HMA HOBBY Manufacturers Association

SIZE OF THE MODEL HOBBY INDUSTRY

2011 ACTUAL AND 2012 ESTIMATED

EXECUTIVE SUMMARY OF SURVEY REPORT

March 2013

INTRODUCTION AND BACKGROUND ON THE HOBBY MANUFACTURERS ASSOCIATION

The Hobby Manufacturers Association (HMA) was created in 2005 through the unification of three associations within the industry, which included the International Model Hobby Manufacturers Association, Model Railroad Industry Association, and the Radio Control Hobby Trade Association. HMA represents manufacturers, importers, publishers, distributors, and suppliers of all model hobby products and accessories. This includes model trains, plastic models, die cast collectibles, radio control products, and hobby accessories and tools.

The organization's objective is to promote the general interest of all the groups in the association while providing its members an opportunity to achieve individual growth under a collective organization. In order to do this, the HMA conceives, develops and implements programs that foster growth and expansion. It allows enhanced member benefits through economies of scale.

HMA's mission is "to stimulate the growth of the model hobby industry and to offer unique benefits to members and affiliated companies, including industry statistics and legislative information when appropriate and necessary."

The HMA Board of Directors is grateful to Bruce Kemelgor, Ph. D. and the College of Business at the University of Louisville, Louisville, KY for compiling the survey results.

SIZE OF THE MODEL HOBBY INDUSTRY: RESEARCH OBJECTIVES & METHODOLOGY

In 2008, the Board of Directors of the HMA released its first "Size of the Model Hobby Industry" survey based upon actual sales in 2006 and estimated sales in 2007. In 2006, overall industry sales were reported to be $1.192 billion with estimated sales in 2007 to be $1.274 billion. The second "Size of the Model Hobby Industry" showed actual sales of $1.378 billion in 2009 and $1.471 billion estimated sales in 2010.

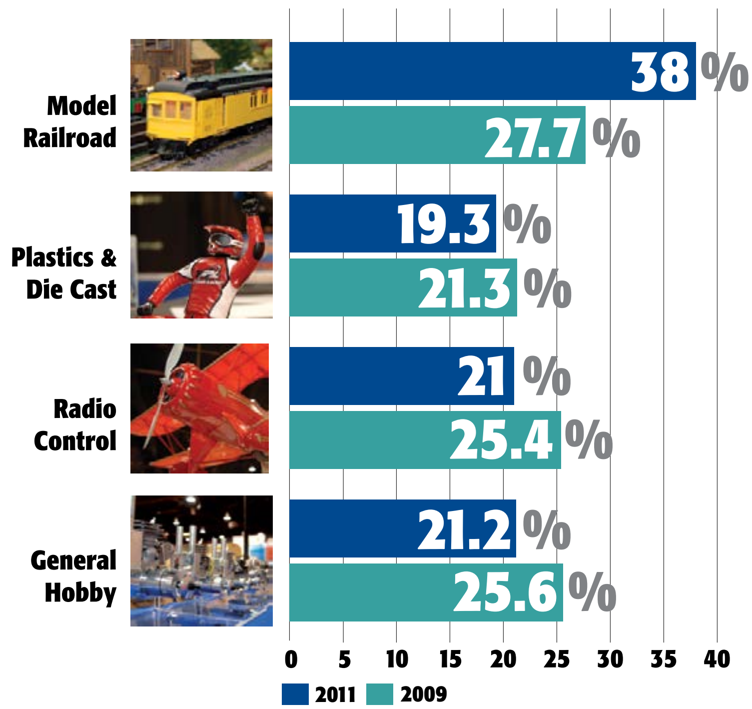
The primary objective of this research is to provide a snapshot of industry sales data and trends. The research was conducted through an online survey using the data tool, Survey Monkey (Appendix A). The survey, conducted in the fall of 2012, was designed to give the industry valid statistics for business use by HMA members, lending institutions, potential new entrepreneurs and industry retailers. The survey tracked products in the model hobby categories of Model Railroad, Plastic Models, Die Cast Collectibles, Radio Control, and General Hobby items which include hobby accessories, paints/adhesives, specialty toy and tools as well as "other" items notified by respondents. The survey included 25 multiple choice questions and three open-ended questions. It was emailed to 277 HMA members and non-members, the majority of which are small to medium sized privately-held companies. Survey respondents were confidential and reported their actual and estimated sales in all product categories they carry. The 2012 study received a 39% participation rate from among the surveyed companies of the HMA (v. 38.9% in 2009).

2011 SIZE OF THE MODEL HOBBY INDUSTRY

The HMA Size of the Model Hobby Industry projection based upon 2011 ACTUAL manufacturing and distributor sales of participating model hobby companies is reported to be $1.265 billion overall. This is a 9% decrease in overall sales over the 2009 sales volume of $1.379.

This decrease in sales was, in large part, caused by the significant recession which impacted the model hobby industry later than those experienced by other industries. The model hobby industry is impacted by recessions usually one to two years later than other similar industries, and recovers from recessions later as well. There was also an increase in model hobby company acquisitions toward the end of 2011. Over 60% of the sales volume was reported in the two highest sales categories ($10M–$20M and Over $20M).

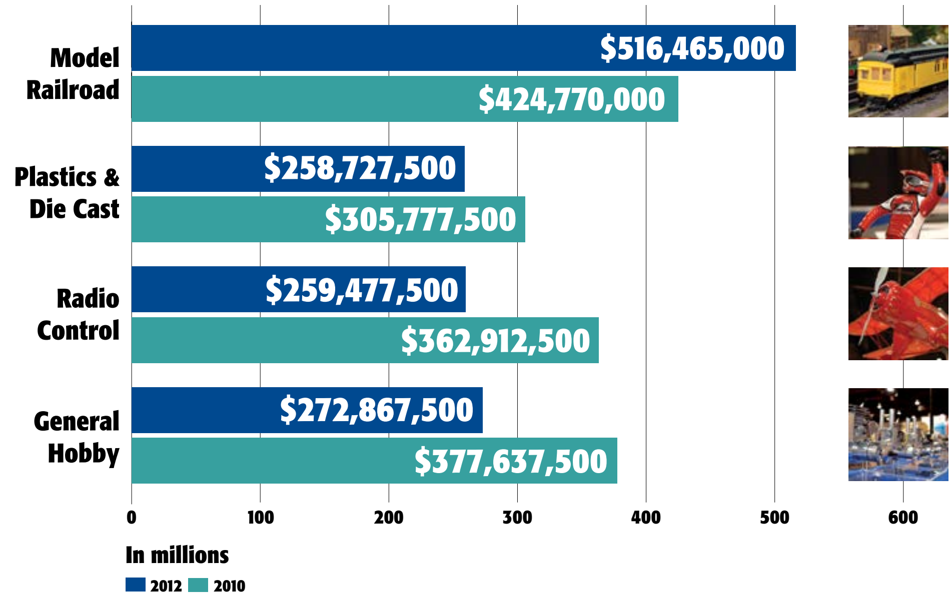
One of the major differences in the sales reported for 2011 v. 2009 is in the radio control category. These products tend to be more expensive at retail and sales were adversely affected by the lingering economic recession. Additionally, a significant increase of competitive products from overseas entered the marketplace during this two year period, and more radio control products were sold through the internet which may not be adequately recognized in the study.



As noted previously, sales reported were at the manufacturer and distributor level. Based on the standard average markup on manufacturer and distributor sales reported to be 40% to 50%, the estimated size of the hobby industry at retail would be between $2.0–2.50 Billion.

2012 ESTIMATED SIZE OF THE MODEL HOBBY INDUSTRY

Survey respondents were also asked to report their estimated 2012 sales (as the survey was conducted toward the end of fiscal year 2012) and to project their total sales in each product category in which they participated. The estimated sales for 2012 were reported to be $1.307 billion overall, an increase of .3% over actual sales in 2011. The estimated sales in the individual product categories are:



SIGNIFICANT FINDINGS OF REPORTING MODEL HOBBY COMPANIES

1. 70% of reporting companies are considered to be a "**small business**" by the U.S. Department of Labor. These companies have less than 50 employees working for them. 18% are considered medium to large firms with 2% employing more than 150 people

2. 45% of reporting companies have been **in business for over 30 years**. The model hobby industry maintains a strong family interest in many companies and these firms have long-standing brands in the hobby industry and have executed effective business and marketing plans. New entrepreneurs enter the industry yearly and find little barriers to the market and launch new products at the annual HMA-sponsored iHobby Expo and other industry events.

3. 50.5% of reporting companies said their position in the industry is one of **growth** with sales increases created by new product development and purchase of other brands from acquired companies. 3% of reporting companies are "new" to the industry and are in a start-up mode in need of capitalization. 37.5% of reporting companies view themselves as mature with long-time brands, and 9.3% of reporting companies say they are in decline and looking for buyers or turnaround assistance.

4. **New Products** continue to be sales stimulators for the model hobby industry. 79.2% of respondents said they introduced new products in 2011; however this was down from 82.5% in 2009. The industry and these firms' success are strongly tied to new product development with innovation being the strongest predictor of growth. However, only 51% of the survey respondents said their sales were due to new product releases, down from 77% in 2009. Industry retailers continue to search for new products at industry trade shows and on the internet and manufacturers feel pressured to release new product offerings through internet and dealer communications almost monthly.

5. Predictably, **sales are strongest in the 4th quarter** as many model hobby products are purchased as holiday gifts. However, sales of General Hobby products continue to appear to be stable throughout the year and could be used as sales stimuli to bring new sales in other categories. Industry manufacturers and distributors need to do more advertising in the second and third quarters of the year to continue to maintain market presence.

6. Industry trade shows continue to be the venue where most **advertising and marketing** budgets are spent. 83.5% of respondents said their advertising is geared toward these events. However, advertising on internet sites rose to 75.3% in 2011, with trade publications ranking third (68%) among advertising methods employed by survey respondents. Total advertising budgets in the hobby industry seem to be less than other consumer product industries.

7. In 2011, 90.7% (v. 95% in 2009) of respondents said they used their **websites** to promote products and 25% (v. 23% in 2009) reported direct sales to retailers. 50% of respondents indicated they are now engaged in direct sales to consumers through their

websites v. 44% in 2009.

Given the fact that the number of hobby stores in the U.S. have declined to less than 5,000 total, capturing internet retail sales may provide the majority of hobby manufacturers with their best opportunity to increase sales in order to expand the size of the hobby industry in the future.

8. **Social Media Marketing** was added as a new question in 2011. 95.7% of survey respondents said they utilize Facebook to enhance their marketing efforts. 52.2% use Twitter, and 10.9% use LinkedIn to engage with industry members and consumers.

9. Model hobby companies believe that consumers and retailers who buy from them do so because of both their **product niche and quality of product**. Respondents said that these two characteristics influenced customers to buy from them 38.5% of the time.

10. 82% of survey respondents said their product appeals to adults in the **26–60 age demographic**, the largest buying segment of hobby products. Model hobbyists are fully engaged in their hobby and have the time and the disposable income to work on their products. Many hobbyists engage in more than one model hobby at a time. However, respondents are concerned that their market is aging and they continue to lose the younger consumer to online and home video games. **Advertising on social media outlets might shift this aging demographic and promotion of the sophistication of industry products could raise the level of participation**.

11. In 2011, 36% survey respondents reported that 75–100% of their products were manufactured offshore with 61% of them saying they were satisfied with these production sources. However, 34% of the respondents said their products continue to be produced in the United States and are concerned with the competition from outside the U.S. flooding products on the domestic market. Companies increased their sales of parts and accessories to offset these issues.

12. Survey respondents were asked their opinions of the major problems facing the industry. The **five major themes** were:
    a. Hobbyists are aging and the industry is not attracting a younger demographic.
    b. The economy impacted the industry as hobbyists cut back on their hobby expenditures.
    c. Internet sales and direct sales to retailers are hurting the traditional distribution channels.
    d. Cheaper and lesser quality products from sources outside the U.S. are costing hobbyists more in the long run.
    e. The decline in hobby retail stores has made it more difficult for consumers to find products and to try and learn more about them.

Looking to the future, hobby company respondents are predictably cautious concerning sales growth in 2012 and beyond. The world-wide recession affected the model hobby industry later than other industries as many hobbyists continued to engage in their activities during this time. However, a major focus for many respondents is the challenge of reaching new and younger consumers and the need for the industry as a whole to promote the technological advancements and sophisticated products available to teens and young adults in direct competition with internet and video game activities.

Strategies for the Future:

1. Develop an industry-wide promotion targeted to more youthful demographics and cross-promote all hobby products in an effort to enhance the number and types of products used.
2. Assist the retail community in using these promotions and increasing their marketing efforts to consumers.
3. Assist manufacturers and distributors to find more efficient more efficient and economical ways to operate their businesses so that more promotional dollars are available to grow the industry.
4. Develop an in-depth consumer demographic study to ascertain their interests and access to model hobby products.

Note:

1. Total survey was based upon HMA membership as of survey date. Respondents were asked to estimate their 2012 sales based upon their 2011 income reports. 106 respondents completed these survey questions. Each sales category is indicated separately based upon respondents annual sales volume and is presented a second time adjusted by the percentage of respondents versus total HMA membership surveyed.

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