

Marketing Management

MGM612

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New-Product Development Strategy



Learn outcomes

After studying this chapter, you should be able to:

- 1. Explain how companies find and develop new-product ideas**
- 2. List and define the steps in the new-product development process and the major considerations in managing this process**
- 3. Describe the stages of the product life cycle**
- 4. Describe how marketing strategies change during the product's life cycle**
- 5. Discuss two additional product and services issues: socially responsible product decisions and international product and services marketing**

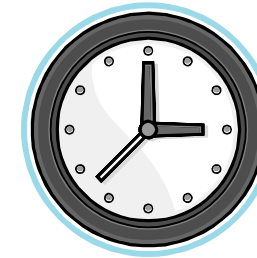
- 1. New-Product Development Strategy**
- 2. New-Product Development Process**
- 3. Managing New-Product Development**
- 4. Product Life-Cycle Strategies**
- 5. Additional Product and Service Considerations**

A firm can obtain new products through:

- **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.

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



Steps of New-Product Development Strategy

1. Idea generation
2. Idea screening
3. Concept development and testing
4. Marketing strategy development
5. Business analysis
6. Product development
7. Test marketing
8. Commercialization

New-Product Development Process

Idea Generation

- **New idea generation** is the systematic search for new product ideas.
- To create a large number of ideas
- Sources of new-product ideas
 - Internal sources refer to the company's own formal research and development, management and staff, and entrepreneurial programs.
 - External sources refer to sources outside the company such as customers, competitors, distributors, suppliers, and outside design firms.



Idea Screening

- **Idea screening** refers to reviewing new-product ideas in order to drop poor ones as soon as possible.
- idea screening is the stage in the new product development process which follows idea (or concept) generation. It often involves use of scoring models, checklists, or personal judgments and is based on information from experience and market research

New-Product Development Process

Concept Development and Testing:

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.
- Concept testing refers to testing new-product concepts with groups of target consumers. To find out how attractive each concept is to customers, and choose the best one.

Marketing Strategy Development

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

Marketing strategy statement

Part 1:

- Description of the target market
- The planning product positioning; sales, market share, and profit goals

Part 2:

- Price distribution and budget

Part 3:

- Long-term sales, profit goals, and marketing mix strategy

Business Analysis

Business Analysis

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

Product Development

Product 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**

R&D Engineering is a leading provider of manufacturing equipment, testing equipment and tools

New-Product Development Process

Test Marketing

- **Test marketing** is the stage at which the product and marketing program are introduced into more realistic marketing settings.
- Test marketing provides the marketer with experience in testing the product and entire marketing program before full introduction.
- **When firms test market:** New product with large investment; Uncertainty about product or marketing program
- **When firms may not test market:** Simple line extension; Copy of competitor product; Low costs; Management confidence



Test Marketing

- Approaches to test marketing
 - Standard test markets
 - Controlled test markets
 - Simulated test markets

Test Marketing

Standard test markets

- Small representative markets where the firm conducts a full marketing campaign
- Uses store audits, consumer and distributor surveys, and other measures to gauge product performance
- Results are used to
 - Forecast national sales and profits
 - Discover product problems
 - Fine-tune the marketing program



Test Marketing

Challenges of standard test markets

- Cost
- Time
- Competitors can monitor the test as well
- Competitor interference
- Competitors gain access to the new product before introduction

Test Marketing

Controlled test markets

- Panels of stores that have agreed to carry new products for a fee
- Less expensive than standard test markets
- Faster than standard test markets
- Competitors gain access to the new product

Test Marketing

Simulated test markets

- Events where the firm will create a shopping environment and note how many consumers buy the new product and competing products
- Provides measure of trial and the effectiveness of promotion
- Researchers can interview consumers

Test Marketing

Simulated test markets

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

Commercialization

Commercialization

- **Commercialization** is the introduction of the new product into the market
 - When to launch
 - Where to launch
 - Planned market rollout (the widespread public introduction of a new product)



New-Product Development Strategies

1. Customer-centered new product development
2. Team-based new product development
3. Systematic 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
 - The most successful new products are ones that are differentiated

New-Product Development Strategies

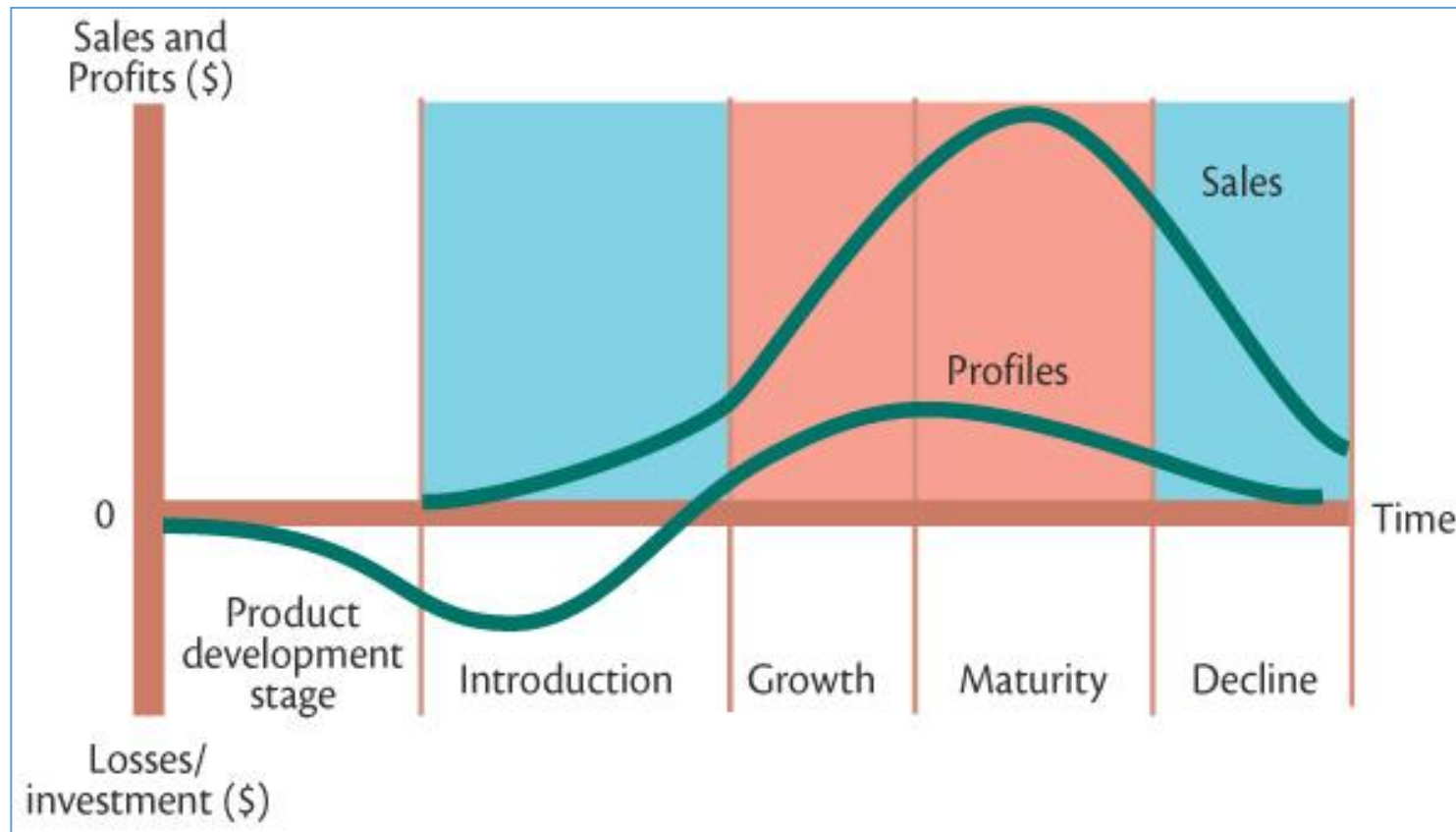
- **Team-based new-product development** is a development approach where company departments work closely together in cross-functional teams, overlapping in the product-development process to save time and increase effectiveness.
 - increase tension and confusion
 - is faster and more flexible

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 (PLC) is the course that a product's sales and profits take over its lifetime:**
 - **Product development**
 - **Introduction**
 - **Growth**
 - **Maturity**
 - **Decline**

Sales and profits over the product's life from inception to decline

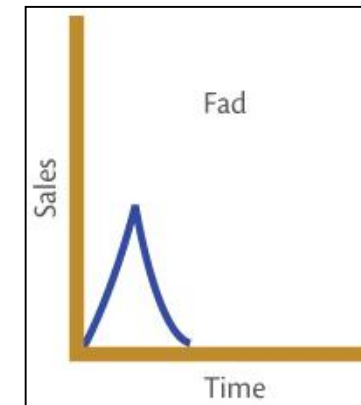
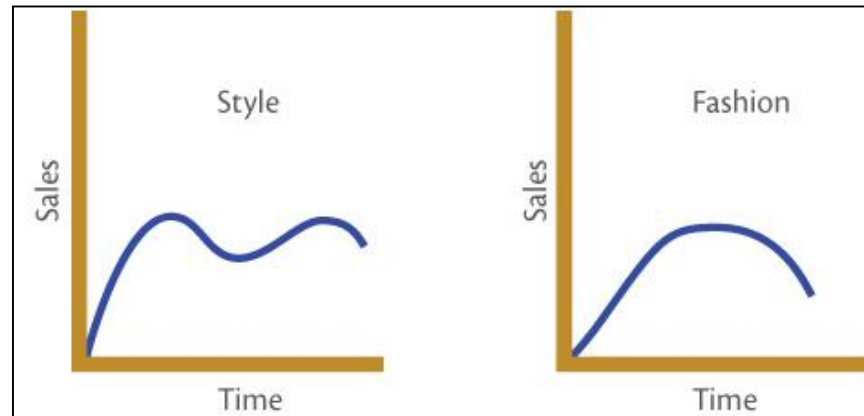


Product life-cycle (PLC) can describe a product class, a product form, or a brand

- **Product classes** have the longest life cycles, with sales of many product classes in the mature stage for a long time.
- **Product forms** have the standard PLC shape: introduction, rapid growth, maturity, and decline.
- **Brands** have changing PLCs due to competitive threats.

Product life-cycle (PLC) can also be applied to styles, fashions and fads

- **Style** is a basic and distinctive mode of expression.
- **Fashion** is a currently accepted popular style in a given field.
- **Fads** are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.



Introduction stage

Introduction stage is when the new product is first launched.

- Takes time
- Slow sales growth
- Little or no profit
- High distribution and promotion expense

Product Life-Cycle Strategies

Growth stage

Growth stage is when the new product satisfies the market.

- 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 quality increases
 - New features
 - New market segments and distribution channels are entered

Product Life-Cycle Strategies

Maturity stage

Maturity stage is a long-lasting stage of a product that has gained consumer acceptance.

- Slowdown in sales
- Many suppliers
- Substitute products
- Overcapacity leads to competition
- Increased promotion and R&D to support sales and profits.

Marketers consider modifying strategies at the maturity stage

- Market modifying
- Product modifying
- Marketing mix modifying



Product Life-Cycle Strategies

- **Market modifying** is when a company tries to increase consumption of the current product (New users; Increase usage of existing users; New market segments)
- **Product modifying** is changing characteristics (quality, features, or style) to attract new users and to inspire more usage.
- **Marketing mix modifying** is when a company changes one or more of the marketing mix elements.
 - Price
 - Promotion
 - Distribution channels

Product Life-Cycle Strategies

Decline stage

- **Decline stage** is when sales decline or level off for an extended time, creating a weak product.
 - **Maintain the product** without change in the hope that competitors leave the industry
 - **Reposition or reformulate the product** in hopes of moving back into the growth stage
 - **Harvest the product** that means reducing various costs and hoping that sales hold up
 - **Drop the product** by selling it to another firm or simply liquidate it at salvage value

Additional Product and Service Considerations

Product Decisions and Social Responsibility

- Public policy and regulations regarding developing and dropping products, patent protection, product quality and safety, and product warranties.

International Product and Service Marketing

- Determining what products and services to introduce in which countries
- Standardization versus customization
- Packaging and labeling
- Customs, values, laws