



Case Study

Mountain One

Leland, Iowa
Michael Brown, Owner

Mountain One demonstrates the evolution of a business from catalog and mail-order sales to Web site and Internet sales. E-commerce was credited with keeping the company profitable in spite of operating in a declining industry. The move to e-commerce resulted in reaching new markets, reducing printing costs for catalogs, and increasing the efficiency of warehousing and distribution operations.

Profile

Mountain One is the parent company of CR's Crafts and JustDollHats.com (www.crs crafts.com/Hats/Lobby.asp). CR's Crafts is the nation's largest supplier of doll and teddy bear making supplies. Available supplies include doll parts, wigs, shoes, hats, fabrics, clothing, accessories, teddy bear furs, books, and patterns with instructions for doll and bear making. The company also provides an extensive selection of porcelain and vinyl dolls. In total, CR's Crafts has available over 7,000 items for making and accessorizing dolls and bears. Most of the company's hats are manufactured in Leland, Iowa. The remaining doll and bear supplies are acquired from approximately 100 distributors located primarily in the United States, Japan, Taiwan, Germany and Switzerland. The principal markets for the doll and bear supplies are: (1) the home hobby market where the doll/bear makers will sell the finished products at crafts fairs, (2) parents and grandparents making keepsakes for their children and grandchildren, and (3) doll collectors. CR's Crafts sells worldwide with sales revenues split approximately evenly between Internet sales and catalog sales. The company employs five full-time employees at their mail order facility in Leland.

History

CR's Crafts was started in 1983 by Clarice Brown, Michael Brown's mother. The first products offered were patterns for a Christmas Tree, a Santa, and two bears (Sitting Bear and Softie Bear). The initial sale of patterns was through advertisements in magazines and newspapers and flyers at crafts fairs. Customers for the doll and bear patterns had difficulty finding parts and supplies for the patterns, thus the company expanded its product line to include kits and supplies to go with their patterns. In 1991, the business was moved from Clarice Brown's home to a building in Leland to accommodate the expanding product line. The company

developed a catalog (initially 16 pages) and sales were made through phone and mail orders. Michael Brown joined the company in 1994 and he developed the first Web site for CR's Crafts in 1997. Brown was a college teacher in Canada prior to returning to Iowa to take over the family business. In 2005, the company diversified its operations to include the manufacturing of doll hats. Mountain One purchased the doll hat making company Crescent Hill that included molds for 750 different hats. The company plans to use the Internet to sell hats in bulk to doll manufacturers, crafts retailers, and hobbyists.

Business Location

Leland, Iowa is a small community (2000 population 300) located in agriculturally rich north central Iowa. Leland is four miles north of Forest City, Iowa (2000 population 4,500), the home of Winnebago Industries and Waldorf College. Leland is in Winnebago County, (2000 population 11,500) a nonmetropolitan county located approximately two hours north of Des Moines and two hours south of Minneapolis.

Role of e-Commerce

The doll and bear making supplies industry is a declining industry, and many of CR's Crafts' competitors failed over the last ten years. Brown credits the move to e-commerce with keeping his company profitable by reaching new customers while advances in software improved the efficiency of the company's warehousing and distribution operations. Before e-commerce, CR's Crafts mailed 15,000 to 20,000 catalogs each year at a cost of \$30,000 to \$35,000 a year. Catalog mailings have been reduced to every other year with an advertising flyer mailed in the off years. Additional cost reductions resulting from e-commerce include: (1) less travel to trade shows due

Year online: **1997**
Area Population: **300**
Web site:
www.crs crafts.com



to the ability to contact vendors and parts manufacturers through the Internet, and (2) greater efficiencies in the mail-order business as a result of more specific information on product sales. These increases in operational efficiencies reduced the company's employment requirements from 15 to 5 full-time employees.

Using WH Solutions Brown designed CR's Crafts original Web site. The Web site incorporates Response by Colinear Systems, Inc. software (www.colinear.com), designed specifically for mail-order and Internet businesses. This integrated software system enables the company to collect information on orders and customers, trace sales of specific items, send e-mail acknowledgements, track packages, and manage the inventory and warehouse. In addition, product descriptions and images for more than 2,800 of the company's items are exported to eBay stores using software from Marketworks (www.marketworks.com).

Company sales in 2006 were led by Internet sales with 51 percent of sales from the CR's Crafts' Web site, 28 percent from phone orders, 16 percent from mail-orders, 4 percent from eBay stores, and 1 percent from fax orders. Brown noted that the company wants to increase the share of sales from Web site orders yet the "grandmother market" is reluctant to order from Web sites. This market component lacks Internet access, or is not comfortable with using the Internet relative to ordering by phone or mail, or does not wish to use their credit cards on an Internet site (CR's Crafts does not take PayPal for Web site orders).

The company also is attempting to encourage customers from eBay stores to switch to the CR's Crafts' Web site for orders. The profit margin on eBay sales is lower than for Web site or catalog orders because the average size of eBay orders is relatively small and there are additional fees associated with using eBay. In addition, Brown offered that eBay customers require greater time and attention allocated to their orders. First, eBay customers expect a very rapid response to their orders, and the eBay customer becomes worried if the order is late. Brown attributes this urgency among eBay customers to the individual's underlying presumption that the seller using eBay may be incompetent or not honest. Second, CR's Crafts often has difficulty communicating with eBay customers because only an e-mail contact is provided and this address may be incorrect or responses to correct addresses may be stopped by spam or virus filters. CR's Crafts prices its products higher on eBay stores than on its own Web site to cover the eBay fees (\$4,000/year) and the higher costs associated with handling an eBay order. eBay stores' customers are provided a catalog and discount coupon for their next order as an inducement to use the company Web site; however, this strategy has not changed the shopping patterns of many eBay customers.

CR's Crafts' move to e-commerce required an initial investment of approximately \$30,000 for software and an additional \$30,000 for seven PCs on site. Two servers are maintained at the Leland facility for the Web site and e-mail. Annual expenditures include \$17,000 for Web site maintenance by the Portland, Oregon programmer; \$4,000 for support of software packages (Colinear and Marketworks); and \$4,000 for eBay stores. High speed Internet service is provided by the local telephone company (WTCA), which is the only Internet provider for Leland, Iowa.

Brown anticipates significant changes in operations and product offerings in the future. First, the Colinear software package (specialized for mail order businesses) will be offered over the Internet with updates automatically provided by Colinear. Once the online version of Colinear is available, CR's Crafts will eliminate the onsite servers dedicated to Web site customers. Second, Mountain One is investigating alternatives to expand and diversify the company's product offerings. The doll hat business represents a new venture that is currently operating at about 40 percent of full production (500,000 hats were made in last two years). Brown also noted that he has three additional ideas for new Internet businesses outside of the doll/bear markets, but these business plans were not ready for public disclosure. He stated that the Internet provided an inexpensive way to test the market for his new businesses.

Challenges and Lessons for Rural Entrepreneurs

Operating in this rural environment, Brown identified a few challenges:

- The availability of only one phone company and one power company results in a loss of redundancy needed for uninterrupted service.
- Brown noted that an Internet business required a different frame of mind and concept of time than a traditional catalog-based mail-order business. Internet customers expect a rapid response to their questions and orders.
- In addition, nonpaying customers and product returns can be a problem for an Internet company like CR's Crafts. Brown suggests that products should be shipped only upon receipt of payment, and product returns should be dealt with quickly and treated as a cost of doing business.

From e-Commerce as a Strategy for Improving Business Vitality: Lessons Learned from Small Businesses by Deborah M. Markley, David L. Barkley, and R. David Lamie

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