The Tyranny of the Market

By Jack Trytten
President, Insight Direction, Inc.

Less than ten years ago a new desktop computer cost about $2,500. Today, on Dell's website, they start at $499.

When handheld calculators were introduced in the seventies, they were priced at $1200. Now they're bubble-packed on the discounter's shelf for $3.99.

This is not a new phenomenon. Gold Medal Flour, Karastan carpets, Amoco gasoline, all once commanded significant premiums.

No more.

How many products and brands have headed down the same path?

- Revolutionary at introduction
- Soon followed by challengers
- Then improvement after improvement, striving to maintain their edge
- But each improvement was less and less important
- The weaker brands failed
- Until only two or three brands remained with the difference between them gone, along with their margins.

That's the business problem – margins. Consider that calculator. The original manufacturer's margin, probably about $200, is now most likely less than $1. Granted, they're selling many more. But that's more work with much less margin. As products become commodities, the margins disappear. Eventually, you're taking in dollars to pass on to your suppliers. Nice business.

It's all about margins.

Consider what the market is telling you, "You had something unique; we paid a premium for it. Now it's not so special; why pay any premium?"

That's the tyranny of the market. Sooner or later, your margins will shrink to almost nothing. The way out: constantly reinvent yourself and the only path is with new products.

Merging isn't the answer. If you purchase a company with a hot new product, you'll pay a premium. And the company with a product slipping down that lifecycle curve is just putting you in the spot of having to deal a bigger problem. Consider HP's purchase of Compac. One weak computer firm purchased another, forming a larger weak computer firm.

Companies that consistently lead their markets, for example, Proctor & Gamble or General Electric, lead with new products. They stay close to their customers, understand their challenges and problems, and use that as the foundation for developing a consistent flow of new products and services. When they merge, it's with equally innovative companies. They appreciate how important innovation is to their strategic survival.

Small to mid-sized companies can do the same. Size and resources are not the issue. The primary problem in developing new products is recognizing that a steady development effort is critical to the long-term health of the company. Too many companies find it too easy to stay focused on the brush fires of today. Innovation is as fundamental to your business as accounting, marketing and production.

You will only develop new products once you commit to a steady development process. Companies don't go out of business because they spent too much money on development; they disappear because the competitor's new products take over the market.

Consider some history: While the adding machine makers disappeared rapidly after the calculator was introduced, IBM went from leadership in typewriters to leadership in word processors and on to leadership in desktop and notebook computers. And now, realizing that this product is devolving into a commodity, they've sold it off. Who's still in business? Which model will you follow?

You'll command premiums only when you create and deliver a preferred product or service to the market. But that premium will shrink under the pressure of competition. That's why over 30,000 new products were introduced last year. Premium margins. Yes, new products engender significant risk. But they generate the margins that make us wealthy and extend the life of the company.

About the Author: Jack Trytten is President of Insight Direction, Inc., a consulting firm focused on strategy for successful new product development. He can be reached at jack@insightdirection.com.