

Launching new products in the capital goods industry

> **The last mile**





Your new product has been shown at the trade show. The marketing materials are all present and correct. The road show is over. The only problem is: Your sales engineers don't seem particularly excited – and nor do your customers. Orders are trickling in but are well off target. So what is going wrong? This article by **Dr. Ralf Hasler**, Director Corporate Development at Weidmüller Interface GmbH & Co., and **Dr. Torsten Henzelmann**, Partner at Roland Berger Strategy Consultants, highlights typical pitfalls during the market launch phase. Better still, it reveals how clearly structured processes can make sure a new product hits the ground running.

Analyses of roll-outs that flopped often flatly state that they were the "wrong products". However, we would contend that a large number of failed or disappointing product launches are simply the result of a lack of upstream coordination.

We estimate that around 40 percent of all new products in the German capital goods industry are actually launched up to 24 months after the original planned date. And of those projects that do make it through the target launch window, a mere 10 percent (i.e. 6 percent of all projects!) live up to the sales forecasts published when the project was initialized.

Component manufacturers in particular have to be able to literally "deliver the goods" as soon as concrete demand is expressed. However, this fact alone implies that a well coordinated market launch is not the sole responsibility of Product Management. Sales, Product Development, indeed the entire supply chain must make a concerted, coordinated effort if an innovative product is to successfully complete the last few yards of its race to market and become a real winner.

This interplay between different units can be prone to friction, however. A number of weaknesses are typical:

Insufficient localization in the marketing mix: Advertising messages (and the way they are presented) must be adapted to the relevant target culture. This is especially true of products that have sales potential in Asia. It is not enough simply to translate advertising copy one to one. Similarly, the product pricing strategy must make allowance for the different ways in which discounts are treated in different countries (This factor should naturally influence recommended gross prices). Well before the product gets to market, Corporate Marketing must do a lot of hard talking – and listening! – to the company's marketing satellites in other countries.

Quality or other problems when production is starting up, causing delayed shipment: As innovation cycles grow ever shorter, products and services often no longer have time to mature properly. The software industry has long grown accustomed to beta versions, where the product only gets its final polish after the customer has it installed. But this procedure is not usually feasible with technical products. To prevent expensive recalls and warranty claims, suppliers often have no choice but to go back on their word and delay market launch.

Inaccurate sales forecasts and inadequate coordination between Production, Product Management and Sales, impairing the company's delivery capabilities: Ideally, a new product should already be in stock when it goes on general sales release (For build-to-order products, appropriate manufacturing capacity should be on stand-by). Yet inventory managers (usually production or logistics bosses) are often unwilling to accept the uncertainties surrounding the sale of a product for which demand patterns are still an unknown quantity. The same goes for sales intermediaries, such as industrial and electrical goods wholesalers. Sizeable stocks are only scheduled for products for which demand patterns can be forecast reliably. By no means least, efforts to reduce working capital have made this problem a lot worse throughout the industry.

Sales arguments that pay too little attention to customer benefits: Benefits to the customer may have been the focus of the innovation process. Initial prototypes may be running smoothly. And Product Management may indeed have grasped the unique selling proposition. Nevertheless, efforts to implant sales-clinching arguments in the minds of the sales force frequently fail. The sales team's first encounter with a new product is typically restricted to registering the technical details, understanding what room they have to maneuver on price, glancing at the sales documentation and making sure they order enough brochures.

It does not take long to sketch the solution to the entire problem. The following elements are essential:

1. An agile, effective project team with generous entrepreneurial freedoms, clearly defined areas of responsibility and equally clear interfaces with other corporate functions
2. A transparent, end-to-end process which – and this is usually where the problems begin – often requires activities to run in parallel owing to time constraints
3. A modern mix of marketing tools that takes full advantage of the potential of new communication technologies and new media.

1. An agile, effective project team:

The project team naturally plays an important part in successful product launches. It should remain unchanged throughout the whole project (preferably from the moment when conceptual work on the business strategy begins through to successful market launch). Innovation is a team game and can only succeed if it is played as such. It therefore makes sense to agree targets and incentives with the team as a whole, not with individual members. The project team should retain management responsibility, i.e. it should remain responsible for sales, costs and profitability, for at least one to two years after market launch.

Many companies are actually charting new territory when they seek to structure management responsibility within a project team. It takes a lot of courage, a fresh mindset and adjustments to traditional decision-making processes to grant entrepreneurial freedoms to such a team.

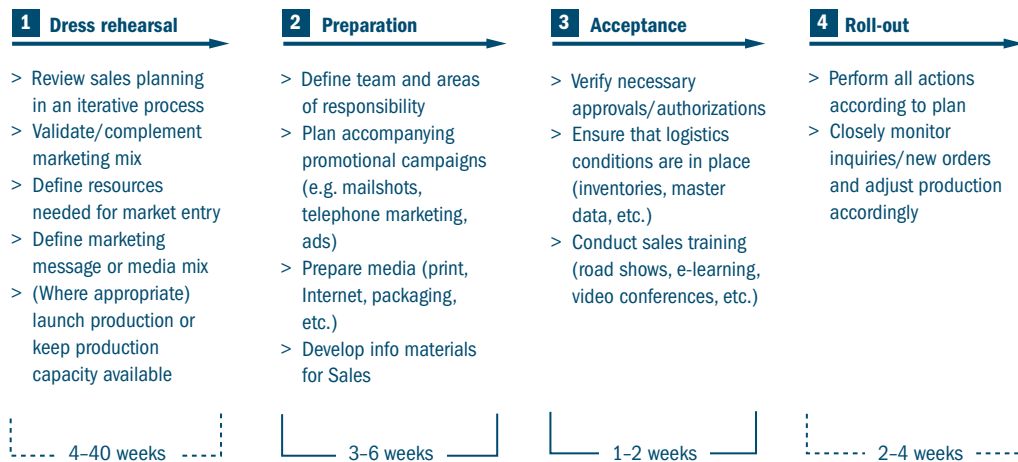
An intelligent mix of proven and innovative marketing tools helps create the necessary structural framework. This mix can include marketing circulars for the sales companies, e-learning for the sales force and potential-based customer segmentation, for example.

2. A transparent, end-to-end process:

Operational implementation is difficult usually because it is not possible to concentrate responsibility in just one pair of hands. The necessary processes always involve the participation of several (or even many) departments. Similarly, measuring the performance of the product launch process often leaves plenty of room for individual discretion. Top management therefore has a hard time managing, measuring and assessing the success of the process.

The figure below outlines a prototype process that covers the majority of the requirements discussed above for the purposes of the capital goods industry.

The core "market launch" process



Source: Roland Berger Strategy Consultants

Phase 1 "Dress rehearsal": Before market launch begins in the narrower sense of the word, it is useful to do a "dry run". Does the product really meet all anticipated requirements? Have technologies changed in the meantime? Have rivals launched products to which we can or must respond? Are our sales plans still accurate? Is it possible to acquire pilot customers or perform advance tests? Have all industrial property right issues been fully cleared up?

Phase 2 "Preparation": This is where preparation for market launch begins in earnest. Editorial work commences for all literature (flyers, catalogues, user manuals, info CD-ROMs, technical data sheets, etc.). Ideally, the content and appearance of all these materials should be harmonized. The nature of packaging should also be defined now, if this has not already been done. Trade show presentations must be adapted and prepared. And the same goes for announcements in the media (editorial content in publications, advertisements, etc.). At the same time, all preparations for production and (where appropriate) the build-up of inventories should be made now at the latest. The timing of initial production runs should also be determined at this stage.

Phase 3 "Acceptance": Roll-out must now be announced to the sales force resolutely and professionally. The same applies to implementation of planned direct marketing campaigns. Sufficient quantities of samples must be available. And enough human resources must be set aside to support the product during the startup phase. Sales should validate forecasts. On this basis, sales planning should be reviewed for the last time and coordinated with Scheduling and Production.

Phase 4 "Roll-out": Especially in the more traditional areas of the capital goods industry, it is common practice for new products unveiled at trade shows only to be shipped several months later. However, as innovation cycles continue to shrink, it is advisable to systematically leverage the "emotional momentum" of potential customers while the product is still a novelty to them. In other words, when you announce a new product, you should be ready to ship it. Long-term success likewise hinges on close monitoring of sales performance in the first few months after roll-out. Adjustments may need to be made as a result. Were price targets hit? How did the competition react? What complementary marketing activities do we still need? Can we acquire reference customers who will effectively multiply our advertising for the new product?

3. A marketing mix that matches the needs of the product and the company:

Alongside the project team and the process, the marketing mix is the third critical factor for successful product launches. Product managers today have far more ways to beat the drum for their products than they did only a few years ago. Here are just some of the available options:

e-learning techniques to train the sales force: Companies live in mortal fear of product-specific sales seminars. In effect, these events drag the sales team in off the street, cost a lot of money and are often not very efficient. Professional e-learning modules combine authentic knowledge transfer with the benefits of mobility and independence: People can "attend classes" when and where they choose.

Potential-based customer segmentation: New products can often be communicated to new customers in more ways than the existing product range. True, it takes yet another tremendous effort to refocus sales on high-potential customers in the context of a new product launch. But the exercise opens up excellent opportunities to win new customers in the high-potential bracket who have hitherto been served by competitor companies.

Optimized timing of visit preparation: Thanks to mass broadband access to the Internet, it is now very easy to combine, say, a telephone call with a virtual product presentation or some form of guided interaction with an electronic product catalogue. This kind of sales pitch often wins contracts before the customer has even put the phone down. Whatever the case, such preparatory actions help sales engineers to sound out customer expectations. Personal visits can then be prioritized on the basis of the impressions thus gained.

The above list is just a small selection of the many tools that can help make product launches more efficient and successful, but that often attract too little attention or get overlooked completely. Other key factors are widely known and have become a regular feature of product launch processes. For instance, most companies rigorously **control** key performance indicators (**KPIs**) such as process milestones, time to cash, profit contributions and market share. Managers are also aware that their own personal commitment has a knock-on effect down through the ranks. Accordingly, they have to devote their full attention to every new innovation and strategy, and hence also to new product launches.

To summarize: Besides careful controlling and the personal commitment of top management, the complex process of launching a new product in the capital goods industry requires three things:

- > **A team approach to the market launch** – Development, Production, Sales, Marketing, etc. must all work very closely together
- > **Start-to-finish responsibility on the part of project teams** – even beyond actual roll-out
- > **Fast realization** of innovations thanks to **flexible** organizational **structures**.