Developing New Products

All firms must innovate – this means evolving to better meet the needs of the market. Because (1) markets are dynamic and consumer needs are ever changing and (2) the market is saturated with alternative and substitute products.
With innovation, growth trajectories for firms widen. This is summarized in the **Ansoff Matrix** or the Product/Market expansion grid.
It explains that firms have four choices when deciding on growth strategy:
1. sell **existing** products to **existing** markets = market penetration
2. sell **existing** products to **new** markets = market development
3. sell **new** products to **existing** markets = product development
4. sell **new** products to **new** markets = diversification

Reasons for innovation within the market:

Market saturation
The longer a product exists in the market, the more likely it is that the market will become saturated. Without new goods or services, the value of the firm will ultimately decline.

Managing Risk through Diversity
Through innovation, firms often create a broader portfolio of products, which help them diversify their risk and enhance firm value better than a single product can. If some products in a portfolio do poorly, others might do well.

Fashion Cycles
Short product life cycles – most sales come from new products.

Improving business relationships
Coca cola made a partnership in Latin America to give clean water and their sales grew.

DIFFUSION of Innovation