

Best Practices in New Product Development

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In a recent Executive Leadership Innovation survey, 722 business executives were asked to rate the importance of launching new products or services on their leadership team's agenda over the next three to five years. Approximately 60% listed it as a Top-3 priority. However in the same survey, over 50% of executives indicated that success in launching new products is not "developed and sustained" throughout their company. So why is something deemed so important by business executives also something their companies do not do very well? We looked across our collective portfolio of new product development work to determine a set of best practices and guiding principles for this important business function. In general we found that companies achieving better than average success in this area excel across multiple dimensions that relate to both new product development and (more broadly) innovation. Specifically, these dimensions are: strategy, process, portfolio, capabilities and culture. Each of these five dimensions is detailed below in the form of a best practice as it relates to new product/service development.

1) Develop a Strategy

Best-in-class firms tend to approach new product development in a very purposeful manner. They realize that success in new products and services rarely happens by chance, and that relying on luck and good fortune will result in fleeting success at best. As such, most of these companies have in place, and continually manage to, a formal new products/services strategy. While the level of depth and the content included differs, below are some common components to a new products/services strategy.

Strategic intent. This component of strategy articulates the company's (or business unit's) long-term vision for developing and commercializing new products. It acknowledges that organizations may be at different stages of maturity and business development, and as such, launching new products has varying levels of importance (and often serves different business objectives). For example, a company's vision for new product development may be to further establish its leadership position in its industry, and/or to distance itself technologically from its nearest competitors. Another company's vision for new product development may be to help it remain competitive (or even to catch up if it has fallen behind) relative to category leaders. It is easy to see how these two strategic intents, while both appropriate for their respective organizations, would lead to very different new product focus and marketplace launches.

Business Objectives. Closely related to strategic intent, business objectives build on a company's new products vision by stating very specific goals with regard to new product/service development. In general, it is better to establish fewer, yet more meaningful and realistic business objectives, than to "laundry list" numerous objectives. Examples of business objectives for a new products strategy could include: leverage a proprietary technology to launch a new product line featuring superior performance with no increase in price; create a new service that enables a luxury brand to provide a value offering without diluting its premium equity; and launch a new brand to help defend market share against a new category entrant.

Financial Goals. Best practice organizations consistently establish financial goals for new product development. Many of them define these goals in terms of a growth gap—in other words, how much they intend to grow in the next 3-5 years, and what percentage of that anticipated growth is attributable to new products or services versus base business. Some companies establish their new product financial goals in terms other than (or in addition to) revenue. For example, increasing net income, achieving higher gross product margin, driving price

premium, and improving return on investment all represent valid bases from which to develop financial goals (as long as the goals themselves are specific and quantifiable).

Intended Scope. This component of the strategy defines the potential “playing field” for new products or services. It establishes boundaries that must be followed throughout the process. Best practice companies specify not only what should be pursued when identifying new product opportunities, but equally important, what should not be pursued because it is deemed inconsistent with business strategy. For example, broad areas such as product categories or industries, customer segments, specific technologies, or price points may be ruled out because they are considered “off strategy.”

2) Follow a Process

Companies that establish and consistently follow a new product development process are far more successful than their counterparts that do not. There are myriad new product processes in the market today, and our best practices companies vary widely in terms of the specific approach they use. However, there are a few characteristics pertaining to process and approach that are common to nearly all of these best practices new product companies.

Dynamic & Iterative. New product development is seldom successful when it is overly rigid. Even companies that follow a traditional stage-gate new product development process recognize the importance of allowing for some flexibility at critical points in the process. Specifically, best in class companies recognize the importance of iteration—i.e., the ability to go backward in an otherwise linear process—when the situation warrants. For example, if a high-potential opportunity emerges during idea generation—but it does not neatly fit into one of the growth platforms defined earlier in the process—they need to be flexible enough to adapt their process (on an exception basis) in order to capitalize on a

potentially lucrative opportunity.

Open & Inclusive. For several years now, the trend in new product development has been to breakdown traditional barriers that are impediments to successful innovation. One of these barriers has been a mindset to try to contain innovation “within the four walls.” The concept of open innovation assumes that in a world of widely distributed knowledge, companies cannot afford to rely entirely on their own research, resources and intellectual property. Instead, they should buy or license processes or inventions (i.e. patents) from other companies. Similarly, they should license, joint venture or even spin-off internal inventions they are not able to use. Best practice new product development companies eagerly embrace the notion of open innovation, and tend to consistently reap the benefits from it.

Customer Participatory. Customers can and should play an integral part in new product development and best practice new product companies recognize this reality. They are adept at finding lead users in their respective industries to help them commercialize their inventions. At its most extreme, customer participation could include engaging with your most visionary customers to actually co-design new products, enabling them to shape future products and services to more uniquely meet their needs. Some leading new products companies even provide toolkits for their customers to help them design very specific solutions for themselves.

3) Balance the Portfolio

Achieving balance by avoiding extremes is important in most facets of business, and new product development is no exception. The word “balance” in this context refers to the portfolio of new products that eventually emerges. Specifically, best practice companies seek to balance their new product development pipelines and portfolios across the following dimensions.

Time Horizon. It is important to strike a balance between the need for major new product launches that may take several years to launch with the need for quick-hit wins to drive next quarter's financial performance. Best practice companies realize the importance of both objectives and—to use a baseball analogy—attempt to hit in a few singles in addition to the eventual homerun. In fact, they often tend to use the former to finance and pave the way for the latter.

Risk/Reward Profile. Closely related to time horizon is risk/reward profile. There is arguably no business activity that is mired in more uncertainty than new product development. Naturally, this uncertainty manifests itself in the form of business risk. Companies need to make sure their new product/service pipelines have an appropriate mix of “sure things” (that likely represent smaller opportunities) in addition to the high-potential opportunities that are far less certain. No two companies' risk/reward profile is identical, but it is important to identify where on the spectrum you want to be, and to plan accordingly in order to achieve it.

Level of Stretch. How far away from your base business should you venture when it comes to new product development? Play it too safe with “flavor of the day line extensions” and you will likely end up with incremental innovation—and potentially incremental returns. Stray too far in search of impact and transformation and you may not succeed at all. As with risk/reward, it is important to proactively identify where on this continuum is right for your organization, and ensure your new product strategy is in line with this destination.

4) Build Capabilities

Capabilities refer to the internal talent requirements associated with achieving and sustaining success in new product development. Importantly, best practice new product development companies realize that required capabilities go beyond the traditional technical skills often associated with innovation (e.g., customer insights, idea generation) to include the broader and softer skills that pertain to general

management.

Leadership. Because new product development is inherently future-oriented, it can often fly under the radar in organizations that are typically focused on delivering this quarter's financial commitment. As such, it requires talented and dedicated leaders to continually champion initiatives and raise their profile inside the organization. Best practice companies ensure these champions are star performers, and do everything possible to set them up for success. Some of the qualities and specific capabilities these leaders tend to possess include: vision, role modeling, confidence, charisma, and influencing skills.

Strategic. As mentioned earlier, a sound and comprehensive strategy is the cornerstone of a new product development initiative. Not surprisingly then, best practice companies tend to have new product leaders with strong strategic and critical thinking skills. This includes the ability to develop short-, intermediate-, and long-range business plans, assess customer and market dynamics, identify and evaluate strategic scenarios, anticipate competitive and other marketplace responses, etc. Said differently, the new products leader needs to be a strategist, not merely an expert in innovation and new product development.

Functional/Technical. Finally, there is a required set of skills pertaining to new product development that, not surprisingly, tends to have a great deal of overlap with the functions of marketing, research and development, and market research. These skills include—but are certainly not limited to—customer insight, research and analysis, creativity, and idea generation. Here too, best practice companies ensure that the people leading and supporting their new product development initiatives possess these important skills.

5) Foster a Culture

In his book *Good to Great*, Jim Collins discusses the topics of “culture of discipline” and “ethic of entrepreneurship” (see right). Cultures of discipline without entrepreneurship are often hierarchical in nature, which results in a type of company culture that is not highly conducive to innovation and successful new product development. Conversely, organizations with high a degree of entrepreneurship but without a culture of discipline (as is often the case in start-ups) lack the focus, clarity and purposeful direction necessary for innovation success. As is the case with organizational capabilities (see above), when these two factors are combined the result is an environment in which achieving greatness in new product development is possible.

Culture is admittedly challenging to change (or even affect), especially in the near term. Additionally, beyond the very high level characterization outlined in the previous paragraph, there is no single, magical formula for creating a culture conducive to successful new product development. However, the best practice companies referenced throughout this article claim many (if not all) of the following attributes as characteristic of their companies’ cultures: trust, passion, team orientation, flexibility, diversity of thinking, risk-taking, openness to new ideas, and willingness to experiment.

There are myriad factors that go into determining success in new product/service development. One which was not addressed in this article (because it is not very actionable) is luck and good timing—which many companies acknowledge has played a role in their past successes. There are, however, a number of practices and principles that companies can apply to their own new product/service development initiative that have the potential to significantly grow their business.

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