

A Business Plan For:
Rancho Sporting Goods Company

by Daven Porter

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Summary Statement

Rancho Sporting Goods Company is slated to begin operations in April 1995 under a business-wise team of three executives in response to an unfilled need in the Durango area for quality outdoor sports equipment. The business venture was conceived to be viable from the following conditions:

1. The market for sports equipment has demonstrated substantial growth in the past decade (5 percent, to \$989.9 million).
2. The existing competitors in the area do not carry the goods and services most consumers need and want.
3. Rancho Sporting Goods can supply normal sporting goods in an array that competitors cannot match.

As a result of these conditions, Rancho Sporting Goods believes it can capture 20 percent of the market share in the first three years of operation. This market share would produce forecasted sales of \$234,000 and an after-tax profit of \$32,346 by the third year.

By providing goods and services that are not readily available from competitors and continually catering to the wishes of the consumer, Rancho Sporting Goods will be able to hold its customers and finance its operations after an initial investment of \$800,000.

Company Analysis

Company Name: Rancho Sporting Goods Company

Type of Business: Retail/Service

Location: 4225 W. PineTop Road

Durango, CO 85555

Owner: Daven Porter

Company History

The proposed date of opening for Rancho Sporting Goods Company (Rancho Sports) is April 1995. Rancho Sports has a very narrowly defined purpose, which is to provide quality outdoor recreation equipment and service to the consumer at an affordable price.

Currently, there are no sporting goods stores in the Durango area that carry the quality or quantity of goods and services Rancho Sports will be carrying. Although Wal-Mart and K-mart have outlets in the same geographic area, neither has the quality of products or the service Rancho Sports will provide. The nearest purchasing outlet with any similarity to Rancho Sports is in the Denver area.

At Rancho Sports, the main focus will be the personal attention we can provide for the customer. Since ultimately the customer is the one who decides whether Rancho Sports will prosper, customer service will be a top priority.

The Durango area was chosen as the location for Rancho Sports for several reasons:

1. The community is close to major areas of outdoor recreation.
2. Durango and the surrounding communities house a large, untapped client base, with a population of 148,400 people between the ages of 15 and 65.

3. The geographic area is expanding tremendously, with an average change of +73.5 percent from 1980 to 1990.
4. The economic stability and average income of Durango and surrounding areas will support this type of operation. With an average annual income of approximately \$20,000 and retail sales of \$235,899,000 in 1993, the area looks promising.
5. The influence of outdoor recreation on the people of the area is outstanding. Having grown up in the area, I know that the people of this area respond favorably to sporting goods stores.

Principals

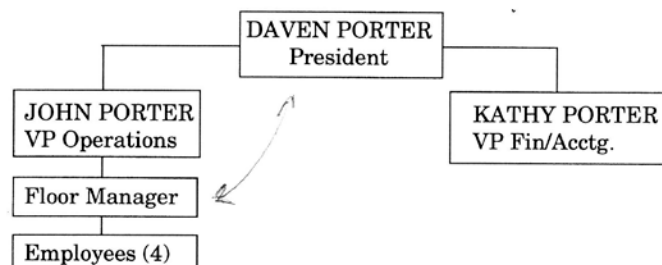
Currently, Daven Porter is the only principal working on the venture in the capacity of creating a business plan. However, a proposed management team consisting of Daven Porter, John Porter, and Kathy Porter is currently under consideration.

As president and CEO of the venture, Daven Porter would be responsible for the overall development and strategic movement of the company. He will also maintain a position as a floor manager and deal with selling, purchasing, and stocking goods.

John Porter would be mainly involved in selling, purchasing, stocking, and promoting Rancho Sports goods and services. He would occupy a position in the organizational structure as vice-president of operations.

Finally, Kathy Porter would be responsible for the accounting and financing portion of Rancho Sports operations. Her position in the organizational structure would be vice-president in charge of financing/accounting (Appendix A-1).

Organizational Structure



Products

Being involved in the retail sale of outdoor recreation goods and services, everything from Frisbees to baseballs to camping equipment could be included in this category. However, Rancho Sports has chosen to create a niche in the market by concentrating its efforts in the areas of hunting, fishing, and camping equipment and the subsequent servicing of this equipment.

The following list comprises the goods and services that will be offered at Rancho Sports.

Fishing Equipment (specializing in trout)

- A. Spinning rods and reels
- B. Fly-fishing rods and reels: Orvis, Fenwick, Eagle Claw, Garcia
- C. Custom-built rods and fishing combinations
- D. Accessories: waders, nets, float tubes, flies, line, hooks, tackle boxes, stringers, bobbers, lures, live bait, weights, containers, scales, scalers, fly-tying equipment and supplies, fishing vests, fish finders, electric motors, and rod/reel cases

Archery Equipment

- A. Compound bows: PSE, Browning, Hoyt-Easton, Pro-line, Oneida
- B. Recurved bows
- C. Crossbows
- D. Aluminum/Graphite/Fiberglass/Wooden Arrows: Easton
- E. Crossbow bolts
- F. Accessories: strings, cams, limbs, sights, silencers, paints, tape, blunts, field point, broadheads, bow cases, targets, arrow straighteners, arrow fletchers, scents, face paint, wax, sharpeners, tools, scales, stabilizers

Firearms

- A. Rifles: Weatherby, Sako, Winchester, Remington, Colt
- B. Pistols: S&W, Ruger, Colt, Baretta, Taurus, Browning
- C. Accessories: scopes, mounts, bore sights, targets, slings, recoil pads, ammunition, cleaning equipment, holsters, grips, sights, rests, vises, clay pigeons, trap machines, premade stocks, muzzle brakes, stock finishing equipment, blueing equipment, calls, pack saws, ultraviolet reducer, game bags

Camping

- A. Backpacks/Daypacks: Jansport, North Face, Mountain Sports
- B. Tents
- C. Sleeping bags
- D. Accessories: lanterns, mantles, generators, stoves, white gas, pumps, stakes, waterproof spray, tarps, utensils, cook gear, dry food, pads, space blankets, first-aid kits, small axes/shovels, ropes, heaters, boots, rain gear, canteens, water purifier

Knives

- A. Hunting/Fishing Knives: Buck, Schrade, Gerber, Boker
- B. Sharpening equipment

Clothing

- A. Camouflage shirts, pants, jackets, gloves, socks, hats
- B. Thermal underwear
- C. Fashion outdoor wear—wool, flannel: shirts, pants, hats, socks, shorts, gloves, coats, jackets

Optical

- A. Binoculars/Monoculars: Redfield, Bausch & Lomb, Steiner, Bushnell
- B. Spotting scopes
- C. Tripods
- D. Defogger

Reloading

- A. Powder
- B. Primers
- C. Cases
- D. Bullets
- E. Dies
- F. Presses
- G. Manuals
- H. Classes
- I. Accessories

Services

- A. Gun repair
- B. Stock building/checkering
- C. Custom gun building
- D. Blueing
- E. Gun accessorizing: grips, sights, mounts, etc.
- F. Classes: gun safety, checkering, stock building
- G. Custom bows/arrows
- H. Bow repair/accessorizing
- I. Shooting tips, lanes, range

- J. Archery classes
- K. Custom rods/reels
- L. Custom hand-tied flies
- M. Fly fishing classes (private pond)
- N. Information on surrounding areas (Appendix A-2)

Other

Guided tours of area by horse, maps, videos, muzzle loader kits and accessories, airguns, hearing protection, decoys

Equipment

The very nature of a retail organization requires a substantial investment in different types of fixtures and equipment for the venture. Because of the expensive nature of some of the goods Rancho Sports will be offering, locking display cases will be used. Knives, optical equipment, ammunition, and guns will remain locked up until a customer wishes to view a particular item. Shelving, racks, and islands will be needed to display the inventory, along with display cases. The total costs for these fixtures will run in the range of \$4,000.

For purposes of recording sales and accepting payment from customers, electronic cash registers will initially be rented at a rate of \$200 per month with thought being given to purchasing the registers at a later date.

Complementing the electronic registers will be a personalized computer system for Rancho Sports. The computer will track sales, forecast profits/expenses, control inventory, and maintain a current list of customers. Initial estimates for the hardware and software tally around \$6,000. Exact figures have not been computed at this time because of the extremely fast-changing technology in the computer information field.

Other equipment for fly-tying, arrow construction, and gun customizing, along with supplies such as stationery and business cards, will cost approximately \$1,250.

To protect Rancho Sports from vandalism and theft, a security system consisting of alarms, cameras, and retractable bars for the windows will be installed at a cost of \$4,500. Although this is a rather high cost for a security system, the adage "An ounce of prevention is worth a pound of cure" holds true. Spending a little money now can prevent big losses later.

As indicated in Appendix A-3, insuring a sporting goods operation is rather costly, due to the type of goods (guns/ammo) that are carried. However, if a quality security system is installed, USF&G insurance offers a 15 percent discount for the overall policy.

Markets

Major Market: Small towns within the county.

Combined Population (total): 151,900 as of July 1, 1993.

Primary Market: Males, ages 20 to 49, with strong interest in outdoor activities (hunting, fishing, camping).

Secondary Market: Females, age 20 and up, interest in outdoor activities or buying for significant other.

Other Markets: Specialty groups, persons in immediate geographic area, tourists, 15 to 19 year age group.

Technology Position

Rancho Sporting Goods Company must keep abreast of new trends, ideas, and goods in the outdoor recreation field to provide the best goods and services for the consumer.

Bases of Competition

The main reason that consumers buy from Rancho Sports over other competitors is the quality of its goods and services. Along with this, customers buy from Rancho Sports because of the personal attention to the customer and the intangible goodwill created in the store (Appendix A-4).

Key Success Factors

The main factors contributing to the success of Rancho Sports are quality goods in a sizable quantity, dependable and fast service, and competitive pricing. Our service is a main point that will separate us from the rest of the pack.

Industry Analysis

Industry Definition

The sporting goods industry as a whole occupies two different but overlapping economic sectors, one being retail and the other the service sector. Although many sporting goods stores tend to concentrate more on the retail distribution of their products, the service sector plays an integral part in maintaining profitability. A store that is unable or unwilling to provide service on its goods (or get the service from another business for its customers) will invariably end up in a very unprofitable position.

Although the sporting goods industry has been in existence for well over 150 years, the range of products and services has remained fairly consistent over the years. Currently, the product lines of most sporting goods stores consist of the following goods:

1. Hunting equipment
2. Firearms and accessories
3. Fishing equipment
4. Archery equipment
5. Camping equipment
6. Reloading supplies and equipment
7. Outdoor clothing

The number of retail sporting goods outlets that offer many services is quite limited. Most of the large stores, such as Wal-Mart, K-Mart, Oshmans, and others, have based their service operations on two main points: (1) helping the customer at the point of sale and (2) returning defective or broken goods to the manufacturer for repair or replacement. The smaller stores, however, are more likely to provide service in the form of instruction and replacement rather than repairing the damaged goods themselves.

The surrounding areas, consisting of rural counties, would be the local market for Rancho Sports. In this geographic area there are two major suppliers of outdoor recreation equipment, Wal-Mart and K-mart. At the present time, there are four other small (profits under \$2,500 per year) retail outlets competing for a share of the market (Appendix B-1).

Geographically, the retail sporting goods industry is mainly confined to a national market. Although many large companies do sell sporting goods equipment internationally, people in the United States are, by far, the largest purchasers of outdoor sporting equipment. Private ownership of guns, ammunition, reloading equipment, and miscellaneous survival equipment in the United States outnumbers that of many countries' militaries.

Industry Size and Growth Rate

More than 105 million Americans participate in outdoor recreation activities and support the industries while doing so. More than one third of the population are regular participants in nonmotorized outdoor activities—hiking, camping, rock-climbing, canoeing, hunting, and fishing—in many cases, year around.

Well-located sporting goods stores have the ability to gross over \$500,000 per year. Most shops, however, have annual sales between \$90,000 and \$250,000.

The industry is looking forward to a 7 to 10 percent real annual growth rate for the coming decade. In the past 25 years, participation in wilderness activities increased by 300 percent.

Well-run wilderness shops turn over inventory completely three or more times a year. Net pretax profits for sporting goods outlets are typically in the 17 to 22 percent range, with costs of sales around 51 percent and overhead maintained at 27 to 30 percent. A store grossing \$150,000 to \$250,000 annually will carry \$20,000 to \$50,000 to the bottom line (Appendix B-2).

Key Growth Factors

There are many significant growth factors for the outdoor sporting equipment industry. These factors, being beyond the control of the retailer, can have both positive and negative repercussions on the business. Although many of the growth factors that follow have a direct influence on the industry, it must be noted that in the years to follow many new and previously unknown growth factors will arise.

New legislation regarding the banning of weapons, limiting or completely banning hunting animals for sport, and restrictions on areas where an individual may participate in such activities plays a key role in influencing the success or failure of the business. Should legislation pass limiting the hunting of animals or the sale of weapons, the industry would show significant losses.

Another factor related to the growth of the industry is societal attitudes toward activities such as hunting and fishing. Groups such as Greenpeace and People for the Ethical Treatment of Animals (PETA) have considerable influence over the prosperity of the industry.

Factors that are more immediate are financial factors facing the people of the area. The amount of discretionary income they have to spend, the economic stability of the area, the population growth, and the unemployment rate could all create a "boom or bust" situation for anyone in the outdoor recreation market.

The current trend of people "getting back to nature" and rediscovering themselves in the outdoors is giving the sporting goods industry a tremendous boost. The shift of people away from the metropolitan areas to the more rural communities where they can enjoy the outdoors is a promising factor relating to the growth and stability of the industry (Appendix B-2).

Finally, the pollution and destruction of popular outdoor recreation areas will eventually limit the sporting goods industry. The cutting of the National Forests to supply wood products for the world, the expansion of modern civilization, and the inevitable pollution created by man and industry will eventually force the retail owner of a sporting goods outlet to either go out of business or seek new types of products to keep up with the changing times.

Cyclical Influences

The sporting goods industry, especially in the Durango area, is affected very little by cyclical influences. Granted, there are times when the aspects of outdoor recreation may seem trendy, but for the most part there is a stable base of consumers that supports this type of operation.

Seasonality

Being involved in the sporting goods industry, especially with hunting and fishing equipment, Rancho Sports would be influenced by the seasonality of its goods.

During the months of July through December, there would be an upward trend of sales of hunting equipment. This type of product would account for approximately 60 percent of the sales during the specified time period (Appendix B-3).

The months of April through July would be most profitable for sales of fishing equipment. During these months, the weather is warmer and the number of people out fishing is far greater than during the other months. Fishing equipment would, therefore, account for approximately 65 percent of the net sales for that period (Appendix B-3).

Looking at the year-round picture, the months of January through March would be the slow months, accounting for 40 percent of net sales, due to the low outdoor activity during these months. The time frame of April through December would account for 60 percent of the net sales for the year, due to the seasonality of the activities and products needed for these activities (Appendix B-3).

Industry Life Cycle

The following table indicates the life cycle of the sporting goods industry as a whole. In each of the following criteria, the industry exhibits the characteristics of the mature life cycle:

1. Growth rate = Stable
2. Market share = High
3. Product line = No change

4. Financial = Cash rich, low debt
5. Market share stability = Entrenched
6. Ease of entry = Difficult
7. Typical volume growth rate = Peak and decline
8. Managerial style = Critical administrator (Appendix B-4)

Market Analysis

Market Scope

Rancho Sports will occupy a local market base covering the Durango area and surrounding communities. We will cater to those individuals with interest in outdoor activities such as hunting, fishing, camping, and hiking. Although the outdoor recreation market consists of many areas of interest, ranging from skiing to off-road racing, Rancho Sports will focus its efforts on those activities relating to the pursuit of wild game and fish.

Market Segmentation

Geography

Region: Southwestern United States

County Size: Land Area—9,955 square miles

Climate: Mainly Ponderosa pine forest, with temperatures ranging from below 0 degrees Fahrenheit in the winter to 90 degrees Fahrenheit in the hottest summer months

Elevation: 7,000 feet above sea level

Major Customers and Concentration

Typical Customers

Typical patrons of Rancho Sports will mainly be male, between the ages of 20 and 49, with strong interests in outdoor activities such as hunting, fishing, and camping. They will usually be involved in all areas of outdoor sports, as they will participate in rifle and bow hunting, fishing and camping. Typical customers will spend approximately 25 to 30 minutes in the store just looking around if they aren't buying anything. Those customers that do buy the products offered will spend an average of approximately one hour in the store. These customers will constitute 60 percent of sales.

Rancho Sports will appeal to many different customers. These customers will include, but are not limited to, the following:

Females, age 20 and up: interested in outdoor activities; introduced to outdoor recreation by husband or boyfriend; buying for self or significant others.

Males, ages 16 to 20: interest in outdoor activities; introduced to sports at young ages by family; shop where the "neat" products are.

Specialty groups: persons looking for specific items, such as hand-tied flies, or checkering equipment; will include persons in immediate area as well as those from surrounding communities and tourists.

Sales Tactics

Rancho Sports will use a sales force located inside a retail outlet to sell the products and services available. The store size will be approximately 5,000 square feet, thus requiring a minimum of three people on the selling floor at any given time. The sales procedure will not be an obnoxious hard sell, but rather a helpful, informative sell in which the customer isn't pressured into buying something that is not needed. All sales will be on the basis that satisfied customers are return customers.

Any and all discounts or special prices will be approved through Daven Porter or John Porter. Normal sales terms will be cash, check, and a lay-away program. Credit sales will be approved for certain long-time, dependable customers, with the following terms: for small items, balance due in 30 days, larger expensive items on an individual basis. Other credit terms will be approved through management for certain individuals such as doctors, family members, and other special customers.

Pricing Trends

Average gun prices have risen steadily over the past five years, a symptom that the market has matured and is not attracting very many new buyers. Prices range anywhere from \$150 for the small, low-quality pistols to \$900 for the more expensive items in the firearms field.

Camping and fishing equipment, on the other hand, have maintained a relatively low, stable price throughout the market. The only exception in this area is the state-of-the-art graphite and custom-made fishing equipment, which tends to occupy the upper end of the price scale.

Rancho Sports will maintain its competitiveness by keeping within a ± 2 percent pricing structure compared with the major competitors in the area.

Promotion and Advertising

The advertising strategy Rancho Sports will employ will consist of advertising in the following media:

1. Yellow Pages
2. Magazines—*Colorado Hunter and Angler*
3. Newspapers—*Durango News* and the *Denver Times*
4. Radio—KDJI, KVWM, KFRM
5. Direct Mail—Mailing list

The initial media blitz will be allocated as 40 percent radio, 20 percent Yellow Pages, 20 percent newspaper, 5 percent magazine, and 15 percent direct mail. These expenditures will be based on 3 percent of total sales for the first year, then reduced to 2 percent of total sales thereafter.

Promotional advertising will be done through workshops, archery tournaments, special contests during specific seasons, sponsorship of local activities, and occasional promotional giveaways. The costs of completing this type of advertising/ promotional blitz as suggested above is broken down as follows:

	Yr. 1	Yr. 2	Yr. 3
Yellow Pages	\$ 2,100	\$ 2,800	\$ 5,040
Colorado Hunter / Angler	525	700	1,260
KDJI, KVWM, KFRM	4,200	5,600	10,080
Durango News/Denver Times	2,100	2,800	5,040
Direct Mail	1,575	2,100	3,780
Total Expenditure	\$10,500	\$14,000	\$25,200

Competitor Profile

Appendix C-1 indicates Rancho Sports' major competitors, their sales volume, growth rate, degree of integration, strengths, and weaknesses.

Management Team

The management team of Rancho Sports will consist of Daven Porter, owner and CEO; John Porter, vice-president of operations; and Kathy Porter, vice-president of finance/accounting. The following breakdown shows the responsibilities each principal will be either directly (D) or indirectly (I) associated with:

Daven Porter:

Objective Setting (D), Communicating (D), Coordinating (D), Controlling (D), Organizing (D), Staffing (D), Planning (D), Leading (D), Public Relations (I), General Administration (D), Risk Management (D), Advertising (I), Purchasing (D), Operations (D), Personnel (I), Marketing (I), Finance (I), Sales (D), Legal (D) Taxes (I)

John Porter:

Objective Setting (D), Communicating (D), Coordinating (D), Controlling (D), Organizing (D), Staffing (D), Planning (D), Leading (D), Public Relations (D), General Administrative (D), Risk Management (I), Advertising (D), Purchasing (D), Operations (D), Personnel (I), Marketing (I), Finance (I), Sales (D), Taxes (I)

Kathy Porter:

Objective Setting (D), Communicating (D), Coordinating (D), Controlling (D), Organizing (D), Staffing (D), Planning (D), Leading (I), Public Relations (D), General Administrative (D), Risk Management (I), Advertising (D), Purchasing (I), Operations (D), Personnel (D), Marketing (D), Finance (D), Sales (I), Taxes (D)

Rancho Sports will involve participatory management. Certain principals will have talents in areas that others do not; therefore, they will hold primary responsibility in the area. However, the management team will be expected to have a broad overview of all aspects of Rancho Sports, even if it is through indirect involvement.

Functions of Key Personnel

To determine any and all special functions performed by the principals of Rancho Sports, Appendix C-4 delineates which functions will be the primary responsibility of each individual.

Manpower Milestones

In determining the number of employees needed for the first three years of operation, the chart entitled *Manpower Milestones* (Appendix C-5) gives the number of employees that will be needed to successfully operate Rancho Sports in the following areas: General and Administrative, Marketing, Finance/Accounting, and Sales.

Strategic Planning

The upper management of Rancho Sports will not be complacent with a venture restricted to the Durango area. The long-term goal of Rancho Sports is to become a leader in the sporting goods industry through expansion, increased sales, increased product lines, and quality of service. The first five to ten years of operation will be dedicated to growth, financial stability, and goodwill. In this time frame, Rancho Sports will be the first name in quality sporting goods *and service*. Management and employees will strive to achieve total market domination. Because of the large inventory, competitive pricing, and quality service, Rancho Sports will be working toward more than \$350,000 in sales after the fifth year of operation.

After the initial stabilizing period (long enough for Rancho Sports to become financially independent), one of two courses will be pursued. Rancho Sports will either (1) expand into other geographic areas, or (2) begin a mail-order business, such as Cabela's, Gander Mountain, or the past king of mail-order sporting goods, Herter's.

If Rancho Sports decides to expand into other geographic areas, such as the metropolitan Denver or Colorado Springs areas, store ownership will be held by the original principals, Daven Porter, John Porter, and Kathy Porter. Management for the different regions will be decided on by the original principals, and in-depth background and qualification checks will be performed. This direction will not be one of franchising, but rather of expansion and maintenance of ownership.

Should Rancho Sports decide to follow the alternate path of the mail-order catalog business, Cabela's, Gander Mountain, and Herter's will serve as the model for Rancho Sports. The catalog will be distributed on a nationwide basis and will contain all products currently available to the sporting goods consumer.

Each alternative will be evaluated by using a simple weighted payoff matrix considering probability and criteria as follows: cost, profitability, efficacy, and feasibility.

The alternatives follow both a generic and a master strategy.

Generic Strategy

This strategy is used as a approach to outperform competitors.

FOCUS (Niche): Focusing on product development and marketing efforts to a particular market segment in which the firm has a cost or differentiation advantage (Appendix D-1).

For Rancho Sports this means focusing on the present location where there are no other sporting goods stores that provide the quality goods or services that we will.

Master Strategy

This strategy involves internal growth at a steady rate each year through innovation and development.

Market Development: Developing new markets, meaning Rancho Sports would pursue other market areas such as Denver or Colorado Springs.

Concentric Diversification: Meaning acquiring new-but-related forms of business for new customers, such as going into the mail-order business.

The criteria used to evaluate the alternatives are:

1. Efficacy: Will the alternative solve the problem?
2. Cost: Will the cost of implementing compare favorably with the returns?
3. Acceptability: Will management accept the alternative?

The alternatives will be evaluated on a 1 to 5 scale, where 1 = No, 2 = Probable No, 3 = Neither Yes nor No, 4 = Probable Yes, 5 = Yes.

Consequences are indicated by the probabilities shown in parentheses under each alternative (Appendix D-2). They are determined by calculating $(1 - P)$, where P is the subjective probability that negative consequences will be associated with the alternative.

Milestone Schedule

Rancho Sports will use the following activities as critical milestones to plan and time the operations of the venture:

1. Business plan completion = April 30, 1994
2. Business plan update = January 1995
3. Financing = February 1993 through May 1995
4. Incorporation = February 1995
5. Construction = March 1995 through April 1995
6. Supplier/dealer agreement = March 1995
7. Order placement = April 1995
8. Order receipt = May 1995
9. Grand opening = May 1995

Appendix D-3 shows the time schedule for each of the above-listed activities in a time-line form. Note that each of the activities has a contingent plan for unforeseen problems that may arise.

Plan Assumption

Economic Conditions

Durango Country	Percent Change
Population	+31.0%
Wage/salary employment	+ 2.2%
Retail sales	+96.2%
Bank deposits	+44.6%
Vehicle registration	+29.3%

The above assumptions of the economic conditions are based upon projections from the *Colorado Statistical Review*, published by Valley National Bank.

Industry Trends

New technologies such as lightweight space-age polymers for the construction of clothing and camping equipment, new types of firearm design and calibers, and new methods in hunting and fishing techniques will all affect Rancho Sports' competitive position. To maintain a competitive advantage over other sporting goods dealers, Rancho Sports must continually strive to keep abreast of new advances in the sporting goods field.

Market Trends

The sporting goods market will be experiencing an increased demand for outdoor products such as camping equipment and fly-fishing supplies because of the recent trend of more people "getting back to nature." Visitors to the National Parks have increased from 263.4 million people per year to 269.4 million people per year. Sales of backpacks, tents, sleeping bags, and other camping equipment are up 5 percent, to \$989.9 million. All of this translates into an increased demand for outdoor recreation equipment (Appendix B-2).

Outside Influences

Other influences that will directly or indirectly affect the sporting goods industry, including Rancho Sports, are government regulations of gun sales and hunting regulations. Along with the government, pressures from special interest groups such as GreenPeace, PETA, and other radical environmentalist groups will have a profound effect on the industry.

Red Flags

In the process of completing this business plan, several red flags that cannot be resolved at the present time must be noted for further investigation. Government regulations, new laws concerning hunting and gun control, and pressure from environmental and animal rights activists will all play a significant role in Rancho Sports' success. Although Rancho Sports has no direct control over these influential factors, they still must be kept in mind as red flags to serve as warnings, not only for Rancho Sports, but for the industry as well.

Company Strengths to Exploit

Rancho Sports' strengths are its quality goods and the service provided with the sale. Management will promote the service to the fullest extent possible, because this is where the two main

competitors of Rancho Sports, Wal-Mart and K-mart, cannot compete. To exploit the company's strengths, only friendly, knowledgeable salespeople will be employed. These employees must know the ins and outs of all the goods carried at Rancho Sports and will offer their knowledge to customers in every way possible. Services such as reloading, custom gun finishing, and instructional courses will also be completed by only the most competent individuals who demonstrate a genuine concern for the needs of the customer. Any sporting goods store can provide quality goods, but how the store takes care of its customers is what sets it apart from the rest of the competition (Appendix E-1 and E-2).

Company Weaknesses to Overcome

In creating this business plan, all possible attempts have been made to eliminate any weaknesses that Rancho Sports may have. At this time, the only visible weakness of Rancho Sports is the seasonal nature of the industry. To overcome this shortcoming, a wide variety of goods will be offered to keep up with the different seasons involved in the sporting goods arena. All in all, only the months of January and February are predicted as "slow" months. The amount of projected sales for the other 10 months of the year will allow Rancho Sports to operate during the slower months without experiencing difficulties in financial stability.

Market Opportunities to Exploit

Rancho Sporting Goods Company will focus its activities on the previously untapped market surrounding Durango.

Risk Analysis

Every company in existence experiences risk in one way or another, and Rancho Sports is no exception. Several elements are delineated as important risk factors that Rancho Sporting Goods Company should be concerned with. They are:

- Industry
- Market
- Competitive position
- Strategy
- Assumption
- Financial performance
- Management performance
- Level of future performance

These risks are tallied and an overall rating of high, medium, or low risk for Rancho Sports is computed (Appendix E-4).

Business Strategies

Rancho Sports is presently in several strategic positions. Not only is management working for the short-term goals, but it also will be looking to the future for ways to make the business grow by using market strategies to concentrate on the immediate geographic area surrounding Durango and capture market share, product line strategies to keep the lines of products that the customer wants, technology strategies to keep abreast of new and rapidly changing technological advances in the outdoor products market, operations strategies to focus on performance related to sales and services, and financial strategies to help provide capital for ongoing operations and growth (Appendix E-5).

Company Thrusts and Business Strategies

In the Durango geographic areas, Rancho Sports' competitive position will definitely be considered strong because of the lack of competition. From this competitive position, different thrusts over the life cycle of the business have been determined. During the embryonic stage, the company thrust will be focused on startup, differentiation, and fast growth. Startup thrust is designed to introduce Rancho Sports to the area, with its main objective being to satisfy the demand for quality sporting goods and services where there previously had been none. This requires a risk-taking attitude on the part of management, along with capital expenditures and expenses. Results that can be expected are negative cash flow, low to negative returns, and a leadership position in the market. Risks are high but worth taking (Appendix E-6).

After the initial startup period, a fast-growth strategy will be employed to aggressively pursue a larger market share and a better competitive position. During this time, volume and market share will increase faster than the immediate competition and industry. Results expected are a greater market share, above-average returns in the long run, and competitive retaliation. By taking advantage of an untapped market and doing well, Rancho Sports risks that someone else will enter the market and try to play smarter and harder (Appendix E-7).

During the differentiation stage, customer perceptions of the best goods and service in the market with acceptable costs will be associated with Rancho Sports. The objective will be to insulate the company from switching, substitution, price competition, and loss of loyal customers and suppliers. From this position, high margins, above-average earnings, and a highly-defensible position will be attained (Appendix E-8).

The chart entitled *Guide to Company Thrusts* (Appendix E-9) gives a detailed guide to the thrusts Rancho Sports will be pursuing over the business life-cycle while occupying a strong competitive position.

Strategy Plan

Rancho Sports' main thrust will be to focus and develop a niche. The Durango area chosen for operation will allow Rancho Sports to select this niche and protect its strategic target area efficiently, fully, and profitably from such broad-line competitors as Wal-Mart and K-mart. This strategy will require a disciplined management, persistent pursuit of a well-defined scope and mission, premium pricing, and careful selection of targets. Rancho Sporting Goods Company expects to be the low-cost producer in the area while attaining high differentiation and above-average earnings.

Tactics

To pursue the above strategic plan, the following tactics will be implemented:

1. Continually redefining the scope and mission of the business;
2. Careful selection of targets;
3. Determining the products and services that are consistent with consumer wants and needs;
4. Continual steps to maintain loyal customers;
5. Perpetual reviews of objectives, financial position, and ways of improving performance.

Timing

The time frame involved in implementing the above tactics will begin immediately on opening and continue throughout the years of operation.

Responsibility

The main responsibility for seeing that the tactics are implemented and continually reviewed will fall on the shoulders of the main principals: Daven Porter, John Porter, and Kathy Porter. As the management team, each principal will be involved in a weekly meeting to determine short- and long-term needs of the company and ways of obtaining its goals.

Estimated Costs

The costs involved in implementing the strategies will mainly be manpower costs and the time it takes to run the weekly meetings to come up with solutions to problems.

Licenses and Taxes

Licenses

Durango does not require a city business license, only that the business file a joint tax return with the state (Appendix F-1).

The Durango Building Commission requires that operation in specific areas conform to the established zoning laws. Therefore, Rancho Sports has selected a location that meets the current zoning restrictions.

Since Rancho Sports will be selling such items as gunpowder and ammunition, a permit from the local fire department will also be obtained.

Regulations

Aside from the local licenses and permits, other state and federal regulations apply to Rancho Sporting Goods Company. Laws designed to encourage competition prohibit practices such as contracts, combinations, and conspiracies in restraint of trade; they prohibit discrimination in price between different purchases of commodities similar in grade and quality that may injure competition; they make unlawful "unfair methods of competition" and "unfair or deceptive practices."

The term *deceptive* refers to any false advertisements, misrepresentation, simulation of competitive products, and bad-mouthing competitors. Even in the case of violations by a manufacturer or distributor, a retailer who knowingly accepts an illegal concession offered by the vendor may be considered equally guilty.

A fairly common statute forbids the sale of any article at less than the seller's cost if the intent is to injure competitors. Other laws deal with "bait and switch selling," withholding appropriate refunds on deposits made by customers, misrepresenting warranties and guarantees, and quality requirements for certain products.

Due to the complex nature of these regulations and the penalties for violations, Daven Porter will be responsible for seeing that all laws and regulations are met.

Taxes

As a business owner and employer, we understand that various state and federal taxes will need to be collected and remitted to the proper agencies.

Although research has been conducted on current tax information, it must be noted that by the time Rancho Sporting Goods Company opens, certain laws may have changed. Therefore, current tax laws will be investigated before opening to ensure that our tax structure complies with the latest regulations.

As an employer, withholding tax and Social Security tax must be withheld from each employee's paycheck and transferred to the proper tax-collecting agencies.

An employer tax number will be obtained from the federal government using the IRS form SS-4. The federal agency will send Rancho Sports the tax number as well as charts to determine payroll tax deductions, quarterly and annual forms, W-4 forms, tax deposit forms, and instructions for each form.

The Federal Insurance Contribution Act, or FICA, requires Rancho Sports to pay an amount equal to the employee's contributions to the Social Security tax. Currently the rate is 7.65 percent.

Four different reports must be filed with the IRS district director in connection with payroll taxes:

1. Quarterly return of taxes withheld on wages (form 941)
2. Annual statement of taxes withheld on wages (form W-2)
3. Reconciliation of quarterly returns of taxes withheld with annual statement of taxes withheld (form W-3)
4. Annual Federal Unemployment Tax Return (form 940)

Colorado has a payroll tax that must be collected and remitted to the proper agency. The tax is calculated as a percentage of total payroll and remitted at the end of the year.

Financial Analysis

In acquiring the capital needed to get the venture started, the main sources will be the principals and their friends and relatives. These sources, having deep pockets, will be furnished with monthly income statements for the first year of operation and on a yearly basis for the following four years. The pro forma income statements will show monthly and yearly revenues and expenses for the first five years, thus giving investors a good indication of the profitability, sales, and expenses for the first few critical years of operation (Appendix G-1).

Along with the income statements, a balance sheet also will be issued to possible investors. The breakdown includes cash, accounts receivable, and other assets, as well as the liabilities to be incurred (Appendix G-2).

Finally, the break-even analysis shows at what point Rancho Sports will be able to handle its fixed and variable costs and start making a profit (Appendix G-3). This chart is based on sales over a twelve-month period, and indicates the amount of fixed and variable expenses needed to be covered before making a profit is possible.

Pro Forma Income Statement

The pro forma income statement covering the first five years of operations will be broken down on a monthly basis for the first year to indicate the seasonality and expected fluctuations in revenues and expenses that could be overlooked if represented by only simple yearly figures. The sales dollars show fluctuations from January (\$8,000) to December (\$15,000). The increases are related to the major hunting and fishing seasons that extend from April to October, plus the Christmas shopping season. At the end of the first year of operation Rancho Sports expects a total net profit after taxes of \$9,790. Profits for the next four years of operation increase to \$23,096, \$32,346, and \$64,039 respectively (Appendix G-1).

Break-Even Analysis

Rancho Sporting Goods Company has general fixed costs of \$57,300 and variable costs of \$74,700. With these expenses of \$132,000, Rancho Sports will be able to start turning a profit in mid-July. At this point, all expenses will be covered and additional revenues will be considered profit for the business. By the end of the first year of operation, Rancho Sports will be looking at a profit for the year of \$9,790 (Appendix G-3).

Financial Ratios

Liquidity ratios for Rancho Sports have been calculated and are as follows:

1. Quick ratio
2. Current debt to inventory
3. Total debts to total assets
4. Current debts to total assets
5. Current debts to tangible net worth
6. Total asset turnover
7. Net sales to tangible net worth (Appendix G-4)

Along with the calculations, descriptions of the ratios are presented in Appendix G-5.

Store Layout

Appendixes H-1 and H-2 show the projected store layout for Rancho Sporting Goods Company.

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Authors' Note

Note: The Pro forma Financial Statements may be included in the Appendix as is the case with sections G-1 to G-5 in this business plan. However, we suggest that you include your financial statements in the main body of the business plan in a sole and separate section entitled "Financial Projections."