

Rowing Machines

£100,000

Alexander Caccia seeks £100,000, in addition to £100,000 already offered, to finance the marketing of the WaterRower training machine. 20% of the equity is offered for £100,000

Brief History

Alexander Caccia was introduced to the WaterRower by a friend in 1991. The product was manufactured in the USA. He formed a new company, WaterRower (UK) Ltd and began to sell the product in the UK and Europe. The newly designed product suffered from flaws and Mr Caccia began to implement design improvements. Although elegant, the machines were expensive and supply was unpredictable. Mr Caccia negotiated exclusive selling rights throughout Europe. In September 1993 he decided that he would have to begin manufacturing the product in the UK, incorporating design improvements that he himself had made.

He raised £40,000 from two external investors, and researched the manufacturing options. He decided to set up an assembly operation, with manufacture of components being sub-

contracted. He found an ideal location for the workshop in Dorset, and the presence of a large number of small businesses meant that all his suppliers would be within 15 minutes of the workshop.

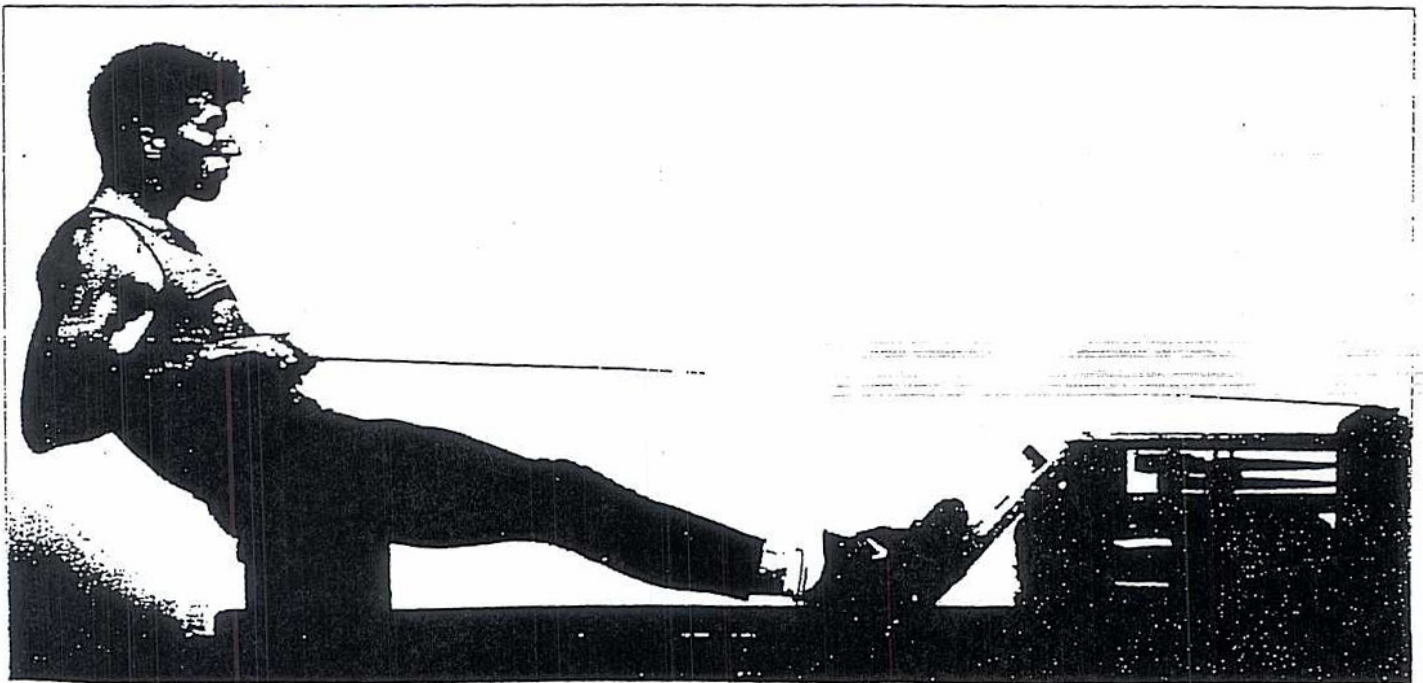
One of the most expensive components, the polycarbonate tank, had proved problematic in the US, and Mr Caccia was delayed by a sub-contractor which indicated that it could produce the unit using a different system of vacuum forming. In the event this did not work. This set the project back several months, but Mr Caccia did overcome the problems that had faced the US manufacturer.

Production began at the Dorset workshop in June 1994, and around 200 machines had been completed by 31 December 1994. Mr Caccia pays a royalty to WaterRower Inc, the owner of the patents, of 4% of the ex-factory price on each sale.

The Product

The WaterRower is a wood-based rowing training machine that uses a patented water flywheel to simulate resistance during the rowing stroke. The machine was originally designed by John Duke, whose company WaterRower Inc owns the patents and manufactures the product for sale in the USA. The polycarbonate water tank can hold up to five gallons of water, and by varying the amount of water in the tank the user can choose the amount of resistance required for their training. Mr Caccia says that in practice most users maintain the water-level at around half-full, and can increase or decrease their stroke rate to change their rate of exercise.

The WaterRower is endorsed by UK Olympic oarsman Jim Walker, who rowed for the UK VIII in the Barcelona Olympics. Mr Caccia gave him a



Olympic Oarsman, Jim Walker, demonstrating the WaterRower

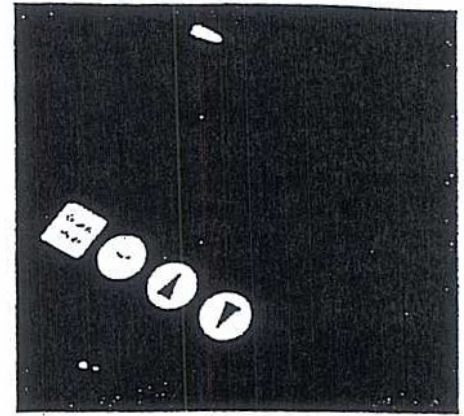
WaterRower in exchange for design assistance and helping to promote the product at various shows.

VCR spoke to Dave Prowse (who played the part of Darth Vader in Star Wars) who manages his own gym in London. He said "We have two WaterRowers and they are probably the most used pieces of equipment we have. The WaterRower is an excellent product which I chose in preference to the Concept II because of its superior look and feel. I think it is a ideal product for every gym, and I have recommended the product to someone today!"

The aesthetic quality of the product was a key design criterion, particularly when

approaching the home market, where competing products are unattractive and bulky. Mr Caccia believes that no competitive products possess this aesthetic quality, which therefore gives the WaterRower an automatic advantage when being sold to anyone who needs to store the equipment at home. It also has the advantage of being able to be stored upright, another space saving factor designed to appeal to the domestic customer.

There are two broad product lines: those in pure wood (American black walnut, cherry or beech) aimed at the domestic market; and the Club Sport machine, painted in black or white, aimed at the health and rowing club



The WaterRower's Monitor

market. All models are available with or without a computer, which can display stroke rate, distance travelled, speed and elapsed time. A heart rate monitor which can read and display the rower's pulse is currently being developed.

The computer unit also has a data output interface and the company possesses PC software which can enable the rower's performance to be analysed and displayed graphically on a Windows based PC.

Mr Caccia also commissioned a software company to write a programme to accept up to eight simultaneous WaterRower data inputs, which could be used to simulate races. Handicaps can be allocated to individual rowers, and the progress of a race plotted graphically. IBM used this set up to demonstrate their new operating system OS/2 during the summer of 1994. IBM also sponsored a WaterRower road show, which included a demonstration at Henley Royal Regatta, to show off this software, an excellent marketing opportunity for the WaterRower.

The Market

Mr Caccia divides the market for exercise equipment into two sectors: professional (gyms, rowing clubs, health clubs etc); and the home sector, comprising individual customers.

The total market size was quoted in the *Financial Times* in 1993 as being £100m pa. of which approximately 30% was to the professional sector and 70% to the home sector. Customers in the professional sector will typically buy a



The WaterRower in its upright position

Table A — Management Accounts April-Nov 1994

	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
Units sold	10	21	11	13	21	8	19	23		
Income	£	£	£	£	£	£	£	£		
WaterRower sales	6,915	14,667	7,590	9,481	21,400	5,035	12,709	22,656	18,565	119,020
Other	91	1,037	888	675	1,009	465	777	1,281	1,291	6,121
Total sales	<u>7,006</u>	<u>15,704</u>	<u>8,478</u>	<u>10,156</u>	<u>22,409</u>	<u>5,500</u>	<u>13,486</u>	<u>23,937</u>	<u>19,856</u>	<u>126,539</u>
Cost of sales										
Components	3,616	6,714	2,539	4,359	12,247	2,917	6,739	11,873	10,140	78,282
Other	838	6,291	2,145	2,905	2,267	3,860	1,054	5,502	1,926	9,711
Total cost of sales	<u>4,454</u>	<u>13,005</u>	<u>4,684</u>	<u>7,264</u>	<u>14,514</u>	<u>6,777</u>	<u>7,793</u>	<u>17,375</u>	<u>12,066</u>	<u>87,993</u>
Gross profit	<u>2,552</u>	<u>2,699</u>	<u>3,794</u>	<u>2,892</u>	<u>7,895</u>	<u>(1,277)</u>	<u>5,693</u>	<u>6,564</u>	<u>7,790</u>	<u>38,546</u>
Expenses										
Vehicles/travel	1,124	721	372	(207)	345	712	416	977	570	5,025
Insurance				170						170
Entertainment	77	9					20			107
Depreciation	192									200
Bank charges	993	48	43	50	60	284			413	1,777
Professional fees	330	32	500					175	2,000	3,037
Advertising/publicity	875		200	1,100	227	3,503	1,094	375	1,460	8,865
Exhibitions	1,564		351	341	1,440	92	200	294	483	4,770
Competitions	(75)		130							55
Donations		35					35			70
Salaries	1,926	2,587	1,154	1,254	1,154	1,269	1,225	2,306	2,883	15,761
PAYE/NI			356						348	704
Administration	75						35			110
Rent/rates	320	320		320		640	320		640	2,420
Maintenance		24				32			166	223
Utilities		7		7	162	62	28	63	156	486
Post/telephone	594	150	356	352	5	629	376	251	423	3,048
Stationery	272	348	430	13	431	16	215	467	655	2,850
Computer		261							95	357
Research			106				29			135
WR repairs	62		15	13						91
Factory costs										
Rent/rates				225			225			450
Maintenance							51		392	444
Utilities					261		27			269
Telephone		170			280		170		13	636
General	178	73	340	310	42	57	93	178	186	1,461
R&D	438	1,159	83	687	178	14	139	400		3,104
Total expenses	<u>8,945</u>	<u>5,944</u>	<u>4,436</u>	<u>4,635</u>	<u>4,585</u>	<u>7,310</u>	<u>4,698</u>	<u>5,486</u>	<u>10,907</u>	<u>56,787</u>
Operating profit	<u>(6,393)</u>	<u>(3,245)</u>	<u>(642)</u>	<u>(1,743)</u>	<u>3,310</u>	<u>(8,587)</u>	<u>995</u>	<u>1,078</u>	<u>(3,119)</u>	<u>(18,245)</u>
Other expenses	<u>246</u>	<u></u>	<u>527</u>	<u></u>	<u></u>	<u>593</u>	<u></u>	<u></u>	<u>545</u>	<u>1,911</u>
Net profit/loss	<u><u>(6,639)</u></u>	<u><u>(3,245)</u></u>	<u><u>(1,169)</u></u>	<u><u>(1,743)</u></u>	<u><u>3,310</u></u>	<u><u>(9,180)</u></u>	<u><u>995</u></u>	<u><u>1,078</u></u>	<u><u>3,664</u></u>	<u><u>(20,156)</u></u>

suite of exercise machines, including exercise bikes, steppers, treadmills etc. and the WaterRower will compete with other rowing machines such as the Concept II, currently the biggest selling rowing machine in the UK. However, in the home sector a customer will typically buy one aerobic exercise machine, and the best all body machines include only rowing machines and cross country skiing machines. Mr Caccia believes that the growth of the home sector is the real opportunity for the WaterRower. Companies such as Nordic Track, whose leading product is a cross county skiing trainer, have recognised this market and have been advertising heavily.

Professional endorsement from professional users and high profile individuals, will be a key element to marketing the WaterRower, and Mr Caccia believes that this and the aesthetic appeal and easy storage of the WaterRower will further enhance acceptance by this market.

Operations

The company has a sales showroom in London which also acts as the administration and sales headquarters. Mr Caccia owns the lease personally and WaterRower pays him a rent of £4,000 pa. Mr Caccia, managing director, Peter King, his key colleague and a secretary/receptionist/administrator are also based there.

The manufacturing operation near Bridport in Dorset, occupies a small industrial unit. Tony Lush is in charge of the manufacturing and assembly operation, and he is assisted by Emma Gardner. They receive salaries of £12,000 and £6,750 respectively. Trade shows and sales activities are conducted by Mr Caccia and/or Mr King.

The Plan

Marketing expenditure will be increased significantly following investment. The breakdown of the budget is shown in Table D. Increased sales activity will also include the recruitment of further distribution in other European countries, and ensuring that they are

provided with the right level of support.

Two aspects of development to increase the product's appeal are planned: the heart rate monitor is an important addition which is designed to make the product attractive to the serious fitness trainer, who wants to measure and record performance; improved bearing housings will improve the products resilience to continued gymnasium use. A major international leisure operator is considering a purchase of several hundred machines, and this possibility has increased the urgency for this development.

The Team

Alexander Caccia, 31, went to school in England until the age of 14, when he moved with his family to South Africa. He took a combined science and arts degree, at the University of the Witwatersrand, graduating in 1986 with first class honours. He returned to London in 1986 and using his artistic skills, undertook some freelance film set design work for Blaine Novak.

1987-88 Foreign and Colonial Investment Management plc

Graduate trainee. Mr Caccia worked as a trainee and then financial analyst, mostly on the company's European portfolio, particularly Nordic markets. After two years he decided he wanted more hands-on experience in running business, and left to become personal

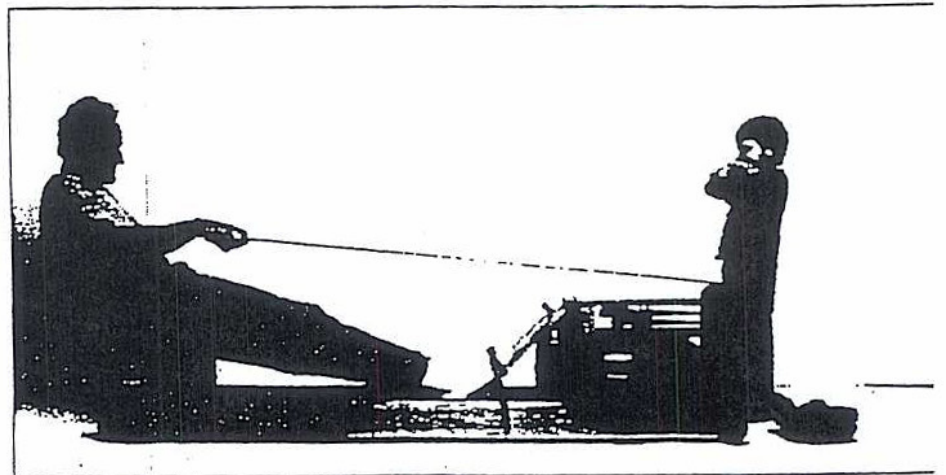


Alexander Caccia

assistant to the successful entrepreneur and businessman Tony Bloom.

1989-90 Research assistant to Tony Bloom

Mr Caccia wrote to Mr Bloom unsolicited, as he had been a celebrated businessman in South Africa, particularly as a leader of the commercial sector's rapprochement with the ANC. Mr Bloom had relocated to London in the late 1980s and agreed to take on Mr Caccia as a personal assistant/researcher. Mr Caccia analysed companies and produced market intelligence for Mr Bloom, who had many commercial interests. In particular he worked on the attempted takeover of RHM. In 1990 Mr Bloom joined Sketchley plc as chairman, and as the



Peter King using the WaterRower

company needed substantial staff cuts there was no role for Mr Caccia.

1990-91 Freelance

Mr Caccia undertook freelance corporate finance research and also design work. He patented a design for secateurs and designed a wrist brace for sufferers of rheumatoid arthritis which was aesthetically much more pleasing than the existing products. The product was designed principally for the many young and middle-aged female sufferers.

1991-present WaterRower

Mr Caccia founded WaterRower (UK) Ltd in March 1991. He had just been introduced to the product, was impressed by the quality of the design, but thought it would be too expensive at the selling price of £1,800. He sold his first machine in August 1991, although he did not start to promote the product actively until March 1992. In the meantime he was trying to introduce design improvements to enhance performance and lower the production cost. Product supply from John Duke in the USA was also unpredictable. In September 1992 he and his then partner, Orlando Montagu, knew they had to make the decision to leave the project, or to continue but start manufacturing in the UK. They negotiated exclusive manufacturing and marketing rights in Europe for a 4% royalty. £40,000 was raised from two individuals, Clive Ripley and Rick Flobeck.

The problems with manufacturing the polycarbonate tank took longer to overcome than anticipated, and a reliable system was at last established in January 1994. Mr Caccia bought out Mr Montagu, who had not achieved projected sales levels. Mr Montagu left the business. There were also problems with the computer, which was driven by a Motorola chip that was taken out of production. Finally, by June 1994 the workshop was ready to begin production, and sub-contractors had been lined up to produce the components.

In January 1994 Mr Caccia took on Peter King, an Australian now resident in the UK who had just completed an MBA at the City Business School.

Peter King, 32, gained degrees in production engineering and mechanical

engineering during part-time study between 1981 and 1988 at the University of Technology, Sydney, Australia.

1981-88 TRW Products Ltd, Sydney

Mr King held various positions in this large automotive/aerospace multinational, supplying a wide variety of products and services. Latterly he was a production manager charged with facilitating SIT and TQM projects running over 100 staff.

1988-89 Numat Distributors, New York

General management role in a design business, which included machine tool manufacture, construction contracting and property development.

1990-92 Wimpey Construction Management, Hammersmith, London.

Project manager on a £200m office development project. He left Wimpey to take an MBA full-time at the City University, London.

Mr King is an active member of the famous Thames Tradesmen Rowing club and was a finalist in the UK National Rowing Championships. He came relatively late to rowing, but was a keen Australian Rules footballer and baseball player before leaving Australia.

He visited the WaterRower showroom in Hammersmith, was impressed by the product, and asked Mr Caccia if he could join the business. Mr Caccia took him on, explaining the situation of the company fully. Mr King accepted a job, believing the product to have tremendous potential.

Mr King nominally receives a salary of £25,000, although sometimes the company has not been able to pay this. Mr Caccia believes Mr King is essential to the future success of the business, but also accepts that the company must be properly funded in order to pay Mr King's salary and retain his services.

Financial Data

The profit and loss account (management accounts) for April to March 1994 are shown in Table A. To December 1994 207 units had been sold at an average price of £590. However, the average sale price has been rising, as initially machines were given at cost to

agents, and as manufacturing has become established factory seconds are now being sold, increasing the average price in December to £622. For three of the last four months of the period a small profit was recorded. The balance sheet at 30 November is shown in Table B.

The cost breakdown for a Club Sport

	£
Fixed assets	13,679
Current assets	
Bank	5,471
Contra account/petty cash	(826)
VAT	(680)
Trade debtors	12,425
Deposits with suppliers	6,553
Stock — Demo machines	3,109
Finished goods	602
WaterRower clothing	718
WaterRower components	40,393
Total current assets	82,452
Current liabilities	
VAT	(182)
Trade creditors	50,800
Customer deposits	500
Miscellaneous creditors	1,251
	52,369
Long term liabs	
DTI LGS loan	25,500
Loan (Ripley & Flobeck)	20,000
Loan (Caccia)	23,564
Loan (??)	4,000
PAYE & NIC	(22)
	73,042
Total liabilities	125,411
Financed by:	
Share capital	150
Share premium a/c	54,949
Retained earnings	(77,902)
Current year earnings	(20,156)
Total capital	(42,959)
Total liab & capital	82,452

WaterRower is shown in Table C. By increasing sales volumes and therefore buying in larger quantities, and by improving manufacturing methods, Mr Caccia believes that costs can be reduced by at least 10%. Further reduction may also be achieved by, for instance, bringing the wood-working component in-house. The current average gross margin on a direct sale is 60%. Retailers (Lillywhites and Harrods both have a demonstration machine) receive a 30% margin. Distributors are given a 30% discount against the direct selling price.

The funds raised will be used as shown in Table D.

Financial Structure

Mr Caccia seeks £200,000 in total, for which he offers 40% of the equity. The investment could be made largely in redeemable preference shares. A private investor has offered to invest £100,000, and therefore £100,000 is sought from a new investor.

The possibility of buying the full rights to the product has been raised by John Duke, originator of the WaterRower. His company, WaterRower Inc of Rhode Island, has received an injection from a private investor called Marshal Auerbach of \$100,000 for 50% of the equity. Mr Duke would be happy to cease

Table E — Suggested Financial Structure

Name	Contribution	Equity %	Equity £	Red pref shares
Mr Caccia	Work to date	50.4		
Mr Flobeck	Inv to date - £20,000		£4.8	
Mr Ripley	Inv to date - £20,000	4.8		
Existing investor offer		20	£10,000	£90,000
New investor		20	£10,000	£90,000

Notes:
 1. Orlando Montagu owns one share which will be transferred at par to one of the new investors.
 2. Both Mr Flobeck and Mr Ripley have invested £10,000 as loans and £10,000 as equity. It is suggested that the loans become redeemable preference shares like the new investors.

manufacturing his own product and buy from the UK. The rights could be purchased for \$200,000, or possibly on a suitable earn-out basis. However Mr Caccia's pre-eminent purpose is to raise funds for the development of WaterRower UK, to finance an intensive marketing campaign throughout Europe.

Contact Address:

Alexander Caccia
 WaterRower (UK) Ltd
 50 Greyhound Road
 London W6 8VX

Tel: 0171 385 8400

Fax: 0171 381 6664

Table D — Budgeted Use of Funds

In Year 1		£
Marketing		
Advertising, PR, exhibs		75,000
Brochure		10,000
Videos ¹		42,000
Salesman (year 1 salary)		14,000
Development		
Pulse monitor		8,000
Tooling		12,000
Gym model ²		6,000
		<hr/>
		26,000
Working capital		30,000
Cost of finance		3,000
		<hr/>
Total		200,000

Notes:

- Two videos are proposed, one for promotional purposes to mail to enquirers, and one for instruction on use of the machine.
- The improvements for the gym model are to design sealed bearing units, enabling the WaterRower to stand up better to continuous use.

Table C — Cost breakdown per Machine

	£
Example for beech model	
Wood	109
Computer	65
Tank	38
Clutch	25
Paddle	14
Other components	70
	<hr/>
	321
Labour	24
	<hr/>
Total Cost	345
	<hr/> <hr/>
Selling price (ex VAT)	725
	<hr/> <hr/>

Strengths	Weaknesses
1. High quality product with existing sales.	1. Original product difficulties inherited from US.
2. Enthusiastic young team.	2. Established competitive product which has sold well to commercial purchasers.
3. Established manufacturing process and unit.	3. Single product company.