

Lecture 7_New product development

CHAPTER

10

DEVELOPING NEW PRODUCTS AND SERVICES

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LECTURE QUESTIONS:

- **Identify the consumer and business goods and services are classified and marketed.**
- **Explain the effects of different ways of viewing “newness” in new products and services.**

LECTURE QUESTIONS:

- **Analyze the factors that contribute to the success or failure of a product or service.**
- **Describe the purposes of each step of the new-product process.**

THE VARIATIONS OF PRODUCTS

- **Product**
- **Product Line and Product Mix**
 - **Product Line**
 - **Product Item**
 - **Stock Keeping Unit (SKU)**
 - **Product Mix**

Product

A **product** is a good, service, or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers and is received in exchange for money or some other unit of value.



Product Line

A **product line** is a group of products—goods or services—that are closely related because they satisfy a class of needs, are used together, are sold to the same customer group, are distributed through the same type of outlets, or fall w/in a given price range.



Product Mix

The **product mix** is the number of product lines offered by a company.



THE VARIATIONS OF PRODUCTS

- **Classifying Products**

- **Type of User**

- **Consumer Goods**
- **Business Goods**

- **Degree of Tangibility**

- **Nondurable Good**
- **Durable Good**

- **Services**

Consumer Goods

Consumer goods are products purchased by the ultimate consumer.



Business Goods

Business goods are products that assist directly or indirectly in providing products for resale.



THE VARIATIONS OF PRODUCTS

- **The Uniqueness of Services**
 - **Intangibility**
 - **Inconsistency**
 - **Inseparability**
 - **Inventory**
 - **Idle Production Capacity**

Idle Production Capacity

Idle production capacity is when the service provider is available but there is no demand.



The 4 I's of service

Intangibility Services are a performance rather than an object

Inconsistency Variability in the quality of services due to variability in people who deliver the services

Inseparability Services are difficult to separate from deliverer of the service

Inventory The cost of maintaining the ability to deliver a service

CLASSIFYING GOODS AND SERVICES

- **Classification of Consumer Goods**
 - **Convenience Goods**
 - **Shopping Goods**
 - **Specialty Goods**
 - **Unsought Goods**

Classification of consumer goods



BASIS OF COMPARISON	TYPE OF CONSUMER GOOD			
	CONVENIENCE	SHOPPING	SPECIALTY	UNSOUGHT
Purchase behavior of consumers	Frequent purchases; little time and effort spent shopping	Infrequent purchases; needs much comparison shopping time	Infrequent purchases; needs extensive search and decision time	Very infrequent purchases; some comparison shopping
Brand loyalty of consumers	Aware of brand, but will accept substitutes	Prefer specific brands, but will accept substitutes	Very brand loyal; will not accept substitutes	Will accept substitutes
Product	Toothpaste, cake mix, handsoap, laundry detergent	Cameras, TVs, briefcases, clothing	Rolls Royce cars, Rolex watches	Burial insurance, thesaurus
Price	Relatively inexpensive	Fairly expensive	Usually very expensive	Varies
Place (distribution)	Widespread; many outlets	Large number of selective outlets	Very limited	Often limited
Promotion	Price, availability, and awareness stressed	Differentiation from competitors stressed	Uniqueness of brand and status stressed	Awareness is essential

CLASSIFYING GOODS AND SERVICES

- **Classification of Business Goods**
 - **Derived Demand**
 - **Production Goods**
 - **Support Goods**
 - **Installations**
 - **Supplies**
 - **Accessory Equipment**
 - **Services**

CLASSIFYING GOODS AND SERVICES

- **Classification of Services**
 - **Delivery by People or Equipment**
 - **Profit or Not-for-Profit Organizations**
 - **Government Sponsored or Not**

Concept Check

1. Explain the difference between product mix and product line.

A: The product mix is the number of product lines offered by a company. A product line is a group of products or services that: satisfy a class of needs, are used together, are sold to the same customer group, are distributed through the same outlets, or fall within a given price range.

Concept Check

2. What are the four main types of consumer goods?

A: Convenience goods, shopping goods, specialty goods, and unsought goods.

Concept Check

3. What are the three ways to classify services?


A: Delivery by people or equipment, profit or not-for-profit organizations, and government sponsored or not.

NEW PRODUCTS AND WHY THEY SUCCEED OR FAIL

- **What is a New Product?**
 - **The Term “New”**
 - **Continuous Innovation**
 - **Dynamically Continuous Innovation**
 - **Discontinuous Innovation**

Product “newness,” as defined by the degree of consumer learning needed to use the product



			
BASIS OF COMPARISON	CONTINUOUS INNOVATION	DYNAMICALLY CONTINUOUS INNOVATION	DISCONTINUOUS INNOVATION
Definition	Requires no new learning by consumers	Disrupts consumer's normal routine but does not require totally new learning	Requires new learning and consumption patterns by consumers
Examples	New improved shaver or detergent	Electric toothbrush, compact disc player, and automatic flash unit for cameras	VCR, home computer, voice recognition software
Marketing emphasis	Gain consumer awareness and wide distribution	Advertise points of difference and benefits to consumers	Educate consumers through product trial and personal selling



NEW PRODUCTS AND WHY THEY SUCCEED OR FAIL

- **Why Products Succeed or Fail**
 - **Marketing Reasons for New-Product Failures**
 - **Insignificant Point of Difference**
 - **Incomplete Market and Product Definition Before Product Development Starts**

NEW PRODUCTS AND WHY THEY SUCCEED OR FAIL

- **Why Products Succeed or Fail**
 - **Marketing Reasons for New-Product Failures**
 - **Too Little Market Attractiveness**
 - **Poor Execution of the Marketing Mix**
 - **Poor Product Quality or Insensitivity to Customer Needs on Critical Factors**

NEW PRODUCTS AND WHY THEY SUCCEED OR FAIL

- **Why Products Succeed or Fail**
 - **Marketing Reasons for New-Product Failures**
 - **Bad Timing**
 - **No Economic Access to Buyers**
 - **A Look at Some Failures**

Concept Check

1. Describe the three kinds of innovations that marketers use to categorize new products.

A: Continuous innovation,
dynamically continuous innovation,
and discontinuous innovation.

Concept Check

2. What does “insignificant point of difference” mean as a reason for new-product failure?

A: The product's characteristics did not deliver benefits to the user that were uniquely superior to those of competitors or were not deemed important to users.

THE NEW-PRODUCT DEVELOPMENT PROCESS

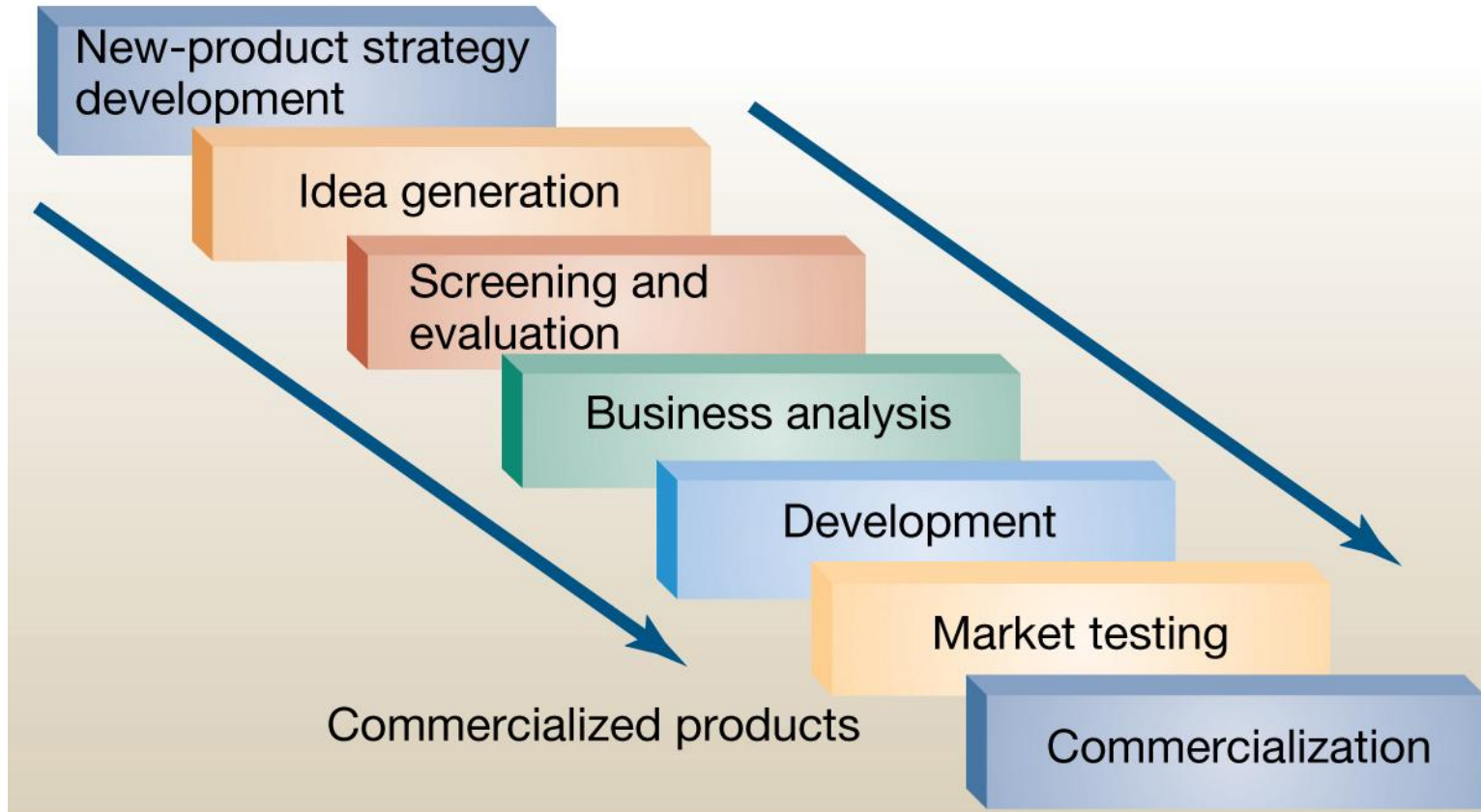
- **New-Product Development Process**
- **New-Product Strategy Development**
 - **Identifying Markets and Strategic Roles**
 - **Cross-Functional Teams and New-Product Development**
 - **Cross-Functional Teams**

New-Product Development Process

The new-product development process consists of seven stages a firm goes through to identify business opportunities and convert them to a salable good or service.

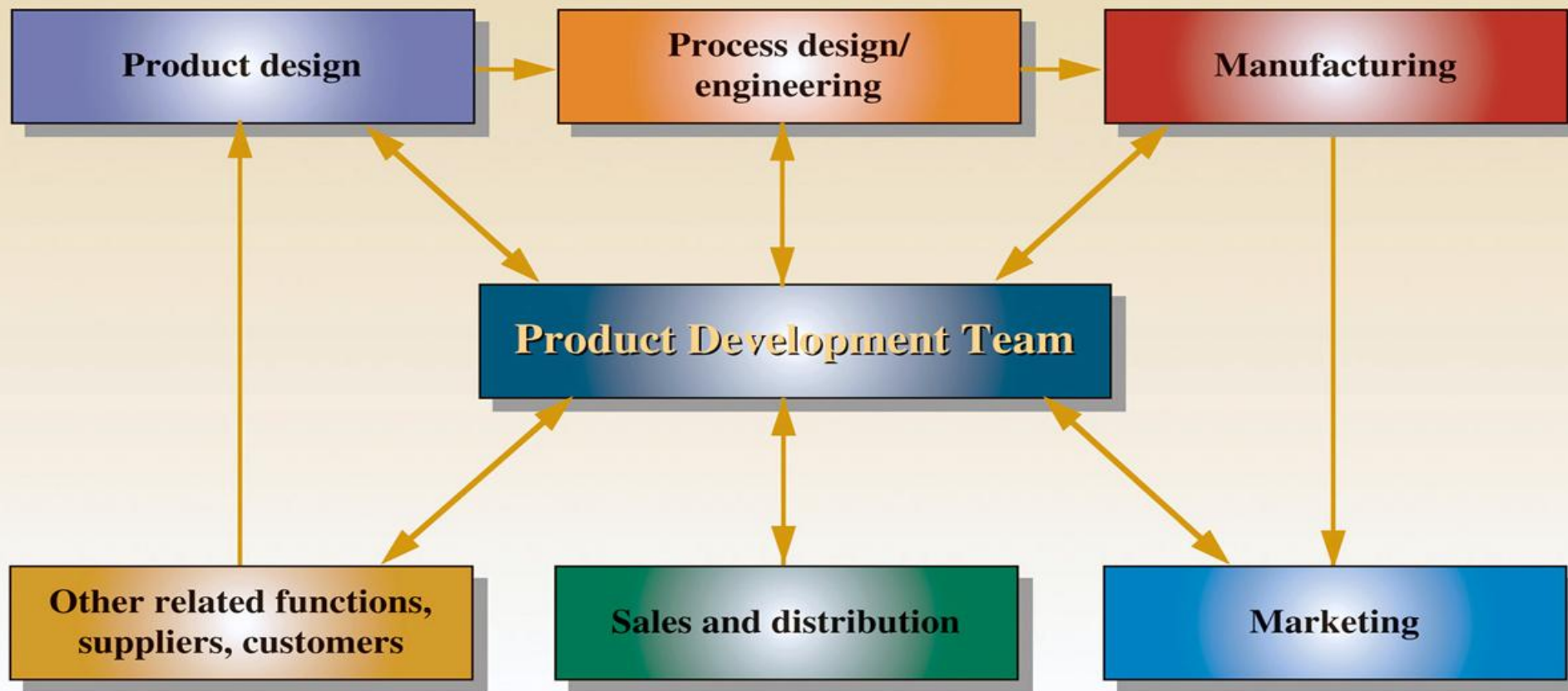


Stages in the new-product development process



The cross-functional new-product team

A Cross-Functional Approach to Product Development



THE NEW-PRODUCT PROCESS

- **Screening and Evaluation**
 - **Internal Approach**
 - **External Approach**
 - **Concept Tests**

Concept Check

1. What step in the new-product process has been added in recent years?

A: New-product strategy development has been added recently by many companies to provide focus for ideas and concepts developed in later stages.

Concept Check

2. What are four sources of new-product ideas?

A: Customer and supplier suggestions, employee suggestions, R&D breakthroughs, and competitive products.

THE NEW-PRODUCT PROCESS

- **Business Analysis**
 - **Prototype**
 - **Assessing the “Business Fit” of the New Product**
 - **Big G Plus Pillsbury: Increasing Emphasis on Synergies and Segments**

THE NEW-PRODUCT PROCESS

- **Development**
- **Market Testing**
 - **Test Marketing**
 - **When Test Markets Don't Work**

THE NEW-PRODUCT PROCESS

- **Commercialization**
 - **Burger King's French Fries:
The Complexities of Commercialization**
 - **The Risks and Uncertainties of the
Commercialization Stage**
 - **Speed as a Factor in
New-Product Success**
 - **Time to Market (TtM)**
 - **Parallel Development**

Marketing information and methods used in the new-product process

STAGE OF PROCESS	PURPOSE OF STAGE	MARKETING INFORMATION AND METHODS USED
New-product strategy development	Identify new-product niches to reach in light of company objectives	Company objectives; assessment of firm's current strengths and weaknesses in terms that include market and product
Idea generation	Develop concepts for possible products	Ideas from employees and co-workers, consumers, R&D, and competitors; methods of brainstorming and focus groups
Screening and evaluation	Separate good product ideas from bad ones inexpensively	Internal evaluation of technical requirements, concept tests
Business analysis	Identify the product's features and its marketing strategy, and make financial projections	Product's key features, anticipated marketing mix strategy; economic, marketing, production, legal, and profitability analyses
Development	Create the prototype product, and test it in the laboratory and on consumers	Laboratory and consumer tests on product prototypes
Market testing	Test product and marketing strategy in the marketplace on a limited scale	Test marketing in defined areas
Commercialization	Position and offer product in the marketplace	Perceptual maps, product positioning, regional rollouts

Concept Check

1. Describe the business analysis stage of the new-product process.

A: Business analysis involves specifying the features of the product and the marketing strategy needed to commercialize it—bring it to market—and making financial projections.

Concept Check

2. What is a test market?

A: A test market is a city that is viewed as being representative of U.S. consumers in terms of demographics and brand purchase patterns, is far enough from big markets to allow low-cost advertising, and has tracking systems to measure sales.

Concept Check

3. What is commercialization of a new product?

A: Commercialization involves positioning and launching a new product in full-scale production and sales and is the most expensive stage for most new products.