New-Product Development and Product Life-Cycle Strategies

Chapter 10
Objectives

• Understand how companies find and develop new-product ideas.
• Learn the steps in the new-product development process.
• Know the stages of the product life cycle.
• Understand how marketing strategies change during the product’s life cycle.
Microsoft

- $50 billion in profits over 27 years
- Early new-product development relied heavily on copying the competition
- $4.2 billion annually invested in R & D
- Innovation is critical to Microsoft’s future success
- Much of R & D efforts are Internet related
- Many new products and services are in development
Definition

• **New Product Development**
  - Development of original products, product improvements, product modifications, and new brands through the firm’s own R & D efforts.
New Product Development Strategy

- New products can be obtained via acquisition or development.
- New products suffer from high failure rates.
- Several reasons account for failure.
New Product Development Strategy

• New Product Development Process:
  ▪ Stage 1: Idea Generation
    ❖ Internal idea sources:
      – R & D
    ❖ External idea sources:
      – Customers, competitors, distributors, suppliers
New Product Development Strategy

• **New Product Development Process:**
  - **Stage 2: Idea Screening**
    - Product development costs increase substantially in later stages.
    - Ideas are evaluated against criteria; most are eliminated.
New Product Development Strategy

- New Product Development Process:
  - Stage 3: Concept Development and Testing
    - Product concepts provide detailed versions of new product ideas.
    - Concept tests ask target consumers to evaluate product concepts.
New Product Development Strategy

- **New Product Development Process:**
  - Stage 4: Marketing Strategy Development
    - **Strategy statements describe:**
      - The target market, product positioning, and sales, share, and profit goals for the first few years.
      - Product price, distribution, and marketing budget for the first year.
      - Long-run sales and profit goals and the marketing mix strategy.
New Product Development Strategy

- **New Product Development Process:**
  - **Stage 5: Business Analysis**
    - Sales, cost, and profit projections
  - **Stage 6: Product Development**
    - Prototype development and testing
New Product Development Strategy

• **New Product Development Process:**
  - **Stage 7: Test Marketing**
    - *Standard test markets*
    - *Controlled test markets*
    - *Simulated test markets*
  - **Stage 8: Commercialization**
The Typical Product Life Cycle (PLC) Has Five Stages

- Product Development, Introduction, Growth, Maturity, Decline
- Not all products follow this cycle:
  - Fads
  - Styles
  - Fashions
Product Life-Cycle Strategies

• The product life cycle concept can be applied to a:
  - Product class (soft drinks)
  - Product form (diet colas)
  - Brand (Diet Dr. Pepper)

  ❖ Using the PLC to forecast brand performance or to develop marketing strategies is problematic
Product Life-Cycle Strategies

PLC Stages

- **Product development**
- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

- Begins when the company develops a new-product idea
- Sales are zero
- Investment costs are high
- Profits are negative
Product Life-Cycle Strategies

PLC Stages

- **Product development**
- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

- Low sales
- High cost per customer acquired
- Negative profits
- Innovators are targeted
- Little competition
Marketing Strategies: Introduction Stage

- **Product** – Offer a basic product
- **Price** – Use cost-plus basis to set
- **Distribution** – Build selective distribution
- **Advertising** – Build awareness among early adopters and dealers/resellers
- **Sales Promotion** – Heavy expenditures to create trial
Product Life-Cycle Strategies

PLC Stages

- Product development
- Introduction
- Growth
- Maturity
- Decline

- Rapidly rising sales
- Average cost per customer
- Rising profits
- Early adopters are targeted
- Growing competition
Marketing Strategies: Growth Stage

- **Product** – Offer product extensions, service, warranty
- **Price** – Penetration pricing
- **Distribution** – Build intensive distribution
- **Advertising** – Build awareness and interest in the mass market
- **Sales Promotion** – Reduce expenditures to take advantage of consumer demand
Product Life-Cycle Strategies

PLC Stages

- Product development
- Introduction
- Growth
- Maturity
- Decline

- Sales peak
- Low cost per customer
- High profits
- Middle majority are targeted
- Competition begins to decline
Marketing Strategies: Maturity Stage

- **Product** – Diversify brand and models
- **Price** – Set to match or beat competition
- **Distribution** – Build more intensive distribution
- **Advertising** – Stress brand differences and benefits
- **Sales Promotion** – Increase to encourage brand switching
Product Life-Cycle Strategies

**PLC Stages**

- Product development
- Introduction
- Growth
- Maturity
- Decline

**Strategies**

- Declining sales
- Low cost per customer
- Declining profits
- Laggards are targeted
- Declining competition
Marketing Strategies: Decline Stage

- **Product** – Phase out weak items
- **Price** – Cut price
- **Distribution** – Use selective distribution: phase out unprofitable outlets
- **Advertising** – Reduce to level needed to retain hard-core loyalists
- **Sales Promotion** – Reduce to minimal level