Capabilities: Building the basis for successful product development

To keep pace in an expanding global marketplace, businesses are under increasingly intense pressure to develop and launch new products at ever greater speeds.

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Consumers around the world are highly informed, expect customizable products, and are more focused on value than brand. Businesses must meet differing customer needs and must compete in highly diverse markets, for example, growing middle classes in Asia and Latin America, as well as increasingly fragmented niche market segments in the United States and Europe.

At the same time, product technologies are converging; as a result, a broad range of new skills are required to develop and launch new products. For example, automotive OEMs have had to develop skills in mobile communications, battery technology, and software development.

As markets and technologies continue to change at a relentless pace, many business leaders fear that their organizations will not be able to adapt quickly enough. Some react by creating new start-ups outside their organization or they quickly turn to outsourcing tasks in order to realize higher speed and agility. Other executives will try to change their existing organization to respond to the challenges—but there are several hurdles to overcome.

In cases of classic disruption, the speed of change is difficult to predict, budgeting requirements to build future-oriented capabilities, in addition to still delivering the existing business, are high. If their traditional business is still thriving, it is difficult to convince investors and internal stakeholders that the organization needs to invest in changes in the distant future.

Failing to surmount these hurdles, however, can put enterprises at considerable risk. The film photography industry is a prime example. Companies in the sector were aware of the shift to digital imaging, but many did not react swiftly and remained focused on the business, believing they had enough time to build new capabilities needed to thrive in the new world. Many of them were badly mistaken. Digital imaging reached its tipping point sooner than most expected. Kodak—the most prominent example—became a cautionary example of short-sightedness and hubris. Despite its strong brand and global presence, the company's revenues plunged nearly ten-fold in the few years before it shed uncompetitive businesses and ended up in bankruptcy.

Company strategies need to ensure that the fate of companies such as those in the film photography industry is avoided even in times of disruption. These strategies focus organizations on planning for how the company will compete in the future. One key aspect is to define what competencies and capabilities the company will need—and when it will need them. The process of defining this clear path forward helps build alignment around needed investments and how the company will compete in the future.

Finding the right competencies and capabilities

A competency is essentially an organizational skill or area of expertise. Competencies can be either "hard," such as predictive analytics and software development, or "soft," such as decision making and talent management. When individual competencies are combined in a meaningful way, the result is a capability which supports the organization's ability to create significant value for customers.[1] Capabilities can serve as a basis for sustainable marketplace differentiation and advantage since they cannot be replicated easily by competitors.

The success of Yellow Tail Wines is a prime example of how, in what was traditionally a mature market, a strategic capability built on the right combination of competencies helped fuel strong growth. Yellow Tail's dramatic success arose from relevant competencies brought together at the right time to deliver highly accessible high-quality wines with a strong shelf presence. Casella Wines in Australia provided pleasant, flavorful wines at affordable price points. Deutsch Family Wine & Spirits added its extensive North American distribution network. Another key ingredient was the bold Yellow Tail label itself, developed by brand and graphic designer Barbara Harkness, who specialized in the competency of wine branding and labeling. These combined competencies provided Yellow Tail with a powerful go-to-market capability and remarkable success that most wine brands fail to enjoy.

Finally, and perhaps most importantly, companies must regularly review and refresh strategic competencies and capabilities to ensure that the organization keeps pace with industry and market conditions.

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[1] See Philip Evans, Lawrence E. Shulman, and George Stalk Jr., "Competing on Capabilities: The New Rules of Corporate Strategy," Harvard Business Review, March–April 1992, hbr.org.

Implementing a competency-driven approach to product development can be achieved by moving through six key steps, which are described in the following.

A six-step process

To transform product development functions to be more competency driven, companies should adopt a structured, disciplined approach. They need to determine what product development capabilities will differentiate them in the market, for example, a capability to consistently launch products very rapidly or products that have distinctive aesthetics and shelf presence. We recommend moving through six key steps:

1. Identify critical competencies. The first phase consists of identifying technology shifts and the competencies needed to address them. Begin by closely examining the industry and markets in which the company operates and identify which competencies will be most relevant over the next few years. It is important to address both hard and soft competencies. Hard competencies include skills such as technology, engineering, marketing, and other functional expertise. Soft competencies encompass abilities such as communications, partnering, and talent management.

2. Rank competencies. Companies must then prioritize and select the competencies that support their specific strategy, brand, and customer value proposition. To ensure that the competencies serve the company's long-term strategic objectives, the organization should rate them against at least these four criteria: alignment with corporate or business unit strategy, importance in meeting customer requirements, impact on brand identity, and importance in meeting regulatory needs (Exhibit 1).

Executives must engage deeply in this evaluation, and ensure the process is followed by every product development function (for example, engineering, product planning) but also other functions (e.g., marketing and sales). The process will likely be iterative and involve all key stakeholders in the function to make sure there is agreement on the prioritized competencies. This approach turns competencies and capabilities into a source of competitive advantage to anticipate future trends. It helps build, align or attract the talents needed to face future challenges.

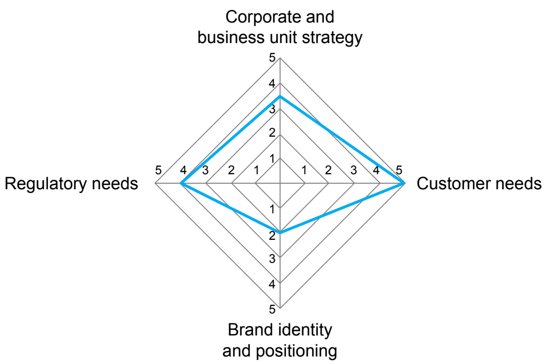
Cross-functional teams evaluate the strategic importance of product development competencies.

EXAMPLE

Exhibit 1

Example – recreational-vehicle company: importance of energy-storage competency in enhancing product features (e.g., smart functionalities such as connectivity and entertainment)

Strategic importance



Strategic-importance scoring for each competency is done through cross-functional executive discussions ranking the strategic importance of each dimension

3. Assess maturity. In the third step, the organization assesses how mature each competency is (or whether it is present at all), within the product development functions. This process may also require a few iterations. It should be based on a combination of hard data as well as qualitative assessments, including feedback from experts and reviews by customers, suppliers, and internal stakeholders.

4. Map competencies. Next, the company identifies the competencies that it will need to develop. A competency map supports the process by plotting each competency according to its strategic importance and level of maturity (Exhibit 2).

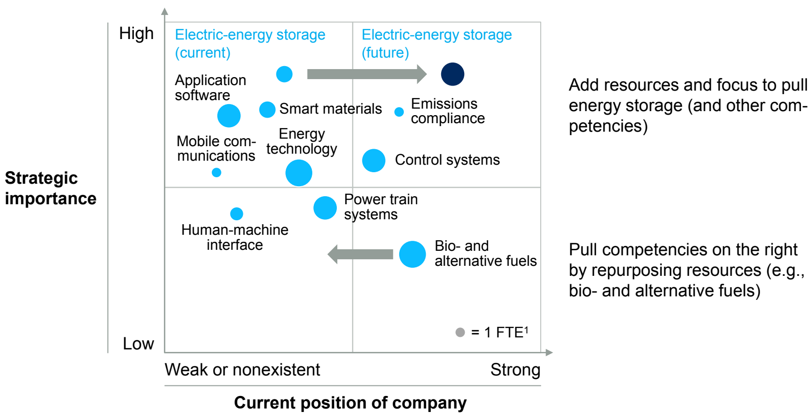
Competency mapping helps identify the most pressing gaps and provides a clear rationale to manage limited organizational resources in an effective and disciplined way. For instance, the process can prevent investment in less strategically important areas that fall to the bottom of the map.

Exhibit 2 shows an example from the automobile industry. An OEM found that while a competency in electric-energy storage and management would be very important to its future, it was not as well developed as it should be. To close this gap, the organization chose to repurpose resources from biofuels, which it deemed would be strategically less important going forward.

Exhibit 2 Competency mapping provides insights into specific gaps and areas for development.

EXAMPLE

Engineering function of product development



1 Full-time equivalent

5. Develop unique capabilities. Finally, the organization must plan how it will combine the most strategically important competencies into a set of unique capabilities that will create a sustainable advantage in the market.

Consider a global manufacturer of earth-moving machinery for construction and mining. It had been a market leader for decades, but faced price competition from lower-cost equipment manufacturers in China. To compete, the company developed new capabilities to transform itself from an equipment manufacturer to a provider of industry solutions. For example, the company moved beyond just selling mining equipment to helping their mining customers configure their work sites to be as productive and cost effective as possible. To make the strategic move, the organization had to define the competencies it needed (both hard and soft) and whether to develop them in house or through partnerships. It used partnerships to acquire competencies it did not have, such as GPS tracking and autonomous controls for machines. It combined these competencies with existing ones, including strong customer relationships, a deep understanding of the operational challenges they faced, and a large in-house research talent pool. Developing the capability to provide complete solutions played an integral role in the company's ability to compete on more than price. In addition, building deeper customer relationships to provide solutions also boosted equipment sales, since competitors were not as close to their customers.

A crucial part of this step is embedding the capability building process. Identifying and prioritizing the competencies to develop must be more than an exercise by the HR function. It is essential to have this competency mapping and capability building as part of the strategic planning process, with the active engagement of executive management.

6. Review strategic plans. Finally, and perhaps most importantly, companies must review and refresh strategic competencies and capabilities to ensure that the organization keeps pace with industry and market conditions.

The process in action

An iconic, century-old North American recreational-vehicle manufacturer saw trouble on the horizon. Although it had a powerful brand and a base of fiercely loyal US customers, those customers were aging and the market's growth had declined considerably. The most dynamic markets for its products were outside the United States, primarily in emerging markets where many customers love Americana and the spirit of freedom that the brand represented. To help stem the declining sales and revamp the company's competitive advantage, it turned to capability-driven product development.

The company began by assessing its competencies to identify those that will be essential in the future. The process revealed that the organization had little understanding or substantive expertise in the growing segments of young American customers or markets outside the United States. A detailed analysis of market trends identified the need for several new competencies: designers with a deep understanding of what appeals to younger customers, an ability to adapt products to appeal to value-conscious customers in emerging markets, and the ability to translate its distinctive brand and style to appeal to new audiences.

During the competency mapping and evaluation stages, the organization identified significant shortfalls that prompted it to take several novel steps to bolster its product development function. The design team, for example, began sending personnel to emerging markets to immerse themselves in how local customers used similar products. The company partnered with external engineering firms, when it was not feasible to develop specialized technical competencies in house. These efforts yielded a new, highly successful product line tailored to younger Americans and customers in India, China, and other emerging markets. Since its launch a few years ago, sales of the new product have grown twice as fast as sales of its traditional products, and now account for more than one-third of all units sold.

In the process of creating this successful product, the company also learned real-time lessons about how to acquire competencies and develop capabilities. The organization pushed itself by building new, hard technical competencies, including developing electric drivetrains. It has started matching these with important softer competencies, including robust market scanning, the use of incubator teams to identify and develop innovations, and accelerating decision making during product development. The result is a powerful emerging capability to create innovative products using new technologies while maintaining the distinctive elements of its iconic brand. The first fruit of the effort was an electric vehicle developed in record time—less than a year.

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Competing in an era of rapid technological change is about more than keeping up with the latest market developments. The hallmark of success is the ability to determine where and how a company will compete and make critical choices. These choices will inevitably require that companies build capabilities to do new things and to do them better than competitors. This ability requires a methodical approach to identifying the competencies and capabilities that will be required in the future and assuring that they are in place when needed.

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