



EBU5608 Product Development and Management

Topic 17 - Marketing Strategy of Developing New Products

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Agenda

- Product Quality
- Product Differentiation
- Kinds of New Products
- Product life cycle
 - How marketing strategies change during the product's life cycle.
- Overview of the Marketing Strategy Process

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Product quality

Product quality refers to the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

- Total quality management
- Return-on-quality
- Quality level
- Performance quality
- Conformance quality

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Product quality

- **Total quality management (T.Q.M.)**
 - This describes a management approach to long-term success through customer satisfaction. In a TQM effort, all members of an organization participate in improving processes, products, services, and the culture in which they work
- **Return-on-quality**
 - This is where quality is an investment and the quality efforts must be financially accountable

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Product quality

- **Quality level**
 - Acceptable quality level (A.Q.L.) - This is a quality control concept. It is the minimum level of faults acceptable in a sample of a manufactured product for the entire batch of the product to be accepted
- **Performance quality**
 - Performance is one of the leading dimensions of quality and most customers judge the product's quality based upon performance. For example, if you want a television set, you will be looking for factors like sound, picture clarity, colours, etc. This is what performance means in the case of a television set

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Product quality

- **Conformance Quality**
 - Quality of conformance is the ability of a product, service, or process to meet its design specifications. Design specifications are an interpretation / requirement of what the customer needs

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Product Features

- Competitive tool for differentiating a product from competitors' products
- Assessed based on the value to the customer versus its cost to the company

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Product Style and Design

- **Style** describes the appearance of the product.
- **Design** contributes to a product's usefulness as well as to its looks.

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Brand, Packaging and Labels

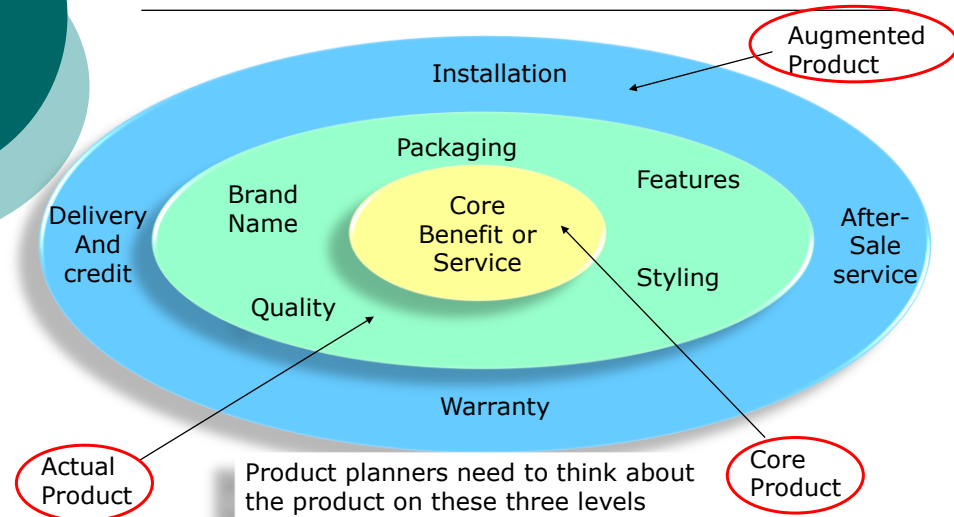
- **Brand** is the name, term, sign, or design or a combination of these, that identifies the maker or seller of a product or service.
- **Packaging** involves designing and producing the container or wrapper for a product.
- **Labels** identify the product or brand, describe attributes, and provide promotion.

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Product differentiation



Augmented Product



Core Product

Actual Product

Product planners need to think about the product on these three levels

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Augmenting products

- Where does the distinction lie between each of these? What makes something augmented over expected? e.g. mobile phone with camera

BUT – this may leave a gap in the market for ‘no frills’ products

Competition drives
Market leaders
Market followers
Re-positioning
Companies then
have to create new
services etc. to
differentiate their
products


Product

Competing
Competing
product

Expectation

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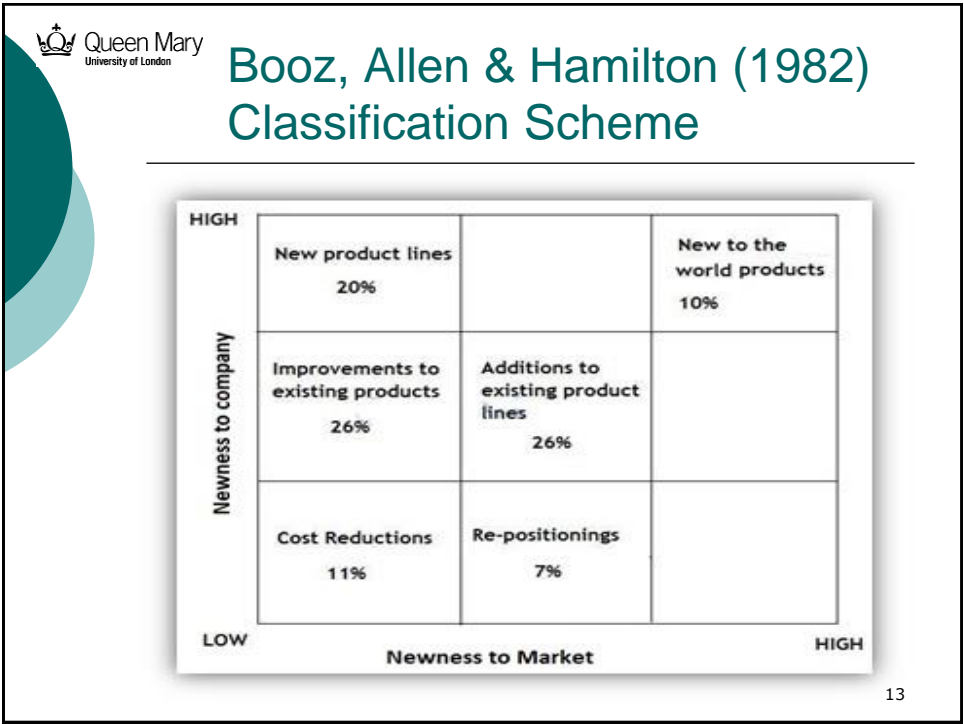
Six kinds of New Products

Booz Allen and Hamilton (1982) identified six kinds of new products

- New to the world
- New product lines
- Additions to existing product lines
- Improvements and revisions to existing products
- Re-positionings
- Cost reductions.

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Booz, Allen & Hamilton (1982) Classification Scheme

- **Repositioning**
 - Existing products targeted to new markets or market segments.
 - It is the task of implementing a major change in the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.
 - To successfully reposition a product, the firm has to change the target market's understanding of the product. This can be challenging, particularly for well-established or strongly branded products.
 - *Example: Airline Economy Class with some airlines is now advertised as Premium Economy Class with small additional benefits*

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Booz, Allen & Hamilton (1982) Classification Scheme

- **Cost Reductions**
 - Similar performance at lower cost. *Example: Newer versions of existing mobile phones*

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Marketing Strategy development

- Part One
 - Describes the **target market, planned value proposition, sales, market share, and profit goals.**
- Part Two
 - Outlines the product’s planned **price, distribution, and marketing budget.**
- Part Three
 - Describes the planned long-run **sales and profit goals, marketing mix strategy.**

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Marketing Mix

Marketing Mix			
Product	Promotion	Price	Place
Variety Quality Design Features Brand Name Packaging Services Warranties	Advertising Promotions Personal Selling Publicity	List Price Discounts Allowances Payment Period Credit Terms	Channels Coverage Locations Inventory Transport
↓	↓	↓	↓
Target Market			

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Commercialisation

- Must decide on **timing** (i.e., when to introduce the product).
- Must decide on **where** to introduce the product (e.g., single location, state, region, nationally, internationally).
- Must develop a **market rollout** plan.

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The Product Life Cycle

- Product life cycle: The course of a product's sales and profits in its lifetime. It involves **four** distinct stages:
 - **Introduction**
 - **Growth**
 - **Maturity**
 - **Decline**
- It is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging.

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The Product Life Cycle

- **Introduction** generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits.
- **Growth** assuming the product is successful, it enters its growth phase; demand grows, production is increased, and its availability expands.

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The Product Life Cycle

- **Maturity** as a product matures, it enters its most profitable stage, while the costs of producing and marketing decline
- **Decline** inevitably the competition increases as other companies emulate its success, sometimes with enhancements or lower prices; the product may lose market share and begin its decline.

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Introduction Stage of PLC

- **Sales:** Low
- **Costs:** High cost per customer
- **Profits:** Negative or low
- **Customers:** Innovators
- **Competitors:** Few
- **Marketing objective:** Create product awareness and trial.

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Introduction Stage of PLC

- **Marketing strategies:**
 - Product: Offer a basic product.
 - Price: Use cost-plus pricing.
 - Distribution: Build selective distribution.
 - Advertising: Build product awareness among early adopters and dealers.
 - Promotion: Use heavy promotion to entice product trial.

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Growth Stage of PLC

- **Sales:** Rapidly rising
- **Costs:** Average cost per customer
- **Profits:** Rising profits
- **Customers:** Early adopters
- **Competitors:** Growing number

- **Marketing objective:** Maximize market share.

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Growth Stage of PLC

- **Marketing Strategies:**
 - Product: Offer product extensions, service, warranty.
 - Price: Price to penetrate the market.
 - Distribution: Build intensive distribution.
 - Advertising: Build awareness and interest in the mass market.
 - Promotion: Reduce to take advantage of heavy consumer demand.

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Maturity Stage of PLC

- **Sales:** Peak sales
- **Costs:** Low cost per customer
- **Profits:** High profits
- **Customers:** Middle majority
- **Competitors:** Stable number beginning to decline
- **Marketing objective:** Maximize profits while defending market share.

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Maturity Stage of PLC

- **Marketing Strategies:**
 - Product: Diversify brand and models.
 - Price: Match our best competitors.
 - Distribution: Build more intensive distribution.
 - Advertising: Stress brand differences and benefits.
 - Promotion: Increase to encourage brand switching.

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Maturity Stage of the PLC

- Strategies used to manage the PLC during maturity include:
 - **Modifying the market**
 - **Modifying the product**
 - **Modifying the marketing mix**

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Maturity Stage of the PLC

- **Modifying the market:**
 - Increase the consumption of the current product.
- How?
 - Look for new users and market segments.
 - Reposition the brand to appeal to larger or faster-growing segment.
 - Look for ways to increase usage among present customers.

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Maturity Stage of the PLC

- **Modifying the product:**
 - Changing characteristics such as quality, features, or style to attract new users and to inspire more usage.
- How?
 - Improve durability, reliability, speed, taste.
 - Improve styling and attractiveness.
 - Add new features.

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Maturity Stage of the PLC

- **Modifying the marketing mix:**
 - Improving sales by changing one or more marketing mix elements.
- How?
 - Cut prices.
 - Launch a better ad campaign.
 - Move into new market channels.

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Decline Stage of PLC

- **Sales:** Declining sales
- **Costs:** Low cost per customer
- **Profits:** Declining profits
- **Customers:** Laggards
- **Competition:** Declining number

- **Marketing objective:** Reduce expenditures and milk the brand.

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Decline Stage of PLC

- **Strategies:**
 - Product: Phase out weak items.
 - Price: Cut price.
 - Distribution: Go selective—phase out unprofitable outlets.
 - Advertising: Reduce to level needed to retain hardcore loyals.
 - Promotion: Reduce to minimal level.

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Additional Considerations

- **Product decisions and social responsibility**
 - Consider public policy issues, regulations regarding acquiring or dropping products, patent protection, product quality and safety, and warranties.

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Additional Considerations

- **International product and service marketing:**
 - Must determine which products and services to introduce in which countries, and how much to standardize or adapt the offering.
 - Packaging presents new challenges for international marketers.
 - Many service businesses are global.

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Overview of the Marketing Strategy Process - General

The marketing strategy process consists of;

- **Analysing market opportunities**
- **Selecting target markets**
- **Designing market strategies**
- **Planning marketing programs**
- **Organizing, implementing and controlling marketing efforts**

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Overview of the Marketing Strategy Process – General

Analysing market opportunities

- Analyse long run opportunities in the market for improving the performance
- Tools
 - reliable market information system
 - marketing research (customers' needs, their locations, buying practices etc.)
 - understanding company micro-environment (suppliers, market intermediaries, customers, and competitors) and macro environment (demographic, economic, social/cultural, technological, political and legal forces)

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Overview of the Marketing Strategy Process – General

Analysis of consumer market

- How many potential consumers,
 - who buys,
 - why do they buy,
 - what are their preferences,
 - where do they buy,
 - frequency of buying
- Competitors' analysis

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Overview of the Marketing Strategy Process – General

Selecting target markets

- measure and forecast the attractiveness of any given market (estimating market size, growth, profitability and risk)

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Overview of the Marketing Strategy Process – General

Designing marketing strategies

- differentiating and positioning market
- new product development, testing and launching
- New product strategy will have to be modified at the different stages in the product life cycle (introduction, growth, maturity and decline)

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Overview of the Marketing Strategy Process – General

Planning marketing programs

- Making basic decisions on marketing expenditures, marketing mix, and marketing allocation
- What level of marketing expenditure is necessary to achieve its marketing objectives? (marketing budget to sales ratio)
- How to divide the total marketing budget among the various tools in the marketing mix?
- Allocation of marketing budget to the various products, channels, and markets?

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Overview of the Marketing Strategy Process – General

Organizing, implementing and controlling marketing efforts

- Organizational set up for implementing the marketing plan
- Feedback procedures
- Control mechanisms e.g. profitability control (see next slide)

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Overview of the Marketing Strategy Process – General

Profitability control

- Measuring actual profitability of products, customers groups, trade channels, and order sizes
- How various marketing activities could be carried out efficiently? (e.g. reward high-value customers with loyalty programmes, special promotions etc.)

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Summary

- Product planners need to think about the product on three levels – core product, actual product, augmented product.
- Booz Allen and Hamilton (1982) identified six kinds of new products
- When used carefully, the PLC may help develop good marketing strategies.
- Overview of the Marketing Strategy Process

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References

- Bearden, W., Ingram, T. & LaForge, R. *Marketing Principles & Perspectives – 4th Edition*, McGraw-Hill (2004), Chapter 9 – Developing New Products & Services, pages 199 - 218
- Kotler, P. & Armstrong, G. *Principles of Marketing – 11th Edition*, Pearson Education (2006), Chapter 9 – New Product Development & Product Life-Cycle Strategies, pages 282 - 304

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Reading

Visit QMPlus ***EBU5608 Reading Materials*** to read the followings:

- Chapter 9 – New Product Development & Product Life-Cycle Strategies,
- Chapter 11. Product and Brand Strategy



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