



Ladder Company

BUSINESS PLAN

JACK'S LADDER INC.

1212 Valley Rd.
Pemberton, CA 45831

December, 13, 1991

Jack's Ladder is a maker of aluminum and fiberglass ladders and step stools. The company supplies specialty products for niche markets, such as orchards. The following plan explains the need for an expansion and describes ways to help Jack's retail distributors increase their sales .

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INFORMATION ON THE BUSINESS

Type of Business and Product

Owner—A California Corporation with Two Stockholders

Jack's Ladder Inc. is a manufacturing business in California that makes aluminum and fiberglass ladders and stepstools. The goal of Jack's is to manufacture and sell throughout the United States high quality specialty ladders to the extent that, in the specialty market, the name Jack's becomes synonymous with quality.

Products currently produced are: aluminum tripod orchard ladders, aluminum "straight" orchard ladders, aluminum and fiberglass double sided stepladders for the construction industry, aluminum and fiberglass posting ladders for the billboard advertising industry, and various aluminum stepstools and maintenance stands for the automotive and truck detailing and maintenance industry. Jack's also manufactures custom ladders.

Ladders are currently sold primarily to retailers, who in turn sell them to the consumer/user. Some agricultural ladders are sold direct from the factory in areas that are not near dealers. A few stepstools are sold to a wholesaler, who sells to retailers, who sell to consumers. Most orders come over the phone directly; others come by facsimile.

Jack's delivers agricultural ladders wherever it is economical to do so. Most large ladders are shipped via common carrier truck line, while most step stools are shipped via UPS. Local customers pick their ladders up at the manufacturing plant.

Most of the ladders manufactured at Jack's are industrial quality (type 1) or extra heavy duty industrial (type 1A) ladders, designed for constant industrial or agricultural use. The material is high quality, and the quality of

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workmanship is medium to high. The average price of most of the products is comparable to similar type ladders on the market.

History

In the early 1960's, John Smith, a local pear grower and building contractor, didn't like the aluminum orchard ladders that were available. He decided to use his mechanical engineering background and his knowledge of aircraft assembly to make his own brand of ladders. He set up his first orchard ladder jig tables in his garage, and, with the help of seasonal employees, began making ladders. In 1966, he incorporated his business as John Smith's Ladders Incorporated, set up a small shop on the corner of his pear orchard, and built ladders there. Jack Dunn, another local pear farmer, joined the firm, bought some stock, and began handling the sales end of the business, taking the orchard ladder to various orchard equipment shows in California. Sales increased throughout California, Oregon, and Washington. In 1974, Henry Dunn was hired to set up a small manufacturing division in Washington state.

Upon John Smith's death in 1977, Jack and Henry Dunn took over all daily operations. In 1984, they purchased all of the stock in John Smith's Ladders Incorporated and changed the name to Jack's Ladders Inc.

Jack's Ladders Inc. has a good reputation in the agricultural community across the United States. It is known for making a good, heavy duty aluminum orchard ladder that will last. It is also well thought of locally for its aluminum industrial stepladder, which is used by many building contractors. Jack's Ladders Inc.'s general image is one of quality, and although the prices are higher than those of other ladders sold in stores, the feeling, generally, is that the extra price is worth paying.

The company has four salaried employees, including two part-time bookkeepers. Its hourly work force varies seasonally between three and eight employees, with the largest number needed during the summer. In 1991, the sales volume was about \$650,000, down about 10% from 1990, with a profit of about \$40,000.

One factor that has affected the firm's development is the product liability lawsuit situation. Since the mid 1970's, the company has been named in eight suits. Although Jack's has never lost a case in court, it has paid an estimated \$400,000 in product liability insurance premiums, legal fees, and settlements.

Office and Plant

Jack's Ladders Inc. is located at 1212 Valley Rd., 2 miles west of Orrville. It is situated at the corner of a pear orchard, and has cattle pasture land to the south and to the east. The building and about three acres of land is leased from Barb Smith, widow of John Smith. The lease is for five years and expires on August 31, 1994. It is a square corrugated metal building of about 3600 square feet, with a concrete slab floor. There are two small wood frame offices inside. An old farm equipment shed just west of the main building is used to store a small amount of aluminum and some shipping cartons. Besides another small amount of raw material which is stored inside the main building, all other raw material and finished product is stored outside, to the north of the main building.

There is parking for employees along Valley Road outside the fenced raw material storage area. Customers must park in front of the building. There is not much room for customer parking, but most of the business is phone ordered. Freight trucks, inbound and out, must park on Valley Rd., as there is no room inside the fenced area for trucks to turn around, or to maneuver forklifts and raw material.

Business hours are from 8:00 a.m. to 5:00 p.m. Monday through Friday. Most hourly employees work from 7:00 to 3:30 in the winter, and 6:00 to 2:30 in the summer. Only one shift is worked.

Personnel

Jack's Ladders Inc. currently employs four salaried and four hourly people. The salaried personnel are the



owners, who are the managers, and the owners' wives, who are the bookkeepers. The hourly employees are semi-skilled, and have been trained on the job. All but one of the hourly employees are Hispanic. Employees have, for the most part, been found by word of mouth through current employees. During the spring/summer season, three or four more employees are usually hired, sometimes including an occasional high school student. These employees are usually laid off, due to lack of work, beginning in September. One or two of these seasonal employees are sometimes kept until November or December, depending upon the amount of work available.

Current employees have been with Jack's for or three or four years. Most are relatively well trained, friendly and cooperative, although there are reports of increased amounts of goofing-off when management is not present. All hourly employees are at the maximum wage level, and are becoming dissatisfied with that fact. Motivation other than wage is needed to keep them interested. There is currently no lead man, foreman, or other type of middle management. This type of position will become necessary in the near future as management spends more time traveling, selling, and handling administrative tasks.

Economic/Accounting

Jack's Ladders Inc. makes its money primarily by selling aluminum and fiberglass ladders and stepstools. It also repairs aluminum orchard ladders, sells aluminum ladder parts to the two other plants that now manufacture Jack's ladders, and receives a royalty from third plant that manufactures and sells Jack's ladders under its own corporation.

Prices are determined by calculating material and labor for each product, marking it up a certain percentage, then comparing that to competition and modifying the price accordingly.

All financial records are kept in one of the offices at the manufacturing plant. The day to day bookkeeping is done by the two part-time staff hired for that purpose. The accounting books are sent quarterly to a CPA who then prepares a balance sheet and some accompanying reports and support schedules. Payroll is done by the staff bookkeepers. Tax returns are prepared by the CPA who prepared quarterly reports.

Inventory, Supplies, and Equipment

The company uses, and keeps an inventory of, various extruded aluminum shapes needed for its variety of ladders, along with fiberglass side rails for its fiberglass ladders. It also uses and inventories all the rivets, bolts, and other various fasteners used to assemble ladders. A finished product inventory is kept also, the size of which depends upon the time of year and anticipated demand. An attempt is made to keep just a large enough inventory to meet expected immediate demand in the most frequently sold ladders. Sales literature, business cards, copier paper, and various office supplies are also kept.

It has been relatively easy to obtain supplies. Prices of aluminum have fluctuated greatly since it became a commodity a few years ago. Jack's maintains the prices of its products based upon the upper end of the price fluctuation range, while watching competition for any price drops.

Most equipment used by the company is in fair to good condition. However, there are a few items which need work in the near future, including the Ruvo chop saw, the ladder jig table, and the air delivery system.

Legal

Jack's Ladders Inc. is a California corporation, formed in 1978. It has a Federal ID number, a state ID number, and a state resale permit and number. It is located in an area that is zoned for agriculture, but is grandfathered into the present facility.

The company carries the required workman's compensation insurance through State Compensation Insurance Fund. It carries insurance on its automobiles through State Farm. Its general liability and products liability



insurance is through Allied Insurance Brokers.

Building codes were complied with when the facility was built in the mid-to-late 1960's. Known health codes are complied with, although the code has not been checked recently. The company has partially satisfied OSHA and Cal OSHA regulations, but more work needs to be done in this area. Jack's is also in the process of writing and implementing an Illness and Injury Prevention program, which is required by the state.

The lease on the building and property is a five year lease which expires on August 31, 1994. A subsequent lease has not yet been negotiated. It is a Standard Industrial Lease, printed by the American Industrial Real Estate Association. It requires the company to carry insurance against loss of the premises at replacement value. The lessor is required to supply water to the premises.

There are no trademarks, patents, licenses, or copyrights held by Jack's Ladder Inc.

The company has, as its corporate attorney, Bob Bailey of Smith and Brown to handle questions of a business nature. The company's Product Liability Insurance carrier appoints an attorney for each such case the company is involved in.

Future Plans

Plans for Jack's Ladder Inc. are for controlled expansion, to increase sales by increasing market area for existing products, and to find new products to manufacture and sell. Currently, there are no plans for expansion to levels that would require year round multi-shift manufacturing.

MARKET ANALYSIS

Customers

The market is divided into two segments: agricultural and industrial. Our agricultural customers are primarily retailers across the United States, but concentrated in Northern and Central California, and in the northeastern US. Many, if not most of these retailers are farm supply stores. Our industrial customers currently are retailers in Northern California, with the exception of one catalog sales customer that is nationwide, and a few retailers that are out of state.

Both the agricultural and industrial markets need high quality, durable, safe aluminum and fiberglass ladders. There are many climbing-type accidents caused by people using over-stressed, under-built ladders and stools. Also, a lack of confidence in climbing equipment causes workers to be inefficient and less productive in their jobs. Jack's seeks to sell climbing products that, because of the way they are designed and built, promote safety and confidence in the worker, and thereby reduce accidents and increase productivity.

The agricultural market will need our ladder as long as people want fresh fruit, and as long as there is a labor force to pick it. And because of the increasing awareness and emphasis on safety, high quality ladders will be in demand. The same is true of the industrial specialty ladder market. As long as people need to get off the ground, whether it is 6 feet or more, they will need a safe way to do it. In both markets, some technological advances are bound to reduce market size, but for a company our size, it will still be large enough.

Our average agricultural ladder customer is the semi-successful to successful farmer, who sees a potential for success in farming, and plans for longevity in business. Currently, most customers are in California, although there are a growing number on the East Coast.

Our average current industrial ladder customer is a male mechanic or construction contractor in Northern California who wants a safe, stable product, even if it costs more than what is generally found in hardware stores. The potential market for step stools is nationwide; every auto mechanic shop and auto detailing shop represents a possible sale.



Customers like the quality and detail of the ladders we make. The weight of the material we use is heavier than in other ladders and offers greater durability and safety. The design of the ladders themselves is usually much better than the minimums for OSHA and ANSI specifications. This means the customer has a ladder that can be counted on to provide safety for employees, and which will satisfy insurance and OSHA inspectors.

Complaints we get from customers are usually related to price and/or shipping costs, although some of our agricultural customers would like to see steps which provide more traction when wet.

The number of customers in the agricultural market is estimated to be 300 retailers, and 4,000 tree fruit growers. An estimated \$2 million will be spent on orchard ladders in 1992. The number of customers in the industrial market is estimated to be 2,000 retailers, and 1 million consumers, with an estimated \$20 million spent on our products, or similar products, yearly.

Environment

The extended drought in California, along with the generally poor agricultural economy, will have a negative effect on our agricultural market, at least in the short term. A generally slow economy will also have the same effect on the industrial market. An increase in the amount of workplace safety legislation passed could have a positive effect. However, the legal climate, specifically products liability litigation, is poor as viewed from the ladder manufacturer standpoint. More lawsuits and higher insurance costs will drive prices up on domestic products, possibly causing customers to purchase imported goods.

Competition

Competitors in the agricultural market number about 12 nationwide. These are firms that manufacture orchard ladders. Eight of these are on the West Coast, with four in California. All but two are the same size as Jack's or smaller. The two larger firms manufacture and sell a larger number of other types of ladders than we do. Half these firms are older than Jack's, and half are younger, with the newest coming in only a year ago. Two of these firms are making our ladder, with one of them paying a royalty for its sales.

Brown Ladder in Billings, Montana offers an inferior product at a lower price. They probably sell about 2500 to 3000 orchard ladders per year. They like to sell in truckload quantities, and have been willing to haul from Montana to New Mexico at no cost. The low cost is appealing to growers feeling the economic pinch. Brown likes to sell direct, although they have some retailers representing them. Their direct sales/retail sales strategy has put them at odds, at times, with the retailers. They sometimes exhibit at farm shows.

Overhead Ladders, although they manufacture the Jack's ladder, would have to be listed as a competitor because Jack's Ladder Inc. receives no income from the ladders they sell. They are located in Oregon, and sell in that state and in Michigan and states to the east. The ladders, even though they are Jack's, are priced lower, primarily because of a lower overhead, and the fact that it is not the principle's only source of income. They are able to be quite competitive not only because of price, but because they are in a more favorable freight location, and can ship ladders to the East less expensively. They attend a few farm shows, and advertise in a trade journal. They sell an estimated 2500 to 3000 ladders per year.

Tall Tree Ladders, in Washington state, makes a good quality orchard ladder which is priced somewhat lower than the Jack's. They sell an estimated 3500 to 5000 ladders per year in California, Oregon, Washington, and the East. Because they do not have the extensive retailer network in California that Jack's does, they sell a number of ladders directly to the consumer, at a significantly lower price. They claim to have interchangeable parts with their ladders built 30 years ago. They attend nearly all farm shows Jack's attends, and advertise in the same trade journals. They are also on a more favorable freight route, both into California, and to the Eastern U.S.

Reach Ladder, who makes Jack's ladders, is listed as a competitor only because they sell into the same areas as we do. While we are paid a royalty for these sales, it reduces the number of ladders sold directly. They are also located in California, and have the advantage of being in the center of the large citrus industry in



California. Freight is an advantage there, because their published FOB prices are the same as ours. They also have a freight advantage to the south and east. They advertise sparingly in a trade journal, and attend one agricultural show, sharing a booth with Jack's. Their advantage is their proximity to their market.

Hanson Ladder, located in Northern California, makes an inferior ladder which is higher priced than Jack's. Not much is known about their sales volume in the agricultural market, but it is believed that they sell some in Southern California. They are a firm about as old as Jack's and manufacture other types of ladders also. They advertise in the same trade journal as does Jack's, and also in the Thomas Register. They have a freight advantage to the East Coast, which could overcome some of the ladder price differential.

Sampson Ladder Co. of California makes a somewhat inferior ladder which is much higher priced than the Jack's. It makes other types of ladders which are also high priced. They are about as old as Jack's. Their agricultural ladder sales volume is unknown, but they sell some to the government, and some to landscape people. They have not been seen by Jack's at any equipment shows. However, they do advertise in the Thomas Register and have a freight advantage when shipping to the East Coast, as well as when exporting.

Best Products of California is a new ladder company which copied some of the parts of the Jack's ladder. It's product would probably be rated as a medium-to-good ladder, with listed prices about the same as a Jack's ladder, although they have been known to sell directly to the consumer at lower-than-list prices, with no delivery charge. Their volume this year is estimated to be about 1,500 ladders, but they are growing and aggressive. They also manufacture fruit picking bags, and the two go together well. Their reputation in the bag industry has been that of a cutthroat, doing anything to outsell the competition. However, the ownership changed last year, and the new ownership's strategy is still in question. They advertise in a few trade journals, and attend one of the same ag shows as Jack's. Competition from them is expected to be fierce, especially in Southern California, but probably on the East Coast as well.

Skyreach Ladder Inc. of California used to be located in Washington state, but was purchased two years ago by Cloud Nine Ladders of Sunnyvale. In Washington, Skyreach made medium quality orchard ladders with medium prices. When Cloud Nine bought them, they immediately obtained national distribution because of the existing sales network of Cloud Nine Ladder. Their advantage is price and distribution. Their disadvantage is quality of material and workmanship, which will become even worse since the Cloud Nine deal. Cloud Nine sells largely in the homeowner's market. Sales volume is unknown, but could be 2,000 to 4,000 ladders per year.

There are three or four ladder manufacturers on the East Coast which make agricultural ladders, only one of which is aluminum. It is Meany Ladder in Vermont. It is an overpriced, inferior ladder sold in the New England states through a well known farm supply catalog. Nothing is known of their volume or their marketing strategy. The other manufacturers are making wooden orchard ladders, and must be supplying the East Coast with ladders. They are probably selling a total of 2000 to 4000 ladders per year total. They have freight advantages from being located in New England, and wooden ladder prices have been historically lower than aluminum. However, the number of growers using wood ladders is declining, especially as wood becomes scarce and prices become more equitable. Some of these companies are old companies and have a loyal following among farmers.

In the industrial ladder market, there are large companies making industrial stepladders, both in aluminum and fiberglass. They have both distribution and price advantages over Jack's. And while they do not specialize in double-sided, type 1A ladders, as Jack's does, they do make that ladder, and many do a good job of it. Small stepstools are made by a number of companies also, but, again, they do not specialize in them. In most cases, their prices are higher than Jack's, but they have better distribution. A few of these companies have warehouses in different locations across the United States. No advertising has been seen on any of these, except in the Thomas Register, and then not specifically related to step stools.

In the next year, an estimated 15,000 agricultural ladders and 2 million industrial type ladders will be provided by all the competition.



Competitive Advantages and Disadvantages

Jack's Ladder Inc. meets market needs by supplying high quality, safe climbing products. Most of the agricultural competition is inferior. In this market, demand is being met by supply, making competition high. Our emphasis, then, is on quality and reliability. In the industrial ladder market, there is much competition, but there appears to be room for a small company which can specialize. Our disadvantage appears to be price and distribution among the prominent orchard ladder and industrial ladder manufacturers. Our advantage is that we make a superior product. We also provide repair parts and advice. In the stepstool market, it appears that there is not much emphasis on advertising or pushing this product among our competitors. As we have a good product here, it appears we can compete for awhile. However, because the product is so easy to build, competition could arise in a short time and dilute the market.

Projections

It is expected that, in the short term, the number of agricultural ladders sold will remain the same or decline some, as will the number of agricultural ladder customers. In the long term, the number of both will remain about the same, depending upon how many new manufacturers get into the act. In the industrial market, it is projected that the number of customers, and therefore sales, will increase 25% to 50%, tempered by the economy.

MARKET STRATEGY

Sales Strategy

In the agricultural ladder market, the strategy will be to educate existing retailers and their sales forces as to what the advantages of Jack's ladders are. Also, we will continue advertising nationwide, but will emphasize follow-up as the advertisements go to consumers, asking for names of potential retailers in various areas, thereby increasing the number of dealers. Efforts will be made to locate and establish retailers in areas not currently covered, with emphasis on personal contact by phone. Participation in farm equipment shows will emphasize the advantages of our ladder over the others, with an emphasis on service of already owned products.

In the industrial ladder market, the strategy will be to increase our area of distribution by increasing the number of retailers. Getting to them first will be our edge. In this, we will have to demonstrate the value of the product and provide quick service in shipping.

Promotion Strategy

In the agricultural market, word-of-mouth at the agricultural equipment shows, along with nationwide trade magazine advertising with intensive follow-up, will be the strategy.

In the industrial market, locating new retailers by current customer inquiries, and by getting specific customer lists, will be followed by phone contacts, and then by direct mail. In the direct mail, testimonials by others in the same business will be sought and used. In the direct mail, we will emphasize our longevity, our good service, our friendliness, and the quality of the product. We want to project knowledge, quality, and ability to deliver. We already have an out-of-state toll-free number. We will seriously consider the advantages of an in-state one also.

Management

I am in this business because it allows me the freedom to be my own boss while using my engineering background to fill a need to make safe, high quality ladders. Personal freedom is a premium because of the



time I want to spend with my family at school activities and at home. However, I have been and plan to continue to be a full-time manager of the business. I have prepared a resume and personal financial statement, both of which are available upon request.

FINANCIAL INFORMATION

Sources and Uses

The project to be financed is a leasehold improvement project. Phase 1 is to erect a raw material storage building. Phase 2 is to enlarge the current manufacturing facility and to do some remodeling and renovating.

Jack's Ladder Inc. currently has a line of credit with a 16th National Bank for the amount of \$60,000, which is used for working capital and inventory. The line was used sparingly in 1990, and not at all in 1991, because the company was able to supply enough of its own capital. We would seek project capital from 16th National Bank.

Statements—Historical and Projected

Historical - Business Tax Returns and Financial Statements

Projected - Projected Financial Statements

Both statements are available upon request.