

7-1-2012

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Usamah Iyyaz Billah

Hailey College of Commerce, University of the Punjab, Lahore, Pakistan

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iRepository Citation

Iyyaz Billah, U. (2012). Reasons for failure of new products in the consumer goods industry. *Business Review*, 7(2), 119-129. Retrieved from <https://doi.org/10.54784/1990-6587.1209>

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CASE STUDY

Reasons for Failure of New Products in the Consumer Goods Industry

Usamah Iyyaz Billah

Hailey College of Commerce, University of the Punjab, Lahore, Pakistan

Abstract

Consumer goods companies launch new products in order to create diversification in their product portfolios and successfully compete in the market. However, based on in-depth literature review, it has been identified that only a few of these new products are successful.

For the purpose of this research article, detailed interviews have been conducted with corporate managers of consumer goods companies in Pakistan and the Middle East. This article, hence investigates the key reasons for new product failure, the level of impact of these reasons and the measures that should be taken in order to avoid new product failure. The findings and recommendations can serve as a useful guideline for decision makers of this field and also provide further opportunities for research in this area.

Key words: New products, launch, failure, reasons, consumer goods, Marketing.

Introduction

Perhaps most companies today believe that diversification is a pre requisite for surviving and competing successfully in the consumer and trade markets. One of the main tools used by companies for diversification is expanding the company's portfolio through launch of new products. The new products can be launched in existing as well as new product segments. However, extensive literature review shows that most of the new products launched by companies end up in failure. This results in huge loss of the company's investment in production, packaging, machinery, marketing, human resources and goodwill. Keeping in view the above, this research takes an in-depth look into the reasons that cause new product failure. Based on extensive literature review, key variables have been identified and their relation along with the level of impact has been studied. The research has been conducted through interviews with corporate managers in consumer goods companies from Pakistan and the Middle East. This research article can be highly useful for corporate decision makers in the consumer goods industries as well as researchers of this field.

Brief Literature Review

In today's competitive age, companies are striving for excellence and distinction. In particular, consumer goods companies are focusing on portfolio diversification through launch of new products. The aim of launching new products is to increase profitable sales and business growth of the company. Business managers understand that they should develop a range of new products in order to generate sustainable growth—or in order to keep up with the competitors. As the market factors change, consumer desires, wants, aspirations and trends also evolve and companies don't want to be left behind.

However, extensive literature review shows that most of the new products launched by companies are not successful and have to be discontinued. It is estimated that only 1 out of 5,000 inventions have gone on to successful product launches. (Harold, Beyolyn, 1999). It is also seen that for every successful business, there are usually 100 ideas or more, out of which only one is launched in the market with only a moderate success rate. (D. MacDonald, 1998)

In support of this market fact, Yeang Soo Ching (2000) states that “It is universally accepted that out of every 100 inventions, only three to five will succeed commercially.” Further to the above, it is estimated that about half of all resources allocated to “product development and commercialization” in the U.S. go to products that a firm cancels or produce an inadequate financial return. (Cooper, 2006)

The Boston Consulting Group reports that only 1 in 2 executives are satisfied with the return generated from innovation projects. According to the group’s study, “over the last six years, the proportion of survey respondents who declared themselves satisfied has averaged less than 48%.” (Andrew, Micheal, Sirkin, Haanaes, Taylor, 2009).

As the literature presents the case that most new products fail, it is necessary to explore through secondary sources, which variables are the potential causes of failure of new products. Literature shows that the key reasons for new product failure include targeting the wrong group, weak positioning strategy, less than optimal product or service attributes and insufficient level of awareness from advertising campaigns (Clancy and Kreig, 2005). It is important to highlight that an insufficient level of awareness is mainly caused by lack of funds invested in the advertising or consumer marketing campaigns. In addition, it is seen that many of the causes for lack of new product success are due to execution and control problems. Further review of content, re-iterates the causes of new product failure as poor positioning, poor quality of product, selection of improper channels of distribution and too little marketing support (Mir, 2008).

Literature review further re-iterates incorrect positioning of product and poor promotion, marketing and advertising as few of the reasons behind new product failure. (Goessl, 2009)

It is noteworthy to mention that the impact of failure increases with the product’s development stage and that this effect is contingent on the resources of the firm (Buerger, Patzelt, Schweizer, 2009). As advertising and consumer spending is also linked with the available funds, the lack of investment in the new product’s consumer marketing, significantly hinders the growth of the product.

A study of the Nepalese market shows that quality, promotion and wide distribution channels are the main determinants of new product success. The study further re-iterates that a majority of the new products fail due to low quality standards, weak promotional efforts, ineffective advertising campaigns or improper supply of goods. (Sharma, 2006) The above literature review substantiates the limited success rate of new products. Further, it also identifies the key variables and their relation with failure of new products.

Problem Statement and Variable Identification

Based on the review of relevant literature, the broad problem area is Success/Failure rate of new products in the consumer goods industry. In order to make the research meaningful, it is best to identify the causes or reasons of new product failure in the consumer goods industry. Hence, the problem statement is: Reasons for failure of new products in the consumer goods industry.

Methodology and Research Design

Purpose and Type of study

The purpose of the study is Hypothesis Testing as it will explain the nature of relationship, establish the difference among groups and see the strength between the dependent and independent variables. Regarding type of investigation, it is a correlational study because it studies the relation between two variables and takes into account the strength between them.

Data collection and Study Setting

Interviews were conducted with respondents face to face, in their respective premises/offices while some managers were also emailed the questionnaires for their response. The questionnaire included a combination of nominal, ordinal, ratio and interval scales in order to fulfill the objectives. The study setting is non-contrived and the researcher interference is minimal as the respondents were fully allowed to explicitly highlight their opinion on the subject. Hence, it can be termed as field experiment (non contrived + minimal interference).

Sampling and Sample size

The unit of analysis is corporate/central line managers from companies in the consumer goods industry. The sample size of the interviews is 53 different managers from 26 different companies from Pakistan and the Middle East. Regarding criteria, all companies are part of the consumer goods industry; having launched atleast 3 new products in the past 2 years or having a (current) new product development plan. The managers are all part of the middle to senior tier management of their respective companies. They belong to central departments of the company including Marketing, Finance, RnD, Sales or Operations.

Type of sampling used was non-probability sampling as it was imperative that the managers must belong to consumer goods companies with a focus on new product launch. Here, factors of time and cost were also critical. A purposive sampling technique was implied whereby the researcher used judgment sampling to select the most relevant companies and respondents, pertaining to the problem area of research.

Econometric Model used

As the research aims to study the relation between the independent variables (reasons) and dependent variable (new product failure), multiple regression analysis has been conducted. The key statistical indicators including P value, R value have been interpreted to approve or disapprove the relation. The relevant betas have been calculated to gauge the extent of change in the dependent variable, arising from the dependent variable. The equation for multiple regression is given as follows:

$$NPF = \beta_0 + \beta_1I + \beta_2P + \beta_3Q + \beta_4D + \varepsilon$$

Where,

NPF = New Product failure (Dependent variable)

I=Low Investment in consumer marketing (Independent variable)

P= Weak Positioning (Independent variable)

Q=Low Quality (Independent variable)

D=Weak Distribution (Independent variable)

Time horizon

This is a one-shot, cross-sectional study as data was collected from different respondents, only once. The research study commenced in May 2011 and was completed in October 2011.

Limitations of the Study

As this research has been conducted with corporate managers in the consumer goods industry, it might not be replicated to other industries including business to business or industrial product concerns. Furthermore, due to the nature of the study (responses of managers on new product failure) a minimal effect of respondent biasness may also prevail.

Detailed Findings

There are two portions of detailed findings. Firstly, the econometric model of multiple regression has been discussed followed by a descriptive write up of the findings.

Econometric Analysis (Multiple Regression)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.706a	.499	.457	.75673

a. Predictors: (Constant), Impact of Weak Distribution, Impact of Weak Positioning, Impact of Quality Issues, Impact of Low Marketing Investment

The coefficient of correlation r measures the strength of a relationship. R also indicates the direction of a relationship. As the r value given above is greater than .7, it can be stated that the relationship is positive and significant. The co-efficient of determination R² gives the explanatory power of the variable and shows goodness of fit. Here, R² = 0.499 means that 49.9% of the variation of dependent variable around its mean is explained by the regressors.

ANOVA^b

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	27.343	4	6.836	11.937	.000a
Residual	27.487	48	.573		
Total	54.830	52			

- a. Predictors: (Constant), Impact of Weak Distribution, Impact of Weak Positioning, Impact of Quality Issues, Impact of Low Marketing Investment
- b. Dependent Variable: Failure Impact of new products

F-statistic is a value resulting from a standard statistical test used in the above ANOVA table in order to determine if the variances between the means of two populations are significantly different. The P value or significance probability gives the probability that the null hypothesis is correct; therefore, as our P value is less than 0.05, null hypothesis is rejected. More specifically, P or Sig= 0.000 means that there is greater than 99.9% certainty that the difference did not occur by chance. Hence, it is implied that there is a relation between given independent variables and the dependent variable.

Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t.	Sig.
	B	Std. Error	Beta		
(Constant)	-1.152	.812		-1.419	.162
Impact of Low Marketing Investment	.384	.116	.369	3.321	.002
Impact of Weak Positioning	.148	.126	.131	1.170	.248
Impact of Quality Issues	.354	.133	.280	2.668	.010
Impact of Weak Distribution	.415	.116	.375	3.562	.001

Given above are the beta values of the 4 independent variables. On the basis of these variables, it can be gauged that how many units of change will take place in the dependent variable with one unit change in the independent variable. In the last column, the P-value of for individual t tests for our independent variables is given. This t test evaluates the claim that there is no relationship between the independent variable and dependent variable. Thus as these values are mostly less than .05 (p<?), we reject the claim that there is no significant relationship between the independent variable and dependent variable.

On basis of the beta values, the following equation is hence derived:

$$NPF = \beta_0 + \beta_1I + \beta_2P + \beta_3Q + \beta_4D + e$$

$$\text{New product failure} = -1.152 + .384 I + .148 P + .354 Q + .415 D + \varepsilon$$

Based on the above analysis, it is concluded that there is a direct positive relation between identified independent variables and dependent variables. The analysis leads to rejection of the null hypothesis.

Descriptive Analysis

Profile of the Companies and Respondents:

As per criteria of the research, all respondents belonged to consumer goods companies in Pakistan and the Middle East. It is interesting to note that 57% of these companies have launched more than 3 new products, 15% companies have launched 3 new products and 19% companies have launched 2 new products in the past 2 years. This data shows that the companies are aggressive in the frequency and pace of launching new products. In addition, all these companies currently have plans to develop and launch new products in the future as well. Regarding the respondent profile, the managers belong to the middle to senior tier of their respective companies and are in central roles in departments including Marketing, Sales, Finance, operations and RandD.

Reasons for launching new products

	Included		Excluded		Total	
	No.	Percent	No.	Percent	No.	Percent
Diversification	35	66.0%	18	34.0%	53	100.0%
Capitalize on new Market opportunities	36	67.9%	17	32.1%	53	100.0%
Counter Competition	36	67.9%	17	32.1%	53	100.0%
Consumer Demand	29	54.7%	24	45.3%	53	100.0%
Management Direction	10	18.9%	43	81.1%	53	100.0%
Other Reasons	1	1.9%	52	98.1%	53	100.0%

The managers were asked to identify the reasons why consumer goods companies launch new products. Multiple responses were allowed in this question. According to the managers, companies mostly launch new products in order to capitalize on new market opportunities and counter the competition. These 2 reasons have been voted by almost 68% of the managers. Another most important reason is diversification which has a near percentage of 66%. Further, 54% of the managers agree that new products are launched based on consumer demand and insights and only 18% say that new products are launched on the direction of the management. Little or almost no other reasons for launch were highlighted by the managers, apart from the ones included above.

Reasons for failure of new products

	Included		Excluded		Total	
	No.	Percent	No.	Percent	No.	Percent
Low Marketing Investment	26	49.1%	27	50.9%	53	100.0%
Weak Positioning	34	64.2%	19	35.8%	53	100.0%
Low Quality	32	60.4%	21	39.6%	53	100.0%
Weak distribution	20	37.7%	33	62.3%	53	100.0%
Other Reasons	19	35.8%	34	64.2%	53	100.0%

The managers were asked to validate if the identified reasons are indeed the causes of new product failure. Here, multiple responses were allowed. Overall, 64% of managers believe that weak positioning is a key reason, followed by low quality (60%) and low marketing investment (49%). Weak distribution was voted as a key reason for new product failure by 37% of the respondents. It is also noteworthy that other reasons (unique in nature) were also mentioned by 35% of the respondents. These reasons can serve as independent variables in future researches on the subject. These reasons include incorrect pricing, poor planning, higher costs than anticipated, competitors strength or reaction, poor timing of introduction, technical or production problems, new product protocols are not followed, products are launched on personal judgements, lack of promotional services, poor after sales service and ineffective marketing communication

Impact level of key Reasons on new product failure

	No.	Minimum	Maximum	Mean	Std. Deviation
Low Marketing Investment	53	2.00	5.00	3.7358	1.00290
Weak Positioning	53	2.00	5.00	4.2264	.91234
Quality Issues	53	2.00	5.00	4.2642	.81219
Weak Distribution	53	2.00	5.00	3.7925	.92733

The managers were also inquired to rate the impact of key reasons on new product failure on a likert scale of 1-5 (no impact to very high impact). It was seen that the highest impact factor is quality issues, having a mean score of 4.3. This implies that consumers are highly quality conscious when it comes to consumer goods and this should be the first priority of companies. The second most important impact factor is weak positioning which has almost the same mean score as quality. This reason for failure means that either a relevant and significant unique selling proposition was not incorporated in the product or maybe it was not communicated to the consumers clearly.

Impact of low marketing investment and weak distribution have almost the same mean score of around 3.7 which means that they have a moderate to high impact on the failure of new products. These two factors are significant as inadequate funds lead to lower visibility of the communication and weak distribution directly affects sales. The standard deviation of each score is not more than 1 which shows moderate dispersion.

Measures to avoid new product failure

	Minimum	Maximum	Mean	Std. Deviation
Improve Strategic Planning	2.00	5.00	4.2453	.78215
Improve Product Quality	3.00	5.00	4.3962	.71628
High Marketing Investment	2.00	5.00	4.1509	.71780
Good Launch activities	2.00	5.00	3.8113	.83336
Motivated Team	1.00	5.00	4.2075	.79320
Strong USP/Positioning	2.00	5.00	4.2264	.86916
Strong Distribution	3.00	5.00	4.2264	.66914
Correct pricing	2.00	5.00	3.9057	.88283
Trade deals/discounts	2.00	5.00	3.1509	.74411
Other Measures	4.00	5.00	4.7143	.48795

The managers were also asked to rate the impact level of various measures that can be adopted in order to prevent failure of new products. A 5 point likert scale was used (no impact to very high impact). Overall, product quality improvement came out as the factor with highest impact level, followed by improvement in strategic planning, strong positioning, distribution, a motivated team and high marketing investment. All these measures have a

rating of +4 which means they have a high impact on new product success. Correct pricing also comes out as an important factor, having a mean score of 3.9. The managers also believe that good pricing is an important measure as it acquires a mean score of 3.9 (close to high impact). Trade discounts acquired a mean score of 3.1 which shows moderate importance of this measure. The managers were also provided an open ended opportunity to suggest other measures to prevent new product failure. These measures (although unique in nature) have a mean score of 4.7 which implies that the respective managers believe they have a close to very high impact on success/failure of the new product. Some of these key measures have also been incorporated in the recommendations given below.

The standard deviation of each score is less than 0.9 which shows low to moderate dispersion.

Recommendations

In the primary research survey, several recommendations were provided by the managers which can serve as a guideline to launch new products, successfully. These recommendations (as response to open ended questions), include the following:

- New products should be launched based on insights/gaps identified from consumer researches.
- Companies should launch products which consumers need rather than which the companies can easily manufacture (and may not be required by consumers).
- Prior to launch, proper and indepth marketing research should be conducted to analyze the competitive scenario, pricing norms, packaging requirements, product preferences and optimum promotional mix. Proper assessment of market potential is highly important.
- Companies should launch the product with proper planning and preparation, ensuring that all the elements are in place rather than hastily launching a product which either is not fully developed or still has production issues etc.
- Products should not be launched based on personal judgement and wishes.
- The acceptance of brand elements and positioning should be across all regions where the product is going to be launched.
- A written and formalized new product development and launch process should be followed with due adherence to all steps.
- The product must be properly positioned per the target segment once it has been finalized.
- Effective distribution channels must be developed to support the product availability on shelves, prior to launch.
- Consistent R and D and quality assurance measures must be in place, to control product quality.
- Pricing/Discounts/Promos can be offered to penetrate the market.
- Strong affiliation of the product with the consumers should be built through aggressive marketing campaigns, both on ATL and BTL
- The sales staff should be fully aligned with the product strategy.
- Companies should set realistic targets to judge the performance over a certain period and have periodic reviews after launch to gauge whether the desired targets are being achieved or not. If not, then corrective actions should be taken immediately.
- Packaging, being the first interaction with consumers should be relevant to the product offering. There should be complete harmony between the brand name, packaging design, positioning and the target consumers.
- Continuous customer feedback must be acquired after launch and necessary steps must be taken on timely basis, in light of the customer's comments.

- Good after sales service must be provided (especially in case of consumer durables). This factor has a direct effect on repeat purchase by the consumers.
- There must be quick response towards quality/availability issues so that trade/consumers do not get offended.
- The frequency of new products should be moderate. Over reliance on large number of launches dilutes the effectiveness of the marketing and sales efforts.
- E-Marketing should be used an effective tool for development of the new brands/products.
- There should be a system for reward and accountability for every department involved in the new product development and launch
- The objective of the new product launched should be long term success rather than short term sales.
- There should be innovation in the features of the new product.
- Prior to launch, simulated test marketing should be conducted for the product.

Overall, it can be stated that indepth marketing research and assessment of the right potential (the unmet need identification) based on right consumer insights (the big idea) is the key to initiate the product whereas the right mix of 4ps help to expedite the process of success.

Conclusion

It has been proved on the basis of the literature review and survey that the new product success rate is very low. It is also a fact that in the current era, companies have aggressive plans to launch new products. The research shows that new products are mostly launched by companies in order to capitalize new market opportunities, to counter the competition, for diversification and to cater to consumer demand.

Further, it has been found that the identified reasons (independent variables) including low quality, low investment in marketing, weak positioning and weak distribution have a direct relation with new product failure (dependent variable). The degree of impact of these products is also significantly high in nature. In addition, there are several measures which can be adopted to prevent new product failure which include improving quality of the product, thorough marketing research, keeping the team motivated, improving distribution level and better strategic planning.

The given findings present a guideline for successful new product launch, a useful direction for consumer goods companies as well as opportunities for further research in this area. 

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“I am the punishment of God. If you had not committed any great sins, God would not have sent a punishment like me upon you.”

Genghis Khan
(1162-1227)