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

By Doug Ringer

The trend for at least the past 20 years or so has been to outsource production, and when possible the entire product design, to outside suppliers. While this may improve profit margins and time-to-market, there are many reasons for developing your own products instead of relying on outsourced design and production.

The reasons for developing your own new products are:

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

## 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, but the tendency is 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 strategy team has not accounted for these changes, then the company can lose revenue so fast that it may not 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 competitor. It's better to cannibalize yourself than to lose to the competition.

## Intellectual Property Builds Long-term Company Value

This is something that many firms ignore. They expend considerable energy ensuring they do not infringe on someone else's IP, but little is done to consider the long-term value that their IP creates for the firm.

This value comes 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 totality of these increases the value of the firm if sold.

## Continuous Development Keeps Pressure on the Competition

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

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

## Other People's Products are a Compromise & Possibly Compromising

It is alluring to the cash flow model to use products from other manufacturers instead of developing them internally. The higher per unit cost is typically compensated for by the lack of R&D investment. The faster time-to-market typical with many OEM/ODM models is an added benefit. If production volumes are low, and thus preventing economies of scale, the OEM route can be an advantage.

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 and decide to enter your market. Finally, the products you develop with an outside supplier 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 purchase 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.