

Entrepreneurial Challenges in a Declining Industry: The Case of Hobby Shops

Joseph E. Pluta

Professor and Chair

Department of Economics

St. Edward's University

Austin, TX 78704

Abstract

An aging clientele and electronic commerce have reduced profits and forced exit in the model railroad segment of the hobby store industry. Faced with rising costs, diminishing advertising support from manufacturers, and a potential threat from chains, family run hobby shops must more accurately assess local demand and provide knowledgeable guidance to aspiring hobbyists if they are to avoid extinction. Based on interviews of over 160 hobby store owners in the United States and Canada as well as representatives of more than twenty current model train manufacturers located in Asia, the U.S., and Europe, recommendations offered in this case study are potentially valuable to other small businesses in declining industries.

Introduction

Over the past half century, rising affluence and increased leisure time have fueled interest in a wide range of indoor hobbies including sports cards, doll houses, antique toys, coins, stamps, model airplanes, and other collectible items. In response, a variety of retail hobby stores has provided supplies and expert counseling to aspiring collectors and modelers. While thousands of such family run shops still survive across the country, increasing competition from electronic commerce (Bajari & Hortacsu, 2004) and declining demand have made this industry far less profitable than it once was. As the economist's model of imperfect competition (Robinson, 1933; Chamberlin, 1933; Veblen, 1904) predicts, the result has been an exit of firms, which is likely to continue, as profit levels remain modest in some cases while nonexistent in others. Survivors have tended to specialize by catering to local interests, participating in regional hobby shows, and pursuing electronic sales themselves. The model railroad segment of the industry offers a case study of strategic planning, creative pricing schemes, and inexpensive advertising experiments, all of which provide valuable lessons for small businesses facing difficult circumstances.

Manufacturing Model Trains: A Brief History

For more than a century, product differentiation has clearly been evident in both the size of model trains as well as in brand names that reflect distinct differences in quality and design. Manufacturers of model railroad equipment today provide several sizes ranging from the largest (G scale) to the smallest (Z scale). G, popular in outdoor layouts, is nearly ten times larger than Z, which can run on a fireplace mantle or inside a briefcase. Scale is the size relationship between the model train and the actual train. G is built 1:22.5 scale (one actual foot = 22.5 feet on the model) while Z is built 1:220 scale (one actual foot = 220 feet on the model). O gauge and standard gauge trains were very popular before World War II. Gauge is the width of the track or the distance between the rails. Early tinplate trains were not always in scale, that is, not in exact proportion to each other or to real trains. Engines modeled after 1920s' era electric powered locomotives, for example, were sometimes a different scale from the freight cars they pulled but both fit on the same gauge track. Tinplate refers to pre-1940s model trains that were made of iron and plated with tin to minimize rusting. Standard gauge was similar in size to the current G scale while O is roughly half as large as both.

The major American manufacturers of O gauge trains initially were Ives, Lionel, American Flyer, Hafner, Dorfan, and Marx. Lionel acquired Ives in 1930 and American Flyer in 1967 while Dorfan ceased production in 1934. Marx purchased the assets of Hafner in 1956 (Souter & Souter, 2002). The O gauge segment of the market in recent years has seen growing competition from relatively new manufacturers beginning with Weaver in 1965 and quickly followed by Williams in 1971, K-Line in 1978, and Mike's Train House (MTH) in 1980. K-Line was acquired by Lionel in 2006.

Prior to the Great Depression, sales of standard gauge trains soared. As the economic downturn lingered, however, their pricy upscale designs were no longer within reach of the average consumer (Miller, 1999). Carlisle & Finch, the first company to mass produce electric powered model trains, was a major early standard gauge manufacturer between 1896 and 1916. Lionel stopped making standard gauge in 1940, and Boucher, which produced no other size, went out of business in 1943. The revival of large trains was sparked by German manufacturer Lehmann Gross Bahn ("Lehmann's Big Train") when it began producing completely weatherproof G scale models in 1968. G comes from Gross, the German word for "big," although some conveniently say G refers to Garden, where the trains are designed to run. Aristocraft, USA Trains, Bachmann, Hartland Locomotive Works, and a few other firms also currently manufacture G scale products.

The smaller HO and N scales became increasingly popular during the 1960s and 1970s and remain so today. In the HO segment of the market, leading American firms have included Associated Hobby Manufacturers (AHM), Bachmann, Athearn, Kato, Roundhouse, Tyco, Atlas, Intermountain, and Walthers. These and a few other HO and N scale producers have filled the market niche for smaller models. Other scales such as S (slightly smaller than O) also attract a loyal, but considerably smaller, following. American Flyer produced a successful line of S scale trains for many years while American Models, S-Helper Service (Showcase Line), and Des Plaines Hobbies are the leading S scale sellers today.

Foreign manufacturers of all gauges and scales have entered the American market at various times during the past century. Competition has come from Germany (Marklin, Bing, Fandor, Bub, and Issmeyer); Britain (Hornby, Lima, and Bassett-Lowke); France (JeP); Austria (Roco); Italy (Rivarossi); Switzerland (Hag); Spain (Paya); and Japan (Sakai). The first “train sets” were sold in the 1890s by Marklin and Bing, both of whom pioneered O gauge, which would later be copied by Ives and Lionel. Bing also was the first to manufacture HO products in 1922 (Carter, Garratt, Jackson, Johnston, Middleton, & Zimmerman, 2002, pp. 150-151). Other manufacturers in selected countries have also attracted American buyers.

Model train manufacturers have recently experienced some of the same global pressures felt in other industries. Internet sales, for example, have clearly stimulated international trade among collectors worldwide (Melnik & Alm, 2002). The search for lower labor costs has been an even more significant factor. Lionel moved its facilities to China in 2001 where K-Line, Williams, and Weaver were already established for over a decade. MTH products have been made in South Korea since the 1980s (Johnson, 2001, p. 6). A similar early 1980s attempt to move its operations to Mexico proved to be disastrous for Lionel, largely because of quality control issues. Some Lionel trains and parts were also produced in Japan in the late 1960s (McComas & Krone, 2000, p. 219). Successful European firms have likewise sought the economic advantages of producing in Asia. Only the Marx line is still produced in the U.S. by a firm called Ameritrains, which is based in a Chicago suburb.

Lawsuits filed by rival firms have become increasingly common in the manufacturing segment of the industry. In 2004, for example, Lionel was found guilty of stealing production designs from MTH. In December of 2005, the Union Pacific Railroad filed a lawsuit against MTH, Lionel, and Athearn, accusing these firms of using the logos of Union Pacific and railroads which it has absorbed without a license and without paying royalties. Retail storeowners have more than occasional disputes with individual manufacturers. Slow delivery (items are rarely available when catalogues promise) and unrealistic demands upon retailers are common complaints. All of these factors have further prompted retailers to leave the industry.

Response to Local Preferences

Given the wide variety of sizes and brand names available, hobby shops today often specialize by handling primarily one or two scales that they buy from a relatively small number of manufacturers or distributors. Different regional and

local patterns of demand are becoming increasingly evident. Collectors in one community may be drawn to N scale while hobbyists in another town prefer O gauge. Larger cities may be home to collectors of more diverse sizes than less populated areas. A few stores in the largest U.S. metropolitan areas carry multiple scales as well as the products of several manufacturers. Hobby shops in most Canadian cities, on the other hand, sell almost exclusively HO products.

Repair capabilities, including the availability of parts, vary widely from store to store. Some sellers carry larger quantities of operating accessories such as switch track and passenger stations while others specialize in rolling stock like engines and hopper cars. Some hobbyists themselves may be more interested in mechanical operating efficiency of equipment while others pursue realistic scenery. A growing number of stores now stock such specialty items as railroad videos, books, memorabilia, postcards, calendars, magazines, T-shirts, caps, coffee mugs, clocks, patches, magnets, and railroad art. To this lengthy list of product differentiation opportunities, one might also add return policies, shipping and handling charges, acceptance of payment mechanisms (credit cards, money orders, electronic payment services such as PayPal™, etc.), and friendly communication when a store is selling on eBay (Melnik & Alm, 2002).

In addition to model trains, many hobby stores carry a diverse range of other products. Model airplanes, military models, ceramics, dolls and doll houses, other toys, and various crafts often complement items that target railroad enthusiasts. Local needs best determine the specific product mix made available by a given store. Some stores have added various miniature buildings and human figures to their range of offerings. Such items may be included on model railroad layouts to add realism in construction of towns and winter scenes. Some hobbyists enjoy modeling local railroads and building scenery based on the surrounding area in which they live. When a railroad line passes through a community, it is common for a store to stock the particular road name such as the Alaska Railroad, Ontario Northland, or Monon.

Serious collectors have specific interests that the astute storeowner is wise to learn. These might include boxcars of a particular era, steam locomotives, engines with extra power capabilities, or products of a given foreign manufacturer. If local clientele enjoy do-it-yourself projects, a store’s approach would likely include a large collection of kits for train stations and other railroad buildings that require assembly and allow creative detailing. Stores often also stock paint supplies of unusual colors and shades not readily available at local paint stores.

Some Data Issues

Because several combinations of items sold at “hobby shops” exist, it is virtually impossible to use data from the standard industrial classification system to track and analyze sales of any single hobby category such as model trains or airplanes. SIC code 5945 (Hobby, Toy, and Game Shops) is broken down into six separate categories: ceramics supplies-retail, craft kits and supplies-retail, game shops-retail, hobby shops-retail, kite (toy) stores-retail, and toy and game stores-

retail. Other hobby stores that sell various collectibles are listed in SIC code 5999. Model trains are sold in stores that also sell items included under several of the above categories as well as in thousands of antique stores. Efforts to collect data on number of retail outlets that sell model trains as well as on other aspects of this segment of the industry did not produce reliable figures that could have been subjected to standard statistical analysis.

As a result, the decision was made to offer an evaluation of the current state of the hobby shop industry based on information collected from interviews (conducted between 2004 and 2006) with over 160 hobby shop owners and model railroad dealers in the United States and Canada as well as representatives of over 20 of the current leading model train manufacturers, based primarily in Asia, the U.S., and Europe. Many of these manufacturers were assembled at a February 2006 Houston model train show sponsored by Kalmbach Publishers while others were contacted individually. The arguments and conclusions presented here represent a synthesis of majority views of manufacturers and retailers with generally accepted principles in neoclassical microeconomic theory and institutional economics. While availability of reliable hard data would have enabled conclusions supported by more rigorous statistical tests, the absence of such numbers should not prevent informed and careful analysis of an industry whose successful entrepreneurs have survived without information provided by trade associations or government statistical services.

Market Setting and Ability to Influence Price

The hobby store that sells trains is one of the few remaining examples of a venture consisting primarily of family run small businesses and partnerships. Over 98 percent of survey responses in the U.S. and 100 percent in Canada indicated this was their form of business organization. *Chain stores have had little or no impact.* A 1990s national effort called the Great American Train Store failed largely because of poor management. Other chains like Hobbytown devote only a portion of their shelf space to trains and concentrate on a wider range of toys for children and adults. Toys-R-Us once sold HO trains and a few O gauge beginner sets but no longer does so. In more generic hobby stores (those that sell diverse crafts, art supplies, scrap books, seasonal and other home decorative items, jewelry and quilting supplies, etc. but no trains), chains such as Michael's and Hobby Lobby have played a major role, especially in providing generic paints, balsa wood, and hobby tools. Of course, Wal-Mart also carries several of the above listed items. Even when these "hobby super stores" are included, the hobby shop industry still fits nicely into the market structure of imperfect competition (Pluta, 2004, p. 192) because individual market shares remain reasonably low and excess capacity is common (Crotty, 2002).

Excess capacity is the tendency for the most profitable point of operation to occur where some amount of space remains idle. Restaurants, gasoline service stations, clothing stores, and other small businesses routinely experience this situation. Storage of unsold inventory in hobby shops occupies some space because of the difficulty in predicting which items will be in greatest demand. Excess capacity may be evident in store aisles that

draw limited attention as well as in storage rooms where repair parts and less attractive stock accumulates. Some storeowners who develop a personal attachment to some of their inventory may be reluctant to reduce prices to keep items moving or unwilling to discontinue less profitable product lines.

The problem may be especially acute for sellers of older trains. When acquiring used items at estate sales or garage sales, dealers often must buy several boxes of inventory to get the one or two quality pieces that they contain. While the quality goods may be sold at a profit, the remaining stock may find a semi-permanent home in a back storage room until specific repair parts are needed. Storage space is essential but sometimes may be quite costly, an expense most small businesses would prefer to minimize. Over 70 percent of survey respondents agreed that excess capacity in the form of storage space limited their opportunity to display items to customers.

Even a small firm may possess some monopoly power if it is the only seller of its product in a small community. A train store in a small town is likely to be the only such store for miles. Nevertheless, the popularity of e-commerce sales has forced all sellers to be more competitive price wise. Private individuals routinely sell on eBay where they do not have to pay state sales taxes, putting hobby shops at a further competitive disadvantage. Stores are required by law to charge sales taxes when they sell online to instate buyers. Control over price in the hobby store industry at first may appear to be limited, if it exists at all.

The exception occurs when a seller provides a highly specialized good or service. A relatively small group of individuals, for example, restores pre-World War II tinsplate trains (Plummer, 2001). This is a very time consuming, labor-intensive activity. It involves breaking down railroad cars into original factory made parts, stripping old paint, reshaping dented or bent pieces, removing rust, servicing motors, rewiring electrical components, polishing brass or nickel trims, carefully priming and repainting in original colors, sometimes drying repainted items in an artist's kiln, reassembling the car into like new condition, and finally attaching decals to indicate road names, such as Maine Central, Canadian National, etc. Quality differences are inevitable. The more reputable the restoration expert, the greater the control over price. When fairly rare pieces are offered for sale, hobby storeowners may have some ability to influence price. Limited runs by the manufacturer, when only 500 or fewer of a particular locomotive or boxcar were ever made, result in such items being more expensive to acquire. The percentage mark up by stores is probably greater but the overall impact on total revenue is likely modest. Some hobby shops deal in rare older trains that specialized collectors seek. Fewer than 20 percent of survey respondents pursue this segment of the market. Condition and scarcity of old rolling stock and accessories are major factors influencing price. A 100-year-old Ives train set in near mint condition will likely bring its seller several thousand dollars. Antique model trains have much in common with antique furniture, classic cars, and other collectibles. If a hobby store is able to find an interested buyer with considerable disposable income, it will have succeeded in influencing price and gaining profit on the rare antique.

The Important But Diminished Role of Advertising

Among the few options financially strapped hobby shops have, word of mouth advertising from satisfied customers is likely the most effective and least expensive strategy. Most owners (over 80 percent of survey respondents) advertise selectively through fliers distributed at train shows, emails sent to former customers, occasional ads printed in hobby magazines or the yellow pages, websites, and signs as well as small displays in store windows. Name recognition is important in the mind of the buyer. This is true both in terms of individual retail outlets, such as Joe's Train Store, as well as brand names, such as Dorfan or Marklin.

Fifty years ago, manufacturers spent considerable sums on advertising that directly benefited retail sellers. Television ads for firms like American Flyer were quite common. Lionel even briefly had its own television show, the NBC Lionel Club House, hosted by New York Yankee great Joe DiMaggio (Hollander, 1981, p. 209). Ads in popular magazines were numerous. Such producer sponsored advertising no longer exists. Annual catalogues and websites, both often colorful and otherwise professionally done, are the manufacturer's major advertising vehicles today. On rare occasions, manufacturer's representatives appear at train shows with local storeowners to pitch jointly their products. Opportunities for consumers viewing websites to buy directly from the manufacturer, however, are obviously harmful to hobby shop owners. What strategies (Dewenter, 2005), therefore, remain for family run hobby stores to reach potential customers?

Economists argue that business firms advertise to increase demand for their product, lower the price elasticity of demand, and take advantage of economies of scale (Pluta, 2006, pp. 156-159). Hobby stores generally advertise to pursue the first two of these goals but only rarely the third. Fliers and ads in hobby magazines, for example, do aim to draw more buyers. The elasticity goal is more difficult to achieve. Price elasticity is a measure of consumer responsiveness, formally defined as the percentage change in the quantity demanded of a good divided by the percentage change in its price. When consumers are very responsive to price changes (demand is relatively elastic), they buy substantially less at higher prices. Consumers perceive such goods to be not very essential to their needs and, therefore, luxuries. When consumers are fairly unresponsive to price changes (demand is relatively inelastic), they buy nearly the same amount at higher prices. Consumers consider such goods to be necessities. When costs rise and higher prices appear inevitable, any seller would prefer to face relatively inelastic demands for their products.

Rising costs have affected hobby shop owners in several areas in recent years. Manufacturing costs have risen, rents are rarely stable, heating and cooling have become more expensive as fuel prices have risen, and qualified sales personnel are increasingly difficult to retain without some type of benefit package. (Nearly 69 percent of survey respondents identified these as the major factors affecting their costs.) Since many hobbies are perceived to be luxuries, when prices rise and demand is elastic, total revenue falls. The difficult task confronting hobby storeowners is convincing consumers that hobby items like trains are necessities, not luxuries. A major problem is that advertising budgets of large corporations far

exceed the limited resources available to family run businesses for such purposes.

Despite this competitive disadvantage, the task for hobby storeowners has proven to be not nearly as formidable as it first might appear. Collectors of rare items and hobbyists in general are to some extent "driven" in their pursuit of treasure. As such, they may not be entirely rational consumers, at least in terms of most theories of consumer behavior. To the serious collector, therefore, the product is a necessity. (Over 62 percent of survey respondents agreed that "serious collectors" are their primary customers while over 72 percent indicated their customers view the hobby as more of a necessity than a luxury.) Impulse buying and interests that last a lifetime are not unusual. Train collectors often have the reputation of embracing their hobby with some degree of fanaticism, as many "train widows" can convincingly testify.

There is yet another aspect to this argument. *ALL* consumers spend *SOME* of their income on entertainment. Whether music, hiking, snow skiing, or chess dominates one's free time, all people seek a diversion from stressful activity. In this sense, expenses on hobbies may be less luxurious and more necessary than initially thought. The key variable then becomes the price of alternative forms of entertainment. Consumer responsiveness here is measured by the cross elasticity of demand or the percentage change in the quantity demanded of one good (trains) divided by the percentage change in the price of another good (music). As long as the price of other entertainment outlets remains high and/or rises, some demand for hobbies will exist.

Moreover, as with most collectibles, an element of snobbery occasionally surfaces. Some collectors would prefer to own that rare, expensive pre-World War I antique trolley than a newer more mechanically proficient model that any train enthusiast can afford. A few hobby shop collectible items may in fact be Veblen goods (Veblen, 1899, Ch. 4). Most goods are subject to the law of demand that states that price and quantity demanded are inversely related. Consumers, in other words, will buy more at lower prices than at higher prices. Veblen goods are a theoretical exception to the law of demand. In this case, consumers buy more at higher prices because of the status that ownership of such goods conveys. Designer clothing, BMWs, and fine wines are examples. The concept was first advanced by Thorstein Veblen, an American economist and social critic, who satirized the spending habits ("conspicuous consumption") of the idle rich. Not many hobby shops sell huge quantities of such goods but those who sell even a few have a relatively easy job of convincing sophisticated collectors of their worth. Casual hobbyists, especially those with limited incomes, more accurately fit the definition of consumer rationality.

Advertising that attempts to reduce price elasticity of demand works best when sellers successfully differentiate their products and emphasize these differences in their ads. Quick repair services, generous exchange/refund policies, friendly advice, large stocks of specific brand names, fast special orders of unstocked items, and frequent sales featuring discounted prices are all possible claims stores might make. Because of limited advertising budgets, website ads and the personal touch may be the most effective methods of making product differentiation pitches to consumers.

It has been difficult for hobby storeowners to take advantage of economies of scale (the ability of large firms to produce at lower unit costs than small firms can), which are generally possible because of greater division of labor, greater specialization of management, and better use of the latest technology such as robots on an assembly line. Few economies of scale exist in this segment of retailing and few hobby stores are large enough to reach a genuinely mass market. Retailers may obtain discounts when buying in bulk from manufacturers but it is a rare locale where large numbers of a single item can be sold. As a result, hobby shop advertising has rarely pursued economies of scale. Even if achieved, reductions in cost and, therefore, price savings to consumers tend to be modest.

Pricing Strategies and Ease of Entry

Depending on circumstances, business firms may choose to maximize profits, minimize costs, or maximize revenue. In recent years, many hobby shops have operated in a survival mode (Hall, 1994) while struggling to minimize losses. When might owners set prices to pursue each of the above strategies? If some rare old model trains are luxury goods, the income elasticity of demand is greater than one or the percentage change in sales is greater than the percentage change in income. Sales of hobby stores in such cases respond significantly to fluctuations in local economic conditions (McGrath & Vickroy, 2003). When income levels drop, consumers first cut expenses on luxury goods. Hobby shop owners would likely minimize costs by reducing personnel, carrying less expensive items, and even seeking less costly rental space.

In prosperous times, sales of luxury goods rise appreciably. Under these conditions, the maximizing revenue strategy (or "make money while you can" philosophy) may be most appropriate. If good times are expected to be long lasting, expanding retail space and carrying more diverse, including more expensive, items may be advisable. The maximizing profit strategy, however, is still the driving force behind long run entrepreneurial activity.

Special sales, particularly when inventories accumulate, are common in hobby stores even if formal price wars are not. Because so many dealers know each other (certainly locally and maybe even regionally), rivalry and the quest for market share may be subtle but, nevertheless, are present. No single seller in the industry commands even a measurable share of the market nationally. At the local level, however, where perhaps only three or four stores exist, owners may be quite conscious of relative market shares. Even though no formal mechanism exists for calculating market shares locally, hobby storeowners, like entrepreneurs in any small business, seek to reach a wider audience than they presently have.

Occasionally, price discrimination is practiced in model train sales. Storeowners receive different prices selling online than they do for in-store purchases. One is not necessarily consistently higher than the other but one market is international while the other is local. Train shows have lower admission prices for children than adults. A storeowner will sometimes give children a better price on some items to encourage them to become serious about the hobby. "Long time" customers or buyers of multiple items may also receive such special treatment.

Barriers to entry, common in the corporate world, generally do not affect the hobby shop industry, although the limited size of the market certainly discourages prospective entrepreneurs. Some requirements must be fulfilled before a seller can become an official Lionel or Marx dealer and stores located in upscale shopping malls face higher rents than those in less commercially attractive sites. No artificial barriers such as licenses or patents exist. Similarly, neither economies of scale nor minimum efficient size issues are restrictive. Minimum efficient size is the minimum amount of output that a firm must achieve in order to take advantage of all potential economies of scale. While both are classic barriers to entry, neither restricts entry into the hobby shop industry. A private collector who pays \$50 or so for a table at a weekend train show has, in principle, entered the industry, even if the stay is brief. The size of the initial investment for actual hobby shop owners depends on both the amount and quality of merchandise.

Many new hobby storeowners have already built up considerable inventory as long time hobbyists themselves. Much of the initial investment, then, has already been made and may be considered a sunk cost. Hobby stores in many instances are born because prospective entrepreneurs seek second careers after working for extended periods in unrelated occupations. Owners of these retail outlets include a number of former corporate executives, government employees, college professors, retired military personnel, and former railroad employees. (These are the five major previous occupations identified by survey respondents.) Like many small businesses, entry into the hobby shop industry is relatively easy while financial success is far more challenging.

Consumer Profile and Outlook

Model train collectors represent a cross-section of America. Some actually worked for railroads in various capacities including engineer, conductor, brakeman, mechanic, or executive. Others have pursued diverse occupations unrelated to railroading but have admired the rails from afar. Some are very well educated while others never finished high school. Collectors are also ethnically, politically, and religiously diverse although far more men than women are model railroaders. Some railroad enthusiasts have modest incomes. Others are quite wealthy and have enjoyed success in such fields as entertainment, sports, and music. Actor/singer Frank Sinatra owned and operated a huge train collection, as did former Brooklyn Dodgers catcher Roy Campanella. Current rock legend Neil Young, father of two physically handicapped sons, invented an electronic device in 1992, which allows children with various disabilities to operate trains more effectively. He later perfected a digitally recorded sound system called RailSounds (Souter & Souter, 2002, p. 149) and became part owner of the Lionel Company.

A major problem the industry faces is the aging of its clientele. Many postwar baby boomers owned model trains as children and remember when real trains were a more important part of the transportation industry, especially passenger travel. Most young people today have never boarded a train in the U.S. and have greater interest in computer games and other electronic toys than model trains. Model train producers have

developed remote control units that can run multiple trains simultaneously, cameras inside of engines that enable operators to view passing scenery as if they were aboard the train itself, and more realistic sounds that imitate actual trains. These and other technological advances (Edwards, 2003) have been designed in part to woo the younger consumer. As light rail transportation becomes more prevalent in urban communities and as high speed rail emerges as a force in medium distance transportation (Johnston, 2004), young customers may return to some degree.

Aging collectors have had some success in reviving interest in the hobby. As many have become economically successful, they have been able to buy trains that they could not afford as children. The sheer number of people in this age group has prevented demand from falling more than it actually has. Older model train enthusiasts have also encouraged their children, grandchildren, nephews, nieces, and friends to take up the hobby. The competition from other forms of entertainment for the young consumer, however, presents a formidable challenge. How retail stores and manufacturers adapt to these changing demographics and tastes will have much to say about the future of the industry.

Successful hobby stores today are fairly large in size, which suggests that achieving some economies of scale may in fact be possible, especially in larger metropolitan areas. This may tempt some potential entrepreneurs to pursue the "super train store" strategy of carrying several train sizes, stocking the products of multiple manufacturers, and dealing in both new and used items. Such a move would ignore local or regional collecting patterns and would require huge inventories likely to move at highly different rates. Where local tastes favor O gauge products, for example, carrying multiple sizes would likely contribute more to excess capacity and reduced profitability than a diverse customer base.

As with all small businesses, success in hobby stores will most likely be based on an accurate assessment of local demand and then meeting it with quality products. If collectors in cold climate metropolitan areas prefer HO and N scale due to space constraints, recognizing that market segment is critical. Similarly, G scale "garden" trains may have greater potential in warmer climates where outdoor layouts would have a longer running season. Hobby enthusiasts who become entrepreneurs sometimes fall into the trap of stocking what most interests them rather than what meets local tastes.

Combining specific model train products with other hobby items such as model airplanes, selected toys, and even modern electronic gadgetry may well drive entrepreneurial strategy over the next decade. Consumer surveys, a tool rarely used by hobby shop owners even in large cities, could reveal the mix of inventory that most accurately meets local wishes. E-commerce sales enable shop owners to compete in larger geographical markets and have already become an essential component in a successful survival strategy. Unless hobby storeowners establish more up to date vehicles for assessing customer needs, either a continued industry decline or modest sales of model trains by marginally interested chain stores appears inevitable. Chains that currently sell some beginner train sets and a few accessories have already established a reputation for hiring

inexperienced employees who know little about the products they sell. The entrepreneurial challenge for the family-run hobby shop is to provide the knowledgeable personal touch, which, despite recent setbacks in the industry, they are still best capable of delivering.

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About the Author

Joseph E. Pluta is Professor of Economics and Chair of the Department of Economics at St. Edward's University. His Ph.D. is from the University of Texas at Austin and his current research interests include applied microeconomics and the history of economic thought. He is the author of 14 books and over 50 articles and book reviews in academic journals.

E-mail: joep@stedwards.edu

Entrepreneurial selling is fundamentally different from what salespeople do in a large company. In an established firm, the salesperson stands on the top of a powerful pyramid of resources – a company fully staffed with product development experts, marketing mavens, customer service. Waverly Deutsch and Craig Wortmann – Entrepreneurial Selling. Page 6 of 21. At each step in the entrepreneurial sales process there are challenges specific to startups that are not present in the professional selling environment.

FIGURE 4 Four Stage Entrepreneurial Selling Process. Entrepreneurial selling is a four-stage process (see figure 4): 1. Selecting the Target.