NEW MODELS FOR COMMERCIAL INNOVATION
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Innovative products—such as 3D printing, wireless communications, breakthrough medicines, and more—capture the imagination of the public and of policymakers and have long represented the core focus of private-sector research and development. But a recent survey of business leaders indicates that the development of new business models, which arise from the interplay of people, technology, and commerce, will play an increasingly important role in company performance.

Novel products deserve attention, but it is rare for any product to achieve instant, effortless acceptance by consumers. For many advanced products, innovation is much deeper than invention itself. Developing the product is only the first step: effort and know-how are required to produce the good, as well as to commercialize the product so that it reaches the people where it can have the most impact. This downstream innovation, which requires deep understanding of consumers and market conditions, often determines success or failure of the original invention.

Innovative thinking applied to pro-growth public policy is needed to support commercial innovation. Public policy choices about intellectual property, distribution services, and product regulation can influence consumer access to desirable and innovative products. For example, while governments tend to view intellectual property (IP) rights as static, a treasure to be hoarded, the example of Gilead Sciences (described below) demonstrates that managing IP through partnerships and licensing agreements can get a product where it is most needed while still protecting proprietary know-how. Protecting trade secrets and ensuring reliable private contract rights are top priorities for most innovative firms.

Three specific cases illustrate the challenge of commercial innovation and the way government policies help or hinder innovation:

1. Procter & Gamble’s (P&G) Purifier of Water is a powder product that can decontaminate 10 liters of water from the worst sources and render it safe for household and drinking use. The product was novel and technically sound, but normal marketing approaches failed to produce financial returns to justify ongoing investment. Only when P&G made a decision to use the technology as the central element of a corporate social responsibility initiative was the company able to develop the nongovernmental organization (NGO) partnerships needed to sustain distribution and social marketing. Innovation in the core business model turned a commercial failure into a life-saving technology that has treated over 6 billion liters of water.

2. Gilead Sciences developed a highly effective antiretroviral medicine to treat HIV patients who are primarily in low-income markets. Their initial approach to selling in low-income markets was the traditional nonprofit pricing of U.S.-made exports, which resulted in slow uptake. Gilead then developed licensing arrangements with generic manufacturers to leverage low-cost production and distribution. Gilead created distribution agreements through the World Health Organization (WHO) ‘‘access’’ program to provide medicine at little to no cost to patients and thus to countries with low incomes.

NAFTA @ 20: NEXT STEPS FOR NORTH AMERICAN COMPETITIVENESS

On December 16, the Scholl Chair marked the 20th anniversary of NAFTA’s entry into force by looking back on the agreement’s effect on North American integration and trade policy in general and by looking ahead to ways NAFTA can be improved to enhance competitiveness. Carla Hills, councilor and trustee at CSIS and lead U.S. negotiator during the NAFTA talks, delivered the keynote address.

You can watch the event online at http://csis.org/event/nafta-20-next-steps-north-american-competitiveness.
partnerships and licensing arrangements with generic manufacturers to reach patients. Today, 4.3 million people benefit from Gilead HIV therapies, of which 3.5 million live in low- and middle-income countries.

3. UPS’s PharmaPort 360 containers represent a breakthrough in temperature-sensitive logistics. The information technology (IT)-enabled, self-powered container is part of an innovative service designed for life sciences transport. While the PharmaPort system has been a success in the United States, uneven treatment of the device by foreign customs authorities has limited its acceptance. Essentially, unclear rules have led certain customs agencies to treat the container as an imported good rather than a device for conveyance, making transactions prohibitively expensive for the shippers. UPS is working to resolve the issues on a case-by-case basis instead of relying on consistent treatment.

In the examples above, existing business approaches were inadequate. Downstream innovation—after product invention, development, and production—was central to success with consumers/patients. In each case, a substantial amount of creative energy was necessary to achieve successful adoption. The adoption of new business models requires a relatively high tolerance for risk and the willingness to throw out the “rule book.” But many business leaders recognize that “linear thinking” is inadequate to reaching consumers in a complex world.

Public policy actions can either be barriers or catalysts to commercial innovation. In the case of UPS, the treatment by customs authorities of the PharmaPort container has a substantial effect on the intended purpose of the device, which is the secure and timely delivery of temperature-sensitive material. For Gilead Sciences, strong IP protections and the legal certainty associated with licensing agreements is a key factor in its ability to transfer technology to supply chain partners. Technology transfer contributes to faster regulatory approval and greater precision in dosage.

Policymakers and private-sector leaders should work together more closely to make public policy an asset rather than an obstacle. The examples of leveraging policy to create successful outcomes are the best supporting evidence, but there need to be clearer channels for both sides to communicate, not just in individual states but also at the multilateral level. The goal is not more regulation or less, but for both sides to maximize outcomes, and the best way to begin that is a frank conversation about what works and what doesn’t.

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The Forgotten Person: U.S. Oil Exporters

This column usually illustrates how trade policies advanced by well-connected industries can cause economic harm to those absent from the debate—the “forgotten person.” Sometimes the harm occurs when a policy that may have made sense when it was implemented fails to keep up with changes in the economy. The ban on exports of crude oil from the United States is a classic example of this genre.

In response to the 1973 oil embargo, Congress made extensive changes to U.S. energy policy. Along with measures to promote conservation and domestic exploration, the United States banned the export of crude oil except when the government declares it to be in the “national interest.” From the beginning, the export ban operated like any other export restriction and discouraged domestic production. But today, with modern production techniques raising domestic energy production to record levels, the ban creates more economic distortion than ever.

Lifting the ban would have several immediate benefits. It would make the energy market more efficient, likely encouraging further job-creating investment. A more efficient market would stabilize prices for consumers. Free trade in crude oil would balance demand for refining infrastructure and add commercial opportunity to the already-large U.S. export market for refined products. Finally, it would demonstrate Washington’s commitment to free trade as negotiations with Asia and Europe intensify.

Energy Secretary Ernest Moniz recently called for a reexamination of this and other outmoded policies. We hope the administration and Congress will follow through.