PRINCIPLES OF Marketing

Chapter Nine

New-Product Development and Product Life-Cycle Strategies

New-Product Development and Product Life-Cycle Strategies

Topic Outline

- New-Product Development Strategy
- The New-Product Development Process
- Managing New-Product Development
- Product Life-Cycle Strategies
- Additional Product and Service Considerations

New-Product Development Strategy

Two ways to obtain new products

Acquisition refers to the buying of a whole company, a patent, or a license to produce someone else's product

New product development refers to original products, product improvements, product modifications, and new brands developed from the firm's own research and development

New-Product Development Reasons for new product failure

Overestimation of market size

Poor design

Incorrect positioning

Wrong timing

Priced too high

Ineffective promotion

Management influence

High development costs

Competition

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The New-Product Development Process

Idea Generation

Idea generation is the systematic search for new-product ideas

Sources of new-product ideas

- Internal
- External

New-Product Development Process

Idea Generation

Internal sources refer to the company's own formal research and development, management and staff, and intrapreneurial programs

External sources refer to sources outside the company such as customers, competitors, distributors, suppliers, and outside design firms

New-Product Development Process

Idea Screening

- Identify good ideas and drop poor ideas
- R-W-W Screening Framework:
  - Is it real?
  - Can we win?
  - Is it worth doing?

New-Product Development Process

Concept Development and Testing

- Product idea is an idea for a possible product that the company can see itself offering to the market

- Product concept is a detailed version of the idea stated in meaningful consumer terms

- Product image is the way consumers perceive an actual or potential product

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New-Product Development Process

Concept Development and Testing

Concept testing refers to testing new-product concepts with groups of target consumers

New-Product Development Process

Marketing Strategy Development

- Marketing strategy development refers to the initial marketing strategy for introducing the product to the market

- Marketing strategy statement includes:
  - Description of the target market
  - Value proposition
  - Sales and profit goals

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New-Product Development Process

Marketing Strategy Development

- Business analysis involves a review of the sales, costs, and profit projections to find out whether they satisfy the company's objectives

New-Product Development Process

Marketing Strategy Development

- Product development involves the creation and testing of one or more physical versions by the R&D or engineering departments

- Requires an increase in investment

New-Product Development Process

Marketing Strategy Development

Test marketing is the stage at which the product and marketing program are introduced into more realistic marketing settings

- Provides the marketer with experience in testing the product and entire marketing program before full introduction

New-Product Development Process

Types of Test Markets

Standard test markets

Controlled test markets

Simulated test markets

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the plug on it shortly after its introduction.

When using test marketing, consumer products companies usually choose one of three approaches—standard test markets, controlled test markets, or simulated test markets.

Standard Test Markets

Using standard test markets, the company finds a small number of representative test cities, conducts a full marketing campaign in these cities, and uses store audits, consumer and distributor surveys, and other measures to gauge product performance. The results are used to forecast national sales and profits, discover potential product problems, and fine-tune the marketing program. KFC used standard test markets for its new Kentucky Grilled Chicken in a number of cities. At these sites, KFC tested both the new product and its new marketing program, including new store signage and a series of ads.

Standard test markets have some drawbacks. They can be very costly and they can take a long time. Moreover, competitors can monitor test market results or interfere with them by cutting their prices in test cities, increasing their promotion, or even buying up the product being tested. Finally, test markets give competitors a look at the company's new product well before it is introduced nationally. Thus, competitors may have time to develop defensive strategies, and may even beat the company's product to the market.

Despite these disadvantages, standard test markets are still the most widely used approach for major in-market testing. However, many companies today are shifting to quicker and cheaper controlled and simulated test marketing methods.

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Controlled Test Markets

Several research firms keep controlled panels of stores that have agreed to carry new pr... ucts for a fee. Controlled test marketing systems such as ACNielsen's Scantrack a... Information Resources, Inc.'s (IRI) BehaviorScan track individual consumer behavior f... new products from the television set to the checkout counter.

In each BehaviorScan market, IRI maintains a panel of shoppers who report all of th... purchases by showing an identification card at checkout in participating stores and ... using a handheld scanner at home to record purchases at non-participating stores. W... test stores, IRI controls such factors as shelf placement, price, and in-store promotions ... the product being tested. IRI also measures TV viewing in each panel household and sen... special commercials to panel member television sets to test their affect on shopping de... sions. Direct mail promotions can also be tested.[21]

Detailed scanner information on each consumer's purchases is fed into a central co... puter, where it is combined with the consumer's demographic and TV viewing informati... and reported daily. Thus, BehaviorScan can provide store-by-store, week-by-week rep... on the sales of tested products. Such panel purchasing data enables in-depth diagnos... not possible with retail point-of-sale data alone, including repeat purchase analysis, by... demographics, and earlier, more accurate sales forecasts after just 12 to 24 weeks in ma...

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not possible with retail point-of-sale data alone, including repeat purchase analysis, buyer demographics, and earlier, more accurate sales forecasts after just 12 to 24 weeks in market. Most importantly, the system allows companies to evaluate their specific marketing efforts.

Controlled test markets, such as BehaviorScan, usually cost less than standard test markets. Also, because retail distribution is "forced" in the first week of the test, controlled test markets can be completed much more quickly than standard test markets. As in standard test markets, controlled test markets allow competitors to get a look at the company's new product. And some companies are concerned that the limited number of controlled test markets used by the research services may not be representative of their products' markets or target consumers. However, the research firms are experienced in projecting test market results to broader markets and can usually account for biases in the test markets used.

Simulated Test Markets

Companies can also test new products in a simulated shopping environment. The company or research firm shows ads and promotions for a variety of products, including the new product being tested, to a sample of consumers. It gives consumers a small amount of money and

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New-Product Development Process

Marketing Strategy Development

- Advantages of simulated test markets
- Less expensive than other test methods
- Faster
- Restricts access by competitors
- Disadvantages
- Not considered as reliable and accurate due to the controlled setting

New-Product Development Process

Marketing Strategy Development

When firms test market	When firms may not test market
• New product with large investment • Uncertainty about product or marketing program	• Simple line extension • Copy of competitor product • Low costs • Management confidence

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New-Product Development Process

Marketing Strategy Development

Commercialization is the introduction

of the new product

- When to launch
- Where to launch
- Planned market rollout

Managing New-Product Development

Successful new-product development should be:

- Customer centered

- Team centered

- Systematic

Managing New-Product Development

New-Product Development Strategies

Customer-centered new product development focuses on finding new ways to solve customer problems and create more customer satisfying experiences

- Begins and ends with solving customer problems

Managing New-Product Development

New-Product Development Strategies

Sequential new-product development is a development approach where company departments work closely together individually to complete each stage of the process before passing along to the next department or stage

- Increased control in risky or complex projects
- Slow

Managing New-Product Development

New-Product Development Strategies

Team-based new-product development is a development approach where company departments work closely together in cross-functional teams, overlapping in the product-development process to save time and increase effectiveness

Managing New-Product Development

New-Product Development Strategies

Systematic new-product development is an innovative development approach that collects, reviews, evaluates, and manages new-product ideas

- Creates an innovation-oriented culture

- Yields a large number of new-product ideas

Product Life-Cycle Strategies

Fads are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity

Product Life-Cycle Strategies

Introduction Stage

- Slow sales growth

- Little or no profit

- High distribution and promotion expense

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Product Life-Cycle Strategies

Growth Stage

- Sales increase
- New competitors enter the market
- Price stability or decline to increase volume
- Consumer education
- Profits increase
- Promotion and manufacturing costs gain economies of scale

Product Life-Cycle Strategies

Maturity Stage

- Slowdown in sales

- Many suppliers

- Substitute products

- Overcapacity leads to competition

- Increased promotion and R&D to support sales and profits

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Product Life-Cycle Strategies

Maturity Stage Modifying Strategies

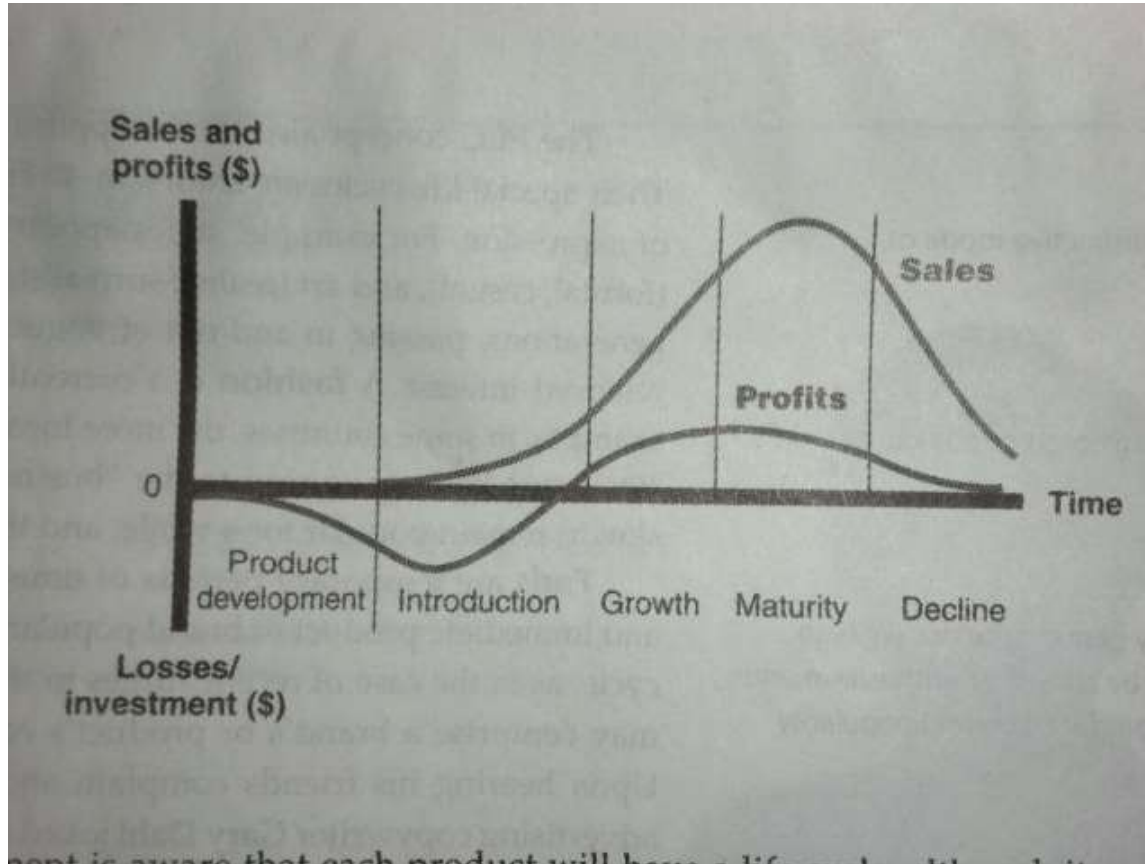- Market modifying

- Product modifying

- Marketing mix modifying

Product Life-Cycle Strategies

Decline Stage

- Maintain the product
- Harvest the product
- Drop the product

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Additional Product and Service Considerations

Product Decisions and Social Responsibility

- Public policy and regulations regarding developing and dropping products, patents, quality, and safety

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Additional Product and Service Considerations

International Product and Services Marketing—Challenges

- Determining what products and services to introduce in which countries

- Standardization versus customization

- Packaging and labeling

- Customs, values, laws