

CHAPTER 7

Product Launch and Evaluation

7.1 Introduction

The product launch is both the end and the beginning. It is the culmination of all the effort and thought that has gone before. It is also the start of a new product cycle if it is an innovation, the revival of a product cycle which appears to have levelled off, or just another product in the total product lifecycle causing a change in market share and perhaps a faster growth pattern.

The new product affects the company's product mix. It may increase sales in one product area and decrease sales in another, but hopefully it will increase the total sales of all products. It can change the balance of sales in the industry and in the marketplace and affect the consumers' behaviour and attitudes, and also influence change in the social and economic environment. So once the product is launched, it is not just a case of tracking the sales to see that they are reaching the target, but also of following consequential changes in the company, the consumer and the environment.

The targets for success need to be carefully recorded and recognised by all before the launch starts. The targets should not be moved unless they are discussed and again there is agreement.

The success or failure of the product in the market depends largely on the skill with which the operational plan is conducted by the production, marketing and finance departments, but of course also on the market and the environment into which it is launched. The plan may be good and the operation efficient, but suppose on the day the product was launched either there was a food poisoning scare with this type of product, or the competition started a massive price reduction campaign, or the government announced that all benefits and pensions were to be cut, or the importing country imposed massive import duties for this type of product. There need to be emergency

plans in place to react to such unpredicted problems - how to stop or change plans quickly

7.2 The steps in the product launch

Once the top management decision has been taken for the launch, the product has to be launched to several groups of people, the most important being the company, the retailers, the consumers and the general public. The product launch can be regarded as three steps: launch to the company, launch to the market and launch to the consumers, and these are followed by the launch evaluation.

The activities are the typical operational activities of the company in departments such as marketing, sales, production, quality assurance, finance, but the new product causes changes and sometimes problems. The launch to the company has as its outcome the completed company organisation. The launch to the market involves the production and distribution of the product combined with the marketing to the retailers and the outcome is the complete set up ready to launch, and the final stage is the launch to the consumer. For the industrial products, the launch can be just to the company and to the customers, but there may also be distributors and agents in the chain.

The outcomes from the three steps are important, both in their quality and their timing. In timing, the company organisation for the launch needs to be completed before the launch to the market starts, or disaster can ensue; for example:

- product that has not arrived at all the retail stores,
- TV. advertising that cannot be booked for the launch date, and
- printing of in-store promotional material that is two weeks behind.

Most people in product development have met these crises, and scrambled to solve them.

The quality also needs to be correct or again disaster ensues:

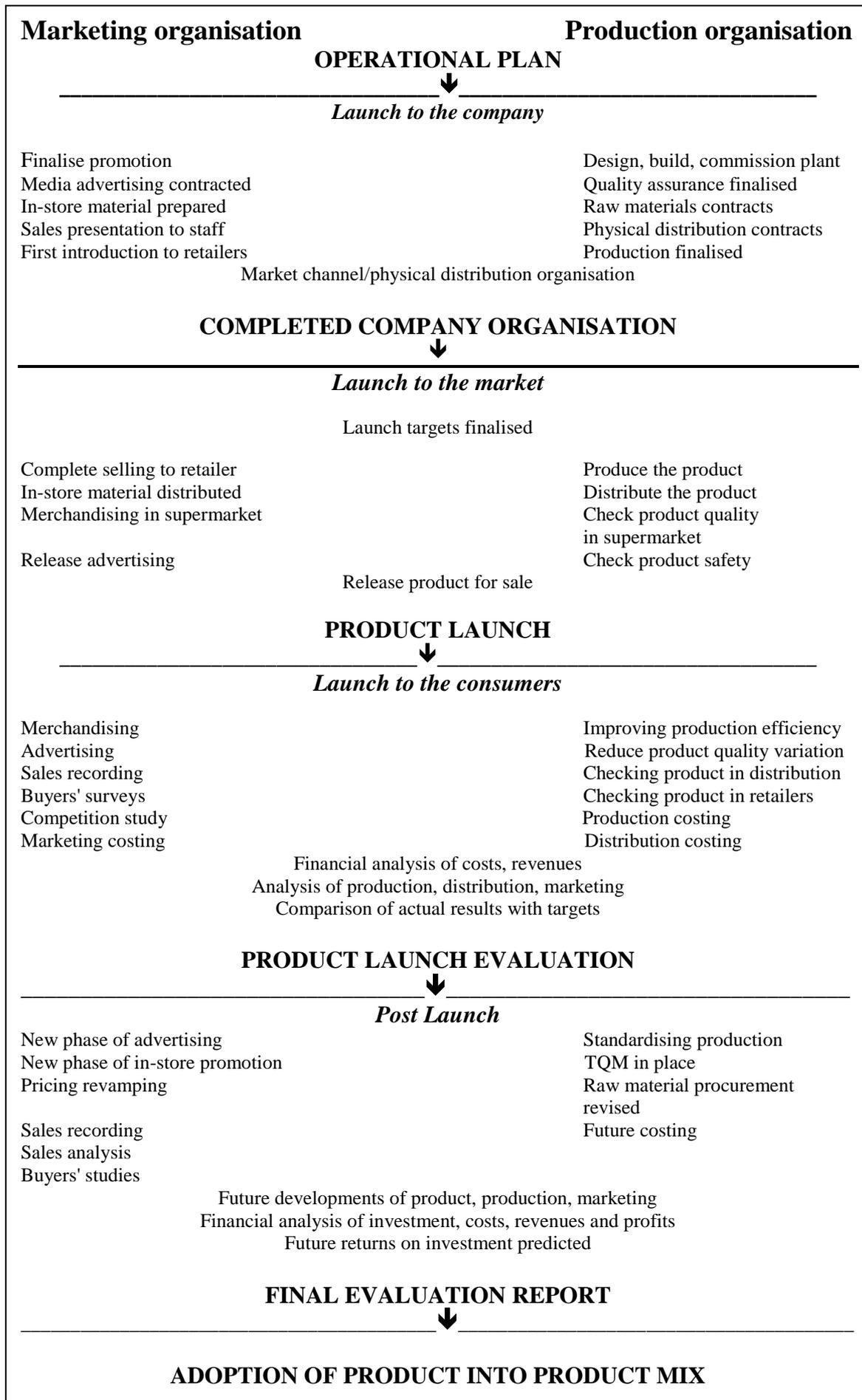
- instant powder that does not dissolve in the correct time,
- T.V. advertising that does not mention the product name, and
- in-store promotional material that is a different colour from the packaging.

Once the product is launched to the consumers, there is not time to sit back and relax; there is constant checking of product, production, distribution, marketing, sales and costs. The checking will show up any problems that are occurring so that they can be rectified quickly. Are the sales increasing more slowly than predicted? Is this caused by lack of consumer interest in the product, consumer lack of acceptance of the product or retailers' lack of promotion or shelf space? The checking also collects the qualitative and quantitative information needed for the post-launch evaluation.

The post-launch evaluation leads into the final analysis which will decide the product's future - to be dropped, improved, or accepted immediately into the company's product mix. But during this time of evaluation, there is a need to continue the improvement and the stabilisation of the product qualities, the marketing, the production and the costs.

The activities and the outcomes in the four stages of launch and the post-launch evaluation are shown in Figure 7.1. Within these stages, the activities are organised as suits the company and the project, but the marketing and product organisation are not separate as shown in the Figure but are integrated and coordinated.

Figure 7.1 Activities and outcomes in the product launch and post-launch



The internal company launch is made to all who are to work on some aspect of the launch. This is most important because if staff are not enthusiastic, the whole launch can fail. Even the smallest launch has a certain stress, and a large launch with plant commissioning and new market channel organisation can cause major stress to people in the company. There are constant problems which have to be solved such as time overruns and not enough resources, which mean that people are working long hours at a high level of intellectual and physical effort. The product must be launched to the raw materials buying staff, store persons and the production staff, the accountants and the clerical staff; the quality assurance technicians and the plant engineers, the area sales organisers and the sales people. The people concerned are properly briefed and motivated to produce the best results. These launches will take place at different times during the preparation for the main launch and will be presented in different ways.

The raw materials, production, distribution and quality assurance people are usually presented, at a technical conference, with the details of the:

- product,
- raw materials,
- production method and controls involved,
- physical distribution method including predicted shelf life and storage conditions, and
- quality, quantity and timing targets and the allowable variations.

All this information is also presented in print form and on the computer so there is ready access to it during the initial production runs. There are usually discussions about the problems that might occur and about any improvements on yields, quality and costs expected during continuing production. There is also a clear responsibility for the various tasks, the cooperation required and the actions during emergencies. It is important that there is free discussion during these briefings so that new ideas can develop and everyone is knowledgeable about what is to happen and feel a member of the team.

The sales people must be able to answer questions put to them by customers, be skilled in the merchandising and in-store promotions and understand the sales targets that they have to meet at certain times. The sales force conference is usually a lively occasion because it is a presentation of the total product and the promotion to be used. The brand name, product name and aesthetic packaging are all presented and the sales people are

given a final product proposition which they can use to convince the retailers about the unique benefits of the product, and its improvements over competing products. The final product proposition includes not only the product description, but also the promotional programme, the list price, the retail margins and suggested retail price, and any introductory offers, discounts and specials. The product needs to be presented with an overwhelming image of success!

The sales communication is also presented at the sales force conference. The sales communication is the sales person's convincing delivery of the product proposition to the buyer. This is related to the type of product and the type of buyer, in particular the selling of consumer products to retailers, and industrial products to food manufacturers and food service operators. Retailers are interested in the types of consumer promotions to be used and the budgets involved, manufacturers and food service operators in how the product will perform in their processing and cooking, its effect on their end product and the technical help provided.

Think Break 7.1

Internal company launch: frozen fish fillets in sauces

A fish processing company is preparing to launch a line of frozen fish fillets in sauces, packed in boil-in-the-bag packs. These are small packs of 250g for an individual snack, and the target consumers are older people living by themselves.

They will be sold through supermarkets and convenience stores.

Discuss how you would introduce this new product line to the production and marketing staff in the company, discussing the presentation and the information given to the staff.

7.4 External launch to the retailer and other distributors

The launch to the retailer is of course crucial. Supermarkets today have strong control over the introduction of new products with their decisions affecting how much shelf space will be allocated, the costs of the introduction, the length of time allowed for sales to grow and the potential introduction of their own-brand products. Supermarket buyers rarely use formal analysis to make their new product decisions because of the low risk in giving shelf space to new products - a failure can soon be dropped from their shelves,

and if a rejected product is a success in other supermarkets, it can then be purchased with confidence.

Some of the questions supermarkets ask when reviewing a new product are:

- Does the product look as if it will sell?
- Is the manufacturer going to promote the product strongly enough to produce the sales?
- Are the 'deals' offered in line with the product type and past experience with the manufacturer?
- Will the product increase profit because it is a superior replacement to an existing product on the shelves?

For some products, there are advantages in launching the products only to strategic retailers, especially if the product is particularly new in some way and requires special cooperation from them to sell to the consumers. The product may be launched in a 'party' atmosphere with free food and drink, promotional gifts, samples presented in attractive ways, and information presented in easy-to-read form. These parties can be great publicity if they are covered by the media, and thus can give the company a chance to reach the public before the actual consumer launch.

Industrial products are often launched in a similar manner at trade fairs, where they can be presented to a large number of manufacturers at the same time. But often industrial products are launched to a few manufacturers, or even one manufacturer with a long association with the company so that there is the opportunity to solve that manufacturer's problems and gain knowledge of the effects of the product in their processing.

Contract Launch is where the new product is contracted to a retailer under their own-label brand or where a new ingredient is contracted to only one or two manufacturers. A significant proportion of food manufacturers, particularly small manufacturers, are approached by the retailers and asked to produce products to the retailers' specifications or to agreed specifications developed by the manufacturers. These are mainly me-too products or product improvements or line extensions. This means that the prices and quantities are known and there are no promotional expenses, but of course there are no guarantees for the future when the contract is finished.

A few large retailers, usually national or international supermarket chains, will undertake the product development themselves and then contract out the production of the new products. Other retailers look out for small innovative manufacturers and will absorb the company or just the products into their organisation.

An industrial marketer may plant an idea for a consumer product with a manufacturer or a large retailer and provide some “know-how”, hoping that they will sell their ingredient(s) for the new product if it is developed.

There may be a need to launch to other people in the food system, such as primary producers, agents and other facilitators in the market channel.

7.5 Consumer launch

The launch to the consumer depends on the type of product, the budget and the general policy of the company. Products can vary in the consumers' minds in terms of newness, the amount of 'learning' needed to adopt them and also the costs of trying them. If all three are high, the growth of sales is likely to be slow unless there is a very high budget. But there is also an element of risk, which could discourage the use of a high budget, favouring instead the use of a gradual launch through the market. At the other extreme, for example for a line-extension or an improved product, the product can be introduced quickly to as wide an area as possible.

There are three types of consumer launch:

- **National Launch:** the product is distributed to the total market area. This method is used if the competition is very close to launching a product that is similar or if the product change is minor. It does give a good start over the competition if the product is a success, but is very costly if the product is a failure.
- **Area Launch:** the product is launched in specific areas. Areas with the best potential are chosen: for example a wealthy area when it is a high priced or luxury food, and a strong ethnic area for an ethnic food. Some companies will choose to launch only in certain areas because they have neither the production capacity nor the distribution system to cope with a national market.

- **Rolling Launch:** this is much the same as an area launch in that it starts with one or two areas, then when the product has proved successful after a certain time, it is launched into another area(s). This is continued until it is selling through the whole market. The rolling launch is used when the product is innovative and the production and marketing are still under trial. This gives an opportunity to improve the product or perhaps prepare a line of products to make the production more efficient in terms of quality and quantity, and to make the marketing mix more effective. In other words, if the company needs a learning period, a rolling launch is preferable. But of course care needs to be taken that it does not give the competition time to come in and take a major part of the market.

Example 7.1 International launch of cranberry juice

Ocean Spray, the cranberry king, is about to become a missionary for the American holiday favourite, marketing it in 25 countries in the next five years. Transforming Ocean Spray into a global brand could be akin to trying to declare Thanksgiving a world-wide holiday.

Several years ago, efforts to introduce the Japanese to cranberry juice fizzled. The company shortened the name to Cranby to make it easier to say and served up a bland version for the Japanese palate. But the sales were disappointing, and the company pulled out quickly, though it recently introduced several cranberry drinks.

Ocean Spray's new strategy: Be patient, give away lots of samples to help people acquire a taste, and use market research to listen to the natives.

There are name problems: the brand name Ocean Spray, and the product name, cranberry. Ocean Spray sounds like a perfume. In Taiwan, the name used for Ocean Spray is Hoshien Pei which sounds similar but translates as healthy refreshment. In France the closest translation for cranberry is 'airielle de myrtille', which sounds awkward. As a result, despite the French uproar about the invasion of English words, the company is leaning towards using 'le cranberry'.

Britain has already provided humbling lessons. Shortly after the juice was introduced there a decade ago Ocean Spray discovered that Britons don't like bottles. Instead they like to use juice boxes. But progress was made in Britain after Ocean Spray began to mix cranberry juice with blackcurrant juice, a fruity drink popular with British children in the 1950s and 60s. And sales shot up after extensive publicity about a Harvard University study, sponsored by Ocean Spray, said that cranberry juice helps to prevent and treat urinary tract infections.

(Source: Pereira, J. (1995) 'Unknown fruit takes on unfamiliar markets', Wall Street Journal 9 November, B1. Reprinted by permission of *The Wall Street Journal*. © 1995 Dow Jones & Company; Inc. All Rights Reserved Worldwide.)

Think Break 7.2

Consumer launch: local and overseas markets

Using the cranberry example, list the factors that need to be considered when launching a product into an overseas market.

What are the differences in introducing a product to your local market and to an overseas market with which you are familiar?

Brand and product name are always important in introducing a new product.

Discuss what should be considered when developing a brand name (1) in several languages and (2) for one general international brand.

What do you think are the important factors in choosing a product name?

7.6 The coordinated launch

The activities in the launch are highly coordinated as in the operational plan.

Logistic aspects of distribution are of prime importance in the launch. Failure in any part of the market channel will upset everyone from the primary producer to the consumer and can do irreparable damage to the product image. The product must be on the retailers' shelves when it is wanted by the consumer. There is nothing more annoying to the consumer than seeing advertisements and then failing to find the product on the supermarket shelves, or for a food manufacturer to get very excited at a trade fair only to discover that the food ingredient will not be available in their area for 6-12 months.

The time schedules in the operational plan are of prime importance to ensure that distribution takes place at the right time for production, the sales force, the supermarkets and the consumer. The company should have the product in central storage at the plant and in distribution centres at strategic points in or near the markets; the inventory held in each and its transport needs to be recorded and controlled. If the stocks are not in the retailers and the distribution centres when the product is launched, many potential sales and profits may be lost.

Promotion and advertising needs to be coordinated in time and presentation. TV advertising needs to be coordinated with the in-store promotion so that they are reinforcing each other. The packaging and in-store promotions need to be telling the

same story. The TV advertising may have a simpler message than the in-store promotions because it may be aimed at awareness and the in-store promotions at education, but the linkage needs to be strong. Timing of the promotions needs to be well planned and maintained, but there must be readiness to act when unexpected happenings occur in the market.

7.7 Timing the launch

Should the launch be a frantic rush or a well planned exercise? The latter takes longer but entails much less risk. When the product looks a success, everyone involved is itching to get it out on the market, and this may be intensified by rumours that competitors are ready to flood the market with copies of the new product. What is important is that the launch should be planned for the right time of the year for this particular type of food, just before the beginning of the high sales period. Problems may be caused by unusual climate changes, for example if temperatures are staying high and winter is taking some time to come when you are launching a line of winter soups; or vice versa, in summer, temperatures do not rise and ice-creams are not selling but you have a new frozen novelty which will only last a season. Usually, however, the timing of the launch can be calculated reasonably accurately, and the timing of the activities in the launch can be controlled on a critical path network or a job progress bar chart.

The company also needs to decide, as policy, if the new product is to be the first of this type of product on the market, or if they want to follow another company's product as second or even third. . The first product on the market may have a problem convincing the consumers to buy, while the second and third product can be improved and launched later at less expense and still take the larger market share.

The product in the project may be of course only one of the company's new products, and its timing has to relate to the timing of any other launches.

7.8 Evaluation of the launch

It is very important to monitor not just the sales of the product, but also to check how the product is performing in distribution, storage and the supermarket, the retailers' attitudes to the product and their placement and promotion of it, and of course consumers' attitudes and behaviour towards the product. How much are they buying? Are they re-buying? What do they like/dislike in the product? Would slight modifications improve it?

So there is a need for qualitative research on the product, production, distribution and marketing as well as the technical research on product quality and the quantitative research on the efficiency of the launch. Many of the studies on the efficiency of production, distribution and marketing are carried out continuously for the company's day-to-day activities. If there is only a small change in the new product, then this data is sufficient. But a major change of product, production, distribution or marketing needs more detailed evaluation of the launch. Timing is most important and there is a need to check the timing and schedules detailed in the operational plan to see that they are being met and nothing is falling behind – raw materials, production, distribution or marketing.

Quantitative analysis should be undertaken to determine the success or failure of the launch. The company will have set targets for the launch: short-term targets of volume of sales units, sales revenue and market share, and long-term targets of a certain profit and return on investment and a time to recover the launch and development costs.

Obviously as the launch proceeds, the evaluation will become more definitive as more accurate data accumulates and better predictions of future cash flows can be made. The data which are necessary for the evaluation include production and distribution costs, prices, unit sales, sales revenues, marketing costs, company costs and finance costs.

The evaluation after the launch needs to consider carefully the operational, marketing and product plans detailed in Chapter 6, but some important areas to consider are identified in Table 7.1.

Table 7.1 Important evaluation areas

<i>Production and marketing: quality and efficiency</i>
<i>Product and marketing: quality and efficiency</i>
<i>Nutrition, health and safety</i>
<i>Environment: physical, social and legal</i>
<i>Customer response</i>
<i>Company-fit</i>
<i>Sales</i>
<i>Finance</i>
<i>Company organisation</i>

7.8.1 Production and distribution: quality and efficiency

On the production side, the raw material quality and quantity must be monitored, the process variations studied and, most important, the yield and quality of the product checked. Equipment breakdowns and the response of employees need to be monitored. Distribution and marketing are also monitored. This monitoring usually leads directly to improvements in the product, in production, in process control limits and in quality assurance, and also often to changes in distribution and marketing methods. The time after launching is a time of constant improvement of the product, reduction in production costs and increase in the effectiveness of the marketing methods.

Measurements of these factors are followed in many companies during the launch. The raw materials and direct processing costs are continuously watched to check if they are improving and are within or better than target. The variation in the quality of the raw materials, the process conditions and the distribution conditions are recorded and analysed, and most important the technical standards for the product continually monitored. The wastes from the production and costs of their disposal also need to be measured.

The distribution costs, delivery times and product losses are recorded so that improvements can be made. Also retailers can be surveyed to see how they regard the distribution. An important consideration is the return of product because it is damaged, too near the use-by date, or not as specified. Such returns are costly in terms of both money and company reputation, but also the acceptance of the product in the market as

summarised in Example 7.2, and the production and distribution has to be controlled to reduce them to a minimum.

Example 7.2 Failure of production in small and medium sized companies

Failure was caused by:

1. **A lack of understanding of the properties of the raw materials used, and an inability to control or monitor these materials.** A company producing surimi (finely ground fish paste) from fish waste did not understand that the raw materials varied due to the season and the type of fish and they had no method of testing the properties of the fish waste. So the frozen surimi was rejected by the market because of variability in quality.
2. **A reluctance to invest in resources not seen to contribute directly to the bottom line, and an inability to control the production environment.** A new small company built up a strong market for their pies during the winter months but during the summer, there were complaints and they lost orders. This was shown to be caused by lack of control of the temperature and humidity in the processing area causing problems with the pastry when made at the summer temperatures.
3. **Undertaking projects with requirements that exceed the skills and knowledge of the development and production teams.** A small company developed a range of tomato sauces packed in sachets for individual use. Sales increased and they adapted the production, but then they received customer complaints regarding blown product, due to microbiological contamination. They did not have a food safety programme and had no controlled shelf life testing because they did not have technical staff to do this.

(From Sorensen, T.(2008) 'Up-scaling from development to production by small manufacturers – fishing, baking and sauce industries' in Case studies in food product development, by Earle M. and Earle R., (eds.) Cambridge, Woodhead, pp 222-243.

7.8.2 Product and marketing: quality and efficiency

The advertising and promotions are checked in consumer surveys, usually by telephone, to determine if they have been seen, whether the message was remembered, and whether consumers were encouraged to buy. Prices are monitored continuously to record what the actual retail prices were and whether any price specials had taken place; these are then related to sales. A more practical relationship between price and demand can be developed, in particular if there are any psychological effects of pricing on consumer buying. The total marketing costs also need to be recorded and reviewed, particularly the sales and promotional costs.

The sales analysis only provides the overall sales, and if there is a need to know who is first-buying and who is re-buying, then information compiled from buyer diaries can be

obtained. Consumer panels record purchases, and from this data companies can determine the re-buying pattern, the timing and the amounts for each purchase. They can also determine from what particular other brands it is gaining customers, to what other brands the product is losing customers, what types of customers are showing the most interest in the new product, and which type of customer has never bought it, and so on.

There is also need for information on consumers' behaviour and attitudes towards the product and the marketing mix. A survey of buyers can be made either just outside the supermarket after they have made a purchase or later after they have used it. Another method is to attach a return card on the package, perhaps with some inducement such as a free sample or a discount voucher. This survey will indicate how the product can be improved and how the marketing mix can change to improve sales.

The competitors' reactions to the new product should be constantly surveyed to see what tactics they are using either to prevent success or to attach their products to the success. Also the reactions of the retailers should be studied - are they enthusiastic, or do they only want to give the product a month's shelf space? How can their aspirations for the product be fulfilled?

7.8.3 Nutrition, health and safety

These are important evaluations as regards both the consumer and society. If the nutrition is not what is expected of the product, then suspicions about the product may be raised. As shown in Case Study 7, the nutritional value of a product is becoming more and more important, and the company needs to have sufficient knowledge to recognise, control and communicate the nutritional value during the launch. Are the right values being emphasised to fit current market aspirations or should they be re-jigged? Are the claims backed by scientific evidence? Do they agree with changing regulations?

Today with the increase in specific health claims, particularly with functional foods and nutraceuticals, there is a need to carefully monitor any changes that are occurring in acceptance, both by the consumer and the society. There may arise disagreements between individual nutritionists and health professionals on the validity of some health

claims as more research results become available. This may become serious and the food regulators may ban a product or at least not allow claims.

Case Study 7.

Understanding the Food Market

To understand the food system in this day and age and, more importantly, to predict future markets requires a thorough knowledge of the factors which influence the food habits of whole populations. It is important to understand that the modern world is a rapidly changing environment, particularly with respect to the harmonisation of international trade boundaries. The dynamic changes which are occurring in Europe, for example, will significantly affect the food system, even in markets as far away as Australia.

What is changing about the food system? Issues such as urbanisation, the changes in hours spent at work, how food is distributed within a family, family size, and who provides the food within the family are all very important. In addition, there has been a wide range of technological innovations which affect, for example, the way in which food is preserved, packaged, transported and promoted. There is less seasonal market variation because of the delocalisation and internationalisation of the food supply. All of these factors have contributed to a possible destabilisation of traditional food habits.

The difficulty for the producers is that they must respond to a market which is much less stable and predictable than in the past. In a situation where the food producers remain isolated from the consumer, they are less able to respond to a market which is becoming more selective and segmented.

A major role for nutritionists in the food industry is therefore to establish a new knowledge about what people are eating, and why, and to communicate this both to the operational (sales, marketing, production, etc.) and innovative (technological) sections of the industry. It is equally important for nutritionists to communicate information in the other direction along the food chain, translating new technological information into a form that is readily understood and usable by the consumer.

(Source: Somerset, S.M. (1991) 'Nutrition: a driving force behind food industry innovation', British Food Journal, 93(6), 7-11.)

Safety is of course a factor which needs to be checked very carefully. Obviously, it will have been considered during the development, but it must be monitored in the distribution system, in the retail outlets and in the home. If there are any doubts, then the product has to be withdrawn. Any adverse effects of the product on the consumers' health will 'kill' a new product, perhaps forever. In the USA, a product liability study is especially important in new product development.

Think Break 7.3

Food safety: raw materials control

Recently, there have been two serious food safety breakdowns which have been identified as from the raw materials used – melamine in liquid milk and food poisoning micro-organisms in peanut butter. This emphasises the need in product development to identify the sources of raw materials and the safety of the raw materials at all times.

(1) What precautions would you take in using in product formulation

- Raw chicken pieces or mince in delicatessen meals
- Non-pasteurised liquid milk in cheese-making
- Dried coconut in children's breakfast muesli
- Dried protein chunks in pet food

(2) How would you advise distribution and marketing staff in selling so as to ensure safety of:

- Aseptic packed pouches of sauces stored at ambient temperatures
- Shaved ham sold in delicatessen counters
- Custard filled squares or tarts sold at ambient temperatures
- Non-pasteurised fruit drinks sold in self-service units

7.8.4 Environment: physical, social and legal

These include assessments of the effects on the physical, social and legal environments. Are there waste/effluent problems which are affecting the community? Is the new technology in some way threatening to the society, for example biotechnology at the present time? Are the products obeying the legal regulations and known cultural or

religious taboos for foods, for environment, for the geographic area? These especially must be monitored when launching in an overseas country with which the company is not very familiar.

The wastes are not only the wastes from the production facilities but the waste occurring in the distribution and also with the consumers. Packaging is a waste area which causes controversy and there are regulations in some countries to control it. Another type of waste today is 'energy' – some supermarkets may view foods which are transported over long distances as wasteful.

'Technology' may cause suspicions about the product, especially if this is a new technology which the consumers and the society do not have a great deal of knowledge. Genetically designed products may be accepted in some countries and be banned in others.

7.8.5 Customer response

The most basic analysis is to study the consumers and customers' responses as the acceptability is what will make this a long-term product or just a 'one day wonder'. In the case of industrial and food service products, the service as well as the product has to be studied. Who are buying the product? How much are they buying? Are they re-buying once, two, three times? What is the interval between re-buying – a week, a month, a year? These are the important demand questions to ask so that one can predict future sales. But it is useful to know which customers are migrating to the new product and what are the products that the new product is replacing,

Especially with an innovative product, it is important to survey the consumers and discover what are the product attributes and benefits that have caused them to buy the product and if the product delivered their expectations in cooking, serving and eating. Was there anything that they disliked about the product? What improvements would they like to see in the product? How does this product compare with other products they have bought? eaten?

It is useful to know how the consumer heard about the product – advertising, in-store tasting or from a friend - so that the communication can be improved and made more noticeable and attractive.

7.8.6 Company-fit

Such an evaluation includes how the product is affecting the total product mix or the category product mix, the product's relationship to the other new product introductions, its relationship to the company image and the effect on strategic planning. Any launching difficulties or problems should be studied and the method used to overcome then recorded for future use.

An important consideration for the company is the future for the product - is it to become a long-term member of the product mix? Will it be either an important member giving a large share of the profits or only a minor product as regards sales but useful for marketing and maybe filling production capacity?

Think Break 7.4

Evaluation of the launch: market channel and distribution

A new variety of apple was developed over many years, taking into consideration the product qualities (sensory, nutritional, composition, use, safety), production qualities (ease, disease resistance, yields), handling qualities (deterioration after harvest and storage). It has now been launched on international markets – Europe, U.S.A. and Asia – through overseas agents, who distributed them to wholesalers and retailers.

- In evaluating the launch, on what important areas would you concentrate?
- How would you find the relevant information?
- What results would trigger an emergency and how would you deal with this?
- How would you analyse the information?

(From Earle, M. and Earle, R. (2000) *Food Product Development*, pp 319-26 Cambridge, Woodhead Publishing)

7.9 Sales measurement

Sales measurement involves not just making a record of what has been produced. Shipment data from the plant initially records product made to 'fill up the distribution line' and then to satisfy retailers' orders. But because of the inventory effects in the system, shipments may not relate to retail sales. The most efficient method is to buy supermarket audit data which has been recorded electronically, i.e. the quantity of the product that has actually been sold in the supermarket. This is up-to-date actual retail

information. Commercial sales research companies will provide sales not only of the new product but of competitive products so there is a control on analysing the sales.

Sales may be analysed as follows:

- ***Share of total market of the product category.*** This is usually measured in units, tonnes, dollars, pounds, but it is also interesting to measure the percentage of the target consumers who buy and how much they buy as this is a fundamental measure.
- ***Share of market in individual supermarkets or other point of distribution.*** This is useful because it identifies the type of supermarket and/or the area in which the product sells.
- ***Ratio of sales of new brand against competitors.*** This gives an indication of how the product stands in the market.
- ***Per capita sales rates.*** The new product's sales divided by the number of people or households in the geographical area or in the population of the target market. This can be used as a basis for predicting sales in other areas. Also it can be compared with nutritional surveys on food eating to give an idea of the importance of the product in the diet.

7.10 Financial evaluation

This consists of two parts: first the collection and control of the costs of launching, and second the recalculation of financial predictions to include the new information on sales revenue and costs from the launch.

A launch is always expensive. Costs can run away as people try to solve problems in production and marketing, while sales may grow more slowly than predicted. In small companies with inadequate working capital, this is where the company's outgoings exceed the limits to which the bank has agreed and the bank may place the company in receivership. But even with larger companies it may cause the product to be withdrawn before it has had time to develop a position in the market.

The short-run profitability can be determined, that is the payback time for the development and launch costs. If the launch has been a success the payback time may

have been reached already, but in all cases the predicted time for payback will have become more accurate than the pre-launch predictions. If the launch is not going as predicted, an estimation of the additional working capital, additional capital expenditure and additional production and marketing costs is required, together with another calculation of the payback time to determine how much further it will be extended into the future. Balancing the further expenditure, the payback time and the financial condition of the company are crucial at this time. When deciding to remove the product from the market altogether or to continue at reduced or full expenditure, up-to-date and accurate financial information is critical to the decisions.

The long-term financial analysis, carried out in the product commercialisation stage, can now be refined. The difference between the predicted pessimistic, most likely and optimistic cash flows will have become closer, the costs are becoming stabilised, the initial sales growth is history and the competitive reactions are apparent. With this information, the costs and sales revenues in future years can be estimated with some confidence.

Market predictions based on the earlier data and on the actual sales are made, using techniques such as time series analysis and moving averages. There are also predictions from the buyers' surveys, and from the company staff as a result of their experience in the launch. Comparing all these predictions is a good basis for forecasting the pessimistic, most likely and optimistic sales potentials for the next five years with their associated probabilities of achievement. The net present value, or the return on investment, can be calculated using discounted cash flows.

Very simple examples of payback time analysis and net present values are shown in Tables 7.2 and 7.3. There are two predictions in Table 7.2, one made before the launch and one two months after the launch, to show how predictions need to be updated when actual sales and costs are available. The payback period is defined as the length of time required to recover the cost of the project. This is useful to control the cash flows but it is not helpful in choosing the project in the first place, as a project with long-term profits could be dropped.

To take into account the timing of the investment, costs and profits, discounted cash flows are used as in Table 7.3. Timing has a direct bearing on the profitability of the

project. The objective of discounted cash flows (DCF) is to relate cash flows arising from the project to a common base year, normally the present; hence the name 'net present value' (NPV). For a project, the discounted investments are subtracted from the discounted earnings to give the present value of the project as shown in Table 7.3.

Table 7.2 Predicted payback period for new product 'A'

	<i>Prediction</i>	<i>Actual</i>
	<i>Before launch</i>	<i>Two months after launch</i>
<i>Project cost up to launch</i>	400,000	380,000
<i>Launch costs</i>	2,000,000	2,500,000
<i>Profits</i>	350,000	250,000
	<i>Prediction</i>	<i>Prediction</i>
	<i>Before launch</i>	<i>Two months after launch</i>
<i>Profits per 2 month</i>		
4 months after launch	500,000	400,000
6 months after launch	600,000	500,000
8 months after launch	600,000	600,000
10 months after launch	700,000	700,000
12 months after launch	800,000	800,000
Total profit after 1 year	3,550,000	3,250,000
<i>Pay back period</i>		
Project costs	~3 months	~4 months
Project + launch costs	~9 months	~11 months

Table 7.3 Predicted cash flows and present value for new product 'B'

	Years after introduction						Total
	0	1	2	3	4	5	
<i>Investment*</i>							
Actual	6.0	1					
Present value factors ^a	-	0.93					
Present value	6.0	0.9					6.9
<i>Earnings</i>							
Revenue	0	2	4.5	6.0	4.5	2.5	
Costs	0	2.1	1.5	2.0	1.8	1.5	
Cash flow	0	-0.1	3.0	4.0	2.3	1.0	
Present value factors ^b	0	0.89	0.80	0.71	0.64	0.57	
Present value	0	-0.1	2.4	2.8	1.5	0.6	7.2
							0.3
							Net present value

*Values are millions of dollars. Interest rate: for ^ainvestment 8%, and for ^bearnings 12%.

The computation uses present value factors, which are calculated for various rates of return. Present value = future value/(1+i)ⁿ where i is the interest rate and n the number of years; 1/(1+i)ⁿ is known as the discount factor. In Table 7.3, 12% was used and the factors calculated using this gave a positive net present value, showing the project returned more than 12%. The actual DCF rate of return can be calculated by finding the rate where the earnings and the investment cash flows are equal, i.e. profits will just pay back the capital and the interest over the life of the project.

Think Break 7.5

Financial evaluation: DCF rate of return

Using the cash flow in Table 7.3, calculate the present values at different interest rates using the following present value factors.

Year	0	1	2	3	4	5
Interest rate						
10%	1.0	0.9091	0.8264	0.7513	0.6830	0.6209
11%	1.0	0.9009	0.8116	0.7312	0.6587	0.5935
12%	1.0	0.8913	0.7972	0.7118	0.6355	0.5674
13%	1.0	0.8850	0.7831	0.6931	0.6133	0.5426
14%	1.0	0.8772	0.7695	0.6750	0.5921	0.5194

1. Determine the actual DCF rate of return.
2. If the investment in year 1 was \$2 million dollars instead of \$1 million, what would be the DCF rate of return?

7.11 Company Organisation

There also needs to be an evaluation of the company organisation for product development after a product launch; the depth of evaluation related to the size of the project. Some important areas are:

- knowledge and skills available – in house and out sourcing
- team functioning
- integration with other company functions – production, distribution, marketing, finance

- management decision making – project leader, top management
- resources
- timing
- control of costs and revenue
- level of risk
- PD Process effectiveness
- company structure for innovation.

Although every project is different, there is a continuing organisation which is central. After every project is completed, this organisation needs to absorb what was learned so that the product development knowledge in the company is increased and improvements can be made.

7.12 Summary

The launch needs clearly set targets or objectives, skilled technical and marketing people, good coordination and time control, fast and correct financial analysis and good problem-solving skills. It needs to have continuously updated knowledge of consumer needs, attitudes and behaviour; the retailer needs, attitudes and behaviour; and competitors' skills and knowledge as well as their reactions to new products. It is an expensive stage in the product development process and needs good financial control of the costs and the revenues.

There is continuous evaluation, not to cause alarm and quick withdrawal of the product but to improve performance and to lead towards the absorption of the new product into the company's product mix and the general company organisation. The research includes consumer, market, product, production, quality assurance and distribution research, sales data collection and analysis, as well as research into the environmental reactions to the product, including the physical, social, cultural and legal environments. The financial analysis is essential because it can form a very strong basis for the decision to either continue or stop the launch.

The type and amount of research depends on the resources available, the budget for research, the risk-taking attitude in the company and company policy. Some companies

do little research apart from sales data, but this means working by intuition or guesswork and having no knowledge of why these sales trends are occurring.

7.13 Suggested readings

Hisrich, R.D. and Peters M.P. (1991) 'Managing the product in the early stages: introduction and growth', *Marketing Decisions for New and Mature Products*, 2nd edn, New York: Maxwell Macmillan International Editions, pp. 413-31.

Karagozoglu, N. and Brown, W.B. (1993) 'Time-based management of the new product development process', *Journal of Product Innovation Management*, 10, 204-15.

McLaughlin, E.W and Fredericks, P.J. (1994) 'New product procurement behaviour of US supermarkets', *Agribusiness*, 10(6), 483-90.

Shanklin, W.L. (1987) 'Six timeless marketing blunders', *Journal of Business and Industrial Marketing*, 2 (2), 17-25.

Usunier, J.C. (1993) *International Marketing: A Cultural Approach*, Englewood Cliffs, NJ.: Prentice-Hall, pp. 340-84.

Some more recent readings

Anderson, A.M. (2008) 'A framework for NPD management: doing the right things, doing them right, and measuring the results' *Trends in Food Science and Technology*, 19(11), pp 553-561

Declerck, F. and Ottowitz, T.(1997) 'Brioche Pasquier S.A.: industrializing traditional French Baking' in *Product and Process Innovation in the Food Industry*. Traill, B. and Grunert, K.G. (eds.) London: Blackie Academic and Professional, pp 75 -90

Earle, M., Earle, R. and Anderson, A.(2001) *Food Product Development* pp 123-131, 348-70, Cambridge: Woodhead Publishing Ltd.

Fuller, G.W. (2005) 'Going to Market: Success or Failure' *New Food Product Development*, 2nd. Ed., Boca Raton, Florida: CRC Press. pp 228-239

Project Break 7

Either using your company project or the example in Project 7 at the end of the chapter or a project you have been doing in earlier chapters:

- Decide on the product image and a suitable brand and product name.
- Develop the graphic design and information on the package.
- Discuss the company's qualitative and quantitative targets for the launch.
- List the activities in the launch and discuss their coordination
- If possible time the activities and organise them in a job progress bar chart or a critical path network.
- Decide what knowledge is to be collected during the launch and the research activities needed. Place the research activities on your launch plan.
- What areas are you going to study to evaluate the launch?

Project 7: A Junior Cereal

A company, manufacturing baby and infant foods, markets a variety of infant formula and weaning foods. It was considered that a market gap was present in the follow-on food category beyond weaning. An idea evolved for a high-protein refined cereal to fill this gap, to complement their product range and to enable competition on a wider product base in the food market. In focus groups with parents, it was clearly indicated that they wanted a product to fill the gap between the weaning food and children's/adult's cereals but did not want a highly refined product. They also rated muesli highly as a product, naming the benefits 'ease of use' and 'nutrition'.

In the formulation and processing studies, ground oats were mixed to a slurry and roller dried. This coarse powder was mixed with wheat germ, dried fruit and coconut for the final product. The roller dried oats were used as they increased milk absorption and so improved texture and use. There is a consumer awareness of the importance of fibre, but care needs to be exercised in infant nutrition; so some modifications were made in relation to fibre. The fruit pieces and coconut were reduced because of digestibility and safety concerns.

The product was accepted by the consumers - parents and children; this research indicated that the consumers' age group was 8-18 months. The benefits they recognised were: nutritional contribution, convenience, taste, versatility. The production trial had no major problems, and the financial review was acceptable to management.

The company management has now agreed to the launch of this follow-on food product for toddlers - a Junior Muesli, which is a dried high-protein cereal food based on rolled oats, wheat germ, fruit and coconut. There is no added sugar or nuts and it is much finer in texture than adult muesli. It can be served with cold or hot milk. Nutritionists have confirmed that it is nutritionally acceptable, and mothers and children have confirmed that they find it acceptable because of the nutritional contribution, convenience and versatility.

The product is to be sold through supermarkets and pharmacies in 150 g packs which have an aluminium foil laminated pouch in a cardboard box.