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COMMERCIALIZATION REVISITED:

– the role of commercialization in the product
innovation process

by Henri Simula and Paul Lilrank



Commercialization revisited:

– the role of commercialization in the product innovation process

The purpose of this article is to discuss commercialization and its management within the context of the product innovation process. Without commercialization, the innovation cycle is incomplete. Yet many scholars suggest that commercialization is the least developed area of innovation management. Thus, commercialization is a relevant topic for practitioners and academics alike. An organization's proficiency in up-front activities such as initial screening, preliminary market assessment, and business and financial analysis impacts product success. Ultimately, however, commercialization determines product destiny.

by Henri Simula and Paul Liljrank

The goal of the product innovation process is to introduce new products to the market and, in so doing, to generate a positive cash flow and profitable business for the firm; exceptions to this are products employed as probes with which to study markets. A firm that introduces a new product to the market is seeking customers who are willing to buy that product. For this to occur, there are two basic success factors that must be met by the product: it must gain acceptance in the market place (i.e., commercial success) and it must meet particular specifications (i.e., technical success).

Traditionally, a firm faces two simple and fundamental questions concerning a new product: is there a need for it, and can the firm make it? However, we feel that there is a need to extend this logic and, thus, we want to add a third question: *can the firm commercialize it?* This question is derived from the simple fact that many new products, regardless of how innovative, never progress to the point of becoming innovations. In sum, invention and innovation are not the same.

The Organisation for Economic Cooperation and Development's (OECD) Oslo manual (1996) declares that innovation is a complex, diversified activity with many interacting components. This manual also draws a "Schumpeterian" distinction between product and process innovation. According to the OECD, product innovation is implemented if the product has been introduced to the market, whereas process innovation is employed within a production process. We argue that implementation is not sufficient for a product to become an innovation. There are numerous *product innovation*

attempts, although, despite their novelty, only a few will eventually become successful products. While there is no common consensus regarding an exact definition for innovation, various scholars share the perspective that an invention becomes an innovation only after its successful commercial exploitation. For instance, successful products are those that add value or benefit to a customer, so that the customer will purchase that particular product.

Locus of Commercialization

Given the importance of commercialization, the focus needs to be on its organization and management. Prior to this, the essence of commercialization must be clarified, and also how it relates to other tasks and their corresponding academic disciplines, such as marketing and new product development. Marketing has been defined as:

- *The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (American Marketing Association, 2012)*

Whereas, New Product Development (NPD) is defined as:

- *The overall process of strategy, organization, concept generation, product and marketing plan creation and evaluation, and commercialization of a new product. Also frequently referred to just as 'product development'. (Product Development and Management Association, 2012)*

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PRODUCT INNOVATION

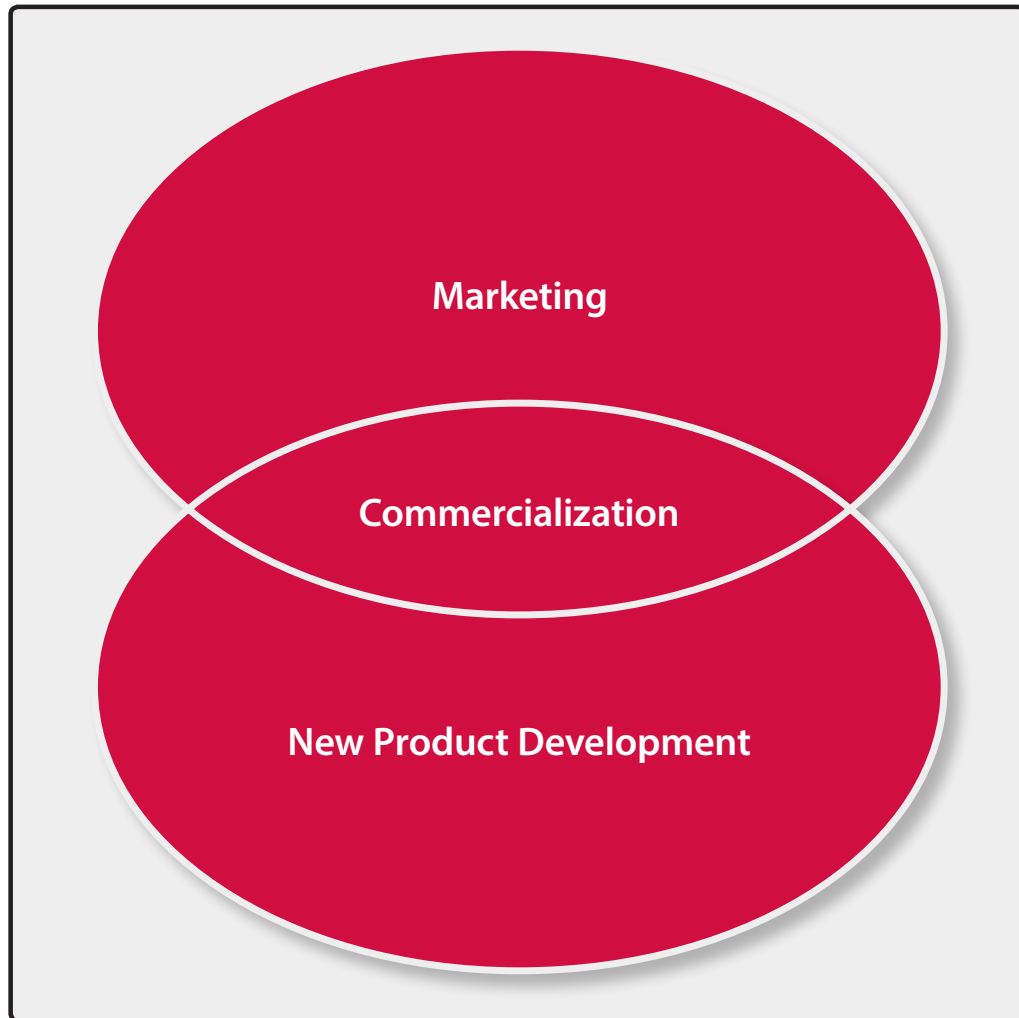


Figure 1. Commercialization within the context of product innovation

Thus, according to the latter definition, commercialization is categorized as NPD. However, several marketing activities can be seen as commercialization activities per se.

We believe that commercialization is situated between these two larger and more established managerial concepts, as illustrated in Figure 1. It is also worth noting that, typically, firms have both NPD and marketing departments. However, to our knowledge, there are no commercialization departments. We do not suggest that commercialization needs its own department in an organization, although commercialization needs to be conceptually separated from marketing and NPD as, in our opinion, both NPD and marketing departments are then put in charge of commercialization. Therefore, as illustrated in Figure 1, commercialization can be regarded as a separate managerial topic that overlaps with NPD and marketing.

Launch is not the same as commercialization

The ultimate market test of any product is at the time of launch, and an effective and efficient product launch plays an important role in company performance.

The term “launch” is employed to refer to a single event, whereas commercialization applies to a larger concept that covers a broader range of topics, including many of those that the extant

literature on launches considers under the term “strategic launch”. It seems that the literature liberally employs the terms launch and commercialization, and that there is considerable overlap between these terms. Many scholars have drawn attention to this dilemma.

Therefore, the term launch can refer to various situations. Product launch can mean an event at which the plans for a forthcoming product are preannounced, when the actual features and outlook of a product are revealed, or when a product is commercially available and first rolled out from the factory. In addition, a press release or other announcement that reveals the existence of, or plans for, a new product can be considered a launch. Likewise, terms such as new product introduction, market launch, market entry, and market introduction have been employed in an interchangeable manner.

In our opinion, commercialization covers a wider time span, and

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is more strategic in nature than a launch. For instance, we consider commercialization within the context of product innovation in a much broader sense, and therefore argue that launch is a sub-category of commercialization, and that *product launch is a single event*.

Commercialization defined

The extant literature does not provide an unambiguous definition for commercialization. As a term, commercialization is associated with the word “commerce”, which simply means that commercialization activities and their resultant products are part of the objectives of commerce. Commercialization requires the basic assumption that an entity (e.g., a product) exists, and that it is possible to design and manufacture that particular entity. This entity then needs to be made tradable; namely, subject to buying and selling. The activities that make this happen are collectively termed commercialization. Commercial success does not occur automatically; it requires the proper management of commercialization, which we define thus:

- *Commercialization is a set of business activities, tasks, and actions that run in parallel with ideation and product development processes, and complete them so that a new product can become commercially viable, tradable, and eventually successful in the market.*

In sum, commercialization is considered an umbrella term that covers all of a firm’s business activities, tasks, and efforts alongside the traditional ideation, design, and development phases. In this sense, a product launch is a “*conditio sine qua non*”, although there are many other activities to be addressed by a firm before a product achieves market success. More detailed discussions on these activities can be found in the dissertation of Henri Simula. These include, for instance, the following topics: choosing the target market for a new product and its positioning; selecting market entry strategy; making technological choices; timing a product’s introduction to market; naming and branding a product; determining pricing policy, types of advertising channel, type of message to be conveyed, monetary spend on advertising and distribution channels; settling conflicts between an existing and new product, and terminating sales of an old product are also matters that need to be addressed. It is also important to find dedicated reference customers to test and pilot a new product.

We conclude this paper by referring to Crawford and Di Benedetto (2006), who in their book *New products management* state: “The idea that a new product suddenly emerges from R&D - like a chicken from an egg - is simply incorrect.” ●

This article is derived from Henri Simula’s doctoral dissertation completed at Aalto University, Finland in 2012. The complete dissertation is available at: lib.tkk.fi/Diss/

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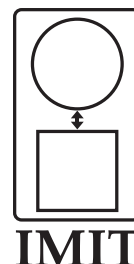
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