If You Don't Control Your Products, You Aren't in Control of Your Company

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I'm a product management and development professional and I've worked with organizations such as General Electric, Ericsson, Honeywell, Meritor (formerly a division of Rockwell International), and others in the private sector. I've developed or managed over 40 product lines for both that provide new revenue and increase the long term value of the company is the central part of my work.

There are 5 reasons for developing your own products instead of relying mainly on outsourced or "OEM" products. My five reasons for developing your own new products are:

1. New Revenue and Replacement Revenue
2. Intellectual Property Builds Long-term Company Value
3. Continuous Development Keeps Pressure on the Competition
4. Develop a Closed System
5. Other People's Products are a Compromise and Possibly Compromising

New Products mean New Revenue. This may seem too obvious to talk about but many firms continue to ride the revenue wave of products introduced long ago. These "cash cows" are great for the company's bottom-line because there is little investment required to keep the line going. The tendency can be to relax and assume that this revenue and profit will always be available.

The problems start when the market shifts due to a competitor's move or a change in the customers' preferences. If the new product development plan or roadmap created by the product management team has not accounted for these changes, then the company can lose a great deal of revenue so fast that it cannot recover.

Remember, it is always better (except for rare changes in strategic direction) for your product line to lose revenue to one of your new products than to lose it to a

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competitor. A former manager of mine said, "It's better to cannibalize yourself than to lose to the competition." He was right.

Intellectual Property Builds Long-term Company Value. This is something that firms tend to ignore. There is work done to ensure they are not infringing on someone else's IP but little is done to consider the long-term value that their IP creates for the firm.

This value can be in many forms: 1) features and benefits of the product that drives new sales, 2) creation of a closed product "ecosystem" that keeps competitors at bay, 3) IP can be used to prevent competition, 4) service parts are captive and command a higher price, and 5) the sum of these increases the sale price of the firm when sold.

Continuous Development Keeps Pressure on the Competition. This one is for the true competitor in us all. Continuously developing new products, or improving existing ones, keeps the pressure on the competition and prevents them from resting on their laurels. If they do not continue to keep pace with us, then they fall further behind each quarter. Before long, the innovator has an insurmountable lead. This lead will be safe unless there is a major market event that realigns the market.

I have worked with some firms where this problem was commonplace. The ongoing delays in product development combined with lack of investment in key product lines deeply hurt the top and bottom lines. Some lines recovered; most did not.

Develop of a Closed System. It is usually an advantage to have a closed system of products that are compatible only with your company's products and IP. This prevents competitors from introducing products that can compete. For them to compete with your system, they have to develop their own complete system, at considerable cost, or develop a series of partnerships and work together to create a coherent system (no easy feat either).

Other People's Products are a Compromise and Possibly Compromising. It is alluring to the cash flow model to use products from other manufacturers instead of developing them internally. The time-to-market much faster and the higher per unit cost is typically compensated for by the lack of R&D investment. If production volumes are low (preventing economies of scale), the OEM route can be an advantage.

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There are some problems with the use, and overuse, of this method. First, the firm is renting intellectual property – not building it. Second, since most OEM firms sell to multiple customers, including your competitors, all customers get the advantage of the economies of scale. Third, the supplier may become a well-educated competitor if they decide to enter your market. Lastly, the products you develop with an outside supplier or should not, contain the same high level of intellectual property as your own products because its IP is not secured within your firm – it could be used against you. This limited IP approach affects the quality of the products offered for sale by your firm.

If your customer base is the body and soul of your company, the products they buy from you are the lifeblood of your firm. It is crucial to your long-term profit and valuation to methodically plan your product strategies. It is practical to develop or source a small percentage of your products from a trusted supplier. This practice should be limited to non-critical items or other readily available products. Sharing critical IP should be avoided whenever possible.

Doug Ringer is currently the Director of Product Development for a leading firm in the healthcare emergency response industry. Doug has held global roles in marketing, manufacturing and R&D at General Electric, Ericsson, Honeywell, Meritor and in a small private firm. He also served on the board of directors and president of the board of a civil rights organization based in Kentucky. Doug lives with his family near Louisville, Kentucky. Follow him at http://www.dougringer.com.