

32.18: Assignment- Claire's Cuttery

Your Task

Using the information provided below, answer the series of questions presented in Part I and Part II, below. When preparing your written submission, include both your calculations and your written analysis of the financial information. [Download Claire's Income Statement](#), which you'll need to complete this assignment.

Claire's Cuttery

Claire has always loved working with hair and beauty products and has decided that she will quit her day job and use the money her grandfather left her to start a salon. All of her friends think it's a great idea, but her brother cautions her about "leaping before she looks." She decides that, before she begins, she will project her sales for the first year to prove to her family that she has a winning idea.

She sits down with paper and pencil and completes the expense part of the Income Statement shown in the file "Claire's Income Statement." But she needs help projecting her sales, so using the following assumptions and information, complete the **"Income" section** of the Income Statement for her.

PART 1: Year 1 Projections

Her Business

Claire will have 3 stylists available. For planning purposes, she assumes the following:

- Each stylist can accommodate 6 customers per day. The stylists each work 20 days per month.
- Claire also acts as a stylist, but she can only accommodate 4 customers per day since she also serves as receptionist. However, since it is her business, she works 6 days per week (24 days per month).
- She has estimated, on average, that each customer will generate \$12.00 in revenue.
- She estimates that based on her research, it will cost her about \$2.50 in supplies per customer/per cut.
- She will operate January through December and close the month of February for a vacation at her favorite ski resort.

Market Share

There are 8 other salons in the area that will compete for business. Claire has talked to the local Chamber, and they estimate that about 15,000 people now live in her town. She assumes that she can capture about 24% of the market.

Sales Projections for Year 1

She assumes that the sales volume will be distributed as follows:

- January: 5% of annual sales
- February: CLOSED
- March: 10% of annual sales
- April: 10% of annual sales
- May: 10% of annual sales
- June: 20% of annual sales
- July: 5% of annual sales
- August: 5% of annual sales
- September: 10% of annual sales
- October: 10% of annual sales
- November: 5% of annual sales
- December: 10% of annual sales

Part I: Questions

1. What is the maximum number of customers Claire can take in any one month based on her assumptions, and assuming a 30-day month? Is this enough to meet her market and sales projections, or does she have to reduce the sales projections because she runs out of capacity?
2. Can Claire accommodate 20% of her annual sales in one month (June), given that she has only 3 stylists available? How should she address this?

3. Will she show a profit or a loss for the business if she achieves her sales figures as projected?

Part II: REVISED Year 1 Projections

Good news for Claire! Four local competitors don't reopen in December, and Claire gets 34% (rather than the projected 24%) of the market. She believes that she will be able to reach her goals if she makes the following changes:

- Each stylist will accommodate 1 additional customer per day if she extends her salon hours.
- Claire now serves 5 customers per day, instead of 4.

With this increased market share, she has adjusted her operating expenses to include the following changes:

- The landlord levies a new common area maintenance fee of that will increase her rent by \$75.00 per month.
- She hires a receptionist for \$400 per month to free up her time.
- Her utilities costs increase because of the extended hours.

She needs you to adjust her sales projections and produce a new income statement for the year. (Use the "REVISED Year 1" worksheet that has been provided in the file you downloaded above.)

Part II: Questions

1. Will Claire be able to meet the revised sales projections? If not, what do you think she should do?
2. Under her current structure, will Claire be able to meet the demand for her services? If not, how can she address this?
3. Will she show a profit or a loss for the business if she achieves her sales figures as projected?

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