

Being Small Can Help Win the Big Contract

In the summer of 2004, Dean Hamke sat down at the computer to find possible contenders that could create noise-canceling headphones for his company, Deere & Co. As one of the nation's top suppliers of outdoor-landscaping equipment under the John Deere brand, the company wanted to tap the booming do-it-yourself market.

But that meant getting headphones down to a mass-market retail price. And as a manager of licensing Deere, Mr. Hamke was charged with finding a partner who could oblige without diluting the Deere brand. With \$21.93 billion in fiscal 2005 revenue, and a logo recognized world-wide, Deere is an example of a conglomerate that goes to great lengths to do reconnaissance about its partners — and its search for a headphones partner shows how small businesses sometimes have an edge over bigger ones.

"We've dealt with some big companies where it's all bureaucracy and management is always changing, and you never know who you are talking to and yours is just one of thousands of projects they take on," Mr. Hamke says. "Smaller companies want to move quickly and are looking for the next great idea."

Noise Canceling Headphones

Like many companies in industries from consumer products and media to sports and apparel, Deere licenses its name to dozens of other firms — big and small — which then use their expertise to create products such as hats, boots and toys under the John Deere name. Licensing lets a company expand its product base — and sales — without making big infrastructure investments in unfamiliar arenas. In exchange for lending a powerful brand name to a product, the companies collect royalties on the sales. Licensed products generate some \$110 billion annually in retail sales, according to the International Licensing Industry Merchandisers' Association.

Consumers, however, don't necessarily pay attention to such technicalities — assuming that if a company's name is slapped on a ware, then that firm made it. Which means companies must take great care in picking licensing partners.

To grade potential partners, Deere measures such things as turnaround time, financial viability, warranty cost and sales with a pass/fail system. But Deere also judges licensees based on something it dubs "wavelength" — attributes that matter in the relationship. An example: Does it take a business three days or 30 minutes to call back with an answer to a question? What kind of outward respect do they show for the Deere brand? How quickly can they make prototype changes?

Attending to such details is how David Dillinger of Pineville, N.C., a pilot turned entrepreneur, got and kept the Deere headphones deal — one that's put his company, Outside the Box Inc., on track to double last year's \$2.5 million revenue in 2006. He founded his company in 2001 to create thick, durable blankets for airplanes after seeing how quickly existing blankets disintegrated. Eventually, he says, he started playing with Bose Corp. noise-canceling headphones and believed he could create a competing product at a much lower cost.



JOHN DEERE

Mr. Dillinger created two models of his own, a basic one called PlaneQuiet for \$54.95 and higher-end model dubbed Solitude for \$199.95, and sold them through his Web site www.protravelgear.com. That's what Mr. Hamke at Deere found when he was surfing and looking for possible prototypes for a Deere model. After narrowing potential prospects to three, he picked up the phone and began cold calling those candidates, one of whom was Mr. Dillinger.

He told Mr. Dillinger that he liked his designs and liked the price of the Plane-Quiet because Deere needed to keep it under \$100 — too low he expected for a well-known maker such as Bose, whose QuietComfort 2 Acoustic Noise Cancelling headphones currently retail for about \$300. Meantime, Deere also needed significant tweaks made to any model for it to fly with their buyers. Could Mr. Dillinger do that? Mr. Hamke wondered.

Small Business

With a tiny staff of seven, including his wife, Renée, Mr. Dillinger says he was initially "dumbfounded" by the cold call. Deere, of Moline, Ill., has 46,000 world-wide employees and does business in some 160 countries; working with such a big player would require resources and time that would stretch Outside the Box thin. But Mr. Dillinger recognized the enormous upside potential of landing such a contract, so he told Deere "Yes."

From the start, Mr. Dillinger put himself at Deere's beck and call. For instance, the company needed tricky modifications in the product's "articulation index" — the range of sound let in — so it could cancel out a running motor but still let the wearer hear a child yelling or a siren. Mr. Dillinger himself drove out to the Deere engineering center in Charlotte, N.C., and sat fine-tuning the headphones while a lawn tractor roared nearby in a test facility. Says Mr. Hamke: "We made those suggestions to David and they were more than willing and would turn things around in days."

When the headphones, which are just now rolling out into Lowe's Cos. stores, went into production in China, Mr. Dillinger got a call from Deere saying they had forgotten to put a certain logo on the package. Production was halted, little stickers made to correct the error and pasted on by hand, and Mr. Dillinger swallowed the cost.

"All John Deere knows is that we made it happen," Mr. Dillinger says. However, Mr. Dillinger also wisely used Deere's bigness to protect his interests. Since Deere owns its distributor, Mr. Dillinger was able to negotiate for the latter to pay 30% upfront for the product to mitigate production costs. He also asked for payment in full before the product would ship from China — and got it.

When done, Mr. Dillinger's John Deere headphones came in at \$89.99, just as Deere had requested. The product began shipping late last year and is now in Lowe's and in some of John Deere's 3,000 U.S. and Canadian independent retailers as well as its www.johndeeregifts.com Web site.

Mr. Hamke adds: "With David, here was a guy that knew all the technical details and a lot about the market. He wasn't just a stuffed suit. If there's not a passion for the product, you don't get anywhere. A lot of big companies lose that quickly. That's one of the benefits of looking at a small one."