

DIRECTORS' BRIEFING



The Chartered
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New product development

1 Something new

A 'new product' can be a product or a service. It can be the next revolutionary computer chip, or a new holiday package put together by a travel agent. The point is, it is new, so it is often risky. This briefing will not help you generate the ideas for completely new products, or recognise a winner when you see one. It focuses on the next stage – turning an idea into a new product, once you have decided to go ahead with it.

It covers:

- ◆ Reducing the risks as early as possible.
- ◆ Setting a spec, a price and a schedule.
- ◆ Running the project team and keeping costs under control.

2 Can you complete it?

Apart from having the right product idea in the first place, there are three essential ingredients for successful new product development.

A You need the relevant **skills**.

- ◆ For example, if you are developing a new food product, having a technician who can create the right look and taste is only the starting point.

Other issues include sourcing ingredients, the mass production process, quality control, packaging, customer trials, costing and pricing, and so on (see ISO 9000, ST 3, and Pricing, MA 8).

Your team may need to include several people from outside your business (see 5).

B You need to commit sufficient **resources**, including management time.

- ◆ If you can only afford a half-hearted attempt, do not even begin.
Without the critical mass of people, time and money invested, your project will be doomed to failure.
- ◆ If you commit too many resources, the rest of your business may suffer.
- ◆ You may need finance. (See **Overdrafts and bank loans**, FI 1, **Venture capital**, FI 3, and **Business angels**, FI 4.)

C You need **personal commitment** to the success of the project.

- ◆ Though teamwork is important (see 5), in a smaller business it is often the owner-manager who must drive the project.

In practice, most new product development is incremental – improving on an existing product.

FURTHER HELP

There are other Directors' Briefing titles that can help you. These briefings are referred to in the text by name and by the code given to each briefing. For example, the strategy briefings have the codes ST 1, ST 2, etc.

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Compared with starting a product from scratch, this is relatively straightforward.

3 Reducing the risks

Identify major risks early on, so you can decide if the overall risk is worth the potential reward.

A Analyse all the **market risks**.

For example, a tour operator considering developing a new package holiday based on whale watching in Madagascar should:

- ◆ Establish the likely volume of sales, and the marketing and sales cost of achieving each sale. (See **Your sales strategy**, SE 4.)
- ◆ Check how stable the currency is, and consider hedging the currency risk.

The killer blow for a new product will often be something you have not even considered.

For example, a few years ago, some publishers rushed out CD-ROM products, only to discover, too late, that most of their

customers had not yet acquired computers with CD-ROM drives.

See **Research for your marketing**, MA 12.

B Analyse the **technical risks**.

- ◆ For example, the Madagascar tour operator would need to consider the reliability of the airlines, hotels and boat operators involved, and logistics generally.

C It is extremely helpful to have a **working prototype** to test out. But this need not be an expensive process.

- ◆ For example, the tour operator might circulate a priced itinerary and a mocked-up brochure, to ask travel agents how many whale-watching holidays they would expect to sell.

- ◆ For mechanical devices you may need both a 'works-like model' and a 'looks-like model'.

If you are improving on an existing product, you may only need to model the new features.

- ◆ Start with a simple prototype such as a drawing. Good feedback at this stage can save time and money.

Potential customers, suppliers and members of the development team can give extremely valuable feedback once they see what the product is and how it works.

D Avoid being the pioneer, who has to learn everything the hard way. Look for **evidence** of what others have achieved before you.

- ◆ For example, the tour operator could see how comparable whale-watching holidays in Canada are packaged and marketed, and could investigate which hotels in Madagascar other operators use.

E Work out how to **reduce each risk** to an acceptable level.

- ◆ For example, can your new design be patented or protected in some other way? (See **Intellectual property**, LA 5.)

4 Know what you are doing

You need to know the what, when and how much of your new product before you can turn your idea into a project.

A Start by defining a basic **specification** ('spec') for the product. List the features, and how they translate into specific requirements.

- ◆ For example, if the basic features of a new mobile phone include long battery life,

◆ Financial support for developing new processes and technologically advanced products is available under the SMART scheme.

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Non-starters

While a good product idea is no guarantee of success, a bad product idea is a guarantee of failure.

Here are some of the fatal flaws.

A You cannot sell at the **price or volume** necessary to make a profit.

- ◆ For example, UK shoe manufacturers face cut-throat price competition from firms at home and abroad. Even the most stylish new line may have to be discounted.

B Your product can easily be **copied**.

- ◆ For example, you may invest heavily to develop a brand new type of service and build up a market for it. Competitors can launch me-too services at lower prices, as they have not incurred all the costs.

C You lack **market power**.

- ◆ For example, a new piece of software may be the best in the market, but it could be doomed to failure if you lack an effective route to market.

D Your product is **over-ambitious**.

- ◆ For example, a new methane car would require breakthroughs on several fronts – engineering the car itself, persuading petrol stations to offer methane fuel, persuading consumers to buy the car, and persuading someone to finance the project in the first place.

"Intellectual property protection, credibility and good cross-negotiating skills are paramount to successful new product development."

*Edward C Prosser,
Inventor Ronseal
'Paint & Grain'*

small size and low weight, this means you must use a certain type of battery.

- B** Make sure you have a **unique selling proposition** ('USP') – a reason for customers to switch over to your product.
- ◆ If existing phones can only manage e-mail, you need one that can surf the Net. If existing phones only use one bandwidth, you need one that can use two or three.
- C** Plan the **design** of your product. This can be crucial to its success. See **Design**, MA 1.
- ◆ Use in-house or external designers and get them to sign confidentiality agreements if necessary.
- D** Pencil in a **launch date**.
- ◆ When should the product be ready? If it is delayed, how will that affect pricing, sales volumes and profitability?
Unless you and a competitor are racing to launch similar products, hitting a particular launch deadline may not be vital.
 - ◆ Plan to launch a pilot version of the product with a few favoured customers, to identify and sort out the inevitable problems before the main launch.
This also helps you build up your order book before the launch.
 - ◆ If you need any approvals or certification (e.g. for any electrical product), book the product tests. Ask if the approvals body can also test your prototype, to identify any problems early on.
- E** Decide on the likely **selling price** for the

Efficient manufacturing

Develop manufacturing plans at the same time as developing a new product design.

- A** Test proposed designs to see if they can be manufactured **cost-effectively**.
- B** Design new products with an eye to **minimising** the number of components.
- ◆ Try to reduce the complexity of assembly.
- C** Use **standard parts** wherever possible, so they are inexpensive and easy to source.
- ◆ Standardisation is especially important if production volumes will be low.
 - ◆ Consider using parts that you already use in existing products.
- D** Avoid reinventing the wheel. Where possible, **buy in components** that can be sourced at competitive prices. This can slash development costs and lead times.

product. Based on this, work out what your maximum unit cost of production can be.

- ◆ Many new products are based on achieving cost reduction. The aim is to provide the same quality of product at a lower price and with better profit margins.
 - ◆ Other products rely on superior design or technology to win market share, and can be priced at a premium.
But you still need to build to a price, to avoid pricing your product out of the market (see **Pricing**, MA 8).
- F** Estimate **volumes** and delivery demands.
- ◆ How much will you make and sell each month? What will typical order sizes be? How quickly will customers need delivery?
 - ◆ If you will sell the new product in volume, it is important to achieve a low unit cost of production. To do this, you may have to invest heavily in the development stage.

5 Your team

Hand pick your team to suit the project. See **Teambuilding**, HR 31.

- A** Every new product needs a **product champion** to lead the team. See **Leadership**, HR 12.

This individual should regard the product as his or her 'baby'.

- ◆ Without such a champion, the project will lack the passion and perseverance needed to overcome the inevitable setbacks.
It is not enough to tell a manager that he or she has been chosen as team leader. You need a leader with the enthusiasm and energy to make things happen.
 - ◆ Give the team leader the authority to run the project (within an agreed budget and timetable), without continual interference.
- B** Create a team with all the **skills** needed to make the project a success (see **2A**).
- ◆ Involving a complete team from the start allows people to work in parallel, reducing the overall development lead time.
Without this approach, problems can remain hidden until late in the day.
For example, you might belatedly find that something is expensive to make, or a component is difficult to source.
 - ◆ Involve key customers, if appropriate.
 - ◆ Involve any suppliers that will provide key components of the product.

◆ Business and Innovation Centres (☎ 020 8350 1350) help small and medium-sized UK businesses to grow through innovation.

◆ Innovation Relay Centres (IRCs) pass on the results of research in the EU and can help small firms wanting to take part. For details of your local IRC, visit <http://irc.cordis.lu/whoswho/home.cfm>.

"Successful new product development is as much about perseverance and teamwork as it is about technological breakthroughs."

*Paul Crozier,
Small Business Service
Sunderland*

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- C** Make sure all the team members are agreed about the main **objectives**, which are based on the basic spec (see **4A**).
- D** Be prepared for **negativity** and keep the team motivated.
- ◆ If anyone is unco-operative or has a 'can't do' attitude, this will have a corrosive influence on the rest of the team. Avoid including such a person in the first place.
 - ◆ Most projects go through a honeymoon period, while you are generating ideas. Putting these ideas into practice can be a long and tiring process.
 - ◆ Make it clear that there will be failures along the way, so individuals are neither afraid of making mistakes, nor depressed by setbacks when they occur.
- If making the new product was easy, someone would have done it already.

See **Motivating employees**, HR 27, and **Communicating with employees**, HR 32.

6 Project management

Having formed the project team and agreed that the new product is commercially and technically viable, you need to get the details right.

- A** The **team leader** should decide the key parameters for the product specification.
- B** Where appropriate, allow **each individual** to decide the more detailed specifications, within these agreed parameters.
- ◆ By allowing individuals to take personal responsibility for each part of the project, you end up with a highly motivated team.
 - ◆ Use a series of SMART objectives (specific, measurable, agreed, realistic, time-limited) to control progress. This helps to identify problem areas that you can then focus on.
- C** Draw up a **critical path** diagram, showing the order in which tasks must be completed.
- ◆ By agreeing some working assumptions, your team can start work on different bits of the jigsaw puzzle.
- For example, once you have decided your new mobile phone needs batteries of a certain weight and size, you can assign someone to source them.
- Later on, you can still change the battery spec and re-source if necessary.
- ◆ For major projects involving several people, use a project management package. For example, Microsoft Project or Mac Project. This allows you to schedule in factors such

as people's other commitments. You can then spot likely delays and bottlenecks.

- D** As the project proceeds, you usually need to **adjust** the spec and planning assumptions.
- ◆ When you show customers the prototype, you may be forced to re-think the whole product, in the light of feedback received.
 - ◆ Keep asking yourself if the project will meet its commercial objectives.

7 Cost control

Without planning and monitoring, costs can spiral out of control (see **Cost control**, ST 2).

- A** Use **top-down** cost estimating if you have done a comparable project before.
- ◆ Using the previous project as a benchmark, you might double the cost (if the new project will take twice as long, using the same number of people), then add in an inflation factor.
- B** Use **bottom-up** cost estimating if there is no comparable project.
- ◆ Each team member calculates the cost of his or her part of the project. These costings are agreed with the team leader. Add up these costings and add in a contingency factor to estimate the total cost. This is the budget for the project.
 - ◆ Bottom-up estimates often seriously underestimate the costs, because tasks take much longer than people expect.

8 Long-term planning

You need to adapt and innovate constantly to stay ahead of the competition.

- A** **Plan** for new product development on a scheduled basis.
- ◆ Extend product life cycles by repackaging, adding new features and finding new applications for the product.
 - ◆ Do not wait until competitors launch their 'next generation' product before starting on your own (see **Innovation**, ST 14).
- B** **Budget** for new product development.
- ◆ Put aside money to make improvements, and money for totally new products.
 - ◆ Set targets, each year, for the number of improvements or new products you aim to complete. Or, say, the percentage of sales generated by products that are less than two years old.

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