

## **Cima Mountaineering, Inc.**

### ***1. Problem***

Cima Mountaineering is a mature company that has undergone several major changes in the past 20+ years. As a specialty producer of hiking and mountaineering boots, this family owned business is built on craftsmanship and field-tested durability. The Cima product line has traditionally been sold in the Western region and sold directly at sporting stores that service the outdoorsman. However, the competitive environment over the past few years has steadily changed, with more foreign competition and lower priced lines of hiking and casual boots. Anthony Simon, Executive Vice President, and his sister, Margaret, find themselves once again in the position of redefinition. The problem to be solved is whether to market a new line of boots for the less experienced, weekend hiker, or expand the current product lines for mountaineers and hikers.

### ***2. Company History***

Cima Mountaineering was founded as a Western boots maker by the name of the Hoback Company, based out of Jackson, Wyoming. In the 1960s, and into the 70s, as the demand for Western boots began to decline, the company's profit share steadily declined until Anthony and Margaret took control of the company in 1975 and showed a profit on 1.5 million in sales of \$45,000. It was after this stabilizing trend that Anthony Simon drew on his college experience in mountaineering and suggested the Hoback Company develop a line of hiking/mountaineering boots. After 12 months of extensive research of the market the product was tested and received high marks among instructors of the mountaineering school.

The hiking/mountaineering product line consists of 2 styles of boot. One is for the more serious outdoorsman, designed for all-weather climbing. The second is for men and women who are advanced hikers.

As the popularity of outdoor sports and recreation boomed through the 80s, so did the demand for Hoback Boots' hiking and climbing product line. With a new sales peak at 3.5 million in 1986, the company expanded distribution with the aid of independent sales representatives to handle sales and service, and this allowed the expansion into neighboring states through sale at retailers that's specialize in hiking/mountaineering equipment.

It was at this time that Hoback boots changed its name to Cima Mountaineering, Inc. and began to direct its whole attention away from Western boots and completely on the hiking/mountaineering product offering.

By 1995, sales had grown to \$20 million, up 7.2 percent from 1994 and the company operated at 85% of capacity.

### ***3. The Market***

After the record year of 1994, a year that saw over \$600 million in sales of hiking boots, the market began to shift toward lightweight, inexpensive boots worn for day hikes and extended hiking on weekends. This new "light trekking" category was characterized by a more fashionable style, and these cheaper products were often produced by athletic shoe companies.

Cima boots positions its self as for the rugged outdoor enthusiast. This segment includes advance hikers who used the boots on challenging trails and extended backpacking trips, as well as rugged mountaineers who climbed in rugged terrain.

Business was usually conducted during the summer months when trails were most accessible.

Cima boots are seen as durable and exceptional in performance, a combination of adapted construction techniques and conservative styling has outlasted the shifting trends in the boot market. Some of the product line has lasted in the market without modification.

There exist two product lines at Cima: Glacier boots for the more serious mountaineer, and the Summit line for experienced hikers who demand the best possible performance. The Glacier line consists of three styles for men and range in price from \$219 to \$299. The Summit line has 5 models, including a style for men and women, and range in price from \$129 to \$197. Due to the less experienced and less demanding nature of the Summit line consumer, the features and construction of the Summit line boot allow it to be a more competitively priced boot, and this Summit line makes up a consistent majority (80-85%) of sales.

The product lines are distributed in Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Washington Wyoming and western Canada through specialty retailers who sell mountaineering and backpacking goods and equipment. As of yet Cima has not expanded into the mail-order catalog market.

Cima sales and marketing has a strong foundation in personal selling and sales promotion, due to its development through independent sales representatives who cater to territories and personally tend to clients. Promotion is extended to customers and retailers who support Cima boots.

The sales approach for independent sales representatives consists of 10 representatives who sell Cima boots exclusively among an assortment of other hiking/climbing products. This places the Cima brand in its element with complementary goods and bolsters sales efforts. Retailers are encouraged to take a 50% margin on the sale price of the boot. This allows Cima to remain in the premium price point for its type of product, thus reinforcing the brand image as the best climbing/mountaineering boots on the market.

#### ***4. The Market Segment***

The hiking boot market is segmented into several categories, of which three are of relevance to Cima's efforts to redefine its brand.

The Mountaineers are the most extreme and therefore most demanding of a product line. The main concerns for this segment are product safety and maximum stability and support. Therefore this segment demands a boot that offers the best traction for climbing conditions and the best all-weatherproof construction.

Serious Hikers make up the next level of the market segment. These hikers are outdoorsmen and women who love nature, recreation hiking and have a strong inclination toward health and fitness. These hikers are brand conscious and look for durable high-performance boots with a durable construction and good traction.

Weekenders are more recreational hikers who enjoy weekend excursions or overnight hiking trips. They look for a boot that offers good support, and traction on a variety of surfaces, that can be worn for a variety of purposes.

#### ***5. Competition***

Foreign boot makers had noticed the growth in the boot market and had been exporting boots into the United States, along a similar line as Cima, using sales office and independent representatives to sell the product lines. These foreign lines were marketed to the Mountaineer, Weekender, and Serious Hikers segments as well, and competed for the market share against Cima. Another startling trend was that of athletic shoe makers and their entry into the hiking boot market with a more rugged brand of outdoors shoe designed for style and comfort as well as the durability of hiking boots. This line of competition demanded a lower level of performance and targeted teens and young adults who were less demanding of their boot.

#### ***6. Pricing***

Cima boots are sold to retailers at prices that are 50% of retail price. This allows retailers to make a 50% profit margin on sale price, and boots are sold to retailers at prices that range from 64.50 to 149.50. The price scale is caused by the manufacturing techniques used to produce the boots. Mountaineering boots are more expensive due to methods of construction.

#### ***7. Promotion***

Promotion efforts have been a longstanding tradition for business generation at Cima. Promotion efforts are geared toward the consumer and retailers that sell Cima boots. Cima employs several independent representatives to sell Cima in Canada and the Western States. However, it has not branched out into the Eastern market. Sales representatives are paid a commission, and are guided by Director of Marketing Harris Fleming.

### ***8. Future Growth and Development***

Currently Cima has secured steady growth through a combination of manufacturing improvements to control costs and maintain margins. However, growth has slowed and therefore new opportunities need to be pursued.

Another concern is the growing trend in town with regional colleges such as Boulder and Denver, where the market demand is for a more stylish boot worn by younger adults. This segment, once known as the critical factor in Cima's success, is trending away from the performance of Cima and toward the comfort and style of a more casual boot. So far this has yielded losses of \$130,000 when key retailers chose to shift brands.

There are a few key options for developing the Cima offerings to compete among this new environment. They include extending the current product lines to deepen the coverage to lower price points and broaden market appeal to mountaineers and serious hikers; and developing more style, lower prices and a lightweight hiking boot that can be worn for a variety of purposes. The Weekender segment is a new area that deserves attention due to recent growth trends.

In addition, the opportunity exists to take advantage of mail-order catalog companies such as REI that have greater market exposure and can expand the geographic market, with good penetration in the East, where Cima's current penetration is weak. However, this opportunity carries with it the possibility of future demand by the catalog retailers for a private label line of boot, something that goes against the current Cima tenet of manufacturing products in the USA under their own brand. In addition a possible

reaction may come on behalf of current retailers who learn that Cima is selling via the catalog companies.

## 9. Financial Figures

It appears that there is a gradually slowing trend in profits that will persist through 2006, as the market is redefined by new entry by foreign competitors that offer casual boot offerings at a cheaper price.

### Income Statement

	<u>1994</u>	<u>1995</u>	<u>% Increase</u>	<u>1996 (Est.)</u>	<u>% Increase</u>
Net Sales	\$18,738,529.00	\$20,091,450.00	7.20%	\$21,538,034.00	7.2%
<u>CGS</u>	<u>\$13,426,156.00</u>	<u>\$14,381,460.00</u>	7.10%	<u>\$15,402,543.00</u>	7.1%
Margin	\$5,312,373.00	\$5,709,990.00	7.40%	\$6,135,491.00	7.4%
<u>S&amp;A Exp.</u>	<u>\$3,973,419.00</u>	<u>\$4,285,730.00</u>	7.80%	<u>\$4,620,016.00</u>	7.8%
Op. Inc.	\$1,338,954.00	\$1,424,260.00	6.30%	\$1,515,475.00	6.4%
<u>Inc (Exp)</u>					
Int. Exp.	-\$131,170.00	-\$160,733.00	22.50%	-\$196,897.00	22.5%
<u>Int. Inc.</u>	<u>\$18,739.00</u>	<u>\$35,161.00</u>	87%	<u>\$65,751.00</u>	87.0%
Ttl					
Inc.(Exp)	-\$112,431.00	-\$125,572.00	11.60%	-\$131,146.00	4.4%
<u>EBIT</u>	<u>\$1,226,523.00</u>	<u>\$1,298,688.00</u>	5.80%	<u>\$1,384,329.00</u>	6.5%
<u>Inc. Tax</u>	<u>\$417,018.00</u>	<u>\$441,554.00</u>	5.80%	<u>\$467,164.00</u>	5.8%
<u>Net</u>					
<u>Income</u>	<u>\$809,505.00</u>	<u>\$857,134.00</u>	5.80%	<u>\$917,165.00</u>	7.0%
<u>Market</u>					
<u>Share</u>	6.12%	5.70%			5.47%

## 10. Market Growth

Market growth is expected to drop in all areas as more competition from cheaper brands and a new emphasis on the Weekender market is developed. It is critical that

Cima Mountaineering, Inc. find ways to approach this segment and secure a developing share of this segment's market power.

**Market Growth Based On Current Market Segments**

	<u>1994</u>	<u>\$(Mil)</u>	<u>1995</u>	<u>\$(Mil)</u>	<u>1996</u>	<u>\$(Mil)</u>
Mountaineer	28%	168	28%	196	20%	235
Serious Hiker	25%	150	25%	175	12%	196
Weekender	20%	120	20%	140	14%	159
Practical User	17%	102	17%	119	6%	127
Children	5%	30	5%	35	2%	35
Fashion Seeker	5%	30	5%	35	2	35
<b>Total</b>		600		700		787

As fashion conscious trendsetters taper off and are absorbed by the Weekender market, other segments essentially remain unchanged.

	<b><u>Projected Growth Rate By Segment</u></b>		
	<u>1996</u>	<u>1997</u>	<u>1998</u>
Mountaineer	2%	2%	2%
Serious Hiker	6%	8%	5%
Weekender	12%	14%	16%
Practical User	14%	14%	14%
Children	2%	2%	2%
Fashion Seeker	20%	20%	14%

***11. Recommendation for Future Growth & Development***

a. The Serious Hiker Market

The Serious Hiker Market is projected to steadily increase over the next several years. The average rate of growth is 6-8% and Cima carries a significant market share of this segment, at 25% of market. It is wise to continue to attend to this market with possibly a line extension or a slight variation of new colors, and features. However,



specialization is costly and may reduce or eliminate profits together. Overall it is wise to continue to service this segment.

b. The Mountaineer Segment

The Mountaineer segment, while not the most profitable, is the namesake of Cima's reputation. While segment growth is not able to outdo inflation at a meager 2-3% of overall boot sales, it is necessary for Cima to continue its current product line to maintain an image of leading the field in mountaineering and climbing boots. At the same time, Cima's success in this segment signifies a historical success in maintain a brand image, and this segment needs to be upheld.

c. The Weekender Segment

The Weekender Segment is expected to grow steadily in future years, and it is unavoidable that Cima move into this area of expansion. While the segment is expected to decrease in future years, if Cima can attract first time hikers or casual "Weekenders" they may be able to convert using brand loyalty and retain future purchases of "Serious Hikers" when "Weekenders" return to buy a new pair of boots. IN addition moving into this segment will create future awareness of Cima brands to those unfamiliar with the product line.

d. The Practical User Segment

The practical user segment is expected to increase in the future, and with a diverse definition of practical uses, this segment will allow Cima Mountaineering to develop brand identity synonymous with durability and rugged applications.