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Organic Apoteke Case Study: Being Spoilt for Choice is Not Always Easy

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Abstract. The case study tells the story of Organic Apoteke, a UK cosmeceutical start-up founded in 2004. It highlights the steps the founders took to develop and grow their business. In 2006, only two years after the registration of the company, a large American organic food chain offered to sell Organic Apoteke's products in all of its US stores. Up to this point, the new company had been entirely self-financed. To enable the immediate expansion into the US market, the founders, however, needed external investment. They were overwhelmed when they received various investment offers. Arriving at a decision on what would be the best investment option was not as easy as they thought – being spoilt for choice has its drawbacks. Students are invited to determine the value of the new company and discuss the various financing options. The case can also serve to discuss company start-up and managing growth. A detailed Teaching Note with an analysis and suggestions for questions is also available to stimulate discussions in the classroom.

Keywords: entrepreneurship, managing growth, new venture creation, sources of finance, start-up valuations.

1. Introduction

23 November 2006 marked the end of the investment readiness programme for start-ups run by one of the top business schools in the UK. Dr Nitasha Buldeo, the founder of Organic Apoteke, had participated in the programme. She had earlier been approached by the global organic products giant Whole Foods Market to sell her new luxurious organic cosmetic products in their 180 US stores and had to prepare the business investment plan. Now, after two months of refining the business plan in the investment readiness programme, Nitasha walked onto a stage to pitch this plan to a panel of investors in the hope of raising financing for her company.

The judges, including the serial entrepreneur and presenter of the UK BBC programme Dragons' Den, Peter Jones, were all impressed by Nitasha and Organic Apoteke. They agreed that there was a clear market opportunity for her

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business due to the unique characteristics of the products and her extensive scientific research. They did, however, challenge the business valuation and were surprised to hear about the £1,000,000 investment offer for a 25% equity stake. Ultimately, the panel of investors could not understand Nitasha's reservations about accepting the investment offer, but they were also not ready to invest themselves!

When Nitasha and her husband Dr Vishal Naidoo drove home that night, they had mixed feelings and several questions were running through their minds. Had they taken enough steps to de-risk the venture and to attract the investment they needed? Were they asking for enough money to finance the US expansion and the growing of the business? Which investment option should they take? Or should they look for other options? While thinking about answers to these questions, memories of how it all started came flooding back.

2. The Early Days

The Organic Apoteke story dates back to the middle of the last century and features Nitasha's grandmother in one of the most important roles. In the 1950s, Nitasha's grandmother migrated from India to South Africa. After having gained initial practical experience in Ayurvedic medicine[2] in India, she started developing skin products based on traditional Indian, African, and native American remedies in South Africa. During that time, the majority of people in South Africa had only limited access to conventional 'pharmaceutical' based products and were therefore very dependent on herbal medicine. Clients came from all over to be treated for their eczema, rosacea, heat rash and other skin complaints.

At an early age Nitasha went to live with her grandmother in her farmhouse. "Even today", she says, "I can remember seeing her melting and cleaning wax and oil, distilling or extracting herbal ingredients … she used massive stainless steel vases, which she placed over the fire. After boiling [the contents] very slowly, she put in the herbs in various combinations … she had massive big strainers to strain the mixtures a few times. Then she used filter paper to remove all the impurities, but was careful not to overdo it, because you also lose all the good stuff as well and there was a certain percentage of the herbs that had to stay".

2. Ayurveda or Ayurvedic medicine is an ancient system of health care that is native to the Indian subcontinent. The word 'Ayurveda' is a compound of the word 'āyus' meaning 'life' or 'life principle', and the word 'veda', which refers to a system of 'knowledge'. Thus 'Ayurveda' roughly translates as the 'knowledge of life'. (Wikipedia, 2007)

3. Period of Research

Having witnessed the success of her grandmother's remedies, Nitasha was inspired to explore her medications scientifically. She started researching the efficacy of the herbal ingredients and natural oils used in her grandmother's original formulas while completing her first university degree in biochemistry at the University of Johannesburg in the mid 1990s. Nitasha continued this research during her subsequent postgraduate studies, as she was allowed free use of the University laboratories for the testing. To pay for the much needed raw ingredients, she did part-time work in a cosmetic distribution company. Having nearly completed her PhD in homeopathy, she married Dr Vishal Naidoo and moved to the UK, where she completed her doctorate. Although she started practising homeopathy, she continued researching and refining her products. Her sister, a medical doctor, supported her endeavours by running clinical trials in South Africa.

The results of the research and the clinical trials revealed that Nitasha had taken her grandmother's legendary skin care remedies to new levels. The new products were not only effective, but the purest products possible, free of synthetic and carcinogenic ingredients that could cause allergies and other health issues.

Nitasha had not initially considered starting her own business and developing her own brand. Her self-doubts were understandable: "How can I possibly do this? All I know is how to develop skin care remedies." When the organic market took off in early 2000 and natural/organic products gained mass appeal, she realised that her products had to be commercialised on a bigger scale. Her original business idea evolved from a medical skin care company to an organic cosmeceutical business[3] that did absolutely everything in-house: from the formulation to the production and packaging design.

4. Starting the Business

Nitasha realised that the first step would be to safeguard her research. She remembered lessons learned from her academic education only too well: "If you get the patents wrong, then don't start a business". She consequently obtained patents rights for her base products and the applied technology with the help of a highly recommended solicitor – an expensive, but very effective way of registering patents. Initially, the patents were registered for the UK only, with the worldwide patenting following at the beginning of 2006. She also registered a business in which to apply the patents. Nitasha decided on the name 'Organic

3. Cosmeceuticals are products which claim to combine features of cosmetics and pharmaceuticals and contain active ingredients, usually in high doses. (Mintel Report, July 2007)

Apoteke': 'Organic' to emphasise the importance of the organic raw ingredients in the formulations, and 'Apoteke', derived from the German word 'Apotheke', meaning pharmacy, to reflect the high level of scientific research into the products. To create a unique brand identity, the company logo, a butterfly, was trademarked to represent the purity of the products and production processes.

On 14 July 2004, Organic Apoteke Ltd was incorporated with Nitasha and her husband Vishal both owning a 50% stake of the business, which was set up in Cranfield Village, close to Milton Keynes in the UK. In October 2004, Nitasha and Vishal had a total of 12 patents and trademarks, with only their financial situation preventing an extension of this number.

Following the company incorporation and patent registration, Nitasha and Vishal started marketing their products in the UK and were soon selling their products in independent boutiques. At this point Nitasha and Vishal realised their business was for real.

5. Products and Production Processes

Originally, Nitasha had formulated and tested 60 products. Following the initial sales in the UK, Nitasha and Vishal reduced the product range, manufacturing and marketing only 15 products. They focused on face and body care products, face and body treatment products as well as a perfume, see Appendix A.

Nitasha and Vishal refer to their products as luxurethic cosmeceuticals. The term 'luxurethic' was created and subsequently trademarked to reflect the equal emphasis on luxury, efficacy and ethics. All the products are organic and without parabens, petrochemicals, DEA, TEA, alcohol, synthetic, fragrance, or preservatives. Organic Apoteke is thus regarded as producing cosmeceuticals, which are pure, chemical-free and have scientifically proven effectiveness.

The ingredients are sourced from around the world and include a high percentage of expensive oils such as Rose Damascena oil, which costs approximately £4,000 per kilogram.[4] According to Nitasha, they produce all the products themselves: "We are very limited in outsourcing, because the products are organically and vegetarian certified. To maintain the quality of our products, we need to keep the production in-house."

Until November 2006, they used a single lab mixer in Cranfield Village. Owing to the Village's insufficient transport links and limited office space, Organic Apoteke moved its offices and production to Bedford, five miles down the road from Cranfield, on 1 December 2006.

4. www.organicapoteke.com, 2007

6. Marketing the Brand

In the early days, Nitasha and Vishal spent little money on advertising and merely used PR to promote the company and create the brand. Most of the PR was done in-house. The press nevertheless responded very positively and picked up on them very quickly, resulting in boutiques and smaller stores stocking their products.

In 2006 two small-scale marketing initiatives were undertaken to target influencers and create brand awareness among retail buyers. At the same time, market research was conducted in-house to identify and demarcate the target customers and to monitor the product acceptance, see Appendix A for customer product testimonials. Four types of consumers were identified as the key target customer groups:

- Professional females aged 25+ who want effective, safe, organic products with anti-aging or complexion-enhancing properties.
- People with multiple chemical sensitivities and allergies.
- People who do not use products that contain alcohol due to sensitivities or beliefs.
- Eco-friendly/green or socially conscious consumers.

As part of the aim was to promote the business and create a brand, the first company website was launched in January 2005. This was a very basic website and was mainly aimed at allowing buyers to order products. From 2006 onwards, the website underwent major changes, whereby the philosophy of Organic Apoteke and its products, as well as the option to view the site in three languages was added. Parts of the update were financed by a matching grant they had secured from the Department of Industry and Trade (DTI).[5]

7. The Cosmetic and Toiletry Industry

Organic Apoteke operates in the cosmetic and toiletry market. The largest single markets in the world are the USA and Europe. Euromonitor (2006) valued the USA cosmetics and toiletries market at $71.3 billion, and the European market, which includes Russia, at $59.5 billion.

5. The Department of Trade and Industry (DTI) was a UK government, which was disbanded with the announcement of the creation of the Department for Business, Enterprise, and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS) on 28 June 2007.

In 2006 consumers spent a total of $250 billion on cosmetic and toiletry products globally. With the markets growing rapidly in countries such as India, Brazil, and China, the annual global expenditure on cosmetics and toiletries is expected to be close to $300 billion dollars by 2010. The overall market is growing at a rate of 2.7% annually, mainly driven by the three distinct segments:

- The premium cosmetics market, which is growing at 4% annually.
- The cosmeceutical product market, which is growing at 6% annually.
- The organic/natural market, which is growing at 22% annually.[6]

The key factors that have fuelled the growth of the organic/natural market are: (1) increased media focus, (2) the occurrence of multiple chemical sensitivities, (3) the scientific link between cosmetic products and cancers, (4) the resurgence of organic life styles, and (5) changes in legislation. In terms of recent changes in legislation, California, for example, does not allow cosmetic products which contain certain chemicals, while Halifax in Canada forbids the use of synthetic perfumes in public places.[7]

People nevertheless still use chemical-based products, because organic products are often still considered inferior in quality and efficiency to their 'chemical' counterparts. For more information on consumer trends, see Appendix B. The organic natural cosmetic market in the US is valued at $7 billion, the UK market at $600 million. The emphasis is on organic ingredients. The main barrier to entry to the organic market is the product formulation and the technology for the manufacturing processes, neither of which have been widely developed.

The cosmeceutical segment is a relatively new market, which has attracted numerous new brands over the past few years. Many are niche brands backed by doctors, predominately dermatologists and surgeons, who emphasise credibility and performance. At present, cosmeceuticals are mainly skin and body care products that – either in terms of price or quality – usually fall in the super premium cosmetic and toiletry category.

The premium cosmetic market is the oldest market of the three segments. Its quality and luxurious image are regarded as this segment's key success factors. The market is dominated by a few key players such as the Lauder Group and L'Oreal, each owning several prestigious brands. All the brands are known to have large marketing budgets.

Organic Apoteke regards itself as a cosmeceutical brand that is environmentally friendly, organic and in the premium market segment. The company is unique in the way in which it manufactures fully organic products that

6. Data taken from various market research reports.
7. Nova Scotia Allergy and Environmental Health Association (NSAEHA); Canadian Cosmetics, Toiletry and Fragrance Association (CCTFA).

are alcohol-free, vegetarian and kosher approved and that are as luxurious and pampering as all luxury branded products. In Nitasha words: "We appeal to people's compassion in terms of being environmentally friendly, not doing harm, taking care of their body, and not applying any chemicals." Organic Apoteke therefore operates in all three of the above-described segments of the cosmetic and toiletry market.

Two of Organic Apoteke's main competitors in the premium skin care segment are owned by the Lauder Group. Origins and Aveda position themselves as natural premium cosmetic brands and are direct competitors, even though they are not organic and include chemical ingredients. The third main competitor is Clarins, which claims to produce bi-active herbal cosmetic products, which are also not organic.

In the cosmeceutical segment, the closest substitute for the Organic Apoteke brand is Care by the UK designer Stella McCartney. This company uses motives and language similar to Organic Apoteke and offers a unique luxury line of certified organic skincare, formulated with 100% organic active ingredients and zero percent petrochemicals or silicones. For an overview of business grouping by brand image, see Appendix C.

8. Building the Team

Nitasha was the only staff member when Organic Apoteke was established in July 2004. She worked full-time for Organic Apoteke during office hours, while working as a homeopath during the evenings and at weekends to obtain much needed income. To strengthen her general management skill, she undertook a postgraduate diploma in marketing and obtained an NLP master practitioner certificate.

From 2006 onwards, her husband Vishal came on board in a more formal capacity. He handled the company's administration and finances three days a week besides continuing to work as a GP in the local community. Shortly after, Nitasha and Vishal hired their first full-time staff member, who became Nitasha's assistant. This assistant did everything, except production, which Nitasha was still handling herself. Two part-time employees were therefore recruited to help with labelling, packaging, and despatching of products.

Nitasha has been a member of the Cambridge University Institute for Manufacturing (IFM) programme since the establishment of the business. As part of the IFM programme, engineering students analysed the production and supply chain and created blue prints of the processes involved between January and August 2006. Even though Nitasha had to spend a great deal of time supervising the students, the results were very beneficial for the company and helped to develop the business further.

A friend who liked the couple's products and thought they might need advice on how to grow their business, introduced them to Jim Rosen, the founder of Fantastic Foods.[8] Jim has ever since acted as a financial advisor.

In December 2006, two more full-time employees were acquired: one to head the administration and one as the new production manager. By the end of 2006, Organic Apoteke had five full-time members of staff and Nitasha and Vishal were planning to take on more part-time staff members to assist with the expected business development.

9. The Pace Accelerates

By mid-2006, Organic Apoteke seemed to do very well, with its products selling in 15 stores in the UK. Not bad for a new business spending very little on marketing.

All the plans for the organic growth of the business went awry when, in August 2006, Nitasha and Vishal were approached by Whole Foods Market, the largest organic food chain in the USA,[9] which offered to sell their products in all of their stores. According to Nitasha: "We almost couldn't say 'no'. They are the perfect stores to be in. They attract almost 80% of organic consumers and that was vital for us. If it had not been for Whole Foods Market, I would have thought that we would expand into the US in approximately 2009 after growing our domestic market. But that all changed immediately."

In October 2006, it was confirmed that Organic Apoteke products would be in all 180 Whole Food Market stores in the USA from the spring of 2007 onwards. The export into the USA was legally feasible, as Organic Apoteke had been accepted on the DTI's Passport to Export programme in the autumn of 2006. However, a way had to be found to quickly finance the expansion into the USA. Funding was not only required to produce the first three orders for all 180 stores, but also to keep the company running for the first 6 months until Whole Foods Market started paying.

The business had been entirely self-financed by Nitasha and her husband up to this point. Between July 2004 and October 2006, they had invested £500,000. All expenditure on research prior to the incorporation of the business was not included in the £500,000. Furthermore, the couple were not paying themselves wages from what was still a loss-making business, see Appendices D and E.

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8. Fantastic Foods is one of the leading US natural foods companies founded in 1975. (www.fantasticfoods.com, 2007)
9. Whole Foods Market is the world's largest retailer of natural and organic foods, with stores throughout North America and the UK. The company is consistently ranked among the most socially responsible businesses, e.g., reaching fifth position in the '100 Best Companies to Work For' Fortune list in 2006. It had revenue of $5.6 billion and 41,500 employees in 2006. (www.wholefoodsmarket.com, 2007)

Now they were looking for at least an extra £500,000 in external funding to cover the fixed and variable costs related to the US expansion, see Appendix F.

10. Investment Decision Time

When Nitasha and Vishal considered various financing options, a DTI representative mentioned that one of the leading UK business schools was running an investment readiness programme for entrepreneurs aged 19 to 30. Since the business school was just around the corner, Nitasha thought it might be a perfect opportunity for her to gain the business skills required to obtain the much needed finances, and to potentially raise £500,000 during the pitch scheduled at the conclusion of the programme. She applied and was given a place on the two-month programme.

As part of the programme, Nitasha had to present her business idea to different panels in order to prepare her for the final pitch on 23 November 2006. These preliminary panels included business angels, venture capitalists, entrepreneurs, and bank representatives.

One of the panel members, a representative of a high street bank, was very impressed by Organic Apoteke and approached Nitasha after one of her presentations. He suggested various funding options, including the idea of using invoice financing. The bank would then manage the credit control and collect payment from their customers, retaining 10% as a service charge. This would enable Nitasha and Vishal to free up cash from their invoices once they had been issued, allowing them to improve the company's cash flow. Despite the good terms, the couple were, however, reluctant to give up 10% of their invoices. Moreover, they were not comfortable with the fact that the proposed contract was calculated on a 90-day basis, while people in the US usually asked for 45-day terms. Nitasha and Vishal first wanted to explore other options.

In mid-October 2006, they were very surprised when an international manufacturer of food, home, and personal care brands offered them £1 million for a 25% equity stake in their business. At first they were overwhelmed that a global player was interested and valued their business so highly. However, after thinking about it carefully, both were not completely convinced that the offer was as attractive as it seemed. They realised: "It might not be all about the terms of the investment, but we also had to consider many more factors, such as the company ethos and values, our own future role in the business, and our potential exit strategy."

With an international manufacturer owning a stake in the company, it could potentially be very difficult to sell their business shares to any other company than the investor itself. In the past, the investor had been known to have done animal testing and they were therefore concerned that the ethos of Organic Apoteke would disappear and the brand swallowed. Since the international manufacturer produces more than just cosmetic products, both Nitasha and Vishal, moreover, questioned the overall fit within the product portfolio. However, through its international activities, the manufacturer has a good supply chain and marketing department in place, which could allow them to move into the US stores more easily.

A further financing option appeared while Nitasha was taking part in an executive programme at the Kellogg School of Management in the USA, for which she had won another DTI scholarship. Her mentor on the executive programme had previously also been the mentor of the CEO of one of the global premium beauty products companies. After meeting Nitasha and hearing about her business and products, he thought his mentees should meet. Within 24 hours a meeting was arranged between Nitasha and the operations director of the premium beauty products company. Shortly after their meeting, the company was ready to match the international food, home and personal care manufacturer's investment offer. The timing of the new offer was fortunate, as it not only reassured the couple that they had come a long way with their business, but also that their evaluation of the company at £4 million might not be unjustified. Moreover, with the new potential investor's impressive portfolio of prestige beauty brands, he clearly could contribute a great deal of experience and expertise. All these aspects made the new investment offer tempting. However, Nitasha and Vishal wondered whether the investor was perhaps only after their patents and had only valued the company on the perceived value of the patents. Would the investor even consider splitting the brand?

Even after long discussions and many sleepless nights, the couple could not arrive at a final decision and instead started exploring further financing options. After submitting their business plans to a number of venture capitalists in November 2006, they were approached by a UK and a US venture capitalist. The discussions with both venture capitalists were not only about the amount and financial terms of the investment, but also about the investors' role in Organic Apoteke. It became evident that no matter which of the venture capitalists came on board, the couple's leadership and trade input would be limited. Since Nitasha und Vishal did not want to lose the creative control in terms of positioning the brand, selecting future stores to go into, and, specifically, the brand's ethical ethos, neither was ready to make a decision.

To complicate their decision making even further, the couple received a further investment offer from a business angel and an offshore investment fund. Together the business angel and the offshore investment fund were offering £500,000 for a 15% equity stake in the business, with the business angel holding 10% and the fund 5% of the business. The investors had heard of Organic Apoteke and the firm's philosophy of producing effective and ethical cosmeceuticals. Both were looking for a new venture producing ethical products. They had no direct business experience in the cosmetic industry, but the business angel had expertise in distribution and in the US natural food sector. Both investors assured Nitasha and Vishal that they did not want to be directly involved in the daily management of Organic Apoteke, nor did they plan to sell Organic Apoteke within the next ten years. This sounded very promising, but was it worth the couple giving up more equity than in the previous options?

At this point it was nevertheless crucial that a decision should be made without delay to give them more time to spend on running the business. With more orders coming in and the discussions with Whole Food Market requiring her to fly to the USA nearly every week, Nitasha "felt like I was just keeping my head above water while juggling thousand of things at the same time".

It was now the 23 November 2006, the day of the final pitch. Nitasha hoped to win over the panel of judges and to receive the much needed investment to finance their US expansion. She gave a very confident presentation on the night and handled all the questions from the panel well. When Peter Jones started questioning the company's valuation, the panel of judges could not understand why Nitasha and Vishal had not accepted one of the existing investment offers. Since they doubted the company valuation and did not have sufficient knowledge of the cosmetic industry, all four panel members felt that they could not commit to an investment.

Nitasha and her husband Vishal drove home partly disappointed but also with a curious sense of relief. How should they proceed? With all these offers on the table, the couple realised it was time for a decision. They had a choice between a handful of investment options to finance the move into the USA: (1) a UK retail bank, (2) an international food, home and personal care manufacturer, (3) a premium cosmetic brand, (4) a UK and a US venture capitalist, and (5) a business angel and an offshore investment fund.

Nitasha and Vishal agreed that it would be worthwhile hiring a consultant to help them decide which investment offer to accept and under which conditions. There were many questions that had to be pondered: Had they taken enough steps to de-risk the venture and to attract the investment they needed? Were they asking for enough money to finance the US expansion and the growing of the business? Which investment option should they choose? Or should they look for other options such as asking a bank for a loan? They hoped the consultant would help them decide!

Appendix A – Products and Customer Testimonials

"I have a severe skin disorder and I have highly sensitive skin. I recently started using Organic Apoteke's Rejuvenating Range. Before I started using Organic Apoteke I had dull lifeless skin, which was dry and flaky. After a few months of using Organic Apoteke, my skin has never been better. My skin has greatly improved and my dehydration lines have been erased. Not only has the symptoms of my skin disorder improved but now I have the beauty blush! Thank you for creating such amazing products. You have helped me by improving my confidence as well as my self esteem."

"I have to say I love this product. Nothing has changed my skin as much as Organic Apoteke. I have people telling me "wow your skin looks great – polished." I am so impressed! Thanks again! Your products are incredible!"

"I LOVE your products - my skin has never looked better!"

"I literally only used the product last night and this morning and when I came in to work today, I had two people comment on my skin (outside of the norm!). This product is absolutely fabulous, you can feel the nutrients from the get go."

"I had a Beauty Blush moment the very first time I tried the Organic Apoteke products. My skin is incredibly sensitive…to everything. I could sense right away that my skin was so happy to be nurtured with this line. After suffering years of breakouts and reactions, my skin felt so FRESH and tingling and taut and loved. After a couple of months now of using OA, my skin is recovering from years of too harsh products. I love the feeling of warmth I get from OA and I even smiled at myself in the mirror recently when I saw that I did not need to put on makeup!!!"

Source: Organic Apoteke website (www.organicapoteke.com, 2008)

Appendix B – Consumer Understanding and Developments

“Super cream or super con?”, the Daily Mail article published on 27 September 2006, maintained that society is witnessing a youth-driven culture in which "[e]veryone wants to be young, or at least look young". This has resulted in an increased number of women turning to plastic surgery or Botox to improve their looks, making it ever more acceptable to spend significant amounts of money on image enhancement.

The phenomenon has had a knock-on effect on skincare. Those consumers who do not want to submit to the knife or the needle are spending increasing amounts on creams that promise the same result. "… [T]he alternative to surgery is skincare, so as a result women are constantly searching for that miracle product that will hold back the years …”.

In the past, high-priced skincare tended to target older consumers with their higher disposable income. Currently, the disposable income of the younger generation is higher than ever before. Furthermore, young women spend money on skincare to try and compensate for their bad habits such as smoking or not drinking sufficient fluids during the day. Women of all age groups are searching for the same cream, a “miracle in a jar”.

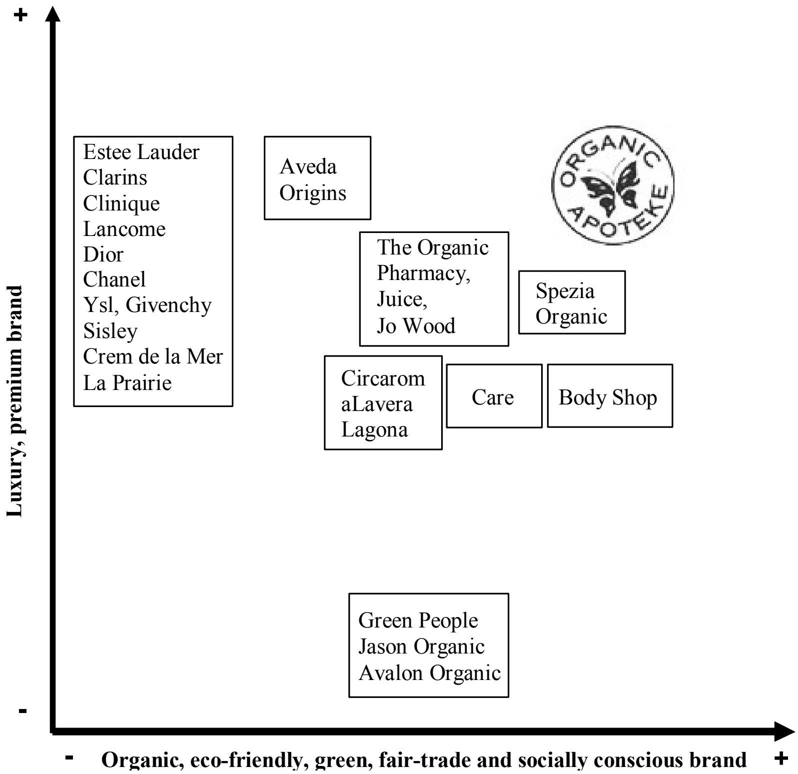
Moreover, consumers tend to associate a high-price product with effectiveness. In fact, “… technology and scientific studies are often used to wow women and, increasingly, manufacturers are flagging up their use of very exotic and rare ingredients to validate their exorbitant prices of their products …”.

In many cases, it also appears that consumers are paying for research time and experience. Some critics claim that the high-priced "doctor brands", developed in conjunction with dermatologists, which have flooded the market in recent years, trade on the "dermatologist approved" tag to convince women they are worth the money. Nicky Kinnaird, President and Founder of Space NK, argues that she personally and extensively researched all the "doctor brands" stocked in her stores and found they therefore really do justify their prices. “Leading dermatologists, such as Dr Brandt and Dr Sebagh, and plastic surgeons, including Dr Norman Leaf of Leaf & Rusher and Dr Gregory Bays-Brown of ReVive, are making a remarkable impact as a result of the research behind, and the technology involved in the creation of their respective skincare ranges. This demands a level of knowledge, expertise, and research not previously seen," says Nicky Kinnaird. "… This level of scientific advance is groundbreaking and is a result of skincare experts working with some of the world’s most respected and innovative scientists. The resulting products will inevitably have to come at a certain cost…"

Today, women are also better informed and more widely read than ever before, giving them a wider choice and more substantiated opportunities for comparison.

Source: Adapted from “Super cream or super con?”, Daily Mail, 27 September 2006

Appendix C – Competitor and Market Data



Source: Adapted from Organic Apoteke

Estee Lauder Group

The Estee Lauder Group engages in the manufacture, marketing, and sale of skin care, make-up, fragrance, and hair care products. Its products include moisturizers, creams, lotions, cleansers, sun screens, and self-tanning products; lipsticks, lip glosses, mascaras, foundations, eye shadows, nail polishes, and powders; fragrance products for women and men; and hair colour and styling products, shampoos, conditioners, and finishing sprays. The company offers its products under the Estee Lauder, Aramis, Clinique, Prescriptives, Lab Series, Origins, MzAzC, Bobbi Brown, La Mer, Aveda, Jo Malone, Bumble and bumble, Darphin, American Beauty, Flirt!, Good Skin, and Grassroots brand names. It also manufactures and sells Kiton and Toni Gard products as a licensee. The Estee Lauder sells its products through various distribution channels, including department stores, specialty retailers, upscale perfumeries and pharmacies, and salons and spas, as well as through company-owned stores and spas, retail Websites, stores on cruise ships, and in-flight and duty-free shops. It operates in the Americas, Europe, the Middle East, Africa, and the Asia-Pacific. The company was founded in 1946 and is based in New York, USA.

Clarins Group

In 1954, Jacques Courtin-Clarins decided to 'take beauty seriously' and developed one unique philosophy: Develop a dialogue with women to satisfy their desires for well-being and respect them by offering a range of the best plant-based skin care products distinguished by their innovation and effectiveness. These products and their application methods met with immediate success. On this basis, in the early nineties the Group became the European leader in skin care products and expanded into two other cosmetics segments: make-up and perfume, through 4 prestige brands: Clarins, Thierry Mugler, Azzaro and Stella Cadente. Today the Group has well-established worldwide reputation supported by: an expanding international network of 20 distribution subsidiaries, a presence in 150 countries, a gross workforce of 6,100 employees, 19,000 points of sale and net sales approaching the €1 billion milestone.

P/E ratios of various companies in the cosmetic industry:

Estee Lauder Group: 21.44
L'Oreal Group: 17.6
Shiseido: 29.6
Beiersdorf: 22.4

Source: Financial Times and respective company websites

Appendix D – Balance Sheet of Organic Apoteke Ltd

		2005		2006		2007 (forecast)
		£		£		£
Fixed assets						
Tangible assets		**2,340**		**16,544**		**30,684**
Current assets						
Stocks	8,500		14,500		29,674	
Debtors	-		-		107,675	
Cash at bank and in hand	76		11,179		(31,970)	
	8,576		25,679		105,379	
Creditors: amounts falling due within one year	-		-		(15,176)	
Net current assets		**8,576**		**25,679**		**90,203**
Total assets less current liabilities		**10,916**		**42,223**		**120,887**
Creditors: amounts falling due after more than one year		**(44,955)**		**(160,261)**		**(327,469)**
Net liabilities		**(34,039)**		**(118,038)**		**(206,582)**
Capital and reserves		**100**		**100**		**100**
Called up share capital		**(34,139)**		**(118,138)**		**(206,682)**
Profit and loss account						
Shareholder’s funds		**(34,039)**		**(118,038)**		**(206,582)**

Appendix E – Profit and Loss Account of Organic Apoteke Ltd

	2005 £	2006 £	2007 (forecast) £
Sales			
Sales	**12,258**	**11,325**	**89,579**
Cost of Sales			
Purchases	18,273	29,399	38,695
Increase in stocks	(8,500)	(6,000)	-
Other direct costs	987	1,258	8,922
	10,760	24,657	55,934
Gross (loss)/profit	**1,498**	**(13,332)**	**33,645**
Administrative expenses			
Employee costs:			
Sub contractors	1,878	5,612	-
Wages and salaries	-	-	17,555
Travel and subsistence	2,334	233	5,880
Motor expenses	-	1,576	4,900
Entertaining	328	-	-
	4,540	7,421	28,335
Premises costs:			
Rent and rates	1,425	8,591	21,557
Light and heat	884	110	-
	2,309	8,701	21,557
General administrative expenses:			
Telephone and fax	692	2,794	3,590
Stationary and printing and postage	4,442	10,635	-
Courier services	689	-	-
Information and publications	903	3,418	-
Bank charges	311	249	1,241
Sponsors	638	-	-
Insurance	270	474	299
Equipment hire	-	-	5,763
Internet and software expenses	1,877	557	6,325
Repairs and maintenance	-	4,546	7,689
Depreciation	780	2,441	2,524
Relocation costs	-	-	1,333
Sundry expenses	387	1,013	2,425
	10,989	26,127	31,189

Appendix E – Profit and Loss Account of Organic Apoteke Ltd (continued)

	2005	2006	2007 (forecast)
	£	£	£
Legal and professional costs:			
Accountancy fees	-	1,175	3,375
Consultancy fees	-	2,102	4,033
Trade shows	1,198	1,470	3,095
Advertising and PR	16,081	21,147	23,351
Other legal and professional	552	2,672	7,693
	17,831	28,556	41,547
Administrative expenses	**35,669**	**70,815**	**122,628**
Operating loss	**(34,171)**	**(84,147)**	**(88,983)**
Interest receivables	**32**	**148**	**439**
Loss before tax	**(34,139)**	**(83,999)**	**(88,544)**

Appendix F– Breakdown of Funding Requirement for US Expansion

	£	£
Fixed costs / overheads		**346,000**
Rent and rates	18,000	
Utility bills	3,600	
Phone bills / communication costs	2,400	
Accounting Bookkeeping	2,500	
Legal / insurance and licensing fees	24,000	
Postage	2,400	
Technology	9,600	
Equipment	9,300	
Vehicle	4,200	
Marketing / PR	90,000	
Salaries	73,000	
Distribution costs	107,000	
Variable costs		**154,000**
Cost of goods sold	80,000	
Raw ingredients		
Packaging materials		
Printed / advertising material / labels		
Direct labour costs	74,000	
Customer services		
Direct sales		
Direct marketing		
Total capital investment		**500,000**
Total net funding required		**500,000**