Developing Innovation and Creativity for Business Advantage

Week – 3:
New-Product Development and Product Life-Cycle Strategies

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Recap

- Week 1 – Introduction to innovation
- Week 2 – Concepts & techniques of innovation & creativity

This week – we will look “New-Product Development and Product Life-Cycle Strategies”

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CW Expectations:

With reference to the case study "**Developing a new product for the teeth whitening market**" write a report about **5000 words** that addresses:

1. Stockholm Gases' approach to innovation

2. Taking one member of the management team, explain their role in the teeth whitening project, considering their individual and organisational knowledge and experience

3. Explain one open model and one closed model of innovation and analyse how they could be applied to the teeth whitening project. Explain, with justifications, which model you would recommend should the project go ahead

4. Make a recommendation to the Board about whether Munich Gases should invest £10million in this new product project

New-Product Development and Product Life-Cycle Strategies

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.

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.

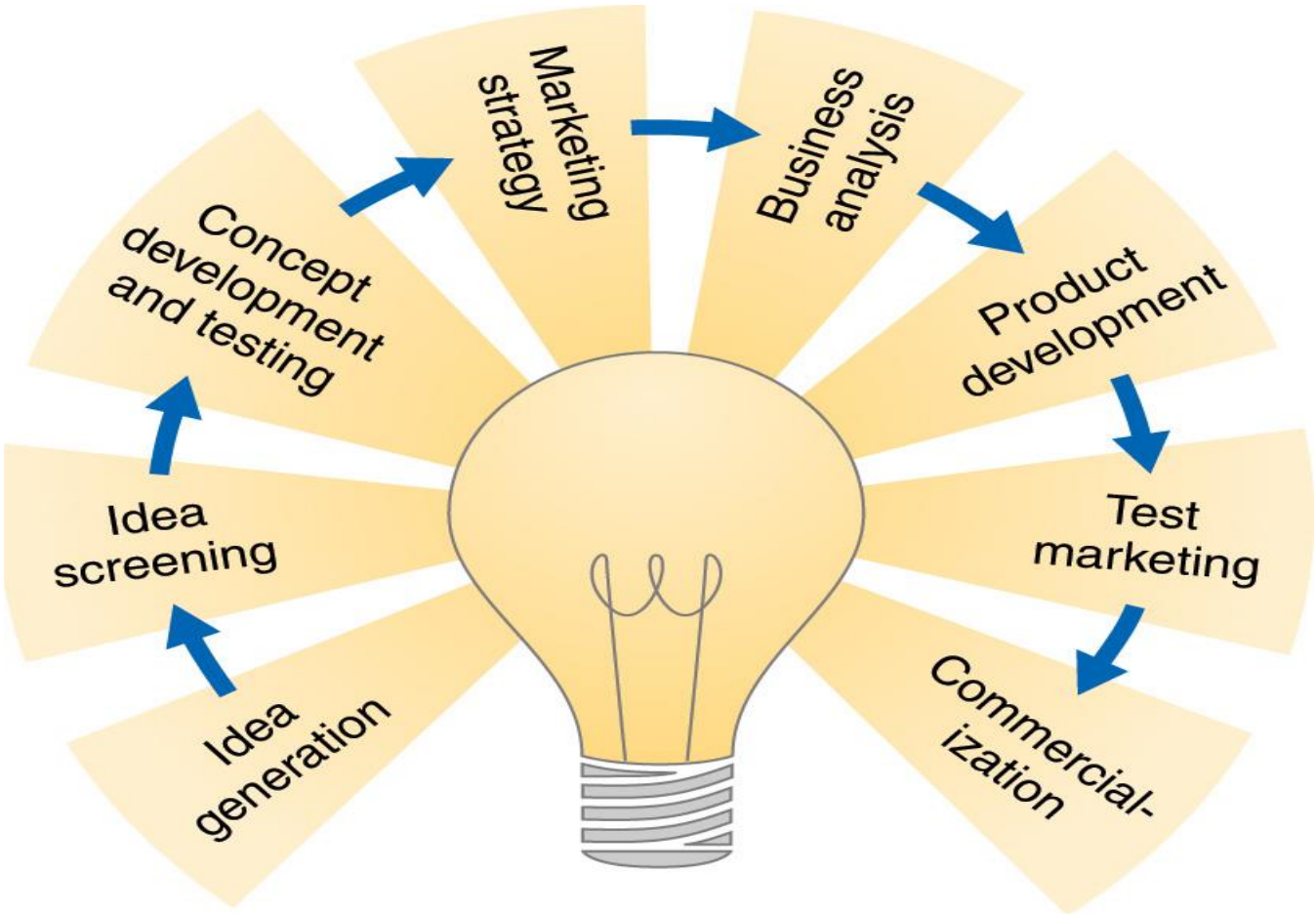
New Product Development Strategy

- New products can be obtained via acquisition **<u>or</u>** development.
- New products suffer from high failure rates.
- Several reasons account for failure.

Discussion Question

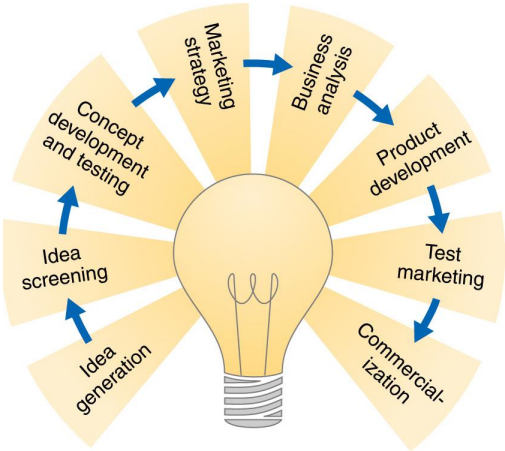
Why do products fail?

New-Product Development



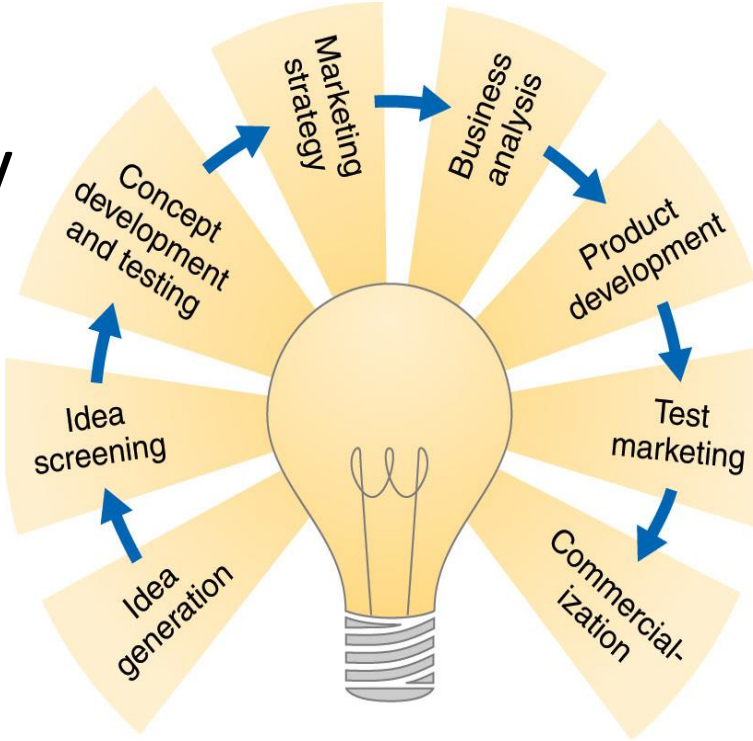
New Product Development Strategy

- New Product Development Process:
  - Stage 1: Idea Generation
    - Internal idea sources:
      - R & D
    - External idea sources:
      - Customers, competitors, distributors, suppliers



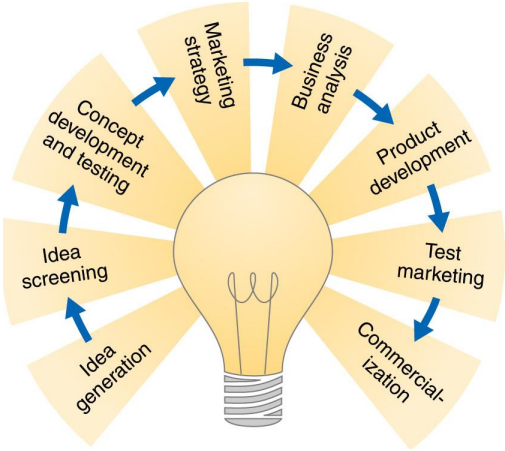
New Product Development Strategy

- New Product Development Process:
  - Stage 2: Idea Screening
    - Product development costs increase dramatically 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.
    - Consumers evaluate ideas in concept tests.

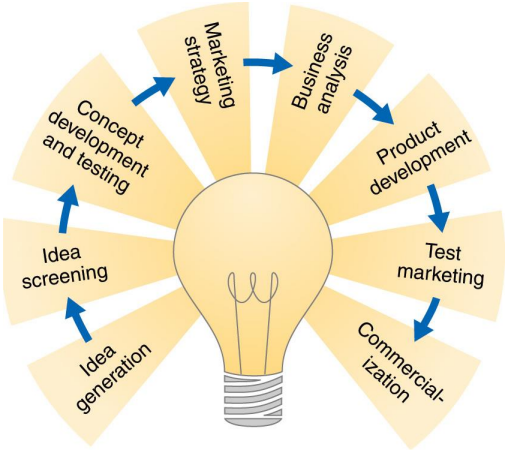


New Product Development Strategy

- 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.

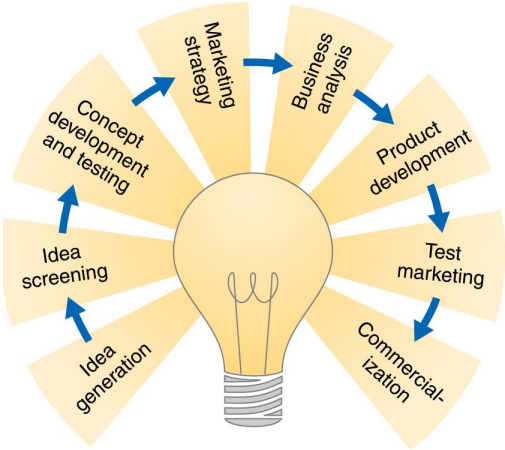
New Product Development Strategy

- 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



Simulated Test Markets (STM)
In-Depth

- ***Model Inputs:***
  - The market's size
  - Copy testing results
  - Advertising budget for the test product and competitors.
  - Media schedule, Consumer promotion, Trade promotion by month.

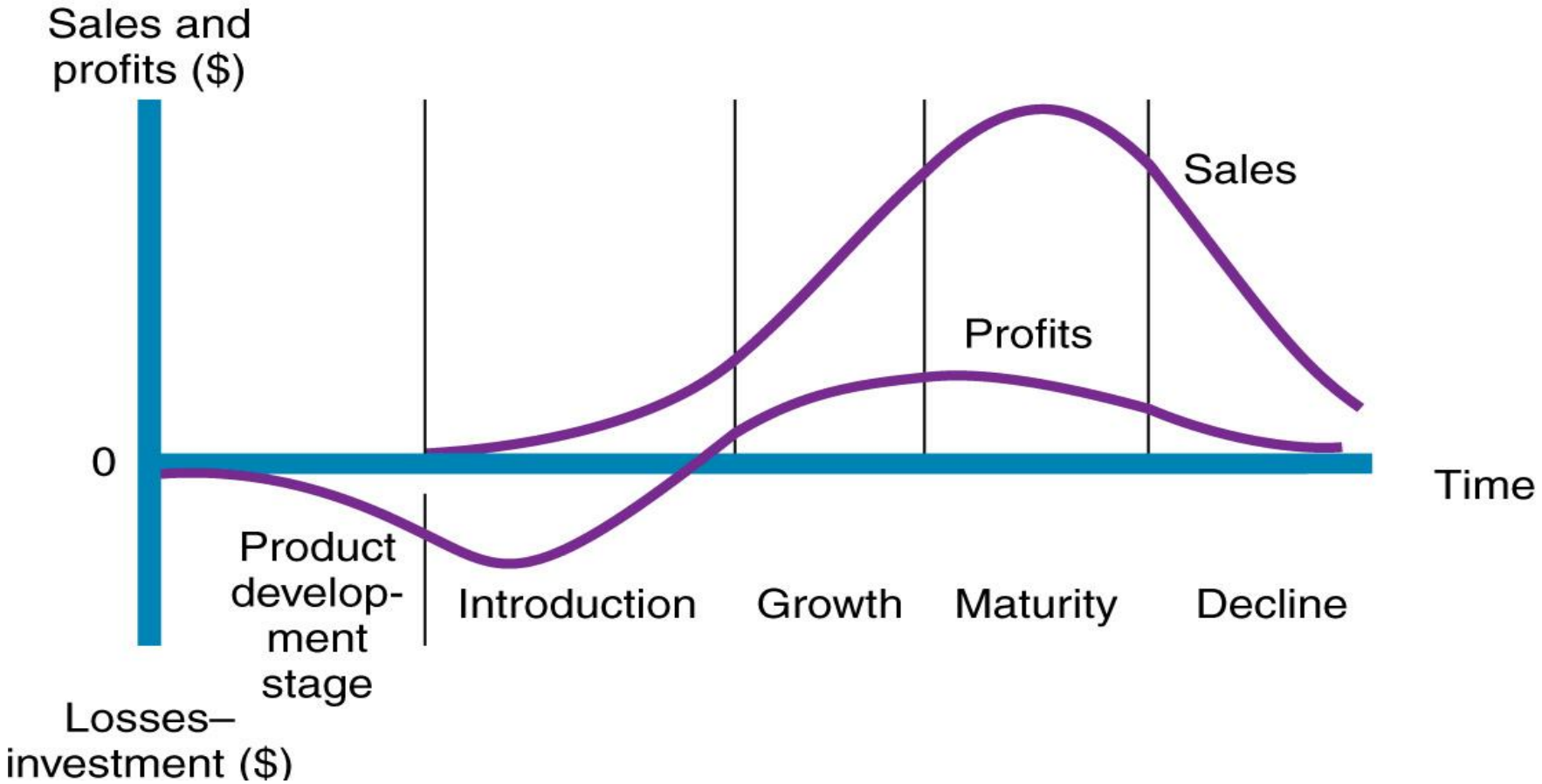
- **Model Inputs:**
  - Price
  - The proportion of stores carrying the test product and the number of shelf facings by month.
  - Expected marketing costs and margin contribution.

Simulated Test Markets (STM)
In-Depth

- ***Do's & Don'ts of STMs***
  - Be a champion for your new product--but be objective
  - Choose the proper sample.
  - Expose people to your product and its advertising in a way that best simulates the real world.
  - Use proven research technology to forecast market behavior and sales.

- Do's & Don'ts of STMs
  - Calculate different levels of competitive response.
  - Don't estimate a level of support in a simulated market that you would not maintain nationally.
  - Be very careful in estimating all marketing input factors—the more you guess incorrectly, the less accurate the forecast.

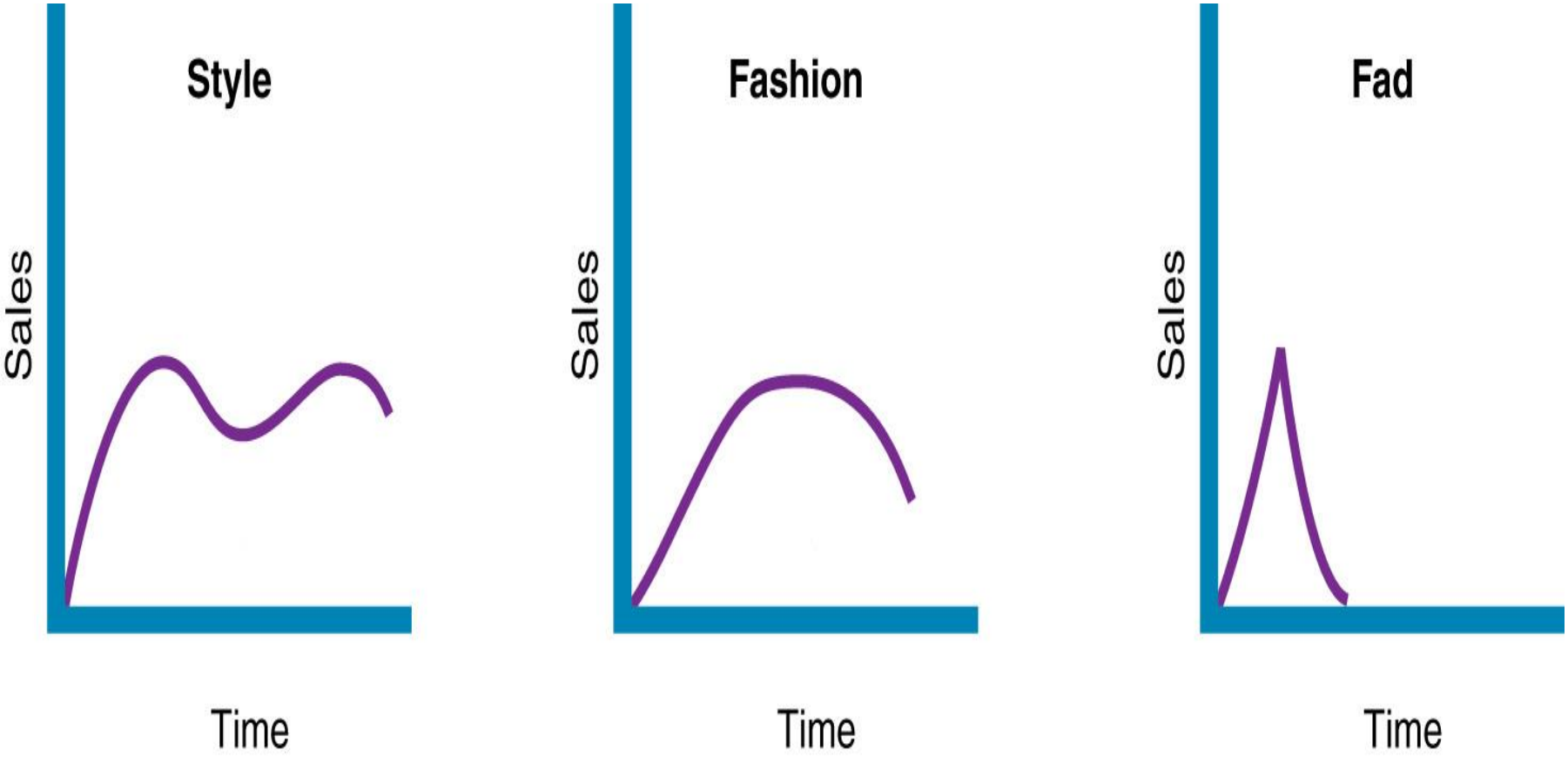
Sales and Profits Over A Product's Life



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

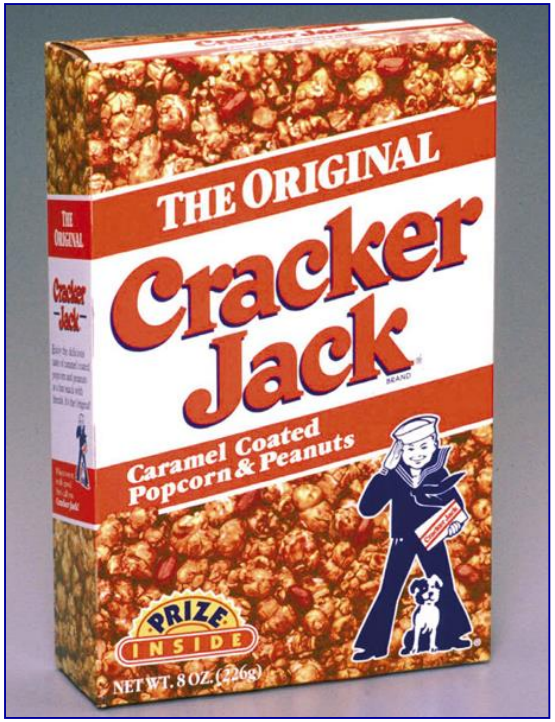
Styles, Fashions, and Fads



Companies want their products to enjoy a long life cycle. Hershey's actively promotes the fact that it has been "unchanged since 1899"

Product Life-Cycle Strategies

- Additional marketing investments can move a product back into the growth stage, as in the case of Cracker Jack.



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*
- ***<u>Introduction</u>***
- *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*
- ***<u>Growth</u>***
- *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*
- ***<u>Maturity</u>***
- *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