The Process of Product Development

April 4, 2012 | Contact Author | Darrin C. Duber-Smith and Gregory Black

- New product development frames strategy in terms of two variables—product and market—and success relies on matching the right products to the right market.
- Beyond analyzing a consumer need for a product category before developing a product, analyze internal competencies as well as the uncontrollable external factors such as competition, economic conditions, industry trends, consumer behavior and social trends.

New and improved! Better than before! More effective than the competition! Like nothing you've ever experienced before! You have all seen these claims, and they all have one common theme no matter where you are in the world: new product development. In the face of unbelievable odds against success with new products, why do companies continue to try?

The success rate of new products is often reported to be 10% or less, which means that at least 90% of new products fail. A recent report, however, reveals slightly better success rates. Depending on the product category, success rates range from 10% to 20%. That still means that 80% to 90% of new products fail. The success rates are usually assessed during the first three years of a product's life. In other words, if the new product is still on the market after three years and is generating profits, it is considered to be successful. To be more specific, in the category in which cosmetics falls, it appears that of the approximately 25,000 new consumer food, beverage, beauty and health care products to hit the market each year, only 40% will survive for five years. That is a little better, but it still suggests at least 60% of products in this category will fail.

And the beauty industry is hypercompetitive, especially for a brand owner who does not have much to offer in the way of product differentiation. One such way to gain competitive advantage and exploit a growing market segment is to offer a natural or certified organic product. This segment has been growing dramatically for almost 20 years and is now worth more than $10 billion in the U.S. However, this segment, despite the growing target market and expanding channels of distribution, is becoming cluttered with competition, and consolidation has narrowed the important players to a dozen or so. What is a new product developer focusing on this segment to do?

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The Evaluation

There are certainly no guarantees of success, but it may come as a surprise to some people that marketing is actually a science, and attention to the basic concepts will at least ensure you do not make some of the reckless, fatal errors careless marketers often make when they ignore the principles of product development. Let's review the most important aspects.

Marketing theory has many tenants that are commonly accepted and implemented. The four P's of marketing—product, price, place and promotion—is just one example. This important concept provides a framework for understanding how marketing is theorized and applied. Another important concept involves new product development, and it frames strategy in terms of two variables—product and market. This theme pervades marketing as matching the right products to the right market and is the key to successful product introduction. As such, the commonly held belief is that there are four such possible combinations of product and target markets, and that a marketer should focus on one over the other three. This model presents you with a great way to begin to think about product development.

These options are:

1. **Market Penetration:** This strategy involves improving an existing product and focusing on the existing consumer market a brand has already been focusing on.
2. **Market Development:** Unlike market penetration, there are no changes to the existing product, however a product may be repositioned and/or introduced to a new consumer market.
3. **Product Development:** This strategy concerns a consumer market the brand is already targeting and the introduction of an entirely new product.
4. **Diversification:** New products are introduced to new markets. For the remainder of this article, we will concern ourselves with number three and focus on bringing a new product to an existing consumer market. Remember that, except in the case of the most extreme forms of innovations, it is better to analyze a consumer need for a product category before you develop a product to meet those needs. In other words, don't develop something first and then find a market for your product. Do your homework and analyze your internal competencies as well, as the uncontrollable external factors such as competition and substitutes, economic conditions, the legal and regulatory environment, industry trends, consumer behavior, social trends and other important areas.

Researcher Paul Trott identified several ways to classify new products and provides an alternative way to understand how to plan a new offering. Products can be one of the following:

1. **Product is new to the world.** This doesn't have to be a groundbreaking discovery (though the best products are groundbreaking). The point is that the product is well-differentiated from competitors and has achieved some modicum of a competitive advantage. Natural and certified organic ingredients in beauty products, for example, have historically achieved clear differentiation.
2. **New lines to the company.** This is a new group of related products (a product line usually unified under a single brand name) that may already exist in some form in the marketplace, but is new to the company. Again as an example, a company may decide to add a natural or certified organic line of products.
3. **Product is new to the line.** This is also known as a line extension, as the company has identified a gap in its brand offerings and has decided to fill that gap by adding a product.
4. **Improvement of existing product.** This involves adding or deleting features, changing some aspect of the aesthetics, or any number of product improvements. Usually this is done in response to competitive pressures, supply chain improvements or a need in the marketplace. A beauty brand owner could make changes to ingredients or packaging in an effort to communicate that the product has been improved.
5. **Repositioning of existing product.** This strategy involves a re-orientation toward a new consumer market or a shift in strategy within the existing consumer market that the brand is already addressing. An existing brand could be "repositioned" as natural, for instance, but would have to follow through to ensure the product is truly natural in order to solidify the reposition.
6. **Cost reduction.** Some products are changed to reduce costs in a competitive industry.

Regardless of which way you look at it, it is advised that you plan and implement the time-tested process of new product development to reduce your risk of failure (which unfortunately is always high) and to optimize results.

The Process

1. **Idea Generation:** Ideas come from many places. Employees, competitors, supply chain members and customers are always great sources. Conducting research in the consumer marketplace can expose many unmet needs, and investment in internal research and development can provide the company and brand with innovation-driven competitive advantages for years to come. Formal brainstorming sessions complete with objectives, a moderator and a time limit are useful tools for idea generation.
2. **Idea Screening:** There should be no bad ideas in a brainstorming session, because such quick judgments tend to stifle creativity, so the screening of ideas is left to stage number two. Ideas should be screened based on internal feasibility (Are we able to do it?) and external opportunity (Just because we can do it, does it mean we should do it?). This exercise, resulting in a situational analysis and SWOT analysis (strengths, weaknesses, opportunities, and threats), involves the factors mentioned previously in the article including, but not limited to, identifying and analyzing competition and substitutes.
3. **Concept Testing:** Once an idea has been screened and enough internal strengths and external opportunities have been identified, it is prudent to conduct market research—which, although expensive, reduces risk. This is usually done in the form of focus groups and surveys, which can be conducted in myriad ways.
4. **Business Analysis:** Now that you have affirmed your product might be accepted in the marketplace (that there is an underlying need among a group of people with both the ability and the desire to purchase it), it is necessary to expand your situational analysis and SWOT analysis, adding the information you gleaned from your primary research efforts as well as additional details. This information should be developed into a strategic marketing plan complete with measurable objectives, four P's strategy, budgets and other mission-critical information.
5. **Product Development:** This is where a prototype of the product is developed and a small production run, if desired, is done for sampling or test marketing.
6. **Test Marketing:** Although not a necessary step, as speed-to-market is sometimes more important than getting everything just exactly in order, introducing your new product to a specific market (usually a geographically based area) to see if it will work in the broader mass marketplace can also reduce risk. Obviously this step should be skipped if it will tip off more powerful competitors and give them a first-mover advantage.
7. **Commercialization:** Here is where the big money is spent. The product is manufactured and sold to retailers and consumers. The firm spends considerable monies on communication and establishing distribution channels, which can be an expensive and time-consuming endeavor.
8. **Evaluation:** Any student or practitioner of "process" knows continuous evaluation is always the final step. Tracking and analyzing what's working and what isn't, through monitoring the external marketing environment, is absolutely crucial. Missteps can be corrected and adjustments made to exploit opportunity or respond to competition or pending legislation.

Clearly developing a new product is no easy task and should be conducted as scientifically as possible. There are numerous models at your disposal, so you need not make decisions based on incomplete information, whimsy or hunches. Take the time to perform your due diligence, do your homework and best of luck.

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This article appeared in the April 2012 issue. Find more on this topic in the digital magazine.

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