

Chapter 9 – Developing New Products

Why Do Firms Create New Products?

- All firms must innovate, that is why firms consider it necessary to invest resources into the creation of new products especially if the firm already has good products on the market.
- Elements of Consumer Behaviour are that
 - Markets are dynamic and consumer needs are ever changing
 - The market is saturated with alternative and substitute products.
- Thus firms must seek out methods to create value for consumers such that their products will stand out from the crowd.
- Alternatively, their products won't be chosen and thus the firm's value will decrease in value. This results in a loss of sales, market share, brand value etc.
- Firms that aim for longevity, innovation is essential to survival.
- When products have become accepted by the market and become embedded and thus they are continually produced and tweaked to guarantee they remain relevant for users.
- All products are improved upon to ascertain continued success and relevancy to users.
- New offerings to the market offer benefits to both consumers and firms
 - Their effect however is solely dependent on how new they are to the market.
- When firms are tweaking and creating new products, they are responding to consumer demands within the market. Thus they are being market-driven.
 - When the firm then possesses satisfactory capabilities for producing a new product (or innovation), they can create an opportunity to develop new markets.
- They can achieve the creation of new markets by offering unprecedented value through new innovation.
- Fewer than 10% of total product introductions are completely new to the market.
 - Difference being that Kmart as a product introduction shifted from being a medium-price store to a low price store and Wi-Fi a few years ago was new-to-market.
- Wherever in the continuum a product lies, the fact is that firms need to be continually innovating.
- Innovation is the process by which ideas are transformed into new offerings including products, services, processes and branding concepts.
- The innovation process is critical because it represents the firm's commitment to investing in their long-term competitiveness and growth.
- With a lack of innovation and the resultant goods and services produced from that innovation, firms can either.
 - Continue to market current products to current customers
 - Take the same product to another market with similar customers.
- This creates the Ansoff Matrix

		Products	
		Existing	New
Market	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

1. Sell Existing Products to Existing Markets
2. Sell Existing Products to New Markets
3. Sell New Products to Existing Markets

4. Sell New Products to New Markets (Diversification).

- While some innovation strategies work, some estimates indicate that only 3% of radically new products actually succeed and various reasons motivate firms to keep introducing new goods and services.
- Changing Customer Needs
 - When firms add products, services and processes to their offerings, they can deliver and create value more effectively by satisfying the changing consumer needs both new and current or to prevent current consumers getting bored with their current offering.
- Market Saturation
 - The longer period of time a product stays in a marketplace, the more likely the product will become saturated and with the lack of new goods or services, the firm's value will decrease.
 - Consumers will want something new over a period of time.
 - Saturated markets can also opportunities for a company that is willing to adopt a new process or mentality.
 - Many firms are looking to niche and small markets for brand growth.
- Managing Risk Through Diversity
 - Firms (through innovation) can produce a broader portfolio of products which diversifies their risk and enhance firm value better than a single product can.
 - Firms that are diversified can better withstand external factors such as changes in consumer preferences or intensive competitive activity.
- Fashion Cycles
 - Industries that are reliant on fashion trends and thus short life cycles, the majority of sales come from sales.
- Improving Business Relationships
 - Innovation isn't necessarily the targeted segment at the end user consumer market, sometimes it's used to improve relationships with suppliers and other intermediaries.
 - This can be used to create mutual advantages for brands, firms, consumers and at large, society.
- Even if a firm succeeds in innovating and creating new products, new-to-the-world products aren't adopted by everyone at the exact same time. They diffuse and spread through the population in a process known as diffusion of innovation.