

We Already Know Our Customers!

So, why worry about Market Research?

NEW PRODUCT INNOVATION
No. 8 in a Series of Papers

Reference Paper by:
Teresa Jurgens-Kowal
PhD, PE, NPDP

Global NP Solutions
2323 Clear Lake City Blvd., #180
Suite 177
Houston, TX 77062
PHONE: 281-280-8717
FAX: 281-280-8689



A TALE OF TWO PRODUCTS

In May of 1975, Sony proudly unveiled a home video cassette recorder that was destined to revolutionize home entertainment. Even the name given to the new product was modern and revolutionary – Betamax – blending into the language of the 1970's as a generic term for a video recorder. The nearest competition was VHS, but Beta demonstrated at least four solid advantages compared with VHS:

- Sharper picture,
- Quick-switching tape winder,
- Very small cassette tapes, and
- Easy to reproduce hi-fi sound.

However, by 1988, only 20 million Beta machines had been sold worldwide, a 12% market share, compared to 170 million VCRs.



As Al Fasoldt commented in The Syracuse Newspapers, "Sony can't blame anyone else for the

demise of the Beta video system. It **failed to market it properly**" (emphasis added).⁽¹⁾

Oil of Olay, having suffered under the nickname "Oil of Old Lady" was a portion of Procter & Gamble's acquisition of Richardson-Vicks in 1985. P&G certainly knew chemistry inside and out, but lacked expertise in the facial care business. P&G, determined to understand how women felt about their skin, worked with thousands of women around the world. Only after



extensive research with the ultimate customer, did P&G form an innovation team in the laboratory, launching Olay Total Effects in June 2000. The product was rolled out in a single test market with a "prestige-inspired" marketing campaign and as AG Lafley says in his book *The Game-Changer*⁽²⁾, "It took off." Even better, women came back for more – "Repurchase is an infallible sign of success"⁽²⁾.

At acquisition, Olay had about \$200M in global sales, but with focused innovation strategies researching the customer, the brand had achieved greater than \$2B in sales by 2008⁽²⁾.

A tale of two products: What do you think is the difference between the success of Total Effects and the abysmal market response to Sony's Betamax?

WHAT IS MARKET RESEARCH?

With projects like Betamax and Olay Total Effects competing for precious innovation resources, how does your firm know which new products will be losers and which will be winners? *"Today's engineer is challenged by a hectic pace at work, direct involvement in business matters, and by a large amount of personal contact, meetings, reports, and presentations."* ⁽¹⁾

Substitute "New Product Developer" for "engineer" in the above quote and we understand why working on the right



projects at the right time is crucial to be able to deliver a commercial success. Increasing global competition is putting enormous pressure on firms to

improve and innovate by creating new product lines, acquiring new customers, and adopting new technologies ⁽¹⁾.

In New Product Development, we often hear the mantra "Do the Market Research Early" or as Bob Cooper, the guru of Stage-Gate™ phrases it *"Do Your Up-Front Homework"* ⁽³⁾. Failed Market Research is an oft-quoted reason for NPD failure. Crawford presents data demonstrating that between one-third and one-half of all new products fail ⁽⁵⁾. But,

what exactly is Market Research? And, how can Market Research increase the probability of success for NPD efforts?

PDMA, the Product Development and Management Association, defines **Market Research** as follows.

Information about the firm's customers, competitors, or markets. Information may be from secondary sources (already published and publicly available) or primary sources (from customers themselves). Market research may be qualitative in nature, or quantitative.

In other words, **Market Research** allows us to evaluate whether a technology will be salable for **economic gain**, or in which arena new product or service development needs to occur so that a product or service can be sold for profit. Too many companies are caught in the *trap of developing a technology without a market*, so an in-depth understanding of potential customers and consumers will ensure that the product attributes will **provide a benefit to the end-user**.

In fact, conducting certain phases of Market Research during the early stages within the NPD Process is a trademark of successful New Product commercialization. Additionally, PDMA reports in their best practice survey of 2003 that Beta Testing is the predominant form of Market Research. However, Beta

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Testing was used in just over 50% of radical innovations ⁽⁶⁾. Authors of the PDMA study thus concluded that “the Best” firms used qualitative market research to better understand unfulfilled customer needs.

Further, Cooper’s research showed that a detailed market study was omitted in 75% of projects included in an evaluation of over 200 NPD processes. **Only 19% of firms studied what customers needed** or wanted in the new product in order to generate product specifications ⁽⁴⁾.

IF IT’S SO IMPORTANT, WHY DOESN’T IT GET DONE?

NOT KNOWING EXACTLY WHO THE CUSTOMER IS

Certainly one of the difficulties facing an NPD team wanting to better understand their customer is **first understanding WHO is the customer**. Sometimes this is easier said than done.

For example, in the pharmaceutical industry, identifying who is the customer is no easy task. Some possible customers include:

- Patient, who is taking the drug;
- Doctor, who is prescribing the drug;

- Insurance Company, who is purchasing the drug for the doctor or patient;
- Caregiver, who is administering the drug to the patient; and/or
- Pharmacy, who is supplying the drug.

The end-user, in this case, is the customer, but note that each of the other individuals listed is a **stakeholder** in the pharmaceutical product (the drug). Doing an effective Qualitative Market Research study requires contacting, questioning, and listening to each of these stakeholders in the value chain ⁽⁷⁾. It’s easy to come up with a *litany of excuses why NOT* to do Market Research in this case.



- The hospital won’t let me interview patients.
- I don’t know how to contact doctors, besides there are too many of them.
- We don’t have a relationship with insurance companies and if we talk with them it might “look bad”.
- Caregivers are too busy for us to interview and they are not *OUR* customer.
- There are too many pharmacists to interview.

Understanding who your key customer is, whether that is the end-user or a logistical position in the supply and distribution chain, is

key to delivering value to that most important customer. And realizing profit on your new product!

NOT KNOWING HOW TO INTERACT WITH THE CUSTOMER

Sometimes, too, the customers cannot provide information about things with which they are not familiar⁽⁸⁾. A frequent excuse for failing to conduct Market Research is: "*They won't understand our idea or have knowledge about the technology.*" Really? If your customer



cannot understand the concept of the firm's NPD idea today, consider whether it will be any easier for the customer to understand the product use once the product has launched in the marketplace tomorrow. Generally, firms prefer to engage the customer *via* a proactive interview rather during than a reactive complaint resolution meeting⁽⁹⁾.

UNTESTED ASSUMPTIONS

Another deterrent to in-depth Market Research is that the organization holds what Adams and Hublikar call "**wrong facts.**" That is, *someone thinks* customers will make a buying decision in such-and-such manner. *Someone thinks* that competition does not have a similar technology, etc⁽⁹⁾. Corporations do not very often make financial decisions based on what *someone thinks*, yet in determining the customer needs for a new product, management is too often satisfied with what *someone thinks*.

WE ALREADY KNOW THE ANSWER

Companies fail to do Market Research because they perceive that if they have a significant market share already, they automatically "know" the customers better than the "market". Additionally, companies will assume that if they are visiting their customers regularly through sales calls and customer service interactions, they have heard the customer's voice already. And, finally, managers often feel like "expensive" Market Research validates what they already knew in the first place⁽¹⁰⁾.

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Gaining an understanding of the needs and wants of the key, important customers enables you to be a higher level supplier to your customers ⁽⁷⁾. **Market Research allows your firm to verify the impact your new product will have in the market,** whether that is through a cost savings passed onto your customer's customer, or through clever application of features and attributes with a new technology. *Customer-centric companies have a growing advantage over competitors who have less effective links between customer understanding and the New Product Development process* ⁽¹¹⁾.

QUALITATIVE MARKET RESEARCH

Market Research falls into several categories, depending on one's particular viewpoint. We can divide Market Research into categories such as Primary or Secondary, Exploratory or Confirmatory, and Quantitative or Qualitative. Obviously, there is some degree of overlap between categories and at what stage in the

Phase	Research Method	Purpose or Rationale
Opportunity Identification	Secondary Research Customer Visits	<ul style="list-style-type: none"> ■ Identify market opportunities ■ Market segmentation
Concept Generation	Customer Visits Surveys	<ul style="list-style-type: none"> ■ Understand customer needs ■ Generate product platforms or concepts
Concept Evaluation	Focus Groups Concept Testing	<ul style="list-style-type: none"> ■ Select projects for funding ■ Determine if there is a market
Development	Product Use Testing <ul style="list-style-type: none"> ◆ Focus Groups ◆ Customer Visits/Beta Test 	<ul style="list-style-type: none"> ■ Test designs/prototypes ■ Validate new product designs
Launch	Market Testing	<ul style="list-style-type: none"> ■ Test launch plan ■ Measure new product success

NPD Process it's best to undertake different types of Market Research. The table above offers some suggestions on which Market Research methodology to employ during the various phases of the NPD effort.

Qualitative Market Research, in particular, provides a wealth of data for early-stage projects. It can be exploratory in nature, that is, trying to learn what you don't know. Most certainly, Qualitative Market Research is a primary research technique, meaning that a firm cannot purchase a data set or reference manual showing the qualitative market research for the particular project under consideration. There is no dispute that a quick literature search to test an idea in its infancy is highly recommended, but when the

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organization is truly investigating the opportunity and fleshing out details of the concept, there is *no substitute for Qualitative Market Research*.

Qualitative Market Research is defined as:

*Research conducted with a very small number of respondents, either in groups or individually, to gain an **impression** of their beliefs, motivations, perceptions, and opinions. Frequently used to **gather initial consumer needs** and **obtain initial reactions** to ideas and concepts.*

Procter and Gamble are the quintessential example of a company that knows its customer. In fact, AG Lafley, CEO of P&G, relates all innovation efforts to "*The Customer is Boss*⁽²⁾." Innovation relies on being close to the customer, getting to know the customer well, and to serve her better. Similarly, GE has recently (re)organized in a way that makes the business "customer-facing" in addition to being a cost efficient company⁽²⁾.

FORMS OF QUALITATIVE RESEARCH

Qualitative research typically draws insights from an in-depth understanding of a small set of customers. It is a type of **exploratory research**, trying to understand what is not known, why a customer uses a product or

substitute in a certain way, and uncovering the basic needs and wants of the customer.

Collecting the Market Research data can be done in several ways^{(7), (12)}.

- Semi-Structured Interviews
- Small Discussion Groups
- Focus Groups
- Case Studies
- Direct Observation
- Ethnography (or Contextual Research)
- Shadowing
- Storytelling
- Behavior Mapping

CUSTOMER INTERVIEWS

No other practice has as much impact for industrial producers than the **customer interview**. Because there are fewer customers than in the consumer product goods industry, the customer has a closer relationship with the

new product supplier and can fully engage in the product design⁽⁹⁾.



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Typically, the customer interview will involve at least two people from the new product firm: one to probe the customer and situation surrounding the use of the product, and the other to make observations and take notes. **This is not a selling event**, so a salesperson should *only* be present to facilitate introductions between the customer and the company.

CONCLUSIONS

Early, up-front Market Research is essential to successful New Product Development efforts. Understanding your customers' needs will direct and streamline both technology and market developments to ensure product benefits are designed for the target market. Finally, spending some upfront time talking to your customer, and your customers' customer, may save your firm millions of dollars – a story that Sony wishes could be retold for Betamax.

QUICK REFERENCE GLOSSARY

Check out our [website](#) for a quick and easy list of terms used in New Product Development. Some terms used in this article are shown here.

Benefit: A product attribute expressed in terms of what the user gets from the product rather than its physical

characteristics or features. Benefits are often paired with specific features, but they need not be.

Beta Test: An external test of pre-production products. The purpose is to test the product for all functions in a breadth of field situations to find those system faults that are more likely to show in actual use than in the firm's more controlled in-house tests before sale to the general market.

Customer: One who purchases or uses your firm's products or services.

Customer Site Visits: A qualitative market research technique for uncovering customer needs. The method involves going to a customer's work site, watching as a person performs functions associated with the customer needs your firm wants to solve, and then debriefing that person about what they did, why they did those things, the problems encountered as they were trying to perform the function, and what worked well.

Market Research: Information about the firm's customers, competitors, or markets. Information may be from secondary sources (already published and publicly available) or primary sources (from customers themselves). Market research may be qualitative in nature, or quantitative.

Qualitative Marketing Research: Research conducted with a very small number of respondents, either in groups or individually, to gain an impression of their beliefs, motivations, perceptions and opinions. Frequently used to gather initial consumer needs and obtain initial reactions to ideas and concepts. Results are not representative of the market in general or projectable. Qualitative marketing research is used to show why people buy a particular product, whereas quantitative marketing research reveals how many people buy it.

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New Product Development (NPD) – The overall process of Strategy, Organization, Concept Generation, Product and Marketing Plan creating and evaluation, and Commercialization of a New Product.

New Product Development Process (NPD Process) – A disciplined and defined set of tasks and steps that describe the normal means by which a company repetitively converts embryonic ideas into salable products or services.

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ABOUT THE AUTHOR



Teresa is President of Global NP Solutions, LLC, a strategic innovation provider. She is an accomplished visionary and results-oriented professional with extensive industry experience from creative research to effective portfolio management through stream-lined new product development processes.

Prior to founding Global NP Solutions, Dr. Jurgens-Kowal acquired over 12 years of experience in leadership and management positions with ExxonMobil Chemical Company and a total of 16 years as a practicing Chemical Engineer. Her corporate career encompassed various functions, including New Product Development, Portfolio Management, Licensing, Marketing, Logistics and Supply Chain, Manufacturing, Project Management and Research Technology.

Teresa has extensive experience leading successful teams, managing the product development life cycle, and defining the portfolio strategy. Her deep expertise in intellectual property management, product and process licensing, portfolio planning, customer service and various business processes make her an ideal teacher and trusted advisor who knows both the theory and practices of New Product Development.

Dr. Jurgens-Kowal earned a B.S. degree in Chemical Engineering from the University of Idaho in Moscow, Idaho and a Ph.D. in Chemical Engineering from the University of Washington in Seattle, Washington. She is a licensed Professional Engineer in the State of Louisiana since 1998. Teresa is a certified New Product Development Professional (NPDP) by the Product Development Management Association (PDMA) and Global NP Solutions, LLC, is a Registered Education Provider (REP) with PDMA.

Teresa holds chemical process and catalyst patents, and is published in the Journal of the American Chemical Society and Journal of Physical Chemistry.

Currently, Dr. Jurgens-Kowal is working on founding a Gulf Coast Chapter of the PDMA organization. She has an office in Houston, Texas.