

RETHINKING R&D

by Willem Burgers

In the 1980s the personal computer industry was ruled by such giants as IBM, Apple, HP, and Compaq. Minor players included Philips, Siemens, Toshiba, Sony and others. Year after year, they spent billions of dollars on R&D to improve their products and production techniques. But how much R&D money was spent on researching and developing new markets or new marketing methods? Little or nothing.





Then comes Michael Dell. He doesn't invent a better product or production method. He sells directly and comes to your house or office to fix your computer if it breaks down; and he defeats the whole industry.

How did Michael Dell win the game? He didn't invent a better computer or a better production method. He invented a better marketing method.

Why didn't the personal computer companies copy Dell? While the engineers were tearing apart one another's computers to look for better ideas, how many marketing managers were tearing apart Michael Dell's business model? None that I know.

There were plenty of nay-sayers when Dell, after his phenomenal success in America, went to Europe. It was said that his method would never work in Europe because of cultural and other differences. Amazingly, though European companies had plenty of time, none possessed the 'intellectual infrastructure' to even try Dell's methods in Europe. All just waited around patiently for Dell to come put them out of their misery. These companies had big marketing departments and experienced marketing managers. But R&D was and is not part of marketing's job description!

This suicidal lack of marketing R&D is not an aberration. An obsession exclusively with the physical product is ingrained in the culture of the personal computer industry. It took nearly two decades, and the return of Steve Jobs-outsider always-before the industry finally thought of trying colours for their computers other than grey, brown, or black.

Apple gained several points of market share by introducing pink and green, etc., computers. Why, over a period of about two decades, did no

other company think to try this? When we look exclusively in one corner of the room, we are bound to miss the blindingly obvious sitting in another corner of the room. When companies only look for innovation in the technical sphere of product and production, they are certain to miss blindingly obvious innovation opportunities in markets and marketing.

The computer industry is not the only industry that thinks only about products and production when thinking about R&D. This narrow approach to R&D is typical of many technical industries.

For example, the pharmaceutical industry, a very much R&D driven industry, has no tradition of attention to non-product features such as brand name, product shape, size, colour, etc. This is not because such features are not important. The efficacy of medicine depends substantially on the patient's psychological perception of the medicine. But the industry focuses on R&D of products and production.

Further, the efficacy of medicine depends on the patient taking the product faithfully and appropriately. When patients receive instructions to take a pill once a day, they might ask whether to take it in the morning or evening. The doctor will answer that it doesn't matter.

Doesn't it? Maybe it does! Possibly, patients are more likely to form a habit of taking the product faithfully if they are instructed to take it in the morning after they brush their teeth. This way, the taking of the drug is connected to an established daily habit. But I have seen no signs that the industry is interested in this sort of research questions.

Research on how to help patients take their drugs appropriately would benefit not merely the patients, it would help the industry. One major reason

for lost revenues in the industry is premature discontinuation of a drug by patients. For example, the life extending drug Statin is discontinued by a majority of patients within one year. It is not ill will, or disinterest in patients, or incompetence that causes this industry failure. It is simply that R&D in the industry is focused internally on products and production, not externally on the markets and marketing. It is an example of the same industry-wide blindness we saw in the personal computer industry with respect to colours.

What blindness exists in your industry? Maybe you think no blindness exists? How about the telecommunications industry? In the United States, among the top 100 advertisers there are a number of telecommunications companies. These companies spend hundreds of millions of dollars on advertising. Yet, a survey revealed that none of these companies tests their advertisements before running them on TV. In contrast, all companies selling grocery store products (soap or soft drinks, etc.) do pre-test their advertisements. Why don't the telecommunications companies pre-test? Industry blindness! They spend billions of dollars on R&D, but they won't spend even a million on researching a one hundred million dollar advertising campaign.

In today's hyper competitive environment, and especially in China where today we find perhaps the most competitive environment anywhere worldwide, companies cannot afford blindness. To stay competitive and gain advantage it is absolutely necessary that companies today add R&D as a key component to marketing's job description.

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