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Adapting to Changing Markets with New Products

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The replacement of mature and declining products with new products is often critical to maintaining and building sales. Existing products are always vulnerable to changes in the market environment. Consumer needs, tastes, and interests change. New technologies can make current products obsolete. Increased levels of competition, both foreign and domestic, can threaten an existing product's market position. To adapt to these changing market conditions, the development of new products can be an important business strategy.

New product development includes a wide range of activities: the creation of innovative products that are completely new to the market, additions to existing product lines, improvements to existing products, product re-positioning, or the development of new flavors, colors, or packaging. Each of these actions requires marketers to take on new risks, costs, and uncertainty. However, those that do not develop new products put themselves at risk in a competitive market environment.

Products are often said to have a life cycle with distinct stages: introduction, growth, maturity, and decline. In today's economy, the product life cycle is compressed. As a result of increased competition and rapidly changing consumer interests, products move through the life cycle stages more quickly than in the past. As product life cycles have shortened, new product development has also accelerated. In 1997, over 25,000 new products were introduced -- a more-than-fourfold increase since the early 1980s.

New product development is a challenging process for a business of any size. A widely cited statistic emphasizes this challenge: eight out of ten new products fail. A new product faces many barriers to success:

1. Costs -- Successful new products require significant levels of investment in product development and introduction. Some companies lack access to the capital or human resources needed to carry a new product through development and into the market successfully.
2. Competition -- Heightened competition has shortened product life cycles and product development timelines. Products are easily copied by competitors. A marketer must accelerate the product development process to beat competitors to market, and a product must be successful quickly to provide a favorable return on investment.
3. Market fragmentation -- With increased competition, markets tend to fragment into smaller segments. Fragmentation may limit a marketer's ability to attract a wide audience with a single marketing strategy, and it increases the difficulty and costs of marketing. Fragmentation can also limit a product to a smaller market, thereby limiting the product's profit potential. However, market fragmentation may offer a competitive advantage to smaller firms that can focus on providing products to narrow market segments.
4. Public concerns and government regulation -- A company needs to address the concerns of the public and comply with government regulations on issues such as food safety and environmental concerns. In addition to these barriers, a company also faces the challenge of entering markets already crowded with new products. In today's food industry, about 34 new products are introduced per day.

Additional barriers to new product development, however, are slowing the current rate of new food product growth. Food product introductions decreased by 26% between 1995 and 1997. Retailers are putting a damper on new product introductions through the use of slotting allowance and failure fees. These charges increase the expense and risk of introducing new products. Also, time-constrained consumers appear to be seeking simpler choices in the shopping aisles. Retailers and food manufacturers may respond to this trend by narrowing choices and focusing on popular brands.

Despite the recent slowing, many consumers will continue to demand products offering new features, tastes, and experiences. Variety will remain a central tenet in many segments of the food industry.

In this competitive environment, the challenges of new product development appear daunting. However, a company can improve the odds of success. A successful new product is not solely the result of someone's good idea. Most successful new products are backed by:

1. Marketing research -- Make the customer a part of the product development team. Successful new products have a lot of marketing research behind them. Companies that invest in gathering information from their target markets enhance the probability of success.
2. Company-wide support -- Get the whole team behind the new product. Successful new product development requires the commitment of high-level company officials and people throughout the company.
3. Investment -- Be willing to spend big. The costs of developing and introducing a new product successfully are high. Success will require taking on a significant financial risk.

These factors are necessary, but not sufficient conditions for success with new products. Most successful products have these factors working in their favor, but even with these factors, success is not guaranteed. Without them, however, the odds are stacked quite unfavorably against new product success.