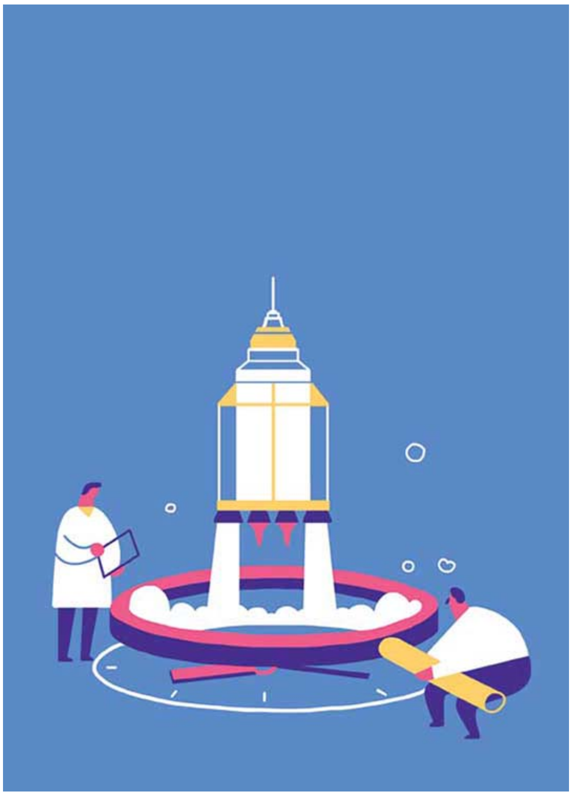
Harvard Business Review

MARKETING

Finding the Perfect Pace for Product Launches

FROM THE JULY–AUGUST 2018 ISSUE

Early this fall, if tradition holds, Apple will introduce one or more new iPhones—an unveiling that's among the year's biggest events in consumer electronics. The smartphone helped make Apple the world's most valuable company, even though Samsung and other rivals introduce new products much more frequently. That paradox led V. Kumar, a marketing professor at Georgia State University, and his colleagues Amalesh Sharma and Alok Saboo, to wonder: If a company wants to maximize shareholder value, what's the optimal number of new products to launch in a given time frame? Does it matter whether the launches are spread out or bunched together, and whether a new product is similar to the rest of the company's current product portfolio?



FAUSTO MONTANARI

Managers don't need an academic study to recognize that launches take a toll on many parts of a company, from design and development to manufacturing and marketing. Firms that launch many new products incur high costs, which may hurt stock returns. (Indeed, it's not uncommon for companies announcing disappointing earnings to blame product launches.) And clustering launches can stretch people and systems too thin. But on the basis of previous research into how companies can quickly incorporate learning from product launches, Kumar's team believed its questions involved more than just costs and resource constraints. "Firms introducing products at a rapid pace have little time to evaluate their products, learn from them, assimilate their experiences, and deploy them to commercial ends," they write. In theory, optimal pacing allows firms to use the lessons from one launch to improve subsequent ones, which should boost shareholder returns. And if that's true, the researchers believed, they could prove it empirically.

To do so, they looked to the pharmaceutical industry, where new products are especially important to growth in revenue and market value. Using various databases and studying 73 publicly traded U.S. firms from 1991 to 2015, they identified when each of 1,904 new drugs was introduced. They then calculated the pace of the launches (the average number of products introduced over a period of time) along with the irregularity in pacing (the variance in timing between launches). They also looked at whether each new drug fit into a therapeutic class and treated a specific ailment already represented in the company's product portfolio or whether it was outside the firm's existing scope. They gathered data on company stock prices and compared the returns to industry benchmarks. To isolate the effect of product launches, they controlled for a host of variables, including the strength of each firm's patents, whether the new product faced competition, the media attention paid to the launch, and each firm's size, age, and financial health.

"If You Do Too Many Products Too Quickly, You Get the Peanut Butter Effect—You're Spreading It Too Thin"

Launching a product requires close choreography between product development and marketing, so there are benefits to maintaining a careful pace and rhythm. HBR recently spoke with Ellen Donahue-Dalton, executive vice president and chief marketing and customer experience officer at Medecision, a population health management software company based in Dallas, about new research on the importance of those factors. Edited excerpts follow.

The results largely confirmed the researchers' hunches. Firms that launched many new products saw their increase in value diminish over time, as did those introducing products just loosely related to their current offerings. Companies whose launches came at irregular intervals did worse than the industry average: They saw their market value fall, and the drop was greater in the case of complex products and for firms with large R&D budgets relative to their marketing budgets (a high ratio of R&D to marketing may signal that a firm is more focused on innovation than on sales). "Our results indicate that there is an optimal level of pace and scope of product introductions that managers must consider," the researchers write. "Managers need to spend time learning from the products they have already introduced and incorporate these insights into their subsequent products."

TREVOR PAULHUS

Why is this research relevant to your work?

We're coming off an 18-month period in which we launched 10 new products. That's two or three times as many as we'd typically launch in that time frame. So we've been thinking a lot about the pace and regularity of product releases, the resources required, and how to learn from each launch.

What determines when to launch a product?

We release new software multiple times each year, and many of our launches are tied to the annual industry conference or our annual customer forum. When we think about pace, the biggest issue is our customers' ability to absorb new products. We mostly offer workflow automation software, and the impact on our clients of adding a new product is significant: Customers have to change extensive operational processes and train staff members. Health care is highly regulated, so there are important compliance and reporting considerations, too. Our software really has to be ingested by an organization, and we consider that when pacing our launches.

This research doesn't specify exactly how a particular firm can calculate the optimal pace, spacing, and scope of its launches. But it does provide statistics and equations that can help managers understand whether a different pace might increase value. More important, it provides evidence that an optimal pace exists and that firms should be wary of exceeding it. The researchers also offer some estimates of the significant gains in value that can be realized by establishing a more rational cadence of product introductions. For example, their calculations suggest that the average firm in the study—one with a market value of $5.6 billion—could increase its market value by $702 million if it reduced the irregularity of its launches by 10%. The study puts a spotlight on the importance of process research in launching products, not just in developing them.

Kumar recognizes that managers face numerous pressures—from investors, customers, the media, and competitors—to introduce products faster. But he says the perceived need for speed is often misguided. "Our study highlights the importance of looking at the entire portfolio instead of focusing only on the next product," he says. It's also a mistake to focus too much on when competitors will launch products. Kumar likens companies that launch a product quickly in the hope of beating competitors to investors who try to time the market—which, research has shown, usually backfires. "There's something to be said for spacing out launches," he says. "You need to make sure you've learned enough from the last one and that you're not constrained by lack of resources."

Has the research influenced how you think about recent launches?

In retrospect, I would have slowed them down and spaced them out a little more. It's less a matter of product development's not having the ability to get new apps out and more about creating customer intimacy before and after the launch and not exhausting our marketing resources. If you do too many products too quickly, you get the peanut butter effect—you're spreading it too thin.

How much can you really learn from one launch to the next?

For a product to be compelling to our clients, it has to reduce costs, significantly enhance operational efficiency, satisfy clinicians and consumers, and/or improve clinical outcomes. We can listen to customers all day long during product development, but until a product is in operation, we can't measure the improvements or savings—and to get successful market uptake, we have to do a really good job of proving that value will be delivered fairly quickly. For us, that's the learning. It's a highly iterative process.

How hard is that to measure and prove?

It requires a lot of customer engagement with each launch. One thing I realized while reading the research is that we've been launching so many new products, often bundled, that it is difficult to distinguish the critical factors driving success. For instance, if we prove that an application provides value to one client, how similar does a newclient have to be for that proof to hold true? We've bundled a lot of costs and resources into ourrecent launches. Going forward, I want to look at how a slimmed-down product-launch cadence can succeed.

About the Research: "Investigating the Influence of Characteristics of New Product Introduction Process on Firm Value: The Case of the Pharmaceutical Industry," by Amalesh Sharma, Alok Saboo, and V. Kumar (*Journal of Marketing,* forthcoming)

A version of this article appeared in the July–August 2018 issue (pp.20–22) of *Harvard Business Review*.

This article is about MARKETING

FOLLOWING

Comments

Leave a Comment

POST

1 COMMENTS

Ben Shapiro 3 days ago

How much of the variation in company stock performance can be explained by the spacing or irregularity of product launches? Would launching products with high irregularity indicate something else fundamentally wrong with the company that would also predict poor stock performance? Would launching products with low irregularity indicate a company with good processes in place from reasons that would also predict good stock performance?

REPLY 0 0

JOIN THE CONVERSATION

POSTING GUIDELINES
We hope the conversations that take place on HBR.org will be energetic, constructive, and thought-provoking. To comment, readers must sign in or register. And to ensure the quality of the discussion, our moderating team will review all comments and may edit them for clarity, length, and relevance. Comments that are overly promotional, mean-spirited, or off-topic may be deleted per the moderators' judgment. All postings become the property of Harvard Business Publishing.