

# NEW PRODUCT DEVELOPMENT



# New-Product Development Strategy

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.



# 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

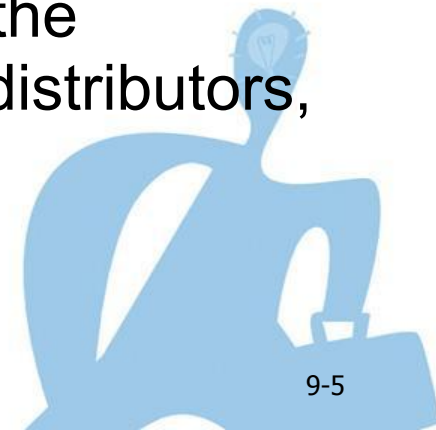
1. Idea generation
2. Idea screening
3. Concept development and testing
4. Marketing strategy development
5. Business analysis
6. Product development
7. Test marketing
8. Commercialization



# New-Product Development Process

## Idea Generation

- **New idea generation** is the systematic search for new product ideas.
- 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 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.

## 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.



# 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

### 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



# New-Product Development Process

## 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** 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

## 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*



# New-Product Development Process

## Test Marketing

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



# New-Product Development Process

## 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



# New-Product Development Process

## 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



# New-Product Development Process

## 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



# New-Product Development Process

## 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



# New-Product Development Process

## Test Marketing

- 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



# New-Product Development Process

## 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* )





# Managing New-Product Development

## New-Product Development Strategies

1. Customer-centered new product development
2. Team-based new product development
3. Systematic new product development



# 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
  - The most successful new products are ones that are differentiated



# Managing New-Product Development

## New-Product Development Strategies

- **Sequential new product development** is a development approach where company departments work *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 – ***not good!***
- **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



# 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

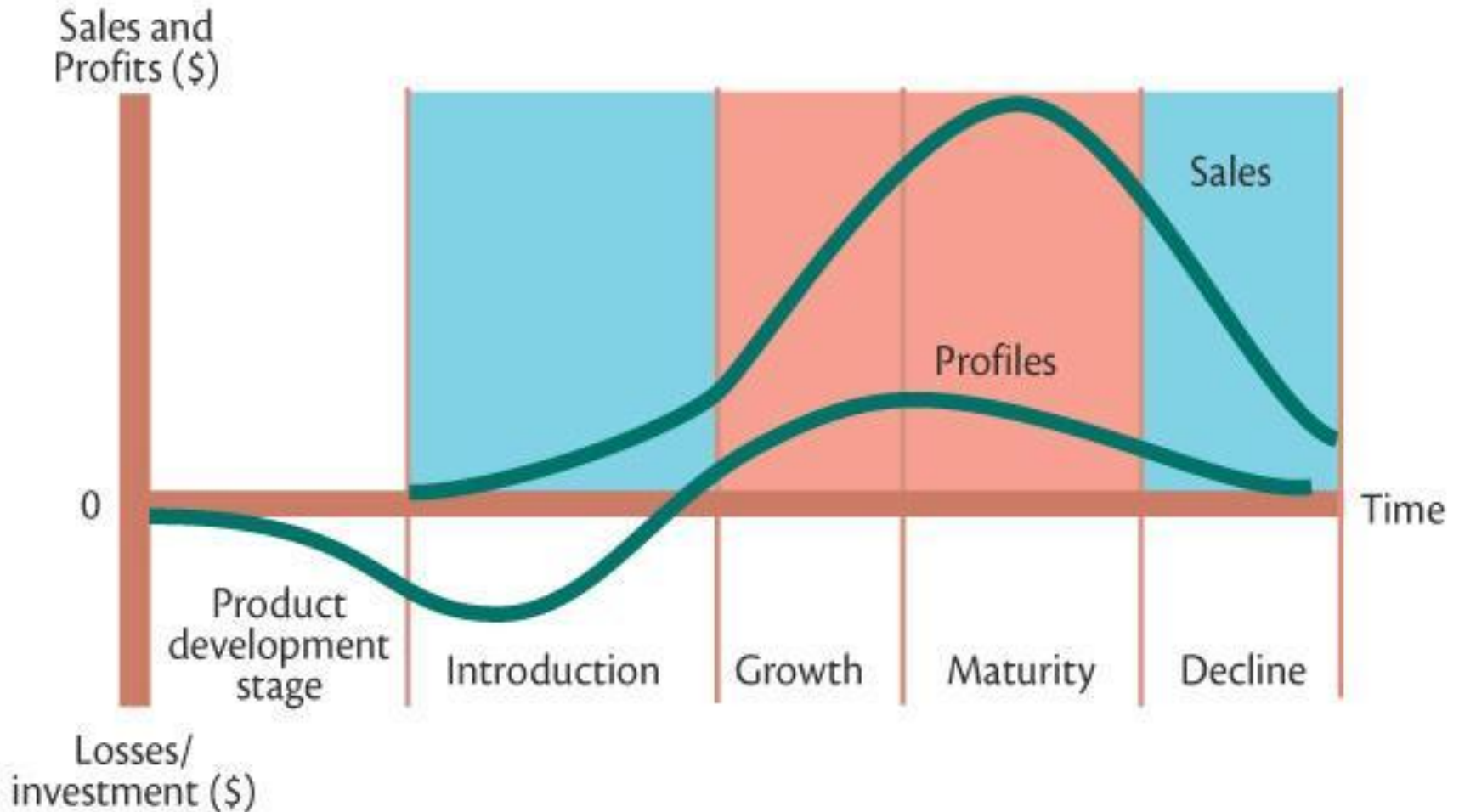


# Product Life-Cycle Strategies

- **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



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

# Product Life-Cycle Strategies

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

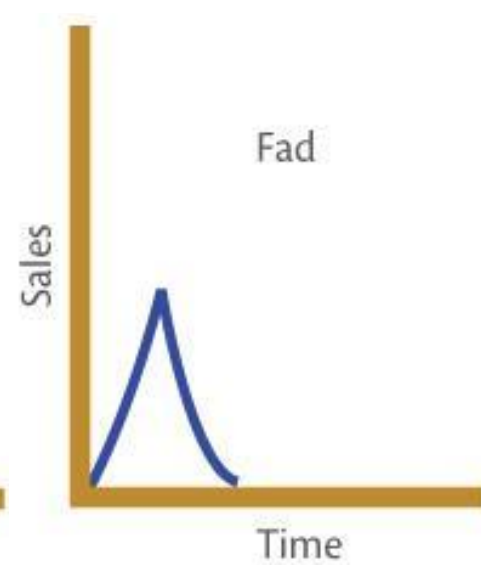
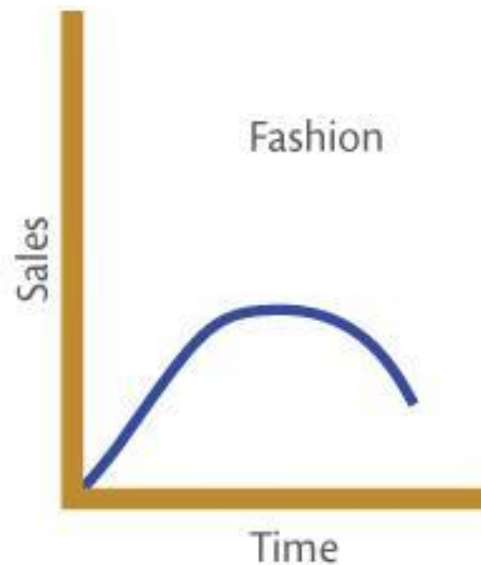
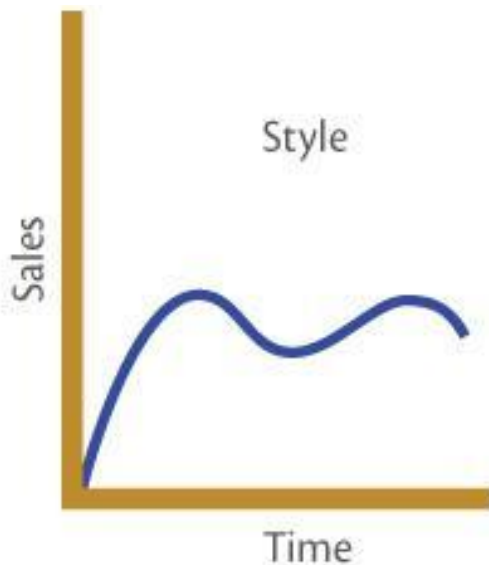
- **Product classes** have the longest life cycles, with sales of many product classes in the mature stage for a long time.
- **Product forms** have the standard PLC shape: introduction, rapid growth, maturity, and decline.
- **Brands** have changing PLCs due to competitive threats.



# Product Life-Cycle Strategies

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.





# 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.

## 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** 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

