

The Business Vanishes

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In January this year Guy Bowers, editor of Wargames Soldiers & Strategy, posted an article online about disappearing wargames companies¹. He mentioned the part-time nature of many wargames business and provided three examples of businesses, and their ranges, that were no longer available. He closed by advising people to buy while the ranges are available because the company may not survive in the long term.

This set me thinking: why does our hobby suffer in this way with ranges, and small and medium sized manufacturing companies, disappearing on a regular basis?

It is important to say at the outset that I'm not talking about ranges that have failed the test of time and aged badly, but about well researched ranges using high quality sculptors etc. Neither am I talking about pure retailers or the larger, more established, wargames businesses as the underlying issues can be very different.

As with everything it all comes down to quality but not just in the products but in the way a wargames business is planned and run. It is incredibly easy to set up a small wargames business these days but it's still very hard to build a solid reputation and increase sales whilst making a profit year after year.

Low Cost Of Entry

Assuming the availability of a few thousand pounds, and a bright idea, it is perfectly possible to set up a wargames business producing your own range of figures relatively quickly.

It is not difficult to get expert help with the three main stages: origination, production and sales. If you can't sculpt there are many great freelance sculptors available in all of the popular scales from 6 to 32 mm and an excess of research materials for inspiration. Mould making services are readily available for both master and production moulds. Many of the mould makers also offer third party casting services if you don't want to invest in casting equipment. Setting up a web site has never been easier and adding PayPal buttons to a blog can provide a basic web shop in hours.

Having done all this the real problems begin. Just as the low cost of entry makes it easy for you to innovate it also makes it easy for the competition, greatly increasing the chance of other people doing something similar. I don't mean producing another range of exactly the same 28 mm Napoleonic Old Guard from June 1814 that you had set your heart on producing but perhaps producing a new range of 15 mm Sci-Fi figures for a "Galaxy Far Far Away" to compete with your planned 15 mm Sci-Fi range.

The ease with which you can create a wargames business is the very thing that increases the amount of competition you have to face. At the very least it generates noise in the market making it difficult for new business, or even new ranges from established companies, to be noticed. This places a greater emphasis on the marketing and financial skills within the wargames business than would otherwise be the case as we shall see later.

¹ The Vanished, Guy Bowers - <http://www.karwansaraypublishers.com/pw/wss/blog/the-vanished/>

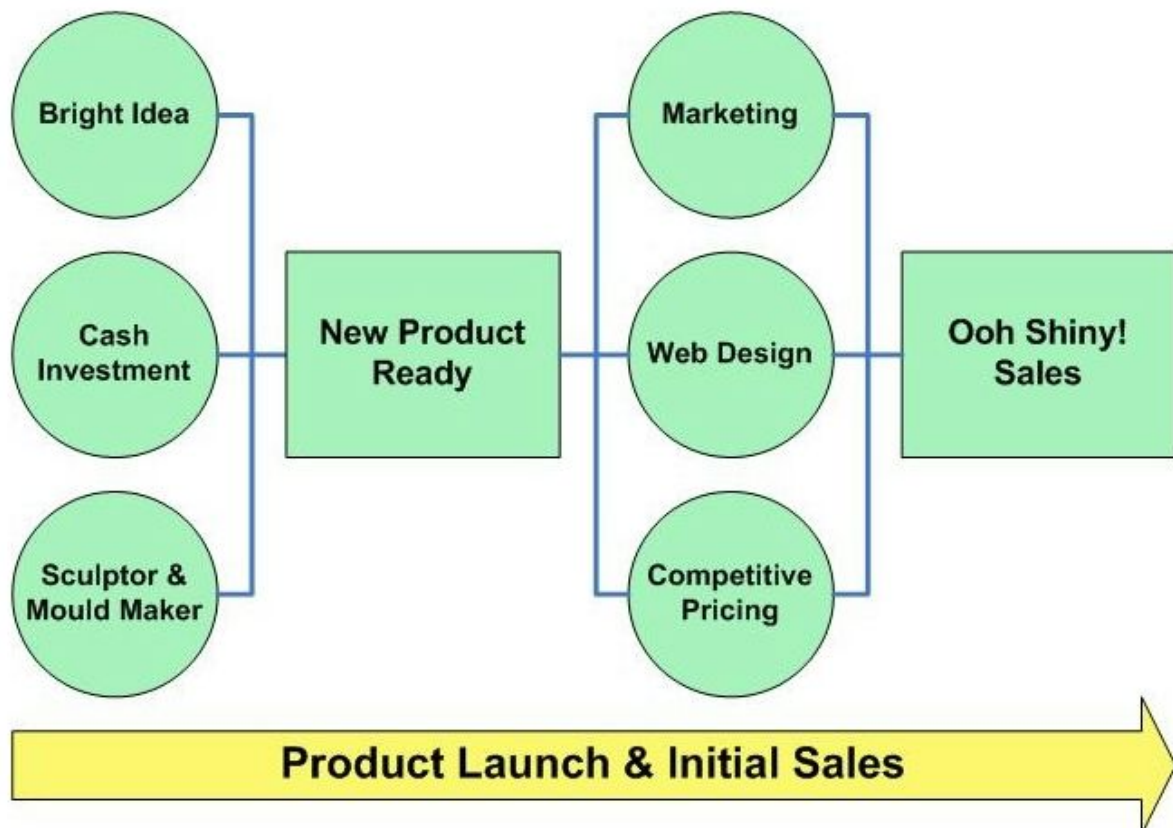
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Ooh Shiny!

Novelty is a great sales tool but it is a double edged sword. As consumers we are spoilt. High quality, new products appear every month and we are all too aware that this leads to impulse buying. It also leads to our personal, and seemingly ever growing, lead and kit mountains: no matter how much time we set aside to paint each week!

For all wargames businesses strong, early sales are a good thing. When new products sell well, and sell quickly, the time taken to recover the costs of origination and production is reduced and the range swiftly becomes profitable. Having said that, once the first tranche of sales is over, and other new products begin to attract buyers, the true value of a range emerges and unfortunately not every range will sell well once the novelty wears off. A truly commercially successful range will sell well initially and continue to sell at a lower but viable rate for years thereafter.



One consequence of the number of new products launched each month is that it is harder for businesses to find a viable gap in the market. The choice lies somewhere between launching a new range in a popular period or a developing a new range in an completely untapped niche. The first guarantees direct competition from well established businesses and the latter runs the risk that not enough people will be interested. The risk of only limited sales is high; especially after the initial sales have subsided.

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Unfortunately, the “ooh shiny!” effect does not apply equally to all products and as noted above it actually makes competing in a crowded marketplace that much harder. As a result, any new product has to be launched properly requiring both good advertising copy and a solid marketing strategy. Not every business possesses these skills and word of mouth alone may not be enough to ensure success.

Strong early sales are not just nice for new businesses they are vital. If a business invests money in a new range and it doesn't sell quickly, or heaven forbid sells slowly, the time taken to recover the costs of origination and production lengthen. This means the business owner doesn't get a return on their investment for quite some time and ultimately it can mean they don't get paid. This significantly reduces the chance of growth and new product launches in the future.

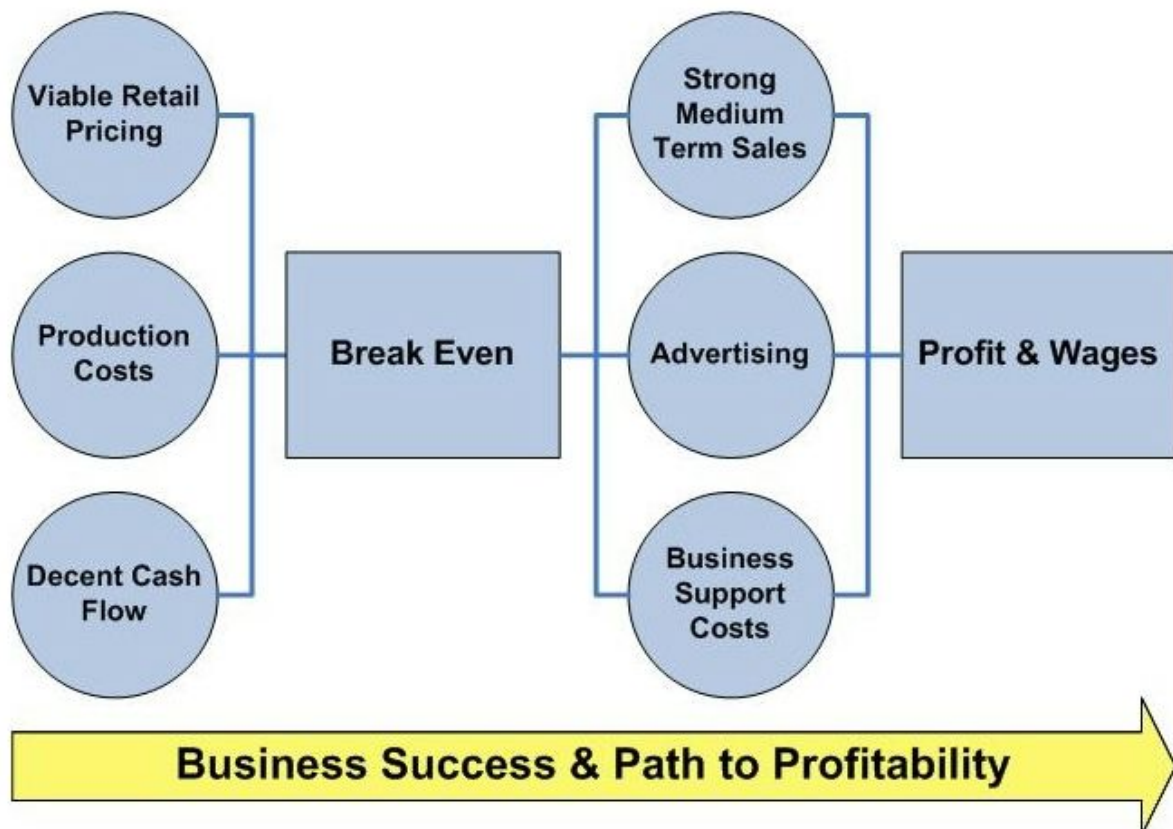
Finally in this section, the recent trend towards the use of crowdfunding websites, like Kickstarter, is a good way for businesses to reduce financial risk. They can maximise the “ooh shiny!” effect whilst ensuring that a range is commercially viable well before launch. This is a good thing but I also think there is a downside. I believe the money pledged to crowdfunding projects isn't “extra” money. For quite some time, and I must admit well before the advent of the crowdfunding, the money people had to spend on their hobby was not keeping pace with the the availability of new products diluting the amount spent on any one range. Crowdfunding has merely added to this phenomenon further diluting sales through regular businesses.

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Growth & Doing Things Well

The low cost of entry means that many people are attracted by the prospect of running a wargames business in their spare time. Spurred on by the idea of producing a range that plugs a gap in the market they take the first steps. If they have done their homework and spotted a true gap in the market then the initial range will be well received and profitable enough to provide the funds for further ranges and a modest income from the business.



Nonetheless running a business is far harder than setting one up and sometimes a lot less fun. As the initial excitement fades the boring, but important, issues of cash flow, record keeping, stock control and customer service begin to dominate. If the business is being run in the evenings and at weekends, then it must feel like work never stops. It is at this point that the numbers start to tell.

If the business has “done their sums” properly the true cost of each pack will have been calculated and a sales price set allowing for a decent margin to provide a profit and cover the fixed costs associated with running any business. This is harder than you think and if they haven’t, and the sales price is set too low, then they will have taken the first steps towards their own demise not least because the lack of funds means that the business can’t grow. Even worse the owner(s) may start questioning why they are working for next to nothing despite reasonable sales.

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Organising a business to run smoothly really puts stresses on individuals and small businesses. There is much more to running a wargames business than stuffing figures in jiffy bags or turning up at shows (conventions). For example let's look at something basic like online ordering and payment.

Buying online should be slick and quick. Businesses like Amazon have set a high standard and people expect similar from even the smallest business. People are impatient online so a smooth ordering process is vital to maximise sales. Unfortunately, not every business wants to, or is able to, start with a full blown website with a fully featured shopping cart; nor should they as there are simpler solutions to start with.

Even so, I frequently see new wargames companies operating by a far too basic combination of email and PayPal requests. Some don't even provide a web page listing the products and offer catalogues to download instead. Whilst this approach will not put some customers off it places unnecessary barriers in the way of many others; particularly impulse buyers and we've seen how important they are.

This is a good example of the type of problem that is best avoided but once made will always need to be tackled whether the business is successful or not:

- If sales are poor changing the web site may help if it is not too late to win back potential customers who have been put off by the clunky ordering process. At the very least it will necessitate the business providing online lists, and even better "buy now" buttons, requiring computer skills they may not have.
- If sales are booming then the amount of administration generated by simple email sales will be considerable. Each sale will generate at least two incoming emails from the customer and just as many from the business to the customer. The workload may adversely impact on customer service which is always bad for business.

For small start-ups the latter is probably the worst problem as improving the web site will have to compete directly with processing and fulfilling orders. It illustrates how running a business can punish bad early decisions and draw people into areas where they may have no knowledge, experience or even worse no aptitude to learn.

Similar issues exist around the more "back office" issues of managing taxes, regulatory compliance, cash flow, general record keeping, bookkeeping, annual accounts and stock control. Tackling these and improving how things are done all contribute to the success of even the smallest business. At the very least, taking away some of the pain associated with the paperwork helps ensure the businesses continued existence and maintain the business owner's enthusiasm to continue.

Timing Dear Boy, Timing

Whilst the economy can reduce the amount of money we have to spend on our hobby, and the "ooh shiny!" effect dilutes the amount spent with any one company, there is yet another

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factor governing the long term financial stability of wargames businesses: the repeat purchase cycle.

Repeat purchase cycles are important to any business whether they sell washing machines, laundry detergent or wargames figures. However, the purchasing patterns for wargames figures are somewhat unusual, and very different from the first two examples, in that they vary enormously.

For simplicity, and brevity, let's ignore the burgeoning second hand market where people dump their unfinished projects and just look at buying a new lead or plastic army. Most armies are either bought in bulk or in units as and when an individual's finances and painting schedule allow. In both instances the next purchase is usually months away:

- I am a "buy a unit and paint it" type of consumer. I am also a relatively slow painter and have recently slowed down even more as old age catches up with me. This means my purchases are modest and spread out over months if not years, however I am loyal, returning to the same manufacturer each time I extend the project.
- I know of others who buy the bulk of an army and paint it all in a relatively short period of time; often just in time for a competition or display game. In these circumstances the next purchase is often at least a year away for both financial reasons and the lack of painting time. These buyers are also a little more likely to switch between manufacturers as each purchase is often a completely new project or period.
- Of course, there's the middle ground where a large initial order is followed some months later by subsequent orders for additional units or related side projects but this is in effect just a combination of the first two examples.

The impact of these very diverse buying patterns on a new business is profound not least on its cash flow. Simply put any new business has to sustain the initial growth period well past the "ooh shiny!" phase to withstand the longish gaps between purchases. For established businesses it is easier as the existing ranges carry the business whilst the new range establishes itself but for a fledgling business this is another hard task: the grind after the more exciting startup, and initial growth phases.

The usual buying patterns also make it difficult to assess the financial viability of a new range in under a year. Likewise the medium term financial health of a new business may not become clear until the second or even third year of trading well after the initial burst of sales has subsided. If all goes well the business will prosper, if not the outcome may come as a bit of a shock to both the owner's pocket and morale.

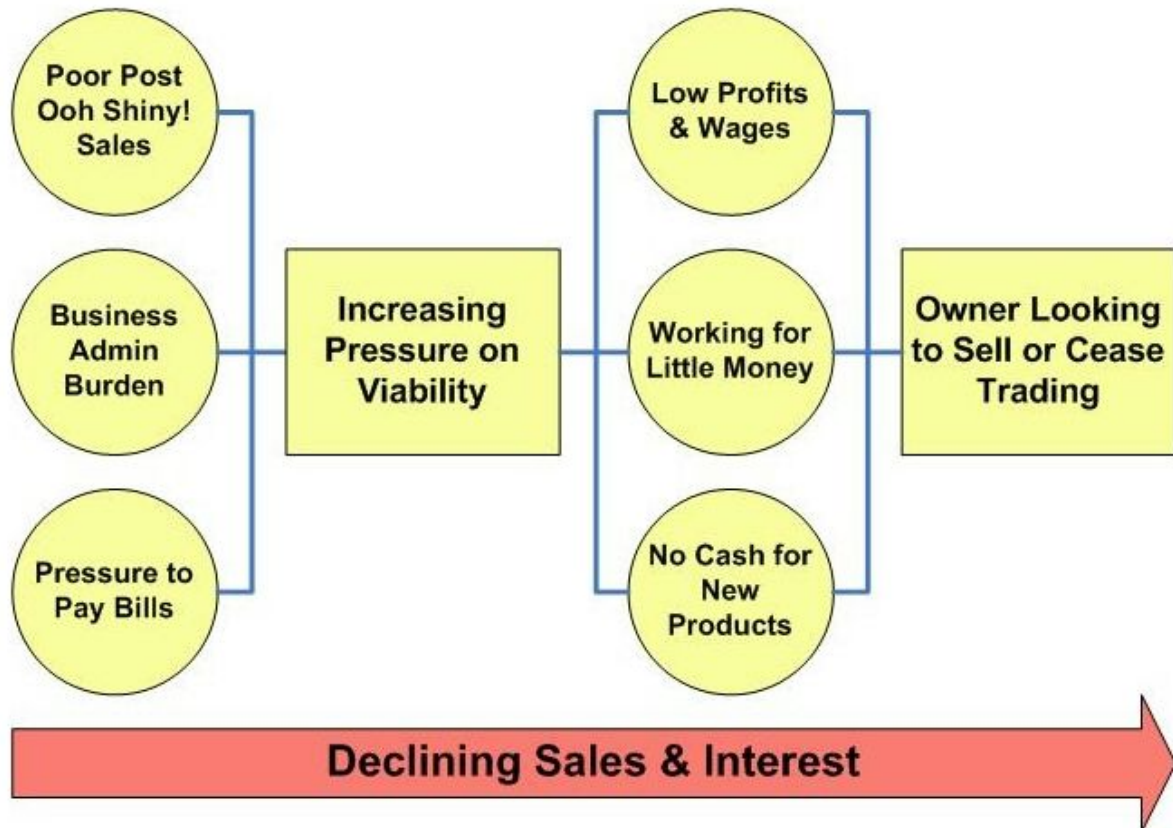
End Of Life

As noted at the beginning many wargames businesses, and their ranges, disappear. So far I have looked at how and why business owners may reach the point where they no longer

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wish to carry on. The business may not be profitable once the “ooh shiny!” phase is over or the business owner has tired of the tedium of running a business that just about scrapes along and wishes to do something else like wargaming with their spare time!



What are the options? The obvious option is to sell the range, or ranges, to another business. This is where things get peculiarly “wargaming”.

In the broader business world it is usual to value a business in multiples of its **audited** annual profit figures plus an amount for tangible assets like equipment etc. For a small business a figure of twice the annual profit is common and for larger businesses five appears to be the norm. Thus the buyer expects to break even on his purchase in two years time or to put it another way they don't expect to make any money for at least two years.

With wargames business there are a number of problems with this approach not least because many small businesses don't produce audited accounts broken down by range and sometimes even annual profit figures are not readily available. This is compounded by the fact that the “ooh shiny!” effect means the residual market value of ranges can be surprisingly low: for example the long term market for 10 mm Tibetan camel gunners is never going to be that large.

In the past five years I have spoken to a few people about buying ranges and have frequently come across ways of costing the business that were most peculiar. They are all essentially based on the cost of materials, usually moulds, together with the cost of sculpting

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the range. For example a range with twelve production moulds would be offered for sale at the cost of producing twelve new moulds despite the fact that the moulds are used goods of limited life span. There is often an additional amount to cover the purchase of the intellectual property rights which is surprisingly close to the cost of sculpting the figures anew.

Not everyone took this approach but enough did to disquiet me. Having profited from the early sales, sellers are too often looking to recover as much of their start up costs as they can for ranges with low long term sales potential. Sometimes things are worse and sellers aren't offering a complete set of master moulds (because they were used as production moulds!) or a set of first spin master casts to allow new high quality moulds to be produced when the old ones wear out.

Don't forget, for comprehensive ranges the sums of money involved can be large and represent a significant financial risk to the buyer. No sensible businessman is going to buy a range, by definition past its initial peak sales, at a price very close to the cost of producing a similar sized range from scratch. I believe this goes some way towards explaining why some ranges disappear once the original owners have decided to pull out of the business: deals like these are never going to be appealing propositions.

Conclusion

In summary I think fledgling wargaming business come and go and their ranges disappear because:

- The hobby marketplace is incredibly fluid with very low barriers to entry facilitated by the internet and ready access to expert business support services like sculpting and casting.
- Making a profit is hard and making a living harder still. The marketplace is increasingly fragmented and ultra competitive with the growth in new products far outstripping the growth in the amount of money people have to spend on their hobby.
- Running a wargames business is far harder, and much less exciting, than setting one up. In the medium term owner fatigue is an issue not least because a wide range of skills is required and it is hard for one or two people to do all of them well. Lack of certain skills can affect the profitability of the business as well as erode the owner's desire to continue.
- The peculiarities of the wargames market mean that the true profitability of a business, or just a new range, may not become clear for many months with the financial crunch for a new business coming two or three years in: just at the time when the novelty has worn off for the owner.
- Once a business is to be sold, the combination of the low inherent profitability of ranges past their early sales peak and the way some owners overestimate the

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second hand value of their businesses can make finding a buyer for a business difficult if not impossible.

I hope this has given you peek behind the curtain and illustrated some of the factors that I think underpin the somewhat transient nature of the wargame business and why some ranges just “disappear” from the market. To close I can only echo Guy Bowers’ conclusion “only buy what you need (or at least no more than you can afford), but if a range matches your plans, do so while it is still available!”.