

My Brain, Your Brawn

Big companies are on the prowl for small businesses that will hand over their best ideas in exchange for a piece of the action

By **SIMONA COVEL**

Decades after his father sold bagels and bialys on New York's Lower East Side, Gary Schwartzberg was convinced he had a product that could reinvent his family business. With a partner, Mr. Schwartzberg had developed a tube-shaped bagel filled with cream cheese -- an all-in-one, portable breakfast for the on-the-go crowd.

Running the Show

The Journal Report

He called it a Bageler and managed to get the product into supermarkets and schools in the Miami area, where his company, Filled Bagel Industries LLC, is based. But Mr. Schwartzberg, who made his first bagel at age 12 and later opened a chain of bagel shops in South Florida, couldn't achieve the wide distribution he thought the product deserved.

"I always believed this would be a huge item," he says, but "I went into supermarkets, and no one had heard of Filled Bagel Industries or Gary Schwartzberg."

Two years later, the products are known as Bagel-Fuls, and they grace supermarket shelves across the U.S. in bright yellow boxes. But they don't bear Mr. Schwartzberg's or his company's name. They are branded as a [Kraft Foods](#) Inc. product, and are filled with Philadelphia Cream Cheese -- the best-selling cream cheese in the U.S., which is also made by Kraft.

Small Backers

Mr. Schwartzberg and his five-person enterprise are part of a growing trend: small companies, or even lone entrepreneurs, that stand behind major brands' new products and technological enhancements. With competitive pressures mounting and a need for a continual pipeline of new product ideas, some of the biggest consumer companies in the world, including Kraft, [General Mills](#) Inc. and [Procter & Gamble](#) Co., are increasingly looking outside their own corridors. Working with a behemoth like Kraft or General Mills can bring exposure and distribution that an entrepreneur never dreamed of, usually in return for handing over autonomy, naming rights and marketing control, and a good chunk of the profits.

"We realize there's a very large body of innovators outside of Kraft," says Steve Goers, vice president for open innovation and investment at the Northfield, Ill., company. In 2006, Kraft launched a program and Web site that actively seeks out small businesses and inventors as partners for product development. "The world has gotten much smaller, and innovation is happening at small businesses," Mr. Goers says.

It's a significant shift for many big companies, long famous for guarding trade secrets and mostly looking within for new ideas. Entrepreneurs and inventors submit an average of 40 to 50 new ideas to Kraft each month through www.innovatewithkraft.com. Dozens of ideas, which may also be submitted in writing or by phone, have become new products or enhancements of existing products, the company says.

Mr. Schwartzberg, for his part, didn't reach out to Kraft on its Web site. He decided on his own to pitch his product to Kraft, he says, because of the brand strength of

Philadelphia Cream Cheese. That was the filling he wanted for his product. So, without any prior contact, he mailed Kraft a box of his cream-cheese-filled bagels and a proposal.



By coincidence, Kraft had been working on something similar, in an effort to market its cream cheese in the growing portable-breakfast category. But the company didn't have bagel-making expertise and hadn't been able to get the product just right. Mr. Schwartzberg, on the other hand, had a patented process for "encapsulating" the cream cheese in the center of the bagel without the cream cheese escaping during the baking process.

After Kraft executives tasted the product, they flew to Florida to meet with Mr. Schwartzberg. They formed an internal team to evaluate the marketability of the product. And they looked into the production process to make sure the bagels could be produced on a national scale.

Satisfied, the two sides hammered out a deal. Mr. Schwartzberg hired a local attorney to handle the details from his side and to make sure his idea was protected. He won't discuss the details of the deal because of a confidentiality agreement, which is standard in these types of arrangements. But he says it's structured as a strategic alliance and he "has skin in the game."

Kraft says it looks at new ideas on a case-by-case basis. Agreements may be structured as strategic partnerships, licensing arrangements or joint developments. Kraft says it encourages inventors and entrepreneurs to submit ideas for which they have patents or other proprietary protections. If an idea isn't protected and the company determines it isn't proprietary or protectible, Kraft says its policy is that the company could use the idea and pay the submitter \$5,000 or less. But Kraft says that hasn't happened yet.

Compensation for the entrepreneurs in these kinds of deals varies widely, depending on the idea and the company. Technologically advanced ideas that are hard to duplicate typically command more. In some industries, such as housewares, inventors might expect to earn 5% to 7% of sales, says Cheryl Perkins, founder and president of Innovationedge, a Neenah, Wis., consulting company that helps entrepreneurs and start-ups work with big businesses.

Other industries may offer lots of different structures depending on whether the invention is a new product, a product enhancement or a new technology tool, and depending on how developed the idea is.

Mr. Schwartzberg worked with Kraft to develop different flavors for the filled-bagel product -- including a plain bagel filled with strawberry cream cheese and a cinnamon-and-brown-sugar bagel filled with cinnamon-flavored cream cheese. He went along with Kraft researchers to focus groups, where he sat behind two-way mirrors, watching consumers critique his invention. He was concerned, he says, that Kraft would capitulate to Midwestern focus-group members who didn't like authentic, New York-style bagels. Much to his relief, Kraft didn't give in. After months of testing, "the product we have is very close to what we started out with," Mr. Schwartzberg says.

Kraft won't disclose sales figures but says the product has done well enough that it was recently launched in Canada, and a new flavor, blueberry, was recently introduced in the U.S.

Silent Partners

Not all small-business owners will be involved in taking a product to market after they strike a deal with a big consumer company. Some are silent partners, working behind the scenes to manufacture while the big business takes control of naming the product and marketing. That's the case for John Pigott, president and chief executive of Toronto commercial-baking company Morrison Lamothe Inc. Mr. Pigott called General Mills in August 2007 to tell the company about his pastry crust, and the two companies struck a deal that turned into Pillsbury Savories, pastry dough filled with flavors like cheese and spinach. The products, made by Morrison Lamothe in Toronto, landed in grocery

stores this summer. The company doesn't disclose sales figures but says, "Early response has been positive."

His timing was perfect: In spring 2007, the Minneapolis-based company had just formalized its call for innovative ideas from outside sources, an endeavor that company executives call General Mills Worldwide Innovation Network, or G-Win. The two companies declined to reveal terms of the deal.

Odd Couples

- **What's Happening:** Small businesses, entrepreneurs and inventors with great ideas are forming partnerships and signing other deals with big corporations that are hungry for innovative products. Terms of deals and responsibilities vary.
- **Is This Necessary?** Sometimes it is. A great new product can fail when a small company behind it lacks marketing muscle or financing. Name recognition, too, can be a problem.
- **There Are Risks:** Little guys need to protect their ideas with patents, if possible, and be smart about the partner they choose. Go with one that has clear goals for the product, or it may languish.

"We're a private company -- I don't need my name everywhere," says Mr. Pigott, a third-generation baker. "The consumer trusts the Pillsbury brand." Recently, he hired a small team of people from big consumer companies who understand the way those companies operate and may be able to help his \$160 million company strike more agreements with big businesses.

Peter Erickson, senior vice president for innovation, technology and quality at General Mills, says 300% more ideas have come into the company since it launched G-Win, which includes an online submission form.

Patent Protection

Entrepreneurs who approach a big company with an idea should tread carefully and protect themselves, says Innovationedge's Ms. Perkins. If an idea is patentable, she says, get the patent. If not, something as simple as a trademark or even buying an applicable domain name can help persuade a big company that you have an intellectual asset that's worth buying from you.

"Once you own it, it's yours. It's very intriguing for a company to acquire a bundle of assets, rather than just a patent," Ms. Perkins says.

Entrepreneurs should agree to work with a big company only if they're sure the company has a clear goal for their product or idea. If executives seem uncertain, or not very committed, "it's better to go where you have some pull," she says. In most cases, it's best to go with a company that has made a concerted effort to look outside for new ideas.

General Mills is so committed to the idea of open innovation that last year the company took a small equity stake in YourEncore Inc., an Indianapolis-based consulting company that matches big companies looking for ideas with retired scientists and engineers who have related expertise. YourEncore experts have been involved in new ideas on products as diverse as diapers and food products.

YourEncore works with 40 big companies, and the majority of those have signed on in the past two years, says Brad Lawson, the company's president and chief executive. Executives at big companies "are hearing more success stories," he says. "People are understanding that you can bring in external experience and innovation partners, and it can be done in a safe and secure manner."

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