

Sound marketing is critical to the success of every organization. Large for-profit firms such as Hindustan Unilever Limited, Procter & Gamble, Google, Big Bazaar, Toyota, Apple, and Marriott use marketing. But so do not-for-profit organizations such as colleges, hospitals, museums, symphony orchestras, and even religious organizations.

You already know a lot about marketing—it's all around you. Marketing comes to you in the good old traditional forms: You see it in the abundance of products at your nearby shopping mall and in the advertisements that fill your TV screen, spice up your magazines, or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative Web sites, Internet chat rooms, and social networks to interactive TV and your cell phone. These new approaches aim to do more than just blast out messages to the masses. They aim to reach you directly and personally. Today's marketers want to become a part of your life and to enrich your experiences with their brands—to help you *live* their brands.

At home, at school, where you work, and where you play, you see marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people and activities competing for your attention and purchases. This book will give you a complete introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

## Marketing Defined

What *is* marketing? Many people think of marketing only as selling and advertising. And no wonder—every day we are bombarded with TV commercials, direct-mail offers, sales calls, and e-mail pitches. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale—"telling and selling"—but in the new sense of *satisfying customer needs*. If the marketer understands consumer needs; develops products that provide superior customer value; and prices, distributes, and promotes them effectively, these products will sell easily. In fact, according to management guru Peter Drucker, "The aim of marketing is to make selling unnecessary."<sup>4</sup> Selling and advertising are only part of a larger "marketing mix"—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.<sup>5</sup>

## The Marketing Process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

**Marketing**  
Process  
Access by which  
companies create value for  
customers and build strong  
customer relationships in order  
to capture value from  
customers in return.

A central figure shows marketing in  
the process of creating value for  
customers and capturing value from  
customers in a five-step process.  
This framework is the focus of the rest of  
the book and the rest of the text.

Create value *for* customers and  
build customer relationships

Design a  
customer-driven  
marketing  
strategy

Construct an  
integrated  
marketing program  
that delivers  
superior value

Build profitable  
relationships and  
create customer  
delight

Capture value *from*  
customers in return

Capture value  
*from* customers to  
create profits and  
customer equity

Understand the  
marketplace and  
customer needs  
and wants

FIGURE 1.1 A Simple Model of the Marketing Process

*Customers to serve  
Value Propositions  
Orientation*

Some people think of marketing management as finding as many customers as possible. But marketing managers know that they cannot serve all customers in increasing demand. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, Nordstrom stores profitably target affluent professionals; Family Dollar stores profitably target families with more modest means.

Some marketers may even seek fewer customers and reduced demand. For example, amusement parks are overcrowded in the summer and many power companies have trouble meeting demand during peak usage periods. In these and other cases of excess demand, companies may practice *demarketing* to reduce the number of customers or to shift their demand temporarily or permanently. For instance, many power companies now sponsor programs that help customers reduce their power usage through peak-load control devices, better energy use monitoring, and heating system tune-up incentives. Progress Energy even offers an Energy Manager on Loan program that provides school systems and other public customers with a cost-free on-site energy expert to help them find energy-savings opportunities.

Ultimately, marketing managers must decide which customers they want to target and on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management*.

## Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate and position* itself in the marketplace. A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. BMW promises "the ultimate driving machine," whereas Land Rover lets you "Go Beyond"—to "get a taste of adventure, whatever your tastes." And with cell phones, Nokia is "Connecting People—anyone, anywhere," whereas with Apple's iPhone, "Touching is believing."

Such value propositions differentiate one brand from another. They answer the customer's question "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.

## Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

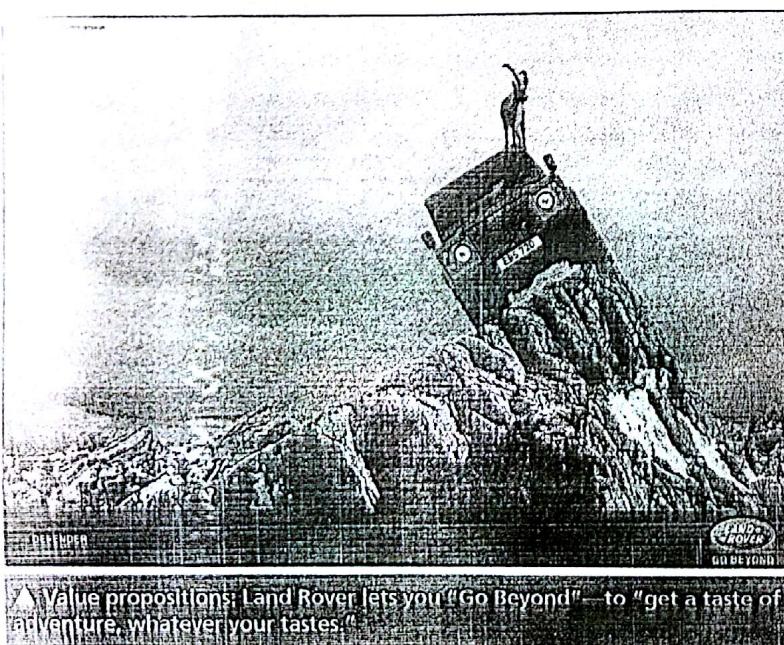
There are five alternative concepts under which organizations design and carry out their marketing strategies: the *production, product, selling, marketing, and societal marketing concepts*.

### The Production Concept

The *production concept* holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guides sellers.

The production concept is still a useful philosophy in some situations. For example, computer maker Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia.

**Production concept**  
The idea that consumers will favor products that are available and highly affordable so that the organization can therefore focus on improving production and distribution efficiency.



customers in  
as pos-  
id, the company  
ordstrom stores

## Part One | Defining Marketing and the Marketing Process

Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.

### The Product Concept

The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing only on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their door." But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, or something else that works even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

### The Selling Concept

#### Selling concept

The idea that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort.

Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on product benefits.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than making what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

### The Marketing Concept

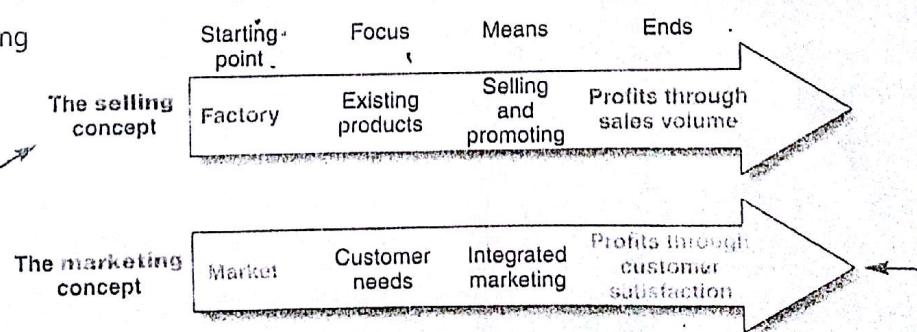
The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered "make and sell" philosophy, the **marketing concept** is a customer-centered "sense and respond" philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

Figure 1.3 contrasts the selling concept and the marketing concept. The **selling concept** takes an *inside-out perspective*. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

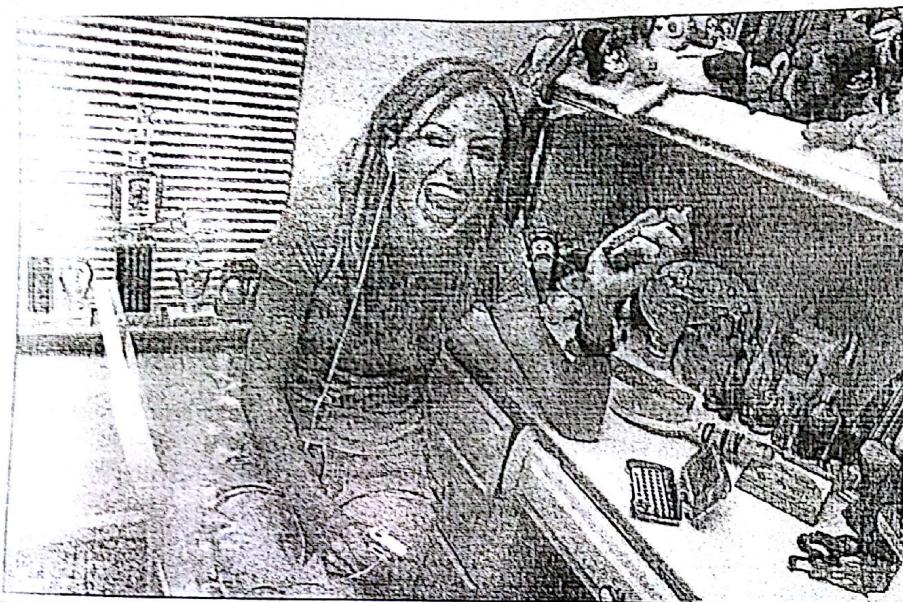
In contrast, the **marketing concept** takes an *outside-in perspective*. As Herb Kelleher, Southwest Airlines' colorful CEO, puts it, "We don't have a marketing department; we have a customer department." The marketing concept starts with a well-defined market, focuses on customer needs, and

FIGURE 1.3  
The Selling and Marketing Concepts Contrasted

The selling concept takes an *inside-out perspective* that starts with the factory and focuses on existing products and heavy selling to obtain sales volume. The aim is to sell what the company makes rather than to find out what the customer wants.



The marketing concept takes an *outside-in perspective* that focuses on satisfying customer needs as a path to profits. As Southwest Airlines' CEO puts it, "We don't have a marketing department; we have a customer department."



**Customer-driving marketing:** Even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cell phones, personal digital assistants, notebook computers, iPods, and digital cameras? Marketers must often understand customer needs even better than the customers themselves do.

integrates all the marketing activities to serve customers. In turn, it yields profits, lasting relationships with the right customers, based on customer value and satisfaction.

Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs. **Customer-driven** companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

In many cases, however, customers don't know what they want or even what is possible. For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cell phones, notebook computers, iPods, digital cameras, 24-hour online buying, and satellite navigation systems in their cars? Such situations call for **customer-driving** marketing—understanding

customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. As an executive at 3M puts it, "Our goal is to lead customers where they want to go before they know where they want to go."

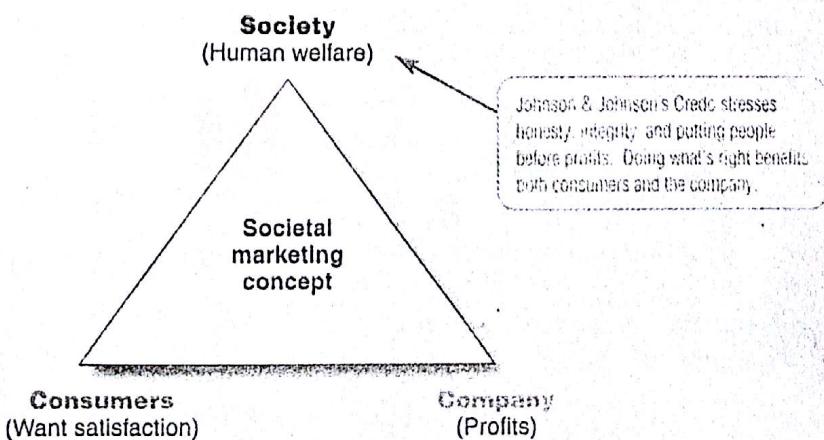
### The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well-being.

Consider today's flourishing bottled water industry. You may view bottled water companies as offering a convenient, tasty, and healthy product. Its packaging suggests "green" images of pristine lakes and snow-capped mountains. Yet making, filling, and shipping billions of plastic bottles generates huge amounts of carbon dioxide emissions that contribute substantially to global warming. Further, the plastic bottles pose a substantial recycling and solid waste disposal problem. Thus, in satisfying short-term consumer wants, the highly successful bottled water industry may be causing environmental problems that run against society's long-run interests.<sup>6</sup>

As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society's interests. Johnson & Johnson

FIGURE 1.4  
The Considerations Underlying  
the Societal Marketing Concept



are very popular in Europe and the United States, would also do well in Pakistan. Danish cookies were made of soft dough and had more fat content, giving the product a taste that is different from that of traditional biscuits. The soft dough made the product soft, it could easily get soggy. Also, as Pakistan faces extreme temperatures, the product required special packaging, which increased the cost of the product significantly. The company launched it as a premium Danish cookie with high-quality packaging and priced it 20 percent higher than regular biscuits. Unfortunately, Pakistani consumers felt that the product did not offer good value for money, and despite many efforts by the company, the product failed to meet the market share and profitability objectives of the company. The product was eventually taken off the market in early 2010.

**Comment**  
Companies can't just hope that they'll stumble across good new products. Instead, they must develop a systematic new-product development process.

## The New-Product Development Process (pp 223-232)

Companies face a problem—they must develop new products, but the odds weigh heavily against success. In all, to create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers. It must carry out strong new-product planning and set up a systematic, customer-driven *new-product development process* for finding and growing new products.  Figure 9.1 shows the eight major steps in this process.

### Idea Generation

#### Idea generation

The systematic search for new-product ideas.

New-product development starts with generating new-product ideas—lots of them. For example, a recent IBM online "Innovation Jam" generated 46,000 ideas of which IBM planned to develop 10.

New-product development starts with **idea generation**—the systematic search for new-product ideas. A company typically generates hundreds of ideas, even thousands, in order to find a few good ones. For example, IBM recently held an "Innovation Jam"—a kind of online suggestion box—in which it invited IBM and customer employees worldwide to submit ideas for new products and services. The mammoth brainstorming session generated some 46,000 ideas from 150,000 people in more than 160 countries over three days. Since the jam fest, however, IBM has whittled down this surge of ideas to only 10 products, businesses, and services that it plans to develop.<sup>4</sup>

Major sources of new-product ideas include internal sources and external sources such as customers, competitors, distributors and suppliers, and others.

#### Internal Idea Sources

Using *internal sources*, the company can find new ideas through formal research and development. However, in one recent survey, 750 global CEOs reported that only 14 percent of their innovation ideas came from traditional R&D. Instead, 41 percent said employees and 36 percent said customers.

Thus, companies can pick the brains of employees—from executives to scientists, engineers, and manufacturing staff to salespeople and even the top management. Using today's new Web 2.0 technology, many companies are making it everybody's business to come up with great ideas. For example, Cisco has set up an internal wiki called Idea Zone or I-Zone, through which any Cisco employee can propose an idea for a new product or comment on or modify someone else's proposed idea. Since its inception, I-Zone has generated more than 400 business ideas, and another 10,000 people have added to those ideas. Cisco selects ideas that draw the most activity for further development. So far 12 I-Zone ideas have reached the project stage and four new Cisco business units have been formed.

Some companies have developed successful "intrapreneurial" programs that encourage employees to think up and develop new-product ideas. For example, Samsung built a special value

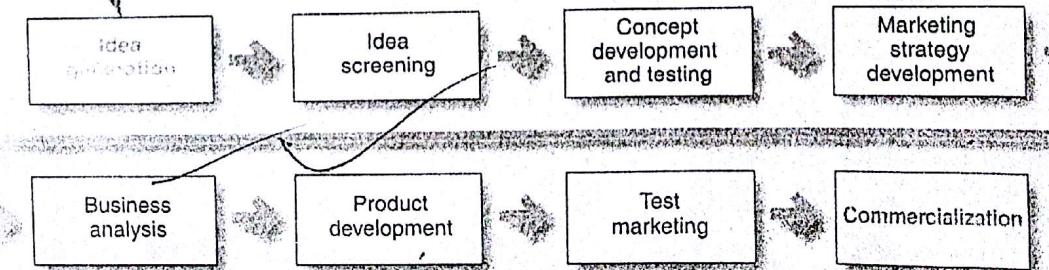


FIGURE 9.1 Major Stages in New-Product Development

Whereas the first step process generates a large number of new-product ideas, the remaining steps reduce the number and develop the ideas into profitable ones.

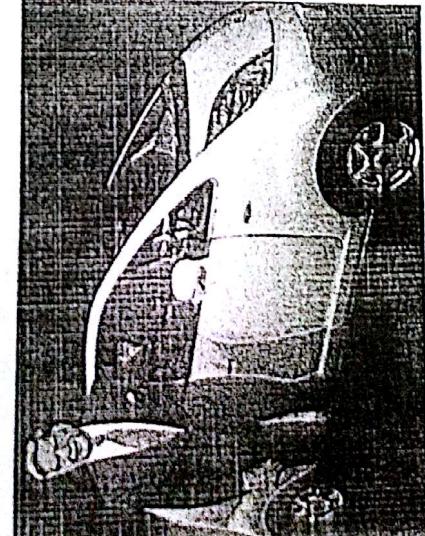
**T**he car is sleek, aerodynamic, and shiny. A small black leather sofa sits in the front passenger seat. A large 21-inch television screen is mounted on the wall behind the sofa, facing the driver's seat. The interior is covered in light-colored wood paneling and vinyl. The steering wheel is mounted on a column that can be adjusted to fit the driver's height. The dashboard features a digital display showing the car's speed and fuel level. The center console has a gear shifter, a cup holder, and a small storage compartment. The seats are upholstered in a dark fabric with a subtle texture. The overall design is modern and sophisticated.

A new product idea that created a lot of buzz in India in recent times is that of the Tata Nano—a small, affordable four-passenger city car with a rear engine from Tata Motors. The product idea was the brainchild of Ratan Tata, the Chairman of Tata Motors. In Indian metros as well as other cities and towns, a father driving a two-wheeler with the older child standing in front and the wife holding a baby at the back is a very common sight. This image got Ratan Tata thinking. He toyed with the idea of creating a safer form of family transport. He first thought of rebuilding cars around the scooter, so that those using them could be safer in case it overturned. Could there be a four-wheeler made of scooter parts? The idea was to offer a safer and affordable means of personal transport to a family of four that usually used a scooter. Ultimately, Tata and his team succeeded in offering a more conventional car at an affordable price.<sup>6</sup>

#### External Idea Sources

Companies can also obtain good new-product ideas from any number of external sources. For example, *distributors* and *suppliers* can contribute ideas. Distributions are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. *Competitors' ads* to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. Other idea sources include trade magazines, shows, and seminars; government agencies; advertising agencies; marketing research firms; universities; and commercial laboratories; and inventors.

Some companies seek the help of outside new-product consultancies and design firms, such as ZBPA, Frog Design, or IDEO, in the United States for new-product ideas and designs. For example, when Cranium needed innovative new ideas for extending its popular family board game, it turned to award-winning design firm IDEO. A team of IDEO and Cranium designers worked together to develop a suite of games focused on Cranium's four iconic characters: Word Worm, Creative Cat, Data Head, and Star Performer. The design team began with the core premise that the games should focus on laughter, teamwork, and creativity rather than competition. For inspiration, the team observed people who exemplified the Cranium characters, and then tested prototypes in actual game-playing sessions with families. Based on customer insights gained from these observations and interactions, the IDEO-Cranium team developed four popular new character-based games: *Juno Twister* (*Star Performer*), *Super Showdown* (*Data Head*), *Doodle Tales* (*Creative Cat*), and *Wacky Words* (*Word Worm*).<sup>7</sup> Many companies are also turning to online collaborative communities to help solve new-product problems. For example, collaborative network *InnoCentive* in the United States puts its corporate clients ("seekers") in touch with its global network of more than 100,000 scientists,



**A new product idea that created a lot of buzz in India in the early 2000s came from a man sitting in a chair with his dog. The idea was to create a small, affordable four-passenger city car with a rear engine from Tata Motors.**

Company employees or sole-person teams need with and work alongside customers to generate ideas. <sup>8</sup> IDEO did just that when it invited 250 IDEO-trained enthusiasts to visit its New York office to assess new designs. "We packed packed them all," says one IDEO fan, an Intel engineer from Portland in the United States. But the group gave IDEO lots of new ideas, and the company put them to good use. The result was the Santa Fe Super Chief set. Thanks to word-of-mouth endorsements from the 250 enthusiasts, IDEO sold out the first 10,000 units in less than two weeks with no additional marketing.<sup>9</sup>

Other companies actively solicit ideas from customers and turn customers into creators. For example, Dell set up an interactive Web site forum called IdeaStorm that asks consumers for insights on how to improve its product offerings. Users post suggestions, the community votes, and the most popular ideas rise to the top. Only two months after launch, the site had received some 3,800 ideas and 236,000 votes. Michael Dell sees such customer-driven innovation as a key to reenergizing Dell. "We are our best when we are hearing directly from our customers want," says Dell. "We listened, learned, and then improve and innovate based on what our customers want."<sup>10</sup>

Finally, customers often create new products and uses on their own, and companies can benefit by putting them on the market. For example, Unilever Pakistan Limited launched KLN, a blue nonsoap detergent bar, in Pakistan in 1984. The product was specially formulated and promoted for washing fabrics. However, market surveys suggested that consumers were using this bar primarily for dish washing. One such survey, conducted in 1989, found that only 15 percent of the respondents were using KLN solely for fabric washing, while 65 percent were using it only for dish washing. The blue color of the soap created this confusion as consumers associated blue with dish-washing bars based on their previous experience. Unilever, after a few years of failed attempts, finally yielded to consumer preferences and repackaged the brand successfully as a dish-washing bar.<sup>11</sup>

Although customer input on new products yields many benefits, companies must be careful not to rely too heavily on what customers say. For some products, especially highly technical ones, customers may not know what they need. "You can't ask people what they want if it's around the next corner," says Apple CIO Steve Jobs. And even when they think they know what they want, adds an innovation management consultant, "Merely giving people what they want isn't always enough. People want to be surprised; they want something that's better than they imagined, something that stretches them in what they like."<sup>12</sup>

#### Idea Screening

Screening new product ideas in order to spot good ideas and drop poor ones as soon as possible.

#### Ideas from the Top

The purpose of idea generation is to create a large number of ideas. The purpose of the screening stages is to reduce that number. The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise rapidly



**Ideas from the top management can be a valuable source of new product ideas. A new product idea can emerge from the top management's perspective as well as from the ideas of the team members.**

Product concept: A detailed version of the new-product idea stated in meaningful consumer terms.

One marketing expert proposes an R&D test ("recall test") new-product screening framework that asks three questions. First, is it *real*? Is there a cool need and desire for the product, and will consumers buy it? Is there a clear product concept and will the product satisfy the market? Second, *Can we make it?* Does the product offer a sustainable competitive advantage? Does the company have the resources to make the product a success? Finally, *Is it worth doing?* Does the company should be able to answer yes to all three R&D questions before developing the new-product idea further.<sup>6</sup>

Concept development: Designing a product concept.

An attractive idea must be developed into a *product concept*. It is important to distinguish between a product idea, a product concept, and a product image. A *product idea* is an idea for a possible product that the company can see itself offering to the market. A *product concept* is a detailed version of the idea stated in meaningful consumer terms. A *product image* is the way consumers perceive an actual or potential product.

### Concept Development

Suppose that a car manufacturer has developed a practical battery-powered all-electric car. At its initial prototype is a sleek, sporty convertible that sells for about \$100,000.<sup>7</sup> However, later this decade, it plans to introduce more-affordable, mass-market models that will compete with today's hybrid-powered cars. This 100 percent electric car will accelerate from 0 to 60 in 4 seconds, travel more than 250 miles on a single charge, recharge from a normal 120-volt electrical outlet, and cost about one penny per mile to power.

Looking ahead, the marketer's task is to develop this new product into alternative product concepts, finding out how attractive each concept is to customers, and choose the best one. It might create the following product concepts for the electric car:

- *Concept 1*: An affordably priced midsize car designed as a second family car to be used around town for running errands and visiting friends.
- *Concept 2*: A mid-priced sporty compact appealing to young singles and couples.
- *Concept 3*: A "green" car appealing to environmentally conscious people who want practical, low-polluting transportation.
- *Concept 4*: A high-end midsize utility vehicle appealing to those who love the space SUVs provide but lament the poor gas mileage.

### Concept Testing

Concept testing calls for testing new-product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically. Here, in words, is concept 3, with a group of target consumers to find out if the concepts have strong consumer appeal.

**Concept development: Designing a product concept.**

**Marketing strategy development:**

Designing an initial marketing strategy for a new product based on the product concept.



**Marketing strategy development:**

Designing an initial marketing strategy for introducing this car to the market.

The *marketing strategy statement* consists of three parts. The first part describes the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years. Thus:

The target market is younger, well-educated, moderate-to-high-income individuals, couples, or small families seeking practical, environmentally responsible transportation. The car will be positioned as more fun to drive and less polluting than today's internal combustion engine or hybrid cars. The company will aim to sell 100,000 cars in the first year, at a loss of not more than \$15 million. In the second year, the company will aim for sales of 120,000 cars, and a profit of \$25 million.

The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year:

The battery-powered electric car will be offered in three colors—red, white, and blue—and will have a full set of accessories as standard features. It will sell at a retail price of \$25,000—with 15 percent off the list price to dealers. Dealers who sell more than 10 cars per month will get an additional discount of 5 percent on each car sold that month. A marketing budget of \$50 million will be split 50-50 between a national media campaign and local event marketing. Advertising and Web site will emphasize the car's fun spirit and low emissions. During the first year, \$100,000 will be spent on marketing research to find out who is buying the car and their satisfaction levels.

The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy:

We intend to capture a 3 percent long-run share of the total auto market and realize an after-tax return on investment of 15 percent. To achieve this, product quality will start high and be improved over time. Price will be raised in the second and third years if competition permits. The total marketing budget will be raised each year by about 10 percent. Marketing research will be reduced to \$60,000 per year after the first year.

1. For you, what's the biggest benefit of a battery-powered electric car?

2. Do you believe the claims about the car's performance?

3. What are the major benefits of the battery-powered electric car compared with a conventional car?

4. What are the disadvantages of a battery-powered electric car?

5. What improvements do you think the car's maker could suggest?

6. For what uses would you prefer a battery-powered electric car to a conventional car?

7. What would be a reasonable price to charge for the car?

8. Who would be interested in your decision to buy such a car? Who would drive it?

9. Would you buy such a car (definitely, probably, probably not, definitely not)?

the company's objectives. Management must learn what makes consumers decide that a new product is worth buying. After all, it's much easier to sell a new product if it fits a company's marketing strategy.

So far, for many new-product concepts, the product may have existed only as a word description or perhaps a crude mock-up. If the product concept passes the business test, it moves into product development. Here, R&D or engineering develops the product concept into a physical product. The product idea can be turned into a workable market offering.

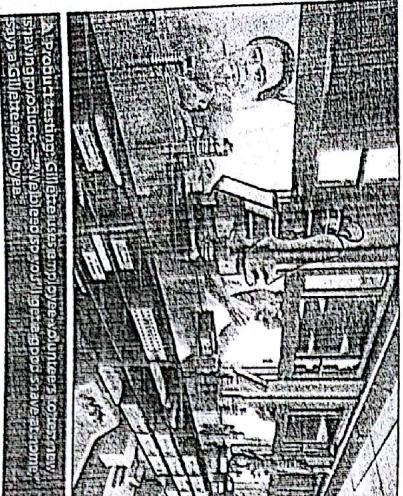
To estimate sales, the company might look at the sales history of similar products and range of risk. After preparing the sales forecast, management can estimate the expected costs for the product, including marketing, R&D, operations, accounting, and financial attractiveness. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.

Product development concept into a physical product in order to ensure that the product idea can be turned into a workable market offering.

The R&D department will develop and test one or more physical versions of the product developed quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months, or even years depending on the product and prototype methods.

Often, products undergo rigorous tests to make sure that they perform safely and effectively, or that consumers will find value in them. Companies can do their own product testing or outsource testing to other firms that specialize in testing. Here are some examples of such product tests:<sup>2</sup>

Thunk. Thunk. Thunk. Behind a locked door in the basement of Louis Vuitton's elegant Paris headquarters, a mechanical arm hoists a brown-and-tan handbag a half-meter off the floor—then drops it. The bag, loaded with an 8-pound weight, will be lifted and dropped over and over again, for four days. This is Vuitton's test laboratory, a high-tech torture chamber for its fabled luxury goods. Another piece of lab equipment bombards handbags with ultraviolet rays to test resistance to fading. Still another tests zippers by tugging them open and shutting them 5,000 times. There's even a mechanized mannequin hand, with a Vuitton charm bracelet around its wrist, being shaken vigorously to make sure none of the charms fall off.

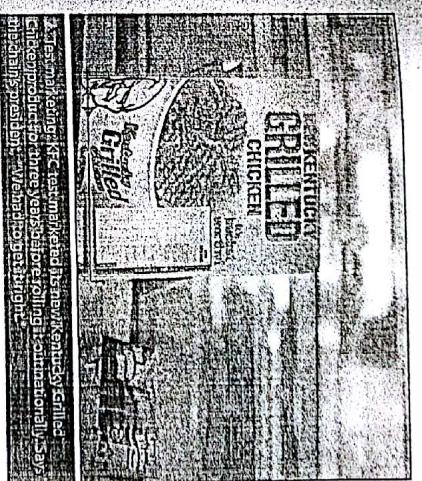


▲ Product testing: Gillette volunteers perform strenuous physical tests on new razors to determine whether they're safe to use.

At Gillette, almost everyone gets involved in new-product testing. Every working day at Gillette, 200 volunteers from various departments come to work unshaven, troop to the second floor of the company's gritty South Boston plant, and enter small booths with a sink and mirror. There they take instructions from technicians on the other side of a small window as to which razor shaving cream, or after shave to use. The volunteers evaluate razors for sharpness of blade, smoothness of glide, and ease of handling. In a nearby shower room, women perform the same ritual on their legs, underarms, and what the company delicately refers to as the "bikini area." "We bleed so you'll get a 'good shave at home,'" says one Gillette employee.

A new product must have the required functional features and also convey the intended psychological characteristics. The battery-powered electric car, for example, should strike consumers as being well built, comfortable, and safe. Management must learn what makes consumers decide that a

test marketing The stage of new-product development in which the product and marketing program are tested in realistic market settings.



At a test-marketing KFC test market in its native Louisville, Kentucky, the company has been serving fried chicken since 1930.

After introducing KFC test market in its native Louisville, Kentucky, the company has been serving fried chicken since 1930.

If the product passes concept and product tests, the next step is test marketing, the stage at which the product and marketing program are introduced into realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—targeting and positioning strategy, advertising, distribution, pricing, funding, and packaging, and budget levels.

The amount of test marketing needed varies with each new product. Test marketing costs can be high, and it takes time that may allow competitors to gain advantages. When the costs of developing and introducing the product are low, or when management is already confident about the new product, the company may do little or no test marketing. In fact, test marketing by consumer-goods firms has been declining in recent years. Companies often do not test-market simple line extensions or copies of successful competitor products.

#### Test Marketing

However, when introducing a new product requires a big investment, when the risks are high, or when management is not sure of the product or marketing program, a company may do a lot of test marketing. ▲ For instance, KFC will soon introduce a major new product—Kentucky Grilled Chicken. Although the fast-food chain built its legacy on serving crispy, seasoned fried chicken, it hopes that the new product will lure back health-conscious consumers who

dropped fried chicken from their diets. "This is transformational for our brand," says KFC's chief food innovation officer.

Given the importance of the decision, KFC will have conducted more than three years of product and market testing before rolling Kentucky Grilled Chicken out nationally. "You might say, 'what took you so long,'" says the chain's president. "I've asked that question a couple of times myself. The answer is we had to get it right."

Although test-marketing costs can be high, they are often small when compared with the costs of making a major mistake. Still, test marketing doesn't guarantee success. For example, the Tril India was tested thoroughly across various terrains all over India. However, certain errors crept in while manufacturing the car commercially, and several vehicles had to be retrofitted subsequently.

When using test marketing, consumer products companies usually choose one of three approaches—standard test markets, controlled test markets, or simulated test markets.

#### Standard Test Markets

Using standard test markets, the company finds a small number of representative test cities, conducts a full marketing campaign in these cities, and uses store audits, consumer and distributor surveys, and other measures to gauge product performance. The results are used to forecast national sales and profits, discover potential product problems, and fine-tune the marketing program. KFC used standard test markets for its new Kentucky Grilled Chicken in cities such as Indianapolis, Colorado Springs, San Diego, Oklahoma City, and Austin, Texas in the United States. At these sites, KFC tested both the new product and its full marketing program, including new store signage and a series of ads.

Standard test markets have some drawbacks. They can be very costly and they may take a long time. Moreover, competitors can monitor test market results or interfere with them by cutting their prices in test cities, increasing their promotion, or even buying up the product being tested. Finally,

Marketing research can also be used to help companies make better decisions about how to market their products. One approach is to conduct controlled and simulated test marketing methods.

### Controlled Test Markets

Several research firms keep controlled panels of stores that have agreed to carry new products for a fee. Controlled test marketing systems such as AC Nielsen's Scantrack and Information Resources, Inc.'s (IRI) BehaviorScan track individual consumer behavior for new products from the television channel by showing an identification card at check-out in participating stores and by using a handheld scanner at home to record purchases at non-participating stores. Within test stores, IRI tested much factors as shelf placement, price, and in-store promotions for the product being panel member television sets to test their effect on shopping decisions. Direct mail promotions can also be tested.<sup>19</sup>

Detailed scanner information on each consumer's purchases is fed into a central computer, where it is combined with the consumer's demographic and TV viewing information and reported daily. Thus, BehaviorScan can provide store-by-store, week-by-week reports on the sales of tested products. Such panel purchasing data enables in-depth diagnostics not possible with retail point-of-sale data alone. Including, panel purchase analysis, buyer demographics, and earlier, more accurate sales forecasts, after just 12 to 24 weeks in market. Most importantly, the system allows companies to evaluate their specific marketing efforts.

Controlled test markets, such as BehaviorScan, usually cost less than standard test markets. Also, because retail distribution is "forced" in the first week of the test, controlled test markets can be completed much more quickly than standard test markets. As in standard test markets, controlled test markets allow competitors to get a look at the company's new product. And some companies are concerned that the limited number of controlled test markets used by the research services may not be representative of their products' markets or target consumers. However, the research firms are experienced in projecting test market results to broader markets, and can usually account for biases in the test markets used.

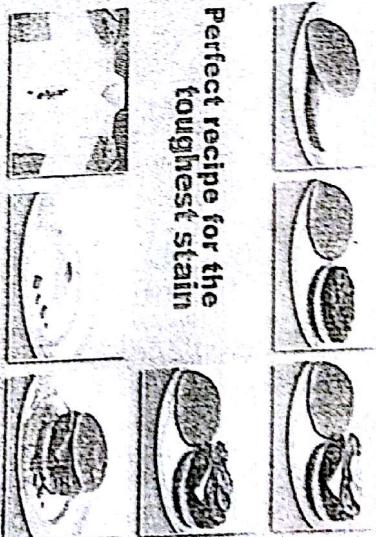
### Simulated Test Markets

Companies can also test new products in a simulated shopping environment. The company or research firm shows ads, and promotions, for a variety of products, including the new product being tested, to a sample of consumers. It gives consumers a small amount of money and invites them to a real or laboratory store where they may keep the money or use it to buy items. The researchers note how many consumers buy the new product and competing brands.

This simulation provides a measure of trial and the commercial's effectiveness against competing commercials. The researchers then ask consumers the reasons for their purchase or non-purchase. Some weeks later, they interview the consumers by phone to determine product attitudes, usage, satisfaction, and repurchase intentions. Using sophisticated computer models, the researchers then project national sales from results of the simulated test market. Recently, some marketers have begun to use interesting new high-tech approaches, such as virtual reality and the internet, to simulate test market research.

Simulated test markets overcome some of the disadvantages of standard and controlled test markets. They usually cost much less, can be run in eight weeks, and keep the new product out of competitors' view. Yet, because of their small samples and simulated shopping environments, many marketers do not think that simulated test markets are as accurate or reliable as larger, real-world tests. Still, simulated test markets are used widely, often as "pretest" markets. Because they are fast and inexpensive, they can be run to quickly assess a new product or its marketing program.

### Perfect recipe for the toughest stain



**Perfect recipe for the cleanliness Wash**  
**(cleanest & wash)**

Introducing New Ariel with unique Enzymax technology  
that cleans greasy food stains better than any other detergent.

Ariel

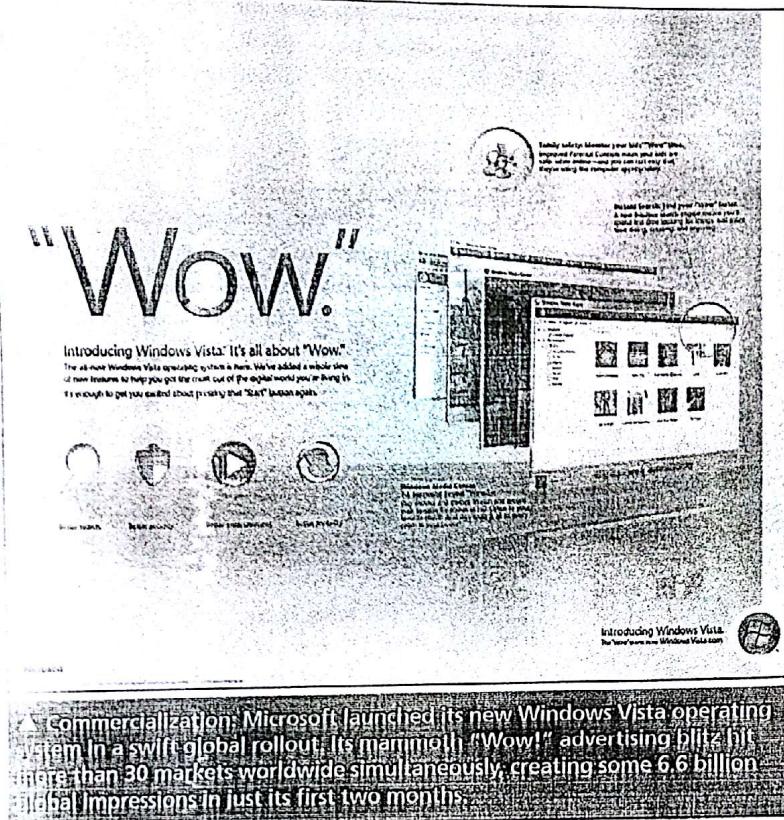
Commercialization  
introducing a new product into  
the market.

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with commercialization—introducing the new product into the market—it will face high costs. The company may need to build or rent a manufacturing facility. And, in the case of a major new consumer packaged good, it may spend hundreds of millions of dollars for advertising, sales promotion, and other marketing efforts in the first year. For example, when Unilever introduced its Sunsilk hair care line, it spent \$200 million in the United States alone, including \$30 million for nontraditional media such as MySpace ads and profiles, mall displays that used audio to catch passersby, 3-D ads in tavern bathrooms, and cinema ads.<sup>20</sup>

The company launching a new product must first decide on introduction timing. If the car maker's new battery-powered electric car will eat into the sales of the company's other cars, its

model, to determine volume projections for Ariel under various marketing investment scenarios. Procter & Gamble Pakistan conducted suspended market research prior to launching Ariel laundry detergent in Pakistan in the late nineties. The research included the use of BASIS, a well-known pretest market simulation model, to determine volume projections for Ariel under various marketing investment scenarios.

The P&G team conducted research in three major cities of Pakistan—Karachi, Lahore, and Rawalpindi/Islamabad. Interviews were conducted with 945 women who were 18 years or older, and were the principal shoppers or brand deciders for household products. The sample was divided into three groups, which were exposed to slightly different price combinations of Ariel SKUs. In the first round of interviews, after preliminary questions about their laundry habits, respondents were exposed to the relevant Ariel concept boards to assess their purchase intentions and likings for otherwise of the concept. Homemakers who had shown higher purchase interest were provided with a sample of the product for use. The second round of interviews took place after two weeks. Data from these surveys, marketing strategy inputs from the Ariel brand team, and industry norms data from BASIS extensive database were then used by BASIS researchers in the United States to project volume, market share, and profit estimates for the launch. Ariel's launch was a big success in Pakistan and it captured a major market share from Sunt, the well-established market leader at the time.<sup>21</sup>



**Commercialization:** Microsoft launched its new Windows Vista operating system in a swift global rollout. Its marketing ("Wow!" advertising blitz) hit more than 30 markets worldwide simultaneously, creating some 6.6 billion global impressions in just its first two months.

**Author Comment** Above all else, new-product development must focus on creating customer value. Steve Jobs is well known with the Apple customer experience. For every product that Apple produces, it's clear that "no one actually asked, 'Can we make life better for our customers?'"

**Customer-centered new-product development** is new-product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

introduction may be delayed. If the car can be improved further, or if the economy is down, the company may wait until the following year to launch it. However, if competitors are ready to introduce their own battery-powered models, the company may push to introduce its car sooner.

Next, the company must decide *where* to launch the new product—in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution right away. Instead, they develop a planned *market rollout* over time.

Some companies, however, may quickly introduce new models into the full national market. Companies with international distribution systems may introduce new products through swift global rollouts. Microsoft recently did this with its Windows Vista operating system. Microsoft used a mammoth advertising blitz to launch Vista simultaneously in more than 30 markets worldwide. The campaign targeted 6.6 billion global impressions in just its first two months. "There won't be a PC sold anywhere in the world that doesn't have Vista within the next six months," said an industry analyst at the start of the campaign.<sup>25</sup>

## → Managing New-Product Development (pp 232-236)

The new-product development process shown in Figure 9.1 highlights the important activities needed to find, develop, and introduce new products. However, new-product development involves more than just going through a set of steps. Companies must take a holistic approach to managing this process. Successful new-product development requires a customer-centered, team-based, and systematic effort.

### Customer-Centered New-Product Development

Above all else, new-product development must be customer-centered. When looking for and developing new products, companies often rely too heavily on technical research in their R&D labs. But like everything else in marketing, successful new-product development begins with a thorough understanding of what consumers need and value. **Customer-centered new-product development** focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

One recent study found that the most successful new products are ones that are differentiated, solve major customer problems, and offer a compelling customer value proposition. Another study showed that companies that directly engage their customers in the new-product innovation process had twice the return on assets and triple the growth in operating income of firms that don't.<sup>26</sup>

For products ranging from consumer package goods to power tools, today's innovative companies are getting out of the research lab and mingling with customers in the search for new customer value. Consider this example:<sup>27</sup>

Engineers and marketers from Black & Decker's DeWalt division—the division that makes power tools used by professional contractors—spend a great deal of time at job sites, generating ideas by talking to end users and observing how they work. Then, once prototypes of new products have been completed, those same people take them directly to the same job sites, leave the tools, and come back a week or so later to collect information on how they perform. Thanks to its strong customer focus, DeWalt now captures a more than 50 percent share of the U.S. professional power tool market.