

CHAPTER ONE

Introduction to Product Innovation and New Product Development

- **A Product** is usually defined as **anything offered for sale.**
 - It can be **tangible, intangible, or a combination.**
 - Its attributes (taste, size, utility, pleasure, etc).
 - **Over everything the purchaser gets for the money paid.**
 - **Development of new products** is a continuous function of marketing management in the present day environment.

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- The **products** offered by a firm to the customers **must be suitable to meet the chasing needs of the customer.**
- The life of the firm is closely related to the development of new products** through technological innovations.
- The technological innovations** are important
 - To the growth of established business**
 - To the development of new business.**
- Business men must make **a detailed study of the market** in relation to the products.

Introduction CONTD

- **New products mean new profits.**
- **For instance, a ready-made garment dealer has to plan the garments to be inline with the changing fashions.**
- **Product failure wastes the money, material, energy and time spent on product development apart from defeating the objectives of the firm.**

Meaning of New Product

- **The term “New” is used in a relative sense, according to shjahan (2001), new product can be broadly classified in to three categories:**
 - 1. Marketing Innovations**
 - 2. Product Improvement**
 - 3. Technological Innovations**

Meaning of New Product

1. Marketing Innovations

- Companies have
 - **Made improvements on** existing products and
 - **Launched these as a new product in the market.**
- Here, **consumers did not require to change their consumption habits** drastically to accommodate these new products.
- The **success was derived** more from
 - **marketing innovations** as **packing, branding,** and **easy availability**, rather than **any significant change in the substance** of the product it self.

Meaning of New Product

2.Product Improvement

- These are basically **slight innovation on the Technology or Design of existing products,,,,**
- Although the **product category as such already existed** in its primitive form, but such **new products are generally targeted** for a **new class of buyers.**
- **The success of such ventures** depends up on
 - **the ability of the markets to convince the customer** about **the improvement** in the performance over traditional brand (s) as well as over similar new entrants.

Meaning of New Product

3. Technological Innovations

- Generally, **these products require some kind of assembling of imported kits.**
- **Although adaptation of such products calls for a substantial change** in the consumption pattern,
 - yet these products have **succeeded in view of their significant utility to the user.**
- Such ventures require an **initial awareness building** and **persuasion** to install the product.

Meaning of New Product

- **Initial resistance to change may delay any adoption of new technologies.**
- **However, a look at the track records of such new products shows that**
 - **Early entrants** have reaped the benefits of leadership.
 - **Subsequent entrants** have faced difficulty in establishing themselves.

1.2. Product Development

- **Product development** includes a number of decisions, namely,
 - **What to manufacture or buy,**
 - **How to have its packaging,**
 - **How to fix price and**
 - **How to sell it.**
- In case of a **manufacturing organization**, the **production department will develop and produce products** on the **advice** of the **marketing department**
 - because marketing department which **knows better the requirements of the customers.**

- In case of **purely trading organization**,
 - **the purchasing department will procure those products as are suggested by the marketing department.**
- The **work of product planning & development**
 - will be **performed by the marketing department itself.**
- **New produce development** consists of
 - **The creation of new ideas,**
 - **Their evaluation in terms of sales potentials and profitability,**
 - **Production facilities,**
 - **Resources available,**
 - **Designing and production testing and**
 - **Marketing of the product.**

- The **main task of the product planners** is to
 - **Identify specific customer needs and expectations** and
 - **Align company's capabilities with the changing market demands.**
- In each of these stages, **the management must decide:**
 - a) **Whether to move on to the next stage,**
 - b) **To abandon the product, or**
 - c) **To seek additional information.**

- Transfer of technology,**
- Penetration of new market,**
- New product lines,**
- Product line extension,**
- Cost reduction,**
- Repositioning or product re-launch,**

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1-Transfer of Technology

- **New products** have often been launched, **based on new technology**,
 - either **acquired from the parent company** or **with foreign collaboration**.
- Launch of the
 - **personal computer** or **photocopying machine** is a move in this direction.

2-Diversification

- Sometimes **companies have entered into new lines of business** and **catered to altogether** new markets for the first time.
 - **DCM's entry** into the **LCV market** fits into this category.
 - Similarly, ITC's decision to enter into **hotels, paperboards, edible oil, tissue paper** is diversification strategy.
 - Likewise, Shaw Wallace diversified to real estate business.
- In general, **diversification strategy tries to reduce the dependence of a company on a limited line of products.**
 - At times, companies find the new business more profitable than their former activities.

3.Additions to Existing Product Lines

- **New product lines and brand extensions** have sometimes **supplemented a company's existing business.**
 - **Videocon's** entry into **washing machines** and **music systems** from **color televisions** is a case in point.
- Similarly, as a business group, **Godrej's** strategy to expand its product range from **consumer non-durables** like toiletries to **durable** such as refrigerators, cupboards, and even office equipments is a **classic example of product line extension.**

4.Improvements/Revisions in Existing Products

- **New products** that offer superior performance and replace existing products are another way of entering the market.
- For example, the launch of transistors sets and cassette players, though primitive by today's standards, were at one time **new to the market**.
- **They eventually replaced radios and gramophones.**
- More recently Bata has successfully launched many sportswear, fashion jeans, and apparels.

5.Product Relaunch

- Sometimes **old products have been**
 - **Re-launched with minor improvements and**
 - **Targeted at completely new markets or consumer segments,**
- For example
 - ***The launch of many food products like Good Day biscuits, Tata Tea, Pan Parag etc. fall under this type of new product launches.***

6. Cost Reductions

- New products that provide similar performance at lower cost (e.g., Nirma detergent, Tata 407 LCV).**

1.4. Significances of New Product Development

- Whatever may be the nature of operation of a company,
 - **product planning and development** is necessary for **its survival** and **growth in the long-run**.
- Every product has a **life -cycle** and
 - it becomes **obsolete after the completion of its life-cycle**.
- Therefore, **it is essential**
 - **to develop new products** and **alter or improve** the existing ones
 - **to meet the requirements of customers**.

- **Common product planning problem relates:-**
- **Addition of new products** to the existing product line **involves**
 - **Generation of new product ideas,**
 - **Appraisal of various possibilities,**
 - **Economic analysis,**
 - **Product development,**
 - **Product testing,**
 - **Test marketing and**
 - **developing markets.**

- Another **problem of product planning** is
 - **modification** or **elimination of existing products.**
- The need for **continuous modification** of the product is great
 - *because **society's needs are always changing,** and **improved products must be introduced to fulfill them.***
- All products have **certain deficiencies** as **they are the result of a great many compromises.**
- **The perfect product has yet to be made.**
 - **Research makes possible the reduction of these deficiencies and brings about improved products.**

1.5. New Product Failure and Success Experiences

1.5. New Product Failure and Success

- **What is common to brands like**
 - Godrej GE's washing machine,
 - Montage soap,
 - T-Series Electronic Equipment,
 - Savlon anti-septic lotion,
 - Pierre Cardin, Essel World etc.
- These are a **few examples of evident failures** where **consumers did not accept them for some reason or other.**

1.5. New Product Failure and Success

- Despite years of **research** and **huge amounts of money** being pumped into understanding the consumer,
 - **making a launch successful is still a difficult task.**
- **As in developed countries,**
 - **success rate of new products in the Indian market is coming down (in case of fast moving consumer goods it is estimated to be as low as 2%).**

1.5.1. Why do products fail?

•New products continue to fail at a disturbing rate.

- **Recent studies put the new product failure rate of new consumer goods at 90% in Europe and the United States.**
- Another study suggested that of the tens of thousands of new consumer food, beverage, beauty and healthcare products **launched each year**, only 40 per cent will be around five years later.
- Moreover, failure rates for new industrial products may be as high as 30 per cent.
- Still another estimates new-product failures to be as high as 95 per cent.
- Despite the risks, firms that learn to innovate well become less vulnerable to attacks by new entrants which discover new ways of delivering added value, benefits and solutions to customers' problems.

1.5.1. Why do products fail?

- **Product failure is defined in two ways; absolute and relative failure.**
 - 1. Absolute product failure** occurs when a company is unable to recover its *production* and *marketing costs*.
 - 2. Relative product failure** occurs when a company is able to make a profit on an item but the product does not *attain profit objectives* and/or adversely affects the firm's image.

- A number of reasons can be **attributed to the success of a brand.**
- However, the same cannot be said for the failure of a brand in the market place.
- Often, **the reason could be as simple and mundane(routine)** as :-
 - **Unattractive packaging,**
 - **Improper naming of the brand etc.,**
- While at times it could be b/se of **fundamental reasons** such as
 - **Bad product quality,**
 - the marketer **not being able to understand the core needs** of the consumer properly, etc.

- **Still serious lapses which are attributed for failures are:**
 - **Inadequate product differentiation or me -too syndrome,**
 - **Wrong price convenience equation,**
 - **Failure in some marketing -mix decisions.**

- **Inadequate Differentiation or the Me-too syndrome:-**

- The most common reason for failure is that the **marketers launch products which are simply clone/replica of brands already in the market.**
- **Particularly in low-technology products like**
 - **Soaps and detergents,**
 - **Cosmetics, or mosquito mats,**
- Where scores of **new brands are launched every year** and **fade away by the end of the year.**
- **These new products fail to stand out in the cord.**

- In fact, often **LACKS OF IMAGINATION** prevent **marketers to create a significant difference with the existing options.**
 - *An apt example in this regard is **Nirma Bath** which was launched a few years in competition to **Lifebuoy**.*
 - *The **brand was just a me-too offering and had nothing new to offer to the consumer and attempted to cash in on the run-away success of Nirma Washing Powder which had stormed the Indian detergents market.***

- **A product entering the market is merely a version of an idea.**
- The **product will soon change** again in response to
 - **Marketplace** or
 - **Production Pressures.**
- The marketed product has attributes that were
 - added at **different times,**
 - from **original ideation,**
 - through **R & D,** and
 - through **commercial evaluation.**
- **The system is like an auto assembly line.**

- **A last minute repositioning** by the **advertising** department **may change a product** more **than** the **engineer's activities did.**
- **All managements would like more successful products, and all would like no failures.**
- But they know this is not a reasonable expectation nor is it strategically sound.
- The higher a project's financial return, the higher the risk of failure associated with it as evidenced from the following market observations:

- Lack of differential advantage:**

- Products fail when customers do not perceive them as better value than existing options.

- Too slow development.**

- Speed of entry or design of new products is essential in the changing market where technology is readily available.

- Poor planning:**

- Error in judgment about target market/segment, inaccurate positioning often misses the opportunities.

- Lack of management Enthusiasm**

- Management is, at times, complacent and avoids entry into new area.

- Lack of organization's expertise.**

- Managing new products may call for expertise which and organization may sometimes lack.

- Assigning inadequate resource to market development.**

- Presuming that the product is so good that it will sell on its own can prove to be wrong as special efforts of market development are required.

■ **Causes of New Product Failures**

- 1. Overestimation of Market Size**
- 2. Product Design Problems**
- 3. Product Incorrectly Positioned, Priced or Advertised**
- 4. Costs of Product Development**
- 5. Competitive Actions**

- **What influences new-product success?**

- **To create successful new products, the company must:**
 - understand it's **customers, markets** and **competitors**
 - **develop products that deliver superior value** to customers

What influences new-product success?

- Because so many new products fail, companies are anxious to learn how to improve their odds of new-product success.
- One way is to identify successful new products and find out what they have in common.
- Various studies suggest that new-product success depends on developing

- ***A unique superior product***, one offering customer's better quality, new features and higher value in use.
- Another key success factor is a **well-defined product concept** prior to development, in which the company carefully defines and assesses the target market, the product requirements and the benefits before proceeding.

- New products that are better than existing products at *meeting market needs* and delivering what customers really wanted invariably do well.
- Other success factors have also been suggested - *senior management commitment*, relentless commitment to innovation, smooth functioning and proficiency in executing the new-product development process.

- Thus, successful commercialization of new products requires a company to have a clear understanding of its consumers, markets and competitors and to develop products that deliver superior value to customers.
- Successful new-product development may be an even bigger challenge in the future.
- Keen competition has led to increasing market fragmentation – companies must now aim at smaller market segments rather than the mass market, and this means smaller sales and profits for each product.

- New products must meet growing social and government constraints, such as consumer safety and environmental standards. The costs of finding, developing and launching new products will increase steadily due to rising manufacturing, media and distribution costs. Many companies that cannot afford the funds needed for new-product development will emphasize product modification and imitation rather than true innovation. Even when a new product is successful, rivals are so quick to copy it that the new product is typically fated to have only a short life. So, companies face a problem – they must develop new products, but the odds weigh heavily against success. The solution lies in strong *new-product planning* and in setting up a systematic ***new-product development process*** for finding and growing new products.

- Top management must ultimately take the lead in setting the company-wide strategy and committing adequate resources to support product innovation. Successful new-product development requires a company-wide effort. Successful innovative companies have more than a clearly articulated new-product strategy and consistent commitment of resources to new-product development. To ensure effective execution of new-product development, these companies have set up formal and sophisticated organizations for encouraging employees to excel in innovation and facilitating the new product development process.

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