ENERGIZE YOUR BUSINESS WITH NEW PRODUCTS

By Jack Trytten, President, Insight Direction, Inc.

Nothing is quite as satisfying as watching your new product take off in the market. As sales climb, the buzz builds. Profitability grows, the investment pays out. Competitors pay close attention, distributors want the product, and customers are receptive. The editors are calling. You are the star.

Companies that consistently develop and introduce new products are the leaders of their markets: Proctor & Gamble, General Electric, Microsoft, Intel, Apple, 3M. They lead all the lists, from good employers, return on investment, customer loyalty to, naturally, fastest growing.

New products are a key sign of a healthy company.

The Fundamentals

Unfortunately, approximately 70% of all new products fail. How can some companies be so successful while so many companies fall short? There are a number of reasons but most of the failures can be attributed to missing the fundamentals.

First, you must have a solid business case.

What are you trying to accomplish by developing a new product?

The companies that consistently introduce successful new products know the answer to this question. But most companies have not made new product development a habit. And most of them don't consider this issue. It is the first fundamental. Companies that ignore this issue are headed down the road to failure.

There are two essential reasons to introduce a new product: first, because you can leverage your existing technology to make something new, or second, because you have found a market demand that you can meet if you adopt a new technology. The first approach usually results in new customers while the second tends to generate more sales from existing customers.

Unfortunately, many companies enter crash programs to develop new products to meet competitive threats in the market. This usually leads to hurried technical development, insufficient market analysis and testing, with the final result in failure.

You must also consider what you hope to accomplish for your business. Will you spread your current fixed cost and overhead base? Will you increase your operating margins? Will you gain additional distribution or become more important to your current distribution? Will you increase your marketing efficiency? Your plant efficiency?

At the end of the analysis of the business case, there should be only one conclusion: the development and introduction of this new product will make your business better.

New products must meet two tests for success

This may seem obvious, but new products must meet two fundamental tests. First, you must be able to produce them profitably. The technology must be workable and affordable. Many great new product ideas work wonderfully on the bench. But when you have to manufacture them in quantity, the production process can't match the prototype and the product fails.

Second, the market must want to purchase the product. This is the most common reason for failure. All too often, the research of the concept was strong; the focus group participants said it was a great product. But when it came time to put down the money, the market ignored your product. Failure.

These two points may seem obvious, but 70% of all new products introduced are gone within two years and these two reasons account for most of the failures.

You must manage the three areas of change

All new products involve three separate areas of change: technology, marketing strategy and the market itself. Your management of the change in these areas is critical to the success of the new product.

Technology: Your production capability must adapt to the production of the new product. On the surface, the degree of change may appear to be minor. However, some of the most minor changes can cause major problems.

One client felt they "owned" the production process for a particular product. On the bench, the same process, using a new raw material, produced a wonderful new product. But with this new raw material, supplied in production quantity, the manufacturing process wasn't quite the same. It took them 18 months of learning and modifications before they could manufacture a consistent quality product.

What ever the technology, something is going to change – equipment, process, materials, labor. You will have a learning curve. Allow for the time and expense. Not recognizing and planning for the impact of this change can result in failure.

Market Strategy: A change in the market can be similar. While the distribution and sales force may be the same, even a higher or lower priced version of the same product requires change. And the greater the change in the consumer, the greater the change needs to be in the marketing strategy.

For example, the difference between a low-priced cookware and gourmet cookware is measured in miles. Different buying motivations, different purchasers, different distribution channels. You will have a significant learning curve. If you don't plan for this, your entry into the market will be difficult.

Will you have to establish a new brand? Reach new customers? Convince current customers to try something new? Who's going to do this? What do they need to know? What resources, selling tools, packaging, shelf space and training do they need to have?

Once again, you must manage this change. Consider the learning curve, the investment in time and money.

The Market: Finally, the customers for the new product must change. They must buy your new product rather than what they had been purchasing all along. The benefits of the new product may seem obvious to you, but for most new products, the consumer needs a compelling reason to change. This is the most difficult change to manage and the greatest challenge in the entire process. Consider this:

The first cell phone call was in 1982. The utility of a phone that you could use anywhere is obvious and compelling. Emergencies, waiting for planes, to tell business associates you're stuck in traffic, to call for a tow truck, to call for emergency help, to call your parents and tell them you'll be late, to call for … this list goes on.

It is now 23 years later and penetration of cell phones is just 43%.

Now consider the personal computer. The Apple II first came on the scene in the late 1970's. There was little you could do with it due to the lack of application software. IBM introduced their ill-fated IBM-PC in 1981. The Macintosh entered with the still famous Superbowl commercial in 1984.

While games were the first software for these strange machines, spreadsheets and word processing came in during the mid-eighties. Other applications offering great utility followed quickly. Then in the nineties came the internet, email, surfing, and instant messaging. Consider the incredible utility of the computer now.

But the current forecast is for household penetration to perhaps reach 80% by 2010, a good 20 years after the introduction of application software.

Selling change is the greatest challenge for the marketer. People resist change. Prior to the computer we had typewriters, calculators, libraries, encyclopedias, telephones with voice mail, faxes, and other facilities and equipment to do most everything our current computers can do. But the computer allows you to do all these things better, faster, easier.

When my company originally put in a computer network, we also scheduled extensive training to make everyone familiar with this new great device. About three weeks later I noticed my administrative assistant was still using her typewriter. We talked about this one night over a drink. It boiled down to several key points:

1. She felt that having to learn something new at her age was a threat.
2. She was in fear of the computer, terrified she might "break" it.
3. She was perfectly happy with her typewriter and felt I shouldn't care what she used as long as I was satisfied with the result.

The next morning I came in early and opened the Solitaire game on her computer, started a game and left it open on her computer. By the end of the day, she had overcome her fear of the computer. Four months later her mastery of spreadsheets dazzled the accounting group.

Change is a threat and with most products, you don't have the opportunity to sit with the user and guide them through their fears. Instead, they just don't buy.

What seems so often obvious to us, the great utility of a new product, is often maddeningly slow to reach significant adoption. Cell phones and computers are all popular and successful new products and services now. Yet significant adoption took years of investment and development.

The whole premise of your new product is that it's better. But to the consumer, that means they have to change. And with change is risk. The consumer's risk. And you have to accept the responsibility for controlling their risk.

The only way to manage consumer adoption, to accelerate the initial sales, is to have an intimate knowledge of the consumer. This requires an in-depth understanding of the psychology of the purchase decision. New market research techniques such as the Core Driver™ process developed by Insight Direction, Inc. utilize advanced techniques to surface the emotional keys to the purchase decision.

This process accurately defines the critical emotional drivers that are the foundation of the decision process.

Take the example of my administrative assistant. If you had to sell her a computer back in the early nineties, you would have failed unless you found a way to help her over her emotional fear of this new thing sitting on her desk. She was terrified she'd break an expensive piece of equipment, that she wouldn't be as competent with it as she was with her typewriter and that, as a result, she would lose face with me, perhaps endangering her job. And she resented this new thing causing such fear in her. She had been just happy with things as they were.

None of this was rational and little was really conscious thought. She had just felt this way since we had first mentioned installing the computers.

Research that accurately probes into the emotional drivers identifies hurdles such as this, allowing you to build marketing efforts to overcome the natural inertia to change and speed adoption. At the same time the research identifies those emotional drivers that can accelerate adoption, shorten the sales cycle and generate a faster ROI.

A few rules of thumb on change:

1. Greater change = greater cost, greater risk but greater margin and greater exclusivity.

2. Market synergy: large technology change + small market strategy change = selling more to existing customers, building stronger customer relationships.

3. Technology synergy: small technology change + large market strategy change = selling more customers, building more relationships but not necessarily stronger ones.

4. Small technology change + small market strategy change = a "safer" new product, but with little change in margin, little change in sales.

5. Large technology change + large market strategy change = essentially starting a new business; the most risky of all as everyone between your receiving dock and the customer has to change.

Define Success

The final step in planning your new product strategy is to clearly set goals for success. These can take a number of forms. The most obvious is to set sales and profitability goals. However, given your strategy, you should consider additional goals.

If your new product is aimed at your current market, you should consider total sales per customer of all your products. If the product is an addition to your product line, it may result in increased sales of your older products.

Your sales force may also become more efficient, having additional product to sell to the same customer. The introduction may have a similar effect on your distribution as you become more important to them. Both these factors may reduce your total selling costs.

If your new product is an extension of your existing technology, it should result in new customers. It may also afford you greater leverage with your suppliers, resulting in overall increased margins.

As you recognize the many benefits from a new product, you must consider how you can measure the impact and what constitutes success. Thinking through your strategy, the fundamentals of your new product efforts, will take you well down the road to realizing success and the satisfaction of new products. »

About the Author: Jack Trytten is President of Insight Direction, Inc., a firm specializing in the development and introduction of new products. He has been involved in major efforts ranging from food products, consumer durables, and personal electronics to industrial materials and equipment.

Key questions to ask before developing your new product

Business Strategy

How compatible is the product with your current business?

How will it impact your overall production?

How will it impact your financial structure?

What business processes need to change to make the product successful?

Will these changes hinder the continued success of your established products?

How proud are you to put your name on the product?

What are the implications of failure?

How will your business change with success?

Technology

Is the technology proven? Has it been proven in marketable quantities?

Can the technology be protected?

Does the product take advantage of your current technology?

How much new plant capacity will you need?

How different will the manufacturing technology be?

Will you need new or different material suppliers?

Will you need additional labor? What training will they need?

How long will it take for the production capacity for the new product to come on-stream?

Marketing

Does the product take advantage of your current marketing strategy?

Have you tested the concept in the market? Are customers excited about it?

Will the product enhance your current brand?

Will it compromise sales of existing products?

What will be the competitive reaction?

Will you need a new sales force?

How much training will the sales force require?

Can you use existing distribution or will you need new distribution?

Will your existing distribution be excited about the product?

Can the basic appeal of the product be conveyed in marketing communications?

Will you introduce the product regionally, nationally or internationally?

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