

## CHAPTER 7

### ANALYZING PRODUCT/SERVICE RISKS AND BENEFITS

#### Author's Note

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It is a rare entrepreneurship text that treats the issue of product development, yet I have found in my courses that fully half of all the business concepts developed relate to products. How we move from an idea to a product that has commercial value is an important topic for entrepreneurs to understand.

This chapter looks at how entrepreneurs with limited resources develop products. It also deals with the important issue of protecting those proprietary products. I have always believed that the strategies and tactics related to product development apply equally well with service companies. A service needs to be prototyped well before it is presented in its final form to the customer. It is through the prototype that the entrepreneur learns what works and what doesn't. This chapter will deal with both products and services.

#### Learning Objectives

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This chapter will give students an understanding of:

- The nature of product/process development
- How the development process works for entrepreneurs
- How entrepreneurs protect their intellectual property

#### Supplementary Lecture Material

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##### ***Entrepreneur: Protect that Product***

In 1995, Keri Beyer started a furniture company in Minnesota that she called Wigglestix. During the first years of the business, her customers were small mom-and-pops but, in 1999, she landed a \$400,000 contract with Pottery Barn Kids. A year and a half after that first order, the rep from Pottery Barn visited Beyer to find out what new pieces she had designed. She took digital pictures of the new furniture line and headed back to headquarters in San Francisco. Keri was certain she was about to get another big order so when requests for samples came in, she willingly complied with thousands of dollars' worth of merchandise.

Then the run-around began. No one would return Beyer's phone calls and when she finally reached someone, she was told that Pottery Barn was no longer interested. When the 2001 Pottery Barn catalogue came out, Beyer found pieces of furniture that were essentially her design but priced \$100 cheaper.

Beyer's experience is, unfortunately, fairly common and more often than not goes unreported. For the large companies that engage in this intellectual property theft, it's a matter of not being able to afford to do the design and development themselves, so they "borrow" them from small entrepreneurs who don't protect themselves.

One of the most egregious examples happened when two Harvard Business School students launched a venture, X-IT, to manufacture and distribute a collapsible fire-escape ladder for homes. The pack-

aging even had family members' pictures on it. Walter Kidde Portable Equipment approached the two about buying their company but, after signing a confidentiality agreement and being privy to proprietary designs, the company came out with its own ladder in the same packaging using the students' family pictures. Now that's chutzpah! X-IT sued Kidde and won the biggest civil jury verdict in Virginia history, \$116 million, although the judge in the case will probably reduce it. It's very expensive for a small business to sue; fees easily run up to a million dollars.

If an entrepreneur finds that its designs have been infringed, he should contact the Made in the USA Foundation, which has helped small designers file suits pro bono.

Source: Carlye Adler, "Can You Spot the Knockoff?" *Fortune Small Business*, March 12, 2002.  
[http://www.fortune.com/indexw.jhtml?channel=artcol.jhtml&doc\\_id=206812](http://www.fortune.com/indexw.jhtml?channel=artcol.jhtml&doc_id=206812)

## Films to Rent

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### *Dr. Fad*

Dr. Fad is an unusual entrepreneur-consultant-professor who has the ability to recognize the next multimillion-dollar market success. This is a *60 Minutes* presentation where he analyzes how these successes come about with numerous illustrations.

www.films.com  
14 minutes  
Item: **BVL2087**  
Format: **VHS**  
List Price: **\$69.95**

### *Tissue Engineering: Custom-Made Organs on Demand*

This film features experts from MIT, the Georgia Institute of Technology, and Advanced Tissue Sciences, a leader in tissue engineering technology. They discuss the industry challenges and the need for difficulty of forming strategic alliances for research and development.

www.films.com  
22 minutes  
Item: **BVL11124**  
Format: **VHS**  
List Price: **\$129.95**  
Rental Price: **\$75.00**

## Cases Relevant to This Chapter

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Beanos Ice Cream Shoppe

Highland Dragon

Alcoholes de Centroamerica, S.A. de C.V.

## Answers to Issues to Consider

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1. *How has the environment for product development changed in the last decade, and what does that mean to you as an entrepreneur starting a new business?*

Product development is now international; entrepreneurs are dealing with more sophisticated customers in very fragmented markets so they must have superior performance and value-based pricing; technology has become essential and has shortened product life cycles and time-to-market. This means that entrepreneurs must find ways to develop products more cheaply and more rapidly using new technology. To do this, they may need to seek strategic partners.

2. *Suppose you are going to develop and market a new device for tracking calories consumed during the day. What will your product development strategy be, and why?*

Students will come up with a variety of responses but their strategies should address concept investigation, initial design preparation, prototype building and testing, initial test production, and ramp-up to market. They should also plan to use cross-functional teams at all stages to insure that all relevant issues have been addressed.

3. *In what ways should you protect your invention from its earliest conception?*

You should maintain a convention, witnessed, permanently bound, and page-numbered notebook of your invention. You should also file a disclosure document with the USPTO. The disclosure document dates the conception of the invention and gives the inventor the first right to file for a patent. A more powerful approach is to file a provisional patent application.

4. *Suppose you have an idea for a new type of sunless tanning lotion. What procedures would you follow to protect your idea?*

You would first maintain notarized documents of the invention and file a notice of disclosure with the USPTO. This would give you two years to file for a patent. With the help of a qualified attorney, you could then file for a provisional patent (or you could simply file for a provisional without the notice of disclosure as it is relatively inexpensive and more powerful than a disclosure statement), which would give you twelve months of protection while you talk to manufacturers. At the end of twelve months, you can file a formal patent application, which starts the twenty-year clock.

## Suggestions for Experiencing Entrepreneurship

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1. *Interview an entrepreneur who has developed a product. What was the entrepreneur's product development strategy, and was the entrepreneur satisfied with its effectiveness?*

This exercise works equally well for services. An interesting extension of this exercise might be to compare the strategies of a product developer and a service developer in the same industry.

2. *Visit your local patent office or the U.S. Patent Office on the Internet <http://www.uspto.gov>. Pick a patented product that interests you and do a search to find the patent for the product. How many patents have been filed that closely match your product?*

This should not be difficult if the student finds the patent number on the product or its packaging. They will need to search on that number. An expansion of this exercise might be to write a brief report about the specific aspects or claims of the inventor as to what is original about the product.