

MKTG
Principles Of Marketing
Twelfth Edition



Chapter 11
Developing and
Managing Products

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Learning Outcomes

- 11-1 Explain the importance of developing new products and describe the six categories of new products
- 11-2 Explain the steps in the new-product development process
- 11-3 Understand why some products succeed and others fail
- 11-4 Discuss global issues in new-product development
- 11-5 Explain the diffusion process through which new products are adopted
- 11-6 Explain the concept of product life cycles

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Learning Objective 1: The Importance of New Products

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The Importance of New Products

- Important to sustain growth, increase revenues and profits, and replace obsolete items
- Reaching more people
- Building a better business
- Spurring mass-market appeal for unusual or highly technical products or services
- It is difficult to decide when to replace a successful product.
- The new version features a retina display, thinner design, and a longer-lasting battery.

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Categories of New Products (1 of 2)

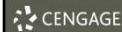
- A product can be new to the world, to the market, to the producer or seller, or some combination of these.
- Six categories of new products
 - New-to-the-world products (or discontinuous innovations) create an entirely new market and are the smallest category of new products.
 - New product lines allow a firm to enter an established market.
 - Additions to existing product lines include new products that supplement a firm's established product line.



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Categories of New Products (2 of 2)

- Improvements or revisions of existing products may be significantly or only slightly changed.
- Repositioned products are targeted at new markets or market segments.
- Lower-priced products provide performance similar to competing brands at a lower price.



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Learning Objective 2: The New-Product Development Process



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New-Product Strategy

- New-product strategy links the new-product development process with the objectives of the
 - marketing department
 - business unit
 - corporation
- It sharpens the focus and provides general guidelines for generating, screening, and evaluating new-product ideas.



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Exhibit 11.1 New-product Development Process



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Idea Generation (1 of 2)

Sources of new-product ideas

- *Customers*: The marketing concept that customers' wants and needs should be the springboard for developing new products.
- *Employees*: Employees know a company's products and processes better than anyone else.
- *Distributors*: A well-trained sales force routinely asks distributors about needs that are not being met.



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Idea Generation (2 of 2)

- *Competitors*: No firms rely solely on internally generated ideas for new product.
- *Research and development*: Product development goes beyond applied research by converting applications into marketable products.
- *Consultants*: Outside consultants are always available to examine a business and recommend product ideas.
- *Other experts*: The goal of brainstorming is to get a group to think of unlimited ways to vary a product or solve a problem.



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Idea Screening

- **Screening**: First filter in the product development process.
 - Eliminates ideas that are inconsistent with the organization's new-product strategy or are inappropriate for some other reason.
- **Concept test**: Test to evaluate a new-product idea, usually before any prototype has been created.



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Business Analysis

- Preliminary figures for demand, cost, sales, and profitability are calculated.
- The newness of the product, the size of the market, and the nature of the competition all affect the accuracy of revenue projections.
- Analyzing overall economic trends and their impact on estimated sales is especially important in product categories that are sensitive to fluctuations in the business cycle.



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Development

- Stage in the product development process that includes:
 - Developing a prototype
 - Sketching a marketing strategy
 - Deciding on packaging, branding, and labeling
 - Mapping out preliminary promotion, price, and distribution strategy
 - Examining manufacturing feasibility
- Work together rather than sequentially, a process called **simultaneous product development**.



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Test Marketing

- Limited introduction of a product and a marketing program to determine the reactions of potential customers in a market situation.
- Allows management to evaluate alternative strategies and to assess how well the various aspects of the marketing mix fit together.



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The High Costs of Test Marketing

- Often takes one year or more.
- Can cost over \$1 million.
- Exposes the new product and its marketing mix to competitors before its introduction.
- Competitors can “jam” testing programs with their own promotions by introducing their own sales, promotion, pricing, or advertising campaign.



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Alternatives to Test Marketing

- Scanner-based research
- **Simulated (laboratory) market testing**
- Online test marketing:
 - Advertising and other promotional materials for several products are shown to members of the product's target market.
 - These people are taken to a mock or real store, where their purchases are recorded.
 - The Internet offers a fast, cost-effective way to conduct test marketing.



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Commercialization

- The final stage in the new-product development process is commercialization.
- Decision to market a product involves:
 - Ordering production materials and equipment
 - Starting production
 - Building inventories
 - Shipping the product to field distribution points
 - Training the sales force
 - Announcing the product to the trade
 - Advertising to potential customers



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Learning Objective 3: Why Some Products Succeed and Others Fail



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Reasons for Product Failure

- No discernible benefit compared to existing products
- Poor match between product features and customer desires
- Overestimation of market size
- Incorrect targeting or positioning
- Too high or too low prices
- Inadequate distribution
- Poor promotion
- Simply an inferior product



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Learning Objective 4: Global Issues in New-Product Development



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Global Issues in New-Product Development

- Globalization of markets and competition provides a reason for multinational firms to consider new-product development from a worldwide perspective.
- Succeeding in some countries often requires companies to develop products that meet the unique needs of these populations.



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Learning Objective 5: The Spread of New Products



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Diffusion of Innovation (1 of 2)

- **Innovation:** Product perceived as new by a potential adopter
- **Diffusion:** Process by which the adoption of an innovation spreads
- Five categories of adopters
 - *Innovators:* Innovators are eager to try new ideas and products, almost as an obsession.
 - Early adopters: A desire to earn the respect of others is a dominant characteristic among early adopters.



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Diffusion of Innovation (2 of 2)

- *Early majority*: The early majority is an important link in the process of diffusing new ideas.
- *Late majority*: They depend mainly on word-of-mouth communication rather than on the mass media.
- *Laggards*: Some product categories may never be adopted by 100 percent of the population.



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Seven Characteristics of Successful Product

- A history of listening carefully to customers
- An obsession with producing the best product possible
- A vision of what the market will be like in the future
- Strong leadership
- A commitment to new-product development
- A project-based team approach to new-product development
- Getting every aspect of the product development process right



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Product Characteristics and the Rate of Adoption (1 of 2)

- Five product characteristics can be used to predict and explain the rate of acceptance and diffusion of a new product:
 - Complexity: The more complex the product, the slower is its diffusion.
 - Compatibility: Incompatible products diffuse more slowly than compatible products.
 - Relative advantage: The degree to which a product is perceived as superior to existing substitutes.



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Product Characteristics and the Rate of Adoption (2 of 2)

- Observability: The degree to which the benefits or other results of using the products can be observed by others and communicated to target customers.
- Trialability: The degree to which a product can be tried on a limited basis.



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Marketing Implications of the Adoption Process

- Types of communication that aid the diffusion process
 - Word-of-mouth communication:** Opinion leaders discuss new products with their followers and with other opinion leaders.
 - Communication from marketers to consumers:** The diffusion process is communication directly from the marketer to potential adopters.



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Learning Objective 6: Product Life Cycles



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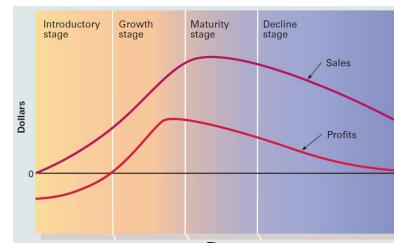
Product Life Cycles

- One of the most familiar concepts in marketing.
- A **product category** includes all brands that satisfy a particular type of need.
- Changes in a product, its uses, its image, or its positioning can extend that product's life cycle.



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Exhibit 11.2 Four Stages Of The Product Life Cycle

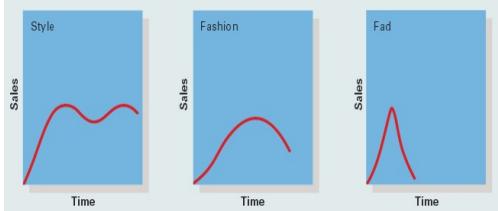


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Exhibit 11.3 Product Life Cycles For Styles, Fashions, And Fads



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Introductory Stage (1 of 2)

- High failure rates
- Little competition
- Frequent product modification
- Limited distribution
- High marketing and production costs



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Introductory Stage (2 of 2)

- Sales increase slowly
- Profits turn negative
- Promotion focuses on awareness and information
- Communication challenge is to stimulate primary demand



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Growth Stage

- Increasing rate of sales
- Entrance of competitors
- Large companies may start to acquire small pioneering firms
- Aggressive brand advertising and communication of the differences between brands



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Maturity Stage

- Sales increase at a decreasing rate
- Saturated markets
- Annual models appear
- Lengthened product lines
- Service and repair assume important roles
- Heavy promotions to consumers and dealers
- Marginal competitors drop out
- Niche marketers emerge



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Decline Stage

- Long-run drop in sales
- Large inventories of unsold items
- Elimination of all nonessential marketing expenses
- Discontinue purchasing the products



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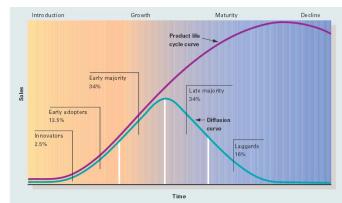
Implications for Marketing Management

- The diffusion process and the PLC concept all have implications.
- The new-product development process is sometimes illustrated.
- The message may need to change over time.
- A message developed for and targeted toward early adopters will not be perceived similarly.



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Exhibit 11.4 Relationships Between The Diffusion Process And The Product Life Cycle



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Key Terms (1 of 2)

- New product
- New-product strategy
- Product development
- Brainstorming
- Screening
- Concept test
- Business analysis
- Development
- Simultaneous product development
- Test marketing



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Key Terms (2 of 2)

- Simulated (laboratory) market testing
- Commercialization
- Innovation
- Diffusion
- Product life cycle (PLC)
- Product category
- Introductory stage
- Growth stage
- Maturity stage
- Decline stage



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