The Natural Alliance Between New Product Development and Competitive Intelligence

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The intersection of New Product Development (NPD) and Competitive Intelligence (CI) affects many areas of effectiveness of market and competitive strategy. Ranging from understanding the markets into which new products will be sold to determining which products have commercial potential, CI offers NPD the chance to more effectively and efficiently predict how product development investments will impact the bottom line and the risks and opportunities inherent in their commercialization.

Every successful business uses CI to understand its direct, so-called "zero-sum" alternatives for market share; indeed, understanding price points, positioning and comparative feature sets drives commercialization decisions even at the smallest firms. Likewise, NPD occurs to some degree in even the smallest businesses as a company tries to grow revenues in new areas through diversification or adapt existing products and technologies to new applications.

Candy Bars vs. Clam Shells

First quarter 2004 financial results in the cell phone handset market have demonstrated the need to understand market demand through the lens of competitive alternatives. Market share leader Nokia recently admitted it had invested too heavily in "candy bar" style cell phones at the expense of new models using the higher-demand "clam shell" design that offers both carriers and application developers greater screen real-estate in the drive toward development of smart phones and PDA/phone hybrids, arguably the next generation of cell phone design. Competitors such as Motorola, Samsung and LG not only ate into Nokia's market share as a result of this NPD misstep, but they significantly impacted their own positive quarterly financial results at Nokia's expense. It's clear that, had Nokia read the marketplace in the latter half of 2003 – that is, the factors affecting comparative wireless carrier growth as well as application development – an understanding that the fundamental limiter of product design in the smart phone category is driven by the screen size afforded cell phone users and they had a product gap in the middle of this marketplace that afforded competitors an opportunity to chip away at Nokia's share.

New Market Entry Strategy: Old-Economy Firms Enter New Economy Markets

One Aurora client, one of the largest transportation, shipping and delivery companies in the world, had developed a patented software technology that it used internally to drive the efficiency of its operations, significantly impacting the company's ability to compete more effectively. The platform for load management logistics had been developed over the years in-house in response to a need by the company's own logistics personnel, in the absence of a commercial alternative to be supplied by an outside vendor. So, logically, company management considered the potential of entering the logistics software market for this software product.

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Competitive dynamics were the chief determinant of market entry strategy to commercialize the new product. Both in terms of similar products with similar feature sets already entering the market as well as their traditional transportation competitors facing similar situations in their own logistics management. After a short competitive scan that included the discovery of more than two-dozen competitors already in the market internationally, it was determined the company had a real market opportunity to bring a competitively differentiable product to market.

But first, the product would have to be spun off as a separate operating business – both to avoid anti-trust examination by regulators as well as to quell concerns by trucking competitors who would form the foundation of the new product's customer base. After carefully researching the market potential, competitive differentia and benchmarking of feature sets, the market entry strategy was finalized in less than six months; the spin-off filed for IPO less than two years after first studying the logistics market into which the product was introduced. Market share growth has been impressive due to the patented technology leverage the company entered with, its service-based sales model (as opposed to selling the software product directly, the company turned the product into an outsourced service) and the company was even able to enforce points of patent on the service by existing competitors in-market after infringement due diligence proved they had owned and originated certain key business processes inherent in the service.

Checklist for CI/NPD Collaboration

There are many opportunity areas where new product development can collaborate with competitive intelligence. Likewise, CI personnel should consider this previously low-priority internal constituency as a new way to impact the long-term success of the firm. The following abridged list describes just a few of the highest-impact applications CI and NPD can collaborate on:

- Patent Analysis: The best and most important technical product information can only be found through understanding the inventions competitors (as well as potential new market entrants) will be protecting through IP activity. This ranges from analysis of geographic trends, technology classifications, invention specifications, citations themselves and competitive activity itself.

- Trade Show & Conference Intelligence: The sheer volume of new products and services being brought to market require a disciplined and systematic monitoring of the market environment. The best way to quickly scan the market – whether the company has traditional historic experience or not – is in tracking activity of technological evolution at professional conferences and the commercialized form factors new products take on at trade shows. NPD professionals, who already participate broadly in trade show and conference events, can become a critical part of the company's formalized trade show and conference intelligence program.

- Salesforce Win-Loss Analysis: The connection between why a firm wins or loses a particular selling opportunity with a customer provides tremendous advice for the firm both in how to sell more effectively at the salesforce level, but also the perceived gaps in product feature sets and differentia on the part of the customer. Likewise, linking a disciplined win-loss analysis process back to product development can yield insights into

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which products are being introduced by competitors and leverage the "buzz" in the marketplace about how those product rumors will align with customer needs.

- Price and Cost Analysis: It's just as important for product marketing to communicate effectively to the salesforce competitors' tactical price negotiation policy as it is for NPD to understand potential market size, cost of production and strategic pricing policy more broadly. But understanding cost of production metrics is elusive and has a very short shelf-life. Cracking the code of cost factors can allow a firm to create a cost formula to predict production cost and understanding margin policy can help predict price points and negotiation levels when the product arrives in-market.

- Alliance Activity: Alliances are simply forms of cooperation between two or more firms, more substantial than simple market transactions or outsourcing, but less intense than mergers and acquisitions. Alliances can include co-marketing agreements, licensing, joint R&D or production, joint ventures, or minority participation in co-investments, but understanding the linkages between other key market players – both competitors and customer/vendor allies – can help predict threats of backward or forward integration as well as better understand potential substitute products.

Clearly, NPD and CI stand to gain a great deal from alliance of one another's objectives. This white paper is a condensed version of a broader essay on CI/NPD cooperation published by the author. If you are interested in receiving a complimentary copy of the full version or would like to discuss Aurora's best practice advice and ideas to assist your firm in linking the two disciplines of New Product Development and Competitive Intelligence, please contact Derek Johnson at 608-268-3470 or by email Derek.Johnson@AuroraWDC.com.

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Reporting to the Managing Director, Derek is responsible for oversight of client research and analysis engagements in terms of overall quality control and calendar-based project management, through the firm's ReconG2 Research & Analysis Bureau.

Derek's responsibilities extend to include growing Aurora's intelligence service relationships with its clients worldwide as well as developing new business. As COO within the firm's Recon Outsourcing Bureau, he is charged with overall project design, methodology and quality control, as well as recruitment of new analyst staff and forging partnerships with third-party solution providers worldwide to meet the demanding global needs of Aurora's diverse clientele.

Derek joined Aurora after several years in the Investment Management business where, in his position reporting directly to the President and CEO of the firm, he was responsible for new business development, leading client portfolio reviews, and overseeing the accounting function of the business.

Derek's academic achievements include current status as an MBA Candidate at the University of Wisconsin – Madison (graduating July 2004) and a BBA in Finance and Economics from the University of Wisconsin – Eau Claire. He is a Chartered Financial Analyst (CFA), having received his professional designation credentials in August 2001, and is a member of the Association for Investment Management and Research (AIMR). He is also an active member of the Society of Competitive Intelligence Professionals (SCIP) and the Product Development and Management Association (PDMA).