

My dream, your dream: the perfect dress



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THE PROJECT OF HER DREAMS

Josefina is 25 years old, and she has always lived in the city of Guadalajara, Jalisco. Since childhood she has been fascinated by haute-couture fashion shows, but above all, the closing of these events as the main spotlight is a spectacular wedding dress.

Due to her current job as purchase manager of a prestigious jewelry store, Josefina has had the opportunity to travel to Spain several times, where part of her activities is giving personalized attention to customers. This has enabled her to realize that the couples who come to the jewelry store to choose their marriage bands constantly have a common issue:

the wedding dress. Many of them regret not having enough options in the local market and many others agree that their purchase was done abroad, therefore expenses increased.

Josefina has been working at the jewelry store for a long time and she feels that it is time to carry out one of her dreams: having her own wedding dress store where she can exclusively offer an international highly prestigious brand.

Image. Freepik, 2022.

Today Josefina has got 400,000 pesos (MXN) in savings, but she knows that this is not enough to achieve her dream.



INITIAL INVESTMENT

Josefina benefits from her trips to Spain to attend fashion shows, and as it has been mentioned, she is raising the possibility of starting her own business, so she carries out research where she finds relevant information⁺ (Essenzia Española, 2022) to get closer to reaching her decision.

With the information collected, Josefina establishes that the amount of her initial investment must include the following:

CONCEPT	AMOUNT
Franchise	20 thousand US dollars at the prevailing exchange rate ⁺ (Banco de México, 2022)
Store furniture	600 thousand Mexican pesos (MXN)
Dresses stock	987 thousand Mexican pesos (MXN)
Office equipment	200 thousand Mexican pesos (MXN)
	Source. Author's own elaboration, 2022.

FUNDING SOURCES

Josefina embarks on the task of finding ways to get the necessary resources, so she talks to her father who tells her that he could help her with 400,000 pesos (MXN); nevertheless, he tells her that as it is business, he would be looking for a 25% return for his contribution. To get the rest, Josefina must make the best decision out of the following three alternatives, and she is about to get information of these credits taking the CAT as the main factor.

FUNDING ALTERNATIVES	
ALTERNATIVE	BANK
1	Scotiabank ⁺ (Scotiabank México, 2022)
2	Citibanamex ⁺ (Citibanamex, 2022)
3	Banregio ⁺ (Banregio, 2022)
	Source. Author's own elaboration, 2022.

SALES PROJECTION

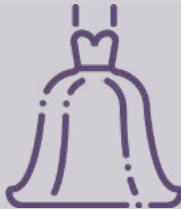
Josefina believes it is appropriate to start with three types of dresses plus the essential accessories: veil, headdress, and bouquet, and she is thinking about selling them as a package.

According to [Paginapropia.com](#) (2022), growth expectations[⊕] on bridal dresses are of an annual 6% for the next five years. Josefina makes this growth her own and she sets it as a goal. Likewise, she acknowledges that sales price prices will increase according to the expected inflation for each of the five years she has considered as her investment horizon.



Images. Pixelmeetup, Victoruler, Mikan933 and Pojok D in Flaticon, 2022.

She also forecasts that her sales in the first year can be:

SALES FORECAST		
PRODUCT	UNITS	SALES PRICE
Laces 	50	30 thousand pesos (MXN)
Princess style dress 	30	25 thousand pesos (MXN)
Pronounced cleavage 	20	20 thousand pesos (MXN)
Bridal trousseau* 	80	8 thousand pesos (MXN)
*Additional to the dress, it includes: shoes, veil, headdress, bouquet, and jewelry, among others.		

Source. Author's own elaboration, 2022.

Thanks to the relationships that her current job has given her, Josefina knows that in a company of this kind, variable costs and expenses represent 60% of sales, and that fixed costs and expenses can go up to 500,000 pesos (MXN) on the first year. She is also aware that this information will continue growing according to inflation in the following years.

Additional to the fixed costs that would be covered in cash, Josefina must also consider the non-disbursable expenses: amortization and depreciation. Annual depreciation represents 10% of the value of fixed assets acquired in the initial investment, and 5% of the value of the franchise. The tax rate is 30%

Images. Freepik and Kiranshastry in Flaticon, 2022.



WORKING CAPITAL

Based on her studies, Josefina understands that the working capital is very important in the everyday operations of a company. Considering the value of stock, the credit conditions that she would receive from her suppliers, and the credit time that she would give to her customers, she expects that the working capital would be equivalent to a 25% of sales. Annual investment in working capital would be done a year in advance and she expects to recover it at the end of the five years period. That is, in 2022, on working capital she would invest an amount that is equal to 18% of the sales budgeted in 2023.



INVESTMENTS IN NON-CURRENT ASSETS

Josefina does not believe it is wise to make new investments in non-current assets throughout her investment horizon.

THE DECISION

With all the information that she obtained, Josefina decides to rely on the Net Present Value, the Internal Return Rate, and the Recovery Period in order to make a decision regarding the project of her dreams but she also makes new questions, for instance:

Will she have the same results in the face of a less or more favorable scenario regarding what she is asking? Based on this, consider the following scenarios:

Josefina clearly understands that these scenarios imply uncertainty regarding not having the originally expected benefits, so she uses statistical tools to measure the inherent risk of her decisions.

POSSIBLE SCENARIOS		
SCENARIO	SALES LEVEL	PROBABILITY
Pesimist	Growth of only 3 % as of the second year	25 %
Expected	Growth of 6 % as of the second year	55 %
Optimist	Increase of 10 % as of the second year	20 %
Source. Author's own elaboration, 2022.		

One afternoon, as she was sharing her plans with her best friend, the latter gets interested and proposes to be the one who will supply the 400,000 pesos (MXN) instead of her father, in exchange she would ask for a return of 20%. Josefina asks herself about the sensitivity of the project before a change in the capital structure (WACC).

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