

AGRICULTURE BUSINESS PLANNING

Chapter 8

Selling and Defining the Product Problem

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Lecture Overview

- Strategy for new product development

Introduction to this chapter:

This Chapter 8 is discussing about “Selling and Defining the Product Problem”. The selling section is about to identify the progress of last week selling and capture some of customer feedbacks particularly for product comments or insights. Hence, this chapter will talk more about the ne product problem leads to develop a new product.

Twenty minutes of the lecture will be allocated to each twelve groups to present your selling situations and your customer feedback. The rest minutes will discuss about the new product development.

Strategy for New Product Development ¹

The primary objective in establishing a strategy and a business plan for developing a new product is to ensure that all concerned parties “buy into” the effort and a consensus is reached on the fundamental inputs to the plan. The inputs include information regarding the market, sources of capital, business per forma, information about the nature of the product, and information about the market. However, before a development plan can be put together, certain avtivities must be performed in order to develop an overall new product development strategy. These activities include

- A. Determining the company’s growth expectations from the new products
- B. Gathering information of interest regarding capabilities, market, and the customer
- C. Determining what opportunities exist
- D. Developing a list of what new product options exist

- E. Setting criteria for inclusion if new product(s) in the company's portfolio of products
- F. Creating the product portfolio (new, modifies, and existing)
- G. Managing the product portfolio to maximize profitability

A. Determining the company's growth expectations from the new products

A company's mission typically provides some insight to its business objectives. The business objectives and the overall business plan delineate the role the company expects new products to play in its growth. The company 3M, for instance, expects products developed in the last five years to contribute 25% to its profits. The role of new products can be a similarly worded target, indicating what new products are expected to contribute to the overall business goals. Setting such a target is important in deciding what resources to direct to new product development. It also helps in reviewing what are company's technical and financial capabilities, what product concepts are within company's ability to develop and are attractive to its customer, what are the risks, and how these risks can be spread by diversifying product portfolio, and how well the company's short-term and long-term goals are being met.

B. Gathering Strategic Information

While the company may already have information regarding its customer base, market needs, its business and technical capabilities, and the competition, it helps in periodically updating this information. New market research, information on emerging competition, development of new markets, updating internal documents on customer needs, and so on must be carried out from time to time. Most useful is the compilation of all this information in a meaningful form, for instance, comparing the company's technical capabilities and products and sales profiles with those of its competition (benchmarking). This building of corporate knowledge base is not a one-time effort but a dynamic process and allows the company to constantly update its strategic and business plans.

C. Determining Existing Opportunities

The challenge is to present the information gathered in a meaningful form so that strategic and business plans may be revised and new opportunities identified. The presentation of information should be such that different product options and opportunities are easily identified. Two tools are helpful in this process: (1) a matrix scoring model, and (2) a map of the opportunities.

- (1) The matrix scoring model is useful in situations where a number of options are available and the best one must be chosen. An example of this kind of analysis is comparing different sites for locating a facility using a number of selection criteria. In choosing a potential product concept for development from among several possibilities, the concept can be compared using a variety of criteria with weights assigned to each criteria. The scores for each criteria of each concept are added and the totals compared to make the final selection. Table 1 shows how the matrix scoring model works.

Table 1 Matrix Scoring Model¹

Criteria	Weight	Product Concept Scores		
		A	B	C
Financial	3	3x3=9	2x3=6	2x3=6
Customer needs	4	8x4=32	5x4=20	7x4=28
Production ease	2	4x2=8	3x2=6	5x2=10
Core competency	2	3x2=6	4x2=8	8x2=16
Total score		55	40	60

The scoring scale used in Table 1 ranges from 1 (poor) to 10 (excellent) and is somewhat arbitrary; a 5-point, 7-point, or scale with fewer or more gradations can be used. A larger scale with more gradations increases the sensitivity of the evaluation process; shorter scales with fewer gradations reflect lower evaluation sensitivity. The weights chosen for different criteria indicate relative importance of criteria with each other. One can use a 10-point total, a 100-point total, or different total points for weight as long as the distribution among the criteria is relative. The method also allows using

as many criteria as one chooses as long as it is realized that more criteria reduce the relative importance of each, as the weight then gets distributed over a larger number.

(2) Map of the opportunities to capture the events and trends linking them on a time horizon. This method was developed by Motorola and helps a company identify new product opportunities. Figure 1, for instance, shows opportunities for developing energy efficient products by linking events and trends associated with global warming.

The event map can be used to make decisions regarding which products a company should pursue to achieve forecasted revenues (generated from existing products, modified and improved products, products from existing technological platforms, and totally new products). This is known as a gap analysis; gaps in the forecasted revenue are to be filled by sales from new products (Figure 2).



Figure 1. Mapping of events and trends in global warming to point out opportunities for energy efficient and alternative energy products (times are approximate; not all events are shown; some events are anticipated).¹

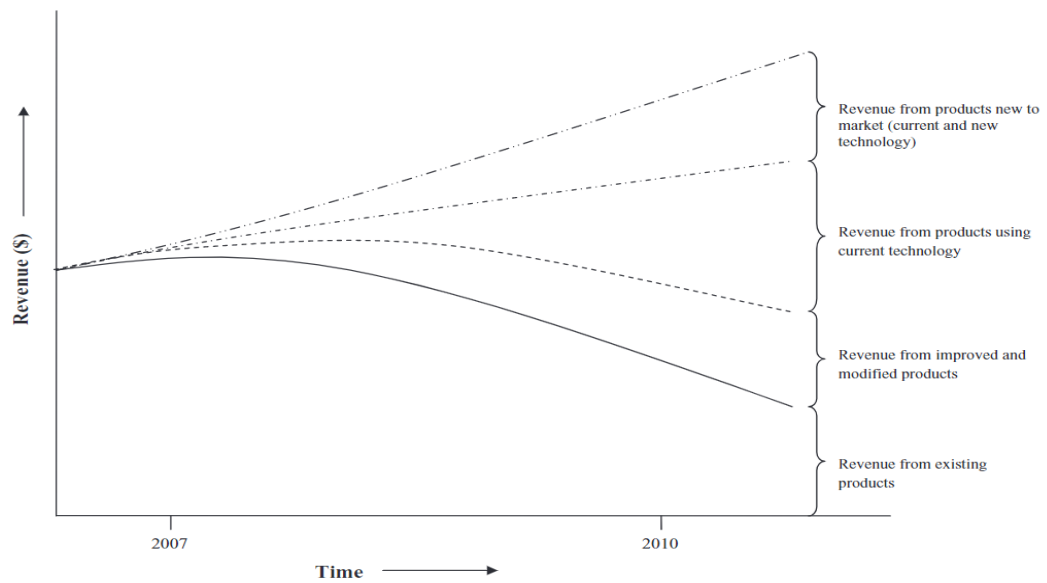


Figure 2. Forecasted revenue to be generated from sales of new products¹

D. Developing a List of New Product Options

After mapping trends and events and reviewing sales goals for new products, the company is ready to develop a list of new product ideas and options. These have to be consistent and compatible with core competencies and the strategic information gathered. The list should be as complete as possible so that all available product options may be considered before selection is finalized. The possible options should be listed in an easy to compare format (Table 1 shows one option). Important information includes, but is not limited to, information on the financials (investment, cost of production, etc.), risk, available technologies, production capabilities, status of the concept, uniqueness of the features, production goals, expected profitability, product life span, potential for derivatives, development team expertise, and synergy with existing products and programs.

E. Setting Criteria for Product Inclusion in the Portfolio

The company expects that including a new product in its portfolio of products will increase its sales revenue and profitability. Typically, all businesses expect a minimum return on investment (ROI). If a product option fails to meet the economic criteria established by the company, it should not be considered any further.

In addition to economic criteria, the company should also look at how well the new product option conforms to its short-term and long-term goals.

- Can the company develop other products from the technology developed for this product?
- Is the product concept so new that it exposes the company to unacceptable risks?
- Are the investment requirements disproportionate?
- Would the option open new markets to the company?

Answers these kinds of questions help the company develop portfolio criteria. For the final selection, both economic and portfolio criteria must be established and considered.

F. Creating the Product Portfolio

As shown in Figure 2, the company's product portfolio includes existing, modified, and new products. New products that meet the selection criteria, fulfill the new product target, address customer and market needs, promote the company's mission, and meet its business objectives should be included in the portfolio. The final decision should be taken by appropriate people from management and the project development team and should be based on the best information available. A consensus among the participants is necessary so that everyone buys in to the process.

G. Managing the Portfolio

Managing the portfolio typically includes assembling the right product development teams, making resource available, ensuring that research and development efforts are focused in developing technological platforms from which new products can be developed, developing appropriate marketing and sales strategies, and the like.

H. Developing New Products Plans

Once the preceding activities (also known as strategic development activities) are completed, it is time to develop plans for a new product. The first step in this process is the development of a statement of customer needs. This, in turn, requires understanding the customer. In this regard, customer connection and customer value are the two most important practices that separate high-performance companies from low-performance ones.

Reference

¹ Mital, Anil., Desai, Anoop., Subramanian, Anand., Mital, Aashi. 2008. Product Development. A Structured Approach to Consumer Product Development, Design, and Manufacture. Butterworth-Heinemann. Elsevier Inc.