

A WATER SKI SHOP STUDY

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I. Introduction

Many small retail businesses are a success -- but far too many have failed. The line between success and failure is often thin, and the failure rate is high. Any business just starting out should take a serious look at its chances for success and profit before beginning the venture.

This study strives to do just that, for a possible retail water ski shop near Angola, Indiana. The retail plan presented in this paper outlines the steps taken to determine this specialty shop's chances for survival.

The entrepreneur is David Goss, a 1979 graduate of Miami University of Ohio. During his senior year, he hoped to use his business management education and his interest in water skiing in a specialty water ski shop. In the winter of 1978, Goss contacted ski manufacturers to obtain dealerships. He also estimated building costs. With his parents' assistance, he purchased land on a county road with access to I-69, the lakes and Angola.

Having gone this far, Goss postponed further action in view of the instability of the general economy and the cost of gasoline. He has taken a position in another business, but still hopes to open the water ski shop when conditions are more favorable.

This analysis is being performed to further clarify some of the uncertainties of opening this particular shop, as many aspects of the situation had been left unexplored. This paper should serve as a guide for Goss in the present and future.

II. Situation Analysis

A. Demand

1. Nature of Demand

Today's consumer is changing. In the past he wanted to be as well off as his neighbors. The consumer of the 1980s wants to express himself through what he purchases. He is not nearly as influenced by his neighbors' purchases as the consumer of the past.

Today's consumer, the marketers' challenge, is different because of changing lifestyles in the United States. The younger consumers' attitudes, behavior, and activities are much altered from those of older consumers The major difference between the newer consumer and his older counterpart is a value system in which the younger people put less emphasis on things and more emphasis on what these things will do for them in making their life style one which is less 'keeping up with the Joneses' and more 'doing one's own thing'. . . . Today's consumer is more knowledgeable, more sophisticated, more self-confident in making his own selection with a view to self-realization rather than to conformity. Also today's consumer has opted for the use of leisure time to engage in an enormous number of activities and interests, and concomitantly discretionary spending has been directed toward this use of leisure time.¹

The consumer of today is more difficult to sway and marketers will have to increase audience research to pinpoint an even more select target market.² Marketers will have to convince skeptical consumers with honest, straightforward advertising, quality merchandise and good service. Consumers will be prepared to pay higher prices for purchases, but will expect longer-lasting and better-built products.

Continuing inflation and shortages of basic commodities will be major concerns. Consumers will express their displeasure with this by being more selective in their purchases.

Americans will either consider their jobs only a necessary way of earning the money that enables them to find self-fulfillment during their leisure hours, or they will devote themselves to finding satisfaction in their careers while maintaining a nobody-is-going-to-sucker-me attitude toward leisure-time products.³

In May 1979, Americans reported cutting back on their standard of living because of inflation and energy problems. Because of gasoline shortages, 74 percent of the nation's consumers have cut back on driving. Another 21 percent were considering the purchase of a large-ticket item, which inflation dictated would cost even more in future months.⁴

Despite this, most consumers report feeling comfortable and content with their lifestyles. How long this euphoria will last is unknown, but the pervasive feeling is that the 1980s will see altered lifestyles.

These altered lifestyles are reflected by a number of trends, evident in everyday living:

The relevant trends include slower population growth, smaller families, more single and unmarried households, a higher proportion of women in the work force, more households with both husband and wife working, and a shift of the population towards higher age levels.⁵

Another general trend is toward self-fulfillment through leisure activities. Though Americans have no more leisure time than in the past, they seem to make the most of their spare time. Thus, growth in consumer spending has been greatest in durable leisure products. Consumer spending has grown 12 percent per year for radios, televisions and stereos since 1960, and grown 9.6 percent per year for toys and sports equipment.⁶

This is good news for the sporting goods retailer, but he need only look at his own books to obtain the same evidence. "For 1979 studies show that sporting goods stores will continue to grow and will remain the primary outlet for purchases of active sportswear by men."⁷

Consumers are using their leisure time better because of the need for self-expression and as a hedge against rising inflation. But better usage of leisure time is also due to a general time consciousness among Americans. In the future, time for shopping will only be given to specialty shopping. All other will be done as quickly and painlessly as possible. Specialty shopping is fun and a means of self-expression, whereas shopping for staples, such as food, is viewed as mechanical, routine and a waste of time.⁸

Time consciousness among Americans has increased the zeal for self-expression through an increase in leisure activities. Time consciousness is also the major factor in altering our lifestyles.

'Time itself, and the increasing value that today's consumer places on it, is the first and major factor. The importance attached to the use of leisure time, accompanied by increased affluence, has gone hand in hand with a proliferation of activities. These activities are manifold in character: recreation, sports, hobbies, and travel; outdoor pursuits, inside activities such as music and do-it-yourself projects; job-related and career advancement activities; and community service.'⁹

These general trends towards self-expression and time consciousness can be related to the nature of demand for water skis. This demand is dependent upon the consumer's desire for using his much-valued time to express himself through water skiing. The consumer will be select in his purchase decisions, which makes target market analysis for water skis all the more important to the retail marketer.

2. Extent of Demand

The extent of demand can be nothing more than a rough estimate. The figures are based on the number of residences on lakes large enough for skiing in Steuben County. They do not account for renters, vacationists, campers or weekend visitors, nor for the potential from many of the surrounding counties.

Steuben County is in the extreme northeastern corner of Indiana, bordered by Ohio and Michigan. It has a total of 309 square miles with a county population in 1976 of 22,644, up from the 1970 census of 20,159.¹⁰ According to the Angola Chamber of Commerce, this population figure doubles each summer from the onslaught of tourists and summer dwellers.

The county seat and largest town is Angola. Its population in 1976 of 4,753 is a decrease from the 1970 census figures of 5,117.¹¹

The county has a large concentration of farmers and blue collar workers; stereotypically, those who do not finish high school and those who marry at an early age. Of those over 14 years of age in the county, 9,986 are married and 3,693 are single. Only 60 percent of adult males over 25 years and 65 percent of adult women are high school graduates. Of the children under 18 years of age, 89 percent are living at home.¹²

Steuben County is at the tail end of the glaciers, which deposited 101 lakes in the county. In the past century, these lakes have brought many people to the area and cottages have been built. A large number of these summer cottages have been converted into permanent homes in the past ten years. Winter activities such as snowmobiling and ice skating have become popular.

In Indiana, a lake must cover over 300 acres to permit the higher speeds necessary for water skiing. Only ten lakes in the county are legally large enough, accomodating five thousand property owners.

The profile of these cottage owners is vastly different from that of the average area resident. Most of the lake property owners do not consider their lake property as their primary residence, nor do they work in the county. Because of this, it is difficult to develop a profile of this population. The following is a generalization.

Lake property is expensive, and as a rule, only middle or upper class members can afford such a luxury. Many owners are professional people or white-collar workers, and most have families. Probably 95 percent or more of these people are Caucasian. They come from urban areas in an attempt to escape the city's summer heat, to relax and to recreate. Many are from Fort Wayne, Indianapolis, Muncie, Bowling Green, Dayton, Toledo and Detroit, according to various Steuben County lake directories.

These summer residents enjoy many lake activities, including swimming, fishing, boating and skiing. Of these, water skiing is the most recent recreational development.

Water skiing has been a popular sport since the end of World War II, when Americans acquired more money and leisure time. Great technological advances were also gained at that time, and speedboat engines became fast enough to pull skiers. Waterskiing was developed by teenagers and young adults as a recreation. It has grown into a competitive sport on state, regional and national levels.

There are types of water skis available for all levels of skiing. Pairs of wooden skis are used by beginners and fiberglass slaloms by advanced skiers. Steuben County marinas carry a range of ski brands to accommodate each level of skiers.

B. Competition

In analyzing the feasibility of opening a ski shop, the competition facing the shop must be studied. In this case, the competition would consist of ten county marinas and a specialty ski shop 60 miles from Angola.

The closest competitors, the marinas, carry skis as accessory items only, and do not market them extensively. They make little effort to interest consumers in skis, preferring to sell boats. All of the marinas operate differently, but a few marketing practices are evident. Indications by marina owners provided verification of general trends in ski marketing in Steuben County.

Retailers generally purchase water skis in the fall and winter when quantity discounts are available from manufacturers. The marinas reorder as necessary in the summer months. More than one brand of skis is stocked, to appeal to more than one market segment. Usually, a line of wooden recreational skis is handled, plus one or more lines of competition fiberglass skis.

Ski purchases are based on the number of skis the marinas estimate they can sell in one summer season. Last

summer, they averaged 63 ski sales, with sales ranging from as few as 16 to as many as 125.¹³

All the marinas use a very simple system for pricing the skis. They sell the skis at the manufacturer's suggested retail price, which allows a 40 percent markup. This system means the average ski sale is \$160. Wooden pairs are cheaper, and fiberglass slaloms may run as high as \$400. Fiberglass jump skis sell for as much as \$700.¹⁴

By using the manufacturer's suggested retail price as a base price, marinas can use skis as leader items and still make a profit. Putting the water skis on sale creates traffic in the marina and the possibility of more high-ticket boat sales.

Advertising for the water skis by marinas is done on a very small scale. Many of the dealers mentioned their water skis in general marina advertisements. Two owners said they run an ad exclusively for water skis twice a summer. Advertising is placed with the local newspaper, shopper and radio station, and in various lake cottage owners directories. As a rule, the dealers run on a small advertising budget of \$100 a month or less. None have an exact advertising schedule set up, but place ads sporadically.¹⁵

As the marinas consider skis an accessory item, the personnel are not very knowledgeable of the skis' capabilities. This causes many advanced skiers to be dissatisfied with the marinas and the way they sell skis.¹⁶

To get the selection and service of a specialty shop, many active skiers travel to North Webster, Indiana, a drive of 60 miles from Angola. Bart's Water Ski Center is the most complete water ski shop in the Midwest. It employs 10 salespeople and service workers in the summer and three workers in the winter months.¹⁷

Bart deals in high volume and gets excellent quantity discounts. He keeps one thousand skis or pairs of skis in stock and carries 15 brands. He offers his skis at less than the manufacturers' list prices, and still receives the 40 percent markup.¹⁸

Bart believes he is the largest or second largest ski retailer in the nation. He places 90 percent of his advertising in the national water ski magazines, Spray and Water Skiing.¹⁹ He believes 50 percent of his business is done by mail order: the center has its own discount catalog which is prepared in the slow winter months.²⁰

As it is only an hour's drive from Angola, Bart's could prove to be stiff competition for a retail ski shop opening in the Angola area. However, receiving similar quantity discounts, an Angola store could offer the same prices, as well as the same selection and knowledgeable service.

At this point, indications are that the ski shop's competition have left many sales gaps. It appears that Steuben County could support a specialty ski shop with an industrious entrepreneur, to fill in these gaps.

C. Environmental Climate

1. Economic

The present economic situation of the country is a seesaw of change. The only sure thing is that inflation and shortages will be with us for quite a while. The inflation rate has escalated from five percent in 1976 to 13 percent. The prime lending rate has soared to an unprecedented 18 percent.

Predictions of what the next two decades will bring vary, depending on the economist. Still, some inferences can be drawn.

Oil prices will continue to rise. "The one constant in the U.S. energy picture is price: It will be going up for every major source of energy -- sometimes dramatically . . ."21 Although it appears that the U.S. has enough crude oil, the balance is shaky; any major world problem or crisis could cause this balance to topple.

The OPEC nations are successfully limiting production to keep prices up. Crude oil inventories in the U.S. are dangerously low. The U.S. has about 319 million barrels in inventory, compared to an estimated minimum needed to meet demand of 310 million barrels.²²

The demand for energy will increase in the future, even with energy conservation measures used. Industry's demand for energy will grow, but at a slower rate.²³

Despite the fact that energy savings in all sectors of the economy will produce a 25% reduction in energy use from pre-embargo trends, Exxon says the U.S. cannot save its way out of

the energy problem. Even with substantial conservation, total demand will grow about one-third by 1990 -- an additional 13 million barrels of oil/day equivalent.²⁴

Eighty percent of the demand in 1990 will be for coal and nuclear energy, but even so, imported oil demand will grow from 45 percent in 1977 to 51 percent in 1990.²⁵

For retailers, the recession should suggest a need for caution. However, many seem to be taking this time to build inventories, even though consumers cannot be counted on to deplete these larger inventories.²⁶

Businessmen . . . are almost always wrong at crucial turns in the economy. They think inventory accumulation is beneficial, because it avoids spot shortages and saves costs as prices rise. They take excessive comfort in full order books, forgetting how quickly those orders can evaporate under the pressure of economic adversity In our opinion, the recession has already begun and may well turn out to be a good deal worse than most businessmen and economists expect it to be If your business or investment planning is predicated on expectations of a mere cessation of growth rather than a real recession, go back and take a second, more skeptical look.²⁷

Evidently, such advice is being heeded, as other predictions show inventories dipping one percent this summer and recovering a year later. Capital outlays will also decrease this summer, and though the recession may still prove to be mild, it may be long.²⁸

Economic and energy predictions for consumers for the near future are based on the records of the recent past. The consumer price index is down from the 13 percent of last spring and is expected to dip to nine percent by the spring of 1981.

Real consumer purchases grew one percent in 1979, but cut into consumer savings.²⁹

Consumers hold the key to the continuing slowdown. They have been battered by a rise in energy prices that in the past year has come close to 3 per cent for all G.N.P. For the past 6 months, they've cut their buying of petroleum products and the vehicles that use them, but they've also depressed savings rates in order to sustain purchases of general merchandise --³⁰ clothing and home goods and other durables.

With the ever-increasing inflation rate, consumers have awakened to the realization that they must curtail their spending. "Consumer-goods buying promises to stay subdued well into next year, as people continue to restructure family budgets under the pressure of inflation."³¹

For water skiing enthusiasts and retailers, this paints a dim picture. Due to inflation, water skis may not be affordable. Even if they are, fewer people will be able to afford the boat gasoline to pull skiers.

However, some economists predict that consumers will not be as tight with their money, but will spend it more freely, trying to get as much for it as they can, while they can.

Having suffered one crisis after another, the consumer is becoming immune to such emergencies. Consequently, there is a growing tendency to seek enjoyment in the form of food, abstract art, colorful products, unusual home decorations, extended travel, and other pleasurable possessions or activities. Human nature is resilient; the greyness of economic gloom requires a coverup. Thus, games for everyone, toys for children, new mixtures of liquor, nightclub entertainment, and new and varied styles of all are predicted to have improved selling prospects in the future.³²

The situation today causes consumers to be more frugile with their money. But they purchase exactly what they need for self-enhancement -- no matter what the cost, nor how deep the recession which is settling in.

Economists will remain in the foreground of retail strategy through the year 2001. Energy costs will rise faster than other costs for the retailer, and he will be required to conserve energy in operational methods.³³

In keeping with national trends, the economy of Steuben County and Angola is changing. Some retailers claim business is up, while others state that consumer buying has fallen off.

Indications from marinas show that business is not good. Consumers are not willing to purchase boats because banks require at least a 25 percent down payment and 16 to 18 percent interest. Ski sales have decreased, but at a slower rate (When customers want to buy something for the lake and can't afford a boat, they'll settle for a new ski). But it is the boat sales that keep a marina in business and some marinas are having financial difficulties.³⁴

The economic opportunities of the proposed ski shop do not look promising. People are not buying new boats and may not be able to buy or obtain gasoline for the old boats. This would limit the use and purchase of water skis.

2. Social and Cultural

Three distinct social groups residing in Steuben County have emerged. These are the farm community, the small-town

community and the lake dwellers. Each has its own values and interests, and often these do not coincide.

The farming community and the small-town community are interested in seeing the county grow and prosper. Angola is interested in bringing in new industry and light manufacturing, which may be more lucrative and stable than the tourist trade.³⁵

The lake dwellers are only in residence during the summer months. They use Angola to purchase necessities during their stay. They double the county population in the summer and provide more revenue, but are often looked upon as callous and indifferent to the community's needs. Lake dwellers are often treated as a captive audience with no choice but to purchase in Angola.³⁶

This captive audience, if they buy skis at all, will buy them in Steuben County. Angola residents and the farming community cannot be counted on to buy water skis.

3. Technological

As consumers become more jealous of their precious time, shopping will become more of an impediment to recreation; unless, that is, shopping can be made more recreational. By the year 2000, most mundane, routine shopping will occur over a video display screen or in-home television computer system.³⁷ Only specialty and shopping goods will actually be "shopped" for in the traditional sense. Retailers will have to be sharp to attract customers. Unless shopping is made fun, consumers aren't going to waste much time on it.

This development will not be sudden or drastic. Society has been gradually moving in that direction for years. While supermarkets were growing from price and convenience,

Most conventional department stores and specialty stores perceived that their forte was to offer service, fashion, and prestige, to assist customers, and to become specialists in serving customers in those purchases where ego-enhancement was an important consideration. Thus the specialty stores and the department stores constituted the other part of dichotomy in the retailing system.

. . . It is plausible to speculate that this division will widen. Purchasing of staples is perceived by many customers to be a chore: it takes time that consumers increasingly begrudge, time which could be used for other activities; and it is already fast becoming essentially mechanical in nature, with the vital exception that the mechanics are those of the consumers' eyes, hands, and feet.

Specialty shopping, in contrast, is perceived to be more fun: the consumer's ego is involved as in the purchase of a dress for a special occasion, a gift, the equipment, (and the appropriate apparel) for a sport or other activity, the special brands and wines for home entertainment. Time for this kind of buying is not begrudged; the assistance and advice of knowledgeable salespeople often is sought; there is a personal relationship, something that is almost nonexistent in the acquisition of staples.³⁸

Other recent advances will also become more widely used. The food industry will utilize point-of-service systems while general merchandisers will adapt optical character recognition.³⁹

Currently, none of the systems are practical for a small, single, specialty store such as the water ski shop under consideration. Such systems are too expensive and bulky, and the inventory for this store is not extensive, nor is it faddy or seasonal.

4. Legal and Political

Many difficulties arise between manufacturer and retailer when a legal or political point is in question. Such is the case when exclusive territories are granted. These agreements often violate anti-trust laws.

Territorial dealerships for water skis are not often granted, but manufacturers are selective in their distribution. Exclusivity has the advantage of increasing a retailer's interest in the product, but it may lessen competition and therefore violate Section 3 of the Clayton Act.⁴⁰ Also, manufacturers do not want any one market inundated with their products. If every dealer were to carry their brand, the product may be considered common and not a specialty good.

All ski brands in Steuben County are carried by at least two marinas, indicating two full markets. The dealers are made to feel they have exclusive rights, but dealerships for the brands they carry can also be obtained by the ski shop. This indicates a selective, not exclusive, market.

Since pricing of products can affect a retailer's profits and his share of the market, it is carefully regulated by laws to keep retailers on an even footing. Most of these laws were designed to protect the smaller retailer and regulate the large retailer and manufacturer.

For example, manufacturers cannot set minimum prices for retailers to follow. This would violate the 1975 repeal of the fair trade laws.⁴¹

In the same vein, all products must be sold at prices that at least cover the invoice cost. At the other extreme, prices cannot be fixed between competitors to raise prices, as this violates the Sherman Act.⁴²

These regulatory factors are adhered to in the Steuben County water ski trade area. Although the marinas all list their ski brands at the manufacturers' suggested retail prices, the manufacturers are not attempting to enforce these suggested prices.

D. Stage of Product Life Cycle

The beginnings of water skis can be traced back to World War II. Water skis were developed by teenagers who tacked tennis shoes to boards. Later the tips of the boards were sloped up and fins and boots were added. In the 1950s, the tails were trimmed and rounded so the ski could be turned. By the 1960s, the bottom surfaces were made concave, because faster speeds caused conventional skis to slide out on turns. Even concave skis became obsolete when the tunnel, a concentrated concave, was introduced in the early 1970s.⁴³

Today's ski is a finely-tuned instrument of fiberglass, constructed with an open-cell aluminum honeycomb or graphite interior. Its construction is carefully monitored for better performance features.

Now that the final improvements have been made, the water ski is leaving the product growth stage and entering

the maturity stage. There are many competitors and varieties, and sales have been climbing. With entrance into the maturity stage, competition will increase and profits decrease. Promotion by the manufacturers is vital to ensure product differentiation in the consumers' minds.⁴⁴

E. Retailing Structure

Water ski products are easily adaptable to the specialty store theory of retailing. This theory is based on a narrower product line carried by the store. The specialty store, as opposed to the general merchandise or the single-line store, is known for its depth in assortment and variety, and for its knowledgeable salespeople.⁴⁵ The specialty store has a well-defined store image, which is reflected by the personnel, design, promotion and other attributes.

For the higher-quality water skis particularly, a specialty store setting is an asset. The experienced employees associated with specialty stores are a must for customers to make a wise purchase decision. Without this assistance or any knowledge of their own, customers must base their purchase decisions on ski graphics.

Specialty stores are growing in profitability and becoming a threat to traditional department stores in sales of shopping and specialty goods. This is especially true where the product market changes so rapidly, as in apparel and other image goods. Specialty stores have the advantages of flexibility and adaptability to new trends over department stores.

The growth of leisure time (accompanied by a rise in affluence) has been matched by an equal or greater growth in consumer interests, activities, and hobbies, such as skiing, hiking, camping, boating, racquetball, tennis, bicycling, painting, gardening, building and maintenance of homes. The expansion in both varieties of activities and extent of participation has been enormous. Many of these diversions require special equipment, and for most, special apparel is either a necessity or an added ego-enhancement that has opened new markets for retailing.

It is a situation made to order for specialty stores. And today there is a growth of specialty stores aiming at this market. Many of these concerns operate catalog businesses in addition to their stores: and some of them have been successful in offering a blend of equipment, accessories, and apparel.⁴⁶

Specialty stores can add accessories to their main lines with ease, and the accessories can be grouped with the main lines for display purposes. "Accessories are not off in some distant area and jealously guarded by another buyer,"⁴⁷ as in most department stores.

The next few decades look promising for specialty stores. Their philosophy agrees with the changing psyche of consumers. Their offerings provide a happy contrast to the impersonal coldness of shopping for staples. While the consumer continues to have a present and promised outlook of needing to express himself, the specialty stores will be there to meet his needs.

The future of the specialty store is bright for the next several decades. This type of retailing is in tune with the changing motivation of consumers, with their widening range of interests and activities, with their increasing affluence, and with their growing need for self-expression. When the prophesy is fulfilled of an

impersonal telecommunication system for ordering routinely bought staples (the other part of the dichotomy) specialty stores may play a larger part in the total retailing system than they do at present.

In the future such stores will outwardly resemble those of yesterday and today, but their distinctive feature will be personal service. They will offer the customer many services: knowledgeable, helpful salespeople; alterations, . . . and, of course, delivery, special orders, telephone orders, and credit. They will satisfy special demands for many types of attire, such as formal wear, sportswear and shoes; for types of activities, such as playing stereos, playing musical instruments, and recreation; for types of people, such as infants, stouts, and the elderly; or for types of households, types of lifestyles, and types of job responsibilities . . .

Specialty shops will serve those consumer wants and needs that the telecommunication merchandiser of routinely ordered products cannot satisfy. Most specialty stores will be strengthened by this turn of the wheel of retailing.⁴⁸

Sporting goods, a category which includes water skis, are becoming more adaptable to specialty shops. Currently 70 percent of sporting goods and toys are purchased in a department or discount store, 19 percent in a sporting goods store, and five percent in a hardware store.⁴⁹ These figures show an increase for sporting goods stores over past years. More encouraging, though, is who is buying at sporting goods stores. Twenty seven percent of those under age 25 buy at sporting goods stores, possibly because they are more brand conscious. Also, 29 percent of those earning \$20,000 a year or more shop at sporting goods stores, looking for higher-quality products.⁵⁰

To increase these percentages, good retailers need to narrow their specific markets even more by identifying targets.

"Concentration on a single sport -- or perhaps on a pair of winter/summer sports -- is another strategy some retail specialists are pursuing."⁵¹

This zeroing in on the needs of consumers through the expansion of single-sport shops applies to all specialty products, in addition to sporting goods:

Specialty stores will continue to grow and prosper if they become as 'unique' as possible -- fine-tuning their image and the merchandise they offer to meet the needs of specific customer lifestyles.⁵²

If the ski shop in question develops an image in-tune with its target markets, the specialty store format will work to the shop's advantage. The conciseness and popularity of this format will increase the chances of success for the ski shop.

F. Financial Resources

To obtain funds for a new retail venture, the entrepreneur must decide what he needs to have financed. There are primarily three types of financing to choose from: short term, intermediate term and long term.

Generally, the new-store retailer will need to make a long-term loan for the purchase of land, building expenses, fixtures, stock and a cash reserve.

Long-term financing may be available through banks or commercial lenders, but these conventional sources consider small businesses less viable as potential borrowers.⁵³

Currently, the demand for bank loans is at a premium. Banks are wary of lending money, and when they do, interest rates are higher than in the past.

Sources are still available for borrowing, however. Loans may be made through the Small Business Administration (SBA). SBA loans may be direct or guaranteed. The direct loans are obtained from the SBA with principal and interest payments made. A guaranteed loan is made through a bank and the SBA guarantees up to 90 percent of a company's borrowings. In this way, banks can invest in small retail stores without taking much risk. SBA loans may have a maturity of up to 15 years.⁵⁴

Insurance companies and pension funds are other avenues of obtaining capital, but they are limited by the amount of "high risk" investing they can do. Extensive information is required with interest usually two points over the prime rate. Maturity is reached in ten to 15 years and loans are generally only made for over \$150,000.⁵⁵

Investment firms are another alternative. By purchasing preferred stock from a small company, the company can obtain funds, but the investment firms often use this investment to control the business.⁵⁶

A Small Business Investment Company (SBIC) may also be a viable source of capital for small businesses. SBICs are licensed by the Small Business Administration to invest in small companies. They receive initial money from private

sectors and the SBA. Eligibility requirements must be met and the loans range from five to 20 years, with a ten to 13 percent interest rate. SBICs cannot own more than 49 percent of corporate shares.⁵⁷

If a finance loan is not available, a small company still has the alternative of approaching a leasing company. Payments to leasing companies represent the payment on interest and principal that would otherwise be paid for loans. Although a store's choice between borrowing and leasing may be made purely on cost comparison, there are differences between the two methods of financing concerning default and availability.⁵⁸

To open the water ski shop, a long-term loan would most likely be necessary. Each method of financing described should be examined and discussed with a legal advisor before a decision of how to finance the venture is made.

III. Retail Strategy

A. Objectives

1. Target Market Segments

The primary goal is to open a specialty retail store, catering to water skiers. The demand for water skis comes from three distinct quarters, each representing a separate target market to be pursued.

The first demand segment is represented by families who do not purchase high-quality skis, due to inexperience on water skis or for economic reasons. These families want a pair of

wooden skis for recreational purposes. The male head of the household is usually the purchaser, influenced by the children.⁵⁹

These families may be inexperienced in water skiing because they either do not own a lake cottage or do not own a boat to tow them. They may be staying with relatives or friends or may be on vacation, renting a cottage for two weeks. They want simple skis to learn on, until they become proficient and can slalom. Until that time, they do not desire a more expensive ski. It is usually their adolescent children who put pressure on them for more expensive skis.⁶⁰

The second demand segment consists of teenagers who desire to look good in the eyes of their peers. They are very brand conscious, but are not always good skiers. They either purchase a fiberglass ski themselves, or convince their parents to do so. The brands they choose have different levels of quality, but all are marked by their bright, distinctive graphics. These teenagers are recreational skiers and come out on the lakes in force on weekends.⁶¹

The third demand segment is comprised of serious competition skiers, usually male, aged 16 to 25. This is a generalization, as there are many female competitive skiers, as well as small children and mature adults. Although most professional competitors live in Florida and Texas to practice and compete year-round, many competitors can only afford to ski in their spare time, as a hobby. Such is the case with the competitors in northern Indiana.⁶²

Serious competitors compete in the smaller inter- and intra-lake meets in the Angola area, and may travel to various parts of the Midwest to view or participate in state and regional competitions. They are brand conscious, but for different reasons than the image-conscious teenager. They have tried many brands of skis and know quality from good looks. They usually become sold on the brand that works best for them.⁶³

They not only want a quality slalom ski, but may compete on trick skis and jump skis as well. Whereas a pair of wooden skis may last a family five or ten years, the competitor usually buys some sort of ski every summer or two.⁶⁴

To appeal to all of these markets, the shop's objective is to have everything that has anything to do with water skiing -- a complete water skiing facility. Water skiing is a specialty which is narrowly defined -- enough so that all types of skiers could identify with the store and its image. Although a complete store, it will not be intimidating to the novice, nor so shallow in its lines as to disinterest serious skiers.

2. Volume to be Sold

The volume to be sold is based on the amount of floating sales volume in the trade area. The floating sales volume is the potential sales not captured by existing businesses. It will be calculated by subtracting the current sales volume from the area's potential sales volume.

In the primary trade area in 1979, 650 skis were sold in the ten operating marinas and two mass merchandise family stores, at an average retail price of \$160 a water ski.⁶⁵ This volume yielded \$104,000 in sales.

The average life of a water ski is five years. Therefore it is assumed that the average household must purchase a new water ski or pair of skis every five years, and that one fifth, or 20 percent, of the households buy water skis each year.

There are 6,347 households in the primary and secondary trade areas. This includes 5,147 lake property owners in the primary trade area, on lakes large enough to ski on.⁶⁶ There are approximately 1,200 lake property owners in the secondary trade market, namely, Coldwater Lake.

Based on this number of households, potentially 1,270 households, or 20 percent of the total, will purchase water skis each year. But last year only 650 skis, representing 650 households, were purchased. This is only approximately 50 percent of the potential sales volume of 1,270 water skis.

We can therefore reason that there is a floating sales volume of nearly 650 skis each year, untapped by any retailer. At \$160 per ski, this represents sales of \$104,000.

But skis are not the only source of sales volume for a ski shop. Water ski accessories represent 30 percent of water ski sales.⁶⁷ If all the floating potential water ski sales were captured, skis would only be 70 percent of total sales.

Accessories would account for another \$44,570, the remaining 30 percent. Potential total sales would be \$148,570.

The water ski shop's sales volume objective will be to capture 100 percent of floating sales volume: 650 skis with accessories, or \$148,570.

3. Profit Goals

The profit goal for the first year is zero percent. The second and third years would be two and five percents, respectively.

The profit goals are conservative estimates of what should remain after all costs are covered from sales, as will be detailed later.

B. Retailing Mix

1. Financing Approach

The specifics of financing the proposed opening of the water ski shop are beyond the scope of this marketing analysis. It is to be understood that the entrepreneur comes from a well-to-do family who could either lend him money or provide the collateral necessary to obtain a long-term loan.

2. Place

a. Location

The location of the store in this situation is a given, as land has already been purchased and zoned for business. As "the location of an outlet dramatically affects both its costs

and sales,"⁶⁸ it is important that the location chosen be advantageous to the total retailing effort.

I. Area analysis

The area chosen for the water ski shop must harbor bodies of water suitable for water skiing. Steuben County has 101 lakes and the county seat, Angola, is very dependent upon the lake-goers for the trade, commerce and tourism they provide. As one of the major summer activities on the lakes is water skiing, Steuben County is a prime market for water skis.

The business in the area must be active, growing and prosperous, for Steuben County to be a good location. There are six industries in Angola which employ 100 or more workers each.⁶⁹ Two more industrial sites are being planned and have broken ground; one privately-backed and one city-backed. A new, large JCPenney store is also being planned and existing retail stores are expanding.⁷⁰ The Angola population decreased from 1970 to 1975, but the county population increased ten percent in that same time span.⁷¹ This discrepancy can be explained by the number of cottage owners in the county converting their cottages into permanent homes.

Due to the recession, three of the 13 county marinas were forced to close in 1979, bowing to the law of supply and demand. Although this does not sound hopeful for the ski shop, it should be noted that these marinas were run by mechanics, not businessmen, attracted by the lure of the success of the well-run marinas.

Steuben County is thus a good area in which to attempt this venture, with many favorable conditions. Other factors, such as the nation's economy, will be figured into the picture later in the paper.

II. Trading area analysis

The proposed water ski shop would be unique to the area. It is a specialty shop that is only marketable in select areas. However, Bart's Water Ski Center is also in a unique position, surrounded by lakes, including Lake Wawasee.

The water ski shop would be competing with Bart's for a share of the ski market. Just how much of the market would be lost to Bart's can be calculated by the breaking point analysis.

The breaking point analysis determines at what point between two trading markets consumers will choose one market over the other. In this case, the breaking point between Angola and North Webster is 40 miles from Angola, or 20 miles from North Webster, as seen in Table 1.

TABLE 1⁷²

BREAKING POINT FROM NORTH WEBSTER TO ANGOLA

$$1 + \frac{\text{Distance}}{\text{Population of Angola}} = \frac{60 \text{ Miles}}{1,153} = 20 \text{ Miles}$$

The breaking point analysis is only useful to a point: it does not take into account that Bart's is a well-established business with a respected name. Thus the breaking point analysis may not be entirely dependable.

III. Site selection

The site selected is one quarter mile from an Interstate 69 exit and on a main road leading from the lakes to Angola (see FIGURE 1), on County Road 200W. Just north of the site, C.R. 200W turns into a four-lane concrete road.

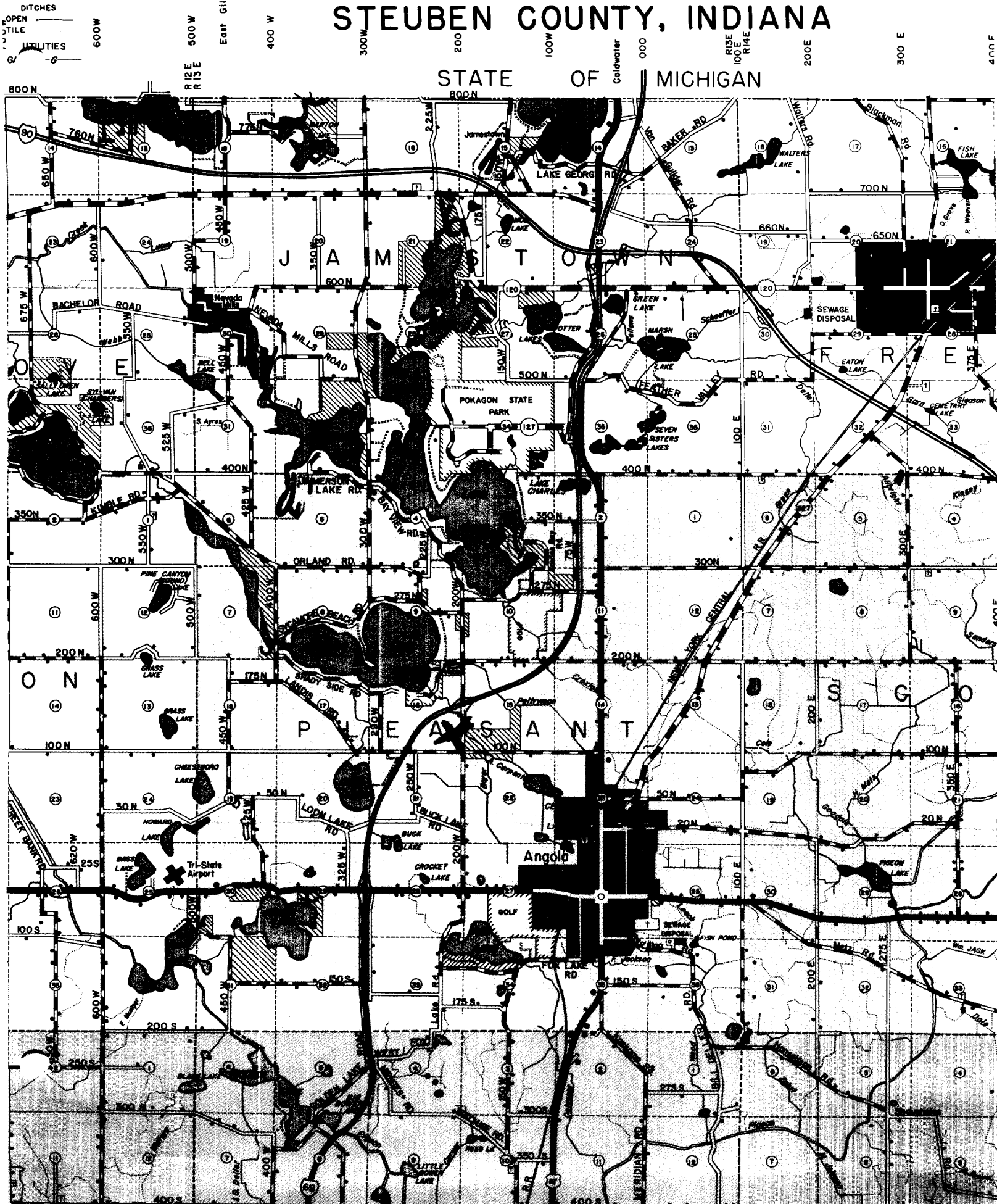
The average daily traffic in 1962 was 2,758 vehicles, with five percent truck traffic, according to the county highway commission. The average daily traffic at that time was projected for 1982 to be 4,984 vehicles. The commissioners believed this projection to still be accurate. The traffic during peak hours was projected for 1982 to be 670 vehicles per hour. C.R. 200W was designed for 60 miles per hour traffic, though the speed limit has been set at 50 miles per hour.⁷³

Studies have never been performed to indicate the type of traffic on C.R. 200W, but it is fairly safe to assume, from observation only, that 50 percent of the traffic is local and the other 50 percent is Interstate 69 traffic, which never passes the site from the north. At peak hours, before 9 a.m., the percentage of traffic using C.R. 200 W as a route to I-69 is much greater than 50 percent, as many lake cottage owners commute to jobs in Fort Wayne.

MAP OF 74

STEUBEN COUNTY, INDIANA

STATE OF MICHIGAN



DITCHES
 OPEN
 STILE
 UTILITIES

600W
 500W
 East Gillied
 400W
 300W

RISE 100E
 R14E
 200E
 300E

800N
 700N
 600N
 500N
 400N
 300N
 200N
 100N
 100S
 200S
 300S
 400S
 500S
 600S
 700S
 800S

400E

An estimated 2,500 vehicles are local traffic, passing the site daily, going to and from Angola on C.R. 200W. Unfortunately, there are no figures available on what percentage of this is shopping traffic.

The retailer's first concern when considering a location is the amount of business he is likely to get. A high auto traffic count doesn't always equate with an equally high customer count. The type of traffic must be analyzed."⁷⁵

The local traffic could become shopping traffic with a sign, announcing the store's existence. If a sign is placed at the entrance to the store, near the road, it would be in clear view for one half mile from the north, as the site is about half way up a hill. From the south, the site is hidden from view until the driver is nearly upon it. This situation would prove to be more of an advantage than not, as the traffic from the lakes is from the north, and this is the main target market. Casual traffic would be more inclined to stop and browse. Traffic from the south would have to already be aware of the shop's existence, as casual drivers would see the sign and establishment too late to stop.

A prospective site on a steep, uphill grade will, again, be fine for the uphill driver who can turn directly into the parking lot. Your downhill driver will become as ethereal as the blur of his car as he passes your store -- unknowingly. . . . Visibility must be such as to give the driver ample warning he is approaching your store. Cars require 400 feet to stop, comfortably, at 60 m.p.h. and 200 feet when travelling 40 m.p.h.⁷⁶

County Road 200W is a major road from the lakes to Angola, the county trade center. This makes the site a desirable one, except for the poor visibility from the south. A site directly in town would be less desirable, as consumers in the area would have difficulty reconciling buying skis for the lake in town. Psychologically, water skis are better purchased closer to water. Yet buying a site on a lakefront would be extremely expensive and unnecessary, as the water itself is not needed.

The site selected is also good because of its proximity to I-69 and other state roads. Customers would be drawn off the highways to the specialty shop, enlarging the potential trade area and thus, the number of customers.

b. Store Image

The image projection that is desirable for this water ski specialty shop is one of complete selection at fair prices. In this way, it would be possible to successfully appeal to the three distinct target markets. Depth in the water ski product line and reasonable prices should result in an unique market position for the shop.

'Positioning is effective marketing-oriented communication. It's your identity to the market place. Individualizing yourself. Placing yourself uniquely in relation to other retailers. Projecting this distinctiveness into your market's mind.'

Position is developed with ten aspects taken into consideration: merchandise diversity, size of store and range

of customers served, fashion distinctiveness, price competitiveness, convenience, service quality, innovativeness, lifestyle awareness, dependability, and community identification.⁷⁸ In other words, through the best development of a strategy of the marketing mix, a market position will be formed, appealing to the target markets. The store image is fixed in the consumer's mind by the position variables that the consumer considers important. Store image is:

'the way in which the store is defined in the shopper's mind, partly by its functional qualities and partly by an aura of psychological attributes deemed important by consumers. Since attributes are a learned phenomenon, store image is dependent upon an individual's experiences concerning a store.'⁷⁹

Consumers generally evaluate a store and give importance to the attributes of price, assortment, personnel, atmosphere, service and quality, when mentally forming an attitude.⁸⁰

It will be necessary for the store to be all things to all three target markets, since the image objective in this instance is to be considered "complete". As this is a specialty store, such a notion is entirely feasible.

Even though there are vast differences in degree, most stores cater to several different segments of the market, or in other words, each store is patronized by different persons with quite different patronage motives.⁸¹

The store will have a deep variety for each target market and a wide assortment to appeal to each market. Each market will consider this the shop to go to for everything that has anything to do with water skiing.

It is difficult to ascertain exactly how each attribute is rated in importance in consumers' minds, as the shop has not been opened. To cover all the bases, the store would have three price ranges, paralleling the three quality ranges. The assortment would be the widest in a 40-mile radius. The personnel would be knowledgeable about skiing and the demands that a customer would make on his ski when performing. Service would be prompt and courteous.

The atmosphere developed would be roomy, new, and organized according to ski manufacturers. Background colors would be whites and wood tones, with accent colors of vivid reds, blues, greens, yellows and oranges. Much of the accent color would be provided by the skis, as the ski graphics are designed to appeal to consumers who buy a ski for looks.

The right atmosphere is a very vital dimension of the attributes as "every visual element seen by a customer communicates something to that customer.

'The signs, the building, the menu, the uniforms, the napkins all have to work together to deliver the right image. When a . . . company knows the audience it wants to reach, when all the visual elements are working together, the chances of success are significantly higher.'⁸²

I. Structure

The building would be built on land 250 feet square. It was contracted with Wickes Buildings of Angola for \$13,544. The bid was on a 42-foot by 56-foot by 9-foot, 3-inch, pre-engineered, aluminum-sided, steel building. Included were a 3-foot by six-foot, eight-inch door with glass, six 6050

Thermopane windows, a ten-foot by eight-foot, solid wood overhead door and 3/4-inch TF600 insulation.⁸³

A building such as this would have many advantages over more conventional retail store buildings. An aluminum building can be built in much less time than concrete. ". . . the building can be ready for occupancy weeks and sometimes months before other building types." ⁸⁴

Aluminum-sided steel buildings look attractive and clean, without the necessity of such upkeep as painting. In utilizing such a building, a crisp, clean structure would be presented to consumers.

By using a firm such as Wickes, an entrepreneur can avoid legal problems. The firm's contractors are aware of restrictions and regulations of local planning commissions, and they staff architects and engineers.⁸⁵

Adding on to an aluminum building is also more easy for the business' future needs. "Expansion needs can be accomplished in the future with far less effort and expense, especially if the structure is planned with expansion in mind."⁸⁶

But the major advantage in choosing an aluminum building is the lower cost. "For many years this type of building represented the most economical method of enclosing a lot of space for a minimum investment."⁸⁷

Along with plans for the physical structure, plans must be made for parking accommodations. Approaching the store, the parking area would be in front of the store, allowing 4,700

square feet, black-topped. "The normal parking requirements stipulate two square feet of parking space for each square foot of store area."⁸⁸ While having the parking lot located in front may not be as aesthetically pleasing, it would be more convenient for customers, which will be appreciated and which will reflect positively on the store's image.

Inside, fluorescent lighting would be used for general purposes with incandescent lights on the displays and special offers. This would cut lighting bills and operating costs considerably. ". . . approximately 80% of the total energy budget is spent on electricity. Perhaps 60% of this total can be attributed to lighting."⁸⁹

While lighting costs must be held down, such efforts do not need to have a negative effect on merchandise display. Expensive incandescent lighting would soften the harshness of fluorescent lighting, and provide contrast. "We strive for a total reduction of light level while trying to avoid monotony. What you are after is bounce. You want to punch the points of interest."⁹⁰

White walls will also contribute to lower lighting bills. For a crisp, clean image, walls will be in white, with accent color contributed by the skis, accessories and displays. Light will reflect off the walls and the store will need fewer foot-candles of light than with a dark background.

In general, where the merchandise is colorful and varied, background color should be of light reflectance and neutral. Should stronger surface color be desired, the light