

CHAPTER 8

NEW PRODUCT DEVELOPMENT AND PRODUCT LIFE CYCLE

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Explain how companies find and develop new product ideas.
2. List and define the steps in the new product development process and the major considerations in managing this process.
3. Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.
4. Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

CHAPTER OVERVIEW

In this chapter, we'll look into two product topics:

1. Developing new products
2. Managing products through their life cycles.

New-product development is risky, and many new products fail.

The first part of this chapter lays out a process for finding and growing successful new products.

In the second part of the chapter, we see that every product passes through several life-cycle stages and that each stage poses new challenges requiring different marketing strategies and tactics.

Finally, we look at two additional considerations: social responsibility in product decisions and international product and services marketing.

INTRODUCTION

Every product seems to go through a life cycle.

This product life cycle presents two major challenges:

1. Because all products eventually decline, a firm must be good at developing new products to replace aging ones (the challenge of *new-product development*).
2. The firm must be good at adapting its marketing strategies in the face of changing tastes, technologies, and competition as products pass through life-cycle stages (the challenge of *product life-cycle strategies*).

NEW-PRODUCT DEVELOPMENT STRATEGY

By *new products* we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development (R&D) efforts.

A firm can obtain new products in two ways.

1. *Acquisition*—by buying a whole company, a patent, or a license to produce someone else's product.
2. **New-product development** efforts.

THE NEW-PRODUCT DEVELOPMENT PROCESS

1. Idea Generation

Idea generation is the systematic search for new-product ideas.

Internal Idea Sources

Using *internal sources*, the company can find new ideas through formal research and development. Or it can pick the brains of employees—from executives to salespeople to scientists, engineers, and manufacturing staff.

External Idea Sources

Companies can also obtain good new-product ideas from any of a number of external sources, such as *distributors and suppliers* or even *competitors*.

Perhaps the most important source of new-product ideas is *customers* themselves.

Crowdsourcing

Many companies are now developing *crowdsourcing* new-product idea programs. Crowdsourcing invites broad communities of people into the new-product innovation process.

2. Idea Screening

The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible.

3. Concept Development and Testing

A *product idea* is an idea for a possible product that the company can see itself offering to the market.

A *product concept* is a detailed version of the idea stated in meaningful consumer terms.

A *product image* is the way consumers perceive an actual or potential product.

Concept Development

In **concept development**, several descriptions of the product are generated to find out how attractive each concept is to customers. From these concepts, the best one is chosen.

Concept Testing

Concept testing calls for testing new-product concepts with groups of target consumers.

Marketing Strategy Development

4. Marketing strategy development involves designing an initial marketing strategy for a new product based on the product concept.

The **marketing strategy statement** consists of three parts.

1. A description of the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years
2. An outline of the product's planned price, distribution, and marketing budget for the first year
3. A description of the planned long-run sales, profit goals, and marketing mix strategy

5. Business Analysis

Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives.

6. Product Development

In **product development**, R&D or engineering develops the product concept into a physical product. The product development step calls for a large jump in investment.

7. Test Marketing

Test marketing is the stage at which the product and marketing program are introduced into realistic market settings.

8. Commercialization

Commercialization involves introducing the new product into the market.

Decisions must be made about introduction *timing* as well as *where* to launch the new product.

MANAGING NEW-PRODUCT DEVELOPMENT

Customer-Centered New-Product Development

New-product development **must** be customer centered.

Customer-centered new-product development focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Team-Based New-Product Development

Under the *sequential product development* approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage.

This orderly, step-by-step process can help bring control to complex and risky projects. But it also can be dangerously slow.

In order to get their new products to market more quickly, many companies use a **team-based new-product development** approach.

Under this approach, company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stay with the new product from start to finish.

Systematic New-Product Development

An *innovation management system* can be used to collect, review, evaluate, and manage new-product ideas.

The innovation management system approach yields two favorable outcomes.

1. It helps create an innovation-oriented company culture.
2. It will yield a larger number of new-product ideas, among which will be found some especially good ones.

New-Product Development in Turbulent Times

In difficult times, innovation more often helps than hurts in making the company more competitive and positioning it better for the future.

PRODUCT LIFE-CYCLE STRATEGIES

The product life cycle has five distinct stages:

1. **Product development** begins when the company finds and develops a new-product idea. During product development, sales are zero, and the company's investment costs mount.
2. **Introduction** is a period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses of product introduction.
3. **Growth** is a period of rapid market acceptance and increasing profits.
4. **Maturity** is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
5. **Decline** is the period when sales fall off and profits drop.

The PLC concept can describe a **product class** (gasoline-powered automobiles), a **product form** (SUVs), or a **brand** (the Ford Escape).

Product classes have the longest life cycles.

Product forms have the standard PLC shape.

Product brand PLC can change quickly because of changing competitive attacks and responses.

The PLC can be applied to styles, fashions, and fads.

- A **style** is a basic and distinctive mode of expression.
- A **fashion** is a currently accepted or popular style in a given field.
- **Fads** are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Strategies for each of the other life-cycle stages:

Introduction Stage

The **introduction stage** starts when the new product is first launched.

In this stage, profits are negative or low, promotion spending is relatively high, and only basic versions of the product are produced.

A company, especially the *market pioneer*, must choose a launch strategy that is consistent with the intended product positioning.

Growth Stage

The **growth stage** is where sales begin to climb quickly.

New competitors will enter the market. They will introduce new product features, and the market will expand.

The increase in competitors leads to an increase in the number of distribution outlets.

Prices remain stable.

Profits increase during the growth stage.

Maturity Stage

The **maturity stage** is characterized by slowing product growth.

The slowdown in sales growth results in many producers with many products to sell.

Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product-development budgets to find better versions of the product.

These steps lead to a drop in profit.

Product managers should consider modifying the market, product, and marketing mix.

In *modifying the market*, the company tries to increase the consumption of the current product.

In *modifying the product*, the company tries changing characteristics such as quality, features, style, or packaging to attract new users and to inspire more usage.

In *modifying the marketing mix*, the company tries changing one or more marketing mix elements.

Decline Stage

The sales of most product forms and brands eventually dip. This is the **decline stage**.

Management may decide to *maintain* its brand without change in the hope that competitors will leave the industry.

Management may decide to *harvest* the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force) and hoping that sales hold up

Management may decide to *drop* the product from the line.

ADDITIONAL PRODUCT AND SERVICE CONSIDERATIONS

Product Decisions and Social Responsibility

Marketers should consider public policy issues and regulations regarding acquiring or dropping products, patent protection, product quality and safety, and product warranties.

Regarding new products, the government may prevent companies from adding products through acquisitions if the effect threatens to lessen competition.

Manufacturers must comply with specific laws regarding product quality and safety.

The litigation phenomenon has resulted in huge increases in product liability insurance premiums, causing big problems in some industries.

Some companies are now appointing *product stewards*, whose job is to protect consumers from harm and the company from liability by proactively ferreting out potential product problems.

International Product and Services Marketing

International product and service marketers face special challenges.

- They must figure out what products and services to introduce and in which countries.
- They must decide how much to standardize or adapt their products and services for world markets.
- Packaging presents new challenges for international marketers.

The trend toward growth of global service companies will continue, especially in banking, airlines, telecommunications, and professional services.

Self-Check- Questions

- 8-1. Define crowdsourcing and describe an example not already presented in the chapter.
- 8-2. Why is it increasingly the case that customers are vital in the creation of innovative new products and services? How has this come about?
- 8-3. What is performed in the business analysis step of the new product development process? How does a business carry out this step?
- 8-4. How can companies adopt a holistic approach to managing new product development?