# NewTech Development LLC

The Need for Separate 'New Products' Groups in Mature Companies
W Lawson, November 11, 2006

As a company and its markets grow and mature, the need increases for a separate group to do new product development and marketing. The natural progression of an organization is to concentrate more and more on becoming an efficient producer and seller of the product the customer buys. Sales people are selected, rewarded and focused on selling the existing large volume products. Searching out potential opportunities for new products and developing the future need are not their primary goals. The visionary founders and early leaders who grew the organization by developing new products become engrossed in running the company well. They have much less time to focus on forward thinking, planning and actions, thus restricting the pace of development.

The drive for cost-cutting efficiencies and customer focus needed in a mature company overshadows the longer term needs to keep developing new products. The push for efficiency is counter-productive for the future health of the company. By definition new product development is a long-term effort that reduces today's gain for the purpose of tomorrow's growth. This is the opposite of the push for efficiency.

In more mature organizations the need for new product development must also be a focus of the organization. To be effective and efficient this effort must be separated from the day-to-day battles of the larger entity. The people that are very good at developing new products efficiently many times do not fit well into the organized structure of a mature organization. They need the freedom to follow their instinct and attack new markets without meeting stringent requirements for defined ROI. They need to operate in a small flexible organization with a minimum of administrative procedures.

This does not mean, however, they should be given cart blanche to do whatever they want. Reasonable financial standards, such as being profit neutral, need to be set. A small related organization that has access to the sales contacts and manufacturing resources of the larger parent can be a very powerful force for the development of new products for a company.

How can a company do both things at once? A structure that seems to work well in most companies is to form a small new products group in the core technology area of the parent company led by a few entrepreneurial people. This group is measured on whether the directions they are going are focused on real markets. They may focus on special products that there is only a small need for at this time but should be required to do projects that are driven by at least one actual customer. In addition, by requiring the group to be profit neutral, on average they make decisions on what to do based on good opportunities. They need the freedom to fail but holding them to a standard of being profit neutral is important. It is very easy for entrepreneurs to foresee a huge market without it actually being there. Requiring them to be profitable at a lower level keeps them focused on the best things to spend their time on.

NewTech Development LLC
1917 County Road I   Somerset, WI 54025
Ph 715 247 3242    Fax 715 247 3594    www.newtechdev.com

There are different ways for this to be achieved and many times the best structure depends on the parent company and its growth stage.

3M for instance has a team of creative scientists tasked with the job of developing new possible chemically based products. When any one of them actually shows promise or there is an interesting outside potential product, 3M sets up a separate small new business development group solely focused on that product area. Many products like Thinsulate were developed by this technique. This could be called a ‘new business ventures’ model.

A small medical wire harness manufacturer near here, which normally does very little in advanced technology, must supply its customers with “one of” prototypes, etc. It has set up a small organization to design, produce and ship “one of” samples very quickly and efficiently. If this group starts to get orders for quantities of 10 or more, they have a totally separate design and manufacturing focused group 70 miles away. This volume-manufacturing group is located where good, reasonable-cost labor is available to build in quantity and it has the infrastructure to manage higher volume manufacturing efficiently and with reliable quality. Two different types of people staff the two groups and as there is a physical separation, the personalities necessary for each type of customer’s needs do not clash. This is commonly called a ‘model shop’.

Medtronics, a very fast-growing, innovative, publicly owned medical devices company, has a corporate philosophy that 10% of their income, regardless of profit, will be spent on new product development. They are very up-front, featuring the philosophy on their corporate web site. The question then is not *whether* to spend the money, but where to *best* spend the money. They believe this has been the key to their continuing to be a leader in their industry.

From what I know, I would expect something like the 3M ‘new business ventures’ model to fit II-VI, i.e. establishing a small, relatively autonomous group of innovative, self-driven doers with their own manufacturing capability where possible, their own technical sales and marketing to instigate customer contacts or assist the existing II-VI sales group, and with access to the vast resources of II-VI for initial sales leads, technology, and manufacturing where appropriate. This group would be tasked with being at least more or less cash flow neutral while developing new products for customers, marketing them in a focused way to the key potential users, and transferring products to the larger organization as volume increases. To be successful, a group of this sort must be flexible and not hindered too much with the administrative requirements of the larger organization.