

## **Athlete's Warehouse (A)**

It was a cold day in February 1986 when Colin and Ed Power of Grand Falls, Newfoundland were out for their daily training run. During these runs the brothers often discussed possible business ventures and the decisions they would face. This day the topic was whether they should open a quality sports shoes and clothing business and, if yes, where it should be located.

### **Background**

Colin Power, 30, was educated as a Physical Education teacher. He had competed on the Memorial University of Newfoundland track team and at one time held the Newfoundland record for the marathon. After teaching for a few years, Colin had continued his education and in 1982 returned to Newfoundland from Ottawa where he had completed the course work leading to a PhD in Physical Education. He accepted a position as a Physical Education teacher at St. Michael's High School in Grand Falls. Through supplier contacts he had initiated while at the University of Ottawa, he also began to supply jackets, uniforms, skis and ASICS running shoes on a wholesale basis to a number of the schools in the Central Newfoundland area.

His brother Ed, 46, was also athletic having played goal for the Grand Falls ANDCOS in the Newfoundland Senior Hockey league. Since he finished with hockey, Ed had taken up running and was an accomplished runner in the master's (over 40) category. Ed was employed as a papermaker by the Abitibi-Price mill in Grand Falls.

In addition to teaching, Colin, with Ed's help, organized a local track club in the fall of 1982. The purpose of the club was to encourage young people from all of the schools to participate in track and field. There were about 20 young people who joined the club that fall. They were offered coaching in every event from the sprints to high jumping.

Although Colin enjoyed the coaching aspect of teaching he quickly became disillusioned with other aspects of the job. In January 1983, he left the profession to become the Executive Director of the Grand Falls YMCA. At the same time he continued selling sporting goods to various schools and coaching through the track and field club.

In July 1984, Colin moved to Comer Brook as Executive Director of their YMCA. In August of that year he and Ed opened their first store called Athlete's Warehouse in Comer Brook. The 300 square feet premises were leased in an older shopping district of Comer Brook. Colin managed the operation while his brother-in-law took care of the day-to-day running of the business.

The following September 1985, in Grand Falls, Colin opened 'The Fitness Factory, a fitness center which concentrated on weightlifting and aerobics. As a sideline the business sold a limited line of sports shoes and clothing. The center was located in the basement of the Town Square Mall, a newly renovated building downtown which used to

house 'The Bay' Other commercial tenants in the Town Square Mall included a craft store, a hair dressing salon, a dress shop, a Sports Experts franchise, and a restaurant.

In December 1985, as a result of a reduction in funding experienced by the Comer Brook YMCA, Colin's position as Executive Director was terminated. On his return to Grand Falls, Colin immersed himself in the operation of The Fitness Factory to try and reverse the poor performance. While there appeared to be an adequate number of members, the cash flow generated was a problem. When customers purchased an annual membership there was an initial influx of funds, however, after the initial sale of memberships the cash flow was reduced to a dribble. To improve the cash flow, Colin expanded the operations of The Fitness Factory to include user-pay ballet lessons and body shaping. After two months of hard work the cash flow appeared stable. However the business could not support Colin on a full time basis.

The Athlete's Warehouse store in Comer Brook closed in early January 1986, primarily because Colin was no longer available to provide management. In addition, first year sales had amounted to a disappointing \$35,000 which Colin attributed more to problems with location than to the product line. About \$12,000 of inventory at cost was brought to Grand Falls from the Comer Brook store. Ed was in favour of selling the inventory and getting their money out of the venture. Colin wanted to establish a sporting goods store in Grand Falls because he was certain that an adequate market existed. However he needed Ed's support to finance the business. The venture was important to Colin because it allowed him to work for himself rather than for others. To Ed the decision involved tying up money he was saving for retirement which possibly could come within nine years.

During discussions on earlier training runs, the brothers tentatively discussed the proposed business. The store, which would be named 'Athlete's Warehouse,' would specialize in good quality athletic footwear and athletic clothing. Its target market would be people between the ages of 13 and 34 who were involved in some type of athletic endeavor from school sports to adult recreational activities. None of the other stores in Grand Falls offered a similar mix and none had knowledgeable staff to assist in the purchase of proper shoes and clothing. Colin and Ed agreed these two factors were important to many buyers and would be the store's key competitive advantage. Colin would provide full time management and Ed would work in the store as his shift schedule allowed. Both would be able to provide expert advice to customers with regard to the purchase of athletic goods, especially running shoes.

To open the store they estimated they would need to invest \$10,000 in renovations and display racks and about \$20,000 inventory (at cost). At present they had \$12,000 of the inventory and an old cash register from the Comer Brook store. While Colin had established a credit rating with some suppliers, the newer ones with the bigger names, NIKE for example, required COD for the first order.

Recognizing the urgency in securing employment for Colin, the brothers began to review the various factors which would influence their decision.

## **The Market**

Economically things were looking up for the Town of Grand Falls and for the neighboring Town of Windsor. The main employer, Abitibi Price Paper, was working to capacity with no downtime scheduled during the year. There was a major renovation at the Central Newfoundland Regional Health Centre worth \$2,000,000 which would add no new permanent jobs, but which would add about 50 jobs during construction. The annual inflation rate in Newfoundland was down to 2.9 percent from over 13 percent in 1981 and average family income in Grand Falls, at \$24,432, was the fifth highest of the towns in the Province.

Grand Falls also was the primary service centre for a retail trading area of at least 50,000 people. Many shoppers came to the town from Springdale and Baie Verte to the west and Gander to the east.

## **Competition**

The primary competition for Athlete's Warehouse would be the three sporting goods stores in Grand Falls and Windsor (Exhibit 1). As well, Woolworths; and other clothing and shoe stores had some lower quality and lower priced lines similar to the selection proposed by Colin and Ed. The brothers felt, however, that their product quality and knowledgeable staff would provide a competitive advantage.

### **B & B Sports:**

B & B Sports had been in operation for well over 15 years, and until 1983 had been the only sports store in town. This approximately 2,000 square foot store was located in a strip mall on Lincoln Road away from both the downtown area and the Exploits Valley Mall. B & B carried a full line of athletic hard goods such as hockey equipment, softball and baseball equipment and equipment for the hunting and fishing enthusiast. The store did not have a large selection of athletic shoes and clothing.

### **Sports Experts:**

Sports Experts was located upstairs in the same building as The Fitness.. Factory. This nationally -franchised store was a branch operation of a Comer Brook firm that held the Newfoundland franchise and hired a former employee of B & B Sports as the local manager. The store offered a full line of sporting equipment, hard goods and soft goods, but the brothers did not believe the manager or the sales staff were capable of offering expert assistance with the selection of the goods.

### **Sportstop:**

Located in a stand alone location in Windsor, Sportstop had about 1,000 square feet of floor space. Recently opened by a local businessperson, it offered a variety of goods similar to that proposed by Athlete's Warehouse. Again it had no salesperson capable of

offering expert assistance with the purchase of the running shoes. Colin also believed that the store was poorly located and thus would not provide much competition.

## **Location**

Like many Canadian towns, the shopping area of Grand Falls was split between an older downtown area, a relatively new enclosed mall, and several strip malls on the high traffic streets.

The downtown area still contained many businesses. Among these businesses was the Grand Falls Co-op, a grocery store started by the residents in the 1930's and still cherished by many members of that generation. As well the downtown area contained a Sobeys grocery store, the town hall, Federal Government offices including the Post Office and Canada Employment Centre, three lawyer's offices, three banks, a building supplies store and about 15 other smaller operations (Exhibit 2).

The Exploits Valley Mall was located about 2.5 kilometers from downtown just north of the Trans Canada Highway on Cromer Avenue (Exhibit 1). The Mall contained approximately 30 stores with the anchor stores being Woolworths and Dominion, a grocery store. Along Cromer Avenue there were a number of retail operations including Canadian Tire, McDonald's and Cohen's Home Furnishings.

The Fitness Factory was located in the basement of the Town Square Mall and the Powers rejected the idea of expanding here because they did not believe that they could attract the desired customers to this basement location. After reviewing the available locations Colin and Ed had narrowed their choice to two possibilities. One was a 2,000 square foot space in the Great Eastern Oil building downtown at \$5.40 a square foot. The other was an 800 square foot space in the Exploit's Valley Mall. The cost here would be \$20 per square foot for a 5 year lease, \$23 per square foot for a 3 year lease, or \$25 per square foot for a 1 year lease.

Drawing on his experience and some information from Statistics Canada, Colin estimated first year sales to be between \$100,000 and \$150,000 depending upon the location selected and the average sale per customer. From Statistics Canada he discovered that 36% of the population was age 15 to 34 -- the group he had determined to be his primary target market. Thus he estimated that the trading area contained about 18,000 prospects (50,000 X 36%). Based on experience and estimates of pedestrian traffic he further estimated that about 3,000 of the prospects would become customers at the Exploits Valley Mall location and about 2,500 at the downtown location. At \$40 to \$50 per customer -another estimate - Colin projected first year sales at the mall to be between \$120,000 and \$150,000 and downtown to be between \$100,000 and \$125,000.

## **Financial**

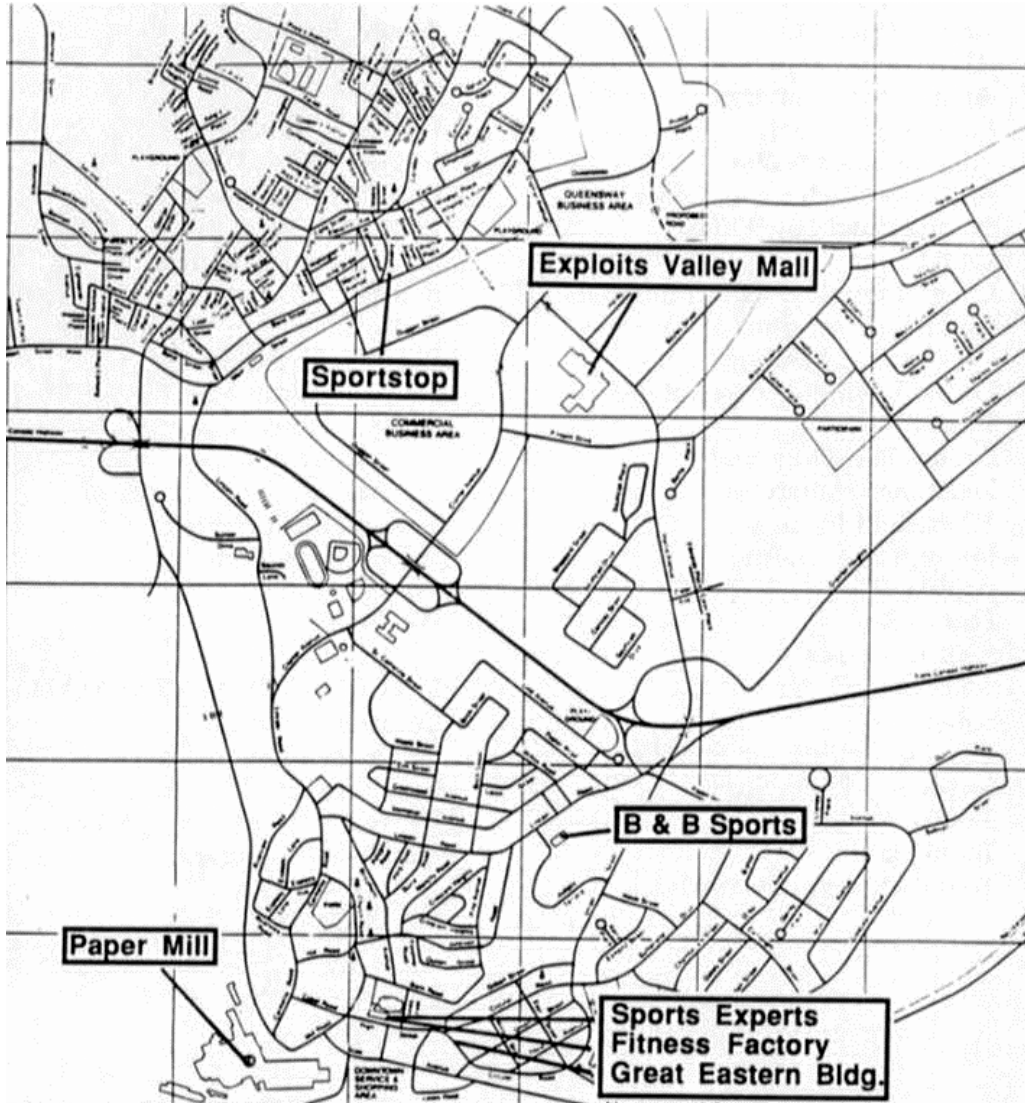
In the Comer Brook store, an average gross margin of 50 percent was obtained and because of the similarity of markets, the brothers were sure that the Grand Falls store

could expect the same gross margin. This markup was consistent with the competition based on the selling price of items with which Colin was familiar. The major costs would be rent and labor. Regardless of the location Colin figured each store would require two people working at all times. Colin would be able to put in 30 hours a week which would allow him time to follow up on his high school contracts. Ed would work an average of 10 hours a week for 50 weeks but would not collect any salary. Part time staff would have to be hired to ensure there were adequate staff in the store. The major difference in labor costs at each location would reflect the requirement that the stores in the Mall observe set hours (Exhibit 3). Other costs included 5 percent of sales for advertising, \$100 per month for a telephone, \$1,000 a year for insurance and \$500 a year for office and bookkeeping. All of the other major operating costs were included in the rent.

As they sat in the locker room of the Fitness Factory after their run, Colin, who was the aggressive one, was trying to convince Ed of the viability of the plan. 'Listen Ed,' said Colin, 'according to my estimates there are at least 3000 people in this market area who are willing to pay good prices for good quality merchandise. These people are not being serviced by the existing businesses. If we stick with quality lines of shoes and athletic clothes I'm sure we can make it.'

Ed replied with uncertainty, 'I think you're right but I don't want to lose my retirement money.'

Exhibit 1  
Towns of Grand Falls and Windsor



## **Exhibit 2**

### **A Listing Of Representative Businesses in Each Area**

#### **DOWNTOWN BUSINESSES**

Abitibi Price Mill  
Alteen jewellers  
Architectural Services  
Bank of Montreal  
Bank of Nova Scotia  
Blackmore-Inder Law Office  
Brenda Boyd Law Office  
C.I.B.C.  
Canada Employment Commission  
Co-op Grocery Store  
Cooperators Insurance  
Doane Raymond Accountants  
F.B.D.B.  
Grand Falls Drug Store  
Headlines Hairstylist  
Household Finance  
Johnson's Insurance  
Popular Theatre  
Post Office  
Reid Insurance  
Sears Mail Order  
Sobey's  
Stan Dawe Building Supplies  
Sweeney's Photo Studio  
Taiwan Restaurant  
Town Hall  
Young Drivers of Canada

#### **EXPLOITS VALLEY MALL**

Agnew Surpass  
Dominion  
Eclipse  
Harvey's Travel  
Irving's Men's Wear  
Jack Fraser Men's Wear  
Jonlyn Jewelers  
Nfld. Liquor Commission  
Red Baron Lounge  
Reitmans  
Royal Bank of Canada  
Shoppers Drug Mart  
Sonny's Flowers  
The Hobby Shoppe  
The Met  
Tootons Photo Store  
Valley Restaurant  
Video Arcade  
Woolworths

#### **LINCOLN ROAD MINI-MALL**

Convenience store  
Dr Duncan Optometrist  
Kentucky Fried Chicken  
LeDrew's Hairdressing Salon  
Sunshine Restaurant

**Exhibit 3**  
Comparison of Locations

	<u>Great Eastern Building</u> (downtown)	<u>Exploits Valley Mall</u>
Size	2,000 sq. ft.	800 sq. ft.
Rent	\$5.40 sq. ft., 1 yr renewable	5 yr. \$20 sq. ft. 3 yr. \$23 sq. ft. 1 yr. \$25 sq. ft.
Labour	\$5.00 per hour	\$5.00 per hour
Hours	Set own hours Usual 9:00 - 5:30	<ul style="list-style-type: none"> <li>• 9:30 - 5:30 Mon, Tues, Sat</li> <li>• 9:30 - 9:00 Wed, Thur, Fri</li> <li>• Christmas open till 9:30 Mon - Fri Nov. 15 - Dec. 25 (approx. 8 weeks)</li> </ul>
Downpayment (rent)	First & Last Month	First & Last Month
Forecast Sales	\$100,000 - \$120,000	\$120,000 - \$150,000

<sup>1</sup> Including joint costs

<sup>2</sup> All mall stores must  
observe mall hours

The case was prepared by Bill Howse, Small Business Centre, Central Newfoundland Regional College for the Atlantic Entrepreneurial Institute as a basis for classroom discussion, and is not meant to illustrate either effective or ineffective management.

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