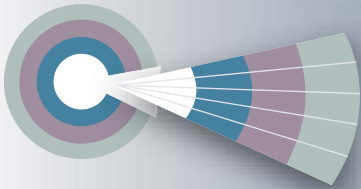


# PRODUCT DEVELOPMENT: developing the right product, the right way, at the right time



*The Performance Manager  
Series*



# INTRODUCTION

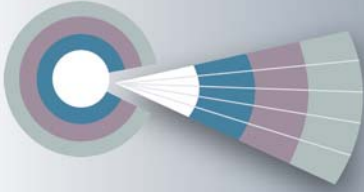
The new business book, *The Performance Manager*, can help you turn the growing information-intensity of your job from a challenge to a competitive advantage. Its thesis is simple—rather than sifting through all the data your organization may produce, if you pay attention to certain sweet spots, you will make better decisions, create better goals, and set better plans about issues that truly drive your company. We're pleased to offer you this chapter for **Product Development** drawn from the book.

*The Performance Manager*, Proven Strategies for Turning Information into Higher Business Performance looks at the partnership between decision-makers and the people who provide the information that drives better decisions. It offers suggestions for 42 decision areas, or information sweet spots, taking into account your need to not only understand data, but also plan and monitor your performance. These decision areas are organized by the eight major functions of a company: Product Development, Sales, Marketing, Finance, Customer Service, Operations, Human Resources, Information Technology, plus an over-arching section for Executive Management. You will find three of these decision areas in this paper.

Each chapter introduces key challenges and opportunities companies face in the specific function. *The Performance Manager* then dives into each decision area, illustrating the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions that allow you to look at the information from a variety of vantage points.

Each decision area then offers advice on who beyond the specific function would benefit from seeing the information (e.g., Marketing should see Sales pipeline targets) to make better performance a truly cross-organizational exercise. We hope you see the value in this white paper and investigate other functional areas and their decision areas, or [take our offer for the whole book, \*The Performance Manager\*.](#)

We acknowledge and thank the great thinkers at Business Intelligence International, PMSI, and the staff and customers of Cognos, an IBM company, who offered their insights to make this publication possible.



# PRODUCT DEVELOPMENT

## Developing the Right Product, the Right Way, at the Right Time

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*Innovation is not the product of logical thought, although the result is tied to logical structure.*

Albert Einstein

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Product Development and its innovations are critical to your business and competitive ability. They represent the lifeblood of future business success. Moving into a new market area with a new product is a high-risk activity, and success is rare. Equally rare is successful development of a product that fundamentally changes the value proposition within an industry. Such new product investments require deep financial commitment.

Economic and industry cycles set the context for the importance of innovation, and therefore of Product Development. In fast-growing market sectors, product change is part of the competitive race, and significant investments are made in Product Development. In mature markets, where growth has slowed, investors rely on Product Development to assess the organization's future potential. New product developments can help slow the rate of market commoditization and protect margin erosion. In these mature market sectors, new developments are likely to be incremental, and small advantages can differentiate a leader from less successful followers.

Product Development delivers a pipeline of new products that determine the organization's future financial performance and signify confidence in the future of the business. Three significant barriers prevent it from delivering the required product changes in the most effective way.

**Barrier 1: *Lack of information to determine strategy requirements***

Product Development embraces risk. The odds are stacked against continual success, especially if the business expects a BIG new product idea. Companies typically define Product Development success by sales or profit growth and the ROI expected within a given time period. Measuring financial performance is vital, but interpreting success too rigidly may lead the company to miss innovation opportunities. It is better to define and measure drivers and development milestones that affect the pipeline of new products. Similar to a portfolio investment strategy, these metrics allow for more opportunities (and therefore more failures) but let you know when to “fail fast” to satisfy the overarching profit or growth goal. Only a few product initiatives make it through to the final development stage. You can tolerate a calculated and controlled percentage of failure if the overall portfolio of new product developments is financially successful.

You may employ other aspects of portfolio investment strategy to determine your investment risk profile. How much money should you invest in new product development for low, medium, and high-risk ideas? Only a small proportion of investment should be devoted to high-risk big new ideas. Most investment should be in safer, incremental product development ideas. These will better match the current product range, and serve the dual purpose of protecting the existing business while extending the product proposition beyond what is currently offered.

Determining the right mix requires that Product Development benefit from insights into markets and customers. This means knowing what product features and price points could shift purchasing behavior, and understanding the operational costs and production implications of these. Only by integrating all these business inputs and information sweet spots can you achieve a well-developed new product proposition.

**Barrier 2: *Product Development lacks the integrated business process information needed to develop targeted, comprehensive product offerings***

Product Development decisions affect and rely on Marketing, Sales, Finance, Operations, and other business departments. Without appropriate visibility, departmental barriers may get in the way and stymie the Product Development process. By monitoring the appropriate performance drivers, combined with appropriate incentives, you can improve the Product Development process from idea generation to alignment on priorities to engaging Finance, so the value of new products is understood and forecast.

**Barrier 3: Inability to measure and analyze the drivers of Product Development success**

New product pipelines depend on timely action. Speed to market paired with insight from “fast failures” are more important than perfection and indecision. Risk is part of the development process. “Calculated” failures are not necessarily negative; they may actually assist the development process. Failures can become stepping stones toward success.

Product Development must understand what drives success and failure. When developments reach a milestone, the company should test the product proposition in the market. The feedback you require will determine the means you select: selective customer input, larger external research, or a limited territorial launch.

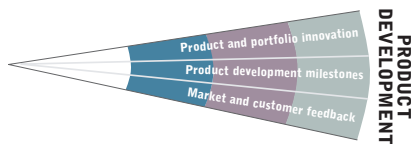
No amount of testing guarantees success. Making the “go or no go” decision requires information sweet spots to allow the business to decide whether it needs more resources to improve the new offering, or if the cost of delay—either in lost revenue or lost competitive advantage—means the product must launch now.

**From a Gamble to Controlled Product and Portfolio Development**

Product Development combines many cross-functional requirements, balances risk, learns from failures, then generates a pipeline of timely new products. Accurate information is a key enabler of this process.

The Product Development process combines three key decision areas with associated information sweet spots.

- **Product and portfolio innovation** → Which gaps in the product portfolio are addressable with the available resources, and what are the associated risks?
- **Product development milestones** → How do we manage priorities and timings, and monitor risks as they change during the development process?
- **Market and customer feedback** → What external verification process will enhance and confirm new product development opportunities?



**Product and Portfolio Innovation**

The product and portfolio decision area takes potential opportunities identified by Marketing and examines the practicalities in more depth. This decision area answers questions about the costs and benefits of adding new product features to fill product portfolio gaps, and how achievable these additions are given available resources. It also determines how achievable these opportunities are for the business and the risk of failure.

Innovation runs the gamut from incremental improvements to significant product “revolutions”. Incremental developments include packaging changes, minor functional improvements, quality changes, and brand extensions. These developments are usually intended to fill gaps in the product portfolio. For instance, by improving the design, adding product capability, making the product more convenient to use, and increasing the price, the business may extend its offering into a profitable new segment.

At the high-risk end of innovation, you must measure time to market, implementation difficulty, external market or technical shifts, future scenario values, and estimated ROI. These metrics also help you prioritize threats and opportunities. For example, classifying Product Development activities into life-cycle categories balances short-term and long-term priorities. Measuring the difficulty of implementation ensures you don’t choose impractical blue sky projects at the expense of what’s needed in the short term.

Future scenario valuations with estimates of the upper and lower limits of potential sales and profits set the size of a project. ROI looks at the whole picture by including upfront investment, operating costs, and sales.

As a decision area, portfolio and product innovation recommends which opportunities are right for the business by aligning with other departments, particularly Marketing.

GOALS	METRICS	DIMENSIONS
New Product Market Share (%)	New Product Achievability Score/Risk (#)	Fiscal Month Year
New Product Sales (\$)	New Product Breakeven (Time/\$)	Quarter Month
Product Develop. Cost (\$)	New Product Sales Potential (\$)	Potential Projects R&D Project Type Project
	New Products Developed (#)	Product Line Product Line
	New Products in Market (\$/%)	Project Start Date Year
	Products Modified (#)	Quarter Month
	Project Duration – Plan (Business Days)	Project Start Date
	Project Resource Days – Plan	Quarter Month Project Start Date
	Project Cost – Plan \$	Project Management Project Team Project Manager Project Member
	Tested Products (#)	Project Completion Date Year Quarter Month Project Finish Date

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Product Development	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance	Executives			•
	Analysts		•	
Marketing	Executives			•
	Analysts		•	
Sales	Executives			•
	Analysts		•	
Customer Service	Executives			•
	Analysts		•	
Operations / Production	Executives			•
	Analysts		•	

**Product Development Milestones**

This decision area is used to manage the Product Development process. It establishes milestones, manages and adjusts priorities and timings, and monitors risks as they change. Many companies use Stage-Gate® or phase-gate processes involving five stages for Product Development. These are a preliminary assessment, definition (market), development (product/cost), validation, and commercialization. Typically, a very low percentage of preliminary ideas pass through the final gate. Less formal processes still require that you answer questions such as: *What new product development ideas do we have? What is the scale of the identified opportunity? Do we have the skills in-house? What are the risks? Is the opportunity aligned with our strategic priorities? What are the likely financial rewards?*

Measuring performance milestones is critical to this decision area. The number of preliminary initiatives, how many milestones are passed before rejection, and the number of products ready for commercialization tell you about projects and how they pass through the process. Logging and evaluating the reasons for success or failure through these milestones will help you improve your Product Development process.

Regular planning and gap analysis reviews anchor the development process with business priorities. Without this focus and monitoring, the process may be sidelined by day-to-day concerns. It is critically important to ensure the success of all phases, from development to launch and full commercialization. Information that focuses and fine-tunes each stage, and provides incentives, is imperative to ensuring successful product launches.

GOALS	METRICS	DIMENSIONS
Product Develop. Cost (\$)	Initiatives Rejected (#)	Fiscal Month
Product Develop. Lead Time (#)	New Initiatives (#)	Year
Project Completion by Milestone (#/%)	New Product Launch Failures (#)	Quarter
	New Products Developed (#)	Month
	Products Modified (#)	Forecast Scenario (Plan/Actual/Forecast)
	Proj. Duration – Business Days (#)	Scenario
	Proj. Duration – Variance (%)	Product Development Milestone
	Rejection Causes (#)	Product Line
	Tested Products (#)	Product Line
		Project
		Project/Program Type
		Project
		Project Start Date
		Year
		Quarter
		Month
		Project Start Date
		Project Management
		Project Team
		Project Manager
		Project Member
		Project Completion Date
		Year
		Quarter
		Month
		Project Finish Date

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Product Development</b>	Executives Managers Analysts Professionals	• • • •		
<b>Finance</b>	Executives Analysts		•	•
<b>Marketing</b>	Executives Analysts		•	•
<b>Sales</b>	Executives Analysts		•	•
<b>Operations / Production</b>	Executives Analysts		•	•

**Market and Customer Feedback**

The market and customer feedback decision area combines an external reality check with internal understanding of development opportunities and requirements. It is an extension of a product and portfolio gap analysis, generating external insights to use in gap assessment. There are many examples of overly engineered products that fail because they do not balance costs and those features actually valued by customers.

Market feedback and external verification as part of the development process are essential for success. The insights these activities produce let the organization understand what investments are necessary for new product features and determine if the business can afford them. In some cases, it may make sense to pull out of an opportunity area rather than make investments with an insufficient chance of payback. An information framework that uses this data can support and confirm Product Development decisions. This decision area is also a tool for creating cross-functional alignment and internal commitment to new product commercialization.

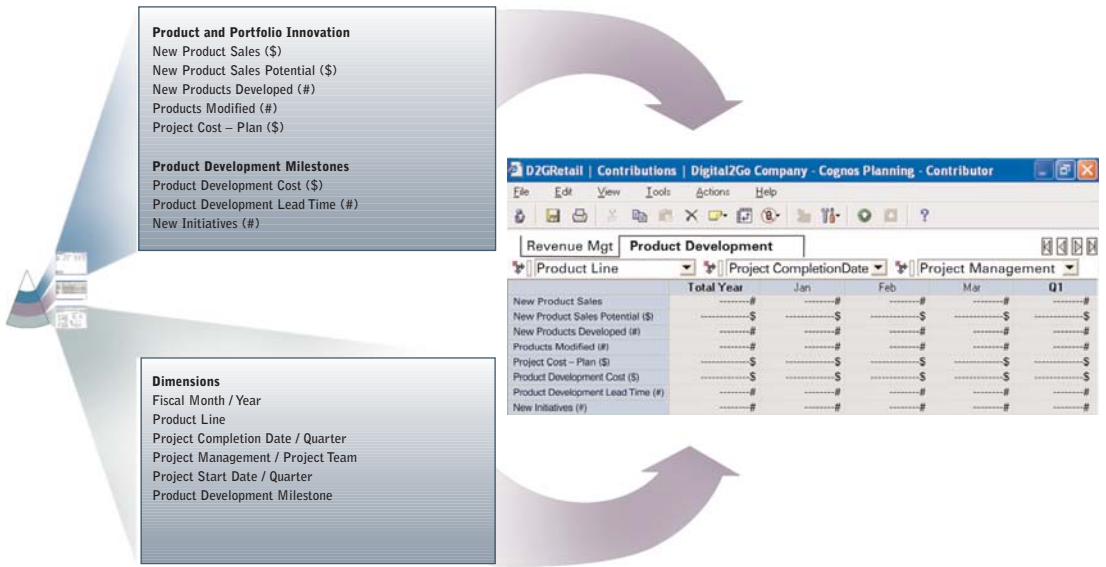
GOALS	METRICS	DIMENSIONS
Suggestion Cost (\$)	External Verification Score (#)	Fiscal Month
Suggestion Value-Added Score (#)	Implementation Difficulty Score (#)	Year
	Suggestions (#)	Quarter
		Month
		Marketing Segment
		Market Segment
		Micro-Segment
		Product SKU
		Product Line
		Brand
		SKU
		Suggestion Priority Index
		Suggestion Type

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Product Development</b>	Executives Managers Analysts Professionals	• • • •		
<b>Customer Service</b>	Executives Managers Analysts		• •	•
<b>Sales</b>	Executives Analysts		•	•
<b>Marketing</b>	Executives Analysts		•	•

*Our business is driven by customers and our ability to understand what factors influence them adds incredible value.*

Chris Boebel, IT Director, Delta Sonic Car Wash





*The Product and Portfolio Innovation and Product Development Milestones decision areas illustrate how the Product Development function can monitor its performance, allocate resources, and set plans for future financial targets.*



# ABOUT THE PERFORMANCE MANAGER

The book, *The Performance Manager*, is authored by:

**Roland P. Mosimann** *Chief Executive Officer, BI International*

As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also a co-author of the Multidimensional Manager and the Multidimensional Organization. He holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics.

**Patrick Mosimann** *Founding & Joint Managing Director, PMSI Consulting*

As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors. Patrick Mosimann also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

**Meg Dussault** *Director of Analyst Relations and Corporate Positioning, Cognos, an IBM company*

Meg started her marketing career 15 years ago, beginning with campaign management for the national telecommunications carrier. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos, now an IBM company. She has been with Cognos for 8 years and has worked extensively with executives and decision makers within the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of Cognos performance management solutions and to communicate the message to key influencers.

**About Cognos, an IBM company**

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit <http://www.cognos.com>.

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