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Marketing Management

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experiences consumers normally purchase. You can tell that some innovative products are doomed as soon as you hear their names: Toaster Eggs, Cucumber Antiperspirant Spray, Health-Sea Sea Sausage.

Sources: Paul Lukas, "The Ghostliest Product Launches," *Fortune*, March 16, 1996, p. 44; Jan Alexander, "Failure Inc.," *Worldbusiness* (May-June 1996): 46; Ted Anthony, "Where's Farrah Shampoo? Next to the Salsa Ketchup," *Marketing News*, May 6, 1996, p. 13. Bulleted points are adapted from Robert M. McMath and Thom Forbes, *What Were They Thinking? Marketing Lessons I've Learned from Over 80,000 New-Product Innovations and Idiocies* (New York: Times Business, 1998), pp. 22-24, 28, 30-31, and 129-130.

- The product would achieve technical or market leadership.

Budgeting for New-Product Development

Senior management must decide how much to budget for new-product development. R&D outcomes are so uncertain that it is difficult to use normal investment criteria. Some companies solve this problem by financing as many projects as possible, hoping to achieve a few winners. Other companies apply a conventional percentage of sales figures or spend what the competition spends. Still other companies decide how many successful new products they need and work backward to estimate the required investment.

Table 20.1 shows how a company might calculate the cost of new-product development. The new-products manager at a large consumer-packaged-goods company reviewed the results of 64 ideas. Only one in four, or 16, passed the screening stage. It cost \$1,000 to review each idea at this stage. Half of these ideas, or eight, survived the concept-testing stage, at a cost of \$20,000 each. Half of these, or four, survived the product-development stage, at a cost of \$200,000 each. Half of these, or two, did well in the test market, at a cost of \$500,000 each. When these two ideas were launched, at a cost of \$5 million each, only one was highly successful. Thus the one successful idea cost the company \$5,721,000 to develop.

TABLE 20.1 Finding One Successful New Product (Starting with 64 new Ideas)

Stage	Number of Ideas	Pass Ratio	Cost per Product Idea	Total Cost
1. Idea screening	64	1:4	\$ 1,000	\$ 64,000
2. Concept testing	16	1:2	20,000	320,000
3. Product development	8	1:2	200,000	1,600,000
4. Test marketing	4	1:2	500,000	2,000,000
5. National launch	2	1:2	5,000,000	10,000,000
			\$5,721,000	\$13,984,000

In the process, 63 other ideas fell by the wayside. The total cost for developing one successful new product was \$13,984,000. Unless the company can improve the pass ratios and reduce the costs at each stage, it will have to budget nearly \$14 million for each successful new idea it hopes to find. If top management wants four successful new products in the next few years, it will have to budget at least \$56 million (4 × \$14 million) for new-product development.

Organizing New-Product Development

Companies handle the organizational aspect of new-product development in several ways.¹⁶ Many companies assign responsibility for new-product ideas to *product managers*. But product managers are often so busy managing existing lines that they give little thought to new products other than line extensions. They also lack the specific skills and knowledge needed to develop and critique new products. Kraft and Johnson & Johnson have *new-product managers* who report to category managers. Some companies have a *high-level management committee* charged with reviewing and approving proposals. Large companies often establish a *new-product department* headed by a manager who has substantial authority and access to top management. The department's major responsibilities include generating and screening new ideas, working with the R&D department, and carrying out field testing and commercialization.

3M, Dow, and General Mills often assign new-product development work to *venture teams*. A **venture team** is a cross-functional group charged with developing a specific product or business. These "intrapreneurs" are relieved of their other duties and given a budget, a time frame, and a "skunkworks" setting. *Skunkworks* are informal workplaces, sometimes garages, where

Glass, Plastic,
Aluminum, Copper,
Steel + Airport
System, 6 Facilities
per State, • 50
States = 300
Applications.
Achieved for
under \$10,000