



# CRITICAL PITFALLS OF THE NEW PRODUCT DEVELOPMENT PROCESS



## INTRODUCTION

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Most executives understand instinctively the necessity of developing new products and offerings – organic growth is rewarded with a premium by senior management, governing boards, and the market. The new product development (NPD) process plays a pivotal role as the primary driver of corporate organic growth; yet executives frequently get it wrong. With 80% of product launches failing, executives are falling into disastrous pitfalls – costing valuable time, money, and resources.

The key to securing a solid new product pipeline lies in the rigor of the NPD process itself. There are many variations of new product development approaches, but the most common adheres to a stage-gate or waterfall design. The benefits of such a process are greatly evident.

While product development requires significant investments in time and money, effective and comprehensive product development is critical to generating value – increasing revenue and ROI for all products.

This guide will delve into the ways that executives may inadvertently risk precious NPD resources by falling into any number of critical process pitfalls and provide solutions to secure the NPD process.



**\$1.55M**

Average revenue generated from product development  
(n=210)



**15X**

Average return on product development investment  
(n=210-241)



**1.5 MONTHS**

Time saved due to product development insights  
(n=158)



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# THE NEW PRODUCT DEVELOPMENT PROCESS

There are many things that can go wrong in developing a product. To protect their investment, many companies use a stage-gate NPD process that requires executives to address key questions about their market and customer before proceeding with the creation of detailed product solutions. The table below provides an illustrative example of the process including critical questions that each phase should address.

## STANDARD NPD PROCESS



### PRELIMINARY: MARKET EVALUATION

#### CRITICAL QUESTIONS

Before developing a new product, organizations should first evaluate their current portfolio and ensure that they're maximizing their revenues in existing markets. A market evaluation provides insights into unmet customer needs, industry trends, market sizes, and competitors.

- What are our customers' needs?
- What is the health of our current market?
- What other markets are attractive for our products?
- Where are our competitors?



### PHASE 1: IDEA GENERATION

#### CRITICAL QUESTIONS

With a prioritization of the most attractive market opportunities, executives can brainstorm potential ideas, offerings, and concepts. Ideas can originate from internal employee insights, customer feedback, and formal market evaluations.

- What offerings would delight our customers?
- What do our employees wish we would offer?
- What new/different/enhanced offerings could we sell?



### PHASE 2: CONCEPT TESTING

#### CRITICAL QUESTIONS

Product concepts are screened against criteria to assess feasibility, including ROI, production costs, customer affordability, and market potential.

- Which are the most promising concepts?
- How well do potential customers understand the concept?



### PHASE 3: PRODUCT REFINEMENT

#### CRITICAL QUESTIONS

Approved concepts undergo a repetitive loop of product development and improvement. Prototypes are quality tested and refined into fully functional products. Only the strongest concepts that address customer need, feasibility to produce, and potential to capture market share should proceed.

- Do customers want or need the product?
- Can we profitably produce this product?

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**PHASE 4: MARKET WARMING**

**CRITICAL QUESTIONS**

Through test marketing, potential customers can provide feedback on the product, its look and feel, and packaging. Critical pre-sales and early adopters can help build momentum for a new product before it hits the market.

- Which customer segments will buy this product first?
- What features are the most valuable?



**PHASE 5: PRODUCT LAUNCH**

**CRITICAL QUESTIONS**

Fully-vetted products can proceed to full commercialization, including communicating pricing, market positioning, and delivery decisions to the sales, marketing, and distribution teams.

- How is the product being consumed?
- Are we highlighting the product's strengths and key selling points?
- Which additional customer segments would buy this product?



**PHASE 6: PRODUCT REVIEW**

**CRITICAL QUESTIONS**

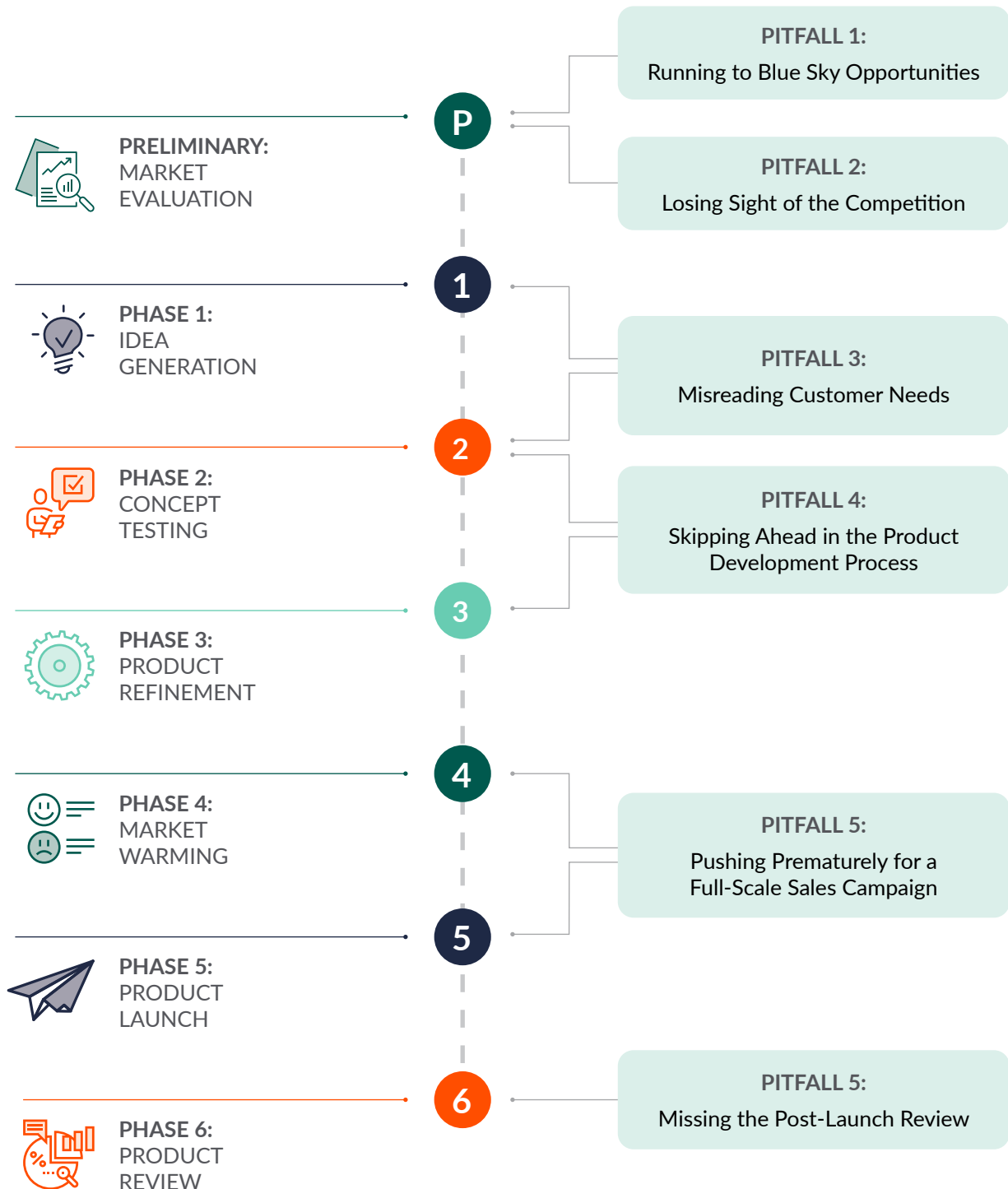
Following the launch, a review of product performance will help identify areas for continued improvement or potential problems. In addition, a review can identify future product concepts based on customer reactions and requests.

- What else can we do to support the product?
- Are there complimentary products we should add to our pipeline?
- How are customers and prospects reacting to the new product?



# CRITICAL PITFALLS OF THE NEW PRODUCT DEVELOPMENT PROCESS

Despite the best of intentions, executives may find themselves mired in an NPD process pitfall. The good news is that each of these pitfalls is avoidable and executives can access a variety of research tools and methodologies to ensure their new product efforts stay on track.



# Critical Pitfall 1: Running to Blue Sky Opportunities

## NPD Stage: Market Evaluation

In the market evaluation phase, organizations are often attracted to blue sky ideas of entering new markets with new products and may miss low-hanging fruit available through cross-targeting adjacent industries or customers. Frequently missed adjacencies include:

- **Selling your current offerings or products to new markets or customers.**

Organizations should understand all the ways in which their offerings deliver value and consider other markets that could benefit as well. This could include targeting new customer types.

- **Exploring new products/offerings for existing markets/customers.**

Another market expansion involves evaluating existing customers to see what other products could be offered. These new offerings could include upgrades to current, adjacent, or new products that ideally would use the same manufacturing or delivery methods to produce.

Care should be taken when pursuing blue sky opportunities. Organizations may consider this strategy when they are seeking to wholly reinvent themselves and/or they see a pronounced flattening of the growth curve of the legacy business. Alternatively, blue sky opportunities may represent a way to deploy excess cash to secure an attractive new market and customer base. Executives should be clear in their expectations of a blue sky opportunity and balance these carefully with potentially easier-to-win opportunities in the core business.

## SOLUTION: THOROUGH MARKET EVALUATION

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Complete a thorough **market evaluation** before venturing into the development of new products. The market evaluation should examine adjacent markets across multiple factors such as market size, trends, barriers to entry, and level of competition. Each of these factors help prioritize NPD efforts and ensure the right product or offering is explored at the right time.

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### Mistaken Opportunity: Amazon's Fire Phone

Amazon's Fire Phone is a high profile example of how this can go wrong.

The project had extensive support from Amazon's founder, Jeff Bezos, who layered on expensive features in the hopes that the phone could compete with Apple's iPhone, but missed critical feedback from customers. While the Fire Phone was launched with a strong marketing push, it failed to take off and Amazon was forced to write-down \$170 million in unsold inventory.

## Critical Pitfall 2: Losing Sight of the Competition

### NPD Stage: Market Evaluation

Even with a keen sense of customer need, organizations can be beaten out of the market and waste significant resources if they fail to recognize competitor activity. The saturation of a market with competitors directly (and negatively) impacts a product idea's attractiveness.

Tracking competitor movements can reveal areas where an organization will have to fight for market share or uncover opportunities where there is little competition but great unmet customer need. Organizations should also scan the environment for the game changer — a competitor who can enter and disrupt the entire market. Missing the game changers can be devastating.



### Beat by the Competition: Jawbone vs. Fitbit, Nike, and Apple

One of the earliest products on the wearable fitness tracker market, Jawbone's fitness tracker, which launched in 2011, was riddled with issues. While they focused on developing improvements to their wearable, Fitbit and Nike came out with their own fitness trackers and quickly dominated the market. By the time Jawbone's new tracker was ready for launch in 2015, the Apple Watch had also launched and gained dominance. Finding itself in a saturated market with no foothold, Jawbone struggled not only to make profits but also to pay off the production costs. Two years later, the company went out of business.

### SOLUTION: COMPETITIVE INTELLIGENCE TRACKING SYSTEM

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Create a competitive intelligence tracking system and update it at least quarterly. An effective competitive intelligence tracking system includes competitor information such as an organizational overview, size, product offerings, markets, and customer segments. The tracking system should also include an analysis on current and potential competitor initiatives. Executives should regularly identify fringe competitors that could enter and disrupt the market, especially when exploring adjacent markets and products.



## Critical Pitfall 3: Misreading Customer Needs

### NPD Stages: Concept Testing and Product Refinement

In the NPD process, the leading voice must be that of the customer. Organizations should always ask:

- **What do customers need?**
- **How strongly do they feel this need?**
- **What problems are customers trying to solve by purchasing our product?**

Understanding customer voice is crucial—or else an organization risks creating products customers do not want, or do want, but only with lukewarm interest. One way in which an organization may misread customer voice is when they insufficiently interview customers. Too few interviews may not uncover all of the critical issues and unmet customer needs. In addition with small interview sets, organizations may end up probing only a portion of their customer market. This is most notable when organizations only interview current customers and not prospective buyers. Potential customers are especially important as they enable organizations to tap into new, untapped market segments.



### **SOLUTION: TEST CUSTOMER NEEDS**

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Test for customer needs across a robust and representative sample of current and potential customers. Existing customers tend to be the early adopters and advocates, while potential customers are the market an organization needs to penetrate in order to grow. In addition to surveys, qualitative interviews with current and prospective customers are one of the most impactful research tools available to organizations. These interviews can reveal key motivators behind customer demand and expectations that can inform the NPD process.

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## Critical Pitfall 4: Skipping Ahead in the Product Development Process

### NPD Stages: Concept Testing and Product Refinement

Product development is a discipline that can frequently be susceptible to gut feelings and emotional impulses. Executives can get excited at different stages of the NPD process and rush through steps to get a product to market. In haste, they not only skip key product vetting stages, but they also tend to turn a blind eye to important metrics and requirements that may signal the ultimate success or failure of a product.

Many times in the product testing phase, strong focus groups or customer testing feedback can lead organizations to skip product refinements or sales warming efforts and head straight to sales. While this may seem like a way to catalyze the launch process, spending the additional time on refining the product design, structuring sales and service, and warming the market are investments in ensuring the product has been well formed and the launch will be well executed.

Many times senior leadership may drop in on the product development process and pressure efforts to skip ahead. Holding the line is hard, but necessary.

One of the phases most frequently skipped is product refinement—specifically when it comes to quality control and reducing manufacturing and production costs. A rushed NDP process can have disastrous effects. Missing the game changers can be devastating.

### **SOLUTION: DEVELOP A STEP BY STEP NPD PROCESS**

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Lay out a clearly defined stage-gate process for NPD along with key metrics for product viability at each stage. It is as important to stop products from proceeding if they fail to meet certain thresholds as it is to move well-qualified products forward.

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#### **Rushed Launch: Samsung Galaxy Note 7**

The now infamous Samsung Galaxy Note 7 used a chemically volatile lithium ion battery, which for some production runs was being compressed too tightly – leading to the phone smoking and catching fire. Samsung desperately needed this phone to shore up the entry-level base of their market, but by rushing through quality control, they may have caused a damning blow to the company's entire line of cell phones as a result.

## Critical Pitfall 5: Pushing Prematurely for a Full-Scale Sales Campaign

### NPD Stage: Market Warming and Product Launch

With a well-conceived product that is ready to launch, organizations may be tempted to dive straight into a full-scale sales campaign. Such campaigns can run into serious obstacles quickly. Potential customers tend to be skeptical of new offerings and look for demonstrated product success and customer testimonials.

Achieving a critical mass of new sales is challenging, and a product's failure to grow quickly can lead to it being branded as "bad" or "unsellable". Products with negative reputations may be rejected or deprioritized by the sales team and create a self-fulfilling prophecy of a product that ultimately fails.



### Overshot Launch: Crystal Pepsi

One of the most public examples of a full-scale sales campaign that missed the opportunity to soft launch was Pepsi's introduction of Crystal Pepsi. The now former Yum Brands CEO loved the idea of Crystal Pepsi so passionately that he spared no expense on the sales rollout, including Super Bowl ads, billboards, and even a collaboration with rock group Van Halen to produce a theme song for the drink ("Right Now"). Had Pepsi employed a soft launch, the company would have quickly learned that customers did not intuitively latch on to the new drink's concept: a clear soda that was "clean" and "healthy."

## SOLUTION: PERFORM A SOFT LAUNCH

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Employ a soft launch for new products during the market warming period. During this period, the sales team should partner with the product development team to convert beta testing customers from the development process into early sales wins (or quickly pinpoint obstacles that could prevent product sales). Early adopters can be engaged with pricing discounts in exchange for product reviews which help to establish credibility within the market. Also important at this phase is incorporating the knowledge gained from concept testing and market warming feedback to create an effective brand strategy that calls attention to the product's strengths in the market and is cohesive with the overall organization brand and existing product portfolio.

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## Critical Pitfall 6: Missing the Post-Launch Review

### NPD Stage: Product Review

The NPD process does not end with a product launch. When organizations stop the NPD process after the launch, they miss two valuable opportunities to spot:

1. Improvements to the product
2. A new or complementary product for exploration and development.

In some ways, the stage of product refinement is a continuous cycle – the best products go through periodic upgrades and improvements. By constantly adapting the product, an organization increases the product's chances of long-term survival. Furthermore, soon after the launch, the development team may be able to channel early feedback from the market into additional products or services to offer.



### SOLUTION: SCHEDULE A REVIEW

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Take time to review a product post launch with an eye towards consistently offering improvements and upgrades and to spot new and adjacent product offerings that could be up next for potential development.

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# NPD RESEARCH SOLUTIONS

While these pitfalls of the NPD process are frustrating and potentially damaging, all are avoidable. There are many research tools and methodologies that executives can employ at each phase of the NPD process to ensure the precious resources an organization invests in NPD are well stewarded.



## NPD PHASE

## RESEARCH TOOLS AND METHODOLOGIES



### PRELIMINARY: MARKET EVALUATION

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- New and adjacent market evaluation
- Competitor monitoring
- Industry trend briefing
- Market size modeling
- Brand audit



### PHASE 1: IDEA GENERATION

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- Product portfolio review
- Customer/employee survey
- Market drivers analysis
- Attitude and usage studies
- Voice of the customer interviews



### PHASE 2: CONCEPT TESTING

2

- Concept testing surveys
- Customer segmentation
- Customer satisfaction surveys
- Focus groups
- Voice of the customer interviews



### PHASE 3: PRODUCT REFINEMENT

3

- Feature/concept conjoint analysis
- Pricing optimization



### PHASE 4: MARKET WARMING

4

- Brand message testing
- Focus groups
- Product testing
- Go-to-market strategy



### PHASE 5: PRODUCT LAUNCH

5

- Customer segmentation study/cluster analysis
- Go-to-market strategy
- Event database
- Social media monitoring



### PHASE 6: PRODUCT REVIEW

6

- Pre- and post-testing
- Lost customer surveys
- Win/loss analysis

# SOURCE LIST

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# ABOUT HANOVER RESEARCH

We leverage a deep understanding of your business challenges to provide critical intelligence that helps you uncover new opportunities, minimize risk, and accelerate growth.

## OUR CORPORATE SOLUTIONS

### MARKET ANALYSIS

Drive growth and outperform competitors through targeted exploration and analysis of hard-to-quantify markets.

- Market Entry Strategy
- Market Segmentation
- Market Penetration Strategy
- Merger and Acquisition Opportunity Analysis
- Trend Analysis
- Competitive Analysis
- Market Share Identification

### PRODUCT LIFECYCLE

Optimize each stage of a product's lifecycle from ideation, development, launch, and marketing.

- Product Lifecycle Management
- Pricing Strategy
- Product Development
- Product Message Testing
- Product Portfolio Review
- Channel Strategy
- Package Design
- Customer Needs Assessment

### CUSTOMER EXPERIENCE

Understand the complex customer journey to pinpoint problem areas and uncover opportunities for high-impact improvement.

- Voice of the Customer
- Buyer Persona
- Consumer Decision-Making Process
- Customer Satisfaction
- Customer Segmentation
- Customer Journey
- Customer Needs Assessment
- Lead Scoring
- Pathway to Purchase

### BRAND STRATEGY

Identify and measure the most important metrics for assessing brand and cultivating effective messaging.

- Brand Equity
- Brand Tracking
- Brand Awareness
- Brand Development and Positioning
- Brand Perception
- Content Marketing

## OUR BENEFITS



### EXPERT

200+ analysts with advanced multiple methodology research expertise



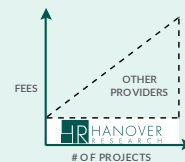
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