How the Product Development Process Works in 7 Steps

Developing a product for selling online requires a number of actions from the initial idea to the final product launch and marketing to its target audience.

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When Jeff Bezos started thinking about his business, he did a systematic analysis of all the economic sectors in order to identify what product would be best to sell online. That process helped him identify his starting point: books.

Buying books online is convenient for the user. It's an information-rich product, it's easy to ship, there's a lot of demand, and it's a commoditized product with high distributor margins.

You probably already know the rest of the Amazon story, although it seems it isn't entirely written yet.

Overview: What is product development

Product development is the first stage in the product life cycle, and when you want to develop a product for selling online, you need to think like Bezos and systematically analyze product, market, and distribution characteristics in order to build your business plan.

The product development process is composed of the steps that transform a product concept into marketable merchandise. You start with an idea and end up with technical specifications, product positioning, pricing strategy, service components, and financial characteristics.
At its outset, this process can be idea-driven or market-driven, but it mostly follows the same steps.

What to consider before starting the product development process

Before we look at how to create a product, let's consider some of the prerequisites to product development. You can save a lot of time and effort by making sure you've considered the following things before embarking on the product creation process.

1. Is there demand for the product?

Does the product you have in mind cover a real need? The importance and recurrence of the need will define the size of your potential market for the product.

If your concept is idea-driven, then perhaps there isn't an existing demand for the product, and the market will need to be evangelized in order for you to sell the product.

2. Can it be produced?

Whereas anything can be created or adapted from a photo using Photoshop, engineering doesn't always give us the same creative freedom. From a technical perspective, can this product idea be manufactured? Does a manufacturing capability already exist somewhere in the world?

3. How can the product reach its customers?

Where are your customers physically located? Is there a means of transport and delivery for the product idea for that target group, or will you have to be imaginative and build new distribution partnerships?

This step is clearly made easy by the existence of e-commerce platforms and logistics solutions, enabling you to sell and deliver to almost any part of the world.
4. What competition will it have?

When the product launches, will it be a me-too product addressing an existing market, where you need a stronger value proposition than competing products as well as intensive customer acquisition efforts?

Or will it be a unique product with low direct competition where you will focus on differentiating your product from the market standard? Sometimes, the presence of existing competitors is preferable, as it proves there is a market for the product.

5. Do you have the necessary financial resources?

Developing a product is an investment. Depending on its technical characteristics and its competitive positioning, it may require a certain kind of financial backing. Can you survive until the first sale? Will you need additional financing during the process? Your access to financial resources defines how ambitious you can be.

The 7 steps of the product development process

Although we try to describe the product creation process as a line of chronological steps to reach an end goal, the reality can be very different. The stages of new product development can often appear in a fairly chaotic order, and you will be going back and forth between the different steps.

However, once you’ve been through them all, you should be ready for product launch.

Step 1: Ideation and concept

We first define the initial product concept. Often, you will not be able to pinpoint the exact source of the product concept, as you will take elements from an aha-moment, from a discussion with a friend, from a piece of information you read, or from a statistical occurrence you discovered.

Let's say it starts with an idea you got while taking a shower. Your first step will be to describe the concept on a piece of paper.
Tips for ideation and concept:

There are an endless number of ways to conceptualize a product idea. Often the process takes a lot of time as you’re juggling ideas, user input, friendly advice, and market feedback. Taking notes along the journey will help you better define the concept of a product in written form.

Now describe the core functionality, the user need it meets, and who it’s meant for. Try to summarize the concept in a few lines. When those lines can explain the concept to your grandma, you’ve succeeded in this step.

- **Brainstorm:** A structured brainstorming session is an excellent source of ideas. Remember to keep an entirely open mind, and take notes during the session.
- **Pitch proof:** Don’t be afraid to pitch your idea to others. It will only get richer and help you build the pitch and the positioning of your product.

**Step 2: Market research**

Market research is about quantifying the size and characteristics of the demand for a product. It’s an important exercise and something financial partners will systematically ask for, but it shouldn’t define the product.

If Henry Ford had based his product development on market research, he would have discovered that there was a need for bigger horses. Instead, he developed an automated vehicle for which there was no explicit demand at the time.

**Tips for market research:**

Market research is really easy to perform because of the practice of open data. Many official institutions provide access to their datasets for free. By focusing on existing data sources, you can try to extrapolate or cross-reference market numbers to build up a quantitative view of the market for your specific product. It does not have to be precise, as long as your hypotheses are clear and credible.

- **Research online:** An online service like Statista will also provide a wide range of market statistics, and more can be found via Google searches. Most market research can be done online.
• **Change:** Remember that the world changes constantly. There may be a good reason for building a market hypothesis that changes your market size projections and reveals interesting market data for your product.

### Step 3: Business plan

The economic dimension of a product launch is essential. Although you obviously don’t need a fully-fledged business plan for a product, the type of business plan you do need will encompass all of the economic variables involved in developing and marketing the product.

It will look at all of the investments during product development and subsequently establish the variables for the required sales pipeline and associated costs once the product is launched.

The break-even analysis will identify at what point the exercise becomes profitable. In a longer-term perspective, an analysis of the customer lifetime value can contribute to the refinement of the product definition.

### Tips for building a business plan:

A useful approach is to start building a business plan incorporating two separate stages: one for the entire product development phase, and one for the launch phase. The variables will be different for each phase, and they may require different types of investments.

In the product development phase, expenses are tied to time spent researching, acquisition of reports and external expertise, and prototype development. The launch phase business plan will validate the amounts that can be invested.

• **Hypotheses:** For any business plan, the most important questions will always be related to the underlying hypotheses you’ve used. Keep them clear, and write them down.

• **Simulations:** The best business plans use hypotheses built as variables so you can simulate different types of business scenarios.
Step 4: Prototype

This step is named after the prototype you create for your product, but in some cases, your prototype will be a digital mock-up of either a physical or a digital product. Once you get to this stage, your product is really starting to take form.

A prototype (or beta) is one final version of your product you can use to validate your usage hypotheses, show investors, and use for marketing purposes.

Tips for prototyping:

Ideally, you're closely involved in building the prototype, but in some cases, machinery or materials required for creating a physical prototype are not directly available, and you'll therefore need to outsource the work. In that case, you need to build very detailed technical specifications for the product.

• Make it photogenic: Although you may not have had designers work on the product yet, you should try to make the prototype as photogenic and attractive as possible. It's the first tangible outcome of a long process, and it's a cornerstone for the next steps.

• Let others test it: One of the purposes of the prototype is, of course, to test it. Let others test it, too, as they won't have all of the underlying knowledge you have. Spontaneous reactions are rich in information.

Step 5: Crowdfunding

Crowdfunding is about much more than funding: It's an approach to obtaining market feedback before your product is ready to sell. It can be an extremely rich experience because it puts your product in a real market position and allows you to interact with your first circle of customers.

At this stage, the product isn't entirely finished, and you're already perfecting the sales pitch via your crowdfunding exercise. Additionally, this is an opportunity to raise financial resources at a point when you have invested the most and still have a ways to go before selling in the market.

Through crowdfunding, you will learn from real users' receptivity to the first iteration of your product, and it will help you define your positioning strategy. You may even be able
to generate **purchase orders** for the future finished product and thus generate cash before the product development cycle is even finished.

**Tips for crowdfunding:**

In a crowdfunding project, you’ll need to race through all of the steps of the product development process as though you had already done them. Describe the market, describe your product, show the prototype, suggest a price for it, and generate a whole range of potential first-time users.

- **Keep the pace:** Crowdfunding projects have a time limit and an objective to reach. You need to keep up.

- **Don’t give up:** Whether you reach the financial objective of your crowdfunding project or not, don’t give up. The process is rich in learning and feedback and will be of immense value for your definitive launch.

**Step 6: Design and production**

Your prototype is ready, and together with what you learned from crowdfunding, it should enable you to write the technical specifications. Depending on the type of product you’ve created, you may need to call upon external designers to provide the design specifications required for the final product.

**Tips for design and production:**

The more detailed the specifications, the fewer surprises you’ll have. At this step, you might be subcontracting to an external organization — especially if your product is physical — maybe even in a different country. Project management will be key for succeeding in the design and production process.

- **Plan for the unexpected:** At this critical step, you are at the peak risk of the entire process. Many variables are outside of your control, and you must plan for the unexpected.

- **Put in some buffers:** When planning for a launch date, make sure you’ve built in some buffers for unexpected delays.
Step 7: Marketing and distribution

Getting **sales and marketing** right for a new product is one of the hardest tasks in this entire process. It’s a peripheral step in product development, but a product launch cannot happen without a **go-to-market strategy**.

Additionally, you’ll need a **pricing strategy** that takes the novelty of the product into consideration in the marketing plan.

**Tips for marketing and distribution:**

In this step, you’ll define via which channels you’ll reach your target audience, at what price and with what economic model you propose your new product, what the **conversion funnel** looks like for it, and what **sales tactics** you’ll use. You’ll also define how it will be delivered to the end-user.

- **Always learn:** In business, you should always be learning, but this is especially true in the early stages of a product launch. Learn from the initial feedback, from first sales, from the first ad messaging. What works and what doesn't?
- **Be agile:** Don’t let your plans be too rigid. Constantly shift attention and budgets to channels where you get traction.

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**Real-life product development examples to inspire your small business**

With the exception of large brand-holding companies, which constantly roll out new products to the market, there could be as many product development processes as there are products in the market. But some stand out.

**1. Beats by Dre**

The legendary Beats by Dre headphones came out of the passion for sound. Famous rapper Dr. Dre is known to have said about Apple, the company who later bought the brand, that they sold a phone for many hundreds of dollars but supplied customers with one-dollar headsets.
Seeking excellence in sound was the driving factor for the Beats product. There was no need to research the market size because the market for headphones had been generalized to include practically the entire population, nor was there a big investment in production.

The key to the product’s success was likely its story and its positioning as well as the branding via a contemporary music icon.

2. GoPro

The idea for the GoPro came from a young tech entrepreneur named Nick Woodman on a surf trip to Australia. He realized that no equipment was available to record high-quality motion video in extreme conditions, so he set out to build that product.

The journey started with Woodman attempting to raise the necessary funds to create the company, which he did in 2002. It took two years to develop the first product, a 35mm waterproof camera you could strap to your wrist.

Developing a successful product is a process

We’ve looked at the most common steps required to develop a product, but the more important product development steps can vary depending on the nature of your product idea and its origin.

Did you get a unique idea you need to take to market without external funding, like Nick Woodman? Or did you see a gap in the market where you would like to build a brand?

Your business plan and how you manage the process are essential, but there will be so many variables that your decision-making, your determination, and the quality of your product vision will likely be the best indicators of your success.
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