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## PRODUCT INNOVATIONS AS THE SOURCE OF ENTERPRISE COMPETITIVENESS

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**Key words:** competition, competitiveness, instruments of competing, innovations, product innovations.

### Abstract

Enterprises continually search for ways of improving and strengthening their competitiveness. This is not an easy task. Continuous floating of new products to the market is one of the options. Thanks to product innovations the enterprise can increase its market share, the level of achieved profit, improve its competitive position and, as a consequence, its competitiveness. This study aimed at identification of strategic goals of creating new products, factors determining undertaking of innovation activities in that area and factors determining market success of such products. The studies showed that floating new products to the market serves, first of all, achievement of typical market goals. The success of a new product strategy is determined by marketing factors as well as the financial standing of the company, its image and promotion potential. The major factors stimulating innovative activities of the enterprise are the status of market needs and preferences, rate of changes in them, technology progress as well as resources and skills of the enterprise.

## INNOWACJE PRODUKTOWE JAKO ŹRÓDŁO KONKURENCYJNOŚCI PRZEDSIĘBIORSTWA

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**Słowa kluczowe:** konkurencja, konkurencyjność, instrumenty konkurowania, innowacje, innowacje produktowe.

### Abstrakt

Przedsiębiorstwa stale poszukują sposobów na poprawę i umacnianie swej konkurencyjności. Nie jest to zadaniem łatwym. Jedną z możliwości jest wprowadzanie na rynek nowych wyrobów w sposób ciągły. Dzięki innowacjom produktowym przedsiębiorstwo może zwiększać swój udział w rynku,

poziom realizowanych zysków, poprawiać swoją pozycję konkurencyjną i konkurencyjność. Celem badań była identyfikacja celów strategicznych kreowania nowych produktów, czynników determinujących podejmowanie działalności innowacyjnej w tym zakresie oraz czynników decydujących o sukcesie rynkowym tych wyrobów. Badania wykazały, że wprowadzanie na rynek nowych produktów służy przede wszystkim realizacji celów typowo rynkowych. O sukcesie strategii nowego produktu decydują czynniki marketingowe, a także zasoby finansowe firmy, jej renoma i możliwości promocyjne. Głównymi stymulatorami działalności innowacyjnej przedsiębiorstwa są: stan potrzeb i preferencji rynku, szybkość ich zmian, postęp w technologii, a także zasoby i umiejętności przedsiębiorstwa.

### **Importance of innovation for enterprise competitiveness**

Competition is a phenomenon occurring in various aspects of human social and economic life. It is also the subject of interest of economic sciences in both theoretical and practical aspects. Since the beginnings of history the questions were asked what to do to win in the competitive struggle, how to be competitive against the increasing number of market participants? Those questions are still valid. Market situation is becoming increasingly complicated. Complexity of processes occurring in the economy and enterprises increases. Enterprises are forced to take decisions in a shorter and shorter time. Unfortunately, there is no single answer to the questions asked. If the enterprises had known a panacea to their problems, they would all have been successful in the market. In that complex and multidimensional situation a statement could be risked that only the enterprises that, among others, will be able to continuously float new products to the market will have a chance of be successful because, as Peter Drucker says the “enterprise that is unable to create innovation dies” (DRUCKER 1992). Successful innovations that represent creating and floating to the market new products adjusted to changes occurring in the environment are, as a consequence, the main source of meaningful success.

The notion of innovation is not interpreted in just one way in the subject literature. According to Sztucki “innovation is every idea, behavior or thing that is new because it differs in quality from ideas, behaviors and things known so far. Transformation of innovation into products and market activities represents starting something entirely new, undertaking a complicated activity burdened with a high level of risk and uncertainty” (SZTUCKI 1998).

The product innovations that represent production of new products or improved versions of already existing products are subject of analysis in this paper (ŁOBEJKO 2005). The importance of product innovations results, among others, from the fact that new products determine the market share of the enterprise, the rate and level of income increase, the market position and the competitive leadership (KRAWIEC 2001). They are also among the key elements of competition. According to Haffer “the strategic goals of contemporary

enterprises are achieved (...) to an increasing degree through quality of new products with active support of other marketing instruments” (HAFFER 1998). Considering the fact that in the United States new products currently give companies; ca. 40% of their revenues from sales, he states that their importance among marketing instruments of competition will continually increase. That is why increasingly frequent floating of new products to the market coupled with the trend of long-term stabilization of prices and subjecting the other marketing instruments to promoting the new products can be observed.

### **Material and method**

The analyzed problem was characterized on the basis of studies conducted at one of the best and largest dairy cooperatives in Poland. It consists of 7 production plants situated in Podlaskie, Warmia and Mazury and Kujawsko-Pomorskie voivodships. It has the daily level of raw milk purchases of 3 million liters. That volume of milk purchased places it at the industry leader position. That enterprise is also among the market leaders as concerns the quality of products manufactured, the number of brand products (it has a number of brands among which the best known ones are “Łaciate”, “Milko” or “Białe”), and it enjoys appreciation of clients and consumers. That is evidenced by the fact, that it is the winner of numerous prestigious awards including the “Mister of Exports” or the main prize in the “Expansion” category in the national ranking organized by the Confederation of Polish Employers and Amadeus Art. Those qualities determined choosing that enterprise for the studies. On the other hand the product innovations formed the object of studies. The studies conducted earlier by the author showed that floating new products to the market is one of the most important instruments of competition in dairy enterprises (ROMANIUK 2003).

The objectives of the study were as follows:

- identification of strategic goals of creating new products,
- determining the external and internal factors stimulating taking actions in the area of product innovations,
- identification of factors determining market success of new products.

The lists of analyzed factors were formulated on the basis of literature. The research tool applied was the questionnaire for the management staff at all plants. The managers assessed individual factors using the scale given in the questionnaire. The results obtained were averaged.

## Strategic goals of creating new products

Considering the fact that product innovations form an element of very high importance for building competitive advantage and improving enterprise competitiveness, the management staff was asked to identify strategic goals of creating new products. The results obtained are presented in table 1. The data contained in that table indicate that floating new products to the market serves, first of all, winning new markets as well as expanding and increasing competitiveness of own offer (85.7% of answers), and strengthening the market position (71.4%). The goals given above are of typical market character and serve improving the competitive position of the studied enterprise and, as a consequence, should translate into improvement of its competitiveness. Additionally, the declared entity also declared achievement of financial goals related to innovation activities undertaken. They include improvement of profitability, increase of production volume and competing on price. The last of those goals was not, however, indicated too often (14.2%). That could indicate that the enterprise carries out the competitive struggle using other instruments than competing on price that represents one of the most dangerous methods of conducting the market game. The goal of using good quality resources also scored low (14.2%).

**Table 1**

Strategic goals of creating new products

No.	Item	% of answers
1.	Winning new markets	85.7
2.	Expanding and improving competitiveness of own offer	85.7
3.	Strengthening own market position	71.4
4.	Adjusting the offer to customer needs	57.1
5.	Profitability improvement	42.9
6.	Increase of production scale	28.6
7.	Competing on price	14.2
8.	Making use of good quality resources	14.2

Source: Own work based on empirical studies results.

## Stimulators of activity in undertaking the new product strategy

The management of the subject enterprise assessed the power of stimulating influence of internal and external factors on undertaking production of new products by applying the 0 to 5 scale, where: 0 represented no influence,

1 – very low influence, 2 – small influence, 3 – moderate influence, 4 – high influence and 5 – very high influence.

The results obtained concerning the external factors are presented in table 2. The data in that table indicate that almost all external factors of market character influencing the innovative activity of the subject enterprise had a very high or high influence. The highest scoring factors were the status of needs and preferences of the market and the rate of their change, progress in technology, level of customer requirements and development of the free market. The group of strong innovation stimulators included also progress in products and shortening of their life cycles, competition between domestic products and the domestic demand for them. The factors listed are important from the perspective of enterprise competitiveness. Not considering them creates a threat of deterioration of the competitive position in the market and in a long time perspective can become the cause of serious problems in the enterprise.

**Table 2**

External stimulators of a new product strategy

No.	External environment factors	Score
1.	Status of market needs and preferences	4.86
2.	Progress in technology	4.71
3.	Customers requirements level	4.71
4.	Rate of market needs changes	4.57
5.	Free market development	4.43
6.	Progress in products	4.11
7.	Competition of domestic products	4.00
8.	Domestic demand for products	3.86
9.	Availability of distribution channels	3.43
10.	Shortening of product life cycle	3.43
11.	Competition of imported products	2.86
12.	Access to foreign sales markets	2.57
13.	Ease of sales of manufactured products	2.43
14.	ISO quality system	2.14
15.	Availability of information	2.00
16.	Availability of components of supplies in the market	0.00
17.	Export requirements	0.00
18.	Production level of competitive products	0.00
19.	Economic growth rate	0.00

*Source:* Own work based on empirical studies results. The study was carried out together with master degree student Kariona Rejniak.

Also the following factors were stimulators of innovation according to the management staff in the subject enterprise: competition of imported products, access to foreign sales markets and ease of selling the manufactured products. The reason for that could be the fact that the studied cooperative has exported a significant part of its products for years. Currently the share of products for export in total sales is 30%. Additionally, its products have enjoyed high interest of the buyers for years. The management of the cooperative says that there were periods of such high increases in demand for products offered by the cooperative that there were problems with satisfying the demand. The insufficient production capacity was the main problem on the supply side.

The ISO quality system and access to information were also included among factors influencing undertaking of innovative activities. Those opinions could raise some doubts, particularly as concerns the later element. At the time when success of the enterprise is determined by speed of obtaining and using information such low ranking of that factor is surprising. As concerns the ISO quality system, its importance for the cooperative is lower than that of the HACCP system, which is compulsory for all entities participating in the food chain. This could be, as a consequence, the reason for its low ranking. The external factors that were ranked as of no influence on the innovation activity of the enterprise were availability of supplies of components in the foreign market, export requirements, level of competitive products promotion and the economic growth rate.

Next to the external there are also internal innovation activity stimulators consisting of resources and skills. They are presented in table 3.

Among 20 internal factors, 6 were ranked as having a very high influence, and 6 as having a high influence on undertaking innovation activities. The first group included the following stimulators: scope of knowledge of the market needs and preferences, the necessity to expand the products range, level of technical and market experience, attitudes of marketing services, financial standing of the enterprise and willingness to export products. The second group of factors, i.e. those with high influence on initiating the new product strategy included: scope of conducted development studies, expected profit level, skills and attitudes of management staff, scope of formulated strategic goals, willingness to stay in the market and propensity of the enterprise to take risk. Analysis of those factors allows concluding that the subject enterprise is aware of its market position. It takes effort to improve it through good knowledge of the market, a characteristic leader attitude, manifesting through development efforts using the available management staff skills, financial resources and high propensity to take risk. The weakest innovation activity stimulators were: the structure of power in the enterprise and the level of product strategies knowledge. Additionally, the subject cooperative decided

**Table 3**

## Internal stimulators of a new product strategy

No.	Internal environment factors	Score
1.	Scope of knowledge of market needs and preferences	5.00
2.	Necessity to expand the range of products	4.86
3.	Level of technical and market experience	4.71
4.	Enterprise financial standing	4.71
5.	Willingness to export products	4.57
6.	Skills and attitudes of marketing services	4.43
7.	Strong willingness to stay in the market	4.00
8.	Expected profit level	3.86
9.	Skills and attitudes of management staff	3.43
10.	Scope of development research carried out	3.43
11.	Scope of formulated strategic goals	3.30
12.	Propensity of the enterprise to take risk	3.28
13.	Necessity of manufacturing costs reducing	2.86
14.	Necessity of product quality improvement	2.57
15.	Level of cooperation with distributors	2.14
16.	Structure of power in the enterprise	1.28
17.	Level of product strategies knowledge	1.14
18.	Aiming at keeping with global standards	0.00
19.	Level of knowledge on patterns to be followed	0.00
20.	Skills and attitudes of staff in R&D units	0.00

*Source:* Own work based on empirical studies results. The study was carried out together with master degree student Kariona Rejniak.

that three factors had entirely no influence on its innovation activities. The first of them is aiming at achievement of the global standards. The reason for that situation could be that the subject entity already currently manufactures very high quality products. The second factor is the skills and attitudes of staff in the R&D units. In the majority of dairy cooperatives in Poland there are no own R&D units and, as a consequence, that factor scored zero. The last factor is the level of knowledge on the examples to be followed. As pointed out at the beginning of the analysis, the investigated cooperative is the dairy market leader. It seems that the situation could be the main reason why that element was ranked as having no influence on innovation activity.

## Factors determining market success of new products

Factors determining market success of new products were divided into market and resource factors. The scale applied was identical to that used in case of stimulators of activity to take decisions concerning creation of new products. The results are presented in tables 4 and 5.

**Table 4**

Market factors determining success of the new product strategy

No.	Market factor	Score
1.	Level of demand for a product of a given class	4.71
2.	Market size (actual demand)	4.57
3.	Level of quality competition	4.43
4.	Level of price competition	4.43
5.	Level of satisfaction with competitor products	4.14
6.	Number of competitors	3.42
7.	Rate of changes in user requirements	3.00
8.	Frequency of floating new products to the market	2.71

*Source:* Own work based on empirical studies results. The study was carried out together with master degree student Kariona Rejniak.

**Table 5**

Resource factors determining success of the new product strategy

No.	Resource factor	Score
1.	Enterprise financial resources	5.00
2.	Skills and possibilities of advertising and promotion	4.71
3.	Enterprise image	4.00
4.	Possession of efficient distribution	3.57
5.	Skills of management staff	3.00
6.	Propensity of management to take risk	2.57

*Source:* Own work based on empirical studies results. The study was carried out together with master degree student Kariona Rejniak.

Table 4 shows that market factors that have the strongest influence on success of new products strategies are the level of demand for products of a specific class, market size and the level of quality and price competition. The elements listed are of typical marketing character. They indicate, that market success of a new product can be determined by good identification of needs and preferences of clients achieved at the marketing studies stage. Continuous



improvements in quality of products offered as well as the price are not without importance. That is justified considering that dairy products that were the object of the study belong to the so-called first need products group.

Among the resource type factors (table 5) the factors with the highest importance for market success of a new product were: financial resources of the enterprise, skills in and possibilities of applying advertising and promotion as well as the image of the enterprise. The reasons for that could be found, among others, in existence of fierce competition in the dairy sector. During the buying process the client encounters a very rich offer of products. In his choice he will show more propensity to try a new product that he knows from promotional information and manufactured by the enterprise that brings positive associations. Reaching customer awareness and creating the positive image requires, however, availability of significant financial resources.

## **Conclusions**

Competitiveness of the enterprise can be managed using a variety of instruments and competitive activities. Taking action concerning new product strategy is one of them. The studies conducted allowed formulating the following conclusions relative to the subject enterprise:

1. Factors determining innovation activity of the enterprise are of both internal and external type. Among the external factors, the factors of market character including, e.g. the status of market needs and preferences and rate of their change, progress in technology, level of customer requirements and free market development are the major stimulators of new product strategy. They are all highly important from the enterprise competitiveness point of view. The internal factors influencing the activity in undertaking innovative activities include resources and skills available to the enterprise. The main factors in that group are: scope of knowledge on the market needs and preferences, financial standing of the enterprise and its propensity to take risks.

2. Implementation of the new product strategy serves, first of all, development of market goals of the given enterprise among which the most important ones are: winning new markets, expansion and improvement of competitiveness of own offer and market position strengthening.

3. Market success of a new product is determined by factors of typically marketing character (level of demand for the product of a given class, market size, level of quality and price competition) as well as the resources. In that later group the financial resources of the enterprise, its image and promotional abilities are the most important factors.

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