

Inside a White-Hot Idea Factory

Some big names are turning to upstart Fahrenheit 212 to dream up new products

BY BURT HELM

FOR SEVERAL YEARS SPIRITS giant Diageo rode high on the popularity of its Smirnoff Ice beverage. Then consumers got bored, and the party was over. Try as it might, the No. 1 global liquor company couldn't reignite sales of Ice—a crucial part of its Smirnoff brand. So Diageo turned to Fahrenheit 212, a tiny New York outfit that promises to help clients dream up hit products and services. Fahrenheit listened, then disappeared.

The firm reemerged with some stardom advice: Forget the Smirnoff Ice brand for now. Instead, Diageo should use its malt technology to create wildly different Smirnoff drinks. Among Fahrenheit's 10 or so fully realized products: Smirnoff Raw Tea, which appeared in August, and Smirnoff Source, an alcoholic water expected to launch this spring. "They're not just about ideas for the sake of ideas," says Michael Ward, Diageo's innovation chief for North America. "They realize the importance of understanding our business, because their ideas are only worth something if we can pull value from them."

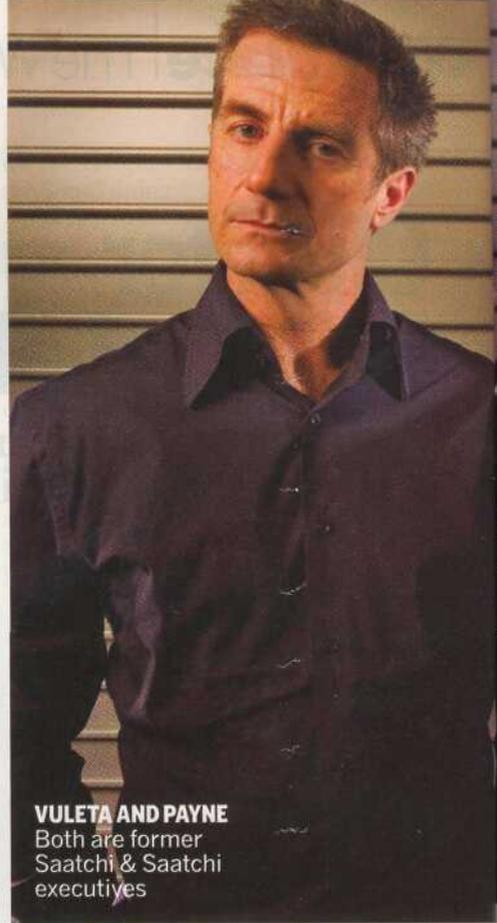
Fahrenheit 212 specializes in a new approach to product development. With little to no inside knowledge of its clients, the company dives into their problems

and within months cooks up a portfolio of products it thinks will solve them. One part management consultant, one part advertising agency, and one part design house, Fahrenheit 212 attempts to deliver ready-to-go answers, including everything from an analysis of each potential market down to the design and packaging of the product itself. As companies seek to maximize efficiency by outsourcing just about everything, Fahrenheit 212 promises to serve up something most chief executives dream about: new products created from existing assets that will earn sizable revenue from untapped markets.

DISTINGUISHED PARENT

SPUN OFF FROM advertising agency Saatchi & Saatchi in November, Fahrenheit 212 expects to generate only about \$8 million in revenues in 2007. But it has signed up an impressive roster of clients. It won't disclose specifics, but Fahrenheit has come up with new applications for Samsung's LCD panels, cooked up new products for Hershey as the company moves beyond candy, and is helping NBC Universal identify new sources of revenue in the digital world.

Clients think of the firm as a way to make long-shot bets without having to use their own research and development resources. "Samsung is a lean organi-



VULETA AND PAYNE
Both are former Saatchi & Saatchi executives

zation. We can't afford to have people coming up with ideas that don't work," says Chief Marketing Officer Gregory Lee. "The people at Fahrenheit are very helpful because they are working on ideas that can fail—it allows you to experiment a bit." What's more, Fahrenheit ties much of its compensation to the success of the product, making it an even safer bet.

Fahrenheit was formed in 2002 by a crew of Saatchi & Saatchi executives. Mark Payne, now the company's president, had been a regional account director of Procter & Gamble Co.'s business in Asia, where in the '90s he took part in rapid-fire product launches. "You'd fly into Mumbai, and you'd have three hours in the morning to figure out the big issues on the brand you were launching in two months and then two hours in the afternoon to figure out the solutions," says Payne. He

CHRIS CASABURI

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FULL IMMERSION

The key is taking time to dive into the numbers. The team spends a month learning about the problem, market conditions, and assets that could help. Fahrenheit 212 finishes the phase by writing up a new brief for itself. It presents the direction it wants to go, and defines how Fahrenheit 212 should be rewarded for results.

MAKE IT 'BIG AND FAST'...

New products ideally tap new pools of customers, using existing technology tools so the client can quickly deploy them. The idea is to avoid small improvements on things the company already does. A three-man Fahrenheit 212 Ideas Development Group meets over two months and brainstorms product ideas.



learned to develop strategies for new brands in places totally foreign to him, a lesson that came in handy later on.

By 2001, Payne was back in the U.S., and running account planning for P&G's Tide brand at Saatchi. On the side, he began working on a new concept for idea- and product-development called "the hive." It was to be a group of eight people with finely honed expertise who would tackle marketing problems for clients in three months flat. He began using the hive concept—putting an African storyteller, a sculptor, a closet organizer, and others to work on small projects for P&G. Before long, Payne teamed up with a like-minded colleague named Geoff Vuleta, who was helping transform Saatchi into an "ideas" company that would move beyond traditional advertising.

Both men missed the days when ad agencies worked more closely with clients,

with more creative control, too. Like many of their peers, they fretted that advertising was becoming a commodified afterthought. They wanted in on the ground floor. Payne and Vuleta set up a unit inside the agency and named it after the boiling point of water, when "one degree of difference," says Vuleta, "can make all the difference."

Vuleta, who is CEO, decided to split from Saatchi, he says, to have more freedom to do deals. The privately held firm is a mix of ad veterans, brand and design specialists, and MBAs. Each has his specialty: Rony Zibara, a creative director, for example, focuses on brand image and aesthetics. Marcus Oliver, another creative who came into his job inter-

view with a sketch of "15 problems in my bathroom," finds product-line holes.

The group typically takes five months to complete a project. The first month is an immersion process, when a Fahrenheit business director and the group's analyst pore over sales numbers, market conditions, existing consumer research, and learn about the clients' businesses and assets. Over the next two months, the creative team, composed of Zibara, Oliver, and Payne, develops the ideas, then hires outside designers and engineers to assess feasibility and build prototypes. After presenting the ideas to the client, the firm does formal market research and focus-group testing.

Fahrenheit 212's founders devised an unusual business model. Although the firm collects the consultant's typical monthly fee, the majority of its potential revenue is tied to the success of its ideas. Each time an idea reaches a milestone—the product enters a test market, say—Fahrenheit gets a bonus. Fahrenheit expects to generate roughly 25% of its total revenue this year from such payments. Eventually it hopes to increase that to two-thirds of total revenue.



JUST OUT In August this drink appeared, a fresh notion from Fahrenheit 212

Getting there will mean beating the steep odds against new products succeeding in the marketplace. Quick buy-in from clients is crucial, too. Before pitching Raw Tea to Diageo, Fahrenheit took the trouble of going to a bartender/mixologist to devise a close approximation of how the new beverage would taste. When Vuleta and the gang presented it to Diageo executives, they

passed around actual samples in specially designed bottles. It's that attention to detail that has other companies intrigued.

Guy Phillips runs the UBS division that handles investment banking for consumer products companies. He has begun referring clients—blue-chip companies and buyout firms alike—to Fahrenheit to help figure out new ways to boost organic revenue growth as a way of increasing a company's worth. Steering clients to the firm, he says, "definitely provides an edge" over other banks.

For Beth Comstock, president of digital media and market development at NBC Universal, working with Fahrenheit 212 requires a leap of faith. "There's a bit of a Skunk Works," says Comstock, who signed up Fahrenheit in December. "But we need people who can take us to places we can't yet see." ■■

...AND FEASIBLE...

Each final idea must occupy a separate market segment, so a client can deploy multiple products simultaneously. The Fahrenheit 212 team winnows the list to 8 to 10 products with the biggest potential market value and brings in industrial designers and engineers to gauge technical feasibility and cost.

...AND FULLY REALIZED

Nothing wows clients more than a prototype (or computer image) of the finished product. That way in-house engineers and marketers spend less time on development, moving quickly instead to the execution phase. The client also gets an analysis of the target market and a game plan for pitching the product to consumers.