

1. Executive Summary

The American Widget Association (AWA) is a trade association that represents practically all U.S. widget companies. Headquartered in Phoenix, AWA, has represented the widget industry since 1977.

AWA seeks \$341,617 in Federal funds for its three-year project, the Sinfonia Initiative. AWA will match the Federal portion with \$710,514. AWA envisions working closely with the following partners:

- C International Trade Administration (ITA):
 - Trade Development's Office of Gadget and Gizmo Industries
 - S Market Access and Compliance's Office of European Union and Regional Affairs
 - S Foreign Commercial Service's officers in Treble, Sinfonia.
 - S Export Assistance Center officials nationwide.

- C Audio Jamming Device Association (AJDA)

Summary of the Sinfonia Initiative:

- (1). Establish AWA office in Sinfonia.

- (2). Prepare promotional information for Sinfonian market.
 - S Translate association and company literature into Sinfonian.
 - S Create Sinfonian version of websites.
 - S Create web-based executive briefing on web content guidelines and e-business.

 - S Help U.S. companies to develop appropriate content for their listings on the Sinfonian web page.
 - S Counsel U.S. widget companies on website upgrades and exporting.

- (3) Take American widget-related companies to Sinfonia.
 - S Create web-based executive briefing on export financing, logistics, and other export topics.
 - S Hold two technical seminars in Sinfonia to showcase American widget technology.
 - S Lead two trade missions to follow up on technical seminars.

- (4). Bring Sinfonian potential customers to U.S. trade show WidgExpo.

- (5). Establish AJDA office in Sinfonia.

2. Background Research

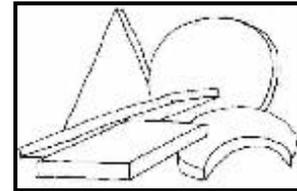
a. Market Potential of U.S. Widgets

(1) The Industry

(i) Widget characteristics and Uses

The widget was developed by seismologist Rick Torr in 1970. Dr. Torr developed the widget to use in highly sensitive weight measuring equipment to counter the effects of localized ground vibrations. The company he founded, Rick Torr Scales, is still the industry leader in the helium measurement industry; however, widespread use of the widget did not begin until 1974, when inventor and amateur vocalist Eddy Sun proved that the widget was effective in detecting falsetto notes. His company, Sun Technologies, provides falsetto detectors to every opera house in the world that uses falsetto detection.

The widget industry did not take off until 1976, when Sun came out with its “B-G Jammer”. This device allowed radio listeners to selectively tune out music without adjusting the volume of their radios. By 1978, widget sales were in the millions and several companies had begun production to meet the demand of manufacturers like Sun. Several others began to produce jammers of their own design and brand name.

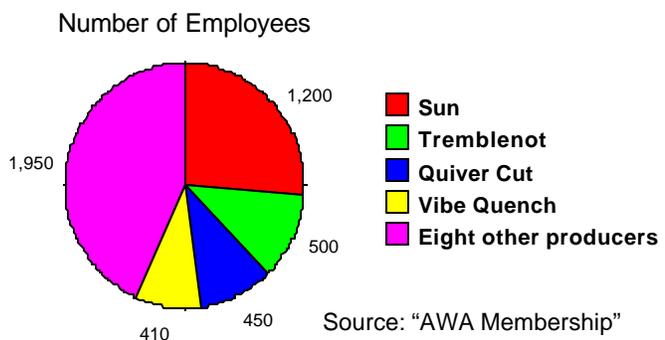


Manufacturers make widgets to meet a variety of customer specifications.

(ii) Widget Producers

Sun, with about 1,200 employees, and annual sales of \$400 million is by far the biggest player in the widget market in the U.S. and globally. The next biggest company is Shake Break, a UK firm with about 1,000 employees and \$350 million in annual sales. The rest of the U.S. producers, including Tremblenot, Quiver Cut, and Vibe Quench, are much smaller as illustrated in the chart.

U.S. Widget Producers

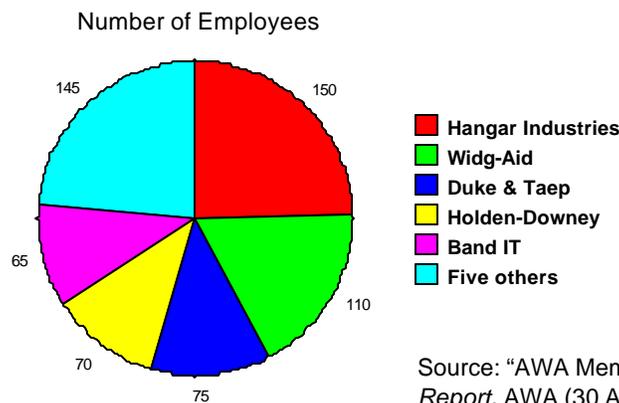


Source: “AWA Membership”
Annual Report, AWA (30
April 2001) at 17.

(iii) Widget After-Sale Service Providers

In addition to the producers, several U.S. firms have specialized in after-sales service of devices that employ widgets and the attendant technology. These include Hangar Industries, Widg-Aid, and Duke & Taep, Ltd. As summarized in the chart below, these after-sales service firms are all small- to medium-size operations.

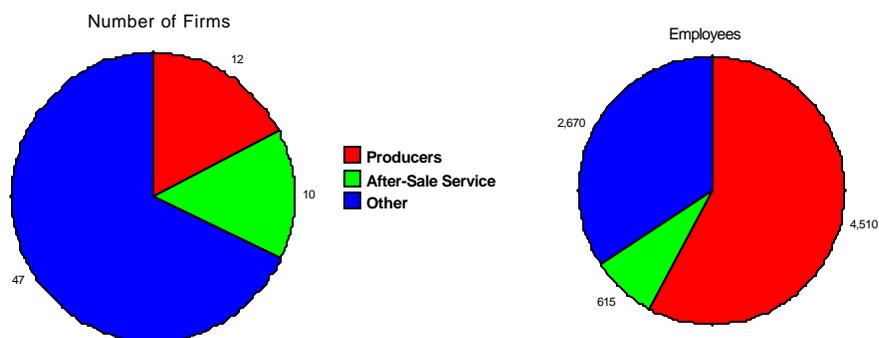
U.S. Widget After-Sale Service



(iv) Other Widget-Related Businesses

Several AWA members do not produce widgets or provide after-sale service support for widget-rich products. The biggest of these is Widg-bot, a 370-employee firm that specializes in robotic equipment for manufacturing widgets. Other firms in this category sell widget handling and special storage services, widget sleeves, inserts, mountings, and widget control devices. Forty-seven AWA-member companies fall into this basket category of widget related industries

AWA by Category



(v) U.S. Capacity Utilization

Production capacity has been driven by steadily increasing domestic demand from the vibration processing industry in the United States. Average capacity utilization was as high as 92% as recently as 1995.¹ While the widget industry continued to invest in plant modernization and research and development, the demand since 1998 has declined. In 2000, total U.S. production capacity stood at 99,700,000 units per year. That same year total U.S. widget production was 72,200,000. Industry leaders agree that this 73% capacity utilization rate is too low for a widget producer to be profitable in the long term. Financial analysts estimate that because of the high cost of capital investment, a long-term average utilization rate of a least 80% is required for profitability.²

The handful of companies in the 250-500 employee range have particularly low levels of capacity utilization, 66% on average. This amounts to 10,000 units per year of unused capacity for just these producers. The smaller producers have a much higher rate of 78%, mostly because they supply niche markets for scientific instrumentation that have not suffered from the downturn for mass-market consumer products.³

(2) Foreign Markets

(i) Worldwide Demand

In 1985, U.S. producers of vibration processing devices, the industry that uses widgets as components in its products, accounted for roughly 2/3 of world demand for widgets. By 2000, U.S. demand accounted for less than half of the world total. As indicated in the chart below, most of the growth in demand will come from Europe. European producers, prodded by state-subsidized research and development investments in the late 1970s and early 1980s have always had a substantial presence in the market. Korea's standing as a market player is due mostly to a joint venture with Sun in the 1980s⁴. After Korea beat Japan to market, no Japanese producers every materialized. U.S. and European producers have toyed with the idea of joint ventures or wholly owned subsidiaries in China, but nothing is currently planned. Because widget manufacture is capital-intensive with labor as a minor

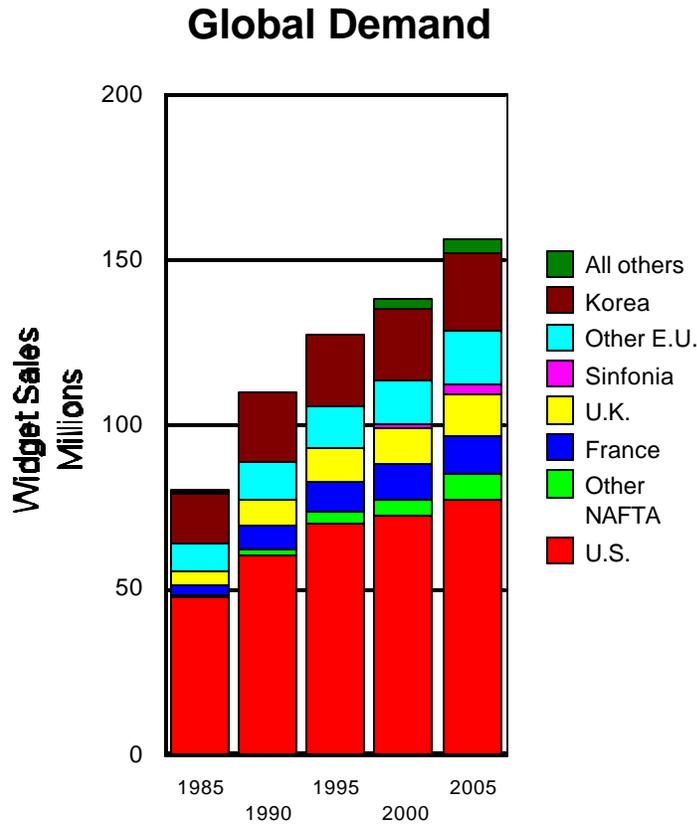
¹In the late 1980s and early 1990s, industry-wide capacity utilization during some months was as high as 98%.

²"Overcapacity in Widget Industry?", Wall Street Journal (17 Jan. 1991) at A-1.

³*Widget Reporter*, AWA (5 Jan. 2000) at 5.

⁴Most of Sun's BG-Jammer product line is now produced in Korea. Sun's vertical integration is unique. It is the only widget producer worldwide that also produces an end-user product.

cost component, Both European and American producers have focused on getting better returns out of the capital investments they have already made.



Source: "Widget Demand," Widget Institute (15 July 2000) at 17.

(ii) Sinfonian Widget Market

As indicated on the chart, Sinfonia is just emerging as a market for widgets. AWA estimates that Sinfonia has imported as many as 100,000 widgets beginning in 2000.⁵ Because of the variety of sources and the relatively small quantity, AWA believes that the imports are being used for trials and

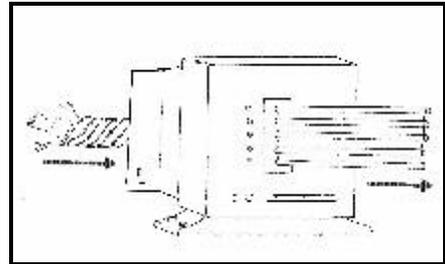
⁵AWA's estimate is based on a market research report commissioned through the Foreign Commercial Service in Treble, Sinfonia's capital, and sources familiar with the widget industry in Europe.

research and development.

Sinfonian labs are currently experimenting with technology that will allow mass processing of notal chords. These rare plants are the raw material used to produce the standard five-bar billets used in applications ranging from karaoke machines to coral arrangements (for both natural and cultured).

Sinfonian notal chords are of the highest quality in the world. Because of this, and the fact that Sinfonian hand processors are skilled, efficient, and inexpensive, Sinfonian companies have been able to charge a premium for their five-bar billets.⁶

Sinfonian labs are experimenting with widget-based technology in order to cut labor costs. Sinfonian industry leaders must recognize that, with admission to the European Union and accession to the World Trade Organization, labor costs will rise. Reducing the labor inputs in this highly profitable export is, perhaps, the most logical next step.



The technology for automated processing of notal chords was developed by the University of Baritona in 1999. The basic principal is to feed raw notal chord through a torque chamber whose chief feature is a serial widget array. The audio tension produced in a torque chamber extrudes the raw material into the five-bar billet.

In this artist's conception, a notal chord is shown entering the torque chamber housing, with a five-bar billet exiting the front of the device. Courtesy *Industrial Séance*, (15 Dec. 1999) at 78.

With the advent of automated notal chord processing, Sinfonia's demand for widget inserts should take off. Based on test results, Sinfonian processors should be able to achieve a consumption rate of 7/10 of a widget for every billet produced.⁷ In 2000, Sinfonia sold 4,530,000 billets.⁸ If these had been processed using widget technology, they would have translated into sales of 3,171,000 widgets. ($4,530,000 * 0.7 = 3,171,000$). Based on AWA's understanding of the technology, we estimate that Sinfonia's billet production could be completely automated by 2005. Because the annual growth rate in billet demand worldwide is about 2%, Sinfonia could easily need 3,500,000 widgets per year by

⁶In the mid-1980s, a French company considered growing and processing notal chords in Madagascar, but abandoned the project early on due to low plant quality and difficulty finding or training qualified personnel. See *Plantation Today*, (17 Sept. 1988) at 17.

⁷*Industrial Séance*, (15 Dec. 1999) at 78.

⁸*Républiqa Sinfonia Commerciasitativa*, (30 June 2000) HTS no: 456.999.00034.

2005.⁹ (3,171,000 increased by 2% over 5 years.)¹⁰

Sinfonia's adoption of automated billet production should translate into a new widget market worth over \$70 million per year. (3,500,000 widgets per year * \$20 per widget.)

Automation of notal chord processing is more than a technical possibility. It is almost certain to become economic reality. Economists with the European Bank for Reconstruction and Development reviewed the notal chord processing industry in 1999. EBRD determined that the current labor-intensive production methods, new technology and new access to capital through EU membership makes this industry "ripe for automation."¹¹

(iii) Choice of Sinfonia as Target Market

Although the Widget Institute's widget demand statistics on page 5, show very low widget consumption currently in Sinfonia, its adoption of automated notal chord processing technology will increase its demand dramatically. In fact, of all the markets, Sinfonia shows the best potential for short-term growth, with demand more than tripling in five years.¹²

(iv) Longer Term Strategy

The \$70 million Sinfonian market is not the biggest market, but it is the most promising. AWA estimates that with the drop in production cost, Sinfonian billet-makers will increase production. This, in turn, will increase Sinfonian demand for widgets.

Sinfonian billet producers are not the only target customers for widget technology. As Sinfonian affluence increases, so will the market for audio jamming devices.¹³ These devices are the more

⁹*Républiqa Sinfonia Commerciastatistica*, (30 June 2000) HTS no: 456.999.00034. See historical trends on page 321.

¹⁰The 2% growth rate is low. It was calculated before sumo karaoke products were announced. See page 15, for a less conservative analysis of demand that projects the effect of this new product.

¹¹*Notal Chord Processing in Sinfonia*, EBRD (15 June 1999) Pub No: 007099.

¹²Most of the Widget Institute's funding comes from AWA.

¹³The experience of the European Union is telling. Wealthy countries France, the U.K., Germany, and Sweden all saw sales of personal audio devices (a category that includes audio jamming devices) rise fairly quickly after introduction of products in the market. Less wealthy consumers in Greece and Portugal are adopting more slowly. Ireland, whose consumers had fairly low per capita GDP when personal audio devices first hit the market in the early 1980s has seen sales of such products take

traditional use of widgets. Because of this prospect, the Audio Jamming Device Association (AJDA) has joined this project as our partner. AJDA's export success may not be as imminent as AWA's, but now is the time to start preparing to exploit this potential market. Sinfonia can also serve as a base for increasing widget-related sales to the rest of the European Union.

(3) Marketing

The marketing channels for Sinfonia are not much different from those in the United States: relatively small companies operating their own production facilities for products that require widgets. The major difference is that in the beginning, practically all of the widgets sold to Sinfonia will be consumed in the manufacturing process instead of incorporated into finished product. Eight AWA members have already developed and sold widgets to customers that use widgets as consumables instead of as components. Several other AWA members that do not actually produce widgets, specialize in services for the budding consumable widget industry.¹⁴

The biggest challenge to selling to Sinfonian executives is usually Sinfonian business etiquette. In Sinfonia, business is never discussed over a meal, at least not until the non-Sinfonian has proved themselves in the sauna. Like Russians and Finns, Sinfonians are famous for stripping down and enjoying a sauna together. What makes them peculiar is their love of sauna karaoke. With very few exceptions, Sinfonians buy only from vendors who are willing to bare all and bear their soul at the same time. As business consultant G. Lee Rose notes, "If you won't sing 'My Way' in your birthday suit, you can't do business in Sinfonia."¹⁵

In preparation for this MDCP application, AWA's board polled its member executives about their willingness to do business in Sinfonia with the understanding that sauna karaoke may be required to ensure success. Questionnaires were sent to executives from all 69 member companies, which we followed up with phone calls. We received responses from 63 companies. Only two companies could not come up with at least one executive willing to do sauna karaoke in order to make a significant sale.

off as its per capita GDP has increased dramatically in the 1990s. See "Personal Audio Device Adoption in the EU: 1980-2000", *EU Today*, European Commission (15 October 2001) at 34-38.

¹⁴All of the AWA members in the consumable widget sector are CE Mark certified and ISO 9000 compliant.

¹⁵*Doing Business in Sinfonia*, G. Lee Rose (Maximillion, New York, 1998) at 41. Rose goes on to acknowledge that this odd business practice is destined to disappear as Sinfonians open more to traditional West European business practices.

(4) U.S. Competitive Position

In March 2001, after consulting with our International Business Development committee and the Finance committee, AWA's board identified Sinfonia as the most promising area for sales growth worldwide. With current unused capacity to produce another 27,500,000 widgets per year, the U.S. industry is poised to establish new export markets. As AWA's Chairman of the Board, Mona Kull put it, "If we don't increase exports, we don't survive."

AWA brings more than the will to succeed to the project. Eight AWA member companies are already able to produce the consumable widgets the Sinfonia chord processors will need. Moreover, the Sinfonia Initiative is based on a long-term strategy that should continue to help widget industry companies for some time to come. Gaining a foothold in Sinfonia for the consumable widgets will lay the groundwork for sales of durable widgets used as components in jammers and other next-generation products.

