Crowdvoting the Timing of New Product Introduction

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November 2014

WORKING PAPER SERTN SCHOOL OF BUSINESS, NYU

Abstract

Launching new products into the marketplace is a complex and risky activity that companies must continuously undertake. As a result, it is not uncommon to witness major firms discontinuing a product shortly after its introduction. In this paper, we consider a seller who has the ability to first test the market and gather demand information before deciding whether or not to launch a new product. In particular, we consider the case in which the seller sets up an online voting system that potential customers can use to provide feedback about their willingness to buy the new product. This voting system has the potential of offering a win-win situation whereby a consumer who votes hopes to influence the seller’s final assortment, while at the same time these votes and their pace benefit the seller as they provide valuable information to better forecast demand. We investigate the optimal design of such a crowdvoting system and its implications on the seller’s commercialization strategy.

1 Introduction

Bringing new products into the marketplace offers great opportunities for companies to generate new revenue streams and increase sales. However, such endeavors represent a risky bet and unsuccessful products are a major liability generating possibly great capital expenditure, early markdowns, serious goodwill cost, and loss of market share. It is not infrequent to witness major brands preferring to discontinue a product, shortly after its introduction, rather than taking more risks and incurring higher draining costs†. For these reasons, companies seek to test the market’s reaction to a product before the decision of launching it is made. In practice, these market tests can be expansive and difficult to conduct effectively and probably worth doing only for radically new products. However, this is now changing as companies are beginning to see the potential to crowdfsource market testing activities.

Broadly speaking, crowdsourcing is a recent phenomenon that is proving to be greatly effective in outsourcing some difficult tasks, previously impossible, too costly, or inefficient. Crowdsourcing is used by all kinds of companies, from small start-ups to multinationals and across industries in the private and public sectors. Probably, one of the first definitions of crowdsourcing was given in 2006 by Jeff Howe

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†Sell Big or Die Fast, New York Times, J. Wortham and V.G. Kopytoff, August 23, 2011