

PRODUCT DEVELOPMENT

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METRICS FOR NEW VS. ACTIVE PRODUCTS PROVIDE REAL LINKS TO CORPORATE GOALS

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Product development pipeline management will receive considerable attention over the next decade. Most of the attention to date has been on the front-end. I'd like to suggest that the time is ripe to start improving the back-end. Companies now manage "product concepts" and have "two-step" product selection processes. Some companies separately manage the "light bulb" ideas. Best practices further separate the study of product concepts into two stages, "voice of the customer" and "product definition/planning;" in order to improve the ability to capture real product requirements and then make sure that a good estimate and plan is accomplished.

Organizations that have gone through these exercises typically discovered one of two things. Companies either had too many ideas, or too few. For companies with too many, product selection and capacity management were the issues of the day; for those with too few, the issues were creative idea generation and product identification. Project management solution providers targeted the former while a whole new industry popped-up to service the "too-few" firms. In most of these companies, however, one thing was the same: new products made more money. Yes, it is true: the vast majority of companies make more money from new products—and they do not actively manage this connection!

The challenge is to make a hard management link between front-end planning and the realization of tangible revenue and profit-producing results. This link must necessarily occur at the back of the pipeline. How new products get out of the gate at launch is essential to recovering investments and breaking even quickly. It's also essential for market acceptance and, ultimately, market share. How resources are focused is the key to achieving the link.

There are two standards for measuring best-in-class and/or world class for sales and profits from the new product pipeline. The most well known is a metric promoted by 3M in the late 1980s that measures "current-year sales due to products released in the prior three years." World-class is considered to be "over 50%" in new product revenues, profits, or both. The second (less well known but credible) is a metric utilized by McKinsey & Co. that measures "average sales due to new products in the past one-year" over a sample of companies considered successful (defined as "an average of 49% new product revenues in the past year.") With the McKinsey metric, world-class companies can have sales less than this number if other metrics outweigh it.

Does your company know how it compares to either of these metrics? Does your company tie pipeline management into corporate revenue and profit goals from new products? To do this, it is first necessary to tie it into the revenue and profit stream of the company in a consistent measurable way. A three-step approach, not yet measurable in world-class terms, may be of use:

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ELECTRONIC SENSOR MANUFACTURER					
1. NEW PRODUCTS - IN PAST ONE YEAR					
	YR.1	YR.2	YR.3	YR.4	YR.5
# Released	8	5	12	7	12
# Cancelled	0	2	1	0	0
# Attempted	8	7	13	7	12
2. NEW PRODUCTS - IN PAST 3-YRS					
			YR.4	YR.5	
# Released			25	24	
# Cancelled			3	3	
# Attempted			28	27	
3. ACTIVE PRODUCTS vs IN PAST 3-YRS					
	YR.1	YR.2	YR.3	YR.4	YR.5
# Active	107	111	144	143	146
# < 3 Years				25	24
% < 3-Years				17%	16%

INTEGRATED CIRCUIT MANUFACTURER					
1. NEW PRODUCTS - IN PAST ONE YEAR					
	YR.1	YR.2	YR.3	YR.4	YR.5
# Released	19	24	24	29	35
# Cancelled	5	6	7	7	0
# Attempted	24	30	31	36	35
2. NEW PRODUCTS - IN PAST 3-YRS					
			YR.4	YR.5	
# Released			67	77	
# Cancelled			18	20	
# Attempted			85	97	
3. ACTIVE PRODUCTS vs IN PAST 3-YRS					
	YR.1	YR.2	YR.3	YR.4	YR.5
# Active	196	133	153	161	186
# < 3 Years				67	77
% < 3-Years				40%	41%

Step 1. Determine the number of new products released and canceled during any given five-year period. Add the two together to derive the number of attempts.

Step 2. Calculate the number of current-year products resulting from products released in the prior three years. (These are the same products you would use to calculate the 3M sales metric.)

Step 3. Compare Step 2 results to the number of active products in manufacturing. (Note: The number of active products is a complex topic. Product extensions, change orders, obsolescence policies, and other variables change the active number regularly.)

To conclude analysis, compare the manufacturing percentage of 3-year old products to the numbers you have in sales. The correlation should be close. If not, some strategic redirection is probably in order. If new products make more money but the majority of all resources are focused on old products, then your company is probably leaving money on the table.

In Case 1, the electronic sensor manufacturer, releases vary greatly. Releases are up one year and down the next. Cumulative figures are about level. The new product percentage of active products is below 20%. The equivalent 3M sales metric for this company is around 10%. New products make significantly more money, but the company is proud that 60% of all development resources sustain older product lines. A strategic disconnect. Money is being left on the table.

In Case 2, the integrated circuit manufacturer, releases grow consistently. In no year were releases less than the previous year. Cumulative figures are about level. The new product percentage of active products is around 40%. The equivalent 3M sales metric for this company is around 50%. A strategic connect. This company knows where its money comes from.^P_D

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