Comprehensive Diet Venture

Business Plan

By

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1. EXECUTIVE SUMMARY

This Comprehensive Diet Venture proposes the development of a diet plan for Liberty Medical Supply overweight diabetic clients. Overweight is a health risk factor for type II diabetes and being overweight and diabetic are at epidemic levels in the general population. The Comprehensive Diet Venture weight management program benefits LMS clients by providing a one stop medical supply of their dietary needs. The five year sales forecast of the joint venture is projected as $355.3 million.

This business plan leads the way. It renews LMS vision as a proactive leader in the medical supply industry. It adds value to LMS core competency of home delivery of supplies to its diabetic clients. The plan also provides a business model for ascertaining the level of its implementation through an initial test survey.

This plan includes this summary, and chapters on the company, products and services, market focus, action plans and forecasts, management team, and financial plan.

1.1. Objectives

The Comprehensive Diet Venture (CDV) has the following tangible objectives:

1. Joint business venture with a meal replacement (MR) company (Herbalife) and a controlled portion (CP) company (NutriSystem).
2. Join venture first 3-year sales of $208 million, operating profits of $86 million and working capital of $3.95 million.
3. Maintain long term LMS clients' signup level at 0.90%
4. Hire 116 LMS customer service representatives by start of plan with provisions to hire an additional 23 representatives by end of fifth year.

1.2. Mission

The Comprehensive Diet Venture mission is to provide a one stop solution for LMS diabetic clients weight management needs. The plan uses two approaches to weight management: Meal Replacement (MR) and Controlled Portion (CP) diets. The goal of both programs is to provide an economic means of integrating weight management into the lifestyles of LMS diabetic clients.

1.3. Keys to Success

The keys to success in this business are:

- Management: Develop a comprehensive business venture between LMS and its partners that fairly benefits all parties, delivers products on time, manage costs and control budgets.

- Marketing: Educate LMS diabetic clients for the need of weight management and integrate weight management into their lifestyles
- Information Technology: Develop seamless order entry system between LMS and its business venture partners
- Sales: Maintain signup rates of LMS clients through call center staff
- Operations: Ascertain optimum *average interview months* at which signup rate is largest for maximum interval between surveys.
- Operations: Maintain an equal or greater ratio of weight reduction to weight maintenance meal replacement (MR) clients or average $$75.00 per month

The optimum LMS client signup rates are related to the resurvey interval. The churn levels-off the growth to a percentage of LMS clients when the monthly churn losses equal the additions through growth and re-signups. The task of re-surveying from the same population also contributes to diminished signups with added surveys but this effect can be reduced by lengthening the average interview months. Also, as time progresses, the retention rate is expected to increase as clients of the CDV program adopt lifestyle changes. The business model uses a fixed monthly retention rate of 96% (which should increase) and a fixed signup rate beyond the fourth survey (which should decrease). Changes in the two variables are expected to offset each other allowing for the use of fixed values. The 96% monthly retention rate corresponds to a 64% annual retention rate which approximates the average annual retention rate of weight management programs (Goldberg, Kierman 2005, 1).

There are unique hurdles for the task of weight management re-recruitment from a large small growth population. Education is used as an initial recruitment tool but a sustained contact with program participants is used. An average of 15 minutes per signed-up client is dedicated to retention. Additional hurdles to diabetes weight management include anti-diabetic medications that produce weight gain, inability of clients exercise and the natural tendency of the body to reset itself to its prior weight state through appetite changes and other metabolic changes (Pi-Sunyer 2005, 2). The goal to overcoming these hurdles is to have CDV clients embrace a healthy lifestyle change in consideration to weight management.

The business model summarizes the program effectiveness through the churn and survey signup rates. The churn produces a larger number of client losses to the program in the early stages due to the larger signup rates of the early surveys. As the signup rates decreases, the churn for the large signup client base exceeds the new signups and the overall signup rate decreases. Finally, the decrease level of signup decreases the amount of churn and a steady state level is reached. The projected steady state level is a signup rate of 0.90% of LMS clients as opposed to 3.12% at the start. The practical implication of the analysis is that the program is unable to sustain the high rate of program losses at a 3.12% signup level but stabilizes at a signup rate of 0.90%.of total LMS clients

The challenges particular to resurveying a small growth population involve managing a large startup workforce, a large startup sale volume, and a decrease in sales volume until the natural growth in population exceeds the churn of program client losses. In order to avoid future layoffs, the startup staffing is less than the startup projected staffing level. Overtime is needed or a reduction of the time of daily routines equivalent to the projected added daily overtime. By hiring a staffing level equal to the minimum level projected for the period of the program, the projected overtime is sufficiently reduced to be absorbed into the daily routine. For the projections, 116 customer-service-representatives (CSRs) are hired at the start of the program to prevent the existing CSR staff from working overtime. An additional 12 CSR are hired by end of first year to increase survey level and also prevent further overtime from increased workload.

The CDV niche is its diabetic based weight management. This differentiates LMS product offerings from the basic NutriSystem and Herbalife plans. The CDV offers new growth potential for all business partners and builds a foundation for improved product offerings from its on-going management.

1.4. Highlights

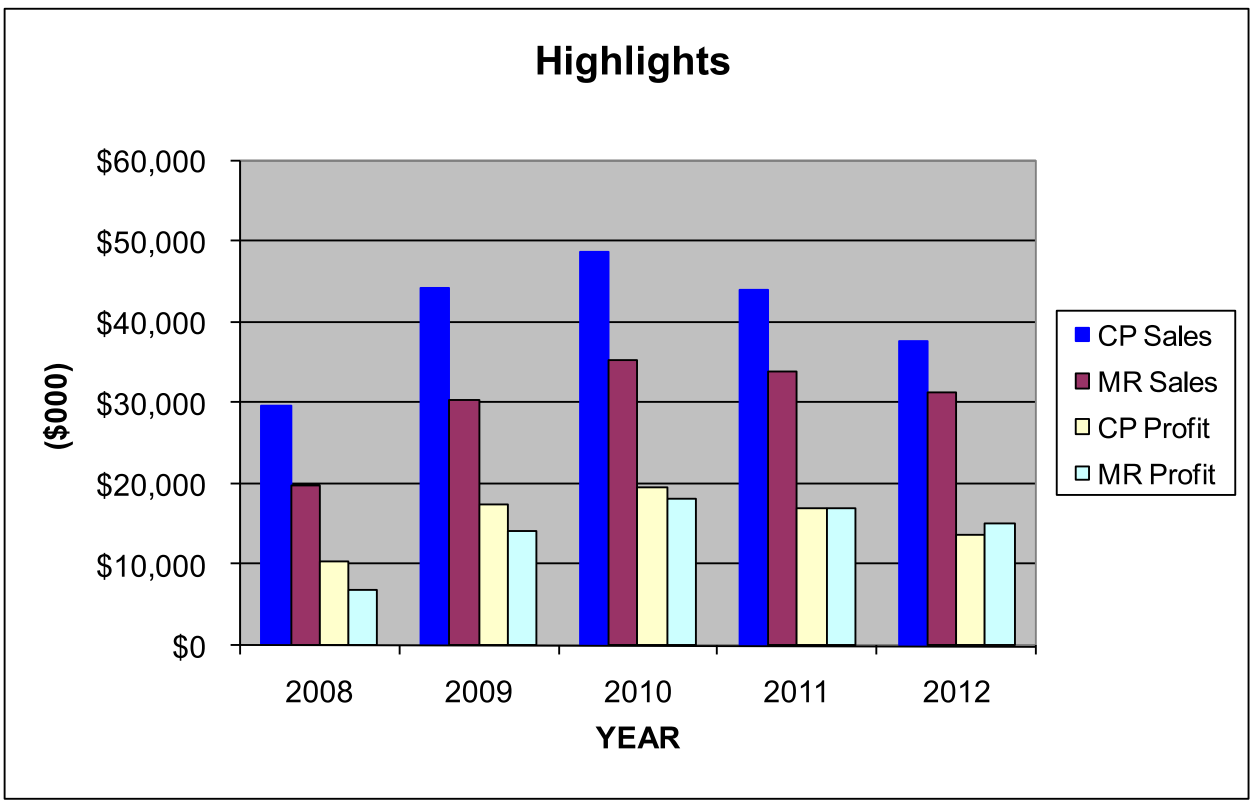

Figure 1: CDV Highlights; Sales and Operating Profits

Highlights							
($000)	2008	2009	2010	2011	2012	2013	2014
CP Sales	$29,743	$44,218	$48,713	$43,934	$37,728	$33,012	$30,558
MR Sales	$19,875	$30,376	$35,328	$33,992	$31,360	$29,455	$28,781
CP Operating Profits	$10,421	$17,334	$19,600	$16,915	$13,611	$11,068	$9,779
MR Operating Profits	$6,842	$14,216	$18,005	$17,036	$15,041	$13,567	$13,074

Table 1: CDV Highlights

Table 1 summarizes the CDV projections. Of interest is the decreasing sales and operating profits through 2013. The MR sales and operating profits turn around in 2014. The sales stabilize as LMS client growth offsets CDV client losses due to churn. The profits and sales increase in subsequent years as the contribution from the growth in LMS clients exceeds churn losses.

2. PRODUCTS AND SERVICES

The CDV is a joint venture between Liberty Medical Supply (LMS) and business partners for the sale and distribution of diabetic weight management products. LMS provides the service of direct marketing to its clients and its venture partners provide products and distribution. The CDV uses two distinct weight management dietary plans. Research data (Evans 2006, 3) show the use of a low glycemic index diet (LGI, NutriSystem Controlled Portion) with a low-carbohydrate, ketogenic diet (LCKD, modified supplements for diabetic patients Meal Replacement) as two effective methods for dietary weight management. MR uses a low calorie balanced diet of protein, fats, carbohydrates, vitamins, mineral and water to replace one or more of the three meal servings per day. CP provides a lowered caloric portion of the three meal servings per day. The CDV allows LMS clients to choose from a MR or CP plan to achieve their weight management goals.

The CDV is a service venture between LMS and leading MR and CP companies. This approach rather than developing products from inception allows LMS to leverage its core business asset of **access** to its diabetic clients. Three leading MR companies are considered for the LMS CDV business venture: GNC Corporation, Herbalife and AltiCore (Amway). Of the three companies, Herbalife is the only publicly traded company. NutriSystem and the South Beach Diet are considered as CP venture partners. However, NutriSystem has an infrastructure for in home delivery of its products to its clients rather than client purchases from grocery stores. In the business model, Herbalife and NutriSystem are considered as LMS business partners.

2.1. Product and Service Description

The Herbalife is a MLM organization that provides healthcare supplements including MR powdered shakes. The combination of the Personalized Protein

Powder and the Nutritional Shake Mix mixed into a shake provides a MR. Clients use one shake as a MR per day to maintain a balanced weight. Two shakes are used as two MR for weight reduction. The company recommends maintaining at least a single normal portion meal per day as part of a diet plan. A CDV with HerbaLife will require an order provisioning system that allows LMS agents to electronically place orders to the Herbalife system. LMS agents will provide the service of maintaining client orders while Herbalife will provide production, inventory and delivery of product. The estimated gross margin is 79.6%.

NutriSystem is considered as a CP business venture partner. The company has a relationship with QVC that accounts for 7% of its sales. NutriSystem sells 89% of its products through its own organization. PLMD strategic advantage over QVC is PLMD access to its clients rather the general TV audience. PLMD access promises a more efficient and sustained campaign than the QVC channel.

The NutriSystem CP meals are available for breakfast, lunch, dinner and desserts. The meals are designed around controlling the glycemic index which allows a wide variety of menu types to be in compliance with the program. NutriSystem provides a website service and diet counseling to its clients. The CP meals are available in 4 week portions. The estimated gross margin is 52.5%.

2.2. Competitive Comparison

The CDV competitive advantage for LMS is that it offers a one stop health management point of contact for LMS diabetic clients. There is an epidemic growth in obesity in the US population (figure 2) and the rise in obesity has been correlated to the rise in type II diabetes. A weight management program to LMS clients that offers prevention, control and maintenance provides a lifetime proactive health insurance against the health risks of being overweight.

LMS clients have already decided to economically manage their health concerns by selecting LMS as their medical supplier. The CDV further offers these clients a means of economically managing one of the leading risk factors for type II diabetes for the long term. The benefits to LMS clients by reduced health risk will translate into other LMS intangibles as increased brand loyalty.

The competitive advantage to LMS CDV partners include access to a niche database of high potential clients and reduced SGA overhead.

2.3. Sourcing

NutriSystem Inc offers three main channels of selling including its own business (89%) the QVC store (7%) and Slim and Tone LLC an affiliate women’s exercise gym (1%). This is a precedent for the LMS CDV and an opportunity for the LMS CDV channel to achieve a significant portion of the NutriSystem market.

The Herbalife SGA per employee of $25.5K per month is several times the LMS of $7.3K per month. LMS processing of SGA for the LMS CVD venture represents a contributing margin of $18.2K of net operating income per added LMS CDV employee. The high Herbalife SGA expense per employee is attributed to the low Herbalife number of employees and the large number of independent contractors on the MLM sales team. The LMS CDV will deal directly with Herbalife, replacing Herbalife MLM with LMS CSR who manages order placement and client's accounts. The legal framework for this non MLM relationship is required to detail the responsibilities of shared IS resources.

2.4. Technology

Technology is critical in providing a cost effective management of order entry and maintaining the CDV within the framework of its legal guidelines. The legal guidelines specify that LMS manages its client database and receives compensation for any of LMS clients who participate in LMS venture partner's diet program. The IS system is required to track the diet plans of LMS clients as previously signed up (by non LMS entity), signed up through LMS, and not signed up. LMS is allowed to manage the clients that are signed up through LMS and the LMS clients that are not signed up with any diet plan. An IS management system is needed to allow LMS CSR to place orders with LMS CDV business partner's IS order system. Both systems are required to keep track of client's signup companies. The system also allows LMS CSR to transfer client's phone calls to its CDV business partner's CSR for answers on detail questions about products.

2.5. Future Products and Services

The CDV is a launching project for developing legal frameworks with LMS business venture partners where LMS call center competitive advantage is leveraged across LMS niche database. Future expansion of the CDV may include product offerings from additional business partners. Future joint ventures may include other diabetic related health issues that a business partner addresses.

3. MARKET ANALYSIS SUMMARY

The LMS CDV focuses on a business venture with two partners. One partner will provide Meal replacement products and home delivery service of powdered shakes specifically designed for diabetic patients. The second business partner will provide Control Portion home delivery meals specifically designed for the weight management issues of LMS diabetic clients. Of the companies researched, Herbalife with gross sales of $1.56B in 2005 and NutriSystem with gross sales of $550M in 2006 are selected as respective MR and CP partners.

3.1. Market Segmentation

The CDV market segmentation scheme is divided into Meal Replacement (MR) and Control Portion (CP) weight management programs. Both these programs are compatible with LMS renowned home delivery service and are easily adaptable to LMS clients' lifestyles. Weight management programs that emphasize physical exercise do not draw on LMS core assets of a medical supply company. Therefore the CDV weight management segment is directed to MR and CP programs for LMS clients.

The MR program offers an economical method of weight management that is both effective for LMS clients desiring weight loss and weight maintenance. The MR segment is projected to have a greater signup ratio than the CP segment. Both segments are projected to have a monthly churn loss of 4% of signups. The nature of the CDV campaign is that LMS clients are contacted several times. The projections estimate that the rate of signup will diminish for each of the first four re-surveys and continue to be the same beyond the fourth contact. The combination of monthly client losses and diminished signup rates leads to a decline in CDV signups after initial growth in the first year. Because of the higher price of the CP program a comparable lower signup ratio is projected for the CP segment. The model projects a stabilized signup ratio of 0.90% of LMS clients. The LMS clients grow at per month and there is an underlying projected loss of LMS clients per month. Projected annual growth rate is prior to losses.

Market Analysis							
Potential Customers	DEC 2008	DEC 2009	DEC 2010	DEC 2011	DEC 2012	- - -	Final
LMS Clients	1293650	1534450	1787250	2052050	2328850		
Meal Replacement (MR) Clients	28,753	38,604	38,367	36,795	33,530		
Controlled Portion (CP) Clients	11,610	14,711	13,730	12,368	10,430		
Total	40,363	53,315	52,097	49,163	43,960		
% Total LMS CDV Signups	3.12%	3.47%	2.91%	2.40%	1.89%		0.90%

Table 2: Market Analysis

3.2. Target Market Segment Strategy

The target market segment for the CDV revolves around the LMS business partners that are selected. The GNC Corporation emphasizes its retail outlets as a source of its products. Both Alitcore and Herbalife emphasize MLM selling of their products through their network of independent contractors. The Herbalife is structured for order entry through its provisioning centers which provides an easy transition for LMS product ordering. For this reason, Herbalife is chosen as the LMS MR Business partner.

NutriSystem has initiated a nationwide ad campaign to attract seniors to their CP weight management programs. The wide visibility of their product is a double edge sword for attracting LMS clients. First, the familiarity of NutriSystem through its widespread advertising may have inspired some LMS clients to signup independently of LMS CDV. Second, LMS agents will have low resistance in conveying the NutriSystem name brand to potential clients. The NutriSystem is chosen as a strategic business partner because they use home delivery of their products similar to LMS.

3.3. Target Market Needs

The obesity epidemic and parallel rise in diabetes implies the need for a solution that addresses complications associated with diabetes that are related to being overweight. Reference (Ryan, Donna, 2005 4) has indicated, that for individuals with type II diabetes, intentional reduction in weight is, indeed associated with reductions in mortality. There is a need to provide a weight management program for LMS clients in this risk category. Providing a comprehensive diet plan that outlines good weight management habits for the long-term benefits both LMS client and nurtures a long term commitment between LMS and its clients.

3.4. Market Trends

The aging baby boomers are driving the growth in LMS clients. The CDC statistics on obesity shows that 69% of adults over 25 are overweight and over 30% are obese. The levels are considered an epidemic. Being overweight is a risk factor for type II diabetes, cardiovascular, and asthma. The trend for diabetic patients is to become further at risk for these added complications from being overweight during the course of their illness. An alternative like the LMS CDV program is a step in allaying these complications through healthy weight management.

3.5. Market Growth

The GFK market research group has tabulated 86% growth in diabetic patients from 1995 though 2005 (figure 2). This has averaged an annual growth rate of 7.6% for the last year with a 2005 diabetic population of over 14 million. As the rate of increase in growth stabilizes for adults, the rate for children continues to rise.

The LMS website reports a client growth of 20,000 new clients per month. The business model simulates a growth of 20000 per month, increasing to 29000 per month by January of 2017. The model projects LMS monthly losses at -850 clients per month. The monthly percentage client growth varies from 1.8% in 2008 to 0.7% in 2017 due to the increasing number of LMS clients. LMS clients are projected to grow from 1,293,650 in December 2008 to 3,892,850 by December 2017.

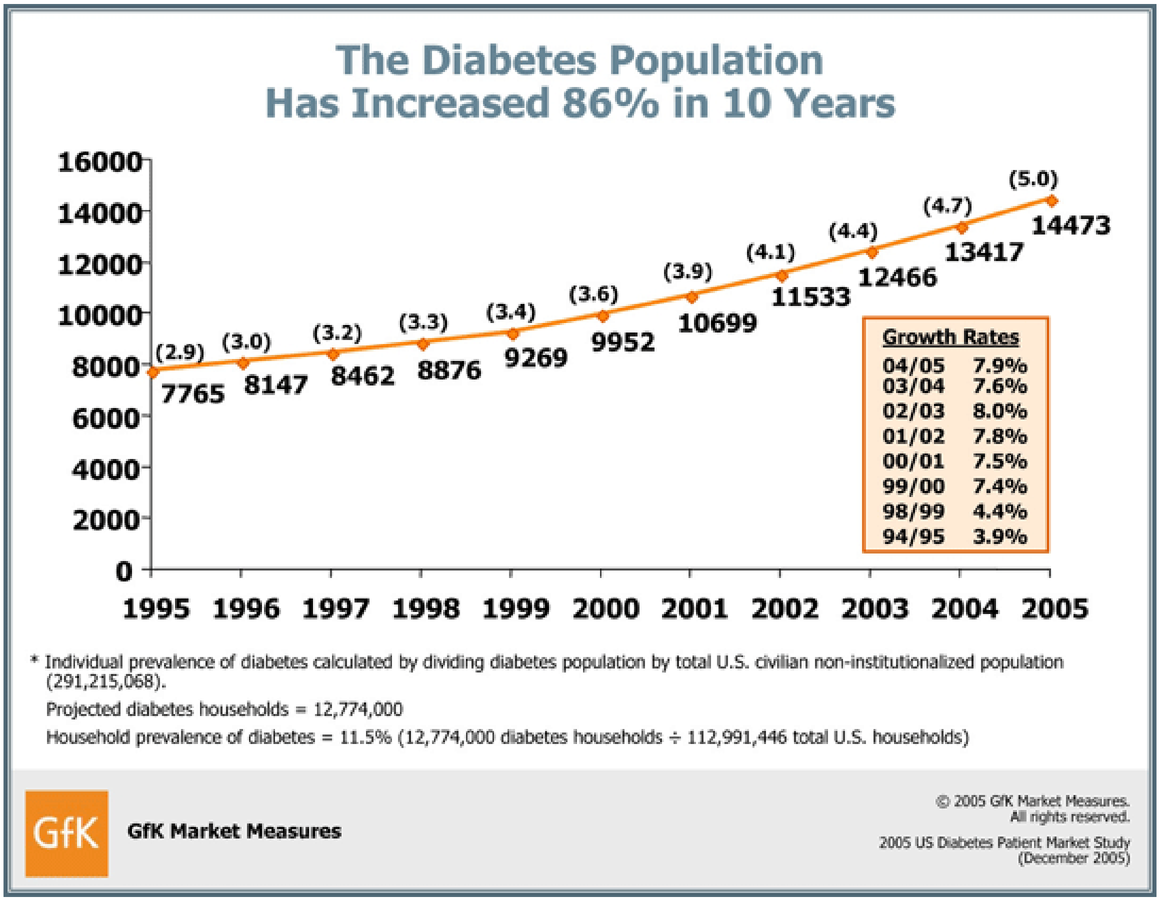

Figure 2: GFK Diabetic Statistics

3.6. Service Business Analysis

The Comprehensive Diet Venture is part of the weight management business. The plan uses two strategies of Meal replacement (MR) and Controlled Portion (CP) diets.

4. STRATEGY AND IMPLEMENTATION SUMMARY

1. <u>One Point of Contact</u>

The LMS CDV goal is to be perceived by LMS clients as a flawless meshing of their medical supply services and their proactive control of their healthcare. The CDV offers a one stop point of contact for satisfying the dietary needs of LMS clients.

2. <u>Build a Relationship-Oriented Business.</u>

Build long-term relationships with clients that provide constant feedback about the benefits of CDV through follow-ups of clients on program. Have weight tracking data to inform client of progress and offer further consultation if needed.

3. Focus on Target Markets.
There are many weight management programs available and consumers are constantly bombarded with different plans. The LMS CDV advantage is its access to a targeted group of high risk clients who can benefit from MR and CP weight management. Focus on the synergy of supplementing the clients medical supply home delivery service with products that are targeted to reduce certain health risk factors.

4. Differentiate LMS CDV
The LMS CDV is a proactive step by LMS to address health risks of its diabetic clients. This value added service provides a method of differentiating LMS from the growing number of medical supply companies and provide increased synergistic brand loyalty to LMS other services.

4.1. Strategy Pyramids

The two distinct strategy pyramids of strategy, tactics and programs are centered on first LMS CDV relationship with its clients and second LMS relationship with its CDV business partners. The two programs are the Meal Replacement (MR) and Controlled Portion (CP) weight management diets.

The strategy of LMS relationship with its clients is to market LMS as a comprehensive medical supply company that addresses health risk issues beyond medical supply. The tactics involves informing LMS clients of weight issues related to health risks through new sales literature, revised ad strategy, call center contact and direct mail. A further tactic is that LMS call center agents are given basic training in the benefits of the MR and CP weight management plan to allow answering most questions or allow referring to a subject matter expert.

The strategy of LMS relationship with its CDV business partners is to provide cost effect direct marketing access to LMS clients. The tactic involves the sharing of operating profits expenses. LMS SGA expense per employee is less than its partners. Each dedicated LMS employee assigned to the CDV produces a SGA expense less than the LMS business partner's SGA expense. LMS core contribution is its efficient direct marketing to its clients and LMS business partners core contribution is their development of MR and CP products and their distribution systems.

4.2. Value Proposition

Our value proposition goes beyond the standard reach of advertising campaigns through our direct reach marketing of our clients. CDV offers a high yield signup ratio to its business partners and a one stop medical supply point of contact for our clients’ weight management dietary needs.

4.3. Strategic Alliance

The LMS CDV is dependent on a strategic business alliance with a MR, CP provider or both. In this arrangement LMS provides the direct marketing sales of the alliance products to LMS clients. The alliance provides MR and CP diets specific for diabetic clients and home delivery. The Herbalife is presented as a MR strategic alliance and the NutriSystem Corporation is presented as a CP alliance.

4.4. Milestones

The accompanying table 2 lists important program milestones, with dates and objectives, and budgets for each. The milestone schedule indicates an emphasis on planning for implementation.

What the table doesn't show is the commitment behind it. The business plan includes complete provisions for plan-vs.-actual analysis. Execution requires holding follow-up meetings every month to discuss the variance and course corrections.

Milestones				
Objectives	Start	End	Budget	Department
Business Plan Review	6/25/2007	7/6/2007	$36,000	Management
Business Venture Partners	7/9/2007	8/3/2007	$96,000	Management
Legal	7/9/2007	8/3/2007	$96,000	Legal
Develop Diabetic MR Diet	8/6/2007	10/5/2007	$50,000	Venture
Develop Diabetic CP Diet	8/6/2007	10/5/2007	$600,000	Venture
Develop Test Survey	7/9/2007	8/3/2007	$25,000	Operations
Develop Brochures	7/9/2007	8/3/2007	$24,000	Marketing
Mail Test Survey Brochures	8/6/2007	8/6/2007	$4,080	Marketing
Test Survey Calls	8/13/2007	8/19/2007	$135,144	Sales
Optimize CDV Processing	8/20/2007	11/4/2007	$75,000	IT
Develop CSR Training	7/9/2007	8/7/2007	$100,000	HR/IT
Train CSRs in CDV	8/13/2007	12/14/2007	$891,360	HR
Train Hired Starting CSRs	11/1/2007	12/15/2007	$345,680	HR
Mass Mail Brochures	12/17/2007	3/10/2008	$683,993	Marketing
Startup Costs	-	-	$3,162,257	
First Year CDV (+ 30%)	1/2/2008	12/31/2008	$785,843	Sales
Startup Working Capital			$3,948,100	
Working Capital (Millions)			$3.95	

Table 3: Project Startup Milestones

An estimated test sample size of 8000 clients is used to determine the most critical CP probability for the first survey level. The sample size is sufficient to obtain the other statistical data.

An estimated $786K or 30% marked up losses is sustained in first year of startup. This represents a projected low point of negative cash flow before profitability is returned. The amount is paid off by operations but represents a startup reserve of working capital. Therefore the overstated startup costs of $3.9M represent the maximum working capital to start the project that includes the deficit while the startup costs is the actual cost after the first year of operation. This expense is added to the other startup expenses to determine the total startup cost of the project.

4.5. Sales Strategy

The LMS CDV sales strategy is the sale of access to LMS clients to LMS CDV business partners. The demographic profile of LMS clients parallels the rising rates of diabetes and the epidemic of obesity of which diabetes is a health risk factor. The CDV sales strategy is therefore targeted to overweight LMS clients or those desiring to take a proactive stance against the health risks of weight gain.

The strategy proposes a single point of contact for LMS clients to proactively manage their diabetes and associated health risk factors of weight gain. The sales strategy is further implemented through an enhanced relationship with LMS CDV clients that foster long term commitments. The tools for implementation minimally include modification of LMS agents' clients screen to provide weight history, date program started, time on program and program type (MR or CP). Further enhancements after the success of the program include a website with user accounts, related progress information and other synergistic LMS information.

4.5.1. Sales Forecast

The sales forecast of figure 3 is based on a business model of the LMS CDV. The model projects initial growth in LMS clients at 1.8% per month assigns a monthly percentage of LMS clients surveyed and calculates the percentage rate of signups. The signup rates are based on estimates of call center successful greetings, successful qualifications, successful presentation and successful closings. The rates vary with the number of surveys completed; the signup rate when less than 100% of LMS clients are surveyed is MR rate of 3.6% and CP rate of 1.40%; the signup rate for the second survey is MR rate of 1.47% and CP rate of 0.57% and the third survey has MR rate of 0.69% and CP rate of 0.24%. Beyond the third survey responses are for MR Signup rates of 0.294% and CP rate of 0.08%. The signup rates are multiplied by the planned LMS monthly survey rate and the projected number of LMS clients to determine the number of LMS clients added to the MR and CP programs each month. The signup rates remain the same beyond the fourth survey.

The MR sales revenues are calculated by multiplying the number of MR sign ups by $75.00, the estimated MR monthly price. This price is the average of MR clients signing up for a single MR per month at $50 per month and a double MR per month at $100 per month. The double meals replaced are for the weight loss and the single meal replaced is for weight maintenance. The CP revenues are calculated by multiplying the CP signups by $280.00, the estimated CP monthly price.

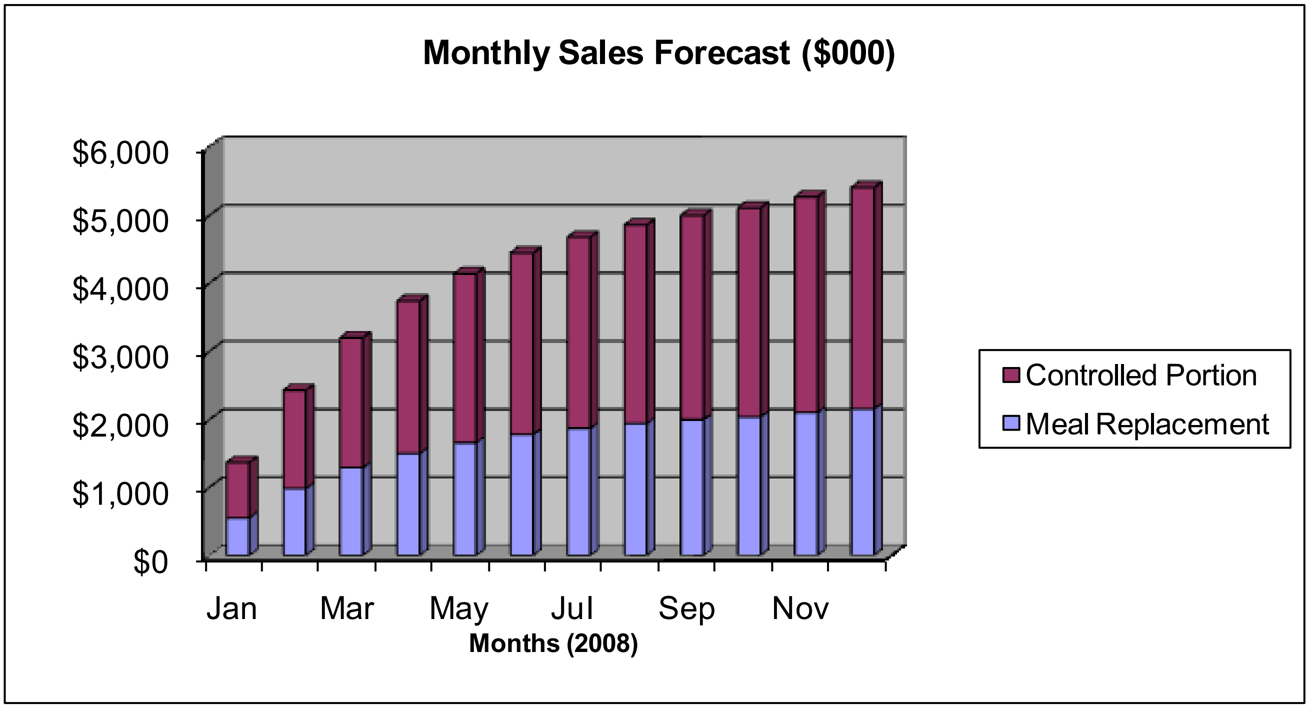

Figure 3: Monthly Sales Forecast

The sales forecast begins with the month of January 2008 to provide lead time to implement the LMS CDV. The MR sales grow to a total of $19.9M for the first 12 months of sales. The CP sales grow to a total of $29.7M for the first 12 months of sales.

A monthly churn rate of 4% is used in addition to the calculation of monthly signups. This churn decreases the last month's signup by 4% before it is added to the newly calculated signups for the current month. The planned monthly survey rate varies from 19.03% at the start to 4.08% at the end of the first year. This is due to variation in the hired CSR staff and the division of call time between call backs to existing clients and surveyed clients. The resurvey rate is the number of times existing CDV clients are contacted each month. An underlying assumption is that changes in this rate do not affect the overall monthly retention rate.

The completion of the first survey varies according to the planned survey rates. The addition of 12 CSR by the end of the first year for an increase in time devoted to the CDV campaign. The nature of diminished signups with additional surveys results in shorter call lengths. The survey rates progressively increases with the increased staffing and shorter call lengths. By the fourth year the rate has changed from 4.08% in December 2008 to 5.08% in March 2012. The average interview months is simulated at 6 months. This is the estimated optimum time for re-surveying. Survey intervals shorter than the 6 months result in decreases in signup rates. Survey intervals beyond the 6 months are not affected.

The LMS CDV business model first calculates the revenues and staffing based on the planned survey rate projections. A second adjusted calculation begins with the averaging of the staffing requirements over 3 months. The monthly total survey time is calculated from the average time to survey each LMS client multiplied by the percentage of LMS clients surveyed multiplied by the number of LMS clients plus the re-survey time. The resurvey time is the time needed to re-signup existing CDV clients who are already signed up. This is time devoted to maintaining accounts. The number of customer service representatives (CSRs) is calculated from dividing the total survey time by an average 8 hour workday for a 250 day year. The number of total added LMS employees is calculated by dividing the added CSRs by the ratio of CSRs to total LMS employees (75.0%). This figure of total added employees is used to calculate the selling general and administrative expense (SGA) based on average SGA per LMS employee. The adjusted monthly survey rate in figure 5 has small variations due to changes in the number of CSR employees and growth in LMS clients.

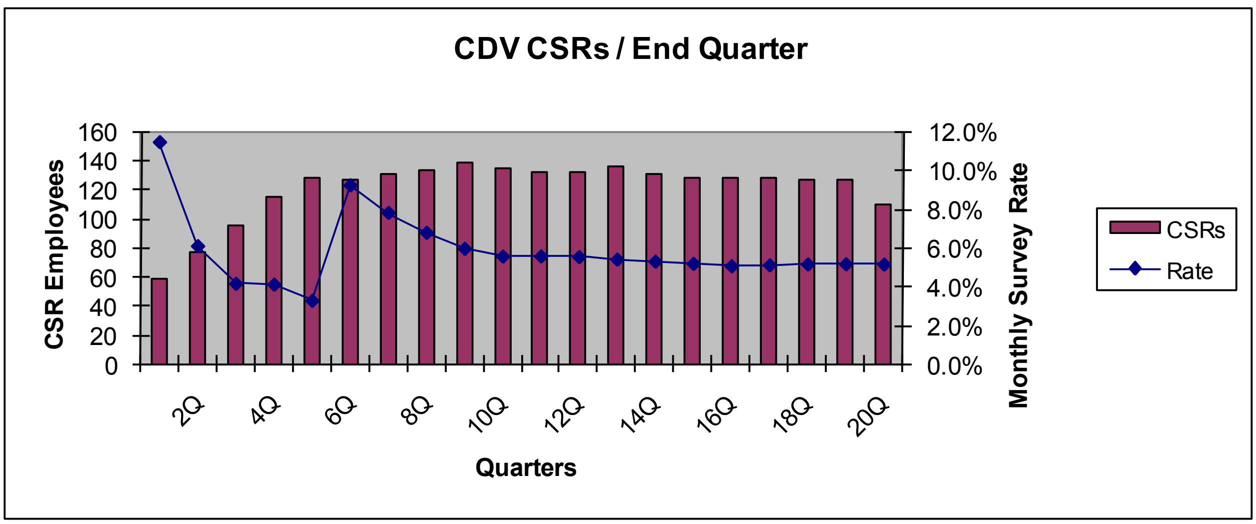

Figure 4: End of Quarter Employees

The business model uses an estimate of the next survey level after a first calculation of the current survey level. The first survey level occurs for a combined survey rate of less than 100%; the second level for a combined survey rate of less than 200% etc. If the added survey rate increases the survey level to a level that was different from the initial survey level, the average time for the new survey level is used to calculate the new survey rate. Since the survey time decreases with increases in survey level to level 4, the same number of CSRs, work for the same number of hours and process a larger number of calls. The rate is further adjusted to include the signup of **new** LMS clients at the **first** survey level. When combined with this revised survey rate, the survey success signup ratio determines the adjusted number of signups for a particular month. In this manner, the model automatically adjusts the staffing workload with changes in survey signup levels. Initially, 59 CSRs are needed to perform the first CDV survey as shown in figure 5. This number increases to a maximum of 68 in the first five years. The minimum after two years within the five year period is 64.

Rather than start with the projected 59 CSRs and increase to 139 then decrease to 64 CSRs, the model hires 116 CSRs at the beginning. This overstaffing increases the initial survey rate beyond the estimated 6.68% rate. 12 CSRs are added by end of first year to avert overtime. The later hiring allows for an evaluation of the program and contingency planning for staffing. Figure 5 shows the overtime processing for all LMS CSRs when the CSRs are hired. Figure 6 shows the CDV processing time for all LMS CSRs with the hired CSRs.

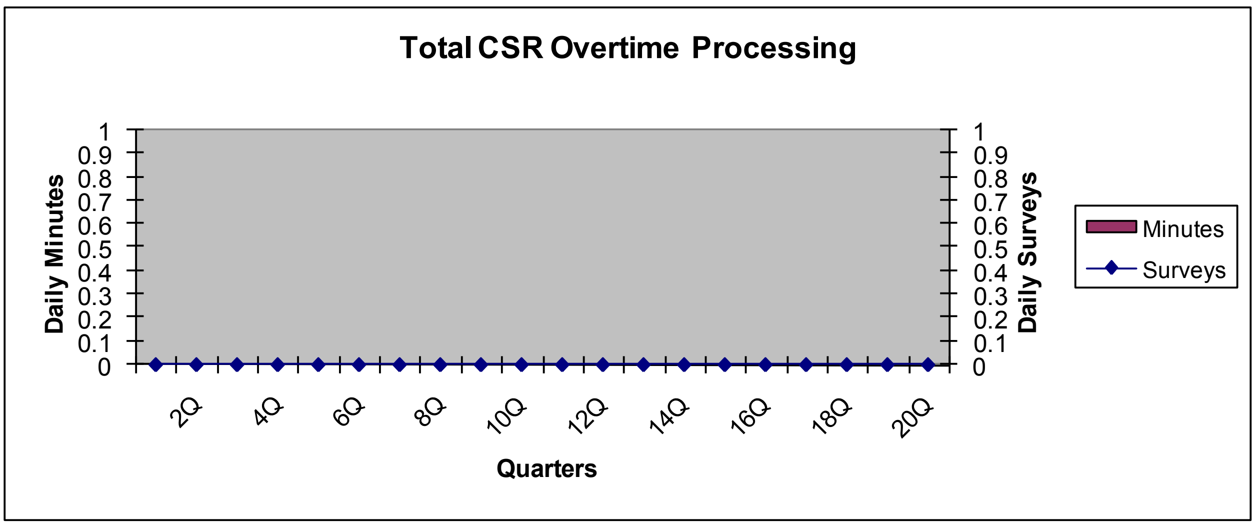

Figure 5: Overtime Processing

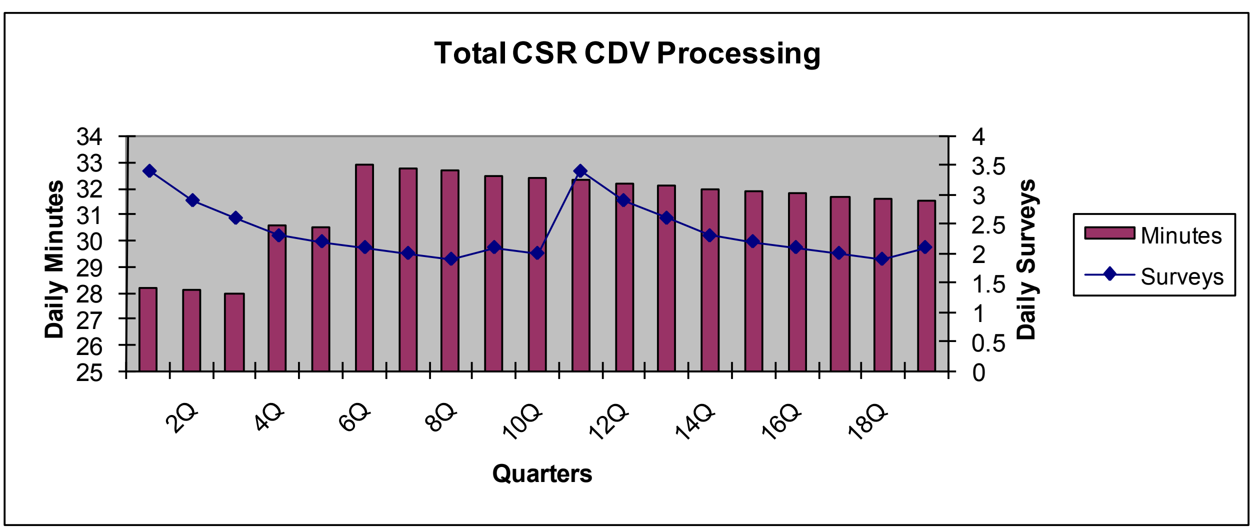

Figure 6: CDV Processing Time

In figure 7 the initial number of minutes per call is the distribution of 116 CSR 8 hour days among the 1969 total CSRs or 28.3 minutes per day. By the fourth quarter when an additional 12 CSRs are hired the average processing time increases to 30.6 minutes. The CDV program offers the flexibility of a dedicated core of CSRs working an 8-hour day exclusively on CDV activities or the distribution of the workload among the entire LMS CSR staff. When 139 CSRs are hired and the workload distributed, figure 7 shows the resulting average CDV processing time and survey rates. This average processing time gradually decreases with time due to growth in LMS CSRs.

The planned monthly survey rate varies during the start of the CDV. Variations are due to increases in CDV CSR staffing and the increases in CDV clients. As CDV clients grow, CSR devote more time to maintaining the existing clients through phone contact. After time is spent with the existing clients, the remainder of the CSR time is spent on surveying. Since the number of CDV clients varies, the time spent on existing clients also varies. When the number of CSRs is fixed, the time allotted to surveying varies and the survey rate also varies accordingly.

When the number of CDV clients stabilizes the survey rate also stabilizes. By the end of the fifth year, the rate is 5.11%. The long term goal is a 6-month level for re-surveying (16.7%). The *average interview months* is also set at 6 months. This number represents the best estimated interval for call backs to clients. Surveys callbacks made shorter than the interval results in decreased clients' signups. Surveys completed beyond the interval are not affected. A more aggressive strategy of maximizing signups at the earliest period by using a larger number of employees produces greater initial revenues. However, the efficiency of signups is optimized by keeping the survey intervals (i.e., survey rate less than 16.7%) greater than or equal to the *average interview months* after the first completed survey.

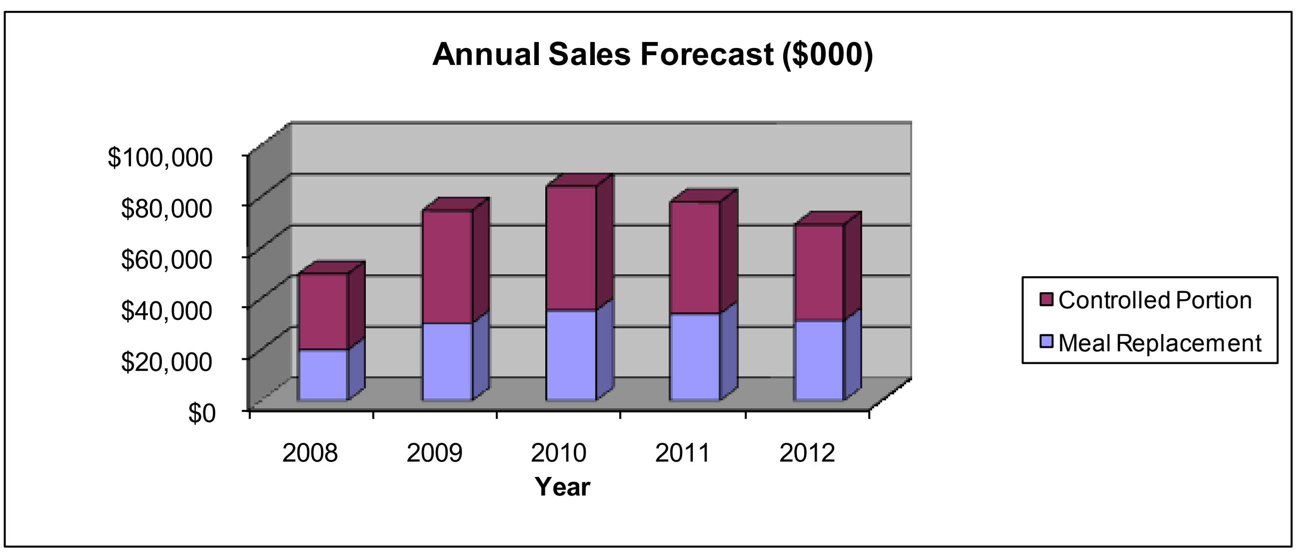

Figure 7: Annual Sales Forecast

The annual sales forecast shows an increase in the second year followed by declines for the third through fifth year in figure 7. This is attributed to the decline in signups during the second through fourth re-surveys of clients. Total sales start at $49.6 million in December 2008, grow to $74.6 million in December 2009 and drops to $69.1 million in December 2012. The projected saturation level of final sales leveling off is 0.90% of LMS clients' signups. Total sales projections for year 2013 and 2014 are $62.5 million and $59.3 million respectively. The rate of decrease in sales decreases due to the growth rate of LMS clients.

Beyond 2014, the signup rate approaches the steady state level and the growth in LMS clients results in an increase in revenues.

4.5.2. Sales Program

1. Direct reach Marketing via Call Center staff
2. Direct mail literature
3. Revised TV Ad campaigns
4. Education and retention

4.5.3. Operating Profit Forecast

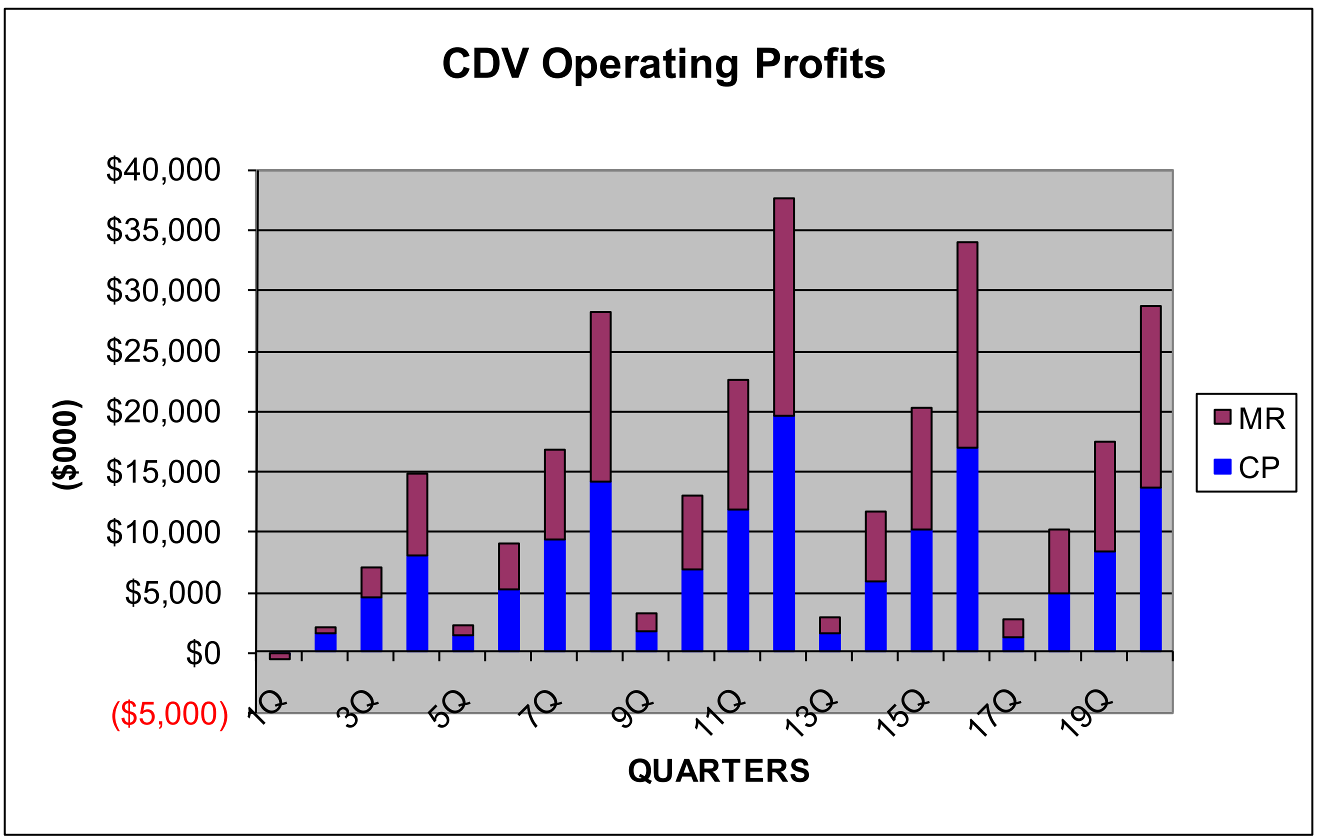

Figure 8: CDV Operating Profits

There are two distinct operating profits from the CDV plan: the MR and the CP. The MR operating profit is calculated using Herbalife gross margin of 80%. The CP operating profit is based on NutriSystem 53% profit margin. SGA expense is the only operating expense used. The SGA calculation is based on a per-unit cost of added LMS employees hired The total hired LMS employees is based on maintaining a 75.0% ratio of hired CSRs to total LMS employees. At the beginning of the project 116 CSRs are hired for an equivalent total of 155 LMS hired employees used to calculate the SGA expense.

The calculation of MR and SGA expense is based on the proportion of processing time for the respective programs. MR processing time is based on the time to contact existing MR clients, the MR processing time to resurvey existing LMS clients and the MR processing time to survey new LMS clients. The CP processing time is similarly calculated. The MR and CP SGA expenses are then apportioned according to the MR and CP processing time respectively. The resulting operating profits show a loss of ($479)K for MR and ($125)K for CP in the first month of figure 8. Initially, CP operating profits exceed MR profits but MR profits grow to exceed CP operating profits.

5. Management Summary

The LMS CDV offers LMS business partners a low risk platform for entering the diabetic weight management market through LMS access to its diabetic client. The CDV allows R&D and startup staffing expenses to be shared by its participants in a profit sharing structure. For the MR and CP business partners, the cost of developing specific diabetic diets is expensed as shared development costs of the project. For LMS, the cost of startup staffing and marketing to its clients is also expensed as shared startup costs.

The CDV promises to offer substantial marketing savings to NutriSystem and Herbalife. NutriSystem advertising budget for 2006 exceeded $100M while Herbalife has substantial SGA expense in its MLM structure. LMS access to prime candidates of diabetic clients offers substantial reduction in the marketing costs to reach potential CDV clients.

The CDV also provides a pilot program for Herbalife and NutriSystem before offering to the general diabetic public. A future synergistic relationship between the CDV business partners allows referrals of NutriSystem and Herbalife diabetic weight management clients to elect LMS as their medical supply company. The CDV also offers an opportunity to gather vital health statistics on diabetic weight management which in turn is used to develop strategies to further reduce diabetic health risk factors. This reflects PolyMedica’s business strategy: “… strives to deliver the highest quality service to patients and to provide a challenging and rewarding workplace for team members, while ensuring financial benefits to shareholders and continuing to develop the resources necessary for future growth.”

APPENDIX

SCENARIO

	($ Thousands)	CSRs	CDV	Interest	7.50%
Startup Expense	($3,162)	116	Clients	NPV	IRR
2008 Profits	$17,263	128	40,363	$11,996	446%
2009 Profits	$31,550	139	53,315	$37,393	590%
2010 Profits	$37,605	139	52,097	$65,551	610%
2011 Profits	$33,950	139	49,163	$89,200	612%
2012 Profits	$28,652	139	43,960	$107,765	613%
2013 Profits	$24,635	139	41,590	$122,614	613%
2014 Profits	$22,853	139	40,696	$135,428	613%
2015 Profits	$22,196	139	40,637	$147,005	613%
2016 Profits	$22,171	139	40,972	$157,762	613%
2017 Profits	$22,489	139	41,527	$167,913	613%
		Valid CSRs			
Three Years Profits	$83,255				
Five Years Profits	$145,857				
Seven Years Profits	$193,346				
Ten Years Profits	$260,202				
			Survey Rates		
	(Actual)			Actual	Planned
Average Intereview Months	6		Jan-2008	19.0%	6.7%
2008 LMS Clients Growth	1.77%		Jan-2010	5.92%	7.50%
2017 LMS Clients Growth	0.79%		Jan-2012	5.08%	10.00%
2008 LMS Clients	1,293,650		Jan-2015	4.67%	0.00%
2017 LMS Clients	3,892,850		Jan-2017	3.39%	0.00%
Projected Final CDV Signup Level	0.90%				
Monthly Resurvey Rate of Existing CDV Clients	100.0%				

Default Scenario: Current Business Model Settings

SCENARIO 1

	($ Thousands)	CSRs	CDV	Interest	7.50%
Startup Expense	($2,816)	0	Clients	NPV	IRR
2008 Profits	($2,634)	0	31,195	($4,899)	#NUM!
2009 Profits	$16,321	0	50,570	$8,239	98%
2010 Profits	$25,762	0	55,295	$27,530	162%
2011 Profits	$23,172	0	51,165	$43,670	176%
2012 Profits	$20,202	0	47,301	$56,760	180%
2013 Profits	$35,416	50	39,649	$78,107	182%
2014 Profits	$29,480	50	35,473	$94,637	183%
2015 Profits	$26,457	50	33,598	$108,436	183%
2016 Profits	$25,073	50	32,875	$120,602	183%
2017 Profits	$24,630	50	32,850	$131,719	183%
		Valid CSRs			
Three Years Profits	$36,633				
Five Years Profits	$80,007				
Seven Years Profits	$144,903				
Ten Years Profits	$221,063				

		Survey Rates		
	(Actual)		Actual	Planned
Average Intereview Months	6	Jan-2008	8.3%	6.7%
2008 LMS Clients Growth	1.77%	Jan-2010	6.17%	7.50%
2017 LMS Clients Growth	0.79%	Jan-2012	4.42%	10.00%
2008 LMS Clients	1,293,650	Jan-2015	0.55%	0.00%
2017 LMS Clients	3,892,850	Jan-2017	0.58%	0.00%
Projected Final CDV Signup Level	0.70%			
Monthly Resurvey Rate of Existing CDV Clients	50.00%			

Scenario 1: Simulation of CDV Program with Zero Initial CSRs Hired

In the above scenario, zero Customer Service Representatives (CSRs) are hired for the CDV program, and all survey calls are handled by existing CSRs working overtime for the first five years of project. After five years, planned surveys are set to zero and only new LMS clients are surveyed. Because of the build up in clients, the model produces a negative value for survey rates when zero CSRs are used beyond the fifth year. This error is the result of time needed to resurvey existing clients and survey new client growth. When 50 CSRs are hired, the survey rate is reduced to near zero From this simulation, the second scenario hires 50 CSRs at the beginning of the project, to decrease overtime and handle residual call processing to maintain existing CDV clients and signup new LMS client growth.

	SCENARIO 2				
	($ Thousands)	CSRs	CDV	Interest	7.50%
Startup Expense	($2,966)	50	Clients	NPV	IRR
2008 Profits	$6,462	50	31,195	$2,833	118%
2009 Profits	$25,635	50	50,570	$23,468	322%
2010 Profits	$35,085	50	55,295	$49,740	361%
2011 Profits	$32,500	50	51,165	$72,378	368%
2012 Profits	$29,669	50	47,301	$91,602	369%
2013 Profits	$35,585	50	39,649	$113,052	369%
2014 Profits	$29,651	50	35,473	$129,677	369%
2015 Profits	$26,628	50	33,598	$143,565	369%
2016 Profits	$25,244	50	32,875	$155,814	369%
2017 Profits	$24,801	50	32,850	$167,008	369%
		Valid CSRs			
Three Years Profits	$64,216				
Five Years Profits	$126,386				
Seven Years Profits	$191,622				
Ten Years Profits	$268,294				
			Survey Rates		
	(Actual)			Actual	Planned
Average Intereview Months	6		Jan-2008	8.3%	6.7%
2008 LMS Clients Growth	1.77%		Jan-2010	6.17%	7.50%
2017 LMS Clients Growth	0.79%		Jan-2012	4.42%	10.00%
2008 LMS Clients	1,293,650		Jan-2015	0.55%	0.00%
2017 LMS Clients	3,892,850		Jan-2017	0.58%	0.00%
Projected Final CDV Signup Level	0.70%				
Monthly Resurvey Rate of Existing CDV Clients	50.00%				

Scenario 2: Simulation of CDV Program with 50 Initial CSRs Hired

The hiring of 50 CSRs at start of project reduces overtime and allows the processing of existing CDV clients after surveying of all LMS clients halts in year 5. Processing time is used for retention of existing CDV clients and surveying of new LMS clients. The surveying of all LMS clients is stopped, allowing losses in CDV clients to be replaced by recruitment of new LMS clients.

SCENARIO 3					
	($ Thousands)	CSRs	CDV	Interest	7.50%
Startup Expense	($3,044)	76	Clients	NPV	IRR
2008 Profits	$14,140	96	35,833	$9,405	365%
2009 Profits	$34,182	102	51,540	$36,919	540%
2010 Profits	$42,949	102	54,190	$69,080	565%
2011 Profits	$39,986	102	51,538	$96,932	569%
2012 Profits	$34,538	102	45,093	$119,311	569%
2013 Profits	$29,469	102	41,813	$137,074	569%
2014 Profits	$26,898	102	40,295	$152,156	569%
2015 Profits	$25,764	102	39,871	$165,594	569%
2016 Profits	$25,458	102	39,993	$177,946	569%
2017 Profits	$25,629	102	40,446	$189,513	569%
		Valid CSRs			
Three Years Profits	$88,227				
Five Years Profits	$162,751				
Seven Years Profits	$219,118				
Ten Years Profits	$295,969				
			Survey Rates		
	(Actual)			Actual	Planned
Average Intereview Months	6		Jan-2008	11.9%	6.7%
2008 LMS Clients Growth	1.77%		Jan-2010	6.57%	7.50%
2017 LMS Clients Growth	0.79%		Jan-2012	4.90%	10.00%
2008 LMS Clients	1,293,650		Jan-2015	4.25%	0.00%
2017 LMS Clients	3,892,850		Jan-2017	3.11%	0.00%
Projected Final CDV Signup Level	0.87%				
Monthly Resurvey Rate of Existing CDV Clients	50.00%				

Scenario 3: Simulation of CDV Program with no Overtime

CSRs are hired beyond the projected levels to provide full staffing of the CDV program for the first five years. After five years, the staffing level remains unchanged, although there is a planned stopping of surveying all LMS clients. The result is that the hired 102 CSRs continue to survey LMS clients well above the 0% survey stop rate. Although CDV management may dictate stopping general surveying, LMS clients may continue inquiring about the CDV program resulting in a residual survey rate.

SCENARIO 4

	($ Thousands)	CSRs	CDV	Interest	7.50%
Startup Expense	($3,115)	100	Clients	NPV	IRR
2008 Profits	$19,158	165	52,996	$13,680	515%
2009 Profits	$41,688	185	64,832	$47,237	685%
2010 Profits	$38,432	185	57,599	$76,015	701%
2011 Profits	$31,984	195	54,006	$98,293	703%
2012 Profits	$27,563	205	53,382	$116,153	703%
2013 Profits	$25,461	225	54,565	$131,500	703%
2014 Profits	$24,781	245	56,827	$145,395	703%
2015 Profits	$24,917	265	59,664	$158,391	703%
2016 Profits	$24,764	305	63,326	$170,406	703%
2017 Profits	$25,903	305	67,600	$182,098	703%
		Valid CSRs			
Three Years Profits	$96,162				
Five Years Profits	$155,709				
Seven Years Profits	$205,952				
Ten Years Profits	$281,535				
			Survey Rates		
	(Actual)			Actual	Planned
Average Intereview Months	6		Jan-2008	16.2%	6.7%
2008 LMS Clients Growth	1.77%		Jan-2010	16.13%	7.50%
2017 LMS Clients Growth	0.79%		Jan-2012	13.50%	10.00%
2008 LMS Clients	1,293,650		Jan-2015	13.40%	0.00%
2017 LMS Clients	3,892,850		Jan-2017	13.23%	0.00%
Projected Final CDV Signup Level	1.60%				
Monthly Resurvey Rate of Existing CDV Clients	50.00%				

Scenario 4: Simulation of CDV Program with Excess CSRs

In above scenario, 3 times as many CSRs are hired as scenario 3, but 10-year profits are reduced by $14.5 million. An excess of CSRs has been reached and increased in CDV clients revenues are offset by expense of increased CSRs.

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