

# Successful Corporate Ventures : Kasskh North America

## Rapidly Commercializing Latest Technologies, Developing New Markets & Creating Strategic Alliances

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**All CEOs - from largest Fortune 100 corporations to smallest venture capital businesses - are looking for new ways to increase growth & earnings, to maximize shareholder value, and to achieve & maintain competitive leadership. The Kasskh story is one example of rapidly achieving all these results under the leadership of Ravi Gupta.**

**Business Needs:** A key priority for the future Chairman of 30 billion dollar Hoechst (later Aventis), Jurgen Dormann, was to develop new areas of growth as the company faced increasing competition in all traditional markets, pharmaceuticals, chemicals, & hi-tech materials. In addition, the company was searching for better ways to develop rapidly growing new businesses, based on latest technologies that were emerging from its extensive R&D investments. Rapidly developing profitable new ventures was essential for future success.

**Corporate Ventures Solution:** One solution that can help companies to achieve their growth and profit objectives is Corporate Ventures, which are startup businesses initiated by corporations, as opposed to independent startup businesses promoted by private venture capital firms. One example of a successful corporate venture is Kasskh. In late 1980s, Hoechst's senior management became convinced that to establish successful new businesses the company needed to bring in proven experts from the outside. Similar to successful private Venture Capital firms, they came to believe that proven leadership was essential for starting new North American businesses that would grow rapidly and quickly become profitable.

When the Hoechst team first met Ravi Gupta, they were in the final stages of completing an offer to someone else, but decided to meet with him anyway. Gupta came to the meeting with a clear vision of where he would focus the new business and the key priorities that he foresaw. He convinced the company about the best direction for starting the business, and won the opportunity to head the new venture as Business Manager, Kasskh North America.

**Kasskh Product Background:** Kasskh is the name of a product and also the name of the business. The product is an electron-beam-cured advanced composite material; and the new US business was called Kasskh North America. The Kasskh product had many attractive properties for consumers in a wide range of industries – from life sciences, biotech, & healthcare; to construction; to IT & telecom; to energy, and many others.

**Challenges:** For several years, there had been unsuccessful attempts at starting a US business for Kasskh even though it was a success in Europe. The principal challenges were enormous differences between Europe and USA in: consumer needs, marketing & distribution systems, industry drivers, technical requirements, regulations, and regulatory compliance mechanisms. In addition there was the overall challenge of bridging cultural differences between Europe and the US. Hoechst's earlier research had established that European systems would not work here, but the time and cost required by traditional approaches for developing new US systems was financially unacceptable. Hoechst's earlier research had also identified that traditional regulatory approaches required multiyear, multimillion dollar investments; but again the company was not willing to finance a long-term loss-making business.

**Objectives:** As Kasskh North America was launched it had five primary objectives:

- Develop a business strategy that identified a way of succeeding within a very limited budget.
- Identify few high-growth niche markets, because the time or money to go after more than a limited number of focused opportunities was not there.
- Identify cost-effective regulatory approval strategy. No Approvals, No Business.
- Identify cost-effective new approach for developing US application engineering.
- Rapidly develop marquee customers to prove business viability for obtaining support and long-term funding from different corporate investor groups.

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**Strategies:** One of the first actions Gupta undertook was to develop a detailed understanding about the needs of potential end-consumers and identifying their critical business needs, for rapid consumer acceptance and maintaining their long-term loyalty. He then formulated a strategy focused on fulfilling these and a key part of it was to establish strategic alliances. As he discussed his plans with the management boards, in many instances the information he presented was not pleasant, but by keeping his corporate investors fully informed helped him a great deal in future management of the business. As hardships arose, it helped investors to understand them and, when necessary, provide additional resources. On the other hand, when milestones were achieved ahead of time they were better appreciated, and additional resources were available for further acceleration. There were six main components to the business approach:

**Focus On Business Details & High-Value Customers** — A detailed, yet rapid, analysis of the business value chain, established the primary business focus on Life Science & Biotech research. These customers most valued benefits from the technology, paid a premium, and application engineering for it was completed fastest. In addition, this was a large and growing market where the brand name of Hoechst helped to quickly develop customer access. For the future, these new customers were high-profile, brand-name companies, such as Bristol Myers Squibb and Abbott Laboratories, whose reference was valuable in further accelerating growth of the business.

**Technology Development** — Strategic Alliances were a key to rapidly developing the new technology. The most important alliance was a four-way partnership with leading companies in all three critical end-user groups, among LeMessurier (Roger McCoy), Turner (Tom Goemaat), Kalin Associates (Mark Kalin), and Hoechst. The alliances with leading end-users for developing applications helped demonstrate business viability in spite of severe financial constraints. This was because the business did not have the money to hire this level of expertise as full-time employees, and without that level of experience the technical challenges could not have been overcome, as past hurdles had proven. The alliances helped to complete technology development despite very tight deadlines. As a result of working as a closely coordinated team, the development cycles were reduced because the different groups worked in parallel instead of sequentially, and there was no time lag in transferring “work-in-progress” from one organization to another.

**Market Development** — Another benefit of the alliance strategy for technology development was that right from the start the business achieved market acceptance and access. This was because the carefully selected and nurtured partners (LeMessurier, Turners, & Kalin) provided references that were the best in the business. Marquee references, like them, typically took 5 to 7 years to achieve in traditional sales cycles. However, by convincing these industry-leaders to join the development team from the start, Kasskh obtained “instant” credibility and access to their contacts at other major companies.

**Regulatory Approval** — The original challenge of very high time and cost requirements for regulatory approvals was overcome by developing close partnerships with all regulatory and testing agencies – ICBO, BOCA, SBCCI, UL, & SWR. The regulatory “partners” then helped to identify ways of using European data for US approvals, which saved considerable time and money. Achieving this had overcome the big hurdle in all previous attempts by Kasskh Europe for starting the US business.

**Increasing Resources By Internal Alliances** — Partnerships with internal Hoechst groups was a key focus area for increasing effective resources. For instance, one major internal supporter of Kasskh was Terry Montgomery, an industry guru, and leader of a different Hoechst business. He helped Kasskh in many ways; one of them was to develop contacts at senior-most levels at the industry leader, McGraw Hill Company, a key information provider for marketing building products. Another internal alliance helped to make Kasskh a member of the multimillion dollar technology development panel at MIT. On its own, Kasskh would not have been included on the panel because its budget could not afford the investment, and also it did not have the credentials to be considered for joining a panel whose other members included leaders in the business. The internal partnerships helped to leverage Hoechst’s sponsorship of the business and open a door that created a significant, additional competitive advantage.

**Bridging Cultural Differences** — Kasskh North America had three different governing boards. The American board where the unit operated, the Dutch board where the technology originated, and the German

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board that exercised headquarters' oversight. Each board had a different culture, different operating structure, and a different appreciation about the requirements for developing a US business. To work through the cultural differences and meet the business objectives required investing considerable time to understand the different business approaches of each of the groups, and developing extensive personal relationships. Gupta's extensive prior corporate and international experience helped immeasurably.

### Results

Kasskh North America became the fastest-growing new business in the group and the original healthcare focus helped it to rapidly capture blue chip-customers, such as Amgen, Mass General, and Eli Lilly.

1992 Annual Business review by Kasskh Director Hank Gordan: "Kasskh business development in North America is progressing faster than all other European companies in the USA despite considerably fewer resources in people and money." Marquee customers were developed in the first year, application engineering development was completed in 60% less time compared to average time taken by other businesses. Regulatory approvals were completed in less than 3 years, although historically this took more than 5 to 7 years, and at a fraction of the cost.

1993 *Agency Sales* magazine: "to date Kasskh results have exceeded industry records of past 40 years."

Ten years after Gupta left the business, the strategy he originally developed continued to be the long-term basis of competitive advantage, and a key factor in continued growth and success.

Kasskh has always been a privately held business and no public-financial information is available.

After establishing the business on a path of growth and profitability, and solving all the startup challenges, Gupta moved on from the business in 1993. He was recruited to the team of Hoechst's visionary leader in the Life Sciences group, Terry Montgomery. That team went on to achieve approval from the Board for a multi-hundred-million-dollar investment to start a new Life Science business.

### Lessons For Starting Businesses From Latest Technologies

**Detailed Understanding Of Business & Consumer Needs**— This is one of the principal factors determining new-venture success. In the Kasskh story, early in the venture there was tremendous emphasis on the need for developing a very detailed understanding about consumer needs. This emphasis seemed puzzling at first, but we found that this approach was validated by Harvard research on startup businesses. Two Harvard Management Update Articles<sup>1</sup> analyzed data from more than 200 new products and 65,000 consumers, and concluded that an "important factor in new business failures was the lack of accurately understanding consumer needs in their real-world environments." For succeeding, they recommended early interaction with customers and close collaboration among customers, developers and manufacturers. The strategy exhibits expertise in all these areas; its success is reflected in the results.

**Developing Focus & Prioritizing** — When starting new businesses for products that can have applications in many different markets, it is advantageous to establish priorities quickly. Selecting what markets will be developed first and what later. This helps to create cycles of acceleration – where speeding up one activity helps to speed up the next activity, which speeds up the next, and so on ... In the case of Kasskh, one example of this is the technology development alliance, which initially helped accelerate application engineering. In addition, it also accelerated market access, because one of the criteria for selecting the partners was their ability to instantly become consumers as they were leading customers in the markets on which Kasskh initially focused.

**Startup Expertise** — In complex industries, such as life sciences & biotech, IT & telecom, building products, energy, involving seasoned operating-experts from the first stage of identifying the most profitable markets and evaluating the initial opportunities, is a cost-effective investment for rapidly maximizing shareholder value. In the Kasskh story this became apparent after Mr. McCauley, head of new

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ventures, brought in an expert from the outside. Within a few months after that hurdles that had bogged the business for many years were overcome and the business went on to be recognized for rapidly creating exceptional shareholder value.

**Strategic Alliances** — Alliances can have a major impact in all aspects of accelerating new businesses – from technical development, to regulatory approvals, to market entry. But for alliances to succeed, requires very some special steps, because only about 40% work out on an industrywide basis. Based on the result of a Strategic Alliance survey of over 335 CEOs, the 11 most important factors determining success, in order of priority, are – partner selection, senior management commitment, cultural alignment, clear roles, clear partner communication, clear objectives, relationship building, thorough planning, close senior management relations, day-to-day attention, and frequent feedback. The importance of all these factors is reflected in the Kasskh story and Gupta’s expertise in alliances is demonstrated by the results.

**Teamwork** — One important factor in the startup’s success was the manner in which the different groups worked together. Successful teamwork was extremely important in the new business — within the Kasskh team, with the different groups in the industry, as well as with groups inside the large corporation. Soon after joining, Gupta gave an interview to Hoechst’s magazine and stated, “As one team we shall fight every obstacle and win.” That declaration was an accurate reflection of his business philosophy and management style. In the ensuing years, Kasskh faced many obstacles and good teamwork helped to overcome most of them. During a particularly contentious team meeting at Boston Marriott, Gupta stepped away from the table and began making pancakes for everyone from the breakfast bar, and commented, “I have no role here except to help you with what you need to meet your goals, for breakfast or for Kasskh, but we all have to work together because I’ll do anything to meet the our commitment to the board.” From that point forward, he watched his team gel and the project begin to accelerate. This also demonstrates the type of exceptional team spirit needed for rapidly developing successful startup businesses.

### Successful Corporate Growth

All businesses, and specially large corporations, are looking for new ways to increase growth and earnings, to build businesses from their latest innovations, and to maximize shareholder value. One approach for achieving these objectives is corporate ventures. The Kasskh story identifies some of the important factors that must be carefully managed before corporate ventures can deliver successful results.

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#### Kasskh Key Team Members

Tom Goemaat, General Manager, Turner Construction. Roger McCoy, Vice President, LeMessurier Consultants. Mark Kalin, President, Kalin Associates. Karen Foxx-Smith, Senior Engineer, Underwriters Laboratories. Nicholas Horezckho, Senior Manager, ICBO.

#### Corporate Venture Leader

Ravi Gupta, former Business Manager Kasskh North America, is presently the Managing Principal of Momentum Business Development. He is a 23-year specialist in helping companies to develop new businesses from their latest R&D, and to expand businesses internationally. He has led business development in all regions of the USA; as well as in Canada, Europe, and Asia. His education includes a Wharton MBA. In 1995, he was inducted into Who’s Who in Finance & Industry. In 2003, The Global Businesses & Technology Conference selected him as one of the world’s foremost experts in accelerating innovation, and rapidly building new businesses that create exceptional and lasting value.

*This is an abridged version of the full case study.*

*To accurately convey the full story while also respecting certain confidentiality requirements, certain names have been altered.*