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From Innovation to Business Success

How to Achieve Sustainable Growth with Market-driven Technologies

Creating Growth – In 2009, Europe is officially celebrating the “European Year of Creativity and Innovation”.

One of the key messages is “Creativity and innovation contribute to economic prosperity as well as to social and individual wellbeing”. That gives leading companies reason enough to talk about their professionalism in innovation. Facing the global economic crisis, they are quoting impressive facts and figures to underline strategic innovation investments.

But not only in high-tech markets are budgets for innovation still far below the desirable proportion of 5% in relation to sales. Consequently, the heavy burden to succeed is forwarded to all the directors of research and development (R&D), to application designers and their teams who have to be innovative every day. Their only chance to perform is to integrate market partners and B2B customers into the whole innovation process. Since years, the German based consultancy Management Business Group (MBG) offers a pragmatic open innovation and business development approach turning innovation into market success. MBG does not stop before initial sales have been realized within defined markets. CHE-Manager Europe asked Thomas Müller-Schwemer, founder and managing director of MBG about his “Tech-to-Market” method, focusing on the relevance of how to prove innovative concepts in targeted segments as quickly as possible.

CHEManager Europe: Booz Allen Hamilton recently published a new study called “Glo-



bal Innovation 1000”. One of the general results was that money simply cannot buy effective innovation. What does that mean to the European high-tech industries?

T. Müller-Schwemer: Innovation is urgently needed to generate market growth, especially in those European countries where

raw materials are rare and salary levels high. Market research results mostly quantify innovation investments as a percentage of sales. According to the study you mentioned, the largest 500 companies reached a median R&D spending of only 3.5% of sales. Reading press releases and annual reports of respected European high-tech companies you quickly recognize that investments in R&D and innovation frequently add up to 5–8% of sales. But it has to be considered that the study shows that less than 10% of 1,000 companies produce significantly better R&D results over a sustained period, compared to others in their industries.

Indian and Chinese companies spend up to 20% of sales on their R&D activities. Does this give them a competitive edge over their European counterparts?

T. Müller-Schwemer: Increasing R&D budgets is no guarantee for success. Intellectual property is important, but numerous patents do not automatically lead to more profit. R&D teams integrating a value chain perspective into the whole R&D process establishing new products and solutions in a significantly shorter time-to-market than others.

Your “Tech-to-Market” method allows exactly this kind of integration into the innovation process. Why is that so important or even key to succeed?

T. Müller-Schwemer: Years ago, companies could build up a certain power of innovation behind closed doors. Today, we are living in a completely different world: R&D divisions are forced to act driven by success in the same way as any other department. General Managers expect R&D to develop solutions and products meeting performance guidelines within a fixed period of time, which is usually shorter than in the past. In order to prove that R&D activities are on target, concrete interest in targeted markets, ideally first revenues of initial sales, have to be documented in detail. Companies refusing to tear down barriers between R&D, distribution and marketing often launch premature or over-engineered products. The latter provide more functionalities than needed or affordable, hence they cannot guarantee a return on R&D investments. Bad launch timing, ignorance of common market barriers, technology cycles and market mechanisms take place in addition and turn the R&D investment to deficit. All this can be avoided when lead users are involved right from the beginning, which is one of the key elements of the “Tech-to-Market” methodology.

What are the main differences of your approach compared to others?

T. Müller-Schwemer: There are two important points differentiating our proceeding from others. Firstly, we analyze the whole value chain and secondly our approach is strictly sales driven. How do we proceed in detail? Based on the client’s core competencies we analyze potential target markets for the new solution or product in detail. We break down the strategies and activities of the main competitors, identifying potential technology development partners, common technologies and innovative applications. Apart from that, we carry out a SWOT analysis of important applied technologies defining the requirements of potential lead users in each target market. We qualify and quantify the up-to-date situation and the potential market growth, including the basic market framework and the competitive situation. Moreover, we build up a profound knowledge of how to get over specific market barriers. Taking these market insights into consideration, we prioritize potential target markets and help our clients to focus financial resources and personal capacities. This first step we call application scouting, since it is concentrating on the target markets with high potential. The next step is called business scouting. In this phase we consequently search for unsolved problems within selected target markets. We strictly analyze if and how new products and solutions can close the gap. Starting with these gaps, we deal with potential B2B clients and business partners to generate initial sales, either as an outsourced sales force or in a common team with selected business development and product specialists in the clients’ organization.

How do you proceed exactly?

T. Müller-Schwemer: Our business scouting starts with a market evaluation along the whole value chain in each target market segment, providing transparency of market mechanisms from the delivery of components via production and distribution to the user. This method is based on identifying ourselves with potential clients of our clients by understanding their needs and desires, no matter if they are B2B, B2C or B2B2C. Based on a broad understanding of added values of each step of the value chain, we are able to quantify users’ and price acceptance in each target market. After each meeting with potential business and technology partners we can further identify the most important market needs and specific requirements.

Can you give examples?

T. Müller-Schwemer: One of our clients developed an innovative ceramic separator in order to use the lithium-ion technology for the first time in large-scale batteries, e.g. to conduct electronic and hybrid cars. In

comparison to conventional separators the ceramic one provides the following advantages: Not flammable, high thermal and chemical resistance and an outstanding charge behavior. We have been contracted to identify promising target markets. Therefore we analyzed the world battery market and identified as potential B2B clients producers of battery components (focusing on the substitution of conventional technologies) and manufacturers of entire batteries and electric accumulators, selling their products to various industries. At the same time, we focused our research on applications, where lithium-ion batteries were offering a significant added value. We identified B2B clients who paid premium prices on a short-term basis, for example in transportation. Furthermore, we contacted potential customers in fast growing markets, such as the hybrid car segment and regenerative energies. In the last mentioned sector, large-format lithium-ion batteries can make a major contribution to temporary power storage for solar installations.

What key advice would you give to companies looking for a successful distribution of new products and solutions, even if R&D budgets are cut?

T. Müller-Schwemer: Firstly, companies should define and structure their core competencies. Then applications and target markets should be analyzed. In a next step, the whole value chain perspective in these markets and segments should be considered. Companies should not be afraid to sell the innovation, the new product or the new solution to lead users and important market partners now, even if not all questions regarding the roll-out are completely answered. Companies have to intend to generate initial sales to transform innovation into business success. Last but not least, companies should consider strategic and technological cooperation and partnership, proving in detail where to find real technology leaders in their target markets.

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