



STRATEGIC BUSINESS PLAN

Revised January 2006

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	3
I. BUSINESS ENVIRONMENT	4
II. ORGANIZATION	5
III. CGAUXA INTERNAL DIVISION	7
A. Membership Dues	7
B. Associate Memberships	8
C. Public Education Revenue	8
D. Product Sales to Members	10
E. Member Gifts and Donations	11
IV. CGAUXA EXTERNAL DIVISION	11
A. Fundraising	11
B. Grants	12
C. Educational Product Sales	12
D. Boating Products	12
E. Endorsements	14
F. Intellectual Property	14
V. MARKETING PLAN	14
VI. THE AUXILIARY CENTER	15
VII. FINANCIAL GOALS	15
VIII. TIMELINES	15

Figure

Figure 1: Simplified Organization Chart of CGAuxA	6
---	---

EXECUTIVE SUMMARY

VISION

The Coast Guard Auxiliary Association, Inc.—in strengthening its fiscal commitment to the members of the U. S. Coast Guard Auxiliary—will organize and manage in such a way as to produce the necessary funding and capitalization required for all present and future financial needs of the U. S. Coast Guard Auxiliary.

MISSION

The overarching mission of the Coast Guard Auxiliary Association is to provide for the fiscal health of the U. S. Coast Guard Auxiliary. We will pursue creative long- and short-term policies to generate the income required to sustain all present and future program needs of the U. S. Coast Guard Auxiliary, by developing diverse income-producing sources and enhancing fundraising initiatives to make the Association a self-sustaining dynamic organization.

GENERAL PLAN

This Strategic Business Plan addresses the financial growth and expansion of existing businesses and the entry into selected new businesses. It defines the CGAuxA structure and strategic imperatives.

At present, the United States Coast Guard (USCG) provides funding for some Auxiliary programs, such as some travel and postage expenses, USCG manuals for use by the Auxiliary, and out of pocket expenses incurred by Auxiliarists performing Coast Guard activities. However, significant revenue shortfalls remain. For example, the Coast Guard does not provide funding for the purchase of texts used in public education courses or for a substantial portion of the Auxiliary's national program travel budget. Additional funds are required to support certain programs (unfunded mandates) and administrative costs associated with running the Auxiliary. Moreover, there will be future funding needs to support the Maritime Homeland Security program (MHLS), such as Operations Patriot Readiness III.

This Plan examines expenses and income from both internal and external sources. It is recommended that the CGAuxA be reorganized into two functional Divisions: (1) Internal Division and (2) External Division. (See section II. Organization)

SCOPE

The CGAuxA is a small business with (1) a headquarters (AuxCen) and (2) a distribution system (presently, members and some outside Internet sales) selling products and services through individually managed Districts, Flotillas and the AuxCen itself. A review of business operations indicates that there is potential for improvement; minimal market research is done; product development and acquisition is slow; and the business/marketing management, while historically adequate, needs modernization. The CGAuxA depends on individuals within various Auxiliary departments for its workforce. Their attention and work focus share traditional Auxiliary functions with marketing work to grow the CGAuxA to meet Auxiliary program funding needs. Members handling CGAuxA business should be dedicated to that function—a change from present practice.

This plan focuses on:

- Changes to the internal organization of the business (in addition to the senior management changes approved at NACON 2005) to increase productivity and income without undue dislocation to either the Auxiliary or CGAuxA;
- Addition of new businesses, through start-ups or alliances;
- Staff development at all levels; and
- Aggressive expansion of the name and “brand” of the Auxiliary/CGAuxA.

I. BUSINESS ENVIRONMENT

The Coast Guard Auxiliary Association exists to provide capital and income for internal and external functions that are not financially supported by the Coast Guard. This includes the day-to-day expense of Association and Auxiliary operations, as well as much of the Recreational Boating Safety (RBS) activity.

The Association is a non-profit 501 (C) (3) organization. It operates as a small business to support U. S. Coast Guard Auxiliary programs.

The Coast Guard has relatively little interest in the day-to-day operation of the Association, as long as the Auxiliary and the CGAuxA are sufficiently separated. Its oversight is limited to the legal issues pertaining to the relationship of the Auxiliary to the Association.

Prior to September 11, 2001 the Association was moderately successful in producing revenue. In the wake of 9-11, revenues from some sources decreased as Auxiliary personnel, normally engaged in revenue producing efforts, responded to the surge requirements necessary to support the Coast Guard, including Operation Patriot Readiness III and other MHLS efforts. Although such a diversion was well-intentioned, its effects on CGAuxA to produce needed funds were adverse. This trend is likely to continue, with the present Auxiliary membership playing a diminishing role in CGAuxA efforts. We believe that a dedicated cadre of CGAuxA personnel is required for optimum efficiency.

Historically, public education (PE) courses provided significant revenues to CGAuxA and to individual Auxiliary units. Textbook sales provided revenues to the organization as a whole and course fees provided revenue to individual Auxiliary units. More recently, PE sales revenue has declined due to increased competition from state initiatives to provide boater safety education directly to students. States use grants and tax monies to provide educational material, with courses being essentially free to the student.

The advent and continuation of mandatory state education requirements have also had an impact on CGAuxA income and results. Mandatory education provides an opportunity and a limitation with regard to this market change. The opportunity is self-evident: thousands of new students who MUST get educated if they want to boat. The limitation is a lack of capacity. That is, the current delivery method of choice and experience, namely classroom, teacher-delivered courses, is not able to keep up with the increase in students. Exacerbating this is the continuing shift of manpower from RBS efforts to Operational and MHLS support.

The increase in potential students has attracted more competition into the market. As noted above, this is reflected in the greater intrusion of state-delivered boating education. But

commercial firms have entered the market as well—either as producers of textbooks or providers of boating courses. There has also been an increasing competitive push to use non classroom-delivered education, such as web-based training and testing.

Technology makes it possible for boaters to get the necessary basic (often mandatory) education on-line or via home study, take the state test, and receive a completion document, all without any personal interaction with a teacher or organization. The Auxiliary developed (in partnership with the United States Power Squadrons [USPS]) *America's Boating Course* to serve as a conventional course and also to compete in the self-instruction market. However, neither CGAuxA nor USPS has yet learned how to properly utilize this product or add new products to the marketing effort.

Finally, the general Auxiliary membership has little interest in being sales agents for CGAuxA products and services. For CGAuxA external sales to reach meaningful levels other means of distribution must be found.

So, where does the CGAuxA stand today? Revenues are falling far short of expectations and needs. The potential market for CGAuxA products and services is believed to be large and expanding. But competition is also increasing. These challenges and opportunities require a new strategic plan for the CGAuxA.

II. ORGANIZATION

Without the CGAuxA being organized in a way that supports critical and recognized marketing practices, this marketing plan will be more difficult to execute and, in many areas, impossible to accomplish.

CGAuxA was originally organized to raise money internally during a time when technology and the market place were far different than is the case today. At all levels, a business needs to know what is taking place. In addition, businesses, large and small, need to have the same policies and practices in place and operating in generally the same manner throughout the organization. (The cliché that “Every McDonalds is different, and every McDonalds is the same.” applies here.) This is not currently the situation in the CGAuxA. There is a fracture between the CGAuxA at the national level and the marketing/sales efforts within the Auxiliary Districts. This situation needs immediate attention, with minds open to improving the overall organization.

Of vital importance is motivating and utilizing the Auxiliary workforce to carry out a strategic business plan with all of its attendant tactics. Often in a market-oriented business, it is how the business is organized and structured that is of paramount importance to getting acceptance and cooperation. Members and leaders, at all levels, must feel ownership of the plan and have faith and confidence that the organization supports them.

Figure 1 shows a simplified organization chart for CGAuxA. It depicts both internal and external groups reporting to the Chief Operating Officer through the Executive Director.

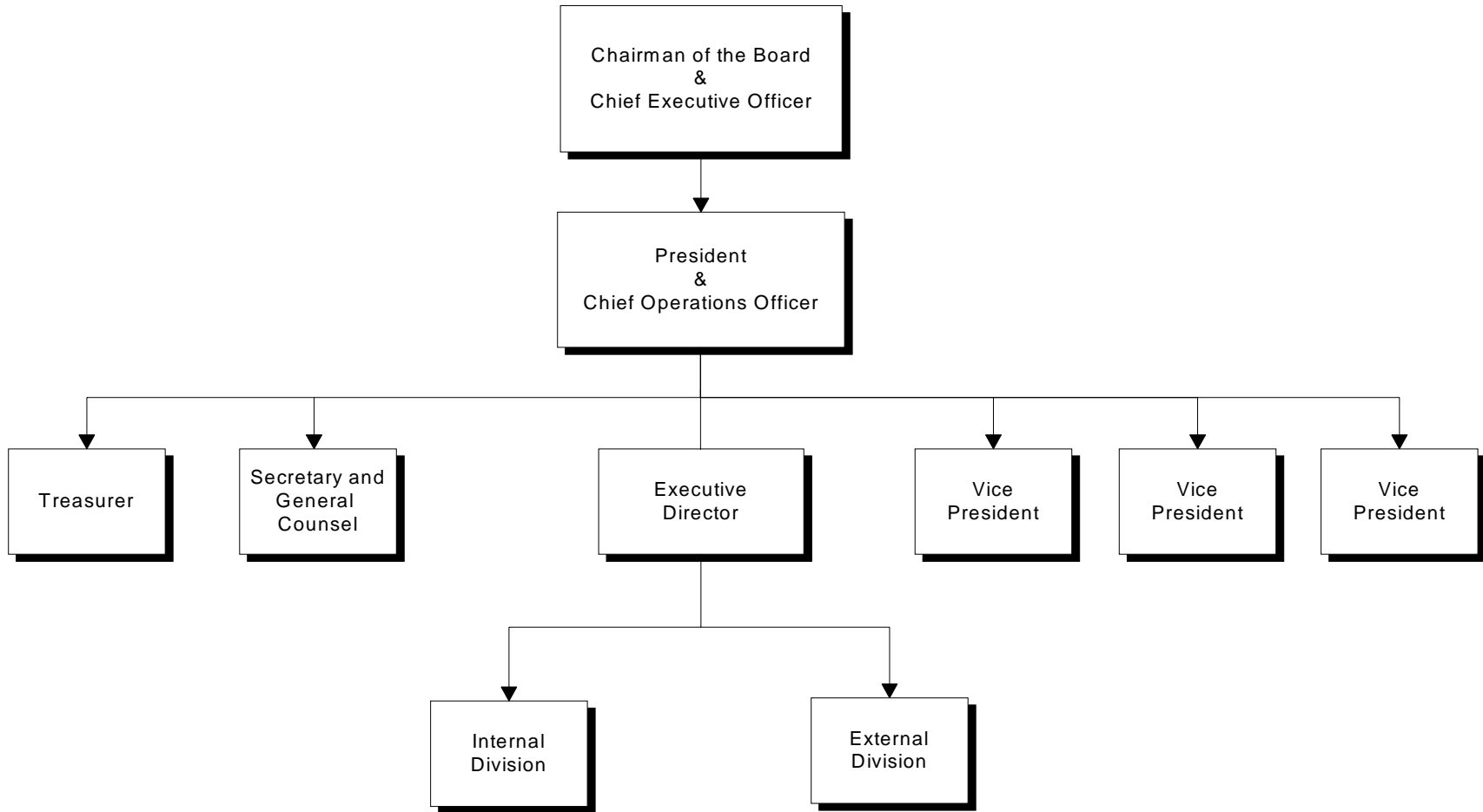


Figure 1. *Simplified Organization Chart of CGAuxA.*

The new Internal and External Divisions are designed to more effectively organize the work needed to be done by CGAuxA to increase revenue. They reflect the reality of the marketplace and will serve to focus the organization on its revenue generating activity.

Of particular importance, for both Divisions, is market research. New courses, programs and products should always be preceded by in-depth market research done both internally and externally.

These two Divisions must be managed by competent and business-oriented members. We recommend that these two positions hold the same status as that of a Department Chief.

Of critical importance to the success of this Plan is to re-focus the Department of Education so that it concentrates ALL of its energy on the development and promotion of internal Public Education courses.

All outside product development and sales efforts should reside in the CGAuxA External Division. New product development for use in internal Public Education should be a joint effort between the PE Department and the External Marketing Division. The target is having such courses do ‘double duty’ as both internal, teacher-delivered courses and products that can be marketed to the public as home study courses.

III. CGAuxA INTERNAL DIVISION

A. Membership Dues

Membership dues are the third largest revenue producer in the Auxiliary (\$276,813 in 11 months 2005—27.8% of total revenues). Recent membership declines—arising partly from new security requirements—have substantially reduced revenues from this source.

How can revenues from membership dues be increased in the future? An obvious and attractive option would be to increase our membership. Failing this, dues-related revenues could grow by responsibly raising the current dues per member. Any such action would have to be taken in tandem with a program to convince the membership of the value added. Yet another possibility is to implement discounted “starter” dues for young members and/or free (or nearly free) trial memberships to provide incentives to increase membership.

The above list of ideas to increase revenues from member dues is illustrative. Much more analysis is required to create attractive alternatives. Aside from increased recruitment, the above ideas are likely to be controversial. It is necessary to carefully analyze their potential benefits and costs. At a minimum, we need to conduct ongoing research into the practices of other, similar organizations and consult (e.g., through focus groups) the membership on their views.

1. New Members

In relation to CGAuxA products and services, the perceptions of new members are formed the first time the system is used. As is often said, you never get a second chance to make a first impression. If the products are useful and appealing, attractively displayed, easy

to order, fairly and evenly priced, new members are likely to become satisfied, long-term customers. CGAuxA, including the District outlets, must see to it that the first experience is a good one. Immediately upon joining the Auxiliary, new members should be guided as to what to purchase and encouraged to patronize CGAuxA. An almost-automatic system might be of value.

2. Established Members

Perhaps even more than new members, established members react positively to well-conceived and executed sales efforts within the Auxiliary family. The key with this group is to constantly remind and encourage members as to what is available in the stores and how to get the items.

B. Associate Memberships

Some believe that there might be (potentially many) individuals who are in sympathy with the aims and objectives of the Auxiliary but, for a variety of reasons, are unwilling to join the Auxiliary as full time Auxiliarists. To tap this potential, an associate membership category was created. The objective of this program was to develop increased financial and (possibly) other support to the Auxiliary and its programs by individuals who were not members of USCG Auxiliary. The financial support provided by Associate Members would be rewarded by various perks from the CGAuxA consistent with the level of the financial contribution. Associate Members who subsequently wished to participate in Auxiliary activities could, if eligible, join the Auxiliary as active members.

Many citizens wanting to assist in combating terrorism might see the MHLS effort as their opportunity. In addition to potential financial help, these members might also provide CGAuxA with specific talent in such areas as sales, marketing, law or research.

Unfortunately this program has not been successful to date; only a few Associate Members were recruited (among these were some regular members who opted for Associate Membership). Thus, this program needs to be reinvigorated by providing the management and resources necessary to assure success. Barring the necessary changes, this program will become another distraction.

C. Public Education Revenue

Currently (11 months 2005) Public Education is the largest source of revenue for CGAuxA, with \$441,415 in gross revenue—approximately 44% of total gross revenue. When compared to the comparable period in 2004, PE revenues declined by 22%. This is a serious decline and, if not corrected (and/or replaced with other revenue sources), will result in sharply reduced budgets in the years to come.

1. Basic Courses

These courses have been the mainstay of Public Education for a long time. They are now subject to increasing competitive market pressures (mainly the states). CGAuxA needs to consider the following alternatives:

- Continuing on the present course (which is likely to see an already low market share further decrease);
- Aggressively forging linkages with other organizations, businesses and government units; or
- Electing to abandon the market of basic boating education.

Attempting to maintain the status quo is not a satisfactory option. Likewise, exiting the market is not attractive for many reasons, chiefly because basic courses are “gateways” to more advanced courses. Therefore, forging linkages is the preferred choice. In any event, it is obvious that, while expansion of classroom courses should occur, alternative distribution channels also need to be developed. The boating public is overwhelmingly “wired”—that is, computer literate. (The Coast Guard estimates that over 80% of boaters have computer access and the ability to use it.)

In addition, the modern American family is beset with demands on their time. Home study, using various media, must be aggressively expanded.

2. Intermediate Courses

Market pressures directed at the basic courses, such as mandatory education, encourage or force boaters to undergo an educational experience. This basic education experience lends itself to the active creation and distribution of new intermediate courses and better exploitation of current ones as follow-on courses.

More such courses (often short and specifically directed to one subject) need to be developed for classroom delivery. Students attending these courses do so from a different perspective than most basic students. They come to class because they WANT to learn, not because they have to. In addition, it is this type of course that most Auxiliary instructors want to teach.

An alternative method of distribution that fosters home study is a market-delivery method almost devoid of competition. In-depth market research needs to be directed on this segment to ascertain just what the boating public wants, in both subject matter and delivery systems. Technology will play an important role in course design and delivery.

3. Advanced Courses

Except for the fact that the market for advanced courses is nowhere near the size of either basic or intermediate course markets, the above comments regarding intermediate courses are applicable to advanced courses.

4. Traditional Delivery

Teacher-led, classroom-delivered courses, at all levels, need to be reinforced and expanded. The MHLS initiative provides the format to re-invigorate Flotillas and members to teach a large number of well-designed, short courses that combine boating safety education along with Homeland Security issues. These courses, many taught with the active

assistance of Coast Guard personnel, need to be portable and otherwise easy to access. In other words, they must be offered when and where the students want them.

Pricing should be targeted to the particular student population being addressed. In addition, new methods of financing MHLS oriented courses need to be found. Such financial aid might come from government and/or corporate grants.

5. Non-Traditional Delivery

The Internet, commercial stores, road shows, and direct mail all offer ways to reach people who are not apt to attend formal, scheduled classes. In addition, small and large firms that are now teaching boating classes represent a distribution system for CGAuxA.

Almost all such course delivery systems need to be in support of home study. Once again, major research is required to capture exactly what the various student market segments want to learn and just how they want it delivered.

While these non-traditional delivery systems potentially offer access to a huge market, they are also expensive and risky. In order to alleviate some of that risk, alliances, partnerships, and endorsements would seem to represent a viable avenue for CGAuxA.

6. Co-op Advertising

Many businesses have created co-op advertising programs as a method to assist local units in publicly advertising their products and services. CGAuxA, including the Districts, should investigate such a program.

If viable, such a program could supply matching funds to assist Flotillas in attracting students to attend Auxiliary classes, as well as advertising home study courses. Since Public Education revenues accrue to the benefit of all Auxiliary organizational levels, such a program, if successful, would benefit the entire organization.

D. Product Sales to Members

The 30,000 Auxiliary members represent a sizable internal market for CGAuxA products and services. To expand sales through this market requires classic internal promotion measures. These measures are well known in the business community and could easily be directed at the Auxiliary membership.

Of equal importance, is the ease of viewing, selecting, ordering, paying for, and getting delivery of the products. The present Internet concept of product management could be used in designing a system that mirrors what consumers already use.

The District outlet stores, while popular and reasonably efficient, should be looked at from a cost/benefit standpoint. Also, the question of differential District pricing of products to members does not readily lend itself to broadly based market promotion, competitive response, and fairness to the membership. Districts store effectiveness varies greatly and the present system

puts Districts and the AuxCen in direct internal competition. This situation, if not resolved, will continue to hamper efforts to efficiently and fairly develop this market.

This market will respond well to a system that allows members to purchase boating supplies through CGAuxA rather than outside vendors. An aggressive approach to increasing product lines should harvest admirable results.

E. Member Gifts and Donations

Many organizations have well-established and productive programs which provide a continuing revenue source from member gifts and estate contributions. Some link these gifts to the sale of organization specific art work (i.e. USPS) and other memorabilia connected to that organizations history. Others focus on post-mortem estate gifts.

This revenue source will be entirely new for the CGAuxA. Vigorous attention should be directed to finding a “model” (s) for CGAuxA to adopt.

IV. CGAuxA External Division

A. Fundraising

The Fundraising business has already progressed past the strategic phase of planning. A specific strategic and tactical business plan has been developed and approved by the CGAuxA board and is in the process of becoming operational. A business manager has been appointed.

The mission statement of the Fundraising business is “To provide the financial resources required to support and enhance Auxiliary missions and authorized programs.” This statement fits quite well with the goal statement of this Strategic Business Plan.

Two primary thrusts are envisioned. One is a permanent Endowment Fund and the other is an Annual Fund. Business plans, complete with goals, have been established and approved for action. A Fundraising Policy Manual has been created and serves as the major guidance tool for this business.

However, even with the well-planned program, the results to date have been disappointing. Further attention and resources must be applied, with more emphasis on personal contacts in specifically targeted companies. Our efforts with two insurance companies, State Farm and Nationwide, have demonstrated that such contact development can work. We need to expand these two contacts and target the insurance industry as a whole.

Hiring a fund raising organization might be a viable option. However, CGAuxA is caught in a “catch 22.” There is no money to hire a fund raising organization and we probably can’t raise the money without such an organization.

One approach would be to convince a fund raising organization to assist the Auxiliary, pro bono, until such time as revenues from this source reach a level where compensation would be provided.

B. Grants

Historically grants to the Auxiliary have been for specific programs and only cover the expenses of those programs. For example, grants have been received for various expenses (e.g., manuals, decals, and other supplies) associated with the Vessel Safety Check program.

To date, grant money has not been obtained for routine operating expenses. Indeed this may not be a viable revenue stream. However, we should vigorously pursue this option. Particular attention should be focused on the Department of Homeland Security as a source for operational and program specific grants.

C. Educational Product Sales

While there will be some areas where internal product development is necessary and productive, most of the product inventory should come from linkages and joint ventures with commercial product vendors. Risk capital and developmental effort are better shared, or eliminated completely, than trying to self-fund.

In doing so, however, we must understand that internally developed educational products have the advantage of much higher return margins, at all levels of the Auxiliary. This can be somewhat mitigated by jointly developing products with commercial organizations so that CGAuxA 'owns' part of the product, thus raising margins. (ABC is an example.)

Alliances and joint ventures would seem to be the preferred methods. Indeed, the new MOU with McGraw-Hill is a move in the right direction and should be aggressively pursued. This would result in a product inventory increase without undue risk capital and effort.

D. Boating Products

This huge (in the millions!) market is dominated by a number of large, boating-specific outlets (West Marine, Boater's World, etc.), thousands of independent boating outlets (marinas, locally owned boat stores, yacht clubs) and a large, rapidly growing Internet distribution system. It is a competitive mature market with a steady growth rate. New distribution systems or new players, such as CGAuxA, will find the competition daunting and market entry slow and expensive.

This situation lends itself to alliances, joint ventures, and distribution contracts for CGAuxA to gain market success. As alluded to earlier in this plan, as CGAuxA earns a reputation as a reseller and endorser of products, so will these alliances become more valuable and contribute an excellent income stream.

The market is so large that market segmentation needs to be a prime consideration. Target segments are discussed below.

1. Students

One such segment will surely be students. The Auxiliary is no novice here, and aggressive expansion of what is presently being done will have a positive effect on revenues.

Much of what needs to be done is addressed above in the section on Educational Product Sales.

2. Recreational Boaters

In order to get a handle on this large market segment, a great deal of differentiation is required. Joint ventures and product endorsements are likely to be advantageous for CGAuxA. Such affiliations provide steady revenue with little risk.

3. Course Providers

Care must be exercised if this market is to be addressed. Some sensitivity to our own market activity is needed so as not to disenfranchise our members. Currently the market is composed of a number of independent providers (Chapman, mom & pops, etc.), BoatEd (which has a large market share), and the individual states.

At the present time, the large majority of these distribution sources provide learning only for beginning boaters. CGAuxA has made a new product entry into this market with ABC. Further product and administrative work needs to be done, as well as renewed marketing activity.

Research to ascertain whether or not there is a viable market for intermediate and advanced educational material is needed. Would states look favorably on our more advanced courses being promoted and delivered through the state approach now used for basic education?

4. Marine Industry

This broad group needs to be segmented—such as marinas, manufacturers, boat stores, etc.

5. Book Distributors

Some are marine specific and others, such as Barnes & Noble, are generalists. Approaches specific to each are required.

6. Boat Builders

This is a larger market than is usually visualized. While there are a relatively small number of large volume builders, there are many small manufacturers. These are somewhat harder to identify but are usually much easier to contact and motivate to take action.

Another segment is the foreign builder who builds for the American market.

7. Marine products

These products run the entire gamut of what boaters purchase to support their boating activity or business. They offer the CGAuxA an opportunity to be associated with, and market products produced by, existing businesses as well as forming product development and distribution channels for new products.

One of the major advantages to CGAuxA in such linkages is financial. Existing products require little or no further capital investment, and capital requirements for new product development, manufacture, and distribution can be shared.

E. Endorsements

A practically risk-free income stream can be realized by the endorsement of the products of others. The CGAuxA mark could become as important as the Underwriters mark or the Good Housekeeping Seal of Approval. Here again, the Auxiliary's role in MHLS will add greatly to stature and acceptance of our mark as an important product enhancement.

For our endorsement to become effective, the Auxiliary and CGAuxA must establish a widespread, positive image in the marketplace. There needs to be proof that our mark leads to further market share for those who use it as an endorsement. One way to do this would be to select those products (or businesses) we believe would benefit from the use of our mark, offer them the use of it at little or no cost for a test period, establish test parameters, and set out to build a reputation.

F. Intellectual property

Intellectual property (copyrights, patents, and trademarks) developed by CGAuxA may have significant value with the potential of being a significant revenue producer. Such property can be protected and controlled by CGAuxA. However, to adequately protect such property, the CGAuxA must institute procedures that police its use. The need to gain permission (often the payment of a fee) for the use of such property must be firmly communicated and actions taken against those who do not comply. Failing this protection, revenue generation cannot occur.

In addition, for the CGAuxA to fully realize revenue results and manage the distribution of its intellectual property, control of such property should reside within CGAuxA exclusively.

It is recommended that an intellectual property study group be formed, to investigate the above issues, and charged at N-Train 2006 to report its findings no later than NACON 2006.

V. MARKETING PLAN

This plan is strategic in nature. For it to function properly, a supplemental TACTICAL MARKETING PLAN must be developed, organized and staffed.

VI. THE AUXILIARY CENTER (AuxCen)

At the heart of CGAuxA is the AuxCen located in St. Louis. It serves as the “home office” of the Association as well as the warehouse for almost all of the products sold internally and externally. The major materials warehoused at the AuxCen are PE supplies. All employees of the CGAuxA are housed at the AuxCen. In other words it is the vital center of the overwhelming majority of CGAuxA activities.

When the present AuxCen was established it was the common business practice to warehouse, at one location, all supplies required by the organization. Likewise, technology dictated that print supplies be created in large batches to gain economy of scale.

Things have changed! Today, most businesses either outsource the warehousing process to companies that specialize in warehousing, or reduce the need for warehousing by using “print on demand” and “inventory on demand” techniques. Such techniques may hold great promise for the CGAuxA. It is strongly recommended that major examination of such technology and techniques should have a high priority for Association management. Further, it is recommended that the entire operation and structure of the Auxiliary Center be the subject of a major cost/benefit study. The study team should be constituted and charged at the 2006 N-Train NEXCOM and report its finding and recommendations no later than NACON 2006.

VII. FINANCIAL GOALS

Revenue: The overall objective is to increase CGAuxA revenues by a net growth rate of 20% per year. For this to be accomplished, the Marketing Plan (V. above) needs to assign specific individual revenue goals for each marketing segment.

Expenses: While the re-deployment of expenses, to cope with current situations, needs to be done on an ongoing basis, the present budget is as lean as it can get for the Auxiliary to exist as a viable organization. Expenses are not the problem!

VIII. TIMELINES

It is imperative that the basic structure of the Association (this is the appointment of all Directors and the Internal and External Division Chiefs) be completed by the end of N-Train 2006. This will pave the way to develop a Tactical Marketing Plan. That Tactical Plan will outline all programs, with target dates, that will support this Business Plan.