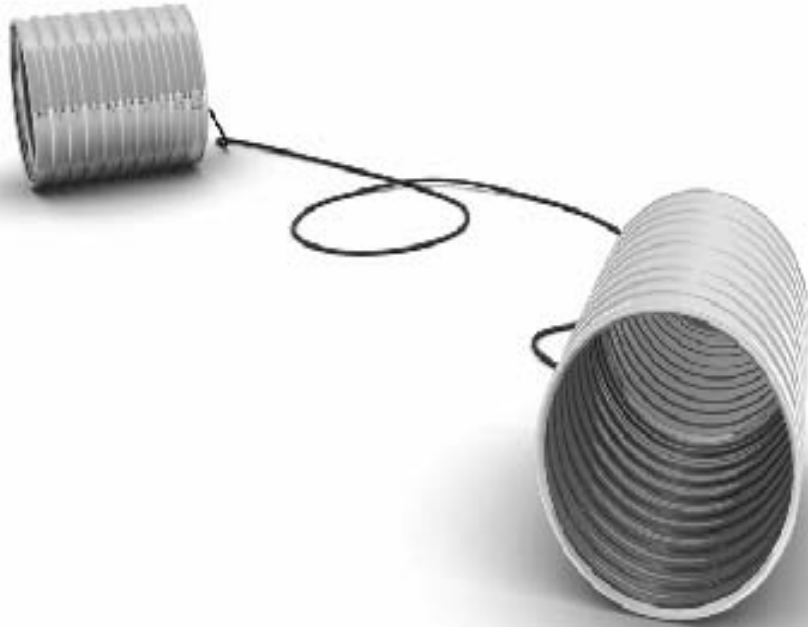


IDEAS INTO PROFITS



Product
Development
Solutions

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INVENTION DEVELOPMENT FRAMEWORK

STEP 1: Idea Conception

Many people come up with ideas in different ways but all that is important is that you have a new product idea that you are excited about and you want to see what you can do with it.

STEP 2: Create an Inventor's Notebook

Prior to patenting your idea, you should fill out a properly documented inventor's notebook. While this is not patent protection, you can document when you created your idea and what has been involved in your inventing process. That way, if someone tries to patent an idea similar to yours, you can establish that you came up with the idea first.

At this point, you will not be ready to apply for a patent since your product will probably go through many changes before you finalize your product design. By prematurely applying for a patent, your own product changes may invalidate your patent protection. In the United States, the patent system awards patents to the first person to invent the product, unlike the rest of the world where the first person to file is awarded the patent. This means, for US inventors, that it is not a race to get a patent, but it is better to wait until you know your final product design and have the funding to afford good patent lawyers. Just remember, once your product is publicly disclosed, you must apply for a patent within a year or you will lose your rights to a patent.

To create an inventor's notebook, buy a bound notebook with numbered pages and enter all of your activities, drawings, ideas and even conversations regarding your invention. Enter everything sequentially and date every entry. Then every week have one or two witnesses, who are not close relatives or have a financial interest in your invention, read your new pages and write *"The above information is confidential. I have read and understood this page."* Then have them sign and date the page.

STEP 3: Evaluate If Your Product Idea is Worth Pursuing

There are basically four things you need to weigh to determine if your product is worth pursuing.

- **FEASIBILITY:** Is your idea feasible to create based upon your abilities? Most, if not all, inventors get some kind of marketing or technical help from professionals, but your product still needs to be reasonably within your grasp. Don't let this intimidate you too much, but if you believe that you can do most of the work associated with your invention then you are in good shape. Just remember that even though most inventors do get help, you still need to do most of the work by yourself.
- **PROFITABILITY:** Can it be produced profitably? You will not be able to know your exact costs, but consider the materials you want to use, the complexity of construction and the type of packaging you will need. If you think your costs will be pretty high and you will be competing with relatively low-cost products, your idea will probably not be worth pursuing. There are exceptions to this rule, like if your product is significantly better than competition or you are targeting high-end stores and consumers, but usually this rule holds true.
- **COMPETITIVENESS:** Is there significant competition? A product is always easier to introduce if there is either very little or no competition. More competition generally means lower profits and tougher sales.
- **WOW:** Does your product make people say, "Wow"? If people are amazed when they hear about your product, then you should pursue your idea. I call this the **"wow"** factor and this can make up for deficiencies in any of the three areas above. This is perhaps the most important part of evaluating your idea because the "wow" factor is often the biggest contributor to inventors' success.

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STEP 4: Target a Market

Develop a specific group of people who are your target customers. You want this to be the group most likely to buy your product. For instance, if you have a new kind of fly fishing pole, which is expensive, your target market could be wealthy fly fishing. You might want further narrow this market to fishermen who fish for a certain fish in a certain kind of creek. Some people want to avoid a narrow market because they think they will sell fewer products, but usually the opposite is true. With a narrow target market you can more effectively market your idea and can have more effective market research. Once you have a target market, you want to then target a type of distribution channel and find the corresponding trade shows, magazines and associations to be a part of.

STEP 5: Produce Something That People Can Evaluate

Develop a model, drawing, flyer or a brochure for your product so people can give you feedback on your idea. This doesn't need to be a working model, although it can be, but it needs to allow people to honestly evaluate your idea and give you useful suggestions, criticisms and praise.

STEP 6: Market Research

You need to conduct meaningful market research for your idea within your target market. Your results need to show how people compare your product to others, what price they think is fair, what product features they like, which they don't and what features they think you should add to your idea. How you do this can vary tremendously but common forms of research are focus groups, surveys and interviews.

STEP 7: Reevaluate and Adjust Your Product Based Upon Market Research Results

Once you have completed your market research, consider the responses people made. You want to incorporate their good ideas to make your product as appealing as possible to consumers. The results from the market research may cause you to take your idea in a completely different direction, but that's okay. Don't be so attached to your idea how you originally conceived it that you won't take good advice. If your research causes you to drastically change your product, you probably want to do market research again with your changed product. You would also want to conduct your research again if people's responses to your product were poor and you think your revised product would fare much better. The market research will be used later on to approach investors or potential partners, so you want favorable results.

STEP 8: Make a Prototype

Now it is time to make a looks-like, acts-like prototype. You will need this to verify if your idea works the way you think it will. Your prototype doesn't necessarily need to be made from all the same materials as your final product will be, but it needs to be a close approximation of your final product to prove to you, investors and potential partners that your idea does work.

STEP 9: Get a Patent

Patents will prevent others from producing and selling your idea without your permission. They are very expensive, usually running over \$5,000 with attorney fees. There are many different patent strategies, but you will need to consult a patent attorney for specifics.

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STEP 10: Decide Which Track to Take

At this point, there are basically three avenues you can take with your idea: be an outsourcing, licensing or start your own company. All three have pros and cons and you will have to decide which route is best to take for you based on your own skills and the specific characteristics of your product. To learn more about each track, click on the links below.

OPTION 1: Outsource – Find Partners or Hire Them

Outsourcing to quickly brings his or her product to market with low risk and low investment. There are essentially three aspects to bringing a product to market:

1. research and development;
2. manufacturing; and
3. marketing.

As the inventor, you perform the task of research and development (inventing and developing the idea) and outsource the manufacturing and marketing to investing partners. The investing partners will provide further development and pay for many of the start up costs. In return they will receive more profits than contracted work and will have some control of the idea. This is often the fastest way to bring a product to market, is low risk and allows you to move onto new ideas quickly since the other partners will continue to manufacture and market your idea without excessive involvement on your part.

■ Find Potential Partners

Not everyone will be a good candidate for outsourcing.

1. You need to find manufacturers who can add your product without too much investment in new machinery and who are running below capacity.
2. Marketing partners must carry products similar to yours and your product must represent a significant increase in sales for the firm, at least 20%.

■ Set Up a Proposed Deal Structure

Before you start approaching potential partners, you should know what kind of deal you are hoping to set up. Have an idea about what kind of investments each partner will make, how you will divide profits and how you will handle the future of your idea. Remember this isn't the final deal, but just a starting point for you and your partners. No one will sign on a deal that isn't fair for them, so try to make it as fair as possible for everyone involved. Don't devalue yourself in this process though, creating and developing the idea is very valuable and the basis for the partnership.

■ Approach Manufacturers

Approaching your partners can be difficult. Manufacturers don't want to sign a deal unless there is a marketing firm guaranteeing sales and marketers don't want to sign a deal unless a manufacturer can promise to produce the projected volumes at a reasonable quality. The best way to deal with this is by first approaching a manufacturer and asks them to commit to the project if a marketing firm will sign on to the deal. If the manufacturer agrees, then you have a solid enough commitment for a marketing firm to be willing to sign on.

■ Approach Marketers

Once you have a preliminary agreement with your manufacturer, you can start approaching marketers. Make

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sure you have chosen your marketers carefully and approach the ones you think will be most likely to join the partnership. Marketers become wary of products that have been “*shopped around*” and will avoid your product if they think too many others have said no to you already. So do your homework and be confident that you approach those companies for whom your product would be a good fit.

■ Close the Deal

Once you find two partners who are interested you need to all sit down together and hammer out all the details and close the deal. You need to be protective of your share here. If you can prove that you can offer some kind of ongoing service for the project it will be easier to get your fair share. You may also want to hire an attorney to help you protect your rights.

OPTION 2: Licensing

Licensing is when a company takes over your new product idea and pays you a royalty of the sales from your idea. The licensee can be a manufacturer, marketer or a product development company. Since licensees take on all the risk of a product, they are cautious about what products they will license. Most companies will only license an idea if they are fairly certain it will be successful so it is up to you to convince them. While the earning potential is lower than both outsourcing and starting your own company, many inventors choose this strategy because once you license the idea you have no more responsibility to the project.

■ Find Licensing Candidates

Many inventors fail at licensing because they choose the wrong companies to approach. Many people want to license to the big companies without realizing that these companies rarely, if ever, license ideas from inventors. **Unless you have a truly innovative product, you should not approach a company with a major market position.** Fortunately, companies with smaller market shares are always looking for ways to expand their share and break into new markets and are therefore more willing to consider licensing. Since a licensed product produces a lower profit margin due to the royalties paid to you, you need to find companies that would benefit greatly from adding your product to their line.

■ Prepare a Preliminary Licensing Proposal

Before you approach your licensing candidates, you want to be clear on what terms your idea will be licensed and what percentage of sales you want to receive. You can license your idea to just one company, which is an exclusive license, or too many companies, which is a non-exclusive license. You will also want to determine what exactly you are licensing: either the product or the technology. Be clear on what you want but still be willing to negotiate, but remember to protect your future rights to the idea. For instance, if you license just your product, then any advancements will exclude you from royalties, but licensing the technology could have you receiving royalties for many years.

■ Prepare a Licensing Presentation

When you find interested companies, you will be asked to come to the company’s office for a presentation. This presentation should not last more than 15 minutes and you should allow for questions after the presentation. If at all possible, you should include a demonstration. This is the most effective way of selling your idea. If you cannot provide a demonstration, try to incorporate a five-minute video showing people using your product. During the remainder of your presentation, you need to show the company why the product will be successful and that your product matches the company’s goals and current market strategies.

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■ Approach Your Candidates

Approach your candidates first with letters and phone calls, then with your presentation. Approach the companies that are the best fit for your idea first, since companies grow wary of products that have been “shopped around” to many different companies.

■ Sign the Deal

You should get a lawyer to help you with the licensing deal. You may have already made some preliminary agreement with the licensee based on your preliminary licensing proposal, but you will need a lawyer to handle all the details of the deal to ensure that you are properly protected.

OPTION 3: Start Your Own Company

Starting your own company can offer the biggest returns on your idea, but also can be the biggest loss. This track will take substantial investment and time and will offer the slowest rate of growth. But if you succeed, the profits are all yours. In the list below, I assume you will contract the manufacturing process and hire sales people or use an established distribution channel, which is not the route everyone takes. With a small target market, some inventors can manufacture and market the product completely on their own, and even earn a substantial profit. Before you start this process consider what skills you have and how much time you are willing to spend on this business, you may need to take on help or partners right away to get started.

■ Create a Business Plan and Market Introduction Plan

Business Plans and Market Introduction Plans are vital for every business. Practically, you will need a business plan to raise money, but beyond that you will need to focus and concentrate your energies. Business plans also will give you a standard to measure your success and progress.

■ Create Packaging

Packaging is a very important part of every product, but most inventors underestimate its value. Without an extensive sales force, you will need to rely on your packaging to sell your products off the shelves. You need to match your packaging to the image of your idea whether it is a high-end luxury product or an impulse item. Also your target distribution channels may have very specific requirements for either the quality or the display method of your packaging (i.e. hanging from hooks, stacked on a shelf, etc.).

■ Find a Manufacturer

You will need to contract a manufacturer to start production on your product. Manufacturers are typically not too difficult to work with. Contact them for quotes and compare prices to find the best value. Some manufacturers produce poorer quality work than others and you want to be sure you are getting the quality work you need. Not all manufacturers will offer to produce your product, so find manufacturers with the equipment necessary to make your product. Make sure to discuss with them how you will manage the quality of the work being done.

■ Find Sales Agents/Distribution

There are a variety of sales methods you can use. Sales agents can sell for you, you can sell through mail order catalogs, you can sell through distributors or countless other sales techniques. Your product will not be suitable for many sales options and being an inventor run company will disqualify you from others, at least initially. You must choose a distribution option that you can support with customer service, is open to new products and can be impacted by a small sales force. You may have already chosen which path to take in your market introduction plan and now is the time to contact the sales agents or distributors that you want to pursue. Remember that

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distributors can be wary of small companies and may wait for you to call four or five times before they consider your idea. They want to see you have staying power so let them know you are committed and are not going away.

■ Start Selling

Running your business will take a lot of perseverance and patience, but if you've made it this far you have proved that you have those traits. Don't get discouraged now, it will take time for your idea to take off, just keep plugging away and stick to your business plan, reevaluating it every so often. Above all stay optimistic. Remember, starting your own business will take the longest but you started it so you could have the big payoff later on.



Pendleton Ventures® Invention Development Framework