



BEYOND THE BORDERS

Community Economic Development and Leadership Online Newsletter

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Building Communities

Practical Tools and Information

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This newsletter is meant to share practical tools and information to assist you in your important role in community and economic development work. We welcome comments on current letters plus encourage your advice for future articles.

Kathy

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Editorial – Community Capitals for Building Capacity

Only when resources are invested to create new resources do they become capital. Many times we use capital and resources/assets interchangeably, but if we want to think strategically about our community's future, we must define them differently. Resources, according to Webster's dictionary, are supplies or support and/or available funds. Assets can be resources, but neither can be called capital unless invested. In other words, it doesn't matter how many resources or assets a community has. If they are not used to create new resources, the community will have a hard time sustaining its services.

I recently attended a working group session at the North Central Regional Center for Rural Development to look at community capitals and how they build community capacity. Cornelia Butler Flora, director of the center and author of several books and publications on the use and transformation of community capitals, has divided the capitals into six areas: social, cultural, human, natural, financial/built and political. As you apply the six areas of capital to community planning, you easily can see where a community has strong and/or weak areas and where you might need to add to your planning team. When you identify projects, you can use

the capitals framework as a tool for analyzing them and for determining the organizations and agencies with which you may like to partner. The framework also helps project managers see the interaction among the capitals and how one can be built upon the other.

To do a complete overview of what the community capitals are and how to use them would be impossible, but if you would like more information, order “Rural Communities Legacy + Change,” Second Edition, by Cornelia Butler Flora and Jan L. Flora, with Susan Fey. The book is available through Westview Press.

Sincerely,
Kathy Tweeten
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“Value of Social Capital to Mid-sized Northern Plains Farms”

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As farms increase in size, operators often face the difficult decision of remaining loyal to local merchants or obtaining volume discounts from more distant input suppliers. When farmers bypass local merchants and buy inputs in volume from a wholesaler, they often realize a price discount but forgo many services, including credit forbearance. In essence, when farmers buy locally, they pay higher prices, which decreases profits and increases financial risk, but generates social capital, which can be drawn upon during periods of economic adversity later in the form of credit forbearance.

A theoretical model of farm financial risk evaluates borrower behavior in light of cash flow constraints, volume discounts and social capital. The Monte-carlo simulation was used to empirically apply the model to a representative 2,000-acre northern Plains crop farm. The stochastic simulation model embodied local price and yield distributions, tax policy and financial repayment risks. A survey of local input suppliers and lenders provided key information on levels of price discount and credit forbearance. Competition among suppliers resulted in less difference between retail and wholesale prices than expected.

Results of the analysis delineated the financial risks involved and the value of social capital received in the form of credit forbearance.

The distribution of year-end available funds when inputs were purchased locally had a slightly lower mean and longer left tail. While a longer and bulkier left tail appeared to present the farm with additional financial risk, it actually was the result of additional borrowing arising from credit forbearance. If forbearance were not available, the firm would have been bankrupt. In this model, bankruptcy occurred with 2.6 percent frequency. Personal exemptions provided under statutory bankruptcy provisions altered the shape of the left tail.

Keywords: Social, capital, financial risk, simulation, stochastic
Web site: <http://agecon.lib.umn.edu/cgi-bin/detailview.pl?paperid=15205>

State of North Dakota New Business Registration Forms

Twice a year, 15 state organizations and agencies get together to update and publish the “green book.” This consolidated packet of information is required reading for all who want to start your own business. You may not need all the forms, but those you do need will be there. The packet is also online at www.discovernd.com/businessreg

Included in the packet is information from the NDSU Institute for Business and Industry Development (IBID). The institute is under the umbrella of the Extension Service’s Center for Community Vitality. IBID exists to assist inventors and business owners with product and/or process-related problems. The staff can connect

you to the faculty and other campus resources if possible.

In the “green book,” we’re the orange sheet! The last book was updated in July 2004.

“Why Didn’t I Think of That?” by Wally Eide

Source: Wally Eide, Director, North Dakota Ag Innovation Center

Prototypes and Working Models

It’s time to start thinking about building a working model and continuing to refine the product. This generally takes several different attempts before you get it right. Many of the inventors I know have access to shops and considerable skill in utilizing the tools. The key question is, whether or not it can be designed for manufacture. Difficulty in manufacturing and assembling will increase production costs. Controlling production costs is absolutely essential if you are going to be competitive in the marketplace. You may want to consider showing and discussing your idea with an engineer and/or someone familiar with the manufacturing process. North Dakota State University and the University of North Dakota both have engineering departments. The NDSU IBID (see article above) and the Center for Innovation at UND can get you an appointment with an engineer if you require engineering assistance.

Before a working model can be put together, you likely will need manufacturing drawings. Sometimes you can hire engineering students to develop these drawings and other times you will be required to have the assistance of a design engineer. A word of caution about drawings: Make sure you discuss them and your product with the people giving you a bid. Sometimes drawings don’t convey, or the manufacturer doesn’t understand, some of the features in the drawings. Other engineering considerations include material selection, safety considerations, special testing required (UL approval, DOT test requirements, environmental issues, etc.), finite analysis and appearance issues. Cost of the drawings will vary with the complexity of the product and who does the drawing. But if you’re looking for an estimate, I’d suggest budgeting at least \$2,000.

The list of potential safety considerations and testing and licensing requirements can be extensive and they are possible deal killers. For example, an inventor we know had developed a device for the transportation industry. While he did his homework and checked with the state DOT about its requirements, he didn’t realize until too late that just because his invention met one state’s requirements, it did not necessarily meet other, even adjacent state requirements. This turned out to be a major hurdle and finally killed the idea altogether. So do your homework and don’t assume anything!

Another item you may wish to consider before getting the working model built is to contact an insurance underwriter to get an idea of your product liability costs. It is an important detail that you should not leave until the end. A rule of thumb to keep in mind is that product liability insurance will run about 1.5 percent to 2 percent of total sales.

Packaging is another major expense that often is overlooked until the very end. Products in the lower priced ranges can have packaging costs as high as 25 percent to 30 percent of their total costs. Packaging costs have two different parts. The first is an up-front cost for artwork and maybe some setup charges, and the second part is a per-piece packaging cost. Check the Yellow Pages for packaging companies, and if you can’t find them there, check out the *Thomas Register of American Manufacturers* Web page at www.thomasregister.com/. Don’t let packaging costs surprise you. Get an idea of these costs as soon as it is practical.

You also will need to become familiar with nondisclosure forms or confidentiality agreements. The responsibility may be on you to provide those forms. You can find examples of these agreements in any of several inventor handbooks and you can develop one of your own. Basically, they are an agreement between you and the other party that the other party won’t disclose or steal your idea. Don’t be surprised if some people or companies won’t sign them. The reason is that even if they are not working on an idea similar to your idea, they may at some point in the future. They would feel hampered in their product development efforts by signing these agreements. The decision will be yours if you still want to disclose your idea or not.

Prototype shops are few and far between in North Dakota. Generally, what happens is the inventor will approach a local machine shop or cabinet shop. These folks do good work, but don't be surprised if they don't display a high amount of interest in building your working model. Inventors are notorious for not having any money, not being able to make up their minds and then changing the design in the middle of the process. When you get the bid, expect sticker shock; the more complex the idea, the higher the cost. The cost may be high just because they don't want to deal with a one-of-a-kind, maybe one-time product. Get used to the fact that you will not be their highest priority customer. Try to get at least three price quotations for building your working model. Solicit the manufacturing price quotations in a professional manner.

The working model finally arrived. Does it do what it is supposed to do? Does it do it better, cheaper, faster, etc., than the competition? If the working model doesn't produce the anticipated results, what will you do? Can the problems be designed around? Can most of the components be bought off the shelf or are they all unique to your product? Is it designed so it is easy to manufacture with high-volume production methods? Will high-volume production require you to purchase expensive tooling? You have reached another milestone and it is once again time to decide to continue or cut your losses and go on to the next idea.

(Note: Catch our winter issue for the last column in the "Why Didn't I Think of That?" series by Wally Eide.

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