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Risks, rewards of bringing product to market

Lots of people dream of inventing a better mousetrap. The difference between the dreamers and the doers is getting the product to market.

Someone who defied the odds of introducing a new product is Doug Gaus, who invented a compact disc storage system. He has received patent protection and brought his product to market under the name Space Solutions.

However, success didn't come without challenges. Gaus was careful in how he spent his limited cash. He hired some professionals, but took many shortcuts.

Gaus invested in a patent attorney, Hank Milliken of Schapp & Hatch, a Walnut Creek based law firm. This firm worked with an engineer to do schematic drawings, and ultimately helped Gaus receive a utility patent in August. After spending \$6,000 for these services, Gaus then got creative.

He hired a friend to do the graphic design work for product packaging. By taking the laser printed output to a local printer for color copy reproduction, he saved a lot of money.

Kept full-time job

Gaus kept his full-time job while building his new product. He



EAST BAY SMALL BUSINESS

By Cindy Turner

conducted a lot of market research on weekends and off work hours.

At one point he held an in-house focus group with friends looking for some feedback about the product. "You still had to wade through everything, leaving the final decisions up to you," he said. Dealing with naysayers was one his greatest challenges but his belief in the product kept him going.

Gaus then identified a manufacturer in San Rafael who produced a prototype and gave him an initial quote of \$25 per unit for a 200 unit order. He knew that eventually, if he wanted to make a higher profit, he would have to find another manufacturer who could produce the product at a much lower cost. But for now, he had a selling opportunity for his 200 units at Tower Records.

While Tower Records' customers didn't match the upscale buyer he was targeting, it was a safe environment to experiment with pricing, packaging, press releases, and to gather valuable consumer feedback.

Loaded with critical market intelligence, he approached mail order houses, and six months later received a 1,500-unit order from upscale retailer Sharper Image. But now his manufacturer had more than doubled the cost per unit to \$53. Not only would Gaus have to find a lot more money, this additional cost would generate a net loss per unit.

Time to regroup

On the verge of mass market exposure, Gaus regrouped and conducted more market research. He read some books and talked with other companies who had licensed their products to product distribution companies. His efforts located a firm in Southern California that had overseas contacts which could produce the product at a profit. Gaus felt he could have found a low-cost manufacturer and brought the product to market himself, but said "it would have taken me two years versus the one month it took for the Southern California firm."

Avoiding additional attorney fees, Gaus took a risk and created his own licensing agreement between the distribution company and himself. He receives a percentage of all net sales. So far, he has had no problems.

Gaus' story has many lessons for other inventors. He was willing to give up a lot of control over his product licensing it to a distribution company. Many entrepreneurs are unwilling to give up control, but Gaus recognized the tradeoff — greater market coverage through an existing distribution channel requiring little cash from himself, in exchange for low risk, reduced, but potentially steady financial reward.

It took a total of \$20,000 of Gaus' personal funds to achieve sales to date of 10,000 units. Thanks to his licensing agreement, his product can now be found in seven mail order catalogs. January 1996 showed his investment in the black.

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