Chapter XI

From Catalogs to the Web:
The Evolution of Airgun Products, Inc.*

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EXECUTIVE SUMMARY
Airgun Products, Inc. (API) is a small firm that sells airguns and related products directly to consumers. From their founding in 1989 through the mid-1990s, they sold their products through a catalog-based phone order sales channel, and in 1995, they introduced their first Web site. Since the introduction of the online channel, they have struggled with how to best utilize their complementary channels and produce a profit. API is in a common retail scenario—a small firm in a niche market with an off-line and online channel with limited monetary and human resources that wishes to effectively use both channels, minimize their costs, increase sales, and become profitable. Their current challenges are to identify which of their customers prefer which channel (market segmentation), identify and take advantage of the relative advantages of their two channels (paper vs. online catalogs), and identify opportunities for enhancing the value provided by their Web site.
ORGANIZATION BACKGROUND

History, Products, and Human Resources

Airgun Products, Inc. (API) is primarily a micro direct marketing firm that sells airguns and airgun-related products directly to consumers. The company was founded in 1989 in the basement of the owner’s home as a mail order business, and they are currently headquartered in a town in the midwestern United States. By 2004, API had developed a broad product mix, including 5,600 stock keeping units (SKUs). Examples of the products they sell include air rifles, pistols, scopes, mounts, pellets, targets, accessories, and other airgun-related items. Airguns can fire either steel BBs or lead pellets of various diameters, depending on the design of the gun. BB guns are less expensive, tend to be less accurate, and are commonly viewed as toys for younger shooters. BB guns use coiled springs, compressed air, or CO$_2$ as power sources. Pellet guns are generally more powerful than BB guns and can range from inexpensive models that shoot either BBs or pellets up to very expensive models with special sights and beautiful woodstocks. Pellet guns are most often spring powered, although some use CO$_2$ also. Airguns can be used for informal target shooting, field shooting, hunting, or competition. API now carries airguns for all pursuits, although it originally focused only on higher priced models for serious shooters, eschewing BB guns entirely.

Some of their suppliers include companies such as Beeman, Beretta, Crosman, Gamo, RWS, Smith & Wesson, Walther, Webley & Scott, and Winchester. None of these firms has granted API exclusive distribution rights to their products, and all suppliers provide identical products to API’s competitors. API enjoys a highly workable relationship with their suppliers. This is reflected in the amount of inventory that API maintains. The average inventory level maintained during the period of this study was $355,000 with $1.8 million in sales—approximately five inventory turns per year. The majority of this amount is held in the most current inventory from API’s eight main suppliers, which are the major manufacturers of airguns and accessories. Any dead inventory or slow selling items are discounted and sold out quickly. Overall, API has 47 different suppliers. Gross margins run from a low of 22% to a high of 46%. Every effort is made to purchase in an effective and efficient manner as possible taking advantage of seasonal discounts and early buy programs. Maintaining viable gross margins helps keep payments for inventory to suppliers current. In turn, staying current with suppliers helps keep overall costs lower. Several larger suppliers seek out API when they have excess inventory to liquidate at more favorable prices because, within this niche market, API is known to be dependable with their accounts payable.

API had one employee during its first year and two employees during its second year. As sales increased during the early years, additional employees, primarily phone sales representatives, were added although the business continued to be managed by two individuals—the owner, Will Smith, and one senior manager, Liz Brennan. By August 2003, API had 10 full-time employees and two part-time employees, with business, sales, and orders growing steadily. An organizational chart for the period prior to the hiring of the marketing manager is shown in the Appendix in Figure 1. The current organizational chart is found in Figure 2.