

Developing and Managing Products

MKTG 8

Chapter 11

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2014-2015

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Learning Outcomes

- LO¹** Explain the importance of developing new products and describe the six categories of new products
- LO²** Explain the steps in the new-product development process
- LO³** Understand why some products succeed and others fail

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Learning Outcomes

- LO⁴** Discuss global issues in new-product development
- LO⁵** Explain the diffusion process through which new products are adopted
- LO⁶** Explain the concept of product life cycles

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The Importance of New Products

Explain the importance of developing new products and describe the six categories of new products

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Categories of New Products



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The New-Product Development Process

Explain the steps in the new-product development process

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New Product Success Factors



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Exhibit 11.1 New-Product Development Process



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New-Product Strategy

A plan that links the new-product development process with the objectives of the marketing department, the business unit, and the corporation.

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Idea Generation



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Approaches for New Product Development

Brainstorming	The process of getting a group to think of unlimited ways to vary a product or solve a problem.
Focus Group	The objective of focus group interviews is to stimulate insightful comments through group interaction.

Other approaches: [Apple vs Google](#) and [Google's 20% time](#)

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Screening

The first filter in the product development process, which eliminates ideas that are inconsistent with the organization's new-product strategy or are inappropriate for some other reason.

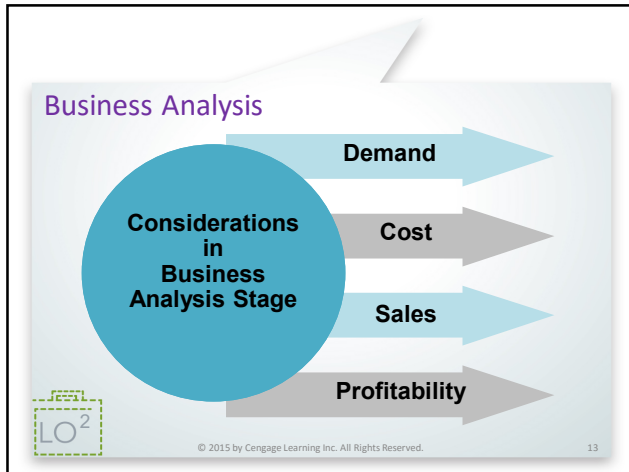
A Concept Test

A test to evaluate a new-product idea, usually before any prototype has been created. Often successful for line extensions.

But, are not very good at predicting success of new products that result in major changes in consumer behavior or consumption patterns (e.g. mp3 players, microwaves).

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More Business Analysis Considerations

The following questions are asked during the business analysis stage:

- What is the likely demand for the product?
- What impact would the new product have on total sales, profits, market share, and return on investment?
- How would the introduction of a new product affect existing products? Would the new product cannibalize existing products?
- Would current customers benefit from the product?
- Would the product enhance the image of the company's overall product mix?
- Would the new product affect current employees, such as hiring more people or reducing the size of the workforce?
- What new facilities would be needed?
- How might competitors respond?
- What is the risk of failure? Is the company willing to take the risk?

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Development

- Create of a prototype
- Sketch a marketing strategy
- Decide on packaging, branding, and labeling
- Map out promotion, price, and distribution strategy
- Examine manufacturing feasibility
- Can be very time consuming and costly:
 - Minute Rise – 18 years in development
 - The television – 51 years in development
 - Xerox Copy machine – 15 years in development
 - Crest Toothpaste – 10 years in development

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Simultaneous Product Development

A team-oriented approach to new-product development where all relevant functional areas and outside suppliers participate in the development process.

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Test Marketing

The limited introduction of a product and a marketing program to determine the reactions of potential customers in a market situation.

Example

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Costs of Test Marketing

- Often takes one year or more
- Can cost over \$1 million
- Exposes new product to competitors
- Competitors can “jam” testing programs with their own promotions

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Alternatives to Test Marketing

- ◆ Single-source research using scanner data
- ◆ Simulated (laboratory) market testing
 - ◆ 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.
- ◆ Online test marketing
 - ◆ a fast, cost-effective way to conduct test marketing.

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Commercialization

Ordering Materials

Production

Inventory Buildup

Distribution Shipments

Sales Force Training

Trade Announcements

Customer Advertising

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Why Some Products Succeed and Others Fail

Understand why some products succeed and others fail

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Product Failure

- ◆ Despite the amount of time and money spent on developing and testing new products, a large proportion of new product introductions fail.
- ◆ The most important factor in successful new-product introduction is a good match between the product and market needs.

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New-Product Success Factors

Listening to customers

Producing the best product

Vision of future market

Getting every aspect right

Strong leadership

Commitment to new-product development

Project-based team approach

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Global Issues in New-Product Development

Discuss global issues in new-product development

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Global Marketing Questions

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

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The Spread of New Products

Explain the diffusion process through which new products are adopted

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Diffusion

The process by which the adoption of an innovation spreads.

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Categories of Adopters

Innovators

The first 2.5 percent who adopt the product.

Early Adopters

The next 13.5 percent to adopt the product. They are oriented to the community and rely on group norms and values.

Early Majority

The next 34 percent to adopt. They weigh the pros and cons before adopting a new product and rely on group information.

Late Majority

The next 34 percent to adopt. They adopt a new product because most of their friends have already adopted it.

Laggards

The final 16 percent to adopt. By the time laggards adopt an innovation, it has probably been outmoded. Marketers typically ignore laggards, who do not seem to be motivated by promotion and personal selling.

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Product Characteristics and the Rate of Adoption

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.

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

Communication Aids the Diffusion Process

Word of Mouth

e.g. opinion leaders

Direct from Marketer

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Product Life Cycles

Explain the concept of product life cycles

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Product Life Cycle

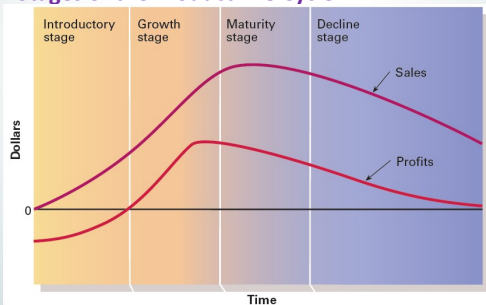
A concept that provides a way to trace the stages of a product's acceptance, from its introduction (birth) to its decline (death).

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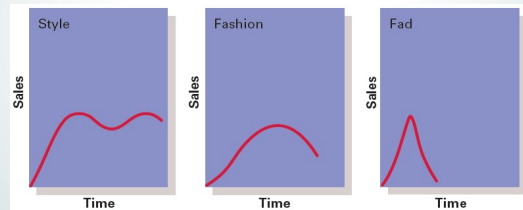
Exhibit 11.2
Four Stages of the Product Life Cycle



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Exhibit 11.3
Product Life Cycles for Styles, Fashion, and Fads



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Introductory Stage

- ◆ High failure rates
- ◆ Little competition
- ◆ Frequent product modification
- ◆ Limited distribution
- ◆ High marketing and production costs
- ◆ Negative profits with slow sales increases
- ◆ Promotion focuses on awareness and information (intensive personal selling often required)
- ◆ Communication challenge is to stimulate primary demand

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Growth Stage

- ◆ Increasing rate of sales
- ◆ Entrance of competitors
- ◆ Market consolidation
 - ◆ larger companies may acquire small pioneering firms.
- ◆ Initial healthy profits
 - ◆ Profits rise rapidly, peak, and begin declining as competition increases.
- ◆ Aggressive advertising of the differences between brands
- ◆ Wider distribution (establishes strong market position)

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Maturity Stage

- ◆ Normally the longest stage of the PLC.
- ◆ Sales increase at a decreasing rate
- ◆ Saturated markets
- ◆ Annual models appear
 - ◆ during the maturity stage for shopping and specialty products.
- ◆ Lengthened product lines
 - ◆ appeal to additional market segments.
- ◆ Service and repair assume important roles
 - ◆ help manufacturers distinguish their products from others.

Continued on next slide

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Maturity Stage

- ◆ Heavy promotions to consumers and dealers
 - ◆ Required to maintain market share
- ◆ Marginal competitors drop out
 - ◆ Because profits and prices fall over time
- ◆ Niche marketers emerge
 - ◆ Niche marketers that target narrow, well-defined segments of a market emerge (unserved segments)

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Decline Stage

- ◆ Long-run drop in sales
- ◆ Large inventories of unsold items
- ◆ Elimination of all nonessential marketing expenses
- ◆ “Organized abandonment”
 - ◆ Is practiced by some firms – uses a periodic audit of all goods and services that a firm markets.

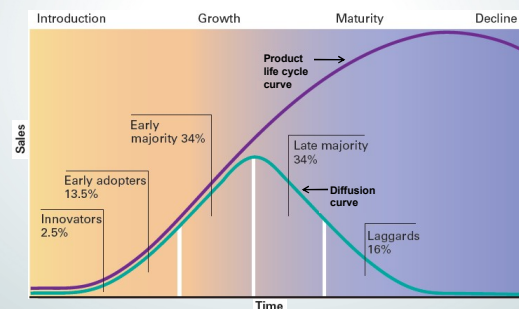
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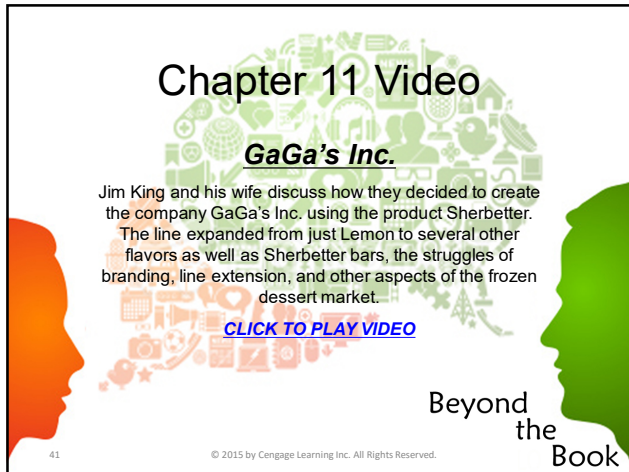
Exhibit 11.4

Relationships between the Diffusion Process and the Product Life Cycle



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The graphic features two human profiles in silhouette, one orange on the left and one green on the right, facing each other. Between them is a brain shape filled with various green and orange icons representing business concepts like a lightbulb, gear, dollar sign, and network. The text is overlaid on this graphic.

Chapter 11 Video

GaGa's Inc.

Jim King and his wife discuss how they decided to create the company GaGa's Inc. using the product Sherbetter. The line expanded from just Lemon to several other flavors as well as Sherbetter bars, the struggles of branding, line extension, and other aspects of the frozen dessert market.

[CLICK TO PLAY VIDEO](#)

Beyond
the
Book

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