

# MANAGING HIGH-END, HIGH-VOLUME INNOVATIVE PRODUCTS

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## ABSTRACT

This paper discusses the concept of managing high-end, high-volume innovative products. High-end, high-volume consumer products are products that have considerable influence to the way of life. Characteristic of High-end, high-volume consumer products are (1) short cycle time, (2) quick obsolete time, and (3) rapid price erosion. Beside the disadvantages that they are high risk for manufacturers, if manufacturers are able to understand precisely the consumer needs then they have the potential benefit or success to be the market leader. High innovation implies to high utilization of the user, therefore these products can influence indirectly to the way of people life. The objective of managing them is to achieve sustainability of the products development and innovation. This paper observes the behavior of these products in companies operated in high-end, high-volume consumer product.

**Keywords:** High-End Products, Innovation, Time-to-Market, Culture

## 1. INTRODUCTION

It is not surprisingly that in today global market, in highly competitive business environment, only some companies can survive while others must leave from the playground because their products simply cannot compete. No matter what type of product companies have made, they will face similar business pressures. The business pressures contain the issues of Time, Profitability, Functionality, and Quality and Reliability.

- Time: does the product reach the market at the required moment in time?
- Profitability: is the difference between product cost and product sales price adequate?
- Functionality: is the product able to fulfill its intended function(s)?
- Quality and Reliability: does the product fulfill customer requirements at 'all' customers, not only at the moment of purchasing but also during operational life of the product?

However, Baskoro (2006) shows that although companies have understood the business pressure they are not secured yet in the business. For example: to shorten Time-to-Market of their product in order to arrive in the market earlier. The expectation is that by arriving in the market earlier they have the privilege to dominate the market and dictate the market price. For this reason, companies can take risks to deliver an innovative product to the market with less mature technology. An innovative product is a product considered as high-end product. Consequently, it is not a surprise if this product may contain problems mostly for the case where the technology maturity is low. In practice, there is reported an increasing number of complaints by customer on specifically high-end product performance. Therefore, this paper interests to explore innovation as a weapon and strategy applying by manufacturer and its relation to (local) culture. This is basically

to get understanding of whether culture in Indonesia is related to (customer driven) innovation. The research questions are (1) why in economic turmoil Indonesian people still manage to purchase an innovative product (e.g. high-end car)?, (2) Is behavior no (1) related to culture ?.

## 2. TREND OF INNOVATIVE PRODUCTS

Innovative products are products that bring newness to customer. It can be consumer electronic products, or other innovative products. Let's take a car as an innovative product to be explored. It is a good example in automotive industry, especially in Indonesia, that despite the country's chronic economic problems, Japan automotive manufacturers are still able to deliver their new innovative product into Indonesian market almost in yearly basis. Although reasoning behind the strategy is sometimes unclear because logically if a country's experience chronic economic problem it is of course buying power of its people tends to drop. However, on this situation perhaps Indonesia is among other country that shows different behavior. It is not a coincidence that the car manufacturers are launching their new products almost in yearly basis. It is with exact market behavior prediction and calculation by the manufacturers. Most of the time Japan car manufacturers are right, buying power of Indonesian people is still high, regardless country's economic condition, shown by the number of new car sold shortly after launching the product. The question is what is going on with the people culture? So that despite the country's economic condition Indonesian people is still spending the money for a high-end car in the crowded cities like Jakarta? These questions will be discussed further in this paper on what reasons that drive people, especially in Indonesian big cities, motivation to buy a high-end product. These questions are already indicated earlier as research questions.

## 3. INNOVATION

Baskoro (2006) stated that Innovation is widely known by the manufacturers because they believe that innovation can sustain the profit. According to Urban and Hauser to sustain profit, manufacturers must (1) stay ahead among competitors, (2) increase product superiority, and (3) ensure continuity. For example, to increase product superiority manufacturers should meet the criteria of unique feature(s), more functionality, meeting customer requirements, and acceptable price/performance (Urban and Hauser, 2003). It is important to note that more "functionalities" are not always adding more satisfaction to the customers than "ease-of-use design". These criteria are also known as business pressures (see Section 1). Therefore, to meet the business pressures manufacturers must make innovation on their products. The simple illustration of innovation is about making things differently (different product or different technology). Innovation is also used as a strategy to achieve competitive positioning by manufacturers. Niebling and Christie (1991) defined that innovation is one among other methods used to counter-attack the opponents. The counter-attack is part of the defensive approach used by the manufacturers. In the counter attack, innovation is considered as the most successful method. Even though innovation commonly requires high spending in R&D, innovation also gives promising rewards to the manufacturers. Usually those that have a good innovation record are the established market leaders. One of the reasons is because they have strong financial backing. Considering the importance of innovation for the business, the manufacturers invest and allocate their resources and capability to exploit innovation as much as felt appropriate. Many researchers argued on the terminology of innovation that leads to several ways to say the similar thing. Often innovation is defined as "radical", "really-new", and "discontinuous", also innovation is defined as "breakthrough", "revolutionary", "game

changing”, and “boundary expanding” (Veryzer, 1998; Garcia and Calantone, 2002). To avoid confusion and wrong perception, a clear definition of innovation is needed. For example, if innovation is defined as the degree of “newness” on the product, then the “newness” can be interpreted as new to the world, new to the market, and new to the manufacturer. Therefore, Garcia and Calantone (2002) defined innovation as an iterative process initiated by the perception of a new market and/or new service opportunity for a technology-based invention, which leads to development, manufacturing, and marketing tasks striving for the commercial success of the invention (Garcia and Calantone, 2002). McDermott and O’Connor (2002) defined innovation as a new technology or combination of technologies that offer worthwhile benefits. Commonly, the word ‘innovativeness’ represents the degree of ‘newness’. ‘Highly innovative’ products, for example, are seen as products having a high degree of newness.

#### 4. PRODUCT ROADMAP

It is not easy that a company can directly produce a high-end product without having appropriate experience in making medium/low-end product first. In contrast, it is also not an easy task that a company experienced in making medium/low-end product can switch to high-end product. However, a company that already successful in making high-end product shows promising financial result in their portfolio. It is not our intention to mention one by one the companies that achieving such privilege in the business. Generally, most of them are the long standing companies in the field. These companies are already in the business long time before they are able to produce high-end product. Mostly these companies take an incremental product innovation until their products are in the shape of today.

Figure 1 shows a roadmap that companies can take if they want to move to high-end products. One must remember that moving to another technology brings also consequences. Mostly, if companies are switching from one technology to another without proper experience and preparation then they may experience discontinuity in technology. This is called technology gap, therefore managing the gap is a crucial task of avoiding risk, especially when moving to high-end environment. It is simply that not all companies can successfully make this journey. Most of them failed to take a step forward.

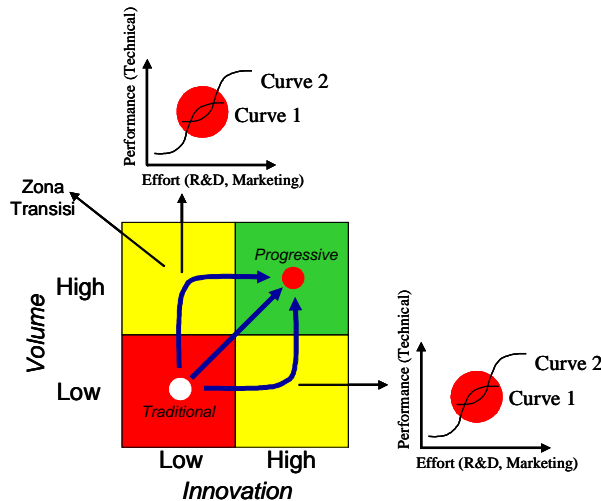


Figure 1. General Product Roadmap

For example if a companies already successful in developing a high-end product, logically they want to increase production volume for the sake of margin. However, increasing production volume is not a matter of production only it involves market share. Therefore, if market is not offer promising opportunity then it is not possible to increase production volume. Of course, producing high-end product with less production volume will increase product price that in long run risk of being uncompetitive. Similarly, companies that successfully in producing high volume medium/low-end product want also to produce high-end product to catch margin window of opportunity. It is almost having the same phenomena that it is not always successful to market high-end product if market channel is not developing first. Especially in understanding market behavior for high-end product that perhaps related to culture.

## 5. CULTURE AND PEOPLE BEHAVIOR

Although term culture is already familiar by people, the culture itself far from being understandable. There are many definitions of cultures one of them is defined by Hofstede (1980, 2001). Hofstede stated that *Culture* is the collective “programming of the mind” (Hofstede, 1980, 2001). If that so, the way the mind is programmed is an important factor of culture. Perhaps in other word it is similar with “mindset”, if so culture is depending on people mindset. It is indicated how importance culture by the following statement *culture values shape people’s beliefs and attitudes and guide their behaviors*. Therefore, people behavior is driven by their culture. The intention of this section is to explore the relation of culture with people buying behavior especially for high-end products. Before getting into the point, first of all it is important to understand culture dimension (Hofstede, 1980, 2001) which is assessed by (1) Power Distance Index (PDI), (2) Uncertainty Avoidance Index (UAI), (3) Individualism Index (IDV), (4) Masculinity Index (MAS), and (5) Long-Term Orientation Index (LTO). From the 5 dimensions of culture this paper intends to explore only the Individualism Index (IDV) and Long-Term Orientation Index (LTO). It is because these two factors have considerable gap between local culture and western culture. For example: western culture is more individualism than Indonesian, also western culture is more long-term orientation than Indonesian. With these two gaps, this paper tries to formulate a hypothesis and provokes reader critical thinking that Indonesian people are eager to buy new high-end products regardless the financial/economic condition, compared to the western people. Although it has not been proved yet, perhaps the reason is not only about the product functionality that the people buy but also the prestige. If this hypothesis is true then it is reasonable that Japanese car manufacturer almost in yearly basis launching a new innovative car into Indonesian market regardless economic condition, and most of the time it is successful.

## 6. DISCUSSION

This section discusses further the four important things related to the theme of this paper. They are chosen based on their considerable relation to innovation. They are (1) High-End Products, (2) Industry, (3) End-User, and (4) Culture itself

### A. High-End Products

High-end products correlate closely to a company capability on innovation. Therefore, although assessment of the financial prospect of a high-end product is not feasible yet a company keeps doing the innovation until they arrive to a marketable new high-end product. In doing so a company has to spent enormous innovation expenses until the product has a market opportunity to

pay-off. This high innovation expenses causes a small, less financial-backup, company is unable to pursue innovation as their prime strategy. Therefore, only companies that have strong financial-backup can pursue innovation as their strategy. Why? it is because innovation is a double-faced strategy it can be used as a strategy of attack and/or it can be used as a strategy of defense (Baskoro, 2006). For this reason, therefore Japanese top car manufacturer yearly launching their new high-end products, it is sometimes and most of the time not because the new car offer new functionalities for customer but car manufacturers do so for the sake of the mentioned strategy. However, companies must be aware that the critical characteristics of high-end products are that they have (1) short cycle time, (2) quick obsolete time, and (3) rapid price erosion. That is why not all companies are able to produce high-end products as one of their innovation strategy. Only those that have strong financial backup and technology can do so.

## **B. Industry**

There are two issues for a company to fulfill the survival life (1) being efficient and (2) being competitive. Therefore, companies seek ways to be efficient and effective at, if possible, the same time. In search of efficiency, a company relies on speed while in search of competitiveness a company relies on innovation. Speed is related to product time-to-market while Innovation is related to product time-to-obsolete.

## **C. End-User**

End-user behavior to buy a new high-end product is mostly to fulfill their needs. The problem is that not all end-users are able to articulate precisely their needs. Therefore, only those who understand the unarticulated end-users needs can take the opportunity as a market window. There are many ways/methods to understand end-users needs one of them is to understand the end-users culture. Therefore, companies that understand exactly end-users culture can take any window of market opportunities even in extreme economic situation such as economic turmoil when buying power is drop. One way to do so is delivering a new high-end product for end-users at the right time and let them to experience it. It is what we have experienced in almost yearly basis by seeing marketing battle of car manufacturers by launching their new high-end car in Indonesian market.

## **D. Culture**

Despite the behavior demonstrated by Indonesian with refer to the buying power of innovative products it is still not yet understand its relation to culture. However, map of Indonesian culture among other world culture may indicate something to us. For example, in term of Uncertainty Avoidance, Indonesian along with USA, UK, The Netherlands, and Nordic Countries are considered low. In term of Power Distance, Indonesian is contradicted with USA, UK, The Netherlands, and Nordic Countries. Indonesian has reasonably high power distance while those countries are low.

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