

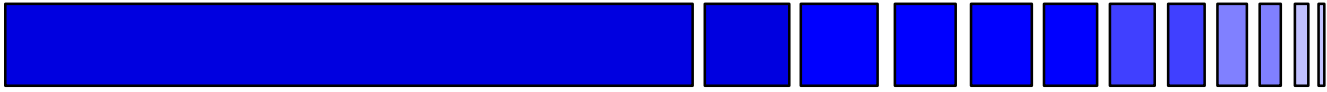
New Product Development Fundamentals

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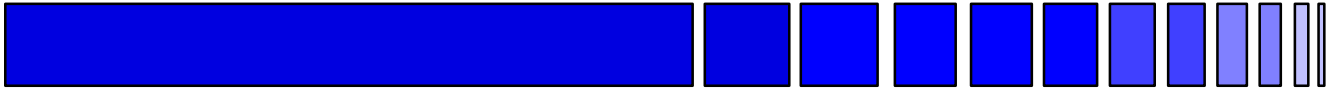
University of Connecticut

New Product Development Fundamentals



- Product strategy is part of the overall marketing strategy of the firm. Products, like the other elements of the marketing mix, need to be managed
- Successful product management requires:
 - Understanding how consumers perceive products
 - Identifying key product features
 - Designing/Managing products around these features
- Products have to be managed in a dynamic environment--with constantly changing consumer needs, technology and competitive forces

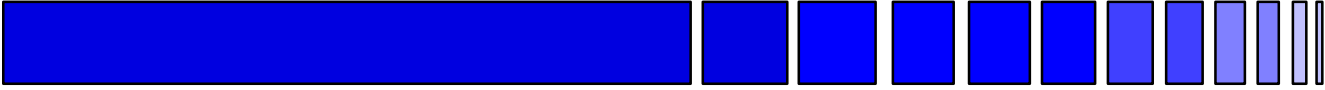
New Product Development Fundamentals



- A major part of product management is new product development (NPD)
 - The other part is managing your product portfolio as your products go through their product life cycles (PLC)

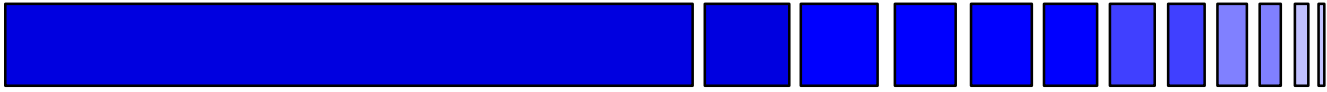
- A PLC consists of 4 stages:
 - Introduction, growth, maturity, and decline (inevitable)
 - Hence new product development (NPD) is necessary for survival and growth of the firm -- part of strategic objectives

New Product Development Fundamentals



- NPD offers considerable rewards to companies which can do it right
 - Also, it is very costly if you do it wrong -- can lead to business failure
- NPD is risky. Companies need to learn how to manage this risk--approximately 35 percent of all new products introduced fail. Many are dropped before introduction (6 out of 7)
- Since NPD is risky and offers considerable rewards, companies need to be mindful of risk/reward ratio. Also need to keep an eye on costs.

New Product Development Fundamentals

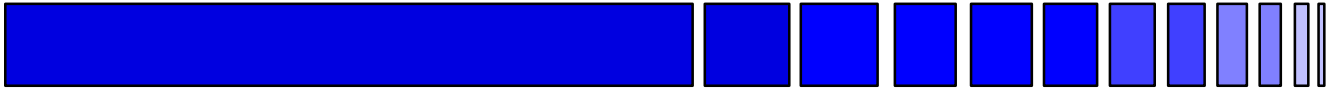


- Leads to question:
 - What is really a “new” product?
 - » Consumer’s viewpoint
 - » Firm’s viewpoint
 - » Both

- Due to high incidence of new product failure, a successful new product has to “recover” the R&D and introduction costs of previous product failures

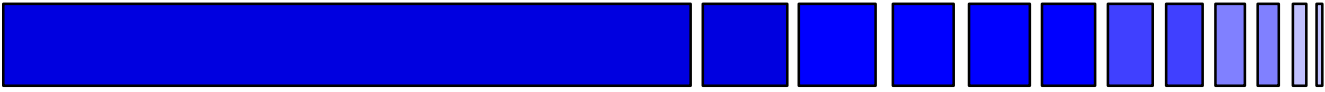
- NPD is essential to America’s economic leadership over the next 10-15 years. Also, critical for Connecticut’s defense-oriented industries.

New Product Development Fundamentals



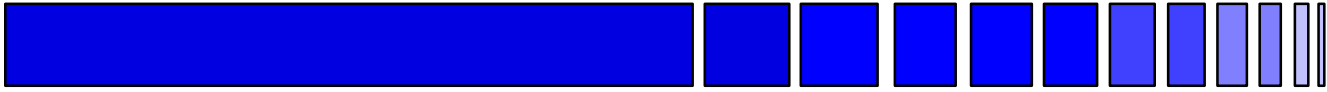
- Factors that either create the need for NPD or provide impetus for it:
 - Financial goals
 - Sales growth
 - Competitive position
 - Product life cycle
 - Technology
 - Inventions
 - Regulation
 - Material costs and availability
 - Demographic and lifestyle changes
 - Customer requests
 - Supplier initiatives

New Product Development Fundamentals



- Future of NPD is likely to be influenced by some major trends -- all these make new product development even more crucial
 - Intense competition (global)
 - Mature, saturated markets
 - Evolving demographics & lifestyles
 - Rapid technological changes
 - Increasingly sophisticated buyers
 - Environmental, financial, and governmental constraints

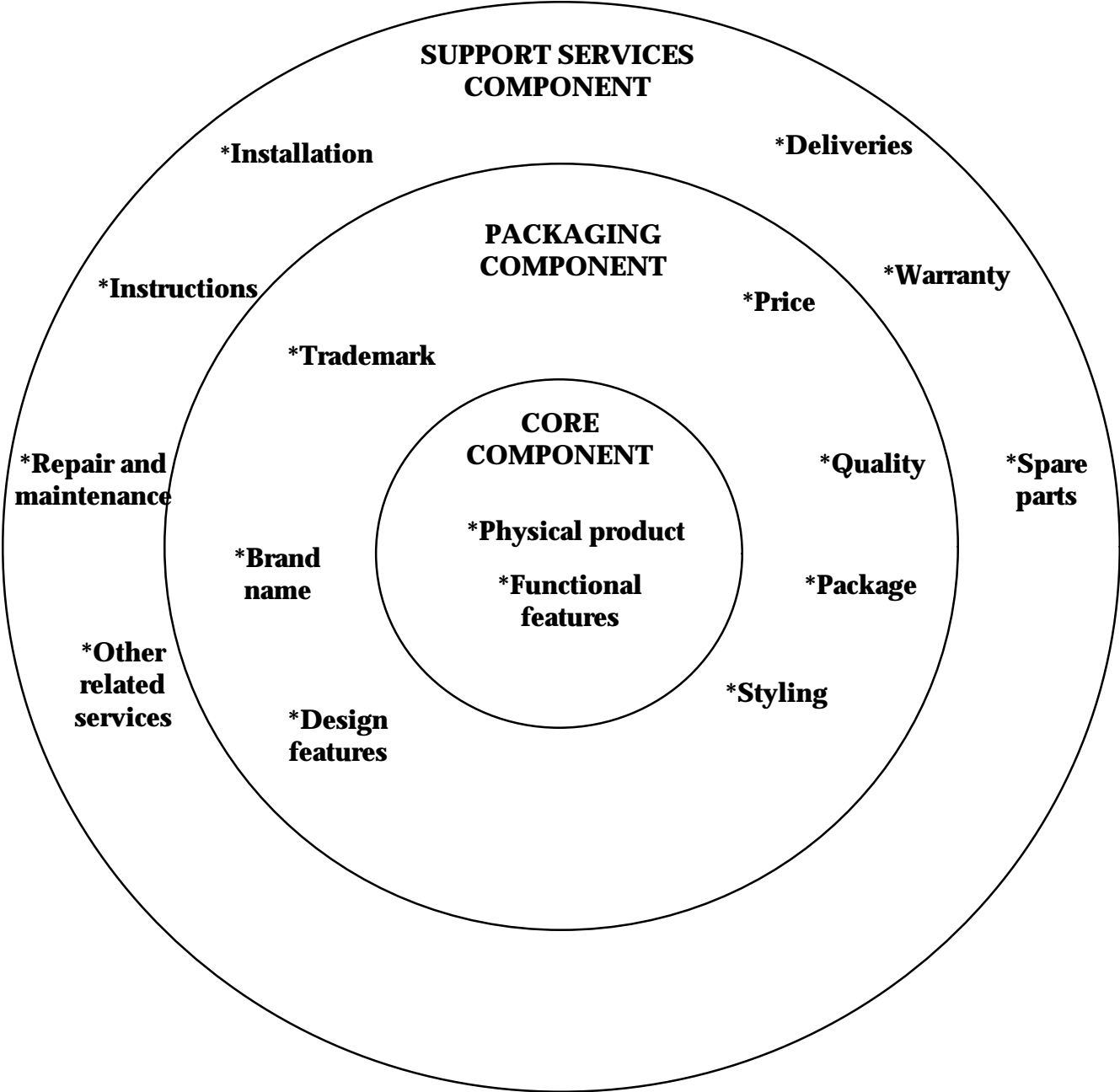
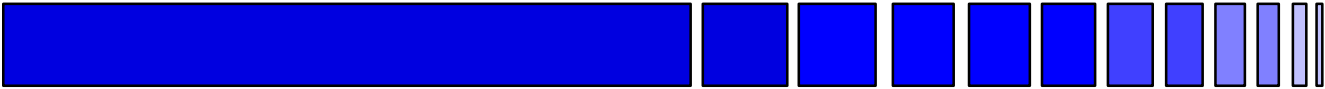
New Product Development Fundamentals



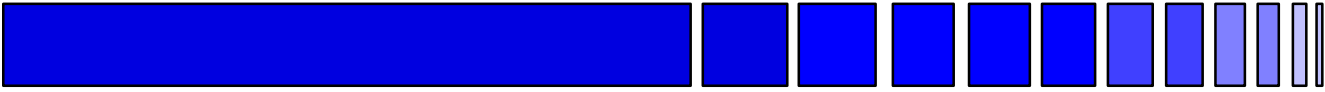
- Successful NPD requires the bringing together/merging of:
 - “Cutting Edge” technology & R&D
 - Strategic marketing insights
 - Management of creativity/people
 - Management of risk

- Stated another way, NPD requires
 - Basic research & development of new technologies
 - Bringing those new technologies to market through good management

New Product Development Fundamentals



New Product Development Fundamentals



Continuum for classifying new products.

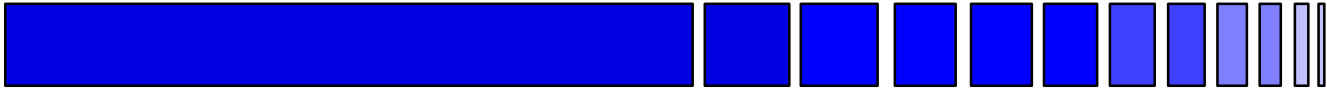


**Least disrupting
influence on established
consumption patterns**

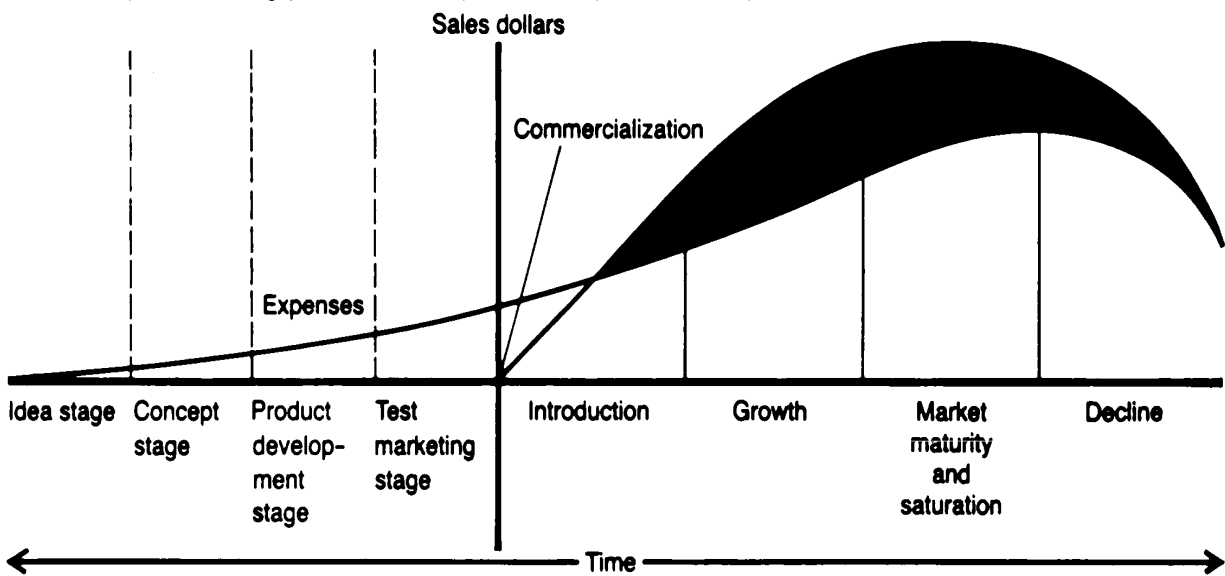
**Some disrupting
influence on
established
consumption patterns**

**Requires new consumption
patterns and the creation
of previously unknown
products**

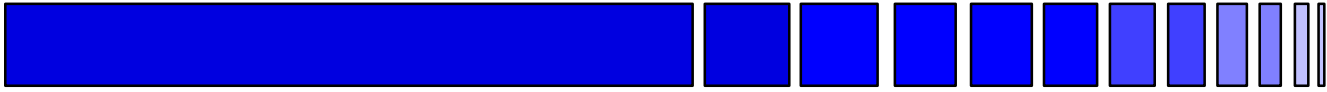
New Product Development Fundamentals



Sales and profits during product development and product life cycle.



Product Strategy and the Innovation Process

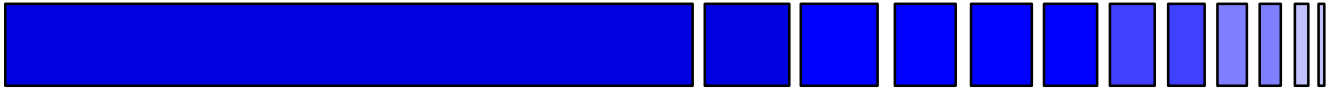


- The firm's corporate strategy provides the starting point for the formulation of the company's product strategy

Corp. Str. → Mktg. Str. → Prod. Str.

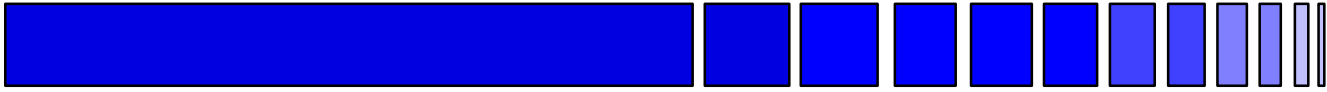
- Corporate strategy provides company with a unique differential advantage (or sustainable competitive advantage)
- Corporate goals (hence also product strategy goals) are linked to the company's unique differential advantage
- Difference between product strategy goals and current performance of company's products -- highlights the role of new product development

Product Strategy and the Innovation Process



- Product strategies may be proactive or reactive
 - New product development (NPD) is best undertaken with a proactive strategy (Why?)
- Proactive versus reactive strategies
- How to choose between proactive and reactive strategies
 - In the course we focus on proactive strategies--particularly those which involve an integration of “R&D” and “Marketing”
- A proactive NPD strategy requires specific systems, structure, and a systematic process--a 5-step sequential decision process

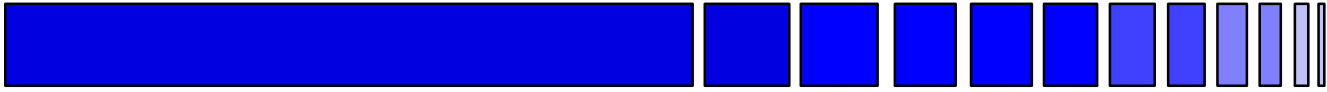
Key Success Factors Associated with New Product Development



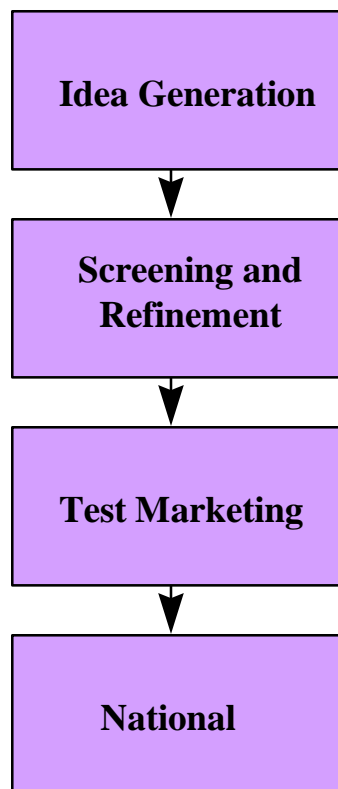
- Be flexible with costs, but manage them well
- Eliminate poor ideas early, thereby reducing risk
- Time allocation considerations
- Manage risk at every stage of the process-- foster and encourage creativity and innovation--but in a disciplined, accountable manner

WHAT DO THE EXPERTS SAY?

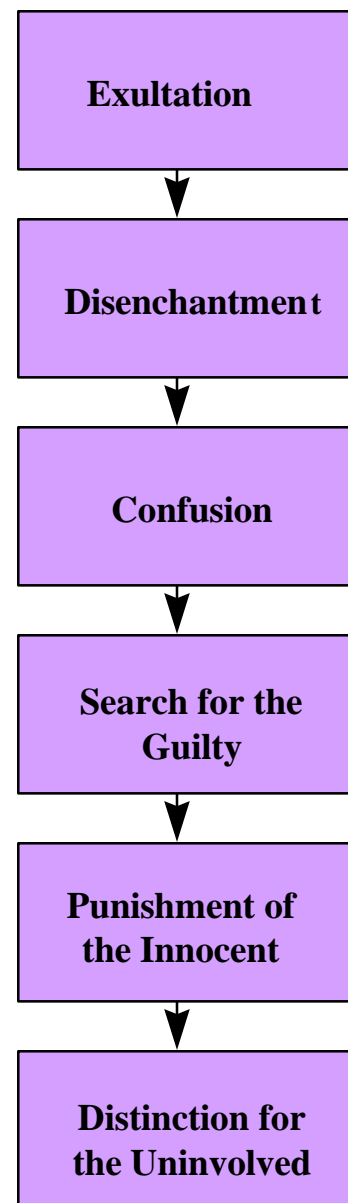
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**“Our process as we say
we should do it”**

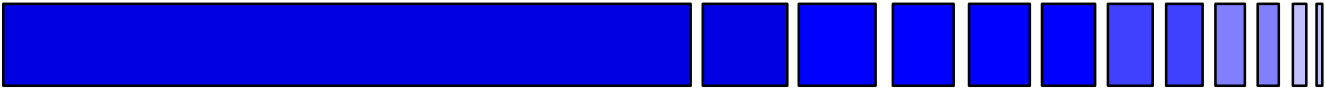


**“Our process as it
has happened”**



*New product development
processes --
plan versus reality*

New Product Development Fundamentals



Alternative Product Strategies

Reactive Strategies

Proactive Strategies

Defensive

Research & development

Imitative

Marketing

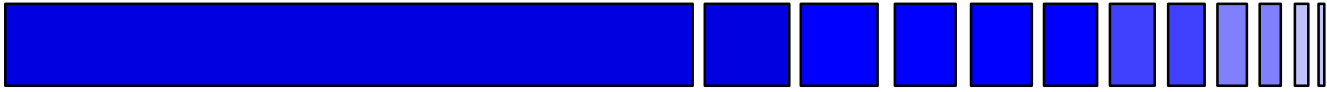
Second but better

Entrepreneurial

Responsive

Acquisition

New Product Development Fundamentals



Conditions under Which Reactive and Proactive Strategies are Appropriate

Reactive Strategies are Appropriate for Organizations That:

- Require concentration on existing products or markets
- Can achieve little protection for innovation
- Are in markets too small to recover developmental costs
- Are in danger of being overwhelmed by competitive innovation, or
- Are in distribution chains dominated by another innovator

Organizations with These Characteristics Should use Proactive Strategies:

- Overall policy of growth
- Willingness to enter new products and markets
- Capability of achieving patent or market penetration
- Ability to enter high-volume or high-margin markets
- Resources and time necessary to develop new products
- Competition unable to rapidly enter with a second-but-better strategy
- Reasonable power in the distribution channel