based on some gathered information about our target customer, we have decided to place SlackBack closer to the emotional side of the continuum.



A target market is a group of customers that a business will aim its products and promotional efforts towards. Identifying the target market is one of the first steps of a marketing strategy that will verify the victory of the SlackBack in the marketplace. There are many different aspects of a customer that will define them as our company's target market. These sections can be defined as Geographic, Demographic/ Socio-economic, Psychographic, Behavioral, and Product-related.

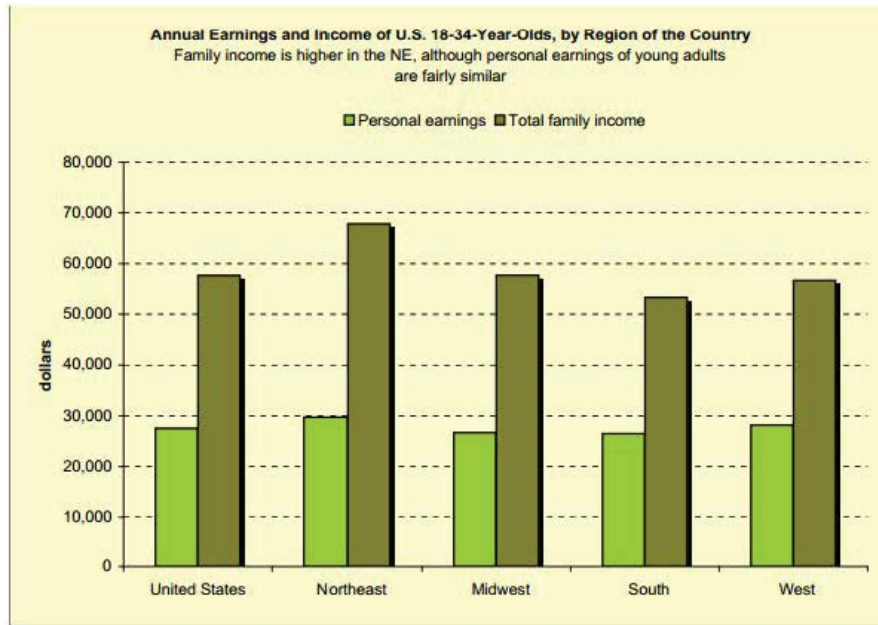
Geographic:

The geographic segment focuses on location and customers' addresses. SlackBack is entering into the consumer audio electronic industry, and since it is a headphone accessory, they will have a large geographic segment. Unit sales have grown in the U.S. 13% over the past year, and dollar sales have grown 33% which is a 10% growth increase from the 23% rise from 2009-2010. Clearly the industry is growing steadily. Because headphones are sold in all of the United States, SlackBack plans to sell in retail stores and department stores across the country. We plan to sell to everyone and anyone who listens to music on the go, so this means targeting almost all Americans.

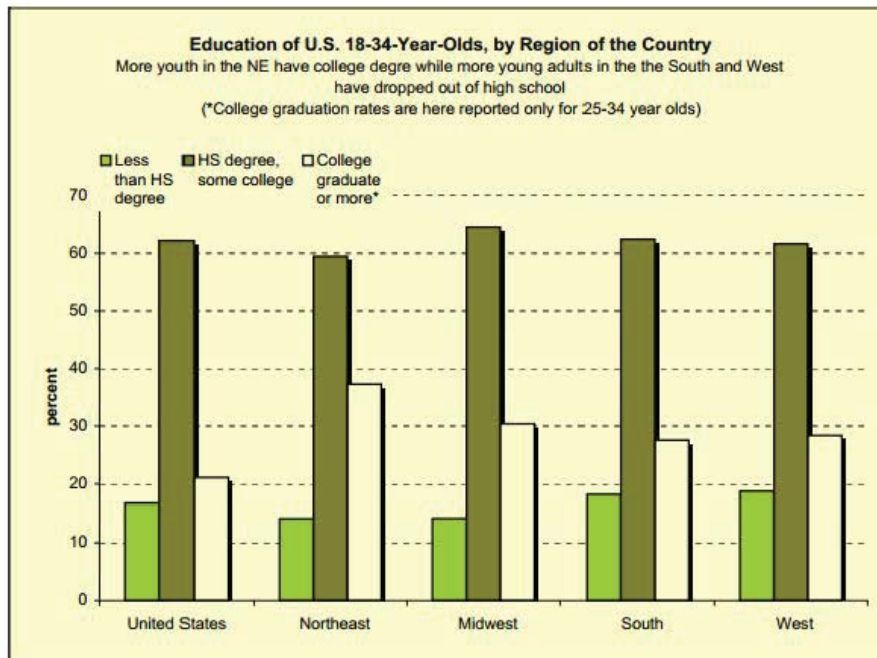
Demographic/ Socio-economic:

The demographic/ socio-economic segment gears its focus on separating the target market into different sections according categories such as gender, age, income, occupation, education, household size, and stage in the family life cycle. If one was to walk through any grade school, mall, or college campus, they are bound to see a child or young adult listening to a portable music player with headphones. Whether or not they are wearing small ear bud headphones or large over the head headphones, celebrity endorsed headphones, or a pair that came with their iPod, they are using headphones both as a way to listen to their music players and for a fashion statement. Because of the improving attractiveness in styles and qualities, headphones have become more and more alluring to younger consumers. Although younger people most likely have smaller incomes than older people, 24 year olds are one of the driving factors for the increase in sales over the past year to add to the \$342 in headphone sales. This age group is responsible for 25% of the unit sales of \$100 or more. It is ironic since this age group usually has less money. It is apparent that headphones are most trending in this age group although they may not have the most income. Headphones have finally reached the much needed

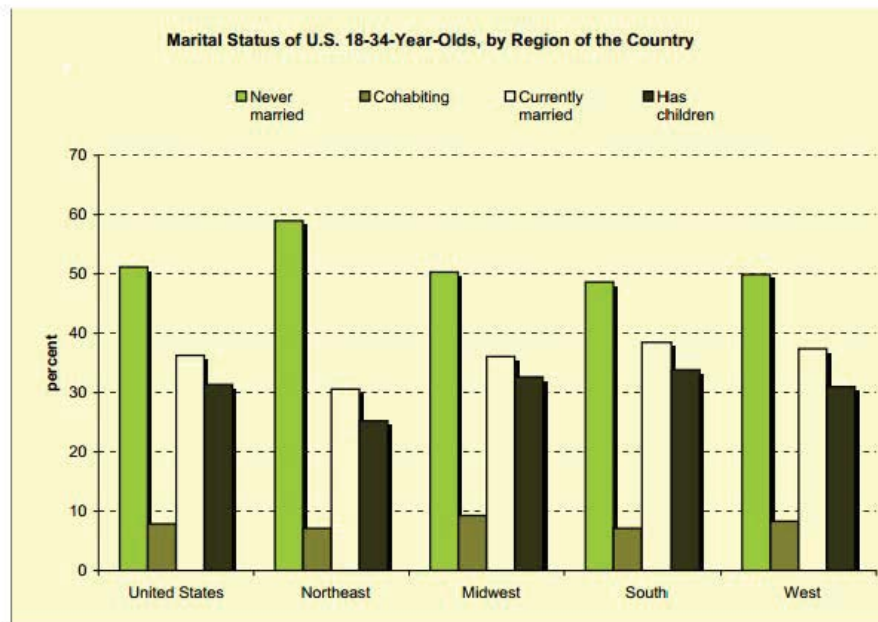
high sound quality that customers have been longing for. Buying a music player for hundreds of dollars and then listening to a sound that is no near the quality it has potential to be. Now headphones are of a high quality and finally have the ability to represent themselves fashionably with headphones. Conclusively, SlackBack will be aiming to sell to customers of both genders and between ages 13 – 50 which is the general age range that a person is most likely to have a portable music player. In the U.S., 95 percent of people aged 18-34 own a cell phone, 70 percent own a laptop computer, 74 percent own an iPod/mp3 player, and 63 percent own a game console; numbers are only growing yearly. This is the age range we will be specifically gearing our product advertising for.



People in these age groups tend to have personal earnings of around \$30,000 annually and total family incomes of around \$55,000 annually. These incomes are highest in the North East where SlackBack is out of which is favorable. SlackBack is pricing its product at around \$10 so that is definitely an affordable price for a product that will save them time and frustration.



Based on the education of U.S. 18-34 year olds, statistics suggest that in the North East more young adults have a college degrees, while in the West and South more have been high school drop outs. This means that people in the North East are more likely to have higher paying jobs, thus have a larger disposable income to spend on products like audio accessories.



According to statistics, overall in the U.S. 50% people between ages 18-34 have never been married. There is only a small number of these people living together unmarried, about a 36% chance they are currently married, and about a 32% chance they have children.

Psychographic:

The psychographic segment of the market concerns the attitudes, lifestyles, and values of SlackBack's target market. According to The NPD Group's consumer tracking service, for many headphone buyers, brand and quality are equally important. Price is a less important factor for them. 48% of headphone buyers consider sound quality is a prominent factor in deciding which headphone set to buy. 54% considered brand as a very important deciding factor. People that are buying headphones, who will in turn buy the SlackBack headphone accessory, view quality and brand as key factors in their purchasing. SlackBack should take this into consideration by making sure their product is of the highest quality possible without making cost cuts on crucial quality materials since price is not a high concern. Working up the SlackBack brand name and advertising to get the name out there is also a good strategy since customers, over 50%, in the target market who buy headphones are highly concerned with the brand name when deciding on whether or not to make the purchase.

Product-related Behavior:

The behavioral aspect of the target market focuses on factors such as occasion and degree of loyalty as well as the relationship to the product. People now are buying multiple headphones for different purposes like listening, working out, gaming and traveling. In reports it has become clear that in the electronic world, consumers have not stayed loyal to their electronic brands as much as one may think they would. In an annual report done by PricewaterhouseCoopers, customers are said to have a loyalty rate of about 48% to their mobile phones. After the 2 year contract they are most likely to find a new carrier. It is suggested that the reasoning for this is for customers looking for better deals; "Competition is fierce, and pricing is a key element." Therefore, SlackBack should be familiar with the prices of similar electronic accessories to retain their customers. SlackBack must do whatever they can

to keep the prices as low as they can without harming the quality of the product. Although customers in this target market seem willing to pay the price for a good quality product, SlackBack should stay reasonably priced. It is generally less expensive to retain customers who are already familiar with the brand than gain new ones.

Customer retention can be helped by the 30-day warranty that SlackBack offers. If the product breaks within 30 days of purchase it will be replaced. This will help the customer understand that SlackBack is loyal to its customer; this may persuade them to trust the product and continue to purchase from them.

Mass Marketing:

Based on these separate segments, SlackBack's target market is clear. SlackBack will be mass marketing since it is hoping to sell to everyone and anyone who owns headphones. Since such a large number own headphones, the accessory is hoped to be purchased by anyone. As an entry point, SlackBack projects to sell its product to people from ages 13-50 heavily focused on ages 18-34 that spend the most in the consumer electronics industry, across the United States. As the brand is established, they can then expand globally and focus on different segments of the product. As for now, we want to send a message to the highest number of people possible. Then we can establish who our main customers will be and cater to their specific wants by going into other segments: varying cord related SlackBacks, as well as different style SlackBacks (team, celebrity, or music genre related).

6.4 Product/service strategy:

We will offer a 30 day manufacturer's warranty meaning if it breaks within 30 days of purchase, we will replace it. We want our customers to trust our products. We are trying to put ourselves in the customers' position and make this company as if we were buying from this company ourselves. We want to put into it what we would want to get from this product; quality, durability, and value. We will also try to keep our customers in the future by offering different colors, sports shapes, and professional sports team logoed SlackBacks and even larger sizes for larger cables such as extension cords, coax cables, or any other household cables that need to be kept organized. As always we will keep our quality warranty with our bigger models and our personalized models so our customers will continue to trust our company and our products.

6.5 Pricing Strategy:

Countries in Asia, especially China, have raised their labor costs, along with shipping and fuel costs. Although these prices have risen, it is probably best that SlackBack looks to outsource to a country like China due to its cheaper manufacturing costs. Since the cost to manufacture and outsource a product like this would be around \$2, our minimum price would be about \$3. The maximum cost we would price this product at would be around \$15. With our pricing strategy, we don't want to start the initial price off too low because you never want to suddenly raise the price of the product because that looks bad for the company. If anything we could always start the initial price off at the maximum price of \$15 and always lower the price if we need to do so to make it look more appealing while still making a profit. We would be able to do this due to the fact that there is not much competition in this industry because SlackBack is a new innovation so we would not have to meet price expectations. So our company has come to the decision of an initial selling price of \$12.99. We can always go lower from here or give deals for multiple purchases like 2 for \$20 specials.

6.6 Distribution Strategy:

Creating the best possible distribution strategy is a key component in reaching out to your specific target market and customers and getting SlackBack into their hands. With customers recently buying headphones such as Beats by Dr. Dre for hundreds of dollars, we believe that the maximum of \$15 is a reasonable price for a product that is as convenient and simple as SlackBack. Since customers are usually buying these Beats headphones offline, since there is no retail store for that product, it could be an opportunity for us to sell SlackBack's off of the same website. This would be distributing through direct sales because we would offer SlackBack using a direct, in-house sales organization that does all selling through Internet, telephone or mail order contact. We will establish the least expensive yet most effective shipping method with a distribution company such as UPS. In our research so far, UPS has the cheapest prices for us.

6.7 Advertising and Promotion

Primary Target Audience (PTA):

The primary target audience for SlackBack is music-lovers who are adolescents (roughly 13 years old) through mid-life adults (roughly 50 years old).

Grassroots Approach:

A public relations effort geared toward mainstream media is seen as beneficial for our SlackBack product. If we were able to gain a television spot on a day-time talk show, that would give our product the jump-start that it needs to gain the credibility for obtaining venture capitalists. Also, the QVC channel could be another venue that we could look into for a mainstream media approach.

Social Networking:

Getting social recognition for our SlackBack product through social networking sites such as Facebook is also seen as a beneficial public relations effort. Being able to create a free account on Facebook, this would allow us to reach out to the younger, music-enthusiast generation which is part of our target audience. Going through Facebook also means that there are no expenses for our promotion of the SlackBack. This would create a sort of "buzz" marketing for the SlackBack.

Once more funding and financial resources become available for the SlackBack, we could pay for actual advertisements on social network sites such as Facebook and Twitter. Having access to the interests and activities of social network sites users, we could effectively target our primary audience through these social network sites.

6.8 Sales Strategy

SlackBack will be utilizing our team and CMO, Brian Clevesy, to market our pure-play company through internet advertising and promotion. We will be selling our product solely and directly from our company website to our customers. If we cannot negotiate a low shipping cost to the customer below about \$5, we will eat some of the shipping costs to keep our product appealing to the customer. In addition to direct online selling, we will be promoting our products directly to our target markets at locations such as college bookstores across New England and malls to generate more sales and brand recognition. College students are an entranceway into our target market because many things introduced to college kids filter down through high school and even up to post-graduate aged customers.

6.9 Advertising Strategy

With our SlackBack product, we believe that we can revolutionize the way people use headphones. To gain brand awareness throughout the mass of our target market (ages 18-34) we will pursue the venue of web advertising through the popular websites, Barstool Sports, Facebook, and Twitter.

Barstool Sports is an internet blog website that covers many interests of college-aged masses in the greater New England area. With internal websites created for Boston, New York, and Philadelphia, advertising through Barstool Sports will generate broad brand awareness. If we were to start an advertising campaign through Barstool Sports three current websites starting on January 1st, 2013, the costs that we would incur are as followed:

Boston: For a three-month period of running a large sized (160x600 pixel) advertisement in JPEG format would cost \$5,000. According to Barstool's "Blogad" page, the estimated impressions that this advertising campaign would have is 38,750,907.

New York: For a three-month period of running a large sized (160x600 pixel) advertisement in JPEG format would cost \$6,000. According to Barstool's "Blogad" page, the estimated impressions that this advertising campaign would have is 12,714,229.

Philadelphia: For a three-month period of running a large sized (160x600 pixel) advertisement in JPEG format would cost \$4,500. According to Barstool's "Blogad" page, the estimated impressions that this advertising campaign would have is 41,038,681.

The second venue in which we would promote brand awareness for the SlackBack is through Facebook advertising and a Facebook page. Being free, a Facebook page would allow us to upload pictures of the product along with status updates, letting our consumers know about developments and new details we plan to enhance. The "like" feature on Facebook would give us the possibility of a large base of followers. When someone "likes" our SlackBack page, it will show up on his/her profile page along with the Home Page so that anyone who is friends with them can see that action. Hopefully, the "likes" of our page will grow exponentially. As far as an advertising campaign through Facebook, we would go with, what Facebook calls, a CPM campaign. With the CPM campaign, we would pay on the basis of cost per thousand impressions (views) of our advertisement. Facebook runs on an auction system, so there is no set price for advertisements. Ads compete for impressions based on bids and performance of the ad. Through this system, we are allowed to set a daily and yearly budget for our campaign so there is a cap on the number of times our advertisement will show daily so we will not exceed our cost structure.

The last venue that we plan to go through is through a Twitter page and also an advertising campaign through Twitter. Creating a Twitter page is also free, so this would be a very beneficial way to watch our costs while still getting SlackBack out to our target market through social networking. With a Twitter page, people will be able to "follow" SlackBack and see any status updates that we comment about and other updates we choose to share with our followers. Although a Twitter page is free, the advertising campaign is broken down into these sections based on an estimated monthly budget of:

- \$0-\$999
- \$1,000-\$4,999
- \$5,000-\$9,999
- \$10,000-\$24,999
- \$25,000+

Through these structures offered, Twitter asks for other elements of the advertisement that we would want to put on their website and respond back with a quote and detailed information about showing our advertisement on Twitter.

We believe that this marketing strategy set forth for SlackBack is essential for exponential growth of our products awareness and that utilizing the social networks that are available to us will help in this campaign. Although we will incur costs explained above with the campaigns through the social networks, we see these expenses as worthy and essential.

7. Operations Strategy

SlackBack will be outsourcing its manufacturing to China. If we outsource to the Chinese company Shenzhen Ruijiahua Plastic Cement Technology Co., LTD, the cost of goods sold per unit would only be estimated to be \$2 which includes shipping. This company primarily makes headphones with retractable wires already built in and the price ranges from \$1.70- \$4.70 per unit; since we are only selling the retractor, we believe to be on the lower side of the scale. We will have our products shipped to us from China to our warehouse or distribution center located in Portsmouth, NH. We figured this location would be ideal since it is close to major cities, it is a port city, it is affordable and convenient, and it is located in the area where we hope to first penetrate the market.

From our warehouse or distribution center, we will ship our products directly to our customers. Customers will be paying the shipping fee averaging \$5 while purchasing online, which is affordable. We used UPS.com to figure out that shipping from Portsmouth to major cities across the country range from \$4- \$7.50 for a 2x2x4 package that weighs about .05 lbs (the dimensions of 1 SlackBack).

If we take the warehouse approach, we will do order fulfillment, shipping and receiving, and all operations from our own office and through our warehouse. If we choose a distribution center, they will take care of storage, shipping and receiving, and even order fulfillment. We will just take care of product development, marketing and advertising, sales, and all other operations. We will be conducting all business from our online store that offers our product.

8. Financial Plan

8.1 Sales Forecast

The headphone industry is a growing market in the United States with sales doubling from 2010 to 2011 to about \$2 billion. The number of unit sales in the United States was 8 million in 2010. Since dollar sales in the U.S. are \$2 billion last year, and the average price of headphones in 2011 in the U.S. is \$137, the approximate number of headphones sold in 2011 was 14,598,540 units. According to our research, between 5-10% of customers in 2011 prefer wireless headphones. This means 13,503,569 of the sales have wires if we take away 7.5% of the original number of unit sales to account for headphone without wires; this means SlackBack can sell to at least 13,503,569 sets of headphones in a growing industry. According to Statista, the unit sales of Consumer Electronic Accessories from 2011 were about 375,000 million U.S. dollars. (*Refer to Appendix 6 & 7*)

After much consideration, we have made a scientific estimate that we will sell roughly 50,000 units in our first year. This means that we will only lightly dent the number of wired headphones sold each year; it is a safe estimate, at selling an average of 137 headphones per day. This is only selling to 0.0037% of the possible wired headphone. As soon as our brand name and image flourishes, sales will exponentially increase. If we have a selling price of \$12.99, this means our revenue for the year will be circa \$649,500 in 2013.

8.2 Sales Returns

Based on our research of the number of people who indicated they returned a Consumer Electronic device in the past two years, we believe that about 15% of the total SlackBacks purchased will be returned. One in five people reported returning a product within a year of purchase. SlackBack decides to estimate our return rate around the same; we do believe that the quality level of the product materials as well as the customer satisfaction will cause the return rate to be lower, but we chose 15% for a safe estimate. For the first year, since we estimate selling 50,000 units, this means about 7,500 will be returned. This will be a loss of \$97,425 of our revenue if we sell at our chosen \$12.99 price.

8.3 Cost of Goods Sold

After much contemplation, SlackBack has decided to outsource to a plastic/ headphone producer in China. We have realized that the price per unit to not only produce the product, but ship it to our location in Portsmouth, NH would only be \$2.00. For this company, Shenzhen Ruijiahua Plastic Cement Technology Co., LTD, to make headphones with a built in would range from 1.70- 4.70. We believe that since our product do not include the actual headphones, that it will be on the low end of the price scale.

8.4 Fixed Costs

SlackBack will incur a few other yearly expenses. These expenses relate to fixed costs of online selling (web hosting and domains), rent, equipment (the steel molder), the patent, office supplies and furniture, salaries, income tax expense, and advertising.

SlackBack decided that online selling would be the best option for the company. There are costs for the creating the website and buying domain names. The costs of the three domain names we would purchase (SlackBack.com, SlackBack.co, and SlackBack.net) are \$33.97. Security of the websites would be \$25 a year. The cost of \$763.80 for pro reseller contract would be for 60 months or \$152.76 per year. The company will be purchasing a Deluxe Linux WebHost for \$65.88 per year, a Deluxe Quick Shopping Cart for \$101.88, and a Deluxe Search Engine Visibility five-year contract for \$32.28 per year and other add-ons in a new business solutions bundle for \$140.74. One of the creators of the SlackBack Company, Julie Gorman who has past experience building a website for a business, will be creating the website while the COO, Terence, will be in charge of the operations with it, so the cost of hiring someone to create the website will be nonexistent. Utilizing eCommerce will cost roughly \$552.42 each year.

According to our research on properties, SlackBack estimates that leasing a warehouse in Portsmouth, NH would be the best option. This area is 45 minutes north of Boston and much cheaper than Boston. It is a major seaport hub that is located close to many major cities in the North East region of the country which is where we will begin penetrating the market. It is a cheaper area and convenient for importing and exporting. For now, we believe that a 1,000 square foot warehouse and office space would be ideal for SlackBack. This way there will be an office space for business administration as well as a warehouse area to store the small product. We have found that the average rent price for a commercial warehouse/ office space would come to roughly \$1.00 - \$1.60 per square foot per month. To be safe we will use the \$1.60 rate which would come to \$1,600 per month, or \$19,200 per year.

The only equipment we will need to produce the product is a steel molder. After consulting with a mechanical engineer, he predicted the cost to make the mold of our SlackBack device would be \$2,000. According to the engineer, this would be a heavy duty molder that will last for many years, and can produce millions a year. SlackBack would make this onetime payment expense in the first year of

operations, but will replace it every other year not only due to size modifications, but to improve operations efficiencies. The cost of materials, creating each unit, and shipping it will all be paid to our producer in China which we calculated as totaling about \$2 per unit and totals \$100,000 in cost of goods sold for our first year of producing about 50,000 units. The mechanical engineer also gave us the idea for the price of the patent. It would cost about \$10,000 for 20 years and \$125 for the provisional patent. We would have renewal fees at 3.5, 7.5, and 11.5 years of age. These fees total \$4,355, with the fee in year 3 of \$565.

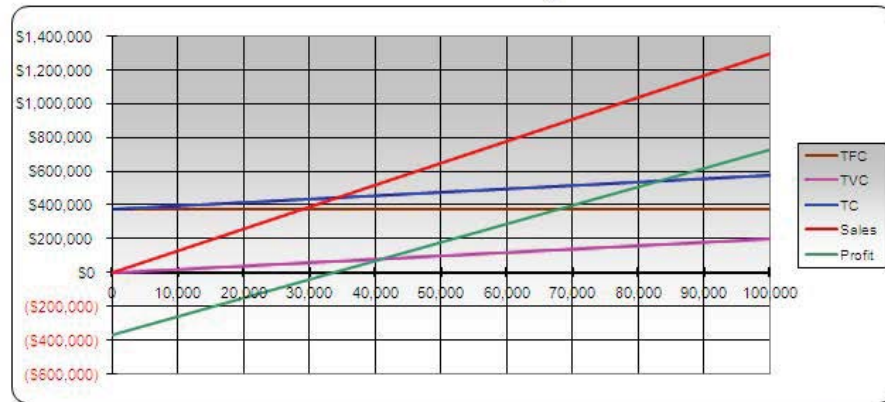
Other costs that SlackBack will incur include are office supplies: the costs of paper, writing utensils, receipts, staples, etc totaling \$150 per year. The costs of other larger office equipment would be due to laptops, designing software, furniture. We figured over the course of their lifespan, it would probably equal to about \$10,000 for the first year and be replaced every roughly four years. Salaries and wages are another expense SlackBack will incur. The only actual employees of the company as of now would be Jason Evans, Julie Gorman, Brian Clevesy, and Terence Barclay. The first year, each company officer would have salaries of \$50,000 creating a total cost of \$200,000 a year. Each year SlackBack plans on doubling the salaries as the company will be exponentially growing and will be able to incur this growing cost. Income Tax Expense was calculated on e-Services "Tax On Annual Income" Calculator to be about \$56,000 for a total of each of the four management members for the first year.

SlackBack plans to incur heavy advertising costs on mainly three different websites. The cost of the Twitter ad per month would be \$500 a month for a total of \$6,000 a year. On FaceBook, SlackBack will also be choosing its own cost structure of \$500 a month with a total of \$6,000 per year. Our largest location of advertising would be on Barstool since it is such a large hit for our target market age group of 18-35 years old, and is highly popular in the North East where we will first be penetrating the market. Roughly \$62,000 a year total for Barstool on each of the 3 websites. All of these advertising costs will total to \$74,000 a year. The company plans on investing more money yearly toward advertising once the company reaches larger net incomes. The yearly increases will average around \$50,000 more a year where more money will be allocated for ads on social networking sites in addition to doing college campus promotions and possibly promotions on QVC.

8.5 Break Even Analysis

For the first year that SlackBack will be operating, the company will make a profit which is extraordinary for a startup company. This is due to the very low cost of goods sold. Our product is made in China for only a \$2 material, labor, and ship cost per unit. Since the product is reasonably priced at \$12.99, this means we will be gaining a profit of \$10.99 on each device that is sold. Our fixed costs come to a total of \$372,027 for the first year. This means, in order to break even for the first year, the company will have to sell 33,851 units, or make sales of \$439,730. This can be shown by the following graph:

Break-Even Analysis



Break-Even Point (units) = 33,851

Break-Even Point (\$'s) = \$439,730

Total Fixed Costs TFC = \$372,027
 Variable Cost per Unit VCU = \$2.00
 Sales Price per Unit SPU = \$12.99

Formulas:
 BEP (units) = TFC / (SPU - VCU)
 BEP (\$'s) = BEP (units) * SPU

8.6 Five Year Forecast

The SlackBack Company approximates to sell 50,000 units in the first year. This will create revenue of \$649,500. In the following four years, we believe the our units sold will increase to 100,000 units in 2014; 250,000 units in 2015; 425,000 units in 2016; and eventually 700,000 units at the end of year five. We predict these higher numbers not only because of the exponential growth in the headphone industry that our product directly relates to, but because of the successful marketing strategy we have created as well as the satisfaction that will come with purchasing the product, keeping them coming back for more and spreading the brand's reputation. The following spreadsheet shows the revenues, variable and fixed costs and net operating incomes of the next five years. The net income for the first year would be roughly \$80,047 and will grow to \$3,336,429 by year five.

[SlackBack]

Income Statement



For the Years Ending [12/31/13; 12/31/14; 12/31/15; 12/31/16; 12/31/17]

Revenue	2013	2014	2015	2016	2017
Sales revenue (# units sold @12.99)	649,500	1,299,000	3,247,500	5,520,750	9,093,000
(Less sales returns and allowances)	(97,425)	(194,850)	(487,125)	(828,113)	(1,383,950)
Other revenue					
Total Revenues	552,075	1,104,150	2,760,375	4,692,638	7,729,050
Expenses					
Cost of goods sold (FOB from China @ \$2 per unit)	100,000.00	200,000.00	500,000.00	850,000.00	1,400,000.00
Advertising	74,000	124,000	174,000	224,000	274,000
Patent	10,125.00	-	565.00	-	717.75
SlackBack Steel Molder	2,000.00	-	2,000.00	-	2,000.00
Office Supplies, Furniture, and Equipment	10,150.00	150.00	150.00	10,150.00	150.00
Rent	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00
Salaries and wages	200,000.00	400,000.00	800,000.00	1,600,000.00	3,200,000.00
Income Tax Expense	56,000.00	112,000.00	224,000.00	448,000.00	896,000.00
Web hosting and domains	552.42	552.42	552.42	552.42	552.42
Total Expenses	472,027.42	655,902.42	1,220,467.42	2,301,902.42	4,392,620.17
Net Income	80,047.58	448,247.58	1,539,907.58	2,390,735.08	3,336,429.83

