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**LAUNCHING THE PRODUCT INNOVATION TO A
MARKET: CASE STUDY FROM A DAIRY INDUSTRY**

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ABSTRACT

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In the environment of ever-changing needs of customers, technologies and competitors, the survival of the company depends on how well it researches, develops and implements new products to the market. The need for development of new products relates to many factors: globalization, international competition which is now underway on a global scale, scientific advances and development of production, changes in consumer preferences and consumer behavior. In this study the focus is on the company from a dairy products industry. This study is aimed to defining the role of product innovation launch strategy in an overall enterprise strategy, and to select the optimal combination of its marketing tools. The main purpose of this study is to determine place and the role of innovative marketing based in the innovation process, and to determine launch and positioning strategies in the general concept of an innovative product. The object of the study is the Russian enterprise, which is aimed to achieve a competitive advantage through the continuous production of new products, upgrade existing ones and improve innovation management practices. Research showed that the differentiation strategy is suitable for launching the dairy industry product innovation to a market.

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APPENDICES

1. INTRODUCTION

The first part is an introduction to the research. It begins with a background of the study. Then the main research questions, objectives and delimitations are explained. Next, the research methodology used in the empirical part of the research is introduced. In the end the organization of the study is presented.

1.1. Background of the study

Innovation activities have been long occupying a leading position in the direction of development of market-oriented enterprises, especially in the international market. Today the company which does not develop new products and does not improve the existing ones has the risk of being moved out or even be displaced from its position by more far-sighted company.

Of course product innovations are very expensive and risky, but the success of a new product justifies the risks and costs, but it requires much effort and resources. Thus, for making an innovative product which will be successful in the market, it is necessary to organize and manage the entire process of developing a new innovative product. Today, there are quite many clearly defined theoretical concepts and principles of managing the innovation process. A company needs to define its mission, goals and objectives on the market for developing a strategy, determining its market position and prospects of developing on the selected market. A cooperation of all departments of the company and their general orientation to the innovation process is required for successful innovating activities. A strategic management measures also have to be aimed to create a favorable innovation climate within the company.

A lot of modern researchers as well as past leading theorists of innovation and marketing, like Kotler, are involved in development of innovative marketing ideas. In their work they identify marketing as one of the determining factors for the successful launch of a product innovation into the market. Today, any company which is leading in international market emphasizes the need of

innovation, as well as identifies marketing as one of the most important tools in the process of research and development. Extra wide, these questions are answered in the works of Layker and Morita.

Despite the crucial role of research and development, management and technological departments, nowadays the marketing is one of the key tools in the development of a new product. Its activities are aimed at every stage of the innovation process, from market research to finding promising areas of development, and finishing with marketing and commercialization of product. Thus a marketing department has a big influence on a product concept, the definition of the target audience, competitive advantage, positioning, pricing, searching of a promotion and distribution channels.

1.2. Research questions, objectives and delimitation

In this study the focus is on the one company from the dairy products industry, but most likely information gained from this company may be also applied to other fields of industries. This study is aimed to defining the role of product innovation launch to the market in an overall enterprise strategy, and to select the optimal combination of its tools. The main purpose of this study is to determine place and the role of innovative marketing based in the innovation process, and to determine product launch and positioning strategies in the general concept of an innovative product. The object of study is an innovation-oriented enterprise, which is aimed to achieve a competitive advantage through the continuous production of new products, upgrade existing ones and improve innovation management practices.

To achieve study aims and objectives, the following research question has to be answered:

What strategy is suitable for launching the dairy industry product innovation to the market?

The sub questions are

1. What are the benefits from the appropriate launching of the innovative products to the market?
2. What are the main characteristics of product innovations in a dairy industry?
3. How to launch an incremental product innovation to the market?

The first sub question is needed for the understanding that the suitable strategy assumes that it is beneficial for a company. The second and the third sub questions are needed for basic understanding of an innovative process of the industry,

The focus in this study is on the one Russian dairy products enterprise and its marketing strategy for product innovation while entering to a market. The main delimitation of the study is that it does not cover all different fields of the industries which are introducing innovative products to the market. The main idea is to concentrate on a one product innovation from the one company since it represents very interesting and common industry field in Russian market. The purpose is to give a description of the innovation and analyze its marketing entry in order to meet the needs of the market and its customers and in order to implement the best possible strategy related to their industry field.

The purpose of the study is not to describe all the aspects of different innovation types but to give an idea about one of them as an option and look for its functionality on particular business. In addition, the study does not cover all the potential fields of industries in Russia.

1.3. Research methodology

The selection of appropriate sources of information is the main decision in the research process. In this thesis primary and secondary sources were used. Primary sources of information were an interview with a respondent from the case company and the documents which were given by him. Various secondary sources were used, they include Elsevier and Emerald electronic databases, companies' websites, marketing researches, articles from scientific magazines and books. The summary of used sources can be found in table 1.

Table 1. Sources of information for carrying out the research.

Type of the source	Description
Interviews	Two interviews were the main primary sources for the research, the main data about company and its innovative activities were received there
Documents	Another primary source of information, the documents included the marketing information about Baltiyskoie moloko sales and characteristics of a product innovation
Elsevier and emerald electronic databases	The databases were the secondary sources of information, articles from the databases was used for writing a literature review and theoretical framework of the study. Keywords, which were used for searching the information, were: product innovation, product launch, 4P's of innovation, positioning strategy, research and development, innovation marketing.
Books	The books were used primarily for the chapters 3 and 4, where deep description about innovation marketing was given. Main book was Kotler's Marketing Management, other important books were Introduction to the innovation marketing by Steinhoff & Trommsdorff, and book Innovation management and innovative policy by Russian authors Agarkov, Graznova, Kuznetsova.
Companies' websites	Websites of Wimm-Bill-Dann and PepsiCo, a new owner of Wimm-Bill-Dann group were accessed for marketing information and for gaining overall information about company activities, products, corporate divisions, operations in different regions and history.

The main primary sources of the information were two interviews. They were conducted via e-mail questionnaire and by the face-to-face interview. The respondent is a representative of Wimm-Bill-Dann subsidiary Baltiyskoie Moloko, he is a vice-headman of a marketing department. The respondent

received a questionnaire via e-mail on 30.03.2013 in order to be familiarized with the questions and to prepare documentation, some answers were received immediately. Then the face-to-face interview was agreed via e-mail and implemented on 12.04.2013. The information obtained from the interview and the documents can be seen in appendices from 1 to 4.

The questionnaire (see Appendix 5) consists of the preliminary questions, which include the name of the company, its field of industry, the position of the respondent in the company, company year of entry to the market, and the geographical area where company is operating in. Then eleven main questions were included. They are consisted in a way that the respondent can either answer to them according to his experience or prepare documentation with answer on this question. Qualitative research is a methodology which consist data of detailed descriptions of the situations, events, people, interactions and observed behaviors. It includes direct quotations, thoughts and excerpts or entire passages from documents, correspondence, records and case histories. The detailed descriptions, direct quotations and case documentation of qualitative measurement are raw data from the empirical world and it is collected as open-ended narrative without attempting to fit peoples' experiences into predetermined or standardized categories such as ready response choices. To sum it up, qualitative data provides depth and details which emerge through direct quotation and careful description (Patton 1990).

Elsevier and emerald electronic databases were the secondary sources of information, articles from the databases was used for writing a literature review and theoretical framework of the study. Keywords, which were used for searching the information, were: product innovation, product launch, 4P's of innovation, positioning strategy, research and development, innovation marketing. Books were used primarily for the chapters 3 and 4, where deep description about innovation marketing was given. Companies' websites of Wimm-Bill-Dann and PepsiCo, a new owner of Wimm-Bill-Dann group were accessed for marketing information and for gaining overall information about company activities, products, corporate divisions, operations in different regions and history.

A case study is a research strategy which focuses on understanding the dynamics present within single settings. (Eisenhardt 1989). Case studies can involve either single or multiple cases and numerous levels of analysis. Furthermore, case studies may include multiple levels of analysis within a single study. Typically case studies combine data collection methods such as archives, interviews, questionnaires and observations and the evidence may be qualitative, quantitative or both. Eventually, case studies can be used to accomplish various aims: to test theory, provide description or to generate theory. This study focuses on providing description of the methods which Wimm-Bill-Dann case company have used for marketing its product innovation.

This study is a qualitative research of Wimm-Bill-Dann case company, which is working in a diary products field of industry in Russia. The exact object of research is a Wimm-Bill-Dann subsidiary Baltiyskoie Moloko, the diary factory in the north-west part of Russia. Qualitative research can be characterized as a non-numeral, guided by research problems, multi-level, complex and narrative. The research data collection method consists of formulation of the problem, collection of the data, analysis, interpretation and reporting which are all analyzing together. Qualitative research includes small amount of cases or even one single case which is analyzed as precisely as possible. Typical for qualitative research is also that the researcher does not have any prejudices and he or she is able to find new aspects from the collected data.

1.4. Organization of the study

The study begins with a description of the various innovation types in chapter 2. At the beginning of the first part of the chapter 2 the division on radical and incremental innovations as well as their short description will be given. Then these two types of innovations will be described more narrowly. In the second part of the chapter 2 the concept of 4P's of the innovation will be explained, and the description of all four different P's will be given in details.

The chapter 3 narrowly focuses on the product type of innovations. First of all, the correlation between research and development and product innovation will be examined. In the second part of the chapter 3 the question about what particular factors affects the success of the product innovation on the market will be explained. And in the last part of the chapter 3 the main focus will be on the marketing science, especially about the market positioning strategy, which will help to attract more customer attention to the product innovation.

Focus on the product launching and marketing of innovations will be introduced in chapter 4. At the beginning of the chapter 4 the ways of how consumer could response to the appearance of the innovative product on the market will be examined. Then in the second part of the fourth chapter the basic tools which are used for positioning of a product innovation will be studied. And in the last subchapter the tools which could give a measurement to the effectiveness of the company's positioning strategy of a new innovative product will be presented.

The general aim of this research will be fulfilled in the chapter 5. It consists of examination of how the Baltiyskoie moloko subsidiary of Wimm-Bill-Dann has launched its product innovation to the market of the north west district of Russia. In the first part of the chapter the research method is introduced. The second part of the fifth chapter consists of a general description of the Wimm-Bill-Dann Company in general and the description of the main target for case study, Baltiyskoie moloko subsidiary. In the third part the market environment is presented. In the fourth part a market activities of the Baltiyskoie moloko is showed. And in the last subchapter the case study of the Baltiyskoie moloko's launching strategy of the product innovation will be presented.

The sixth and the final chapter is a conclusion of the research. First part of the chapter 6 includes summary of major findings and gives answers to all research question. Then the second section of the sixth chapter introduces limitations of the research. And finally the brief suggestions for the further research are shown. The organization of the study is presented on figure 1.

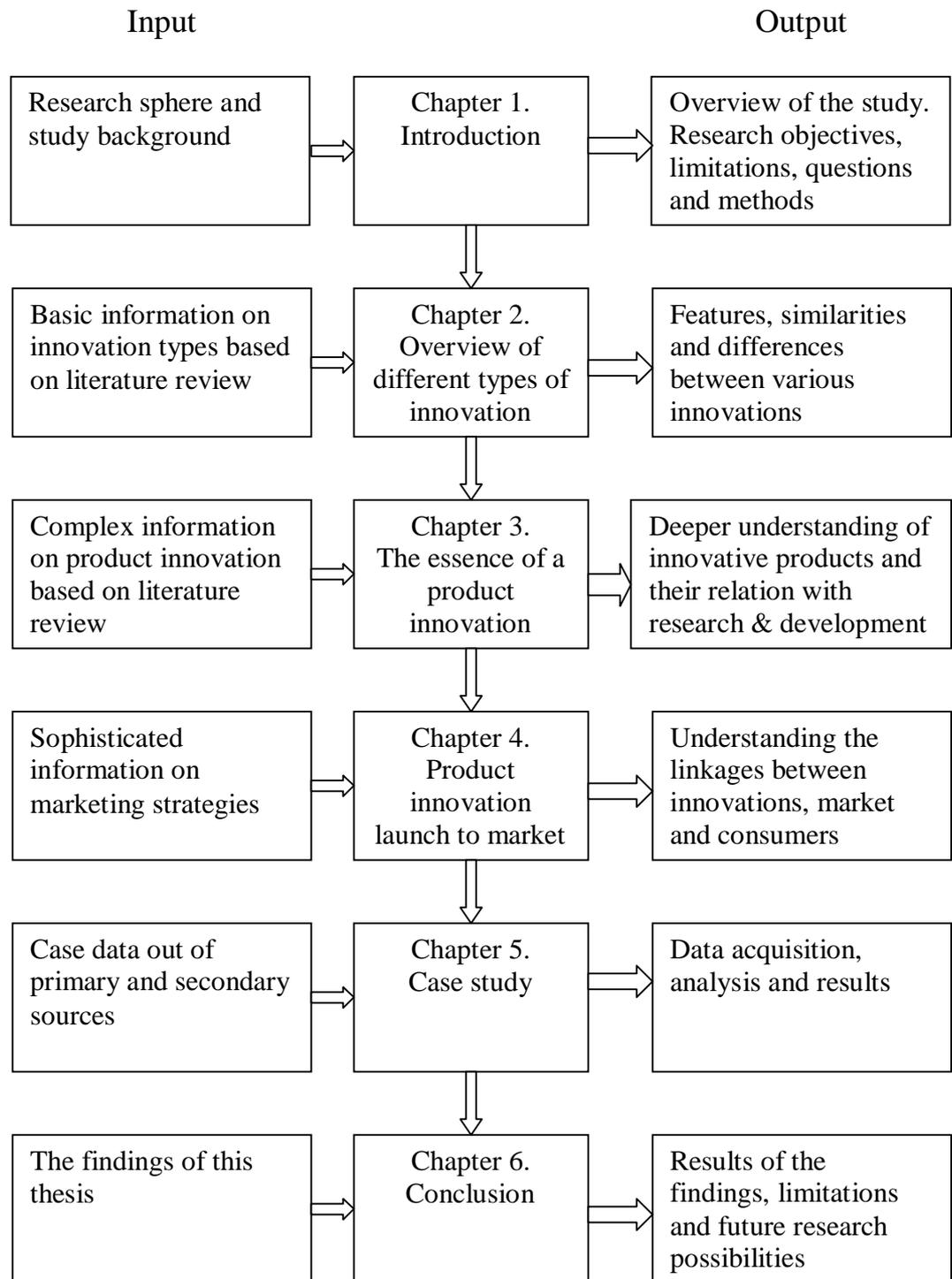


Figure 1. Organization of the study.

2. OVERVIEW OF DIFFERENT TYPES OF INNOVATION

This chapter describes the various innovation types. At the beginning of the first part of the chapter the division on radical and incremental innovations as well as their short description will be given. Then these two types of innovations will be described more narrowly. In the second part of the chapter the concept of 4P's of the innovation will be explained, and the description of all four different P's will be given in details.

2.1. Radical and incremental innovations

There are many kinds of innovation. Classification may vary according to the object of innovation, for example innovation of socio-cultural systems, of ecosystems, of business models, of products, of services, of processes, of organizations, of institutional arrangements, of the drivers of innovation (technologies, markets, design, users, etc.), or to the intensity of innovation. One of the most common division of innovation types are incremental (continuous) and radical (discontinuous) innovations (Bessant & Tidd 2009).

1. Radical (discontinuous) innovation - they require the change of frame (company is doing what it have not done before). This type of innovation offer possibility to offer something completely new and change the rules of the game.

2. Incremental (continuous) innovation - these are improvements within a given frame of solutions (company is doing better what it have already done). This type of innovation often offers bigger gains in the long run than occasional radical changes.

2.1.1. Radical innovation

Radical innovations are those innovations which are based on significant leaps in technology development, enabling entirely new features or order-of-magnitude improvements in products or costs. Radical innovations are often identified after-the-fact, typically based on their market or industry impact. Radical innovation is

characterized as an ambiguous and risky process, relying on emergent or undeveloped knowledge, and operating in unfamiliar technology or business domains.

Radical innovation consists of involving the commercialization of products based on significant leaps in technology development (Leifer et al. 2000), leading to advances in features or performance compared to what was previously available in an industry or market (Hill and Rothaermel 2003). These can change the balance of power in existing markets or even lead to new markets. They create high uncertainty, not only in the market and industry environment, but also for the organization commercializing them (Andreas et al. 2007).

Radical innovation has long been portrayed as ad hoc and highly dependent on the ability and persistence of individuals (Leifer et al. 2000). Without these people, it is often thought, radical innovation would not happen because management would have little incentive to look beyond current businesses and incremental improvements (Chandy & Tellis 1998).

Individuals are therefore the key contributors to the implementation of radical innovations. Nonetheless, they face a difficult task. For large complex organizations, priority is often given to satisfying current customers or achieving operational excellence, rather than promoting innovation. Consequently, those attempting to secure resources and support for innovation projects may face seemingly big challenges. They will need to navigate the organization's informal channels and overcome resistance at various levels (Markham 2000). They may be able to gain the backing of higher level managers (Day 1994). However, the responsibility for getting these innovations developed falls mainly on them.

Radical innovation requires a dynamic capability, which fundamentally represents an ability to bring changes. More specifically, dynamic capabilities enable firms to reach beyond existing routines in order to do things differently (Zahra et al. 2006). They involve processes that allow individuals to experiment, yet with

focus and guidance. As a result, firms have the ability to continually introduce valuable innovations before competitors.

In order to make innovations, particularly as they approach the radical end, organizations must think beyond their current businesses. But too often these organizations fail to support, and will even resist, innovations posing major change, all the while embracing new products offering high compatibility with their current businesses. Organizational histories, past successes and market share leadership will influence these decisions, making it more difficult to move away from the familiar. Yet these organizations will need to periodically renew their businesses as the advantage of their current ones diminish over time (Christensen 1997).

The individuals, rather than an organization-wide commitment, are responsible for the majority of radical innovations (O'Connor & McDermott 2004). Radical innovations are infrequent, typically happening because certain persistent individuals are able to maneuver them through the organization's resistive forces. On the other hand, managerial involvement may involve not resisting but supporting actions, as communicating broad values and providing encouragement. From this perspective, the empowerment can be the primary driver of radical innovation in organizations, and so radical innovative ideas can arise from anywhere in the organization (Gemünden et al. 2007).

2.1.2. Incremental innovation

A continuous or incremental innovation is one that not sweeps much away from a firm's existing investment in technical skills and knowledge, designs, production technique, plant, and equipment. Incremental innovations, therefore, do not involve substantial changes in technical skills, knowledge, design, or the other factors (Gatington 2002). Incremental innovations can easily be defined as products that provide new features, benefits, or improvements to the existing technology in the existing market. An incremental new product involves the adaptation, refinement, and enhancement of existing products or production and

delivery systems (Song 2003). Benner and Tushman (2003) refer incremental innovations to improvements in a firm's existing product offerings that better satisfy the needs of its current and potential customers. Incremental innovations manifest as adaptations, refinements, enhancements, or line extensions, incorporating new features that offer additional benefits. To the extent that incremental innovations entail changes in the underlying technology, those changes in the technological trajectory tend to be relatively small and place limited strains on a firm's existing competencies.

Incremental innovations will occur only on a microperspective affecting either the marketing or technology S-curve. Incremental innovations will not result in macro discontinuities which are only seen in radical or really new innovations. Incremental innovations are important on two main counts: first as a competitive weapon in a technologically mature market; and second, because streamlined procedures based on existing technology can help alert a business in good times to threats and opportunities associated with the shift to a new technological plateau. For many firms, incremental innovations are the lifeblood of the organization (Johne & Shelson 2001).

Incremental innovations can occur at all stages of the new product development process. At the conceptualization stage, research and development may use existing technology to improve an existing product design. At the mature stage of a product's life, line extensions may result in incremental innovations. A borrowed technology from a different industry may be new to a different market. If it does not alter on a macrolevel either the technology or marketing S-curves or on a microlevel both curves, this borrowed technology would be considered an incremental innovation (Rothwell & Gardiner 1999).

One of the main characteristics of incremental innovation is that it takes place on the subsystem level in that the changes involve in the first instance of one or a few segments of a production process, although they may have important ramifications for other parts or for the system as a whole. The changes are viewed from the standpoint of the firms making the changes. This is important because

the degree of radicalness of an innovation can vary from producers to users. A radical transformation of a piece of equipment may lead to only a marginal change in a larger system into which the machine is incorporated (Garcia & Calantone 2002).

Incremental innovations do not occur in aggregate, but result from decisions within individual businesses. Their impact is felt at the levels of the firm, the product and the sector. For firms, incremental innovations may be used to gain an advantage over competitors, but they are also shock absorbers that allow firms to make adjustments in response to changes in their environments; for example they might change their patterns of fuel consumption when relative price levels change. On the product level, on-going incremental innovation after the determination of a dominant design allows for further improvements that extend product lifespans (Adner & Levinthal 2001). On the sectoral level, sequences of incremental change can be a killer app, leading to permanent competitive advantage for innovative firms, while firms that underestimate the importance of incremental improvements over an extended period can suffer fatal or near-fatal set-backs. The best example of this is the automotive industry, in which what was once the largest manufacturing firm in the world was forced into bankruptcy, in part because consumers changed their allegiances when management neglected to implement a series of small process changes that collectively brought significant advantages in price and quality to its competitors (Gatignon et al. 2002).

Realistically, in today's intensely competitive market environment, simultaneous pursuit of both radical and incremental innovations is an imperative. Nowadays the innovation strategy of successful innovators is an innovation pyramid comprised of a few big bets at the top, a larger number of promising midrange ideas in the test stage, and a broad base of early stage ideas or incremental innovations. Not every innovation idea has to be a blockbuster, and that sizeable profits can also result from a sufficient number of small or incremental innovations. So the role of innovations at the bottom of the innovation pyramid (incremental innovations) in a business' competitive strategy is very important

and companies must explore how it can be leveraged to compete more effectively in the marketplace (Kanter 2006).

2.2. 4P's of innovation

Innovation is often in the eye of the beholder - what may be new and radical for one person, may be old news for another. Despite this subjectivity in identifying and classifying innovation, there has been useful work in thinking about the focus of different innovation processes, guided by the question: what is it that innovation processes seek to change and improve?

The '4Ps' model was developed by John Bessant and Joe Tidd (2009) and it provides a powerful tool for such analysis. It builds on the hypothesis that successful innovation is essentially about positive change, and puts forward four broad categories where such change can take place:

1. Product innovation - it is changes in the things (product or services), which an organization offers;
2. Process innovation - it is changes in the ways in which products and services are created or delivered;
3. Position innovation - it is changes in the context in which the products or services are framed and communicated;
4. Paradigm innovation - it is changes in the underlying mental methods which shape what the organization does.

These 4Ps are not tight categories: they have fuzzy boundaries. They are not alternatives, firms can pursue all four at the same time. There are linkages between them; a firm using innovation capability for positioning, for example, will be highly likely to introduce or improve products. It is possible to define position and paradigm as variations of re-framing - either concerned with what the offerings the organization provides or what identity it pursues (Bessant & Tidd 2009). However, the 4Ps provide a structured approach to examining the opportunity space for innovation.

2.2.1. Product innovation

New product and service development is an obvious target for innovation capability and can be considered on several dimensions. For example Wheelwright and Clark (1992) identify criteria that differentiate products including number, timing and rate of change of product platforms, whether they are variations or derivatives, the frequency of introduction/refresh rate, relationship with strategy and degree of modularity. They point out that product innovation is influenced by the state of industry maturity - In relatively young industries, such as medical instruments, every development effort appears to be a platform effort (to broaden the firm's market coverage), with incremental changes targeted primarily at correcting deficiencies in the platform products.

The resource requirements for product development can vary over time - with the development of product platforms requiring more effort over a sustained period. A firm may be able to plan for several generations of products over a life cycle with derivatives in between. Here, innovation can be seen as strategy-driven and deliberate rather than emergent or serendipitous (Randale & Rainnie 1996).

Product innovation is also applicable to service firms whose products are, to some extent, created in real time. For example Singh (1991) notes that in Singapore Airlines, the innovative spirit gave the travelling public the first slumberettes on Boeing 747 upper decks, jackpot machines to relieve boredom and round-the-world fares.

The issue of timing can be significant. House and Price (1991) cite a McKinsey report that suggests that, "on average, companies lose 33% of after-tax profit when they ship products six month's late, as compared with losses of 3.5% when they overspend by 50% on product development". The management of the product development provides a complex decision-taking task for the firm. Uncertainty and risk can rarely be avoided and rules of game theory can seem more applicable than direct cause and effect relationships.

The process of new product development can, in itself, be the target of innovation. Arguably the greatest resource in the future for product innovation will be in the use of the internet for accessing customers and, using mass-customization and agile techniques, it may be possible for firms to devise a distinctive product for each customer (Goldman & Nagel 1995). Here, the product is presented as an 'envelope of possibilities' rather than a pre-determined entity. This notion presents intriguing challenges; it may become possible for a customer to participate actively in the development of a unique product.

At one level the notion of innovation in products offered is simple. All a firm has to do is to find ways of providing superior functionality and price and signal this to the market. It can be argued that any initiative in which the added value exceeds the added cost by an acceptable margin should be undertaken. Such a stance is simplistic because product development requires making decisions with unknown consequences, making bets and channeling limited resources.

2.2.2. Process innovation

Processes are widely accepted as a target for innovation initiatives (Clarysse & Utterhaegen 1998). Processes are sequences of activities, often proceeding horizontally across the organization, that are transformations. There is considerable scope in improving the operation of existing processes, through taking out waste of various forms and optimizing them for high performance (Gallagher & Austin 1997). For example, new technology can add precision, improved training can increase conformance or process mapping can identify time wasted in unnecessary activities (Stalk Jr. 1993). Much of the lean thinking agenda is based on this principle.

There is also considerable scope for identifying new process routes which offer better performance along one or more dimensions. For example, the history of the chemical industry is based on a series of continuous improvements to established processes punctuated by occasional introduction of novel process which radically shifted the physical and chemical rules, such as moving from batch to continuous

processing or changing the thermodynamics, and in doing so enhanced yields by an order of magnitude.

Processes interact, sometimes in complex ways. In a simple organization, for example a dentist's reception area, there may be processes in place for registering patients, keeping records, stock management, making bookings, arranging routes, logging staff time, arranging maintenance work, cleaning the waiting room, reminding patients of forthcoming visits and so on. At least some of these processes will be interdependent and core processes like maintaining hygiene will be particularly important. Innovation in processes in this relatively simple environment is unlikely to be coherently managed—different agents will play distinctive roles and ideas for improvement arise from a variety of sources. For example, there is a likelihood that reception staff will notice weaknesses in some processes or see opportunities and take initiatives to bring about improvements themselves without reference to senior personnel (Hummel-Kohler & Kristof 1997). From time to time, problems or opportunities may occur that require a formal review and changes will be made on a planned basis. The dentists, who have the highest status in the system, will make suggestions or issue instructions—as may patients and suppliers. Moreover, trade journals will contain occasional articles on improving reception services that give inspiration. The dental practice may decide to submit itself to an overarching set of disciplines like ISO 9000.

It can be seen that ownership of innovation in processes in the dentist's reception area is likely to be diffuse, even though there may be a practice manager in a coordinating role (Sirkin 1990). There are a variety of sources of critical observations and improvement ideas and several ways in which decisions are taken to initiate change. Such complexity in the ownership of process innovation is typical although major processes, like the layout of a new automated production line, will generally be managed using a systematic approach. This is more difficult to achieve where sub-processes evolve in a number of ad hoc ways (McHugh & Merli 1995). Those directly involved may be the best people to identify

improvement possibilities and effect change. There can be multiple actors dealing with multiple processes in multiple ways (Bessant 1992).

The diversity of agents playing roles in process innovation means that they tend to develop without an overall coherence. Accordingly, they can be inefficient, patchy and/or inherently contradictory. Approaches such as business process re-engineering seek to overcome such weaknesses, identify core processes and subject them to intensive development (Hammer & Champy 1993).

Process innovation can be facilitated by systematic analysis and by comparative benchmarking. Specific techniques include: process mapping, activity analysis, constraints analysis, kaizen, problem analysis, video recording, modeling, time compression, statistical analysis, pilot experimentation, process management, problem-solving tools and cost structure analysis. These techniques have the effect of raising consciousness about problems and opportunities, thereby increasing the probability that innovative initiatives can be undertaken (Burgess 1994).

Not all process innovations are within firms. Perry and Sohal (2009) describe a form of process innovation at the level of the value stream or supply chain. In the early 1990s the textile, clothing and footwear industries in Australia were in danger of being overwhelmed by more efficient foreign suppliers. The Australian government funded the 'Quick Response Program' to facilitate increases in speed-to-market. This took the form of a series of workshops that included participants from all components in a supply chain. The results showed improvements of between 74% and 100% on key indicators over four years. Interestingly, the development of mechanisms for open communication was considered just as significant by participants as the adoption of a standard for electronic data interchange.

Processes present a fertile and extensive set of targets for innovation. Multiple small improvements can accumulate into large gains. Major processes can be improved or re-engineered, perhaps incorporating new technologies. All

processes, including those at the strategic apex of the firm and within the value stream, are potential candidates.

2.2.3. Position innovation

A positional innovation does not significantly affect the composition or functionality of the product but the meaning of the product in the eyes of the potential customer or the market segments selected as targets (Kim & Mauborgne 1999).

Positional innovation is not mentioned by some commentators on innovation management who prefer to adopt a narrower product-process definition. Nevertheless, the realization that innovation can be positional is supported by some publications. For example Guest and Storey (1997) point out that, for some products, success depends on finding innovative ways of bringing to the market products that appeal to potential buyers.

It can be argued that the capacity of firms to be innovative in product positioning has grown over the past 50 years for two main reasons. Firstly, there has been an improvement in the prowess of marketing and advertising agencies to construct meanings in potential customers enabled by their increasing skills, availability of market research data and the proliferation of means of persuasion (Tull & Hawkins 1993). Secondly, low cost data processing means that customer profiling can be elaborated, practical and instant. Using this capacity presents specific management challenges. In a mass market billions of pieces of information could be collected about customers and potential customers but marketing decisions need to be based on a limited number of salient factors, hopefully interpreted with brilliance and insight. Kim and Mauborgne (1999) suggest that managers need to imagine a market universe that is made up of known and unknown market space and they argue that there is a need to break free from competitive convergence.

Most cases of positional innovation relate to firms, brands or products. However, institutions can go through the same process. For example, the Labour party successfully positioned itself as New Labour before the 1997 general election in

the UK. This required a host of changes in personalities, power-structures, policies and practices, apparently following a similar change model to that adopted by commercial firms (Irons 1993).

Changes in position can be summarized as what the firm would like typical customers from targeted groups to feel and say about their product and company. There are many examples of successful positioning and re-positioning. For example, the Daily Mail repositioned itself as the leading newspaper in the UK for women readers in the 1980s, the BBC repositioned itself as a global media corporation in the 1990s, Henley Management College repositioned itself as Britain's largest internet-based provider of MBA degrees between 1987 and 1993 and Manchester United FC positioned itself as a fashion brand in 1994-1996 (Gummeson 1997).

The central feature of an innovative product positioning strategy is the management of identities, through advertising, marketing, media, packaging and the manipulation of various signals. These topics are extensively discussed in the literature of brand management. Positional innovation can change the characteristics of a market or create a market that does not exist (Doyle 1997).

Product positioning includes the four elements of innovation (idea - adoption - application - benefit) and may excel at the first stage (Beatty 1997). For example, some would use the word brilliant for the notion of associating a leading brand of toilet paper with the gentleness of a puppy or connecting a brand of petrol (perhaps the ultimate commodity product) with the vitality of a tiger. The final element in the innovation process, harvesting benefits, is difficult to evaluate but this can be attempted (Tull & Hawkins 1993).

Firms can seek build a distinctive market position by the management of identity. It is a frequent occurrence to hear a person choosing to buy a product as it comes from Sony, Gap or Harrods. In these cases the firm itself can be seen as a brand in itself (Kim & Mauborgne 1999).

2.2.4. Paradigm innovation

This type of innovation is the most controversial. Not all scholars support the notion that paradigm is a legitimate target for innovation capability. However, it is not unknown, for example Rickards (1999) observes that today the term paradigm has found its way into the vocabulary of organizational management, in such terms as 'paradigm switch' and 'paradigm breakthrough'. The expressions are broadly taken to imply that a traditional belief system-the old paradigm-has been replaced by a new way of understanding, a new paradigm.

The collective mindset of the organization has a sense making function. But it is not always functional as it can persist beyond the point of relevance. As Grove (1998) points out, there are special times, which are called strategic inflection points, when managers may know that their current approach is failing but may not know what new paradigm to adopt. Here a pre-framing activity can be required-that can be termed exploration, learning or entering a void.

Innovation in paradigm includes a requirement for learning, including self-reflection and discourse (Kolb 1999). In a metaphorical sense it is necessary for actors in an organization to 'look into the mirror' and see themselves as having adopted just one of several options in the way that they have framed reality and opportunity. Here reflection is a key enabler and the level needs to be deep and, potentially, transmutational (Cooperrider & Srivastva 1997).

Although there is a significant degree of fuzziness in definition, it is useful to categorize two types of innovation in paradigm. These are innovation in inner-directed paradigms and innovation in outer-directed.

In the inner directed innovation capabilities targets organizational values and people management policies. Abrahamson (1998) calls these 'administrative technologies'. These can be important as one of the most important concepts to emerge from behavioral science consulting is the notion of social invention. This is simply the realization that social settings do not have to be taken only as they occur by chance.

The significance of changes in inner-directed paradigm is underlined by Binney and Williams (1997) who suggest that underlying the patterns of behavior that define organizations are the mental models that people have, the assumptions and frameworks that enable them to make sense of the world. It is these mental models or paradigms that ultimately organizations have sought to change.

There is also an evidence that a flow of paradigm changes, a form of episodic revolution in paradigms, is needed - at least in some industries. This is suggested by comments on Microsoft from one of its senior managers, that what distinguishes Microsoft is that it is not afraid of making paradigm shifts, largely because its senior management is very technical. They understand the technology, which at the end of the day is really what drives the industry. Cusumano and Selby (1996) implies that paradigms can be managed, and that it can be important to do so. It is reasonable to assume that explicit paradigm management would be especially important in industries where the structure of thinking is advancing in generational ways.

Another type of paradigm innovation is an innovation in outer-directed paradigms. This type of paradigm innovations relate to business models, these are the system of coherent, comprehensive, explicit or implicit constructs used by managers to understand their firm and shape its development (Senge 1998).

This form of innovation in paradigm is outer-directed in the sense that it seeks to provide an organizational formula for thriving in, generally, a competitive environment. Hence, the test of the efficiency of a business model is whether it provides the necessary conceptual architecture for a firm to gain and sustain competitive advantage. As such, it is more extensive than the market-facing positional innovation discussed above. An early comprehensive approach to strategic positioning was described by Tregoe and Zimmerman (1994). They argued that firms need a Driving Force, a dominant paradigm, and that they can only have one at a time. Tregoe and Zimmerman (1994) described 8 different possible driving forces, each of which required a distinctive pattern of assets, capabilities and strategies. The relationship between the Driving Force concept

and innovation capability was discussed by Tregoe (1999), that there is a wide range of opportunities for future business development facing just about every organization: deeper penetration of existing markets with existing or improved products; expanding to new markets with current or improved products; developing or acquiring new products for current markets; developing new products for new markets. No organization can pursue all future business development options simultaneously. If it does, scarce resources become dissipated, as do the creativity and energy of those involved. Focus is lost, and with it the discipline to achieve the vision. Slywotzky and Morrison (1999) extended this approach and argue that there are unifying principles around which a firm's activities need to be aligned. It is possible to identify 30 or so patterns, several of which may be unfolding at the same time. They argue that what is frequently needed is innovation at the level of business design-the structure of thinking shared by the power elite of the firm that determines policy and practice.

Sub-systems within organizations can also be the targets for paradigm innovation. Indeed, they are a natural location. For example, a training function may move from promoting a business school-based approach to executive education to running an in-house action learning programme or a finance function may move from cost analysis to activity based costing. Such paradigm shifts can be the spur for multiple innovative initiatives (Ulrich 1997).

Perhaps the most dramatic forms of reconfiguration business model follows acquisitions, mergers, joint ventures and alliances. These may be undertaken specifically to provide an appropriate resource base for innovation, as seems, for example, to have been the rationale for the merger between AOL and Time Warner, described by Hill and Waters (2000) as revolutionizing the way that news, entertainment and the internet are delivered to the home. In this case the Internet distribution capability of AOL was merged with the content provider, Time Warner, following a convergence strategy. That this can be a risky endeavor is shown by the decline in share values after the merger.

3. THE ESSENCE OF A PRODUCT INNOVATION

This chapter narrowly focuses on the product type of innovations. First of all, the correlation between research and development and product innovation will be examined. In the second part the question about what particular factors affects the success of the product innovation on the market will be explained. And in the last part of the chapter the main focus will be on the marketing science, especially about the market positioning strategy, which will help to attract more customer attention to the product innovation.

3.1. Research and development of a product innovation

Competition on an international market nowadays is so strong, that development of innovations and constant development of product innovations or modification of existing products is not a manufacturer desire to position itself as an innovative firm, but a necessary action which is required not only for gaining a big profit but a compulsory action for staying on market and compete with other firms.

Previously innovation activities were required exclusively in high technology industries, like machinery production, electronic industries, engineering, and software industry. But today enterprises from every industry, starting from light industries, trade and finishing activities like management, logistics and production, they all must find new ways of making a new innovative product. The easiest and less risky way is to modify an existing product, but history shows that this measure does not guarantee a success (Denisov 2002).

In this chapter product innovation will be described as an economic category, the factors of its appearance and concept of research and development. Nowadays many definitions of product innovations can be given. Peter Drucker (1985) defines innovation as a special tool for entrepreneurs, content of which they use for their aims as an opportunity for developing different business and services.

Kotler et al. (2008) described innovation as an idea, product or technology, which was put in production or was brought out to market, which customers perceive as a totally new or having unique features.

In international economic literature product innovation interprets as a conversion of a potential scientific technical progress to the real, which is incarnated as a new products and technologies. Innovation often defined as a process in which the invention or idea get to the economic substance. Another definition states that innovation is a combination of technical, industrial and commercial activities, leading to the appearance on the market of new and improved industrial processes and equipment (Pichler et al. 2000).

Also innovation is a social, technical and economical process, which lies through the use of practical ideas and inventions lead to the creation of the better properties of products and technologies. And if it is focused on the economic benefits, profits, innovation appearance on the market may cause additional income. Innovation could be described as a new scientific and organizational combination of different factors, which was combined by entrepreneurial spirit (Agarkov et al 2011).

So, after analysis of the previous definitions, product innovation can be described as a company tool for effective performance on the market, and it aimed for bigger satisfaction of target customers apparent and hidden needs. Apart from the technical, economical and production component, innovation is also the result of creative activity that is very often bring new results and discover new features for goods used or undisclosed needs of customers (Goldstein 2008). These components of innovation can be seen on figure 2.

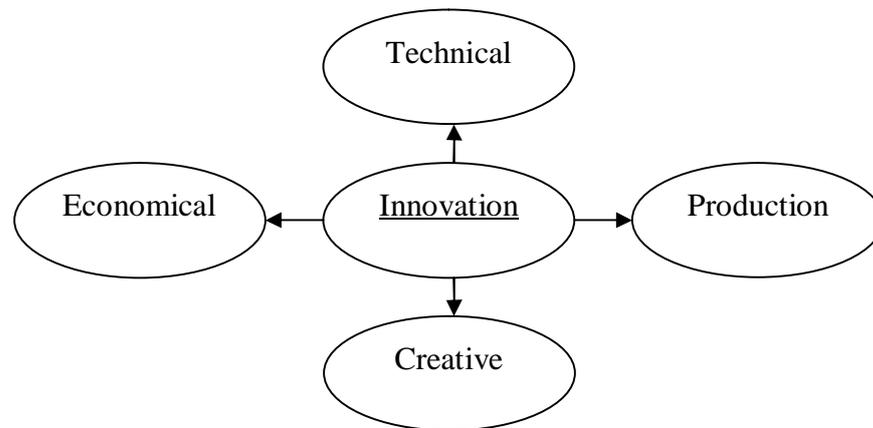


Figure 2. Components of a product innovation (Goldstein 2008).

The main objective of product innovation is to offer to buyers the product with the greatest customer value and which is capable to better meet the needs of potential customers than similar competitors' products.

If we look at the main causes of innovation boom and research and development boom, the first cause to be identified is the competition. It was a determining factor in the development of innovation. Striving to become the first among the best forced enterprises to develop new products, new concepts of management, or process innovation (Bazhenov et al. 2012). Second cause was a development of production, which has been able to offer new technologies that improve a product or reduced its costs. The third factor is the advances in science that give theoretical and practical background for development of certain areas of production and services. Another factor is the globalization of the world economy, which allowed and made necessary for firm to learn from others. And last but not least is the factor of change in consumer preferences. Today's consumer is used to getting a product that thoroughly satisfies his or her needs, and he or she assume the constantly emerging new items as a fact. Today companies that strive to be the leaders just need to constantly produce new innovative products to keep their position in the market and not to lose their customers (Agarkov et al. 2011). All above mentioned factors can be found in figure 3.

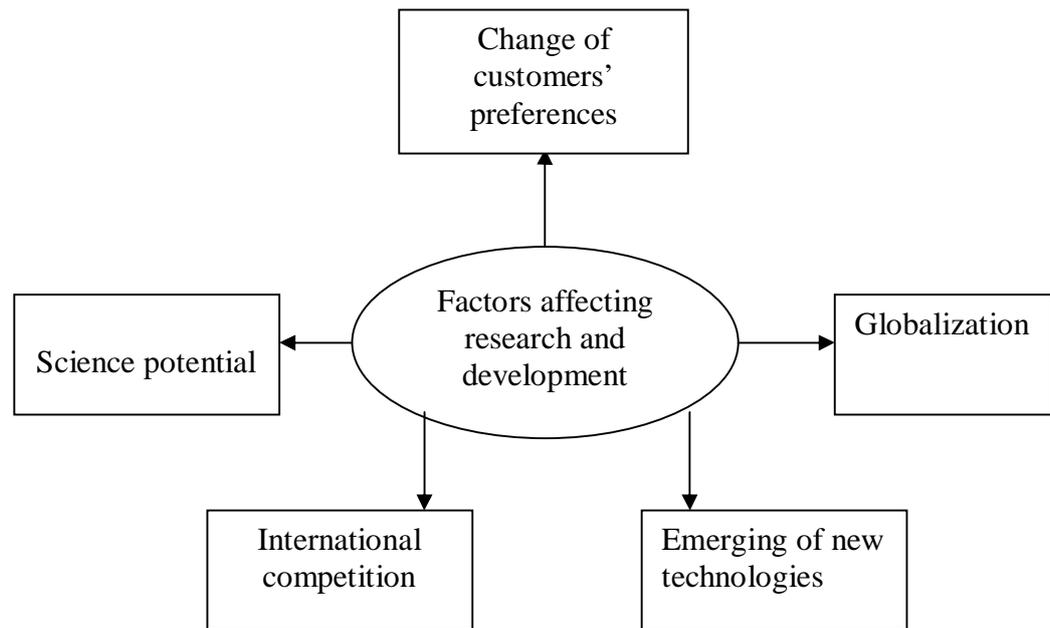


Figure 3. Main factors which affects modern research and development (Agarkov et al. 2011)

Nowadays science has become one of the most important activities in society, and it determines the prospects of development of particular enterprise, industry, and the country in general. Experts predict that enterprises, which will be unable to increase its scientific capacity will be doomed for a deep dependency or even acquisition (direct or indirect) of other innovative companies, which have stronger innovative and scientific potential (Kandibin 2005).

Due to the growing influence of the innovation and the transition to an information economy, the question of the effective management of innovation has become very important. Innovation is not only the key to sustainable development, but is rather risky for business. However, based on the experience of many international companies, innovation can be risky only for those businesses that do not have sufficient competencies, and do not possess modern methodology of control over them (Denisov 2002). These modern principles of control over innovation and research and development are highly dependent on strategic management, evolution of enterprise, and changes in firm's external environment, and those principles have different stages.

The first stage of research and development management occurred in 1900-1950s and it was just research activities, which were managed by the managers and scientists themselves. The founders of this approach are Henry Ford and Thomas Edison, who became successful industrialists through successful implementation and use of research and development for commercial purposes. (Korobeinikov & Trifilova 2011)

The second stage of research and development occurred in 1950-1970s. In this period top executives and middle managers grasped the necessity of careful management of research and development. So companies have started to focus only on the projects, which could help them to achieve general aims of their businesses. (Korobeinikov & Trifilova 2011)

The third stage had continued in 1970-1990. On that period the big technical progress and great growth of industrial research and development happened, so the expenditures for product innovations had also increased. And its share in overall company budget was constantly growing. Company growth perspectives became more and more dependent on successful performance of development departments. For lowering the level of market uncertainty companies have started to form balanced budgets, which were aimed on more rational distribution of profits and risk between existing products and product innovations. Research projects was started to evaluate according to market matrixes, competitiveness analysis and product life cycle. This practice is usually referred as technological management based on concept of strategic planning. The main attention was paid to satisfying of apparent customer needs. (Korobeinikov & Trifilova, 2011)

The fourth stage has started in 1990s and it has been continuing till present time. On this stage enterprises have started to pay attention to the hidden customers needs. This aim was achieved by using joint participation in new product development of both producers and consumers, suppliers and other stakeholders, and such cooperation usually begins at the early stage of product development. This process is called interdependent learning, in which the real customer needs are viewed according to the technologically feasible concepts. At this stage

product innovations have increased its importance in the corporate plan. (Korobeinikov & Trifilova, 2011)

Thus strategies for the management of research and development need to be considered in relation to the external environment, resource allocation and firm's market strategies. Innovations increasingly determine the path of firm's future development and they are driving force for changes in the company environment and the organization in particular, so potentially they providing company with new opportunities. And effective product innovations require a complete integration of strategic and innovative management (Cravens & Piercy 2005). In the world of a new technology strategy itself is not enough for effective company performance, it should merge with innovation. And in the head of each strategic plan the task of research and development of product innovation and development of new production technologies should be set.

Perhaps in the future there will be the new stages of innovation management. The main concept for this new period is a shift from management of innovation to programming of innovation, which is a consequence of high technical equipment of the world economy and the creation of programs for strategic management. Programming of innovation is a very effective, because it can define a sequence of actions and then actively create favorable conditions, in other words to actively influence on a situation, not just manage it (Goldstein 2008).

The main task of research and development is to develop innovative products that will be the basis for the production of the company in the future. In conducting research and development, work culture, traditions, organization, infrastructure, technological level, human resources of course must be taken into account. But perhaps the most important fact is that the research and development, as a forward-looking activity, is closely related to and mutually determine the strategic management of the company (Agarkov et al. 2011). Strategy on innovation becomes to reality only through the development of a specific products or processes. Product innovation costs are investments in the future of the company, but at the same time, they are associated with high uncertainty and risk.

All abovementioned things gives reason to conclude that, in most cases, management of research and development, which includes forecasting, planning, project evaluation, organization, monitoring of the innovation process is strategically more important than the actual performance of research and development, because it is much more important to identify the right direction, and then to focus on the concrete steps in this direction (Korobeinikov & Trefilova, 2011).

Thus, we can conclude that research and development and its management is closely related to the theory and practice of general management of the company, marketing, production management, logistics, strategic management, financial management of the company. Such relation can be seen on figure 4.

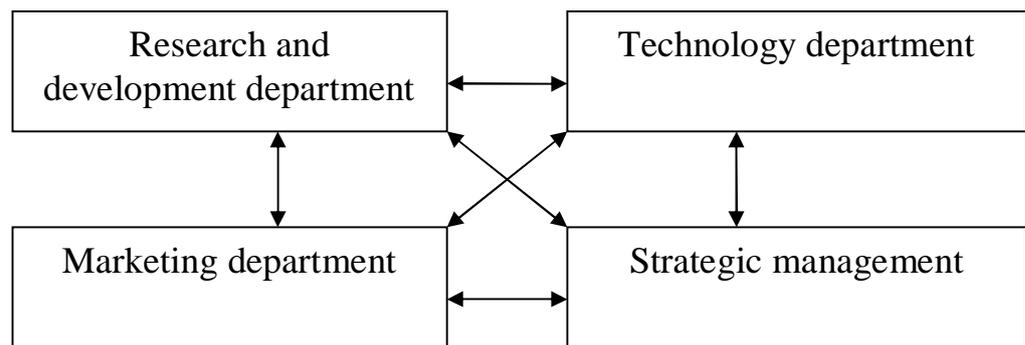


Figure 4. Departments' interdependency in innovation process (Korobeinikov & Trefilova, 2011).

While summarizing all abovementioned things, we need only note that the development of innovation activities, as well as the concepts of its management, is in constant development and nowadays there are already quite many theoretical knowledge in this field of study. Now any organization needs to focus on them and select the concepts which will be the most suitable for itself and the environment in which it operates.

With regards to investment for product innovations, it is difficult to determine their optimal level. The increased expenditures on innovation do not automatically mean increased sales, market share or profit. There is almost no correlation

between the increase in research and development costs and increase profitability. And there is only one way out of this situation - improving the efficiency of firm's base expenditures, and it will help to increase the return on investment in innovation (Kandibin 2005).

In microeconomics there are three basic principles of investing in innovation (Goldstein 2008). First one is to raise the efficiency curve of innovation - increasing costs of innovation tend to decrease the return on them, in other words there is a limit at which profits begin to decline, so companies need to determine that the optimal level of investment, in which it will receive the maximum return on investment.

The second principle is the management of the entire value chain of innovation. It is a task of top management of the company. And it must understand the fact that innovation is not a separate sphere, but multi-function activity, requires the high responsibility and control of all product innovation stages, from idea generation to commercialization (Goldstein 2008).

The third principle is an outsourcing of the innovation activities. Today, thanks to the development of venture capital firms, it has become possible to develop innovation outside the firm. Some of the international companies just buying ideas from these venture capital firms. This trend happened due to a higher venture capital and business-oriented development. Of course, the prerogative of ideas selection is better to leave to the main firm, as it is too closely associated with the company strategy and vision of the business. Product development can be assigned to another firm. While considering this issue the major factors are specifications and performance of the firm. As for commercialization, some aspects of this activity can be transferred to specialized companies, these activities include advertising campaigns, market research. However, the strategic issues such as the definition of the characteristics of the goods, its prices or output to the market, are too closely tied to the company and it must consider these thing by itself (Bazhenov, 2012). All three principles can be seen on figure 5.

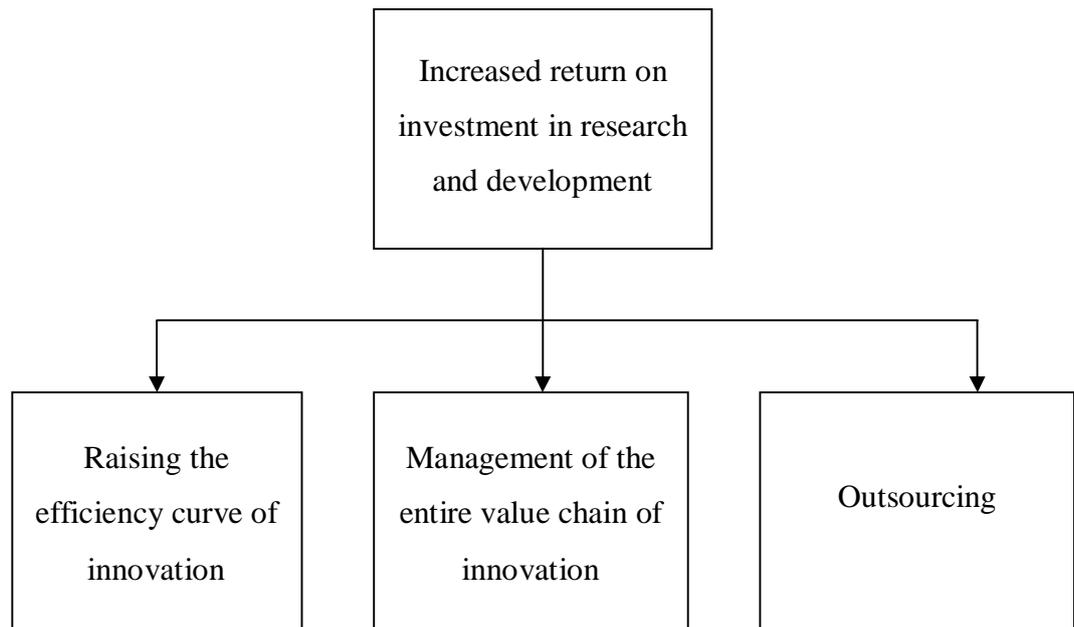


Figure 5. Return of investment into research and development (Goldstein 2008).

Companies, which are the most successful innovators in the world and invest huge amounts of money to research and development, are the leaders of the world market, so they are a practical proof of the necessity of innovation. However, even their experience shows that there is no direct relationship between the amount of funds invested and the success of products in the market. As already mentioned above, a number of factors must be taken into account for the successful implementation of the product innovation projects.

Research and development costs are going global. Today, innovation centers are not always in the same region as the headquarters of the company. Over the past five years, the volume of investment in research and development in Europe increased by 2.3%, in Japan by 3.8%, in North America by 5.2%, but ahead of all in the list are India and China, where the increase was by 17%. Leader in terms of research and development is the Ford, which have invested 8 billion dollars in innovation (Shishkova 2007). The list of twenty companies that have invested most money in research and development can be seen in table 2.

Table 2. The leading companies investing in research and development (Shishkova 2007).

№	Company	Research & development expenditures (mln \$)	Location of headquarters	Field of industry
1	Ford	8000	North America	Automotive
2	Phizer	7442	North America	Medical
3	Toyota	7178	Japan	Automotive
4	DaimlerChrysler	7019	Europe	Automotive
5	GM	6700	North America	Automotive
6	Siemens	6546	Europe	Multiprofile industries
7	J&J	6312	North America	Medical
8	Microsoft	6184	North America	Software
9	IBM	5842	North America	Computing
10	GlaxoSmithKline	5700	Europe	Medical
11	Samsung	5428	South Korea	Electronics
12	Intel	5145	North America	Computing
13	Volkswagen	5071	Europe	Automotive
14	Sanofi-Aventis	5025	Europe	Medical
15	Matsushita	4989	Japan	Electronics
16	Novartis	4846	Europe	Medical
17	Nokia	4753	Europe	Electronics
18	Sony	4698	Japan	Electronics
19	Roche Holdings	4578	Europe	Medical
20	Honda Motor	4508	Japan	Automotive
Overall		115964		

As it can be seen from the table, the distribution of expenditures between industries shows that the biggest investors in innovations are automotive industry companies (27% of the total expenditures on innovation in all sectors). On the second place are manufacturers of computers and electronics (26%), and on the third place are medical and pharmaceutical products manufacturers (22%).

There is something in common in the strategies of the most effective innovators, they are all equally good at generating ideas, selecting the most promising projects, developing innovative products and commercializing of innovations (Liker 2004). However, they also take into account the views of consumers, and it affects the direction of new product development (Morita 1987). Also, one of the success factors is sufficiently flexible organizational structure of the companies in which it is easier to the senior management to control the innovation process and receive feedback from business units and customers (Hamel et al. 1999).

Thus, innovation activities determine the prospects of the business development, its place on the local, national and international markets. The right choice of development directions and good governance of innovation lead to new opportunities for growth and progress (Pichler et al. 2000).

Summarizing all of the above, it should be emphasized:

- Product innovation is not only a technical, industrial and commercial category, but also the creative potential of the organization who implemented it;
- Key factors in the development of innovative activity are constantly growing competition between different enterprises, increasing scientific and technical capacity of companies, changes in consumer behavior and the processes of globalization;
- The process of innovation management is in constant development;
- For the successful implementation of innovation processes the cooperation of all departments of the company is required, as well as the orientation of each of the participants to the market and end consumer.

3.2. Factors of the success of a product innovation

The previous chapter highlighted the importance of innovations, which is one of the leading areas of the activities of any company. In environment of constantly

changing needs of the consumer, technology and competitive environment, the company survival depends on how well it is developing product innovations and introducing them to the market.

However, research of customer needs and development of new goods are very complex processes that require careful consideration and on which the success of goods mainly depends on. And after the product is on the market, it can not be left to itself. It still needs to be applied the correct commercialization strategy - segmentation, positioning, and complex of four "p".

Kotler and Keller in *Marketing Management* (2006) made a distinction between invention and innovation. They defined invention as a new technology or a new product, which, according to the consumer, may or may not have advantages over similar products of competitors. By innovation he understands an idea, product or technology, which was launched on the market and that the consumer perceives as a completely new or having some unique properties. In other words, this is a new qualities, first implemented in some product or technology, and which are presented on the market.

One should also distinguish between acquired (licenses and patents for production) and developed in-house new products, which are more expensive and time consuming because of one's own development. Under the new products are assumed the original products created by the company, and also improved products and new brands, if these products and brands are results of the efforts of its own research and development department of the company (Kotler & Keller 2006). In this thesis, we will stick to this principle.

Innovations themselves correlate with a very high risk because of cost and duration of the development process, unexpected delays during development and unpredictable level of success in the market (Ritter et al. 2004). However, despite all these risks, companies that produce product innovation usually become less vulnerable to competitors attacks, because they possess a knowledge that is not possessed by any of the competitors.

Nine stages of innovation process can be distinguished (Bessant & Tidd 2009):

- Search and choice of ideas directions;
- Generate ideas;
- The selection of ideas;
- Development and testing of the concept of the goods;
- The marketing strategy;
- Economic analysis;
- The creation of prototypes;
- Test marketing;
- Commercialization.

Of course, consistent, structured process allows better control of the development, tracking every step, but it spends the most valuable asset of the company - the time, which can be used by company's competitors for their own purposes, bringing the failure to the company. Working slowly or think long is too risky, so companies prefer parallel product development process, which involves close cooperation between firm's divisions, and making several stages of innovation process in the same time. This approach can save time and increase efficiency (Ritter et al 2004).

This marketing concept is focused on the discovery of needs and further satisfaction of these needs. The main difficulty is in identifying the unmet needs of the target audience and the formation of an appropriate offer. Company could only produce a new product or update an old, and then make a profit. Such process was described by Kotler et al. (2008) and it can be seen in figure 6.

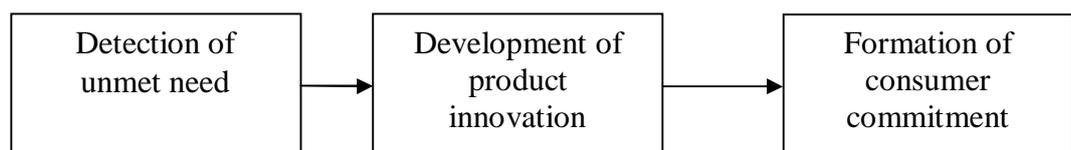


Figure 6. Concept of new ideas marketing (Kotler et al. 2008).

But nowadays a completely different direction of marketing has been developed, which is called “marketing of new ideas”. Its basic idea is to invent product innovation and to position it as a brand, to explain to consumers what advantage it has and perhaps customers will like it (Steinhoff & Trommsdorff, 2007). This is the most common form of marketing in the field of high technology.

Today it is very difficult to detect unmet needs in many business areas, so the use of the traditional concept of marketing is very difficult. Modern innovation is a brilliantly developed concept, and it is often imposed to the consumer. In many industries, such as the fashion industry, entertainment, toys and movies, a product developed with the help of the concept of "new ideas" was always given to a market (Denisov 2006). Thanks to well-conducted communication policy, and the policy of aggressive expansion, companies are often able to convince consumers that the need for a product exists.

Thus, marketing of new ideas works together with creating innovation that comes out depending on the wishes and aspirations of the consumer. Marketing efforts focused mainly on customer's adaptation and their understanding of a product and also on consumers for understanding of their own needs. Means of promotion are big-budget promotional campaigns or “guerilla marketing” (Ries & Trout 1997). Result of such work is the adaptation of the product on the market, and gaining recognition of consumers.

Development of ideas for a new product marketing was triggered by several factors: high rate of product innovation, which exceeded the speed of detection of the new consumers needs, research inability to detect hidden needs of the audience, high competition, which forces companies to look for new ways to attract and retain customers by using progress in the industry for improving the company's profitability (Bazhenov et al. 2012).

Of course, this concept can be described as unethical, because company manages consumer choice and do not allow him or her to make the choice himself or herself by forcing him or her to purchase goods, the need for which he or she may

not feel. However, if we take into account the fact that many brilliant product ideas have not been implemented because of poorly conducted market studies or because of bureaucratic procedures, effectiveness of this concept is difficult to deny. And nowadays there is no any other choice, because when the market is full of innovation and competition, it forces companies to look for new ways to increase profits and attract customers (Denisov 2002).

Thus, the company should choose which concept it should follow. It is necessary to take into account all the determining factors, its goals and strategy. Indisputable is only just the fact that innovation defines the firm's position in the market, and only through the formation of a powerful stream of innovation company may gain a competitive advantage and market leadership.

Technical success is only a necessary but not sufficient condition for success in product innovation. Generally speaking, the deciding factor is the recognition of consumers. If the innovation does not meet the hidden needs of the target consumers, then in the long run it will fail in the market. Thus, the success factors are high value of the products, and its successful extension on the target market. The achievement of these indicators is a main task of the product innovation commercialization. The success factors can be seen on the figure 7.

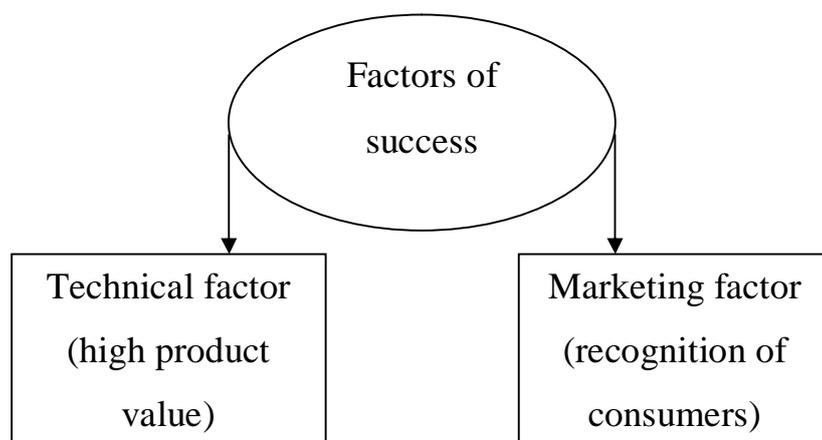


Figure 7. Factors of a product innovation success (Bazhenov et al. 2012).

Commercialization has a very important role in the managing of research and development. And on the other hand research and development plays important role in commercialization. The research and development units should base their activities on the marketing research, which sets the direction of their work. On the other hand, research units have to monitor trends of scientific and technical progress, predict the creating of a new product and, therefore, it is required from marketing services to conduct a market research of the market potential of the new product (Cateora & Ghauri 2000).

One or another type of marketing is dominated at different stages of the product life cycle. On the stage of development of product ideas and its realization the strategic marketing plays the most important role, because it determines the prospects for new products on the market. On the stage of product implementing to market and mass production, the most important is an operational marketing, because it provides market segmentation and search of new market niches. On the stage of product maturity the most important things are tactical marketing tools, such as control of prices, increased maintenance of advertising. Those types of marketing can be summarized in table 3.

Table 3. Correlation between marketing and stage of product lifecycle (Ries & Trout 1997).

Stage of product lifecycle	Marketing type
Research and development	Strategic marketing
Product implementing to market and mass production	Operational marketing
Product maturity	Tactical marketing

Innovative marketing can be defined as a marketing concept, according to which the organization must continuously improve its products and marketing methods. In modern society, it is a unity of strategy, business philosophy, business functions and procedures of the company management.

The main objective of the strategic innovative marketing strategy is to develop ways of product innovation penetration to market. The task of innovation marketing is in creating and implementing new offers on existing and potential sales markets. The main feature of an innovative marketing is that it works with a non-existing product, like an idea or a project (Goldstein 2008).

Steinhoff and Trommsdorff (2007) have identified the following causes of innovative marketing emergence:

- Potential consumers often have difficulty when they try to obtain utility from innovation. This happens due to the complexity of technology, high speed of innovation process and unreliable estimates of benefits and costs;
- Technical progress, despite its strong patent protection, does not guarantee success, because company's product innovations can be easily copied by competitors. So today correct marketing is a prerequisite, because consumers need to know what benefits they will have after the consumption of your, not a competitor's product;
- A high level of risk which is faced by consumer when he or she utilizes a new technology;
- Developers often work in isolation from the market, so it is difficult for them to track the rapidly changing needs of consumers. For this purpose various market researches are conducted and promising directions of development are identified;
- Consumers have problems in formulating their needs. The task of marketologists is to identify consumers' needs and then use this knowledge for satisfying needs by the help of a product innovation (Steinhoff & Trommsdorff 2007).

The main activities in the innovative marketing are:

- Analysis of the market and the company's external environment. First, company need to track trends of product innovations on the market, to identify the factors

of technological development, and then identify unrealized needs of the target audience, and also to monitor the actions of competitors;

- The developing of the company. The main strategic action must be a creating of a favorable investment environment, determining the role and place of innovation in the overall business strategy of the company. The main tactical action is a stimulating of the development of different units of company in order to achieve synergy effect in all layers of organization;

- Application of innovative techniques in the enterprise. Harmonization of market research and technological development, the development of cooperation in every department, team work at all stages of product innovation development. (Agarkov et al. 2011)

One of the key success factors of a product innovation in the market is a properly conducted research of the market. Any innovation, at first should be focused on the consumer, otherwise it will fail in the market. It have been already mentioned in this chapter that the two basic concepts of innovation are exist, The first concept told that it is necessary to explore the market beforehand, to identify unmet needs of consumers, and then, according to the obtained data, create a product, position it properly, and get the profit then.

On the other hand there is another opinion. First of all it states that the competition on the market today simply does not leave time to conduct a full market investigation, and, secondly, now it is very difficult to determine the unmet needs of the target audience, so the manufacturer has nothing to do but to develop the prototype of a new product, release it to the market and create demand. Of course proper marketing and positioning of the novel product is required in this occasion (Bakaev & Terentyev 2007).

It is difficult to say which approach is more correct than another, everything depends on many factors, starting from competition on the market, and ending the environment in the country and the level of development of its economy. Most likely, every company does not adhere to a single concept. Company usually takes

into account different factors, and then it chooses for itself the most appropriate mix of the concepts. Each company has individual stages of research and development, and different schedule for certain events (Pichler et al. 2000).

Market research is the most complex, lengthy and important stage in the development of product innovation. Innovation could be technically perfect, but if it does not meet the needs of the customer and does not give him or her the practical result, all company's expenditures on innovation will not bring the expected profit.

It is known that not all product innovations achieve market acceptance (Bessant & Tidd 2009). The main reason for such a sad situation is the wrong choice of research and development portfolio. Very often the overall strategy of the company and its consistency with innovation is not taken into account, or information on the target audience and its problems is not fully collected, or the obtained information have not been interpreted properly. Such errors can not only bring the huge loss to the company, but also to decrease the position it occupies on the market or totally kick the company out of the market.

As it was mentioned above companies can invest tremendous amount of money in research and development and success rate of innovation can still be very low, so, before investing extended sums of money to one or another innovative direction, it is necessary to obtain evidence which can justify such a high risk. For this purpose it is important to form the innovative marketing thinking in all layers of the company (Kandibin 2005). The costs of the investigations are quite high, but only they can give a guarantee of success. In any case, the cost of research is much less than losses which can occur during the high risk situation of the market.

There are several key success factors for product innovation. First of all it is a combination of quality and unique ideas that enhance the value of the product. In the second place, it is a careful thought-out concept of the product. And in the third place, it is an ability of the goods to better satisfy needs of the market, than the similar competitors' products satisfy them. The close cooperation of all

departments of the company to each other and the ultimate responsibility of senior management for the success of innovation is also a very important factor of the marketing success. These factors can be seen on figure 8.

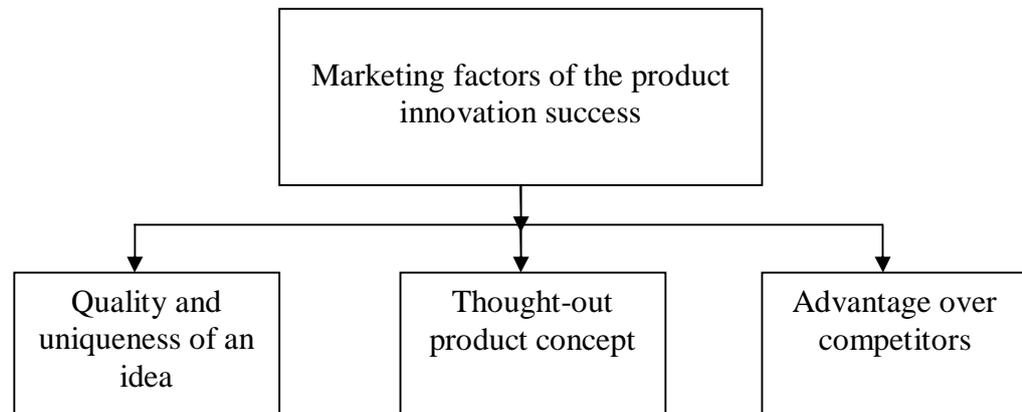


Figure 8. Marketing factors of success of the product innovation (Drucker 1985).

According to Kotler & Keller (2006) concept, there are three main stages in the process of market research and selection of promising lines of innovations development:

1. Choice of research direction;
2. Generation of ideas;
3. Selection of ideas.

Success of a product innovation depends on the correct choice of research directions, which should serve to the four main purposes: defining the main directions of development, coordination of firm's departments in accordance with this direction, concentrating developers' attention on assigned tasks, and senior management control over all company units which are involved in the development process. (Kotler & Keller 2006)

Companies formulate directions of the development in the special document that formulates the strategy of development, which justifies the choice of priority directions and objectives to be achieved and describes the products, markets and technologies which have to be taken into account.

When company is collecting the market data it is necessary not only to collect the data that are not available to competitors and can bring a competitive advantage, but it is also important to interpret the data correctly. Nowadays the information environment can be characterized as highly “contaminated” with too much unnecessary information (Ritter et al. 2004). The difficulty is in how to determine whether or not data is important and if it can bring the practical results to the company.

Once the main directions of research are selected it is necessary to organize a constant flow of ideas, and this process should be a systematic. The main sources of new ideas are internal sources - research and development department and staff, as well as customers, competitors and suppliers. Also, information can be obtained from secondary sources, exhibitions, seminars and government agencies.

After the company have worked out the maximum number of new ideas, it is necessary to analyze them and then choose the ones on which developers will be focus in the future. It is also necessary to answer a lot of questions, like what will determine the benefits that the buyer will receive from consumption of the product, what will be the benefits received by the company in the case of successful implementation of the innovative project, project consistency with the overall strategy, the availability of necessary channels of distribution and promotion, as well as the availability of the required experience.

The determinants of the success of an innovative product according to Kotler et al. (2008) are:

- Compatibility with the goals and strategic direction of the company;
- Existence of the necessary marketing expertise. These two factors are crucial in assessing the prospects of the product innovation.
- Availability of the necessary channels of distribution;
- Production capacity;
- Research and development base;
- Material and technical base.

The company must evaluate its estimated position for each of the criteria, and then conclude how strong is its ability to successfully implement the product innovation to the market. However, even this method of evaluation does not guarantee the success of the product when it is brought to the market (Shishkova 2007).

So that was the process of market research and selection of promising lines of development of innovative products in the classical marketing. Perhaps in the near future, the concept will not undergo any major changes, because its effectiveness is justified.

Today, however, many companies do not do market research and generate ideas by themselves. Very often these processes are being outsourced. There are a lot of main causes of such a process. First of all, it is the acceleration of the development process of innovation - the company can afford to save a lot of time without developing ideas, and just buying them. In the second place, the venture capital firms which are involved in the development of innovations have a very competent staff, equity and a deep knowledge of a market. In the third place, in the period of globalization it is much easier to interact with other companies and to learn from the experience of foreign partners through companies that specialize in the study of markets of new technologies (O'Keeffe 1999).

There is also another approach to the development of innovation - it is not an alternative to the first, however, there are some differences between them. Also, this approach focuses on companies that are developing product innovations only by themselves, without resorting to the services of other companies. This approach was developed by Toyota, and as it is inherent to the Japanese, it is focused on in-depth analysis and research of not only problems, but also its causes. They emphasize the importance of the research process, which will give the correct result if it was held properly. Innovation is the real need and it is not exist without the full understanding of the real situation (Morita et al. 1987).

There are certain principles of the research (Agarkov et al. 2011):

- Plan with taking the ultimate goal into account;
- Clearly define the tasks. These two principles are aimed to a senior management, which determine directions and control of the entire process.
- A permanent exchange of information and taking into account the experience of others;
- Analysis of opportunities and threats;
- Realize the potential of creative thinking;
- Analyze all possible alternatives;
- Make decisions which are based on consensus, while considering all possible options;
- Act immediately after the decision.

In this concept, there are three main stages of development of innovation (Agarkov et al. 2011):

1. To understand the root cause;
2. Parallel development based on a group of alternatives;
3. PDCA cycle of continuous learning from experience. In the beginning - planning actions (P), then do it in a small pilot version (D), then compare the result with the plan (C), and if everything is correct, act as if it is a standard (A).

This concept focuses more on the process of research. In addition, its implementation requires the full understanding of the importance of the innovative process and the orientation of the company and all its subsidiaries to the continuous innovation process, which involves a constant interaction of all of the company's departments and taking into account the views of each other. (Agarkov et al. 2011).

So we have examined a process of market research, which combines the advantages of both discussed concepts. In this thesis we believe it is necessary to find the root cause of the problem, because it exactly shows us its correct solution. Without awareness of it an effect of "marketing myopia" will finally occur in the company, and this will not allow company to objectively assess the usefulness of

the developing product. Then company must generate ideas and solutions, and after that select the most appropriate of them. And during this process it is important to take into account many factors such as the type of the market, the nature of competition in the industry, the consumer behavior of the target audience (Ries & Trout 1997). And other important factors are distribution channels and macroeconomical factors of the country like economic, demographic and political situation. In conclusion, important factor there is coordination with the departments of research and development, technology department and innovative product concept conformity to overall strategy of the company.

Schematically, the process of market research for implementing a product innovation can be summarized in figure 9:

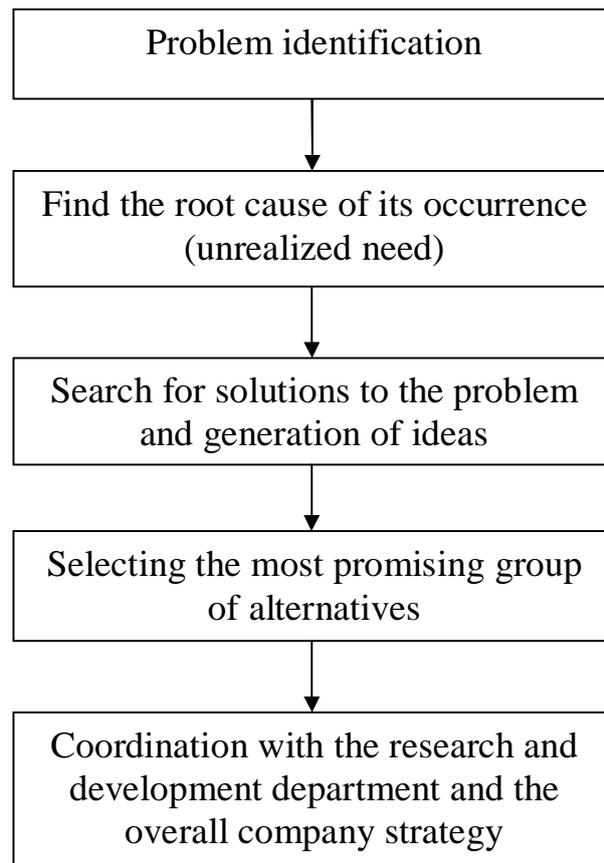


Figure 9. Market research process (Lambin et al. 2007).

So, after reviewing the two concepts of market research, we can define some features that they have in common:

- The duration and importance of the research process, because it largely determines the success of the product innovation in the market.
- A clear orientation to the problems of the consumer and his or her unrealized or unmet needs.
- The interaction of marketing and research and development departments.

Thus, companies need to focus on the market, and for this purpose it is important to study it properly, focusing not only on getting the largest possible amount of information, but also on its correct interpretation and making the right decisions on the basis of the gained and interpreted information.

Summarizing all the above information, it should be noted that the innovative marketing is one of the key success factors of the product innovation placement to the market. It accompanies every stage of the innovation process, focusing the company and all its subsidiaries to the market and the consumer.

Thus, several conclusions can be made:

- There is no clear definition of the stages of the product innovation marketing process. Their presence depends on many factors;
- Factors of the success of innovation in the market are two types of characteristics - technical characteristics and marketing characteristics;
- The right process of carrying out the market research and selection of the most promising directions for implementing ideas determines the success of an innovative product.

3.3. Positioning strategies of a product innovation.

The innovation process consists of many stages. The first one is the definition of overall business strategy, then, based on the strategy, the certain direction must have been chosen for development of ideas, and finally the selection of the most promising of them must be performed. All these steps occur in conjunction with the technical and research departments in the company that defines the reality of implementation of these ideas (Denisov 2006).

Then, you need to develop an overall concept of the product and define its marketing strategy, in which it is necessary to emphasize the product characteristics which has importance for customer and to describe the most important characteristics of the market for producer, such as target market, expected volume of sales, market share, price, distribution channels and marketing budget .

After that the familiarization of the market occurs. Each company decide how and to what markets it will release its products, it can be a test market entry or full-scale release of the same goods.

Introducing the products to the market consists of testing the competitiveness of the products and also a targeted use of marketing tools. Implementation phase ends with successful products fixation in the market.

Studies show that about a third of the products introducing to the market end up with a failure (Schewe & Hiam 1998). The cause may be a mistake in any of the stages of the innovation process. However, in this chapter it will be better to consider the effect of positioning on the success of innovative products on the market.

In order for innovation to be a success in the market, it is required to find or create such market conditions in which the strengths of the company will appear in their most powerful way. To do this, it is necessary to identify a group of consumers, in

whose eyes the company will have a distinct competitive advantage, and then win these customers, in order to realize that advantage.

In order to win and retain customers, you need to better understand and meet their needs. The company needs to gain a competitive advantage by offering consumers greater value from the consumption of the company's product, or by offering the same product, but at a lower price. The new product innovation, which has no analogues from the competitors, must be positioned properly by presenting its significance and uniqueness to the consumer.

The manufacturer should emphasize the benefits that its consumer receives from the consumption of the company's innovation. Thus, company must first differentiate the supply of the goods to the market in order to make it carry a greater value to the consumer than any competitor.

Four types of differentiation are exist (Cateora & Ghauri 2000):

- Differentiation of the product;
- Differentiation of the services;
- Differentiation of staff;
- Differentiation of the image.

After the differentiation company must identify the market segments that it is going to win, and also what position it will occupy in the minds of each of the consumer members of this segment.

The position of the product in the market is a place that this product occupies in the mind of the consumers as compared to competitors' products, in the other words it is the way he perceives the product. This is a complex process consisting of a set of impressions and feelings, emerging in the mind of the consumers (Kotler & Keller 2006).

Positioning is the way in which the consumer identifies a particular product by taking into account its essential characteristics. There are three main components of the process of positioning:

1. The concept of positioning, it is a product image based on the needs of the consumers of the target markets. While creating an image of the product, company could base it on the functional benefits that can meet the needs of the target audience, or to meet the domestic and social needs of the consumers, or to emphasize the positive feelings that the consumption of this product brings to the consumer. (Cravens & Piercy 2005).

2. Positioning strategy, which is a set of marketing activities which are required for reporting the concept of positioning to target consumers. At this stage it is necessary to coordinate the strategy proposals, pricing, promotion and distribution into a one comprehensive strategy. Creating a single integrated positioning system requires a coordination of various functional departments of the company, which has different powers in decision making. (Cravens & Piercy 2005)

3. Evaluating the effectiveness of market positioning, which is a definition of the achievement of previously identified positioning targets. It determines the degree of the market susceptibility to the marketing efforts of the company. There are different methods of analysis: a study of consumers and competitors, test marketing, and building analytical models of positioning. Then the best option for positioning strategy is determined. (Cravens & Piercy 2005)

Shewe and Hiam (1998) say that positioning strategy is focused to finding one or more characteristics that can be used in order to distinguish their product or brand from the competitor's goods.

Also they determines the following positioning strategies:

1. Positioning, which is based on properties of the product, is the most common approach, which tries to link the product with defined properties and characteristics. The main advantage of this approach is its simplicity and

functionality, however, the main error in it is the forming of an ambiguous positioning when a company tries to allocate a number of unique properties of the product and, therefore, a confused picture about company's products and brands have been created in the consumers mind. If the positioning strategy is based on too many properties of the product, the consumer can get confused, and the position of the product will be unclear.

So if a company chose this approach, it must focus consumers' attention on the distinctive properties of the product, which should have the following properties: significance, specificity, excellence, visibility, protection against copying, availability and profitability.

2. Positioning, based on the benefits, solving of problems and addressing to a basic needs of a consumer. This approach to positioning is closely related to the previous one, being the basis for a finding of reasons why a consumer chooses exactly this product.

3. Positioning based on value-money ratio. Very often, a high level of consumer prices is an indicator of a high quality products and high level of service. However, such positioning strategy should really be selected for exactly high-qualitative goods, otherwise in the long term, it will fail and consumer trust and loyalty to the company will be lost.

4. Positioning based on specific use of a product. It consists of two different ways. First one is to position a product for a highly specialized niche of the market. Second one is to find a new ways of using an existent product (Shewe & Hiam (1998).

After selecting the type of positioning strategy, company must start to develop it. In a marketing theory there is a classic marketing approach to positioning strategy (Lambin et al. 2007), which consists of seven steps:

1. Selection of the relevant product and a market. Many products are able to meet more than one need of a customer, so they can be positioned in different markets.

So the first step in choosing the position will be a making up a list of possible demands and needs of the customers. The product must be able to satisfy these needs of customers, so the market which these products can serve must be defined.

2. Determination of the competitors. At this stage, company must define the primary competitors on the market who has a similar product, and also secondary competitors, who have different products but try to satisfy the same customer needs. In this case, strategy developers should not run into marketing myopia and determine only direct competitors and carefully take into account the market influence of indirect competitors.

3. Determining how the consumers evaluate the positioning choices to see which of them are most likely to meet their needs. The standards on which to base such an assessment are the bases for the positioning of the product, so companies need to identify and understand these standards and understand the relative importance of each of these solutions for customers.

4. Determine market position of competitors.

5. Determine the gap in the positions which is held between company and its competitors.

6. Planning and implementation of strategic positioning. After company have selected the target market and determine the desired position, the company must develop a program which ensures that all information on the product, which is transmitted to the market, will create an appropriate view in the mind of the buyers. This means that the properties and the price of the product must correspond to the desired position, and that the trade channels selected for the distribution of the product also must pass the correct image messages to the consumers. Promotion campaigns are in the center of positioning strategy, and its messages which is designed to facilitate the promotion of goods, should also provide adequate information to the market.

7. Monitoring of the company's position, this aims to identify conformity of company's position to company's positioning strategy and its adjustment according to the requirements of the market. (Lambin et al. 2007)

In marketing practices, there is a 5W positioning model, the basic idea of which is to answer the questions about the product (Schewe & Hiam 1998). These questions are underlying on strategy and methodology of the positioning:

1. What - it is a definition of a product, its core strategy and core competitive advantage;
2. Who - it is a market segmentation and identification of potential target audiences;
3. Why - it is a definition of benefits which customers will receive from the use of this product;
4. Where - this issue should be set if the product has some unique features which are required for distribution in special geographic markets;
5. When - this issue should be set, if the product has some unique features which make it consumable only in specific period of time.

The process of product innovation positioning has no fundamental difference from positioning of a simple product, however, the nature of product innovation and the lack of direct competitors in the industry can provide some of the features for developing a strategy for such a product (Bessant & Tidd 2009).

First of all, market segmentation, which precedes the positioning process, is more responsible and labor-consuming because the success of an innovative product directly depends on the choice of the target segment, and in this case it is impossible to focus on a competitor, because of its absence from the market.

Secondly, the product differentiation and determination of its competitive advantage, on the one hand it is not difficult, because the benefit of the product is its innovative component, but on the other hand exactly this component makes it difficult to identify and assess the real benefits which customer gets from the use of this product.

The main problem faced by the company with the release of a new product on the market is the consumer's rejection of innovation, because any innovation assumes the changes which many consumers try to evade. In this case it is necessary during the design of a product to consider all possible options of the problem and choose the option of positioning, which will emphasize the real benefits obtained by the customer while consuming this product innovation (Bessant & Tidd 2009).

Steinhoff & Trommsdorff (2007) define innovation as a new combination of "task-tool." Based on their model, they define four different types of product innovation. The criteria are the tools of solving the problem and tasks, which have to be solved.

- Marginal innovation, in which neither the task nor the tool are new;
- Technological innovation, when there are new tools of solving the existing problems;
- Market innovation - a new task has been solving by the current tool;
- Radical innovation - a combination of new tools for solving the new task.

Positioning of a product should be based on competitive advantage. The competitive advantage of product innovation that there is no analogue of the product, but only this thing is not enough for the consumer (O'Keefe 1999). The real value of the goods is important for the consumer and the benefits which he or she receives from the consumption of this particular product innovation. Marketologists efforts in positioning innovative product should be directed on it.

Formation of the positioning strategy must be focused on the four basic elements (Kotler et al. 2008):

- Supply strategy;
- Distribution strategy
- Price formation strategy
- Promotion strategy

According to abovementioned things it is required to determine the four basic elements of a positioning strategy (Kotler et al. 2008):

- Product;
- Price;
- Place;
- Promotion.

Each of the tools is crucial and it is impossible to classify them according to a hierarchy of importance. More details of developing a positioning strategy will be discussed in the next chapter.

To sum up all abovementioned things, these things can be concluded:

- The positioning process is a determinant of the overall strategy of product innovation, as is aimed on forming the potential customer's attitude for the product;
- The main feature of innovative product is the lack of direct competitors, therefore it is necessary to focus on indirect competitors who are not making the same product but satisfy the same need;
- The main problem in the process of positioning of an innovative product into the market is a subconscious rejection of any changes by the consumers. Therefore companies need to clearly formulate the benefits that consumers receive after purchasing of a product.

This chapter of the thesis has described the main types of product innovation positioning strategies and its stages. In further chapters the tools of positioning strategy will be discussed in greater details.

4. PRODUCT INNOVATION LAUNCH TO MARKET

This chapter focuses on the marketing of innovations. At the beginning of the chapter the ways of how consumer could response to the appearance of the innovative product on the market will be examined. Then in the second part of the chapter the basic tools which are used for positioning of a product innovation will be studied. And in the last subchapter the tools which could give a measurement to the effectiveness of the company's positioning strategy of a new innovative products will be presented

4.1. Predicting a consumer response to a product innovation

In the previous chapter it was suggested a lot that there are many success factors of a product innovation. First of all, it is a technical component, which results in a high efficiency of a product innovation, and secondly, it is the marketing component, which have been reflected in the consumers' degree of attachment to the product (Garcia & Calantone 2002).

In order to achieve a high level of consumers' commitment to the product innovation, company should initially determine their expectations with regards to the product. The research process was discussed in the previous chapter, however it was not focused on the key aspects of consumer behavior, which must be considered in the proper positioning of the product on the market. This section will discuss the main methods of determining the consumer preferences and predicting consumer reaction to the product innovation.

Kotler et al. (2008) identify 4 blocks which determines a consumer behavior:

1. Cultural block, which include culture, subculture, and social class;
2. Social block, which include reference groups, family, social roles and status;
3. Personality block, which includes the age and stage of the family life cycle, occupation, economic status, lifestyle, and personality type;
4. Psychological block, which includes motivation, perception, learning, attitudes and opinions.

Although the company influence on some of these factors is very limited, but by using them, and taking into account their influence on the mind of customers, the company can determine the interest of potential buyers, as well as model the product for better meeting of a customer needs.

This group of factors as well as a type of a product innovation determines the type of consumer behavior in the market. The main criteria for determining the type of a behavior are the level of customers' involvement into the purchase, and the degree of difference between brands. Depending on these factors the complex, exploratory, uncertain and habitual buying behavior can be distinguished.

All these factors have more or less impact on consumer behavior, which is quite complex and difficult process. However, it is possible to determine five key steps in this process (Kotler & Keller 2006):

1. Awareness of the need;
2. Search for information;
3. Evaluation of options;
4. The decision of buying;
5. Reaction to purchase.

This model is a theoretical and in reality customers are not always go through all these stages in a clear sequence. It all depends on the nature of consumers and the situation of a product purchase. However, this scheme is a necessary for a better and more logical understanding of consumer behavior.

As for the product innovation, such a product aims to meet the new needs of the target audience. Consumers learn about the product for the first time and with help of some information sources come to a decision to purchase. The main purpose of the manufacturer is to make a product innovation to be accepted by customers, they have to decide to become a users of a new goods. For successful adaptation of a product innovation, the consumer must go through 5 stages (Lambin et al. 2007):

1. Recognition;
2. Interest;
3. Evaluation;
4. Testing;
5. Perception.

Consumers always show different degree of readiness to try out a product innovation, so the five categories of consumer readiness had been identified (Lambin et al. 2007):

1. Innovators;
2. Early adopters;
3. Early majority;
4. Late majority;
5. Laggards.

As for the measurement of emotional response to product innovation, initially it is necessary to determine its central concept - the concept of the installation.

Installation is a mental process during which the individual, guided by past experience and the accumulated information, organize his or her perceptions, beliefs and feelings about certain objects and determines his or her future behavior (Schewe & Hiam 1998).

Based on this definition, three components of the market reaction can be determined:

1. Cognitive component - installment based on a collection of information about an object, gradually accumulated by the individual;
2. Emotional component - installment which provides guiding influence on the senses or an assessment of the object;
3. Behavioral component - dynamical installment which is a predisposition for reaction.

Installment concept is an important part of market analysis, it allows company to diagnose, monitor and predict customer attitudes to the brand or company. To model the concept of installation, company must model the concept of products according to the needs of the target group (Schewe & Hiam 1998).

The main assertion of this concept is the fact that the brand is perceived by the individual as a set of properties and the importance of these properties is not the same for different users, and the fact that not all the properties have been associated with the utility function by customers, so company needs to identify the properties, that will be used by a target group as a selection criteria. The main categories are:

- Visibility, it is an ability of consumers to consider the property at a given time;
- Importance, it is a reflection of the individual value system;
- Determination, it is an ability of a particular feature of a product to establish the differences between the alternative brands.

This model is designed to identify certain properties of the product, which distinguish them from goods of competitors and able to attract the consumer's attention (Schewe & Hiam 1998).

For a product innovation it is necessary to select several properties. First of all, they will distinguish it from a product of indirect competitors who also can meet unfulfilled needs of customers on a market. Secondly, it is required to identify the psychological barriers that prevent the consumer from buying the product (Ries & Trout 1997).

Consumer perceives any innovation as an irritant, which is causing him or her to change his or her usual course of action and lifestyle, therefore there is a need for a product innovation to develop an effective strategy which can transfer to consumers the thought about the need of the product and to save him or her from the fear of uncertainty.

It is also important for the company to determine whether or not to develop the features that are essential for the consumer, or it is better to focus on improving communication with consumers, in order to increase awareness and confidence about the availability of this property in a product (Ries & Trout 1997).

For doing this company must use a matrix, which allows it to evaluate both the importance and effectiveness of these features (figure 10). On the axes of this matrix are importance of the features and their perceived effectiveness. And the location of one or another feature in a specific quadrant allows company to select the optimal strategy for it.

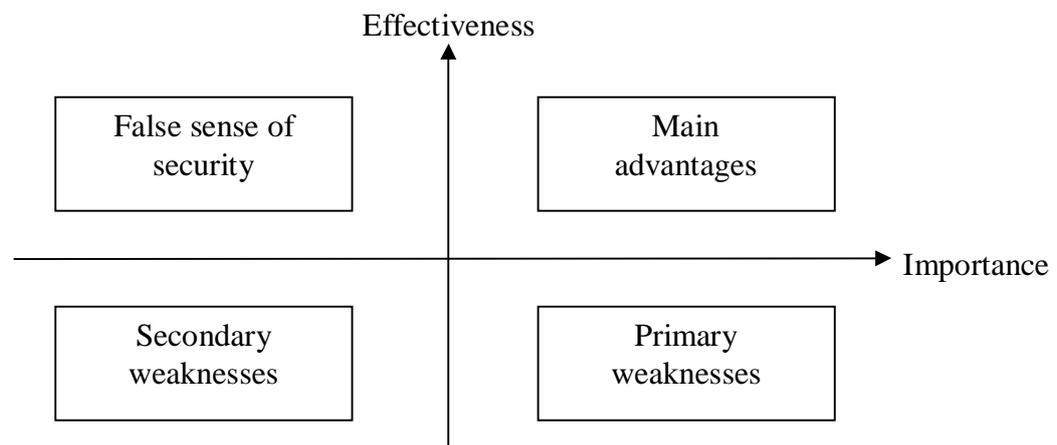


Figure 10. Matrix of a product features assessment (Bakaev & Terentyev, 2007).

So, as it can be seen from a picture, there are 4 main product features:

1. Main advantages, these are attributes which represents the greatest value and high efficiency of a product;
2. Primary weaknesses. It is a certain features which have a high degree of importance, but their weak expressiveness in a common set of the properties of the product;
3. Secondary weaknesses, it is a nonessential properties, that have a low efficiency;

4. A false sense of security - this feature has a low level of importance to the consumer, however it represents a high level of efficiency (Bakaev & Terentyev, 2007).

This matrix is designed for identifying the essential characteristics of the goods by using the characteristics which are not determinative. It can be used to upgrade the product and to improve the efficiency of product positioning strategy.

In general, the definition of a consumer reaction is the basis for effective positioning, so research aimed to a target audience are the prerequisite for the success of a product innovation on the market.

4.2. Basic tools for innovative product positioning

Positioning, as it was defined by Kotler and Keller (2006), is a set of actions due to which a particular product occupies its own place in the minds of target consumers, and this place is a favorable for the company in relation to similar goods from the company's main competitors.

Positioning process is always preceded by a process of segmentation of the market, which is designed to divide the market into the separate groups of customers with common needs, characteristics or behavior and choice of an attractive segment for the company. This process aims to identify a group of consumers in front of which the company will have a distinct advantage over its competitors.

Then companies need to differentiate their product from their competitors' parallel products. With regards to a product innovation it is necessary to clearly define the benefits and advantages that a potential customer receives.

As it have been already mentioned above, there are four different types of a differentiation (Cateora & Ghauri 2000).

- Differentiation of the product;

- Differentiation of the services;
- Differentiation of staff;
- Differentiation of the image.

After the company had determined to which segments it would expand and what exactly had distinguished its products from similar products of competitors, the company directly begins the process of a product positioning in the market.

As it was noted above, there are four types of innovative product according to the tools for solving the problem and the task that have to be solved:

- Marginal innovation, in which neither the task nor the tool are new;
- Technological innovation, when there are new tools of solving the existing problems;
- Market innovation - a new task has been solving by the current tool;
- Radical innovation - a combination of new tools for solving the new task (Steinhoff & Trommsdorff 2007).

In the development of a product innovation positioning strategy, the company must focus on its four main pillars (Lambin et al. 2007):

1. Offering strategy - it is an innovative product positioning with taking into account a position of a main competitors;
2. Pricing strategy - it is a defining the role of the prices in the positioning strategy;
3. Promotion strategy - it is a development of a marketing strategy with a clear objectives which company pursues;
4. Allocation strategy - it is aimed on the distribution of efforts between the sales force and direct marketing, as well as the formation of the distribution channels of the product.

So, as it can be seen from abovementioned things, the main tools of a positioning strategy are product offering, price, promotion and allocation.

Defining feature of the offered products is conformity of its actual properties with the consumers' views about their value. A product innovation is designed to satisfy the unfulfilled needs of a target audience, so the research department has to identify product features which are meaningful for consumer and implement them in their product. Other things which are important for offering strategy can be seen on figure 11.

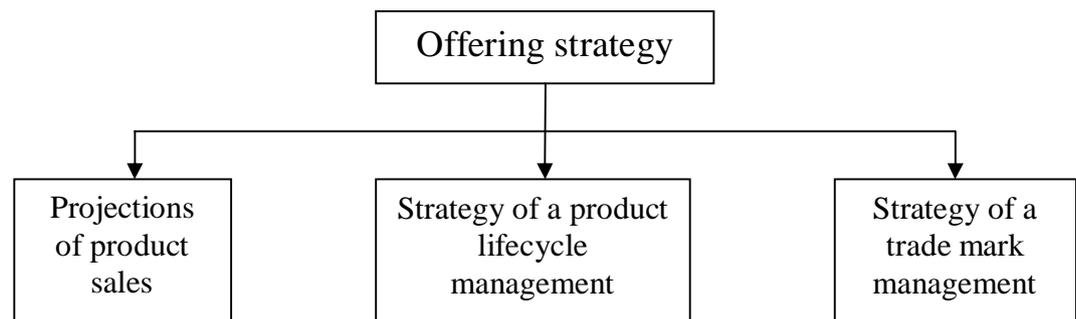


Figure 11. Elements of an offering strategy of a product innovation (Lambin et al. 2007).

Price is the most effective tool for making a competitive advantage. However, depending on the field of industry and on the type of a product innovation, different pricing strategies should be selected. Companies, which are trying to focus on getting the maximum profit or gaining significant market share, must choose the price that will help the company to achieve its goal. Other things which are important for pricing strategy can be seen on figure 12.

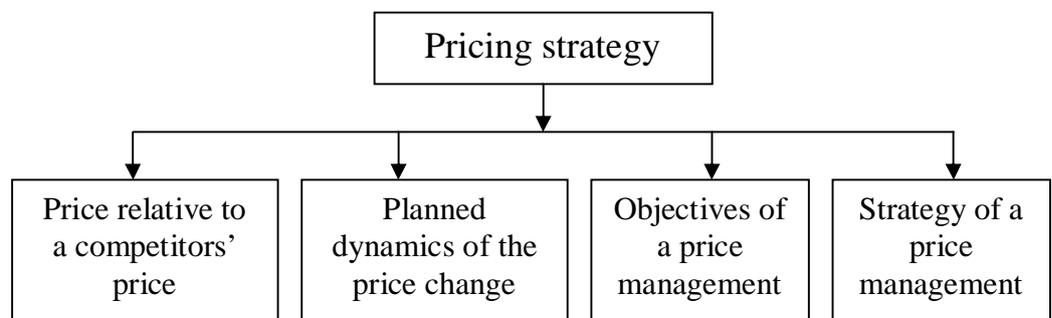


Figure 12. Elements of a pricing strategy of a product innovation (Lambin et al. 2007).

Promotion is the defining instrument on the stage of the product implementation to the market, because a consumer awareness and commitment is formed by it. As it has been already mentioned before, there are two different methods for developing innovative products, so the strategy of positioning depends on the chosen method. Other things which are important for promotion strategy can be seen on figure 13.



Figure 13. Elements of a promotion strategy of a product innovation (Lambin et al. 2007).

Allocation as well as a promotion has a great degree of influence in the stage when an product innovation have been outputting to the market. Depending on the method and the number of agents depends on a level of product availability, and thus the level of sales. Availability of the product, and therefore the level of sales, depends on the number of intermediaries and the method of their choice. Other things which are important for allocation strategy can be seen on figure 14.

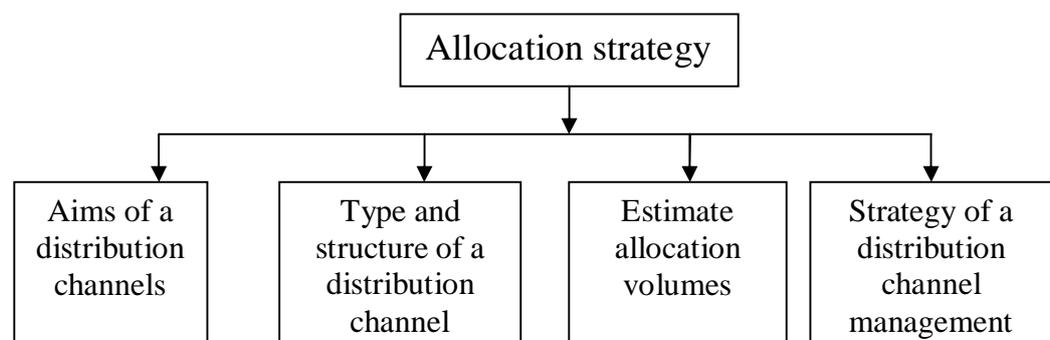


Figure 14. Elements of an allocation strategy of a product innovation (Lambin et al. 2007).

So as it can be seen from the four abovementioned pictures, there are a lot of elements of a positioning strategy. And also there are four different types of a product innovation. So the positioning strategy for each type of a product innovation has to be suggested. These suggestions can be seen in table 4.

Table 4. Positioning strategy of a product innovation (Agarkov et al. 2011).

Type of a product innovation	Offering strategy	Allocation strategy	Pricing strategy	Promotion strategy
Marginal innovation	Upgraded product, which has a new features or quality	Intensive distribution	Pricing in the market range, the price should repel rivals.	1. Advertising; 2. Sales promotion
Technology innovation	Product produced by the new technology	Selective distribution	1. Price skimming; 2. The deep penetration to the market	1. Guerrilla marketing; 2. Advertising; 3. Participation in exhibitions; 4. Public relations
Market innovation	Existing product, designed to meet the new needs	Intensive distribution	Establishment of price according to a product range	High budget promotion campaigns
Radical innovation	Innovation that can satisfy the unrealized needs of the target audience	Selective distribution	1. Price skimming; 2. The deep penetration to the market	1. High budget promotion campaigns; 2. Personal sales; 3. Participation in exhibitions; 4. Public relations

Marginal innovation represents a product that has some new properties or functions. It does not solve new problems and is not an entirely new tool for solving them, while using this product the consumer only gets more benefits than after a consumption of similar goods from competitors. This category of products is at the stage of maturity, so the company needs to increase sales for getting more profit. Improvement of the product, giving new properties to it is one of the proper ways to achieve this goal. (Agarkov et al. 2011)

During the development of this innovation the degree of customer satisfaction, as well as their wishes is taken into account in the first place. This is exactly the kind of innovation, in which the consumer's opinion defines the direction of development. The strategy of offering of the new goods must be consistent with the strategy of the analogous product produced by the company and also in accordance with the analogous product objectives. The acquired quality of the goods must be really important and bring practical benefits to the consumer, so, during the formation of promotion strategies, the message, which is directed to a potential customer, should focus on these qualities and benefits which they can brought. (Agarkov et al. 2011)

As for a distribution strategy and pricing, as well as the choice of a channels of a promotion, they must be based on the strategy of the goods which has been undergone an improvements. It is only necessary not to dilute the imagination of the target audience about this type of a product, and prove that its use gives a practical benefit. (Agarkov et al. 2011)

Technological innovation is a product that is aimed at solving existing problems in a new way. This can become an innovation, applied in the enterprise to reduce costs of production, or to be represented at the market commodity, with the technical competitive advantage. (Agarkov et al. 2011)

During the development of this innovation, the marketing department must submit to the Research and development department the data, which confirms the market need in technological improvement of the solutions of specific needs. It is important for the marketing department to have an ability to understand that the target audience needs not in a particular product, but needs the tools of satisfying the certain requirements. (Agarkov et al. 2011)

Thus, during the development of strategy of positioning of technological innovation, the emphasis should be on better satisfaction of the needs, lower prices or technological advantage. During the forming of the promotion strategies it is necessary to formulate message, which emphasize the benefits of the new

technology and to make it available not only through the development of existing channels, but also to look for new ways to deliver information to the target audience (Lambin et al. 2007).

Pricing strategy must take into account the cost of developing the innovation, as well as the value which it brings. If it is a technological breakthrough in some industry, then the company can skim additional profits, and if the innovation only allows reducing costs, the company simply makes more money. (Agarkov et al. 2011)

Distribution of the new product is possible through existing channels in the industry, as well as through the new ones, which opens before it with the help of the technological advantage. (Agarkov et al. 2011)

Market innovation allows solving new tasks with existing tools. New use for existing goods has been found. In this case, the work of research and development department is reduced to a minimum, the emphasis is on the marketing department, which creates demand for goods. Exactly for the development of market innovation the concept of marketing ideas have been used. In this case it is very difficult to detect unrealized needs of the target audience, so the marketing department has nothing to do but to release the product to the market, having formed his concept, and advance it on the existing market (Lambin et al. 2007).

In this case pricing strategy is based on a market analysis. Most often, the company sets the price according to the real value of the goods. Process of a promotion becomes essential, because there is a need in the publicity. Either high-budget promotional campaigns are held, or the company uses a strategy of a guerrilla marketing in order to occupy some niche market. (Lambin et al. 2007)

Radical innovation combines the solving of a new task with using fundamentally new tools. During the development of this type of innovation the cooperation of all departments of the company, a full-scale market investigation, focus on the consumer is required. It combines both technological progress, and the progress in the research of preferences of the target audience. The most important stage is the

stage of market research and selection of promising development. Mistakes which were made at this stage are unlikely to get corrected by proper positioning or by establishing a competitive price. (Agarkov et al. 2011)

Distribution and promotion channels have been chosen by the company according to the purpose of the goods. There are two types of the price for an innovative product, the first one is a skimming. Skimming is a setting of the maximum possible price and receiving the excess profits. The second one is a deep penetration to the market, this happens when price is based on the value which was brought to the consumer and fastening the goods in the market. The company builds its pricing strategy according to its own strategy and goals. (Agarkov et al. 2011)

Thus positioning is one of the defining tools for marketing of the product innovation, so it forms the image of an innovative product in the consumer's mind. He or she often refers to the emotional aspects of perception, rather than to logic, which has a much greater impact on the commitment and loyalty to the product and the company as a whole, so it is useful during the development of positioning strategy to focus on the development of promoting strategies of the innovative product, because the development of promotion strategy has to be determined during the product development, while development of pricing strategies and distribution strategies during the stages of the product concept formation.

The main conclusion of this chapter is that a formation of a positioning strategy of an innovative product and choice of its tools depends on the type of a product, which determines by its ability to satisfy new or existing needs.

4.3. Evaluation of effectiveness of innovative product positioning

The previous section discussed the main positioning strategies of product innovation, which includes strategies of supply, pricing, promotion and distribution. Also the methods and tools of the innovative product positioning, which includes product, price, promotion, place were discussed.

Strategy choice and ratio of certain elements in it is individual regarding each product, so during the formation of positioning strategy many different factors must be taken into account, and these factors depends on the type of the target market, the type of product innovation, the availability of indirect competitors, as well as the type of needs, to which satisfaction the product is oriented.

An important stage of any activity is to assess its effectiveness. Marketing activity is sufficiently hard for formal assessment, however it does not eliminate the need to measure the success of market entry and positioning of a product innovation. At the present day there is no specific methodology of evaluation of the product innovation marketing, but in this section of the thesis the specific methods of calculating the efficiency of marketing activities will be identified and structured, which are aimed to the product innovation positioning on the market (Kandibin 2005). Another challenge which occurs during the evaluation of the positioning strategy is that part of indicators can not be quantified.

An important indicator of the effectiveness of positioning strategy is to estimate the future market responses on the developed marketing program or evaluation of results of implemented programs. This method involves the definition of a target market, assessing consumers' perception of the image of the item, as well as the analysis of the needs and preferences of the target audience (Cateora & Ghauri, 2000).

Criterion for evaluating the positioning strategy of product innovation is a unique and positive image of the company and its products in the minds of consumers. However, this does not always affect indicators such as sales volume, market share, profits and growth dynamics. Therefore, among different methodologies of evaluating a positioning of an innovative product on the market, two blocks can be determined (Lambin et al. 2007):

- Qualitative methods;
- Quantitative methods.

In general, qualitative methods of evaluation of an innovative product positioning strategy can be divided into two parts (see figure 15):

- Research of customers and competitors;
- Test marketing.

The main element of research of consumers and competitors is mapping the schemas of perception, which helps to determine the direction in developing a strategy on the first step. The main indicator is the change in volume of sales, and also the consideration of factors which are influencing it.

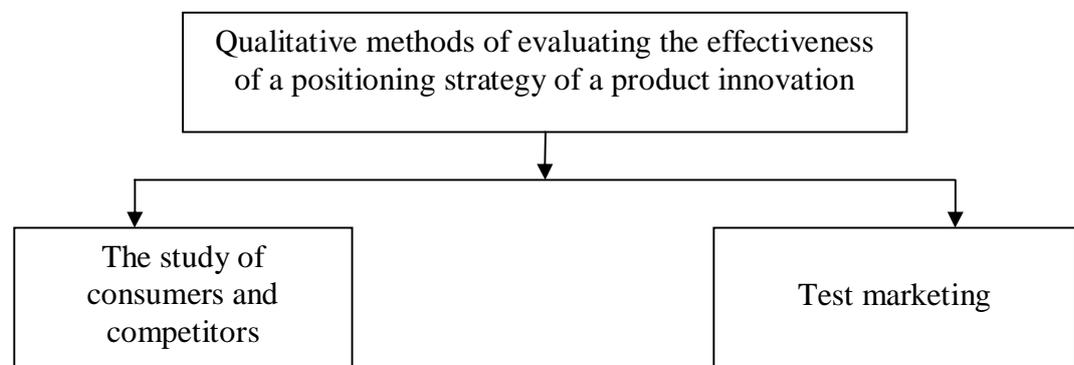


Figure 15. Qualitative assessment methods of the strategy (Lambin et al. 2007).

As for a research of the competitors, regarding the innovative product there will be indirect competitors that address on the satisfaction of the same need. It is necessary to estimate the number of competitors, their market share, and the degree of consumer commitment to them.

Test marketing allows to determine the economic practicability of an innovative product offer to the market or to assess the effectiveness of the selected strategy. This methodology of the effectiveness evaluation of the chosen strategy is quite expensive, however, it is most effective for an innovative product, as it is also allows predicting the success of a product on the market, and allows making preliminary adjustments. Thus, the main advantage of this method is to reduce the economic risk by accurately forecasting the demand and the possibility of choosing the best option of the marketing program. (Lambin et al. 2007)

It is also possible to assess the degree of impact of specific features of the selected market and predict the likely level of sales. However, this method should be applied only to the market with a high risk and when the costs of the test marketing are lower than the cost of removal goods from the market (Steinhoff & Trommsdorff 2007).

Quantitative methods for assessing the effectiveness of positioning strategy are methods of collecting statistical data on the state of the market and their analysis (Lambin et al. 2007). However, there are some difficulties in evaluating the effectiveness of marketing activities due to difficulties in collecting data for the calculation. However, among the indicators for measuring the effectiveness of an innovative product positioning on the market, the following can be differentiated (see figure 16):

- Change of brand awareness;
- Change of the market share of the company;
- Dynamics of sales;
- The dynamics of profits;
- Change in the capitalization of profits.

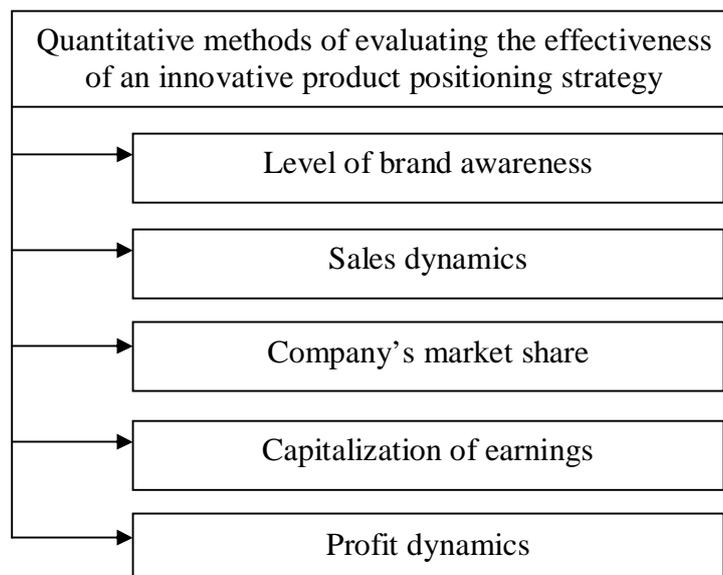


Figure 16. Quantitative assessment methods of positioning strategy (Lambin et al. 2007).

In general, the problem of determining the economic effect and choosing the most preferred types of the positioning strategy of product innovation requires, on the one hand, the excess of the final results from their use over the cost of development, production and sale, and on the other hand - the comparison of the obtained results with the results from the application of other innovations, which have a similar purpose.

In addition to the marketing effect it is also necessary to evaluate all other effects of an innovative product placement to the market. According to the results and costs which are taken into account, the following types of effects have to be taken into account: economic, scientific or technical, financial, resource and social (Bessant & Tidd 2009). All of them can be seen on the table 5.

Table 5. Classification of implementation effects of an innovative product (Bessant & Tidd 2009).

Type of effect	Factors
Economic	Indicators account in value terms, and there are all types of results and costs, which were caused due to the implementation of product innovations
Scientific	Novelty, simplicity, utility, aesthetics, compactness
Financial	Calculation of indicators based on financial performance
Resource	Figures reflect the impact of innovation on the production and consumption of a particular type of resource
Social	Figures take into account the social results of innovation

Relation of the cost to the result can be expressed both in natural or financial indicators, so performance indicator and its modes of expression may be different for the different situations.

Method of calculating the effect (income) from implementing the innovative products to the market based on a comparison of the results with the costs, and it helps to make the decision of whether to use new technologies.

Among the indicators that measure the economic effectiveness from the implementation of an innovative product, are the following (Bakaev & Terentyev, 2007):

1. Net present value;
2. Index return;
3. The payback period.

Net present value is a result of the differences between cash flow and costs for the billing period, reduced to a single point in time (Bakaev & Terentyev, 2007):

$$NPV = I - C \quad (1)$$

Where

NPV - net present value;

I - sum of income;

C -expenditures.

Index of return or profitability index is defined as the ratio of the income to expenditures on innovation, those given on the same date. It shows how much income investor receives as a result of the project for each money invested. Calculation of the index of return is as follows (Bakaev & Terentyev, 2007):

$$IR = I / C \quad (2)$$

Where

IR - Index of return;

I - sum of income;

C -expenditures.

Payback period is the minimum time interval from the start of the project, beyond which the net present value becomes positive. In other words, it is the period from which the investments covered by the summary results from the project implementation.

Investing when the conditions of a market are associating with a significant risk must be done carefully sine this risk increases with longer term of return on investment (Kandibin 2005). During this time market conditions and prices can change significantly. This approach is always relevant for the industries in which the pace of scientific and technological progress is most rapid and where the emergence of new technologies or products can quickly depreciate the previous investments.

Finally, the focus on the "payback period" indicator is often chosen in cases where there is no assurance that innovative project will be implemented, and therefore the owner of a resources do not trust in the long-term investments. The formula of the payback period (Bakaev & Terentyev, 2007):

$$T = P / A \quad (3)$$

Where

T -payback period;

P - primary investment in innovation;

A - annual income.

Thus, after the analysis of the all abovementioned things, we can draw the following conclusions:

- Evaluation of marketing activities, including also a positioning strategy of an innovative product is a quite difficult process, because it is impossible to quantify some parameters;
- The classification of methods to the quantitative and qualitative gives a possibility of a more systematic analysis of the effectiveness of the strategy of positioning;
- In the process of evaluating the effectiveness of an innovative project, company also has to assess not only the marketing performance indicators, but also measure the indicators of an economic performance.

5. WIMM-BILL-DANN CASE STUDY

The general aim of this research is to examine how the Baltiyskoie moloko subsidiary of Wimm-Bill-Dann launched its product innovation to the market of the north west district of Russia. So the launch strategy will be examined in this part of the study. In the first part of the chapter the research method is introduced. The second part of this chapter consists of a general description of the Wimm-Bill-Dann company in general and the main target for case study, Baltiyskoie moloko subsidiary. In the third part the market environment is presented. In the fourth part a market activities of the Baltiyskoie moloko is showed. And in the last subchapter the case study of the Baltiyskoie moloko's launching of the product innovation to the market will be presented.

5.1. Research method

The selection of a suitable research methods is an important decision for the study. Ideal approach comes as close as possible to the research questions, aims to understand it and gives answers according to the objectives of the research. Since the purpose of the research is to understand a method of market launch of a product innovation of the single case study company, the qualitative research is the most suitable method for this study.

Qualitative research does not aim to statistical generalization but the purpose is to describe a certain case, understand certain activity and provide theoretical interpretation of the phenomenon. Qualitative methods consist of different kinds of data collection, like a direct observation and written documents. Patton (1990) claims that the validity and reliability of qualitative data depend to a great extent on the methodological skill, sensitivity and integrity of the researcher.

Primary and secondary sources of information were used for the case study. Primary sources of information were an interview with a respondent from the case company and the documents which were given by him. Secondary sources

consisted the companies' websites and marketing researches. The summary of the used sources can be seen in the table 6.

Table 6. Sources of information for carrying out the research.

Type of the source	Description
Interviews	Two interviews were the main primary sources for the research, the main data about company and its innovative activities were received there
Documents	Another primary source of information, the documents included the marketing information about Baltiyskoie moloko sales and characteristics of a product innovation
Elsevier and emerald electronic databases	The databases were the secondary sources of information, articles from the databases was used for writing a literature review and theoretical framework of the study. Keywords, which were used for searching the information, were: product innovation, product launch, 4P's of innovation, positioning strategy, research and development, innovation marketing.
Books	The books were used primarily for the chapters 3 and 4, where deep description about innovation marketing was given. Main book was Kotler's Marketing Management, other important books were Introduction to the innovation marketing by Steinhoff & Trommsdorff, and book Innovation management and innovative policy by Russian authors Agarkov, Graznova, Kuznetsova.
Companies' websites	Websites of Wimm-Bill-Dann and PepsiCo, a new owner of Wimm-Bill-Dann group were accessed for a marketing information and for gaining an overall information about company activities, products, corporate divisions, operations in different regions and history.

The primary source of the information were the two interviews, the interviews data collection process was conducted via e-mail questionnaire and by the face-to-face interview. The respondent was a representative of Wimm-Bill-Dann subsidiary Baltiyskoie Moloko, he is a vice-headmen of a marketing department. The respondent received a questionnaire via e-mail on 30.03.2013 in order to be familiarized with the questions and to prepare documentation. Then the face-to-face interview was agreed via e-mail and implemented on 12.04.2013. After that, the answers were collected and analyzed. The information obtained on the interview can be seen in appendices from 1 to 4.

Elsevier and emerald electronic databases were the secondary sources of information, articles from the databases was used for writing a literature review and theoretical framework of the study. Keywords, which were used for searching the information, were: product innovation, product launch, 4P's of innovation, positioning strategy, research and development, innovation marketing. Books were used primarily for the chapters 3 and 4, where deep description about innovation marketing was given. Companies' websites of Wimm-Bill-Dann and PepsiCo, a new owner of Wimm-Bill-Dann group were accessed for a marketing information and for gaining an overall information about company activities, products, corporate divisions, operations in different regions and history.

Analyzing data is in the center of building theory from case studies. One key step in it is within-case analysis which is driven by the volume of the data. Since the research problem is often open-ended, the volume of the data is often questionable. Eisenhardt (1989) argues that within-case analysis can help the examiner to cope with such data. Within-case analysis typically involves detailed case study write-up for the case. This write-up is usually pure description but central to the generation of insight because it helps in dealing with the analysis process of enormous volume of data.

5.2. General characteristics of a Wimm-Bill-Dann company

Wimm-Bill-Dann is a leading manufacturer of a dairy products and soft drinks in Russia and CIS countries. The company was founded in 1992. Today, "Wimm-Bill-Dann" has more than 35 production facilities in Russia, Ukraine and Central Asia. The company has sales offices in almost 30 cities of Russia and CIS. In total, the company employs about 20 thousand people. "Wimm-Bill-Dann" produces traditional and original dairy products, juices and nectars for consumers of all ages, as well as baby food (Wimm-Bill-Dann 2013a). Shares of the company "Wimm-Bill-Dann" placed in the form of American Depositary Receipts on the New York Stock Exchange and in the form of ordinary shares - on the Russian Trading System. In addition, the company's shares are included in the quotation list of the Moscow Interbank Currency Exchange. On 2 December 2010, PepsiCo bought 66% of Wimm-Bill-Dann for \$3.8 billion. The purchase is one of the biggest foreign investments yet seen in Russia outside the energy industry (PepsiCo 2010).

The company's mission reflects the fundamental human values: "Wimm-Bill-Dann" helps people, by delighting them every day with tasty and wholesome family food products. Wimm-Bill-Dann helped to improve the health of people, as everyone's health is the health of the entire nation. The company embodies this idea in line with long-term Russian government national project "Health". (Wimm-Bill-Dann 2013e)

Production of "Wimm-Bill-Dann" is being bought by nearly 280 million people in Russia, Ukraine, Belarus and Central Asia. Despite the significant difference in eating habits, culinary traditions and the prevailing priorities of the consumer market, these countries share common traits: fast economic growth and the emergence of the middle class, these are the people for whom health benefits, nutritional value and high quality products are becoming more important. Russia, with a population of over 140 million people is a key market of the company. (GRC 2012)

The Wimm-Bill-Dann company is divided into four strategic business units (SBEs). Since the products of the Wimm-Bill-Dann company are traditional and original dairy products, juices and nectars and baby food, then 3 different business units control one category of products, and one additional business unit is in charge for purchasing and managing the dairy farms. Such division can be seen on figure 17.

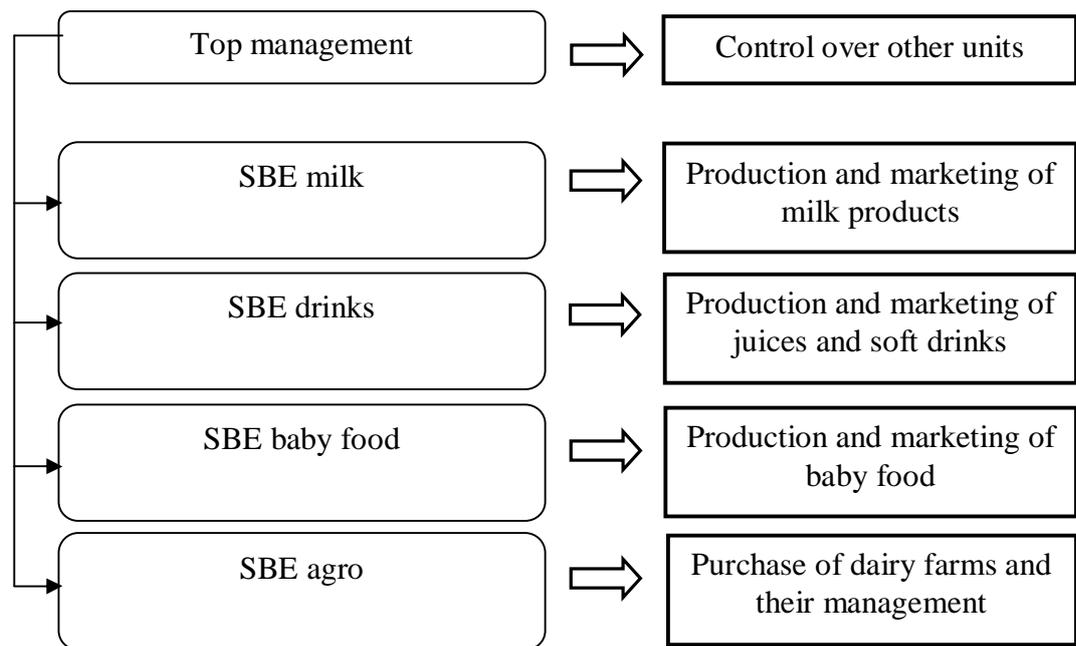


Figure 17. Organization structure of Wimm-Bill-Dann (Wimm-Bill-Dann 2013b).

Consumption of dairy products in Russia is about 42 kilograms per person per year, which is two times less than in Greece and three times less than the U.S. figures. The same goes for baby food. The level of consumption of soft drinks is holding up just half of that in Germany or Hungary. (GRC 2012)

Wimm-Bill-Dann is one of the leading companies in the production of dairy products in Russia and CIS states. Business unit "Milk" provides 75% of the total company revenue. Wimm-Bill-Dann has milk factories in Russia, Ukraine, Uzbekistan and Kyrgyzstan (Wimm-Bill-Dann 2013a). The company has a strong position in the production of traditional dairy products, yogurts, dairy desserts and cheese. Since 2002, the Wimm-Bill-Dann has been actively developing regional

markets by buying successful profile enterprises in Russia and the CIS, and investing heavily in their modernization. The Company places the production of certain key products as close as possible to the place of sale and distribution. This allows the company to save on transportation costs and meet local consumer needs (GRC 2012).

The company basic marketing efforts aims to the promotion of key brands, its essence is in increasing the effectiveness of advertising and optimizing marketing expenditures. The focusing of advertising activity of Wimm-Bill-Dann is on the core values which were stated in the mission of the company: the health, well-being, and the utility. A stable supply of raw milk is a key priority for the company. An important step in the effective organization of this process was the creation of a separate branch direction Agro, whose task is to manage agricultural assets of the company (Wimm-Bill-Dann 2013b).

Wimm-Bill-Dann is one of the leading Russian producers of juices, nectars, juice drinks and mineral water. Sales business line Beverages account for 18% of total group sales. Wimm-Bill-Dann has become a pioneer of the Russian juice market, when in the early 90s began to create a modern high-tech production. A few years later the company introduced a line of juices and nectars, and then - mineral water from clean natural sources. Business unit Beverages is working in close collaboration with the Office of Marketing and Innovation, adapting an existing product line according to the market situation. Wimm-Bill-Dann expands and updates its production assets in order to ensure the most efficient delivery to local markets, for example lines of juices are installed in dairies in Novosibirsk and Vladivostok (Wimm-Bill-Dann 2013d).

A growing number of consumers in Russia prefer to drink natural, not mineral water bottled water which is produced by purifying regular tap water from the tap. Therefore, Wimm-Bill-Dann develops brands of mineral water from environmentally friendly natural sources - Essentuki and Novoessentukovskaya. Wimm-Bill-Dann has a strong position in the production of mineral water - the brand Essentuki enjoys a consistently high demand among consumers. In Russia

is still a low level of consumption of mineral water per capita, but this market has significant growth potential. Sales of mineral water Wimm-Bill-Dann grow faster than the corresponding sector of the market as a whole. (Center-yf 2012)

Wimm-Bill-Dann was among the first Russian companies to introduce the internationally accepted principles of corporate governance. The key point was the placement of the company's shares on the New York Stock Exchange, which was held in February 2002 and was the first international IPO of a food company, established in the former Soviet Union space (Vedomosti 2013). Wimm-Bill-Dann has proven that in order to sell their shares on the New York Stock Exchange, it is not necessarily to produce oil, gas, or to be involved in telecommunications. It is much more important to have a successful business strategy and the willingness to comply with the best international standards. Today, the company's governance indicators are among the best ones not only in Russia but also comparing to the other countries in the world. Wimm-Bill-Dann works in accordance with the standards which are based on the achievements of world practice, and the company is constantly working on improving them.

While Wimm-Bill-Dann is a Russian company listed its shares on the stock markets of Russia and the United States, it meets two strict system of financial regulation. According to the Wimm-Bill-Dann charter (2013e), directors and managers of company adhere to the following principles in their work:

- Effective management;
- Financial discipline;
- A transparent ownership structure;
- Information transparency;
- Effective control;
- A guarantee of the rights of shareholders;
- Ethics and legality;
- Fair compensation;
- Activity;
- Social responsibility.

While running the company, the management of Wimm-Bill-Dann is guided by the long-term interests of the business and works to increase the value of the enterprise. In accordance with the social obligations which were entered into force by the company, the managers of Wimm-Bill-Dann take into account the interests of employees and local communities. The company is carefully studying how the strategy is perceived and evaluated by its existing and potential shareholders, analysts and market experts. The amount of compensation paid to managers of the company is also affected by the success in achieving of the long-term development goals (Wimm-Bill-Dann 2013e).

The case study in this thesis is based on a Baltiyskoie Moloko, branch of a Wimm-Bill-Dann. The Baltiyskoie moloko company has been a part of a Wimm-Bill-Dann company since 19 of December of 2006, when it was acquired by Wimm-Bill-Dann (Vedomosti 2013). The Regulation states that the branch is geographically separate structural unit of the company, which is located outside the place of its location and performing all of its functions, including the function of representation. The branch is not a legal entity. The main objectives of the branch are the producing of dairy products and also other legal and factual actions associated with the marketing and sale of milk and dairy products, juices, baby food of the company (Wimm-Bill-Dann 2013c).

Baltiyskoie moloko was put into operation in July 1993. The plant was equipped with the latest equipment from Denmark, Sweden, France, Germany and Yugoslavia. The design capacity was 190 tons of milk per day. In December 2006 the company has joined Wimm-Bill-Dann (Vedomosti 2013). This event was an important step in the expansion of the company in the south of Russia. Baltiyskoie moloko branch is one of the most dynamic Wimm-Bill-Dann subsidiaries operating in the region of a north-west Russia.

According to the reports (Wimm-Bill-Dann 2013d), the company has undergone substantial renovation since the acquisition:

- The capacity of the milk processing increased to about 700 tons of milk per day;

- The modernization of existing milk receiving line was carried out;
- A new automated process control system was introduced;
- Production capacity in the raw material workshop was increased due to the increase of storage equipment;
- A new pasteurization and cooling equipment with higher performance and improved technology was installed;
- Boiler room and two new compressor units for air cooling were built;
- Capacity of the cold rooms for storing of goods was 3-times increased;
- Two new workshops - department of processed cheese and yogurt production plant were put into the operation.

The total number of units in the Baltiyskoie moloko is thirty, four of them are occupied with the main production, the rest with an auxiliary production. Total Number of employees is more than 1300 people. Technical re-equipment of the factory has increased the production capacity and has expanded the range of whole milk, cheese and dessert products. Today, the plant produces a wide range of products: milk, cream, yogurt, butter. Baltiyskoie moloko is constantly improving the production process, developing innovative products, expanding the existing products range. Today the factory has a good prospects and long-term plans, like increasing sales, increasing labor efficiency, increasing production capacity, expanding the range of products. (Wimm-Bill-Dann 2013c)

5.3. Characteristics of a market

Market research (GRC 2012) shows that dairy field of industry in of the North-West Federal District is among the developed in the country. The volume of milk production of the dairy industry in the county in 2011 was 15% of the total food processing industry. Capacity of existing enterprises can process more than 250 tons of milk a day and produce 3317 tones of other dairy products. The share of profitable enterprises in 2012 amongst a total number was 55,7% and unprofitable was 44,3%. Accounts receivable increased by 44%.

For the years from 1990-2000 the dairy production in all regions of Russia was decreased. And since 2000, the production of milk and dairy products has been gradually increasing. Thus, the growth of production of dairy products is achieved by the use in the production of milk powder, which is sometimes imported. It should be noted that there was a slight increase in milk production, which was used in private farms mostly for private consumption. Currently there are more than 700 companies (mini-mills), and low-power plants, which process up to 16% of the resources of milk all over the country. (GRC 2012)

Despite the economic situation after the world economic crisis of late 2000s, which is not very favorable for the growth of consumption, sales of dairy products increases because many of them are tailored to the demands of consumers. In these circumstances, many companies are taking steps to producing more competitive products with improved quality and with a longer shelf life. As for the range of milk products, some new products are in demand. Popular products are low-fat and fat-free milk, milk with reduced lactose, milk enriched with vitamins. (GRC 2012)

Dairy products filed of industry in north-west district of a Russian federation can be characterized as an oligopolistic market, with two strong companies, as it can be seen on figure 18.

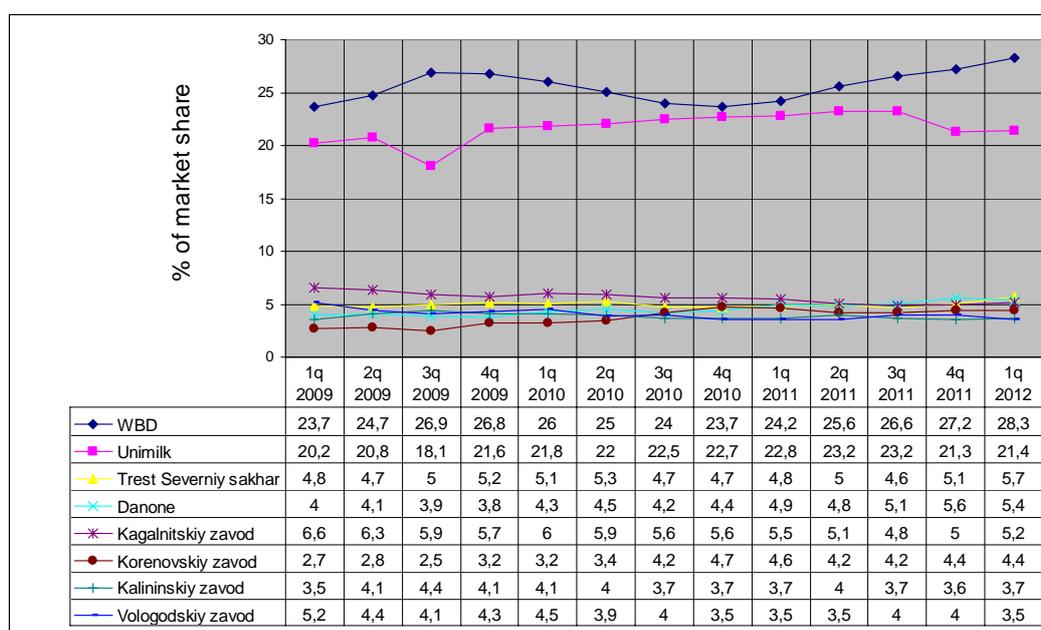


Figure 18. Market share dynamics of Wimm-Bill-Dann (Appendix 1).

So, as it can be seen from the figure, the Baltiyskoie moloko subsidiary of Wimm-Bill-Dann is a market leader with almost a 28% market share. The strongest competitor of Wimm-Bill-Dann is a company Unimilk, which combines factories like Petmol, North Milk, Lakto and Milko.

Other companies, Severniy sakhar, Danone, Kagalnitskiy zavod, Korenovskiy zavod, Kalininskiy zavod, Vologodskiy zavod, have less stronger competitive positions and their market share is fairly low. This group of competitors occupies the lower end of the market, focusing on consumers with lower purchasing power. So the competition on this market can be characterized as an active competition between industry players, and one of the main tools on this market is a product strategy, which is aimed at continuously improving and updating the product range and pricing strategy for permanent reduction of production costs. And the main competitive advantage of Baltiyskoie moloko branch of WBD is the high quality of products and a wider product range. The description of WBD main competitors on the market can be seen on table 7:

Table 7. WBD competitors on a cottage cheese market (GRC 2012)

Company	Date of market entry	Brand name	Market segment	Market share in 2012
Unimilk	2002	Petmol	Premium	21,4
Danone	2006	Danissimo	Middle-class	5,7
Severniy sakhar	2004	Raiskiy sad	Middle class	5,4
Kagalnitskiy zavod	1998	Cottage cheese	Economical	5,2
Korenovski zavod	2005	Cottage cheese	Economical	4,4
Kalininskiy zavod	2000	Cottage cheese	Economical	3,7
Vologodskiy zavod	1996	Vologodskie kruzheva	Middle class	3,5

The growth of the milk market in late 2000s was approximately 4-5% per year, while Baltiyskoie moloko growth was 7-8% per year. So, after analyzing such figures, it can be concluded that the growth rate of the company is higher than the growth rate of the dairy market. This is a positive trend, which means that the company manages to successfully fight with its competitors. The overall dynamics of the market is positive, which leaves the prospects for development (Wimm-Bill-Dann 2013d).

So, the following conclusions about market can be made:

- Dairy market, both regional and national, is on totally formed, but due to the last economic crisis it is still has high potential for growth, which enables the company to increase the volumes of produced and marketed products;
- The main problem in the dairy market is the seasonality of production in the dairy industry, so it is necessary to establish relationships with suppliers of raw

materials and to improve the economic mechanism of mutual relations of partners in the market of dairy products;

- Production of competitive products grows, so companies need to focus on events that shape the loyalty and commitment of customers;

- Baltiyskoie moloko branch of Wimm-Bill-Dann is a market leader in the north west Federal District, with a market share of 28% and due to a high growth potential of the dairy market, it allows to increase the volume of production. And the company modern high-tech equipment allows producing quality products and reducing production costs.

5.4. Analysis of the Baltiyskoie moloko activities on the market

For the more deep understanding of company operations it is necessary to carry out SWOT-analysis, which allows identifying the strengths and weaknesses of the organization, opportunities and threats of the environment. This analysis can be seen on table 8. Conducting the SWOT-analysis of Baltiyskoie moloko also allowed systematizing information about the internal and external environment of the enterprise.

Table 8. SWOT analysis of the Baltiyskoie moloko (Wimm-Bill-Dann 2013c; GRC 2012).

Strengths	Weaknesses
Large enterprise which is a part of WBD, to which products the consumers trust, and WBD invests money in the enterprise	The enterprise is not an independent, it is a part of a bigger company, so the complexity of managing enterprise is exist
Good geographical position in the north west Russia	The complexity of distribution in regions, which are remote from the production site
The presence of brands with high consumer commitment.	

Use of modern high-tech equipment	
Fairly big market share - 28% of the market	
Opportunities	Treats
External market opportunities for the development of distribution in the other regions	Intense competition from the two big companies Danone and Unimilk
The presence of large retailers and suppliers	Seasonability of milk production increased the competition in the market of raw materials for dairy products
	The increasing cost of shelf space in major retail chains

After a SWOT analysis, the interaction of different parts must be analyzed. As it can be seen from interaction of S with O, market leadership enables to make contracts with big suppliers and large retail chains. The enterprise has a favorable geographical location in terms of regional development. And the last thing, the presence of commercial areas in the big cities of the north west district allows the enterprise to control certain areas.

As it can be seen from interaction of S with T, the leadership position in the region allows to effective dealing with increased competition in the consumer markets and commodity markets. A high level of financial resources, gained from Wimm-Bill-Dann, allows to faster agreement reaching with retailers. Costs reducing by improving production and economies of scale allow profitable pricing policy despite the decreased purchasing power after the crisis.

Next interaction is an interaction of W with O, the complexity of distribution in regions, which are remote from the production site can be paired with external market opportunities for the development of distribution in the other regions. It can be solved by cooperating with distribution companies.

And the last interaction is the interaction of W with T. The complexity of distribution in regions, which are remote from the production site is a very big treat because it is tied up with intense competition from the two big companies Danone and Unimilk. So these companies can enter other regions themselves, and conquer the market in these remote regions.

Another thing which is important for understanding the market activities of the enterprise on the market is to make an analysis of the list of all manufactured products. Such list could be found in appendix 3. The company produces a large number of product groups and subgroups.

Thus, it is possible to analyze the commodity nomenclature. The company has a wide product range, because it produces 8 product groups. The level of market depth can be described as high since there are different subtypes of products, which differs for different groups of customers. And the level of nomenclature specialization is also very high, because all the products produced by the company are only the dairy products. Thus, the analysis of the commodity nomenclature has shown that it has a high level all the necessary qualities, which suggests that the efficiency of the marketing department is high.

Another step for deeper understanding of the innovation is a segmentation of the enterprise target market. It was carried out by 3 criteria - by geographical market, by product type and by consumer's income. According to the first criteria, the geographical market of a Baltiyskoie moloko are 5 districts of north west Russia - Saint-Petersburg, Leningradskaia oblast, Vologodskaia oblast, Novgorodskaia oblast, Pskovskaia oblast (Wimm-Bill-Dann 2013c). Segmentation according to the other criteria can be seen on the tables 9 and 10. The data for the tables was taken from the appendix 3.

Table 9. Market segmentation by product type (Appendix 3).

Market segment	Brand
Premium	Chudo
Upper middle-class - products that costs more than the average price	Domik v derevne
Middle-class - mid price segment	Veseliy molochnik
Economical - the cheap priced product packaged in an economical package	Burenka

Table 10. Market segmentation by consumer's income (Appendix 3).

Product class	The share in total sales, %	Target segment
Premium	15	Active and successful people 25-55 years old, with an average income of more than 1500\$ per month
Upper middle-class	37	Active and successful people 25-55 years old, with an average income from 1000 to 1500\$ per month
Middle class	32	Students, Pensioners, people with an average income less than 1000\$ per month
Economical	16	Students, Pensioners, other people with lower income

So, according to the market segmentation from different tables, the marketing strategy of Baltiyskoie moloko subsidiary of Wimm-Bill-Dann is the differentiation, in other words, it is a fragmentation of products and services, their positioning on specific markets and consumer groups. The economic benefit of differentiation is in stabilizing the volume of sales in the highly competitive dairy market.

Thus, after the analysis of the enterprise activities, the following conclusions can be made. The company is the leader on the market of the north west district, and it

should focus on research and development, develop new products and improve the manufacturing process, thus attracting not only new customers by producing innovative products, but also focus on the lower price segment, by reducing the production costs.

The main problem of any enterprise can be a low level of market share. As for Baltiyskoie moloko, which is the market leader in the north west Federal District with a total market share of 28%, however, it also needs further growth. The main way to increase the market share is to expand to the totally new markets or making new products for existing markets. Although market share is not a problem in this enterprise and not prevents it further development, anyway it should focus on innovation.

Analysis of the business portfolio showed that the products manufactured by the company is cope not only with the highest standards of quality, but also can meet the needs of a wide range of customers due to the presence of different types of product brands targeting to the different customer segments and sufficiently advanced and in-depth range of products.

Company differentiates its products, focusing on different target markets. Segmentation allows the company to not only display items in different geographic markets, but also target different consumers, both in terms of income and by product type.

5.5. Baltiyskoie moloko product launch strategy

In autumn 2010, the product innovation was launched to the market of north west district of Russia. It was a two types of family sized cheese dessert with a brand name Chudo in the category of sweet cottage cheeses. These products have had a high level of sales and customer commitment since the time of launch. The format of its package was called family pack and its volume was 335 grams. Due to the high level of success on the market the similar products in a traditional pack of 190 grams was also set to the production. The production of these product innovations could be implemented only with the equipment of Baltiyskoie moloko

factory because the products have a longer shelf life, so despite any difficulties in transportation, so this product can be marketed to the far away regions. However, there are plans in other Wimm-Bill-Dann factories to improve the production equipment to bring the product to the more regions in Russian market.

One of the biggest factors, which influenced to development of the innovative products, was the decline in sales of previous sweet cottage cheese, which had a brand name Domik v derevne. This decline can be seen on figure 19.

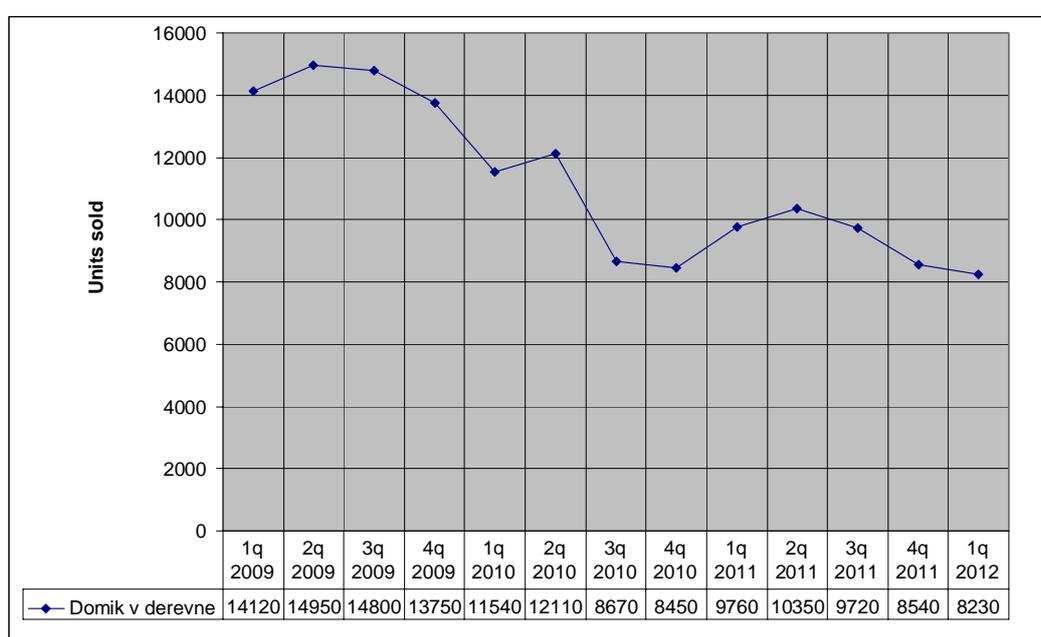


Figure 19. Market dynamics of a Domik v derevne cottage cheese (Appendix 2).

So as it can be seen from the diagram, the old brand Domik v derevne have had a tendency to fall, despite the overall growth of Wimm-Bill-Dann and growth of market in north west district. So the implementation of a new innovative product was required.

The product innovations, which were branded under name “Chudo”, have different features, which distinguishes from features of the old cottage cheese, which was marketed under name “Domik v derevne”. This features are summarized in table 11.

Table 11. Comparison of existing product and innovative products (Appendix 4).

Product features	Sweet cottage cheese “Domik v derevne”	Sweet cottage cheese “Chudo” In family pack	Sweet cottage cheese “Chudo” with chocolate glaze in family pack	Sweet cottage cheese “Chudo” in small pack	Sweet cottage cheese “Chudo” with chocolate glaze in small pack
Fat content	8%	4%	3,8%	4%	3,8%
Packaging	Monoglass Greiner with cover	Monoglass Greiner with cover	Monoglass Greiner with cover	Monoglass Greiner with cover	Monoglass Greiner with cover
Product weight	190 grams	335 grams	335 grams	190 grams	190 grams
Price	19,7 rubles	35,5 rubles	40 rubles	22,2 rubles	25,5 rubles
Taste	Strawberries, raspberries	Strawberries, raspberries	Cherry, vanilla, chocolate	Strawberries, raspberries	Cherry, vanilla, chocolate
Storage temperature	from +2 C° to +6 C°	from +2 C° to +6 C°	from +2 C° to +6 C°	from +2 C° to +6 C°	from +2 C° to +6 C°
Storage life	21 days	30 days	30 days	30 days	30 days
Quantity in 1 package	10	5	5	10	10

So the innovative products have many new features which distinguish them from an old product. 2 major features were improved. First of all, the overall fatness of all products was reduced twice, from 8% to 4% and 3,8%. The type of packaging remained the same, but two of the products were placed in a bigger, family size package. And so weight of these family packages was doubled. Price of original products was lower than price of innovative product. The original taste of the previous product was saved and also another product with additional taste was put to the market. The quantity of products in one trade package remained the same for a traditional sized package, while the quantity in a family package was doubled to 10 products. Storage temperature is the same for all 5 products. And another feature which was tremendously improved is a storage life, While old

products can be stored only for 21 days, the innovative products can be usable for 30 days.

The products in family packs have a relatively low competitive environment, because on the market of cottage cheese desserts the similar product with a family format does not exist. Due to the successful growth in demand for cottage cheese desserts in a family packs, the decision to bring to the market the product in the traditional package was a good decision, which will help to occupy a larger share of the market.

The market segment, to which the product innovation were marketed had two main characteristics. First one is a geographical market, and the market for the innovations were a parts of Russia inside a north west federal district, the product innovations were regional and they were distributed inside this district. Second characteristic is an income market segment. "Chudo" is a premium brand of Wimm-Bill-Dann, so the products will be marketed to subgroups inside this group.

Brand Chudo is a premium brand of Wimm-Bill-Dann, and it's main buyers are active and successful people 25-55 years old, with an average income of more than 1500\$ per month. So the new product innovations were marketed inside this target group. The cottage cheeses Chudo in family packs was marketed inside the subgroup of that group, it was people from 25 to 55 years old, who are not single, have already has a family, one or two children, and they support family values. For this group of customers the new fat level and storing time are not important features, but they are more attracted to the size of package, because it can be enough not only for direct buyers but also for their family members.

The Sweet cottage cheese "Chudo" in family pack without a chocolate glaze was marketed with the idea, that "Chudo" is a surprisingly tasty cottage cheese, which is mixed with cream and lots of pieces of fruit, which will bring pleasure and joy to the buyer. And thanks to the big new package, it will be enough enjoyment for the whole family.

The Sweet cottage cheese “Chudo” in family pack with a chocolate glaze was marketed with approximately the same idea, just with some minor changes, that “Chudo with chocolate glaze” is a delicious cottage cheese, which is mixed with juicy slices of fruit under a layer of amazing chocolate glaze, it is a combination, which gives rise to an unforgettable, magical taste. And thanks to the big new package, it will be enough enjoyment for the whole family.

The cottage cheeses Chudo in original, 190 gram packs were marketed inside the subgroup of premium group, it was people from 25 to 55 years old with a huge income and active life position, they are single, have not already have a family and children. They are taking care of their health and the quality of consumed products. So for this group of customers the new fat level and storing time are most important features, they are more attracted to them. The size of package is not that important, because they are buying the product only for their own consumption.

The Sweet cottage cheese “Chudo” in original pack without a chocolate glaze was marketed with the idea, that “Chudo” is a surprisingly tasty cottage cheese, which is mixed with cream and lots of pieces of fruit, which will bring pleasure and joy to the buyer. And thanks to the comfortable package, buyer can enjoy the product everywhere.

The Sweet cottage cheese “Chudo” in original pack with a chocolate glaze was marketed with quite the same idea, just with some minor changes, that “Chudo with chocolate glaze” is a delicious cottage cheese, which is mixed with juicy slices of fruit under a layer of amazing chocolate glaze, it is a combination, which gives rise to an unforgettable, magical taste. And thanks to the comfortable package, buyer can enjoy the product everywhere.

The market and the customers, to whom the product innovations were marketed has several features. First of all, the sweet cottage cheese products are consumed as desserts. Typically, the amount of purchased desserts is calculated by buyer for all members his or her family. Buyers are guided by taste and favor. Secondly, the

assortment of different cheese desserts, presented by the company, is a sufficiently wide. The variety of flavors and packaging allows consumers to make a choice depending on his or her preferences. Finally, after the introduction the latest product innovation to the market, consumers also paid attention to the old branded cottage cheese “Domik v derevne”, so while customers expressed a willingness to try new items, they also tend to buy an old products, which was not modified and had a certain brand name.

While marketed the innovative products, the Baltiyskoie moloko part of Wimm-Bill-Dann group had the following aims:

- Strengthening the market position in the niche of cottage cheese desserts;
- An increase in sales due to the market introduction of product innovation, which has a new features in the package and in technology of production;
- To gain a competitive advantage by introducing the product both in the popular format and in the family format;
- To increase the sales and profitability of the brand "Chudo" by launching a product innovation under its name;
- To attract new customers;
- To increase the value of the overall Wimm-Bill-Dann brand;

Launch of all product innovations to the market had a success, they have been growing in sales since the launch in autumn of 2010. Such a trend is shown on figure 19. The sales of an old brand also remained on the figure 20.

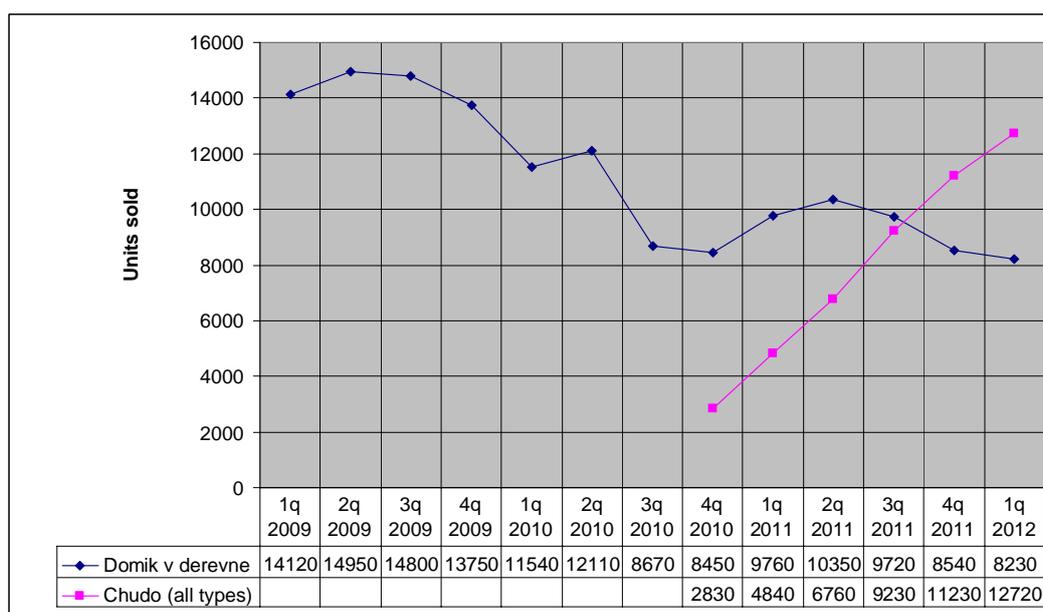


Figure 20. Market dynamics of the old and innovative products (Appendix 2).

So, as it can be seen from a figure, the aims of a Wimm-Bill-Dann were totally fulfilled. Launching of new innovative products improved the image of the brand, helped to make it modern in the eyes of the consumer and increases the level of credibility. Main benefit for the customers were comfortable package, both family pack and original pack. The company also benefited from the product innovation because the increased product range attracted new customers.

While forming the promotion strategy, the Baltiyskoie moloko had to focus on product support at points of sale. As the product is a regional, and the brand "Chudo" has a high level of consumer commitment, the television advertising support was launched only in regional channels. If the products sometime in future would be put to the national market, then there would be more television advertising campaign. Conducting promotional activities at the point of sale have generated awareness about the product. Also an important tool for promotion of the product on the market was the right location on trading shelves. Products were distributed through the same channels as other enterprise products. However, since the product is in a premium class, the focus was on spreading them to the major retailer chains. For this purpose the effective system of discounts for networks was developed.

Thus the launch of the product innovation "Chudo" cottage cheese dessert on the markets of north west federal district was totally appropriate due to the several reasons. First of all, a lowered demand for the previous cottage cheese dessert which was sold under the brand name "Domik v derevne". Secondly, the format of a family pack enjoys a high level of demand, and so did the sales of a product innovation in the original package. Thirdly, it is one of the most important reasons, that there are no direct competitors in the group of sweet cottage cheeses. And the last, but not least, the brand "Chudo" is a recognized national brand with a high level of consumer confidence.

So with a properly organized strategy of positioning of this product innovation, this should lead to an increase in market share in the category of dairy products, to raise the overall level of brand loyalty of "Chudo" and to improve the Wimm-Bill-Dann company position as a whole.

The choice of the abovementioned strategy will improve the overall efficiency of the enterprise. The main advantage of this particular strategy is that the nearly the same product, which was branded under the "Domik v derevne" name, has already been on the market and has shown fair effectiveness. This innovation is the marginal (in other words, incremental) product innovation, because it neither satisfies the new need nor the means to satisfy the old need. However, this product can be attributed to the innovative, since it is an upgraded product, which has a new features or quality from the customers' point of view, and also allows them to satisfy their need for a new situation, and for manufacturers it is also a marginal innovation because they use a modified technology to make the product.

6. CONCLUSION

The chapter six is a final chapter and therefore it is a conclusion of the research. First subpart of this chapter includes summary of major findings and gives answers to the main research question and all three subquestions. Then in the second section the limitations of the research are presented. And in the final subpart the brief suggestions for the further research are discussed.

6.1. Summary of major findings

In the endings of previous chapters the major findings were introduced and discussed. The information obtained after the research allows answering to the main research question and the sub questions.

The initial research question was following:

What strategy is suitable for launching the dairy industry product innovation to the market?

According to the conclusions of the research, it was visible from the different tables of the market segmentation, that the product launch strategy of Baltiyskoie moloko subsidiary of Wimm-Bill-Dann is the differentiation, in other words, it is a fragmentation of products and services, their positioning on specific markets and consumer groups. So differentiation is suitable for dairy industry. The economic benefit of differentiation is in stabilizing the volume of sales in the highly competitive dairy market. Company differentiates its products, focusing on different target markets. Segmentation allows the company to not only display items in different geographic markets, but also target different consumers, both in terms of income and by product type.

There were three sub questions of the study:

1. What are the benefits from the appropriate launching of the innovative products to the market?

According to the results of the study, the product innovations, which were branded under name “Chudo”, have different features, which distinguish from features of the old cottage cheese, which was launched under the name “Domik v derevne”. Launch of all product innovations to the market had a success, they have been growing in sales since the launch in autumn of 2010. Innovations’ main buyers were active and successful people 25-55 years old, with an average income of more than 1500\$ per month. Launching of new innovative products improved the image of the brand, helped to make it modern in the eyes of the consumer and increases the level of credibility. Main benefit for the customers were comfortable package, both family pack and original pack. The company also benefited from the product innovation because the increased product range attracted new customers. This innovation was the marginal (in other words, incremental) product innovation, because it neither satisfies the new need nor the means to satisfy the old need.

2. What are the main characteristics of product innovations in a dairy industry?

According to the results of the research, product innovations are changes in the things (product or services), which an organization offers to market. The right process of carrying out the market research and selection of the most promising directions for implementing ideas determines the success of an innovative product. For the successful implementation of a product innovation the cooperation of all departments of the company is required, as well as the orientation of each of the participants to the market and end consumer. The positioning process is a determinant of the overall strategy of product innovation, as is aimed on forming the potential customer’s attitude for the product. One feature of innovative product is the lack of direct competitors, therefore it is necessary to focus on indirect competitors who are not making the same product but satisfy the same need;

3. How to launch an incremental product innovation to the market?

Based on the conclusions of the study, during the development of this innovation the degree of customer satisfaction, as well as their wishes is taken into account in the first place. This is exactly the kind of innovation, in which the consumer's opinion defines the direction of development. The strategy of offering of the new goods must be consistent with the strategy of the analogous product produced by the company and also in accordance with the analogous product objectives. The acquired quality of the goods must be really important and bring practical benefits to the consumer, so, during the formation of promotion strategies, the message, which is directed to a potential customer, should focus on these qualities and benefits which they can brought. As for a distribution strategy and pricing, they must be based on the strategy of the goods which has been undergone an improvements. It is only necessary not to dilute imagination of the target audience about this type of a product, and prove that its use gives a practical benefit.

6.2. Limitations of the research

The limitations of this study arise most notably from its qualitative nature which does not allow generalizations. The credibility issue for qualitative inquiry depends on rigorous techniques and methods for gathering high-quality data which is carefully analyzed with attention to validity, reliability and triangulation. The technique used in this study was a single case study of a Russian enterprise.

Although the case of innovative product launch in one industry was studied, there are many other Russian industry fields which also launch a product innovation. These include so many fields of industry like a beverage industry, cloth making industry, luxury consumption production, telecommunications industry, and retailing. All these industries have different approaches and methods to innovative marketing, so results of the research cannot be generalized.

6.3. Suggestions for the further research

For a more deep research, product innovation in several other industries could be studied. Or product innovations from bigger amount of companies from the same dairy industry could be examined. Therefore some generalizations could be drawn from the results if there would be similar marketing methods between different industries. On the other hand, it would be interesting to study if there are totally different marketing patterns inside one particular industry.

Also, since the innovation studied in this research has been in the market only for a two with a half years, interesting aspect would be to study its situation after few years from now on and see whether there will be any major changes. Another possible way of research could be a comparison of product launch strategies between Wimm-Bill-Dann and any other dairy product company from another country. Such cross-national comparison of product innovation launching to the market could reveal differences related to national features of handling the innovations.

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Appendix 1

Table 12. Market share of Wimm-Bill-Dann in north west District.

	1q 2009	2q 2009	3q 2009	4q 2009	1q 2010	2q 2010	3q 2010	4q 2010	1q 2011	2q 2011	3q 2011	4q 2011	1q 2012
WBD	23,7	24,7	26,9	26,8	26	25	24	23,7	24,2	25,6	26,6	27,2	28,3
Unimilk	20,2	20,8	18,1	21,6	21,8	22	22,5	22,7	22,8	23,2	23,2	21,3	21,4
Trest Severniy sakhar	4,8	4,7	5	5,2	5,1	5,3	4,7	4,7	4,8	5	4,6	5,1	5,7
Danone	4	4,1	3,9	3,8	4,3	4,5	4,2	4,4	4,9	4,8	5,1	5,6	5,4
Kagalnitskiy zavod	6,6	6,3	5,9	5,7	6	5,9	5,6	5,6	5,5	5,1	4,8	5	5,2
Korenovski zavod	2,7	2,8	2,5	3,2	3,2	3,4	4,2	4,7	4,6	4,2	4,2	4,4	4,4
Kalininskiy zavod	3,5	4,1	4,4	4,1	4,1	4	3,7	3,7	3,7	4	3,7	3,6	3,7
Vologodskiy zavod	5,2	4,4	4,1	4,3	4,5	3,9	4	3,5	3,5	3,5	4	4	3,5

Appendix 2

Table 13. Sweet cottage cheese units sold.

Period	Product brand	
	Domik v derevne	Chudo (all types)
1q 2009	14120	
2q 2009	14950	
3q 2009	14800	
4q 2009	13750	
1q 2010	11540	
2q 2010	12110	
3q 2010	8670	
4q 2010	8450	2830
1q 2011	9760	4840
2q 2011	10350	6760
3q 2011	9720	9230
4q 2011	8540	11230
1q 2012	8230	12720

Appendix 3

Table 14. The range of products manufactured by the company.

Type of the product	Brand	Market segment	Approximate share in total sales of 2011, %
Milk	Domik v derevne	Upper-middle	8
Milk	Veseliy molochnik	Middle	10
Milk	Burenka	Economical	3
Yoghurt	Chudo	Premium	4
Kefir	Chudo	Premium	4
Kefir	Domik v derevne	Upper-middle	5
Kefir	Veseliy molochnik	Middle	6
Kefir	Burenka	Economical	2
Cream	Domik v derevne	Upper-middle	5
Cream	Veseliy molochnik	Middle	4
Cream	Burenka	Economical	3
Sour cream	Domik v derevne	Upper-middle	4
Sour cream	Veseliy molochnik	Middle	5
Sour cream	Burenka	Economical	3
Cottage cheese	Chudo	Premium	7
Cottage cheese	Domik v derevne	Upper-middle	6
Butter	Domik v derevne	Upper-middle	3
Butter	Veseliy molochnik	Middle	4
Butter	Burenka	Economical	3
Cheese	Domik v derevne	Upper-middle	6
Cheese	Veseliy molochnik	Middle	3
Cheese	Burenka	Economical	2

Appendix 4

Features of sweet cottage cheeses produced by Baltiyskoie moloko.

Table 15. Sweet cottage cheese “Domik v derevne”.

Fat content	8%
Packaging	Monoglass Greiner with cover
Product weight	190 grams
Price	19,7 rubles
Taste	Strawberries, raspberries
Storage temperature	from +2 C° to +6 C°
Storage life	21 days
Quantity in 1 package	10

Table 16. Sweet cottage cheese “Chudo” In family pack.

Fat content	4%
Packaging	Monoglass Greiner with cover
Product weight	335 grams
Price	35,5 rubles
Taste	Strawberries, raspberries
Storage temperature	from +2 C° to +6 C°
Storage life	30 days
Quantity in 1 package	5

(continued on page 115)

(Appendix 4 continued)

Table 17. Sweet cottage cheese “Chudo” with chocolate glaze in family pack.

Fat content	3,8%
Packaging	Monoglass Greiner with cover
Product weight	335 grams
Price	40 rubles
Taste	Cherry, vanilla, chocolate
Storage temperature	from +2 C° to +6 C°
Storage life	30 days
Quantity in 1 package	5

Table 18. Sweet cottage cheese “Chudo” in small pack.

Fat content	4%
Packaging	Monoglass Greiner with cover
Product weight	190 grams
Price	22,2 rubles
Taste	Strawberries, raspberries
Storage temperature	from +2 C° to +6 C°
Storage life	30 days
Quantity in 1 package	10

Table 19. Sweet cottage cheese “Chudo” with chocolate glaze in small pack.

Fat content	3,8%
Packaging	Monoglass Greiner with cover
Product weight	190 grams
Price	22,5 rubles
Taste	Cherry, vanilla, chocolate
Storage temperature	from +2 C° to +6 C°
Storage life	30 days
Quantity in 1 package	10

Appendix 5

Questionnaire**Company information**

- 1) Name of the company
- 2) Field of industry:
- 3) Position of the respondent in the company:
- 4) Year of entry to the market:
- 5) Geographical area where company is operating in:

Marketing of the product innovation

- 1) What types of products does your company manufacture? What brand names do those products have?
- 2) To what market segment each brand is related to?
- 3) What estimate share in total sales each of the products has?
- 4) What kind of product innovations does your company implement? Do they have a different brand name?
- 5) What are the main features of the company innovative products?
- 6) Which were the motivations for making the innovative product?
- 7) How many sales of an old product did company made in the previous years, and how much innovative products were sold?
- 8) What is a market share of an innovative product in relation to the market share of the competitors products
- 9) What kind of challenges and problems have you faced while implementing a product innovation?
- 10) Have you been able to overcome the possible challenges? If yes, then how?
- 11) How do you perceive the future position of the innovative product on the market?