



OPENING A HOBBY STORE

**IMPORTANT INFORMATION
YOU NEED TO KNOW!**

**Presented by the
Hobby Manufacturers Association
in conjunction with
Model Retailer and the
National Retail Hobby Stores Association**

HMA
HOBBY Manufacturers Association

Success for a hobby retailer, indeed any new entrepreneur opening a business, involves a lot of hard work. Finding the right resources to help you make good decisions, develop a business plan, choose a great store location, invest in your business and build inventory, customers and sales is the aim of this handbook. The information contained in this handbook can also assist long-time hobby retailers to rejuvenate their stores or expand their store in new locations. For additional information on the hobby industry, contact the Hobby Manufacturers Association, P. O. Box 315, Butler, NJ 07405-0315, 973-283-9088, www.hmahobby.org

TABLE OF CONTENTS

<i>I. Getting Started</i>	1
A. Defining your Business Goals	1
B. Building a Business Plan	1
C. Finding the Right Location	2
D. Working with a Bank	2
<i>II. Finance</i>	3
A. Keeping the Books	3
B. Your Financial Health	3
C. Cash Flow	4
D. Taxes	4
E. Setting the Right Price for Your Goods	4
<i>III. Management of a Hobby Store</i>	4
A. Hiring and Firing Policies	4
B. Employee Files	5
C. Salaries and Benefits	5
D. Motivating Your Employees	5
E. Dealing with Store Theft	5
F. Best Customer Relations Practices	6
<i>IV. Sales and Marketing Tips</i>	6
A. Selling the Repeat Customer	6
B. Selling to New Customers	6
C. Selling Against the Mass Merchants	6
D. Niche Marketing	7
<i>V. Marketing and Product Buying</i>	7
A. Marketing Tips	7
B. Product Buying	8
<i>VI. Store Design</i>	8
A. Do's	8
B. Don'ts	8
<i>VII. Technology</i>	8
A. POS Systems	8
B. Bar Code Readers	9
C. Internet Ordering	9
<i>VIII. Finding The Right Resources</i>	9

I. Getting Started

A. DEFINING YOUR BUSINESS GOALS

So you want to be a hobby store owner. Why? Retailing in any business is hard work with long hours, a great deal of risk, and little reward until the business takes off. Yet, retailing today is still one of the fastest growing segments in the United States economy with over 24 million people earning their living by providing goods and services through a retail store. At least one-third of the 500,000 plus new enterprises launched each year are retail operations. These business "entrepreneurs" desire the opportunity to own their own businesses, invest their time and resources in something they believe in, and offer products to consumers that they need or want.

Retailing is a mature industry, yet niche stores continue to be opened each year because with the advent of new technologies. Entrepreneurs can take advantage of changes in buying behaviors, attitudes, and incomes. While many economists have predicted that local, independent retailers are a thing of the past, there is a need for retail operations that can respond to these changing consumer demographics and provide products that explore creative and competitive markets.

The typical hobby store is run by the owner alone or by a life partner. For the small retailer, there may be a few full-time employees and one or two part-time workers. In the United States, most stores are small, both in size and sales volume...in fact, as the United States retailing industry consists primarily of small, independent merchants, there is much truth in the old adage "nation of shopkeepers." Personal service, community involvement, and local employment are three aspects of independent store retailing that continues to appeal to the public and to enterprising entrepreneurs.

So, what kind of retailer do you want to be? Many hobby store owners decide to open their store because they love their hobby... model railroads, die cast and plastic models, radio control cars and airplanes, or all of these products. If this is your primary reason for opening a hobby store, you might want to think again. Retailing is, first and foremost, a business and your decision to become a retail store owner must incorporate your love for the hobby as well as the knowledge and fortitude to grow a business venture. Think of yourself as a business owner first, then as a hobby retailer. The deciding factors in your success or failure as a retail store owner will be your understanding of running a business, your competitive marketplace, and your relationship with your consumers. Consider testing your business concept with local business resources such as a Chamber of Commerce or community college. Then you can determine if you have the sales and management skills to justify start-up costs and the long-term commitment it will take to run a store. With a realistic view of what you are getting yourself into, take the next steps to write a formal business plan, investigate store locations, size and formats, and find sources that will help you sell products profitably!

Retail businesses satisfy customers' needs and wants. To the extent that you marry your personal business goals with the customers you seek to attract, your business will be successful and will make you money.

B. BUILDING A BUSINESS PLAN

If you want to operate a successful hobby shop, you will need a business plan. This plan is not just to secure a loan or to get a mortgage FOR the store. A business plan is your "map" to retail success and a guide for you to run your business. Your business plan will also help you thoroughly review your own financial status and the resources you will need to make the store grow.

Critical Factors to Consider When Developing Your Business Plan

- 1. Your Business Resume and Business Goals.** What is the career experience of all the principals involved in the business? Do you have the business expertise to succeed in not only selling hobby products, but in running a business? What are your goals and objectives for your business?
- 2. Your Personal Finances.** Prepare a personal balance sheet including liquid and capital assets, home equity, retirement accounts, and outstanding debts.
- 3. Engage an Accountant and Attorney.** Interview several accountants and attorneys before making a choice. Find an accountant who is familiar with retail tax considerations. Select an attorney who will review legal corporate statuses and will also help you write your business plan. Bring both of these people together to form your business team. They are your resources to understand the fundamentals of accounting and finance to make a business successful.
- 4. Draft the Plan.** There are a variety of computer software packages available to assist you in formatting your business plan. The right program will make a good investment, providing a step-by-step guide to writing your plan. Don't be too fancy...your plan is a moving target designed to be updated regularly.
- 5. Create a Budget.** Banks like to see what your estimated monthly costs will be. Prepare a budget that reflects your sales expectations, operating costs, inventory levels, and fixed assets. You may want to create a budget that shows your best quarter expectations since the hobby business is very seasonal.
- 6. Profile your Customer.** Develop a customer profile based on key demographics and purchasing habits. You can gain this information by talking with other hobby retailers and by researching average consumer purchases through manufacturers and distributors.
- 7. List Key Suppliers.** Interview selected distributors to determine who will work with you and what terms they will give you once your store is open. The amount of merchandise you can buy on credit and the sales terms extended to your new business will make a strong impression with your banker.

- 8. Identify your Store Location.** It is a good idea to have a location in mind when you draft your business plan. Finding the right location for your store is one of the most critical decisions you will make. And you will need to have this information when you go to your banker. There will be more on store location in Section C.
- 9. Identify Key Personnel.** Who will be operating the hobby store with you? It is important to cover all major store operation areas by identifying other managers in the business and their roles.
- 10. Ask for the Money.** Do not forget to include an area in your business plan that asks for the money and how you will pay back the loan you are requesting from the bank. The leading cause of failure of a business is lack of capital (see Section II).

C. FINDING THE RIGHT LOCATION

Drive by any retail space you are considering at different times of the day and night and on different days of the week to see for yourself how traffic patterns are and how busy the areas are with consumers. Check with the town planner about any potential roadwork or hazards that may impact your store opening. Talk with area retailers about their customer base and will these customers be potential clientele for your store. Check on any store signage, fixtures, and parking limitations. If you are buying existing fixtures from a previous owner, make sure they meet all building regulations. A hobby shop needs a trade area with an adequate customer base to support the business. An important consideration is that studies show hobbies generally have a male-oriented customer base. But don't just look for areas where men may shop. Hobby products are family fun products too and many women with young children can be customers for your shop. Whether you select a strip mall, enclosed mall, downtown, or free-standing store location, it is important for you to see what and where your competition is.

If you are located in a mall, check out the quality of the anchor stores. Some retailers like to go head-to-head with a mass discounter because he believes in his ability to service customers with hard-to-find products. Hobby store owners also like to ensure they have additional room to showcase their products with in-store demos and race tracks. Many hobby shops are destination stores and hobbyists seek them out for specific purchases.

Negotiating a Lease

Shop owners can negotiate rent and any of a number of other items that impact the bottom line such as utilities, maintenance, and buyout of the lease. According to the National Retail Hobby Stores Association, one of the key factors to be negotiated is making sure the lease includes an "out" clause. This clause specifies what happens in the event that the shop goes out of business. The "out" clause should allow a shop owner to discontinue lease payments on a long-term lease over a period of time (usually one to four months).

Key terms that shop owners should understand when negotiating a lease are:

Gross Lease – price per square foot with no add-on costs or expenses.

Triple Net Lease – price per square foot plus the tenant's share of taxes, insurance, and building maintenance.

Percentage Lease – price per square foot plus a percentage of the tenant's gross sales.

CAM Lease – price per square foot plus tenant's share of common area maintenance.

It is strongly recommended that a potential store owner have an attorney review any proposed lease.

D. WORKING WITH A BANK

Without a doubt, the most critical element in your decision to open a hobby store is whether you have the initial money to begin operations. Just as you interviewed accountants and attorneys, you will want to interview bankers. Some banks are very interested in working with small businesses while others are not. Your business plan must be ready to present to the bankers you decide to interview because having this information will get you in the door faster. You may also want to contact the Small Business Administration for a list of lenders in your area that participate in the SBA lending programs. Investigate the SBA "LowDoc" program. This is a low documentation lending program for small start-ups needing \$100,000 or less.

When you actually apply for the loan, include the loan amount, purpose of the loan, interest rate, pay-back period, and any collateral needed to secure the loan. A banker will also review your cash-flow projections, expenses, and cash on hand. You should also include a "worst-case" scenario if you do not get the loan. Your back-up plan may get you the loan you need because the banker sees you are serious about opening your store.

II. FINANCE

The three biggest problems with small businesses is a lack of education running a business, a lack of capital, and a lack of management experience. According to research by Dun & Bradstreet, the most common reasons for business failures include insufficient capital or profits, burdensome debt, general industry weakness, and heavy operating expenses. Keeping track of the necessary financial information you need to keep your business going and growing is the basis of hobby retail success.

A. Keeping the Books

Double Entry Accounting

Meeting with your accountant to establish how you will record your store's finances is one of the first steps you must take in setting up your store. Chances are your business plan established your assets and liabilities in order to get that important capital loan. Now, the next steps are to keep track of your inventory, everyday expenses, and cost of goods sold. Most small businesses should use a "double-entry" accounting system. Quick Books is one of the most popular off-the-shelf bookkeeping software programs you can find and it is very easy to run. The basic principles of the double-entry accounting system are that your store has:

- Assets:** Cash and/or Inventory on hand
- Equity:** The "book" value of the business
- Liabilities:** Obligations that the business has to other Vendors or the bank

If you change the total assets of the business such as getting an additional loan from a bank for operating expenses, then your liabilities also increase because of the debt owed to the bank. The sum of the liabilities and equity equals the store's assets. The books then are balanced.

The financial statements you will need to continue to run your business are:

- Balance Sheet:** A list of the store's assets, liabilities, and equity
- Income Statement:** A summary of sales/revenue, cost of good sold and operating expenses

Your gross profit (sales) less the cost of the product you bought gives you a "gross sales" figure. You then must deduct the cost of operating your business (expenses such as utilities, rent) from gross sales to get your "net profit." But have you actually made a profit?

B. Your Financial Health

Your net profit recorded in your double-entry accounting statements may not exactly mean your business is financially healthy. Ending each month with a positive number in your bookkeeping does not equate to long-term business success. You will need to understand some meaningful business indicators to help you stay in business and grow.

- 1. Return Ratio** = Returns ÷ Gross Sales

The "returns ratio" is an important indicator to track because an increasing number of returns indicates that your price is too high or you have poor-quality merchandise.

- 2. Current Ratio** = Current Assets ÷ Current Liabilities

The "current ratio" is the ratio between current assets such as cash, inventory and receivables, and current liabilities such as short-term debt and your expenses. It indicates liquidity – your ability to pay your short-term lenders. The higher this ratio is, the better able you are to pay your creditors and for you to obtain credit if needed. You may also find this ratio by dividing total debt by net worth.

- 3. Quick Ratio** = Current Assets – Inventory ÷ Current Liabilities

The "quick ratio" indicates your ability to sustain your business in sudden downturns.

- 4. Turnover Ratio** = Annual Cost of Goods Sold ÷ Average Inventory

The "turnover ratio" will give you an idea of how efficiently you are using your inventory. A higher number means you are satisfying customer demand and moving inventory while a lower number means you have too much inventory gathering dust in your warehouse or on your shelves.

- 5. Net Profit Ratio** = Net Profit ÷ Gross Sales x 100

The "net profit ratio" shows the percentage of each dollar's sales that you can re-invest in your store.

- 6. Return on Investment** = Net Profit ÷ Total Assets

Your return on investment (ROI) is the key ratio for measuring your store's financial success. If your "ROI" is less than what your funds would yield if invested in U.S. Treasury funds, then your assets are not working productively for you and you need to cut expenses and increase sales.

C. Cash Flow

Cash flow is the result of managing inventory and pricing your products to have enough money in the bank to pay your bills and re-invest your capital. So, how do you ensure you will have the cash when you need it?

- 1. Don't buy too much inventory.** In the hobby business, October through January are the busiest sales months while many find February, March, August and September are slower. When approaching a heavy selling season, you need to increase inventory. When it ends, you need to move whatever seasonal or out-dated inventory that did not sell out the door

as quickly as you can. Following your store trends, keeping records of your sales, and investing in software programs that will monitor your inventory will guarantee you won't be overstocked and under-cashed!

- 2. Don't over-extend your credit with vendors.** Thinking you are maintaining your cash flow by buying on credit only means you will be paying later for products that may or may not sell. Many retailers believe it is important to pay COD for products because this will ensure you will not over-buy. It also means getting the best "fast-pay" discounts from your suppliers.
- 3. Monitor Expenses.** Keeping track of your employee costs, utilities, and other costs incurred for operating your store is a daily exercise, not a monthly one.
- 4. Get Rid of Dead Inventory.** Sales and service are the key to good cash flow, so make sure you utilize your inventory to service existing customers and to bring in new hobbyists. Annual tent or sidewalk sales could be considered. (see Section V).

D. TAXES

In constructing your business plan, you probably have already determined what type of company your store will be:

- 1. "S" Corporation** – Usually best for small businesses and start-ups because the money flow on the store is deducted on the individual tax return and the store owner's income is taxed only once. However, once your store starts making money, it can push the individual into a higher tax bracket. At that time, changing to a "C" corporation is recommended.
- 2. "C" Corporation** – Income is taxed both as a corporate entity and as individual income.
- 3. "LLC" (Limited Liability Corporation or Partnership)** – The rewards and risks are shared with a partner and tax filing is simpler.

Keeping good records is essential for filing tax returns. Some taxes are based on whether or not a business has made a profit. Also, tracking expenses will have your accountant substantiate deductions and properly compute net profits. Retailers also have taxable and non-taxable sales and these records will help your accountant file your quarterly tax returns.

Employment Taxes must be paid. It is not recommended that a store owner pay people "off the books" because there is a great legal risk of potential liability should an employee be injured on the job. Having the proper employee insurance is important as well. One area where small business owners get into trouble is not paying employee taxes quarterly. This is an area where a business most frequently gets behind in payments. Stores that watch their quarterly tax returns and stay on top of changes in tax laws can significantly reduce their expenses.

Tax resources include the IRS website (www.irs.ustreas.gov/prod/bus_info/index.html) and 1-800-TAXFORM for a free publication on tax issues for small businesses. Also check your local government agencies for tax laws.

E. SETTING THE RIGHT PRICE FOR YOUR GOODS

Setting prices so they will sell and you can make a profit is an important retail maxim to learn. It is, at best, a balancing act. The starting point in pricing is to set a goal for a profit margin that adequately covers your overhead and provides you with income. Manufacturers' suggested prices can be a good starting point and usually provide a built-in margin. One general rule is that more expensive items typically sell at lower margins while less expensive items that are bought repeatedly have higher margins.

- **"Package Pricing"** – bundling products together at one price.
- **"Odd Pricing"** – selling something for \$1.99 rather than \$2.00 creates a psychological perception that the retailer is trying to give the consumer the very best price.
- **"Multiple Pricing"** – selling something for two for a dollar pricing.
- **Always put your higher-margin items at the front of the store...** to entice an impulse sale. It is also important to shop your competitors – identify those items that are most popular with your customers and competitively price them against your competition. Advertise your popular, lower margin items to get people into your store. These are called "loss leaders."

Adding value to your products helps maintain higher margins. Smart hobby store retailers find ways to add value to their products and services.

Scheduling clearance sales is not just about clearing out dead inventory. Customers may wait every year for your "summer sale" because they know they will get good value on items they use a lot. By doing this once a year sale, your cash flow improves and you can also start "pre-selling" your customers on new items you have pre-selected.

III. MANAGEMENT OF A HOBBY STORE

Experts in operating a retail business have warned potential entrepreneurs to be knowledgeable about the basics of hiring, employee benefits and records, financial information, and employee rights. One of the most difficult aspects of store operations is hiring the right people for the key jobs you envision in the store.

A. Hiring and Firing Policies

In general, hiring procedures as well as those for promotions, pay scales, and reviews are regulated by federal mandates. Rules on hiring practices are driven by the Civil Rights Act of 1964 and the

Americans with Disabilities Act of 1990. There are certain questions you cannot ask of an applicant whether in person or on the actual printed application. Questions on age, race, marital status, children, and health are considered not acceptable to be asked during the hiring process. However, it is important that you be able to determine whether the candidate is legally able to be employed and legitimately able to handle the job for which they are applying. An employer also cannot ask if a candidate has a disability or has filed a worker's compensation suit, and the employer is required to make every effort to remove any barrier to employment to accommodate persons with disabilities.

Because many independent retail stores do not employ a large number of full and part-time people, some of the federal regulations may not apply. However, it is recommended that a store owner incorporate these requirements into their hiring policies.

B. Employee Files

It is not necessary for a small retailer to maintain copious files on each employee nor to conduct in-depth performance reviews yearly. Employee files should contain their current address, emergency contacts, resume and application they submitted when interviewed for the position, medical benefits data if any, and their record of attendance, punctuality, and performance. Any documentation of poor performance should be in the file along with a record of what was done to correct the problem.

C. Salaries and Benefits

Hobby retailers should always follow federal minimum wage laws as well as overtime and straight time laws. In most cases, overtime must be paid at a rate of at least one and one-half times the employee's regular rate of pay for each hour worked beyond a 40 hour work week. Employment of 14 and 15 year olds is allowed with restrictions. Usually, work is limited to no more than three hours on school days and eight hours on non-school days but some states require working papers which must be signed by school officials. All employees must fill out W-4 and I-9 forms (proof of identity and that an employee can legally work in the U.S.). A store employer is required to withhold federal income taxes, social security and federal unemployment taxes, and some states have income taxes as well. Some states require medical coverage be supplied by an employer as well as other leave time such as vacation, parental and sickness leave. Other benefits such as retirement and savings plans are at the discretion of the employer.

D. Motivating Your Employees

Small hobby stores are run by entrepreneurs who have a passion for the business and the products they are selling. This is not always the case with hired employees. Every hobby retailer wants employees who are self-directed, energetic, flexible, knowledgeable, responsible, and customer-friendly. But the

average employee may only be working part-time and for a limited time. It is important that the store owner invest in two or three full-time employees who are interested in retail as a business and in the hobby products on the shelf. While it may be difficult to find these people at first, they can be trained and motivated to want the business to succeed as much as you do. Customer service is the key factor for all employees and they can be offered rewards for their customer service and selling successes.

Here are ten tips for motivating employees to be great hobby store associates:

1. Personally thank employees for doing a good job.
2. Be willing to meet with employees whenever they need or want to.
3. Provide feedback on performance regularly.
4. Encourage new ideas and initiatives.
5. Keep employees in the loop...let them know how the business is doing so they can have a hand in improving it.
6. Involve employees in any decisions that personally affect them.
7. Recognize, reward and promote people based on their performance.
8. Train employees constantly...give them the tools they need to succeed.
9. Celebrate any and all successes with your staff.
10. Be an example of enthusiasm, energy and ethical behavior.

E. Dealing with Store Theft

"Shrinkage" in retail operations is a never-ending battle. Shoplifting is a \$10 billion problem across all retail industries in the United States. What can hobby store owners do to safeguard their inventory?

1. Keep higher-priced products and model displays in locked display cases.
2. Limit the number of on-counter model displays and move them around periodically.
3. Keep your end-cap displays fully filled so you can see right away if products are missing.
4. Install closed-circuit television monitors in high-traffic areas and at the cash register.
5. If affordable, utilize electronic tagging devices on more expensive items.
6. Install good quality locking devices and publicize that your store has security controls.
7. Maintain tight control on return items.
8. Reward employees for maintaining security in the store.

F. Best Customer Relations Practices

The first moments after a customer enters your store are the most important...make sure your store is clean, orderly, bright, and your employees are actively engaged in working.

1. Greet each customer with a smile as they enter the store.
2. Offer assistance politely and let the customer browse if they want to. But always re-offer assistance after a period of time.
3. Stay aware of your customers' interest in certain products so that you may show them a feature or excite them to try the product.
4. Remove any chairs or stools near the cash register as this may encourage workers to avoid customer contact.
5. Make it easy for customers to pay.
6. Treat your "repeat" customers well...know them by name, know their product interests and let them know of sales in advance of advertising.
7. Maintain a liberal returns policy that generates repeat customers.
8. Let your customers "play" with your sample products. They'll often buy when they see what the product can do.
9. Use your best customers' endorsements in your advertising.
10. Always say goodbye or offer a reason for a customer to return to the shop. A flyer on upcoming events or sales should be available to give to all customers when they leave or purchase a product.



IV. SALES AND MARKETING TIPS

Hobby store owners are often hobbyists who turn their hobby into a business. Their sales and marketing skills, however, may not match their modeling skills. Hobbyists/store owners have an initial advantage because they love their hobby and working with model hobby products. They also have the knowledge and expertise to turn customers into hobbyists. There are different selling skills necessary for dealing with a hobbyist v. a non-hobbyist; but one thing is the same – you want to sell them both product and have them come back!

A. Selling to the Repeat Customer – The Hobbyist

The tried and true hobbyist knows what they want and they should get what they want. Setting up demo areas in your store, creating a hobby club, and sending them a newsletter when new products arrive usually gets a hobbyist back

into your store. But one of the best ways to continue to sell to the experienced model hobbyist is to be able to "special order" whatever your customer wants. Consider developing a customer database that keeps track of these special customers and their special hobby. Make sure you record the date of every purchase they make because this will give you a good idea when they will be back in your shop or will contact you for re-orders. Make sure they can re-order as easy as making a telephone call. Then have suppliers lined up to ensure you can special order at any time. Also, let your repeat customers know when these order are in and what's new from your supplier. You may get an ad-on sale with each special order!

B. Selling to New Customers

Hobby retailers should see themselves as creative resources for all kinds of consumers. They must be willing to constantly teach themselves about new products in order to attract and expand their customer base. While hobby stores tend to attract more men than women, today's families can benefit from the creative and fun products in a hobby store. Train your sales staff to look at various products with an eye to what they can sell as an "add-on." Hobby shops are a maze of inter-related products and you are the key to helping your customers get through that maze. Hobby stores are also fun...so you need to show new customers how they can have fun and learn a new hobby. Easy, quick kits and products need to be your sales focus for getting new people into your store. And, always advertise that materials for school projects, seasonal holidays, and scout and church activities can be found at your store.

C. Selling Against the Mass Merchants

“YOU CAN DO IT AND WE CAN HELP!” is the slogan for Home Depot. But can they really help all their customers? Probably not, because they don't carry hard-to-find items or provide the knowledgeable service that hobby products require. One advantage of a hobby store is that stock is highly specialized with a level of quality and quantity that is not found in the mass retailers. But not only are your products specialized, so are you and your employees. You are the source of great knowledge and service – your ticket to repeat customers and those who prize these store qualities over price alone.

Another way to compete against the mass merchant is to make sure you turn over your inventory at least three to six times a year depending on the store's product focus. In retailing today, fresh merchandize and aggressive selling are two keys to success. Many hobby retailers hold onto inventory too long believing that if they mark it down, they've lost their investment. But inventory on shelves means lost money in your cash register and less ability to attract new customers.

D. Niche Marketing

Stocking the right mix of seasonal, specialty and impulse items for your store is key to power marketing. Remember, a hobby store is a “niche” business, but there are many other items other than hobby products that can bring customers into your store that you can turn into a hobby product. You will be able to fine-tune your inventory by expanding into quick profit items that help you move your main products. Look for products that will expand your product lines such as paint, glue, and accessory items that add on to a hobby product.

Use Niche Products to:

- Expand older hobby lines
- Create new areas and department
- Encourage impulse buys
- Change the look of your shop

Buy Niche Products to:

- Target local interests and trends
- Support school or class projects
- Appeal to all types of customers
- Offer high profit, low maintenance in your shop

Market Niche Products by:

- Trying them at holidays
- Placing them at the front of the store or in the window
- Displaying them with related items
- Starting with small orders and re-ordering through catalogs.

V. MARKETING AND PRODUCT BUYING

Who are your customers? What do they want? How can you reach more customers? How do you get them what they want? These are some interesting questions hobby retailers need to ask when deciding what products to buy and how they will attract customers to buy them. Marketing is finding the way to turn customers’ needs into wants – your customers need a diversion, a recreation they can enjoy, a HOBBY. Your store can fulfill that NEED and give them what they WANT through creative marketing.

So, your mission, if you chose to accept it, is to know who your customers are and what they want. Then buy only those products that satisfy those wants. To do this you will need a marketing plan...different from your business plan...and one that includes:

- Your store’s sales history (by month)
- Explanations of highs and lows of selling results

- What your goals are for your marketing approach? i.e. :
 - Increase sales from existing customers
 - Reach out to new ones
 - The perception of your store
- What tactics you can use to reach your goals?
- What is your budget?

You may need to do some “blue-skying” until you open your store, but marketing after the fact may not get you through your first year. Check out other hobby stores as well as other independent shops in your area. What are the elements of retailing that have kept them in business? Look at local advertising vehicles and go to a store that’s having an annual sale. Your business plan and your marketing plan should go hand-in-hand, and both will lead to good decisions on buying, marketing and ultimately selling your store’s products.

A. Marketing Tips

Workshops, shows, competitions, clinics, newsletters, and continuity programs are all ways to enhance your customer marketing

1. **Workshops** – giving customers the ability to try out your hobby products can turn them into lifetime hobbyists. Make sure you have some area in your store where customers can “try on” products either in a demo, or attend a full-blown class.
2. **Shows** – your hobby store can be the showcase for local flyers, racers, modelers, and trainmasters. Find out who they are, give them the place to show off their skills or sponsor them at an event, and become the catalyst for not only their sales, but their friends and fans.
3. **Competitions** – many scout packs do not have the location for pinewood derby races or other hobby events. Make room in your store for a track and invite them in for their annual competitions. Make sure you know who and what the hobby clubs are in your area...they can help you run races and events.
4. **Clinics** – find out who are long-time hobbyists in your area and treat them like local celebrities. Get them to appear at your store and give a clinic on building a train layout, flying a helicopter, or working on a model car.
5. **Newsletters** – develop a customer list by installing a computer/cash register that captures their information with each purchase. Announce events, sales, and how-to’s in a monthly customers newsletter. Send email notices too!
6. **Continuity programs** – this is any type of ongoing promotion that provides an incentive to your customers to shop again and again in your store. These could also be preferred customers sales, discounts for educators and religious groups, or even senior citizen discounts.

Make sure your store employees know who the “repeat customers” are by name and treat them like royalty.

B. Product Buying

Purchasing product and inventory control can be a daunting task for a new retailer. Establishing a relationship with a credible distributor may be a good place to start. Knowing what specific products you want to make the centerpieces of your store is another factor that will help you hone in on your decisions. Hobby stores are seasonal in product sales so you will need to know what items to buy for higher volume turnover and what products to have on hand to generate off-season sales. Initially, you will not have sales stats to identify what to buy so you will need to make some assumptions based on your business plan and your hobby distributor. Some of your capital will go immediately into stocking preferred manufacturer lines and known sellers. You need to be flexible to accommodate consumer trends.



VI. STORE DESIGN

“What you see is what you get” is a saying that can be applied to any retail store. What customers see from the outside of your store is most likely what they will see when they enter it. So, always make sure the outside of your store reflects what is inside – a clean, well-lit, well-organized, and efficient operation. Your store’s signage is your signature and should include a logo that tells customers what they can buy inside your store...hobby products. So, make sure all your signage is consistent with this message.

New hobby shop owners may not have extra cash to spend on elaborate signs and displays. Therefore, it is important you adapt your signage to the type of store location you have. If your store is set back from a major highway, concentrate on simple, clear signs that emphasize the type of store you are. If your store is in a mall, you may want to utilize colorful and creative window displays to attract customers. Hobby shops are interesting places and showcasing product activity and fun items in your windows will draw a crowd. What’s better than seeing an interesting and running train display in a window at holiday time? Or a hobby expert building a model at a workbench in the window? Window activity and displays are your more cost-effective form of advertising, so use that space well!

Here’s a simple list of things to DO’s and DON’T’s when building your store design:

DO:

- Develop a store mission statement and overall concept for your logo, signage, and displays
- Consider what you can do outside the store to attract customers
- Think about who your customers are and what appeals to them
- Plan store lighting to highlight products

- Chose colors that reflect your overall concept
- Design a store traffic flow pattern that allows customers to move easily through your store
- Organize your merchandise by category
- Think carefully where to locate your checkout and service areas
- Re-arrange your merchandise regularly
- Feature your store theme or logo in all your signs, packaging, and advertising

DON’T:

- Clutter your store
- Assume that your store design does not affect the purchasing tendencies of your customers
- Fail to know about lighting and color trends
- Underestimate new designs in fixtures and display items
- Think you have to do-it-yourself – utilize graphic art services that will enhance your store’s look
- Pick store colors that will alienate different types of customers
- Assume merchandise can’t be touched
- Put a project where people can’t see it
- Close your business when re-designing your shelves or windows
- Forget that you need to refresh, refocus, and redesign your store regularly!



VII. TECHNOLOGY

You don’t have to be a technological genius to run a hobby store but you do need to have tools that will help you manage and grow it. Managing inventory is one reason to computerize your operations because today’s retail operations need software systems that will integrate financial and inventory management all in one.

A. “Point-of-Sale”

(POS) software and hardware systems help a retailer stay on top of inventory while gathering information about customers. POS systems help you keep track of sales on an SKU (Stock Keeping Unit) basis, manage inventory levels, order more wisely, and reduce shrinkage. Every time you sell an item, the number is recorded at the computerized cash register. The inventory program adjusts its levels and the bookkeeping software records what has been sold and at what price. Most POS systems will notify you of what needs to be ordered automatically and may even place orders with distributors. You will be able to get reports on profit margins, best sellers, and which items need price reductions.

POS systems can also help you create a database about your regular customers' purchases and buying habits. A good system can generate reports, mailing labels, and market data that will help you not only hold onto customers but target new ones.

The downside to POS systems is that they do cost money and time. Essential elements of a POS system are:

- terminal, cash drawer, and display
- printer
- computer that runs compatible software

These basic elements cost anywhere from \$2,000–\$5,000 depending on how elaborate the system is. Make sure you include your technological outlays in your business plan and capital requirements.

B. Bar Code Readers

Bar code readers are add-ons to the POS system which enable you to scan UPC codes into the computer and print labels to affix to your products. A hand-held scanner can also help you take inventory on the store floor. These cost \$500–\$1,000.

C. Internet Ordering

The Internet is the fastest growing source of mail order sales. It's estimated that consumers spent \$44.5 billion on Internet-based goods and services in 2000 – \$11.5 billion alone during the holiday shopping season. The explosive growth in the goods and services sold online has, in the past, taken many online sellers by surprise: demand has outpaced supply, depleting inventories and disappointing customers. You have chosen to open a "brick and mortar" store, so your initial internet presence may be as a supplemental way to get your store noticed and attract local customers. Marketing over the Internet and the World-Wide Web can bring results in the form of leads, direct sales, publicity, and image-boosting. Get to know the medium. Work up a sound strategy. Seek out appropriate online marketing methods that will get your selling message across while respecting other Internet users. Promote your Internet presence through offline channels. Let your regular customers and the public know about your Internet presence. Put your e-mail address and URL on your business cards, stationery, ads, brochures, packaging, and signage – anything you can think of. Send out press releases. Get the word out.

Many distributors have ordering systems in place that allow you to place orders directly through the internet. You may also want to sell products directly through the internet and install shopping cart ordering for your customers. Pay Pal, Cyber Source, and EBay ordering systems are easy ones to set up on your website.

VIII. FINDING THE RIGHT RESOURCES

Opening a hobby store in today's mass retail and online ordering environment is a challenge. However, the model hobby industry is under-stored and has few large chain retailers to meet consumer demand. It is important to understand not only the business of retailing, but also the business of hobbies. What are the current sales trends, consumer dynamics, availability of product, manufacturer/distributor channels, and future outlook for the industry you are about to enter? You and your store have a greater chance of success if you do the research up front.

Hobby trade and consumer shows, franchise operations, and independent store owners should be visited and contacted to see what this business is all about.

Here's a list of resources you should contact before writing your business plan:

Hobby Trade Associations

Hobby Manufacturers Association – www.hmahobby.org

National Retail Hobby Stores Association – www.nrhsa.org

National Model Railroad Association – www.nmra.org

International Plastic Modelers Society – www.ipms.org

National Association of Rocketry – www.nar.org

Craft and Hobby Association – www.cha.org

Game Manufacturers Association – www.gama.org

Franchise Stores

Hobby Town USA – www.hobbytownusa.com

Trade Publications

Model Retailer – www.modelretailer.com

Model Railroader – www.modelrailroader.com

Hobby Merchandiser – www.hobbymerchandiser.com

Produced by the
Marketing and Promotion Committee
of the
Hobby Manufacturers Association

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