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Article III in a series

An Open Innovation Primer

This is the third in a series of "how-to" articles for getting value added results with an open innovation approach to research and development in the food and beverage category. Written from hands on experience and a strong knowledge of the open innovation space, the first article covered both how to get started and how to set the strategy. The second article covered soliciting proposals for external research partners. In this article we'll discuss the process of *Filtering proposals and getting to contracts with research partners*. The remaining article will address managing a network of external partners including weeding and feeding.

About the Author

Carlos Barroso is a highly experienced, international Research & Development Executive in consumer products, with deep experience in Foods and Beverages. He has built an extensive, open innovation network with external research partners across universities, suppliers, consultants, and small entrepreneurs located around the world.

Carlos is the Founder and President of CJB and Associates, a high level R&D consulting firm specializing in Product Development for the Food and Beverage category. CJB and Associates manages open innovation projects, conducts Innovation Assessments, creates Quality Assurance programs, and facilitates innovation and strategy ideation sessions as well as helping with high level R&D strategy. He is co founder of Tastemakers Research Group, a full service consumer product testing company.

Prior to starting his consulting firm, Carlos was the Senior Vice President for R&D for PepsiCo's $27 billion global food and snacks business. Before joining PepsiCo, Carlos was an Associate Director of R&D at Procter & Gamble. In addition to R&D he has Market Research experience in consumer product testing.

Filtering proposals and getting to contracts with research partners

This article will discuss the process of filtering proposals from prospective external research partners and negotiating contracts for research and development or intellectual property. The content is mostly drawn from personal experience with CJB and Associates and corporate experience as the SVP, R&D PepsiCo Global Foods.

You have carefully formulated your strategy and have crafted your Requests For Proposals (RFPs). They were sent out and now they are beginning to come back. Welcome to Open Innovation! Now what? How do you winnow down the proposals to just a handful that you are willing to pursue? The following suggestions offer ways to manage and ultimately select a few proposals for serious consideration. Of course, how you choose to apply these best practices will depend on the number of RFPs you receive and how large the challenge of the RFP is. These suggestions are based on experience with relatively challenging problems and a number of proposals ranging from about a dozen to well over fifty. More straightforward or general requests may elicit many more responses while extremely narrow requests may results in just a few or none at all.

Provide a Request For Proposal (RFP) template for a common format.

Most people who respond to proposals have their own format they are used to and prefer. That is exactly why it is helpful for you to specify the format and even send out a template for them to follow. You will have a trough task sifting through many proposals as it is. Having the proposals come in with a range of formats will only make it harder. The advantage of a prescribed format is you will be able to make sure the prospective research partners cover the areas that are most important to you for making a fair evaluation. In many cases the proposers have put in a lot of hours to thoughtfully respond to your RFP. It's only fair that you respect the time and effort they put into the response by being as upfront as possible what you will be looking for.

There is no "best" template for an RFP. Try to keep it simple by limiting the information requested to what you really need for evaluation but make sure you include what is needed. A typical format will include:

- The title of the RFP
- Submission date
- Contact information
- Title of the respondent's proposal
- Acknowledgement that what is being sent in the proposal is non-confidential (it's a good idea to ask for a signature).
- Proposed approach including experience with similar projects
- Proposed Budget
- Brief Bio of the person or persons who would be on the project
- Pictures, videos and prototypes (as requested and available).

Actual examples of templates can be found on various websites including NineSigma (www.ninesigma.com)

Use a system to track proposals

As the proposals come in there will begin to be a lot of moving parts to track. If you don't have a good project manager on the team consider borrowing one or using a consultant to help. Many of the proposals will come with questions from the respondent and most likely from you as you look over the proposal. Some respondents will want to execute a Confidential Non Disclosure Agreement. If prototypes are involved there may be shipping tracking numbers or requests to reimburse expenses of making prototypes. If Universities are involved there may be requirements to publish the work. All of this needs to be managed and tracked on a timely basis so your team knows what tasks need attention at any given time.

Tracking is easier with a standard template. With a template you can create a simple spreadsheet with each row being a proposal under review and each column corresponding to the sections of the template. In addition to the section from the template you can add columns for things like pending questions, phase I deliverables, and stage of the proposal (e.g. is it a concept with a proposal for research to be conducted or is it a ready-to-commercialize proven technology).

Example of a template used for tracking responses

	Value to Company	Likelihood of Success	Alternatives	Questions and Concerns
Solution Provider 1				
Solution Provider 2				
Solution Provider 3				
Solution Provider 4				
Solution Provider 5				

Use success criteria for the filtering.

Going back to the original RFP there should have been clear success criteria. Use those success criteria to grade each proposal. You may have different weights for the scores against the different criteria. In addition to the success criteria you should consider a balance of risk and reward. In those rare instances where the biggest upside is a relatively sure thing the decision is simple enough. In the majority of cases you're going to have more risk or a lower chance of success with the bigger payouts. Likewise, the lower risk proposals may be well worth doing but will likely have a lower payout. Payout can be measured in different ways. Ultimately, payout will be the impact on the business. For example, you would expect strong results from a high degree of competitive insulation and assign a high weight to that score accordingly. Similarly, if the market category were large that would make an acceptable return more likely.

Talk with the Prospective Partners

After an initial screening we can typically get the list of candidates down to a dozen or so. Then, we will schedule 30 minute conference calls with them to give them a chance to answer questions. Be prepared to answer questions from your prospective partners as well. They will typically try to assess how interested you may be in their solution and will also look for common ground to establish trust. We will always ask for a confidentiality agreement and most research partners will ask that it is a two-way agreement to protect their information as well as ours. If your legal team has not had experience with open innovation they may be uncomfortable with two way CDA's. One way to manage this is to restrict the information flow to just a few key team members so the company is protected from unintended sharing of confidential information. In some cases, CJB and Associates has acted as the proxy so the client will be well protected in case they are accused of using information from a prospective supplier.

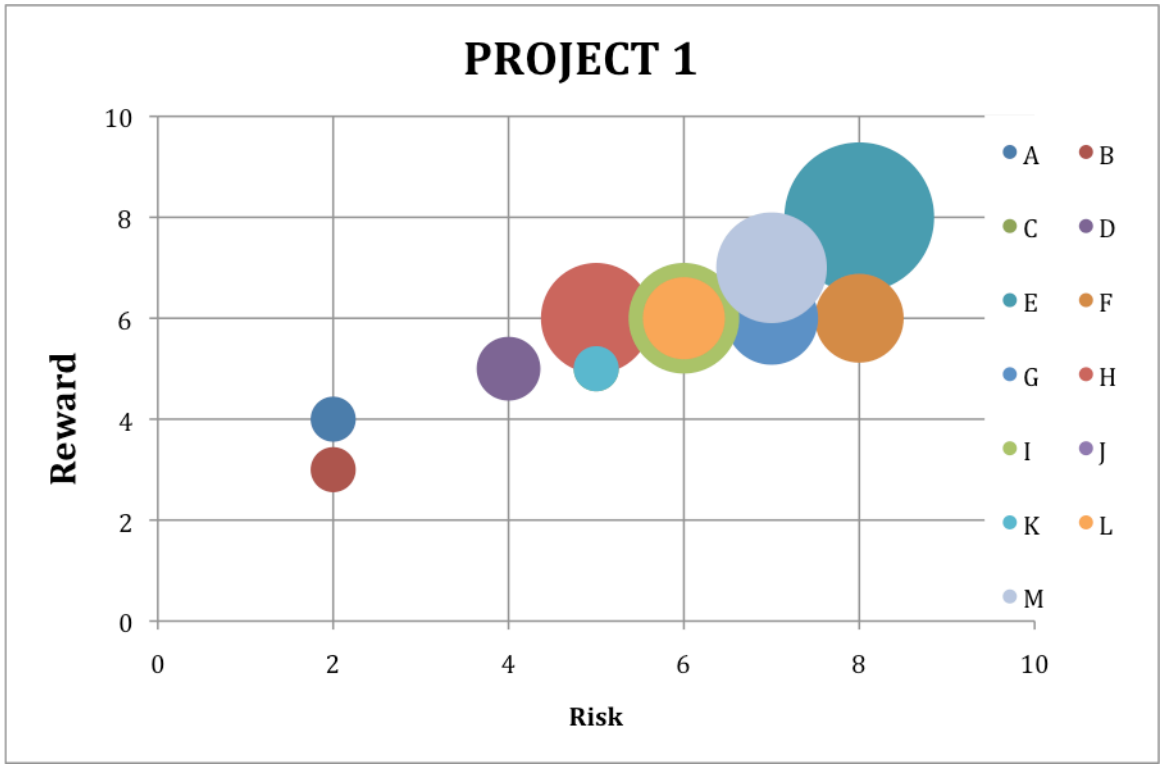
We will typically visit several of the candidates face-to-face. The face-to-face visits offer the chance to go much deeper into the technology and capability of the team. Even if we don't select the partner that we make a visit to we will sometimes go back to them with another problem if we were impressed with their capability. This also builds trust with the researchers and often results in them offering other leads expanding our network of potential solution providers.

Plot risk vs. reward

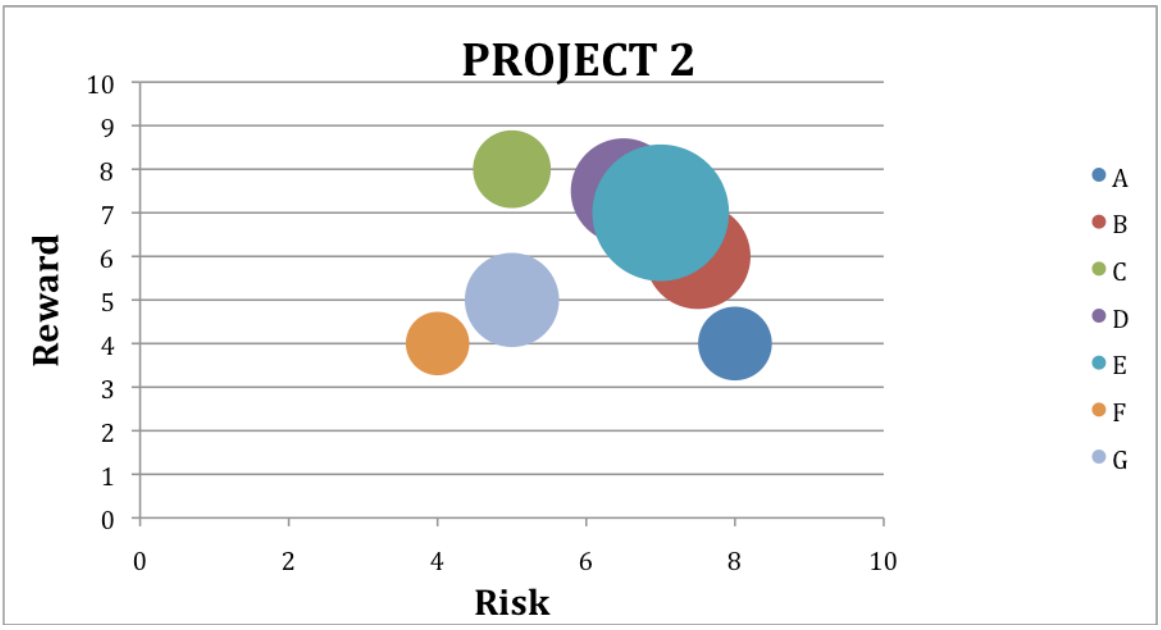
A simple way to plot risk vs. reward is shown below. These examples are based on two projects for a Fortune 100 company conducted by CJB and Associates in 2010. The specifics of the proposals are hidden for confidentiality. The risk and reward scores are an average of scores on a 1 to 10 scale from the project

team members. This is a very simple exercise and only takes about half an hour to conduct as a team. Most portfolio analyses involve NPV calculations and while effective often require more time and effort than needed at this stage of the filtering process.

In this these examples size of the bubble reflects the cost of the proposals (A to M). The first project is a good illustration of how the higher reward projects usually have higher risk and in this case tend to cost more.



We don't always see such a textbook plot. We had another project with the same company and got the following risk vs. reward plot:



In practice, as you might have guessed from the plot, we advanced proposal "c" as it offered the highest reward for the lowest risk.

Protecting confidentiality

We already discussed the need to engage in Confidentiality agreements before you begin a dialogue with a candidate and the likelihood that they will ask for a two-way agreement. In our experience, the researcher is usually wearier of sharing information ahead of a contract than the client company. There is often a fear that a large company will use the information from a small solution provider without engaging them in a contract. Therefore, in addition to the legal contracts that are signed, we try to establish a rapport emphasizing the integrity of the project team and our sensitivity to the concerns of the research partners.

Establishing the principles of confidentiality up front makes the drafting of a confidentiality agreement a formality. We have found too often that confidentiality is entirely delegated to the lawyers. We cannot emphasize enough that it is up to the project team to establish and respect the terms of confidentiality with prospective partner. Good lawyers understand this well and will welcome the leadership from the project team . . . and for good reason as it makes their job a lot easier when the parties understand and agree ahead of time to what information is confidential and how it will be handled.

Negotiating a successful research contract

By now, you have screened the proposals, had phone conferences and perhaps some face to face visits. You have the short list of which solution providers you want to engage. It's time to draft a contract. First, if you haven't had a face-to-face visit we strongly suggest one. It can be at your home base or at the site of the provider. As with the confidentiality agreements, the project team, not the legal team, should take the lead to establish the broad terms of the contract. Points to consider include:

- What are the deliverables and milestones?
- How will progress be communicated and with what frequency?
- Are there gates to release additional funding from the agreed budget?

- Is there a success fee based on the results?
- If it is a university when will they be allowed to publish the research and under what terms?
- What would failure look like and how would the exit from the contract look?

With these and other project considerations in hand the chances of getting to a win-win contract are good. With open and up front dialogue you have also begun to establish a feeling of partnership with the research provider. Indeed, to get the most from an open innovation project we like to behave with the solution providers as though they were part of the extended project team. We'll get more into how to do that in the next article in this open innovation series.