

All Sports Bobbers

The Case Study

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ABSTRACT

"All Sports Bobbers" is based on the experiences of Paul Zaharia as told to his daughter, Rebecca "Becky" Zaharia. This case is intended for educational purposes only and is not intended to illustrate either effective or ineffective management practices. The case presents an in-depth analysis of the manufacturing and marketing pros and cons of an overseas business firm. It also gives a portrait of bank's role in establishing the business.

1. THE IDEA

The idea for the All Sports Bobber came as I was skipping shale stones across the river back in 1995. I had wondered why fishing bobbers only came in round shapes and in two colors, that of red and white or yellow and orange.

Shortly after that I began to make some rough drawings of different shaped bobbers, some looked like flying saucers. On a trip to K-mart one Sunday a couple of weeks later, I happened to go through the sporting goods section. There I saw some ping pong balls that were painted like basketballs, footballs and tennis balls. That day I purchased six, two-inch bobbers to make my samples from. During this time I contacted my patent attorney about the idea. A patent search was run to see if there was anything like it ever patented. Since the search found nothing, I moved forward to the next step. Since a patent could not be had on the bobber itself, a design patent was sought. A design patent has since been granted, in 1997.

It was always my intent to license the bobbers out to another company, a

company that was already making bobbers. Ever since the patent was granted I have contacted numerous companies on licensing the bobber. Most companies like the idea and think it's quite a novelty but none have ever showed an interest in licensing it." - Paul Zaharia

2. GETTING THE BOBBER STARTED....

"In the fall of 1997, I was approached by four gentlemen from within the state that had formed a company called Northwest Molding and they were interested in manufacturing and marketing the bobbers. The manufacturing plant would be in Rollete, North Dakota. I was offered a royalty and allowed to sell the bobbers on my own as well. In the spring of 1998 molds for the bobbers were being made by Niess Enterprises of Minot, North Dakota.

By September the molds for all six bobbers were completed. In the meantime a company in Oregon, the Good Catalog Company, expressed an interest in purchasing some of the All Sports Bobbers executive sets. This set included

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six bobbbers on an oak base. The original samples were sent out for photographing to be placed in the spring catalogs and an original order of 5000 units was set up.”- Paul Zaharia

How the Good Catalog Company was discovered is as follows. Paul saw a copy of the Good Catalog Company’s catalog and contacted them. After talking to a representative, they sounded very interested. Paul sent out a sample set of the All Sports Bobbers and the Good Catalog Company responded quickly. Eager to place the All Sports Bobbers in their catalog, they set up a photo shoot.

The order placed by the Good Catalog Company was 5000 sets of six. The All Sports Bobbers were priced at about \$30. It only cost the company about \$4 to make each set of six; the margin was large for each set of bobbbers.

The royalty and the allowance to sell the bobbbers were a good deal for Paul. He was given a chance to get a royalty from the bobbbers along with a chance to market the bobbbers himself. This is unlike most licensing agreement, usually a royalty is paid but the inventor of the product can’t go out and sell it on his own as well.

3. TROUBLE IS SOON TO COME...

The bobber was placed in the Good Catalog Company’s spring 1998 catalog. Because of the poor quality of the bobbbers, the sales soon dropped off to zero. The 5000 orders originally placed all got canceled. The poor quality of the bobbbers came from many factors. The molds were not properly finished. The process that would take out nicks and burs, better known as bench dressing, was not done. This would have made the

plastic parts come out easily when ejected from the mold. According to Paul, nicks and bur are trouble, “As the aluminum on steel is cut to make the molds, it leaves small pieces of steel hanging to the mold. These are called burs and they have to be removed so as the plastic is ejected it does not hang up on it or become deformed. The same is for nicks or small pockets in the steel. These areas have to be cleaned up by sanding them out, so that the plastic does not lay in the nicks.”- Paul Zaharia.

The detailing of the mold itself was of poor quality. The mold details were supposed to depict balls used in sports. Basketballs, baseballs, tennis balls, footballs, volley balls, and golf balls were supposed to have the correct lines, texture, and even the correct number of dimples in the case of the golf ball. Recessed lines were to be shown (and felt) on the volleyball, but it did not happen. The detailing instead came out so light that you could barely see or feel it.

Also the process used to fuse the bobber halves together didn’t work so well. The fusing solvent stained some of the bobbbers along seam where they were fused together.

Some of the colors didn’t match those of the real sports ball. This was also a quality problem. Golf balls were turning out yellow and some had streaks. Basketballs were not the usual orange or tan; they were never a consistent color.

The detailing was done by hand rather than done by a pad-printing machine. A pad-printing machine is like a big rubber stamper that would print the detailing on each bobber. This machine would have cost roughly \$6,000. Instead of purchasing this machine, the company sacrificed quality to profit themselves.

Markers were used to draw in the lines on the bobbbers. This caused inconsistencies in the lines, some were thin, some were too thick, and some had dashes and spots rather than solid lines.

“No matter how small or large the quantity, all the bobbbers were of very poor quality. Poor quality made your first sale your last sale, or no sale at all.” -Paul Zaharia

Since Northwest Molding was just starting up, a lot of sample bobbbers were made. Since they were samples, costs weren't assigned to them. The samples were used to fill the few orders they got, and there was no charge on the bobbbers until the company lined up a large order. The cost for production then would have been \$1.40 per bobber and this would have been very expensive. Fully costed bobbbers would not have been competitive in the market.

By mid-1999 the Northwest Molding was in trouble due to poor management. The company used money earned for other things that didn't deal with the company. Also taking short cuts on the molds caused problems. To add to these problems, the partners didn't get along with each other. Mistrust in decision making led to a constant argument between the partners.

In December of 1999, the partners dissolved the company, each going his own way. One partner of the old Northwest Molding company took the molds with him. Later he and Paul became partners in a company called All Tech. This partner was also Paul's patent attorney.

From January 2000 until April 2001, All Tech did nothing to move forward on manufacturing the bobbbers. The partner knew that lack of progress

with the project would cause the patent to expire, and with him having ownership of the molds...well Paul knew there was going to trouble ahead.

Paul's inquiries were met with bitter words. And by mid-2001 All Tech folded. Since that time, Paul has pursued the project alone. Although the past partner still has the mold to the All Sports Bobber, he cannot use it since Paul has the patent.

4. GOING SOLO...

Some of the problems Paul is facing is that a plastic company used to manufacture the bobbbers still needs to be found, and also there is a need to find financing.

Some of the pluses going alone as a solo inventor are the following. Paul has the design patent. He has a very honest and reliable marketing group lined up when product becomes available. Paul is knowledgeable about the product, and he has learned the product and business workings from the ground up.

Some of the minuses of going solo are as follows. Paul lacks funds. He lacks time to dedicate to the project. Paul needs to find a low-cost (overseas) manufacturer. A new US-made mold will cost approximately \$30,000 since the old mold was not properly bench dressed and its location is not known.

Paul has plans for managing The All Sports Bobber project. He has decided on dividing his time into product stages. Concentrating on priority areas first, the All Sports Bobber idea will move forward in a stepwise manner. Paul also seeks out people who are knowledgeable about particular problems and tries to obtain as much information as possible.

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5. PURSUING NEW COMPANIES...

Paul has approached some companies. A few were very interested in the product but didn't want to take it on, due to the expense of retooling the mold.

Paul contacted Airlite Plastics Company in 1997, before he got involved with Northwest Molding. Airlite Plastics considered making the bobbers and would pay royalties to Paul. The company's leaders at the time were debating whether to keep producing bobbers or to focus on their plastic food containers. They chose to sell the bobber part of the company to Persision Plastics.

Paul contacted Persision Plastics, but they did not have the manpower nor the financing to take on the new project. Although the Airlite Plastics company and Persision Plastics were contacted in 1997, Paul kept them in mind when pursuing the All Sports Bobber idea after All Tech dissolved.

Other companies contacted about licensing the All Sports Bobber included Eagle Claw Fishing Tackle, Zebco Corporation, and West End Fishing Tackle Inc.

These companies are known for their fishing products.

Now Paul is working with Peaklie Company Limited of Taiwan. Paul discovered Peaklie Company Limited while doing research on the Internet for an overseas plastic company. Through additional research he found that this company was reliable. Paul rounded up a list of companies that Peaklie manufactured for. He then looked at each of the company's products focusing on quality. "Catalogs of Peaklie's own products were also a good source, as

well as samples of products they manufactured."- Paul Zaharia. Paul determined that Peaklie would pay for 30% of the cost of the new mold. However, they are waiting for a deposit of \$7,600 to begin working on the mold.

Prices were discussed for the bobbers, too. For a bulk order (100 bobbers the price quote to Paul is 16 cents a piece. A six pack of bobbers in a blister pack would cost \$1.55. These are the lowest price quotes so far. For a local plastic company to manufacture the bobbers it would cost about 22 cents per bobber.

There is the option of purchasing the mold overseas, since the cost of a mold there is between \$3,000 and \$7,000. From there Paul could have the mold brought to the US and actually manufacture the All Sports Bobbers here. Still, that is \$3,000 to \$7,000 that Paul does not have yet.

6. MONEY, MONEY, MONEY...

Paul has rounded up some names of finance companies that still need to be contacted. They are:

Bank of North Dakota (BND)

BND programs include:

i) Bank Participation Program- This loan is made if it is used to serve legitimate credit needs of North Dakota. The loan is to be used for purchase of land, buildings, and equipment, startup and working capital, or for any reasonable business purpose. Collateral is required to protect this loan.

ii) Business Development Loan Program- This program helps new businesses obtain loans that are considered to be high risk. The loan must

be used for purchase or lease of equipment, purchase a new or existing building, as well as to remodel or expand an existing business. Collateral is also required to receive a loan from this program.

iii) *Beginning Entrepreneur Loan*

Guarantee Program- This program assists startup businesses but the loan does not exceed \$100,000. Quarterly report filing by the business is required with this type of loan. Up to \$25,000 can be loaned through this program without collateral.

iv) *SBA Guaranteed Loan*

Purchase Program- BND purchases, at par, the SBA portion of any loan. Companies involved in this program must be involved in manufacturing, processing, production or retail trade. The loans must be used for things like, equipment, expansion in the business facility, and things such as inventory.

Bank of North Dakota loan program information was found on the Bank of North Dakota web site. BND offers many other loan programs, but listed above are the programs that would benefit the All Sports Bobber production.

Local and regional economic development agency - Souris Basin and Planning Council Magic Fund

Each agency has to be researched yet to find out what programs they might have to help finance startup costs. Most agencies go by the rule of thumb that in order to help finance a project in North Dakota, the company must create jobs and be in a noncompetitive area. For example, one of these sources would not provide capital to open a grocery store if it was going to compete with an existing grocery store.

If Paul joined up with a venture capitalist, that would help out financially, but they would take a large percentage of ownership and profits. Minnesota economic development agencies were contacted about financing but they aren't willing to help, due to the manufacturing was not going to be taking place in Minnesota.

Most Federal funding programs require the company to have United States involvement. One program indicates that 51% of the business must be in the United States. Some programs through the federal government only help finance overseas projects in underdeveloped countries. This means they would not help fund a project manufactured in Taiwan.

A business plan is necessary in order to get financing from the Bank of North Dakota. Paul did have a great business plan put together, but due to a computer virus, well...he no longer has it. A new business plan with a three-year pro-forma income statement and balance sheet is in the making, and will help out greatly to find financing.

7. DEALING WITH THE PROS AND CONS...

Cons of manufacturing overseas

- You cannot monitor the quality of the product
- Visiting the factory is both time consuming and costly
- By going overseas, financing maybe harder to get in North Dakota, since jobs will not be created in North Dakota
- Cost of transporting goods

Pros of manufacturing overseas

- The mold is cheaper there, between \$3,000 and \$7,000; in the US molds can

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This man will take care of the shipping, import/export issues, and also help line up companies to take the product. If given the "go ahead," the All Sports Bobbers will be produced and sitting ready at the Port of Seattle a mere six months from now. From the Seattle port they would have 15 days to pick up the product and ship it to DHD Tackle for distribution.

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cost between \$35,000 and \$50,000

-Money saved from the cost of the mold can be used for inventory and start-up cost.

- Product costs are lower.

The differences in manufacturing in Taiwan compared to North Dakota are many. The culture is very different there and it is far away. Paul has had to re-arrange his time as well when negotiating with Peaklie. When it is night in North Dakota it is day in Taiwan.

Paul noticed that Peaklie was very quick to respond with e-mails, returning calls, etc. Although it was somewhat hard convey what you want to explain when you are not there in person.

8. PLANNING FOR THE FUTURE...

When the manufacturing starts and inventory rolls in Paul has a plan. The inventory will be held at DHD Tackle in Minot, North Dakota. DHD is a retail store that sells fishing equipment, although they are in retail, the owner (who Paul is working with) used to be in the wholesale business, as is a valuable information source for Paul. DHD Tackle will also do the distributing and marketing. Most of DHD's distribution network is in the Midwest. Paul will mark-up the bobber to reflect DHD's costs and margin for distributing the bobber.

How Paul came into contact with DHD Tackle was this. "My son showed them an All Sports Bobber when he was purchasing a fishing license. They were very interested in the product, so I contacted them." -Paul Zaharia

This company is very reasonable and has great knowledge about the bobber market and the production. Paul also added that they are great to work

with. They do the hard sales, that is, they call companies that might be interested in carrying the All Sports Bobber and they do all the recruiting of companies. That is what Paul is looking to DHD Tackle to get the All Sports Bobbers out in the market.

9. THE GO AHEAD AWAITS...

Paul is working with a reliable import agent in Nebraska. This man will take care of the shipping, import/export issues, and also help line up companies to take the product. If given the "go ahead," the All Sports Bobbers will be produced and sitting ready at the Port of Seattle a mere six months from now. From the Seattle port they would have 15 days to pick up the product and ship it to DHD Tackle for distribution.

Sounds like a good deal, but this man costs \$240 per day, and his minimum charge is eight hours for this project. After that he only charges when he is working on your product. Paul anticipates that this man will work initially about eight to fifteen hours a month on the All Sports Bobber project. These hours could increase up to 24 hours per month as the company grows. Good work does not come cheap and money is a problem.

The Nebraska agent would not be hired if the production is done in North Dakota, since he is an import agent. Eliminating the need for an import agent would save Paul from \$1,920 to \$5,760 per month.

10. SOME QUESTIONS...

A. *What should people know before doing business overseas?*

"Some of the culture, geography, city locations, etc. help before making your first phone call.

Know the business you are calling- what they do, how long they have been in business, and if possible a contact person, what products they make, etc.

Know how to get your product over to the USA, import, duties, taxes, brokers fees, banking, line of credit, freight brokers, dock storage, and what the costs are as well as how your product will be handled.”- Paul Zaharia.

B. How would you locate a plastics company overseas, and make sure it's reliable and reputable, yet still cheap?

Do plenty of research. Look on the Internet, and contact the company. Ask for sample products, a list of companies they manufacture too, and also a price list. Check out similar products and find out who does their manufacturing.

: C. *What are the best sources for financing a product that will be made overseas or would you get better financing if the production took place in North Dakota?*

: Most federal programs want the product to be made in the USA if they are financing it. 51% of the production must be in the USA.

: Some overseas grants and loans want to focus on underdeveloped countries, to help better them. Taiwan is not an underdeveloped country, so financing will be harder to find.

: Most North Dakota programs want the business to be kept in North Dakota, in order to bring in jobs and money.

: So to get better financing, it would help to keep the product in North Dakota.

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