

NEW PRODUCT DEVELOPMENT



Penn State **Extension**

Why develop products?

In order for a company to be profitable, they must continue to develop new products that are capable of meeting changing consumer demands

New Product Development

In the US, it is estimated that between 70 to 80% of new products fail.

Unsuccessful Product Launches

1. Not planning early enough
2. Poor or non-existent marketing strategy
3. Failing to define your target market
4. Launching too soon
5. Poor quality product

Unsuccessful Product Launches

6. A rigid, inflexible launch plan
7. Insufficient funding
8. Overestimating results
9. Not delegating (trying to do everything yourself)
10. Not having a crisis plan

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Product Development Strategy

There must be an understanding of:

- Company's own capabilities and available resources
- The market and target consumer
- Competition
- Associated Costs

Know the company's capabilities

- Current processes and products
- Sourcing
- Technology
- Financial
- Marketing
- Channels
- Partners
 - Co-manufacturing
 - Co-branding

Know the Market Trends

- Who are the consumers?
 - Demographics (age, race, financial, educational, etc)
- What are the trends?
- What are the drivers?
- Where are the opportunities, the gaps?

Target Consumer

What product concepts fit the perceived demand

- Does it meet consumer needs?
- Will the consumer be motivated to buy?
- What are the strengths and weaknesses of other products currently in the market place and how does our product compare?

Know the Competition

- Who produces similar products?
- Who has similar capabilities?
- Who are potential entrants?

Know all of the costs

Direct costs

Ingredients

Packaging

Labor

Indirect

Additional sales staff

Warehousing and shipping

Marketing and Sales

Understanding the Company's Capabilities

New Concepts - Company

Is the product concept a match for the company?

- Manufacturing capabilities (internal or external)
- Technical expertise
- Sourcing
- Marketing and Sales
- Financial

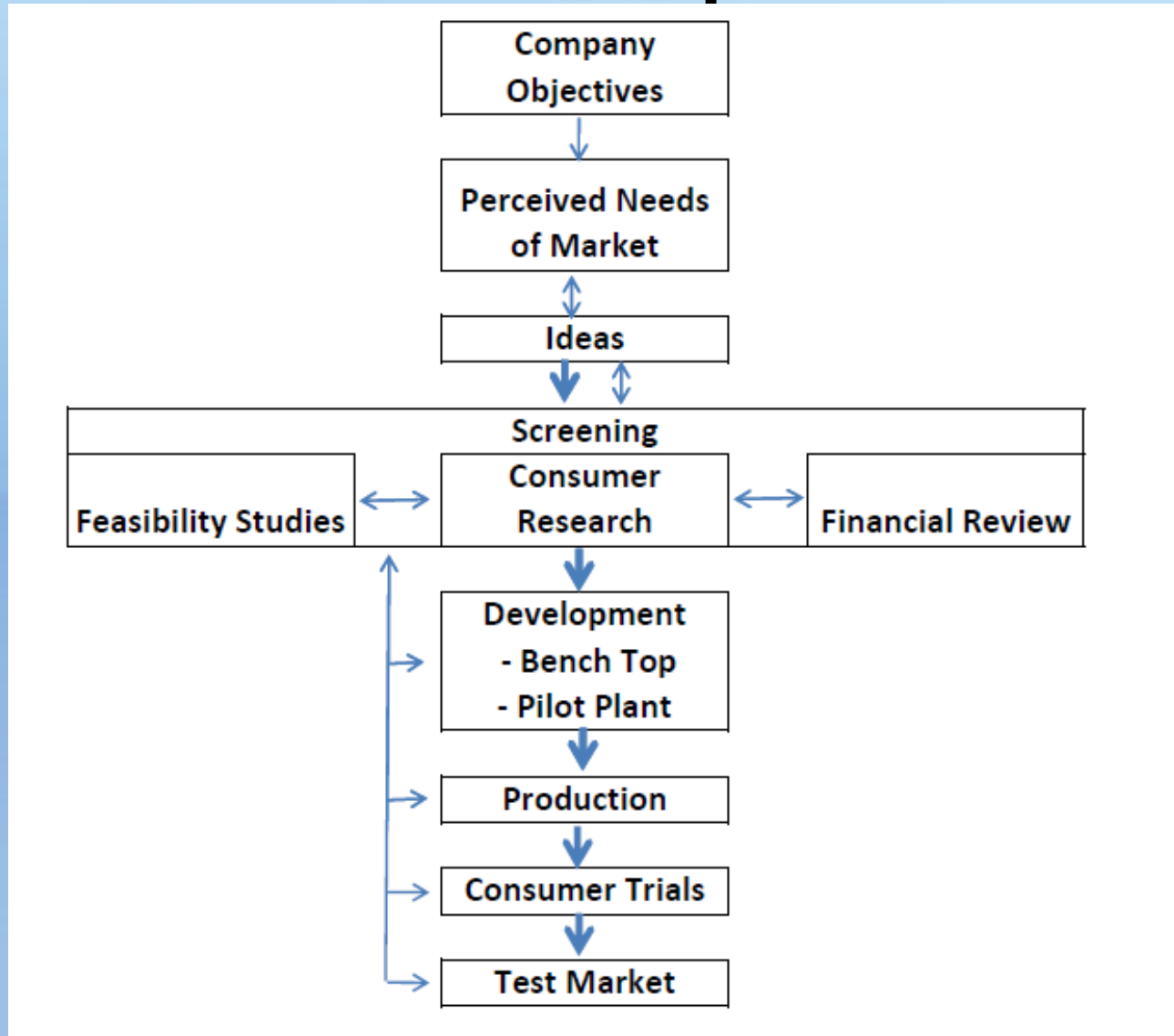
Understanding the current process

- Raw materials – ingredients and packaging
- Water and Energy requirements
- Manpower (trained)
- Technical and managerial expertise
- Process flow and control
- Equipment and Facilities
- Logistics
- Finished product requirements
- Waste

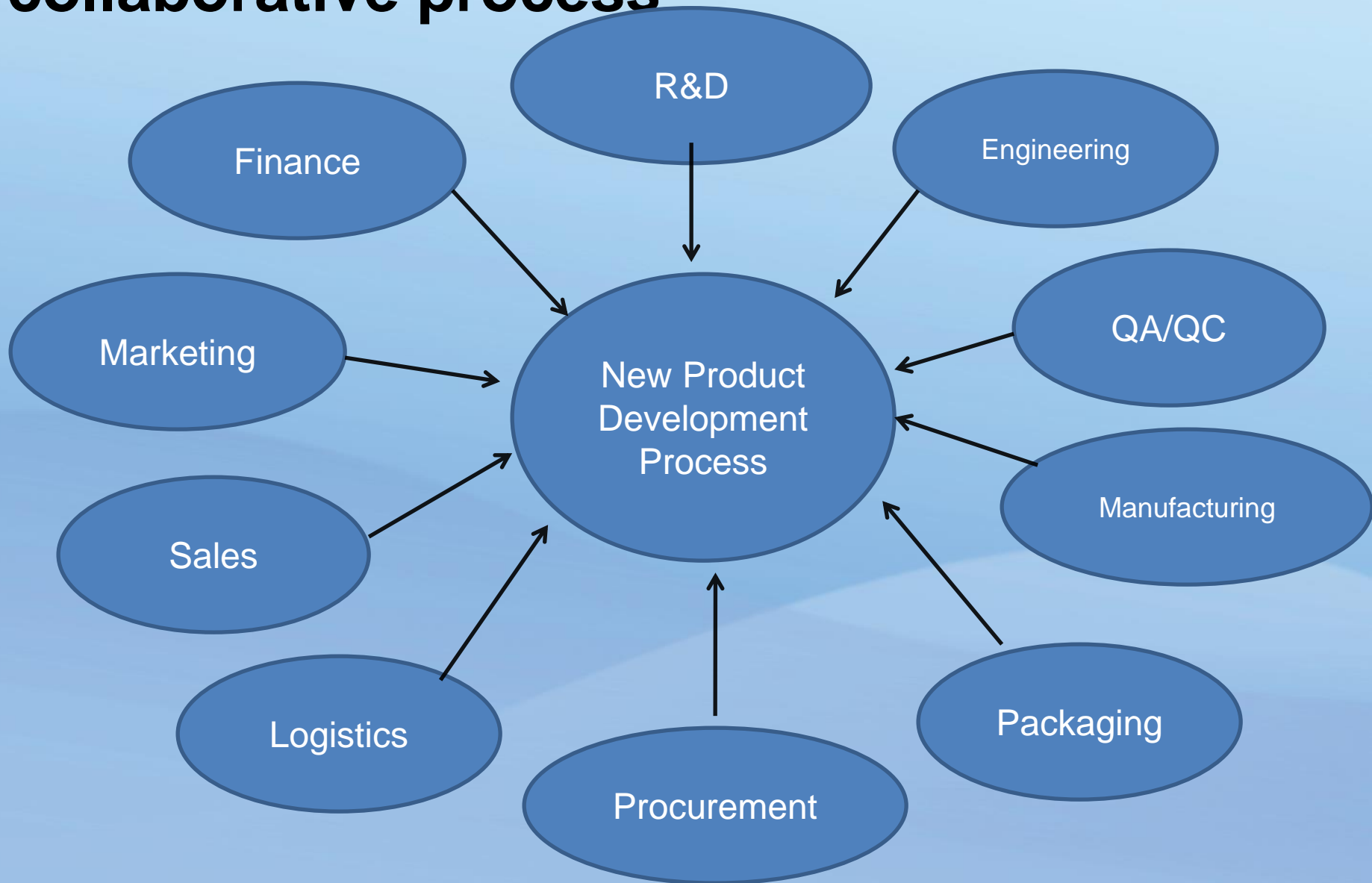
Product Considerations

- New Ingredients / Sourcing
- Product Stability
- Food Safety
- Quality Standards
- Process capabilities required
- Cost
- Goals – Customer expectations and company profitability

Stages of Product Development Process



A collaborative process



Understanding the Market

Terminology

- Trends
- Market Research
- Channels
- Branded versus Private Label

What are some typical Food Trends

- **Simple Labels**
- **Green / Sustainable**
- **Local**
- **Premium products**
- **Flavors - Spices**
- **Healthful – low fat, high protein, fiber**

Marketing Research

Is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company

Market Research

Includes, but not limited to:

- Demand analysis – market potential, sales potential, and sales forecasts
- Product – Concept development and test market
- Distribution – Plant/warehouse location, channel performance and coverage, and international

Collecting Data

Government Publications

- Census information
- Consumption data

Periodicals and books

- Corporate index and surveys
- Trade association information
- Grocery store information

Collecting Data

- Observational
- Focus Groups
- Surveys
- Interviews
- Commercial Data
 - Service providers (paid)
 - In-store data
- Internal Data
 - Sales data
 - Customer inquiries

Analyzing the Data

- Extract pertinent findings
- Use multiple methods whenever possible
- Extrapolation with healthy skepticism and ethics

Issues with Market Research

- Can be expensive, especially for focus groups and large surveys.
- Subject to error
 - Biased reporting (and questioning)
 - Low turnout on surveys
 - Failure to capture target audience

Target Market

- Who is your target market?
- What is their buying behavior?
- What is the competition?
- What is the market demand?



Market Demand

Determine potential market

- Estimate the number of buyers in an area (the number of people in an area and what percent consume the type of product you have)

Estimate potential sales

- Based upon your analysis, what percent of people preferred your product, are willing to buy it



Ice Cream Example

- Selling a new flavor of ice cream in the creamery
 - Chocolate Bacon
- How many people visit the creamery, how many buy ice cream
- Competitive product – does the new flavor exist and how well does it do
- Internal sampling
- External sampling



Ice Cream Example

Market Research

Sell 10,000 units each month

No flavor comprises more than 10% of sales and chocolate flavors comprises about 45% of total sales

In one month, the Creamery may feature 50 different flavors

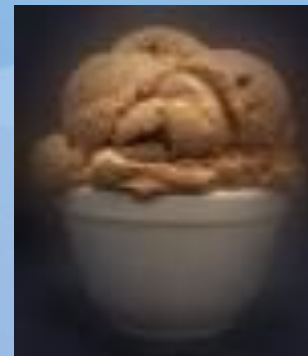
10% of chocolate consumers and 0% of non chocolate consumers like the flavor, and of that 5% would definitely buy



Ice Cream Example

We make some assumptions based upon past tasting...

- If people say they will definitely buy, then 90% of that group actually will.
- If people say they are likely to buy, then 20% actually will



Ice Cream Example

10,000 units per month X 45%

= 4,500 units of chocolate flavor

4,500 units X 5% definite X 90% compliance

= 202.5 units

4,500 units X 10% maybe X 20% compliance

= 90 units

202.5 + 90 = 292.5 units

Minimum batch is 300 units, so make 300 units

Channels

Sets of interdependent organizations involved in the process of making a product or service available for use or consumption (versus direct sales).



Channels

- Consumer direct
- Consumer through retail
- Consumer through specialty stores
- Foodservice - finished or ingredient
- Further processing

Channels

- Takes years to establish channels and are often difficult to change
- Can exert a lot of influence on the product mix and pricing
- Can be a barrier to information flow to and from the customer
- In the food industry, major retailers have increased their power over the years



Consumer Packaged Goods Channel Challenges

- In store fees
- Limited brands – limit of 2 to 3 major brands
- Turn requirements – Product must move
- Trade promotion fees
- Delivery fines
- Unsaleables
- Private versus Branded product



New Product Development

Summary

- Planning
- Understand internal capabilities and resources
- Understand market
- Strategically execute plan



Product Development Exercise

Working as a team

1. Discuss new products that you have seen on the market.
2. Pick a product that you would like to discuss/
3. What is the target market?
4. What trend or trends does this product address?
5. What products compete against your product in terms of price and product attributes?

Product Development Exercise Goals

Today

1. Decide on a new product
2. Discuss new product attributes, assign tasks for gathering data

Tomorrow

1. Collect data
2. Determine gaps
3. Assemble PowerPoint presentation

Wednesday –

1. Deliver presentation to class