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Edge Specialty Sports

Randall Scott Spaulding
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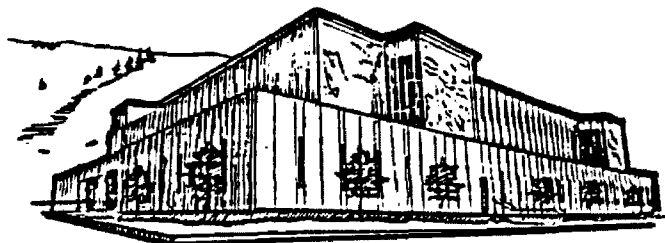
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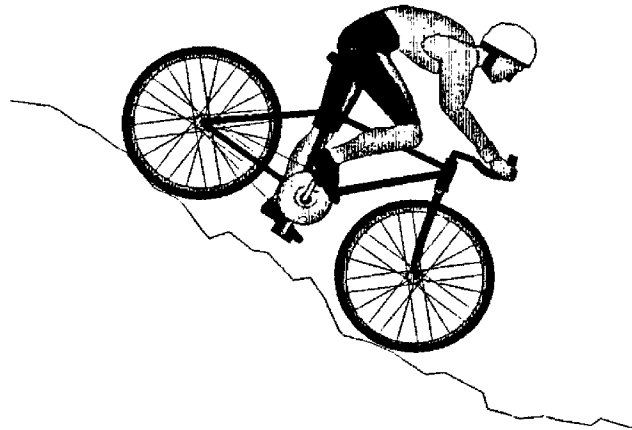
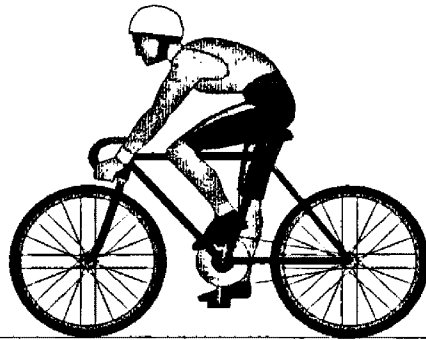
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Montana

THE EDGE SPECIALTY SPORTS



By
Randall Scott Spaulding
B.S. University of Montana--1992

Presented in partial fulfillment of the requirements
for the degree of
Master of Business Administration
University of Montana
1993

Approved by

A handwritten signature in black ink, appearing to be 'R. Spaulding', written over a horizontal line.

Chairman, Board of Examiners

A handwritten signature in black ink, appearing to be 'R. Murray', written over a horizontal line.

Dean, Graduate School

May 19, 1993

Date

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Spaulding, Randall Scott, MBA, May 1993 Business

The Edge Specialty Sports

Chair: Paul Larson PL

A Study of the Seattle Washington bicycle market and feasibility of starting a new bicycle specialty store in the town of Issaquah Washington.

The paper begins with a discussion of the products and services that would be carried by The Edge. The Major bike lines highlighted are Wheeler, Specialized, and Barracuda. Other products would include Snowboards and accessories related to both products. A brief discussion of the Seattle area economy and growth of the Issaquah Service area follows. The discussion of the market and competition focuses on the growth in usage and the relative market strengths and weaknesses of different brands and industry groups. A further discussion of the Edge and their competitive strategy follows. The remainder of the paper discusses issues related to The Edge, including the management team, marketing strategy, and financial projections and planning. Attached in the appendices are the financial ratios and projected statements, an employee and customer service policy, and corporate documents.

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INTRODUCTION

The Edge Specialty Sports will be incorporated as The Edge Inc. in the state of Washington. It will be located in the town of Issaquah, about 15 miles east of Seattle. The proximity of Issaquah, near Lake Sammamish, several forest areas, and easy access to Seattle, makes it an ideal location for those who enjoy the outdoors but work in the city. The Edge will be a retail operation specializing in bicycles, snow boards and related products. The primary focus will be on the growing mountain bike industry and the increasing number of Americans who ride their bikes to work. The research has shown this to be a growing and profitable market that coincides nicely with the experience and interests of those involved.



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Products and Services:

The Edge's goal will be to offer the best service for all products they sell and to price its services competitively. Service is the most important aspect of a specialty retailer. For this reason The Edge will make service a number one priority. This will mean professionally trained mechanics and caring salespeople. The extra costs for more qualified people will pay off in return business and enhanced reputation. Examples of extra services the Edge will provide include: free loaner bikes for customers whose bikes are being serviced and the Edge will allow customers who rent a bike to apply the rental charge to the purchase of a new bike.

The Edge will specialize predominantly in mountain bikes and snow boards the first year. Several suppliers are being considered for the Mountain bikes. The bikes will start at about the \$300 price range up to about \$2500 for stocked items. Also a selection of kids' bikes will be available at a lower price range. The majority of the sales are expected at the \$400 to \$700 range. The Edge will select three bike lines to carry in the first year. The following are the brands that The Edge will carry:

- ◆ **Wheeler:** Wheeler produces world renowned bikes



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primarily for the European market. They are now developing a dealer network in the U.S. and have continued to build on their excellent reputation. They offer a full line of bikes from kids bikes that retail for about \$150-\$300 to road bikes and mountain bikes, and some excellent cross bikes with a price range of about \$300-\$2500

- ◆ **Barracuda:** Barracuda began it's first year in retail in 1993, after a very successful racing debut in 1992. They offer unparalleled dealer support, and they are the first in the industry to offer an assembly credit. In addition they offer excellent promotional support and an easy exchange policy for those customers who want to swap components on their bikes. The line consists one cross bike which sells for \$499 and 7 mountain bikes which range in price from \$699 to \$2999. Barracuda also sets itself apart by offering a wide range of frame sizes so every rider can find a bike with a good fit.
- ◆ **Specialized:** Specialized is one of the top five premium bicycle lines in the U.S. in terms of total sales. They offer the widest range of accessories and components, in addition to a wide range of mountain and road bikes. Their pricing is similar to Wheeler, and they offer co-op advertising and excellent promotional materials. Specialized doesn't release pricing until a dealer agreement is complete.
- ◆ **Others:** The Edge will also offer Crosstrac, the lightest full suspension bike on the market. Crosstrac also has the greatest suspension travel (over 4 inches). These bikes start at just over \$2000 and go up to about \$3000 for a 23 pound full suspension bike. Also the Edge will offer the Iron Horse FS Works frame with an Edge exclusive custom component group. The Iron Horse is another excellent full suspension design and the frames are available through Seattle Bike Supply. Seattle Bike Supply also offers a variety of childrens bikes and mountain bike frames.



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The Edge will also specialize in snow boards and equipment. The Edge has selected three manufacturers, two with wide appeal and product line and one specialized brand.

Descriptions of the brands are below:

- ◆ **Burton:** Burton offers a wide range of boards for all riding conditions. They have an excellent reputation and name recognition. They offer 15 models in 4 basic classes. They start at retail prices of \$349.95 to \$579.95. Burton also offers a good selection of boots and bindings. Boots retail from \$160 to \$360 and they offer 5 models for different riding styles. Burton also produces 3 models of bindings all retail for \$150.
- ◆ **Sims:** Sims also offers a wide range of products and have excellent name recognition, and reputation. Their boards are more versatile or general purpose. They have 12 models priced from \$319 to \$629. Sims also offers 3 models of boots from \$219 to \$269 and 5 models of bindings from \$85 to \$125.
- ◆ **Crazy Banana:** Crazy Banana offers a selection of boards that appeal to the competitive rider. The models include 4 freestyle, 1 halfpipe, 2 alpine and 2 race boards. The prices range from \$474 to \$779.

Other products being considered by The Edge are: Skate Boards, Sailboards, and In-Line Skates. Skate boards are likely to be included in the first year of operation while sailboards won't be introduced until the second or third year. In-line Skates are very popular right now but the major producers are beginning to sell through mass merchants rather than specialty shops and therefore they may not be



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added.

- ◆ National Skate Distributors, Inc is a major supplier for both skateboards and in-line skates. They do not send information without proof of a retail operation, but they do carry several lines, and related products.

Suppliers:

Most bicycle manufacturers are very protective of their dealer network and limit the number of dealers in a market area and the type of store that can carry their product. To carry the high demand bike brands a store needs to specialize in bikes and related products and convince the representative that there is a market that's not being met. Specialized, Wheeler, and Barracuda are all protective of their dealer network. The application process includes the usual credit checks and the representative also determines if there is sufficient market area to warrant a new dealership. Many of the parts suppliers would not send information without proof of a retail operation, so it is difficult for a start-up operation to obtain much information from suppliers. Seattle Bike Supply was very cooperative and sent a catalog and price list, they are the northwest's largest parts distributor and have an excellent variety of parts, accessories, and bikes.



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Opportunity:

The Edge has an excellent opportunity to enter a growing market with a well known product and two new entrants to the American market that have thus far had excellent acceptance. Barracuda is building upon it's successful racing debut and with it's unique appeal to women (55% of all bike riders) due to a wider range of sizes. Additionally Barracuda has had excellent reviews from the bike magazines. Building on their success in Europe Wheeler has gained great acceptance in the American market with a wide product line to appeal to every rider. Specialized is the fourth largest seller of bicycles in the U.S. with 9.3% of the market share. With the right product and a location that has good traffic and an affluent, growing population the Edge has an excellent opportunity to enter this expanding market.

LOCATION

Issaquah Service Area:

Issaquah Washington sits about 15 miles east of Seattle on highway 90. It is adjacent to Lake Sammamish and several excellent mountain bike trails in neighboring forest areas. Issaquah is a growing community, including mostly professionals with higher levels of income and education than the county as a whole. Within the Issaquah service



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area 25.7% of the population has a 4 year college degree or higher, and a median income of \$42,661 compared with \$28,930 for King county as a whole. Population forecasts for the Issaquah service area show an estimated population of 31,028 people in 1990 and growth to 46,524 by the year 2000. This represents a significant market area and continued growth. Issaquah had sales of almost \$7.9 million in it's 40 miscellaneous retail stores in 1987 (this group includes *Sporting Goods and Bicycle Shops*).

Sea-Tac Metropolitan Statistical Area:

Of the almost \$270 million dollars spent in Washington sporting goods and bicycle shops in 1987 the Seattle-Tacoma Metropolitan Statistical area accounted for 66% of those sales (\$178 million). This level of sales represents a 52.8% increase since 1982. The Seattle-Tacoma area is ranked 14th in the nation for miscellaneous retail stores sales. Estimated annual sales for 1987 of over \$1.5 billion represent 36.9% growth since 1982. The majority of the sales are in the suburban areas (60.5%). Total retail sales in the Sea-Tac area rank 15th in the nation, and account for over 60% of all retail sales in the state of Washington.



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THE MARKET AND COMPETITION:

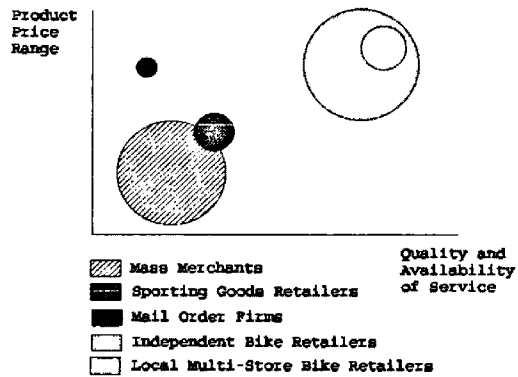
Industry Structure:

Of the 96 million Americans who ride bikes in the U.S. 20 million ride mountain bikes, additionally 51% of new bike sales are mountain bikes and 16% are hybrids. The bicycle industry is made up of two

primary groups, the independent bike shop and the mass merchandisers and a third, increasingly important group, the Mail order and other specialty retailers group. The independent bicycle dealer is able to

offer quality, service and selection far beyond that of the mass merchandiser. The industry strategic groups illustration shows a further breakdown of these industry groups. The independent bicycle dealers include those with a single store and multi-store operations, both offer exceptional quality and service, so are placed in the upper right quadrant. The mail order firms generally offer the same or similar products as do the independent dealers but, due to their form of business are unable to match the service of an independent dealer. Other specialty stores

Industry Strategic Groups





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includes sporting goods stores that carry a bike line, generally these stores offer a lower quality product and do not match the level of service a bicycle specialty store offers. Mass merchants will assemble the bike but beyond that offer little or no service. The products they offer are of a much lower quality, and low price is the major selling point.

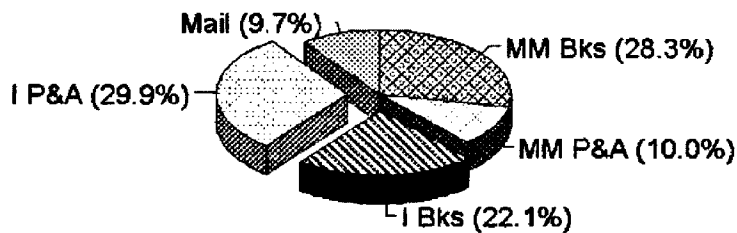
The Market:

The independent bike dealers account 52.3% of the total bicycle market. The remainder is split between the mass merchants and mail order and other firms; 38.5% controlled by the mass merchants, and 9.2% in the hands of mail order and other specialty retailers. While independent bike

dealers sell only 29% of the bikes in the U.S., the dollar value of bikes sold by independent dealers was \$684 million compared with \$875 million by the mass merchants. The market for parts and accessories is

Market Structure

Market of \$3.096 Billion



SOURCE: NATIONAL BICYCLE DEALERS ASSOCIATION



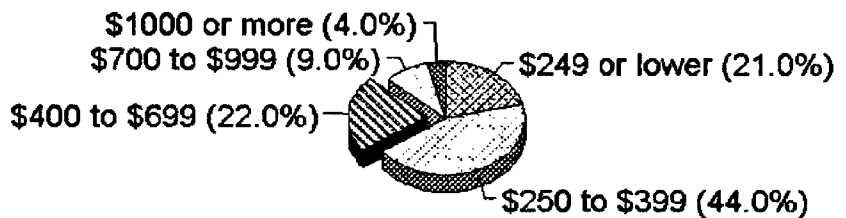
dominated by the independent bike dealer. The independent dealers posted \$926 million in sales of parts and accessories compared to \$310 million for the mass merchants.

The majority of the mountain bikes sold today range in price from \$250 to \$699. The bikes offered by the Edge will begin at just under \$400, and they expect their largest sales group to be in the \$400 to \$699 price range. At this price range the customer is getting a high quality product with a good selection of

styles and features. Above the \$700 mark those who are not planning to ride competitively are buying the prestige

associated with a top of the line product. The bikes priced \$700 and up generally are lighter weight, and often suspended models (front and on some rear suspension). These often incorporate more exotic construction materials such as titanium and carbon fiber, all of which add to performance but for the average rider the costs outweigh the benefits.

**Percentage of ATB Sales, in Units
Broken Down by Price Category**

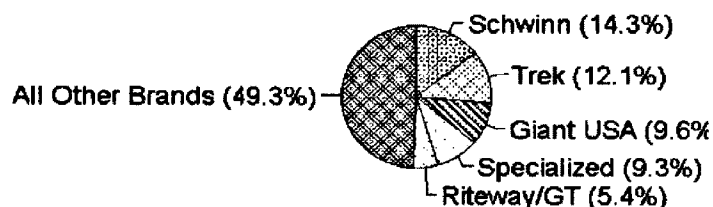


SOURCE: BDS DEALER SURVEY



Market Share

Bikes sold by U.S. Dealerships 1991
Top 5 Brands



Total Market 1.649 Million Units

SOURCE: JAPAN CYCLE PRESS

The market for bike brands is quite fragmented with the top 5 premium brands holding about 50.7% of the market share and the remainder of the market split among several smaller firms

(these figures include

only the premium brands, not the mass merchant brands). The largest market share in 1991 was enjoyed by Schwinn, however Schwinn also filed for Chapter 11 bankruptcy protection in 1992. They have since been purchased and industry sources feel they will emerge strong. Trek has gained share rapidly to become the second largest seller of premium bicycles, with 12.1% of the market. Giant produces bikes for many of the other manufacturers and according to Shirley Braxton, a Missoula retailer, is the largest producer of premium bikes. Giant holds 9.6 % of the market share with the bikes it sells under it's name. Specialized has had an excellent reputation for several years, and was considered on of the first mountain bike producers, they now lay claim to 9.3% of the market. GT is another firm that has made significant gains in the past several years and has become quite



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popular, based on an excellent racing record and strong retail demand. Of the remaining share 28% is composed of the next 10 largest firms.

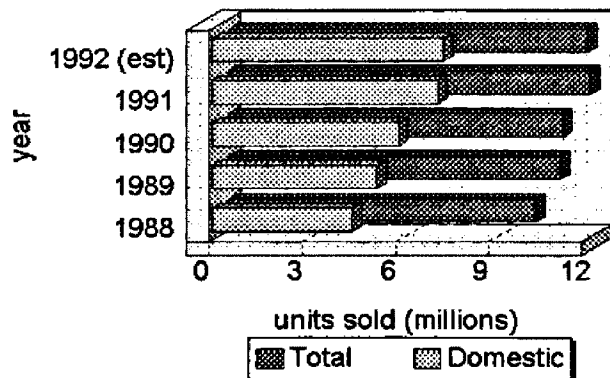
Industry Growth:

According to the National Sporting Goods Manufacturers Association of the top 10 sports growth areas mountain biking ranks second, behind stair climbing, with an increase of 170% between 1988 and 1991. Sailing and in-line skating are also in the top 10 growth areas cited by the NSGMA.

According to the 1992 Dealer Survey conducted by Bicycle Dealers Showcase of the top seven expected growth areas for bike dealers mid-range ATB's, or mountain bikes, rank first with high and low End ATB's also in the top seven. Other growth areas cited

included mid and low-end cross or Hybrid bikes, and helmets. Since 1988 the bike market has continued to grow with an estimated 11.6 million units sold in 1992. The market has not yet returned to it's

The U.S. Bicycle Market (In millions of units)



SOURCE: BICYCLE MANUFACTURES ASSOCIATION OF AMERICA, 1992



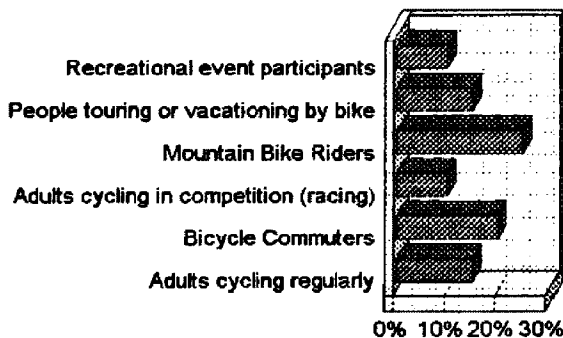
high of 15.2 million units in 1973 but it has maintained a more stable level over the past several years than it did in the 70's. Also there has been an increasing share of American made bikes sold in recent years up to almost 65% in 1992 compared with about 45% in 1988.

The bicycle usage information provided by Bicycle Institute of America indicates steady increases in bicycle use and supports the conclusions that mountain and hybrid markets are the growth areas of the present and future. The bicycle

usage graph shows the estimated increase for given uses between 1991 and 1992. The most prominent areas of growth are mountain bikes with an increase of 25% and bicycle commuters with a growth of 20%. The Edge will cater to both of these markets

Bicycle Usage

Estimated Increase 1991 to 1992



SOURCE: BICYCLE INSTITUTE OF AMERICA

with products and services. The Edge will be able to address the special needs of the cycle commuter with the excellent line of cross bikes offered by Wheeler, and accessories designed specifically for this group. Another



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area of interest is the 10% growth in adults cycling in competition, this group requires the higher performance, higher priced equipment the Edge will carry.

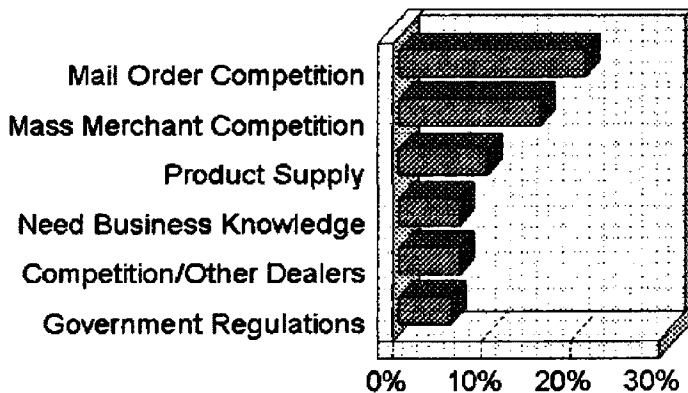
Barriers to Entry:

Few barriers to entry exist in this market. The greatest barrier to entry is obtaining the more popular brand names. There is an opportunity at this time to add a Specialized line in the Issaquah area. The other lines have not yet been picked up in the Seattle area so there is a good chance that the Edge will be the only dealer for these lines. This would be temporary but should last long enough to gain a reputation for those products. The manufacturers are quite protective of their dealers and review each application to ensure as little overlap of market areas as possible. A second barrier to entry in any new retail operation is the lack of name recognition or reputation. One way to overcome this would be to buy an existing shop, but this requires greater expenditure and if their reputation is not as good as they lead you to believe you are buying a disadvantage rather than an advantage. To gain name recognition requires aggressive marketing and good customer service to build good will and referrals. Lastly, another major barrier to entry is lack of experience or skills required to offer the best



service possible. This can be overcome by extra effort, training and care. The Edge will send Mr. Spaulding, the sales manager and Mr. Jaklevic, the service manager to the Barnett Bicycle Institute in Colorado Springs, Colorado. They offer a comprehensive two week course for professional bike mechanics that includes everything from basic maintenance to wheel and frame building.

What Are Your Major Problems?



SOURCE: NBDA 1992 DEALER SURVEY

Competitor Analysis:

The graph below represents the responses to a survey of National Bicycle Dealers Association members published in *Outspokin'* the NBDA newsletter. Although mail order companies account for only about 9.2% of the market 21% of independent dealers site mail order as their

number one problem. The mail order companies cater to the same high end market that the independent dealers rely on to be profitable, and for that reason are seen as a major threat to the independent bike dealers.



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The next most important group are the mass merchants with 16% of the dealers citing that as their number one problem. Mass merchants offer basic products at significantly lower prices. Many consumers have difficulty justifying the purchase of a \$400 bike if they have not been taught to recognize the features that make that bike better than a \$125 bike.

Competition from other dealers ranks fourth with only 7% of dealers listing this as a major problem. Most of the manufacturers limit the number of dealers they will allow in a given market area. This serves to create a barrier to entry and reduce direct competition between retailers. Most dealers will have similar lines of products and so the competition will be based on the value the customer receives in the product and more importantly the service during and after the sale. The dealers can do very little to control what brands are hot, but they can sell their service and with a good knowledge of the industry explain the differences in the product lines.

Local Competitors:

The Seattle area has several multi-store dealerships, including Bicycle Center in Issaquah with 2 other locations



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(Seattle & Everett). Between their three stores they carries six bike lines including 3 of the top five manufacturers, GT, Giant, and Trek. They are the only dealer in Issaquah and they do very little local advertising. They have a wide selection of bikes including kids, mountain, and road bikes. Their marketing approach is a basic bike store with mostly mid range bikes and a family orientation. They offer service and repairs and bike rentals. Bicycle Center is located in the older downtown part of Issaquah, away from the newer shops and restaurants. The Seattle east side suburban area has several other dealerships however the representatives for Wheeler and Barracuda said they had no dealers in that area yet. Specialized is well represented in the area, but they do not have an Issaquah dealer and expressed willingness to look into that area.

Mail Order:

Mail order companies are becoming increasingly important in the bicycle market. These companies offer a wide range of parts and accessories, comparable to most specialty stores. Their pricing is not significantly lower than most specialty retailers once shipping and other charges are added in, however they do offer the convenience of home shopping. With new products coming out constantly these companies



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catalogs are often a good way for consumers to price new equipment and keep up on new products. Their share of the 89/90 market was about 9.2% so they are a significant market force. The two most prominent players in this market are Bike Nashbar, and Performance Bicycle. Each company has its own line of products including accessories, clothes, and even bikes. Performance also offers its own brand of in-line skates as well as the *Rollerblade* brand.

Mass Merchants:

Mass Merchants sell bikes of lower quality, with prices ranging from about \$90 to \$150. There is little competition between this market and the premium line market. The largest sellers in this market are Sears and K-Mart. A new development in the mass merchant is the entry of warehouse stores such as Costco carrying bike lines that more closely compete with the independent bike dealers lines. These bikes range in price from about \$350 to \$700 and are of a quality similar to that offered by independent bike dealers.

The Edge:

The Edge will differentiate itself in several ways. They will offer the highest quality mountain bikes and cross bikes. They will specialize in superior service and custom



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configurations not available in any other shop.

Additionally through the support of Barracuda the Edge will offer exchange of components when the bike is sold, and will extend this service to all bike lines. This allows the customer to upgrade just the parts she wants without having to buy the parts separate or go up to the next model.

Other aspects of their commitment to service will include extended demos and rentals of all equipment, and the ability to apply rental charges to the purchase of a similar product. Additionally the Edge will circulate a bi-quarterly newsletter discussing service, new products, local rides or trails, and other issues that effect the biking public. The Edge will offer a shopping environment unique among bike stores. This will include video displays and music that will create excitement about the products. This has been successful in clothing stores and should transfer well to this market. The Edge will segment the store to appeal to individual riding needs, the bikes and accessories that appeal to a particular group will be sectioned off in it's own distinct "pro-shop". As an example of this approach, for the growing number of cycle commuters the Edge will have a special section dedicated to this cause with the products and services that appeal to this specific group. This section will display the bikes that best fit the



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commuter needs, and accessories such as fenders, rain gear, and garment and document bags.

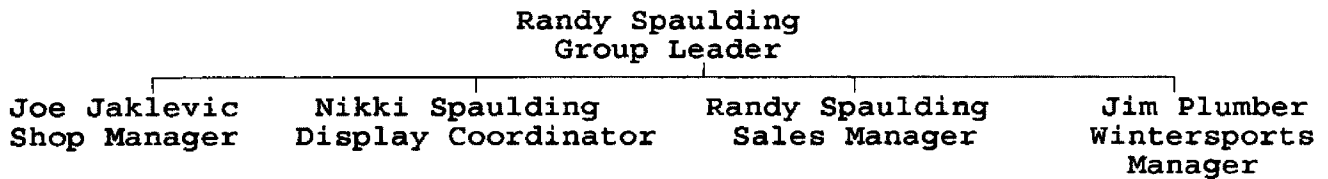


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MANAGEMENT TEAM

The Edge will be managed with a team approach; every employee will have the ability to make management decisions and will be responsible to keep up communication with the other members. Major decisions will be made by the group, either by agreement through discussion or popular vote where necessary. As the firm grows this method may need modification, however the Edge will attempt to keep open communication and the belief in the value of every employees ideas and opinions as the basis for its management structure.



Randy Spaulding: Mr. Spaulding will be a majority shareholder responsible for store operations, sales and service. He has experience as a mechanic including and ASE certification. His retail experience includes work as a management assistant in a motorcycle, snowmobile dealership where he performed each function of operating the business from customer service and sales to orders and bookkeeping. He holds a B.A. in Small



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Business Management with a minor in Economics and is currently working toward his M.B.A. at the University of Montana.

Nikki Spaulding: Mrs. Spaulding will work part time and assist in marketing. She will handle displays and correspondence with customers including service notices, thank you notes and sale notices. She will receive her B.A. in Liberal Arts in May 1993.

Joe Jaklevic: Mr. Jaklevic has worked for several years as a mechanic in San Diego and is a student at San Diego State University studying engineering. He has extensive experience with both bikes and sailing. He will be responsible for service and custom painting, in addition he will develop custom product combinations and train new employees in the shop.

Jim Plumber: Mr. Plumber is an avid skier who will be responsible for service and sales for the winter equipment. He will complete negotiations with snowboard manufacturers and set up the snowboard "pro-shop".



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OPERATIONS PLAN

The Edge will open in Issaquah Washington on July 31, 1993. It will be located in one of several small shopping centers along Gillman avenue. These shopping centers have excellent traffic and a wide variety of shops to attract local shoppers. Prices range from \$14 to \$18 per square foot.

The store will open with a selection of mountain bikes and accessories, and other products will soon be added including skate boards. In September The Edge will begin handling the snow boards. The Edge will use a "pro-shop" approach to segmenting the store. Segments will be based on customer needs and will include the following sections: Skate boards, Competition Bikes, Mountain Bikes, Commuter and Cross bikes, Road Bikes, and Kids Bikes. As new lines, and products are added they will be placed in their own section.

Store hours will be 10:00 to 7:00 Monday through Thursday and through 9:00 Friday and Saturday. Sunday the hours will be 11:00 to 5:00. Service will be available from opening to 5:00 every day, and all employees will have basic service training, so advice and minor adjustments will always be available.



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MARKETING STRATEGY

3 Year Marketing Plan:

The Edge will target several groups. The major line will be mountain bikes in the \$400 to \$700 price range, these products appeal to younger health conscious individuals. Often these are middle income individuals or college students, who ride predominantly for recreation. Other major groups include individuals who want to ride for competition and bicycle commuters. The competition riders tend to do much of their own mechanical work and are looking for a shop that will provide them with the best and newest products, and offer a racers discount. Commuters are quite the opposite, they want a full service shop and the most reliable and useful products. These people are looking for something that is comfortable and works well. The commuter also needs a good selection of accessories to make the ride more comfortable and efficient.

The Edge will work to develop several packages of components and accessories that work very successfully together. This will be done with a special emphasis on the commuter bikes. The Edge will gain experience in putting together unique bikes for commuters and develop better, safer ways for people to ride to work. As part of this effort the Edge



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will support groups who try to increase the use of bikes for daily transportation.

Because the Edge will be actively involved in racing, they will also develop packages that relate to racing products. The Edge will openly share information about what they have learned in racing and how they build their race bikes. This is seen as good customer service, and "if we lose our racing advantage as a result we may gain a customer". Another threat is that other shops will have access to their information, but the Edge feels that if they develop the ideas and are first with the information they will maintain the advantage.

As was mentioned the Edge will sponsor a race team. This team will initially consist of Joe Jaklevic and Randy Spaulding. They will compete in local mountain bike events and as the Edge grows new riders will be brought in, with a continued preference to employees. Also as the Edge grows they will support their employees with sponsorships in other sports, such as competitive snowboarding or windsurfing. If they have no employees who want to compete the Edge will sponsor an outside party.



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The Edge will also sponsor a local little league team, or other childrens team. This is good exposure to a large group of parents, and should help sales in the kids lines and some of the adult bikes.

The Edge will engage in an aggressive merchandising campaign. They will print shirts and hats to use as promotional items and will distribute these items throughout their market area and beyond. The goal will be to have their logo recognized and distributed all over North America in an attempt to establish a following similar to Stew Leonard's and Wall Drug.

The Edge will build a mailing list of all their customers and have a sign-up sheet for browsers. This list will be used to send thank-you notes, service letters, sale notices, and the bi-quarterly newsletter. This newsletter will highlight new developments in the industry including new products, racing information, information about the industry and other issues that effect the riding public.

The Edge will also engage in the more standard forms of marketing including newspaper and yellowpages advertisements, and radio spots that will include some give-



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away items. The newspaper and radio advertising will coincide and will be run in blocks during the month. The frequency of these blocks will depend on the budget for that period.

FIRST YEAR ADVERTISING PLAN:

First year radio ads will be done in blocks at a frequency of about 1 week every month. Each ad run will include about 3-4 spots per day. The advertising will be paid for in part with donated products for giveaways, this provides the Edge with a given number of spots, plus extra exposure each time the giveaway is mentioned.

Newspaper ads will be timed to coincide with the radio ads but will extend out two days at each end of the radio run. This will provide for better recognition of the radio ad, and reenforcement of that ad. Also the Edge will obtain publicity through press releases whenever possible. The Edge will send press releases each time a significant event occurs in the industry, product line or the store itself. For example the Edge will send press releases concerning its opening highlighting its unique shopping environment. Also they will send a release concerning the results of bike races and new product development.



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The Edge will begin its newsletter with an announcement of the grand opening and some feature articles about the industry and the product lines the Edge will carry. This mailing will be based on a mailing list obtained from local sources and will include a response card with which recipients could ask to be removed from the mailing list or add a friend to the list. As the Edge grows they will continue to refine this list and add customers as they come through the store.

The Edge will be at a disadvantage as far as yellowpages ads are concerned. The phone book comes out in June of each year, and the deadline for the 1993 issue has already passed. For this reason there will be no yellowpages ads the first year, and other forms of advertising will be pursued more aggressively.

The Edge will hold 2 open houses each year, one to celebrate the grand opening and a second to bring in the winter season. These will include trial of equipment, and free snacks and beverages. Along similar lines the shop will also sponsor 2 or more major events each year, this will include at least one bike ride and probably a snowboard getaway. During these events the Edge will bring a sampling



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of their products for all to try, in real use conditions.

The Edge Racing team will start the year with two riders Randy Spaulding and Joe Jaklevic. They will be riding custom configured bikes most likely based on the Crosstrac frame.

T-Shirts and hats will be available for sale at the Edge and will always be free with a purchase over \$100. These items will also be given away at the open house, and special designs will be given away at the major events.



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FINANCIAL PLAN

Discussion of Statements:

On page one of appendix A is a list of the assumptions used in generating the financial statements for the Edge. Gross margin is expected to be at the bottom range of the industry average (35%) the first year and will reach the high range of 40% by the third year, due to better opportunities to buy inventory on sale and take discounts. With more experience in the market the managers will have better information and knowledge about which products sell and will have less need for discounting. Similarly, figures for sales are based on the average range for sales per square foot and the number of selling feet utilized by the Edge. The efficiency will grow as the Edge builds its reputation and becomes better known and recognized in the community. Like the above figures the percentages used for the expenses and seasonality are based on a weighted average of figures found in the National Sporting Goods Association Cost of Doing Business Survey. Real figures were used rather than the average percentages on rent, depreciation, and insurance based on quotes from local (Issaquah) sources. Beginning with the item "Purch. Growth Rate" and below were variables necessary to make the projections work easily and automate the model.



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A list of selected financial ratios is included on page 2 of appendix A. A key ratio to look at here is the days in inventory, this is increasing due to an intentional building inventories to accommodate higher sales. This figure is still lower than the industry average, which will be made possible by close inventory management and more frequent ordering. Also by year 3 the Return on common equity will approach the industry average of 24%. Current ratio will remain high due to a policy of financing only 50% of the purchases for inventory. As the Edge maximizes its gross margin in year three it will also reach the industry average profitability of about 2.6%. Altman's Z-Score analysis is a weighted average of several financial ratios designed to measure the risk of bankruptcy faced by a firm. This analysis is favorable for the Edge with a healthy score above the 3.0 level for each of the 3 years.

Financing:

The Edge requires a total investment of \$60,000. Of this amount Randy Spaulding will contribute \$15,000 for the purchase of 15,000 shares at \$1 per share. The Edge will raise an additional \$14,000 through the sale of 14,000 additional shares at \$1 per share. In return for this investment the Edge projects a return on Common Equity of



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26.5% by year three and the first opportunity for purchase of additional shares as the firm expands. In addition the Edge seeks to raise \$31,000 total in debt. Short term financing will account for \$11,000. \$10,000 will be in the form of a notes used to finance 40% of major inventory (bikes and other major units) at startup, and notes will continue to be used to finance 50% of additional inventory purchases through the course of business. This flooring account is applied to specific major units and each unit is paid off when sold. Accounts payable on parts will account for an estimated 10% of parts purchases, which amounts to \$1000 at startup. As inventory grows the notes and accounts payable will grow also. For the end of year one the projected balance of the current debt is \$35,285 with an inventory of \$59,153. As inventory continues to grow to \$114,608 by the end of year three the current debt will remain in the \$35,000 to \$40,000 range. For the remaining \$20,000 the Edge will seek a business loan to be paid off over the next 10 years. The statements are based on an estimated interest rate of 12%. The interest coverage ratio used is based on cash flows rather than EBIT, this ratio shows a coverage of almost three times by second year. Also debt capacity is low, only financing about 27% of the assets the first year, and declining from there on. Debt to assets



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begins fairly high, at .766 but falls below the industry average in year 3.

By the end of the third year the Edge shows significant returns and growth, and offers an excellent opportunity to an investor who wants to be involved in a growing and exciting firm.



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CORPORATE GOALS AND OBJECTIVES

3 year Horizon:

The Edge has 3 major goals for the first three years of operation. First and foremost is to build an outstanding reputation for service. In a changing retail environment with product lines that may change over time the best long term advantage for the Edge will be their reputation for providing service. This will carry over and remain consistent regardless of changes in product line. Second the Edge will seek to broaden it's product offerings to include more related products and appeal to a larger group of individuals. This growth will be tempered by their desire to remain experts in their field and provide a "pro-shop" setting, with the best service and knowledgeable salespeople. Third to make this possible requires some profitability, so the Edge will achieve a profit in the second year, and reach the industry average level of profitability in the third year.

20 Year Horizon:

Long term the Edge will strive for the best service reputation in the industry. They will have 8-10 stores in the Seattle area offering a diverse range of sporting goods products. Along the lines of the "pro-shop" approach to



THE EDGE SPORTS



marketing the Edge will not only have their individual stores segmented, but they will also have stores with greater specialization in specific markets. These specialties will be made clear in the names used for the store, but they will all have a tie-in to the Edge so they can all take advantage of that reputation.

For this expansion to be possible the Edge will need to hire and train good people who will eventually be able to move into their own stores. When an employee opens her own Edge store she will be involved in the development of that store and the choice of specialty lines the store will carry. In return the employee will receive a 30% ownership stake in that operation.

The Edge will develop successful competitive teams in each of the sports that it sells products for. If there is no competition in the area for a given sport, the Edge will sponsor and event.

The Edge will encourage all employees to give back to the community through voluntarism. To support this the Edge will allow time off and flexible scheduling.



THE EDGE SPORTS



The Edge will maintain a bottom line profit in the high range of the industry average, and will donate 10% of this profit to build trails and recreation areas by the fifth year of operation.

Appendix A: Financial Exhibits

Assumptions:

	Yr 1	Yr 2	Yr 3
TTL Sq. Ft.	2000	2000	2000
Selling Ft.	1600	1600	1600
Sales/Sq. Ft.	170	230	300
Sales by Quarter:			
Jan-Mar	28.6%	24.6%	24.6%
Apr-Jun	25.2%	21.2%	21.2%
Jul-Sep	20.5%	24.5%	24.5%
Oct-Dec	25.7%	29.7%	29.7%
Gross Margin	35.0%	37.5%	40.0%
Expenses:			
Payroll-Owner	5.4%	5.4%	5.4%
Payroll-Other	5.3%	7.0%	9.3%
Benefits	0.9%	1.1%	1.3%
Rent/Sq Ft.	\$16	\$16	\$16
Utilities	1.3%	1.3%	1.3%
Rep. & Maint.	0.4%	0.4%	0.4%
Adver. & Promo	3.0%	3.0%	3.0%
Auto & Delivery	1.1%	1.1%	1.1%
Depreciation	\$2,900	\$2,900	\$2,900
Insurance	\$2,315	\$2,800	\$3,200
Lic. & Taxes	1.0%	1.0%	1.0%
Prof. Services	0.7%	0.7%	0.7%
Supplies & Postage	1.1%	1.1%	1.1%
Telephone	0.9%	0.9%	0.9%
Travel & Ent.	0.7%	0.7%	0.7%
Other Exp.	2.6%	2.6%	2.6%
Purch. Growth Rate	8.0%	5.0%	5.0%
Beg. Cash	\$10,500	\$10,009	\$14,965
Major Fin %	50%	50%	50%
Initial Note	\$10,000		
Interest Rate on Notes	11.0%	12.0%	12.0%
Cash (% of Sales)	50.0%	50.0%	16.7%
P & A % payable	10.0%	10.0%	10.0%
Business Loan	\$20,000		
Interest Rate on Bus Loan	12.0%		
Payment on Bus Loan	287		
Avg Income Tax Rate	34.0%		
Pay on income above:	\$36,000		

Appendix A: Financial Exhibits

SELECTED FINANCIAL RATIOS

	END OF YEAR 1	END OF YEAR 2	END OF YEAR 3	INDUSTRY AVERAGE
PROFITABILITY				
Profit Margin	(0.044)	0.002	0.028	0.026
Return on Assets	(0.230)	0.012	0.136	0.080
Return on Common Equity	(0.528)	0.034	0.265	0.240
LIQUIDITY				
Current Ratio	1.676	1.998	3.219	1.800
Quick Ratio	0.284	0.373	0.631	0.500
TURNOVER				
Inventory Turnover (Days)	87	91	100	130
Asset Turnover	4.161	4.608	4.585	2.600
COVERAGE				
Interest Coverage (cash flow)	0.865	2.837	4.082	
LONG TERM SOLVENCY				
Debt Capacity	0.267	0.198	0.135	
Debt/Equity	1.140	0.567	0.237	
Total Debt to Assets	0.766	0.650	0.431	0.590
Z-SCORE ANALYSIS				
	3.561	4.826	5.892	

under 1.8 => danger of bankruptcy
 1.8 - 3.0 => questionable status
 over 3.0 => good status

Appendix A: Financial Exhibits

CASH FLOW PLANNING SHEET, YEAR 1

PERIOD	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MARCH	APR	MAY	JUN	TOTAL
CASH ON HAND (BEG OF MONTH)	10,500	8,749	7,538	7,533	7,899	10,255	10,237	10,469	11,782	11,772	11,538	9,997	XXXXXX XXXXXX XXXXXX
CASH RECEIPTS													
(A)CASH SALES	18,587	18,587	18,587	23,301	23,301	23,301	25,931	25,931	25,931	22,848	22,848	22,848	272,000
(B)COLLECTIONS													
(C)LOAN,CONTRIB	6,524	7,069	8,280	9,940	11,931	9,575	10,516	11,598	10,285	9,213	7,906	9,446	112,281
TOT CASH RCPTS	25,111	25,655	26,866	33,241	35,232	32,876	36,446	37,529	36,215	32,061	30,754	32,294	384,281
TOT CASH AVAIL	35,611	34,404	34,404	40,773	43,131	43,131	46,683	47,998	47,998	43,833	42,292	42,292	XXXXXX
EXPENSES													
Purchases	13,048	13,048	13,048	16,358	16,358	16,358	18,203	18,203	18,203	16,039	16,039	16,039	190,944
Payroll-Owner	1,004	1,004	1,004	1,258	1,258	1,258	1,400	1,400	1,400	1,234	1,234	1,234	14,688
Payroll-Other	985	985	985	1,235	1,235	1,235	1,374	1,374	1,374	1,211	1,211	1,211	14,416
Benefits	167	167	167	210	210	210	233	233	233	206	206	206	2,448
Rent	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	32,000
Utilities	242	242	242	303	303	303	337	337	337	297	297	297	3,536
Rep. & Maint.	74	74	74	93	93	93	104	104	104	91	91	91	1,088
Adver. & Promo	558	558	558	699	699	699	778	778	778	685	685	685	8,160
Auto & Delivery	204	204	204	256	256	256	285	285	285	251	251	251	2,992
Insurance	193	193	193	193	193	193	193	193	193	193	193	193	2,315
Lic. & Taxes	186	186	186	233	233	233	259	259	259	228	228	228	2,720
Prof. Services	130	130	130	163	163	163	182	182	182	160	160	160	1,904
Supplies & Postage	204	204	204	256	256	256	285	285	285	251	251	251	2,992
Telephone	167	167	167	210	210	210	233	233	233	206	206	206	2,448
Travel & Ent.	130	130	130	163	163	163	182	182	182	160	160	160	1,904
Other Exp.	483	483	483	606	606	606	674	674	674	594	594	594	7,072
Interest	292	295	299	310	310	327	305	305	314	301	299	286	3,641
SUBTOTAL	20,734	20,738	20,742	25,212	25,212	25,230	27,695	27,695	27,704	24,774	24,773	24,760	295,268
NOTE PAYMENT	6,041	6,041	6,041	7,573	7,573	7,573	8,427	8,427	8,427	7,426	7,426	7,426	88,400
LOAN PRIN PYMNT	87	88	89	90	91	91	92	93	94	95	96	97	1,103
CAPITAL PURCHASE													
START-UP COSTS													
INCOME TAXES													
TOT CASH PD OUT	26,862	26,866	26,871	32,875	32,876	32,894	36,214	36,215	36,225	32,295	32,294	32,282	384,771
CASH POSITION	8,749	7,538	7,533	7,899	10,255	10,237	10,469	11,782	11,772	11,538	9,997	10,009	XXXXXX

Appendix A: Financial Exhibits

CASH FLOW PLANNING SHEET, YEARS 2 & 3

PERIOD					YEAR 2				YEAR 3	
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
CASH ON HAND (BEG OF MONTH)	10,009	12,776	18,713	19,594	XXXXXXX XXXXXXX XXXXXXX	14,965	17,739	27,376	28,483	XXXXXXX XXXXXXX XXXXXXX
CASH RECEIPTS										
(A)CASH SALES	90,160	109,296	90,528	78,016	368,000	117,600	142,560	118,080	101,760	480,000
(B)COLLECTIONS										
(C)LOAN,CONTRIB	30,999	38,113	29,208	21,093	119,413	35,082	46,767	33,579	23,252	138,680
TOT CASH RCPTS	121,159	147,409	119,736	99,109	487,413	152,682	189,327	151,659	125,012	618,680
TOT CASH AVAIL	131,168	160,185	138,449	118,703	XXXXXXX	167,647	207,066	179,035	153,494	XXXXXXX
EXPENSES										
Purchases	59,168	71,726	59,409	51,198	241,500	74,088	89,813	74,390	64,109	302,400
Payroll-Owner	4,869	5,902	4,889	4,213	19,872	6,350	7,698	6,376	5,495	25,920
Payroll-Other	6,311	7,651	6,337	5,461	25,760	10,937	13,258	10,981	9,464	44,640
Benefits	992	1,202	996	858	4,048	1,529	1,853	1,535	1,323	6,240
Rent	8,000	8,000	8,000	8,000	32,000	8,000	8,000	8,000	8,000	32,000
Utilities	1,172	1,421	1,177	1,014	4,784	1,529	1,853	1,535	1,323	6,240
Rep. & Maint.	361	437	362	312	1,472	470	570	472	407	1,920
Adver. & Promo	2,705	3,279	2,716	2,340	11,040	3,528	4,277	3,542	3,053	14,400
Auto & Delivery	992	1,202	996	858	4,048	1,294	1,568	1,299	1,119	5,280
Insurance	700	700	700	700	2,800	800	800	800	800	3,200
Lic. & Taxes	902	1,093	905	780	3,680	1,176	1,426	1,181	1,018	4,800
Prof. Services	631	765	634	546	2,576	823	998	827	712	3,360
Supplies & Postage	992	1,202	996	858	4,048	1,294	1,568	1,299	1,119	5,280
Telephone	811	984	815	702	3,312	1,058	1,283	1,063	916	4,320
Travel & Ent.	631	765	634	546	2,576	823	998	827	712	3,360
Other Exp.										
Interest	684	683	685	645	2,698	593	614	646	576	2,430
SUBTOTAL	89,920	107,012	90,249	79,033	366,214	114,293	136,578	114,773	100,146	465,790
NOTE PAYMENT	28,175	34,155	28,290	24,380	115,000	35,280	42,768	35,424	30,528	144,000
LOAN PRIN PYMNT	297	306	315	325	1,243	335	345	355	366	1,401
CAPITAL PURCHASE										
START-UP COSTS										
INCOME TAXES										
TOT CASH PD OUT	118,392	141,473	118,855	103,738	482,457	149,907	179,691	150,552	131,040	611,191
CASH POSITION	12,776	18,713	19,594	14,965	XXXXXXX	17,739	27,376	28,483	22,454	XXXXXXX

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Appendix A: Financial Exhibits

INCOME STATEMENT PROJECTIONS, YEAR 1

PERIOD	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MARCH	APR	MAY	JUN	TOTAL
REVENUES	18,587	18,587	18,587	23,301	23,301	23,301	25,931	25,931	25,931	22,848	22,848	22,848	272,000
TOTAL REVENUES	18,587	18,587	18,587	23,301	23,301	23,301	25,931	25,931	25,931	22,848	22,848	22,848	272,000
COST OF SALES	12,081	12,081	12,081	15,146	15,146	15,146	16,855	16,855	16,855	14,851	14,851	14,851	176,800
TOT COST OF SALES	12,081	12,081	12,081	15,146	15,146	15,146	16,855	16,855	16,855	14,851	14,851	14,851	176,800
GROSS PROFIT	6,505	6,505	6,505	8,155	8,155	8,155	9,076	9,076	9,076	7,997	7,997	7,997	95,200
EXPENSES													
Payroll-Owner	1,004	1,004	1,004	1,258	1,258	1,258	1,400	1,400	1,400	1,234	1,234	1,234	14,688
Payroll-Other	985	985	985	1,235	1,235	1,235	1,374	1,374	1,374	1,211	1,211	1,211	14,416
Benefits	167	167	167	210	210	210	233	233	233	206	206	206	2,448
Rent	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	32,000
Utilities	242	242	242	303	303	303	337	337	337	297	297	297	3,536
Rep. & Maint.	74	74	74	93	93	93	104	104	104	91	91	91	1,088
Adver. & Promo	558	558	558	699	699	699	778	778	778	685	685	685	8,160
Auto & Delivery	204	204	204	256	256	256	285	285	285	251	251	251	2,992
Insurance	193	193	193	193	193	193	193	193	193	193	193	193	2,315
Lic. & Taxes	186	186	186	233	233	233	259	259	259	228	228	228	2,720
Prof. Services	130	130	130	163	163	163	182	182	182	160	160	160	1,904
Supplies & Postage	204	204	204	256	256	256	285	285	285	251	251	251	2,992
Telephone	167	167	167	210	210	210	233	233	233	206	206	206	2,448
Travel & Ent.	130	130	130	163	163	163	182	182	182	160	160	160	1,904
Other Exp.	483	483	483	606	606	606	674	674	674	594	594	594	7,072
Interest	292	295	299	310	310	327	305	305	314	301	299	286	3,641
Depreciation	242	242	242	242	242	242	242	242	242	242	242	242	2,900
TOTAL EXPENSES	7,928	7,932	7,936	9,096	9,097	9,114	9,733	9,733	9,742	8,977	8,975	8,962	107,224
NET PROFIT	(1,423)	(1,426)	(1,430)	(941)	(941)	(958)	(657)	(657)	(666)	(980)	(978)	(965)	(12,024)

Appendix A: Financial Exhibits

INCOME STATEMENT PROJECTIONS, YEARS 2 & 3

PERIOD					YEAR 2				YEAR 3	
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
REVENUES	90,160	109,296	90,528	78,016	368,000	117,600	142,560	118,080	101,760	480,000
TOTAL REVENUES	90,160	109,296	90,528	78,016	368,000	117,600	142,560	118,080	101,760	480,000
COST OF SALES	56,350	68,310	56,580	48,760	230,000	70,560	85,536	70,848	61,056	288,000
TOT COST OF SALES	56,350	68,310	56,580	48,760	230,000	70,560	85,536	70,848	61,056	288,000
GROSS PROFIT	33,810	40,986	33,948	29,256	138,000	47,040	57,024	47,232	40,704	192,000
EXPENSES										
Payroll-Owner	4,869	5,902	4,889	4,213	19,872	6,350	7,698	6,376	5,495	25,920
Payroll-Other	6,311	7,651	6,337	5,461	25,760	10,937	13,258	10,981	9,464	44,640
Benefits	992	1,202	996	858	4,048	1,529	1,853	1,535	1,323	6,240
Rent	8,000	8,000	8,000	8,000	32,000	8,000	8,000	8,000	8,000	32,000
Utilities	1,172	1,421	1,177	1,014	4,784	1,529	1,853	1,535	1,323	6,240
Rep. & Maint.	361	437	362	312	1,472	470	570	472	407	1,920
Adver. & Promo	2,705	3,279	2,716	2,340	11,040	3,528	4,277	3,542	3,053	14,400
Auto & Delivery	992	1,202	996	858	4,048	1,294	1,568	1,299	1,119	5,280
Insurance	700	700	700	700	2,800	800	800	800	800	3,200
Lic. & Taxes	902	1,093	905	780	3,680	1,176	1,426	1,181	1,018	4,800
Prof. Services	631	765	634	546	2,576	823	998	827	712	3,360
Supplies & Postage	992	1,202	996	858	4,048	1,294	1,568	1,299	1,119	5,280
Telephone	811	984	815	702	3,312	1,058	1,283	1,063	916	4,320
Travel & Ent.	631	765	634	546	2,576	823	998	827	712	3,360
Other Exp.	2,344	2,842	2,354	2,028	9,568	3,058	3,707	3,070	2,646	12,480
Interest	684	683	685	645	2,698	593	614	646	576	2,430
Depreciation	725	725	725	725	2,900	725	725	725	725	2,900
TOTAL EXPENSES	33,821	38,853	33,919	30,589	137,182	43,987	51,196	44,178	39,408	178,770
NET PROFIT	(11)	2,133	29	(1,333)	818	3,053	5,828	3,054	1,296	13,230

Appendix A: Financial Exhibits

PROJECTED BALANCE SHEETS

ASSETS	STARTUP	END OF YEAR 1	END OF YEAR 2	END OF YEAR 3
Current Assets				
Cash	10,500	10,009	14,965	22,454
Accounts Receivable				
Inventory Major	25,000	35,103	46,637	65,824
Inventory Pts & Acc	10,000	14,041	18,655	26,330
Total Current Assets	45,500	59,153	80,256	114,608
Fixed Assets				
Auto	7,000	7,000	7,000	7,000
Less Depreciation		(1,400)	(2,800)	(4,200)
Equipment	5,000	5,000	5,000	5,000
Less Depreciation		(1,000)	(2,000)	(3,000)
Furniture & Fixtures	2,500	2,500	2,500	2,500
Less Depreciation		(500)	(1,000)	(1,500)
Total Fixed Assets	14,500	11,600	8,700	5,800
TOTAL ASSETS	60,000	70,753	88,956	120,408
LIABILITIES				
Current Debt				
Accounts Payable	1,000	1,404	1,865	2,633
Notes Payable	10,000	33,881	38,294	32,973
Taxes Payable				
Total Current Debt	11,000	35,285	40,159	35,606
Longterm Debt				
Business Loan	20,000	18,897	17,653	16,252
Total Longterm Debt	20,000	18,897	17,653	16,252
TOTAL DEBT	31,000	54,181	57,812	51,858
EQUITY				
Common Stock	29,000	29,000	29,000	29,000
Premium on C.S.				
Retained Earnings		(12,428)	2,144	39,549
TOTAL EQUITY	29,000	16,572	31,144	68,549
TOTAL DEBT + EQUITY	60,000	70,753	88,956	120,408



THE EDGE SPORTS



Appendix B: Employee Policies

THE EDGE, SPECIALTY SPORTS EMPLOYEE POLICY

COMPANY MISSION STATEMENT: The Edge is a specialty sporting goods retailer, with interests in several related activities. We support our community and the development of our industry. We have a strong commitment to our customers and offer the very best service. Employees will be treated with respect, as members of a team, and be allowed to grow and contribute. The Edge will maintain profits equivalent to that of the industry as a whole.

COMMUNICATION: Our number one priority is to maintain open and free communication between all members of the organization. For group decision making to be effective all group members are expected to contribute their thoughts and ideas on any given subject. Communication can take place many ways, each day there will be a meeting at opening and closing for those who worked that day to discuss whatever information is pertinent. If an employee works mid-day that employee should give the information to someone who will be at the meeting. Also there will be a weekly meeting off site that all employees will be asked to attend.



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Pay: Employees will start at a pay rate of minimum wage plus 15% or the market rate, whichever is higher. Pay checks will be distributed bi-monthly on the 10th and the 25th for pay periods the 1st-15th and 16th-the end of the month respectively. Workers will be paid a salary based on their scheduled number of hours.

BENEFITS:

DEMO PRODUCTS: Employees are allowed one free demo product for their own use. The value of the product depends upon time employed and total hours worked. See the chart below for the breakdown:

3 FTE Months	Any product up to \$350
6 FTE Months	Any product up to \$500
9 FTE Months	Any product up to \$750
1 FTE Year	Any product up to \$1000
1.5 FTE Years	Any product up to \$1500
2 FTE Years	Any product up to \$2500

For example if an employee worked for 6 full time equivalent months she would be able to choose a bike or other product worth up to \$500 for her own use as a Demo. This includes major parts too, so if she wanted to try out some suspension forks worth \$450 on her bike, that would be fine.



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HOLIDAYS: The Edge will be closed on Christmas day. If other holidays are slow they may be added to the holiday list, or the store may close early. Employees will be paid for Christmas, and also receive a paid holiday on their birthday and one other personal holiday.

VACATION: Vacations must be arranged at least 3 weeks in advance and are paid up to one week (7 days). Longer unpaid leave is available, special arrangements should be made as soon as possible but no less than 3 weeks in advance.

SICK DAYS: Please call as soon as you know you won't be in. Employees are paid 1/3 of the scheduled hours for sick days up to 5 days annually.

PROMOTION: The Edge will promote individuals based on their ability and potential. For continued expansion to take place the Edge needs good people to move into their new locations. When there is absolutely no way to promote an employee with good potential the Edge will assist in placing that person outside the company.



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HEALTH PLAN: A group health plan is not yet included in the compensation package, however the Edge is eligible for group coverage through the National Sporting Goods Association or the National Bicycle Dealers Association. This coverage will be available to any employees who pay their own premiums. The Edge will phase the health coverage into the compensation package by paying an increased percent of the premium each year after the first year.

WORK EXPECTATIONS:

Each employee is expected to act as a responsible adult who can be trusted to deal with every aspect of a small business, from customer service to handling money and locking the doors at night. It is our aim to provide you with a rewarding and fun place to grow and learn, in return we ask for loyalty and responsibility. This is a retail business and our best asset is our reputation. To build and keep a top reputation the Edge will make customer service it's top priority and make that clear to every employee. Employees will meet twice every day and off site once a week to discuss any issues that arise--use these meetings to voice any problems, thoughts or suggestions that come to mind.

1. Employees are expected to be reliable and to work



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all scheduled hours or make arrangements to have the shift filled. If an employee is unable to come to work for any reason he or she should call in as soon as possible so arrangements can be made to fill the hours. If shifts are traded be sure that everyone in the shop knows who will be coming in.

2. Employees may take an hour lunch break if they are working a full day, and a 15 minute break for every 4 hours worked. Breaks should come as near as possible to their scheduled times, but the schedule should be regarded as an estimate and employees should not leave a customer to go on break. If an employee is on site during his or her break he may not ignore a customer if he is needed on the floor or asked a question.
3. No smoking of any substance nor use of alcoholic beverages will be allowed during work. Smoking tobacco if allowed on breaks, outdoors. No smoking is allowed in any part of the building.
4. Harassment of any sort will not be tolerated and



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is grounds for dismissal. Employees are expected to act as adults, and keep sexual, racial and otherwise distasteful language, gestures or acts suppressed. Employees are encouraged to speak up about such issues before they become problems, so that they may be recognized and corrected.

5. Stealing is an area that should not need to be mentioned, it is wrong and should not be done. If you need something ask, if you can't afford it make arrangements.



THE EDGE SPORTS



Appendix C: Customer Service Policies

THE EDGE, SPECIALTY SPORTS CUSTOMER SERVICE POLICY

MISSION STATEMENT: The Edge is a specialty sporting goods retailer, with interests in several related activities. We support our community and the development of our industry. We have a strong commitment to our customers and offer the very best service. Employees will be treated with respect, as members of a team, and be allowed to grow and contribute. The Edge will maintain profits equivalent to that of the industry as a whole.

RETURNS: Cash refunds will be allowed on clean, undamaged merchandise if purchased from the Edge. If the item was purchased elsewhere, and it is an item we stock, an exchange or store credit will be allowed.

DISCOUNTS: Discounts will be allowed on an individual basis for groups, clubs, racers who place our logo on their jersey or bike, and other organizations. Members of national groups such as Bikecentennial, and League of American Wheelmen will have a 10% discount on parts, accessories, and service.



THE EDGE SPORTS



COMPLAINT RESOLUTION: Each employee has responsibility and authority to resolve disputes, consultation with any other employee is welcome and encouraged when there is a question. Managers will support decisions of other workers.

EQUIPMENT TRIAL: Trials will be allowed on all equipment with a valid drivers license and credit card slip as a deposit. If a customer wants to take a bike on an extended trial that bike will rented to the customer for the desired period of trial and the amount paid in rent will be applied to the purchase.

EQUIPMENT RENTAL: Rentals will be available on all equipment the Edge sells, and customers can apply up to 3 days rental charges, of similar equipment within last 2 months, to a purchase. If the rental is part of a sales trial and arrangements are made in advance all charges on that piece of equipment will be applied to the purchase. Rentals will require a deposit equal to 50% of the equipments value and at least two forms of I.D. including a valid Washington drivers license.



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Appendix D: Corporate Documents

ARTICLES OF INCORPORATION OF THE EDGE INC.

Pursuant to RCW 23B.02.020 of the Washington Business Corporation Act, the undersigned does hereby submit these Articles of Incorporation for the purpose of forming a business corporation.

- I. The name of the corporation is The Edge, Incorporated.
- II. The number of shares the corporation is authorized to issue is 100,000. These shares shall be all of one class designated as common stock.
- III. The name of the registered agent is Randy Spaulding.
- IV. The initial registered office of the corporation which address is identical of the business office of the registered agent in Washington is:

7435 159th Place NE #G352
Redmond, WA 98052

V. Consent to Appointment as Registered Agent

I, Randy Spaulding, hereby consent to serve as Registered Agent in the State of Washington for the above named corporation. I understand that as agent for the corporation, it will be my responsibility to accept Service of Process on behalf of the corporation; to forward license renewals and other mail to the corporation; and to immediately notify the Office of the Secretary of State in the event of resignation or of any changes in the Registered Office address.

_____ Date: _____

Randy Spaulding, Group Leader, Sales Manager



Appendix D: Corporate Documents

**ARTICLES OF INCORPORATION
OF
THE EDGE INC.**

VI. The name and address of the incorporator is:

Randy Spaulding
7435 159th Place NE #G352
Redmond, WA 98052

VII. These Articles will be effective upon filing with the office of the Secretary of State.

Dated April 16, 1993

Randy Spaulding, Group Leader, Sales Manager



Appendix D: Corporate Documents

**BYLAWS
OF
THE EDGE INC.**

- I. The first meeting of the board will take place at Coeur d'Alene Lake Resort on June 12, and 13, 1993. The complete bylaws will be drafted at that time. The initial board will include the following people:

Todd Humble, Chairman
Randy Spaulding
Joe Jaklevic
Jim Plumber
Nikki Spaulding
Michelle Taylor



Appendix E: List of Sources Used

City of Issaquah, Chamber of Commerce; 1989 2010 Report; general information pack.

Bicycle Institute of America, packet of Facts and Figures about Bikes and Bicycling.

Bicycle Business Journal, Industry information packet.

Interbike; Dealer Survey, 1993 Interbike Directory.

Principles of Bicycle Retailing III, Randy W. Kirk, Info Net Publishing 1992.

National Bicycle Dealers Association; "So You Want to Start a Bike Shop"; Outspokin'.

National Sporting Goods Association; Cost of Doing Business Survey for Retail Sporting Goods Stores, 1991-1992 Financial Survey; NSGA Retail Focus; 1992 NSGA Buying Guide.

Snow Boarder, 1993 Buyers Guide, Sept 1992.

1987 Retail Trade Reports, Bureau of Census for the United States of America.

Specialized, Rhys Rowland, Accounts Representative; new dealer information, application packet.

Barracuda, new dealer information, application packet.

Wheeler, new dealer information, application packet.

Crosstrac, Accounts Representative.

Seattle Bike Supply, Accounts Representative.

National Skate, Accounts Representative