

Marketing Management II
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Lecture No. W2-L1
Screening New Product Ideas

Hello welcome to the first session of second week of our course marketing management part II when we are discussing about new products in the overall ambit of product management. Yesterday or at end of first week we are recognized that entrepreneur's innovators come up with new product ideas by recognizing opportunities different ways people recognized opportunities entrepreneurs recognized opportunities.

Where discussed in that session often, I interact with our young budding entrepreneurs among our students among our faculty colleagues. who comes to discuss with me and say that I have this idea and what you think of this business remember that entrepreneur's innovators often come up with multiple good ideas. They often come up with variants of solutions responding to the same opportunities they have recognized.

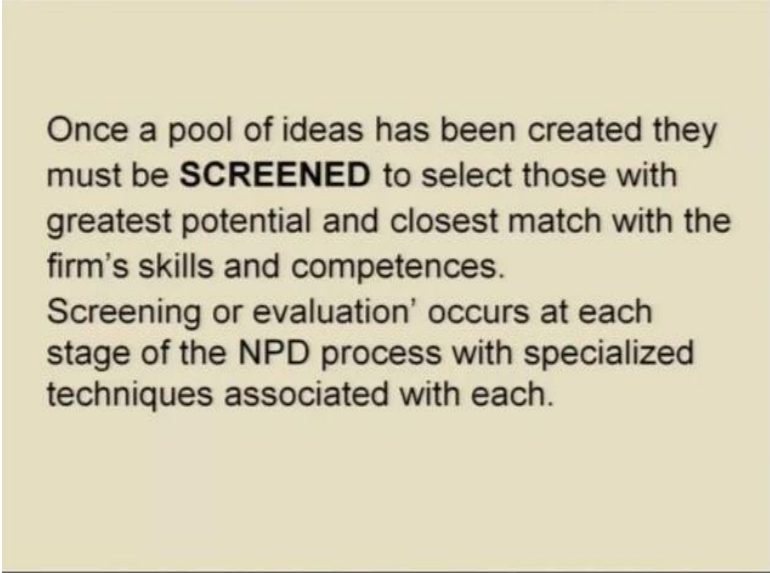
The question comes up that how do we rank order these different ideas that are coming up in response to opportunity recognition. When people asked me about I have this idea I always say that it is better not to start with your idea but to start with what people prospective consumers will do with this idea. So, a good way to start is to ask first that why anybody needs this new product or service idea that you have why at all.

The second question that must be asked also again as you see also this question I am looking at the external world the market the consumer rather than the innovation inside the head of the entrepreneur. So, the second question good question to ask is that who will buy this product or service and why the next question good question to ask is that why will they continue to buy this product or service and why will they buy from us why will they buy from you the entrepreneur.

And then of course the last question comes up that will they tell others about this new purchase will they express satisfaction and will become advocate for the new product or service ideas that you have promoted these are some key measures. But we can structure this

whole issue about of selection of a new product idea step by step. So basically, therefore all entrepreneurs most of the pruner innovators they have pool of ideas and then there is a screening necessary.

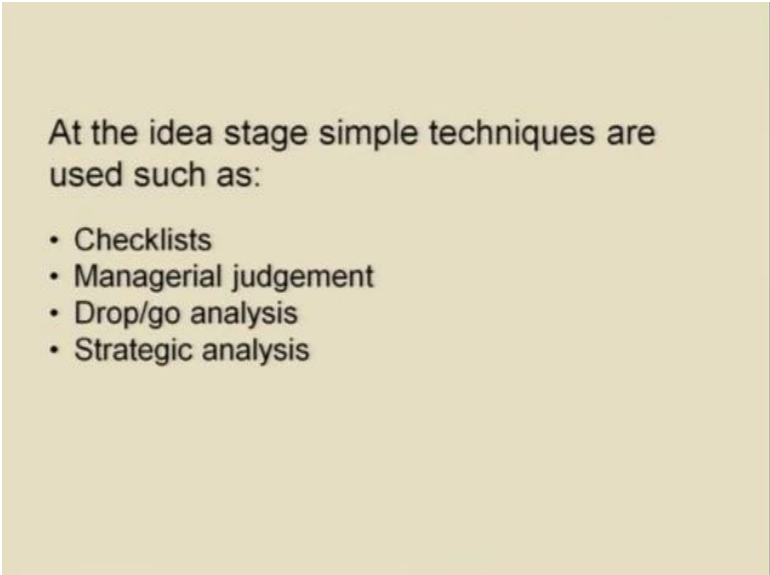
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Once a pool of ideas has been created they must be **SCREENED** to select those with greatest potential and closest match with the firm's skills and competences. Screening or evaluation' occurs at each stage of the NPD process with specialized techniques associated with each.

Rank ordering necessary to select a particular idea or a particular cluster of ideas which will be pursued.

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At the idea stage simple techniques are used such as:

- Checklists
- Managerial judgement
- Drop/go analysis
- Strategic analysis

So, there is a simple way to look at this ideas and for categorization of a selection the first one is checklists check lists can be seen from two different ways

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Checklists are the foundation for more subjective analyses and considerable care should be given to their construction. Given the importance of 'matching' the two key checklists are *consumer benefits* and *producer benefits*.

Checklists in terms of consumer benefits that is the set of questions which I was talking about just tell it to while back that while will anybody buy this product or service. And what benefits they we will derive why they will buy from you why they will continue to buy from you and why will they why will they talk to others and create the buzz about your product or service and then of course.

We have also look at it from the producer benefits that is how that particular product or service will fit within the overall chart of the organization. This part of producer benefits in the checklists is very important when we have looking at a new product in a larger organization we will discuss that in a greater depth may be in a later session today. I will focus more on the entrepreneurial approaches to idea selection and idea promotion so I am looking at it more from therefore consumer benefits I am not so much the producer benefits of course.

Certain aspects about producers capability competency availability of the resources those must we check but in the beginning therefore if you are looking at the consumers perspective. Then we have to set of map that what kind of need what type of need will be satisfied by this particular new product or service idea the timing of need.

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Determining need for idea in idea stage:

- **Type of need**
 - established, emerging, time span
- **Timing of need**
 - frequency, duration, occurrence, variation
- **Trial risks**
 - customer tastes and preferences, expectations, buyer behaviour, norms, value
- **Controllable marketing elements**
 - product performance, price sensitivity, communication needs, distribution needs, service needs
- **Market structure, conduct and performance**
 - location, size, stage in life cycle, concentration, basis of competition etc.

Adapted from: Hisrich & Peters (1984)

You know in terms of frequency or duration and in terms of variation all the temporal sides of the need and the product or service matching also is necessary risk assessment to what extend it is a problematic for customer to tried out try out. Your new product or service idea that also be seen and consumer benefits must be measured or must be evaluated.

In terms of the usual marketing elements like the product performance price communication needs distribution needs service needs etc. And of course, market structure conduct performance these aspects we will of course in the later sessions we will expand on this but remember therefore even at the initial stage. when we have a number of ideas each idea must be evaluated by using this normal yard streaks of a marketing plan.

Also, just like we want to know the desirability from the customer's perspective of a particular new product or a new service, we have to also see in terms of a commercial a viability so, we have to understand cash flow that will be generated kind of cash demand that will be there among the new product or service to be delivered the entire operational mechanism. What it will take what kind of resources it will take and not so much in the long term of course no business is worth unless in the long term it is a profitable.

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Estimating an idea's worth

- Expected cash flows over time
- Potential profitability
- Returns on:
 - Investment
 - Equity
 - Assets
 - Sales
 - Cost of capital
 - Present value
- Opportunity cost

And, so therefore return on investment return on equity assets sales cost of capital and these usual measures. That you see on the screen those all are necessary of course in these days in the days of these so-called unicorn ecommerce companies. Where one-billion-dollar valuation is short for within a few months or within a companies don't really bother too much in the initial phase about these conventional financial measures.

They are main measure at that point of time is in terms of the customers acquisition in terms of customer relations. In terms of reaching out in terms of market penetration and these just therefore these long term financial benefits are kept on the canvas but initially tactically more emphasis given to market share mind share market penetration the speed of launch the coverage and so on.

I will intervene here I think you have says some of very important points here. So, there are two things which I think you have said in a very important way one was the cash flow of demand of cash this is something which is very important for a start up and the uncertainty around the profitability are the business model. So since, we have talked about some of that is ecommerce company and the viability of the business model has to be still established it is important for any student to understand is that the way probably a large firm can effort to remain probably without profitability.

Or. They will not need external cash requirement unlike a small type to start up if you are a continuously if the business idea requires the investment of money into that business for a long period without much of return in the initial period. So far, a startup it could be a problem

the same business probably a good idea for a large firm. But a small firm which is cash in stock it could be a good thing and the uncertainty around the idea because the more the uncertainty you are not sure about the return on investment. Because in that case what will happen is that investors will not like to put their money into this.

Unless of course they are able to attract venture capital yes, because venture capital is really look for this one big idea they are prepared to take 9 failures in search of that one mega success. So, they are therefore able to that is why that venture capital is also called the risk capital. Which means they are not they will not be evaluating the business.

As a bank put so they therefore if you are a if you are an entrepreneur. You have to see that whether your idea is really differentiated and really so attractive and so novel. That the venture capitalists will be seeing the potential of a big breakthrough in that case, that what we called they call the cash burn rate that means at what rate you can observe cash in your business by rapid expansion is given more importance than cash generation or cash surplus.

But if it is a conventional new business if it is a me to business than as professor Mishra said you are start up you have to be financially prudent. So, the financial model is therefore ultimately all businesses will have to follow this kind of conventional return on investment return on sales return on assets return on equity and so on but there are certain novel breaks through new types of business models. As we see particularly in the e-world which may not initially confirm to this model they may try to experiment with this very rapid expansion what they call blitzkrieg.

Which means at almost like a storm they want to penetrate the market as fast as possible touch as many customers as fast as possible so that is the different kind of measure. So, you need to therefore evaluate that what is the nature of your business and what is your nature of business. How could you can be and how fast you can be will again be evaluated by answering those fundamental questions that why will anybody buy your product. And what benefit it is bringing and what kind of exceptional attraction it is bringing to the table.

And there and becomes very important as you said like why they will continue to because if there if you like in ecommerce. If you start giving that big discount whether the customer will still remain with you or you have just given the discount for the sale. I mean acquiring the

customer yes for the first stage when you remove those discounts they do not come back to you.

So, the whole idea is that you may create a price and session. But the whole idea should be that you are using that as a tool to make the customer to come to you. But once the customer confirms to you its further retention depends on we continue heavy discount then that business model might fail. But however, if you are doing such value engineering measurement in the supply chain that you do not have enough inventory cost or you are able to like Amazon at some other people showed that if you are able to create a business model.

Where you are extremely inventory light and you are fundamentally connecting people who have stock with who people need the product and in the mean you are just an in for mission oriented intermediary. Or as they called info me dearie then that is the different type of business model their even if you are actually therefore operating at a low margin because your own costs a lower so you can afford to give a discount. So, if you do not have that fundamental financial strength and you are just giving discount just to attract customers.

When you was remember that they are must be other features in the product or service that you are offering which will continue to bring the customer back to you. So, which means what you see on the next slide this Rogers five factors which will again discuss when we discuss a new product in the large organization Rogers five factors ultimately will come into play which means whatever new product or service you are promoting.

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Rogers has suggested that the acceptability of an innovation is a function of:

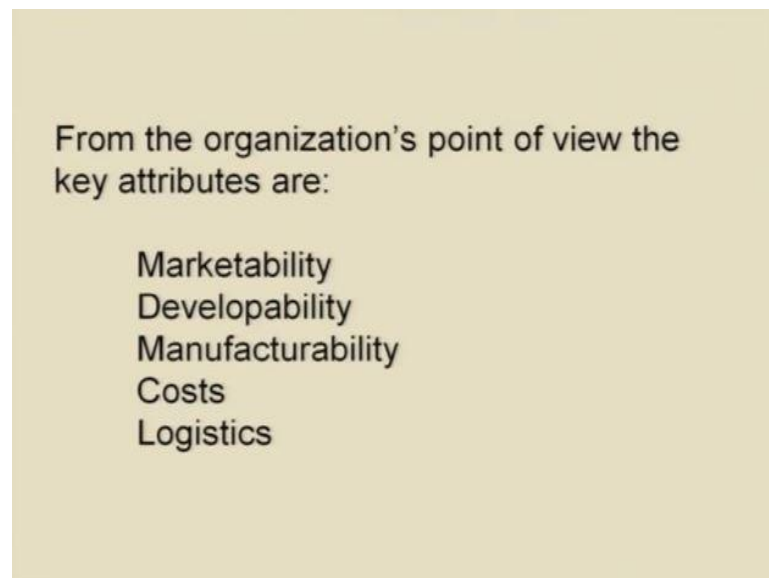
- Relative advantage
- Complexity
- Compatibility
- Communicability
- Trialability

It must have relative advantage compare to the current solutions it can be complex in side. But it must be very simple at the user interface level it must be compatible backward compatible it must not be like you cannot come up now with the keyboard. Which does not follow the quality QWERTY like format because that becomes in standard may be somebody will come up with the keyboard Which will be show intuitive and so great it can break the format but when you break the format you have to very careful.

That there is enough power in that new idea that is backward compatibility become so longer important in 90% are more than 90% cases is backward compatible that means do not present the way of using the product. Which is entirely different then it might cause problem like for example on smart phones there the features like voice command but it will observe around you.

That may be five percent people use the voice command instead of the button command so this compatibility backward compatibility is very powerful force so don't thinker with it unless you are very sure and of course. The benefits must be very clear communicable and top of everything a new product a new service the more you created opportunity for the customer.

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For trail, better it is from the organizations point of view a new product or new service the check lists or the screening criteria are obviously marketability and marketability means how big the market is how fast the market growth is how accessible that market is and so on. So, you can not actually today think of a market which exists in Australia because before that you

have to go through the whole lot of test that how you are going to reach customers in Australia.

So that developing the market what will the cost of developing that market that also as important as marketability. So, you may have a product which is very attractive for three people who are attractive actually on the sea side and enjoying a holiday. But then if you are going to look at the whole world the sea resort market sea side resort market you have to be careful that what it will cost you to develop that kind of market and then manufacturability cost logistics.

The usual operations points are also very important for the developer's point of view to see how they will make their idea actualization possible so from the idea in the lab or from the idea at your prototypes stage or proof of idea stage and the market penetration market aliens achievement between these two ends lies. All these different tests and assessments which you must do you must do multiple times.

That is why we I think explained in the previous weeks as sessions that this usual linear model or stage gate model by which at multiple stages which we test the new idea and how its progressing is offering repeated process. You cannot actually just you may sometimes go back the drawing board and come up with new idea to improve the logistic like for an example I have read when Tata's they develop the Tata's watch this water filter the initial model even though it was very found to very attractive model intended it target customers.

Because you know it cleans, it filters water without much of power consumption and it has many other very low features but they found to penetrate to rural Indian market they needed the per unit this logistic cost which was not achieved by initial model. So, they went back and they change the design in such a way that more number of units could be stacked inside the container and so they improve by I think some fifty sixty percent the number of units that could be stacked.

So, that is why in the initial stage each one of these factors are equally important for the ultimate success of a new product so an attribute list there will be specific items and there can be different importance that can be attached that which is more and that is how a multi criteria decisions can be done.

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An attribute list will vary in terms of specific items and the importance attached to them according to the characteristics of the product and its intended market in terms of:

- Customer needs
- Supplier capabilities
- Competitive offerings

By balancing customer needs supplier capabilities and the competitors what is of it available in the market so once ideas have been screened and then the survivors the few of them.

So, there may be initially only about 20 ideas and after those initial filtration etc we might be left with may be 3 or 5 ideas and then we have to go do this kind of concept test nowadays it is also sometimes called protocepting.

Which is that representation of the benefits and through words pictures and sometimes some paper models or working models? And then you know interact with stakeholders both employees as well as intend future possible customers and make an assessment. I will end today with this which might actually from the backdrop of our further discussions during this week that why good ideas fail so it could be due to initial.

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Reasons for failing idea/concept testing

1. Incomplete overall strategy
2. Inadequately communicated strategy
3. Poor communication between marketing and R&D
4. Passive idea generation
5. Wasteful extremes in financial evaluation
6. Misuse of marketing research
7. Poor use of tracking concepts
8. Delusion/self-deception/over-confidence
9. Organizational confusion
10. Lack of a 'product abandonment' programme

Source: "Common Mistakes in Product Development", Management Review 66, no 6 (June 1977)

Incomplete strategy communication may be faulty there might have been good bad interlink between the people who are interacting in the front end with the customers versus people for developing the product. And so, there are these I think some of these ideas which are that towards the later end are can be discussed there more final point the deal with the psychology of the developer.

The deal with organizational behavior etc. About this self deception or over confidence or confusion or bad communication inside the organization. So, we will discuss all of that but this one is an important interesting idea these ten we say that actually every new product. You are starting with there should be some kind of you know plan b plan c that if does not work out then what are you going to do.

So, that the kind of if then analysis also an important before we get whole hog into a new product launch. So, I think I will end here and tomorrow professor Mishra will take up about this a new product how it is nut chat evaluate it and test it in a large organization. And then we will proceed towards the product life cycle and the management of a product from it's a inception to its saturation okay. Thank you!