

**APOGEE**

**PEAK OF FLIGHT**

**NEWSLETTER**

## Building a Model Rocket Company

By Tim Van Milligan

I got to thinking; hypothetically, what would it be like if I had to start all over? That is, if I didn't own Apogee Components and I wanted to be in the rocketry business, how would I go about doing it.

I got to thinking this, because I've seen so many modelers wonder the same thing. This question is easier for me now, since I've learned a lot of things since I bought Apogee from Ed LaCroix back in 1995. But I'll act like I was starting with no knowledge of the hobby.

Probably the first place I'd start is by doing my homework. I'd seek the answers to questions like: how big is the rocketry market? Is it growing, dying, or staying the same? Who are the major players in the market? Can any money be made?

Who do you ask for this type of information? That's a good question. You can't ask other manufacturers, since they could be lying, or end up telling you nothing. You have to go to a third party. In the past, you could go to a trade group, like RCHTA. But so much of hobby products are now being sold over the internet, and those selling the items are not members of those organizations. So getting the information you need is going to be difficult.

Probably the better place to start is by asking former manufacturers. They would probably give you the better feeling for the market. But don't expect it to be upbeat.

From there, I'd start asking other questions. Like: what types of products are selling the best? What makes me "better" than those manufacturers that went out of business?

Most folks know that paper tubes are cheap. Maybe that is the reason that it is so attractive to be a manufacturer. But where do you find inexpensive nose cones? BMS makes a lot of balsa nose cones, but are they cheap enough to resell in kits? If they aren't, where do you get plastic nose cones? If you have to buy tooling, how much is it going to cost?

Maybe, you think, there are other rocketry products you

can create and sell besides kits. Motors? Electronics? Recovery devices? Launch equipment? Books? Software? Building equipment and adhesives? Scale data? Or how about just plain old "parts?" How about a little of each to make sure all the bases are covered?

Then you need to decide how much inventory you need to purchase to make it work. If you buy in bulk, you can get good prices. But if you don't sell it quick enough, you have a lot of money tied up in inventory.

Then it comes the distribution question. Will you sell your products through a hobby store, or via the internet?

For most people, selling on the internet seems to be the first choice. First of all, it is fast. You can open up a web store in less than a day and be taking orders tonight. Then it doesn't cost hardly anything to put up a web site.

Finally, when you sell on the web yourself, you don't have to discount the items to store owners. So your profit margins are significantly higher. Does this make a difference? You better believe it. If you have only a few number of sales, you need as much margin out of those sales to sustain the business until the number of sales increases.

The downside to this is that nearly all the other manufacturers are doing the exact same thing. So the internet is starting to get really crowded. How do you stand out to customers?

To make it worse, hobby stores are putting up web stores at an even faster rate. You sell to them, and they in turn sell it to the same group of customers on the internet that you're trying to reach with your own site.

Besides making the internet more crowded -- even worse still -- the retailers are discounting the price of the items to make sure they get noticed. This, you find out, is killing your own sites' sales. So you have to find a way of beating your own retailers if you want your own site to continue to make those higher profit-margin sales.

However, you can't lower your prices, or you'll lose the



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retailers that are selling your items. So what are you going to do?

Speaking from experience, most folks starting rocketry companies are working on a shoe-string. They don't have a lot of finances. Because of this, they immediately rule out one option...

That option is purchasing an existing rocket company. This is a bit more expense initially, but it has a lot of advantages that make it cheaper in the long run.

First, existing companies already have inventory, suppliers, and some type of distribution channel already set up. You'll find that you'll save a lot of time, money, and most importantly: energy. You're going to need all the energy you have to run a business; so not having to spend that energy setting up shop is a real blessing.

By saving time up front, you can get right down to business creating the new products that you want to sell. After all, isn't that why you want to be in business anyway? You want to sell the items that excite you the most.

The second big advantage is that existing companies have a "brand." A brand is the "name recognition" of the company. It comes from continuous advertising; and it doesn't come cheap.

If you look at all the recent dot-com failures, the one thing they all did initially was to spend millions of dollars to create their brand. Super Bowl ads, TV commercials, radio commercials, and banner advertisements was where most of their money was spent. Did it work? Apparently it didn't work fast enough. A lot of companies went belly-up within a couple of years. But without the "brand" there is nothing that separates them from other similar companies.

The companies that have been around the longest have the most brand value. In rocketry, that means that Estes has the best brand name. Aerotech is a distant second. Quest, which has spent a ton of money to create a brand name, is an even further distant third place.

Even if they've been around a long time, some brands are worth more than others. If the company has a reputation of high customer dissatisfaction, then that brand is tarnished. You can probably think of a few companies that you wouldn't buy from.

Besides the high initial price, the other downside of buy-

ing an existing company is that you could end up with a lot of useless inventory. For example: odd size tubes, scrap plastic parts, or items that just don't seem "exciting enough to sell." It is usually a package deal. You get the good items with the stuff that is a drag on the company.

Another disadvantage may be that you could end up being in a pigeon-hole with the brand. That is, your brand may be associated with only one type of product. If the company was previously known only for competition kits, you'll have a hard time trying to sell high power sport models. Therefore, when looking for a company to buy, you need to make sure that the products you intend to sell are consistent with the "perception" customers have for that particular company.

Despite the downside, I would recommend trying to purchase an existing company. It is what I did with Apogee. At the time, even though the company was small, it had a nice reputation among modelers. So the brand was of good value. The customers were (and still are), a pretty loyal bunch.

This isn't the same with all companies. I was talking to one of the owners of ehobbies.com last year. He told me that they have only 10% repeat purchasers. That means 90 percent of their customers only buy from them a single time. I'm still trying to figure out why that is; because they do have a strong brand name.

So in conclusion, if I was going to start all over, I'd look for a company to buy out. First, I'd categorize each potential company by product category. I'd buy only from the ones that are in the category that excites me the most. So if your interest is in education companies, I wouldn't look at companies that specialize in "amateur motors." You'll get bored selling products that don't excite you. And that is where a business failure is born.

Then, I'd try to prioritize the companies by the value of their brand. The ones with the best brand would be the ones that I'd contact first. You might ask them how much they would be willing to sell for. Then keep going down the list until you can find one you can afford.

You might want to beware of a buying a company that has already gone out of business or that is circling the drain. If, when they went out of business; they shafted a lot of customers, that brand is significantly tarnished. That's worse than starting out from scratch. You can't afford to have old custom-

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You can subscribe "FREE" to receive this e-zine at the Apogee Components web site ([www.ApogeeRockets.com](http://www.ApogeeRockets.com)), or sending an email to: [ezine@apogeerockets.com](mailto:ezine@apogeerockets.com) with "SUBSCRIBE" as the subject line of the message.



ers bad-mouthing the new company from the get-go.

As a last resort, if you can't come up with the money to buy a company, then you might consider starting one from scratch. This is probably the most expensive way to go in the long run, and has the highest failure rating. But it has the advantage of being cheapest at the very beginning.

For more information about the history of Apogee Components, see the article in [Newsletter 89](#).

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A note for those of you that may be curious: I am not trying to sell Apogee Components. But -- just like Estes Industries and Aerotech -- every company can be bought if the

right amount of money is thrown down on the table.

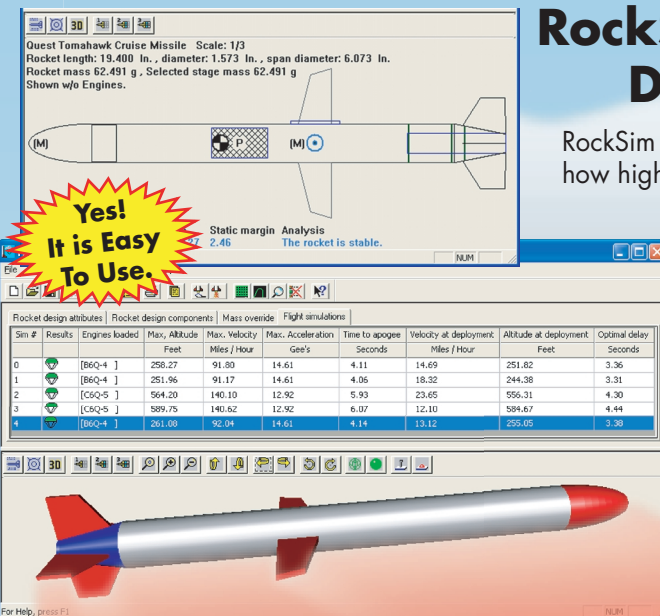
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Tim Van Milligan is the owner of Apogee Components (<http://www.apogeerockets.com>) and the curator of the rocketry education web site: <http://www.apogeerockets.com/education>. He is also the author of the books: "Model Rocket Design and Construction," "69 Simple Science Fair Projects with Model Rockets: Aeronautics" and publisher of the FREE e-zine newsletter about model rockets. You can subscribe to the e-zine at the Apogee Components web site, or sending an email to: [ezine@apogeerockets.com](mailto:ezine@apogeerockets.com) with "SUBSCRIBE" as the subject line of the message.

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