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IRHS

Memo

To: Accounting Department

From: Mr. Boulton

Re: Logan's Beach Service

Date: December 12, 2006

Urgent

For Review

Please Comment

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Yesterday, John Logan, the owner of Logan's Beach Service, came to our accounting and professional services firm asking us what he could do. He and his wife are in a situation where they soon will be moving, and are currently considering selling the business. However, they would like it to be as successful as possible before they go to the market place to try to sell it.

John would like to like to know the following:

1. Our opinion on the strengths and weaknesses of his business; be sure to perform a S.W.O.T. and a Porter's Five Forces analysis.
2. The current market value of the business
3. Recommendations on how to improve the business.

Please review and assess the information from the owner that I have attached, and a draft a formal response.

John Logan

Logan's Beach Service
2934 Maroon Drive
Coral Gables, Florida 33144
USA

J. Boulton
Iroquois Ridge High School
1123 Glenashton Drive,
Oakville, Ontario
Canada

Dear Mr. Boulton

I am writing you with additional information as per our conversation regarding my request for advice.

Overview

My grandfather started Logan's Beach Service back in 1928. Ever since, Logan's Beach Service has provided sunbathers with a pleasant spot to tan on the Fort Lauderdale beach. Rather than lying out on the sandy beach (getting sand in your hair and stuck to your suntan oil covered body), Logan's Beach Service provides a raised wooden platform for tanning purposes. Part of the platform can be raised or lowered to resemble a chaise lounge, and the platform can be used for one or two people. Individual cushions are provided along with a large umbrella, which can be positioned to block some, all, or none of the sun depending on individual preferences.

These platforms are scattered in clusters along the entire Fort Lauderdale beach strip opposite some of the larger hotels. Each cluster has its own attendant who collects the \$12.00 per day fee, swivels the platforms so that they are always facing the sun, and adjusts the umbrellas for the patrons. Not a per person fee, the \$12.00 allows for the rental of one platform, cushion, and umbrella for the entire day even if you only want it for a couple of hours. Having raised the umbrellas and placed the cushions at 8:00 a.m., our attendants stays until the last sunbather leaves which is normally around 5:00 p.m.

At each location, there are two large storage lockers anchored to the beach. During the day, the lockers are used to store the attendants' money, lunch, water and other personal effects. At the end of the day, the platform cushions are locked away for the night. The platforms are folded flat and the umbrellas are collapsed and locked to prevent vandalism. Even with these precautions, I have to admit that vandalism is a major uncontrollable cost.

Another unavoidable cost is maintaining the platforms. Made of wood, they are durable, but dry out without regular upkeep such as oiling. Attendants take care of this job throughout the day, whenever a platform isn't in use (usually early morning). Each chair is treated and inspected at least once a week.

Operations

To illustrate operations, I am sending you some information. You should know that last year I examined the Sheraton-Yankee Trader location in some detail. Open 365 days of the year, my platforms at this location average 12 rentals per day, or 31%. In the peak season, I found that the average daily rental rate averaged 84% or 31 rentals. In my experience, this is reflective of all operations at all locations.

There is always at least one designated attendant on duty at all locations 7 days a week. Attendants are paid \$75.00 per day (plus tips), regardless of the number of patrons renting a platform, or the weather.

Though airplanes fly overhead pulling banners advertising everything from ice cream cones to dance-clubs, I use little advertising. Attendants wear t-shirts with Logan's Beach Service printed in large letters on it, and the platform cushions/umbrellas are labeled in a similar manner. No other major promotional activities are undertaken.

Normally, customers just wander onto the beach, see the platforms and make themselves comfortable thinking that the city of Fort Lauderdale provides this service for free. After a few minutes, the attendant would stroll up and politely explain that a private company provided the service. At that point the attendant would either collect the fee or the sunbather would move to the sand. When asked if customers refused to pay and tried to stay an attendant indicated that it rarely happened.

A couple attendants have indicated over the years that they felt the price of the service was its biggest drawback. An attendant once told me that he felt "If this was your first day out in the sun, you only need a place to tan for an hour or two. The full day fee would scare me away." I've never really taken that to heart, considering the source: most of our attendants are students, and don't spend a lot on luxuries; people who come to Florida for vacation usually have more spending money.

I hope this additional information helps. Thank you in advance for your speedy assistance in this matter.

Sincerely,

John Logan

John Logan

Exhibit 1: *Picture of a Logan's Beach Service sun tanning Platform and Typical Hotel Location*



Exhibit 2: *Fort Lauderdale Weather - Seasonal Averages*

Month	Avg. High	Avg. Low	Avg. Precip.
January	24.8° C	14.7° C	69 mm
February	25.3° C	14.7° C	63 mm
March	26.6° C	16.6° C	69 mm
April	28.3° C	18.8° C	96 mm
May	29.9° C	20.9° C	152 mm
June	31.4° C	22.7° C	224 mm
July	32.1° C	23.5° C	162 mm
August	32.4° C	23.6° C	177 mm
September	31.7° C	23.4° C	216 mm
October	29.7° C	21.4° C	209 mm
November	27.3° C	18.3° C	96 mm
December	25.4° C	15.6° C	65 mm

Exhibit 3: Logan's Beach Service – Financial Statements

Logan's Beach Service
Income Statement
 For the Year Ended December 31, 2005

Revenue

Platform Rentals \$ 674,520

Expenses

Advertising	\$ 2,500	
Labour	574,875	
Property Taxes	50,400	
Supplies	10,000	
Vandalism	<u>25,970</u>	
<i>Total Operating Expenses</i>		<u>663,745</u>

Net Income \$ 10,775

Logan's Beach Service
Balance Sheet
 December 31, 2005

Assets

Cash	\$ 3,400	
Cleaning supplies	900	
Storage sheds	10,000	
Platforms	27,800	
Umbrellas	20,500	
Cushions	<u>10,000</u>	
<i>Total Assets</i>		<u><u>\$ 72,600</u></u>

Liabilities and Owner's Equity

Liabilities

Accounts Payable	\$ 500	
Florida Sales Taxes Payable	2,248	
Bank Loan (2 years)	<u>65,000</u>	
<i>Total Current Liabilities</i>		\$ 67,748

J. Logan, Capital

Equity, January 1st	\$ 84,077	
Add: Net Income (Loss)	\$ 10,775	
Less: Drawings	<u>(90,000)</u>	
Increase or Decrease in Equity	<u>(79,225)</u>	
<i>Equity, December 31st</i>		<u>4,852</u>

Total Liabilities and Owner's Equity \$ 72,600

**Exhibit 4: Number and Locations of Platforms Operated by Logan's Beach Service**

	Platforms	Average Daily Sales - Low 6 mths	Average Daily Sales - High 6 mths	Sales	Employees	Labour	Property Taxes	Vandalism
Days Inn - Surf Hotel	30				2	54,750	4,500	2,970
Sheraton - Yankee Trader	38	12	31	94,170	2	54,750	6,000	1,410
Sheraton - Yankee Clipper	52				3	82,125	9,750	1,980
Bahia Mar Hotel	25				2	54,750	3,600	2,940
Howard Johnson - Beach Strip	38				2	54,750	6,000	2,790
Holiday Inn - Atlantic Boulevard	28				2	54,750	6,750	1,500
Candy Store	23				2	54,750	3,000	1,700
Lauderdale Beach Hotel	10				1	27,375	2,250	510
Gold Coast Hotel (AAA recognised)	8				1	27,375	2,250	2,280
Horizon Hotel	8				1	27,375	1,500	1,650
Riviera Hotel	5				1	27,375	1,500	2,130
Holiday Inn - Ocean side	8				1	27,375	1,800	1,980
Sweet Things Café	5				1	27,375	1,500	2,130
Total	278	81	227	674,520	21	574,875	50,400	25,970

Note: no information exists for the separate locations except for the Sheraton - Yankee Trader, but in my experience performance is similar.

Exhibit 5: Notes to the Financial Statements**Fixed Assets:**

Storage sheds were built over the last 40 years. They're made of wood and cost about \$500 each to make now. About 15 will need to be replaced in the next 2 years; they are old, the wood has dry rot, and can easily be broken into.

Platforms cost \$100 each, and were hand made of wood when originally purchased 20 years ago.

Cushions need to be replaced more frequently due to wear and tear, and sun damage. The same is true of Umbrellas. Cushions and umbrellas last about five years. Cushions were replaced last year; umbrellas are 4 years old.

Liabilities:

Short term liabilities include miscellaneous items purchased on account (like supplies for maintenance)

Florida State sales taxes of 4% are collected on top of sales and sent to the government

The Bank Loan is due in 2 years. It was used to purchase new cushions last year.