13. Adding products and services

Editors: George M Zinkhan, Anastasia Thyroff, Anja Rempel, and Hongbum Kim (The University of Georgia, USA)

Reviewer: Bettina Cornwell (University of Michigan, USA)

Learning objectives

After reading this chapter, you should:

- understand the strategic importance of adding and deleting products. understand some methods which can be applied to assist in this decision-making process
- understand some different approaches for generating new product ideas
- be familiar with various ways of classifying products and innovations
- be able to discuss innovations related to business models
- know the basic methods for evaluating innovations
- be able to discuss the related topics of failed innovation and product deletion

Introduction

The twenty-first century marketplace is dynamic and fast changing. As a result, organizations are under pressure to evaluate their existing product line and to make continuous decisions about adding new products or deleting existing products. For instance, the graph in Exhibit 45 shows how an organization must establish a series of successful products, if that organization wants to maintain a consistent stream of sales or else grow sales over time. One reason for this pattern is the product life cycle. As shown in the graph, no product lasts forever, and sales levels can fluctuate dramatically over time. The company illustrated in Exhibit 45 has marketed 8 different products over time. In the past, four of these products have been deleted (the products labeled as A, B, C, and F). As a result, the sales level in the most current period depends upon the success of the remaining four products. If the firm has a goal to increase sales in the coming years, then it is imperative for that firm to introduce a new group of successful products.

Organizations invest a lot of money to create new products that perform effectively. Nonetheless, firms often struggle to convince people to incorporate these new products into their routines (Arts 2008). For example, it took 18 years for microwave ovens to gain acceptance in Greece (Tellis, Stremersch, and Yin 2003). The ultimate success of new products depends on consumers accepting them (Arts 2008).

The term "product" refers to both goods and services. A product is anything that can be offered to a market to satisfy a want or need. There are a number of ways to classify products, and those methods are discussed later in the chapter. In this chapter, we discuss the following topics: (a) Where do innovations come from? (b) product categories; (c) Innovation through business models; (d) Evaluating innovations; (e) When innovation fails: deleting products; and (f) chapter summary. In the next two sections, we briefly discuss innovations and their origins.

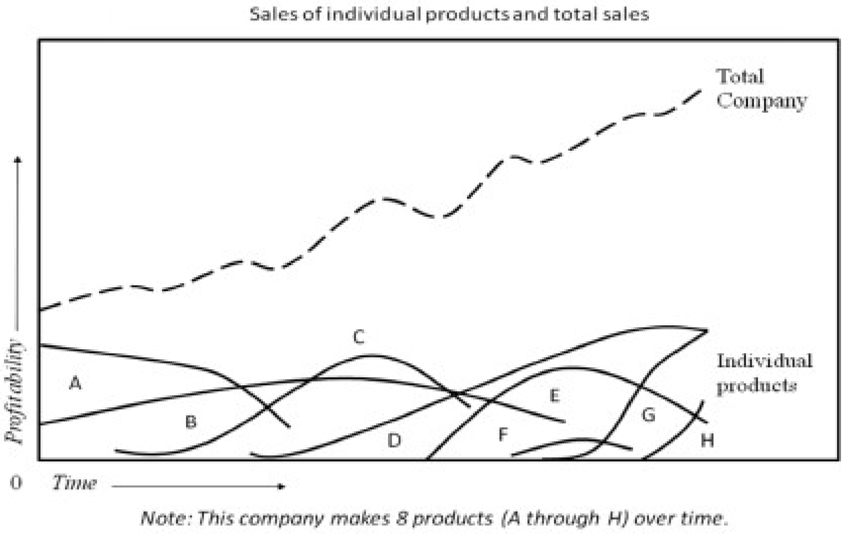

Exhibit 45: Sales of individual products and total sales

Where does innovation come from?

We define "innovation" as an idea or product that is new to the sponsoring organization. A "discontinuous innovation" has the potential to alter existing consumption patterns, or else create new ones. For example, portable audio equipment has evolved from the radio, to the cassette tape player, to the compact disk players and to the digital audio player. At the extreme, a discontinuous innovation results in the creation of a new generic category of products, such as the GPS navigation system.

In contrast, "continuous innovations" involve introducing a new entrant into an existing category. Continuous innovations do not challenge established patterns of consumption behavior. A good example of this type of innovation is the smart phone. For this product, consumers already know what a phone is and how to operate it. From this perspective, the operation of a smart phone can be viewed as a combination of the functions associated with a mobile phone and the functions of a personal digital assistant (PDA). In a more recent offering, a smart phone combines the functions of PCs and Macs through applying the software and operating systems of each. As a result, consumers can access their current knowledge about existing products and then easily grasp the "smart phone" concept.

On the one hand, the process of innovation is the life blood of an organization. New product innovations are responsible for employment, economic growth, technological process, and high standards of living (Souder 1987). In a marketing context, innovation is crucial for the development of successful new products (both goods and services). On the other hand, it is a challenge to develop and evaluate these innovations. In brief, where do innovative ideas come from? We describe five sources of innovation: technical breakthroughs, non-technical idea development, ideas that emerge from environments, serendipity, and purposeful development. These various strategies are outlined in Table 10 and described in more detail in the following section.

Technical breakthroughs refer to product innovations that result from technical developments. New brands that have emerged from this process include MP3 players, GPS navigation devices, and cell phones. In the long run, it is consumers who decide how new technologies will be used. For instance, Guglielmo Marconi created the radio-telegraph so that ships could communicate with each other on the high seas in 1894. However, other applications emerged, and everyday uses eventually multiplied. For instance, in 1921, the RadioShack Corporation was formed in Boston to sell equipment to "ham" operators. The company took its name from the small wooden building for radio equipment on ships. As more families adopted radios, it was a real challenge to develop content. Eventually, the advertising business model was created, and the funds that were provided by advertisers were used to sponsor the development of popular content (e.g. music, dramatic shows, variety shows) (Zinkhan 2005).

Non-technical development is another path to product innovation. This approach involves finding a niche in the market without making radical changes to the basic product category (i.e. in terms of the underlying technology). "Build a Bear Workshop" provides a good example of this style of innovation. Unlike other conventional stuffed animal manufacturers, the Build a Bear Workshop allows customers to choose their bear's body, sound, clothing, stuffing, and heart. For example, a customer can choose, a lower-priced paper heart with their wish, or they can invest in a higher-priced electronic heart. After customers make choices, they then observe the production process in the shop. In this way, customers create their own custom-designed toy. This business model does not rely on developing new technology. However, there is a modified production process, as the stuffing and sewing machine are located in the retail store.

Ideas that emerge from environments refer to innovations that result from importing products from other cultures. Good examples of this style of innovation are Wal-mart in China and IKEA in the United States. Traditionally, there were no large-scale retail stores in Asian nations, such as Japan, Korea, China or India. Instead, small retailers or mom-and-pop stores dominated. Large-retail stores are now achieving success in Asian nations, through importing the idea of economies of scale, which, in turn enable one-stop shopping and lower prices. Similarly, IKEA achieved great success in the US and China through importing the idea of a warehouse-type retail setting from Europe. IKEA offers high-quality furniture and home interior products for lower prices. Consumer assembly is often required.

Serendipity plays a role in product innovation. The word serendipity derives from "serendip," which means "Sri Lanka" in Persian. The fairy tale, The Three Princes of Serendip, tells the story of three men who continuously discover something that is completely unrelated to what they originally set out to find. Thus, the term "serendipity" describes a situation where one accidentally discovers something fortunate, while looking for something else entirely. For example, penicillin was discovered quite by accident when Alexander Fleming discovered that a mold contaminating one of his experiments possessed powerful antibacterial properties.

Purposeful development occurs when there is a strong need for certain goods or services. As described by Plato in The Republic: "Necessity is the mother of invention." In other words, this type of innovation occurs when existing product lines cannot satisfy current needs or current demand. As a result, organizations are willing invest considerable funds (e.g. in terms of research and development or marketing research) to create a successful innovation. A good example of purposeful development is the heavy investment that pharmaceutical firms make to discover new prescription drugs. For inspiration, pharmaceutical scientists rely upon current developments in chemistry, physics, plant biology, and folk healing methods. In some instances, this kind of innovation might result from marketing research, where considerable demand is forecast in the marketplace.

Table 10: different sources of innovation

Source of Innovation	Definition	Examples of Innovation
Technical breakthrough	Innovation that results from technical development.	MP3 players; GPS navigation system; Wireless Internet service
Non-technical idea development	Finding niche markets without making radical changes to the basic product category. Does not rely on new technology.	'Build a bear workshop;' Frozen yogurt stores
Idea from outer environment	Importing ideas from other cultures, places, and settings	IKEA in the US; Yoga or Taekwondo in Western nations
Serendipity	Innovation through an accident, when looking for something else	X-rays; Penicillin
Purposeful development	Innovation that derives from heavy investment, once strong demand is recognized	Prescription drugs; Pencils with erasers

It is also possible to create a new business model. Wal-Mart is a good example here, as the retailer applies the philosophy of low prices and cost cutting to every aspect of its operations, including logistics, employee compensation, managerial philosophy, packaging, merchandising, negotiations with suppliers, and so forth. This manner of innovation is discussed in more detail in the section which follows, "Product Categories."

Product categories

There are a number of ways to classify products (see Table 10 and Exhibit 46). For instance, a product can be classified by durability and tangibility. Packaged goods are tangible and are consumed in one or a few uses, such as in the case of beer, soap, or fuel. Durable goods are tangible and survive many uses. Consumer examples include furniture, TVs, computers, clothing and automobiles. According to one convention, a durable good lasts more than one year. Non-durable goods are tangible, but they provide benefits for a short time. Good examples include: gum, shaving cream, gas, batteries, and cosmetics. There are also controlled goods which are often restricted by government action, due to their potential danger or addictive nature. Good examples include: cigarettes, alcohol, tobacco, firearms, and even some over-the-counter drugs.

Business-to-business (B2B) products refer to goods bought by individuals or organizations for further processing or for use in doing business. Examples in B2B include: buildings, flour purchased by a commercial baker, crude oil, steel for automobile manufacture, insurance policies for company buildings, and business consulting services. Business-to-customer (B2C) products refer to goods that individual customers purchase for personal and family use, such as passenger cars, hairdryers, TVs, medical insurance policies, and carpet cleaning services for the home.

Convenience products are products that consumers want to purchase frequently, immediately, and with a minimum of effort. Examples here include: soft drinks, cigarettes, fast foods, newspapers, public transportation and candy bars. Shopping goods are purchased only after consumers make comparisons with competing goods based on such attributes as price, quality, style, or color. Examples in this category include: MP3 players, passenger cars, clothing, furniture, and houses. Specialty products are products with unique characters. Buyers often prize such goods and make a special effort to obtain them. Examples in this group include collectable items, engagement rings, vacation homes, yachts, art works, luxury cars, and special concert tickets.

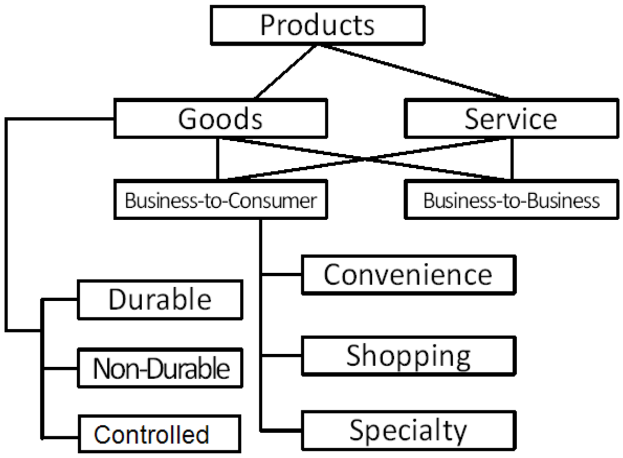

Exhibit 46: Rough Classification of Products

Table 11: Classifying products

Category Name	Definition	Example
Good	A tangible physical entity	Table, electronics, soda, candy bar
Service	An intangible result of the application of human and mechanical efforts to people or objects.	Haircut, dry-cleaning, gardening
Durable	Products that provide benefit for a long time and are not used up when used once.	Automobile, house, machines
Non-durable	Products that provide benefit for a short time.	Milk, laundry detergents, tissue paper
Controlled Goods	Products that need to be regulated due to their potential danger or addictive potential.	Tobacco, alcohol, firearms, pharmaceuticals

Business-to-business	Goods bought by individuals or organizations for further processing or for use in doing business.	plastics for a car manufacturer, insurance plan for plants
Consumer	The goods individual consumers purchase for personal or family use.	Canned soup, medical insurance
Convenience	Products that consumers want to purchase frequently, immediately, and with a minimum of effort.	Chewing gum, beer, cigarettes, fast food
Shopping	Products purchased only after the consumer has made comparisons with competing goods on such bases as price, quality, style, or color.	TV, automobile, house
Specialty	Products with unique characterizations that cause the buyer to prize them and make a special effort to obtain them.	Luxury sports car, jewelry,

Innovation through business models

A good business model is a story that explains how an enterprise is designed to work (Margretta 2002). A business model identifies sources of competitive advantage and describes the firm's pathway to profitability and success. From a marketing perspective, the business model describes customers and what they value. From a managerial perspective, the business model describes how an organization makes profit. See Exhibit 47.

In this section, we review some emerging models in the music industry, in order to illustrate how such models can serve as a source of innovation. That is, a traditional way for organizations to remain profitable is to introduce a series of related goods. As shown earlier in Exhibit 45, the organization introduces eight products (labeled A through H). Over time, the sales for product A begin to decline, so the organization is under considerable pressure to introduce new successful products. If Exhibit 45 represents the cumulative sales for a record label, then product A might be a hip-hop CD, while product B is a CD created by a rock artist. In this section of the chapter, we present an alternative source of innovation—the innovation that results from successfully introducing new business models. All our examples are derived from the music industry, but related industries (e.g. films, books) are undergoing similar transformations and creating similar opportunities for entrepreneurs.

Examples of business models from the music industry

Since the late 1990s, the availability of online music has caused a lot of confusion in the marketplace. Traditional business models are no longer applicable for explaining the current business opportunities. The music industry in the twenty-first century provides a classic illustration of a "disruptive technology", whereby new technologies drive out established technologies and established ways of doing business.

Here, we briefly review eight business models in the music industry. We distinguish among these models via five characteristics: current implementation, feasibility, legality, consumer satisfaction, and record label satisfaction (See Table 3). Note that some of these models are currently implemented, while others are speculative in nature.

Traditional business model

In this business model, the artists create music and try to be signed by a record label. After the artist is signed by a record label, then that organization provides a number of services, including financing music recording and production; organizing concert tours; producing and selling merchandise; marketing the band's creation; promoting the band through exposure on mass media; and more.

Next, the record label delivers the recorded music to manufactures who reproduce and package the music. The supply chain members are in charge of distribution, including an effort to gain cooperation from key retail outlets. Finally, the retailers market and sell the packaged goods to the final consumers (Slater, Smith, Bambauer, Gasser, and Palfrey 2005; see Exhibit 47).

Exhibit 47: Six-step model

Digital music stores

This model suggests that the retailers move online and offer content directly to consumers through websites. This approach is similar to the traditional model, but there is an emphasis on the online delivery of content (Slater et al., 2005). Amazon was one of the first companies to implement this model in the 1990s. Since the debut of this model, two major modifications have been made. First, consumers can now purchase digital downloads of the music, rather than receiving a physical product, such as CDs. This offers an intangible and instantaneous approach to buying music. The second large modification is also related to digital downloading, as users no longer have to buy an entire CD. Many digital music stores offer free sampling of each song which allows customers to preview tracks that they want to purchase. The Apple's iTune store successfully implements this model in the twenty-first century.

Open content

This model is derived from the "Ancillary Products and Services" model that the Berkman center formulated in 2005 (Slater et al. 2005). One main assumption here is that nothing can be done to stop the illegal sharing of music. In order for the model to be successful, the content creator, record companies, and consumers must encourage the use of peer-to-peer networking. Thus, every music download from this business model is free of charge. This model is different in that free file sharing is encouraged. However, there is a concerted effort to find other sources of revenue (Berkman Center 2003). Other sources of income may include touring, selling band paraphernalia, endorsements, and fan clubs. This model is illegal under current laws in the US and many other countries as it violates existing copyrights. Note that, in most contexts, open-content sharing is legal as long the owner signs a contract that allows such distribution.

There are conflicting viewpoints on the open content model. On one extreme, there people like Lars Ulrich, the Drummer for Metallica, who is outraged that this could even be an option. According to Ulrich, "The argument I hear a lot, that music should be free, must then mean the musicians should work for free. Nobody else works for free, why should musicians (Ulrich and McGuinn 2000)?" On the other extreme are people who argue that copyrights are irrational since they deny consumers the right to use creative works and suffocate the creativity of Internet users (Lessig 2004).

At first glance, the open-content model appears to be very radical, as it differs so much from other models. Nonetheless, it has gained considerable attention in the last few years. This approach is very satisfying for customers, but is a major threat for record labels and channel members.

Artist-centered website hub

This business model uses one large website as a database for music. Content creators contact the website directly and set the price of their music. The website sets a minimum downloading fee to cover costs; the fee is set on a monthly basis (or on a per-download basis). Customers access the website and purchase all the music they want, knowing that the artist receives most of the profit.

Some websites are already implementing this model. For instance, CD Baby sells independent music that comes directly from the artist. Since this model cuts out several middlemen, CD Baby claims that artists receive USD 6-12 per album versus the USD 1-2 that artists typically receive through their record labels. There are currently 248,891 artists on CD Baby and over USD 87,052,087 dollars have gone directly to the artist since the company opened for business in 1998 (Hefflinger 2008).

Artist's personal website

Another potential model encourages users to access the artist's personal websites to purchase music. This approach allows the artists to have the most control over their music. The band Radiohead tested this model during the debut of their seventh album "Only in Rainbows." The band alienated themselves from their record label, EMI, and offered the album solely from their website Radiohead.com. Customers who visited the site where allowed to decide what they were willing to pay for the album (Tyangiel 2007).

Although this model is attractive for popular artists, it is potentially troublesome for artists who are not well known. Lesser known artists have great difficulty standing out in a crowded market. This model also eliminates the record label.

Non-traditional "record labels"

Currently, independent record labels are sprouting up in unexpected places. In 2003, the Cracker Barrel Old Country Store created an American Roots record label called CB music, Ltd (Romero 2003). Starbucks, the eternally popular coffee house launched their own record label in March of 2007. Their plan involves signing artists (e.g. Paul McCartney) and selling records through Starbucks stores (http://www.starbucks.com/).

Tax-the-device model

This model follows the open content model, in that music is provided free of charge for music downloads. However, such downloads are tracked, and a sales tax is placed on all devices that are sold to play back downloaded files. The money generated from taxes is then used to pay back artists. Of course, this model is speculative in nature. At present, there is not a reliable method for tracking all downloads. In addition, devices sold outside of the US would be difficult to tax.

Summary of new business models

A major purpose in describing these music business models is to illustrate how innovations do not have to be tied to the success of a new good or service. Rather, an organization can innovate by introducing a new method of doing business, and such innovation has the potential to "turn the world upside down" (a la Google or Facebook).

Table 12: Music Business Models

Model	Currently implemented?	Feasible?	Currently legal or illegal?	Consumer satisfaction	Record label satisfaction
Traditional	No	Not anymore	Legal	No	Yes
Digital music stores	Yes	Yes	Legal	Yes	Yes
Peer-to-peer Stores	Yes	Yes	Legal	Yes	Yes
Open Source	Yes	Yes	Illegal	Yes	No
Artist centered website hub	No	Yes	Legal	Yes	No
Artist's personal website	Yes	Yes	Legal	Yes	No
Non-traditional "record lables"	Yes	Yes	Legal	Yes if used with other models	No to traditional record labels
Tax-the-device	No	Not really	Legal	?	No

Evaluating new products

When an organization adds a new product, there is both potential benefit and risk. As a result, organizations implement formal systems for evaluating new products. In particular, there is a concerted effort to forecast projected sales and thus reduce some of the financial risk. While evaluating new products, there is also the possibility of generating innovative ideas that can later go through the testing process. Idea generation is an essential part of marketing strategy and is critical to the success of a company. When such product ideas move further along in the process, a key step is to create a prototype or working version of the new offering. Again, market testing is crucial at every stage in the development process.

Here, we briefly discuss three main alternatives for evaluating new additions to the product line: laboratory tests, expert evaluations, and customer evaluations (Urban and Hauser 1993). With respect to customer evaluations, we distinguish between central-location tests and home-use tests (Crask, Fox and Stout 1995).

The laboratory tests provide information regarding the performance of new products in extreme settings. For example, a new copy machine can be tested at various work loads, such as numbers of copies and speed per minute to test the relationship between workload and paper jam. A disadvantage for the laboratory test is that it may not fully represent real-life conditions. Consumers are famous for findings new ways to abuse products, and they are not such skillful operators as lab testers.

Expert evaluators can be used at all phases of the new product development process. For instance, experts can be used to estimate whether or not a new product idea will be accepted in the marketplace before a prototype even exists. Experts also play a role later in the process. For instance, a new passenger car can be tested by a car expert, who provides a (published) review that covers topics such as: handling, comfort, ease of use, styling, acceleration, miles per gallon, and so forth. Expert evaluation is relatively low in cost, as just a few experts can provide estimates about the behaviors of many customers. At the same time, the small number of experts on each project may lead to biased forecasts.

In later stages of development, customers can be recruited to evaluate prototypes. There is an attempt to test new products under conditions that are relatively close to actual use. Here, we distinguish between two types of customer evaluations: central-location evaluation and home-use evaluation.

Central-location tests are conducted at designated locations such as shopping malls, sporting events, and college campuses. Participants are recruited by email, telephone, and print ads. Types of central-location tests include:

- Discrimination test: conducted to determine the percentage of customers who can distinguish between product alternatives.
- Paired comparison test: respondents evaluate a pair of options and then state their preference between the options.
- Round robin test: all possible product pairs are evaluated, using a format where consumers compare two products at a time.
- Blind test: a new product is compared to existing products.

Under the home-use test, customers are invited to use a new product as part of their everyday life. The home use test is usually more expensive than the central-location evaluation, but it is more realistic. Popular types of home-use tests include:

- Paired comparison test: participants evaluate two products in normal usage situation and provide evaluations for both products.
- Single-product home-use test (monadic test): participants evaluate one product after using that product for a specified time period.

- Proto-monadic home-use tests: a hybrid design where participants are asked to use a certain product for a specific time period and then evaluate. Next, participants follow a similar procedure for a second test product.

When innovation fails: deleting products

Product failure

In general, a product fails when it does not meet the objectives that were established by the sponsoring organization. Failure rates vary by industry. For instance, failure rates for new packaged goods range from 75 per cent to 90 per cent (catalinamarketing.com). When considering "innovative" new products, Gourville (2005) estimates that approximately half of all such products fail. It often costs more to launch an innovation nationally than to develop the good or service in the first place.

In the following section, we describe Wal-Mart's failure as it tried to enter the German market. Our purpose is to use this one example to illustrate key reasons that new products fail and subsequently must be deleted. See Table 11 for a listing of major reasons that cause products to be deleted. Table 11 includes a description of 13 reasons that products fail. Note that the Wal-Mart experience in Germany provides concrete examples for 10 of these key reasons. In the table, the reasons for product deletion are divided into 5 groups: (a) Market Structure (MS); (b) Business Model (BM); (c) Culture (C); (d) Politics/regulation (P): and (e) Product failure (PF). These same categories are highlighted in the sections which follow.

Case, example of product failure: Wal-Mart in Germany, 1997 to 2006

Wal-Mart is the biggest food retailer in the world and has a presence in several nations. In some nations (e.g. the US, Canada, China), Wal-Mart is a great success. However, Wal-Mart has failed in some countries (e.g. Germany, South Korea). First, we describe Wal-Mart's failure in Europe's largest economy. Second, we use Wal-Mart's experiences in Germany to illustrate some key principles related to product failure and product deletion (see Table 11). Wal-Mart's experiences are also an example of the importance to adapt to culture when starting a business in a new country.

The German grocery industry

There is fierce competition in the German grocery industry, due to the increasing number of discount supermarket chains (KPMG 2006). As a result, there is low profitability in the food retail sector; profit margins range from 0.5 per cent to 1 per cent which is one of the lowest profit margins in Europe (Frankfurter Rundschau 2007). By contrast, profit margins in Great Britain are 5 per cent, in this same sector. In particular, Metro is a tough competitor, and it already applies some of Wal-Mart's successful strategies (e.g. related to economics of scale and low prices). Of course, Wal-Mart is interested in other metrics beyond profit (e.g. shareholder wealth, market share), but, as indicated above, profitability and margins are of key concern to retailers.

Wal-Mart: strategic concept

Wal-Mart is the world's largest retailer with approximately 6,500 stores worldwide (Business 2006). The main feature of Wal-Mart's business model is to cut costs (continuously) and therefore offer lower prices than their competitors. For instance, Wal-Mart has introduced new logistical technologies such as radiofrequency identification (RFID) to optimize its logistic processes. RFID is an automatic identification method, relying on storing and remotely retrieving data using devices called RFID tags or transponders. Wal-Mart tries to minimize labor costs by offering minimal health care plans. Wal-Mart pressures its suppliers to cut costs, on a continuous basis. In brief, Wal-Mart's managers are constantly seeking out ways to cut costs, and some of their successes are passed on to shoppers, in terms of lower prices.

Wal-Mart's entry into the german market

In 1997, Wal-Mart acquired over 21 stores from the supermarket chain "Wertkauf." One year later, Wal-Mart bought an additional 74 stores from the supermarket chain "Interspar". As a result, Wal-Mart became the fourth biggest operator of supermarkets in Germany (Lebensmittelzeitung 2006). The objective was to expand to 500 stores in Germany. However, the number of stores never exceeded the 95 stores that were originally purchased in the first two years. Wal-Mart's position in the marketplace deteriorated over the years. In 2002, Wal-Mart had some financial difficulties due to a low turnover which resulted in the dismissal of some employees. At the end of 2006, Wal-Mart was bought out by "Metro", one of Germany's largest retail groups. Finally, Wal-Mart left the German market with a loss of one billion dollars before tax (Manager-Magazin 2006).

Mis-steps in the german market

In general, there are five key issues related to Wal-Mart's ultimate withdrawal from Germany: (a) market structure; (b) business model (these first two are discussed together here); c) cultural and communication; (d) politics and regulation; and (e) product/service failure. Each of these issues is discussed in turn. Note also that these five issues are highlighted in Table 11.

Market structure and business model

A retailer that wants to follow Wal-Mart's strategy of low prices needs to expand rapidly. In Germany, there not enough appropriate locations to support such expansion (see Table 11). As previously mentioned, Wal-Mart did not build their own stores but took over 21 existing "Wertkauf" supermarkets that had a totally different business model. The stores themselves were very small and had a limited range of goods. A related problem is that these stores were located far apart, which resulted in high logistical costs.

When entering a new market, it is important to anticipate competitors' reactions. In Germany, Wal-Mart's biggest competitor, Metro, wanted to expand their stores; at the same time, Metro wanted to prevent Wal-Mart from executing their expansion plans (Senge 2004). Many times, a product has to be deleted because the competition is too strong.

With the strategy of "Every day low prices," Wal-Mart is very successful in the United States and also in many other countries. In Germany, there is extreme competition in the retail food sector. Therefore, the German customer is quite accustomed to the low prices that are offered by numerous discount supermarket chains. For this reason, Wal-Mart's strategy of offering low prices did not create sufficient competitive advantage (see Table 11).

Culture and communication

When products are introduced, it is important to consider cultural factors. In this case, corporate culture played a key role. Wal-Mart's top executives decided to operate the German locations from their offices in the United Kingdom. Thus, Wal-Mart's "corporate language" was English. However, many of the older Wal-Mart managers in Germany do not speak English. As a result, there were often breakdowns in communication. Some managers of the acquired stores did not stay on after the Wal-Mart acquisition. Key business connections were lost. As a result, several key suppliers (e.g. Adidas, Samsonite, Nike) declined to work as suppliers for Wal-Mart. Wal-Mart did not just lose important suppliers; they also lost an important part of their range of goods (Senge 2004). The situation could have been improved by retaining and communicating effectively with the German managers who had know-how about the local market (see Table 11).

Politics and regulation

The managers of Wal-Mart were not sufficiently familiar with the laws and regulations in Germany, as they violated them several times. One of Wal-Mart's fundamental principles is to stay union free. However, in Germany, unions have a powerful position. Through collective bargaining and related tactics, they can have a strong influence on political decision making. Ver.di is a German union in the service sector. With 2.4 million members, it is one of the largest independent, trade unions in the world (Ver.di 2008).

According to the German Commercial Code, all incorporated companies are obligated to publish a financial statement, including a profit and loss statement. Due to the fact that Wal-Mart refused to publish their financial statements for the years 1999 and 2000, Ver.di sued in a court of law. Wal-Mart was sentenced to pay a fine. The coverage of this law suit in the German press led to a negative public image for Wal-Mart.

After the expansion strategy failed due to the lack of suitable store locations, Wal-Mart began a price war to drive small competitors out of business. The intention was to take over the stores of the insolvent supermarket chains and convert them into Wal-Mart stores. One part of the price war was to introduce a private label called "Smart Brand" and sell most of these products below manufacturing costs. The reaction of many competitors was to decrease their prices, which led to a profit setback for the entire industry. However, the Federal Cartel Office interceded and stopped the price war because there is a law in Germany that enjoins companies from selling goods below manufacturing costs on a continuing basis (Knorr and Arndt 2003).

Product/ service failure

Wal-Mart planned to introduce a sophisticated customer service program which threatened many of its competitors because German discount supermarket chains often do not provide good customer service. Therefore, good customer service, combined with low prices, could have been a new market niche in Germany. One part of Wal-Mart's customer service program was called the "ten foot rule". Every ten feet, a service employee offered some help to the customer (Knorr and Arndt 2003). However, the customer reaction was rather negative, because customers who normally do their grocery shopping in discount supermarket chains are used to self-service. They do not necessarily expect to talk with employees.

Therefore, the “ten foot rule” was perceived as rather annoying and did not result in a reputation for providing good customer service.

Wal-Mart also imported the idea of placing a “greeter” at the entrance to the store. Again, German customers were not used to this custom, and they did not adopt this “service” with any enthusiasm.

Conclusion of Wal-Mart Mini-case

Wal-Mart tried to apply its US success formula in an unmodified manner to the German market. As a result, they didn’t have sufficient knowledge about the market structure and key cultural / political issues. In addition, structural factors prevented Wal-Mart from fully implementing its successful business model. Also, there were some instances of product or service failure. The final outcome was that Wal-Mart had to abandon its offerings in Germany

Table 13: Product failure: examples from Wal-mart's investment in Germany

Reasons for Failure	Examples of Wal-Mart in Germany
Insufficient demand (MS / BM)	Wal-Mart’s low price strategy didn’t create any competitive advantage since many German local retailers were already using that strategy.
Existing competitors are too strong (MS)	Wal-Mart’s biggest competitor, Metro, took specific counter-measures to prevent Wal-Mart from executing their expansion plan.
Failure to develop and communicate unique selling propositions (USP) (BM)	The profit margins in the German retail industry were already low before Wal-Mart entered. Wal-Mart was not able to convince German consumers that their prices were really that much lower than the competition.
Unexpected change in the environment— Economic downturn	N/A for Wal-Mart case
Competing new technology successfully introduced	N/A for Wal-Mart case
Change in culture (i.e. change in corporate culture, change in consumer taste or fashion) (C)	Wal-Mart did not adapt well to the German corporate culture.
Changing standard of government regulations (P)	Managers were not familiar with German laws and regulations, so there were violations. In general, Wal-Mart’s anti-union policies conflicted with the strong German union. Wal-Mart also tried to sell their products below manufacturing costs, which is illegal in Germany.
The price is too high, so trial is discouraged	N/A for Wal-Mart case
Poor promotion/communication plan (C)	Language barrier between English-speaking managers and older German business people who don’t

	speak English.
In retailing, failure to secure attractive sites (MS)	There were not enough appropriate locations for Wal-Mart stores available in Germany.
Product failure (PF)	tores were often located far apart. As a result, logistics costs were high. One of Wal-Mart's main success factors is to minimize costs, but this goal was restricted by high logistical costs.
Poor service quality—during or after sales (PF)	ome of Wal-Mart's methods for providing service were not accepted by German customers. For instance, the customers did not like the concept of the "greeter".
Failure to get corporation from key supply-chain members (BM)	Several key suppliers refused to supply goods, for fear of tarnishing their corporate image.

Notes for Table 4: The reasons for deletion are divided into five categories according to the following legend:

MS: Market structure; BM: Business model; C: Culture and communication; P: Politics and regulation; PF: Product failure

Chapter summary

New products improve people's lives, change markets, and affect theveryday world around us (Arts 2008). From an organizational point of view, successful new products are essential for the survival of a firm. At the same time, an organization must recognize when it is time to withdraw a product from the market. As shown in Figure 1, this withdrawal may take place after some years of success in the marketplace. Alternatively, such product deletion may occur before the product is even launched (see the section on "Evaluating Innovations"). Sometimes, clear and straightforward reasons exist to explain why consumers do not accept a new product. Other times, a clear answer is missing (Arts 2008). In this chapter, we highlight many of the key managerial decisions associated with adding and deleting products. We emphasize the important role of marketing research and market-based insights.

Discussion questions

- Discuss various ways to classify innovations and products. Describe how these classification schemes contribute to managerial knowledge and describe how they are related to the process of innovation.
- Using information from the Wal-Mart case that is discussed in the chapter, describe some decisions that management handled well.
- Suppose that you are in charge of expanding Wal-Mart's operations to France. Describe some actions that you would take to increase the probability of success in that nation.
- Your business partner comes to you with a new product idea. Specifically, she has just returned from a trip to the Netherlands. Based on her experiences there, she wants your company to start exporting a specialty beer (Gulpemer) from the Netherlands to the US. Your firm has specific expertise terms of

distributing beer in the eastern United States, and you have some interest in your partner's idea. Describe how you would evaluate this idea of adding of Gulpemer to your product line.

- A reporter from the New York Times asks you to forecast which method of distributing popular music will be the most popular in the year 2014. Write a press release on this topic. Be certain to provide a justification for your prediction.
- Discuss five business models that are popular for distributing popular films. Predict which of these models will be the most successful, five years from now. Provide a convincing justification for your prediction.
- Your nephew is a drummer, and he has just formed an alternative rock band. His band is just beginning to achieve some local success in Seattle, Washington. Your nephew views you as a "new product expert", so he asks your advice about how to increase the popularity and profitability of his band's operations. Make five specific recommendations to help your nephew and to justify your reputation as "an expert".
- Table 4 provides a description of some reasons that new products fail. Add three more factors to this list.
- Discuss some different ways that firms try to develop innovations. For each method that you identify, provide a specific example of a product that was developed following this approach.
- Imagine that you want to start your own business. What product would sell? In two paragraphs, describe your business model.

Case: "Apples: Newton and Pippin"

Apple Inc. (formerly Apple Computer Inc.) was founded in 1976 by Steve Jobs, Steve Wozniak, and Ronald Wayne. Steve Jobs is still very active with the company.

Apple has a long history of adding successful new products to its line up. However, in some instances, Apple products have failed in the marketplace, and, subsequently, they were deleted. For instance, both the hand-held Newton and the gaming machine Pippin were dropped from the Apple lineup. See http://www.forbes.com/2008/10/29/apple-product-flops-tech-personal-cx_ag_1030apple.html.

Using this website and others, gather some information about the Newton and the Pippin. Then, using the information from this chapter (e.g. see Table 4), discuss some reasons that Newton and Pippin failed. To what extent did these two products fail for the same reasons? Identify one of Apple's successful products (e.g. the iPhone, the iPod) and describe how the product managers have been able to avoid some of the problems that sank the Newton and the Pippin.

References

Arts, Joep (2008), Essays on New Product Adoption and Diffusion, Amsterdam: the Free University.

Berkman Center (2003). "Copyright and Digital Media in a Post-Napster World," Research Publication No. 2003-05, GartnerG2 and The Berkman Center for Internet and Society at Harvard Law School. http://cyber.law.harvard.edu/publications.

Business (2006): “World's Biggest Retailer Wal-Mart Closes Up Shop in Germany” http://www.dw-world.de/dw/article/0,2144,2112746,00.html

Crask, M., Fox, R. J., and Stout, R. G. (1995). Marketing Research: Principles and Applications. Eaglewood Cliffs, NJ: Prentice Hall.

Frankfurter Rundschau (2007): “Ende einer Expansion“ http://www.lexisnexis.de/e-solutions/academic/de/index.html, 08.01.2008.

Gourville, J.T. (2005), “The Curse of Innovation: Why Innovative New Products Fail,” MSI Working Paper Series, 5 (4).

Gutowski, George (2006), “Lessons to be Learned from Walmart’s Failure in Korea,” Seeking Alpha (May 24), article 11141. http://seekingalpha.com/article/11141-lessons-to-be-learned-from-walmart-s-failure-in-korea-wmt

Hefflinger, Mark (2008), “Online India Music Retailer Acquired,” Digital Media Wire, August 5.

Knorr, A; Arndt, A. (2003): “Wal-Mart in Deutschland – eine verfehlte Internationalisierungsstrategie,” in: Knorr, A. et al. (Hrsg.): Materialien des Wissenschaftsschwerpunktes „Globalisierung der Weltwirtschaft,” Band 25, Bremen 2003.

KPMG (2006): “Status quo und Perspektiven im deutschen Lebensmitteleinzelhandel” http://www.kpmg.de/library/pdf/060904_Status_quo_und_Perspektiven_im_deutschen_Lebensmitteleinzelhandel_2006_de.pdf, 20.12.2007.

Lebensmittelzeitung (2006): “Wal-Mart in Deutschland – ein Überblick” http://www.lznet.de/links/hotlinks/pages/protected/show53679.html, 20.12.2007.

Lessig, Lawrence (2004), Free Culture: How Big Media Uses Technology and the

Law to Lock Down Culture and Control Creativity. New York: The Penguin Press.

Manager-Magazin (2006): “Metro übernimmt Wal-Mart Deutschland” http://www.managermagazin.de/unternehmen/artikel/0,2828,428960,00.html, 20.12.2007.

Margetta, J. (2002). What Management Is: How it Works and Why It’s Everyone’s Business. New York: Free Press.

Press@starbucks.com (2007), “Paul McCartney First Artist Signed to New Hear Music Label,” Seattle, March 21,

http://www.starbucks.com/aboutus/pressdesc.asp?id=759

Romero, A. (2003), Cracker Barrel Old Country Store Creates New American Roots Record Label. Retrieved October 1, 2008, from World Music Central: http://worldmusiccentral.org/article.php/20031114174754471

Senge, K. (2004): “Der Fall Wal-Mart: Institutionelle Grenzen ökonomischer Globalisierung.” http://www.wiso.unidortmund.de/is/dienst/de/textonly/content/V4/V42/pdf/ap-soz04.pdf,21.12.2007

Slater, D., Smith, M., Bambauer, D., Gasser, U., and Palfrey, J. (2005, July 7). Content and Control: Assessing the Impact of Policy Choices on Potential Online Business Models in the Music and Film Industries. Retrieved September 1, 2008, from The Berkman Center for Internet and Society: http://cyber.law.harvard.edu/

Souder, W. E. (1987). Managing new product innovations. Lexington, MA: D.C. Heath and Company.

Tellis, Gerry, Stephan Stremersch, and E. Yin (2003), "The International Takeoff of

New Products: The Role of Economics, Culture, and Country Innovativeness," Marketing Science, 22 (2), 188-208.

Tyrangiel, J. (2007), Radiohead says: Pay what you want. Retrieved August 15, 2008, from Time Entertainment: http://www.time.com/time/arts/article/0,8599,1666973,00.html

Ulrich, L., and McGuinn, R. (2000, July 1). Lars Ulrich, Roger McGuinn Testify Before Senate Judiciary Committee on Downloading Music on the Internet. (D. Kagen, Interviewer) CNN.

Urban, G. L. and Hauser, J. R. (1993). Design and Marketing of New Products (2nd ed.). Eaglewood Cliffs, NJ: Prentice Hall.

Verdi (2008) http://international.verdi.de/ver.di_fremdsprachig/was_ist_ver.di_-_eine_einfuehrung_auf_englisch

Zinkhan, George M. (2005), "Business Models, Advertising, and Emerging Technology," American Academy of Advertising Newsletter, 1 (No. 4), 4-5.Adding products and services