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Book Reviews

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Getting It Right the First Time: How Innovative Companies Anticipate Demand

John Katsaros and Peter Christy. Westport, CT: Praeger Publishers, 2005. 151 + xiv pages. US$34.95.

How do you do market research when the market does not exist yet? John Katsaros and Peter Christy think they have the answer. Their approach to anticipating demand involves asking the right people the right questions and then using the answers to create a product development and launch strategy that has a high chance of early success. Though this may seem obvious, their experience as industry analysts, consultants, and market researchers in Silicon Valley has taught them that many companies bring products to market with only a vague notion of whom their biggest customers are likely to be or how large the market actually is. *Getting It Right the First Time* will interest anyone trying to bring a highly innovative product to market but will be of greatest interest to those in marketing. Although the examples in the book focus on the high-technology industry, the techniques discussed will be useful in any highly innovative situation.

The authors' thesis is that to maximize the value of an innovation, it is critical to launch it in the right product and in the right market at the start. Competitors are too nimble and technology is changing too fast to allow a company to launch a generic new product across a broad market in the hope that some unknown segment will adopt it and allow them to become successful with a more targeted "version 2.0." They dispute Christensen's (1997, p. 147) statement in *The Innovator's Dilemma* that "markets that do not exist cannot be analyzed." They offer the alternative principle that "markets that don't exist can't be analyzed with traditional techniques" (p. 29). These authors believe that you can indeed understand markets that do not yet exist if you are willing to use new methods and are willing to go patiently through the process of looking under the radar for evidence of the elements needed to ignite a market.

The first quarter of the book explains their technique for anticipating new markets, and the remainder shows how to apply market anticipation to different aspects of product planning and launch. There is a good index, a selective bibliography, and a short list of recommended websites.

To anticipate markets, the authors advocate a three-step approach: (1) select alternative markets and applications for the innovation; (2) conduct expert interviews to explore each of the alternatives; and (3) rank and choose the most attractive alternatives. The core of their approach is the expert interview, which substitutes for more traditional market research. These expert interviews are a combination of a sales process to develop an overall picture of an incubating opportunity and a marketing process, profiling and categorizing clusters of business opportunities, to understand strategic possibilities.

The authors contend that for essentially any future market there exists a set of experts who are close to the technology and applications involved and that it is possible to use them to get answers to the critical questions needed to properly position and launch an innovative product. These experts can be potential customers, suppliers, analysts, academics, or even competitors. The ideal expert would be the future customer who will gain the greatest benefit from using the innovation. The most important qualification of these experts is that they are thoughtful people who are, knowingly or unknowingly, incubating the market disruption that the innovation will exploit.

The expert interviews are the direct opposite of traditional market surveys. They are nonrandom, directed conversations with open-ended questions. They are conducted by your own experts rather than by market researchers. The experts are encouraged to diverge from any script and to explore lines of thinking that emerge during the interview. Do not look for statistical significance from these results. The object is to get in-depth answers that will help you choose the best alternative for your new product by identifying the customers and applications where your innovation will create the greatest sustainable value for the customer. To do this you must identify the potential customer's real needs and constraints, as well as estimate the size of the potential market.

Once the expert interviews are complete, you extract the most relevant information and use it to rank the alternative applications and markets. From this, you can create a strategy for the innovation and develop the right product to address the strategy. This requires a partnership between technologists and marketers. The authors discuss a number of techniques to help in this process, including imagining what next year's annual report will look like if the product is successful; imagining the annual report of your best customer, detailing how your product has helped their success; and determining what customer, or type of customer, best exemplifies the use of the innovation and then imagining a marketing campaign based on that customer.

At this point, you should be able to answer three critical questions about the alternative you select:

- How big is the market, and how fast is it growing?
- How different are you from your competition, and how long do you expect any key differences to last?
- How does your business model capitalize on this business opportunity?

The authors then proceed to apply these techniques to creating ''the big play'' (p. 69), which they describe as ''that combination of product innovation, business model, financing, route to market, and complete product offering that maximizes investment return over a relatively short period'' (p. 71). Separate chapters deal with positioning, market segmentation, value propositions, and lastly, ''finding the next big thing'' (p. 133). The section on value propositions is especially interesting, as the authors give their top 12 value propositions and discuss their strengths and weaknesses. They are particularly negative about value propositions based on cost savings to the customer because they are not unique; the projected cost savings are often out of the control of the selling company, and ''when you're selling ROI [return on investment] . . . the lower your price the higher the ROI . . . that's not where you want to be'' (p. 112).

Though this book details the authors' market anticipation technique well, the later chapters tend to be somewhat repetitious, and poor copyediting introduces some distractions. The book would also have been improved by more detail on how one locates and recruits the proper experts, as well as more specific examples of the types of questions used in the expert interviews. Overall, however, the book points the way to getting a solid grasp on ill-defined and emerging markets. As the authors point out, ''It is impossible to figure out the immediate future of everything going on in business, but it is possible to figure out the immediate future of what is happening in the areas that matter most to you'' (p. 7).

Reference

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Why People Buy Things They Don't Need: Understanding and Predicting Consumer Behavior

Pamela N. Danziger. Chicago: Dearborn Trade Publishing, 2004. 291 + xi pages. US$19.95 (paperback).

This is an intriguing read, and the author is a recognized expert in consumer marketing and psychology. The content aptly answers the question posed by the title. Her goal in writing the book could not be better said—or stated more gutsy—than in the last chapter: "We need to learn how to get people to buy more of the things they don't need" (p. 266).

The book's basis is survey research of spending habits augmented by demographics, industry snapshots, retail sales, and case examples. Part 1 (four chapters) introduces the background of why people buy things and outlines 14 justifiers that gives customers permission to buy something not needed; part 2 (four chapters) delves into what people actually buy, using 37 distinct categories of products; and part 3 (two chapters) discusses the future of discretionary spending using trends in demographics, education, consumer markets, the retail landscape, and other factors. The author proposes a series of strategies in the last chapter.

Marketers of consumer products, brand managers, product developers, and senior management would benefit most from this thought-provoking book. By gaining insight into what drives consumers to buy, the book may help readers to think about how they address the emotional aspect of a purchase.

Pamela Danziger puts the power of consumers in a potent perspective in the introduction:

> You will also discover a new way to look at your customers, not as a point on a data graph, but as real, complex, irrational but strangely predictable human beings who love and fear and strive to feel pain. They are wonderful. They are frustrating. They are awe-inspiring. They are fascinating. Moreover they are our customers. We desperately need them. And we must respect them. That is why you as a business and marketing executive need this book, because without the consumer your business is destined to become history. (p. xi)

The author starts by providing a simple answer to the challenging question posed by the title of chapter 1, "Why Do People Buy Things They Don't Need?" by exclaiming, "Because they do need!" (p. 1) and later, "The act of consuming, rather than the item being consumed, satisfies the need" (p. 1).

Consumer spending in the United States has played a long-standing key role in the economy, historically representing 62 to 77 percent of the gross domestic product. Furthermore, discretionary spending plays a large role in personal consumption expenditures—41.8 percent in 2000. "In sum, consumers and their discretionary spending—on wants, not needs—make a surprisingly large contribution to the nation's overall economy" (p. 6). Danziger concludes, "On the one hand, consumers are not logical, and what they want, desire, and dream of owning is not logical. On the other hand, they need logical reasons to justify the purchase of products they don't need" (p. 30).

The author conducted a quantitative telephone survey of a statistically representative sample of 1,000 U.S. households in 2000, 2001, and 2003. The 2001 survey was conducted in late August, before the September 11 tragedy; consequently, the 2002 survey was cancelled. She makes many references in the book to the impact of 9/11 on the purchase of specific products, categories, and on selected trends.

Danziger studies four types of discretionary spending/purchases:

- Utilitarian: practical, functional, useful; things perceived to make life better in meaningful, measurable ways
- Indulgences: life's little luxuries bought without guilt
- Lifestyle luxuries: practical things but are "more than is needed" (p. 6)
- Aspirational luxuries: purchased for the pure joy of ownership

Figure 3.1 (p. 25) presents and extensively discusses an interesting "discretionary products matrix" that ". . . universally describes discretionary spending for American consumers at every income level and life stage." This matrix is a positioning diagram, with the four types of discretionary purchases positioned against four values: extravagant, emotional, practical/necessity, and physical/material.

The author also conducted a psychographic study of the typical American consumer. Five segments emerged when examining the attitudes and motivations that drive consumers to purchase discretionary items: self-expressives (28 percent), careful indulgers (23 percent), impulsives (18 percent), conflicteds (17 percent), and bargain hunters (15 percent). From this she creates profiles; for example, bargain hunters are the least highly motivated consumers of discretionary items—deriving little pleasure and not impulsive. You may be sending the wrong marketing messages if you are unaware of such traits.

Chapter 4 details the 14 justifiers: "For things consumers don't need they give themselves 'permission' to buy by stacking various rationally based justifiers in favour of the purchase" (p. 59). The top five justifiers (with percentage of respondents indicating it as important) are quality of life (89 percent); pleasure (84 percent); beautify home (83 percent); education (83 percent); and relaxation (82 percent). At the bottom is status, with only 30 percent.

Chapter 6 deals with personal luxuries; chapter 7 with entertainment, recreation, and hobbies; and chapter 8 with home furnishings and home decor. In all, the author examines 37 product categories in these three broad areas. One example in the sporting goods and exercise equipment category illustrates the real value of the information:

- Men buy more actively.
- This category skews toward a more youthful consumer, although purchase incidence is strong through age 54.
- White and Hispanic households buy more actively than blacks.
- Rising income and education levels favor purchase.
- Households with children buy more often.

Part 3, "The Future of Discretionary Spending," considers how to maximize opportunities over the horizon. For instance, the ". . . overall consumer economy will polarize" (p. 247), with the generational waves of the Boomers and the children of Boomers—Millennials—at the upper and lower levels, respectively, and with Generation Xers in the middle. This will affect discretionary spending and has a corresponding affect on household ownership, household sizes, income, and educational attainment. Future consumers will be more educated, ethnic groups will need separate marketing, the Internet will rise as a source of products, and consumers will crave reality.

Chapter 10 puts it all together by providing some concrete strategies. One example is to appeal to customers who are in motion, or who have recently bought and will make another purchase on the same visit or shortly thereafter. Another example is to translate the brand into the "why": If you do not understand why people buy your brand, then it is only hit and miss that the brand will connect with the consumer.

The book is chock full of juicy tidbits of data, observations, quotes, and other items to support a particular point. Some useful examples related to product development or positioning are the following:

- Regarding using competitive intelligence in new products: "This approach to new product development is a guarantee of product mediocrity as the cycle of competitor copying competition turns back on itself in an endless loop" (p. 17).
- Regarding pricing: "The higher the price, the harder consumers must work to find justifiers to give permission to make the purchase" (p. 81).
- Regarding positioning a product: "Hallmark doesn't look at itself so much as a greeting card company as a company whose job it is to support and enhance relationships between people" (p. 86).
- Regarding proliferation of venues to purchase products: ". . . Consumers can find the product—any product—they need in so many new and different places, the shopping equation is reduced to one thing: What kind of shopping experience do I desire" (p. 99)?
- Regarding the experience of buying products: "From *things* to *experience*, that is the motto for the future for marketers and retailers that sell things people don't need" (p. 255, italics in original).

Why People Buy Things They Don't Need is easy to read, and I consider it a "must have," reasonably priced addition to the bookshelf of the marketer, product designer, and retailer, keeping in mind that it is but one tool in the product development arsenal. The underlying assumption that marketers have been missing the boat by not understanding why people buy could be viewed as inflammatory; however, one might ask, "Who has done the kind of research the author has done?" About the only real limiting factor about the book is that it is geared toward consumer products, but marketers and product developers of industrial and business-to-business products can nevertheless gain much from the book.

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The Chinese Century

Oded Shenkar. Upper Saddle River, NJ: Wharton School Publishing, 2005, 191 + xiv pages. US$25.95.

Doing Business in the New China: A Handbook and Guide

Birgit Zinzius Westport, CT: Praeger, 2004. 239 + xiv pages. US$65.00.

According to Birgit Zinzius, "China's economic growth will within a few years make it the second largest economy in the world, just behind the United States" (*Chinese Century* [CC], p. 22). Oded Shenkar goes further: "It would be no exaggeration to say that

China's rise is a watershed event that will change the global landscape and that it is on par with the ascent of the United States of America as a global economic, political, and military power a century earlier'' (*Doing Business* [DB], p. 161). These statements have some serious implications for product developers. First, China offers a large and growing market for consumer and industrial goods. For example, Buick, which has been a stagnant brand in the United States for decades, is now providing General Motors with a huge growth opportunity in China. Zinzius states, ''. . . On the basis of purchasing power parity, about 400 million consumers [in China] enjoy purchasing power similar to people in the United States, Japan, and Europe'' (CC, pp. 164–5).

Second, although we regard China mainly as a provider of inexpensive, low-quality products today, both the cost and the quality of Chinese goods are rising dramatically. For instance, almost every computer made now includes parts made in the People's Republic of China. We have seen Japan and the Asian Tigers (i.e., Taiwan, Hong Kong, South Korea, Singapore) move from cheap, low-quality goods to more advanced ones, but China has the ability to serve both markets at once—more advanced products from its eastern provinces and low-cost ones from its western hinterlands.

Third—and most importantly for product developers—the Chinese are no longer content to manufacture products from drawings supplied by companies in the West, what they call original equipment manufacture, or OEM. Many mainland Chinese firms are now creating their own drawings from general guidelines provided by their Western customers—what they call original design manufacture, or ODM—and some are moving beyond this to original brand manufacture, or OBM, of products entirely under their own control for both domestic and export markets.

Both *The Chinese Century* and *Doing Business in the New China* offer valuable information for the product developer. Although Zinzius aims squarely at the reader who wants to start a business in China, she provides cultural information that is important for the product developer. She describes the fundamental role of Confucian philosophy that still pervades this communist economy. For example, the topic of names, titles, and forms of address she covers in chapter 1 is critical because in Confucian philosophy a strict social hierarchy creates discord when violated. In a discussion of contracts and negotiation, Zinzius observes that in China, in contrast with the West, the context and the relationship dominate the details of both the contract and the negotiation leading up to it. Thus, it is essential to build a relationship before getting into substantive matters. Further, once the contract is established, parties are much more likely to work things out rather than to rush to court to uphold the letter of the contract.

Zinzius covers the key topic of *guanxi*, roughly translated as relationships and networking, briefly in chapter 3. *Guanxi* is so critical to understanding the Chinese that it should have received fuller treatment earlier in the book. Should you be more interested in these cultural issues than in actually starting or operating a business, I recommend the excellent book by Chen (2001).

There are other nuggets for the product developer. Toward the end of chapter 2 Zinzius provides information on building and maintaining face, which is essential for any westerner working with the Chinese. Chapter 3 contains an illuminating discussion, which is valuable for product marketers, on naming companies, brands, and products in Chinese. For instance, Coca Cola first attempted a literal approach, which was a disaster, because *Ko-ka Ko-la* means approximately ''bite the wax tadpole'' (p. 177). Then they went to *Kekou Kele*, which has some phonetic resemblance, and translates to ''tasteful, delightful'' (p. 173) and provides auspicious connotations as well. And do not miss Deng Xiaoping's guidance ''that foreign investors in China are expected to be milked'' (p. 100).

The Chinese Century presents the case for why we should take China seriously as a world business power—in Shenkar's opinion, the dominant business power of the twenty-first century. Shenkar believes that China will surpass the United States as the world's largest economy within 20 years. Already, Volkswagen is exporting cars from China, and Honda is set to do so. Wal-Mart imported US$12 billion worth of Chinese goods in 2002. Shenkar observes that Chinese manufacturers fit synergistically with Wal-Mart's strategy of low prices combined with massive promotions of little-known brands. For a major promotion of televisions, for instance, Chinese manufacturers are the only ones that can supply the volume needed by Wal-Mart, and Wal-Mart does not need well-known brands for such sales.

Besides low-cost labor, China has several factors in its favor. It is receiving vast amounts of foreign investment, and the government is clever to ensure that foreign investors transfer their technology as part of the deal. Their educational system is improving rapidly, and 43 percent of those in universities are studying science or engineering. There is an active program to bring back talented "overseas Chinese" professionals. The government assigns a high priority to establishing research and development (R&D) centers; over 200 such centers now exist, including those established by Oracle, Siemens, Lucent, Nokia, Nortel, Agilent, IBM, and Hewlett Packard. Finally, in a country known for its bureaucracy, the communist government can react very quickly because it has essentially no checks and balances such as a legislature or judiciary.

Shenkar's chapter 5, "The Two-Dollar Rolex," covers the intellectual property (IP) difficulties manufacturers face in China. Counterfeit products are quite common: Yamaha estimates that five out of six motorcycles carrying its name in China are bogus, and 94 percent of the business software in China is bootlegged. Other authors, including Zinzius, attribute Chinese IP violations to the culture, since many Chinese cannot conceive that intangible property can belong to a person. Shenkar notes that this seems to be supported by the Confucian teaching that emulation is the sincerest form of flattery. However, he argues that IP rights are sidestepped because it is in individuals' and the government's economic interest to do so. Furthermore, he maintains, this will change only when China has enough IP of its own that it makes more sense to protect rather than to violate IP rights, which is unlikely to be soon. He points to the United States in the nineteenth century, which followed exactly the same route.

Shenkar admits that there are some dark clouds on the horizon, but he believes that these will only slow China's plans, not stop them. These difficulties include a banking system on the verge of collapsing, major environmental and natural resource shortage problems, building a social support system to replace the unprofitable and thus fading state-owned enterprises, and the tightrope Communist Party officials are walking in encouraging prosperity while maintaining strict dictatorial control. He cites the Confucian Mandate of Heaven, which dates back to earlier dynasties, suggesting that the people have not only the right but also the duty to bring down a ruler who is not delivering prosperity.

These two books offer the product developer a valuable perspective on this rising economic power in new products, and they help us understand how China is deftly balancing communism and capitalism today. As Yin Mingshan, China's motorcycle manufacturing tycoon and a man worth US$113 million, puts it, "The Party is evolving in line with the changes in China. It is no longer interested in making the whole world believe in communism. Today, the main aim of the Party is to make the country and the people prosperous" (Leong, 2004, p. 49).

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Preston G. Smith
New Product Dynamics

Multinational Enterprises, Innovative Strategies and Systems of Innovation

John Cantwell and José Molero. Cheltenham, UK: Edward Elgar Publishing Limited, 2003. 323 + xxiii pages. US$135.

The increasing globalization of industry and integration within sectors produces ever more powerful firms that, when initiating business activities around the world, have a profound effect on the individual countries' national systems of innovation. This collection of 10 chapters, edited by John Cantwell and José Molero, treats these dynamic themes with a focus on technology and the decentralization of research and development. A national system of innovation is "the network of institutions in the public and private sectors of each country that support the initiation, modification, and diffusion of new technologies" (p. 1).

This is a richly crafted book, written by economists for economists. Senior decision makers in industry and policymakers charged with improving the competitive health of regions also will find the book useful. The high percentage of empirical data also will appeal to many academics—but only those interested in innovation at the macro level. Although this book rarely descends from the top-level economists' view of innovation, some in the new product development (NPD) field will find certain chapters of interest. With deep discussion of themes including technology and knowledge transfer, foreign direct investment (FDI), learning networks, absorptive capacity, and R&D organization it is valuable, arguably, for those in the NPD field to appreciate how their work and considerations at the micro level of innovation fit within the larger scale. With the increasing influence of NPD at the board-room level, it may also be valuable for those in the field to have a richer understanding of such considerations.

The 10 chapters divide equally into two parts and are preceded by a brief introduction, which does not discuss the chapters directly but rather discusses the phenomena investigated. An epilogue, which discusses the downturn in the stock market during the early part of the twenty-first century. Part 1 is titled "New Trends in Multinational Enterprise (MNE) Technological Organisation: Centralisation versus Decentralisation," and part 2 examines "The Interactions between MNEs and Systems of Innovation." Each chapter contains many references to the economics field and a considerable amount of data. As such, those unfamiliar with the field may find many of the chapters difficult to read. However, proceeding directly to the data sets and concluding remarks will often yield the chapter's insights.

The authors advance macrolevel innovation concepts through the use of specific cases and contexts, including frequent discussion of the main economic powers, with specific chapters on Germany, Spain, Hungary, and Portugal. They further this country-level understanding by frequent discussion of the global triad: Europe, the United States, and Japan. Yet there is practically no discussion on China, so it will be interesting to see how many of the book's conclusions change once the effects of Chinese growth and integration are better known. Many of the discussions present comparative data for technological sectors. In contrast, the chapter on automotive clusters in Portugal advances interesting ideas on learning networks, commenting on the need for component suppliers to evolve and stating that "it is no longer just a manufacturer; product design and development capabilities are needed" (p. 228), which acknowledges the benefit NPD can add to the overall innovation system. Sadly, such diversion from high-level economic considerations is rare.

In summary, this book cannot be faulted for what it is: an economist's view of innovation and multinational business. It may provide only background reading for the majority of NPD academics and industrialists. However, strategic decision makers from an NPD background may find the book extremely valuable, particularly for international expansion considerations. Nonetheless, with no discussion on China and having been published before the European Union expansion, much of the book's content may, in time, merely represent a snapshot of history.

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