

# ANONYMOUS

France

From a niche to the mass market an OI case which failed due to a shortage of skills and resources

## Executive Summary

This is the case of a company working in the contact lens sector which was founded in 1980 and purchased in early 2006 by a former investor who, in the light of fierce competition in the sector, decided to invest significantly in introducing new technologies and positioning the company in a wider market.

Innovation is the main driver of its business growth which allows the company to compete at international level (EU and USA). To launch a new solution, the company decided to form a consortium made up of a compatible UK manufacturing company and two French and German research centres and to apply to an EU R&D grant scheme for developing a new manufacturing process leading to a cheaper and better performing solution. This case demonstrates how collaboration among large players, SMEs and R&D institutes that combine technical and industrial knowledge can lead to the creation of promising products. Nevertheless, commercial success depends on a good understanding of the market conditions and on the capacity to deploy a sound marketing strategy from the start.

CASE N° : FG04

SECTOR: MANUFACTURING

TECH INTENSITY: HIGH-TECH

LIFE CYCLE STAGE: RENEWAL

INNOVATION VECTORS: PRODUCT,  
PROCESS

01 PARTNERS: PSR, LARGE  
CORPORATION

KEYWORDS: Contact lens,  
presbyopia, manufacturing  
agreement with a big player,  
failure

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## BACKGROUND

The company, which was founded in the early 1980s, was using existing/outdated technologies and in gradual decline when it was acquired by a former investor in 2006 on the retirement of the founder. Driven by his thrill of entrepreneurship and his high commitment to success, the new owner focused all his efforts on innovating the product portfolio and modernizing the process. Owner of a few international patents and a partner in several R&D collaborations (funded either under national/EU grant schemes or self-funded), the company was able to differentiate its offer (focusing also on new added value services), while gaining international recognition through partnerships in the US, Japan and Europe (47 employees, annual turnover of €6.5 million) and was awarded with a prestigious label by the French Ministry of Industry.

In the future, the company will continue to be involved in innovation projects (they already have in the pipeline several innovations both in terms of new products/services and process improvements such as automation 24h -7/7) with a view to consolidating its position and growing its market. In keeping with its business strategy, the company will narrow down its strategic collaborations with international partners to those based in countries where they wish to achieve market penetration. In particular, they aspire to continue their close cooperation with healthcare professionals, research centres and universities and proceed with the local registration of their key products in target developing countries, i.e. Asia/China.

## INNOVATION CHALLENGE & MARKET OPPORTUNITIES

The contact lens market is highly competitive; in addition, the industry as a whole is highly concentrated in the hands of a few large manufacturers. A large number of SMEs are also working in this sector and the entry of some new players is likewise predicted. Although Asian players are the ones which are expected to grow fastest in the near future, the leadership is still held by Western European companies which are focusing on

quality and R&D for new solutions rather than on reducing prices. In the presbyopia market segment most of the players, such as this company, provide custom-made solutions, hence product innovation is a must for all of them. Set against this competitive scene, at the time the company was looking for new product innovations, financial constraints prevented their development, thereby delaying the decision to start new projects. So the idea to set up a consortium for an EU project aimed at developing a promising innovative technology for the mass market, together with a large manufacturer and leading research centres, seemed to correspond to the company's needs. The accumulated knowledge of the company and the other partner organizations was evidence of a strong consortium, which set the basis for a promising innovation project.

The development a new product to be scaled up at international level had been considered by the CEO as a big opportunity for further growth in the market where the company was already selling custom-made products (moving from a niche to the mass market). Given that the new solution addressed presbyopia, a very common health condition among people over 50 and increasing steadily due to the ageing of the population, and considering that the material (hydrogel) seemed to be effective in correcting vision, the project idea appeared to fulfil all the prerequisites for being promising (a huge potential was predicted for the mass market in the US and Europe). The CEO was convinced that developing a new process could increase their market share, encouraging him to set ambitious financial and market share goals (€2 million of sales).

## OPEN INNOVATION TRAJECTORY

### Concept development

The initial project idea was selected having in mind the knowledge of the market and the technical specialization of the company and the consortium (a compatible UK manufacturing company and French and German research centres respectively in charge of the clinical and technical studies). The concept was designed by the company according to its know-how of the presbyopia market and once the idea was defined, they identified the possibility of obtaining public funding and built up the consortium by exploiting the contacts in

their own network. Financial investors and existing customers (medical doctors) were also involved in this phase. While investors were difficult to involve but helped to make a significant contribution to the concept development, the second group turned out to be the opposite (easy to engage but not providing valuable inputs).

#### The development process, IPR and competition strategy

Thanks to the development of a new process to manufacture the new product (a high-quality and better performing contact lens that could correct the vision of people with complex cases of presbyopia), it was also possible to obtain a cheaper product, compared with their competitors, while at the same time offering superior medical features in terms of comfort (a key feature for customers). A crucial step in the development had been to find the best combination between the new adapted design, the material properties and the emerging production process. Cooperation with the other project partners was fundamental for solving all these issues. The role of the manufacturing company was particularly crucial in this phase, while thanks to the R&D centres a full clinical study was carried out with the support of eminent specialists. Another critical element was the timing. In order to compete with the other players in the market it was necessary to speed up the process, but this was not possible due to a lack of resources (both human and financial).

Thanks to this project, the company was able to apply for a worldwide patent (not granted due a lack of innovativeness) and to start collaboration with a suitable manufacturer. A Non-Disclosure Agreement was signed with the partners including the manufacturer who, after two years of collaboration and having been acquired by a larger player, did not accept to sign a prolongation of the production agreement. This followed a decision taken by its Board of Directors to stop the production of this technology and license a technology co-developed with another market player in the same field of application.

The SME's competition strategy was to distinguish its offer as a high quality product and enter the mass market by transferring this new technique. However, this goal was not achieved. Launched in early 2012, the new product initially allowed the company to

grow its market by widening its client base and increasing turnover. But despite all its efforts, the company did not meet its targets due to its unfamiliarity with the mass market context and a lack of appropriate skills.

#### Commercialization and follow-up

After the product launch, the company sold the new products for two years (€500 000 of turnover); it faced the following main challenges relating to insufficient capacity in:

- manufacturing: the production was outsourced to the project partner who was then acquired by a US company who decided to "abandon" this business line and instead license the technology of another market player (technology considered more interesting and better aligned with their core business);
- sales: tackling a new mass market required a significant sales force which implied relevant resources and dedicated marketing skills which the company did not possess. (The company could not afford to hire the necessary skills since they had not achieved their financial goals.) In addition, during their first "in situ market test" they discovered that few distributors and customers were ready to add this new product to their portfolio. Based on this experience, the company realized that it was not yet ready to operate in the mass market and preferred to continue with their traditional custom-made products which were more in line with their core business and skills.

As mentioned above, setting up a sales force to access a larger market requires the appropriate skills. To reach the target customer groups, the company used the classic channels: internal sales force in France (opticians), distributors for export (with few partnerships secured). However, the product addressed a mass market which required a structured sales department capable of setting up a full distribution chain to cover each geographical area. Their unmet financial targets (€500 000 of income against €2 million forecast with the support of the UK partner who was already active in the target market) created cash flow problems which prevented the recruitment of marketing and sales staff to reverse the situation.

After the end of the project, the company signed an agreement with the UK partner manufacturing the product. Given that the manufacturer put a stop to the collaboration and the financial targets were not met (causing a negative impact on the cash-flow), the company decided to abandon the commercialization of this new line. The market showed a limited interest in the new solution (large companies were already offering good products) and few players decided to add it to their portfolio. Due to all these reasons, the CEO decided to refocus the company's strategy on their initial core business: custom-made contact lenses.

## BUSINESS IMPACT

Although the outcomes are no longer commercialized, this open innovation collaboration helped the company to acquire:

- increased initial turnover (€500 000 per year);
- new know-how and knowledge about how the mass market works.

This fairly negative experience (unmet financial targets, failed collaboration with the UK manufacturer who invested in a competing technology) had a strong impact on the company's attitude towards future open innovation projects, with the CEO not wishing to repeat the adventure. The company raised its awareness of the key elements to be taken into consideration when interacting with a large company, such as reliability and clear business strategy. In addition, they also gained new skills and accessed a new market with an increase of +2.5 % market share in the first two years.

## LESSONS LEARNED

This case shows how difficult it can be for a small company to try to move from a niche to the mass market without having the necessary human and financial resources. To interact with larger partners, as in the case of manufacturing companies, requires a strong management with experience in dealing with this task and able to work out a plan B in case of difficulties. The project demonstrated that collaboration among large players, SMEs and R&D institutes can really lead to good and

promising products, thanks to the combination of technical and sectoral/market knowledge. But the exploitation of this know-how should be carefully designed, by taking into account the imbalance in the negotiating position that sometimes exists between small and large organizations and having a clear overview of all the necessary pre-conditions and resources for being successful. Accessing public funding for new innovation projects is never a "zero cost experience" and even more crucial, money is not the most important issue.

### Main lessons learned:

1. To move from a niche to the mass market requires that the SME has the appropriate resources and a strong marketing department able to design the proper commercialization strategy (external support in this transition phase could have been useful).
2. The identification and analysis of market opportunities as well as of the challenges and barriers and planning a remedial action plan at an early stage when moving into a new market can increase the chances of success and prevent the venture failing.
3. Confidentiality should be given special consideration within public funded projects (complementing the consortium agreement with other legal instruments for specific items, if necessary).
4. Outsourcing the production to large players implies the ownership of international IP and a solid agreement (e.g. non-competition clause).
5. An in-depth assessment of a company in terms of skills/resources/robustness is needed prior to its embarking on the exploitation of new products.
6. A continuous monitoring of emerging new technologies/products as well as the engagement of customers in the development phase could have reduced the risk of market failure.