
Memo

New Heritage Doll Company

To: Emily Harris

From: Angela Harrell

CC: Marcy McAdams & Elizabeth Holtz

Date: November 10, 2020

Re: Match My Doll Clothing vs. Design Your Own Doll

The purpose of this memo is to provide a recommendation to pursue the Match My Doll Clothing project or the Design Your Own Doll project.

Description of Projects

The existing Match My Doll Clothing line consists of a few sets of matching doll and child clothing accessories for warmer weather. The Match My Doll Clothing line extension proposes to create apparel for each of the four seasons of the year. The original clothing line became quickly successful and the extension is expected to be just as profitable as the original.

The Design Your Own Doll project would use design software that would enable the customer to select physical features to create their own doll. The software could also use the selected features and produce a photo image showing the finished doll the customer has created. Market research has shown that focus groups are enthusiastic about the product and are willing to pay premium prices for it.

Analysis of Qualitative Factors

From personal experience, I am aware that the doll industry is very successful. The doll industry will always be around, there is a huge demand for high-end dolls. Also, the doll industry is always evolving. The doll industry has evolved dramatically from when I was interested in dolls, which was over 20 years ago. When I was a child, I had acquired some of my mother's dolls that were very simplistic. The dolls were about 30 years old at the time. Within those 30 years, the doll industry had expanded and has not stopped expanding since then. The demand for dolls just keeps growing and New Heritage Doll needs to keep up with the growing demand and evolution of the doll industry.

Critique of Quantitative Analysis

Overall, I believe the assumptions and estimates used in the quantitative analysis were correct. Revenue projections were based off forecasts of future prices and volumes while fixed and variable costs were estimated separately, both of which I agree with. Forecasts for fixed assets and related depreciation charges were estimated by analysts reporting to the controller, which is also correct. For each project, operating projections were used to develop cash flows to calculate NPV, IRR, payback period, and profitability index. Non-cash items should never be included in cash flow forecasts and the projections for the two projects did exclude non-cash items. The only thing that I do not agree with is that when using the growth rate to determine the NPV, the committee used a very low growth rate to be conservative. The growth rate used was lower than New Heritage Doll's historical growth rate and lower than near-term growth forecasts for a given division. In my opinion, the committee was being too conservative. At the very

least, the lowest historical growth rate should have been used instead of lowering it even further to estimate projections.

Analysis of Quantitative Factors

	MMDC	DYOD
NPV	\$ 7,150	\$ 7,058
IRR	24.0%	17.9%
Payback Period	7.4	>10
Profitability Index	2.37	1.32

When assessing the two projects, both the Match My Doll Clothing line and the Design Your Own Doll have positive NPVs, which makes them both appealing options. The NPV for the MMDC project is more than the DYOD project, but they are very close in value. The IRR for the MMDC project is significantly higher than the DYOD project, which makes the MMDC project more appealing. The payback period for the MMDC project is 7.4 years and greater than ten years for the DYOD project. The DYOD project is less appealing because the payback period is longer than the MMDC project. The initial investment, \$5,311,000, for the DYOD project is much higher than the initial investment for the MMDC project of \$3,020,000. It is risky for the DYOD project to have a higher initial investment and longer payback period, which also makes the MMDC project more appealing. Since the initial investment for the DYOD project is high, that is what makes the profitability index lower than the MMDC project. Lastly, since the profitability index is higher for the MMDC project, this is another factor that makes this project more appealing than the other.

Recommendation

My recommendation would be to go forth with the Match My Doll Clothing line extension. This project has a higher NPV, IRR, and profitability index. Also, the payback period for MMDC is less than the other project. Even though the doll industry is very profitable and constantly expanding, it would take too long to get the initial investment back from the DYOD project. The initial investment for the DYOD project does not show to be profitable for the company in a reasonable amount of time. The company would be taking a loss for more than ten years with the DYOD project. The analysis shows that the MMDC project is much less risky and provides a quicker return on investment than the other project. In conclusion, the Match My Doll Clothing line extension is the best project to choose.