Improving the Odds of Commercialization Success

How businesses should approach their riskiest product decisions

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Most businesses face their riskiest product-related decisions at the point of commercialization. What mitigates this risk and improves the odds of successful product introduction, in our view, is investing in the right level of customer, market, and competitor understanding. Without rich, fact-based insight into a product’s viability in its target market, even a technically superior product almost never succeeds. Yet many product development and commercialization decisions are based on grainy, inaccurate, or biased information and analyses. This problem is especially acute for companies at the back end of the supply chain—e.g., industrial players, materials suppliers, component businesses—which operate at a remove from customers and markets. Their managers often lack essential insight into a product’s commercial potential, the drivers of customer adoption, and the market’s competitive dynamics. All too frequently, the result is product failure, lost investment, and a missed opportunity for growth. However, after hundreds of efforts to help clients with growth and commercialization, Newry has found that building the right level of external insight can improve success rates considerably.

Why Commercialization Decisions Are So Risky

As any manufacturer will tell you, low yield at the last process step can be devastating to profitability. Similarly, product failure at the point of commercialization is costly. The cost of failure is particularly high for engineered material and component companies; their long product development times and demanding customer requirements necessitate investing substantial technical and commercial resources in each new product. With each product demanding such a large share of resources at the later stages of development, an industrial company can introduce only a few products each year. This combination—substantial investment and few chances each year to get it right—makes each decision at the commercialization stage high risk.

The size of the investment is driven by the extended timeframes of industrial product development. Industrial products take longer to develop, for several reasons. First, most are highly technical (e.g., made from new and unique materials requiring new manufacturing processes), unlike upgrades or extensions such as enhanced cell-phone cameras or new colors. Users often incur high costs to adopt industrial products, which therefore must offer customers a step-change improvement in cost or performance to drive adoption. To accomplish this technical differentiation requires significant investment upfront and often multiple iterations of a product. Second, industrial products are expected to remain in the market for years, sometimes decades, since customers rely on them in manufacturing their own products year after year. In many cases, this necessitates additional testing in the lab and onsite with the customer, and responding to results and feedback—often by refining the product’s design and developing additional iterations, thereby extending the development timeline.
Finally, identifying new products is hard for any business. Basic research is fundamentally experimental and typically encounters many dead ends before the ultimate breakthrough (if any). Developing new product ideas and concepts may require extensive internal effort to pinpoint new markets, zero in on unmet customer needs, or identify new growth platforms. Consequently, commercializing a new industrial product requires a significant share of a company’s product development resources, both technical and commercial. As a consequence, most industrial companies have few new products entering the market in a given year.

Commercialization failure also carries a substantial opportunity cost, because the failed project has diverted funds from other development efforts that had to be canceled or deferred. And once a company falls short of its growth targets, it can take years to regain momentum.

Yet new products are essential to these companies. They expect little organic growth from current businesses in mature markets, where competition is frequently a zero-sum game. They see developing new products as a major source of growth. At the point of commercialization, project momentum is typically high, promises have been made to top management, suppliers have been lined up, manufacturing infrastructure is being developed, and reputations—and often careers—are on the line. This environment is all too conducive to costly errors in judgment and decisions taken without real insight into potential markets, customers, and competitors.

In our experience, the best way to improve a new product’s chance of success is to invest in building commercial insight. A clear view of a product’s technical and commercial potential in specific target markets is vital. Getting this clear view depends heavily on detailed understanding of markets, including supply chain partners and end customers. Once the product is introduced, establishing it in the marketplace requires insight into a wide range of factors, including competitor dynamics and current and potential channels. For businesses that invest thoughtfully to build this insight and apply it at the right time, the rewards can be significant.

**How Commercialization Efforts Get Derailed**

In our experience, businesses often make commercialization decisions in new product markets without the benefit of sufficient commercial insight. Their limited understanding distorts the perspectives of decision-makers, prevents crucial refinements to product strategies, and allows businesses to continue to push new products to market even when their prospects for success have dwindled.

Without customer understanding to drive strategic decisions on product definition and market positioning, technical superiority rarely carries the day. Even in sophisticated companies committed to rigorously managing product development and innovation—many of which have well-defined processes for bringing new products and technologies to market—managers often choose to move ahead with insufficient insight. Why?

- **Resources are too limited to build sufficient commercial insight.** Particularly for materials and components companies, new products typically target new customer groups, almost always in different industries, and the end-customer/userspecifier is several steps removed. Even when facing unfamiliar
customers, markets, and competitors, most business development groups do not budget for building the necessary insight. Sometimes this insight is needed in short order—e.g., a company has two weeks to decide between licensing its technology or pursuing its own commercialization program. Even when there is time available, developing customer and market understanding requires substantial resources and capabilities, e.g., specialized field research and interviewing, or analysis of unmet customer needs by applications segment. Even if they have the capability, few groups have the resources, especially when multiple management reviews and follow-up are part of the process.

- **Overly general data is easy to obtain and is often inadequate if not misleading.** Information on markets, customers, and competitors is usually gathered from general research reports and secondary research, including the internet. While readily available and often directionally correct, these sources rarely get to the heart of the matter or provide the detail required to get it right. Key development and commercialization decisions require supplementing this information with field and primary research, including input from current and potential customers.

- **Frameworks that seem rigorous may just be a smokescreen for superficial analysis.** Tools like SWOT analysis, which may present the illusion of rigor, are only as good as the data underlying them. Stage-gate criteria often emphasize the achievement of technical milestones instead of commercial potential. These types of analytical and process frameworks do not ensure that real market and competitor insight is being built, and thus they provide little guidance on the actions required for commercial success.

- **Champions can create sacred cows and mislead decision makers.** Often inadvertently, a champion brings biases to the table in his or her zeal to see the product move rapidly through the stage gates and sweep the market with its commercial success. Project leaders frequently suffer from technology infatuation and tend to overestimate market size and profitability, while underestimating the complexity of the market and competitive challenges ahead; they may not be able to accept or adjust to new information that contradicts their views. Often, their advocacy focuses on technical development and stage-gate hurdles rather than commercial knowledge. We have seen intelligent and committed managers insist on a product’s commercial potential even when the data very clearly indicate otherwise.

There is no standard, broadly applicable approach to customer and market understanding. Every product/customer/market combination is different, and thus there is no standard evaluation process that managers and analysts can master. Information quality and quantity vary widely. In addition, most business development personnel do not have the time to think through and attack every issue raised whenever a commercialization decision needs to be reviewed.

Overcoming all of these hurdles is a formidable challenge for even the strongest businesses. However, by building reliable insight into the challenges facing new products, any company can significantly improve its commercialization success rate.

### Improving the Odds of Commercialization Success

Conventional wisdom in product development is that processes and discipline (e.g., adhering to stage-gate processes, building cross-functional teams, and establishing voice of the customer protocols) drive product development success. However, no one process, framework, or organizational structure can ensure that commercialization is not derailed and that decision makers have the customer, market, and competitor insight they need. Every company, product, and commercialization challenge is unique. Canned approaches and
cookie-cutter solutions do not yield the in-depth insight that supports good decisions or leads to effective action. The best decisions are based on research and analysis tailored to both company needs and product and market realities. An approach to building this insight should be flexible, iterative, and interactive; it should focus on quickly addressing the key issues raised by the decision at hand.

After years of experience working with senior executives to drive growth in engineered material and component businesses, Newry believes that businesses can build the required insight efficiently and affordably by incorporating the following four elements into their commercialization efforts:

- **Rich, fact-based insight.** Commercialization decisions cannot be driven by “good ideas” that “make sense.” Real insight is always grounded in facts that are derived from a variety of sources to incorporate multiple perspectives and ensure a robust fact base. In particular, expertly executed field interviews and research can contribute highly relevant data and perspectives that cannot be obtained any other way. Outstanding field work requires gathering information from hidden or hard-to-get sources, targeting the industry experts and participants with insight into the issues, and interviewing them skillfully to elicit the most relevant knowledge and data. This type of field work can reveal valuable insights into costs, pricing, product performance, direct competitors, and product substitutes.

- **Focus on the product.** Rich field data isn't enough. It must be analyzed and explored so as to support effective decision making. Usually this must be done at the product level, where commercialization and customer adoption decisions are made. Businesses win or lose at the product level, not through business unit or corporate strategy, so they need product-specific perspectives on customers, applications, competitors, and market potential. For products and components that are at the back end of the value chain, clear analysis of product and system economics—and their impact on customer economics—is crucial. Shortcutting these analyses is a prescription for failure.

- **Clear and convincing communications.** Insight does not deliver without strong communication. Managers must clearly and articulately share their insight with top management, the organizations they run, and other influencers within the business, both to justify investment in their product and to build commitment to its success. Solid, fact-based presentations can cut to the heart of the product commercialization challenge and help managers quickly articulate their key conclusions and the facts that make them compelling.

- **A willingness to invest.** In product commercialization, the amount invested to build the right level of market and competitor insight should tie directly to the amount of the commercialization investment and/or the profit expected from the new product. In our experience, when the impact of commercialization success is between $10 million and $100 million, spending 1 to 3 percent of this amount can quickly build the insight needed to significantly improve the chances of success. We have found that most senior executives will invest this much to develop solid external insight. The most successful organizations build this spending into their commercialization budgets from the start.

Organizations should budget 1% to 3% of their commercialization project investment or expected profit to gather market-related data and build the necessary insight.
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By building these four elements into its commercialization processes—the right market insight, the detailed analysis that only a product focus can afford, clear communication of commercialization potential and challenges, and the spending to make it happen—any company can substantially improve a product’s chances of success in the marketplace and reduce the risk that commercialization poses.

The Approach in Action

Although commercialization challenges vary widely with product complexity, value proposition, customer base, and competitive landscape, many companies seeking growth face the same imperatives:

• Invest in new products based on their commercial potential
• Identify attractive platforms, products, and companies to drive acquisition strategies
• Accelerate adoption of products already on the market
• Respond to a competitive threat—or go after a competitor.

Companies can get better results on each of these imperatives by incorporating the four elements of improved commercialization success—the right market insight, detailed and product-focused analysis, clear communications, and the necessary spending.

Evaluating the commercial potential of a new product

Many businesses and functional groups with stage-gate innovation processes look at commercial potential repeatedly. Nevertheless, at the point of market entry, many decision makers need to get a better handle on market potential and customer needs before committing the funds. Their key questions include:

• Is the market large enough to justify continued investment? What profits can I expect?
• Which customer groups should I target? How is my product better than what customers have today, and how much better? Am I in a position to beat my competition in serving these customers?
• How should I define my product to provide maximum value to target customers? What capabilities, performance, and price do I need to offer?

Commercial potential is a critical in valuing new product opportunities. For instance, a small company that had developed an energy-efficient building material approached a Newry client to discuss a possible acquisition or development partnership. With the green building trend in full force, it seemed a no-lose proposition, but our client wanted a better view of commercial potential. Committing 2 percent of the estimated acquisition price, they asked for a closer look at buying criteria by customer segment. After a comprehensive analysis and more than 75 interviews worldwide, we concluded that the market would be quite limited unless the startup company could cut the product’s cost and improve it aesthetically. Once that conclusion was clearly communicated to top management, our client decided to pass on this opportunity and invest in more attractive elements of its portfolio. (Click here for the full story, in Appendix 1 below.)
Identifying attractive platforms, products, and companies to focus acquisition programs

Building a strategy is essential, and difficult, for any business seeking to grow through acquisition. Without a rigorous way to focus their search and to compare the performance of potential targets—most of them small, non-public companies—senior executives have no systematic way to identify potential acquisitions or to get a handle on their attractiveness or value. They are left with questions such as:

• How can I best define the universe of potential acquisitions? Do I cast a broad net, in an effort to be comprehensive, and take on the challenge of evaluating thousands of companies? Or do I focus in on a smaller segment and risk coming up empty-handed?

• Can I develop a comprehensive list of products in the space that interests me and identify the companies that manufacture and market them?

• How can I quickly compare different and diverse products and companies to choose the best acquisition targets? How can I learn about the performance of private companies, particularly the small ones that are most readily acquired?

Even a company with substantial market savvy can stumble in entering new markets through acquisition. A systematic approach to defining an acquisition platform can substantially improve its success. For example, the new business team of a large consumer hardware business decided to pursue a growth strategy based on acquisitions. They started to identify areas of interest and candidates within them but quickly realized that they needed a more rigorous approach to defining the platform, prioritizing product categories, and identifying specific companies of interest. Newry’s comprehensive and insightful approach, focused on products within the company’s platform, enabled them to quickly identify attractive products and companies to pursue. (Click here for the full story, in Appendix 2 below.)

Accelerating adoption of newly commercialized products

When entering new markets, particularly with new technologies, early success with a lead customer often breeds visions of rapid, widespread adoption. However, once in a new market, a business often discover new customer needs, complicated buying processes, and other barriers to widespread adoption. They find themselves asking:
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- Is our product still relevant to the market?
- Which segments and customer groups should we target?
- What are the hurdles to adoption? How can we overcome them?

A materials and components company Newry serves commercialized a superior chemical processing technology, initially targeting pharmaceutical companies. But buyers were resistant to the new product despite its clear value. We discovered a significant barrier to adoption: processing technologies are chosen by product developers but are most beneficial in manufacturing, and no single product could meet the needs of both. Given the product’s disappointing sales, our clients questioned the product’s market potential; their estimates were based on total revenues by industry segment. A Newry team analyzed the product’s market potential by segment, specifying the chemical products and reactions their technology could address. We uncovered a much larger potential market, along with industry segments—and chemical reactions—where the technology could provide superior value. This insight helped the client focus its sales and marketing and better address manufacturers’ and developers’ needs. (Click here for the full story, in Appendix 3 below.)

Determining the right responses to a competitive threat

A new product often brings with it a new set of competitors whose behavior can be surprising or confounding. Without an operating history in the market, new entrants are at a loss about why they cannot gain share, and many assume they are not cost competitive. In some cases, however, the problem lies elsewhere. A close look at key competitors can provide a better sense of their cost advantage (or disadvantage), the segments where they are vulnerable, and ways to make your own product more competitive. In addition, competitor insight can help a company size up new markets, prepare for major bids, and evaluate commercial potential.

One new market entrant found itself consistently losing bids to the market leader, who they assumed had a significant cost advantage. Product returns and Newry’s customer interviews revealed that the new product had quality problems, which our client quickly addressed. But they continued to lose bids. After extensive primary research and field intelligence on the competitor and its product, we determined that the competitor’s costs were higher and that its pricing varied significantly by customer group. Armed with this insight, our client targeted and won specific accounts, raised its prices in most segments, and refocused its marketing on improved product quality. (Click here for the full story, Appendix 4 below.)

On the Path to Improved Product Commercialization Decision-Making

For the vast majority of companies today, successful product commercialization drives growth, and failure at the point of commercialization is costly. Yet pulling the plug on a potential new product—even a seriously flawed one—is often fraught with conflict and can be a political minefield. Product commercialization decisions are among the riskiest decisions companies face and, despite companies’ best efforts, many fail to meet growth objectives.

To successfully navigate these risky decisions, businesses must seek the right level of insight into markets, customers, and competitors. Newry has helped many companies generate the insight they need to make excellent product commercialization decisions and develop solid strategies for new products. By investing to achieve the right level of external insight for high-risk commercialization decisions, companies can substantially improve their chances of success, strengthen overall portfolio performance, and consistently achieve profitable growth.
Appendix 1: Evaluating the Commercial Potential of a New Product

Situation: A startup company was commercializing a new “green” technology, which offered a potential step-change in the performance of a widely used product. They approached our client, a large player in materials and components, as a potential partner/buyer. But rather than accepting the startup’s optimistic market scenario, our client sought Newry’s independent assessment of the product’s technical and commercial potential.

Our challenge: Determine the market potential of a new energy-saving architectural material and key barriers to its adoption

Client investment: 2 percent of the expected investment in the new product

Project description: The new material reduced the heating/cooling load on commercial buildings. In view of the burgeoning “green” movement, this “smart” building material appeared to have broad market potential.

Newry built an independent perspective on the product’s market potential, expected adoption rate, and customer value. After careful analysis of buying processes, we interviewed leading-edge architects, the key influencers in the complex architectural glass/glazing supply chain, who will drive mass adoption of new windows. We targeted the European market—an historical leader in implementing energy-saving technologies and a hotbed of architectural thought leaders—as the most likely “early adopter” worldwide.

To project adoption and timing, we conducted over 75 in-person interviews with architects, installers, and suppliers of architectural materials. We found that, although owners would like to control the solar load in commercial buildings, there were multiple barriers to mass adoption of this energy-saving material: its aesthetic appearance, technical limitations, need for integration with other building systems, and high manufacturing costs. We estimated that market potential would increase significantly as the startup addressed each of these hurdles (Exhibit 1),

In addition, Newry determined how much manufacturing costs needed to be cut to become competitive and how those cost reductions could be attained. Calling on leading-edge technology experts, we created a side-by-side cost comparison for existing energy-efficient materials vs. the new “smart” material—which showed that fundamental changes were needed in the coating and deposition process (which was scale-limited) in order to build scale and cut costs enough to spur mass adoption.

Result: At Newry’s recommendation, our client did not invest in the start-up or its advanced “green” building material. With the benefit of the market insight we provided, they are monitoring aesthetic and performance improvements as well as alternative manufacturing processes that could reduce costs significantly. Armed with insight into the role of architect and user perceptions, our client moved on to consider the impact of changes in energy costs, improved technical performance, and owner perceptions of aesthetics.
Appendix 2: Identifying Attractive Platforms To Focus Acquisition Programs

Situation: A large consumer hardware business serving new construction and retrofit residential markets faced several years of stagnant growth. The new business team sought acquisitions that would expand its product portfolio and provide rapid growth. After a year spent crafting an acquisition platform to guide their effort, they had assembled a long list of products to explore. However, they feared that their platform, and the products and companies within it, were haphazard and incomplete rather than systematic and strategic.

Our challenge: Define a more robust acquisition platform and an approach to quickly identify attractive products and exceptional companies to pursue

Client investment: 1 percent of the acquisition budget for Year 1.

Project description: The client’s list of targets included both products and technologies; some items overlapped, and others had been left out. Taking a step back from this list, we worked with our client to articulate their acquisition criteria and platform requirements (e.g., product types, company size, geographic location, and ability to leverage existing engineering and development capabilities). We then defined clear and comprehensive product platform including three product domains (e.g., emissions filtration) encompassing twelve systems (e.g., particulate scrubbing) and numerous products and services within each system.

Drawing on our client’s acquisition criteria, we populated the platform with over 500 companies supplying these products and services. These potential acquisition targets included a few large, publicly traded players, but over 95 percent were private.

To confirm the revenue and profit potential of the platform, we analyzed the relative performance of these companies. Given the dearth of financial data on private companies, we based our analysis of their performance on productivity, as measured by revenue per employee—in our experience, the best available proxy for profitability in these firms.

Our analysis confirmed that the overall platform offered sufficient total revenues and profit pools to support the client’s growth objectives for its acquisition program. To make it easier to spot attractive targets within the platform, we also identified the systems and domains with the highest productivity (see Exhibit 2).

To help our client pursue acquisitions within this broad and comprehensive platform, we identified:

- **The most attractive systems and product domains**, based on the relative concentration of highly productive (profitable) companies
- **Specific acquisition candidates**—within the most attractive products and systems, based on their performance, size, and products.

Result: In addition to helping our client define a more robust platform, the Newry team identified several products and domains that appeared attractive, which our client has pursued. Our client used the new platform to prioritize potential acquisition candidates more easily and compare them more rigorously, and to present to top management a clearly defined acquisition platform and strategy to enter new markets.
Appendix 3: Accelerating Adoption of Newly Commercialized Products

Situation: A large industrial company had recently launched a novel chemical processing technology with an apparently substantial advantage over existing technology. However, after a couple of years in the marketplace and with a major funding decision looming, the company found that customers in its targeted chemical segment were not adopting the new product. Consequently, top management was concerned that they had overestimated demand and that the new product would not meet their growth expectations; they felt they may need to adjust their product strategy and scale back investment in the business.

Our challenge: Validate demand and expected adoption for the new product in the chemical industry—a diverse multi-trillion dollar industry with many chemical segments that the product could address—and target specific customer groups where the client could act to speed customer adoption.

Client investment: 3 percent of the near-term business investment and projected profit improvement.

Project description: Our client had introduced its product to a segment within the chemical industry which, they thought, would offer the highest potential. To build an independent estimate of market potential, Newry focused on multiple high-potential specialty chemicals, representing a range of price points, chemistries, and end markets. We identified 37 of these end markets (see Exhibit 3) and 2,200 chemistries within specialty chemicals. The Newry team interviewed a wide range of experts to pinpoint five chemical segments representing a range of applicable chemistries and end-product volumes. Within these five segments, we closely examined demand, high-potential customer groups, and options for accelerating customer adoption, and drew three conclusions:

- Our client had significantly understated the market for its technology. To build a more realistic estimate of demand, we focused on total throughput in process steps where the new technology was applicable—15+ steps for more complex compounds such as pharmaceuticals—and translated the results into total unit demand for our client’s product. This estimate of demand was based on the new technology’s applications in specific chemical reactions.
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• Certain chemical reactions were more likely to adopt our client’s product. To help our client accelerate adoption, we targeted specific chemical reactions in which their technology would create the greatest customer value. Our interviews revealed that specialty chemical manufacturers adopt new manufacturing equipment to maximize the yield and productivity of individual reactions, not the entire line. The incumbent technology made certain reactions difficult and costly, and our client’s technology offered major savings for many of these problem reactions. To identify market segments where these savings would most likely drive adoption, we identified individual reactions within an end product, the end product’s average selling price, and the reaction-specific capital expenditure as a percent of the total capex for the end product (see Exhibit 4). We identified specific reactions and industry segments able to capture the new technology’s value and thus most likely to adopt our client’s product.

Exhibit 4  Analysis Of Individual Reactions

• A major barrier was blocking adoption of the client’s technology, and they were in a position to overcome that barrier. After more than 100 interviews with potential customers, we found that process technologies (like our client’s) are spec’ed by product development rather than manufacturing process development, and there is a gap between the two in product scale. However, our client’s product was uniquely positioned to overcome this hurdle. With slight modifications to its product, our client could speed customer adoption and establish a market position.

Result: This effort provided Newry’s client with: much more reliable and detailed insight into market potential by segment and reaction; target reactions, compounds, and customers for which its technology is most valuable; and a plan of action to address barriers to adoption. In addition, Newry’s work in the field identified specific target customers and leads for the client’s sales teams.
Appendix 4: Responding To A Competitive Threat

Situation: After a considerable product development investment, a large industrial component supplier introduced the product and found itself consistently losing bids to the market leader. Management became concerned that their new product had a significant competitive disadvantage, and continued funding for the business was in jeopardy.

Our challenge: Determine the source of the product’s competitive disadvantage and recommend ways to grow the business.

Client investment: 2 percent of expected near-term profit improvement

Project description: Our client’s target market was a small group of OEM customers with large unit volume requirements. Its recently commercialized product had failed to win bids at several of these OEMs, and they had heard that their pricing was too high. The client assumed that its European competitor—the market leader—had a cost advantage that stemmed from manufacturing scale, reflecting the commonality of parts across its many product platforms. In addition, our client felt that its own product design was unlikely to realize significant cost reductions as production volumes increased.

To build its market share, Newry’s client asked us to build a perspective on the competitor’s cost structure relative to their own, in the context of its broader product and business economics and strategy—a perspective that is essential to drive effective action.

We began with a product teardown—a detailed, side-by-side analysis of the two products—to gain insight into materials choices, manufacturing processes, and product design trade-offs. Supplementing this information with extensive primary and secondary research, we estimated the competitor’s total costs and cost structure, in parallel to our client’s. We found that our client had a 9 percent cost advantage, despite its much lower production volume: the competitor’s costs included significantly greater corporate overhead (see Exhibit 5).

This cost differential threw a new light on our client’s loss of large OEM bids. After interviewing many current and potential customers, along with other supply chain participants, we concluded that the competitor’s business and pricing strategy focused on winning large OEM

Exhibit 5. Side-By-Side Fully Loaded Costs

<table>
<thead>
<tr>
<th>Variable Costs</th>
<th>Client</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>$279.98 (58%)</td>
<td>$442.56 (57%)</td>
</tr>
<tr>
<td>Direct Labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance Materials</td>
<td></td>
<td></td>
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<tr>
<td>Variable Natural Gas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Variable Costs</td>
<td>$709.79</td>
<td>$775.17</td>
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</table>

<table>
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<tr>
<th>Fixed Costs</th>
<th>Client</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Labor</td>
<td>$144.51 (20%)</td>
<td>$147.73 (19%)</td>
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<tr>
<td>Salaried Labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Natural Gas</td>
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<tr>
<td>Electric</td>
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<tr>
<td>Depreciation</td>
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<tr>
<td>Taxes &amp; Insurance</td>
<td></td>
<td></td>
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<tr>
<td>Office Supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Services and Other</td>
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<td></td>
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<tr>
<td>Total Fixed Costs</td>
<td>$533.71 (12%)</td>
<td>$164.88 (24%)</td>
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<table>
<thead>
<tr>
<th>Divisional/Corporate</th>
<th>84,364 Units</th>
<th>526,000 Units</th>
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<tbody>
<tr>
<td>+ 9%</td>
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</table>

| Client Company B        | $709.79     | $775.17      |
| + 9%                    |             |              |

$709.79 + 9% = $775.17
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accounts, pricing below cost if necessary, in order to drive volume. These large accounts were about half of the market's unit volume; by securing them, the competitor could operate its plants at full capacity and fulfill one of its corporate objectives—to provide continued employment (the competitor was a privately held corporation). For the other half of the market (the vast majority of customers), the competitor’s average price was much higher than its price to the big OEMs. In addition, the smaller customers were dissatisfied with the competitor’s lead times. Close analysis revealed that the competitor’s manufacturing facilities were close to capacity, which meant that they had only limited ability to cut their costs by gaining additional scale.

Result: Newry found that, because of the market leader’s cost disadvantage and high prices to non-OEMs, our client could sell to those customers without cutting price, and the resulting increase in volume would increase their cost advantage over the market leader. We also identified additional cost-cutting opportunities based on product redesign and sourcing improvements that would further reduce our client’s costs. As a result, Newry’s client was able to increase its prices and margins, and take advantage of the competitor’s problems with customer service.

Our consultants have extensive experience in field data collection, rigorous problem-solving, carefully tailored analytical tools, deep understanding of product economics and market behavior, and superior responsiveness to client needs. We come from many different backgrounds – including business, industrial, engineering, finance and economics, top-management communications, and public policy. All Newry consultants share a strong professional ethic: tenacious pursuit of information, rigorous analysis and superb strategic communication. These traits and our unshakable dedication to client service are what provide unique value to our clients. We would be happy to discuss how Newry could help your firm address their product commercialization strategy needs.

Call us at 440-808-3839 to learn more.

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