

# EVALUATING THE BUSINESS POTENTIAL OF A NEW PRODUCT OR SERVICE

This is an invaluable tool for leaders to use in evaluating the business potential of a new product or service. It allows you to weigh several new product ideas against each other. It yields a “go” or “no-go” decision on each product or service by employing a set of weighted criteria.

## Introduction

We assume that a team is in place that is vested with the authority to make decisions on new products or services. Typically, the team would perform this evaluation after reviewing a synopsis of each opportunity.

**Step 1:** The team should agree on the criteria for evaluating the proposed projects. In the example below are listed the criteria we recommend you use. Each criterion should also have a “weighted number” assigned to it, indicating the relative importance of that criterion. (We recommend a range from 1-3). These, too, need to be decided by the planning group.

**Step 2:** Each member of the team should work his or her way through the various criteria, deciding whether the project deserves a plus, a zero or a minus. Calculate the weighted value by multiplying the weighted number times the plus, zero or minus you assign. (E.g. a criterion with a weight of 2 can only have a value of +2, 0 or -2) See the example on Page 3.

**Step 3:** Add the resultant subtotals, and subsequently the final total, to determine the project status. Here’s the formula for deciding whether it’s a “go” or “no go”: If the total equals “x” (we’re using algebra here), then the total assigned value should exceed 60 percent of “x” for the project to proceed. Using the example on page 3, the total of the weighted criteria is 32. Therefore, an assigned value of 19 or higher would be considered a “go” while 18 or less would be a “no go.”

## Recommended criteria

- **Market Size, Growth:** A plus here means a relatively larger, faster growing market segment compared to other market segments.
- **Competition:** The more competitors there are, the less favorable the market conditions (i.e., many competitors = a minus).
- **Ease of Entry:** If it’s easy for the competition to move into this particular market niche, it’s a minus.
- **Life of Product:** The longer the life expectancy of the new product or service being considered, the more it’s a plus.

- **Fulfills “Real Need”:** Knowing that a market segment perceives a real need merits a plus. The lack of meaningful customer data is a zero. Copying a competitor’s product is a minus.
- **Possible Spin-Off Products:** If the new product lends itself to other, spin-off products, line extensions, etc., that’s a plus.
- **Quality Image:** Self-explanatory.
- **Fits with Mission:** An automatic plus unless the new product/ service is a “target of opportunity” which doesn’t fit within the mission but nevertheless is so attractive it should be considered anyway. In that case, it’s a minus.
- **Up Front Money Required:** A relatively small up front investment is positive.
- **Size of Investment:** Large investments, in both dollars and manpower, are negative.
- **Payback Period:** The shorter the time required to recover the money invested, the more positive the evaluation.
- **Return on Investment:** The higher the better.
- **Risk Involved:** The higher, the worse the evaluation.

Not everyone will have a uniform capability of evaluating a project on each of these criteria. Therefore, if you’re uncomfortable applying any of the criteria, you can leave it blank and go on to the next one. If, in the final analysis, there are a lot of blanks, then more research is required. Once the research is in, the exercise should be repeated.

### New Product Evaluation Grid

This is an example of how the evaluation grid should look:

Criteria	Assigned Weight	Plus/ Zero/ Minus	Value
<u>A. Market Characteristics</u>		(+ 0 -)	
size, growth of potential customer base	2	+	2
competition	2	-	-2
ease of entry for potential competitors	2	-	-2
Subtotal:	6		-4
<u>B. Product Factors</u>			
projected life of product	2	+	2
fulfills "real need"	2	+	3
possible spin-off products	1	0	0
cross-selling potential	1	0	0
quality image	2	+	2
Subtotal:	8		7
<u>C. Business Fit</u>			
fits mission (first to market/innovator)	2	+	2
fits existing product development capabilities	1	+	1
fits existing sales and marketing capabilities	1	+	1
uses/enhances key markets	2	+	2
meets development cycle	1	+	1
quality	1	+	1
Subtotal:	8		8
<u>D. Financial Factors</u>			
up front money required	2	+	2
total investment required	2	+	2
payback period	2	+	2
return on investment	2	+	2
risks involved	2	+	2
Subtotal:	10		10
Overall Total:	32		21