

## **Grow through new products & services**

### ***Introduction***

This is the third of 3 items with practical measures for growing a business. It suggests a number of practical measures for achieving growth through new products and services. It helps you to choose between, and explains how to go about, the three options available, namely modifying or repackaging an existing product or service, extending your product/ service range or creating a completely new product or service. It describes an 8-step process for product or service development and summarises what you should do to pursue this approach if it is right for your business.

### ***Is this for you?***

Growth through new products or services may be appropriate for your business if:

- \* There is limited growth potential from your existing products or services, or demand is falling
- \* A competitor has just launched a significant new product or service that will undermine yours
- \* Your existing customers are large and growing, and would consider buying new products or services
- \* Your relationship with your existing customers is good
- \* You want to build a reputation for innovation

There are many advantages in choosing to grow by selling new products or services to existing customers:

- \* You are building on existing relationships, which is more cost effective than trying to win new customers.
- \* It offers the potential for higher margins.
- \* You are reducing your reliance on your existing products and services, and creating a new trading platform for the future.
- \* Once developed, your new products or services can also provide the springboard by which you may attract new customers.



Before adopting this approach, remember that:

- \* Product or service development will require investment. This may not provide a return in the short term.
- \* Investment in product development is risky since a large proportion of new products and services do not prove successful. Risk may be reduced significantly by conducting market research to estimate demand before prototypes are developed.
- \* You should not let your existing customers perceive that your quality of service is in any way jeopardised. In other words, you won't win points for innovation if you start getting the basics wrong!

### ***Before you start***

Before you start planning for the development of new products or services, it pays to do some initial thinking. Here are 2 questions that will provide a valuable foundation for whichever approach you ultimately decide to adopt.

#### 1. Why are you interested in developing new product or services?

It is important to understand just why you want to new products or services rather than pursuing other options for growth. Perhaps you want:

- \* to enhance your reputation for innovation or as a technology leader
- \* to replace an aging product or service
- \* to achieve your objectives for growth
- \* to reduce reliance on existing products or services
- \* to increase profits by selling an improved version

In every case the new product or service must be developed with a view to providing a benefit, or greater benefit, to customers.

#### 2. What is your objective?

Understanding what is driving you to develop new products or services will help you to set a specific objective. Examples of specific objectives are:

'To achieve 10% of our annual sales from new product x by December 2003'

'To win 5 accounts worth over £20K annually for new service y by December 2003'

'To achieve sales through product z's life of £750,000'

Objectives like these will help to determine the target income from sales and therefore give an indication before you start of the level of investment that you can make.



### ***What options are there for growth through new products/services?***

There are 3 ways that you can develop products and services. The commercial risk increases as you work your way down this list because the investment required is likely to be higher and you are dealing with more unknowns.

1. Modify or re-package an existing product or service. Such improvements are particularly effective because they increase the attractiveness of your whole package to existing customers. They also help to keep your risk to a minimum. For example, if your company makes sandwiches, the main customer buying criteria may be: choice of fillings; quality of packaging; quality of ingredients; and speed of delivery. If you score similar or better than your competitors on all but choice of fillings, then this area represents potential for development.

2. Extend your existing range. You should identify the components of your existing product or service and consider how each could be modified or changed to provide an additional or increased benefit to your customers. For example, if your company provides printing services to businesses, the components may be types of printing finishes, sizes of print area, materials available etc. Therefore, different finishes, different print areas and different materials could all offer new avenues for extending your existing range.

3. Create a new product or service. Sooner or later a new product or service will be required. It may be stimulated by a new market opportunity, the development of new technology or just a good idea. However, of the 3 approaches discussed here, it is probably the highest risk, the most costly and the most lengthy. It often pays to make sure that the need cannot be met by a modification or extension to an existing product.

### ***Product/service development process***

Most large companies use a structured process for developing products and services. While smaller businesses do not have the luxury of the same levels of resources, they can make use of a simplified version of the same development process. The process described here consists of 8 steps. It helps to see this process as iterative rather than simply linear and to see each step as an opportunity to make decisions about the shape and fate of the product or service.

#### **Step 1 – Idea generation**

The aim of this first step is to search for ideas that may - not will - be turned into new products or services. In business, although flashes of inspiration are always useful, you need a more reliable method of generating lots of new ideas in a relatively short space of time. This allows a wider base for evaluation and increases the likelihood that you will find a real gem. Techniques like brainstorming, which stimulate creative thought, are used to achieve this.



Brainstorming works best with a group of people (ideally between four to eight) from different disciplines within the organisation. The group will feed off one another's thoughts and inputs, and this stimulates new lines of thinking. Having different disciplines represented means that the group will bring different mindsets and therefore provides a wider variety of input. If everybody is going to be part of the development of the new product or service, they are likely to feel greater ownership if they are involved at the outset.

Start the session with a focal point, for example a customer problem, and make suggestions (however wacky) of how that problem may be solved. It is vital that these ideas are listed where others can see and are not evaluated at this stage. The purpose of the session is to identify as many ideas as possible, and off-the-wall suggestions often stimulate others to think in different ways and which often lead to further ideas.

For other ideas on encouraging innovation, try this Directors' Briefing on innovation (See Business Hotline publication ST 14) and [www.innovation.gov.uk](http://www.innovation.gov.uk).

## Step 2 – Idea evaluation

Having generated a stock of ideas, you need to reduce them to shortlist that can be subject to more detailed evaluation.

At the coarse-cut level, consider what characteristics would deem any particular idea to be unrealistic. Consider what would be suitable for your company, given your capabilities, aspirations and cash reserves. This may include the investment required, the length of development time required, and whether it could be developed with existing personnel and systems.

Once a shortlist has been produced, a more detailed evaluation based on market research is required. This evaluation should seek to score each idea on the shortlist in such measures as:

- \* Sales potential amongst existing customers
- \* The likely profit margin
- \* The extent to which the new product or service represents an improvement over existing solutions
- \* The likely return, risk and timescales.



You should carry out some market research, either yourself or through an agency. It does not have to be costly and will help to reduce the risks involved in this kind of development. Some sources for market research include:

Source	Where to find it	Description
The Chartered Institute of Marketing	<a href="http://www.cim.co.uk">www.cim.co.uk</a> (identify exact path)	Useful information and guidelines on conducting effective market research.
The Market Research Society	<a href="http://www.mrs.org.uk">www.mrs.org.uk</a>	Useful information and guidelines on conducting effective market research.
Keynote Business Publications	<a href="http://www.keynote.co.uk">www.keynote.co.uk</a>	Executive summary reports on many specific market sectors available free. Full reports can usually be found in your business reference library.
Enterprise Zone	<a href="http://www.enterprisezone.org.uk">www.enterprisezone.org.uk</a>	Information available by industry sector.
Central Statistics Office	<a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a>	Wide range of information about UK national economic activity and future trends.

### Step 3 – Concept development

Before development work begins, it is a good idea to write down in some detail the concept for your intended product or service. It should explain the benefits it will provide to the end user or consumer. Remember also that different parts of the supply chain will require different benefits (or problems-solved), and these will need to be built into your offering.

You can perhaps test concept on a small sample of trusted customers and ask them for their opinions. Spotting a hole at this stage can save thousands of pounds later.

### Step 4 – Marketing planning

The aim of this step is to produce an outline plan for introducing the product or service to market. A simple plan consists of:

- \* The target market and the need the product or service will meet.
- \* The position the product or service will have in the market, for example a basic internet-ready computer for the technophobe. For more information on developing a



'unique selling proposition' for a product or service, see the 10-minute briefing on USP.

\* Sales and profit targets for at least the first 3 years

The price you set for your new product or service will determine your sales and profit and impact on your ability to enter this new market. Ultimately the price you set should be based on what customers think it is worth, and not on what it costs you to produce. The price that customers are willing to pay should cover your costs of producing and distributing it and leave a healthy margin.

#### Step 5 – Business analysis

It is important to compile cash flow projections for your new product or service. These should be based on the projections in the marketing plan. It helps if someone outside the project team does this so that they can take an independent and objective view of the proposed product or service.

The cash flow projections should include estimates of costs of development, production, sales and marketing, distribution and delivery. It is important that this budget is estimated at the outset, and that you know how much you are required to commit before the new product or service reaches its break-even point.

#### Step 6 – Product/service development

The aim of this step is to develop the product or service along with its supporting documentation. What surprises many people is that development comes quite a long way into the overall process. However, it is designed this way to ensure that new products and services are developed in response to a market need rather than driven by developments in technology.

#### Step 7 – Test marketing

Test marketing is where the new product or service is subjected to testing by customers. This is designed to trap any remaining flaws before it finally goes to market. Smaller companies have only limited budgets so it is not realistic to expect large-scale trials. Again, a small number of trusted customers could provide some valuable feedback.

#### Step 8 – Launch

Finally it comes to launching the product. Key decisions are:

- \* when to launch – time of year or coincidence with customer or competitor activity
- \* where to launch – a gradual rollout or market-wide from the outset
- \* whom to target – which customer groups to target to achieve intended levels of adoption quickly. For more information on targeting customers, take a look at the 10-minute target customer list.



\* how to launch – the action plan including promotional activities. For more information on developing a promotional mix to raise awareness, take a look at the 10-minute promotional mix)

### ***What should you do now?***

1. Decide which of your business capabilities do you want to exploit through new products or services.

2. Decide which option for growth you are going to take:

- \* Modifying or repackaging an existing product or service.
- \* Extending the product range or service portfolio
- \* Creating a new product or service

3. Work through the 8 steps of the product/service development process described above.

For more information on product development, see the Business Hotline publication ST 13. For more information on the techniques you can use, please look at the 10-minute briefings of the following items:

- \* Identify your 'unique selling proposition' to customers
- \* Decide your 'marketing mix'
- \* Decide your 'promotional mix'
- \* Plan 'customer service'
- \* 'Target customers'
- \* Researching your markets (See Business Hotline publication MA 12)

