



## **Executive Summary**

### **The Opportunity**

The number of Sport Utility Vehicles sold continues to increase, and the sports rack market for SUVs is expected to grow to 1.2 million units and \$219 million in sales in 2005. This poses a problem for the bicyclist who is more and more likely to drive a larger vehicle—getting a bicycle into and out of a roof-mounted rack can be very difficult. Roof racks store bicycles out of the way and keep the bicycles better protected. However, many people who prefer to use roof racks simply have trouble lifting bicycles over their heads and onto the roof. Giraffe Rack will make it safer and easier to use roof-mounted bicycle racks to transport their bicycles by providing a solution to SUV owners and anyone else who wants to use a roof rack but cannot.

### **The Product**

Giraffe Rack will produce a roof-mounted bicycle rack that lowers over the side of the vehicle to allow for the easy loading and unloading of bicycles. A piston/spring assembly on the rack and a convenient handle assist the user in lifting and lowering the rack. Our racks attach to existing popular mounts and trays and can accommodate up to two bicycles on each side of the roof, leaving room for a ski rack or luggage box on the other side, if desired.

### **Competitive Advantage**

Our competitive advantage will be our positioning, marketing, and management. First, our racks are positioned as an accessory to, not a competitor of, the popular Yakima and Thule roof racks. This will make our product attractive to retailers because current rack owners can become potential repeat customers. Second, our focus on marketing will establish a strong and defensible brand associated with fun, ease-of-use, and high quality. Finally, our management team has a demonstrated ability to execute in early stage company environments.

### **The Process**

Giraffe Rack will be a marketing company, not a design and manufacturing company. Rack design and prototyping will be contracted to a design engineer, and manufacturing will be outsourced to reduce startup costs and overhead. When parts are received from the manufacturers, we will do minor assembly and packaging of the final product. The Giraffe Rack product will be sold through specialty rack and bicycle shops where knowledgeable employees can assist the customer with selection and installation.

### **The Management Team**

Dave Ryan and Tyler Hutchens will run Giraffe Rack as President and Vice President. Mr. Ryan has ten years business development experience with four startup companies and is currently an MBA focusing on entrepreneurship. Mr. Hutchens has seven years experience in marketing and brand management and has run his own marketing company. Giraffe Rack will assemble an advisory board consisting of experienced managers and entrepreneurs in the sports rack manufacturing and retail industries.

### **The Numbers**

Giraffe Rack will become profitable in Year 2 with Year 5 revenues of \$2.1 million and an industry comparable net margin of 5%. To achieve this, Giraffe Rack seeks \$200,000 in debt financing. The funds will be used to finalize design, develop a prototype, purchase tooling and the first lot of racks, and begin the marketing campaign. The loan will accrue interest at a rate of 20% compounded annually, and we will make a balloon payment of principal and interest to lenders in Year 5. Our exit strategy is to license our product to another rack company seeking to fill out their product line.



## Company Overview

### **History and Current Status**

Giraffe Rack is an innovative bicycle rack concept envisioned by a group of University of Colorado MBAs. The company is currently in the idea stage with preliminary mechanical designs being produced with the help of a local freelance industrial engineer. Giraffe Rack is seeking financing to complete design and prototype testing, purchase initial inventory, and begin a marketing campaign.

### **Market and Products**

Giraffe Rack will market an attachment for roof-mounted bicycle racks that lowers over the side of the vehicle to make it easier to load and unload bicycles into and out of the rack. The product will primarily target SUV owners, but will also appeal to anyone who wants to use a roof rack and has trouble doing so because of their physical size or the size of the vehicle.

### **Objectives**

Giraffe Rack has three goals:

- *Focus intently on the roof rack market for SUVs*—the Giraffe Rack strategy is to avoid the intense competition of other rack market segments and focus on a solution that is currently unique.
- *Be a marketing company, not a design and manufacturing company*—Giraffe Rack will focus resources on marketing and building a strong brand image while outsourcing design and manufacturing.
- *Provide reasonable returns to investors and founders*—Giraffe Rack will provide investors with 20.1% returns on debt investment.



### **Mission Statement**



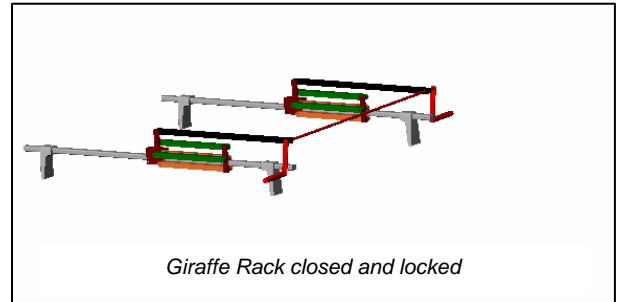
Giraffe Rack will make roof-mounted bicycle racks accessible to all who want to use them.

Our company and brand will be strongly associated with the fun of bicycling, innovative design and high-quality products.



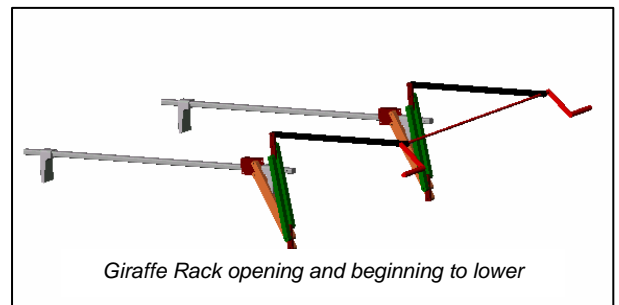
## Products and Services

The steep mountain roads that make your legs scream, the treacherous trails that fray your nerves: these should be the most physically demanding parts of your bike ride—not the act of getting your bike onto the roof of your car when it's all over. You know how it goes—fighting to lift the bike over your head without banging up the car or your face, and then balancing it in the rack while you lock down the wheels. If you are a smaller person, or drive a bigger car, this can be especially dangerous and demoralizing. But when Giraffe Rack users finish a ride, they simply unlock the rack and fold it out over the side of their car. They lift the bike comfortably into the rack and then rely on Giraffe's mechanical return system to hoist the bike securely into place on the roof—no blood, no sweat, no tears.



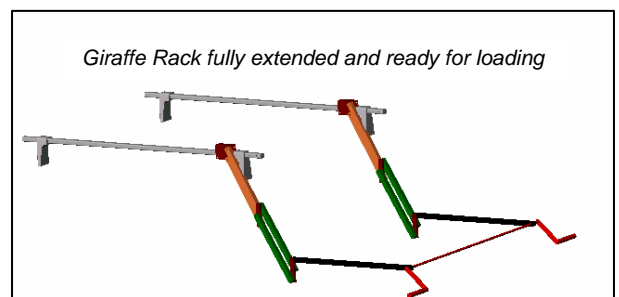
### The Product

The Giraffe Rack product is a rack attachment that fits between existing roof mounts and trays. The attachment features a series of linkages that extend the tray over the side of the vehicle and lower it to provide easy access to the bicycle mounts. Bikes can be lifted into place on the roof or lowered and removed with minimal effort. The Giraffe Rack's mechanical system features a piston/spring assembly that maintains a tension force slightly below the weight of the bike. This allows the system to aid users in lifting and lowering. When loading a bike, the system holds the rack tray in a lowered position, allowing the user to easily place the bike on the rack and secure it. The Giraffe Rack can accommodate either one or two bikes per vehicle side.



The Giraffe Rack will appeal to those bike riders who are reluctant to buy a roof-mounted rack because of the difficulty in using one, as well as to those roof-mounted rack owners who are either smaller in physical stature or who drive larger vehicles such as SUVs.

The design of a Giraffe Rack will make current roof-mounted racks easier, faster, and safer to use. Currently, all other bike racks on the market are static—they do not assist the user in loading and unloading the bike.



The retail price of a Giraffe Rack will be \$150. When taken in conjunction with the price of a roof mount and tray, the Giraffe Rack will be more expensive than most trunk-mounted racks, but will still be competitive to hitch mounts, some of which can cost as much as \$400-\$500.



There are a handful of companies that manufacture a wide range of bike racks. Larger companies include Thule, Saris, and Yakima. All are similar and competitive in product lines, supported vehicles, features, and price. Giraffe Rack will not try to compete on rack mount or tray features that we believe are the domain of these larger companies, but instead will focus on solving the problem of people who cannot get their bikes into the rack. We will meet the standards for stability, durability, and fit, but we will differentiate ourselves on the loading and unloading of the bike.

The bicycle rack market is quite mature. The industry is consolidating and most companies produce very similar products that compete on price. When price points are similar, products compete on minor design and feature details. However, growth in the industry is being spurred by the SUV sports rack segment. Right now the Giraffe Rack design is in the idea stage, but with funding, Giraffe Rack will be able to bring a product to market that focuses on this growing segment.

### **Patent Protection**

Though the Giraffe Rack design will be innovative and unique, a patent will likely not be pursued at this time. A patent would offer little protection to design teams intent on working around the Giraffe Rack design. Giraffe Rack will instead protect market position through channel relationships and with marketing expenditures at levels above the industry average.





## Industry and Marketplace Analysis

### Industry Analysis

Giraffe Rack will compete in the vehicle-mounted sports rack industry. This industry produces vehicle racks designed to transport outdoor recreational equipment and is primarily divided into two segments: (1) the type of equipment the rack is designed to carry; (2) the location of the rack mount.

- Location of Mount
  - Roof mount
  - Trunk mount
  - Hitch mount
  - Bed mount—for pickup trucks
  - Spare tire mount
- Type of Carrier
  - Bike
  - Ski
  - Kayak
  - Storage box, basket

**Table: Industry Players**

Segment	Carrier	Thule	Yakima	Saris	Barre-crafters	Hollywood	Rocky Mounts
Roof Mounts	Bike	•	•	•	•		•
	Ski	•	•	•	•		
	Watersports	•	•	•	•		
	Storage Box	•	•	•			
Trunk Mount	Bike	•	•	•	•	•	
	Ski					•	
Hitch Mount	Bike	•	•	•	•	•	
	Ski	•	•	•		•	
Bed Mount	Bike	•	•	•	•	•	•
Spare Tire	Bike		•		•	•	
	Ski				•		

### Industry Trends

One of the most important trends in the industry is the fact that vehicles are getting bigger, causing the traditional roof-mounted racks to become increasingly difficult to use. A number of solutions are emerging for mounting equipment on the rear of vehicles. These solutions include hitch mounts that fold down or to the side to allow access to the vehicle tailgate. In many cases, these sophisticated hitch mounts are more expensive than roof mounts and still expose the bike to road grime and fender benders.

Roof rack manufacturers face two major threats. First, car designs are frequently changing, and rack manufacturer design teams must work to keep up with the changes in car tops so that their racks will continue to fit a large number of cars. A second threat



comes from original equipment manufacturers. More and more cars have roof racks available as an option from the factory.

### **Industry Size and Growth**

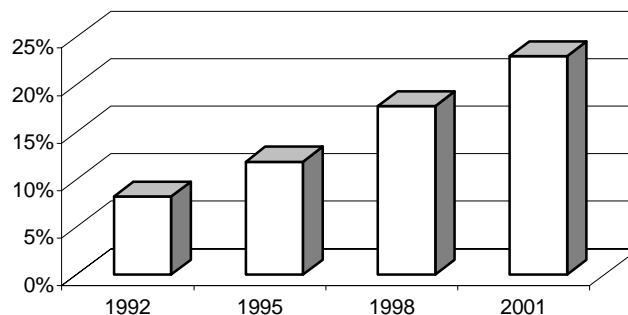
Rack manufacturer Bauer Industries estimates that 1.5% of the US population are potential rack buyers. This yields a total market potential of about 4.2 million units and \$630 million. To create an even larger market, manufacturers are looking to sell rack accessories and additional features to rack buyers. Sales of bike parts and accessories, including racks, are up 6% this year, and modest growth is expected to continue, spurred on by the sales of luggage boxes and racks for SUVs.

### **Marketplace Analysis**

Giraffe Rack's focus will be on the sports rack market for Sport Utility Vehicles. This segment of the market is expected to grow from 630,000 units and \$85 million in 1998 to 1.2 million units and \$219 million in 2005 (Specialty Equipment Manufacturers Association). Several market trends make this an attractive segment for Giraffe Rack.

- Sales of racks to SUVs are increasing
- SUVs are increasing as a percentage of the overall vehicle market (see below)
- The retail value of the US bike market has nearly doubled since 1990 (Bicycle Market Research Institute, 2000) and bicycling remains the third most popular recreational sport (Sporting Goods Manufacturing Association, 2000)

**SUVs as Percentage of Overall Vehicle Market**  
(source: Oak Ridge National Laboratory, 2001)



Giraffe Rack will introduce the product in Colorado during the first year of operation. Colorado is the ideal location for Giraffe Rack for a few reasons. Colorado has one of the highest concentrations of bikers in the US. The Rocky Mountain States account for 6.3% of national population, but 10.3% of national bike sales. Colorado has the highest per capita of SUVs. Colorado has 8 of the 12 wealthiest counties in Rocky Mountain States (2000 Census), with 5 of these counties being located in Metro Denver and Boulder.

Giraffe Rack's marketplace is served by major national dealers such as Yakima, Thule, Saris, Hollywood, and Bauer Gear; by local dealers such as Rocky Mounts, and by Internet and catalogue retailers. Racks are primarily sold through specialty outlets such as rack shops, bike shops, and small specialty sporting good stores and through larger mass merchants and sporting good stores. Less common retail channels include hardware stores and auto parts stores.



## **Customer Analysis**

Most people would prefer to keep their bike on the roof of the car, because the bike stays cleaner and is out of the way. Many people will purchase a roof mount despite the difficulty they have in using one. When purchasing racks, people will consider a combination of several factors. These include the desire to have a roof rack versus the pain of using one and the price of alternatives.

Customers in the bike rack market are segmented in the following ways.

- **Serious bikers**—this group consists of athletes and other cyclists who bike frequently as part of a training regiment. They tend to be gear heads, have expensive bikes and insist on using roof racks to protect their bikes. They are sophisticated buyers and will purchase racks based on features and not necessarily on price.
- **Recreational bikers**—this group is not as serious about riding, but they do enjoy the status associated with their gear. They will use roof racks when possible, but will use rear mounts as necessary. They are less sensitive about price.
- **Occasional bikers**—this group rides less frequently. They are almost exclusively concerned about price and are indifferent to the type of rack.

The serious and recreational bikers present the most promising target segments for Giraffe Rack. While many serious bikers—including women—take pride in being able to use their roof racks, surveys show females and SUV owners would be likely to buy a Giraffe Rack as an accessory to their existing racks. Recreational bikers who own roof racks or are shopping for racks would be most likely to buy a Giraffe Rack (See Appendix I for survey results).

## **Competitor Analysis**

Giraffe Rack faces competition from manufacturers who produce rear-mounted racks such as trunk and hitch racks. Competitors include Yakima, Thule, Hollywood, Saris, Bauer Gear, Alpacacarriers, Barrecrafters, and Allen Racks (see Appendix II for competitor offerings). Trunk mounts can cost \$50 - \$185, and hitch mounts can cost \$55 - \$499.

Currently, none of the major rack manufacturers offer a product similar to that of Giraffe Rack. Undoubtedly, Yakima and Thule have the design competency and resources to develop such a product. However, Yakima and Thule would be unlikely to do so. Both companies advertise their hitch mounts as solutions to the roof-mounted problem. Hitch mounts are more attractive because they contain fewer components than roof mounts and do not require frequent design changes. Ideally, Yakima and Thule would like their customers to purchase both hitch mounts for bikes and roof mounts for luggage boxes and ski racks.





## Marketing Plan

### **Target Market**

Giraffe Rack will target people who want roof-mounted racks, but cannot use such racks because their vehicle is too big for the user to safely or comfortably place a bike on the roof. The ideal customer is the SUV owner, but we will also target females who drive smaller cars. Our target customers will fall into one of four categories:

1. *Current owner of a roof-mounted bike rack, but has difficulty using the rack* — this customer is one of the best prospects for us because they already own the mount and tray, but are not getting the desired benefit. Our product would enable them to make use of their current rack system
2. *Bike owner who does not have a vehicle rack, but is shopping for one* — this customer would also have to make a tradeoff decision between the desire to use a roof rack and the cost of purchasing the mounts and tray versus the cost of a rear mount. We will be more successful with people who are already leaning towards purchasing a roof mount.
3. *Person shopping for a bike that would be likely to buy a rack at the same time* — this customer is the least desirable for us to target because in order to purchase our product, the person would have to buy the bike, the roof mounts, and the tray. The combined cost of this bike/rack package would make our product less attractive.
4. *Current owner of a rear or hitch-mounted rack, but would prefer a roof rack* — this customer would also be desirable because they are unhappy with their current rack and could possibly switch to a roof rack. However, cost is a bigger issue for this customer, as they would have to buy the roof mounts and tray, and our product would be an additional expense on top of that. If, on the other hand, the convenience is worth the cost, the benefit of our product could be the deciding factor in their switching.

For the customer in all four target categories, we will be a solution that makes roof-mounted racks more accessible. We will be a complementary product to roof racks and a competitive product to rear racks.

### **Pricing**

Our strategy is to base price on the cost of the product plus a mark-up of 40%. Our \$89 price to retailers allows us to have enough margin to cover the remaining expenses and recognize a profit consistent with industry comparables. It also allows retailers a significant margin on the suggested retail price of \$150.

This price is more expensive than the typical trunk mounted rack (\$75), but is about the same as the typical hitch mount. Hitch mounts that fold out of the way of the tailgate can cost as much as \$500. For current roof rack owners who want better accessibility, our product is an affordable option.





### **Market Research**

Feedback from a simple survey sent to bike owners indicates that there is definitely a market for the Giraffe Rack product. Each of the respondents recognized the problem and viewed Giraffe Rack as a viable solution to the problem, especially for women and for SUV owners. 81% of the respondents said that they would be likely to purchase a Giraffe Rack if price were not an issue. 65% said they would purchase a Giraffe Rack at the \$150 planned price. See Appendix I for results.

### **Distribution**

The goal to sales volume will be a presence in as many retail outlets as possible. But since the Giraffe Rack solution requires a more sophisticated sales channel, we will target specialty retail outlets including rack stores, bike shops, and specialty sporting good stores. These stores tend to have knowledgeable employees and in many cases offer installation of the product.

Giraffe Rack is complementary to Thule and Yakima mounts, thus we will target retail outlets that specialize in these brands. Access to these channels will be gained by stressing two key benefits of the Giraffe Rack offering. First, retailers will receive competitive discounts of 45%. Second, our product creates an opportunity for repeat customer business. Normally, a roof rack is a one-time purchase, but outlets would recognize additional revenue from roof rack owners who return to purchase the Giraffe Rack add-on. For stores that do offer installation, our product is an additional source of installation revenue.

### **Rollout Plan**

Giraffe Rack will roll out the product in phases during the first three years. During Year 1, Giraffe Rack will sell through retail outlets along Colorado's Front Range. Colorado is the ideal rollout location because of the number of bikers and the concentration of SUVs. During Year 2, Giraffe Rack will expand to the other mountain communities of Colorado and will open stores in Northern California and in the Portland, Oregon and Seattle, Washington areas. These areas have large concentrations of rack and bicycle outlets. During Year 3, the expansion will include stores nationally (see Appendix III for list of retailers during rollout).

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Number of stores</b>	30	60	100	140	180

### **Advertising and Promotion**

We will launch our product in the early spring, and during the launch period, we will make our product as visible as possible along the Front Range, since these are the areas where we will have a retail presence. Our goal will be to quickly establish our brand name and generate awareness.

Promoting a strong brand image will be important to generating sales. To do this we will use researched and targeted advertising in print ads, point-of-purchase displays, and event sponsorship. We will also use aggressive guerilla marketing by making our product visible at as many locations as possible.



To make our product visible we will conduct the following activities:

- Give several units to people who will be using at parks, trailheads, etc.
- Hold product demos at home and garden shows, auto shows, etc.
- Have a launch day event in the parking lots at Rack Attack and Rocky Mounts
- Print ad campaign in specialty magazines
- PR campaign—local media and specialty magazines
- Local event sponsorships
- Point of purchase displays

We will spend just over \$72,000 during the first year, increasing this amount each year as a projected percentage of sales. Over the first five years, sales and marketing expenditures will be nearly \$1.5 million.

<b><u>Year 1 Marketing Costs</u></b>	
<b>Print ads: \$4000/month</b>	<b>\$48,000</b>
<b>PR: \$300/month</b>	<b>\$3,600</b>
<b>Event sponsorship</b>	<b>\$10,000</b>
<b>Demo and giveaway units: 20 @ \$89 each</b>	<b>\$1780</b>
<b>Point of Purchase displays</b>	<b>\$9000</b>
<b>Total</b>	<b>\$72,380</b>

**Sales Strategy**

During the startup phase, our CEO and VP will be responsible for establishing relationships with the retail outlets. During the first year, the CEO and VP will also be responsible for establishing relationships for Year 2 entry into the new target markets while supporting the existing relations. We will contract to a sales rep during Year 3 on a commission basis.

**Sales Forecasts**

<b>Revenues</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Units Sold</b>	3,000	6,600	12,100	18,620	26,280
<b>Price/Unit</b>	\$82.50	\$82.50	\$82.50	\$82.50	\$82.50
<b>Net Revenue</b>	\$247,500	\$544,500	\$988,250	\$1,536,150	\$2,168,100





## **Operations Plan**

Giraffe Rack will be a marketing company, not a design or manufacturing company. The advantage of our operation comes from our position in the supply chain—we will use outsourced design and manufacturing and will sell through retailers. The major competitors have in-house design teams to keep up with changes in the designs of cars and to test details such as the use of different polymers to reduce vibration. A couple of the larger rack companies even manufacture some of their own components in-house. Our small size will allow us to focus on the sales and marketing functions while having minimal contact with the physical product.

### **Scope of Operations**

Giraffe Rack will outsource two key components of the operation to reduce fixed costs: design (product development) and manufacturing. We have neither the expertise nor desire to develop competencies in these facets of the operation. The design agency will produce the rack designs and build and test the prototypes. We will be closely involved with the designer during this process. Once the final design is approved, we will contract out to manufacturers for the machine tooling and part production. This will be done on a bidding process to get the lowest cost at a quality level that meets our requirements.

When parts arrive from the manufacturers, we will do minimal assembly to aggregate some of the smaller parts and then will pack the rack in several pieces. The retailer will be responsible for final assembly.

We will rent about 1200 square feet of light industrial space in North Boulder for assembly and storage. All our retailers during this first year will be along the Front Range, so we will distribute the racks ourselves when possible and use commercial shipping when necessary. As we expand into a wider geographic area, we will use commercial shipping based on the best rates, rather than on timeliness.

### **Partnerships**

The most important partnership will be with the retailers. Our success depends on volume of sales, and the key to this is a presence in as many retail outlets as possible. To gain access to them, we will offer attractive margins and the first lot of racks will be sold on consignment. Relationships with manufacturers will be less important. We will contract to manufacturers based on a bidding process, and to take advantage of scale, we will manufacture in large lots. Between production runs, there will be little need to maintain relationships with the manufacturers. Our exit strategy involves eventually licensing our product to Yakima and Thule for distribution.

### **Personnel**

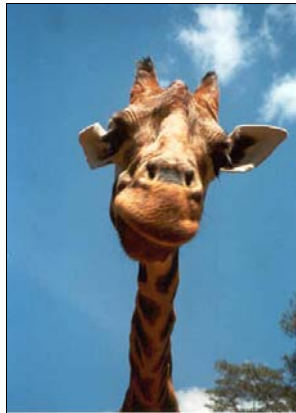
Seasonal help with assembly will be required, so we will hire hourly contract employees for the assembly and packaging process. During the first stages of our start-up, the founding management team will be involved in all aspects of the business, including manufacturing contracting, sales, distribution, and day-to-day business activities such as book keeping. As we mature, we'll progress through a division of labor where management is more specialized, and professional help will be hired as it is needed and can be afforded. Depending on sales levels during this time, we will look into contracting with independent sales representatives.



## Ongoing Operations

### **Key Success Factors**

- *Inventory levels*—because of the seasonality of bike rack sales it will be necessary to optimize inventory levels in order to strike a balance between holding costs and product availability. Also a factor is the cost of production runs of certain lot sizes. We will manufacture as many racks at one time to take advantage of the scale, as long as the benefit of that sized run is still greater than the holding costs of that many rack
- *Sales volume*—Units sold will be the best indicator of product acceptance because a reliable market share would be too difficult to estimate.
- *Days sales outstanding*—Many of the retailers have a reputation of not paying their bills on time. We must reduce this to keep our cash flowing. We will offer discounts to retailers paying within thirty days.
- *Overhead*—we will be at a cost disadvantage to the major players because of their economies of scale. We will carefully monitor and minimize both the variable overhead costs incurred during assemble as well as the fixed overhead costs in order to offer a product locally competitive on price.
- *Returns*—Returned products are a sign that our racks are flawed or not meeting customers' needs.





## Development Plan

Design and manufacturing are the most important components of Giraffe Rack's entire business. We currently have found a designer who has begun design work for us. After the design is finished, we will seek manufacturers to produce the racks.

There are four major steps in our product development timeline. The total process will take roughly 220 days. (See Appendices IV and V for Development Timeline)

1. Concept R&D In this step, the designer will design two alternative mechanisms of racks and come up with the alpha prototypes. He will be responsible for testing and evaluating the alpha prototypes to make sure that the designs meet our design parameters.
2. Product Development In this stage, the beta design will be created. This design will be based on the two alpha designs, but we will incorporate the strongest features of each into a final design. The designer will be responsible for engineering components, reviewing the beta design, and fabricating beta prototypes. In conjunction with Giraffe Rack's management, the designer will perform testing and evaluate the beta prototypes. The testing will involve a broad variety of vehicle and rack brands, sample customers and conditions. Feedback from sample customer groups and retailers will be solicited.
3. Product Release to Manufacturing In this phase, final design revisions (beta test improvements) will be made and we will test and evaluate production prototypes. With help from the product designer, we will complete the documentation and packaging designs. We will also fabricate production prototypes. Final design revisions and document corrections will occur in this stage. The design will now be ready to be released to manufacturers.
4. Manufacturing Ramp-up This is the final stage of the development process. We will solicit bids from manufacturers who are able to make component parts. After manufacturers make the parts, we will order tooling and an initial inventory of components from them. It typically takes six weeks for the tooling to be completed and components to arrive. Giraffe Rack's management will qualify all components, perform minimal assembly work and package the products for delivery to retailers.

### **Development Expenses**

We have currently allocated \$65,000 for design, prototype development and tooling fees. After the product begins shipment to manufacturers, we will pay the product designer an ongoing product design change fee of 2% of current annual revenues.



## Management

Giraffe Rack will be managed by **Mr. David Ryan** and **Mr. Tyler Hutchens**.

**Mr. Ryan** brings ten years of experience in start-up and early-stage companies, with six of those years in Sales Management. Most recently, he was instrumental in the founding and growth of RioLabs, Inc., a Colorado-based, venture-funded software company. Mr. Ryan is currently an MBA candidate at the University of Colorado Leeds School of Business concentrating on Entrepreneurship. He will serve as President of Giraffe Rack and will manage the sales and distribution efforts. He is also an enthusiastic bicyclist and an SUV owner. For Mr. Ryan's resume see Appendix XII.



**Mr. Hutchens** is a seasoned operations, marketing and promotions manager with five years of experience with the Dallas Mavericks Basketball Team. He has also founded his own Marketing and Public Relations firm. Most recently, Mr. Hutchens worked with Merrill Lynch. He is also currently an MBA candidate at the University of Colorado Leeds School of Business with a dual concentration on Entrepreneurship and Finance. He will serve as Vice President of Giraffe Rack and will manage the operations, marketing and finance areas. He drives a Chevy Blazer, a Trek mountain bike and has seen a real giraffe. For Mr. Hutchens' resume see Appendix XIII.







## Giraffe Rack Financial Plan

Presented below are summaries of Giraffe Rack's financial projections. These are based on assumptions outlined in this section of the business plan and in the appendices. They reflect the findings of our research and are consistent with Giraffe Rack's plan of introducing a new component to roof-mounted bicycle racks.

### **Summary of Financials**

We anticipate that Giraffe Rack will generate \$247,500 in revenues and (\$180,776) in earnings in Year 1 growing to sales of \$2,168,100 and earning \$115,725 in Year 5. See Appendices VI & VII for comprehensive financial statements and assumptions covering the first five years of operations.

<b>Summary of Financial Projections</b>					
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Income Statement</b>					
Revenue	247,500	544,500	998,250	1,536,150	2,168,100
Gross Profit	122,100	268,620	492,470	757,834	1,069,596
Operating Expenses	182,675	239,885	357,883	568,422	789,131
EBIT	(140,575)	28,735	134,587	189,412	280,465
Net Earnings	(\$180,776)	(\$19,546)	\$76,601	\$119,771	\$119,675
% of Revenue	-73.0%	-3.6%	7.7%	7.8%	5.5%
<b>Cash Flow</b>					
Cash Flow from Operations	(148,861)	25,960	108,407	166,262	(124,506)
Depreciation	5,000	5,000	5,000	5,000	5,000
CAPEX	10,000	-	10,000	-	10,000
<b>Balance Sheet</b>					
Cash	101,139	127,099	225,505	391,767	57,261
Net Fixed Assets	5,000	-	5,000	-	5,000
Debt	240,201	288,482	346,468	416,110	-
Shareholder's Equity	60,000	60,000	60,000	60,000	60,000
Retained Earnings	(180,776)	(200,322)	(123,721)	(3,950)	115,725
<b>Growth</b>					
Revenue Annual Growth		120%	83%	54%	41%
Net Earnings Annual Growth				56%	0%

Giraffe Rack will be cash flow positive in its second year of operation and profitable in the third. We will realize significant revenue growth during the first five years. Once earnings are positive, they will grow significantly from Year 3 to 4, but go flat from Year 4 to 5. This is misleading since Year 5 will be an extraordinary year. Starting in Year 5, the tax-loss carry-forward expires, so there is the added income tax expense. Additionally, in the fifth year operating costs increase due to hiring a full-time marketing manager and increased management salaries. Earnings as a percentage of revenues fall in line with our target level, and the outdoor products industry standard, of 5.5%.





Moving forward, due to the stabilization of the aforementioned factors and the elimination of interest expense, revenues will begin to grow at a steady rate. The majority of our expenses (materials and product assembly) are variable, giving us a high variable costs-to-revenue ratio of 59.6% in the first two years of operation and 64.7% in Years 3 through 5. Given these ratios, our break-even point in terms of units range from 4,820 in Year 1 to 16,559 in Year 5 (forecasted numbers are 3,000 and 26,280 respectively). Details of Giraffe Rack's break-even analysis can be found in Appendix VIII. Due to the seasonal demand for our product, we are required to maintain a high level of cash. We are able to accomplish this through a debt offering where we borrow \$200,000 and make a balloon payment of \$500,000 5 years later, offering lenders a compounded 20.1% return. See Appendix IX for a detail explanation of financing. For a summary of Giraffe Rack's key financial drivers and ratios, see Appendix X.

### **Financial Assumptions**

Revenue projections for Year 1 assume Giraffe Rack will have products in 30 locations and sell 100 units in each location. In Year 2, we will add 30 locations for a total of 60. Starting in Year 3 we will have an independent sales representative calling on retailers in the eastern section of the U.S. earning a 10% commission and the firm will generate a total of 40 new locations/year. Sales for each location will grow 10%/year. Due to the seasonality of our product, 75% of our sales will come from April to September. Our cost of goods sold is relatively simple, as we are assembling and distributing one product. Our designer has given us information that our total COGS is \$41.80. Given our target gross margin of 50.6%, our revenue per unit, the price to our retail partners, will be \$82.50 per unit (rounded  $\$41.80/(1-.506)$ ). Our suggested MSRP for retailers is \$150.00, which will offer a 45% discount to retailers. In order to build strong relationships with retailers, it is likely that we will initially offer some product on a consignment basis. As sales grow we plan to discontinue this practice, accounting for the decreasing inventory to sales levels.

Due to the need to establish and build a brand, our marketing expenses will be approximately 30% of revenue in the first 2 years, tapering to target levels of 25%. Minor design research and changes will occur each year, for which we will budget 2% of revenues. Relatively small salaries will be drawn by the two founders/owners in the first 3 years, increasing in Years 4 and 5. In Year 5, a full-time marketing manager will be hired for \$50,000 a year.

When putting together working capital needs and expected profitability, we look to two companies that we believe face many of the same industry demands that would confront Giraffe Rack. Johnson Outdoor (NasdaqNM: JOUT) owns a variety of subsidiaries that design, manufacture and market outdoor recreational products. Escalade (NasdaqNM: ESCA) is a diversified company that manufactures and sells sporting goods. We have also benchmarked several ratios for the outdoor products industry as a whole. While our projections meet several of these industry marks, we differ in others. In particular, we have higher gross margins relative to the industry and the other companies (45% for the industry compared to 50% for Giraffe Rack). This is to compensate for the higher than average marketing costs we will incur to establish our company. For a detailed look at comparable ratios see Appendix XI.



## **Business Risks**

Particular to our industry are risks associated with the seasonality of our product, external factors that could affect our operations, our position in the market, where we operate, our competition, and our partners. Listed below are many of the risks we have considered while exploring the Giraffe Rack opportunity.

- Seasonality of sales – The seasonal demand for our product could put a strain on cash at times during the year when we are ramping up on inventory but are waiting to collect on sales. To mitigate this risk, we are looking to raise enough cash to operate through these cycles in the first couple of years until we are able generate sufficient cash reserves.
- Market slowdown in bicycle and accessory sales – our market size estimates are dependent upon existing trends in bicycle and accessories.
- Large competitor develops similar product – If a large company such as Yakima or Thule decided that our niche was interesting enough to violate copyrights or patents, it is unlikely that we would have the resources to fight them.
- Increase in prices of input components (e.g. aluminum) – Our cost model is based upon certain input prices. Rising prices will affect our profit margin negatively.
- Market slowdown for large vehicles and SUVs – As our product solves a problem of getting a bike up on top of a large vehicle, if something happens to kill the market for large vehicles, our market would suffer also.
- To diversify out of a limited number of specialized distributors, we are forced to go to a less educated channel – To avoid the exposure of having only one or two distributors, we will have to spend more time and effort educating our channel on benefits, sales strategies, assembly, etc.
- Large rack manufacturers change base mount design – Our product is designed to work with standard rack bases. If the manufacturers should change those standards, we will incur additional costs becoming compliant with those new standards.



## Giraffe Rack Funding

### Funding Required/Offer

The principal owners will contribute \$60,000 from personal savings. Additionally, they are seeking to raise \$200,000 in a debt offering. This is projected to support operations and provide sufficient levels of cash for the first 5 years of operations. The \$200,000 will be borrowed in the start-up phase of Giraffe Rack and repaid in a lump sum of \$500,000 in Year 5, offering lenders a compounded 20.1% return. Please refer to Appendix IX for funding and repayment schedules.

### Exit Strategies

Two potential exit strategies exist. The first is to be purchased by a larger, comparable company. We anticipate gaining market acceptance due to the unique practicality of our product. With consolidation in the bike rack industry a common occurrence, we believe that this is the most viable exit plan. The second exit scenario involves entering into a licensing agreement with a larger marketing manufacturing organization. In information gathering meetings for this plan, this alternative has been suggested to us and we have been told that there are several companies that would be interested in meeting with us. This type of exit would consist of turning over all manufacturing and distribution over to a firm with much larger economies of scale, with marketing costs and royalties being negotiated.

