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# Gaia Ventures Business Plan Building Blocks

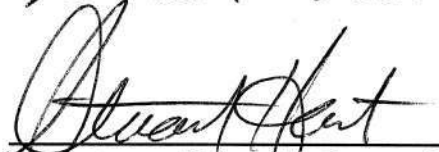
by

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A research paper submitted in fulfillment of the requirements for 1.5 credits, GRADUATE  
INDEPENDENT RESEARCH PROJECT Fall Term 1996, Professor Stuart Hart, Faculty  
Supervisor

## Faculty Comments

This is a very good start to a business plan for the proposed venture - Gaia Ventures. My major recommendation is to continue the effort to push it all the way to a viable plan. In the process however, you should think seriously about how the model of leveraging the marketing of NGO items can be applied successfully to zoos, given that their primary channel is in-house.

  
Signature of Faculty Supervisor

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Name (Printed)

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## **1. Business Description**

Many environmental organizations attempt to raise funds by selling t-shirts, sweatshirts, calendars, postcards, prints, and other similar merchandise with an environmental theme. For the most part, with the exception of a couple of large national organizations, these ventures meet with limited success. This is due to several factors, chief among them the lack of expertise that environmental organizations have in running a business operation and the lack of resources committed to these projects. I believe there is an unexploited niche for a for-profit company that produces and distributes products with the themes of regional non-profit environmental organizations. This venture will develop, produce, and market quality merchandise similar to that listed above. The company will combine private-sector expertise in design, production, and marketing with the themes and public image of the environmental organization to create a company that will return a profit and provide revenue to the environmental group.

Gaia Ventures is based on the premise that sales of these items can be a highly successful business if properly operated. This belief is based on the following two foundations: First, consumers will buy quality merchandise with a nature theme, as evidenced by the presence of similar items in a number of stores, and by the success of stores such as The Nature Company. Second, producers and buyers at all levels will look favorably on a company that is providing revenue to a non-profit organization. This ownership will complement, and not be in place of, quality products and marketing.

## **2. Mission and vision statements**

### **2.1 Mission statement**

Gaia Ventures will create new funding sources for regional environmental non-profit organizations, while increasing awareness of regional environmental issues, through the production and distribution of merchandise with regional environmental conservation themes.

### **3. Products**

#### 3.1 Tshirts

Tshirts will be made of the highest quality material and use excellent design and artwork. For each region there will be at least five different designs produced so that merchandise buyers will have a choice of designs. There will be both adult and children's sizes available, although we will not go larger than XL because this will add to our cost and we anticipate relatively few shirts of this size will be sold. We will have designs created specifically for children, focusing on this market as equal to the adult market instead of merely trying to put adult designs on smaller sizes. Adult T-shirts will be heavyweight 100% cotton, children's shirts will be heavyweight 50/50 blend (see below for a further explanation of shirt types and pricing).

#### *3.2.2 Types of imprints*

There are at least two types of imprints that can be used. One is a relatively simple design that is produced by an artist. Tshirt suppliers often have in-house graphic artists who charge \$20-\$40 per color per design. These designs generally have fewer colors, keeping down costs of printing shirts.

A second option is what is called process printing. In this type of imprint a photograph is used and imprinted on the shirt. This generally results in more colors being used and thus makes production more expensive. Placement of the print is another factor that will affect price of production. A design that is only on the front of the shirt is cheaper than one that is also on the back or on sleeves.

The type of imprint chosen affects the cost of the shirts, as does the number of colors chosen for the print regardless of imprinting type. Typically with a smaller run there is a charge of \$25 per color for the print, but this charge is often waived for large runs. With a larger run this cost on a per-shirt basis is almost negligible.

#### 3.2 Hats

In addition to shirts, hats will be offered, although possibly as a secondary item introduced after the shirts. Hats will also be highest quality twill, with a simple design on the front. Again, a number of different designs will be offered, although it may be difficult to offer as many different designs as with shirts, and appropriate sizes will be available.

#### 3.3 Hang tags

All products sold will include a hang tag that will explain the product and sponsoring organization. This is "all important in selling to customers"

according to one zoo merchandise buyer. T-shirts and hats will each have a four sided folded hang tag that will include the following information: one page of information on the animal or scene that is on the shirt; a second page with background of information on the sponsoring organization; and a form with an offer for a reduced-price membership, more information on the organization, or other similar offers. The tag will also specify that a certain amount of money from the sale of that shirt will go to the sponsoring organization. Although this amount is yet to be determined, it will be much more specific than a vague promise of a "percentage of profits" going to unnamed organizations.

### 3.4 Features and benefits of products

The main benefit of the products will be their high quality material, design, and artwork. We will never try to sell lower quality products in the expectation that people will buy them in order to support a cause. Our strength will be in offering a small number of products very well targeted to a region or market. For example, if selling to zoos we will feature animals that are on display at that particular zoo, as well as animals known to be popular to many audiences, such as wolves. If selling in Colorado we will offer products that are distinctive to the state and region, so that buyers from out of state will be purchasing a product that displays the name and picture of their vacation destination.

The hang tags on the product will be a secondary benefit. The "cause" will never take precedence over quality of the product, but will add a reason for merchandise buyers and consumers to consider the product. The hang tag will give information to interested buyers (both retailers and customers), provide a link to the sponsoring organization, and provide a small added incentive to buy the product.

## **4. Industry analysis**

This section will analyze the markets that we will sell to (zoos and gift shops), including demographics of people visiting these places; suppliers of and artwork; and competitors.

### 4.1 Zoo industry overview

#### *4.2.2 Market size*

There are 172 institutions that are members of the American Zoo and Aquarium Association. Of 86 institutions responding to a survey put together by a consultant for an industry report, 33% had annual attendance over 750,000, with an average for the group of 1.2 million; 40% between



250,000 and 750,000, with an average of 431,000; and 27% below 250,000, with an average of 150,000.

In the majority of larger institutions, managing of merchandising operations is done in-house. This includes 75% of those above 750,000 attendance, and 66% of those above 250,000. For those institutions managing sales in-house, a smaller (as yet undetermined) percentage are run by an offshoot of the local zoological society, which will be interested in ways to increase exposure to issues of interest to zoo attendees. This is significant because one of the premises of the company is that the institution will have an interest in selling these products; this would be more difficult to operationalize in a zoo or aquarium which outsources management of merchandise sales.

#### *4.1.2 Demographics and attendance patterns*

The typical zoo visitors are comprised of parents with young children, with a secondary market comprised of young adults (late teens to mid-twenties). Children under age ten represent 33% of all visitors, and 66% of all adult visitors are between the ages of 25-44. Women represent slightly over half of the adult visitors. Typically visitors come in groups, with groups of 3-4 representing 40% of visitors, groups of 5 or more 35%, and pairs 23%.

Income levels of visitors are higher than the population as a whole. The median family income is \$43,000. Thirty-nine percent of visitors have an income between \$21,000-\$40,000; 29% between \$41,000-\$60,000, and 16% over \$61,000. (Table I)

These numbers may be slightly skewed to the high side because aquarium visitors, who tend to have higher incomes, are included. It is important to note that zoos also charge different entrance prices and these prices change the demographics of visitors to the shops. This fact should be taken into account when merchandise is presented to different zoo buyers, with the highest cost items pushed at the institutions with higher gate prices.

Monthly attendance peaks in the summer, with half of all visitors coming between the months of May-August. This is true, although less pronounced, even in southern zoos, reflecting the importance of schoolchildren to visitation. (Table II)

#### *4.2.3 Consumer buying patterns*

In the largest institutions surveyed, merchandise sales averaged \$1.38 per visitor, with a range from \$.55 to \$4.81. In smaller zoos sales dropped off, with an average of \$.87 per visitor for the mid-sized zoos and \$.71 for the smallest.

Taken together, attendance and merchandise sales figures suggest that there are roughly 50 zoos with merchandise sales of over \$1 million. We will target a small subset of these institutions initially. If initial sales to these zoos are successful, we will then sell to the remaining large institutions before moving down to the smaller zoos.

Shirt sales at zoos are roughly split 50/50 between adult products and children's products. There is some differentiation between zoos, for example at the Detroit Zoo sales are roughly 60% adult, 40% children, while at other zoos sales are roughly 60% children's sizes. Although some color shirts are available, buyers believe that 80% of all shirts sold nationally are white, black, or ash, and they generally believe that this reflects demand (i.e. there is not an underserved market).

#### *4.1.4 Institutional buying patterns*

Survey responses suggest that the largest zoos have eleven inventory turns annually, with smaller institutions having that number or less. The mark-up factor on items does not vary significantly with attendance figures. For t-shirts the mark-up factor is roughly 2.25 regardless of zoo size. For hats the markup is 2.5, and for other items slightly higher at roughly 2.7.

Merchandise buyers indicate that sales should be tailored to the particular animal collection at a given zoo, with the exception of wolves and a few other charismatic megafauna that are in demand by customers at zoos regardless of whether or not the zoo has the animal. In the case of the Detroit Zoo, the buyer interviewed likes penguins, polar bears, and wolves, and a number of non-North American animals. Many of the best known and recognized animals are non-North American and merchandise sales reflect this. In addition to characters, themes are important. One buyer stressed themes that appeal to parents and children, showing mother/pups or similar. He also differentiated between realistic and artistic themes. He indicated that most zoo buyers prefer realistic instead of artistic screens, although his definition of realistic includes groups of unrelated animals all looking straight out of the shirt; i.e. not very realistic. By artistic he means something like a tiger with a space backdrop.

The Detroit Zoo buys shirts from about 12 companies in a year. They try to get two or three different designs from each company, and expect to combine the numbers of all designs to get quantity discounts. The zoo requires that "Detroit Zoo" be on all pieces sold, and with large orders this is expected to be done for free.

**Timing:** The Detroit Zoo typically puts in large first orders for the year by January 15 and expects shipment by March 15 at the latest. This is typical for most zoos, which have heaviest attendance in the summer. The busy season will start around Easter, and almost all sales are done between then and Labor Day. To replenish during the summer zoos will put in smaller orders during the summer, in the case of the Detroit Zoo new orders are usually placed around June 1 and July 1. Larger zoos buy throughout the summer more regularly. Delivery for a first order is expected in 8 weeks maximum with 6 weeks or less being preferred. For a mid-season reorder delivery is expected in 4 weeks maximum; with two weeks preferred.

**Quantity:** Buyers at small to mid-size zoos will typically buy at least 12 dozen at first order. They believe if they can't sell 144 pieces over the course of the summer the shirt is a failure. For larger zoos, or in a case where the buyer is confident the shirt will sell, the first order is usually larger up to 24 dozen.

**Terms:** Terms for typical payment is net thirty; volume discounts are expected; name drop is expected free at a certain volume. Often times with a smaller or public zoo a credit check is recommended to ensure payment. Quantity discounts that accrue even with different types of shirts are typically expected. For example, if a shirt is selling for \$8, the Detroit Zoo buyer expects to get the following price breaks:

12 dozen \$7.50 and free name drop

18 dozen \$7.25

24 dozen \$7

Minimum sales of 3 dozen are also expected.

The Detroit Zoo is an exception in having an outside contractor running the concessions. Most buying is done in-house, sometimes by a separate part of the government agency or Zoological Society. Zoological Societies may be more receptive to a "cause" like the Endangered Species Update, especially if the interest of the Endangered Species Update can be tied in to the success of the zoo.

#### *4.2.5 Retail product line and pricing*

The Detroit Zoo carries 20-25 adult designs and 12-16 children's designs, which is roughly average for larger zoos. The number of designs carried generally depends on the size of the zoo, floor space devoted to retail sales, and somewhat on choices of merchandise buyers.

Prices for adult shirts retail at \$17-\$25; for children's shirts retail \$12-\$16. In both cases the markup is 2.25-2.5 times, so the buyer is generally paying \$7-\$8 per shirt depending on quality and quantity. Several buyers believe there is

what they term a "price barrier" at \$25; meaning they do not want to try to set a retail price above that amount in their stores. Hats sell for between \$6 and \$15.

### 4.3 Suppliers

#### *4.3.2 Tshirt producers*

There are three major quality T-shirt producers in the U.S.: Fruit of the Loom, Hanes, and Jerzees. Buying directly from them is one option, but in that case imprinting will have to be done as a separate step. Also, prices will be higher than going through other suppliers, who can provide imprinting services and graphic design, and order in bulk and can pass along lower prices to customers.

#### *4.3.2 Tshirt suppliers and im printers*

There are a number of suppliers who can be found via the Thomas register or the Internet. Tshirts are close to being a commodity item and these suppliers compete largely on service. They buy directly from the major three producers and then offer graphic design and imprinting services.

Three suppliers who were contacted and provided much of the pricing and product information are:

Aarrow Promotions (NY) 516-623-0244 Ed 800-834-6887

Fax 516-623-8649

Design and Factory Tees (MD) 800-708-4065

Con-Tees (NY) 800-493-1848

#### *4.3.3 Pricing*

Pricing is based on the following factors:

1. Quality: There are four options for types of shirts, with differences in quality for each. These options are 100% cotton heavyweight; 50/50 heavyweight; 50/50 midweight; and 100% cotton midweight. In terms of quality, heavyweight and 100% cotton are highest quality. Price generally follows quality except that in the 50/50 shirts midweights are more expensive than the 100% cotton.

2. Degraded or regular: A second option for price is the availability of what are called degraded shirts. These are still high quality despite the name, and are often used by non-profit organizations and others looking to save on cost. Degraded shirts are generally \$.50 less per shirt. They are also very popular and at least at one supplier cannot guarantee these to be in stock.

3. Color of shirt: The least expensive are white. Light colored shirts are slightly more expensive, and dark colors the most expensive.

4. Colors of imprint: The imprint can have any number of colors. Additional colors on the imprint add roughly \$.25 per color per shirt to the cost of the shirt when run. Adding colors also adds to the cost of the screen charges (see below).

5. Size: Quotes are typically for medium, large, and extra large shirts. Children's sizes are slightly less expensive, while XXL and XXXL are more expensive.

6. Quantity: Prices drop with quantity, although less steeply after quantities hit 5,000. The price for more expensive shirts drops much more substantially than for cheaper shirts. For example, going from 500 shirts to 5,000, the price for a 100% cotton midweight shirt with one color imprinted drops 12.3%. With the same increase of quantity, the price for a 100% cotton heavyweight shirt drops a full 25%. After going above a quantity of 5,000, the price drops by only a few pennies per shirt.

Sample prices (per shirt):

Quantity	500	2500	5,000
100% cotton midweight (one color imprint)	\$2.85	\$2.70	\$2.50
100% cotton heavyweight	\$4.00	\$3.50	\$3.00

#### 4.4 Delivery

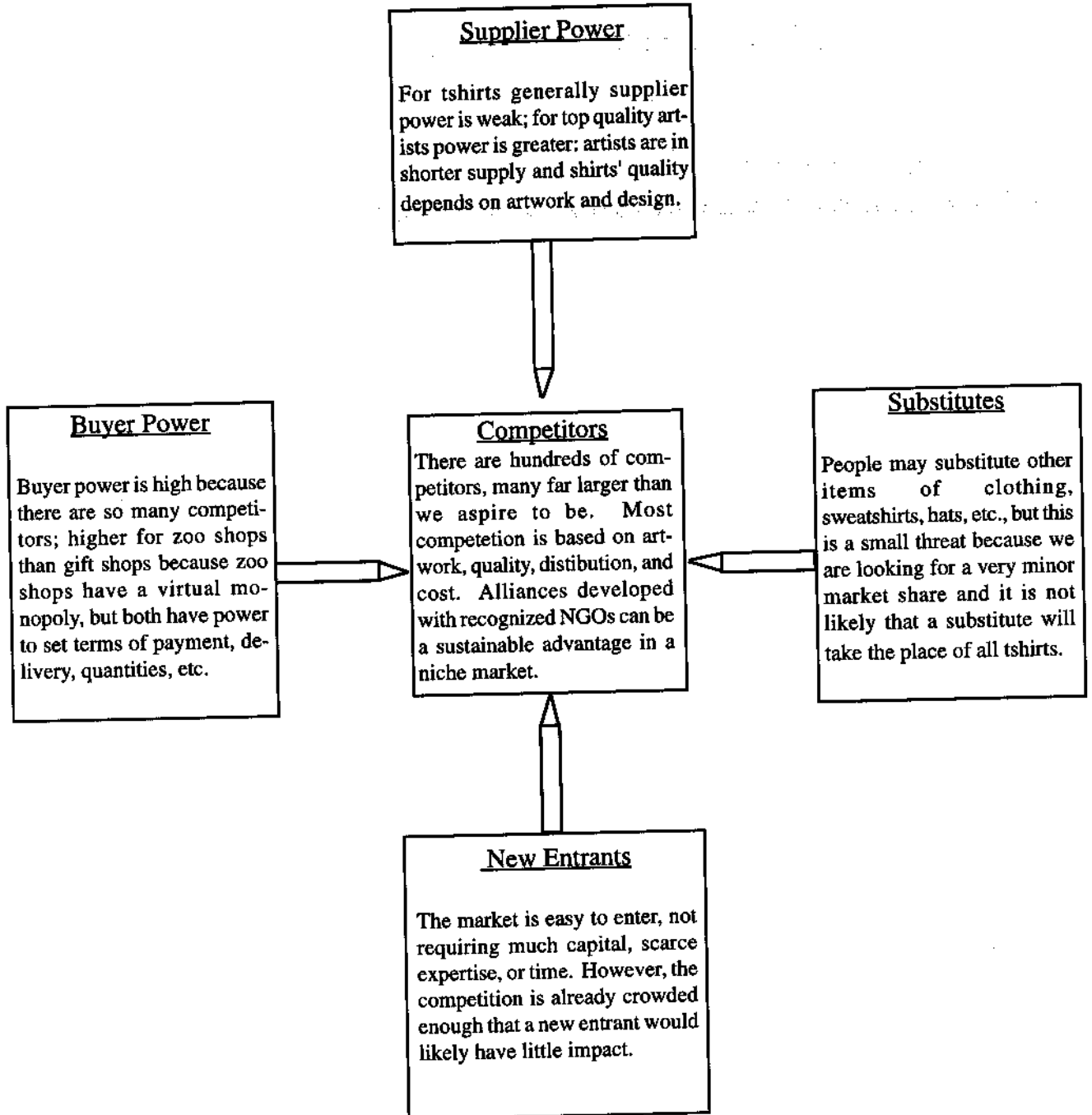
Delivery from suppliers is generally done by UPS ground freight. The shipping cost is estimated to be 3 to 5 cents per shirt, but obviously depends in part on the location of the supplier. The cost of shipping is low enough that the quality, service, and reliability of the supplier is more important than location.

#### 4.5 Competitors

There are hundreds of companies selling shirts, some only regional but a number national. There is some shake-out occurring which suggests that the market is at overcapacity. According to the buyer at one zoo the shirt selling market is "well-developed and highly competitive." Competition is based first on the quality of the artwork and design (two separate points), and then secondly on price (assuming that price allows for retail to stay under \$25).

Shirts must be high quality; 100% cotton heavy weight for adults and 50/50 heavyweight for children, because children outgrow shirts before the shirts wear out. If targeting males shirts should be white, black, or ash; for women they can be other colors.

## Porter's Five Forces Analysis



## 6. Applicability to a non-profit organization

The vision of Gaia is that the company will serve to create a funding source for a number of regional non-profit organizations throughout the country. In order to assess the validity of this concept, I have been studying an existing non-profit conservation organization in Colorado, called Sinapu, to determine if an alliance with Gaia Ventures would be beneficial. This organization was chosen for two reasons. First, it closely matches the criteria which are presented in section 6.7. Second, I have worked with Michael Robinson, who until the end of October was the Executive Director of Sinapu. This prior relationship made information gathering relatively easy. At this time Michael Robins is no longer Executive Director, but I have continued to work with the staff of Sinapu.

### 6.1 Sinapu profile

Sinapu is a six year old small non-profit organization dedicated to the preservation of Colorado's biodiversity and the reintroduction of the gray wolf (*Canus lupis*) to wild areas in Colorado. Sinapu is based in Boulder, Colorado, and has a membership of roughly 1,000 individuals based largely in Colorado's Front Range (Denver, Boulder, Colorado Springs, Pueblo, Fort Collins), but also extending into the mountains and the western slope. Sinapu engages in a variety of actions to educate the public and influence public policy. The group puts on educational slide shows throughout the state, comments on state and federal lands management plans, and lobbies elected officials on state and federal laws affecting wildlife (especially endangered species and predator-control laws).

Sinapu has historically operated on a very small budget. Most funding has come from membership fees and grants from foundations. In addition, Sinapu began selling merchandise a number of years ago to supplement their other funding sources.

Sinapu Funding (1995 figures)

<b>Income</b>	
Foundations	\$25,133
Individual donations	22,426
Memberships	19,596
Businesses	10,223
Merchandise sales	7,538
Other conservation groups	1,400
Miscellaneous	1,266
<hr/> Total	<hr/> \$87,582



Shirts cost either \$6 or \$7, depending on the design. Sales are made primarily at slide shows, where the shirts are offered for \$10. A smaller number are bought by mail order, in which case the price is \$13 to cover shipping and handling.

Accounting done by Sinapu does not break numbers down into how many of each type of shirt were bought and sold, and how many shirts were sold through each channel (shows and mail). However, I have assumed that the each type of shirt represents 50% of sales, and that 66% of sales are through slide shows with the remainder through direct mail. I have also assumed sales of 360 shirts per year, based on an average of the estimate that they place orders for 144 shirts two or three times per year. The calculated contribution given these assumptions is very close to the actual contribution calculated above.

Average cost	\$6.50
Average sales price	\$11.00
Average contribution	\$4.50
Total annual sales	260
Total contribution	\$1,620

This is very similar to the estimate from the 1995 financial statement of a contribution from merchandise sales of \$1,769. It is plausible that the difference of \$149 was due to sales of postcard and bumper stickers.

#### 6.4 Would an alliance with a merchandising company be beneficial to Sinapu?

Currently the net financial benefit that Sinapu is receiving from merchandise sales is slightly over \$1,500. In addition to the revenue, there is also the additional benefit of greater public awareness that comes from Sinapu's name being on shirts.

The trade-off that would occur if Gaia was to take over Sinapu's merchandise sales would be a lower unit margin in exchange for higher volume. Currently Sinapu receives an average of \$4.50 per shirt. If Gaia takes over and sells shirts through retail outlets the unit margin will be far smaller, probably as little as \$1-\$2. Sales would have to increase to cover the smaller margin and also to cover higher costs of administering sales.

The non-financial benefit to Sinapu of this change would increase more quickly than the financial benefits. The benefits of public awareness of the issues and the organization are equal regardless of whether Sinapu sells directly or through a retail outlet. Therefore the higher volume of sales

would likely create non-financial benefits to the organization even before financial benefits. Tracking and quantifying these non-financial benefits would be difficult, however.

Other NGOs have tried a similar approach but generally have either tried selling directly or as licensing agreements. Licensing agreements put the name of the NGO on a shirt or other piece for a per-piece percentage of sales. This is not a viable option for the NGOs we envision as partners because a licensing agreement requires that their name be very recognizable.

#### 6.5 Would an alliance with an NGO help Gaia?

In the case of zoos, two buyers interviewed indicated that they would be influenced by a company giving money to a cause, especially one that ties back into zoos such as the Endangered Species Update. They are suspicious of companies that promise a share of profits to a cause, feeling that this is too ambiguous, and suggest promising some amount of money per shirt. They also believe that customers are not very influenced by causes; for example their experience is that organic cotton shirts which are more expensive because of being organic do not sell well.

#### 6.6 Reverse income analysis: What level of sales are required?

For each alliance with an NGO that is considered an analysis must be undertaken to determine the level of sales necessary to make the alliance successful. The following analysis may serve as a skeletal model for future calculations.

In the case of Sinapu, merchandise sales currently bring in roughly \$1600 net of cost of goods sold but not including time spent by staff, which is minimal. The unit margin is quite high, averaging \$4.50 per shirt on a sales price averaging \$11.

In order to make an alliance worthwhile to Sinapu, the total contribution from merchandise sales would have to increase enough to pay for any increase in staff time plus the present revenue. If the distribution channel changes so that sales are made primarily through retail stores, the unit margin will decrease substantially, necessitating a large increase in volume simply to offset the lost margin. Margin will be affected in two ways: the greater quantity demanded will decrease purchase price slightly, by an estimated \$.50 per shirt, but the sales price will decrease by an estimated \$3, decreasing the unit margin by \$2.50.

We assume that the margin will decrease from \$4.50 to \$2. In order to simply make up for the lost margin, then, the total number of shirt sales would have

to increase from the current estimate of 360 shirts annually to 810. This in itself is an easily attainable goal. The harder question is whether the level of sales necessary to support an independent company could be achieved.

We start with an assumption that to make the whole venture worthwhile we need to bring in \$10,000 for Sinapu. At \$1 per shirt, this means selling 10,000 shirts. If each shop buy 200 shirts in the course of a year, then we would have to have 50 shops buying shirts. This is not an unreasonable goal. Assuming that we can double the number of outlets to 100, keeping the shirts per outlet constant, then we would sell 20,000, bring in \$20,000 for the company.

#### *6.6.2 Major costs*

There are several costs that will have to be closely examined in the business plan. Major costs would include the following: salary and benefits (assume 1 employee at first); overhead (office, computer, etc.); cost of capital (because even if shirts are never held in inventory orders must be placed before payment is received); and sales costs.

#### *6.6.2 Sources of capital*

One possible source of capital would be a grant from an environmental foundation. It may be possible to develop the business officially as an employee of a non-[profit such as Sinapu in order to avoid the problem that most foundations will not grant funds to a for-profit. A second possible source would be a Small Business Administration loan. Initial costs would be small enough that a loan around \$25,000 (typical for the SBA) might cover start up costs for six months.

### 6.7 Criteria for NGO selection

Sinapu was chosen as an example partially because a prior relationship with the Executive Director made information gathering relatively easy. However, in looking for future non-profit organizations for alliances, there are several criteria that should serve as general guidelines: the issues that the group is working on, the geographic location of the group, and the organizational structure of the group.

#### *6.7.2 Issues*

The NGO should be working on an issue with a theme that can be easily captured on a small print. Groups that are working with large, charismatic animals are good candidates, as are groups working on landscape issues. These themes can be easily captured and put on shirts that have designs of wolves, bears, lions, mountains, lakes, birds, etc. Groups that are working on pollution, such as clean water or clean air issues, global warming, ozone depletion, population, and similar issues, are not ideal candidates.

### *6.7.2 Geographic location*

The second criterion is geographic location. An ideal location would include at least one of two constituencies: either a major metropolitan area that includes an outdoor-oriented population or an area with a heavy tourist trade based on outdoor attractions. Colorado is ideal in this respect because it has both the metropolitan areas along the Front Range (Denver, Boulder, Colorado Springs, Fort Collins etc.) and the towns based on tourism in the mountains (Aspen, Vail, Summit County, etc.). The population of the Front Range tends to be very outdoor oriented, as shown by the number of people heading into the mountains every weekend, the existence of numerous stores like REI and EMS, and numerous parks, bike paths and cross-country ski trails within the cities. The tourist trade is based on skiing in the winter and biking, hiking, and other outdoor pursuits in the summer.

Although Colorado fits the criteria very well, there are a number of other areas of the country that would work as well. These include New England, the Pacific Northwest, several areas in California, the desert Southwest, and Florida. Each of these areas has a population base, substantial tourism, and outdoor attractions.

### *6.7.3 Organizational structure and size*

The final criterion is the size and organizational structure of the organization. The ideal organization would be large enough to have some level of name recognition and possibly a membership base, but small enough to need the resources provided by the partnership. A large NGO could choose to allocate resources to a merchandising project and would not need the alliance.

A small organization would be expected to also have a smaller, flatter organizational structure, which would also be beneficial. An organization that can make decisions quickly will be easier to deal with. Many decisions regarding artwork, substance of prints, information on the hangtag, and possibly pricing will have to be made in conjunction with the NGO. An organization that can make decisions quickly will be far easier to work with and will make achieving profitability much easier.

## Appendix I: Tables

### Table 1: Income of Zoo and Aquarium Visitors

Income Level	Percent of Total Attendance
<\$20,001	18%
\$21,000-40,000	39%
\$41,000-60,000	29%
>\$60,001	16%

### Table 11: Zoo Attendance by Month

January.....	3%
February.....	4%
March.....	7%
April.....	10%
May.....	14%
June.....	12%
July.....	14%
August.....	13%
September.....	7%
October.....	7%
November.....	4%
December.....	5%

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