



Gerry Katz

Viewpoint

Preaching to the converted: A pointless article for enlightened new product developers

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In this column, senior contributing editor Gerry Katz, NPDP, goes against the conventional wisdom that tells top managers to hunker down and cut back on new product development activities during recessionary times. Instead he argues that a recession may be the ideal time for a company to invest in new product development.

There are at least two good reasons for you to turn the page and skip this article entirely.

First, it is completely self-serving. Everyone knows that it's been a tough year for anyone who is a direct practitioner or a service provider working in the realm of new product development (NPD). When the economy started to tank last year, companies began to cut back their spending on anything and everything that looked discretionary, and for many, R&D and anything related to it was at the top of the list. After all, these activities are risky, expensive, and at best, can only help deliver revenue in the very distant future. Right?

Second, if you're reading this publication, you're probably already in the field, so I'm pretty sure you're already going to agree with me. So, if you choose to go on to the next article, I certainly wouldn't blame you.

But someone needs to make the case to your CEO and your Board that this is the *worst* possible time to be cutting back spending on new

product development. The case really isn't all that complicated or controversial.

Keeping your R&D budget makes more sense than cutting it

Several speakers at recent conferences I've attended have referenced various studies showing that companies that continue to invest in new product development during a recession emerge from it in a far stronger and more competitive position than those that don't. For instance, consultants Darrell K. Rigby, Kara Gruver, and James Allen of Bain & Company observe, in their recent *Harvard Business Review* article, "Innovation in Turbulent Times," that: "Innovation [becomes] especially vulnerable to unwise cost-cutting during hard times. Decisions about slashing vs. retaining projects are made by analytic, left-brain leaders unsuited to evaluating innovation portfolios."¹

Similarly, Christie W. Barrett, Christopher S. Musso, and Asutosh Padhi of McKinsey & Co. argue that: "Cutting research costs across the board in a recession isn't smart. Companies should use R&D as an opportunity to make themselves more competitive . . . As the global economic downturn spurs companies to slash costs, many senior executives are intensely scrutinizing research-and-development budgets. In fact, R&D is a perennially attractive target for corporate belt-tightening rituals, since it doesn't produce cash directly. Now more than ever, many companies are trying to generate quick savings—and to spread the pain of cutbacks in an equitable way—by asking their development groups to cut costs across the board. Yet such tempting reductions starve and therefore delay promising projects . . . Worse, wholesale layoffs destroy morale among the remaining staff and can even prod your very best development engineers, who are always in demand, to accept the severance package that may be on offer and move elsewhere."²

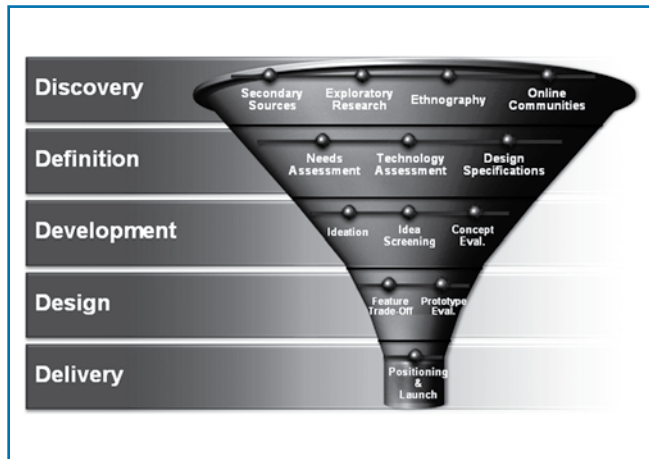
R&D is usually the least-expensive phase of new product development

Furthermore, there's a great irony that is often overlooked when companies go into cost-cutting mode on new product development. Exhibit 1 shows a typical product development process "funnel." In most product and service categories, this process does not become inordinately expensive until the fourth stage, when actual bench engineering, IT development, and prototyping begin to take place. And of course, the biggest expense by far doesn't occur until the launch stage when companies are faced with the need to tool up their factories for production, mobilize their sales forces, and start to spend serious money on advertising and marketing. The earlier stages—commonly referred to as the "Fuzzy Front End" of new product development—are comparatively inexpensive, usually requiring only staff time from a handful of employees (tens not hundreds) and perhaps a modest amount of external spending on consulting activities such as

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Exhibit 1: A Typical New Product Development Process Funnel



SOURCE: Applied Marketing Science, Inc.

New product development costs are fairly modest until deep into the funnel

market research and technology assessment. (The exception, of course, is when a project requires a great deal of early-stage “pure science” research, which can be extremely expensive.)

Famed MIT Sloan School Professor Jay Forrester—the founder of the field of Systems Dynamics and the inventor of core memory, the breakthrough that made the modern digital computer possible back in the 1950s — loves to talk about the “counter-intuitive nature of systems.” One of his examples concerns the mindset of commercial real estate developers. He observes that when times are good, these developers are all too eager to start as many new projects as possible. But since the lead time for a major high-rise office building is often three to five years or more, by the time they are ready to go on line, the economy may have taken a plunge, meaning that demand will be low and that the space will be slow to achieve full occupancy. Alternatively, when times are bad, these same developers are reluctant to start anything new, fearing massive vacancies down the line. Forrester argues that enlightened developers know that it is precisely during these scary, recessionary times that they ought to be starting new projects—when interest rates are low and when labor and materials costs are stable. By the time the project is ready for occupancy, the economy will have recovered, demand will be rising, and supply will lag far behind—meaning quick occupancy and even the potential for premium rents.

The real estate analogy

The case for new product development is quite analogous and has much in common with real estate development. There can be real advantages to being out-of-phase with the economy. Companies that use recessionary times to do the early-stage work—product discovery and definition, customer needs assessment, ideation, and concept development—are far better prepared to bring new products on line as the economy recovers, while their more cautious and conventional competitors are at least a year or two behind. And the expense of doing so pales in comparison with many of the other activities that usually show up on the list of possible cutbacks.

In a recent *Wall Street Journal* article, Intel’s Sean Maloney, Executive Vice President and Chief Sales and Marketing Officer, defends his company’s decision

“ You recover from a recession with tomorrow’s products, not today’s.”

to continue to aggressively develop and launch its new *Core i7* chip, even at a time when customers are deferring computer purchases and hardware makers are trying to hold down component inventories. Maloney emphatically asserts that “You recover from a recession with tomorrow’s products, not today’s.”³

I know it’s self-serving, and I know that I’m “preaching to the choir,” but please pass this article along to your Chairman and CEO. **V**

Endnotes

1. Darrell, Gruver, Kara, and Allen, James, “Innovation in Turbulent Times,” *Harvard Business Review* (June 2009).
2. Barrett, Christie, Musso, Christopher, and Padhi, Asutosh, “Upgrading R&D in a Downturn,” http://www.mckinseyquarterly.com/Upgrading_RD_in_a_downturn_2302 (accessed February 2009).
3. Clark, Don, “Intel Rolls Out Core i7 Chip,” *Wall Street Journal* (Nov. 17, 2008).

Applied Marketing Science (AMS) is an innovative Voice of the Customer market research and consulting firm. We help companies truly understand the needs of their customers and translate those needs into superior new product and service designs, and improved business processes and strategies. Founded in 1989 based on pioneering research conducted at MIT’s Sloan School of Management, AMS has become an internationally recognized leader in Voice of the Customer market research and related product development methodologies.



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