

***New-Product  
Development and  
Life-Cycle Strategies***

**Chapter 9**

# Learning Goals

- 1. Learn how companies find and develop new-product ideas**
- 2. Understand the steps in the new-product development process**
- 3. Know the stages of the product life cycle**
- 4. Realize how marketing strategies change during the product's life cycle**

# Case Study

## Nokia

### Focus on Innovation

- Names its culture of continuous innovation “renewal”
- Organizes into autonomous units that help foster innovation
- Large R&D budget of \$3 billion with 40% of employees involved in R&D

### Corporate Results

- Annual sales of \$36 billion across 130 countries
- Global market share of 38%, greater than that of its nearest three rivals combined

# 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.**

# Stages of the New Product Development Process

- **Stage 1: Idea Generation**
  - **Internal idea sources:**
    - R & D
  - **External idea sources:**
    - Customers, competitors, distributors, suppliers

# Stages of the New Product Development Process

- **Stage 2: Idea Screening**
  - **Product development costs increase substantially in later stages so poor ideas must be dropped**
  - **Ideas are evaluated against criteria; most are eliminated**

# Stages of the New Product Development Process

- **Stage 3: Concept Development and Testing**
  - **Concept development creates a detailed version of the idea stated in meaningful consumer terms.**
  - **Concept testing asks target consumers to evaluate product concepts.**



# Stages of the New Product Development Process

- **Stage 4: Marketing Strategy Development**
  - 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.

# Stages of the New Product Development Process

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

# Stages of the New Product Development Process

- **Stage 7: Test Marketing**
  - **Standard test markets**
  - **Controlled test markets**
  - **Simulated test markets**
- **Stage 8: Commercialization**

# Product Life-Cycle Strategies

- **The 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

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- *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

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- *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

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- *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

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- *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

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