

How to Find New Products for Your Business

A Step by Step Guide to New Product Development

By BizMove Management Training Institute

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1. Introduction

Sometimes the only way a company can expand sales is by introducing a new product. The current products have reached their sales peak. Moreover, they cannot be modified to generate additional sales.

It becomes a question of where to look for a new product that can be made and sold at a profit. This guide speaks to that question. It discusses a practical approach to the selection of a suitable new product and suggests sources that can be helpful to finding such a product.

A systematic approach is the best way to find a new product. In such an approach, your first action should be to set a new product policy. Before you start to search for new product, set guidelines for that search.

These guidelines should help to provide answers to questions, such as: Can the new product be made on present equipment? Will it be sold to your present market? What is the profit potential of the new product?

The second major action involves responsibility for finding a new product. Will you personally handle the project? Or will you delegate it? Either way, the person who looks for the new product should have a clear understanding of the resources available for this project. In addition, he/she should be authorized to make decisions for your company.

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2. Defining a New Product for Your Company

Although there are thousands of products available on a reasonable basis to any company that will manufacture and market them, the question is: Which ones can be made at a profit? In fact, so many exist and are being generated, it would consume all the resources of a small company to examine each one of them only briefly. On the other hand, too brief a search or a hasty decision can result in costly mistakes, if not outright disaster. It is thus imperative to define the product you are seeking.

Your task is to get on paper some facts about the kind of new product you want to produce in your factory. These facts consist of your requirements in general terms which will be applicable to the new product. The following questions, though not all inclusive, should stimulate your thinking in defining a product or establishing criteria by which you can judge potential products. When you have set such criteria, you can write a "profile of product interest."

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3. Discovering Your Company's Strengths

1. Is manufacturing your company's strength?
2. Do you prefer a highly automated production line?
3. Do you prefer a product with a high ratio of labor to production costs?
4. Are your production personnel highly skilled?
5. Are your industrial product designers exceptionally skilled?
6. Does your present equipment have a long usable life?
7. Is your present equipment largely under utilized?
8. Do you have a strong sales force?
9. Is your sales force hampered by too narrow a product?
10. Do you have strong capability in a particular technology?
11. Does your company have cash or credit resources not used in your present operation?
12. Does your company have a reputation for high quality products?
13. Does your company have a reputation for low cost production?

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4. Deciding on the Market Preference

14. Do you prefer a particular industry?
15. Do you prefer a product sold to retail consumers?
16. Do you prefer a product sold to industrial users?
17. Do you prefer a product sold to the government?
18. Do you prefer a product with long usage?
19. Will you accept a product that may be a fad item?
20. Do you prefer a consumable item?
21. Is there a distribution system (trade practice) you prefer?
22. Would you consider a product limited to a given locality? (Or a product in demand largely in overseas markets?)
23. Is a product that requires specialty selling desirable?

- 24. Is a product that needs mass merchandising suitable?
- 25. Do you intend overseas distribution?
- 26. Must your present sales department be able to sell a new product?
- 27. Are you willing to create a new or separate marketing department to sell a new product?

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5. Determining the Sales Volume Desired

- 28. Have you determined the optimum annual volume from the product over the next 3 years?
- 29. Do you have any preference for a unit price range in a product?
- 30. Do you have 5 and 10 year volume objectives for a new product?
- 31. Will this product have to support its own sales organization?
- 32. Will the product support its own manufacturing equipment?
- 33. At what volume does a product exceed your company's capability?

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6. Product Status

- 34. Will you accept an idea for a product?
- 35. Will you accept an un-patentable product?
- 36. Is a non-exclusive license of a patent acceptable?
- 37. Are you willing to develop an idea to patentable stage?
- 38. Will you develop a patent without acceptable prototype?
- 39. Will you accept a product that has been on the market but is not yet profitable?
- 40. Will you license a patent?
- 41. Do you insist on owning the product's patent?
- 42. Will you enter a joint venture for a new product with another company?

43. Would you merge with or buy a company that has good products but needs your company's strength in manufacturing, sales, finances, or management?

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7. Deciding on The Product Configuration

- 44. Are there any maximum size limitations to a product you can manufacture?
- 45. Would weight of a product be a factor?
- 46. Do warehousing facilities or yard space impose size limitation?
- 47. Does length of production time influence the desirability of a product?
- 48. Have you determined your equipment tolerance?
- 49. Do you have adequately trained personnel to do the job?
- 50. Would you prefer that a product be made certain materials?
- 51. Are there manufacturing processes that should constitute the major portion of a new product?
- 52. Are there any manufacturing processes that the product should not have?
- 53. Would a product requiring extensive quality control costs be desirable?

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8. How to Finance the New Product Development

- 54. Has an overall budget been established for the new product?
- 55. Have separate budgets been established for finding, acquisition, development, market research, manufacturing, and marketing the new product?
- 56. Has a time period been established by which a new product must become self-supporting, profitable, or capable of generating cash?
- 57. Does the new product require a certain profit margin to be compatible with your financial resources or company objectives?
- 58. Has external long-range financing been explored for your new product?
- 59. Is the length of the sales cycle for the new product known?

60. Do trade practices require you to furnish financial assistance, such as floor planning or dating plans, for distribution of your product?
61. Have you determined average inventory to sales ratio for the new product?
62. Have you determined average aging of accounts receivable for your new product?
63. Does the product have seasonal aspects?

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9. Creating a Profile of The Product Interest

Your answers to the 63 questions above can lead to a well thought-out guide as to the acceptability of any potential new product. A short condensed profile helps communicate your needs. Such a profile also indicates a high degree of professional management which sources of new products will welcome. For illustrative purposes a fictitious sample profile follows:

The XYZ company, a defense-aerospace oriented precision metal stamping and machine shop, desires to acquire a product or product line to the following specifications:

Market: The product desired is one used by industrial or commercial firms of a specific industry but not by the government or general public except incidentally.

Product: The product sought is one in which 60 percent of the total direct manufacturing cost consists of metal stamping and/or machining processes.

Price Range: Open, but preferably, the unit price to the user will be in the \$100 to \$400 range.

Volume: Open, but preferably a product which aggressively marketed will produce \$500,000 in sales the first year with an annual potential sale of 3 to 5 million dollars.

Finance: Initial resources to \$150,000 in addition to present plant capacity are available for manufacturing a new product.

Type of Acquisition: Prefer royalties to a patent but will consider purchase of a patent, joint venture, merger, or purchase of a company outright.

Having read the sample profile, it is suggested that you review the preceding questions. It will become apparent that the answer to almost any single question could completely change the profile of the product being sought. This stresses the importance to you of a thorough analysis of your firm's objectives and strengths as the basis for a profile of a product in which would be interested. For example, suppose you are interested in a product at the patent or development stage. Can your company afford to take the risks

involved? Are you prepared to meet the high costs of development? Or does your analysis indicate you should be looking for a fully developed product?

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10. Suggested Sources for New Products

After having developed your Profile of Product Interest, you will have a practical gauge against which to measure new products. Where do you look for the products? A good idea for a new product can originate from almost any individual. However there are a number of sources that continually generate new products. A systematic search of these sources will almost certainly develop a choice from a number of products, any one of which could meet your needs. Suggested sources are:

Government-owned patents. Generally any U.S. Government owned patent is available on a nonexclusive royalty-free basis. Some government agencies will issue a license with some degree of exclusivity if no license has been requested after 2 years from the date of publication of the patent. Information on government owned patents may be obtained from your local Small Business Administration office, the field office of the, U.S. Department of Commerce nearest you, or by writing to the U.S. Patent Office, Department of Commerce Washington, DC 20231.

Patent Abstract Bibliography (PAB) is semiannual publication listing NASA-owned patents and applications for patents as a service for those seeking new products for the commercial market. PAB may be ordered from the National Technical Information Service (NTIS), U.S. Department of Commerce, Springfield, Virginia 22151.

Private Patents. The Official Gazette of the U.S. Patent Office is published weekly and lists all the patents granted by the U.S. Patent Office. Annual subscriptions are available from the superintendent of Documents, Government Printing Office, Washington, DC 20402. The Gazette contains a section the lists, one time only, patents available for sale or licensing.

There are a number of private publications in which patents available for licensing or sale or listed. Your local library should be able to give you a complete listing of all such private publications.

The patent attorneys in your area are another source of new products.

Large Corporations. Most large corporations, especially aerospace companies, develop many new products. Because of company policy, many of these products although highly desirable are not suitable for their own manufacturing or marketing operations. Usually the large company will maintain a separate department or subsidiary company for the sole purpose of finding licensed include marketing studies, manufacturing know-how, and other pertinent information or services, which reduce the risk to the firm seeking a new product. This is considered one of the finest source of new products.

Inventors Shows. The Chambers of Commerce in large metropolitan areas generally sponsor an annual "Inventors Show." The purpose of these shows is to enable manufacturers and inventors to get together to put new products on the market. Check with your local Chamber of Commerce for the dates for their next show or write to the Office of the Inventions and Innovations, National Bureau of Standards, Washington, DC 20234, for a listing of the major inventors shows scheduled throughout the United States.

Commercial Banks. One way to obtain a new product is to acquire all or part of another business. Many small companies with fine products may need the strengths of your company to become successful. These strengths may consist of equipment, facilities, personnel, or know-how in manufacturing, marketing, or management, as well as money.

Licensing Brokers. A new type of consultant is the licensing broker. They generally have a wide range of acquaintances in the licensing field. Usually they represent companies seeking licensees (including foreign companies) as well as those searching for a product to license. Often they also have wide experience in developing fair and reasonable licensing agreements and can advise their clients accordingly.

Foreign Licenses. The U.S. Department of Commerce publishes weekly The International Commerce Magazine. This contains a "Licensing Opportunities Section" in which are listed products for which foreign manufacturers are seeking U.S. firms to manufacture and sell these products to the U.S. market. This may be ordered through the Department of Commerce local field office which will also have previous issues available for public inspections.

Also you may write a letter to your local Department of Commerce field office and enclose a copy of your firm's brochure and your "Profile of Product Interest." This information will be handled by their International Investment Section which will make every effort to put you in touch with a suitable foreign product licensor.

In large metropolitan areas, you should contact to local Commercial Attaches at each country's embassy or consulate. They, too, are looking for appropriate licensee for products developed in their countries.

A word of caution is in order though in such instance. You should consult an attorney experienced in foreign licensing to prevent possible legal complications in the licensing procedure.

New Product Advertising. Trade or industry periodicals and financial newspapers often carry ads of new products available to a manufacturer. These ads could very well lead you to a new product. However, looking through such ads is a passive form of search. You might consider advertising in these publications as an active, aggressive form of search. A very condensed version of your "Profile of Product Interest" should make an ideal ad.

Your Company's Brochure. Before finding a new product, you may enter into negotiations with a number of people To assist you in establishing a sound relationship

with new product sources, it is suggested that you prepare a brochure on your firm. It may be very simple or as elaborate as you wish, but it should contain: a brief history of your firm's legal structure; information on your key personnel, plant and equipment; descriptions of jobs or products handled and, if they are agreeable, some of your best customers; and financial statements and financial resources available.

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