

**Evaluation of Industry Canada's (IC's) Support to the
Innovation and Innovation Commercialization Initiative (Evaluation Report)
of the Industrial Research and Development Institute (IRDI) Management Response
July 27, 2004**

GENERAL COMMENTS

The Evaluation Report documents what was accomplished as a result of the IC contribution and describes the expected future benefits arising from the activity. It considers lessons learned from IRDI experience and examines IRDI's strategic alliance with Georgian College (Georgian).

BearingPoint LLP states that the contribution enabled IRDI to service its small- and medium-sized (SME) clients until the agreement with Georgian was successfully negotiated. The alliance with Georgian will expand industry involvement with IRDI. This is crucial to IRDI's future success as a contract research and development (R&D) service provider to SME clients. The arrangement with Georgian is enabling the future viability of IRDI, without IC funding support, and the continuing delivery of R&D contract services to SME client companies.

The following are benefits arising from IRDI Georgian strategic alliance:

- a more stable financial underpinning of IRDI's ongoing activities;
- an opportunity to expand IRDI's service offerings to SME clients;
- an enhancement of IRDI's education and training potential;
- access to other forms of government funding for IRDI; and
- opportunities for international partnering and knowledge sharing opportunities.

This arrangement is also beneficial to Georgian as it enables the college to expand its research capacity and provide practical laboratory experience for its students.

RECOMMENDATIONS

Commercial R&D is very cyclical and, as such, there needs to be a cushion in place and flexibility in government assistance (e.g., in this case the re-profiling of the cash flow from three to four years).

Management Response—The Manufacturing Technologies Directorate (MTD) recognized this requirement. To support IRDI, MTD recommended an amendment to the contribution agreement that extended the project completion date by one year. The amendment was approved prior to the original project completion date.

Follow-up Action—No further action required.

Although IRDI has considerable experience working with SMEs, it would still be useful to carry out a marketing study specifically addressing the requirements of SMEs. In this manner, IRDI can place its focus where it is most needed.

Management Response—Action already underway.

Follow-up Action—At the May 17, 2004 Georgian/IRDI Advisory Committee (the Committee) meeting, management confirmed that a client survey would be conducted in 2004, in order to identify client's contract R&D service needs.

The most effective marketing is “face-to-face,” such as participation at trade shows and conferences because it is more personalized and client issues can be discussed head-on.

Another very important form of marketing is through credible information funnels, such as NRC-IRAP. Industry Technology Advisors (ITAs) can direct SMEs to organizations, such as IRDI, that have the facilities and expertise needed to carry out R&D activities. IRDI should do everything that it can to strengthen its ties with organizations such as NRC-IRAP (and we understand that IRDI is, in fact, making considerable efforts in this area).

Management Response—This observation requires qualification. Future marketing directions should be influenced by the client survey being conducted and should take into account the alliance with Georgian and their marketing expertise.

Follow-up Action—IRDI management acknowledge that trade fair participation is a more effective means of marketing IRDI's contract R&D services to prospective customers. Marketing plans for 2005 include attendance at appropriate trade fairs and conferences.

IRDI has, over the years, worked at developing a stronger working link with the NRC-ITA community. It regularly hosts information sessions for ITA's in Midland. New management at IRDI, as a result of the alliance with Georgian, is pursuing opportunities to work more closely with IRAP.

Timeframe—Ongoing.

Direct mass mailing is a very ineffective form of marketing because it is too generic, impersonal, and contact names are not always up-to-date. This form of marketing is therefore not recommended.

Management Response—Agree.

Follow-up Action—IRDI management acknowledged that mass mailing efforts were not achieving the desired results of attracting new SME clients. Use of mass mailing was abandoned early in the project.

The alliance with Georgian provides IRDI with an extended multi-functional resource base. IRDI's management can now call on Georgian's experts for advice about promotion and marketing strategies. This should result in a much stronger marketing message about IRDI's service capability. Management plans to hire a senior marketing individual.

Timeframe—Already in place.

SME companies generally require a bigger investment of IRDI time and effort, especially up-front. Too often, an SME will back out of the project once they understand the magnitude, which results in a loss of expenses incurred to date by IRDI. Cost recovery options should be considered for these situations.

Management Response—Agree.

Follow-up Action—Management is currently exploring a new pricing structure for contract R&D services to SME clients. Reinstating an annual membership fee is an option for consideration. This would in part help absorb the upfront investment of IRDI time and effort with SME clients.

The Committee has instructed management to take a more realistic/pragmatic approach when initiating contact with SME clients. While the technical services will still constitute the core of the service delivery process, they will look to have better controls in place to monitor IRDI's up front expenditures relative to actual and expected revenue streams. Staff will ensure that SME clients are more realistically appraised of the estimated costs and timeframe associated with innovation commercialization projects. This issue has been an ongoing challenge for IRDI in dealing with SME clients.

Timeframe—Ongoing.

As SMEs must continue to be efficient and innovative in order to compete in the global marketplace, IRDI must also remain on the leading edge of manufacturing technologies in order to be able to respond quickly, flexibly, and effectively to client needs.

Management Response—Agree in principal.

Follow-up Action—At a recent Committee meeting, management was reminded that trying to be all things to all people can be one of the biggest stumbling blocks to attracting and keeping clients. Management was encouraged to focus on the key strengths of IRDI's service offering when looking at new business opportunities with SME organizations.

While IRDI is often tempted to look at a multitude of new or emerging manufacturing technologies, “..in order to be able to respond quickly, flexibly, and effectively to client needs.”, it must be realistic in terms of the its ability to deliver efficiently and in a cost effective manner.

The Committee members counselled management in suggesting that IRDI must work toward perfecting its core skills, executing those skills in delivering a quality, timely service. Further, the Committee suggested that IRDI needs to evaluate the services it currently offers, grow and build its foundation on the core services that have market potential, before it looks to expand its services.

Timeframe–Ongoing.

Management Accountability–These project related recommendations are addressed in the ongoing operational plans of IRDI, as it relates to the Evaluation Report for SMEs in Canada Project.

The Manufacturing Technologies Directorate, Industry Sector, will take these recommendations into consideration, where they are relevant to any future project having similarities to the Evaluation Report.