

BEYOND THE BORDERS

Community Economic Development and Leadership Online Newsletter

Building Communities

Practical Tools and Information

Kathy Tweeten, NDSU Extension Service, Community Economic Development Specialist

This newsletter is meant to share practical tools and information to assist you in your important role in community and economic development work. We welcome comments on current letters plus encourage your advice for future articles.
Kathy

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Editorial – **NDSU Center for Community Vitality** **Approved**

The NDSU Center for Community Vitality was approved by the North Dakota Board of Higher Education at their January board meeting. The mission of the Center is to build capacity in North Dakota communities. This is not intended to be a center of place but rather an organizational structure. It will coordinate and connect the campus outreach efforts in community economic development and leadership and make it easier for the citizens of our state to access and use the resources that are available within NDSU.

Capacity as defined in the Center proposal includes a community's resources, or assets, that can be invested to create new resources or capital. Capital includes cultural capital, social capital, human capital, financial capital and political capital as they are outlined in detail by authors and rural sociologists, Cornelia Butler Flora and Jan Flora, in their new book "Rural Communities: Legacy and Change" second edition.

As an organizational structure, the Center will be the umbrella for the NDSU Extension programming efforts of the Institute for Business and Industry

Development (see article below) and the outreach extension programs and research in community economic development and leadership. It will also act as a clearinghouse for class project requests to campus departments and locating businesses and communities interested in hosting student interns.

Obviously, everything is just in the development stage but we hope to have the new Web site with more information up and running by the end of March. It's always a bit dangerous to put a date down for the world to see, but at least you know what we are shooting for.

Our intent is that the Center will evolve as needed to best meet the needs of the citizens of North Dakota. It will do this through the guidance of an advisory committee. The committee will be comprised of public and private agency and business professionals, interested citizens and on and off campus NDSU faculty. Watch for our Web site!

Sincerely,
Kathy Tweeten
NDSU Center for Community Vitality Director and
Community Economic Development Extension
Specialist

Small Business Management Workshops Scheduled

Source: Fay Behm, U.S. Small Business Administration

“It’s easy to get caught up in the excitement of starting and running your own business. Playing the business game is like playing any other strenuous sport; you need to be in good shape and well-prepared,” according to Ron Newman of the Small Business Development Center in Bismarck.

Following are scheduled small business management workshops and contact information for registration.

- April 8 – Improving Profit & Cash Flow Performance Using Income Approach
- May 13 – Increasing Business Performance Using Cost Control

Workshops above will be held from 3 p.m. to 5 p.m. in the Bank of North Dakota, Bismarck. Pre-registration is required. \$20 fee for each.

- March 11, April 8 and May 13 – Small Business Clinics (same topics repeated) – 11:30 a.m. to 1:30 p.m. at the Bank of North Dakota, Bismarck – no charge.
- March 25, April 22 and May 27 – Basic Business Start-Up – 11:30 a.m. to 1:30 p.m., Bank of North Dakota, Bismarck – no charge (sessions repeated)

Contact and pre-registration: Ron Newman, Small Business Development Center, (701) 328-5865 or rnewman@minotstateu.edu

North Dakota Nature and Rural Tourism Association

The tourism businesses of North Dakota are in the process of forming a statewide association. The purpose of the association will be the implementation and support of programs and policies that promote rural and nature tourism, but do no harm to people or environment.

A transition leadership team was selected at the 2nd Annual Rural and Nature Tourism Conference on January 14. The team held its first meeting on Feb. 29 to formalize the organization.

This is a new and exciting effort for a growing industry in North Dakota. Please contact Marty Anderson, interim association chair at marty@evision-video.com for more information and updates.

SBDC Offices in North Dakota

The North Dakota Small Business Development Centers are located in Bismarck, Devils Lake, Fargo, Grafton, Grand Forks, Jamestown, Minot and Williston. They have excellent resources and skills to help individuals who are interested in starting their own businesses. The lead Center for the state’s SBDC is located at the University of North Dakota. For more information contact the director, Christine Martin, at 701-777-3700 or 800-445-7232, Christine.martin@und.nodak.edu.

“Why Didn’t I Think of That?” by Wally Eide

Wally Eide, former director of the NDSU Institute for Business and Industry Development, has moved to a new challenge. He is now the director of the North Dakota Ag Innovation Center. Wally had started a series of column articles that we will continue to run in 2004. Enjoy!

Evaluating the Idea

In the last article we discussed some ways to begin exploring the commercial potential for your new product idea. I asked you to go shopping and to note the following items about the competing solutions. What are the competing solutions to your product? How are they packaged? How much do they cost? Who is distributing the product? Are there multiple distribution channels? Who is manufacturing the product? Is the benefit of the product obvious? How complex is the technology? Do they sell a lot of them?

There are almost always competing solutions to any new product idea and hopefully you will have found some. This means there is a market demand for the type of solution your product may offer. Perhaps your solution is cheaper, easier, faster, lighter, heavier, prettier, etc. than the solutions currently on the market. Who were the manufacturers and distributors of the competing products? Was it one of the industry giants? If so your product is going to have to be significantly “better” in order to compete, and remember they already had the distribution, marketing and advertising systems operational. Not everyone is going to want your product. The size of your market will be determined by the distribution system you can afford.

We are still into cheap and free information so let’s spend some time on the internet and/or in the library and see what we can uncover. We are going to try and find out as much as we can about the industry

we hope to enter. First, figure out what industry you are looking at. Is it farm machinery, automotive accessories, sporting goods, toys? Most industries have associations, sometimes several, which provide such member services as market size, customer profiles and market share information. Many times they will provide some basic information on their Web site and other times you may purchase the information. A great place to find the names of the associations is in the “Encyclopedia of Associations.” The local library may have a set of these books and they are the most comprehensive with over 100,000 associations listed. You can also check on line; there is one called Association Central, <http://www.associationcentral.com> and another called Associations Database, <http://www.traingforum.com/assoc.html> . Additional industry portals can be found at: <http://www.virtualpet.com/industry/mfg/mfg.html> . The Federal government has a tremendous amount of information. You can start by checking the FEDSTATS at: <http://www.fedstats.gov/> .

Another book to look for is the “*Market Share Reporter*” published by Gale. This book lists products by companies within a particular SIC (Standard Industrial Classification) code and will give you an idea of the size of the market in dollars and who has what percent share of the market.

If you want to know more about the competitors, particularly if they are a publicly held company, you can get some preliminary information from Hoovers at <http://www.hoovers.com>, or you can visit the U.S. Securities and Exchange Commission, <http://www.sec.gov/edgar.shtml>, and look at the companies 10K filings. Sometimes you can just go online to a company’s web site and get their annual report.

Libraries are another great source of information and some of the information is even on-line. Getting the most use from a library will probably require a visit. Subscription agreements don’t always allow public online access too many of the databases in the library. The library we obviously use the most is NDSU at <http://www.lib.ndsu.nodak.edu/>. The University of North Dakota Chester Fritz Library, <http://www.und.edu/library/>, also has some online databases you may want to check out. All of the Colleges and Universities in the State have libraries and they have arrangements for sharing information between libraries so take a little time to visit and check out these valuable resources.

If you are not familiar with “surfing the net” take a class and get some experience. It takes some effort, but you will be surprised the amount of information you can find if you are persistent in your efforts. Again, the best part of this is most of it is free. The more knowledge you have the better decisions you can make and the more of your hard earned dollars you can save.

One of the numbers we need to get to as quickly as we can while evaluating the concept is a rough idea of the direct manufacturing cost. That’s the cost of just what it took to make the product. Remember those retail costs I asked you to notice. A rule of thumb, and we’ll use a lot of these in the beginning, is to divide the retail cost by a value of 4 or 5. Say the retail price of the product you were looking at was \$100. The direct manufacturing cost was probably between \$20 and \$25. The rest was profit right? Wrong! Industries vary but the profit margin is probably somewhere around 5%. That means that on a \$100 retail product the profit would be \$5.00. This is an example of how the costs break out.

| | |
|---------------------------|-----------------|
| Retail Price | \$100.00 |
| -Less Retailer Discount | 40.00 |
| -Distributor Discount | 8.00 |
| -Sub Total | \$ 52.00 |
| -Less Manufacturing Cost | 23.00 |
| -Less Sales Cost | 6.00 |
| -Less Marketing Cost | 9.00 |
| -Less Product Support | 3.00 |
| -Less Administration Cost | 6.00 |
| Profit | \$ 5.00 |

Let’s go back to your product idea. Find 5 products that are similar to yours in terms of manufacturing costs. They don’t have to do the same thing necessarily, just about the same complexity in terms of manufacturing. Average the retail cost of those items and then divide that number by 5 to get the direct manufacturing cost. Think you can get your product manufactured for that price? No, you probably can’t. The truth is this number will be the direct manufacturing cost of your contract manufacturer, your actual number will probably be double that for long runs and even higher for short runs. The other costs again are going to vary with the industry, but percentage wise you probably won’t be far off.

Well, we still aren’t through evaluating. Just because you don’t see a product like yours in any of the catalogs, web sites, or stores doesn’t mean it hasn’t be patented. Remember there are over 6 million patents in the patent depository library and roughly only about two percent have been successfully

commercialized so you had better take a look. You can pay to have this done or you can do it yourself first. Patent attorney also do patent searches. Costs of a professional patent search will vary but I would suggest you budget at least \$800. I'd recommend trying it yourself first. There are several sites on the internet you can go to have a look. They are the Delphion site at: <http://www.delphion.com>. Another site is of course the US Patent and Trademark office at <http://www.uspto.gov>. For example, I just went to the USPTO site and used the key words "toothbrush handle" and found 330 hits. The search was between the years of 1996 and 2002. What you are looking for are not only patents on which you might be infringing but who holds the patent and to whom, if anyone, was it assigned. Knowing to whom it was assigned can help you determine if someone thought enough of the idea to attempt to commercialize. Maybe it will be a company, or one of their competitors, that would like to license your idea sometime in the future. File this information away for future reference.

There is more to a thorough patent search than typing in couple of key words. Before you decide to tackle a patent search you might want to consider taking an on-line tutorial. The library at the University of Texas – Austin has a tutorial on their web site at <http://www.lib.utexas.edu/engi/patent-tutorial/index.htm>. The Chester Fritz Library on the campus of the University of North Dakota has a Patent Depository Library on site. There are knowledgeable people on site to assist you with your search. If it is convenient for you to visit the UND Library I would recommend this avenue. Call and setup an appointment if you are serious about spending some time searching. A thorough patent search can be very time consuming.

Let's summarize. At this point you should have gone shopping and looked at the competition, completed a preliminary patent search, have a rough idea of your direct manufacturing costs and make some assumptions about the other costs. You should have asked yourself several times about where you are going to get the money. You should also have tried to compare your product against the five criteria outlined in the first article:

- The product is easy to distribute.
- The technology is simple.
- The product is perceived to be unique.
- The benefit is obvious.
- The product can be sold at four to five times its direct manufacturing

So far you have completed a preliminary feasibility study on the idea and haven't invested a lot of your money, just some of your time. Still convinces your idea is a winner? Still want to go the next step? BEWARE, beyond this point there be dragon. Knowledge will be your only shield.

Changes in IBID

As I stated in Wally's article, IBID has had some changes. Due to decreases in grant funding we were unable to hire a full time replacement for Wally plus we had a reduction in two other IBID staff. IBID is still active in helping entrepreneurs to access university assistance. I am the director and we have two experienced and very talented part time program specialists, Reuben Tschritter and Jack Johnson. Reuben and Jack have been assisting entrepreneurs for several years. To contact IBID call me at 710-328-9718 or email:

Kathleen.tweeten@nds.u.nodak.edu. To contact Reuben or Jack directly call 701-231-1001 or email reuben.tschritter@nds.u.nodak.edu or jack.johnson@nds.u.nodak.edu.



