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Scale-model replicas drive Norscot into world market

Mequon firm expands from 'Cat' line into children's toys

The Business Journal of Milwaukee - October 13, 2006 by [Rich Rovito](#)

Norscot Group Inc. expects revenue to climb by more than 25 percent this year, driven largely by an expansion of its line of scale-model replicas and a recently launched line of branded children's toys.

Founded as a promotional products company in 1970, Norscot began producing scale model replicas of construction and mining equipment in 1996 under a licensing agreement with Peoria, Ill.-based

Caterpillar Inc.

Norscot operated as **Sales Guides Inc.** until 1992, when the company sold the mail-order catalog portion of its business and took on the name Norscot, a combination of the names of the company's founder and current chairman, Norm Stern, and his son, Scott, who is president and chief executive officer.

Promotional products -- pens, T-shirts, caps, calendars and golf balls emblazoned with customers' logos -- remain an integral part of Norscot's business, but the scale-model business has grown to more than 50 percent of Norscot's sales, Scott Stern said.

"It started out as a promotional product extension," Stern said. "We saw it as a perfect way to promote Caterpillar's product."

Stern said he expects Norscot's sales to reach \$35 million this year, which would represent an increase of 27 percent over 2005 sales of \$27.5 million.

The agreement with Caterpillar, a long-time customer of Norscot's on the promotional products side, makes up the lion's share of the scale-model business. However, Norscot also produces models under licensing agreements with other companies, including Lake Forest, Ill.-based CNH America L.L.C. , which makes Case brand construction equipment in Racine.

Models designed by Norscot use exact electronic blueprints from those for the full-size equipment, Stern said. The Caterpillar models from Norscot are sold in 70 countries at major retail stores. They include Kmart, Shopko, hobby shops and model train stores in the United States and Caterpillar dealers worldwide.

Grown-up customers

Although the replicas are designed for consumers who are age 8 and up, a large percentage of the buyers are adults. For example, adults who collect model trains represent a significant percentage of the customer base.

New additions to Norscot's replica line include the Machines At Work series. It features construction equipment models that are painted to have a "weathered" look, Stern said.

Another recent introduction is the "construction mini," a very small-scale model that comes in a plastic case and sells for \$1.97 at retail. The miniatures, which are replicas of Caterpillar equipment and were approved by Caterpillar engineers for accuracy, were introduced to the market in August and are available at **Wal-Mart** stores.



Photo: Scott Paulus

Scott Stern ... "We were hearing from our customers that there's a need for a pre-school product."

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"Hopefully, this will get them to start collecting the entire line," Stern said. "It's a price point where it's an impulse buy."

The new miniature construction models can be used as children's toys or as an inexpensive way for the company to make model collecting attractive to youngsters or novices.

"Their other models are a little bit expensive for sandbox toys," said Hal Miller, editor of Model Retailer, a magazine published by **Kalmbach Publishing Co.**, Waukesha.

In all, Norscot produces more than 100 different models in the Caterpillar line, ranging in price from \$1.97 to \$100 for commemorative pieces, with the majority of models selling for \$25 to \$50.

Norscot is one of the big players in the die-cast model industry, Miller said.

"They've really latched onto the Caterpillar brand," Miller said.

Cat appeal

Caterpillar is attractive to collectors because it is a dominant manufacturer of construction and mining equipment, Miller said. The depth and breadth of the Caterpillar models produced by Norscot, as well as the detail and paint jobs, set them apart from other models, he said.

Many Norscot models are 1/50th scale. A recently introduced 1/87th, or HO, scale model has appealed to model railroad enthusiasts who can use that smaller-scale models in their layouts, Miller said.

Norscot also makes a line of scale-model Kenworth and Peterbilt tractor-trailers through a licensing agreement with PACCAR, a Bellevue, Wash., manufacturer of big rig trucks. The models sell for \$41.95 at retail.

The growth in the replica business has prompted Norscot to add a dozen employees over the past 18 months, Stern said. The company has about 60 employees at its corporate headquarters and warehouse in Mequon and a total of 20 additional employees at offices in Chicago, Peoria, Seattle, London and Hong Kong.

Norscot owns a 165,000-square-foot building at 1000 W. Donges Bay Road that includes 100,000 square feet of warehouse space. The company moved to the Donges Bay site two years ago from a smaller facility on North Port Washington Road in Mequon.

No manufacturing is performed in Mequon. The company's scale-model replicas are made in China through outsourcing contracts. The promotional products are sourced at plants in the United States and foreign countries.

The success of Norscot's line of scale-model replicas led the company to introduce the TruPlay line for children. As large retailers began to carry the scale-model replicas in their toy departments, Norscot began to develop relationships with toy buyers who expressed an interest in Norscot developing a line of young children's toys, said Tom Ristow of **Street Cance**, a Milwaukee public relations agency hired by Norscot to promote the products.

Going it alone

The TruPlay line, designed for children ages 3 and up, features five items -- a dump truck, grader, excavator, backhoe and wheel loader. Norscot designed the product line absent any licensing agreements, Stern said.

The plastic toys are manufactured in China and sell for \$10.99 each. Norscot introduced them in August at Kmart and at select Sears Grand stores, Stern said.

The toys feature detail not normally found in children's play items as a way of providing an educational element, Stern said. The dump truck, for example, features an independent suspension.

"That's something a child normally wouldn't know anything about," he said.

In January, the toy line will be expanded to include the TruPlay Junior Series, designed for

children ages 2 and up. The toys, which will sell for \$5.99, won't have as extensive detail found in the other TruPlay toys. The Junior Series will include a dump truck, all-terrain vehicle and wheel loader.

"We were hearing from our customers that there's a need for a pre-school product," Stern said.

NORSCOT GROUP INC.

Headquarters: 1000 W. Donges Bay Road, Mequon

Web site: www.norscot.com

Founded: 1970

President: Scott Stern

Employees: 80, including 60 at headquarters. Offices in Chicago, Seattle, Dallas, Peoria, Ill., London and Hong Kong.

2006 sales: \$35 million

Business: Promotional products provider and manufacturer of metal die-cast, scale-model replicas of agricultural, construction, mining and transportation equipment and trucks. Also produces line of children's plastic toys.

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