You have been asked by your 60 year old uncle Norman to help him assess a new venture. It is Friday night, and he needs the work finished by Sunday in preparation for an early Monday morning meeting, so you know that he will not be able to give you any more information than he already has (and you will be unable to contact him over the weekend), and therefore you may need to rely on your own estimates for some of the analysis.

Norman lives in Boston and recently took early retirement (from a company he joined 35 years ago), and left the company with a lump sum payment of $400,000. Surprisingly, rather than being depressed by his new state of independence, he is excitedly contemplating a new career as a retailer of fine chocolate. He is confident that he can set up a business to import chocolate from Belgium and sell it in the USA. His wife, whom he met at business school, is pleased with his passion for this possible new venture, but concerned that it might turn into a financial disaster. She has suggested that he develop a financial plan to evaluate the venture and its viability.

After a couple of hours with Uncle Norman you have assembled the following information from him:

- BelgChoc SA (owned by a college friend) is prepared to give him exclusive rights to sell their products in the USA for a five year period in exchange for an upfront payment;
- The products retail in Europe for an average of €40 per kilogramme;
- BelgChoc would sell products to Norman at a 45% discount to their European price;
- BelgChoc would ship to Norman on receipt of payment for each order;
- Norman has found out that air freight from Belgium via air courier would cost €10 per kg and that the time from him placing an order to receiving the goods in Boston would be one week;
- Norman plans to order from Belgium every two weeks and intends to maintain a minimum stock of four weeks worth of sales to ensure that he will be able to supply a suitable range of products to customers;
- He will buy a special refrigerator at a cost of $7,500 to be able to keep the chocolate in good condition, and has found a small industrial room he can rent nearby at a cost of $300 per month (payable monthly in advance, plus an initial three month deposit);
- Norman intends to sell by internet only, and is planning to spend $2,000 with a website designer;
- He has already spent $5,000 on a market study that told him that once established, demand will be about 600 kg a month, although in the first year sales would start at only 100 kg in the first month before building up slowly to the full level at the end of the first year;
- The above study assumed a selling price of $75 per kg;
- Packaging and shipping in the US would cost $8 per kg;
- All sales would be by credit card, with the credit card company taking 1% per sale and remitting the monthly balance to Norman three days after the month end;
- He believes that one person could run the operation and hopes to do so himself, paying a salary of $5,000 per month ;

- He has also explored the possibility of supplying luxurygifts.com. They would sell an additional 200kg monthly, paying Norman $60 per kg, but he would need to use special packaging which would increase the packaging and shipping on these products to $12 per kg. If he did this he would hire an assistant just for this work at a monthly cost of $1,000;
- If necessary Norman believes that he could borrow up to $100,000 at 8% p.a.;
- Norman's marginal tax rate on investment or earned income is 30%, payable one year in arrears.

Norman believes that he could invest his redundancy lump sum at 5% per annum and therefore suggests that you use 5% as the after tax discount rate for a discounted cash flow analysis.

Norman has asked you to prepare an analysis to help him with his decision, making clear any assumptions that you make; the analysis should not exceed 4,000 words (excluding the content of exhibits, headings, etc), or a total of 25 pages, and should include:
- A summary of all assumptions and estimates that you have made for your analysis, including justifications where appropriate;
- Monthly cash flow in the first year of operation;
- Annual cash flow thereafter;
- Any sensitivity analysis that you think would be helpful;
- The amount which Norman could offer BelgChoc SA as an upfront fee for the exclusive rights for the five year period which would leave him no better or worse off than if he did not undertake the venture;
- Conclusions and recommendations.