

# ***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.

# Case Study

## 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**

# Product Life-Cycle Strategies

- 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*

- **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