

## The Market

### *A Blue Ocean Gambit*

According to [Business Trend Analysts](#), the US hand tool market finally turned the corner in 2005 ending a five-year stretch of flat or declining sales. US manufacturers' sales of hand and edge tools were on track to top \$5.7 billion in 2006.

They reported that the U.S. trade deficit for hand tools continue to widen. Imports were expected to capture 38% of the U.S. hand tool market in 2006, up from only 20% a decade ago. Further they anticipated double-digit growth for several tool categories including several types of wrenches while commenting that U.S. manufacturers are finding success in international markets. The softening US dollar supports this trend.

We assume that BTA alludes to the multi-tool market, which seems a curiously bright spot in a otherwise drab field. The Leatherman Tool Group established the multi-tool category. Formed in 1983, the company initially sold product through mail order catalogs. Twenty-five years later, Leatherman is still a private company headquartered in Portland Oregon. Their sales are estimated to exceed \$300,000,000 and account for \$1.2 billion in revenue at the retail level. About a half dozen competitors supply a retail market for multi-tools estimated to be \$2.0 billion.

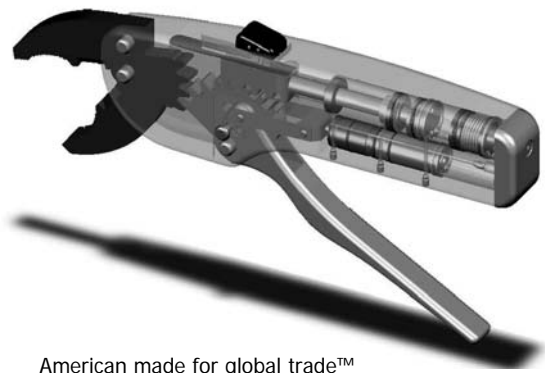
Meanwhile, Wal-Mart and Home Depot, the two largest retailers in the US, are suffering the consequences of the residential construction slow-down compounded by the unfolding sub-prime lending debacle. Sears likewise reports a decline in same store sales and a 40% drop in profits.

On February 28, 2007, David Leonhardt reporting for the New York Times authored a story entitled *A Recession That Arrived on Cats' Paws*. Based on released Commerce Department data, orders for durable goods fell 8% in January 2007. The Institute for Supply Management reported the manufacturing sector shrunk in two of the last three months of 2006. Yet the odds of a recession were then estimated by pundits to be less than 30%. With two-thirds of 2007 now behind us, the Fed reacting to escalating foreclosures, have finally cut the discount rate and are pumping cash into the capital markets to stave off a recession. Pundits are now predicting 64% odds of doing so.

During 2007 the US Population exceed 300,000,000 people. As a nation, we are getting older with the mean age of the populations increasing from 30.0 in 1980 to 36.2 in 2005. The mean age is expected to hit 37.0 by 2010. The **55 and older portion of population is forecasted to increase 14%** between 2005 and 2010. Additionally, in 2005 the Census Bureau reported 113,146,000 households of which **29.9% were headed by a woman**.

Researchers at the Department of Allied Health, Slippery Rock University of Pennsylvania published their study, *Patterns and Determinants of Muscle Strength Change with Aging in Older Men* in the journal Aging Male. Not surprisingly, they found grip strength loss ranged from a 2.0% decline per year for men aged less than 60 years to 3.4% decline per year for men aged 70 years or older. A follow-on study published in Gerontology found the average loss of grip strength for women during 10 years of follow-up was equivalent to a rate of 2.4% decline per year, with the greatest loss seen in the oldest age group (80 years or older).

### The Equalizer™



American made for global trade™

The Equalizer™ had its name changed from the HvdForce™

LatchTool's patented HydrForce™ is a manually powered microhydraulic tool that gives a user the grip of Godzilla. Configured as a simple plier, two 25-pound squeezes put a 1,000 pounds of force on the jaws. Positive *sensory feedback* puts the user in control of the force applied. With up to a half ton latching force, the user gains a purchase on work that will not slip and that can crimp or part work with little effort. The Company believes the Equalizer™ would be best marketed through the visual media. The product demonstrates compellingly well. As a power gizmo, it offers independence to a large segment of the population freeing them from aggravating calls for simple assistance. To others, it provides the power to clamp, snip and crimp in one tool.

**Blue Ocean Strategy:** W. Chan Kim and Renée Mauborgne present their thesis of how to create uncontested market space and make the competition irrelevant. A red ocean, on the other hand, is the bloody competitive arena typified by sum-zero games and incremental one-upmanships. They argue that the *strategic move* is the common denominator in determining an outcome. They believe three elements are at work in plotting what they term the Value Curve for a given move. These elements are focus, divergence and compelling tagline.

**The Equalizer™- Power to get the job done™**  
**A Multi-tool with Muscle™**

The Equalizer uses patented microhydraulic circuitry.  
 Amplifies hand strength 40-fold.  
 It is an assembly of over 70 high-precision machined parts  
 in a body of aircraft-grade aluminum.

Two twenty-five pound squeezes ratchets up to 1,000-pounds of force on the jaws.

The Equalizer is as light as a conventional tool, but does almost everything.

It clamps and holds work without adjustment.  
 The Equalizer easily repositions with a rock solid grip.

The Equalizer snips nails and hard to reach bolts. It crimps wire cable,  
 hose clamps and PEX tubing.

The Equalizer twists heavy gauge wire and stakes electrical ferrules

*Sensory feedback puts you in control of the force applied*

**[Streaming Video](#)**

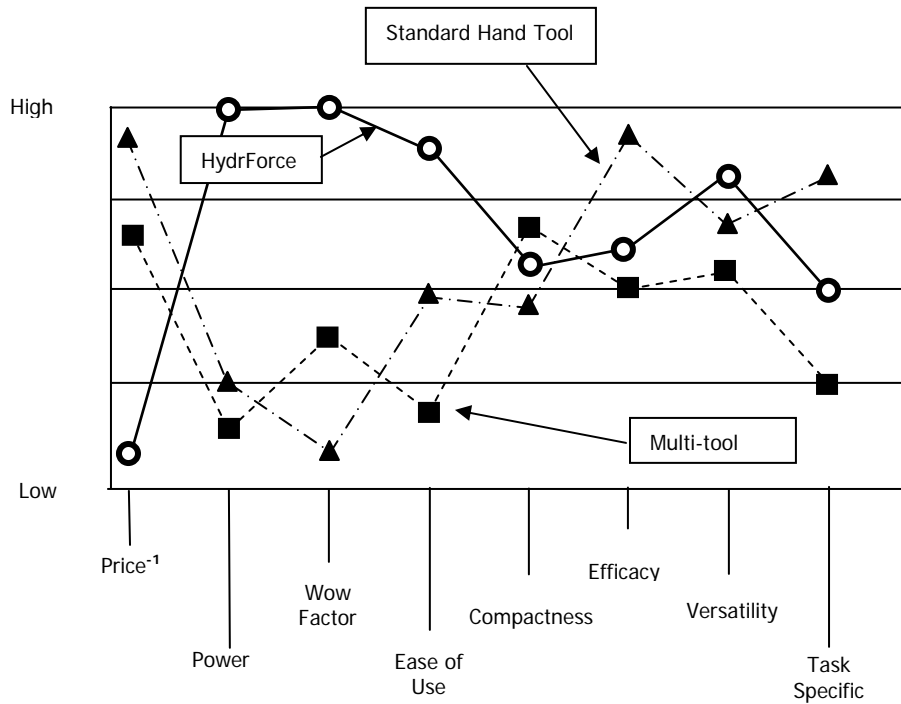
Channel pliers.....	\$ 10.56
Locking pliers.....	12.94
Crescent wrench.....	24.99
Pipe wrench.....	35.99
C-clamp.....	29.99
Side cutter.....	29.99
PEX crimper (Oetriker Ring).....	149.99
Bolt/nail cutter.....	69.99
Wire cable cutter/swager.....	39.99
Electrical wire cutter/crimper.....	24.99
Tools.....	\$429.42
Strength of a 25-year old handyman.....	<i>priceless</i>



LatchTool's HydrForce is clearly a blue ocean gambit. The focus is on a power gizmo rather than a specific tool as a device that amplifies grip-strength to get jobs done. The product diverges radically from other tool offerings as it is the only product in the world that can amplify hand strength and consequently handle a litany of tasks. Finally, it is an alternative to a tool box where one tool provides the raw power

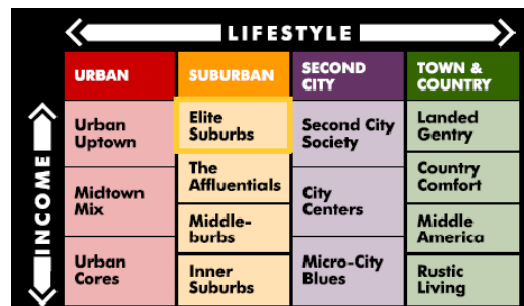
to clamp, snip and crimp to **get jobs done**. Figure 2 shows the value curves for the HydrForce, Multi-tool and standard hand tool.

**Figure 1: Value Curves**



The target audience for the HydrForce are the upper income segments of each lifestyle group. They comprise 25.7% of all households and control 45% of income. They are turned on by technology and the Internet.

Segment Groups	US Households	US Population	Median Income
Urban Uptown	9,433,723	24,637,282	\$63,653
Elite Suburbs	6,053,928	17,428,670	\$98,983
Second City	4,029,214	11,297,780	\$75,249
Landed Gentry	9,637,425	27,269,465	\$71,639
Total	29,154,290	80,633,197	\$75,232
Total US	113,146,000	296,639,000	\$46,408



Segment Groups	Telling Characteristic
Urban Uptown	Spend heavily on latest technology
Elite Suburbs	Affluent with managerial and professional jobs
Second City	Spend on technology
Landed Gentry	Wealthy – latest technology and power toys

Wired Magazine looked at consumer spending on what they call technolust, the constant desire to have the newest, flashiest, fastest, shiniest gadget available, even if the one you just bought is only two months old and still works great. Spending on technology accounts for about 5% of American's outlays, however, those segments enamored by technology are at the upper income level of society.

## Elite Suburbs

Information provided by Claritas

<b>Segments:</b>	<b>U.S. Households:</b>	<b>Description:</b>
■ Upper Crust	6,053,928	Affluent with managerial and professional jobs. They have six-figure incomes, post-graduate degrees and live in single-family homes. Although predominantly non-Hispanic white, often these households are Asian. They live in large homes, wear expensive clothes, drive luxury cars and travel to foreign countries. Despite making up a small share of the population, they hold a large share of the nation's personal net worth.
■ Blue Blood Estates	<b>U.S. Population:</b>	
■ Movers & Shakers	17,428,670	
■ Winners Circle	<b>Median Income:</b>	
	\$98,983	

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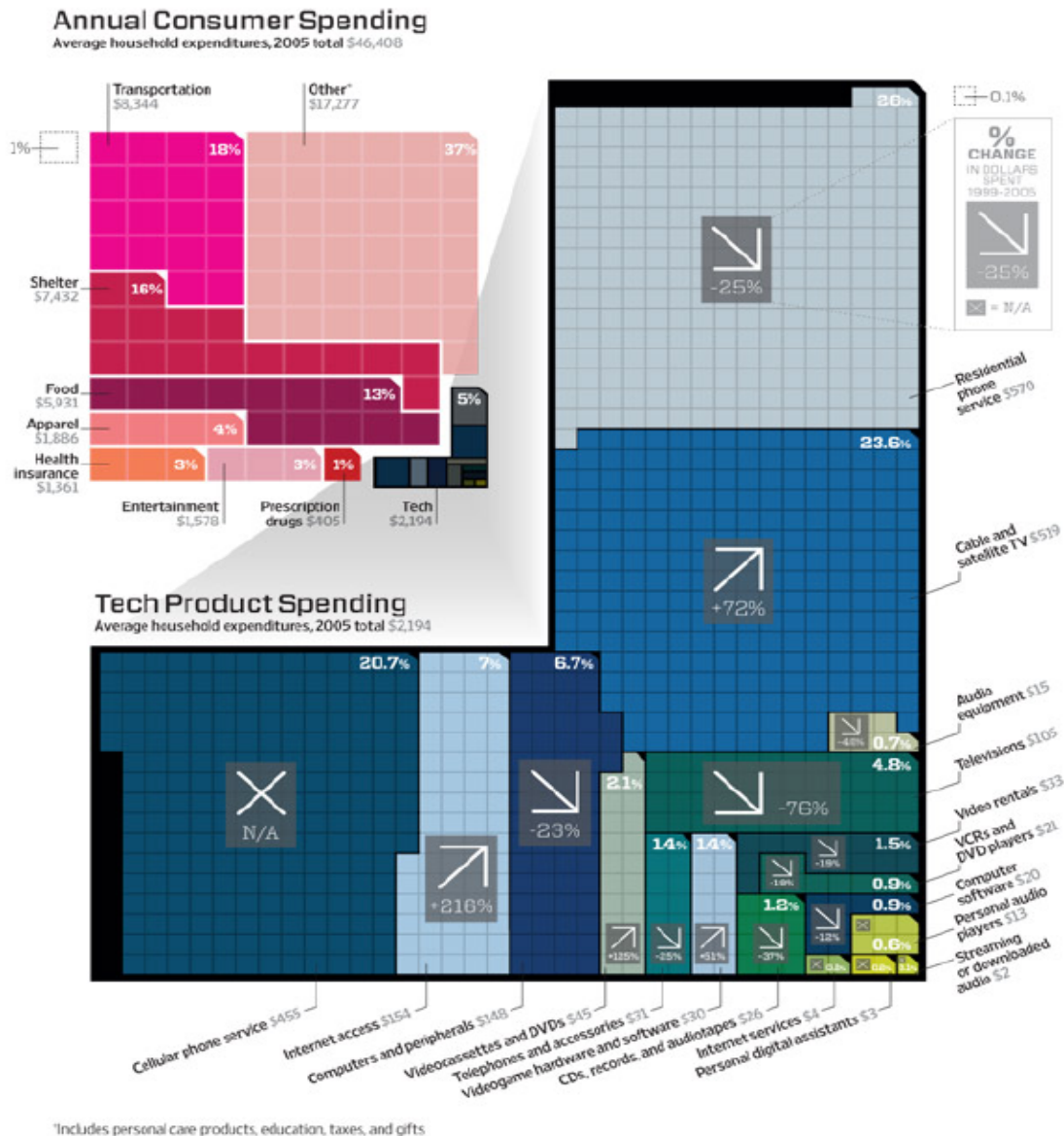


Illustration by Arno Ghelfi  
 Source: US Bureau of Labor Statistics

**The media is the message:** HydrForce will be mainly marketed via [the Internet](#) with [YouTube type vignettes](#). It will use online media such as the WSJ supplemented with strategically aired DRTV Shorts. [Google Business Solutions](#) and [YouTube Video Ads](#) will contribute to the program. The HydrForce website will tell the story about the development, the technology and the people. Sales are planned to be managed through [Amazon.com](#) and possibly eBay affiliate [Commission Junction](#), the Internet equivalent to a big box retailers.

LatchTool will retain a full service advertising agency to launch the HydrForce. They will initially coordinate video production, a PR campaign to promote the story of the technology, development and people behind the HydrForce and to handle media buys and placements. Somewhere in the mix, DRTV Shorts are planned to bring in those traditionally excluded from the market because of hand strength; women, seniors and middle aged professionals.

The plan is to have agencies compete for the HydrForce account with a component of their compensation tied to their success. [Bozell](#), [Carlson Marketing](#) and [Wieden+Kennedy](#) are short list candidates.

### **Old School**

DRTV driving retail sales to big boxes

Sears' DRTV success with the RoboGrip® started in 1994 where they sold over \$20 million units per month over an 18 month period. Sears used short form DRTV hosted by Bob Vila of This Old House fame. The RoboGrip was Sears' top selling SKU for 4 years straight and by 2004 had racked up over \$2 billion in sales.

Interestingly, women accounted for over 70% of RoboGrip purchases buying them for their significant others. The product cost \$19.95 and was backed up a national retailer. Today, the price point barrier has been broken, first by the Bowflex® home gym and most recently by Sear's [Craftsman CompuCarve Woodworking Machine](#) that sells for \$1,899.99. Amazingly, the product lists in the top 50 DRTV products.

### **New School**

YouTube vignettes driving online sales

(Amazon.com the e-commerce equivalent to the big box)

The HydrForce is tentatively priced to retail for \$329.99 and is expected to cost approximately \$100.00 to manufacture. The product bundle will consist of the HydrForce™ with laser engraved markings, a holster, a service pack to recharge the unit and a lifetime parts guarantee.

Certain accessories such as a ratcheting socket driver and an Oetiker Ring adaptor will be sold separately.