

Blueprints for Growth

Ideas to Help Industrial Producers Build Profitable, Sustainable Growth

We help industrial manufacturers develop products their customers love, competitors respect and stockholders applaud... using new tools to uncover customers' deepest needs. Then we get out of the way.



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New Product Incrementalism and the Death Spiral

When a company relies heavily on new product “tweaks” —offering scant new value to customers—the downward spiral doesn’t always lead to its death. Sometimes the condition is more akin to life support. The business still exists, but is marginalized and irrelevant within its industry. In either case, the end result is often irreversible, usually predictable and always unpleasant.

The Risk Paradox

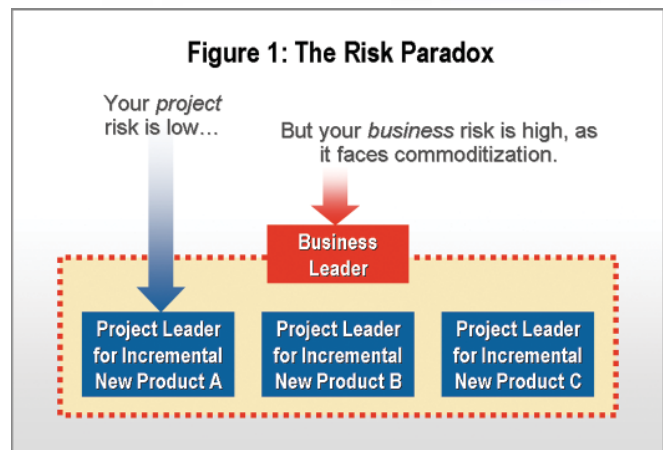
Some producers incrementalize because they don’t appreciate how risky this behavior is. Imagine two scenarios. In the first, you’ve been asked to lead a team responsible for developing a new product. Your team could either make some minor modifications to an existing product... or “swing for the fence” with a blockbuster new product based on new technology. Which do you choose? If you want to minimize your risk—just do your job now and avoid an inquisition later—you’ll start tweaking.

The Risk Paradox: A business that relies on low-risk, incremental new products is at great risk.

In the second scenario, you’ve been promoted to general manager over this business, which has several new-product projects in the works. Here’s the question: To minimize your risk, should all of the projects be low-risk new product tweaks? Absolutely not. This is the Risk Paradox: “A business that relies on low-risk, incremental new products is at great risk.” (See Figure 1.)

The Death (or Life Support) Spiral

Let’s think through what happens when you simply crank out new products that look like your existing products. Over time, your products also begin looking like your competitors’ products. Since your customers’ purchasing agents didn’t just fall off the turnip wagon, they move to commoditize your products. They deem the products they buy to be interchangeable and force you to drop your price... lest they interchange you out of the picture.



Now it’s time to budget for next year. Declining prices have led to declining profits, and nothing in your new product pipeline will change this anytime soon. Do you hand your boss a budget that promises reduced profits next year, with the cheerful notion that he can expect more of the same in following years? I’m guessing... no.

You have two choices: 1) “Buy” market share by dropping your prices, hoping competitors won’t match you, and 2) reduce your costs. Since the first approach can turn a death spiral into a death plummet, you opt for door number two. But what costs to reduce? Surely nothing that’s going to hurt business in the near-term.

Do you hand your boss a budget that promises reduced profits for next year?

How about R&D? After all, we’re not really sure what these people do anyway, right? I worked for a large company once in which the president got lost in an unfamiliar building. All he saw were rows of labs, until finally he spotted an R&D director. On seeing a familiar face, he brightened up and said, “So this is where you R&D guys hang out.” The R&D director replied (perhaps too hastily), “Actually we live in the surrounding hills and just come out at night.”

So if you cut some R&D costs and hit your budget next year, where are you then? Year by year, your capacity for pulling out of the death spiral diminishes, as the resources to produce differentiated new products are reduced. At some point, the spiral can become irreversible. Sadly, more than a few companies have reached this point.

“Great Hope” Projects

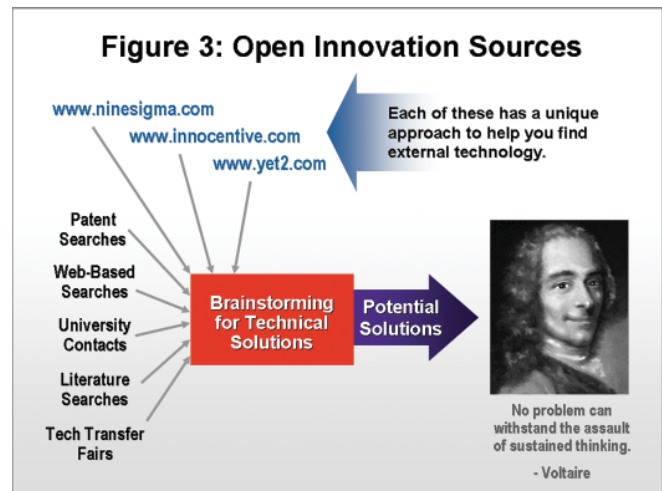
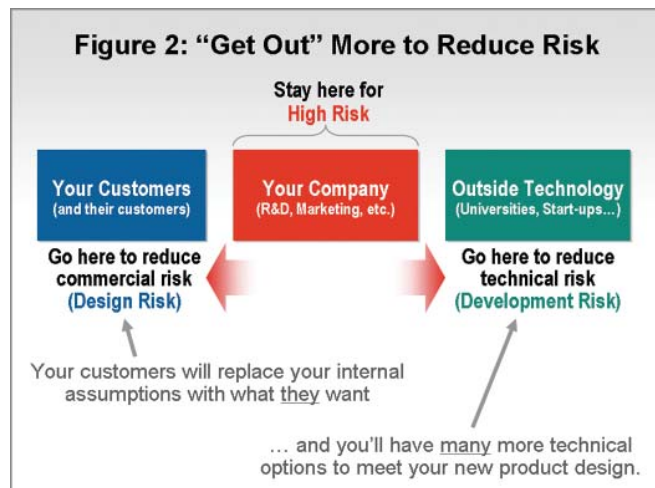
Many companies understand this spiral and want nothing to do with it. So they make sure they have a few “Great Hope” projects. Now these are big R&D projects. One of my customers once had a voice-mail message that said, “I can’t come to the phone right now because I’m in the lab pushing back the frontiers of modern science.”

The problem with such projects is that they often fail. Most seasoned executives have had bad experiences with these black holes. They can absorb millions of dollars, tie up valuable resources, divert management attention for 2-3 years and end with a whimper... usually from a fatal flaw that should have been found *much* earlier.

Need to “Get Out” More

So, if both incrementalism and “Great Hope” projects are too risky, what’s the answer? I believe we need to “get out” more. Most companies are too internally focused in understanding two areas: customer needs and technical solutions. To put it another way, most companies fail to reduce commercial risk and technical risk because the *knowledge that will reduce their risk only resides outside their company*. As a company shifts from an internal to an “outside-in” viewpoint, assumptions are tested and options are multiplied. These are great ways to reduce risk, but they won’t happen enough *inside* your company. (See Figure 2.)

You can reduce *commercial* risk in two ways when you conduct collaborative B2B customer interviews.



First, as you enter your customers’ world through in-depth interviews and tours, you’ll discover unspoken needs... so your new product will make customers grin instead of yawn. Let competitors tweak. Second, you’ll be able to kill big projects before they start if you learn that customers aren’t interested in *your* “next big thing.”

And you can reduce your *technical* risk by searching for technology that you don’t have... but others do. The concept has been dubbed “open innovation” by Henry Chesbrough and is built on the notion that “not all of the smart people work for you.” P&G, for instance, set the goal of sourcing 50% of its innovation from the outside, up from 10%. Their logic was simple: Approximately 1.5 million global scientists work in areas relevant to P&G, yet P&G *employs* less than 9000 of them. See Figure 3 for places to begin the process in your company.

Let’s review. Incrementalism puts a business at great risk, but simply investing in large, high-risk projects isn’t the answer. We need to be more innovative about how we innovate. We need to ask questions that cannot be answered from within our company. We need to ask these questions of our customers (and their customers) to understand their unmet needs and reduce our commercial risks. And we need to ask these questions of external technologists to find novel solutions that reduce our technical risks.

Learning More...

To learn more about how you can reach outside your company for useful technology, I recommend the book, *Open Innovation*, by Henry Chesbrough. Also, check out the three websites in Figure 3. You can learn more about using customer interviews to uncover unmet needs at www.newproductblueprinting.com. Or request a free white paper on the subject by sending an e-mail to information@newproductblueprinting.com.