

Chapter Six – How do companies decide what products and services to market?

In this chapter we begin a series of chapters on the components of the marketing mix: Product, Price, Distribution, and Promotion. Our emphasis in this chapter will be the product or service that the organization markets and how products are envisioned, created and commercialized.

In this chapter, we will review the process of product development and how companies manage that process. While the process is similar for consumer marketers and organizational marketers, there are significant differences in how different companies approach this function.

We will define 'product' as all things the buyer receives in an exchange, bad and good, intended and unintended. Products include all things the buyer receives including the physical attributes (a new car) and the intangible attributes (a warranty and a financing contract). It is sometimes helpful to list the main (sometimes called 'salient') attributes for purposes of performing both upstream activities (for example, concept development) and downstream activities (for example, advertising and personal sales presentations).

In this chapter we will discuss the following areas related to managing new product development (NPD):

- the ideal climate for NPD
- the NPD process
- pitfalls in the NPD
- the role of product positioning in NPD

The ideal climate for NPD

There are several characteristics that help describe an ideal climate for the new product development process. A list of these characteristics follows;

- a. Goal clarity – the objectives of the task are jointly understood
- b. Resources – adequate economic and non-economic support for the task
- c. Encouragement – sincere emotional support for the task
- d. Freedom – the ability to explore whatever directions of inquiry that are needed
- e. Integrity – management does what it says it will do

Stages in a typical new product development process (NPD)

The NPD is basically an exercise in idea management. Thus, the process proceeds from stage to stage. However, frequently a new product team may skip around stages when playing with a new product idea.

1. idea generation – conceptualize a list of new product ideas
2. idea assessment – evaluate the ideas based on a previously created list of criteria. In this stage ideas that are judged not to meet the criteria are removed from consideration.
3. concept testing – the idea is assessed through discussion with potential customers or users. Or, representatives of the organization explore the product idea and assess its overall potential (No physical product yet exists).
4. idea choice – one or more ideas are selected for initial investment
5. idea prototype development – an initial working model of the product is created for testing and evaluation
6. final version development – a model of the final version of the product is created
7. commercialization – the product is put into production and the distribution of the new product to customers begins

Each stage should feedback information into the previous stages and this information should be organized and retained for future use.

Idea generation

The idea generation stage is the first stage in the NPD. However, in an organization with a healthy environment for creative thinking, new ideas abound, and only rarely is it necessary to have a formal meeting to generate ideas. New ideas flow from every day activities within the organization.

Ideally, idea generation should be fun and naturally occurring. This is why a 'formal meeting for idea generation' should be somewhat of an oxymoron in healthy, creative organizations. There are many creative problem-solving (CPS) techniques that provide extra stimulation for generating ideas for new products and services. The Couger Center for the Study of Creativity and Innovation has applied over thirty CPS techniques in organizations with success. CPS approaches fall along a continuum from intuitive to analytical. For example, a commonly used analytical CPS technique is the "5 W's and H" technique. Rudyard Kipling even wrote a poem about this technique. The 'wishful thinking' technique is a more intuitive CPS approach. The appendix to this chapter describes how to use each of these two techniques.

Idea assessment

Most organizations have extensive guidelines concerning the criteria for new product ideas. Some typical criteria are: potential estimated demand for the

product, cost/revenue expectations, fit with the organization's business and marketing strategy (you may want to go back and review compatibility in the discussion of requirements for effective segmentation in Chapter Three.) Many product ideas may not match with the firm's current product line and there should be guidance about what to do if this happens. Some organizations broker or sell new product ideas that don't entail serving current or planned future customer segments.

Creative ideas are judged on two criteria: Novelty and Value (or utility). We have found that business firms primarily put more importance on the expected economic returns (value) of a new idea than whether the idea is particularly novel or new. However, in a context of the arts, this emphasis is usually reversed. That is, in the arts, judges often look to novelty first and value later. This point brings about an underlying problem in judging new ideas. Novelty can usually be judged fairly early on, whereas, value is sometimes difficult to assess for some time.

In order to have a steady flow of new ideas, organizations must establish a clear understanding with personnel responsible for new product development how these two dimensions will be assessed.

Concept testing

In this stage, employees play with the idea and have fun considering its potential. The rationale underlying concept testing is that organizations are much wiser to explore the idea thoroughly before actually building a physical prototype. Often the 'Five W's and H' technique, described in Chapter Eleven, can be helpful in fleshing out the new product idea. If customers are involved in this stage, 'projective techniques' can often be used to illicit the opinions of customers about new product ideas without asking the customers directly.

We have mentioned two types of thinking: convergent and divergent. Convergent thinking is the type of thinking with which most people in the U.S. culture are most familiar. In this approach to thinking the mind or minds of those involved follows a linear process of reasoning ultimately arriving at a point of conclusion. Divergent thinking is quite different in that it requires the participant or participants to 'play' with ideas going off in unexpected directions. DeBono is well known for coining the term "lateral thinking" which is a type of divergent thinking (see: <http://www.edwdebono.com/> and review DeBono's "Six Hats Method").

Note that when involved in the ideal approach to creative thinking, people feel they have time to 'play' with ideas and forget about 'hard work' or "the expected conclusion." This fact might trouble some managers, but the endeavor is usually well worth the time expended. Particularly, in the U.S. we constantly and

incorrectly equate 'hard work' with 'no fun' and something to be feared or dreaded.

The NPD process should begin with divergent thinking and then apply convergent thinking with a careful recording of all new ideas as the process proceeds.

Unfortunately, in the U.S. culture, people who are expert 'idea destroyers' are often rewarded informally and formally in many organizations. That is, in our culture there is often more reward for observing what is wrong with an idea, rather than stating what right about it. Many great ideas with considerable positive potential are rejected every day in organizations, not because the idea isn't any good, but because people in the organization are more oriented to idea destruction than idea construction

Idea Choice

During this stage, the organization decides where its resources are best invested. A multiattribute model similar to the one we discussed in chapter three is often used to make such decisions. The major criteria for choice are listed and an importance weight is assigned to each attribute. Then competing ideas are assessed on this basis. Obviously, this process requires a healthy climate for creativity and innovation within which employees can 'let go' of personal ownership of ideas and judge the ideas on an objective basis.

Idea prototype development

During this stage working models of the new product are created to assess the feasibility of mass production of the product. We should note that the same activity could be engaged with services. In fact, it is easier with services, usually, than with tangible products. For example, if a restaurant is in the process of developing new menu items, it can prepare different variations of the items and let the restaurant staff sample the items. In some cases a restaurant may maintain a panel of expert tasters comprised of current customers to assist in determining which new dishes to put on the menu.

Final version development

Because learning takes place in each stage of NPD, a final version of the product is created to assess whether or not to take the product into the full commercialization stage. For example, in our restaurant example above, one can see that a trial run of preparing dishes from supply to delivery and sampling should take place to identify possible bottlenecks and problems in the process before an item is adopted for inclusion in the menu.

In the case of physical products, this stage is usually worthwhile to identify possible problems but also to assess whether the organization should make a commitment to full commercialization.

As the reader is no doubt aware, companies often adopt a test marketing approach, which in many ways is the same of 'final version development' except that test marketing entails a trial run of the total marketing mix (note the following website that performs new product tests for clients via the internet: <http://www.product-testing.com/>).

Commercialization

After the organization has refined its production and distribution systems, it only remains to enter the commercialization stage. This stage usually is implemented in small increments in order to further refine all systems involved in marketing the new product or service. A notable exception is when a firm seeks full-scale commercialization as soon as possible with its product or service. Examples of this strategy include new products for the cinema and products that are low in uniqueness and thus will be copied quickly by competitors if initially successful.

Common pitfalls in the NPD Process

Various pitfalls can occur during the process of new product development. An easy way to identify these barriers to new product development is to apply a CPS technique called the 'problem reversal technique' and 'reverse' the characteristics of an ideal climate described earlier considering the outcome of any of these characteristics being absent in the organization. The following list may help explain how an absence of these characteristics can discourage new product development.

- a. Lack of Goal clarity – the objectives of the task are not jointly understood, so people in the process are confused and disagree about what they are expected to accomplish
- b. Lack of Resources – there is inadequate economic and non-economic support for the task so that the NPD process is doomed from its beginning
- c. Lack of Encouragement – management does not provide sincere emotional support for the task thus employees on the NPD team feel 'unconnected' and 'neglected' by management feeling that no one values their activity
- d. Lack of Freedom – absence of the ability to explore whatever directions of inquiry are needed. Members of the NPD team constantly feel restricted in considering novel approaches to problem solving because they may be seen by others as not relevant and 'too playful'

- e. Lack of Integrity – management repeatedly fails to follow through on promises made, thus leaving members of the NPD team frustrated and neglected – this is often the cause of total ‘shutdown’ of creativity of the NPD team

Several roles are commonly adopted on new product development teams. Unfortunately some of these roles are counterproductive and should be purposely deleted from the process. Although there are many different possible roles in the idea generation stage of the NPD, we will identify and discuss a few of the most common roles:

Positive roles: enhance new idea generation and product development

Willie, the wild idea man – lots of ideas, likes to have fun, gets bored easily with details

Inga, the analytical – constantly asks questions such as “exactly what do you mean by that?”, “How would that work?”

Edith, the encourager – may often say “Yeah, that is a great idea!”

Pam, the peacemaker – unconsciously reduces conflict by focusing on ideas, not people

Otto, the observer – says very little but is engaged in the process and has many ideas which must be actively drawn out by others

Negative Roles: discourage new idea generation and product development

Doubtful David – fearful, always hesitant to approve of a new idea

Serious Sandra – has trouble with Willie’s glee and Inga’s constant questions, constantly says, “Okay, let’s get to work and stop playing around”

Patty the parent – similar to Sandra but feels compelled to ‘take the group in hand and manage it’ – believes she is ‘responsible’

Nasty Nick - never approves of anyone’s ideas but his own. Always has a snide comment about other peoples’ ideas, often offered as humor

War Story Wally – always has a story about ‘how we did it back then’

Of course, all of the positive roles are nice to have on a NPD team. However, Doubtful David, Patty the Parent, and Knowing Nick have no legitimate place on an idea generation or even NPD team. The roles of David and Wally can be tolerated if other team members can cope with them.

These roles or roles similar to them tend to be present on most new product teams and can either facilitate the process or retard it.

Organizing for New Product Development

Just as everyone in the organization is responsible for customer satisfaction, everyone in the organization should be responsible for new product ideas. The task of conceptualizing ideas about new products should not be reserved for the few people who are members of the NPD teams.

Primary success in managing the NPD Process has been realized through the use of **Cross-functional Teams**. These groups are comprised of people with different educational backgrounds and different organizational areas, which make them more productive, and more challenging to conduct at the same time. For example, at Daimler-Chrysler/US, NPD teams have members from most organizational functions including design, engineering, marketing, manufacturing, and finance. While this approach introduces the potential for more chaotic group meetings, it also introduces the potential for a rich cauldron for the creation of ideas.

The role of product positioning in NPD

Product positioning can be defined as the image of a product in the mind of the target customer in relation to competing products and other products of the same company. For example, if someone says “Mercedes-Benz” you might think “luxurious and expensive.” Then, if someone says “luxurious and expensive,” you might respond by saying BMW, Lexus, or Cadillac, as well as, Mercedes-Benz. Thus product positioning is a critical part of understanding how to focus the new idea generation process. We often think in terms of new benefits we can provide customers or new ways of providing those benefits. For example, a traditional benefit sought with new cars is personal safety. One new product design team in the car industry sought out and hired as a consultant, a retired U.S. Air Force officer who had spent his career in aircraft escape systems to stimulate the team’s ideas about new features in car safety.

Examining the relative positions of products in the marketplace can be of great assistance in new product idea generation. Whether you realize it or not, you already have a rich understanding of product positioning through your everyday activities as a consumer. For example, think about breakfast cereals. Breakfast cereals are available in many different types: sugar-added/no sugar added (is this segmentation based on ‘benefits sought?’); vitamin enriched versus ‘all natural’ (is this segmentation based on ‘lifestyle?’); and finally, some cereals may encourage ‘overall regularity’ like bran cereals; still another segment. Thus, you, as a marketing student should be aware of segmentation approaches, and should be able to use positioning concepts as a way to understand where your product should ‘fit in’ in the marketplace. Do a keyword search internet using “product positioning” and “perceptual mapping.” (Be sure to put your keyword in quotation marks to avoid references to other, non-related areas.

Lack of ideas versus lack of climate for creativity: Is lack of ideas a sign of lack of ability of employees or a lack of willingness on the part of employees?

Organizations with a paucity of new product ideas should not assume that their employees are 'just not creative.' We have conducted studies on many different organizations and employees indicate that the larger problem for them personally is not new ideas, but the fact that they don't believe their new ideas will be adopted or even seriously considered by management.

Chapter Six Exercises

1. Do an internet search on the term “new product development” and prepare a one-page summary of your findings.
2. Do an internet search on the term “idea generation” and prepare a one-page summary of your findings.
3. Have you ever been in a situation at work or in a university organization in which you were attempting to identify new ideas that were creative? Use the dimensions of an ideal creative environment to identify which dimension existed in your situation and which ones did not.
4. You, as a consumer, see new products everyday. Choose a new product and describe what new additional benefits it purports to provide to consumers that its competitors do not. Be sure to try to focus your description on ‘new benefits’ not ‘new features.’
5. Conceptualize a new product or new service for which you think there is a need. Describe the segment to which this new product or service will appeal and what additional benefits will accrue to these potential customers. Use the “Five W’s and H” technique to flesh out your answer.
6. Use the keyword “idea generation” and describe your findings in a one-page report.
7. Go to your favorite drugstore and outline the product positions that are used either for toothpaste or shampoo. Describe the different benefits customers are seeking in each different position.
8. Explain how a market segment relates to a product position
9. Create a skit to perform in your class that demonstrates the idea generation process and the ten roles in the process described in the chapter.

Chapter Six Glossary

new product development process – the stages people in the organization go through in order to create and market new products or services

product – all things a buyer receives in an exchange, good and bad, intended and unintended

cross-functional teams – product development teams that include representatives from all or most the functional areas in the organization including R&D, Manufacturing, Finance, Marketing, and others

product positioning - the image of a product in the mind of the target customer in relation to competing products and other products of the same company