

# Technology Assessment – Are You Doing It Right?

*Mildred A. Hastbacka and C. Gail Greenwald*

If you're involved in a technology-based business, chances are good that right now you are making investment decisions that will affect your business performance into the next century. You may be launching (or killing) a new R&D project, evaluating competing technologies for a new product idea, or acquiring a company that could catapult you to technical and market leadership. You may even be making decisions about the impact of technologies that haven't been developed on markets that don't yet exist.

How are you assessing these technologies and their likely business impact? And how certain are you that your assessments are right?

For each technology option there are of course many possible commercial outcomes. Within a company, the optimists (generally the technical people involved and the product champions) tend to see the upside, while the professional skeptics (generally the business managers) tend to see the downside. Naturally, each group considers itself objective and realistic. What they both need is an independently generated guide to technology assessment. Such a guide can provide a rational, supportable basis for investment decisions, which typically involve not only money but time and human resources.

With such a guide in place, all parties to a technology investment decision know the „rules“ of the assessment game, and every candidate technology is subject to the same rules. The ultimate question to be addressed is: How do the expected commercial outcomes stack up against established strategic and financial objectives? In this article we outline a framework for technology assessment and identify seven factors that determine high-quality outcomes.

## A Framework for Technology Assessment

In assessing business-critical technologies, we systematically evaluate the four fundamental attributes that determine commercial success: technical feasibility, implementability, marketability, and competitive edge. The results of our four-part assessment are both qualitative and quantitative. To perform this evaluation, we address a series of specific questions (Exhibit 1).

### Doing It Right

Say you've undertaken a technology assessment along the lines outlined in Exhibit 1. How can you be sure your results are right? Or, at least, how can you maximize the quality of the input and of the process itself, so that the quality of the outcome is high? Here are a few suggestions to improve the odds in your favor.

**Treat the outcome as a hypothesis.** For example, your assessment results might be something like this: „Yes, this technology is feasible. We plan to implement it because it uniquely serves the needs of our customers, for whom it represents real value. We expect to sustain our advantage over our competitors for at least five years, so that the returns meet our objective of 15-percent-per-year earnings growth.“

Now deliberately try to explode the hypothesis. Create scenarios that would invalidate as many aspects of the hypothesis as possible – scenarios that may seem extreme or implausible – just to test how robust the outcome is. Situations that may seem extreme today could rapidly materialize. Consider the example of chlorofluorocarbons (CFCs) and their virtual elimination. Given their pervasiveness just a few years ago and the vast CFC-based infrastructure among suppliers and users, the transition away from CFCs to alternatives has been astonishingly rapid. What if the elimination of chlorine is next? Such extremes provide opportunities for commercially useful technologies while threatening others with extinction.

Ask yourself: Will any of the scenarios constructed render your initial judgment wrong? If so, concentrate on those. Pick out the elements that invalidate your prior conclusion and conduct a risk assessment on them: How likely is the scenario? What needs to happen to make it real? What are your options for responding to it – before and after the fact?

A client asked us to conduct just such a risk assessment. This diversified company, which served industrial and automotive markets, was about to make a commitment to an acquisition. It recognized that the technology associated with the target company could „make or break“ its long-term attractiveness as an acquisition. Before contacting us, the client had raised and explored several key issues and had concluded that the target company was the leader in its field, enjoyed strong proprietary and differentiating technology, and faced no threat from obsolescence or competitive encroachment.

## **Exhibit 1**

### **Questions to Address in Assessing Technology**

#### **Is it technically feasible?**

- Is the fundamental science and engineering credible?
- Are there any technical fatal flaws?
- Can it do what it claims?
- Is there at least a conceptual route to a salable product or process?

#### **Can the technology be implemented?**

#### **Is there a market for it?**

- Does the technology fill or create any needs?
- Are there competing technologies?
- What is the sales potential?
- Is the timing right?

#### **Is there a competitive edge?**

- Are you ahead of competing technologies?
- Can you protect your technology?
- Can you maintain your competitive edge?

Our role was to provide an independent assessment. Using their conclusions as our „hypothesis,“ we searched for facts, trends, leapfrog technologies, and competition that could invalidate that hypothesis. What we found was surprising and valuable to our client:

- Entangled alliances among some industry participants, including the target company, called into question the target’s ownership of key patents and know-how.
- One of the alliances implied that a potential competitor had bought access to comparable technology and had made a new and strong financial commitment to market entry.
- A technology „co-leader“ existed who could possibly exploit to its advantage any market instability caused by a change in ownership of the target company.

The net result of our risk assessment was a „caution“ light. As a consequence of our deliberate probing for real situations that could modify its original, preliminary assessment, the client developed some „before the fact“ response options, including some new high-priority action items for the due-diligence phase of its acquisition plan.

#### **Do a best-case, worst-case, most-likely analysis.**

Any projection of sales volume, price, and cost associated with the commercialization of technology represents a range. Deliberately calculate the boundaries of that range. The estimates should not be guesses, and the most likely should not simply be the midpoint between the boundary numbers, but supportable and rational calculations. The range can usually be calculated from the same data used to develop the original estimates.

Such „probabilistic“ thinking was at the heart of our recent assessment of a family of new production technologies for bulk chemicals based on nonpetroleum feedstocks. Among the technologies used today for the production of bulk chemicals, there is no performance differentiation in terms of the end products produced. In contrast, the new production technologies we assessed promised to provide a lower-cost finished product.

The owners of the technologies in question had already proved their feasibility and had even gone so far as to set up a pilot plant. They were certain that the technologies could produce the products in quantity. In fact, they had already invested about 40 percent of the time and money needed to take the new technology to the commercial stage. However, they still felt some uncertainty about possible problems in scale-up and other hurdles. Their question to us was whether they should continue to invest in the technologies.

To answer this question we needed to analyze the potential production cost advantage that would be achieved by the new technologies and then determine whether that cost advantage was sustainable. We began by creating a base for evaluating the economics of the problem, then used the base to estimate the savings in terms of capital

and operating costs for the technologies being assessed and for competing petrochemical-based processes. We also evaluated levels of technical and economic uncertainties and projected trends in feedstock costs, capacity, and demand over 5, 10, and 15 years – through the life of the patents.

An important part of the assessment involved generating cost probability curves for each of the technologies and competing petroleum-based processes. The curves showed that the process based on the new technology was likely to yield a lower cost than that of the existing competing technologies. However, a considerable area of overlap suggested that the new process was not „breakthrough“ in its potential cost advantage and therefore would at best share the market with its rival incumbent technology.

Our treatment of the whole array of new production technologies in this probabilistic fashion revealed striking differences among them. Of the original family of new technologies, only a few showed a significant and sustainable cost advantage. The client has chosen those few for commercialization.

**Look for the disconnects in the analysis.** For example, if the technology appears to offer value-added potential to a broad array of end users and to have little competition – yet the estimated return on investment is low – probe for the reasons. Are economies of scale missing because of scale-up-related issues? Are commercialization costs high because additional people are needed for implementation? What do the answers to these questions tell you about whether or how to proceed? Might the technology be worth more to someone else – someone who has potentially lower production costs, someone who already has a commercial development team in place with ties to the target markets? If so, licensing or partnering may be alternative ways to extract value from the technology.

In some cases, the „disconnect“ is less subtle and more fundamental – e.g., you may not have chosen the best possible market. Addressing new markets is always risky to some degree, because they represent unknowns: unknown needs, unknown competition, unknown fit between market needs and what the technology offers. For example, one of our clients came to us with a CFC-alternative. The client’s product was attractive in a number of respects: it was nontoxic, had zero potential for ozone depletion, and was immediately available, with a long track record of successful performance in a number of niche applications. About 18 months ago, excited by the vision of a quick leap in sales based on a rapid displacement of CFCs in some high-volume heat transfer applications, the client invited us to work with them to identify customers. This should have been like shooting fish in a barrel, right? Not quite. A customer-by-customer exploration of the major markets for heat transfer fluids revealed that use of CFCs as heat transfer fluids had been discontinued in a majority of high-volume applications almost a decade ago. Furthermore, in the intervening years, a number of new or improved heat transfer fluids had been introduced that simultaneously filled customers’ needs for performance, cost, worker health and safety, and environmental safety. And finally, in most high-volume applications it cost less to use engineering solutions to heat transfer than to use our client’s product.

So the targeted market turned out to be inappropriate. Since then, the client has successfully focused on other markets, in which „in kind“ and „not in kind“ options for the customers are fewer and in which the client’s product represents good value.

**View the technology as a functionality.** Don’t think of it as a product, process, chemical, material, or intermediate. Customers buy functionality. A food company, for example, wants powdered soft drinks to remain free-flowing at all times of the year, in all sorts of transportation and storage conditions, and across all its geographic markets. So it buys anticaking agents. Of course, these agents have to satisfy other secondary performance and acceptance requirements, but in a very real sense the food company is indifferent to the chemical composition per se. What it cares about is the anticaking behavior. Similarly, suppliers of noise-control products and services need materials that absorb or reflect sound. The material is immaterial except as it meets the product’s primary and secondary functional requirements. The technology being assessed, therefore, must at some point be described and viewed in functional terms to identify the real customers and the relevant competing technologies.

Viewing a technology as a functionality can open up its range of commercial opportunities, as well as more sharply define categories of opportunities. A case in point is a client with a proprietary coated fabric technology whose first commercial success was in reusable surgical gowns. In terms of functionality, this client’s technology could be variously described as providing a blood barrier, providing a liquid barrier, resisting viral transmission, and retaining properties after multiple washing/sterilization cycles.

Our mutual objective was to identify new commercial opportunities. Obvious among these were extensions into the medical/health care market, but this market was saturated with competitive materials and approaches, including use of disposable goods purchased at low prices from multiple sources. We identified a new potential market area, however, by linking the technology’s functionality of „retains properties after multiple washing cycles“ to a newly identified need in the nuclear services industry for improved durability of rental maintenance uniforms. Indeed, the entire textile rental industry could value this client’s technology as a service-life-

enhancing, cost-saving fabric. The client is now working with a market leader in services to the nuclear industry to broaden the commercial applications of its technology.

**Know your real competition.** View the technology from the vantage point of a user, i.e., a customer. That viewpoint will help identify who the competition is. Improperly identifying your competition – most often by ignoring current or potential not-in-kind technology options – will lead you down the wrong path.

Viewing the technology as a potential customer would is the other side of the coin to viewing the technology as a functionality. The case of the proprietary coated fabric technology illustrates this point as well. A customer of barrier textiles in the health care industry has two choices: disposables or reusables. The client's technology was just one more offering in the reusable category, competing against other washable items and against a vast sea of disposable barrier materials. For a customer in the textile rental industry, however, the only fabric category that meets his or her basic need is reusables – disposables aren't an acceptable competitive offering. So by targeting this segment, the client shifts and narrows the relevant competitive issues to those that differentiate his technology from the other available reusables, e.g., durability and comfort. Our client's technology held out the promise of greater durability, providing the prospective new customer with reduced costs and improved margins.

**Increase your fact-to-opinion ratio.** Whatever the outcome of a given technology assessment, if it rests largely on „guesstimates,“ opinions, judgments, and/or extrapolated trends, revisit the input. Which of your guesstimates or opinions can be converted into facts? It may be necessary to run more experiments, to perform field surveys of potential customers, or to pull in new and complementary intellectual resources to improve the fact-to-opinion ratio in the assessment.

A commodity chemicals producer came to us looking for a way to deal with what was – for them – a waste stream. Like many other firms, this company hoped to reduce or avoid disposal costs and possibly even increase revenues by figuring out how its waste stream could be „upgraded“ to salable products. Our client's initial exploratory work suggested that commercial outlets could be developed for its waste product once it was transformed into an inexpensive mineral-based extender – a product used by manufacturers of paints, coatings, sealants, plastics, and tires and other rubber products. For some companies, this initial and general assessment would have prompted a broad-based sales effort designed to drum up inquiries and eventual orders. Instead, our client recognized that more facts could provide more focus, not only for its commercial development efforts but also for its plans to technically modify its waste stream processing operations. Side by side with our client, we systematically identified the needs, both qualitative and quantitative, of the target market segments and the extent to which our client's transformed product could meet those needs. This process revealed the most attractive target market – sealants – as well as the sales volume our client could expect over the next several years – information our client is now using as the basis for modifying its plants and gearing up for marketing.

**View the assessment as a whole.** In this article we have discussed our framework for technology assessment in terms of its discrete segments, and we have chosen „slices“ of case work as illustrative examples. But a step-by-step treatment of the technology assessment process should not obscure the reality that, in any given assessment, issues of feasibility, implementation, market potential, and competitive advantage are concurrent. Feedback loops inherent in the general framework can provide direction for transforming a technology that initially may seem to have limited market potential into one with substantial potential.

For example, a client asked us to identify the most promising industrial applications for a new acoustic material. The overall market is quite large (sound reduction is a good thing), and our client's material could fill some specific needs and wants among prospective users. However, the market for our client's material „as is“ was small because of the material's limited flame retardancy, a key attribute in most end-use applications. Prompted by these results to do a „what if“ iteration, we were able to segment the markets into distinct categories on the basis of need for flame retardant performance. We then linked each of these categories to a potential sales volume. In the process, we transformed a performance disadvantage that could have been a show-stopper into the basis for short-, medium-, and long-range plans to develop products for larger market segments. Through aggressive use of the feedback loops inherent in technology assessment, a challenge led to an exciting set of technical and commercial development goals, that our client is already starting to realize.

This example illustrates the almost constant interplay between the technical aspects of a technology and the market response to it. The assessment process needs to recognize this interplay and use market data to modify the technology. Within the technical component of an assessment, there is an analogous interplay between feasibility and implementability, e.g., you may need to modify the technology you plan to deliver to your customer in order to be able to produce it economically on a production scale. There is also an interplay between the market opportunity and competitive issues, e.g., a technology with fewer competitors should have larger market potential than one with many. Here the issue becomes one of building a fence around your technology to limit competition.

## **Conclusion**

The final test of a good assessment is linked to its purpose: providing a course of action for technology development and commercialization that is consistent with your strategic objectives. Your assessment serves that purpose if it provides you with a „map“ of both the technical and commercial landscape, uncovers promising commercial targets, defines supporting technical goals, and describes how to get there from here, both qualitatively and quantitatively.

*Mildred A. Hastbacka is a Senior Consultant in Arthur D. Little's Technology Consulting Section. Dr. Hastbacka has 20 years of experience in specialty chemicals and polymer applications and helps clients identify and assess new commercial opportunities/or technologies.*

*C. Gail Greemvald is a Vice President of Arthur D. Little, Inc., and a Managing Director of the Technology and Product Development group. Her areas of particular interest are technology evaluation and industry analysis.*