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Top of Mind

Perspectives and Commentary

Recovery and the New Product Paradox

IN what has arguably been called one of the most challenging times in the history of business, managers recognize the value of new products to revive their companies' fortunes, but give low grades to the skills and resources their own companies devote to the new product development

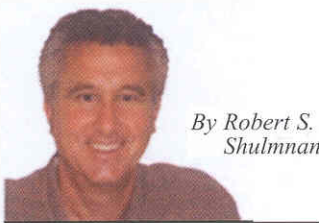
process. Resolving this disconnect may very well hold one of the keys to turning around this sluggish economy.

With the intent of understanding how companies view and develop new products, Markitecture interviewed 50 senior marketing professionals representing a cross section of corporate America. The survey revealed the majority don't devote sufficient resources to create strong, new products and don't have good skills related to the process. Only a minority have separate functions within their organizations dedicated to new product development.

New products are the No. 1 engine of revenue growth. They can: expand the customer base by attracting new customers; help retain existing ones by continuing to meet changing needs; attain a greater share of each customer's business; add to market share; protect a company from competitive forays; excite employees; and tap into the human condition that craves "new" things.

Almost half of those questioned did not cite their company's ability to develop new products as one of its key strengths. More importantly, 20% said it was definitely *not* a key strength. Only half reported their company "really excels when it comes to developing a strategy and seeing it through."

Asked to grade themselves (with A for "outstanding" and F for "failure") roughly eight of 10 executives gave themselves only either Bs or Cs in the all-important category "Developing and launching a new product or service." Similarly, when asked to grade themselves on the important components of development, e.g. having a formal and disciplined internal process, identifying and selling to new target customer groups, repositioning or re-



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launching an existing product or service, developing and launching a new line or brand extension, the marks averaged in the C to C-minus range—grades no executive would likely tolerate in his teenager.

The survey found weaknesses in four major areas: strategy, identification of key drivers, organization and resources. We've add a fifth: lack of specialized skills.

Strategy based on solid research must come first. Success in launching new products must be based on great strategy built on solid research and excellent tactical execution. Yet survey respondents reported spending almost two-thirds of their budget on launch and execution, and only 15% on strategy and development. This can only mean that new products are being developed and forced into unenthusiastic markets through advertising, promotion and discounting.

Marketing must drive the organization. Sales is getting rid of what you have. Marketing is having what customers want. Companies today must be marketing driven, focusing first and foremost on having products that customers want, while continually developing new ones to satisfy unmet customer needs. Yet when asked to identify their companies' key organizational drivers, two thirds told us that they are sales, efficiency or finance-driven entities. Only 25% said customer marketing is a key driver—which means executives are saying one thing and doing another.

New product groups are key. Developing new products is an entirely unique discipline from running an ongoing business. It requires focused attention, a disciplined process, spe-

cialized skills and the understanding that there will be more "dry wells" dug than gushers. The new product group—once a mainstay in corporate America, that would generate a new concept, incubate it, build a strategy, launch into market and then, eventually, turn it over to the brand manager—is growing extinct.

In our survey, six in 10 companies had separate groups for new product development, leaving the task to any of the following: marketing (83%), sales (33%), R&D (33%) or operations/manufacturing (30%). With new product groups no longer the norm, companies' admittedly mediocre performance in launching and executing new products is hardly surprising.

Stretched resources force focus on existing, not new products. Asked to cite deterrents to launching new products within their companies, most executives cited a lack of money time, and talent. Over half said spending was devoted to current products, less than a quarter on new products or services. Most cited a need to focus on established products or brand extensions, seen as lower risk "new entries." But not only do brand extensions fail to attract new customers, they dilute the brand assets' equity as well.

With a third of these companies reporting a 2002 drop in revenues, only 20% expect to boost profits by accelerating new product development. The rest cited measures such as cutting staff, slicing budgets and delaying new products. This is the wrong way to go.

How is corporate America to revitalize the national economy unless we devote the attention, resources and specialized skills necessary for the new product boom that is our economy's most powerful engine for growth? The future of American business cannot afford anything less than a grade of A plus in this critical area.

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