

Making money in resale

Some hobby dealers are finding cash in their customers' cast-offs

BY TIM KIDWELL

While the economy has shown a few signs of improvement lately, for the most part, consumers are still hunting for bargains and looking to get the most value for their dollars. One place they're finding bang for their bucks is in used items.

Hobbyists of all stripes are always looking for new things, even if they're used and just "new" to them. It's no secret the number of new hobby-product releases is down from previous years, but that doesn't mean hobbyists have stopped spending.

Tom Palmer, owner of Southside Trains in Milwaukee, Wis., says there's a thriving secondhand market, at least in model railroading. It's not only in O gauge, either, where traditionally most buying, selling and collecting has taken place. Other scales are seeing a lot of action, too.

He's been buying and selling trains for 20 years, and has learned about the potential profits and pitfalls along the way. Several other dealers have found money in hobbies other than the "traditional" ones. A lot of it comes down to just seeing a market and taking advantage.

Hey, there's an opportunity

Marcus King, owner of Titan Games & Music, opened a second store in April 2009 in Kalamazoo, Mich. In spite of double-

digit unemployment, a state economy still reeling from the implosion of the auto industry and the overall economic downturn, King has managed to build a successful, thriving retail business.

King opened Titan Games in Battle Creek in 2002, offering just tabletop games. After more than 40 customers came into the store one weekend, asking if he sold video games, King became convinced that he was missing out on a lot of money. He decided the store would start carrying used video games and video-game consoles.

It wasn't long after Titan started carrying used video games that King grew his business to incorporate much more.

"After a couple of months, people were bringing in DVDs and CDs, along with their video games, and we started to dabble," he said.

Fortunately for Titan Games, two nearby stores that carried CDs and DVDs were closing. King bought them out, adding the inventory from both stores to Titan's. And always on the prowl for sales opportunities, King added comics to the store's growing product base shortly thereafter.

King says Titan Games is based on what he terms an "entertainment model" that would work for other retailers.

"The first step is to decide that you own a retail shop, not a game shop," he said. "If

you can do that, and accept that you want to make a living owning a store, you are halfway there." King estimates that resale of used items comprises 70% of his total sales.

Buying from customers

Interaction with customers is a necessary part of a healthy retail business. However, this relationship typically works in one direction: the customer comes to the store looking for a product or service and decides to buy, or not. When a customer comes in looking to trade or sell items to the store, the relationship is turned on its ear.

John Weddleton owns Bosco's, a store in Anchorage, Alaska, which carries a core line of comics, games and collectible sports and entertainment cards. And while only 10-15% of Bosco's total business is in the resale of used products, Weddleton acknowledges it is an important aspect to both the store and its customers.

"We want everyone to leave happy, whether they are buying or selling," Weddleton said. For those customers who are trying to sell the store used video games or a comic or card collection, this means paying a fair price, while protecting the store's margins.

One common problem is that customers come in with inflated expectations regarding the values of the items they have for

THINGS TO KEEP IN MIND

It's always a good idea, whenever looking into a new venture, to check with your local municipality and find out what local laws are.

For example, your city, county or state may require you to get a secondhand dealers

license before you can legally buy and resell used hobby items.

After you've purchased used items, you may be required by law to hold them for a certain number of days before reselling them. This gives parties who are the victims of theft

a chance to recover stolen property before it's resold.

Also, keep detailed, accurate records of all purchases of used goods, and require a picture ID. For one, it will help your accountant trace the money when tax time comes.

Second, if you do happen to purchase stolen property, it is your responsibility to file a police report and go after your money.

Take some time to talk to the seller. Find out the story behind the items they want to sell you. Be conver-

sational and entertain any questions they have. These are ways you can find out whether the seller is the rightful owner.

If something simply doesn't feel right, trust your instincts and politely decline to make an offer.

sale. Bosco's staff, in these situations, stays positive.

"We never say anything bad about a collection and always encourage the customer," Weddleton said. "If a customer wants to sell something we don't need, we take the time to explain why."

On the other hand, if there is a very valuable or desirable item in a customer's collection, Weddleton said that his staff make sure to let the customer know, then tries to negotiate a fair price.

Weddleton continuously coaches Bosco's staff about buying, from what sells and what doesn't, to who can make a purchase and how much a staffer is allowed to spend.

In the case of video games, Weddleton said that the store will pay more for some games than others. "Final Fantasy sells great, so we may pay over 50% of what we'd sell it for. Old sports games are slow, so we pay a much lower percentage — maybe 10% [of the sale price]," Weddleton said. The same sort of logic applies to used goods in other categories.

An obvious pitfall is the potential for buying stolen goods, but Bosco's does what it can to minimize the chances.

"We require positive picture ID and record the information and all purchases in our POS system," Weddleton said.

Staffers ask selling customers a series of questions to help indicate whether any of the items for sale were stolen. If there is even a hint that the items are hot, Bosco's employees are to turn down the purchase. Another safeguard is only purchasing small items, usually trading cards, from customers under 18.

"We work closely with the Anchorage Police Department and share information with other stores on potential stolen items and pictures of known thieves," Weddleton said. "Over the years, we have helped return several stolen collections to their owners."

Balancing buying, margins and inventory

Tom Palmer says that one of the biggest reasons for getting into buying and selling second-hand hobby products — trains in his case — is the profit margin.

For Palmer, buying used trains means he can potentially get some very choice items he knows he can sell, but he also has ultimate control over how much he spends on those items.

"Pre-Internet, there was a lot more tap dancing to find out what people wanted



Tom Palmer of Milwaukee's South Side Trains talks with a customer about the collection she is selling. They came to an agreement for the entire lot.

for a collection," Palmer said. If it was too much, "you'd respectfully bow out before making an offer."

With the Internet, he says transactions are much smoother. "If the person is under 62, they've done research online," he said. "They have a better notion of the value of the items."

Once he's looked at the items for sale, Palmer estimates what he'll be able to sell them for in the next six months, and quotes this price to the seller. He then subtracts 40% from the amount and that is the price he'll offer. This still leaves him some room for haggling.

Conversely, Palmer advises retailers should know their limits and avoid turning their stores into junk shops, buying everything that comes their way.

"Better merchandise gets you more money," he said. "I refuse stuff that will cost me money to get rid of."

John Weddleton has a similar policy in place at Bosco's.

"We usually don't buy from customers something that we already have a month or two supply of," he said. They'll use the store's POS system to check inventory and make the purchase decision based on that information.

Sell what you know

Knowing what items are worth and how much to offer took a lot of research in the beginning, Palmer says. However, now with years of experience under his belt, his practiced eye tells him what will bring a good return, and those items that might merely pay for themselves. Still, he adheres to the rule: "If you've never seen it before, put it aside. More research is warranted."

In one such instance, he purchased a

Union Pacific Railroad paperweight, but was intrigued and hunted around to see what he could find out about it online. Nothing much turned up, so he decided to sell it on eBay, where it went for more than \$1,000.

But everyone makes mistakes, no matter how much they know, and Palmer freely says as much. In another buy, he purchased a vintage Lionel box for \$5,000 with the thought that it would grab a high price among collectors. "Thankfully, it sold for \$3,000," he said.

"Selling comics, cards and games isn't rocket science — it's harder than that," Weddleton said, referring to the long history for many of these products and the detailed minutia that can come into play. So, he hires people who already have an interest in the things Bosco's sells. On-the-job training and staff meetings fill in employee knowledge gaps.

"It appears that my staff was born knowing all there is to know about video games," Weddleton jokes.

Marcus King takes a slightly different approach.

"I don't really spend time learning [about] products until I have *decided* to carry them," he said. "All that goes into my decision to carry a line of products is: Are my customers asking for them? Do my customers already buy it elsewhere? Do my customers already use or buy a similar product? What are the margins?"

No matter what hobby segment you serve, there's an opportunity to make money with used goods. As the old saying goes, "One man's junk is another man's treasure." Just keep your eyes and ears open to what your local treasure hunters are looking for. ■