



# Sports Apparel Store

## 1.0 EXECUTIVE SUMMARY

### 1.1 COMPANY & INDUSTRY

Division Ninety9 will be a new player in the active lifestyle apparel industry. The company is made up of professional athletes that have come together to form a high-quality brand that represents independence and accomplishment among the action sports community. The company is headquartered in Carlsbad, California, the mecca of action sports. The company is equally owned by its four founding partners.

### 1.2 PRODUCTS & SERVICES

Division Ninety9 provides high-quality casual apparel that is designed specifically for action sports athletes. Tees, polos, walkshorts, boardshorts, and hoodies are just a few of the product lines that the company offers.

### 1.3 MARKET ANALYSIS

The company focuses on the \$50 billion a year active lifestyle market segment that participates in non-traditional sports such as skateboarding, motocross, snowboarding, and surfing. As the company is in its infancy, a primary target market of the Southern California region has been selected to debut the product lines.

### 1.4 STRATEGY & IMPLEMENTATION

Division Ninety9 works with several manufacturers around the world to manufacture our products. This system provides more capacity, while decreasing production costs. A strong online presence, through online communities and advertising, will be utilized to drive a grassroots marketing campaign, helping to lower costs. The founders, all professional athletes, have large fan bases that will be immediately drawn to our new apparel lines. Additionally, the management team has developed strong alliances with several key people in the industry that will assist in the marketing, manufacturing and distribution of the products.

### 1.5 MANAGEMENT

The management team of the company consists of well-known professional athletes who understand the target market. Each founder comes from a different athletic discipline and will have a key role within the company. Their backgrounds and experience in this industry will allow for the company to quickly launch and build a well-recognized brand.

### 1.6 FINANCIAL PLAN

First year sales of \$750,000, with an annual growth rate of 25% will ensure that the company stays profitable. With a 70% product margin, Division Ninety9 will be able to accumulate enough cash to become attractive as a takeover target by a larger apparel company, such as Quiksilver. Founder investments, as well as outside equity investments, will help the company maintain cash reserves, while helping the company grow at a rapid rate.

### 1.7 FUNDS REQUIRED & USE

The company has raised \$200,000 through founder investments, and is currently seeking an additional \$100,000 from an equity investor. These funds will be used to cover inventory, staffing, rent, production costs and general operating expenses.

## 2.0 COMPANY

### 2.1 COMPANY & INDUSTRY



Division Ninety9 is a startup clothing manufacturing company located in Southern California. The idea for the company stems from a group of professional athletes who are active in the surf, skate, snow and motocross industries. These industries have grown tremendously in recent years, and the target market has an affinity for clothing designed by and for fellow active lifestyle athletes.

## **2.2 LEGAL ENTITY & OWNERSHIP**

The company is organized as a Limited Liability Company in the state of California, and is currently owned equally by the four founding partners. An additional equity percentage of the company has been set aside for new investors.

## **2.3 HISTORY**

Each of the founding partners has participated at a professional level in different action sports, including motocross, skateboarding, surfing and snowboarding. They have had experience designing products in the past, while working with other endorsement companies. Additionally, they have built many relationships within the industry to assist in marketing and distribution of the company's products.

## **2.4 FACILITIES & LOCATION**

The company currently operates out of a warehouse and office building located in Carlsbad, California. The 5,000 square foot facility provides enough room for shipping and receiving, as well as administrative office space. A two year lease has been signed at \$1 per square foot with options to extend the lease. The facility can be expanded an additional 10,000 square feet at any time to accommodate growth of the company.

## **2.5 KEY ASSETS**

Initially, the company's primary assets are the endorsement deals with the founders. As the company grows, the Division Ninety9 brand will become the company's most valuable asset. Other assets include computers, office furniture and equipment.

# **3.0 PRODUCTS OR SERVICES**

## **3.1 PRODUCT DESCRIPTION**

Division Ninety9 produces and markets casual apparel, including tees, sweatshirts, polos, walk shorts, board shorts and jeans. Hats and beanies will also be available. Additionally, various accessories, such as wallets, socks, underwear and stickers will be offered.

## **3.2 FEATURES & BENEFITS**

All of Division Ninety9's products will be quality-manufactured and designed to fit the target market of active lifestyle participants. Apparel will be produced using only natural and organic materials in sweatshop-free facilities. Unique designs that appeal to the demographic will be integrated into each product. Our products have the highest quality standards in mind.

## **3.3 COMPETITION**

Competition in the apparel industry is fierce. The direct competitors are large corporations, such as Hurley, Volcom, Billabong, Fox and Quiksilver. All of these competitors have grown very large and are no longer solely targeting the active lifestyle market. Division Ninety9 will carve a niche by specifically targeting the active lifestyle market.

Indirect competition is varied and includes clothing manufacturers of all types. We do not see these competitors as much of a threat, as our market segment values brand loyalty and prefers brands that are not mainstream.

## **3.4 COMPETITIVE EDGE/BARRIERS TO ENTRY**

Our competitive edge comes from the notoriety of our founding partners. Only the biggest apparel brands have rosters comparable to ours. Our design team is also world-class. We have formed a partnership with American



Apparel, which is a major supplier for organic, fitted apparel. Startups in this industry rarely have the strengths and capabilities to match ours.

### 3.5 DEVELOPMENT

Division Ninety9 has already begun lining up manufacturers for several product lines, including tees and walk shorts, which will be available for sale by late Spring of Year 1. In addition to product manufacturing, a website is under development, which will further increase product awareness. In Year 2, a retail shop is planned in Carlsbad, California. By Year 3, five more retail stores will be opened in the Los Angeles and San Diego metropolis, as well as in Las Vegas.

## 4.0 MARKET ANALYSIS

### 4.1 TARGET MARKET

Division Ninety9 targets active lifestyle participants. The demographics of this initial segment are typically aged 16 – 30 males and females that have grown up near urban areas, specifically near the West Coast. These customers are active in skateboarding, snowboarding, surfing, motocross, and other extreme sports or they closely relate to those that do participate in this lifestyle. This segment frequently shops at specialty stores located in mall areas, and can easily be reached through the internet, as well as through various events and magazines. This is a trend-setting group, and they influence other audiences nationwide. As awareness in this initial market grows, secondary markets will open up across the United States and even internationally.

### 4.2 MARKET SIZE

The market size for the active lifestyle segment is very large and growing at a tremendous rate. The surf wear market alone bring in over \$13 billion annually. The total market size that Division Ninety9 targets is approximately 150 million people and \$50 billion in sales a year. As this market is very large, our company will target the Los Angeles and San Diego areas first, which are estimated to be at 2 million active lifestyle participants.

### 4.3 MARKET TRENDS

Active lifestyle participants have steadily become much more popular than mainstream sports, such as football, baseball, and basketball. Additionally, brand loyalty among the active lifestyle market is much stronger, where these shoppers tend to avoid mainstream brands. The increase in the number of independent specialty stores in the United States and internationally provides an opportunity to introduce a new, fresh clothing line. Studies have shown that participants in board sports have a high probability of crossing over to other active lifestyle sports during the offseason, such as snowboarding, which popularity has increased over 25% in the last three years. With the popularity of the X-Games and the Action Sports Tour, a growing trend towards skate boarding, BMX riding, wake boarding, snowboarding, motocross and surfing is prevalent. With these large potential markets, our targeted clothing and apparel lines will be there to address their lifestyle needs.

### 4.4 SWOT ANALYSIS

Strengths: professional athlete endorsements, industry expert contacts, manufacturing partnerships, marketing partnerships, low lease rate, expandable building space, location

Weaknesses: new brand in established market, dependent upon outsourcing for production, formal distribution channels being created from scratch

Opportunities: recruit other athletes to endorse inexpensively, demos at various events and competitions (X-Games, Actions Sports Tour), forming distribution and marketing relationships, creating a new brand with fresh designs

Threats: competition, modest funding, manufacturers' ability to perform



## 5.0 STRATEGY & IMPLEMENTATION

### 5.1 PHILOSOPHY

Division Ninety9 will offer high quality, stylish clothing made by athletes for athletes. Our clothing will help our target audience look their best while doing what they love the most.

### 5.2 PRODUCT DEVELOPMENT

Product design has already begun, with manufacturing of some tees in progress. Design efforts have been led by the management team, alongside our graphic designers. Additionally, we use fit models to ensure the apparel fits different body types as intended. We select manufacturers based on quality, price and reliability. Most manufacturing is done in Mexico, Korea, or China, with some minor products being produced domestically.

### 5.3 INTERNET STRATEGY

Division Ninety9 will employ an aggressive internet marketing campaign. This will be anchored by our online community, where customers can interact with others, while posting videos and pictures of themselves participating in their favorite active lifestyle sport. This viral marketing technique will not only attract new consumers, but also specialty retail stores that have an interest in carrying our product line. Alongside the online community, an online store will be available for instant purchases to be made. This will ensure that our products are always available, no matter what the customer's location may be.

### 5.4 MARKETING STRATEGY

Our marketing strategy will include targeted online and print media advertising. Major magazines, such as Transworld Motocross, Transworld Surf, and Transworld Skate are a few publications which we will regularly advertise in. Additionally we will use athlete endorsements, which will give Division Ninety9 virtually free media coverage on television and in print when are our athletes excel. We will also have a strong presence at major events, as well as hold various demos and contests to attract new customers.

### 5.5 SALES STRATEGY

Our primary sales goal is to have our product available in all specialty retail outlets that focus on the skate, surf, snow, and moto markets on the West Coast. Division Ninety9 will utilize independent sales reps to ensure that each retailer has superior support, and that new product is being presented to every retailer. Once a strong brand image has been secured on the West Coast, we will focus on expanding sales to the rest of the United States. Our company will experience cyclical demand, as the summer season is the most popular time for our apparel. We anticipate capturing one half of one percent of the California target market in our first year. This will equal approximately \$750,000 in revenues and 16,000 unit sales. We will expect a 25% annual growth in the following three years as brand popularity grows and as marketing budgets increase.

### 5.6 STRATEGIC ALLIANCES

Division Ninety9 has established several strategic alliances that will assist in rapid growth and success of the company. These include relationships with marketing professionals, media (Transworld Magazines), manufacturers, and distributors.

### 5.7 OPERATIONS

Operations will initially be led by the founding partners, who will each take on a different role within the company. The team will focus on product design, sales and manufacturing initially. As distribution channels are lined up, the concentration will be shifted to marketing and online order fulfillment.

### 5.8 GOALS

- Develop a high quality brand among the active lifestyle market
- Create brand awareness through events, marketing and online communities



- Capture the California market and then expand nationally
- Achieve sales of at least \$750,000 in the first year
- Expand awareness of active lifestyle sports through grassroots sponsoring of amateurs

## 5.9 EXIT STRATEGY

It is the goal of Division Ninety9 to follow in the footsteps of other well-known apparel companies, such as Volcom and Quiksilver. This will include an exit through either an acquisition by one of these larger companies, which are well known to buy up-and-coming industry companies, or more preferably to go public through an IPO. Volcom's IPO in 2005 successfully raised over \$90 million, and has reached \$125 million in sales with annual profits of \$25 million.

## 6.0 MANAGEMENT

### 6.1 ORGANIZATIONAL CHART

The company will follow a typical hierarchical structure with the management team discussed below, who will be responsible for all operations and management duties early on. Additional staff will be needed for product design and development, sales managers and order fulfillment. Sales will be handled by outside sales representatives. Once the company has achieved adequate growth, a CEO and a CFO will be hired to lead the company to further success.

### 6.2 MANAGEMENT TEAM

The initial management team will consist of the following four co-founders:

Ryan Allen will initially take on the role of CEO. He will ensure that the company is headed in the right direction, while overseeing product development. Ryan is a professional skateboarder that has had previous experience with starting a small company.

Travis Moore will lead the product design team. He will be in charge of creating new products, and overseeing the designers who will be working for the company. Travis is a professional motocross racer, with a background in design and contacts in apparel manufacturing.

Jamie Keane will lead marketing efforts for the company. His contacts within the industry range from magazines to television producers, and will help build a strong brand image quickly. Jamie is a professional surfer.

Nate Peters is head of sales for Division Ninety9. He has had experience with product distribution through previous rider responsibilities as a professional snowboarder. Nate has developed strong relationships with major active lifestyle distributors, as well as a few local specialty retail stores.

### 6.3 PERSONNEL NEEDS

Division Ninety9 will need to recruit some graphic designers as well as fashion professionals to assist in product design. Fit models will be contracted to help ensure proper fit of each item. These models will be compensated primarily in free clothing to help keep costs low. Shipping and receiving clerks will be required to help ensure that products are being delivered to customers efficiently. Order fulfillment representatives will also be hired to help take and process orders received from the online store and the specialty stores. An accounting clerk will also be needed to ensure appropriate financial records are maintained.

Once the company can support further management, projected to be in Year 2, a Chief Executive Officer and Chief Financial Officer will be recruited to help the company grow nationally and internationally.

### 6.4 BOARD MEMBERS & ADVISORS

Division Ninety9's advisory team consists of a certified public accountant, who takes care of all tax accounting requirements, as well as a corporate attorney that is held on retainer in case any legal needs arise.





## **7.0 FINANCIAL PLAN**

### **7.1 REQUIREMENTS**

Each of the four founders has invested \$50,000 to launch Division Ninety9. An additional \$100,000 is needed to ensure that proper working capital is maintained through the first year of operations.

### **7.2 USE OF FUNDS**

Startup costs have primarily been attributed to product development and inventory (\$100,000) and marketing costs (\$30,000). Additional costs include, staffing, rent, office equipment, furnishings and supplies. There will also be legal and web development costs.

### **7.3 INCOME STATEMENT PROJECTIONS**

First year sales are anticipated to be \$750,000 with expenses totaling \$790,000. This will leave a loss of approximately \$40,000 in the first year of operations. By Year 2 revenues are projected to grow by 25%, equaling \$940,000 in sales. Expenses totaling \$800,000 will lead to a second year profit of \$140,000. Gross margins will increase from 60% to nearly 70% in Year 2 due to economies of scale and manufacturing efficiency. Division Ninety9 will try to sustain a 25% annual growth rate as it expands nationally for the first five years.

### **7.4 BREAKEVEN ANALYSIS**

Our monthly fixed costs are currently estimated at just over \$35,000. Variable costs in Year 1 are approximately 31%, leading to a monthly breakeven point of just over \$50,000. At an average selling price of \$45 per unit, an estimated 1100 units will need to be sold per month to breakeven.

### **7.5 PROJECTED CASH FLOW**

Division Ninety9 will become cash flow positive on a month to month basis by the end of Year 1. The initial founders' investments, along with the outside investment, will ensure that working capital will be available to cover startup costs plus losses for over twelve months. It is anticipated that the company will experience negative cash flow months in the winter and fall, however strong sales during the summer months will make up for any losses that will be incurred. Sales through our website will help maximize profit margins and reduce collection delays.

### **7.6 BALANCE SHEET**

The balance sheet will show first year assets of \$300,000 and no debt. After acquiring inventory, equipment and furnishings, we will retain the balance in cash for operations. We will arrange a line of credit for emergencies and to maintain a comfortable cash balance during periods when our receivables are high.

### **7.7 IMPORTANT ASSUMPTIONS**

- Division Ninety9 will capture 0.5% of the California target market in Year 1
- Product margins will be 60-70%, with an average retail price of \$45
- Active lifestyle sports participation continues to rise over the next 5 years
- An investment of \$100,000 will be raised from an outside investor
- Marketing, distribution, manufacturing and sales relationships will be maintained