



Top 10 Reasons New Products Fail

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Top 10 Reasons New Products Fail To Meet Their Revenue Targets

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The majority of new products fail.

Statistics on the exact percentage that fail may be a matter of some debate. And the failure percentage may vary a bit by industry. Still, most product innovators and academics would agree that more than half of new products fail to meet their financial goals in the marketplace.

This white paper offers the EcoStrategy Group take on the top reasons why new products fail to reach their revenue targets. This list is based on personal observation and opinion gleaned from over 25 years experience bringing new technology products to market. And while it's not the result of in-depth research or scientific analysis, I think you'll experience a "been there, done that" feeling about these top 10 reasons.

Why New Products Miss Their Revenue Targets

It's true that a certain amount of market success can be attributed to good luck and favorable timing. But a significant portion has to do with:

-  excellent planning – based on a solid understanding of the market and customer needs,
-  a strong price-value relationship, and
-  skillful execution in product development, sales and marketing.

High-tech executives have a great deal of control or influence over these variables. Yet poor planning, a weak price-value relationship and mediocre execution are at the root of most of the "Top 10 Reasons."

The Top 10 Reasons

1. Target market is not defined correctly.
2. Product is mis-positioned.
3. Product's benefits are not understood by the target customer.
4. Product doesn't address important customer needs.
5. Product is seen as incomplete, or it requires too many ancillary services or other pre-requisites.
6. Product costs too much or the total cost of ownership is out of line with perceived benefits.
7. Sales and marketing efforts are not focused and aligned.
8. Sales cycle is longer than expected.
9. The company is under-investing in marketing and sales efforts.
10. Market is smaller than originally projected or product is too far ahead of the market.

1. Target Market is Not Defined Correctly

A clear definition of the target market is fundamental to creating and launching a product that will be successful in the marketplace. It drives the focus of product development, marketing and sales efforts. Without a clear definition that is commonly understood by all functions, the company can flounder in making critical go-to-market decisions about everything from product features to lead-generation campaigns.

"Firms need to define a set of customers so that they can decide what technological attributes to target in development...Targeting a specific market with a clear value proposition informs choices of what must be done – and what can be omitted – in the technical domain," writes Haas School of Business professor, Hank Chesbrough, in his book, [Open Innovation](#). He goes on to state, "Until you know who your customers are and what they value in your offering, you don't know what you must provide and what you can afford not to do."

2. Product is Mis-Positioned

Positioning a product requires answering the question: "What makes this product (or service) more, better, or different than competing solutions in the mind of the customer?" It seems pretty straightforward but it requires that the marketer understand the value proposition of the product, the competing solutions, and the customer's perspective.

The most serious failure in positioning, in my experience, is a misfit between the needs of the target market and the benefits of using the product. The root cause is usually an inadequate understanding of the target customers, their needs, and their existing options for meeting those needs.

Another common failure in positioning is assuming that there are no "competing solutions" in the eyes of the customer. Even if your new product is so revolutionary that nothing like it exists in the marketplace, there is almost always an alternative to using your product. And there are always tradeoffs involved in choosing among the alternatives.

If your new product is not properly positioned, your marketing messages won't resonate with the needs of the target customer. Salespeople, thinking on the fly and creating on the spot, may essentially re-position the product themselves. And each salesperson may do so a bit differently. The result will be dissipated marketing messages and confused customers. Money spent on marketing communications will be ineffective.

3. Product Benefits are Not Understood by the Customer

I've actually heard technology executives say, in frustration, "The customers just don't get it." The flip side of this is that the customer is probably thinking, "That company just doesn't understand my needs." Often this miscommunication is because the marketer hasn't expressed the product's benefits in terms the customer understands and can relate to. Have you ever walked into a trade show booth to hear a product manager describing the speeds and feeds of the company's latest pneumatic flange while a prospect's eyes glaze over?

Most competent marketers can discriminate between statements that describe product features ("revolutionary double-roll, hydrostatic sheet feeder") and those that are benefits-oriented ("prints your documents 10 times faster than other printers"). But sometimes, even though the marketer has created benefits-oriented statements, those benefits themselves are not meaningful to the target market.

The marketer may not truly understand the needs and values of the target customer or the relative importance of the product benefits. This is a particular pitfall in the clean tech business, where companies may incorrectly assume that "green" benefits are the most important to the buyer when, in fact, they are farther down the list. We advised an electric bike client not to focus on the zero emissions feature of their product and instead to lead with the benefit that no gasoline purchases are required. Consumers responded favorably to this cost-saving benefit. Now the client's sales rise every time the price of gas goes up.

If the customer benefits and their priorities are not well understood, marketing and sales messages will miss the mark.

4. Product Doesn't Address Important Customer Needs

Certainly, technology companies aim to create products that address customer needs. But companies can sometimes lose perspective on the relative importance of the needs they are addressing. This can mean the difference between delivering a product that is "nice to have" (the so-called vitamin) vs. a product that is a "must-have" (the pain-killer). The root cause (just as with #1, #2, and #3, above) is typically an inadequate understanding of the needs of the target market.

Products can also miss the mark by neglecting to address a key need. For example, an application software company I worked with offered a product that provided significant benefits to the end users. However, the product was not available to run on certain platforms that had been selected as standards within many IT environments. Until this important customer need could be addressed, the market for the product was limited. Revenue goals were missed.

5. Product is Seen as Incomplete or Requires Too Many Ancillary Services or Pre-Requisites

Some technology products require certain existing infrastructures or special expertise in installation and configuration. Or they may require training in order for customer to get the full value of the product. Without these surrounding services, the product offering is not a complete solution from the customer's point of view. In order for sales to occur, these services must be made available either directly by the vendor or by qualified affiliates.

Years ago, a client had designed a high-end video conferencing system that required customers to have a dedicated, high-bandwidth network configuration connecting headquarters and remote offices. Where this infrastructure did not already exist, the cost and complexity of implementing the videoconferencing system was prohibitive. This limited the total available market for the product and resulted in missed revenue goals.

This same type of infrastructure pre-requisite can plague many new clean technologies. For example, vehicles that run on hydrogen fuel depend on an infrastructure for storage and delivery. Grey water systems that require complete re-plumbing of a commercial building will find their market size limited to new construction.

6. Product Costs Too Much or Total Cost of Ownership is Out of Line with Perceived Benefits

If the target market believes the total cost of the product is out of line with the benefits it offers, you may be able to reduce the total cost of ownership through price reductions (at a still profitable price) or design changes. Or you may be able to uncover additional benefits and convince the market that they are significant. In many cases, however, this mismatch between cost and benefits is the death knell for the product. It can signify a fundamental failure to offer a solid value proposition.

7. Sales and Marketing Efforts Are Not Focused and Aligned

The lack of focus and alignment occurs in a couple of key forms: 1) the "mixed messages problem," 2) the shotgun approach and 3) the sales-marketing disconnect.

The Mixed Messages Problem – This most often occurs when disparate functional groups within a company are responsible for communicating with the market but do not coordinate their efforts. For example, a corporate marketing organization may be running an extensive advertising campaign, while the channel marketing organization is providing slightly different direction to the distribution channel which, in turn, is creating its own messages. At the same

time, a direct marketing department is conducting an email campaign, the website is being updated, and sales pitches are being developed with little input from the marketing team.

The result is a variety of diluted messages that do not mutually reinforce one another. This reduces the overall return on your sales and marketing investments and hinders your ability to maximize revenue.

The Shotgun Approach - With constrained marketing budgets, most technology marketers cannot afford to undertake numerous marketing programs against multiple market segments and still hope to have a significant impact. It's often a wiser course of action to do fewer things but do them in a better way. Save some programs for later. Target specific markets for initial emphasis and then roll out to others.

Early in my career, I had a boss who was enthralled with premium items bearing the product name. The marketing team spent a lot of time and money researching and purchasing these items to be given away to the sales force and corporate customers. This did little to raise awareness or generate leads. Once we convinced him that we should focus our energy and resources on some very targeted lead generation programs, we captured hundreds of qualified leads that led to several million in revenue within six months.

It can be a daunting challenge to prioritize one market segment over another or to choose one marketing program over another (e.g. an ad campaign vs. channel programs). And given a wide range of constituents – the CEO, Sales, Product Development, Distributors/Resellers – marketers often feel pressured to take a shotgun approach and launch a variety of efforts simultaneously. But, it's worth the effort to establish focus and priorities. If you don't, the result is a dissipation of energy and resources. And there's nothing less satisfying to sales and marketing people than slaving away and having little impact on revenue.

The Sales-Marketing Disconnect - The sales and marketing disconnect occurs when sales and marketing efforts are not aligned around common goals and a common view of the customer purchase process. When sales and marketing teams are out of sync with one another they simply don't produce the best outcomes. You can end up with off-target marketing and sales collateral, wasted program expenditures, ineffective marketing, unproductive sales efforts and missed revenue opportunities. At its extreme, the situation can degenerate into unproductive inter-departmental conflict and finger-pointing.

8. Sales Cycle is Longer than Expected

From the customer's point of view, the stages of the buying cycle may not look the same as the seller's view of the sales cycle. In a business-to-business sales process, the customer's view may involve the following stages:

- Identify Need
- Research Solutions
- Evaluate/Justify Purchase
- Budget Approval
- Negotiation

- Purchase Decision
- Contract Signing
- Implementation
- Optimization

Notice that these stages may or may not mirror the seller's definition of a sales cycle. The "identify need" stage *may* be lined up with the lead generation and qualification stages of a sales cycle. What's more, the length of time each of these stages requires is often quite different in reality than in the estimation of the selling company's CEO or Sales Vice President. It may turn out that certain stages of the purchase process involve a committee and that the members of that committee might change depending on the stage of the sales process. It may be that the product must interface with other products or systems and this could slow things down. The cost might exceed the purchase authority of the key decision maker. Perhaps a pilot phase is required or the customer may need to add staff capabilities in order to properly utilize the product. And maybe the product needs just one or two more features in order to meet the customer's need.

Optimism is an essential ingredient of entrepreneurship. So, it is very easy to fall into this particular trap of underestimating the sales cycle. My friend, Bill Reichert, Managing Director of Garage Technology Ventures, put it very eloquently: "In over 100 companies in which we've invested, one, maybe two, of them hit their revenue forecasts. I'm convinced there's a fundamental human flaw that creates a systematic optimistic bias when projecting the future. The biggest reason forecasts are wrong is that we all tend to project that the selling cycle will be shorter and less resource intensive than it truly is for a product launch."

9. The Company is Under-Investing in Marketing and Sales Efforts

While spending money in marketing and sales is no guarantee that a new product will be successful (witness the excesses of the dot.com days), under-investing in marketing and sales *can* result in significant revenue shortfalls.

Ralph Waldo Emerson was wrong when he stated: "Build a better mousetrap and the world will beat a path to your door." Even in his day, when trapping mice may have been a high priority for consumers, the "better mousetrap" would fail if no one knew about its existence and appreciated its benefits.

New products are less like mousetraps and more like seedlings. They need *sufficient, consistent* nourishment in order to get established and ultimately to flourish. This is not to say that extravagantly large marketing and sales expenditures are required. In many cases, modest launch budgets can be effective if they are applied to specific, targeted goals. But, if the launch budgets are very modest, then the revenue goals should be aligned appropriately.

A particularly insidious way of under-investing in marketing and sales is the intermittent approach. For example, the company authorizes expenditures on a major marketing program only to slash spending midstream before the program's impact can be felt. A month or so later, funds become available again and the

program is restarted. "Restart" costs of the program combined with a loss of momentum often result in much lower returns on marketing investment.

10. Market is Smaller than Originally Projected

A more euphemistic phrasing is: "the product is too far ahead of the market." It's so much better to believe that the market might some day catch up with this innovative product than to think that the product was simply not wanted.

Estimating market size for a new product is hard. It involves numerous assumptions and a large dose of forecast risk. And, while it is possible to make reasonable estimates, it is the nature of entrepreneurs and innovators to be optimistic. After all, a positive outlook is essential to overcoming the obstacles inherent in creating and launching a new product.

For many clean technology products, the media coverage of large investments would lead us to believe that the market is enormous. However, like most new markets, adoption lags behind the hype and that must inform our assumptions about the size of the market and the speed with which products will enter the mainstream. (It also may mean that serious missionary work is needed by both sales and marketing.)

But even when we approach market sizing with healthy skepticism, we can still be very wrong about the market size. Even when we test the product concept, assess purchase interest, clearly identify and segment the target market and then apply rigorous, critical thinking and experienced judgment, the market may still be smaller and later than we think.

Improving the Chances for Success

I once worked with a man who liked to say that you either have "reasons" or "results." His point was that it is much better to deliver results than to have a list of reasons why you didn't do so.

The single best way to improve the chances of having successful results instead of a list of reasons is to get a solid *understanding* of the *market and customer needs*. The first 5 reasons in this list are the result of failures to truly and deeply understand the market, the competition, or the needs of the customer.

Excellent execution – particularly in marketing and sales efforts related to the product launch – is also critical. Make the most effective use of expenditures by sending clear, consistent, relevant messages to the market and by making sure marketing and sales efforts are aligned and focused on specific goals.

About EcoStrategy Group

EcoStrategy Group is focused on bringing clean tech products to market and helping businesses create viable strategies for sustainability. We offer a unique blend of experience in sales, marketing, clean technology and environmental sustainability. Each of our founding partners brings over 25 years of experience in technology industries. We are passionate about delivering both good business results and outcomes that benefit our natural environment.

Karen “KJ” Janowski, Partner and Co-Founder of EcoStrategy Group, has over 25 years experience bringing to market a wide range of technology products. As a former high-tech senior executive, she has launched over 30 products, generating a total of over \$500 million in revenue. She has worked with a wide range of technology clients of all sizes, from startups such as Adaptive Planning, LoopNet (now public), Nextance and Siperian, to larger public companies like Adobe, Cisco, Logitech and Plantronics.

Most recently, KJ served as the Managing Director of Evidence-Based Marketing, a consultancy focused on improving the business impact of marketing and “connecting the dots” between marketing activities and business outcomes. Previously, she was founder and principal of marketing consultancy, KJ & Co. KJ’s prior background includes 12 years in VP Marketing roles for Quantum, Resumix, VideoStream, and Electronic Arts. She has been a member of four pre-IPO startup management teams.

KJ is a business team mentor for The California Clean Tech Open business plan competition and serves on the leadership team of GreenTown Los Altos, a grassroots non-profit focused on educating and mobilizing citizens to implement sustainable practices.

KJ earned a BS from the University of California at Berkeley and an MBA from Stanford University. She is currently studying Environmental Studies.

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