



Investment proposal

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Executive summary

We would like to introduce you to the opportunity to invest in **our promising and rising cosmetic company**.

The mission of “KSEN cosmetics” is to explore and redevelop traditional cosmetic recipes based entirely on natural ingredients – combined in innovative products, with enhanced healing effects. Primary components of these products are of animal and plant origins with proved favorable impact on the skin.

The first product from the upcoming series created by our team is **Ksenoleum**. The uniqueness of the formula **consists in the absence of synthetic emulsifiers, stabilizers, preservatives and last but not least – ostrich fat.**

Cosmetic industry is one of the fastest growing industries therefore the development of new products, technologies and production methods is required. According to A.C.Nielsen the economic crisis had a small impact on the cosmetics branch as a result of growing consumers' interest and the industry's perspectives.

Thorough research was concluded that the **majority of cosmetic companies use traditional ingredients in their products, while ostrich fat is still considered exotic.** Consequently “KSEN Cosmetics” has a slight competition on the market. **Ksenoleums' competitive advantage is in a unique product that combines the high quality of medical cosmetics at a reasonable price.** The latter is possible due to the facilitating standardization procedure compared to other medical products.

“KSEN Cosmetics” would realize the sales of its products through direct trade channel – in the company's head office, as well as indirect trade channel – through distributors. These would include bio shops, pharmacies, online stores and beauty salons. To determine the price the correlation price/quality was considered. Once direct and indirect costs have been calculated, the prime cost of the product is determined to be 15,90€.

Our product Ksenoleum is intended for: women from 20 to 60 years of age – for cosmetic use; people with skin diseases like psoriasis, dermatitis and eczema – for therapeutic use; people with morphologic skin alterations like scars and skin stretch marks – for therapeutic use.

The company “KSEN Cosmetics” is founded by a group of young and promising students bio-engineers. The founders Kaloyan, Silviya, Elena and Nataliya are motivated to create innovative natural products. The results of their fruitful collective work are diverse projects, competition participations and honors.

Through traditions we explored the past, through innovations we will conquer the future. Consequently now is the time for this product and we are the team to make it happen.

Our company

The founders of the company are united by the common vision for natural way of life and have gathered together by participating in a course in Medicinal plants at Sofia University. As a result of our mutual work and after we took part in several science conferences and workshops we decided to establish the company “KSEN Cosmetics”. **The company protects the idea that natural cosmetics should be a top priority for skin care due to their effectiveness and broader spectrum of applications, compared to synthetic products.** After performing numerous researches and experiments the company focused on a creation of an innovative product combining cosmetic and healing effects, called Ksenoleum.

Our product

The brand’s leading product, called “Ksenoleum” is an universal cream based on ostrich fat. It is suitable for face and body treatment and for daily use. This product complements the benefits of ostrich fat, plant oils and bees products. Ksenoleum stimulates the natural regeneration of the skin, keeps the moisture, restores its vitality and improves elasticity. Consequently, it reduces early signs of aging. The optimal pH rate for such a cosmetic product creates a protective microlayer on the skin and prevents it from bacterial infection. It can be applied once or twice a day on cleaned skin. Ksenoleum has also an aroma therapeutic effect. The product has successfully passed series of tests like physical, physicochemical, morphological, organoleptic, antioxidant and microbiological tests. (<http://www.agrojournal.org/19/02-52s.pdf>). **The combination between its properties and the fast, deep penetration in the skin makes Ksenoleum an effective cosmetic and therapeutical product.**

The ingredients which compose Ksenoleum **are ostrich fat** (regenerating, noncomedogenic, anti-inflammatory and antifungal effects, high absorption), **beeswax** (anti-inflammatory and antiseptic effects, creates a protective layer on the skin), **almond oil** (protects from free radicals, improves the elastic properties of the skin), **grape seed oil** (antioxidant, revitalizing effect), **wheat germ oil** (antioxidant, nurturing effect), **cinnamon oil** (anti-bacterial effect), **vanilla** (sedative effect).

The entire process of producing Ksenoleum includes classical and low cost technological methods, separated in eleven stages. The entire production is conducted in a custom installation, which is self-sterilizing.

The first stage is purifying the ostrich fat in a mixer with water shirt. Afterwards pure shredded beeswax is added to the fat and Intensive mechanical homogenizing is conducted with a spiral stirrer. After the beeswax melts pure bee propolis and vanilla fruit are added. The product is then filtered through a vacuum filter and is cooled down to fixed temperature. During this period the almond, grapes seed, wheat germ and cinnamon oils are added while the product is constantly stirred until complete homogenization. The cosmetic composition is transferred into suitable glass containers. The finished product is stored under optimal conditions in the storage room. The whole production process is based on zero waste technology.

Two critical control points are determined during the production process. The first monitoring point is at the entrance of the required compounds, which undergo standard microbiological analysis in our authorized laboratory. The second control point affects sampling the final product from each batch, testing it for microbiological activity and conducting organoleptic analysis. The production process refers to all existing standards and decrees of the European Union. The process also corresponds to all existing standards for the cosmetic industry.

Once direct and indirect costs have been calculated, prime cost of the product is determined. **The end price to distributors is set to 15.90 € without VAT (19.08 € with VAT).** The price is considered to be competitive and fair.

Our Market

Cosmetic industry is one of the fastest growing industries. This requires the development of new products, technologies and production methods. According to A.C.Nielsen the economic crisis had a small impact on the cosmetics branch as a result of growing consumers' interest and the industry's perspectives. According to the French consortium Pierre – Fabre statistic research, **there is a demand for facial products with no preservatives including parabens for sensitive and problematic skin (every fifth Bulgarian buys medical facial creams from the pharmacies).** In 2012 the cosmetic industry grew with 5.8% compared to 2011, which amounts to 17,1 bln. € in revenue.

The high demand for this type of products made us turn back to nature and to the environmentally friendly production methods. The wide usage of synthetics in cosmetic products nowadays and the growing number of unwanted side effects to them create the need for the use of predominantly natural components.

In 2012 the cosmetic industry market share in Bulgaria equaled to 75 million € in revenue. White cosmetics contributes approximately 15 million €, while medical products have an estimated market share of 5 million €. The growing demand for natural products worldwide has impacted the Bulgarian market as well. This secures the opportunity for a flying start of the product with a competitive price and high quality which will then guarantee a place on the market with long-term consumers interest.

Marketing

This SWOT analysis provides a basic overview of the bright prospects to “KSEN Cosmetics” as well as the company's standpoint for optimization.

Strengths

- Exclusively natural origin

- Highly efficient
- Unique and innovative product for the Bulgarian market
- Healing effect – removes scars, accelerates wound healing
- Hydrating properties
- Low cost price leading to attractive end price
- Environmentally-friendly production process
- Zero waste production technology
- Clear production process which allows it to be easily controlled and traced

Weaknesses

- Product of animal origin
- Permanent control by monitoring the production process
- Limited access to the main raw material

Opportunities

- Market niche for natural products
- Positioning in two market niches – medical products and cosmetics
- Possibility for innovation and modifications
- Potential for rapid market growth
- Cost optimization through vertical integration
- Partnerships potential with the suppliers of the main raw material and base oils

Threats

- Possible contamination during the production process
- Unknown side effects
- Plagiarism – appearance of a similar product, no patent ownership

“KSEN Cosmetics” suggests the following preventive measures to avoid potential threats: Possible contamination of the product during the production process could be avoided by permanent control and microbiological analysis. Further dermatological tests would prevent unknown side effects. Consumers’ interest would be sustained by following market tendencies, maintaining high quality of the product a competitive price and targeted advertising campaign. “KSEN Cosmetics” focuses on the development of innovative products and series of products which would satisfy the rapidly changing tastes and needs of the customers.

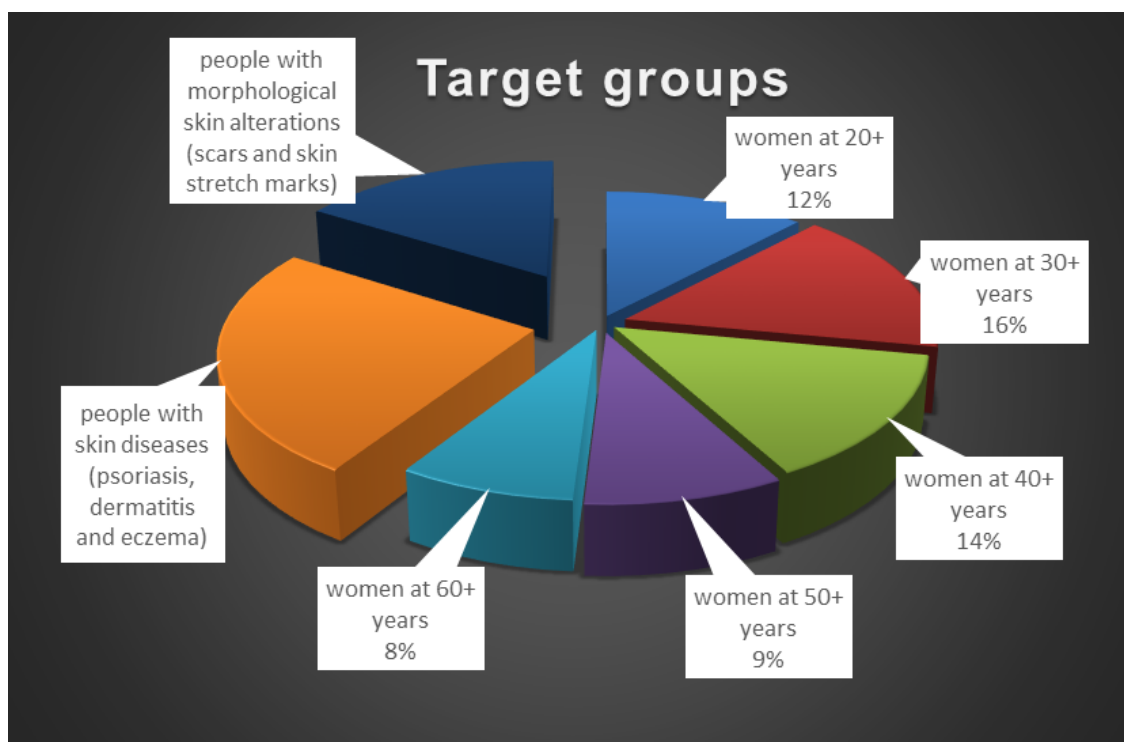
Assessing the competitiveness is done on a national, branch and competitive products levels. Thorough research concluded that a majority of Bulgarian companies use traditional ingredients in their cosmetic products. They emphasize on rose and lavender oil, extracts from

various medical plants, while ostrich fat is still considered exotic. Currently, only one Bulgarian company is developing products on the basis of ostrich fat.

Ksenoleum's competitive advantage is in the unique and innovative formula, fair price and its multiple purposes. This product satisfies high requirements of the target group - namely natural origin, lack of synthetic aromas, colouring agents, preservatives including **parabenes**, emulsifying agents; universal application and market accessibility.

Ksenoleum is a unique product that heals skin diseases, helps women be healthy at 20, gorgeous at 30, charming at 40 and irresistible for the rest of their life at a reasonable price. The latter is possible due to the facilitating standartization procedure compared to other medical products.

The target groups of the product are illustrated in the pie chart below.



In order to respond to market demand and its objectives "KSEN Cosmetics" has built up its own **marketing mix**.

The company puts an emphasis on a well-known product concept while developing innovative and one of a kind cosmetic compositions.

The basic Ksenoleum product responds to the market needs. **The goal of its marketing strategy is to inform the customer about its exclusive qualities and positive effects as well as its distribution in the supply-chains.**

The first stage of our successful marketing strategy is the creation of a distinctive logo in "eco" colors; economical, environmentally-friendly and recyclable packaging. Internal packaging

consists of glass frosted container branded with the company's logo in bright natural colors which will serve as a protection against oxidizing, contamination resulting in loss of effectiveness.

The second stage of our marketing strategy is the promotion of the end product via targeted advertising campaign.

Web advertisements and videos, handouts, publications and samples in women's magazines and TV commercials all corresponding to the company's philosophy, calling consumers for action and persuading the need for this product. Advertising merchandise will be in form of business cards, notebooks of recycled paper, eco-pens with the company's logo etc.

The promotional campaign would include live demonstration of the the product, applied directly on customer's skin using ostrich feather. This will be done by professional promoters . There would be a gift with every purchase – a sample of another product of the same series. For the purchase of two or more products – a 10% discount card upon next purchase. The promotional campaign will include the introducing of Ksenoleum to beauty salons as a natural product for total skin care.

Once successfully positioned on the market, the sustainable advertising campaign would be in the form of monthly promotional sample giveaways.

The result of this marketing strategy would be the customer's profound knowledge about the product and a series of opportunities for market expansion.

The commercialization stage would be realized through our marketing strategy for product placement on the cosmetics market. The unique features of our product will attract customer's attention which would then increase the purchase and demand of Ksenoleum. "In situ" demonstrations would reduce the risk of customer's claims and would raise customers' confidence in Ksenoleum which is also of an utmost importance to innovators and customers who are interested in bio-cosmetics.

Consumers from different target groups are often inadequately informed about the cosmetic products on the market. Therefore the company will organize convincing presentations held out by leading dermatologists who will explain the contents, characteristics and advantages of our product and that its use is a must. Successful stage of popularization would lead to production growth and market recognition of the product. Optimization of the technological process would decrease production costs. Thus maximizing unit profit. Expanding business and the production of new ecologically clean products would lead to the creation of work places.

When the stage of maturity is reached, "KSEN Cosmetics" would stake on modifications aimed at the product's differentiation and segmentation through the use of innovative formulas and technologies. Modifications would be manifested in a series of products based on ostrich fat

with various applications – eye cream, anti-aging cream, lip balm etc. The life span of Ksenoleum is expected to develop on the sensational curve (also known as “boom” curve) due to preliminary applied marketing strategies and approved methods.

“KSEN Cosmetics” would realize the sales of its products through direct trade channel – company’s head office in Dolna Banya as well as indirect trade channel – distributors. These would include bio shops, pharmacies, online stores and beauty salons. The end price that distributors would have on their premises would correspond to the pricing conditions of the manufacturing company.

Our team

Kaloyan Bozhanchiev: Graduated National High School of Mathematics and Natural Sciences, Chemistry major. He is currently in his last year of studying Biotechnology at Sofia University. Kaloyan has gained invaluable **laboratory and technological experience** at the university, along with leadership skills in different projects. He has gained additional background **experience as a cosmetic consultant** working for one of the most famous cosmetic companies in Bulgaria, including sales and distribution.

Silviya Geneva: Graduated High School, Music major. She is currently in her last year of **studying Biotechnology at Sofia University**. She has gained invaluable **laboratory and technological experience in Microbiology and Industrial biotechnology laboratories** during side activities at the university. She has **worked as laboratory quality control** at the National Center of Public Health and Analysis. She also worked at the Institute Biodiversity and Ecosystem Research at the Bulgarian Academy of Sciences. There she learned how to process and interpret experimental data.

Elena Ivanova: Graduated German High School. She is currently in her last year of studying Biotechnology at Sofia University. She has **experience in sales, public relationships, customer care, in advertising of cosmetic products and fragrances**. She has worked as a consultant in the cosmetic industry regarding cosmetic products and appliances. She has extensive knowledge about different cosmetic brands. Additionally she has gained experience in laboratory practice through her work at the university and the National Center of Public Health and Analysis.

Nataliya Gerginova: Graduated German High School. She is currently in her last year of studying Biotechnology at Sofia University. During her four years at the university and the participating in different side projects she has learned **good laboratory practice**. Along with her biology study she is a second year student at the New Bulgarian University, Finance major. She has **gained experience in Finance working for the last four years in Finance Department** in a Software Company in Bulgaria performing different tasks.

During the last two years and the experiments that were conducted, our team was supported by different Assoc. Professors at the Faculty of Biology. As a result of our work we **took part in several science conferences and workshops**. After all the studying and tests that we have conducted it was decided that our cosmetic product is ready for the market.

Our Financial forecast

Capital structure of the company is comprised by own capital and short-term loan. **Primary investment needed to launch the production process is 115 538 €.** Proportion between short-term loan and own capital is 80 to 20%. Amounts equal respectively 92 430.4 € and 23 107.6 €. “KSEN Cosmetics” does not apply the policy of one price. The end price to customers is exclusively determined by its distributors and the company manufacturer. Value of the product is defined using the method of maximal price taking into account variable and invariable costs which are adequate to production capacity of the company. It's set on a monthly basis – 40 litres.

The initial investment of the company is formed by two main cost centers, namely single expenses and other regular costs. Single expenses are considered as fixed assets and other intangible assets. In these expenses we have also recognized the initial advertising campaign costs including the annual campaign aiming to popularize the main product. Cost of initial investment is estimated on 115 538 €.

Second largest cost center are the annual expenses, calculated as 148 101,66 €. It takes into account direct and indirect costs of the project. Direct costs include raw materials for the product, while administrative and labour costs are considered as indirect. More information about initial investment costs and annual costs are to be found in the financial tables.

Pricing strategy of the company is defined as a strategy of market penetration. It was considered the correlation price/quality. Once direct and indirect costs were calculated, prime cost of the product was determined. Currently end price to distributors is 15,90€ leva without VAT (19,08 € with VAT). **This price includes 94,4% profit rate during the first four months of sales, 105,3% profit rate during the next 2 months, 126% profit rate during the next 2 months, 153% profit rate during the next 2 months and 168% profit rate during the last two months of the first year once VAT is paid back to the state.** Considering this profit, it is estimated that the annual turnover would be 335 770 € and respectively net profit would be 187 668 €. It is expected that annual income would be increased due to active promotional campaign leading to sales increase.

Repayment of the short-term debt and personal investment of the shareholders would be concluded within 10 months, taking into account the expected volume of sales. According to the long-term perspective “KSEN Cosmetics” presumes annual income increase based on the popularization of the brand and its main and new products. During the first twelve months the expected revenue will be reinvested in the development of a new series of products and would allow the price of Ksenoleum to be reduced to cope with the competition.

Copy of the financial forecast you can download .