



*Lamb, Hair, McDaniel* **MKTG**

# CHAPTER 11

*Developing and  
Managing Products*

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# LEARNING OUTCOMES



- LO<sup>1</sup>** Explain the importance of developing new products and describe the six categories of new products
- LO<sup>2</sup>** Explain the steps in the new-product development process
- LO<sup>3</sup>** Discuss global issues in new-product development

# LEARNING OUTCOMES



- LO<sup>4</sup>** Explain the diffusion process through which new products are adopted
- LO<sup>5</sup>** Explain the concept of product life cycles

# THE IMPORTANCE OF NEW PRODUCTS

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

## New Product



**A product new to the world, the market, the producer, the seller, or some combination of these.**

# NEW PRODUCT DEVELOPMENT TRENDS

- New products are important to sustain growth and profits and to replace obsolete items.
- Companies are faced with pressure to innovate more—and more quickly.
  - But the overall innovation initiative success rate is only 4.5 percent.
- The average consumer goods company introduces 70 to 80 new products per year.





Companies spend billions of dollars developing new products



New products need to constantly be developed/changes to satisfy customers wants and needs



Market research helps to identify new product opportunities



Sometimes difficult to decide when to replace an old product with a new

## NEW PRODUCTS FACTS:

# CATEGORIES OF NEW PRODUCTS

**New-to-the-World**

**New Product Lines**

**Product Line Additions**

**Improvements or Revisions**

**Repositioned Products**

**Lower-Priced Products**



# THE NEW PRODUCT DEVELOPMENT PROCESS

**Explain the steps in  
the new-product  
development  
process**

# NEW PRODUCT SUCCESS FACTORS

**Long-term commitment**

**Company-specific approach**

**Capitalize on experience**

**Establish an environment**

# NEW-PRODUCT DEVELOPMENT PROCESS



# JOHN GOSCHA, FOUNDER IDEAPAIN







### 1. VISIBLE: (BO)

- Visible
- Visible
- Visible
- Visible

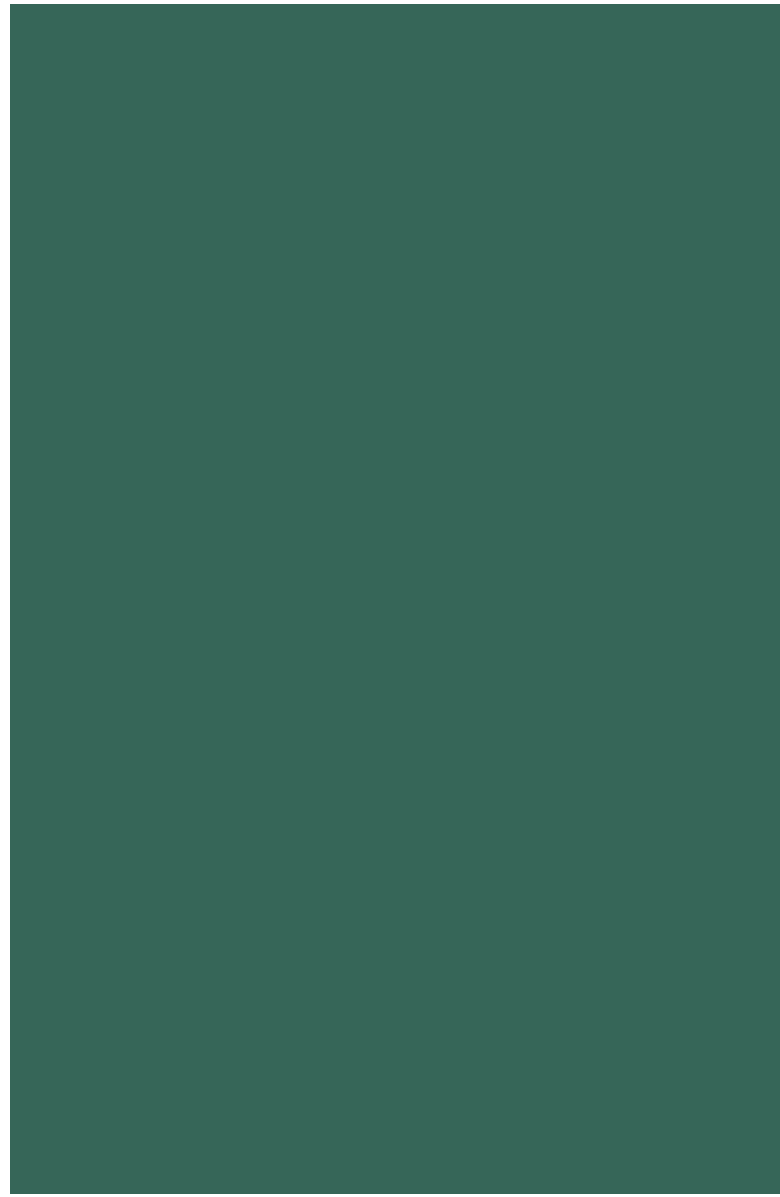
### 2. $5E + 2$

- 5E + 2
- 5E + 2
- 5E + 2
- 5E + 2

### 3. COMMUNIT

- For all
- For all
- For all
- For all







A NEED IS BORN...

- Looked for a paint that could turn every wall in their dorm into a dry erase writing surface.
- Surprised to find this paint didn't already exist, John and set out to find one while his partner began working on the business plan and created the name IdeaPaint.





IDEAPaint



IDEAPAINT

# IDEAPAINT



- It is now found in 10,000 locations around the world, including MIT, MTV Networks and The Limited Brands.



# ADD ONS

# NEW-PRODUCT DEVELOPMENT PROCESS





# ***New-Product Strategy is...***

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

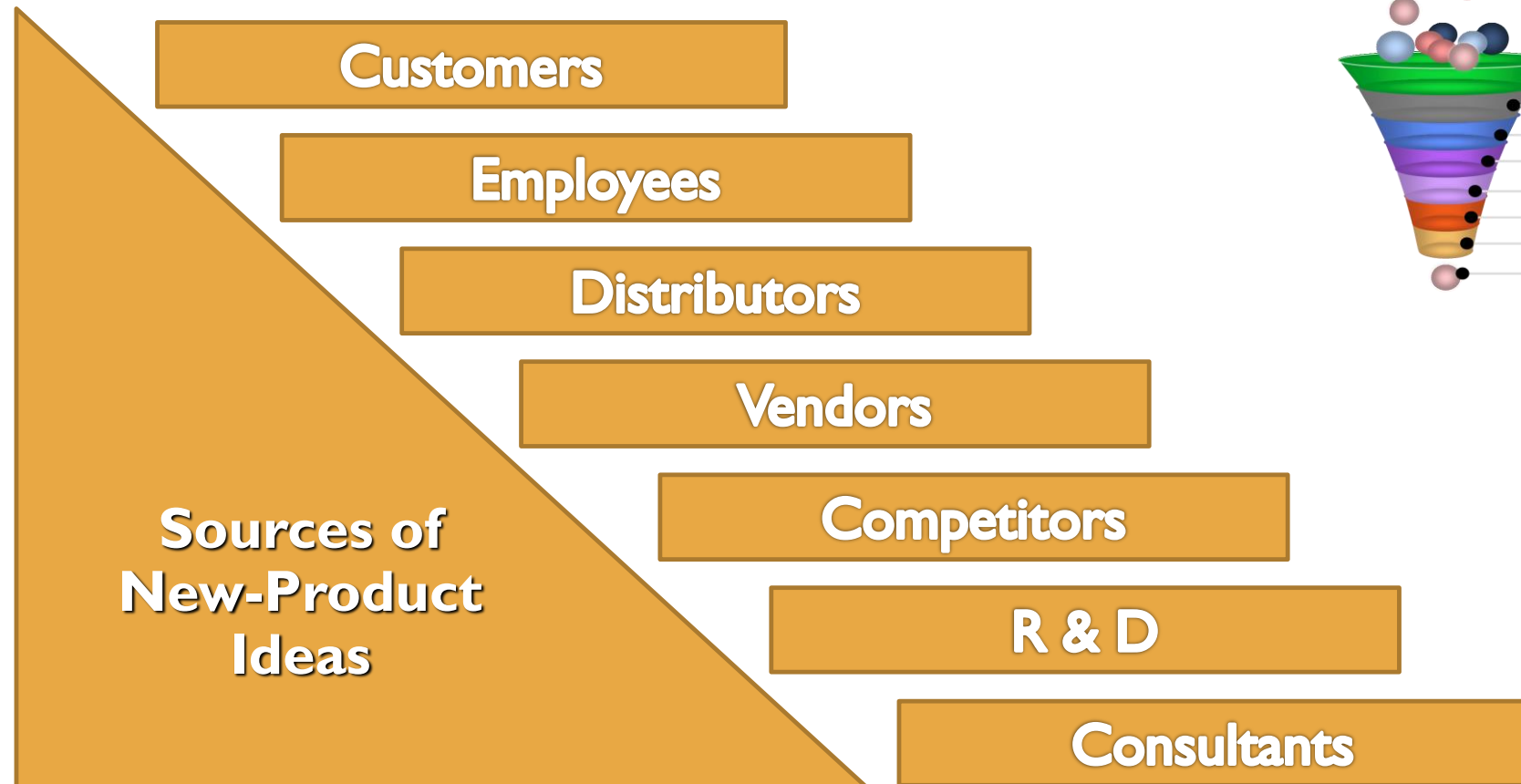


# NEW PRODUCT STRATEGY

Crest is committed to building on its history of developing innovative oral care products that meet the needs of consumers around the world

- A new-product strategy is part of the organization's overall marketing strategy.
  - It sharpens the focus and provides general guidelines for generating, screening, and evaluating new product ideas.
  - Ensures that new products developed are consistent with consumers wants and needs.
  - It links the new-development process with the objectives of the marketing department, the business unit, and the corporation.
    - All objectives must be consistent with one another.

# IDEA GENERATION





# 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.

## TIPS FOR NEW PRODUCT DEVELOPMENT

Disperse

Disperse R & D around the globe

Keep

Keep teams small and empower employees

Flatten

Flatten hierarchy

Encourage

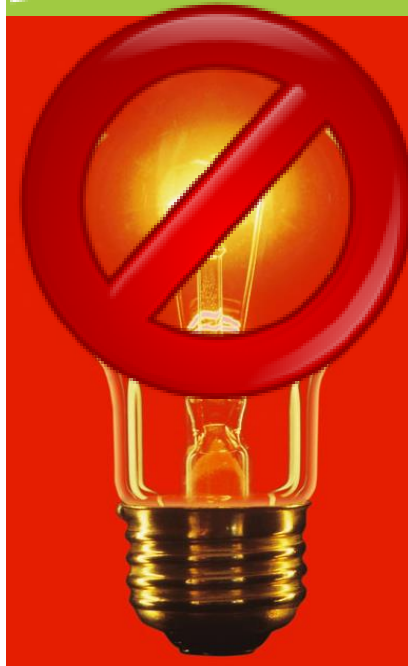
Encourage generation of crazy new ideas

Welcome

Welcome mistakes

# IDEA SCREENING

## Idea 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.**



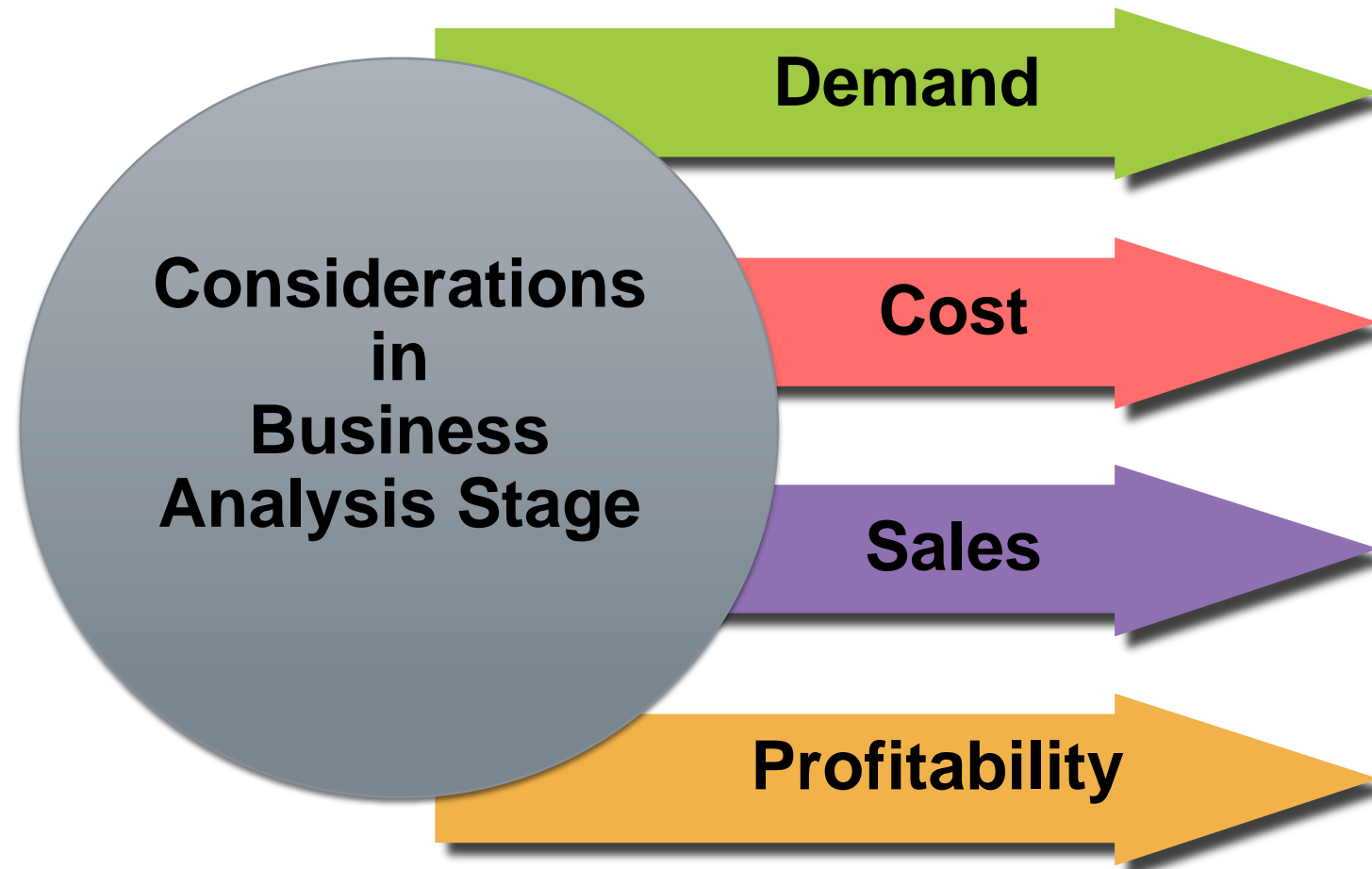
# CONCEPT TESTING

## Concept Testing

**A test to evaluate a new-product idea, usually before any prototype has been created.**



# BUSINESS ANALYSIS



# QUESTIONS IN 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 produce 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?

# DEVELOPMENT

- Creation of prototype
- Marketing strategy
- Packaging, branding, labeling
- Promotion, price, and distribution strategy
- Manufacturing feasibility
- Final government approvals if needed



# SIMULTANEOUS PRODUCT DEVELOPMENT

## **Simultaneous Product Development**



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



# TEST MARKETING

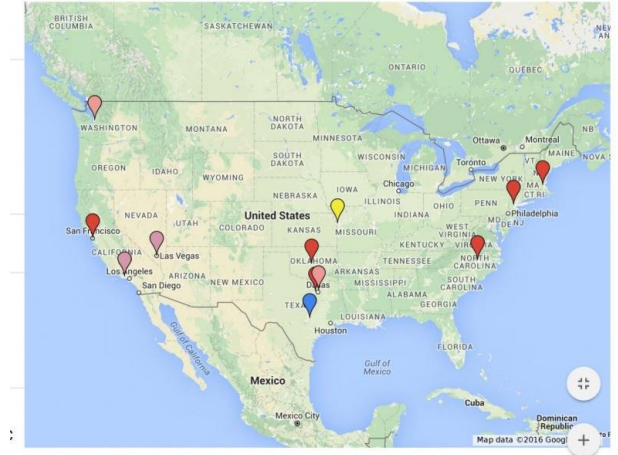
## Test Marketing

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



# TEST MARKETING

- Product and marketing programs are tested in a more realistic market setting
- Small number of test cities are identified for full marketing campaigns.
- Uses store audits, distributor surveys to gauge product performance





# ALTERNATIVES TO TEST MARKETING

- ◆ Single-source research using supermarket scanner data
- ◆ Simulated (laboratory) market testing
- ◆ Online test marketing



# COMMERCIALIZATION

Production

Inventory Buildup

Distribution Shipments

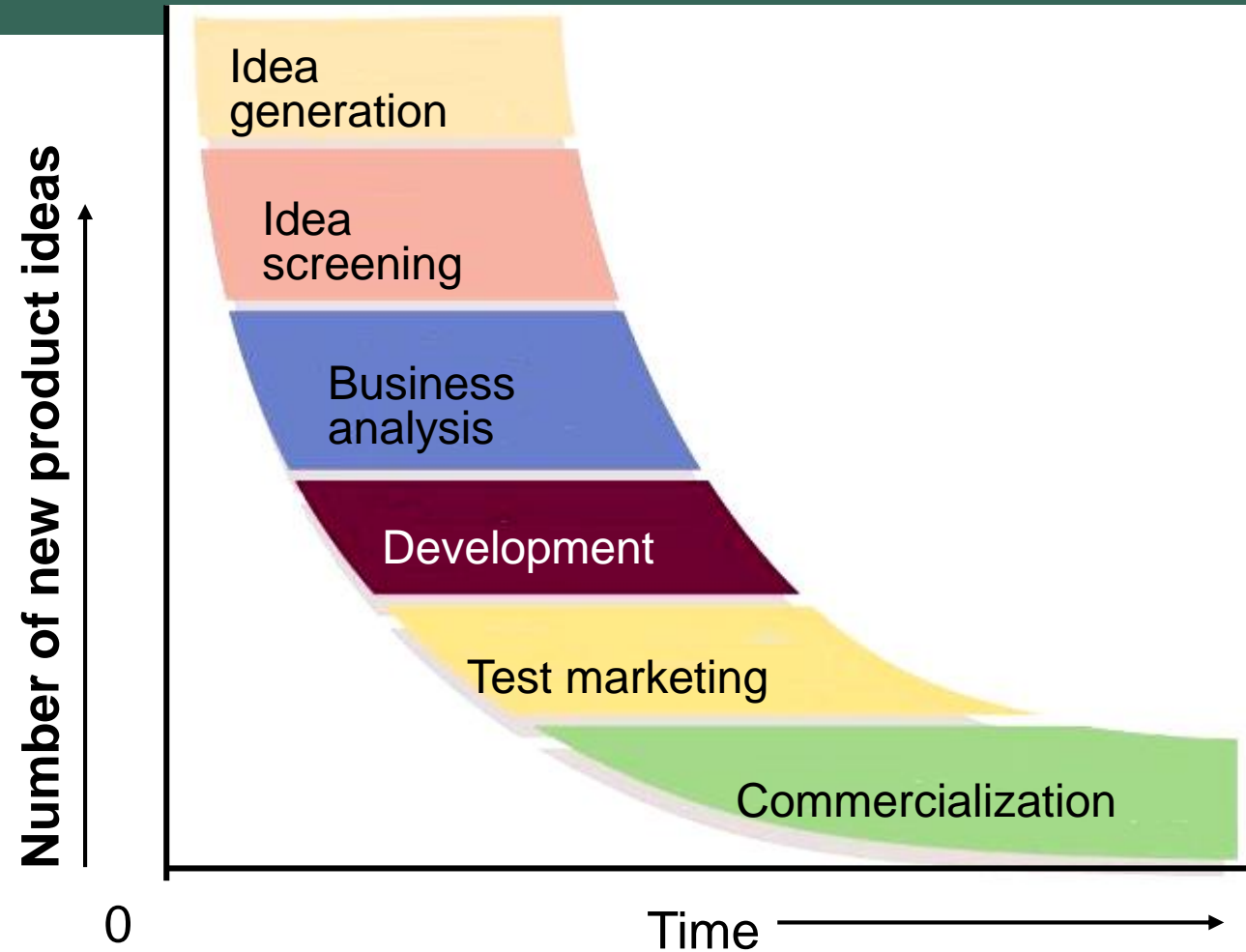
Sales Training

Trade Announcements

Customer Advertising



# New-Product Development Cycle



# Why New Products Fail

- ◆ No discernible benefits
- ◆ Poor match between features and customer desires
- ◆ Overestimation of market size
- ◆ Incorrect positioning
- ◆ Price too high or too low
- ◆ Inadequate distribution
- ◆ Poor promotion
- ◆ Inferior product



## SMITH AND WESSON BIKE



A study commissioned by the company found brand awareness so strong that consumers said they would consider S&W not only for handguns, but for other products as well. As long as that something isn't mountain bikes.





# COSMOPOLITAN YOGURT



# LIFE SAVERS SODA



COORS  
ROCKY  
MOUNTAIN  
SPRING WATER



# COCAINE ENERGY DRINK



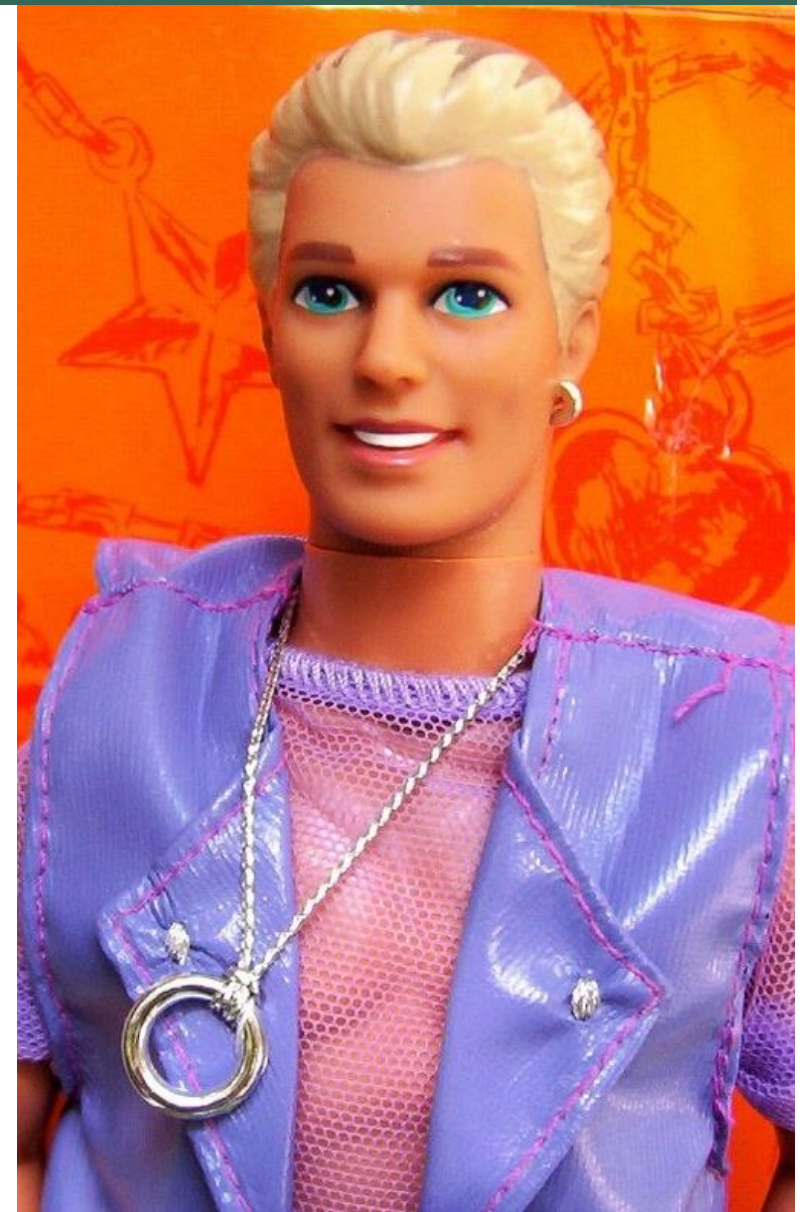


## BOTTLED WATER FOR PETS



# COLGATE KITCHEN ENTREES

# EARRING MAGIC KEN







JIMMY DEAN





# GOOGLE GLASS



- That's exactly what happened in 1998 when Frito-Lay introduced Lay's, Doritos, and Ruffles WOW Chips, fat-free chips made with olestra.

LAYS WOW

# Characteristics of successful product introductions

**Listening to customers**

**Strong leadership**

**Producing the best  
product**

**Commitment to new-  
product development**

**Vision of future market**

**Project-based team  
approach**

**Getting every aspect right**

# THE SPREAD OF NEW PRODUCTS

**Explain the diffusion  
process through  
which new products  
are adopted**

# Diffusion

## Diffusion

**The process by which the adoption of an innovation spreads.**



# Categories of Adopters

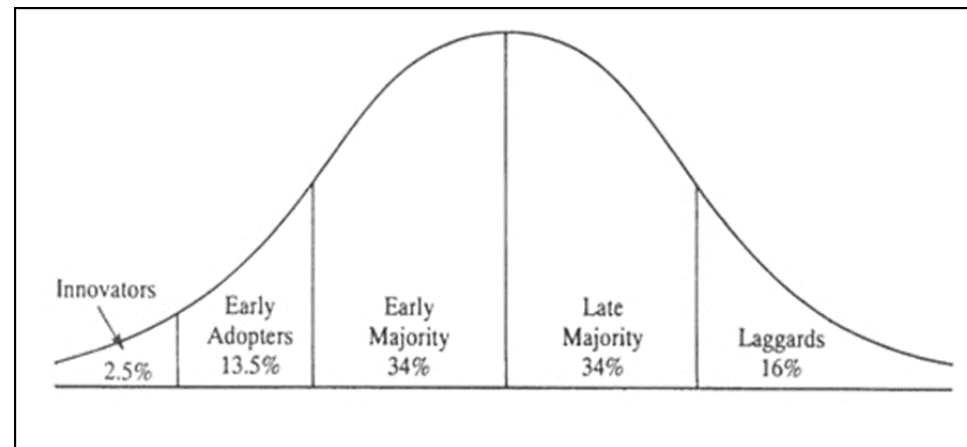
**Innovators**

**Early Adopters**

**Early Majority**

**Late Majority**

**Laggards**



# Product Characteristics and rate of adoption

**Complexity**

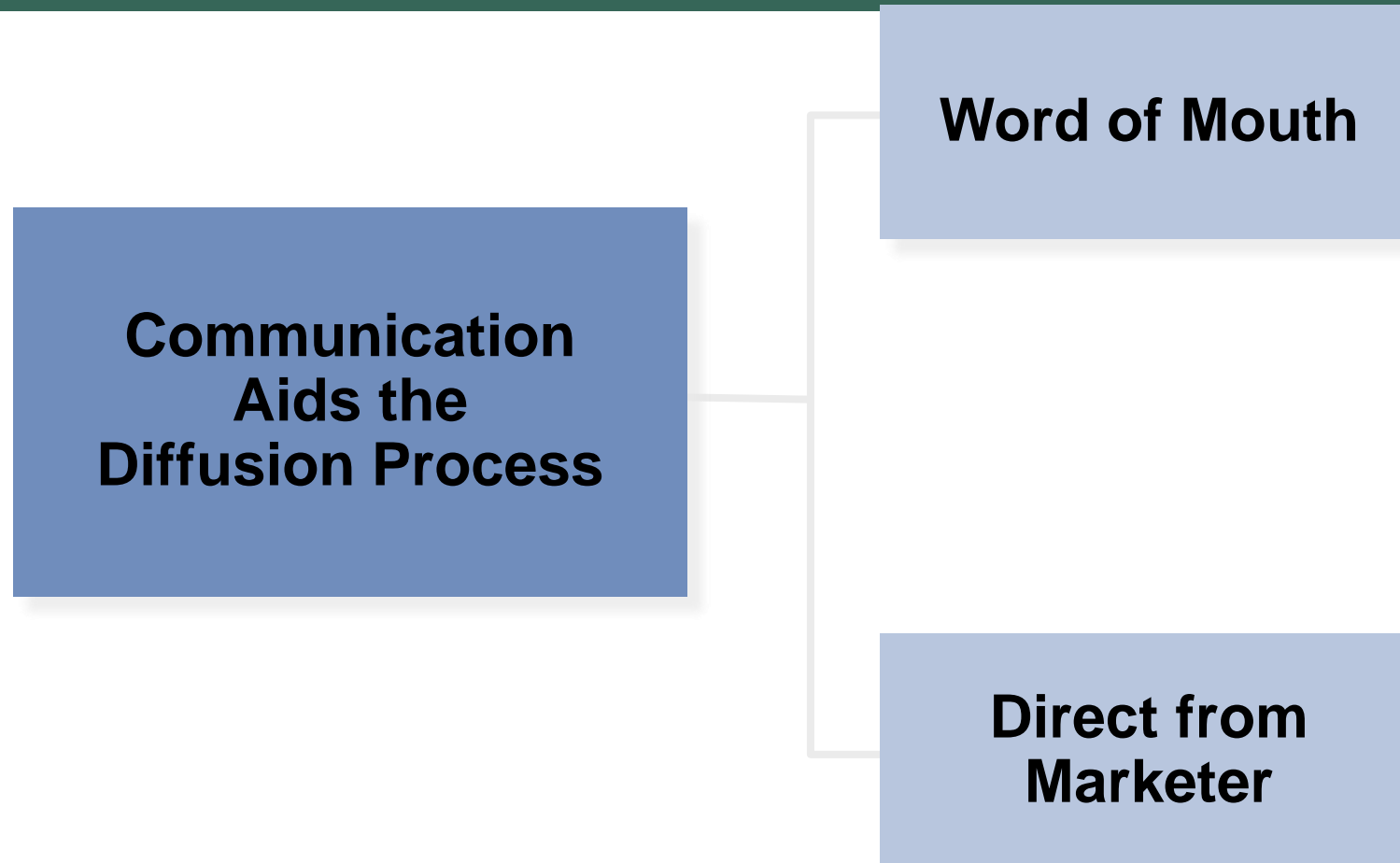
**Compatibility**

**Relative Advantage**

**Observability**

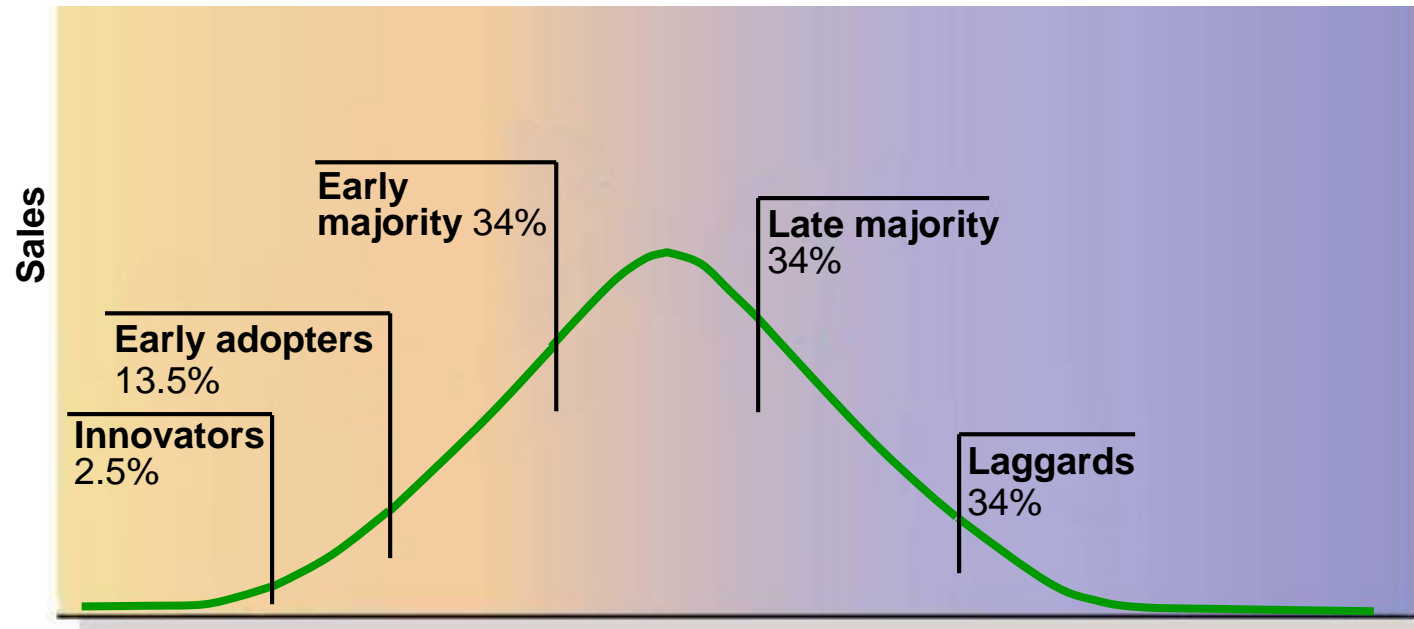
**Trialability**

# Market implications of the adoption process





# DIFFUSION PROCESS FOR NEW PRODUCTS



Percentage of total adoptions by category  
Product Characteristics (Influence Rate of Adoption)

- Complexity
- Compatibility
- Relative Advantage
- Observability
- "Trialability"

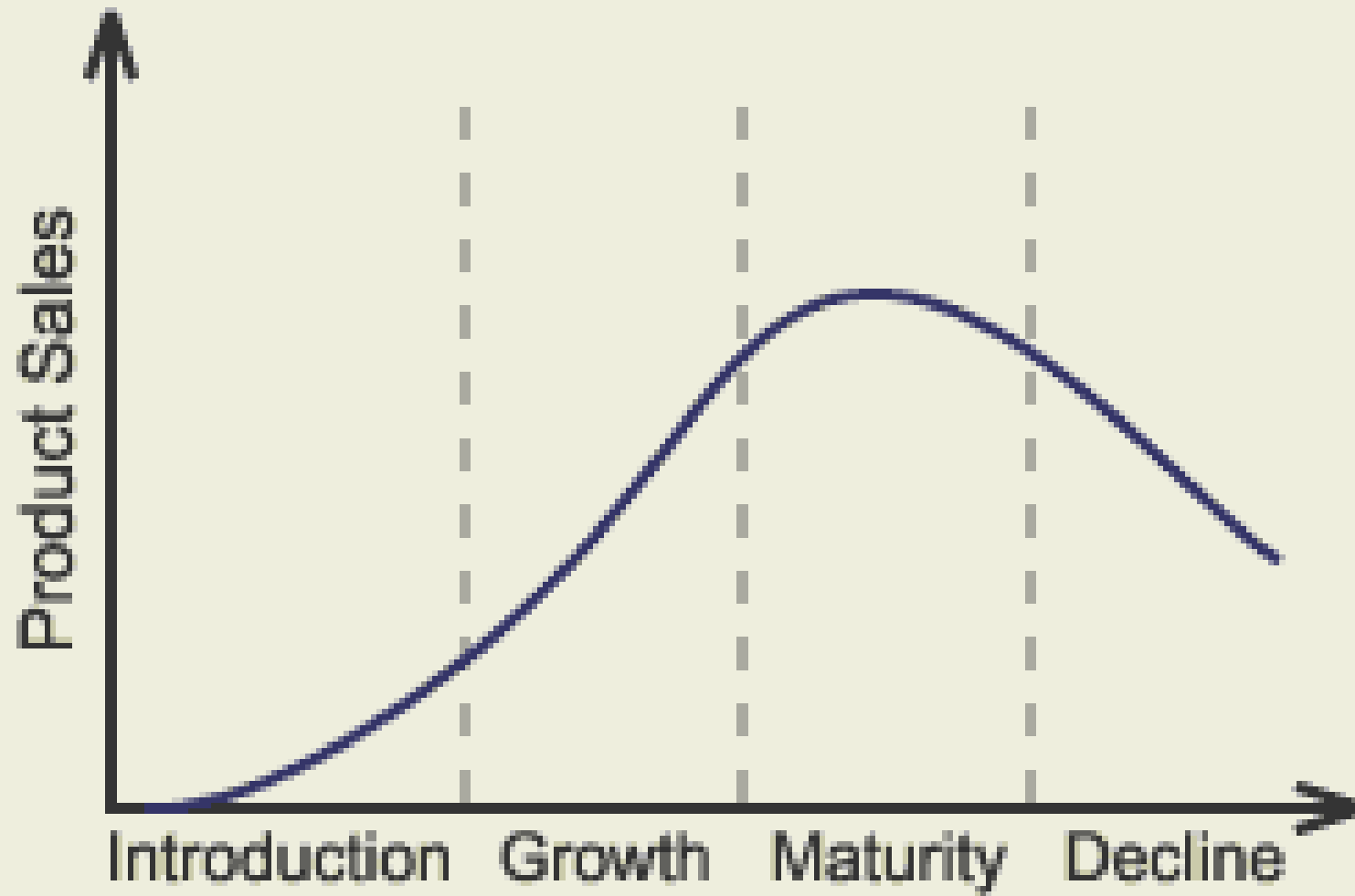


**Explain the concept  
of product life  
cycles**

## Product Life Cycle

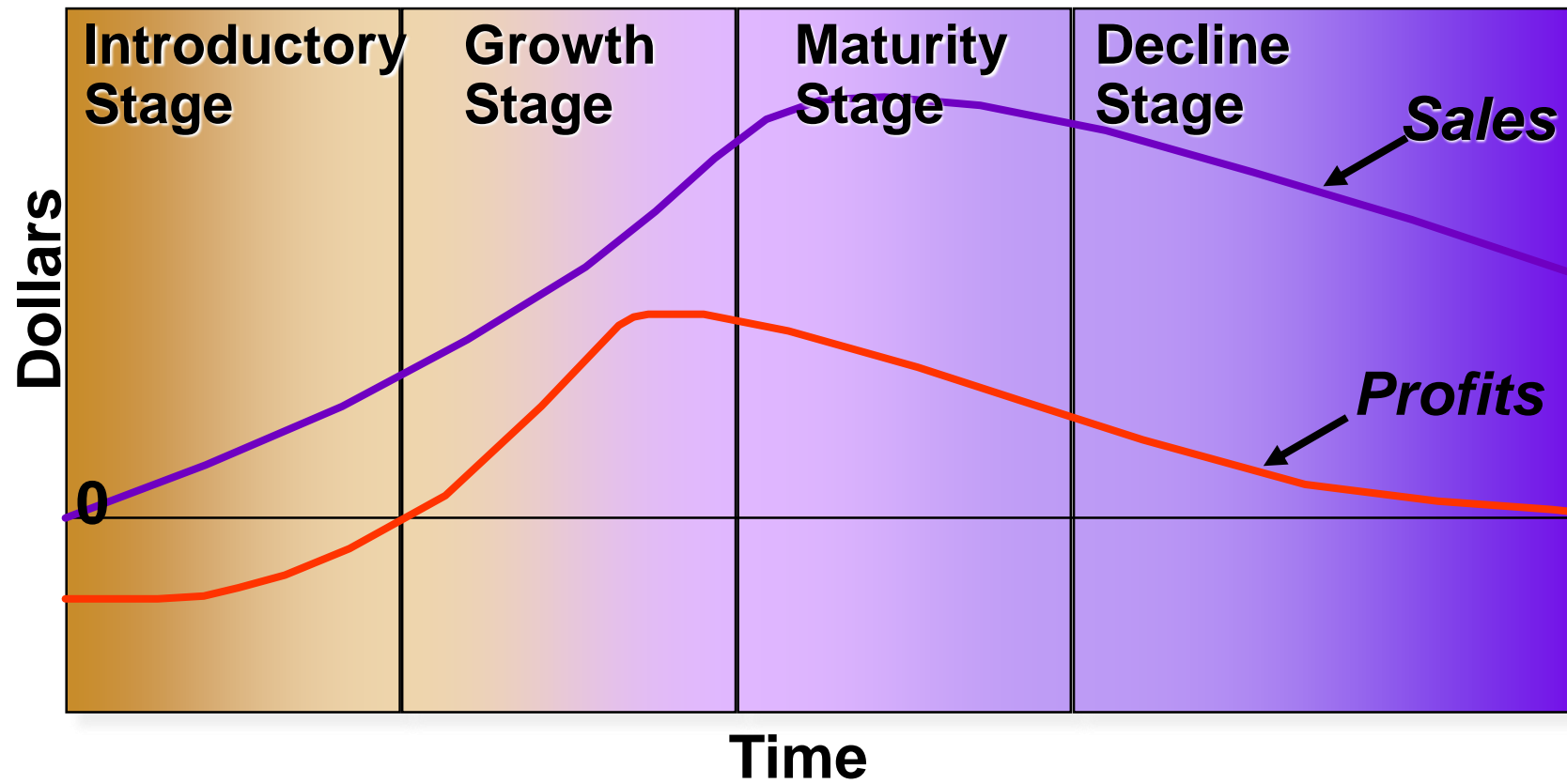
A concept that provides a way to trace the stages of a product's acceptance, from its introduction (birth) to its decline (death).





QuickMBA.com

# PRODUCT LIFE CYCLE



# INTRODUCTION

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

Communication challenge is to stimulate primary demand

# Growth Stage

- Increasing rate of sales
- Entrance of competitors
- Market consolidation
- Initial healthy profits
- Aggressive advertising of the differences between brands
- Wider distribution

# 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



## DECLINE STAGE



Long-run drop in sales



Large inventories of unsold items

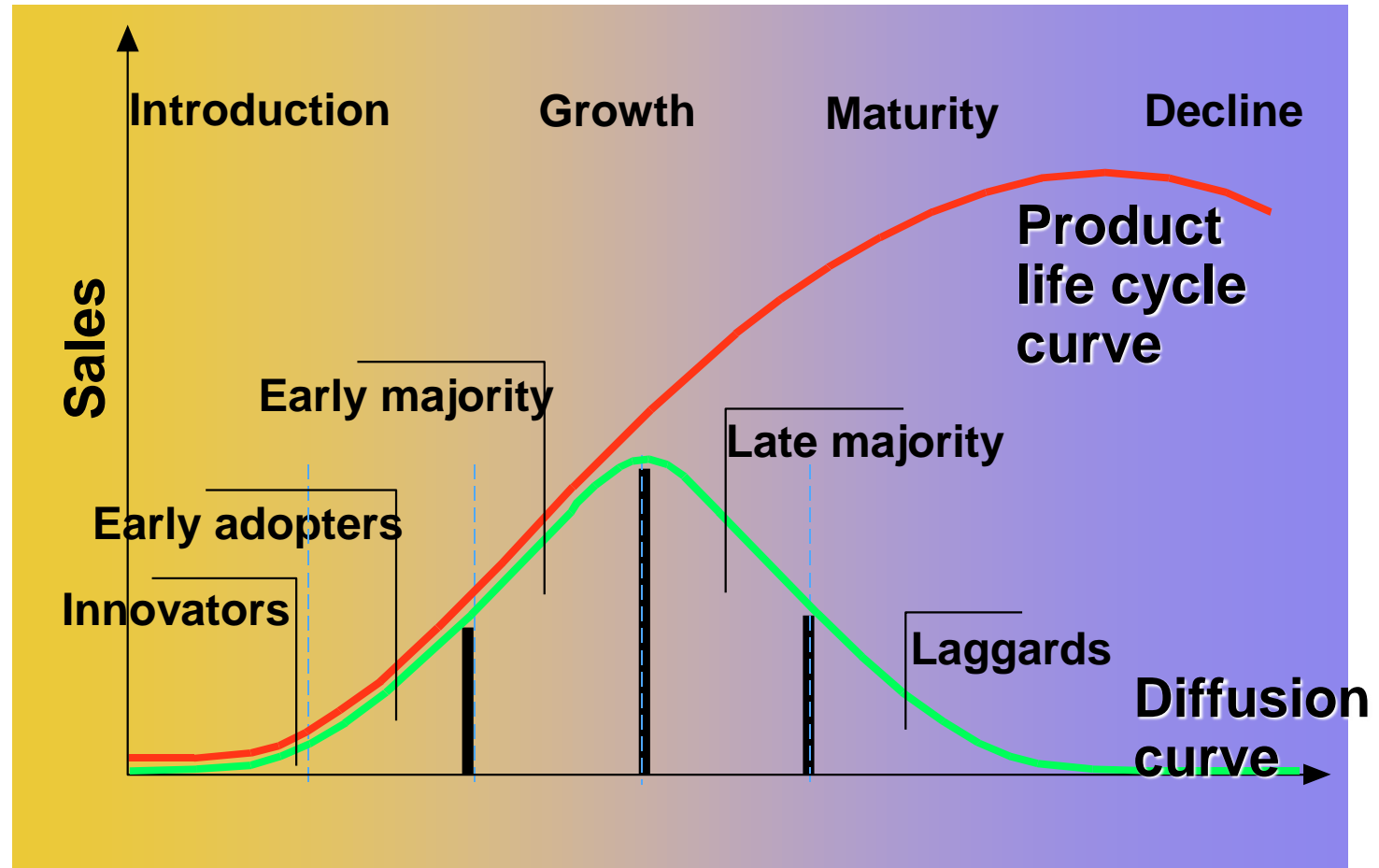


Elimination of all nonessential marketing expenses

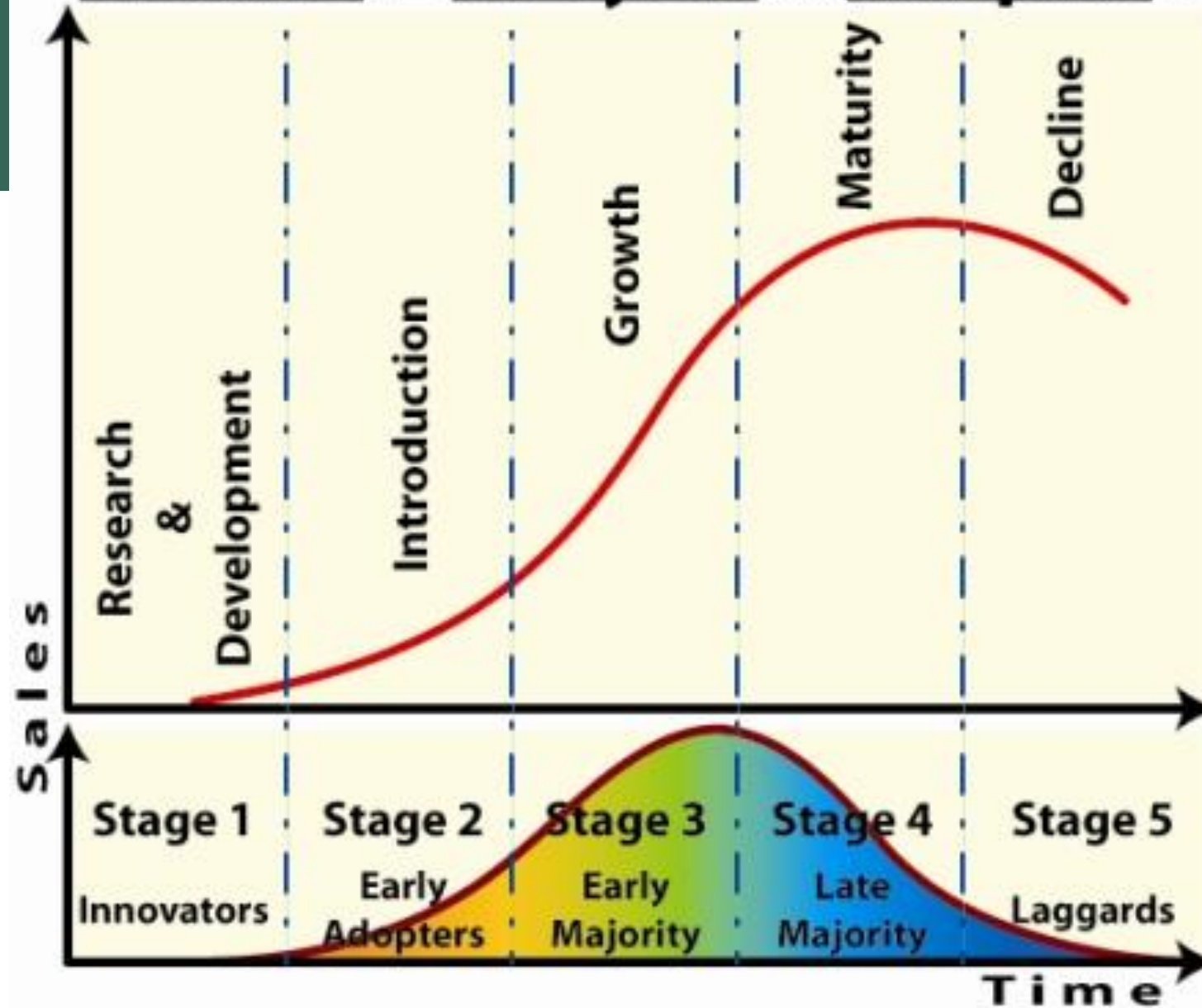


“Organized abandonment”

# Diffusion Process and PLC Curve



# Product Life Cycle & Adoption



# PRODUCT LIFE CYCLES

	INTRODUCTION	GROWTH	MATURITY	DECLINE
Product Strategy	Limited models. Frequent changes.	More models. Frequent changes.	Large number of models.	Eliminate unprofitable models.
Distribution Strategy	Limited wholesale/ retail distributors.	Expanded dealers. Long-term relations.	Extensive. Margins drop. Shelf space.	Phase out unprofitable outlets.
Promotion Strategy	Awareness. Stimulate demand. Sampling.	Aggressive ads. Stimulate demand.	Advertise. Promote heavily.	Phase out promotion.
Pricing Strategy	High to recoup development costs.	Fall as result of competition and efficient production.	Prices fall (usually).	Prices stabilize at low level.

**Sales** (vertical axis, increasing upwards)

**Time** (horizontal axis, increasing rightwards)