



Your Economic Development Connection

ECONOMIC NEWS

April 2004

A publication of the Economic Vitality Corporation of San Luis Obispo County

www.sloevc.org

Representing the communities of San Luis Obispo County

Meritt Electronics:

Local company is successful "model" for international trade

By Robin S. Dudley

Tucked inconspicuously within a small industrial complex on Tank Farm Road, the modest, one-room office and adjoining warehouse of San Luis Obispo-based Meritt Electronics has no exterior signage, a simple glass door marked only with the suite number, and an unlisted phone number. Not exactly the expected corporate "digs" for a successful inventor and worldwide distributor of a product boasting over \$200 million in annual sales. Company founder and President Ron Meritt explains, "Our product's distribution is global. The (Central Coast) economy has little effect on our business. So we really don't need local visibility like other companies."



Likewise, Meritt's casual, understated demeanor doesn't fit the typical profile for a world-renowned entrepreneur, sought-after speaker and the featured subject of recent cover stories by both *Forbes* and *Entrepreneur* Magazines.

But Meritt Electronics isn't just your typical "high-tech" success story. It's actually the three-part entrepreneurial journey of a man, an idea and the creation of an international business model. It's also a testimonial showing it's never too late to change lanes in life, take a risk or use your skills to help others succeed.

Part 1: Ron Meritt - Corporate Refugee to Accidental Entrepreneur

After earning a Bachelor of Arts degree in Management from the University of Phoenix, Meritt worked for over 25-years in various companies overseas, beginning as a field engineer and rapidly graduating to senior management positions. He eventually moved to San Luis Obispo, joining Italian-owned SAES Pure Gas as Director of Customer Service.

Then in 1998 at the age of 44, Ron Meritt was laid off, repeating a pattern he'd seen during his 20-years of corporate life. "Hired by companies to set up their service and management processes (taking 3-1/2 to 5 years), I'd eventually work myself out of a job," says Meritt. With no comparable jobs in San Luis Obispo, and faced with having to move his family, Meritt decided to take a "leap of faith" into entrepreneurship—turning a simple contraption he designed to keep his kids entertained while on family road trips into a business.

Meritt's idea was an all-in-one portable TV/VCR video entertainment system with a cloth-and-strap bag that attached to headrests in a car. With a patent for the straps and carrying case, and a prototype financed personally using a \$100,000 home-equity loan, he set out to develop, produce and market his new invention—the "Video Traveler."

But Meritt's prototype and first attempt to find a distributor failed. Retailer Fry's Electronics

sent him back to the drawing board, citing it took too long to install. To keep costs down, Meritt went to his previous contacts in Korea, returning with a greatly improved unit that could be installed in any vehicle in under one minute. It also had new, unique features like "digital anti-slip," outlets for up to three monitors, and a price tag significantly lower than any similar product on the market.

However, his money was running out. So to gain more exposure for his invention, Meritt signed up to exhibit at a Special Equipment Market Association (SEMA) tradeshow. By chance, he got a prime location when another long-time exhibitor suddenly backed out. The visibility worked. According to Meritt, "All the big guys saw my invention with its low cost and went nuts!"

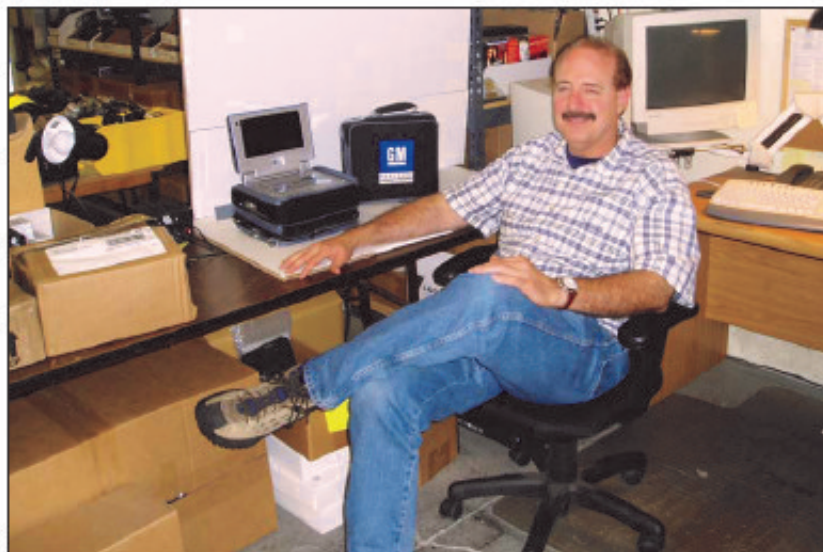
Part 2: Meritt Electronics - Idea to Global Domination

With instant success but a lack of capital, Meritt realized he couldn't manufacture enough units to meet the demand. He signed a deal with Steel Horse, a manufacturer of auto entertainment systems, to produce the Video Traveler and handle larger retailers, paying Meritt a 5% royalty. Meritt Electronics would sell to smaller chains and mail-order clients. Sales of the \$400-\$600 device took off.

However, in 2000 troubles set in. Steel Horse was on shaky financial ground, even as it sold \$5 million worth of Video Travelers. Meanwhile, as the product gained in popularity, other manufacturers (like entertainment industry giant Audiovox) began copying the idea. When Steel Horse and Meritt Electronics had a falling out over who was responsible for defending the patent against infringement, the two companies parted ways, and Meritt found a new business partner: Nissho Iwai—a \$68 billion trading company. They helped Meritt settle the lawsuit, challenge the other companies that infringed on his patents, and regain market share by leveraging off their sheer size and strength. Nissho Iwai now sells the Video Traveler to big automotive companies and retailers like General Motors, Daimler-Chrysler, Best Buy, Target, and Sam's Club. Meritt Electronics gets royalties, the rights to sell the device in stores with fewer than 20 locations, a monthly consulting contract and a warranty-processing deal that brings in \$120,000 to \$240,000 a year.

Meritt Electronics has also been able to increase their business an average of five-times annually using e-commerce. They expanded their domestic wholesale and direct-sales customer base by actually cutting back on advertising spending. Using press releases and multiple small paid advertisements (versus a few large, expensive advertisements), they lure customers to their website, then strategically "tell their story."

E-commerce has also allowed cost-effective expansion into more international markets, includ-



Ron Meritt in his office with his invention, the "video-traveler."

ing Europe, China, Korea, South Africa, New Zealand, and Australia.

Finally, while using local subcontractors whenever possible, Meritt has reduced costs over 50% by sourcing parts internationally, using suppliers in foreign countries, and locating and introducing new technology and products that were not available in the U.S.

Part 3: "The Meritt Model" - Life Cycles to Leveraging Lessons

Now at age 50, Meritt knows that every product has a life cycle. With the market becoming saturated, his company is currently ramping down its Video Traveler operations and restructuring—preparing for a new phase of entrepreneurial (ad)venture. He is now parlaying his experience by helping others launch inventions. "It's just a natural progression," he says. "This is letting me take my knowledge to the next level."

Meritt's original "Video in a Bag" idea not only developed into a successful company, but also became the model for a business tool that can take almost any product from prototype to global distribution. Appropriately called "The Meritt Model," he now seeks out inventors to finance, and takes their inventions through the design, prototype and engineering process. Then he outsources the manufacturing, marketing and packaging. When royalty checks start coming in, Meritt gets his initial investment back (usually around \$30 to \$200 thousand) then splits the royalties with the inventor 50/50. Since he only charges for "hard expenses" but not his time, and assumes all the risk (the inventor owes nothing if it doesn't work out), it's a great opportunity for new inventors.

Meritt Electronics—soon to be renamed "Meritt International" to give a broader corpo-

rate "umbrella" for expansion—plans to help launch 6 to 10 new products in 2004. This includes a revolutionary new environmental invention by Meritt himself. (To be formally announced soon!)

He also volunteers his time speaking at career conferences, to Cal Poly's MBA and Engineering students, and even to aspiring young inventors at local middle schools, talking to them about "real world" business issues, like a lack of finances, lawsuits, and getting crushed by "Big Business."

Summarizing his biggest lessons so far, Meritt says:

1. Use e-commerce as a strategic tool to grow your business.
2. If you're challenged by a company 100 times your size, find a company that is 1,000 times your size to be your partner!
3. Learn to minimize financial risks
4. Every product has a natural life cycle.
5. Learn when to get in, and when to recognize when it's time to get out.

While he confesses to having had some serious anxiety about starting out on his own, Meritt notes that not trying to do everything himself helped allay his fears during the start-up phase. "Align yourself with other people and do your homework," he says. "Get coaching from other people—including your attorney—to cover your bases."

Good advice. And good luck, Ron Meritt, on this next phase of your "journey."

Ron Meritt is married with two children. A self-proclaimed "nut about fast cars, motorcycles, boats and the high tech gadgets that go with them," he enjoys sports and "just spending time" with his teenage sons. For more information about Meritt Electronics or the Video Traveler, visit www.videotraveler.com.