

New Product Development

servicing vs. creating | evolution vs. revolution

Gari Jenkins

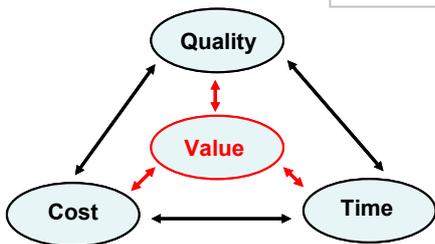
New products: only <10% are 'true innovations'; over 80% fail and only ≈ 40% are around in 5 years

Why bother with new products?

- Innovate or die argument – see later
- Competitive advantage from:
 - Differentiation in crowded marketplace
 - Satisfying insatiable customer desire for variety / novelty
 - Being first

Why do they fail?

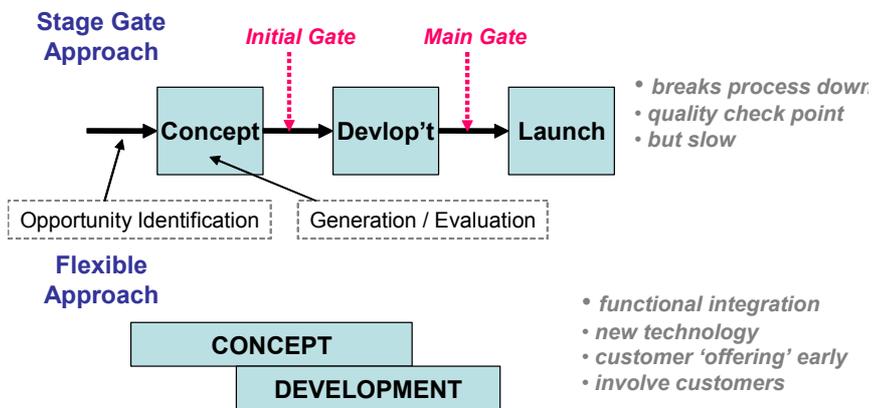
- Overestimate mkt size
- Poor match for company
- Poor value proposition
- Pushed despite research
- Internal organisation
 - culture
 - politics
- Competitive Response



Problem ~ how to optimise the "balance"

Selection Criteria

- The Market
- The Concept
- The Competencies
- The Timing
- The Risk vs. Expected Benefit



Market Driven vs. Market Driving

Characteristics	Market Driven	Market Driving
Objectives:	SERVE	CREATE
Orientation:	CUSTOMER ORIENTATION	INNOVATION ORIENTATION
Competencies:	R&D / CUSTOMER SERVICE	TECHNOLOGY DRIVEN
Process Change:	INCREMENTAL	RADICAL
Market Aim:	ATTRACT CUSTOMERS	CREATE CUSTOMERS
Interaction:	ANTICIPATIVE	DIRECTIVE
Assumptions:	EXPRESSED NEEDS	LATENT NEED

Peter Drucker stated '*sole purpose of firm was to create & keep customers*'. Many companies have embraced a customer orientation philosophy. This involves finding the customers needs and wants and then producing the product or service that will meet the need.

But **Drucker** spoke of *creating* rather than *servicing*. To create customers, you need to create innovative products & services. Customer orientation alone is insufficient to ensure **long term prosperity** due to **diminishing marginal returns**. Aggressive competition leads to oversupply as customers are offered more choice and become more sophisticated. As a consequence, becoming the lowest cost producer or the most effective discriminator becomes harder. This spurs the companies to incrementally smaller improvements.

For long term prosperity, a company off-course must meet the needs of and wants of existing customers, but must simultaneously innovate to ensure the creation of new customers and the means of satisfying their future needs & wants ~ 'organisational ambidexterity'.

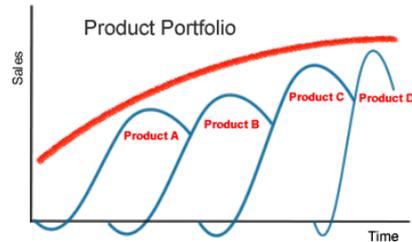
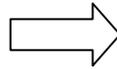
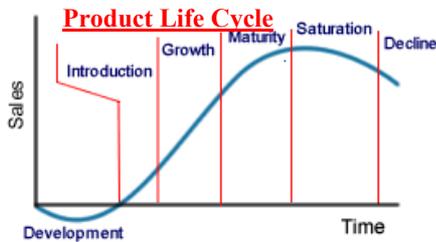
TIME

Time has a major influence. In the **short term**, incremental improvements may maintain a competitive edge. But it is not likely to create **real wealth**. Incremental improvements are typified by incremental targets ~ 5% savings in cost; 3% increase in market share etc. But real wealth creation comes from **new products developed** using new **technology**. There is plenty of empirical evidence to support this ~ Microsoft's stratospheric rise as compared to IBM's drop.

Maintaining customers in today's market can be a dangerous strategy. Consumers have more choice, are more savvy, have access to the global market place via the internet, expect more, expect it quicker and expect it cheaper. The advantage gap of industry over consumer narrow as time goes on. Consumers no longer **loyal**.

An old adage in marketing is to **'find where the customers are going, and get there first'**. A customer oriented strategy can relegate a company to playing **catchup**, especially in markets with a high **clockspeed**. While seeking out customers needs and serving those needs can appear sensible, in the long run, it can prove increasingly harder against tighter margins to secure an advantage.

Need to look at the product life cycle ~ if you only have one product, very difficult to maintain sales over a period of time. Need to look at Ansoff's table to determine strategy but ultimately you want a **PORTFOLIO**

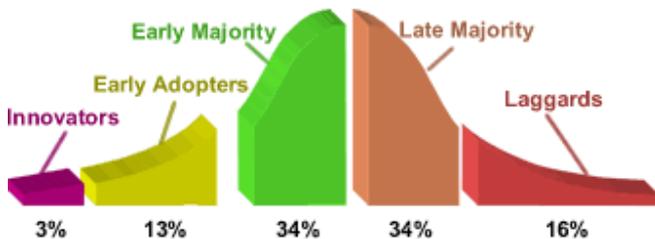


Ansoff

	Present Products	New Products
Present Markets	Market Penetration	Product Development
New Markets	Market Development	Diversify

INNOVATION

Innovation creates products & services + brings different features / quality / vfm. It can change the way society behaves so that they cannot think of doing it any other way. **Product Precedes Needs and creates its own demand**. But Innovation has a diffusion:



Innovation Diffusion

Customer Orientation	High	Follow	Interact	A – awareness I – interest E – evaluation T – test A – adoption
	Low	Isolate	Shape	
		Low	High	

Innovation Orientation

NEW COKE

- **BRAND** ~ meaning over time; strong / symbolic / emotional = value for company; manage portfolio; Coke lost sight of this.
- **POSITIONING** ~ strong creates vulnerabilities; make trade-offs; Pepsi taste challenge created noise / confusion; Coke became like Pepsi; they forgot their **meaning**; fought wrong battle . . . taste !!!
- **BLINDERS** ~ blinded by competition; focussed too much on the product; egos / culture / need to do something
- MARKET RESEARCH** ~ data misinterpreted; brand information not collected; 70% of warnings ignored;

3M

- **BREAKTHROUGH INNOVATION** ~ identified process / managerial difficulties firms face in attempt to overcome incrementalism
- **LEAD USER RESEARCH** ~ von Hippel @ MIT; find market opportunities by tapping Lead Users (Active Innovators) in own & analogous markets
- INTRODUCING INNOVATION** ~ challenges of introducing new & unproven processes into a successful organization