



PRODUCT DEVELOPMENT

# Role of the Outside Development Company or Consultant

Outsourcing is a hot buzzword these days, especially given the universal pressures of costs, overhead, head-count, and speed to market throughout the food industry. Many companies currently outsource research and development (R&D) activities successfully, while others approach the idea with the terror of the movie *Friday the 13<sup>th</sup>*...



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Outside R&D sources generally fall into two groups: consultants and contract service providers. Consultants provide expertise and advice to their clients. They generally do not execute the work themselves but provide guidance on the best ways for others to approach or conduct the work. Contract development providers also provide expertise but execute development work themselves. They may be responsible for a whole project, or they may be members of a larger development team.

### Characteristics of Companies Who Use Outside Resources

A variety of companies outsource some or all of their R&D activities. There are no clear trends in characteristics among outsource users. They vary in size from one-person start-up to very large companies and in the

technological complexity of their manufacturing operations from very simple and common practices to very complex, highly proprietary practices. They also vary organizationally from very loose and fluid to quite structured.

Companies that successfully outsource do have some traits in common. Most of them have made a strategic decision to outsource some portion of their R&D activities, and they implement these decisions by carefully screening potential service providers. Generally, a single person inside the corporation manages an outsourced project, serving as a focal point for communications. Many successful users grow into their current level of outsourced activities (i.e., they start with smaller projects or activities and increase their outsourcing as they succeed using outside R&D).

### Benefits of Using an Outsider

**Clear Project Definition.** Both consultants and contract development providers can provide significant benefits to their clients simply by being outside the corporation. To start a project, someone must define the work to be done. The client may have a very clear picture of the project or only a general idea of the direction to be explored. Consultants can aid significantly in defining a project by providing a starting point for the client's review and participating in negotiations on the approach, resource requirements, and timing of the work. Clearly defining the task at hand often contributes to the success of the work. The client may have focused on one way to approach the project, while a consultant with external experience may have a very different approach in mind. The client may hope the project can be completed for one level of resources, while the con-

sultant may indicate that a different level will be required. Alternately, the client may bring a list of assumed risks to manage the resources needed, while the consultant can help clarify the actual risks and develop reasonable backup plans. Because the consultant will be paid when the objective is met, there must be clarity concerning both the objective and the method of measurement against it.

**Permission to State the Obvious or Unacceptable.** During the definition phase of the project, as well as later during the execution phase, the consultant has the luxury of being the outsider and not subject to the internal politics of the client company. Lacking internal experience, the consultant can identify for the client assumptions that may not be valid and point out plans and approaches that are familiar to the client but inefficient or ineffective when viewed in a broader context. Sometimes, someone needs to make a point that is not what the boss wants to hear—a consultant may be in the best position to take that risk.

### Technical Roles for Consultants

**Technical Information Provider and Resources for New Technology Areas.** Some client companies hire consultants to help them explore a new technology area the company wishes to explore. The consultant may be asked to complete a comprehensive literature search, ranging from the basic physics and chemistry relevant to the subject to the sources and manufacturing technologies commonly used. Technical issues may be summarized and commonly used industry approaches described. The consultant may be asked to provide "out of the box" approaches to resolve issues and to review the participants, product offerings, and structure of competitors in a particular market area. Significant benefits can be derived from simply asking a consultant to comprehensively outline the industry's current status.

Some clients hire consultants and contract development providers as a means of meeting R&D needs for a new product area without risking hiring and firing if the new product effort fails. Once a new technology area is a success for these clients, they may ask for the consultant's assistance in developing a permanent internal staff to service the business on an on-going basis.

**Critical Review of Technical Approach.** Consultants are often used as critical reviewers during the course of internally staffed projects, providing two significant benefits. First, the team benefits from the need and opportunity to review the project from an outside point of view. Often, preparation of information for the review presentation stimulates clearer thinking and breakthrough ideas among team members. Second, the consultant may confirm that the team has covered all the bases and is on the best track, or the consultant may add some significant new information for consideration. In either case, the consultant has performed a valuable service to the team by confirming or enhancing their approach while the project is still in progress.

**Scout and Private Inquiries.** For many outsource users, scout and private inquiries are an unexpected benefit. Sometimes, questions posed disclose a course of action if the questions can be viewed within a context. For example, if McDonald's were to contact bagel manufacturers, the contact itself would disclose that they had some interest in bagel-like products. However, McDonald's might not want it to be known that they have such an interest. In this case, the client can ask the consultant to identify a potential copacker or new source of an ingredient without disclosing the client's identity.

Consultants also can be used to obtain information about a topic of interest, such as genetically modified organisms. Consultants can make it clear that they are gathering information for a third party when

they make the inquiry, but, if they have many clients, many of whom are confidential, it will not be clear for whom the inquiry was made.

The reputation of a consultant is key to effectively obtaining information. The consultant needs to be recognized as a potentially viable source of business to stimulate responses to blind inquiries and also needs to be scrupulous in handling the information to make certain no harm comes to any of the parties.

**Technical Task Executor.** Perhaps the most limited role a consultant or contract development firm can be assigned is that of technical task executor, which involves the client clearly defining the task without the involvement of a consultant and then hiring a consultant to do the task as defined. In essence, this amounts to hiring highly skilled temporary scientists.

Even in this limited role, however, the contract service provider can provide significant benefits. If a report or recap of activities is provided, the consultant can provide insights gained during execution of the task. Because the consultant views the activity as an outsider, these insights can be very valuable. The work also is accomplished with clear limits on time and budget and without the distractions of other competing projects. Thus, work completed by outsiders can be more predictable in its delivery than work completed by internal teams with conflicting agendas.

### **Strategic Planning Input**

The broadest role is that of strategic planning. A consultant brings two blocks of knowledge to this exercise: an understanding of what generally is done in an industry and the ability to assess the combination of skills found in the client company versus those in other companies. A consultant can provide a different perspective on how a company fits within its competitive set and the strengths and weaknesses that help or harm it. Some of the questions that can be answered by outside R&D resources include:

- Is the client's level of technology competitive in the industry? Are its line speeds, unit operations, formulations, manufacturing practices, etc. a source of weakness or strength competitively?
- What new products or categories can be envisioned for the next five to 10 years?
- Are there gaps in the product line that could leave the client vulnerable?
- Are there pending changes in distribution or sales methods that could fundamentally alter the client's business?
- Does the client have skills and expertise that could be combined in new ways to meet other significant needs? Do any of these opportunities provide unique benefits versus those of competitors?

### **Removing Barriers to Use of Outside Resources**

Some companies recognize the potential benefits of outsourcing but are not yet culturally ready to make outsourcing work in their environment. These companies may have made the decision to use outside resources without managing the concerns about outside resources inside the company.

### **Confidentiality and Intellectual Property**

One primary concern is usually about confidentiality and technology transfer. Because their largest asset is their reputation, long-standing consultants and contract development companies are very careful with the information they provide. They should be aware of common industry practices and be able to reference the information they provide to clients from publicly available information or information developed specifically for a client. Generally, consulting or contract development contracts protect client confidentiality concerning information provided by the client or developed during the course of a

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project. In addition, consultants generally promise that the information they provide is publicly available or known generally to people skilled in the area and not encumbered by any other promise of confidentiality. If a consultant or contract development company handles confidential information inappropriately, they will not be in business for long.

Intellectual property and patent rights are a second major concern for companies new to outsourcing. What if patentable technology is developed? Who owns it? This question absolutely needs to be resolved before work begins. The issue generally is handled in one of two ways. First, a consultant or contract development company can promise to assign rights to any patentable work to the client company. Alternately, the consultant and client can agree to a licensing arrangement. In either case, the ownership of intellectual property is an important business question to work out prior to establishing the relationship, but it does not need to preclude the use of outside resources.

### **Employee Perceptions**

Often when consultants and contract developers are brought into companies to work on projects, employees fear they may be replaced by “temporary workers.” It is important to manage this fear internally, because it can seriously affect the information flow necessary for project success. Although the fear may not be rational, it is real and needs to be managed. The best method is to share with employees how outside resources fit into and enhance the overall company plan. This can aid in the success of a project by helping employees to see how outside resources can benefit, rather than threaten, them.

### **Temporary Worker Legal Issues**

Another concern relates to the legal status of temporary workers. This concern was highlighted recently by court rulings on Microsoft’s use of temporary employees. Typical contracts clarify that an

outside service provider is neither an employee nor an agent of the client corporation. This means that the service provider is not entitled to benefits, insurance, or other compensation from a client other than the contractually agreed fees. It is important that the consultant or contract development company have multiple clients for the client company to be certain they will not be named as the “employer.” The client might prefer that a consultant practice exclusively for them as a conservative means of managing confidential information concerns. However, under these circumstances, the state could maintain that the consultant is actually an employee of the client corporation and entitled to benefits, unemployment, workers’ compensation, etc.

Not being an agent means that the outside service provider cannot enter into legal agreements for the client. The service provider can talk to suppliers, copackers, equipment vendors, etc. with the client’s express permission, but the final decision to do business remains with the client. This keeps control in the client’s hands.

### **The “Test Drive”**

We have learned over the years that a “test drive” is the best approach to determine whether a client and outside service provider can work effectively together. Outline a small, worthwhile project for the first effort. Make sure the project includes all the critical elements of the long-term expectations for the outside provider. For example, if planning, experimental execution, data analysis, report writing, and presentation of results to a group are important components, make sure the test project includes all of these components. The test drive project limits client risk when working with new outside service providers. Moreover, if the decision is made to do additional work with a provider, it will be based on results, not promises.

Outside technical resources represent an effective way to expand company capabilities without making a permanent commitment to new staff. Try it, you’ll like it....

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