FEASIBILITY OF OPERATING A TRAINING FACILITY ON THE CENTRAL COAST

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Chapter I

INTRODUCTION

The horse industry is a huge business in the United States with revenues that reach into the billions of dollars. California has one of the largest horse herds in the United States. This can be attributed to the large racehorse industry and recreational activities people use horses for. The horse industry is a great source of income as many people are spending thousands of dollars annually in the horse industry on products ranging from feeds, training, and equipment. The Central Coast has a flourishing horse industry which can be attributed to the availability of land and a higher than national income level. Though there are a lot of facilities and trainers in the Central Coast already, there is always a need for reliable, safe, and affordable training facilities. At this time there are a lot of facilities that board and training prices are prohibitive to most people or facilities that are in individuals' back yards and not adequate set up with the competitive rider in mind. There is need for a facility that would encourage the improvement of both horse and rider, yet be affordable enough to allow competition to be possible.

Problem Statement

Is it feasible to open a training and boarding facility for horses on the Central Coast?

Hypothesis

In the first three years of operation, a training facility geared towards producing jumping, eventing, and dressage horses will be able to operate at profit on the Central Coast.

Objectives

1) To assess whether opening a training facility is economically feasible on the Central Coast.

2) To determine the acres of land needed, along with the breakeven number of horses to be boarded or in training.

3) To determine the expense and revenues in the first three years of operation.

Justification

The California horse industry has over 300,000 people involved ranging from employees, owners, service providers, and volunteers. It creates over 54,000 full time jobs in California and creates $4.1 billion in services and produced goods. In California alone there are almost 700,000 horses which create a huge market to work from. The Central Coast is also a highly populated horse community with towns like Santa Ynez, which have a lot of clients to target.

Chapter II

Literature Review Outline

I. General Operations

This will be the initial investigation of opening a business, not specifically the operation of a farm of horses.

II. Variables in a horse farm

This will discuss the variable that is needed in the opening of a horse farm such as the cost of operations on a day to day basis. Also, the building or leasing of a facility and the cost of building and maintaining an arena.

III. Review of existing business

This will investigate an existing business through the use of senior projects and master's thesis. Some are not specifically geared towards training however the

general cost and data they use will be similar. It will also take a look at price strategies for other facilities in the area.

LITERATURE REVIEW

General Operations

A feasibility study of a training and boarding facility will look at the long run profitability of the business and whether or not it is a good business in which to invest time and money into. There is a large amount of information available as to the specifics of starting and operating a business but less information is available in the parameters of a specific farm such as a horse facility. A look at the general operations of running an agriculture related farm can first be used to get a better grasp on the field. One of the important issues to address is the risk involved in the running of a business as seen in "Utility-Efficient Program for Whole Farm Planning" (Patten) using utility functions related to risk aversion. A general understanding of the risks that are involved in the operating of a farm is very important but more specifically the types of risks involved in the operating of a horse business is needed. Not only must a look at the risks be taken but so must a look at the opportunities that exist in the marketplace. The types of services that clients want out of a training and boarding facility can also be examined. In Commercial Horse Boarding Stable Industry Dey says that there is a demand for horse boarding facilities which is determined by things such as income levels, desire to compete, and people who ride primarily for recreation. These key factors can help to determine whether a facility will be able to maintain a certain number of boarders based on the total amount of riders and the

income levels they are at. With a slow increase in the economy happening this means there are more people with a higher income level and more disposable income to allocate towards horses.

To attract people towards this boarding facility the first thing that must be done is by creating an image for the farm or ranch. Creating a name and image that are recognizable will create an awareness in the public's mind (McDonald, 1997). Also creating a good customer service system is key in retaining customers and getting new ones through grassroots marketing. A review of some key concepts must then be looked at such as what will the services provided and what will the target market be and how while they will be targeted. What resources are needed to establish a facility and what skills are needed of a resident trainer to maintain a strong client bases. Dey (1998) stresses that the ability to manage labor and poses the right skill set to operate a training facility is one of the most important things. Someone who is unable to effectively train and teach riders will not be able to keep clients for an extended period of time.

Variable in a Horse Farm

One of the most important things to decide upon are the riding arenas that will be at the facility as these are one of, if not the most important, deciding factors in choosing a boarding facility for your horse. Wheeler points to the importance of safety and functionality of an arena and relates it to the cost associated with an arena. The type of footing, depth, drainage, sprinkler system, and size are all very important in the determination of arenas because every discipline from jumping to dressage need different specifications in their design. Also whether there will be an arena specifically for jumping and the costs of buying or building jumps and the labor involved in maintaining the jumps is needed. If a dressage arena is going to be put in the fencing that will need to be put in will need to be chosen. The number of horses on the property and the

number of horses expected to be using the arena throughout a given day are also important in the maintenance needed on the footing and the jumps. Whether there are mostly competitive riders or recreational riders is important in this decision.

Review of Existing Business

One of the best resources available to look at is from preexisting business plans based on the same criteria as the feasibility of a training and boarding facility. By looking at the feasibility of operating a breeding facility one can conclude some of the general costs that will be incurred (Biller, 1983). There are obvious discrepancies in the revenue stream created from breeding horses to the cost of training horses but the same cost will be incurred for boarding and feeding. Along with general farm insurance it may be necessary to care a higher policy as riding and training horses adds a higher risk as the chance of injury increases. Another item that will be investigated was from a farm that was already running and cost, incurred in the day to day activates. Taking a look at Baxter's building of a facility to hold horse competition has some more of the cost associated with the building phase of the business. This will help to get an idea of the costs that will be incurred as the facility, Twin Rivers is located in Paso Robles and will have similar costs of operation. The investigation of a existing facility can help show some of the costs that will be incurred that one cannot account for in the beginning design phase of the business.

Chapter III

METHODOLOGY

Procedures for Data Collection

Portions of this study will be taking through literature reviews but a very important part is the use of industry professional. This will help bring valuable resources to the facility as they are very experienced in looking at the overall cost of an operation.

On the cost side of data the first variable that will be investigated is the cost of purchasing or leasing a property big enough to house horses on. This will be done by looking at real estate listings located throughout the Central Coast or looking for facilities that are currently available for lease or finding the lease price of a facility. The listings must have land and some system of water and energy already in place and would be preferred if they already have facilities for horses available.

The next variable that needs to be looked at is the general cost of operating a farm. The cost of labor will be looked at by finding the rates of employees in the general area for the type of work that will be required. This will include general farm labor and some grooming so some knowledge of horses is a requirement for all employees. The cost of hay and shavings will be looked at from local hay providers such as Farm Supply, and Santa Ynez Valley Feed and Mill. It will also include looking into buying directly from the grower which would require a bigger order but in the long run could save money. I will look at the cost of alfalfa, oat hay and a type of timothy hay. This will be looked at on a per bale bases and I will inquire as to what size of order is needed to start getting a discount. Some of the next variables to consider are the cost of commercial insurance for a boarding and training facility. This will be done through getting quotes from various insurance companies that specifically provide coverage for equine facilities.

Next is the cost of water and energy on a farm which will be found out through interviews with owners asking specifically what their costs are.

Next a collection of boarding and training rates will be taken to determine what expected revenues can be in different areas around the Central Coast. This will be done by contacting the trainers and owners of various facilities that are geared toward dressage, jumpers, and eventing.

Procedures for Data Analysis

The procedures for data analysis will start with finding the average cost of all of the variables such as hay and employment rates. The next step will be to look at the real estate listings and find the average cost per month in regards to the size and the location which will determine the amount of horses that can be boarded. Next the energy and water costs will be determined in regards to the size of the facility and the number of horses on the facility. This will give a better of how much each horse is going to cost and the cost to have an additional acre is.

The revenue of the boarding will take into consideration the cost per horse in regards to the feed used, extra labor, water, and energy. Then the fixed cost to run the facility will be examined to determine the number of horses needed to just cover the fixed cost. This will help estimate the cost of boarding per horse and how many horses must be on the property to breakeven.

Next the profit received for lessons and training will be analyzed in regards to the trainer's specific qualifications and skill level. The years of training and the level of schooling the trainer will be taken into consideration when setting the cost of training and lessons. By looking at the skills of other trainers an idea of what a fair and affordable price will be easier to come by. Insurance costs will be looked at from multiple providers and a general idea of the cost

per horse and acre will be available. All of these numbers can be put into excel or made into graphs to depict the cost of operations. Also with an idea of expenses and revenues a balance sheet can be made along with an income statement which will be able to show the revenues and expenses that will be incurred.

Assumptions

This study assumes that the economy remains the same or improves as horses are considered a luxury item and are used less in times of economic downturn.

Chapter IV

DEVELOPMENT OF THE STUDY

Location

The location of the proposed facility is in the Santa Ynez Valley an area that is densely populated with horses and horse enthusiasts. This location would be an ideal location since there are approximately 22,000 people in the area and it has a relatively high median income at $80,284. The actual location of the ranch is also superior because it is nestled away from any roads but is a very short distance from anywhere in the region. The ranch is approximately on ten acres of which around eight and a half would be in the lease agreement. The other 1.5 is where a house and garden are located and would remain in the control of the owner. There is currently one large dressage arena that is surrounded by a tilled track and a covered round pen. There is one large barn with 8 stalls and some smaller stalls, paddocks, and pastures. The fencing is

wood and wire except for the paddocks attached to the stalls which are made of pipe corrals. Currently the facility is being used as a boarding facility but there is no resident trainer, and the board prices are very high and prohibitive to a lot of people. The proposed lease fee would be for $3,500 per month which would cover the cost to use the facility and electricity. Anything such as hoses, shovels and rakes would also be included but must be replaced if broken at any point.

Physical Improvements

At this point the facility only has one arena to use and no jumps or jumping arena. There will need to be some improvements to make this facility fit for eventers to train out of. The first improvement will be to convert the large turnout into another arena. It currently has a well developed base and a layer of silt and clay. A layer of sand will be necessary to help create more cushion for the horses on impact and help increase drainage since sand has a smaller surface area and increases drainage. The sand that will be added is a washed concrete sand and is being purchased for $10 a ton from Buellflat Rock in Buellton. For an arena that is 200x100 it will take 225 tons of sand to cover the area two inches deep. Sexton Engineering, who has done all the arenas at Shepherd Ranch in Santa Ynez, has advised that it would take two employees two days to complete the project. They estimated that it would end up costing $320 in labor to complete the arena. Also some jumps will need to be purchased to place in the arena. After researching jump building companies JUMPUSA has the best jump packages. A fee of $3,889 will buy 8 sets of jump standards including walls, gates and panels to match. also includes are 20 rails which are expected to be replaced every year. In the second year of operation it is expected that 15 ten foot poles will need to be purchased which will cost $750 shipped. In the third year of operation it is expected that new jump standards will need to get purchased to expand the jumping arena. It will cost $1,295 to get 7 sets of standards.

Feed

Alfalfa and oat hay will be fed to all the horses. Horses need approximately 2-3% of their body weight per day in dry matter. For a 1,200 pound horse, which is an average horse weight, it equals 30 pounds of fed per day. This means that each horse will get 15 pounds of alfalfa in the morning and 15 pounds in the evening. The hay provider will be TK Hay from San Luis Obispo and will cost $10 dollars per bale of oat and $11 dollars per bale for alfalfa. The bale of oat weighs 115 pounds per bale and the alfalfa weighs 110 pounds per bale. Below is a table explaining the cost structure

	Cost Per Bale	Lbs per Bale	Lbs needed	Bales needed	Cost per month
Oat	$10	115 lbs	450 lbs	3.91	$39.19
Alfalfa	$11	110 lbs	450 lbs	4.09	$45.00

This shows it will cost around $85.00 per month to feed every horse. In all of the financial statements an estimate of $90.00 per horse per month has been made to help cover any increase in cost. For year two the cost is expected to increase so the estimate went to $92.50 a month and in year three it was estimated at $95.00 a month.

Training & Lessons

It is expected that some of the horses and riders will be getting training and lessons at the facility. The pricing for training is $30 per ride and $100 a week for a horse to be in full training. Full training includes four rides or lessons per week and requires at least a month long commitment. Lessons are priced at $35 for a forty-five minute private lesson and $30 for an hour long group lesson. Group lessons will only be provided on weekends. It is expected that there will always be four horses in full training and on average five private lessons a week. Also on

Saturday there will be two group lessons with three riders each. This is expected to increase over the following years until there are enough students and horses as to hire a second instructor. In year one it is estimated that the instructor will be working part time riding and teaching lessons so the remainder of the week will be spent on maintenance. For year two it is expected that there will be an increase of horses in full training from 4 to 6 horses and in year three it will again increase to 8 horses in full training. At this point there will not be any increase in private lesson because clients will be encouraged to place horses in full training to maximize horse and riders performance.

Boarding

The facility is also a great location because they have a lot of options when it comes to boarding the horses. Currently there is one large barn that has 8 stalls. All of the stalls are 12'x12' and have an attached paddock. The paddocks vary in size so they will be offered on a first come first serve basis. There are also 4 smaller stalls located on the property that also have a paddock attached. These stalls can fit a horse but are not large enough for the horses to lie down so bedding will not need to be provided. There are 10 medium sized paddocks that have a covered area that is large enough to shelter the horses from the rain. The covers also have siding on two sides to protect from the wind. There are 3 large paddocks the can each fit 4 horses. These 3 paddocks are not irrigated but rather a sand and clay ground. The last option is a large irrigated paddock that is irrigated so the horses can graze all day. It is not a large enough area to be the only source of feed so the horses will be fed half of the ration of the other horses. So they will get approximately 15 pounds of food a day. Also all the horses except for those in the pastures can get fed grain and supplements on a daily basis with no extra charge. If they provide the grain in some prepackaged way the staff will feed it to them in the mornings. Blanketing will also be

provided to the horses not in the pastures at the cost of $40 dollars a month. This has not been taken into consideration into the profits as it is very hard to know what number of horses will need blanketing.

Horse Capacity	Price	# 0f horses 70% full	Revenue
8- stalls	$450	6	$2700
4- small stall	$400	3	$1200
10- Paddock	$300	7	$2450
12- dry pasture	$275	8	$2200
5- irrigated pasture	$300	4	$1200
	Total	28	

It is estimated after looking at other facilities that the facility will remain at around 70% full for the first three years. There will be some fluctuation up and down but 70% is a conservative number so profits are not over estimated.

Insurance & Utilities

An insurance estimate was provided by Byars Thompson Buchanan Insurance at approximately $3,600 a year. This will come out to $300 per month. This insurance will cover everything except for coverage on people's trailers. This means that any trailer on the property is not covered under the insurance and will not be permitted to stay on the property overnight. Trailers can only be brought on to the property if someone is trailering a horse in for a lesson/schooling or if a boarder is taking their horse on/off the property. The cost of our utilities will be limited to water, as the owner of the property has agreed to pay for electricity in the lease. It is estimated

that the water bill will be around $750 a month. This number was taken from looking at other operations in the area and figuring whether they had irrigated pastures and how often there arenas were watered. Looking at Shepherd Ranch's water bill it was decided that theirs would be somewhat higher in that they had a lot more irrigated pastures but did not water their arenas on as consistent of a basis. Also the number of horses and boarders on the property was taken into consideration. The owner of the facility has also offered to rent out the tractor on a per use basis. It will cost $15 a use and is expected to be used around one hundred times a year for arena maintenance so the tractor cost comes to be $1500 a year. This is a cost expected for all three years.

Labor

The facility will need to hire an employee to help do the everyday activities like feeding, mucking stalls, and farm maintenance. They will hire one full time employee at $8.00 per hour plus 15% to cover employment taxes. This comes out to be $368 per week, and $1472 a month. Since the trainer will not being working full time training they will be doing a lot of maintenance such as dragging the arenas and working on the facility to help improve it. It is expected that over the second and third years the trainer will have less time but by then the facility will need much less improvements.

Marketing

Marketing will mostly be done through grassroots marketing. Flyers will be posted all over the Central Coast in any tack stores or feed suppliers like Santa Ynez Feed and Mill. Boarders and students will help spread the word about the facility. Also the trainer will be competing horses

under the farm's name which should help stir some interest. Also postings will be placed on equestrian websites such as bayequest.com and eventingusa.com.

Year 1

Income Statement

For the year ended December 31, 2011

Revenue

Board Revenue		$ 117,000
Training Revenue		$ 36,240
Total		$ 153,240

Operating Expense

Rent Expense	$42,000	
Insurance Expense	$ 3,600	
Wage and Salary Expense	$17,664	
Water Expense	$ 9,000	
Hay Expense	$28,080	
Shavings Expense	$ 3,600	
Jumps Expense	$ 3,889	
Arena Build Expense	$ 320	
Tractor Expense	$ 1,500	
Sand Expense	$ 2,250	
Marketing Expense	$ 1,000	
Total		$ 111,403

Net Income $ 41,837

Year 2

Income Statement

For the year ended December 31, 2012

Revenue

Board Revenue		$117,000
Training Revenue		$ 45,840
Total		$162,840

Operating Expense

Rent Expense	$42,000	
Insurance Expense	$ 3,600	
Wage and Salary Expense	$17,664	
Water Expense	$ 9,000	
Hay Expense	$28,860	
Shavings Expense	$ 3,600	
Jumps Expense	$ 750	
Tractor Expense	$ 1,500	
Marketing Expense	$ 100	
Total		$107,074

Net Income	$ 55,766

Year 3

Income Statement

For the year ended December 31, 2013

Revenue

Board Revenue		$ 117,000
Training Revenue		$ 55,440
Total		$ 172,440

Operating Expense

Rent Expense	$42,000	
Insurance Expense	$ 3,600	
Wage and Salary Expense	$17,664	
Water Expense	$ 9,000	
Hay Expense	$29,640	
Shavings Expense	$ 3,600	
Jumps Expense	$ 1,295	
Tractor Expense	$ 1,500	
Marketing Expense	$ 100	
Total		$ 108,399

Net Income	$ 64,041

Chapter V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

This report was made to determine if it was economically feasible to open and operate training and boarding facility on the Central Coast. Is it possible to generate a profit will help decide if the business is feasible and worth the initial investment?

Some of the key issues that need to be addresses are whether buying or leasing a property is a better situation and where the facility will be located. The Central Coast has a very prevalent horse population and Santa Ynez Valley was chosen because the high overall income and number of horses located in close proximity. It was also chosen to lease a property because the initial investment of buying land in Santa Ynez is prohibitive at this time. The piece of property that was located has ten acres and has the capacity to hold 39 horses. With a few physical improvements there will be two arenas, one dressage and one jumping, and a covered round pen. There will be a wide array of boarding options available to boarders such as having horses out on grass or in a stall.

Training will also be offered to all of the boarders on the property. It is expected that four horses will be in full training the first year, six horses in the second year, and eight horses in the third year. The majority of the profit will be made from training and lessons whereas the costs will be covered if the facility can remain at a 70% capacity at all times. Also in the first year the hours spent training will only be a part time job which will provide time to make improvements to the facility without having to hire a second employee to assist in maintenance.

Conclusion

In conclusion we find that the facility will make a profit of $41,837 in the first year and increases to $64,041 by year three. If the facility has the ability to attract boarders and maintain them they will be able to cover their costs with just the boarding and make an extra few thousand dollars. It is extremely important that the trainer has the ability to keep students and horses in training to make the business profitable.

Recommendations

This study shows the general cost structure of opening and operating a training facility on the Central Coast. It shows that the profit made from training horses is the key to making a profit on a boarding facility. Just boarding horses does not generate enough profit because the costs are too high for hay and lease fees to compensate for the time invested. Yet if a trainer is willing to invest a fair amount of time and effort into the property it is possible to have a profitable business. After looking at this study it can be concluded that this type of business structure is feasible by looking at the profit of $41,637 in year one, $55,766 in year two, and $64,041 in year three.

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