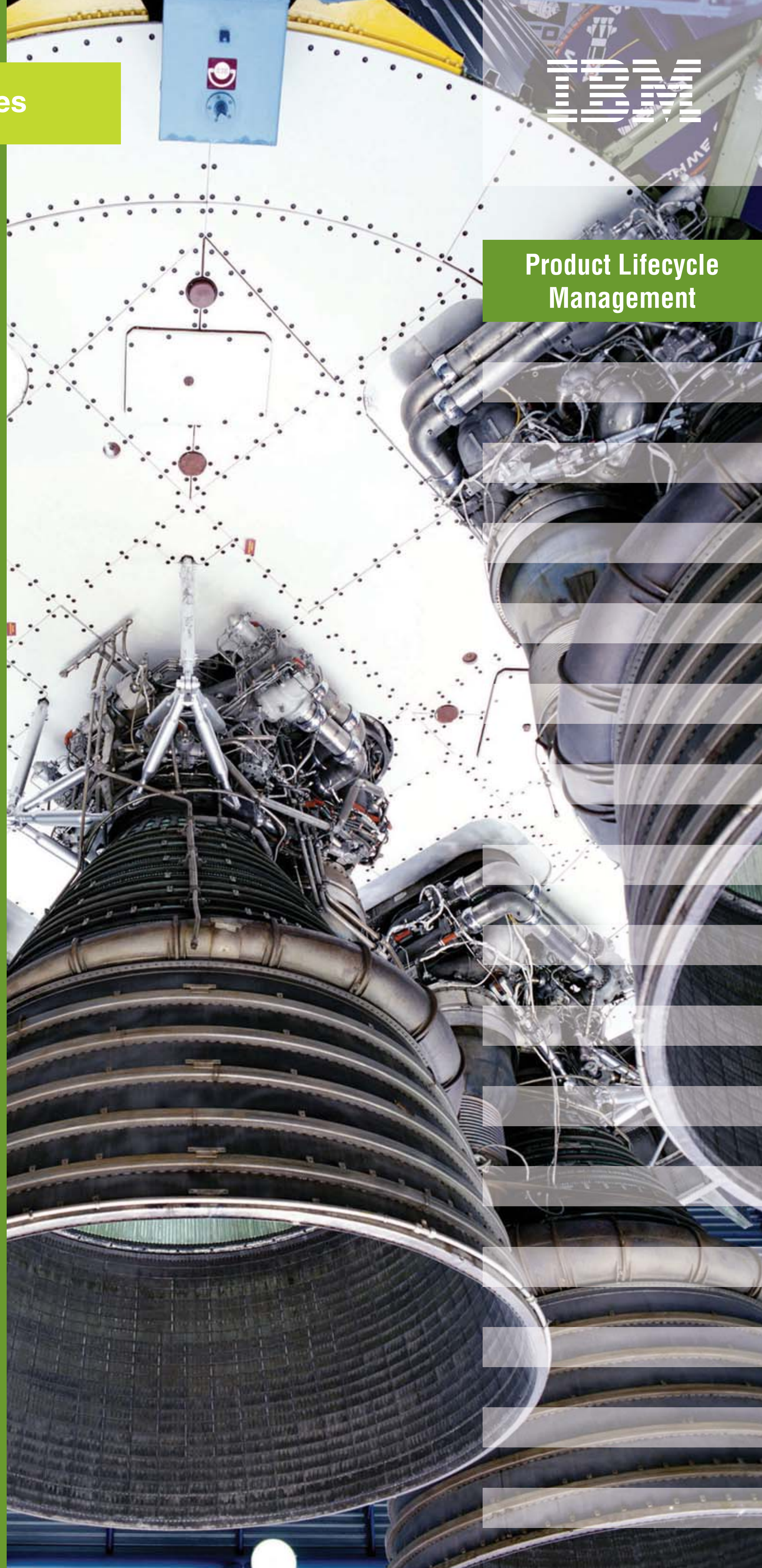
IBM Global Business Services

IBM Institute for Business Value

The perfect product launch

Innovation drives growth in the consumer products industry



Product Lifecycle Management

IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

The perfect product launch

Innovation drives growth in the consumer products industry

Introduction

Consumer products (CP) companies are under increasing pressure to reduce time-to-market and the cost of introducing new products. As product lifecycles continue to decrease, compressing development cycles and accelerating new product introductions are becoming critical. Product complexity is also increasing substantially, making development and product introduction even more challenging.

This report presents the challenges the CP industry is facing, as increased complexities in the competitive environment are forcing shorter product lifecycles and increasing cost pressures. It evaluates the impact that these complexities have on the product development process and focuses on a few recommendations that CP executives should consider to reduce their time-to-market and increase their return on investment for new product introductions.

This report draws on research from the IBM Global CEO Study 2006 and the IBM Institute for Business Value 2006 Value Chain Study and places the research findings into context, based on the challenges and leading management practices associated with bringing new products and services to market successfully and profitably.

Executive summary

The era of innovation.

Consumer products manufacturers are under increased pressure to grow revenues and improve operating efficiency. Challenges in meeting growth targets include changes in consumers' demographics, increased competition in mature markets, increased spending on services, the rise of private labels and the low success rate of new brands.

We are definitely entering the era of innovation. It is pervasive. It is influencing the way in which companies think about virtually every aspect of research, marketing product development, supplier and materials management, manufacturing, distribution, warranty and defect management, maintenance repair and overhaul, and product end-of-life and disposal. Innovation is global. Innovation knows no boundaries. Its growth is being nurtured by active investments, grants and tax incentive policies of established, industrialized nations and emerging economies. Put in the context of the era of innovation, the "perfect product launch" and lifecycle management are now viewed in a different and expanded way.

Innovation in products, services and markets commands top attention from CEOs. CEOs recognize that sustainable growth requires several different types of innovation and, based on the IBM Global CEO Study 2006, are allocating their innovation emphasis accordingly:[1]

- Products/services/markets (42 percent)
- Operations (30 percent)
- Business models (28 percent).

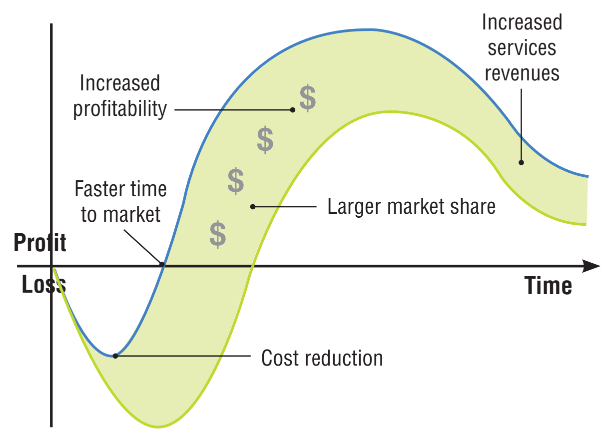
One of the greatest opportunities for revenue growth is through new products and services, new markets and customer intimacy. According to the CEO Study, products/services/markets innovators maintain a 1.2 percent higher operating margin than their competitors. Outperforming product/service/market innovators exploit current offerings, use electronic channels to improve reach, and penetrate new markets.[2]

The perfect product launch involves managing the development and support of complex products and services throughout the entire lifecycle from product design to product build to post-sale service. It includes the integration of traditional new product introduction (product innovation, design and collaboration) with sourcing and procurement, supply chain planning and execution, and service – the entire product lifecycle.

The importance of being first to market is discussed extensively in various sources. Besides the instinctive idea that it is best to be first, other measurable benefits are possible for those that get to the market sooner with innovative products and services:

- Increased sales through longer sales life – The earlier the product reaches the market, relative to the competition, the longer its life can be.
- Increased margins – The more innovative the product (that is, the longer it remains on the market with little or no competition), the longer consumers will pay a premium purchase price.
- Increased product loyalty – Getting the first opportunity to attract customers, especially early adopters, offers an advantage in terms of customer loyalty; customers will most likely upgrade, customize or purchase companion products.
- More resale opportunities – For components, commodities or products that other companies can private-label, being first to market can often help ensure sales in other channels.
- Greater market responsiveness – The faster companies can bring products to market that satisfy new or changing customer needs, the greater the opportunity to capitalize on those products for margin lift and to increase brand recognition.
- A sustained leadership position – Unlike *best-selling*, *fastest* or other superlative market positions, *first* is the market position a competitor can not take away. And repeated firsts establish companies as innovators and leaders in the market.

Figure 1. The value of time-to-market.



Source: IBM Global Business Services analysis.

Clearly, quick product introduction is a competitive differentiator. Accelerating time-to-market supports achievement of just about every primary design, sales and marketing goal a company has (or should have) in today's increasingly competitive, increasingly global marketplace. And the challenge facing manufacturing organizations today is to continually accelerate time-to-market, while reducing development costs.

Product introduction is a primary source of long-term competitive advantage. Companies with fast and efficient product introduction processes, which provide customers with the products and services they demand, are better positioned to win than competitors that are slow to react to market changes and advances in product and process technology.

High-performing companies – those that generated annual total shareholder return in excess of 37 percent and have also seen consistent revenue growth over the last five years – average 61 percent of their sales from successful launches of new products and services. Further, companies that generated 80 percent of their revenue growth from new products typically doubled their market capitalization in a five-year period.[3] These positive results, we believe, will continue to be realized when traditional leadership and cultural styles are replaced by new leaders who foster a culture of networked professionals all with the objective of realizing the combined and individual positive return on their participation in the product launch.

Ironically, as companies rely increasingly on new products and services to meet growth targets, new product innovations' success rates have been historically very low. A significant proportion miss product launch schedules; according to the Value Chain Study, on-time rates are down 8 percent from 2003, and on-budget rates are down 7 percent over the same time period.[4] One of the primary reasons for product launch failure is poorly defined customer needs. Another is the lack of a clear business strategy that is linked to supply chain objectives and initiatives for go-to-market product launch and customer service. Insufficient resources – both human and monetary – and lack of executive-level support are additional reasons for product launch failures.

This report will further explore the realities of bringing products and services to market profitably.

The IBM Global CEO Study 2006 exposed several myths about the pursuit of innovation:

Myth: Innovation is the responsibility of brand and product managers
→ *Reality:* Innovation must be orchestrated from the top

Myth: Innovation happens from within – most often generated by product developers and research groups
→ *Reality:* External collaboration is indispensable

Myth: Innovation means coming up with new or better products and services
→ *Reality:* Business model and operations innovation matter.

Revenue growth not necessarily flowing to bottom line

CP companies are facing a challenge of variability in business growth. One of the reasons has been the variation in consumer per-capita spending. The economic downturn of the late 1990s slowed growth in consumer spending, but the economy is now indicating signs of a more healthy turn, with retail trade sales up 6.7 percent above last year.[5] Another reason is the change in consumers' behavior patterns; they, on one hand, are demanding lower prices for basic goods and, on the other hand, are willing to pay premium prices for products that hold individual value for them. This results in huge mega-retailers and premium luxury brands enjoying growth on both sides of the competitive spectrum, while companies in the middle of the spectrum are facing growth problems. The rise in the mega-retailers' private labels has also contributed to slower growth for some CP companies. Private labels have been growing twice as fast as CP brands, with some variation across categories, and they currently represent the leading brand in most product categories.[6] As a result, private labels often offer cheaper prices to consumers and greater margins to retailers, leading to an increase in their market share.[7]

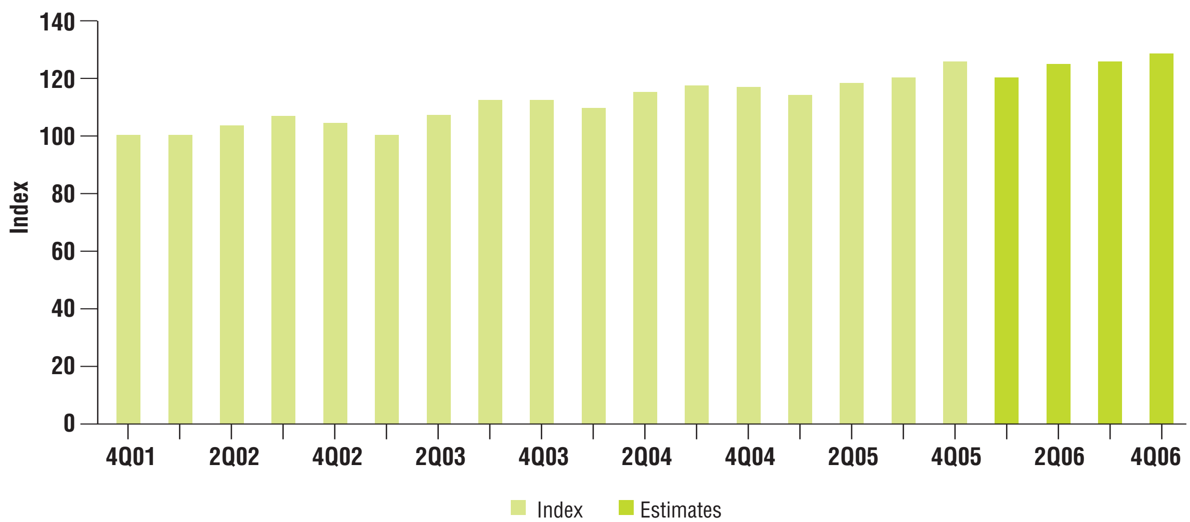
The revenue index for CP manufacturers is up 4.4 percent compared to the previous quarter and even higher (7.9 percent) compared to the same period in 2004 (see Figure 2).[8] Growth can be attributed to product innovations, improved product mix, strategic pricing, customer segmentation, and increased sales in emerging markets.

CP manufacturers are under increased pressure to grow revenues and improve operating efficiency and margins. Average net profit margins were 8.2 percent – nearly flat compared with the previous quarter and the same period in 2004.[9] Meeting revenue growth and profitability targets has become more difficult due to higher commodity and energy prices, increased competition in mature markets, the rise of private labels and the low success rate of new brands.

Successful innovation: The perfect product launch

Successful innovation has become a key driver for revenue growth, competitive margins and, in some cases, even survival. The ability to bring this innovation to market quickly, efficiently and ahead of competition is becoming increasingly important. An efficient product launch requires integration and coordination among multiple functional areas, including product design, procurement, planning, manufacturing/process and sales and marketing. In addition, as organizations increasingly leverage core capabilities of other companies, innovation has to be delivered through virtual networks, working with partners in a collaborative environment to bring product and services to market faster, smarter and cheaper. Consequently, organizations now not only need to integrate internally, but also externally with suppliers and customers, creating end-to-end supply chain processes and capabilities which differentiate on product and customer requirements.

Figure 2. Consumer products manufacturing industry revenue index.



Source: Witty, Michael, Jay Holman and Jason Spaulding. "CPG Manufacturing Industry Update, 1Q06." Manufacturing Insights, an IDC company. Document #M1201026. March 2006.

Strategies for success

Launching products and services that best fit customer requirements is clearly the top strategy for new product development. Lower introduction costs and first-to-market strategies pale in comparison to bringing innovative products to market that meet customers' wants and needs (see Figure 3).

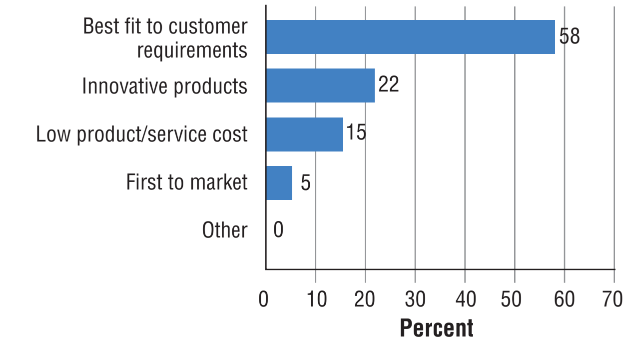
In accordance with the primary strategy, "correct identification of customer needs" is the most significant challenge for new product development efforts for over half of the CP respondents in the Value Chain Study, directly followed by "remaining competitive" (see Figure 4).

It's all about collaboration

The participants in a new product launch can be members of centralized or decentralized organizations. They can be employees of multinational corporations; tier one, two or three suppliers; university departments; or independent contract engineers. An innovative work product is the result of the successful design and integration of ever changing and evolving professional and technical disciplines. The concepts, specifications, designs, materials, components, software, and processes are sourced from a variety of interdepartmental, intra-company, interregional, interdependent and collaborative networked relationships.

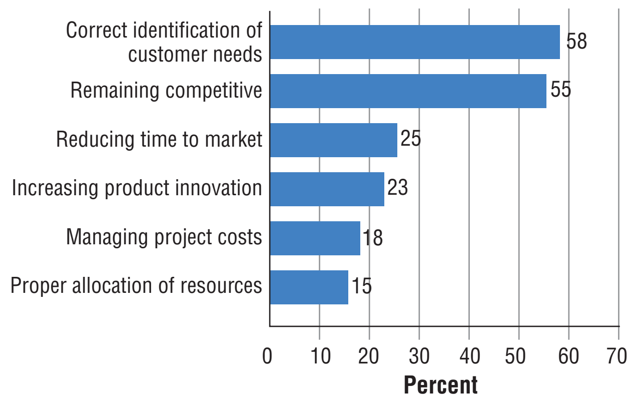
And it all begins, as it should, with the customer. Collaboration with customers to achieve customer requirements for product specifications is the most widely implemented practice (99 percent of CP respondents), followed by customer product configuration and specifications for design (see Figure 5). Most consider these practices effective (100 percent and 91 percent, respectively), and 43 percent even claim collaboration to be *extremely* effective.[10]

Figure 3. What is the primary strategy for your site's new product development efforts?



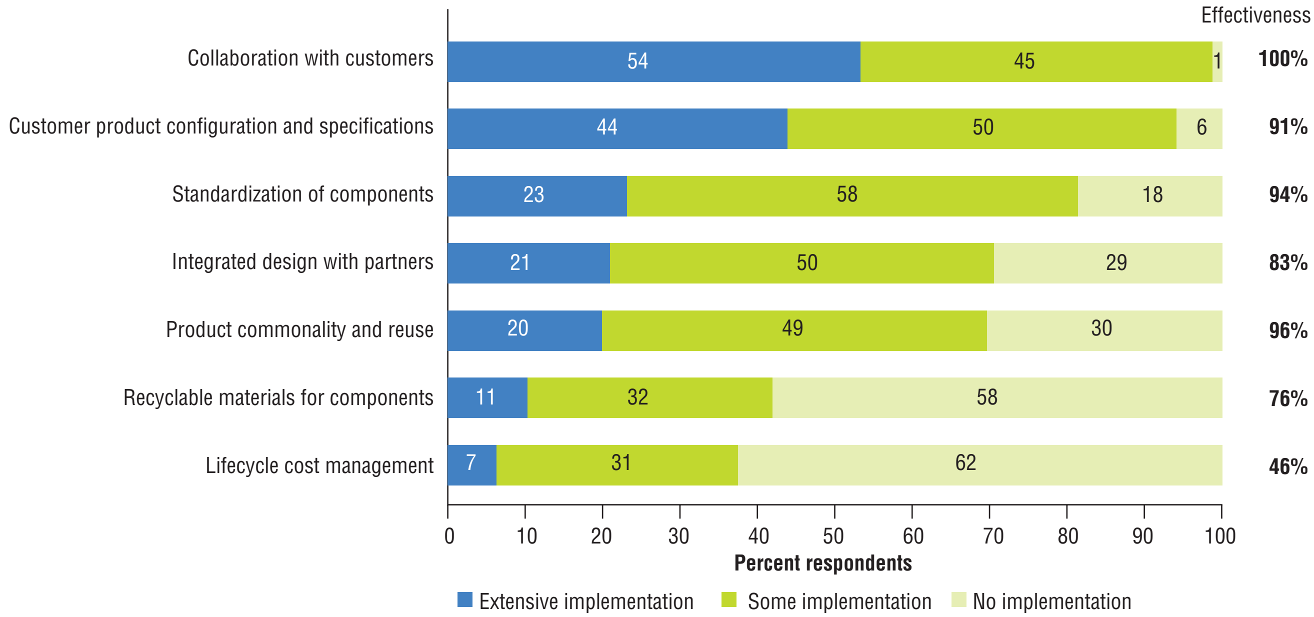
Source: IBM Institute for Business Value 2006 Value Chain Study.

Figure 4. Most significant management challenges for new product development efforts.



Source: IBM Institute for Business Value 2006 Value Chain Study.

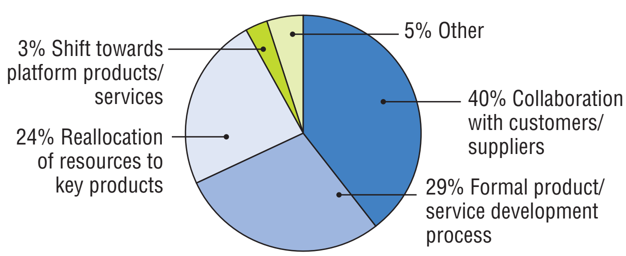
Figure 5. To what extent have the following customer practices been implemented?



Source: IBM Institute for Business Value 2006 Value Chain Study.

Collaboration with customers, suppliers, and other value chain partners is viewed as having the most significant impact on time-to-market performance (see Figure 6).

Figure 6. Most significant impact on reducing product development time-to-market.

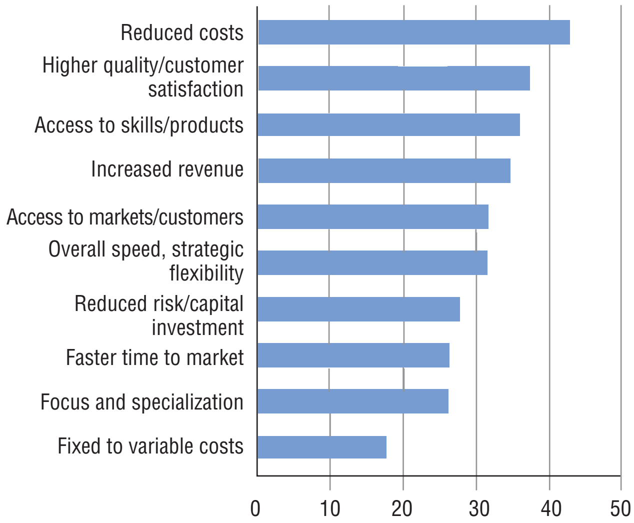


Source: IBM Institute for Business Value 2006 Value Chain Study.

Also related to performance, CEOs who participated in our Global CEO Study described a broad spectrum of benefits from collaboration and partnering to achieve innovation. Collaboration and partnering reduces costs, increases customer satisfaction, increases revenue and provides access to skills and products (see Figure 7).

Figure 7. Collaboration and partnering benefits cited by CEOs.

(Percent of respondents)



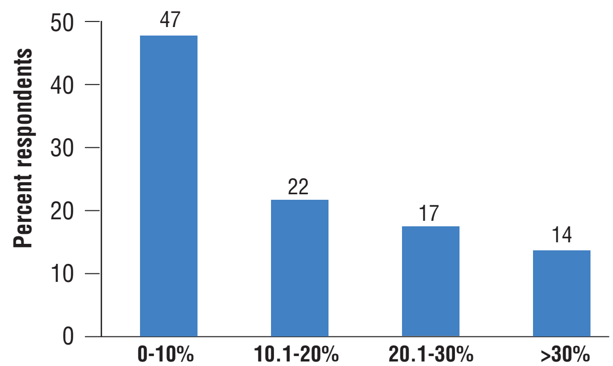
Source: "Expanding the Innovation Horizon: The Global CEO Study 2006." IBM Corporation. March 2006.

Balancing the three success factors: time, cost, lifecycle

Managing costs in product design, development, launch and service is always top-of-mind with executives. First-to-market strategies are also critical and, oftentimes, become the competitive differentiator in generating growth and profit.

Eighty-five percent of the CP participants in the Value Chain Study identified "sales or profit contribution" as the primary measure of success for new product development projects. An increasing reliance on new products for growth means that more products are needed in the pipeline and that new products need to be launched more frequently. As a result, the new product development process is becoming critical to business success. The Value Chain Study also supports this argument by showing that nearly a third of CP companies had more than 20 percent of their annual sales generated by new products launched within the previous year (see Figure 8).

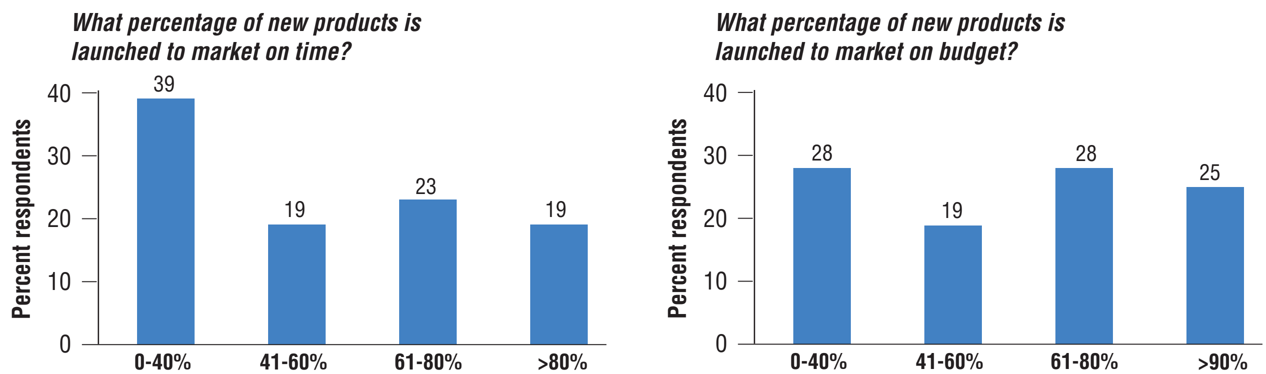
Figure 8. Percentage of sales generated from products launched in the past year.



Source: IBM Institute for Business Value 2006 Value Chain Study.

Delivery adherence-to-plan measures, such as on-time launch and on-budget launch, however are indicating room for improvement – a significant proportion of respondents miss their product development schedule targets. Likewise, a significant proportion of respondents miss their product development budget targets (see Figure 9). In both cases, the trend, based on a comparison to studies in prior years, is toward even more misses.

Figure 9. What percentage of new products is launched to market on time/on budget?



Source: IBM Institute for Business Value 2006 Value Chain Study.

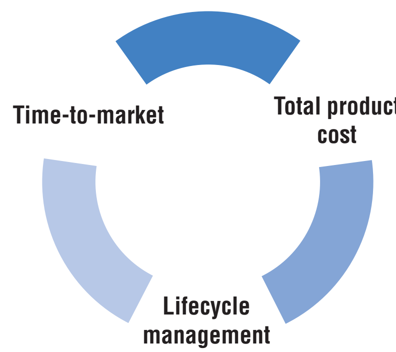
For new product *variations*, however, there has been a significant improvement in time-to-market performance. In the past three years, CP companies have improved time-to-market by 7 to 8 percent, with 41 percent of new product variations reaching the shelf within 100 days.[11]

Time-to-market and the total cost of the product including design, development and execution, and launch into the market are certainly two important criteria. But what is the third (frequently overlooked) success factor of the perfect product launch? Lifecycle management (see Figure 10).

It is important to take a holistic view of product/service lifecycle management, which includes:

- Quality programs
- Customer service requirements
- Global supply readiness
- Scalability into new markets
- Returns programs and spare parts planning for repairs
- Designs and plans for product variations for subsequent launches.

Figure 10. The three success factors for a perfect product launch.



Source: IBM Institute for Business Value analysis.

All of this, of course, must be integrated within the context of the overall supply chain (from planning to reverse logistics), and among all significant constituents.

CP companies must reinvent their business models and processes based on innovation, integration and collaboration to bring profitable products and services to market on time and on budget. As one CEO in the IBM Global CEO Study 2006 remarked, "A good business model, good products and market, and superior operations supplement each other to form a continuous cycle."

Conclusion

CP executives realize that business performance and growth are directly related to their ability to bring superior products and services to market in a cost-effective manner. In this report, we have shown that:

1. High levels of competition, shorter product lifecycles and changing market conditions intensify pressures on CP growth.
2. To meet their business targets, CP companies need new ways to deliver value to their customers.
3. Innovation is dependent on the introduction of new products and services to existing markets, while expanding new market channels and geographies.
4. Reducing time-to-market is a key success factor.
5. CP companies have not yet significantly improved their time-to-market and on-budget performance.
6. To help shorten time-to-market while reducing development costs, companies should adopt a holistic view of the development process and involve stakeholders from outside the immediate scope of the process, such as contract manufacturers, suppliers and other service providers.
7. Implementation of point solutions aimed at reducing time-to-market might achieve only local improvements, and not provide widespread business benefits. New product development objectives and initiatives must be tied to corporate strategies.
8. One of the most critical strategic initiatives in new product introduction is: acquiring an explicit definition of customers' requirements, in collaboration and communication with customers – not in an R&D vacuum.
9. Use of componentization and standards to develop variations on products can help companies achieve "faster-to-market" objectives at lower costs.

The message is clear: the perfect product launch can support business growth initiatives, superior products/services innovation and effective cost management through the integration of product/service lifecycle management activities with customers, suppliers and service providers.

For additional information about the IBM Institute for Business Value 2006 Value Chain Study or the IBM Global CEO Study 2006, please contact us at *iibv@us.ibm.com*. To browse through other resources for business executives, visit our Web site:

ibm.com/bcs

About the authors

Karen Butner is the Supply Chain Management Lead for the IBM Institute for Business Value, and an Associate Partner in IBM Global Business Services in the United States. She can be reached at *kbutner@us.ibm.com*.

Mark Wilterding is the Product Lifecycle Management Leader, and a Partner in the IBM Global Business Services in the United States. He can be reached at *mwilter@us.ibm.com*.

Contributors

Avishai Moor is a Senior Consultant in the Industrial Sector of IBM Global Business Services in the United Kingdom. He can be reached at *avishai.moor@uk.ibm.com*.

About IBM Global Business Services

With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

References

[1] "Expanding the Innovation Horizon: The Global CEO Study 2006." IBM Corporation. March 2006. http://www.ibm.com/bcs/ceostudy

[2] Ibid.

[3] Davis, Trevor. "Innovation and Growth: A Global Perspective." IBM Corporation. 2000.

[4] IBM Institute for Business Value 2006 Value Chain Study.

[5] U.S. Department of Commerce. "Advance monthly sales for retail and food services." March 14, 2006.

[6] Hyde, Linda. "Twenty Trends for 2010: Retailing in an Age of Uncertainty." Retail Forward. April 2003.

[7] Ibid.

[8] Witty, Michael, Jay Holman and Jason Spaulding. "CPG Manufacturing Industry Update, 1Q06." Manufacturing Insights, an IDC company. Document #M1201026. March 2006.

[9] Ibid.

[10] IBM Institute for Business Value 2006 Value Chain Study.

[11] Ibid.

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
04-06

G510-6281-00