CHAPTER 9

SHORT- AND MEDIUM-TERM PRODUCT AND PROCESS DEVELOPMENT

In chapter 8, we developed a theoretical frame of reference for the development of market responsiveness. In this chapter, we focus on how a company can best undertake product development in the short or medium term, and discuss the various barriers to the improvement of product development practice.

Market-oriented product and process innovation can be both an end and a means of increasing a company's degree of market orientation. In the short and medium term, a more market-oriented product development is an end in itself for companies offering high-value products. This implies that a company must continuously adapt and develop its products and services to changes in the market. The extent to which this is possible is limited by the present skills, resources and competences of the company, however. In the long run, therefore, market orientation within these limits should be complemented by market-oriented process innovation, i.e., the development of the company's skills, resources and competences in such a way as to allow the future development of products and services with a high customer value. Wide-ranging market-oriented process innovation is time-consuming and demanding to implement, however. In the long term, investing in more market-oriented product innovation processes can be one of various means of organisational development leading to an increased degree of market orientation. Market-oriented product and process innovation can therefore be considered as processes which integrate both outside-in and inside-out processes.
WHAT IS MARKET-ORIENTED PRODUCT AND PROCESS INNOVATION?

As mentioned in chapter 1, we define a market-based product innovation as a product which results from employing a company's competences in such a way that buyers perceive a lasting improvement in the relationship between price and value, relative to competing products.

A number of aspects of this definition should be noted (Grunert & Baadsgaard, 1992):

- According to this definition, a new product is a market-based product innovation when customers consider it to give more value for money than competing products. Thus in this sense, a product which the company itself regards as an innovation is not necessarily also a market-based innovation. Likewise, products which customers regard as new, but not as giving more value for money, can be called innovations (as is usual in most of the innovation literature, eg Rogers, 1986; Van de Ven, 1986; Zaltman, Duncan & Holbek., 1973), but not market-based product innovations, because they will not result in positional advantages in the market (O'Hara, 1988).

- The more radical the innovation, the more the competing products which form the basis for comparison will change. In the case of a small, incremental change, resulting in only a marginally higher value, the innovation will compete with the same products as before. In the case of a radical change, the market served will change, and with it the products with which the innovation competes.

- Market-based product innovation doesn’t necessarily have to be based on physical changes in the product. For example, customers can perceive it to be better value for money because of changes in other parameters of the marketing mix. This applies especially to lasting price reductions which build on process innovations, cf. below.

- A new product may be a market-based product innovation for some members in the vertical chain, but not for others. Thus, a product may be an innovation to food retailers because new packaging makes it easier to stack, while it is not perceived as an innovation by final consumers. Market-based product innovation can thus be based on an analysis of the wants of the various members of the vertical chain.