Chapter 9

New Product Development and Product Life-Cycle Strategies

Course: Mkt 202
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New-Product Development and Product Life-Cycle Strategies

- **Topic Outline**

- **9.1** New-Product Development Strategy

- **9.2** New-Product Development Process

- **9.3** Managing New-Product Development

- **9.4** Product Life-Cycle Strategies

- **9.5** Additional Product and Service Considerations

Product Life-Cycle Strategies for new products

1. Product development
- Sales are zero and investment costs mount.

2. Introduction
- Slow sales growth and profits are nonexistent.
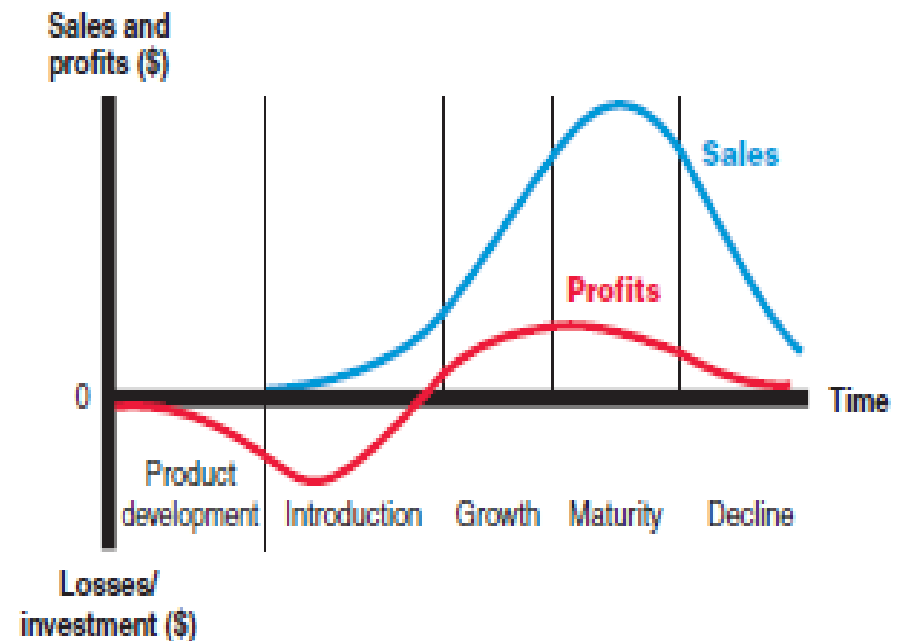
3. Growth
- Rapid market acceptance and increasing profits.

4. Maturity
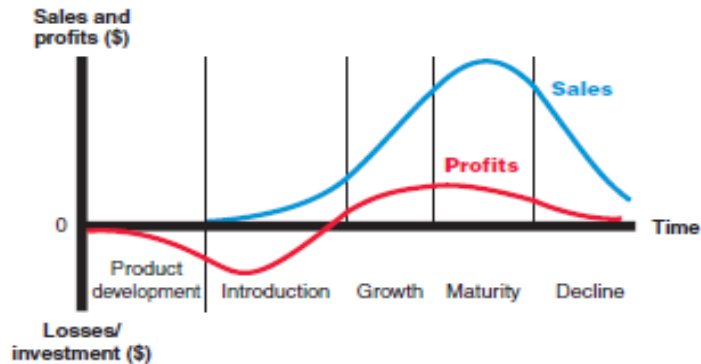- Slowdown in sales growth and profits level off or decline.

5. Decline
- Sales fall off and profits drop.
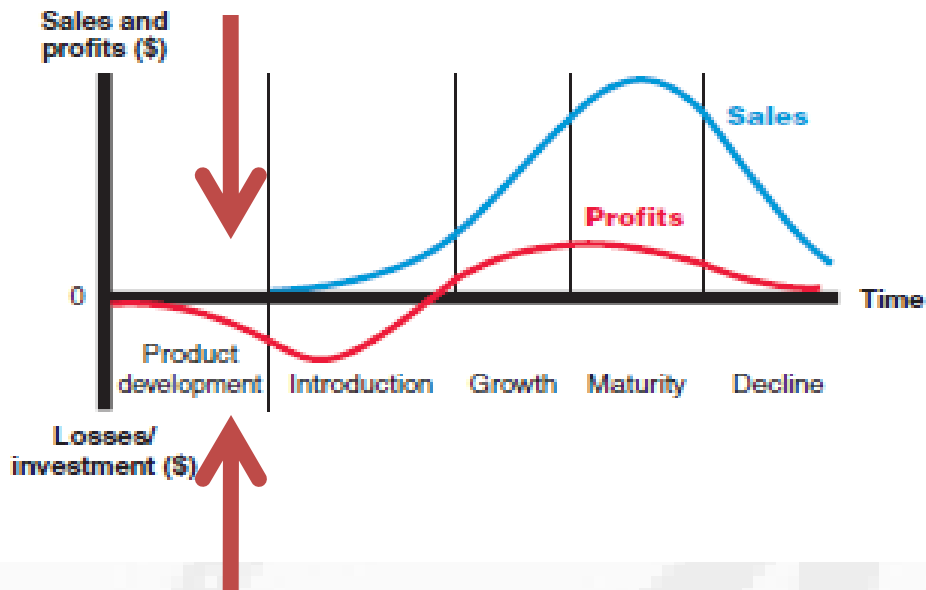
Product Life-Cycle Strategies

1. Product Development

At LEGO, new-product development begins with listening to customers and including them in the design process. The LEGO Design by Me site lets customers download 3D design software, create a LEGO toy, and then order the kit to build it.

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

The New-Product Development Process: 8 steps

FIGURE | 9.1 Major Stages in New-Product Development
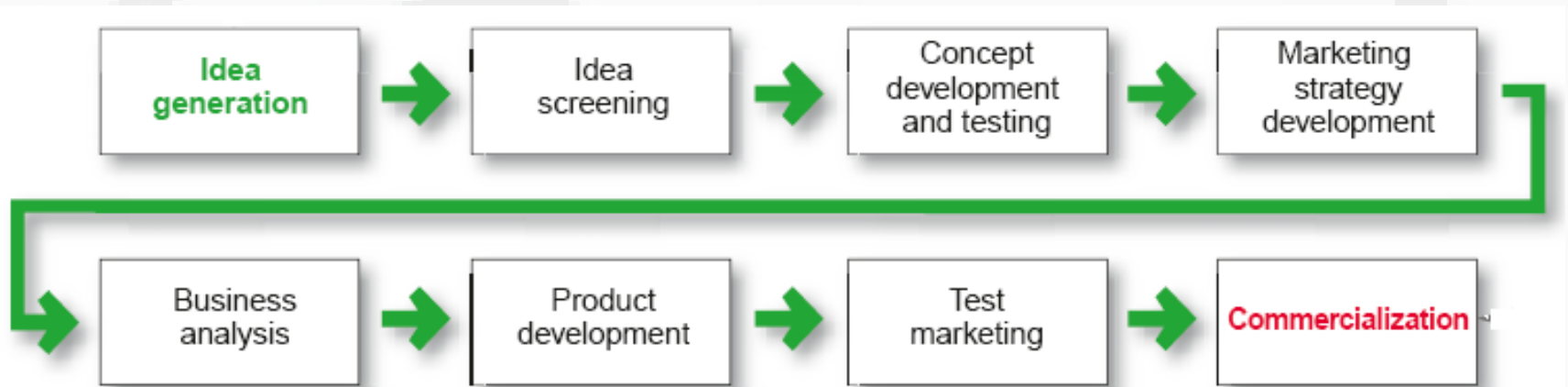
The New-Product Development Process

i) **Idea generation** is the systematic search for new-product ideas.

- Sources of new-product ideas:

    a. Internal: Gathering new product ideas by-

    - Formal R&D
    - Own employees

    b. External: Gathering new product ideas from-

    - Distributors
    - Suppliers
    - Customers (most important external source)

The New-Product Development Process

c. Crowdsourcing or Open Innovation:

– Inviting broad communities of people— customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process.

- Own crowdsourcing: Netfix
- Third party crowdsourcing: Paypal

ii) Idea Screening

- Screening new-product ideas to spot good ideas and drop poor ones as soon as possible

Crowdsourcing: When Netflix wanted ideas for improving the accuracy of its Cinematch online recommendation system, it decided to "open it up to the world," promising a $1 million prize for the best solution.

The New-Product Development Process

iii) 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.

The New-Product Development Process

Concept Development

- The marketer's task is to:
  - Develop the new product into alternative product concepts
  - Find out how attractive each concept is to customers
  - Choose the best one

Concept testing

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

Product testing: HP signs up consumers to evaluate prototype imaging and printing products in their homes and offices to gain insights about their products

The New-Product Development Process

iv) Marketing Strategy Development

• Marketing strategy development refers to the initial marketing strategy for introducing the product to the market. It consists of three parts:

- 1st: Describes the target market; planned value proposition; sales, market share, and profit goals for the first few years.

- 2nd: Outlines the product's planned price, distribution, and marketing budget for the first year.

- 3rd: Describes the planned long-run sales, profit goals, and marketing-mix strategy.

The New-Product Development Process

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

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

The New-Product Development Process

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

Standard test markets

Controlled test markets

Simulated test markets

ARE YOU **UN**THINKING WHAT I'M **UN**THINKING?

NEW
Kentucky Grilled Chicken

TASTE THE **UN**FRIED SIDE OF KFC.
www.unthinkfc.com

Test marketing: KFC test marketed its new Kentucky Grilled Chicken product for three years before rolling it out nationally.

The New-Product Development Process

| 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

The New-Product Development Process

viii) Commercialization:
Introducing the new product into the market. The company must decide on:

• Introduction timing

• Where to launch the product
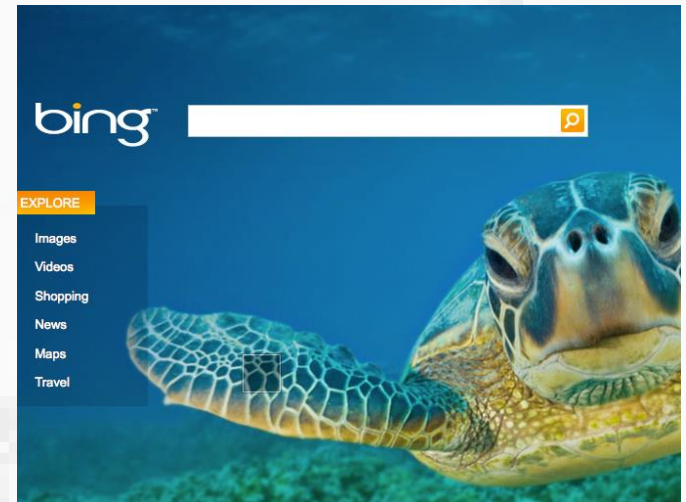
Microsoft spent $100 million or more on marketing to introduce its Bing search engine

Managing New-Product Development

Successful new-product development should be:

- **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.

- **Sequential new-product development** is a development approach where company departments work closely together individually to complete each stage of the process before passing it along to the next department or stage
  - Benefit: Increased control in risky or complex projects
 - Problem: Slow process

Managing New-Product Development

- **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.
  - Comparatively fast process: overcome bottlenecks
  - Sometimes creates organizational tension or confusion

- **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

2. Introduction Stage

- Slow sales growth

- Little or no profit

- High distribution and promotion expense
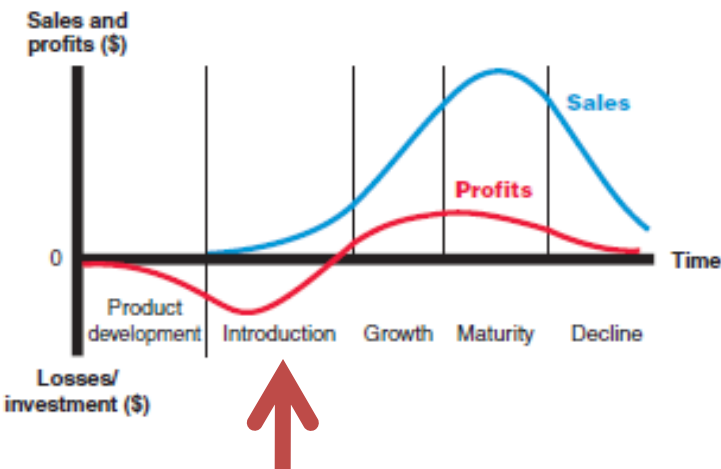
Managing the PLC: Despite its long list of familiar old brands, until recently, Kraft had far too few good new products. It's now emphasizing new-product innovation. "Welcome to the new Kraft."

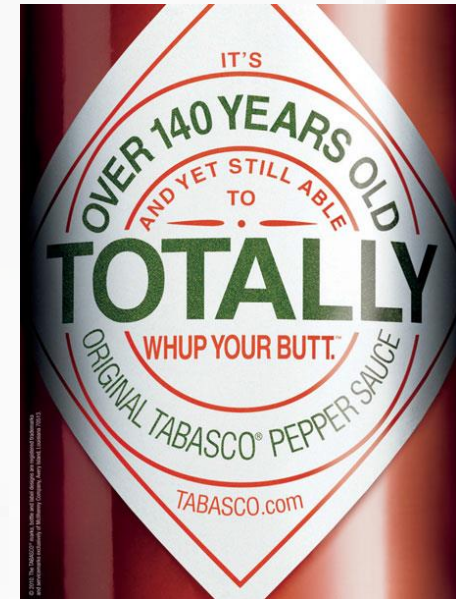# Product Life-Cycle Strategies

3. 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
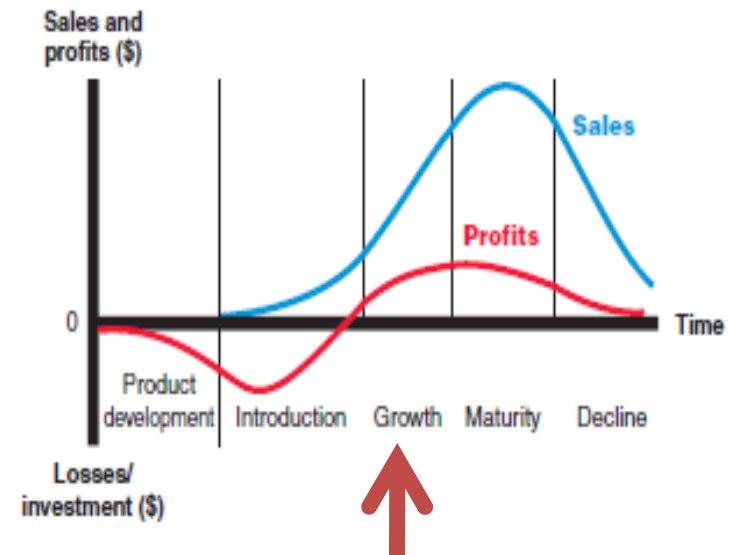
Product Life-Cycle Strategies

4. Maturity Stage

- Slowdown in sales

- Many suppliers

- Substitute products

- Overcapacity leads to competition

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

Product life cycle: Some products die quickly; others stay in the mature stage for a long, long time. TABASCO® sauce is "over 140 years old and yet still able to totally whup your butt!"

Product Life-Cycle Strategies

Modifying Strategies in Maturity Stage:

- Market modifying

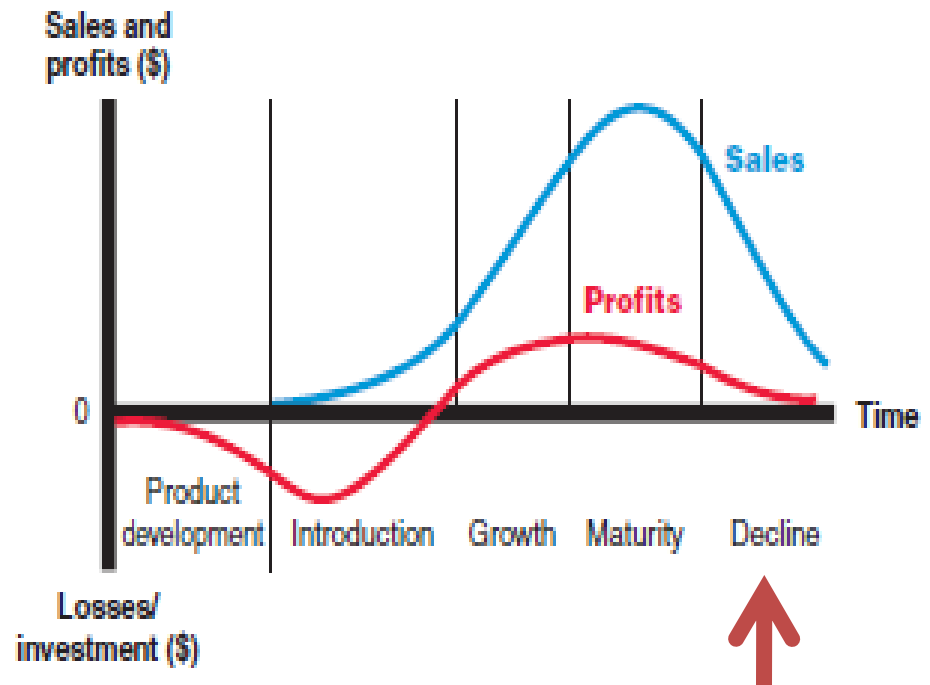- Product modifying

- Marketing mix modifying

Modifying the market: 101-year old cardmaker American Greetings is reaching out to younger consumers through social-networking widgets and instant-messaging channels.
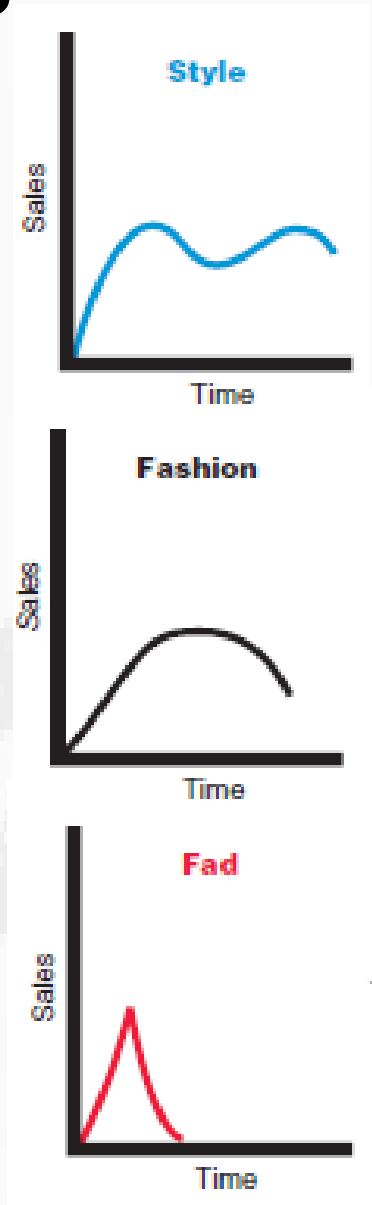
Product Life-Cycle Strategies

5. Decline Stage

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

Product Life-Cycle Strategies

- **Style:** A basic and distinctive mode of expression.

- **Fashion:** A currently accepted or popular style in a given field.

- **Fad:** A temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Product Life-Cycle Strategies

TABLE | 9.2 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level