

Principles of Marketing

New-Product Development and Product Life-Cycle Strategies

Learning Objectives

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

Chapter Outline

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**

New-Product Development Strategy

A firm can obtain new products through:

- Acquisition
- New-product development

New-Product Development Strategy

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 Strategy

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

New-Product Development Process

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

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

Idea screening refers to reviewing new-product ideas in order to drop poor ones as soon as possible

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

New-Product Development Process

Concept Development and Testing

Concept testing refers to 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

New-Product Development Process

Marketing Strategy Development

Marketing strategy statement

- Part 1:
 - Description of the target market
 - 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

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

Test marketing provides the marketer with experience in testing the product and entire marketing program before full introduction

New-Product Development Process

Marketing Strategy Development

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

New-Product Development Process

Marketing Strategy Development

Approaches to test marketing

- Standard test markets
- Controlled test markets
- Simulated test markets

New-Product Development Process

Marketing Strategy Development

Standard test markets are small representative markets where the firm conducts a full marketing campaign and 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, and fine-tune the marketing program.

New-Product Development Process

Marketing Strategy Development

Challenges of standard test markets

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

New-Product Development Process

Marketing Strategy Development

Controlled test markets are 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

New-Product Development Process

Marketing Strategy Development

Simulated test markets are 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.

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

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

Team-based versus sequential new-product development

- Team-based can increase tension and confusion
- Team-based is faster and more flexible

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

Product life cycle (PLC) is the course that a product's sales and profits take over its lifetime

- Product development
- Introduction
- Growth
- Maturity
- Decline

Product Life-Cycle Strategies

Product life cycle (PLC) describes:

- Product class
- Product form
- Brand

Product Life-Cycle Strategies

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 Strategies

Style is a basic and distinctive mode of expression

Fashion is a currently accepted popular style in a given field

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 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 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 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

Product Life-Cycle Strategies

Modifying Strategies

- Market modifying
- Product modifying
- Marketing mix modifying

Product Life-Cycle Strategies

Modifying Strategies

Market modifying strategy is when a company tries to increase consumption of the current product

- New users
- Increase usage of existing users
- New market segments

Product Life-Cycle Strategies

Modifying Strategies

Marketing mix modifying strategy is when a company changes one or more of the marketing mix elements

- Price
- Promotion
- Distribution channels

Product Life-Cycle Strategies

Decline stage is when sales decline or level off for an extended time, creating a weak product

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

Additional Product and Service Considerations

Product Decisions and Social Responsibility

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

Additional Product and Service Considerations

International Product and Service Marketing

Challenges

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

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