Unbiased Financial Information Provided by Financial Wisdom.

Avoid Cannibalizing Sales with New Products

Launching new products and extending the lines of existing products are the most common ways for businesses to grow. Sometimes though, businesses offer new products only to realize later that the net affect of the new product is detrimental to their ultimate profitability. The key is to make sure your bottom line (profits) grows as well as your top line (sales).

Here are some mistakes to avoid when considering adding new products or services.

1. The development and launching of the new product diverts critical resources from running or managing your existing business. As manager of the business, you must be sure that everything continues to run smoothly even with the new product.

Consider assigning a staff person the task of launching the new product. You can continue to supervise the project, but the staff person may be able to handle many of the tasks. In addition, that person will probably be excited to be involved in something new and may grow into a more valuable employee. Delegating the new product can establish the person as the “new product champion” and let you stay focused.

2. The new product results in decreased sales of existing products. New products should add to the top and bottom lines. Unless the new product replaces an existing product, be sure to keep an emphasis on your existing successful products.

If you have a commission sales force and want to offer an additional incentive for sales of the new product, consider some commission arrangement that motivates the sales person to try to sell both the new and existing products to the same customer. This “packaging” concept can focus the sales person and strengthen the customer relationship. In most cases, the more products a single customer uses, the harder it is for that customer to switch. You may even want to consider a special “package” price for the customer.

3. The profit margins of the new product reduce your company’s overall profitability. Pricing a new product or service can be difficult. Development costs, production costs and market forces must all be considered in arriving at a competitive price. The old adage of selling something at a lower margin and making it up with volume only works if the higher volume is actually achieved.

The term “cannibalizing sales” describes the situation where a new product is easily substituted for an existing product resulting in a lower total volume than what was anticipated. In other words, the new product just replaces the old product without adding significant incremental revenues or profits.

Avoid this potential with your pricing strategy and your marketing efforts.