Product and Supply Chain Management

PART 4
Focusing on the Customer: Marketing Growth Strategies
Innovation: A Path to Growth

• Competitive Advantage and Innovation
  ➢ Innovation and entrepreneurship often go hand-in-hand.
  ➢ Coming up with and perfecting new products or services is often not easy.
  ➢ The risk of failure increases when innovation is the goal.
  ➢ Innovation is a means by which a firm can sustain its competitive advantage.

  ➢ Innovation for innovation’s sake may result in useless inventions – EXAMPLE FILM
Sustainability and Innovation

• Sustainable Competitive Advantage (SCA)
  ➢ A value-creating position likely to endure over time
    ❖ Is difficult to imitate
    ❖ Creates high barriers to market entry
    ❖ Can be patented or copyrighted
    ❖ Constantly reinvest returns to renew the SCA
    ❖ Incrementally “bundle”
  ➢ Think of a coffee shop (not Starbucks)
What are some things you can do to be better than the rest?
How long to develop? What type of expected performance boost?
How long before competitors duplicate?

Innovation
Make it:
• Hard to imitate
• Create barriers
• I.P.
• Reinvest/renew
• “Bundling”
# Building a Sustainable Competitive Advantage

## Customer Segments - KEY customer segments for CRM efforts

<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>4</td>
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</table>

## Key Considerations - What to "Retain" & What to "Change"

<table>
<thead>
<tr>
<th>What to Retain</th>
<th>What to Change</th>
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<tbody>
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## Product and/or Service Enhancements for Competitive Advantage

<table>
<thead>
<tr>
<th>Enhancement</th>
<th>Bundling</th>
<th>Branding</th>
<th>Measurement</th>
<th>Training</th>
<th>Incentives</th>
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<tr>
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Enhancements:
- Hard to imitate
- Create barriers
- I.P.
- Reinvest/renew
- “Bundling”
# Change Analysis Process - Simple

Identify a topic in need of attention (e.g., customer feedback on a topic)

## Change Analysis Matrix

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<tbody>
<tr>
<td>Why is it this way?</td>
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<tr>
<td>Reasons still exist? (circle one)</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td></td>
</tr>
<tr>
<td>If No: &quot;Eliminate&quot;</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>If Yes: Devise other alternatives</td>
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</tbody>
</table>
Initiate new advantage when receiving maximum performance
Launch a new competitive advantage before the current strategy has run its course
Exhibit 15.3  The Product Life Cycle

The Product Life Cycle consists of four stages:

1. **Introduction**: Sales and profits are low. The product is new and gaining market acceptance.
2. **Growth**: Sales and profits increase as the product gains popularity and market share.
3. **Maturity**: Sales and profits reach a peak, but growth slows. The market becomes saturated.
4. **Decline**: Sales and profits decline as the product becomes obsolete or is replaced by newer models.
Exception to the Life Cycle: DIFFUSION

New Technology - Old Habits – film (5 sec)

Typewriters based on bad keyboard

- Old typewriters used manual keys (stuck)
- QWERTY invented in 1873 to slow typists down
- Manufacturers loved it
- In 1932 Dr. Dvorak invented efficient keyboard
- After 70 years, QWERTY is still used
- Life-cycle theory need not apply

**Diffusion** = Customer Acceptance of new innovation

Source: *Diffusion of Innovations*, Everett Rogers
QWERTY Vs. Dvorak

20-50% faster typing speeds with Dvorak over the QWERTY

Yet ....

Never was widely adopted
Why people adopt the NEW = DIFFUSION

Make it better, compatible with existing offerings, easy to understand, easy to try, and easy to view others’ experiences (reviews/ratings) = Diffusion

Five elements:

1. **Relative Advantage**: degree it is perceived as being better than what it is replacing
2. **Compatibility**: degree it is compatible with existing values, needs and experiences
3. **Complexity**: degree it is perceived as difficult to understand and use
4. **Trialability**: degree to which it may be experimented with on a limited basis – can they “try it before they buy it”?
5. **Observability**: degree to which the results are visible to others - reviews

Source: *Diffusion of Innovations*, Everett Rogers
The Lean Start Up – by Eric Ries

1. **Entrepreneurs are everywhere.** A human institution designed to create new products and services under conditions of extreme uncertainty. That means entrepreneurs are everywhere and the Lean Startup approach can work in any size company, even a very large enterprise, in any sector or industry.

2. **Entrepreneurship is management.** A startup is an institution, not just a product, and so it requires a new kind of management specifically geared toward extreme uncertainty.

3. **Validated learning.** Startups exist not just to make stuff, make money, or even serve customers. They exist to learn how to build a sustainable business. This learning can be validated scientifically by running frequent experiments that allow entrepreneurs to test each element of their vision.

4. **Build-Measure-Learn.** The fundamental activity of a startup is to turn ideas into products, measure how customers respond, and then learn whether to pivot or persevere. All successful startup processes should be geared to accelerate this feedback loop.

5. **Innovation accounting.** To improve entrepreneurial outcomes and hold innovators accountable, we need to focus on the boring stuff: how to measure progress, how to set up milestones, and how to prioritize work. This requires a new kind of accounting designed for startups—and the people who hold them accountable.
Product Downsizing – Ever Notice?

Downsizing –
Taking a product and shrinking it, yet charging the same price. There may be a reason (good or bad) . . .

Ivory dish detergent

Old: 30 oz.
New: 24 oz.
Difference: -20%

Tropicana orange juice

Old: 64 oz.
New: 59 oz.
Difference: -7.8%

Häagen-Dazs ice cream

Old: 16 oz.
New: 14 oz.
Difference: -12.5%

Reason Due to the cost of ingredients and facility costs, it was either change the size of the container or raise the price.

Source: February 2011 Consumer Reports Magazine
1. What do your most important customers or customer segments want or need?
2. Customer perception - do our offerings meet their needs?
3. Customer perception - do competitor offerings meet their needs?

Point A – Our differences
   How big/sustainable is our advantage?
   Based on distinctive capabilities?

Point B – Similarity with competition
   Are we delivering effectively here?

Point C – Their differences
   How can we counter our competitor’s advantages?

Action to Take
1) Form assumptions about our competitive advantage
2) Test assumptions by asking customers

Point D – Unmet Customer Needs
   Customer answers of help us ID growth opportunities
   Often surprised to find that Area A (according to our customers) is smaller than we think

   “People don’t want a ¼” drill – people want a ¼” hole”
New Product Development Process

Where will you get new ideas for your coffee shop?

“Fit”, cost, and acceptance?

Brand, price, package, promo

Customer feedback

Product Testing
Product Development Trap

One way to differentiate a product is to “add stuff”

When we add stuff:
- If it is useful we say that it is: “Functional”
- If it is not useful we say that it has: “bells & whistles”

-A mousetrap isn’t better because it has an electronic rodent counter, or a cheese freshness gauge. A mousetrap is better because it does a superior job of catching mice!

- Communicate product benefits **FILM**
The Lean Start Up – Minimum Viable Product (MVP)

Traditional Product Development:
• Build a product with the maximum number of features - Maximize our chance of success
• Don’t get feedback until you’ve already built all those different products

Rapid Development:
• Release early, often, and get feedback as we go
• As you get feedback, change this, then that – not tied to any vision for the product
• Multiple customer segments may tug you in multiple directions

Minimum Viable Product:
• **Start with vision** – product to solve core problem for “early adopter” customer segment
• Early adopters are like entrepreneurs – they give feedback on what’s needed
• Build the basic product (no more), get it to early adopters, get their feedback, adapt

Minimum Viable Product - Definition:
**Minimum features that are required to learn what (early adopter) customers want**
• e.g., Put it out to your customers: “Would you like this?”
• Build a sales page – See how many order (measure your results)
• After they order, say “due to technical difficulties … product is not yet ready … will email you when its ready …”
• **By making the offer and having it be rejected by customers, we learn not to waste time building stuff that nobody wants**
Rules for Naming a Product:

1. Select a name that is easy to pronounce and remember.
2. Choose a descriptive name.
3. Use a name that can have legal protection.
4. Select a name with promotional properties.
5. Select a name that can be used on several product lines of a similar nature.
Product Strategy

• The way the product is used to achieve a firm’s objectives.

  ➢ **Product item**
    - The lowest common denominator in the product mix—the individual item

  ➢ **Product line**
    - The sum of the related individual product items

  ➢ **Product mix**
    - A firm’s total product lines

  ➢ **Product mix consistency**
    - The similarity of product lines in a product mix
Develop Prototyping (3D Printing)

Faster than ever before

• Available to consumers
• Prototypes immediately

What is 3D Printing?

Rapid Prototype Companies
http://www.zcorp.com
http://www.arcam.com/
http://www.digitalforming.com/
http://www.makerbot.com/
http://desktopfactory.com/
http://www.materialise.com/
http://objet.com/
http://www.eos.info/
http://www.shapeways.com
http://www.mqast.com
http://www.ProtoCAM.com

Prototype Software

• http://www.artofillusion.org/ – Free software runs on Windows, Mac and Linux. Easy to learn
• http://www.blender.org/ – Free software with many features. Steep learning curve
### Read the Label

<table>
<thead>
<tr>
<th>Product</th>
<th>Warning/Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sears Hairdryer</td>
<td>Do not use while sleeping</td>
</tr>
<tr>
<td>Bag of Fritos</td>
<td>You could be a winner! No purchase necessary. Details inside</td>
</tr>
<tr>
<td>Dial Soap</td>
<td>Directions: Use like regular soap</td>
</tr>
<tr>
<td>Swann frozen dinners</td>
<td>Serving suggestion: Defrost</td>
</tr>
<tr>
<td>Shower cap at hotel in a box</td>
<td>Fits one head</td>
</tr>
<tr>
<td>Marks &amp; Spencer bread pudding</td>
<td>Product will be hot after heating</td>
</tr>
<tr>
<td>Boot’s children’s cough medicine</td>
<td>Do not drive car or operate machinery</td>
</tr>
<tr>
<td>Sainsbury’s peanuts</td>
<td>Warning: contains nuts</td>
</tr>
<tr>
<td>Christmas lights</td>
<td>For indoor or outdoor use only</td>
</tr>
<tr>
<td>Nytol sleep aid</td>
<td>Warning: may cause drowsiness</td>
</tr>
<tr>
<td>Child’s Superman costume</td>
<td>Wearing of this garment does not enable you to fly</td>
</tr>
</tbody>
</table>
• Consumer Protection
  ➢ Labeling
    ❖ Nutrition Labeling and Education Act of 1990
      – Listing of contents
      – Proper care and use
  ➢ Product safety
    ❖ Consumer Product Safety Act of 1972
      – Consumer Product Safety Commission
    ❖ Nutrition Labeling and Education Act of 1990
      – Packaging
      – Use instructions
      – Disposal
Exhibit 15.7  Protecting Marketing Assets
Supply Chain Management

• Supply Chain Management
  ➢ Integrates and coordinates the means by which a firm creates or develops a product or service and delivers it to customers.

• Distribution
  ➢ Physically moving products and establishing intermediary relationships to support such movement.
Supply Chain Management

Channels of Distribution

Direct Channel
No Intermediaries

Indirect Channel
1 or more intermediary

Dual Distribution
More than 1 channel

Can you think of an example of dual distribution?
Exhibit 15.8  Alternative Channels of Distribution

Direct Channel

- Producer

Indirect Channels

- Retailer Channel
  - Producer
  - Retailers or Industrial Distributor
  - Consumers or Industrial User

- Wholesaler Channel
  - Producer
  - Wholesalers
  - Retailers or Industrial Distributor
  - Consumers or Industrial User

- Agent/Broker Channel
  - Producer
  - Agents or Brokers
  - Wholesalers
  - Retailers or Industrial Distributor
  - Consumers or Industrial User

Dual Distribution BEWARE Channel Conflict
Efficiency Afforded by FedEx

• **FedEx** tracks packages so well that some companies no longer need warehouses
  ➢ Enables direct distribution to customers
  ➢ Merger on the way

• **IBM - RFID** knows if you’re lost
  ➢ **RFID in retail**
    Domino’s Pizza can tell you the status of your pizza
### Ranking Modes of Transportation

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Cost</th>
<th>Delivery Speed</th>
<th>Delivery-Time Dependability</th>
<th>Risk of Loss &amp; Damage</th>
<th># of Points Served</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Best)</strong> 1</td>
<td>![Air]</td>
<td>![Delivery (Best)]</td>
<td>![Delivery-Time Dependability (Best)]</td>
<td>![Risk of Loss &amp; Damage (Best)]</td>
<td>![Points Served (Best)]</td>
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<tr>
<td>2</td>
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<td>![Points Served]</td>
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<tr>
<td>5</td>
<td>![Truck]</td>
<td>![Delivery]</td>
<td>![Delivery-Time Dependability]</td>
<td>![Risk of Loss &amp; Damage]</td>
<td>![Points Served]</td>
</tr>
</tbody>
</table>

**Legend**
- Air
- Water
- Rail
- Pipeline
- Truck

15–64
Types of Logistics Companies

- **Third-Party Logistics Firm (3PL)**
  - A firm that provides transportation and distribution services to companies that prefer to focus their efforts on other facets of their business.

- **Fourth-Party Logistics Firm (4PL)**
  - A firm that coordinates every aspect of a manufacturer’s or distributor’s supply chain and acts as the sole point of contact between that company and all of its logistics and information service providers.
Logistics Companies

- Firms which specialize in providing cost-effective transportation, storage, and distribution services to small companies.
  - Trucking
  - Packaging
  - Warehousing

- Fulfillment services
  - Ship to your customers, based on orders received