



TRAIN-PAIN

Business Plan for Masters in Relations with Eastern
Countries, 2011





Main sources used:

Source	Web address
1) Vapi Salotti	www.vapisalotti.it
1) Trenitalia	www.trenitalia.it
2) Deutsche Bahn AG	www.deutchbahn.ge
3) Primary Interviews	Mr. Luigi Piccioni
4) Eurostat	www.eurostat.com
5) Vapi Annual Reports	-
6) Team Analysis	-

AGENDA

- **Introduction**
- **Management team & Partners**
- **Product & implementation**
- **Market sizing & competition**
- **Customer Analysis**
- **Financial analysis**
- **Proforma of the contract**
- **Taxes to be paid**



**INTRODUCTION:
HOW ARE WE GOING TO MAKE THE
MONEY?**





At the outset we would like to state that current business plan is not a technological break-through but it is a creation of a new market which satisfies and responds to nowadays necessities.

- **INVESTOR:**

The main focus of our work is the company "Vapi Salotti" which is an SME situated in Nereto, Teramo in the region Abruzzo in Italy. The core competency of the company is the manufacturing of sofas, chairs, massage chairs and other furniture.

- **RATIONALE:**

We live in the 21st century, in the century of globalization and development of international business. To support their businesses and even leisure time, people have to spend a considerable amount of time in their business trips and very often these trips are for a long distance. Airports, airplanes, railway stations, trains...These are the places where people nowadays spend a considerable amount of time, stressed and exhausted, merely dreaming of a calm soothing massage. Strangely, this abundant free time has not been jumped upon as a smart, money making opportunity. Not anymore!

- **PARTNERS:**

We want to initiate a new sphere of activity for the massage chairs manufactured by the company, "Vapi Salotti" with the purpose of installing them in the trains of Italian company "Trenitalia" and German company "Deutsche Bahn AG"

- Expected amount of profit for the company "Vapi Salotti" is **€3,076M** till the period **June 2017**, with a staggering absolute **1538%** Return on Investment. The partner companies "Trenitalia" and "Deutsche Bahn AG" realize nearly the same profits.

The numbers speak for themselves!!

- **RESOURCE SHARING STRUCTURE:**

- **Costs:** All production and installation costs borne by Vapi Salotti
- **Revenues:** 50%-50% between "Vapi Salotti" and "Trenitalia" on one side and "Vapi Salotti" and "Deutsche Bahn AG" on the other



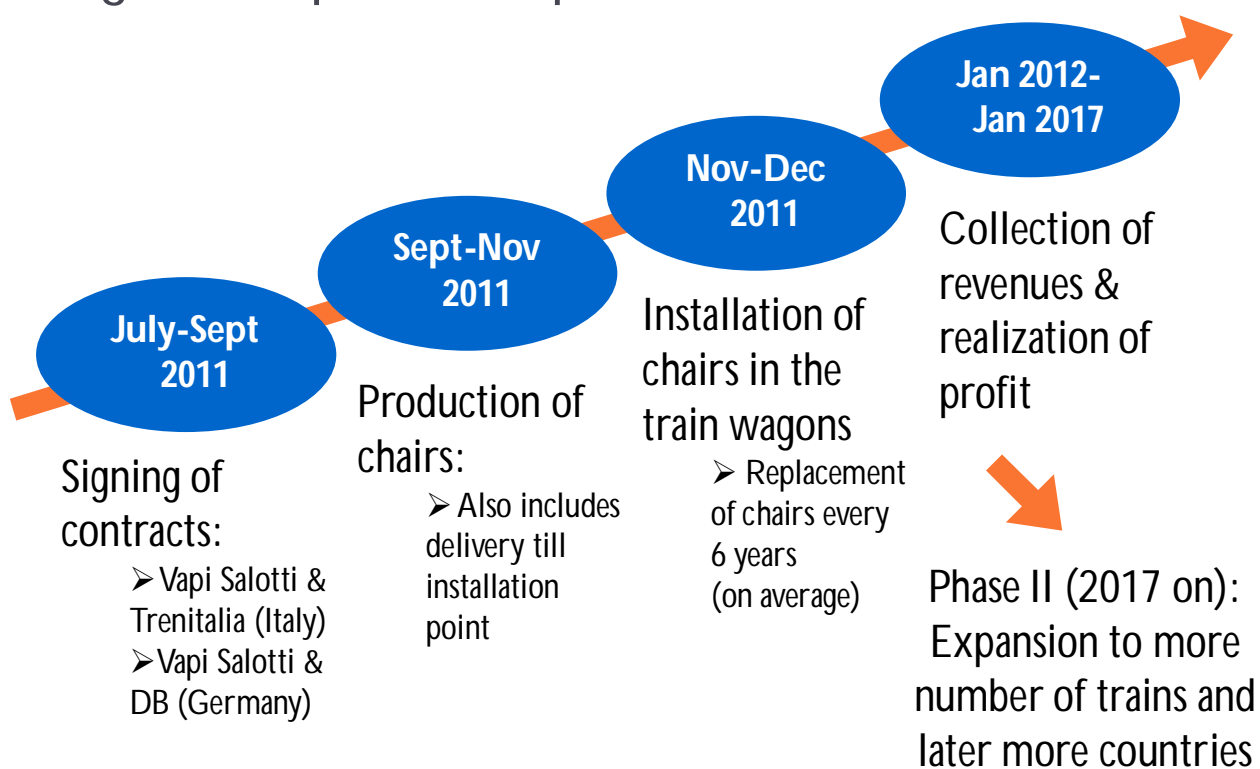
- HIGH ADVANTAGES FOR BOTH PARTIES:
 - Manufacturer covers all expenses but begins to earn profits in a very short span of time: **115 days**
 - The train companies with hardly any expenses (except the opportunity cost on the number of passenger chairs removed to accommodate the massage chair) make as much revenue as Vapi: **€1,6335M** each



Time schedule of business plan:



Logical steps of our plan : Phase I



Management team & Partners:

Please let us introduce our project management team:

- 1.Giulia Sizova- Coordinator of the project
- 2.Parul Punjabi- Financial Manager of the project
- 3.Simona Piccioni- Manufacturing Manager
- 4.Mary Feng- PR manager
- 5.Staff of the company «Vapi Salotti»
- 6.Staff of the company «TrenItalia»
- 7.Staff of the company « Deutsche Bahn AG »



Company Snapshot: Vapi Salotti

Business Summary

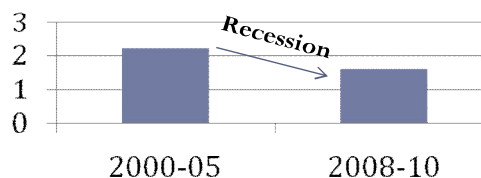
- **Description:** Local producer and seller of furniture- home & office
- **Company type:** Private
- **Products:** Sofas & Chairs
 - For the current venture, customized massage chairs for installation in trains

Sales Channels

- Mid-sized sales operations, focused solely in Italy
- Sales through owned stores, factory sales & agents
 - >600 stores
 - >30 agents

Stable revenues

Revenues (€M)



Other key information

- **Established:** 1989
- **Founder/ Owner:** Mr. Luigi Piccioni
- **Product quality:** Medium-high
- **Pricing:** Medium

Vapi Salotti: Where to find us?



PRODUCT & IMPLEMENTATION





THE PRODUCT: SHIATSU MASSAGE

It is important to remember that *we are selling is not a product but a service.*

However to facilitate the provision of this service, we need a product that in our case is 'massage chairs' custom-made for use in trains and platforms.

We have chosen Vapi Salotti firm as producer of our product just for its medium-high quality and its strong experience in the sector. As we shall see later, the quality competes with other top competitors and beats many competitors when considered in the price-benefit perspective.

It is necessary to state the technical specifications and the finer details of the product:

The article is MODEL RELAX.

We have chosen the smallest chair from the entire range of massage chairs manufactured by Vapi Salotti keeping in mind the final destination of our chair: a passenger carriage! We are not furnishing a big living room but a limited space in a common area.

For this reason, the *dimensions* of our massage chairs are (H x W x D) 95x94x100 cm. But when the chair has feet rest and back totally deployed the length expands to 180cm.

The total *weight* is 100 kg and the power consumption of the massage engine is 144 watts. It is the back of the chair, entirely ergonomic, that contains the massage engine.

The mechanism of *massage engine* is composed of two arms with four massage balls orbiting, which correspond to high degrees of pressure, if required. The massage balls are mounted on rails that generate a constant and massage evenly over the entire



surface of the back and act directly on muscle tension giving a pleasant sense of well being.

The *remote control* permits to choose kind, position, zone and strength of the massage and is equipped with the convenient pocket in the left side of the chair.

The *coin box* is installed in the right side of the chair, usable only with coins. We have decided that the coin box shall work only with coins and not with tokens (a usual practice in coin operated massage chairs), thus allowing a more simple and immediate use of the chair. We also decided to install a coin box with timer to let other people know the time remaining to the end of the massage. The coin box is protected by a sturdy metal plate coated with a thickness of 1.5 mm, to be set in the chair. The tubular lock, acting on a three-point locking, high resistance to burglary attempts. The box includes a tank for about 650 coins. The duration of activation depends on the amount paid. We have decided a fixed price of 5 euro for every 30 minutes of massage (refer to the financial section).

To combine the installation of the chair on the train floor we had to change the normal *feet* of massage chairs with a special aluminum foot easily adaptable to the train floor.

For the *textile* we have chosen a textile completely fireproof, stain proof and antibacterial to ensure multiple and safe usage in trains.

The *cost of production* of one chair is about 600€ that comprising: plywood 40€, foam rubber 30€, textile 30€, engine 400€, work 120 €

The *time of production* of one chair is about 6 hours.



THE SERVICE: SHIATSU MASSAGE

Shiatsu massage is the what the current plan proposes to sell (a service which shall be offered using the massage chairs described in the previous section).

Shiatsu is a massage therapy originating in Japan.

There is no scientific evidence proving that shiatsu can treat any disease, but shiatsu practitioners promote it as a "natural" way to help people relax and cope with issues such as stress, muscle pain, nausea, anxiety, and depression. There are two main Shiatsu schools: one based on western anatomical and physiological theory, and the other based on Traditional Chinese Medicine (TCM). Shiatsu is regulated by various governing bodies set up by Shiatsu practitioners. Shiatsu is an evolving form, and its various styles incorporate aspects of Japanese massage traditions, Chinese traditional medicine, and "Western" anatomy and physiology.

Shiatsu (指圧 Japanese from *shi*, meaning *finger*, and *atsu*, meaning *pressure*), as well as *Teate* (手当て, pronounced *te-a-te*) originated in Japan. There were many hands-on therapies called Teate before traditional Chinese therapies such as Acupuncture and Tuina (called Anma in Japan) were introduced to Japan around 1000AD. The practice of this massage was a semi-mystical activity performed by women and the blind. The term shiatsu may have been first cited in a 1915 book, Tenpaku Tamai's *Shiatsu Ryoho*.

Tokujiro Namikoshi founded the Japan Shiatsu College in 1940 and systematized a form of shiatsu therapy based on Western anatomy and physiology. In Japan, Namikoshi's system enjoys special legal status, and its adherents often credit him with the development of shiatsu; the story is told that at age seven, Tokujiro Namikoshi developed a technique of pressing with his thumbs and palms as he tried to nurse his mother who suffered from rheumatoid arthritis. Shizuto Masunaga, originally a student and then teacher at the school, and professor of psychology at the Tokyo University, opened his own school (Iokai Center



of Shiatsu) and taught what has become known as the Zen style of Shiatsu based on Traditional Chinese Medicine. Namikoshi treated many high profile persons such as former Japanese Prime Minister Shigeru Yoshida and other successive prime ministers, the prosecutor for the International Military Tribunal for the Far East, Prosecutor Keenan, as well as celebrities like Marilyn Monroe and Muhammad Ali, though it was Masunaga's book, Zen Shiatsu, published in the 1970s that was instrumental in establishing the techniques outside Japan.

Since 1980 the evolution and development of shiatsu has largely taken place in Europe and North America.

The aim of a Shiatsu Practitioner is to rebalance the flow of energy (Ki), along the meridians or channels. The surface touch uses points on the surface known as Tsubo to access those meridians. The practitioner feels for excessive (Jitsu) or deficient (Kyo) energy (Ki) within the meridians as they control the movement in the body




As written above the conditions treated from shiatsu massage are: back pain, headaches, whiplash and neck stiffness, joint pain and reduced mobility, menstrual problems, digestive problems, asthmatic symptoms, sports injuries, depression and stress.

KINDS OF MASSAGE OFFERED

Our massage chairs are able to create different types of massage through the movement of four balls, of which we give below a brief description. All the movements described are performed by an automated program that decides its intensity, location and change from one type to another.

Alternatively, the massages can be selected according to a manual mode, in which the user chooses the length, type, speed, position and width of the massage ball (e.g. 5 minutes of massage only on the shoulders).

Here below the different kinds of massage in our massage chairs:

<p><u>KNEADING MASSAGE</u></p>		<p>Light massage that makes wrap movements helping to alleviate the muscle pain</p>
<p><u>ROLLING MASSAGE</u></p>		<p>Extensive massage along the spine that helps to defuse tension and eliminate fatigue</p>
<p><u>PERCUSSION/TAPPING MASSAGE</u></p>		<p>Pat massage that stimulates the interested part of the body and blood circulation</p>

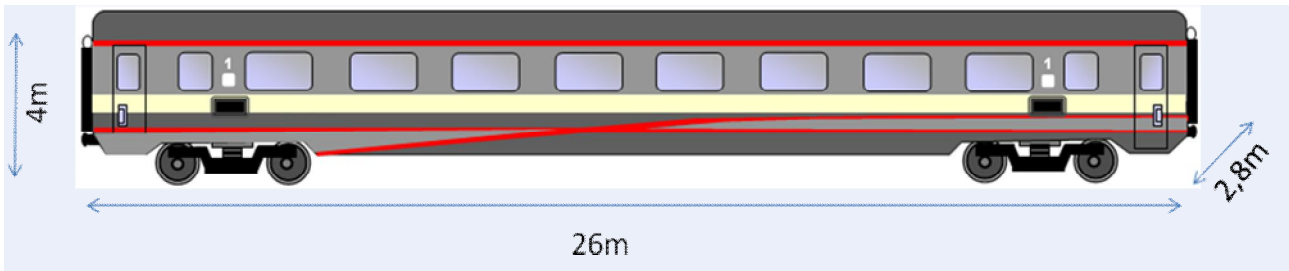
For a more-relaxing, more-enhancing massage it necessary to lower the back of the massage chair and lift up footrest – automatically deployed for every usage. This ensures that the feet are also involved in the massage with a vibro-function with different intensities, thus providing a holistic massage to all parts of the body.



IMPLEMENTATION:

TRAIN DIMENSIONS AND CAPACITY

The passenger car is a wagon, non-motorized, and specifically designed to carry passengers, providing service and part of the composition of the trains. Also worth mentioning at this stage is that it is necessary, especially in modern trains, easy movement of passengers from one car to another: so over the coupling between the wagons, there is a walkway that interconnects them, protected against weathering by special bellows. Today's passenger cars are usually 4-axis, divided into two trucks. They are of average length of 26 meters to 4 meters in height above rail level and 2.8 meters wide, and depending on the type of wagon door height can vary between 600 and 1200 mm from the dock. These measures are largely determined by rules agreed among the major European operators, gathered in the regulations issued by the UIC, the Union des Chemins de Fer, the main body of European legislation in the railway field. The coaches today can only be of first or second class, still non-smoking areas, which differ in space made available to individual passengers, while until a few decades ago were also used in the third class, and until 2001 also the designated smoking areas. In the newer type of cars, there has been taken into account the particular needs of disabled and there are spaces and technical solutions specifically dedicated to them (e.g. the technique of low-floor), concentrated mainly on head and tail cars.



Each train consists of 7 wagons. There are 2 wagons of the 1st class per train and 4-5 wagons of the 2nd class (one half of a second class wagon is reserved for restaurant).

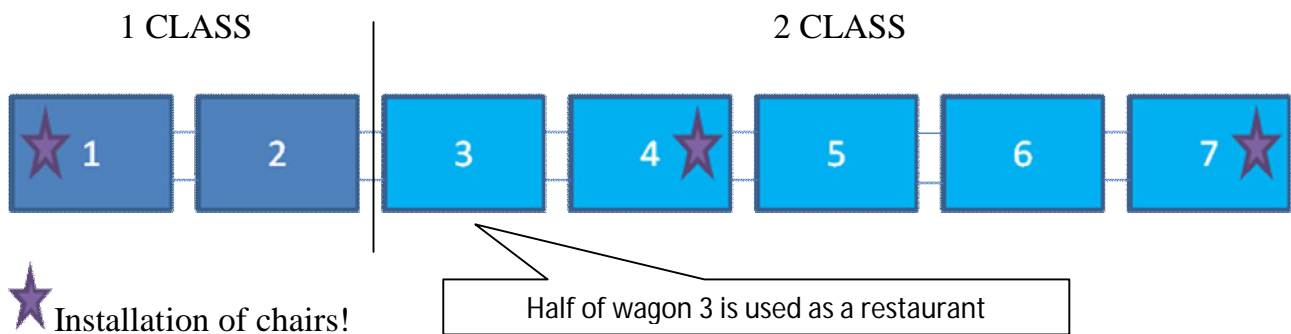
The total amount of seats per train is 432. The wagon of the 1st class has 54 seats and the 2nd class -68 seats for an amount of 126 seats in 1st class, 306 seats in 2nd.

INSTALLATION OF MASSAGE CHAIRS

Thinking about the number of chairs to install in one train we have decided to install 3 CHAIRS PER TRAIN. The installation of our chairs involves the elimination of some ordinary passenger seats. But this doesn't imply a loss of earnings for the train companies because trains are normally not completely full of passengers. In our case two ordinary passenger seats must be dismantled to install one massage chair; that the installation of three massage chairs per train means that six ordinary passenger seats per train must be dismantled. Again, the question of opportunity cost arises only if the trains run at >90% utilization.



Here below the project of the installation of massage chairs.



We have decided to install the chairs in the beginning, middle and in the end of each train to allow every passenger equal opportunity and access to the massage service. Based on sufficient research and a little element of business judgment, one chair shall be installed in the 1st class and two in the second class, in proportion to the average number of passengers traveling in each class. A point to note (not evidently obvious) is that the first class passengers still have more access to the service because of their willingness to pay (1 chair for 2 wagons) in comparison to second class passengers (2 chairs for 5 wagons).



Market sizing & Competition





1. Very high potential market; Small start but 4x expansion planned in 6 years
2. Small scale start to test the market, limit risks & build base for expansion

We analyzed that our market share in year 2012 will be 0.53% and finally up to 2.12% in year 2017, with developing of our business.

Below is the process analysis:

-In year 2010, the total volume of daily international or long-trip passenger transportation for Trenitalia and DB is 2.6 million (source: Trenitalia & DB official web site) and this number has been assumed to be constant over the following 6 year period for simplicity's sake.

-The massage chair will provide 1/2 hour service each time.

-We will install 3 chairs for selected train, total 66 or 67 trains

Other assumptions worth mentioning are:

-Assumption 2: the average travel time for international or long-trip train is 14 hours.

-Assumption 3: our occupation rate is 25%;

Therefore, in year 2012, the no. of our clients per day is roughly 1400.
($1400 = 14 * 25\% * 2 * 3 * 67$); percentage of covering of the market is 0.53%
($0.53\% = 1400 / 2600000 * 100\%$)

Then in year 2017, the no. Of our clients per day is roughly 5600 ($5600 = 1400 * 4$);
percentage of covering of the market is accordingly up to 2.12%.

This number for 2017 is based on the *expected recapitalization* of the business (refer to the financial section). During the period of 6 years, the profits earned shall enable expansion of production by at least 4 times and consequently in 2017 we can cover the market 4 times bigger than now (at least).

Based on above analysis, we came a conclusion that there is a high potential market existing.



The initial investment amount from Vapi Salotti is 0.2 million euro, this amount will cover all expense we need to produce and install 198 chairs in total 66 international long-trip trains, 33 international long-trip trains each in the two countries.

According to our plan in year 2012, we start to collect our revenues and gain profit. So considering this positive financial forecast, 0.2 million euro initial investment is really a small scale start but sufficient to test both German & Italian market potential and acceptance. Our investment and co-operation with the two state train companies will build base for our future expansion.

Frankly speaking, there is no entrance barrier for this project. The key point is our brilliant original idea. We created this new business module, which non one did before. So to protect us against competition from the market, we will negotiate with our partners, Treintaly & DB, and sign an exclusive contract with them respectively in order to avoid the installation of competitors' massage chairs. The validation period will start in year 2012 and be lasting 6 years.

During this period of 6 years, our business supporting employee will collect the usage data of our massage chairs, to measure the exact occupancy rate and the difference in consumption among passengers from first class and second class.

In 2017 we can potentially cover the market in 4 times bigger than year 2012. In addition, the designed massage chair life is 6 years. Therefore, we will replace all existing chairs with new ones, at the same time, we will consider to install more chairs.

Are there any risks for our investor Vapi Salotti? The answer is yes. Maybe there is no acceptance in the market. However, even with the meagre 25% occupancy rates for 14 hours per day, the profits expected are huge. So, the risk lies only in the total amount of profits. The capital is guaranteed to be regained once the train companies agree to the proposal.

Potential competitors (massage chair market)

1. WELL STORE s.a.s. <http://www.wellstore.it/>

Location:

Via Dell'Artigianato 18 (industrial zone) 20070 San Zeno al Lambro, Milan

Main product:

various product for fitness, sport and body care.

Brief introduction of company:

It is a on-line shopping mall, which is focus on innovative products in the fitness, sport and body care segment

Strength:

strong supplying chain

Weakness:

to provide massage service in the train is against its current business model.



2. CANGURO Import-Export <http://www.giochicanguro.it/eng/azienda/center.asp>

Location:

via Cerchia di S. Egidio, 837 47023 Cesena (FC) - Italy

Main product:

- ✧ Kanguro trampolines
- ✧ Plastic water playground equipments

Brief introduction of the company:

It has founded in 1999 as Kanguro jumping trampolines constructor.

Since 2003, they specialize in the import of various types of products from the Chinese market, including massage chairs. So it is only a trading company.

Strength:

competitive price

Weakness:

- ✧ small size





- ✧ Since massage chair is not its main product, so it has weak service in technical side, and may have high maintenance costs.
- ✧ Trading company can not afford such big investment at a time.

3. MC DISTRIBUZIONE, <http://www.mcdistribuzione.it/>

Location: Via Einaudi, 46 - 35030 Saccolongo (PD) - Italy



Main product:

- ✧ lift-chairs, and massage
- ✧ Cook tools
- ✧ Bicycle

They start to sell massage chairs in big shopping centers in Europe this year.

Brief introduction of company:

A young Italian company specialized in the import market. Their characteristics are the attention to the quality and elegance of the products

Strength: same like 2

Weakness: same like 2

4. SHANDONG KANGTAI INDUSTRY CO., LTD

<http://www.chinamassagechair.com/>



Location:

Shandong Kangtai Industrial Co., Ltd. is Shandong, China.

Main products:

They focus exclusively on the production and sale of foot SPA massage chair, folding bed, 3D massage sofa, and related products



Brief introduction of the company:

It is a leading massage manufacture in the world, which is OEM supplier for Panasonic (Japan), Johnson (Taiwan), Brothers (China).

The company covers an area of 220,000 square meters, has more than 1100 staff.

Have more than 20 years of experience and advanced level from production to sales in massage chair business.

massage chair series have passed Europe CE and GS approval, some chairs have got through RoHS directive test.

Strength:

- ✧ Strong technical and finance capacities
- ✧ Competitive cost

.Weakness:

- ✧ Hard to set relationship with both state train companies.
- ✧ No facilities in Europe, may have high maintenance cost
- ✧ Against its current business model



THE CUSTOMER SECTION





CUSTOMER SEGMENTATION:

The target market is defined as all train passengers in the two selected countries. However the first phase is more a pilot than a full scale implementation, considering the scale and the financial resources available.

The target customers are characterized by the following features:

- a) Both first and second class passengers to maximize coverage
- b) High proportion of wealth in hand, with high willingness to spend
- c) Free time in hand with recreation at own supply

As for a), the choice has been a conscious one not to brand the service as a luxury. The focus has been to keep it accessible to the whole universe of the target to penetrate the market as deep as possible from the beginning. The first phase not only serves the purpose of piloting the whole process, but also enables the capturing of maximum possible market size and building brand name and recognition among the general masses. The Phase I target may be ideally defined as, 'All passengers (long-distance), irrespective of class, covered in total 66/67 trains'. The crucial point to note here is the choice of the pricing. Prices have been deliberately set to a low €/half hour to expand the market, i.e. to include second class passengers in the target.

As for b), the two countries chosen have been carefully selected on the basis of two factors: standard of living and disposable incomes. The decisive statistic hence has been the per capita income:

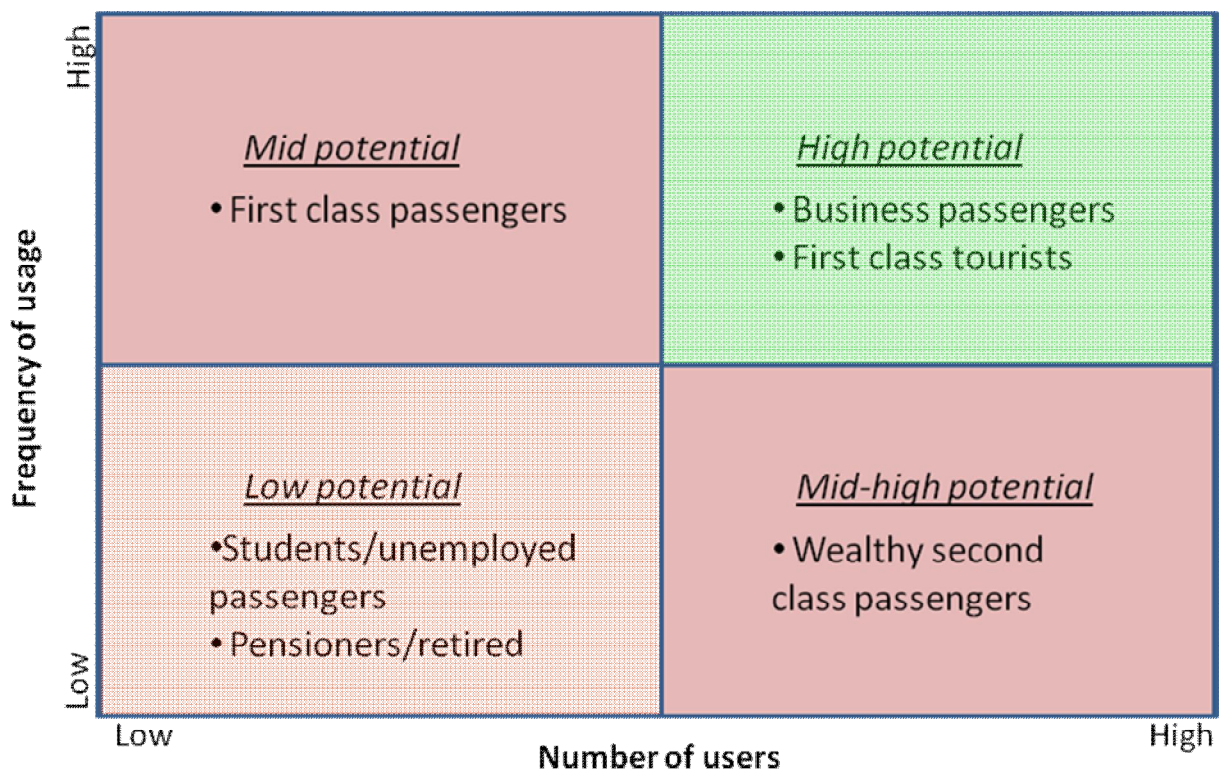
Per Capita Incomes as high as €42.450 (DE), €31.360 (IT)



Now to segment the above market, 2 very clear segments emerge:

- i. First class vs. second class passengers
- ii. Tourists (with higher willingness to spend) vs. local travelers

This can easily be visualized in the following chart:



Source: Team Analysis

As for c), the point is mere obvious. The trains in the two countries – long distance or short – have no provisions whatsoever of recreational activities. Hence, the average passenger is left with a lot of free time in hand with no means of recreation except the ones he can manage on his own. And this results in reading books or fiddling with one's laptop. A point to note here is the strange fact that despite the evident



abundance of leisure time, no proper commercial utilization of such time has been planned before, leaving a huge gap to capitalize on. Hence, the idea of ‘Train-Pain’! Another interesting factor that would potentially boost the consumption of our services is ‘fatigue’. It is only natural that passengers on a long distance journey of, for example, 8 hours are obviously tired sitting in the same position. A number of train passengers complain of back pains after a long journey¹. Hence the choice to provide such a service becomes all the more necessary.

¹ Passengers campaign against 'tiny' new train seats: The UK case, Mar 2011

Source: <http://travel.aol.co.uk/2011/03/22/passengers-campaign-against-tiny-new-train-seats/>



THE FINANCIAL SECTION

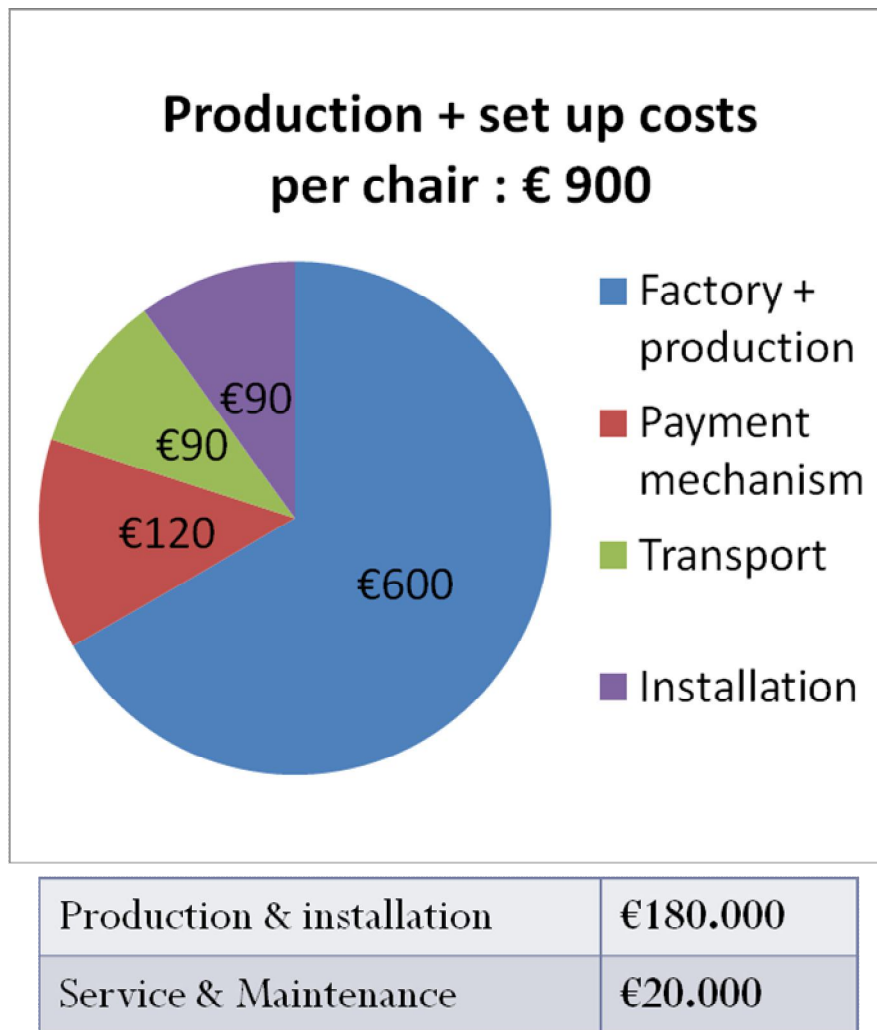


FINANCIAL ANALYSIS:

PART I: THE COST REVENUE EQUATIONS:

The most important part of the whole plan lies in the financial feasibility of the project. As stated before, with the limited resources available, a substantial market test with the potential to gain considerable brand reputation is available. All it requires a simple yet strategic launch of such services.

Let us analyze the costs of providing such a service. Please note that the largest cost here is the actual production and transportation of such chairs. The installation and the payment mechanism to be arranged are considerably cheaper.





Source: Team Analysis

Another cost component is the service and maintenance². In total the cost of 200 chairs works out to be nearly 200,000 Euros, the total amount of resources available.

Moving on to the revenue side of the equation, the price per use has deliberately kept very low to penetrate the market³. Assumptions here (see footnotes) have been taken assuming ‘worst case scenario’ to stay on the safer side. Since the revenue split is 50-50% between Vapi and its partners, based on a 6-year replacement plan, Vapi’s total operating revenues for 6 years with 200 chairs works out to be: €3,276,000

Revenue/chair: €5 for 30 mins	
a) Revenue / chair / 30 mins	€5
b) Train travel time / day	14 hours*
c) Occupancy of chair	25%*
d) Revenue / chair / day (a*b*c)	€17,5
- Vapi's share (50%)	€8,75
e) Total revenues / year [#]	€5.460
- Vapi's share (50%)	€2.730
f) Average replacement period	6 years
g) Total operating revenues	€6.552.000
- Vapi's share (50%)	€3.276.000

² This includes the cost of repairing the chair during the average 6 year life span. It is estimated at 100 Euros per chair considering the fact that such chairs actually last a whole 10 years before replacement is necessitated.

Source: Mr. Luigi Piccioni, Founder/ Owner, Vapi Salotti

³ Penetration pricing is the pricing technique of setting a relatively low initial entry price, often lower than the eventual market price, to attract more customers.

* Average train travel time / day and occupancy fixed very low assuming ‘worst case scenario’

Yearly revenues calculated based on 6 working days/ week : 312 working days per year



Source: Team Analysis

What the above two (cost and revenue) equations imply is a huge profit potential over the 6-year span. The strength of the idea lies in the fact that most costs are incurred in year 1 while revenue inflows till year 6, implying huge profit potential:

Vapi's costs: €200,000

Vapi's revenues: €3276000

Huge revenue-cost differential
(implying profit opportunity)

PART II: BREAK-EVEN ANALYSIS:

Break-even point may be defined as:

- A technique⁴ for which identifying the point where the total revenue is just sufficient to cover the total cost. OR
- The break-even point (BEP)⁵ is the point at which cost or expenses and revenue are equal: there is no net loss or gain, and one has "broken even". A profit or a loss has not been made, although opportunity costs have been paid, and capital has received the risk-adjusted, expected return

Based on the above definitions it is crucial to first understand the point at which costs equal revenues to assess the attractiveness of the whole venture. Now this cost = revenue may be defined, in our case, in terms of the number of units required to break-even or the number of days required to break-even

⁴ Wikipedia definition: http://en.wikipedia.org/wiki/Break_even_point

⁵ Levine, David; Michele Boldrin (2008-09-07). Against intellectual monopoly. Cambridge University Press. pp. 312

IN NUMBER OF DAYS (PER CHAIR):

Based on the aforementioned assumptions, each chair should break even within a year.

To further elucidate,

In number of days (per chair)

a) Revenue/day	€17,5
- Vapi's share (50%)	€8,75
b) Total costs	€1.000
- Production/Installation costs	€900
- Service/Maintenance costs	€100
c) Break-even point (incl. partner train operator)	57,1 days

d) Break-even point (for Vapi)	114,3 days
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**Each chair recovers its cost in 115 days;
Profits from day 116 till replacement date**

Source: Team Analysis

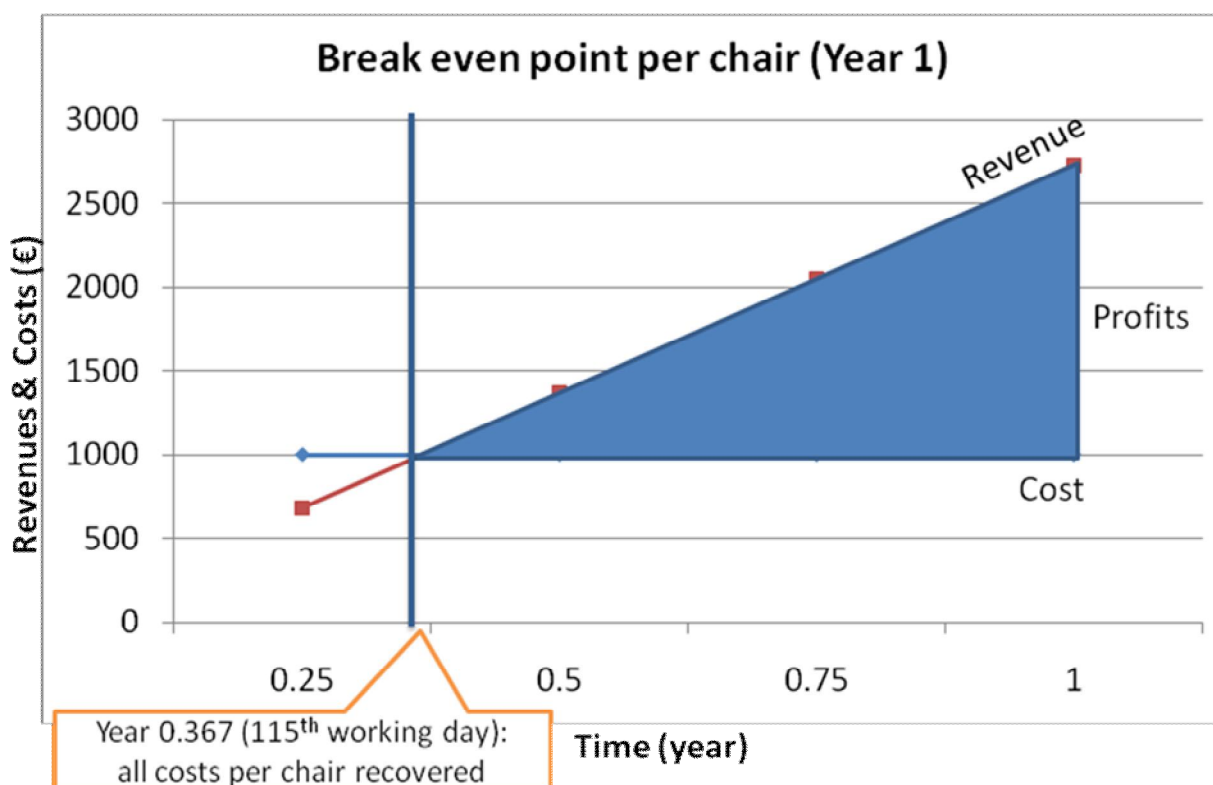
This means all revenues from day 116 are profits and based on the 6 year revenue inflow period, again it becomes evident that the magnitude of profits is very high.

Now, if we consider the revenues and costs of each chair in the first year it leads us to the answer that even within the first year, the company can start earning profits and huge profits at that.

We need to make two simple assumptions to plot the idea on a graph:

- Year 0 is assumed when the chair starts earning revenues (post-installation in trains)
- Costs remain constant over time as all costs are incurred before year 0 (based on the previous assumption)

Plotting, revenues and costs on the Y axis and Time on the X axis,



Source: Team Analysis

Clearly, the insight that stands out from the above graph is the quick turnaround after installation: *In less than half a year each of the chairs starts making profits.*

The shaded area represents the profit to be earned within the first year for 1 chair. With 200 chairs, the profit potential even within the first year becomes massive.

IN NUMBER OF CHAIRS (PER YEAR):

This part of the analysis focuses on the number of chairs to be produced to cover all costs right in the first year.

Based on the number that emerges, if we would like to break even sooner, it would be wiser to produce more units than the one required to break even in exactly one year. The sooner we break even, the sooner we start earning profits.

Considering the same assumptions stated above,

In number of chairs (per 1 year)

a) Revenue/ chair	€5.460
- Vapi's share (50%)	€2.730
b) Total costs	€200.000
- Production/Installation costs	€180.000
- Service/Maintenance costs	€20.000
c) Break-even point	36,6 chairs
(incl. partner train operator)	

d) Break-even point	73,3 chairs
(for Vapi)	



**In year 1 it takes 74 units to break-even;
Revenues from unit 75 onwards are profits**



What this implies is, within a one year time frame, production needs to be 74 units to cover all costs. With our planned production of 200 chairs based on the available resources, all revenues from chair no. 75 onwards are profits, again illustrating the huge profit opportunity.

PART III: PROFIT ASCERTAINMENT:

Total share of Vapi's profits: ~€3M

a) Revenue/chair/day	€8.75
b) Working days/year	312 days
c) Life of chair	1.872 days
d) Break-even period	114,3 days
e) Profit/chair ((c-d)*a)	€15.380
f) Total profit (200 chairs)	€3.076.000
g) Total investment	€200.000
h) Return on Investment (Absolute)	1538%
h) Return on Investment (Discounted @10%)	1098%

Source: Team Analysis



Time and again, it has been stated that the profit potential is massive. The deep analysis carried out above in Parts I & II of the financial section, it is rather easy to arrive at this part.

Another important factor to consider here is that the profits earned in year 6 are not the same as profit earned in year 1. Again, the rule is very simple as it is self-evident that with inflation, the price you get may be sufficient today but not 6 years down the line.

Hence, whatever % of profits is calculated, it needs to be deflated to bring the prices to the current level – and this has been done assuming a 10% rate.

Profits of upto €3M, implying absolute returns of 1538% in 6 years

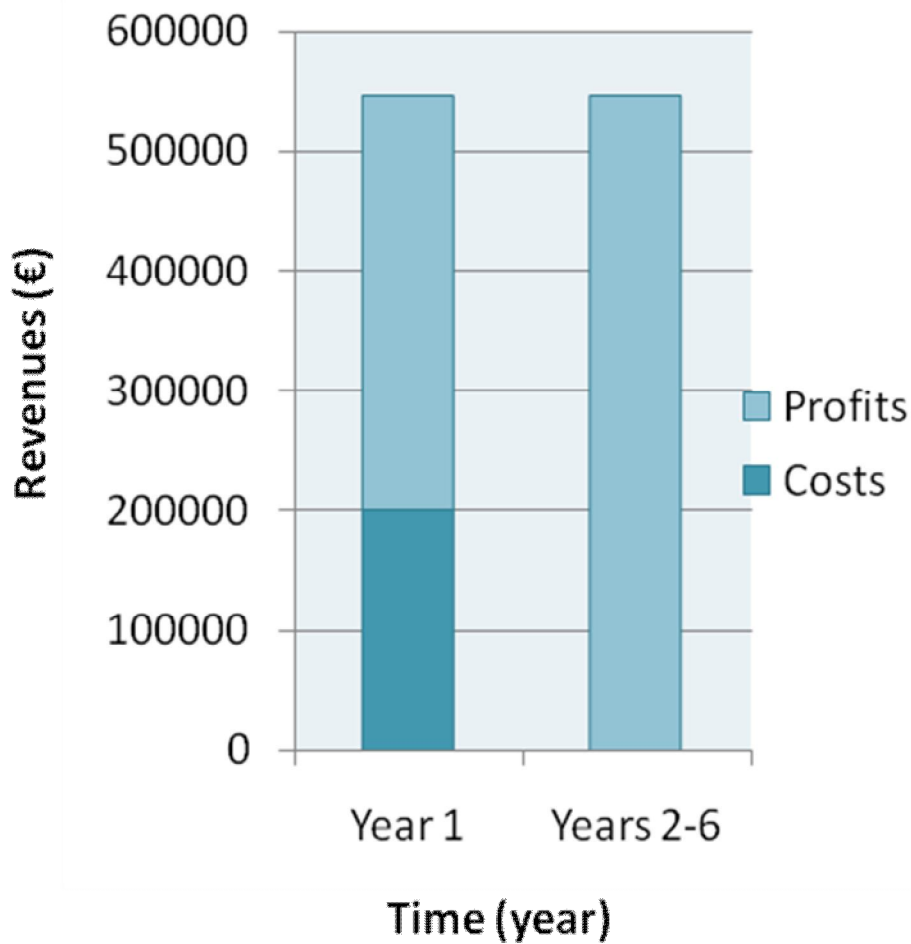
These €3M in profits, even when discounted at 10% p.a. to bring to the current value, imply massive returns of 1098%.

The simple reason for such high profits is the fact that revenues are earned every day while all costs are incurred before installation (assumed here for simplification purposes that the cost of servicing or maintenance, if any, forms a part of pre-installation costs).

So, until a certain point in year 1 (day no. 115), the chairs are still recovering costs. After that, revenues of each day are direct profits. No further subtraction needs to be accounted for.



Plotting it on a graph, the annual profits for each year are:



Source: Team Analysis

From the above graph, it is easy to visualize the profit to costs ratio each year. And the most attractive point here is that in years 2-6 practically no costs exist.

NOTE: Please note that the revenues and profits highlighted in the whole financial section above are shown as Vapi's share. For Trenitalia and DB, the share of revenue is exactly the same (50% share each).

Revenues of TrenItalia and DB: €1,638,000

As for profits, their profits are the same as revenues as they do not incur any costs whatsoever. The only cost is the opportunity cost of losing two passenger chairs per chair



installed, which practically is '0' even if we assume a very high 90% occupancy rate per train.

COST-BENEFIT ANALYSIS:

The cost benefit analysis has to be looked at from both sides of the spectrum- Vapi and the partner company. Also, it is essential to evaluate both qualitative and quantitative costs and benefits.

Based on a deep analysis of multiple variables, the simplified cost-benefit analysis can be represented as:

	Costs	Benefits
Vapi Salotti	<ul style="list-style-type: none"> • €180.000 for production & installation of chairs • €20.000 for servicing/ maintenance 	<ul style="list-style-type: none"> • ~€3M profit in 6 years • Access to new market (train recreation) • Greater customer base • Increased reputation/ visibility
Partner	<ul style="list-style-type: none"> • Theoretical opportunity cost: <ul style="list-style-type: none"> ➢ Loss of 6 passengers/ train 	<ul style="list-style-type: none"> • ~€1,5M profit in 6 years for each partner • Image transformation from ordinary to semi-luxury train companies • Increase in number of passengers



Vapi: Access to a new massive market with very limited investment

Partners: Huge profits with practically no additional expense/ effort



The venture's feasibility is verified as *benefits outweigh costs for both Vapi and its partners.*

Partner companies

Trenitalia:

- The primary operator of trains within Italy
- The owner is Ferrovie dello Stato
- Trenitalia offers transport around Italy and also connects to Austria, Belgium, France, Germany, Hungary, Slovenia, Spain, and Switzerland
- about 80 million train-km a year. The passenger-km are 26,000 million -11 mln each year only on the Eurostar
- 2000 of international trains

DBA:

- The second-largest company in the world and the largest railway operator and infrastructure owner in Europe
- The owner is Federal Republic of Germany
- Manages passenger travel within Germany and another 12 countries of EU
- Every day it operates over 31000 train trips on its modern 34000 km long truck network
- 8000 of international trains



Proforma of the contract between Vapy and Partners

Rome, 01 June 2011

A Contract between LLC “Vapi salotti” (via Mattei n. 5 - 64015 Nereto Italy), hereinafter referred to as the “Manufacturer” of the one side and TrenItalia S.P.A. (Via G. Giolitti, 1, Roma, Italy) hereinafter referred to as "Carrier." of the other side.

Hereby it is agreed as follows:

1. Subject of the Contract

"Carrier" shall participate in the process of the installation of massage chairs which will be produced by “Manufacturer (hereinafter referred to as the "Chairs") control the process of their using by passengers , provide the technical service to the Chairs , provide a written financial report once per week to the financial department of “Manufacturer” for a period of one year. The validity of this agreement shall be considered automatically in force for each next year unless cancelled by either party in writing 1 month prior to expiry date.



2. Installation of the Chairs

- 2.1. "Carrier" has to prepare its trains for installation of the Chairs i.e. dismantle 6 normal passenger's chairs per train – 2 normal passenger's chairs per wagon should be dismantled -and provide to Manufacturer with the technical experts which will install massage chairs in the trains of "Carrier".
- 2.2. All of the expenses according to dismantling of normal passenger's chairs and their further changing for massage chairs will cover "Manufacturer" company i.e. expenses for acquisition of the spares and instruments to provide the efficient installation of the Chairs. The working hours of technicians that will be spent for chair's installation will be NOT paid by Manufacturer
- 2.3. Installation of massage chairs should be finished not later than 31.12.2011
- 2.4. If this deadlines will be not met due to the fault of "Carrier" he has to cover all of the expenses which will take place after mentioned above date

3. Control of chair's using

3.1. The train guard has to switch on all of chairs at the beginning of its turn and switch them off after its turn

3.2. The train guard of every train has to give the assistance to the passengers if it is necessary and resolve the questions which can appear during the using

- 3.3. The train guard has to notify the responsible person from the side of TrenItalia about the breakage or problems if any during the day when the fault is happened



4. Technical service

4.1. Technical survey to determine the performance of the Chairs should be conducted 1 per every 4 month by the technical experts of TrenItalia. At the end of the survey responsible representative of TrenItalia has to provide the Service report to Manufacturer. In the case if Manufacturer will accept the list of spares to be changed and works to be done technical experts have to precede the repair of the chairs.

- 4.2. All of the spare parts and instruments will be paid by Manufacturer
- 4.3. The working hours of technical experts will be paid by Carrier company
- 4.4. After termination of every technical survey the responsible person from the side of TrenItalia has to send to Manufacturer the Service report about the works which were done by experts

5. Profit share

- 5.1. The profit will be distributed in proportion 50% of total amount of profit will be remained in the Carrier Company, other 50 % of total amount of profit will be remitted to the bank account of Vapi Salotti. This ratio will be valid during the whole period of validity of the contract

6. Collection of the profit

- 6.1. The train guard of every train has to collect the money from the payment device of every Chair at the end of its turn after that he has to give this money to the responsible person from the side of TrenItalia together with the Daily report of using of the chairs

7. Financial service report

- 7.1. Once per week every Wednesday until 14.00 p.m. the responsible person from the side of Carrier has to provide the manufacturer with Financial report in which the next points should be clearly stated:
 - - amount of profit collected during the previous week,
 - - weekly amount of profit per every chair with showing the location of every chair,
 - - reports of every train guard given to the responsible person during the previous week

8. Remittance of profit

- 8.1. The weekly profit should be remitted to the favour of Manufacturer not later than 14.00 p.m. every Friday according to the bank requisites mentioned in the point 11 of the present contract
- 8.2. In the case if Friday will be the national holiday the remittance should be done 1 day before i.e. on Thursday. The same should take place if the Thursday will be the national holiday
- 8.3. Another exceptions- reasons not to conduct the remittance cannot take place.
- 8.4. Another force majeure situations like strike or human factor cannot be reason for non-remittance.

9. Force Majeure

- 9.1. The Parties are released of any responsibility for partial or complete non-fulfilment of their liabilities under the present Contract, if caused by the circumstances of Force Majeure, namely: fire, flood, and earthquake, changed legislation of any Parties or any other circumstances beyond the control of the Parties.
- 9.2. The Party so affected should without delay give a notice in writing to the other Party about occurrence, nature and probable duration of such circumstances. If the Party affected fails to give such notice to the other Party it will lose the right to appeal to such circumstances except the cases when such contingency prevented it from sending such notice
- 9.3. In case a contingency stipulated in this Article has arisen should the conditions of paragraph 9.2. Hereof be met the period of Contract obligations performance can be extended for the time equal to the duration of such contingency and reasonable time necessary for its after effects removal.
- 9.4. If the circumstances of force-majeure character stated above continue longer than 3 months, the Parties shall jointly define further actions aimed for Contractual obligations performance.

10. Arbitration

- 10.1. All the disputes and differences which may arise from the present Contract or refer to it will be settled by the parties by means of negotiations. In case the parties do not reach an agreement any dispute or claim which arise from present Contract or due to the violation termination or invalidity of the present Contract will be settled by Arbitrage in line with the Regulations of the Arbitrary Institution of United Kingdom. Arbitration will



consist of one arbitrator. In case the parties do not agree to have another quantity of arbitrators. The language of arbitration - English.

- 10.2. Parties relationships which are not covered by the present Contract are regulated by the Convention of the United Nations organizations on the contracts of international purchase and sale of goods (concluded in Vienna on 11 April 1980) and the law of United Kingdom.
- 10.3. The Contract was drafted in two equal copies - one to Manufacturer another for Carrier.
- 10.4. Each copy of the present Contract was drafted in English. In case of disputes the basic text will be English.

11. Legal Addresses of the Parties

- Banking details:
<To be filled in after mutual consent to contract by each party>



Taxes to be paid

	Italy	Germany
VAT	20%	19%
Corporation income tax	27.5%	29.8%

	Italy	Germany
VAT	287.60	311.22
Corporation income tax	316.36	395.38
Sum	603.96	706.60

Tax payable: **€1,310.56 M**

Source: http://ec.europa.eu/taxation_customs/taxinv/welcome.do

Market promotion-ADVERTISING:

Advertising has been kept very focused with efforts directed towards the direct end customer. Hence, both print and broadcast ads shall be placed within every train providing the service.

Print advertising: The ads will be posted on each wagon door

Broadcast advertising: One time broadcasting within the train when train starts its course.

Sample print advertisement:

30 MIN FOR €5

Do you want a good rest during your trip?
No problem!
We offer you massage service in this train.
Just €5, you can get a professional massage service
for 30 mins by using our human touch massage
chairs.
You may find them in wagon No. 1, 4, 7.
Each wagon has 2 chairs.
No hesitation!
Enjoy your trip Now!!





**We implore You to follow our idea and
have a pain-free trip with us!!!**



THANK YOU