



Aalto University
School of Business

Capstone: Product and Brand Management

Lecture 1

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Product innovation management

Newness to the firm

- Offerings are rarely about total newness even to the firm but a combination of "newness" and "oldness"
- Resource-based view: In developing new offerings, a firm seeks to
 1. *Take advantage of its existing/current resources, on one hand: "**exploitation**" and "leveraging"*
 2. *And on the other, create novel resources for the firm: "**exploration**"*
- New offering: a new **combination** of (1) **existing resources** and (2) **new resources**

Ansoff Matrix

Customer and market dimension is split into two:
1) Market and customer intelligence
2) Brands and bonds
= 3 dimensions instead of 2

Customers and markets

Technologies and products

	Existing	New
Current		
New		

Newness to the market

- How can a firm develop new-to-world offerings?
 - **Incremental innovations**
 - *Somewhat better/alternative offerings than/to what already exist in the market*
 - **Architectural, disruptive, or radical innovations**
 - *Significantly novel offerings or new offering categories that often "redefine" markets*

Newness to the market

- In marketing thought, an offering that is new-to-market is a certain novel way of creating value to certain people or organizations – non-existing in the market thus far
- Value innovation relative to offerings in the market
- Basically, the benefits the new innovation provides to the customers will need to exceed the sum of
 - The price of the offering, and
 - Other costs incurred to the user

Perspective 1 on NPD

- **The Marketing Perspective (Kotler 1967)**
 1. Idea generation and selection
 2. Concept development and testing
 3. Marketing strategy and business planning
 4. Product development
 5. Test marketing
 6. Launch

Six myths of product development

(Thomke & Reinertsen 2012)

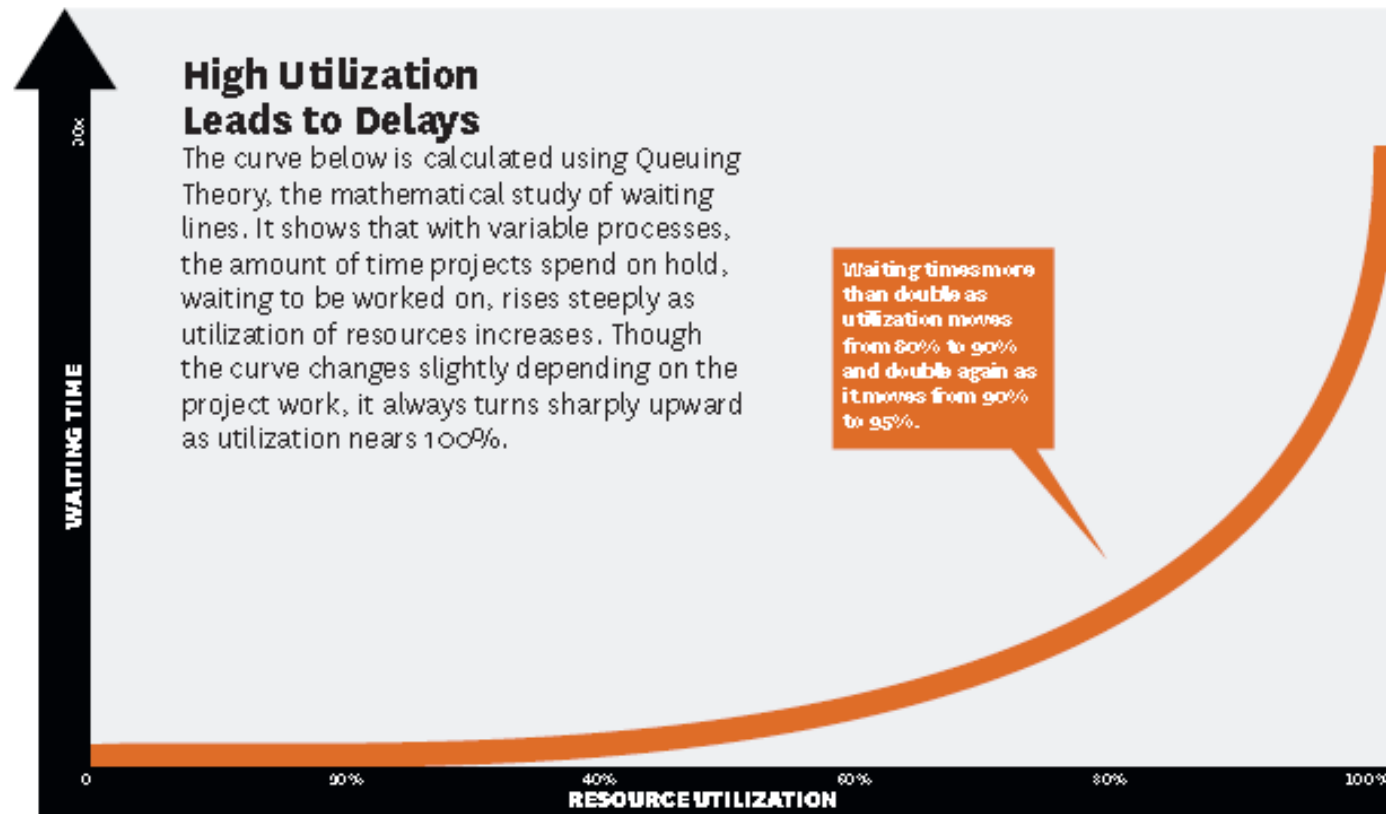
Fallacy 1:

High utilization of resources will improve performance

- They don't take into full account the intrinsic variability of development work
- They don't understand how queues affect economic performance
- In product development, work-in-process inventory is predominantly invisible
 1. Change the management-control systems
 2. Selectively increase capacity
 3. Limit the number of active projects
 4. Make the work-in-process inventory easier to see

Capacity utilization and delays

(Thomke & Reinertsen 2012)



Six myths of product development

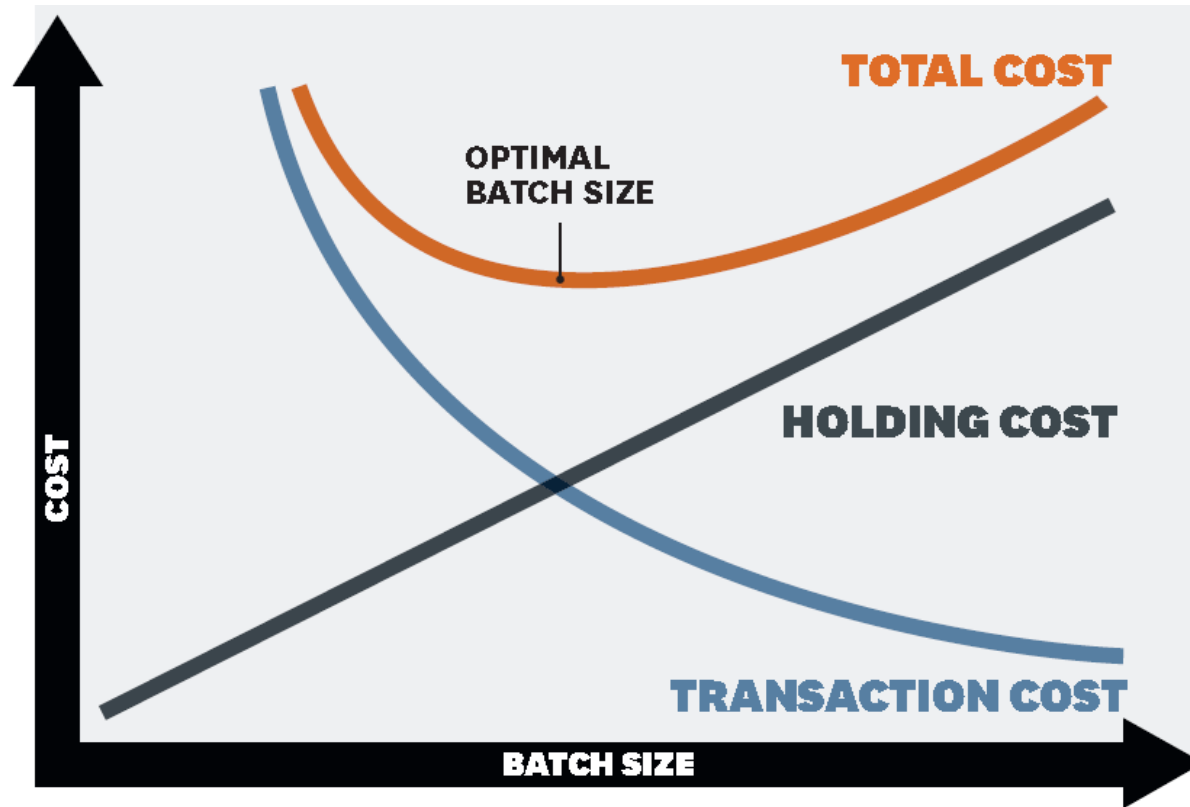
(Thomke & Reinertsen 2012)

Fallacy 2:

Processing work in large batches improves the economics of the development process

Optimal batch size

(Thomke & Reinertsen 2012)



Six myths of product development

(Thomke & Reinertsen 2012)

Fallacy 3:

Our development plan is great; we just need to stick to it

Fallacy 4:

The sooner the project is started, the sooner it will be finished

Fallacy 5:

The more features we put into a product, the more customers will like it

- Defining the problem
- Determining what to hide or omit.

Fallacy 6:

We will be more successful if we get it right the first time

Overcoming the fallacies

(Thomke & Reinertsen 2012)

- 1** Make queues and information flows visible.
- 2** Quantify the cost of delays and factor it into your decisions.
- 3** Introduce resource slack where utilization is highest.
- 4** Shift the focus of control systems from efficiency to response time.
- 5** Reduce transaction costs to enable smaller batch sizes and faster feedback.
- 6** Experiment with smaller batches; you can easily revert to large batches if this doesn't work.
- 7** Treat the development plan as a hypothesis that will evolve as new information becomes available.
- 8** Start projects only when you are ready to make a full commitment.
- 9** Aim for simplicity: Ask what features can be deleted, not just what can be added.
- 10** Experiment early, rapidly, and frequently, with computer models and physical prototypes, in controlled and real-life customer environments.
- 11** Emphasize overlapping and iterative—not linear—process designs.
- 12** Focus on quick feedback instead of first-pass success.

Value innovations

- **How to develop value innovations**
 1. Novel (re)configuration of certain value dimensions of an existing product/offering category
 - *Perhaps more likely to result in incremental (rather than radical) innovations*
 2. Hybridization of existing product/offering categories
 - *Has more potential to result in more radical innovations*
 3. New core benefit or delivery innovation
 - *Both incremental and radical innovations*

Conclusions of value innovation

- Whatever the value innovation you are envisioning, assess with equal importance
 1. How much customers will value the new offering due to its value dimensions
 - *Demand and market share at certain price levels*
 2. How much it will cost to provide and deliver the value on the dimensions
 - *Feasibility of certain price levels*

Conclusions of value innovation

- **Develop an offering that optimally combines**
 - Superior value configuration from users' perspective
 - Price relative to cost
 - Manufacturability and deliverability

Should we do it?

- **New-to-world offerings have the potential to both**
 - Provide new/higher value to users
 - *Demand even at a relatively high price*
 - *Escaping competition*
 - *Attracting non-users*
 - *Enjoying first-mover advantages*
 - Be deliverable at relatively low cost
- **New-to-world offerings may have high potential – in principle**

Should we do it?

- However...

1. The **cost** of developing an offering is profoundly different from the cost of producing/delivering the offering when it has been developed
2. The **risks** of developing very new-to-market offerings are high
 - Pioneers and first-movers often fail totally – the novel offering turns out not to be very feasible after all

Should we do it?

•However...

3. Even if the offering turns out to be feasible, **second-movers may overcome** the pioneer/first-mover
 - SMs have the ability to learn from, imitate, and improve
 - SMs can free-ride (FM's R&D, employee education, buyer education, infrastructure development)
 - SMs can adopt standards and best practices

Should we do it?

•However...

4. If the offering is feasible, **competitors will practically always imitate** the offering – sooner rather than later
 - And drive down the price of FM's offering
 - And drive down FM's market share
 - The prices and market shares turn out to be lower

Glimpse of hope

- If developing new-to-world offerings

- 1. Design for inimitability*

- 2. Develop patents*

- 3. Develop customer switching barriers and costs*

- 4. Foster brand loyalty*

- 5. Leverage network effects of installed base*

Innovating customers

(Michel & Brown & Gallan 2008)

Service logic innovations

Change in customer role

		Change in customer role		
		User	Payer	Buyer
Change in firm's value creation	Smart offerings			
	Value integration			
	Value constellation			