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## Letters to Editor

### CRITICAL SUCCESS FACTORS OF NEW PRODUCTS IN THE BUSINESS PORTFOLIO

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#### Abstract

The key of success, in modern business requirements, is innovation. Being innovative is one of the basic ways to strike back at daily changes and provide growth and development. Innovation has different shapes, but discovering and launching an innovative- new product is certainly one of the most important. An innovative product can be in the shape of new, for the consumers' still unknown goods or then familiar goods with some new characteristics.

Realizing the critical success factors of a new-innovative product, considering its significance for growth and development deserves special attention. We should be acquainted with these factors and they should be used in managing the changes and development. Solely respecting them it is possible to incapacitate the realization of an idea without previously checking it, prompt stopping or starting the production process of a new product. All critical factors of success should be regarded as a complete system, since only that way they could give a good result.

*Keywords:* being innovative, new product-innovative product, primary, secondary factors, performance measure.

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#### 1. INTRODUCTION

A modern company has to deal with a growing global competition and the only way it can cope with the challenges is to launch new products which would satisfy present as well as future consumer needs. In order to make a new product better than those of the competition, and so improve the

company, before its launching it is necessary to take into consideration all the critical factors of success within its business portfolio.

The question which comes up when analysing a new product's critical factors of success in a company's business portfolio is: What and which are those factors? Actually, it is a whole list of factors which point to the

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correspondent domains and to the ways how to exploit their positive influence in order to use company's competitive advantages and so improve its business. In the text that follows each of these factors is going to be explained separately, its influence to the success, the ways it can be measured and their interdependence.

## 2. INNOVATIONS

In modern business, being successful also means being innovative. Innovations can be defined as ideas which are put out to the consumers who regard them as novelties.

Therefore, the concept of innovation is very general and it can refer to various aspects such as creating new products which consumers are not yet familiar with, improving the existing ones, setting up a new production process, enhancing the quality of services, conquering new markets and new sources of working material and so improving the overall business organisation.

A new product can have different forms depending on its innovation rating or modification level. On one hand, there are incremental modifications, such as creating a new packaging for an existing product or modifying a production line in order to improve product's competitiveness. On the other hand, there are radical modifications which involves research and development of new technologies or introducing completely new products and services that are different from the existing ones in ways of technology and market influence. Radical innovations go along with a high level of uncertainty, but they can also cause dramatic changes on the current market or even create a new one.

The goal of creating an innovation can be: holding back the innovator position, or

becoming a new innovator. In both cases, it is a great challenge for a company, taking in an account its complex and multidisciplinary character. Multidisciplinary processes are actually interactions between all company's functional units and external subjects such as suppliers, designers, business partners and potential consumers.

The first step in innovation is defining an idea. In order to make an idea successful, one has to go through three phases:

- look for an idea that is not random,
- verify the idea: is the new product attractive to the consumers and to our organisation?
- reject or accept the idea ([5], p.589)

The new product's critical factors of success should be taken into consideration in its early development stage. This way the company management is able to save time and reduce expenses by eliminating too risky innovations in time. Although the critical factors of success are well-known, the number of innovations that do not succeed on market is very high. The reasons for this contradictory fact lie in a general approach to those factors and their individual assessment instead of taking in an account their interdependence and interactions.

There are four basic aspects of interdependence that should be taken into consideration when assessing a new product:

- production,
- strategy,
- market,
- organization.

What they consist of is shown in the Figure 1.

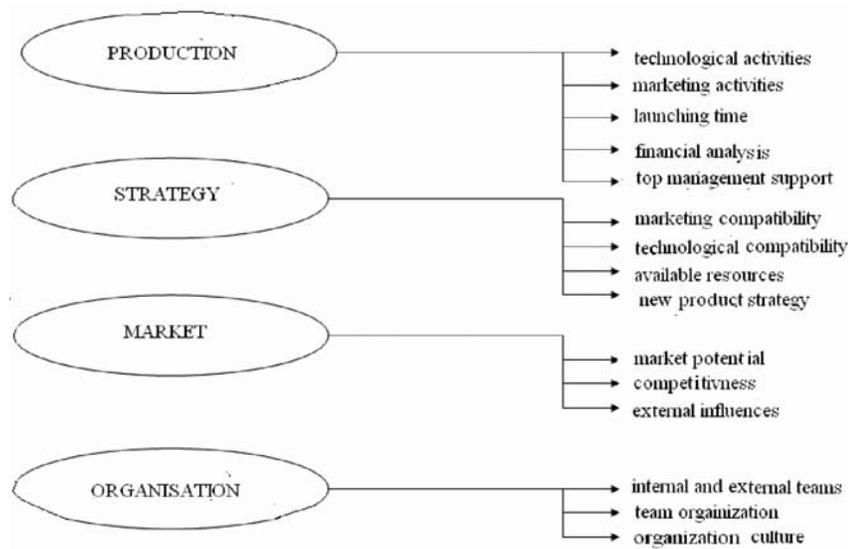


Figure 1. The four aspects of a new product's successful launch

### 3. PRIMARY AND SECONDARY FACTORS OF SUCCESS

According to their significance, critical factors of success can be divided into two groups: the primary and the secondary group.

The first primary factor of success is the production process. According to Ulrich and Eppinger the production process consists of five steps:

1. defining a new product's concept,
2. specific designing,
3. testing,
4. eliminating imperfections,
5. launching of the product,

Before setting up a correspondent process, the preliminary activities should be done in order to prevent the realization of an idea that has not yet been checked. Skipping preliminary activities is the main reason for failure of a new product because they are vital for the further realization. Those

activities are:

- Preliminary market analysis include quick obtaining the information about market potentials, its demands or the demands of the consumers;
- Detailed market analysis include making a list of needs and desires, competitive advantages

and disadvantages, along with checking the product concept. Market research is an activity that involves obtaining the information about market demands, determining target consumer groups, early product specification and determining the ways of its distribution, which is necessary for finding the right way for its introduction to the market.

- Detailed technical analysis involve the assessment of internal capability of the organization which depends on its production potentials, available resources, expenses and the acceptable risk.

- Financial analysis combine profit analysis, cash flow and its sensibility,

The result of these analysis is the information which is used to:

- make a negative decision to stop the new product development if the market conditions are not in favor of it or the expenses are too high or
- make a positive decision to start the development and implementation of the new product and initiate a flexible production process which would fulfill the market's demands.

Next primary critical factor of success is defining the new product's strategy that involves:

- determining a suitable production process of the new product,
- setting up the goals in terms of desired sales and calculated profit,
- compliance of these goals to the organization's business strategy,
- explanation of the new product's role in reaching the organization's objectives,
- determination of the correspondent market segments,
- specifying long-term production plans.

Determination of an effective strategy of a new product depends on the answers of the following questions:

- What is the role of the new product from the consumers's perspective and what is its actual value?
- Is the new product going to fit in the existing products range?
- What are the chances for the market to accept the new product?

Before setting up the new product strategy

one should:

- consider feasibility of the new product concept from technical, productive and business view,
- determin the benefits and business opportunities which launching of the new product would result in,
- perform ranking of the product using the product ranking scale. <sup>2</sup>

The determination process of a new product's concept is limited by current knowledge and experience of its designers, available technology and the market peculiars. If the existing capabilities are to be improved, it is necessary to invest a certain time period in staff training or hire external expertise.

The secondary critical factors of success involve:

1. organizing multifunctional teams,
2. responsibility of senior management,
3. setting up an innovative organizational atmosphere.

In last few years, setting up multifunctional teams is a rising trend in the processes of organization design. It is a result of product's shorter life cycle which is caused by more frequent changes in global demands and the need for more flexible organizational structures and better response to market changes, in general.

There are three basic qualities of a successful multifunctional team:

- variety of skills,
- interdependence during work which includes loyalty and the identification with the team of each member of the group. In other words, different expertise, experiences, approaches and values should all make for a final mutual goal.

When creating a multifunctional team, task of each member should be carefully determined so to be useful equally, for the career of the team member as well as for the group altogether, which in the end should result in greater efficiency of the team. Isolation of the team members from each other should be avoided in order to improve communication and enhance decision making. In the case of a development that has similar inputs all multifunctional teams should cooperate so to improve the information exchange. A leader of a multifunctional team should:

- encourage the activities of all team members,
- diminish the level of uncertainty and inefficiency,
- set up high process standards by making good decisions,
- prevent and resolving potential conflicts and
- maintain a satisfactory output level.

Senior management, as one of critical factors of success, influence all the other factors, both primary and secondary. Therefore, they are crucial for the success of innovations. Determination of the new product's strategy is the responsibility of the senior management as well as setting up limitations and motivating all of the multifunctional team members. Senior management's support for the development of the new product results in its successful implementation that is planned in advance. This plan involves determination of the time period needed for the idea to become a new product and the moment of its launch on the market.

The next, secondary critical factor of success is organizational culture which should stimulate the individuals to make

innovations by creating general thinking about the needs and long-term profits for growth and development. The values that affect the establishment of the innovative organizational culture in a company could be presented as in Figure 2.



Figure 2. Implementation of innovative organisation culture

The real innovators, through a continuous flow of new ideas, are trying to master the organizational culture of the company, stimulating the obligatory growth and development in that way. The traditional establishment of the organizational culture is thus being substituted by a culture which puts the innovation and its successful commercialization in the foreground. The high level of innovation demands that the consumers adapt. Thus, the connections with them are of great importance for a successful market expansion. (Sawhney, et al., 2005; Teather, 2002)<sup>1</sup>. In particular, when products are novel and complex and hence require adaptations in the use by customers, engagement with customers may be essential to ensure market expansion (Sawhney, et al., 2005; Tether, 2002). The presence of the consumers makes the process of transformation of consumer ideas into designer prototypes easier. Establishing the communication on a two-way relation, among the members of the team one with

<sup>1</sup>Boris Lokshin, Anita van Gils, Eva Bauer, Crafting Firm Competencies to Improve Innovative Performance, United Nations University, UNU-MERIT Working paper, Series # 2008-09, ISSN 1871-9872, p.6

another, and among the participants of the team and the potential or current consumers, is of great importance for the creation of a successful idea.

Within a company, a two or three –day summit about the innovations is suggested, which would gather the representatives of different levels: programme managers, marketing, sales, technology, engineering representatives, even the competition and consumers to establish cooperation links. On the first day of the innovation summit the ideas of all the participants are generated, so that in the following days the filtration of the offered suggestions could be done together with the assessment of the potential market success. The final outcome of the summit is making a decision about the best idea which should be forwarded into the next phase. Making such a decision is charged to senior managers. As the summit is focused on the creativity of all the participants, the following communication level should be focused on the process of designing the chosen idea which ends with the precise decision about the investment and the possible refund of the invested funds. The above mentioned way of generating ideas can be presented numerically 4-2-1, i.e. four reasonable models are created which are then narrowed to two prototypes and in the end to a unique idea acceptable for the market<sup>2</sup>.

The potential to come out with a new idea is under the great influence of the resource potentials of the company. In other words, the realization of a creative project of team members' choice requires the access to a huge amount of financial resources focused on technical research.

Besides financial resources one should pay a full attention to the recruitment and disposing the skilled personnel and to time as a resource which does not have a

substitution. Designing an adequate internal background of the company requires an organization and development of the appropriate personnel on every key position and motivates their maximal contribution. Human resources are characterized by complexity from the point of view of adapting to different work processes, i.e. the successful creation of the values in some circumstances does not mean the certainty of the same thing in other.

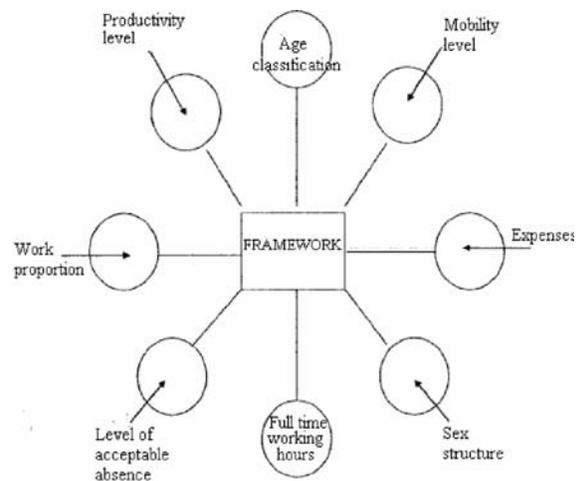


Figure 3. Framework for staff selection<sup>3</sup>

#### 4. THE ASSESSMENT OF A NEW PRODUCT'S SUCCESS

The assessment of a new product's success can be carried out from four different perspectives:

- Consumer's –which is characterized by a commercial level, market share of a new product and the way it fulfills the consumers' expectations
- Financial-which is measured by the level of realization of profit aims' , by the level of the influence of the sale's volume on the realized profit and by realized profit

<sup>2</sup>Jill Jusko, Out to Launch, Industry Week /IW, Februar 2008, Vol. 257, Issue 2, p. 48

<sup>3</sup>Tseng K. C., Abdalla H, A Novel Approach to Collaborative Product Design and Development Environment, Proceedings of the Institution of Mechanical Engineers - Part B - Engineering Manufacture, Decembar 2006, Vol. 220, Issue 12, p. 2006

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- Production-on the basis of technical success rate and the time dimension of the production process, the relation between radical and increment innovations;
- Organizational-which analyses the realization of the planned sale aims and the percentage of the sales of the new product;
- Programme- through the realization of the set tasks within the innovation programme;
- Competitive-on the basis of the position analysis in relation to the competition.

## 5. CONCLUSION

Being successful nowadays means being innovative. It does not mean innovation at all costs, but the one that could conquer the market and lead the company to a superior position in regard to competition. In order to realize that kind of innovation it is necessary to value any step from the idea to the realization, on the basis of integral and inter-dependant observation of numerous critical factors of the success of a new product. Only respecting the critical factors of success and both the individual and inter-dependant observation, it is possible to make a choice of the innovation which leads to market success.

In the early phase of defining a product it is necessary to do the market research, record the consumers' needs, the demanded characteristics of the product, distribution channels. In accordance to the available resources of the company, furthermore, it is necessary to conceptualize the draft of the new product manufacture. The preliminary draft of the production is checked by multifunctional teams, and the decision is the

senior manager's privilege. The very success of the product's launch is measured from different perspectives (consumer's, financial, production, organizational, programme and competitive).

In the very end of this study we can point out the different ways of finding innovations, by changing the perspective from which the innovation is observed. If you are a manager, become a worker, if you are in the sales department become a client. Another way is to observe from someone else's perspective. The key question is what if a child buys our products? How can we explain the main point to a child? One more way of finding innovations results from asking key questions. We should ask anything about what we want to achieve. We should start with: why, how, when... It is necessary to ask unpleasant questions, contrary questions, sometimes overturned, but we should not forget to ask the crucial question. The more questions we ask, the more solutions we will have. In other words, while we are trying to find the right way to create a new product, we will face many innovative ideas.

It is necessary to cherish new knowledge, go along with what is going on in business, on some other markets where new products are created, which means that the essence of success is to deal with proper things in a proper way, in a proper time. The pre-condition for this are innovations and innovators.

*"The potential of a company to learn and to turn into action what is learned is the greatest advantage which it could possess"*

**Jack Welch**

## КРИТИЧНИ ФАКТОРИ УСПЕХА НОВИХ ПРОИЗВОДА У ПОСЛОВНОМ ПОРТФОЛИЈУ

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### Абстракт

Кључ успеха, према захтевима модерног бизниса, су иновације. Бити иновативан је један од основних начина одговора свакодневним изазовима промена, раста и развоја. Иновације имају различит облик, али је откриће и лансирање иновативног новог производа суштински један од најважнијих. Иновативни производ може бити облик новог, за купце, још непознатог добра или позната вредност са новим карактеристикама.

Уочавање критичних фактора успеха новог иновативног производа, што се тиче његовог значаја за раст и развој захтева посебну пажњу. Морамо се упознати са овим факторима и они се морају користити у управљању променама и развојем. Поштујући ове факторе могуће је покренути остварење идеје без њене претходне провере, брзо зауставити или стартовати производни процес новог производа. Сви критични фактори успеха требају се узети у обзир као комплетан систем, јер једино тако могу дати добре резултате.

*Кључне речи:* Иновативност, нови производи, иновативни производи, фактори, мерење перформанси.

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