

## PRODUCT DEVELOPMENT AND INNOVATIONS: A TWISTY ROAD FOR MARKETERS

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### ABSTRACT

*End user product and innovation development represents a crucial part for every company which produces products or services under own brand. To develop successful products sold internationally under reasonable cost and within fair time frame becomes survival condition. Under huge competitive pressure no brand can survive with tradition, big brand or low price only. New products are required and needed, exactly as new generations of customers change their expectations and wants. To know what customers definitely want and what to offer to them is not always straightforward. Many innovation investments and efforts fail. Questions why and what are the reasons belonging among the topics of this conference contribution.*

**KEY WORDS:** product development, product innovations, marketing, market research, marketing

**JEL Classification:** M31

### Introduction

In the theory background for innovation and product management we can find various numbers of innovations which can be identified and used in the world of product development.

Of course, since there are many types of industries and branches, the variety of specific innovation approaches and procedures is logically required. During my marketing carrier experienced just some of them, but with such gaps and tumbles that they clearly cannot be taken as “learning” examples. Worthy of mentioning are not only some irritating procedure stages or steps of product development processes, but of course some ambiguous research inputs and data sources which should be helpful and supportive in their original and expected role.

### 1 Methodology

As for formal method used for this article preparation, a desk research, comparative analysis and results of a multinational quantitative research (CATI methods) have been used. The above mentioned methods have been selected in order to deliver following goals of this contribution:

- innovation split theory examples
- real market research outputs done in CEE countries focused on building a knowledge base for later innovations process,
- product development related experiences and success ratio learnt in the past.

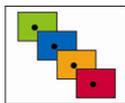
### 2 Results and Discussion

#### 2.1 From 4 up to 15: a wide range of innovation types used in product development theory

Besides “classical” definitions of product development and innovation types and stages cited in university textbooks, there are additional sources, where authors define interesting and rather inspirational approaches:

Nielson (2013) describes basically just with 4 types of innovation or new product “ideas” on an example in the field of consumer electronics with focus on the Apple brand:

- *Breakthrough (the first iPhone launch): It is a large, discrete step change in performance, technology and value provided to users.* A breakthrough innovation is what most people think of when they think of innovation – something new, bold and way ahead of the next best thing. Additionally, a breakthrough product often combines the functionality of several different products all into one.
- *Sustaining (up to iPhone 6): incremental value gain over existing solutions available to users.* Sustaining ideas have to do with improving the current product by developing generations 2, 3, 4, 5 and so on until the product reaches the end of its life cycle. Normally large companies are very good at creating sustaining innovations because their resources, business processes and cultures are setup in a way to enable sustaining efforts.



- *New Market: existing product applied in a new way for previously unrelated customers (iPod to iPhone switch):* A lot of managers think of new markets in terms of geography such as entering an emerging market like India or China. While that can be highly valuable, new market innovations in terms of new use cases can bring huge added value and success in a new customer segment.
- *Disruptive: simply, easy to use product intended for masses at much lower cost (iPod Shuffle).* Startups are able to gain significant market acceptance for their products through simplifying the user experience, lowering the cost and reducing the number of features in a product to a degree that allows a large group of consumers to adopt the product. Many companies who have followed this model have been successful disrupting larger, more established organizations and in turn setting themselves apart as leaders in their respective market.

To complete this discussion it's appropriate to point out that though a particular product can generally be classified along these lines, in some cases products may actually be a unique combination of the four types. For example, in the case of the first iPhone there are several component level pieces (HW, SW) that were either breakthrough, disruptive or new market (high quality touchscreen, simple interface and powerful OS, on button simplicity), closes the analysis Nielson (2013).

In contrast to the above mentioned reasonable 4 innovation types, Heleven (2013) achieved remarkable 15 innovation types. Of course it is not my intention to go through all of them, but I would like to point out, that Heleven based on his research defined the same or very similar innovation types as "incremental", "breakthrough" or "disruptive". As very interesting and representing original approach I consider following innovation types suggestions, especially because of going beyond product itself and including market saturation and logistics into the game:

- *"Red ocean vs. Blue ocean innovation"*

*Red Oceans* refer to the known market space, i.e. all the industries in existence today. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Companies try to outperform their rivals to grab a greater share of existing demand usually through marginal changes in offering level and price. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody. *Blue Oceans* represent the unknown market space, i.e. all the industries not in existence today. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. In blue oceans, competition is irrelevant because the rules of the game are not set. Blue oceans can be created by expanding existing industry boundaries or by reconstructing industry boundaries.

- *"User led innovations"*

The user is king. It's a phrase that's repeated over and over again as a mantra: Companies must become user-centric. But there's a problem: It doesn't work. Here's the truth: Great brands lead users, not the other way around.

- *"Supply chain innovation"*

Supply chain innovation is about applying best practices and technological innovations to your own supply chain in order to reduce such cycle and wait times and other waste (to use a Lean term) in your in-house processes.

## **2.2 New product development: simple product, few countries and consumer expectation contradictions**

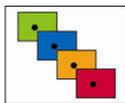
### *International Research on Consumer Preferences in Tissue Industry*

Let us turn from innovation theory into real innovation process. On Behalf of SHP Group an international research has been conducted by GfK focused simple tissue products on a sample of 1800 CATI interviews in CEE countries in 2013. The research was aimed as very basic usage and attitude study to analyze basic consumer purchase behavior in the tissue product category as the part of the knowledge base for further product innovations development.

We set up a goal of development a new generation product for the coming 2-3 years, which would target upper mainstream up to lower premium consumer segments. With some product and package modifications respecting local or national preferences, it should be launched in few CEE countries in parallel.

The research should give us answers typical for a usage and attitude study type: purchase reasons as for product features, price promotion sensitivity, package preference, some brand and loyalty reflections, where, why, what, how much a how often, cross-sell and up-sell question types... Except individual opinions of our sales colleagues and Country area managers from particular countries we had no relevant data sources, since the last research done was rather obsolete and not very comprehensive.

In the following (very simplified and anonymous) table 1 you can see some of the general results. Logically, we did expect some deviations and preference differences but based on the results it is clear, that development of a "global product" for international markets is rather challenging job.



Tab. 1 General Consumer Preferences Comparison

feature preference						
material A	+/-	+	++	+++	+++	+++
material B	+/-	-	--	--	---	---
colored	+/-	+/-	+++	++	++	++
SKU size	+/-	+/-	+	+++	+++	+++
handle pack	++	+	-	--	--	--
known brand	+/-	+/-	-	--	--	---
domestic brand	+/-	+/-	-	-	--	---
lowest price	+	++	+++	++	+++	+++
enviromental	+	+/-	-	--	---	---

Source: GfK, multinational quantitative research (CATI, N=1800), 2013

Speaking just about the CEE region, we can see significant differences related not only to product itself but also in relation to packaging of SKU:

- different raw material is expected
- number of items in a SKU varies significantly
- willingness to pay more for a better product is conditioned to different product features
- sensitivity to price promotions is changing
- the product quality expectations are do not correlate with the purchasing power
- environmental issues and nature protection attitude differ
- brand awareness, profile and positioning differ, etc.

Besides the mentioned quantitative research project we discussed the product preferences and expectations also in qualitative interviews and discussions. Besides confirmation of width range of product parameters for various countries, consumers declared very high price sensitivity and significant loyalty patterns towards private label brands. Consumers state adequate or event premium quality of many private labels products representing very good “value for money” ratio. All this together makes the job of product and brand managers developing innovation for own branded products still more and more challenging and tense. More and more private label products are turning into “brands” in consumer minds, because of rising share, quality, distribution and “purchase and negotiations power towards suppliers” of retail chains. Consumer mostly “do not care” when the product quality and price create a fair balance. Consumers are not experts in brand considerations, they simply buy products they like (esp. in FMCG) with some product names. In these cases the products have names, some logo, perhaps unique packaging and some unique design features – all aspects that we intuitively think of as thee brand – the brand does not yet truly exist here, the brand markers (ideas linked with the product) have not been filled yet with the meaning (Holt, 2004).

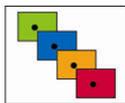
### 2.3 Clear and Loud: Troubles and costs with creating innovation winners

To underline the conclusions of the previous chapter, I would like to share with you some facts from extremely interesting study published by Hood D. and Sjostrand J. (2013) from AC Nielsen Research Company. The study analysis common success features of “game-changing innovations”.

The report was published in September 2014 and is the culmination of an in-depth review of around 12,000 new product initiatives that launched in Western Europe between 2011 and 2013. Among this huge number of cases, only a few met requirements for distinctiveness, relevance and endurance to earn the title of being a “Breakthrough Innovation”.

What are the innovation criteria in the study?

- Distinctiveness: new value proposition, ingredient reformulations, repackaging, size changes, repositioning and other minor refinements to existing brands have been excluded.



- Relevance: generate a minimum of €10 MILLION IN YEAR-ONE SALES
- Endurance: achieve at least 85% of year one sales in year two. Level which confirms a sustained level of consumer demand while allowing some drop in revenue during the transition from trial to adoption?

Based on the facts authors state: "Breakthrough success is never just a remarkable coincidence." Innovation winners are at their cores outstandingly relevant, exceptionally different and meaningfully better than their alternatives. Why still bother with innovations? There is often, if not always, a consumer appetite for innovations. Consumers are increasingly demanding:

- 63% consumers like when new product options are offered
- 56% are willing to switch to a new brand
- 49% tell others about new products they have purchased

Complications that can hinder innovation success:

- If everyone looks at innovation as the pathway to growth, it will be increasingly difficult for brands to achieve outstanding outcomes on these fundamental criteria,
- Heightened competitive intensity is observed from all angles, not just manufacturer brands. Nielsen is observing a different approach to innovation from retailers, who wish to improve the number of exclusive products in store,
- Intense competition and difficult economic circumstances across Europe, the tolerance for risk among manufacturers is far lower today than ever before, which calls for leaner ways to research.

Success is never certain, but marketers can predictably and consistently flip historical performance from 85% failure to 85% success by changing their approach to innovation and building a passionate culture around innovation.

Of the around 12000 new introductions to Western European markets between 2011-2013, only a handful sold more than £/€10 million in the first year, and an even smaller amount maintained similar performance through year two:

- 24% of all innovations achieved 52 weeks of sales
- 45% achieved 26 weeks of sales

In other words, *the vast majority of new introductions get taken out of distribution before the end of their launch year*. Of 61644 new SKUs introductions in the years 2011 – 2013 only 24% achieved at least 52 weeks of sales.

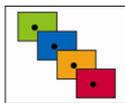
## Conclusion

Regardless the innovation type defined in the beginning of this short conference speech, it is obvious that the road of product innovation development is not straightforward, especially in our global world, when and where the customer target groups are spread around internationally with demanding and rather heterogeneous expectations. To develop a innovative product with success potential among others requires:

- end customer "needs and wants" knowledge base gained through market research methods, approaches combinations
- technology capacity for new product/service research and development
- dedication of internal human enthusiasm, positive thinking, drive and open mind of all involved members in sales, marketing, production
- skills and power of negotiation with business customers (retail chains) for reaching fair co-operation conditions and product parameters for private label products
- generosity, trust and real support of top management and owners, since despite the best effort, the product innovation journey is rather twisty and risky, as seen and documented by AC Nielsen study on Game Changing Innovations

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