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20/20 Vision for Marketing Breakthroughs

Avoiding the Pitfalls of New Market Entries:

A Case Study

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New market launches require a myriad of decisions. It only takes a few bad decisions to sink a product. Most marketers employ models such as Philip Kotler's Four Ps – product, place, positioning and price – to serve as a guide in new product launches. The models help minimize the risk of making wrong decisions.

So why do we continue to see launch failures? More than 50% of all new product launches fail. Why don't the marketing rules and guidelines eliminate these mistakes? Unasked questions and unquestioned assumptions in customer targeting, channel selection and organizational decisions are usually the root of product failures.

There are subtle differences between customers who will buy a new product and those who think it's great. When marketers fail to differentiate between these groups, they increase their chances for failure. Likewise, there are also subtle differences between the right and wrong channels. Finally, rigorous attention to customer satisfaction, for every customer, is critical in new product launches. If the capabilities are not present to make this happen, failure is the result.

In This Article:

The importance of channel selection & targeting the right customer segment in new product launches.

We recently completed an assignment that was a great example of a lunch failure, particularly when compared to the estimated market potential. In this paper, we will examine the situation a marketer faced when he launched the product to see the following:

- How management failed to target marketing efforts to the early adopters – those who would perceive the greatest value.
- How choosing the incorrect channel negatively impacted the product launch.
- How management failed to build the organization to assure customer satisfaction.

The Situation

The client, in conjunction with a research organization, developed a breakthrough energy efficient technology to provide homeowners a heating and cooling system that, as a byproduct, delivered hot water. In many cases, it provided most of the hot water a home required throughout the year at no additional operating cost to the homeowner. The customer payback varied based on geography. In most Southern climates the payback was less than four years, while in Northern climates it increased to more than seven years.

The manufacturer already produced heating and cooling equipment and sold it through a network of independent distributors. The distributors enlisted a network of dealers to sell the product. For these dealers, the equipment was a secondary product line, usually handled as the dealers' "price" brand. As such, dealers sold the brand to contractors requiring a lower-priced product, generally for new construction of tract homes or replacement in price-sensitive homes. Thus, customer recognition did not play a role in the purchasing decision. Nevertheless, the marketer experienced growing sales for the product line over the last few years.

The product technology provided benefits to all consumers, however only the homeowners in the warmest climates or homeowners who required a lot of hot water valued the product enough to purchase it. Unfortunately, this knowledge was a product of the market research we conducted and may not have been known at the time of launch.

Using QDI's Strategic Marketing Decisions Framework, we can evaluate the marketer's decisions.

Targeting

Due to its innovative nature, the best targets were custom / semi-custom homebuilders. While the product appealed to the early adopter / innovator segment, the company tied its product line to very conservative images in its literature. This was unappealing and inappropriate for this segment. The literature also focused on the product's technical features rather than stressing its benefits of comfort, savings and efficiency. Moreover, the product literature failed to create the proper awareness for the unknown brand entering a brand-conscious market.

The company launched the product through its traditional distributors across the country. This immediately placed the product in the customer segment that had little value for it. Furthermore, the company did not allot extra resources to target the proper customer segment, thereby reducing the resources that could be allocated to support the new line. Thus, a lack of targeting was a key reason for the failed launch.

Channel Selection

For the company we studied, channel selection had a major impact on its ultimate failure in three ways:

- **Channel Customer Base** – the company made what seemed a logical channel decision by putting the new product through the existing distribution network. Unfortunately, this channel focused on low-priced HVAC equipment by selling primarily to tract builders who did not reach the early adopters. The new product, however, belonged in custom homes where energy efficiency is valued.
- **Channel Capability** – the dealer channel consisted of one- to two-employee shops, while the product required the skills of larger shops (ten- to twenty-employee shops) that were equipped with plumbers and HVAC installers.
- **Channel Motivation** – the manufacturer provided distributors with a bucket of funds to promote their product lines. There was no money earmarked specifically for the new product. This source of funds failed to provide an incentive for distributors to promote the new product. Therefore distributors spent the money promoting the traditional, easier-to-sell items. The product also required different skills than those of the small dealers / contractors. Because of this, they were anxious to sell a product which required plumbing skills as well as the standard HVAC skills.

Lack of Organizational Capabilities

The company's management failed to commit to its new product line. This is evident in its poor product promotion planning, insufficient management of customer satisfaction, and lack of a formalized dealer training program.

Management's lack of commitment appeared in its failure to properly establish a dealer training program. There were not enough qualified trainers at product launch. When the company conducted training, it was not close enough in time to a product sale, so the installer forgot how to install the equipment. Likewise, with the marketing resources too widely dispersed, there was not enough sales activity for any one dealer to help him with installation.

In addition to the training issues, the product had "out-of-the-box" quality problems. Customers experienced problems with the product because the manufacturer launched it without eliminating all the "bugs." There was also the problem of limited application support because when the company made revisions to the product, they failed to document it in their installation instructions. This forced engineers to travel around the country to fix problems.

Poor training, coupled with management's failure to commit to 100% customer satisfaction, led to customer and dealer dissatisfaction.

All these "decisions" led to a classic launch failure. Below are two lessons to be learned from this experience.

Lesson 1: The Importance of Targeting

Product is form fit and function at a price point. It is also targeted to the needs of a customer segment that will benefit from it. Marketers often get stuck in the model of thinking their product "benefits everyone."

While this may be true, value is not the same for everyone. For some, the perceived value is high and they buy the product. For others, the perceived value is insignificant.

To offset the perceived risk involved with the purchase of a new, unproven technology in the market from an unrecognized manufacturer, customers must perceive a high benefit value to purchase the product. Targeting the customers who perceive the highest value is critical in terms of channel selection, communications, price, etc. As in our case example, failure to precisely target the early adopters spilled over into channel selection and launch decisions that caused ultimate failure.

Lesson 2: The Importance of Assuring Customer Satisfaction

Assuring the channel's ability to sell and install the product correctly, selecting the right channel and providing the right training all contribute to customer satisfaction.

Close Rate

The product failed to succeed because in deciding to use its existing sales channels, the manufacturer chose a channel with insufficient skills to properly sell and install the product. Moreover, the manufacturer never established a training and support program for the product. The poor product quality exacerbated these problems.

Finally, out-of-the-box quality sometimes cannot be guaranteed in a new product launch, but customer satisfaction can and should be guaranteed. Management needs to plan for the resources to make it right, not assume it will be right. Again, a more targeted launch could have reduced the required resources.

Because the client did not ask the right questions, due to underlying assumptions that drove his business, the product launch failed. If you are planning a new product launch, let us help you ask the unasked questions and challenge your unquestioned assumptions. We'll increase your chances of success!

About QDI Strategies, Inc.

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand and channel strategies. Our consultants have helped clients to develop and implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

For More Information

If you would like to receive additional information or would like to arrange an informative presentation to your management team, contact Steve Bassill at 847-566-2020, or visit www.qdistrategies.com.

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