CHAPTER 19: INTRODUCING NEW MARKET OFFERINGS

Categories of new product

- New to the world - These products are truly new because they create a totally new market
- New product lines - These products are not new in the market. But are new from the side of the company.
- Addition to existing product line **-** is when the company introduces an additional product which is similar to its existing range of products.
- Improvements - these products offer improved quality, features or performance of an existing product. They might also act as replacements of existing products.
- Repositionings - Existing products can be targeted to new markets or market segments.
- Cost reduction - New products may be developed that provide similar performance at lower cost.

Reasons for new product development

- Change in consumer demand
- Product Reaches The End Of Its Product Life Cycle
- Product Is At The Maturity Stage Of The Product Life Cycle
- Environmental Changes
- New opportunities (growth and development)
- Competition
- Innovation story
- Rules and regulations
- Changes in technology
- Reputation and goodwill
- Diversification of risk
- Utilization of excess capacity

Reasons for new-product failure

- Ignored or misinterpreted market research
- Overestimation of market size
- Poor design or ineffectual performance
- Incorrect marketing communication
- Inefficient pricing
- Insufficient distribution support
- Competitors who fight back hard
- Inadequate ROI or payback
- Shortage of important ideas in certain areas
- Fragmented markets
- Social, economic and governmental constraints
- Capital shortages
- Shorter required development time
- Poor launch timing
- Shorter product life cycles
- Lack of sufficient organizational support

Essentials or Requirements for Successful Development of New Products

- Studying the market at higher accuracy
- Market trends and economic conditions
- Compatibility with the present production and marketing structure
- Availability of funds
- Competitiveness
- Managerial experience and ability
- Suitability with objective, image, and goodwill of company
- Time period, or gestation period
- Legal and social aspects
- Internal integration and cooperation.

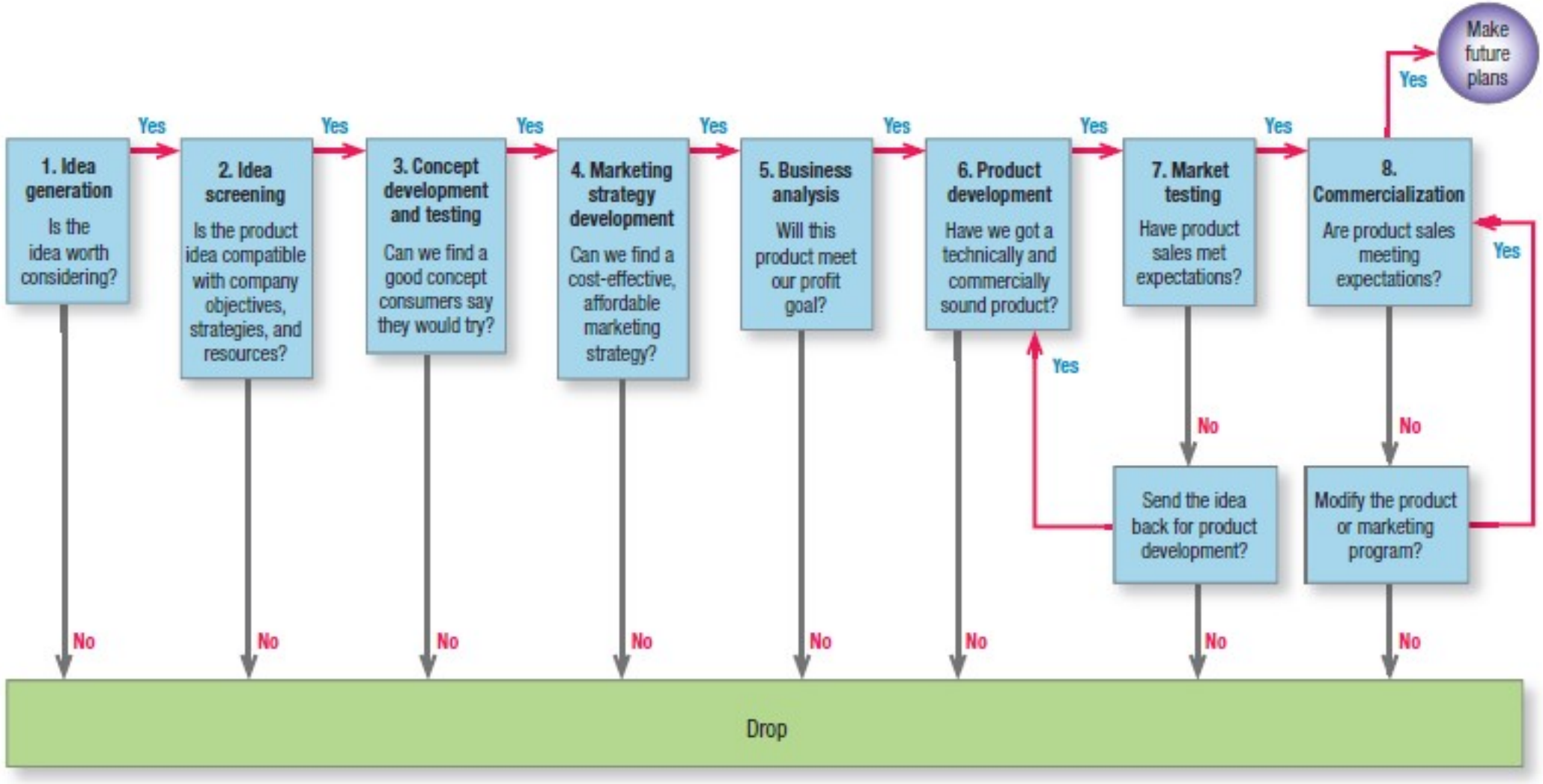
Venture team

A venture team is a cross-functional group charged with developing a specific product or business. These ‘intrapreneuer’ are relieved of other duties and given a budget, time frame and skunkworks.

Criteria for staffing venture teams

- Desired team leadership style
- Desired level of leader expertise
- Team member skills and expertise
- Level of interest in concept
- Potential for personal reward
- Diversity of team members

The New-Product Development Decision Process



1) Idea generation

New-product development process starts with the search for ideas.

Internal sources of new ideas: R&D Department employees, other employees

External sources of new ideas: Customers, channel members, online discussion and opinions, marketing agencies, competitors, etc

Idea generation techniques

a) Attribute listing

- List out major attributes of a product.
- Modify each attribute in search of an improved product

b) Forced relationships

This technique involves listing of several objects and then trying to find how each object can be combined with the other objects.

c) Morphological analysis

Problem is defined first then explores all possible solutions to it. By listing every possible combination, many new solutions can be generated.

d) Studying the needs of the customers and problems faced by them

e) Reverse assumption analysis

The guidelines are:

- List all the normal assumptions about an entity.

- Challenge the fundamental assumptions by reversing them. Write down the opposite of each assumption.

- Ask yourself how to accomplish each reversal. List as many useful viewpoints as you can.

f) Brainstorming

g) New contexts

h) Mind mapping

2) Idea screening

At this stage, the ideas generated are screened to find out the good ideas and to drop poor ideas as soon as possible.

New-product idea description on a standard form for a committee's review. The description states:

- The product idea, the target market, and the competition
- Rough estimates market size, product price, development time and costs, manufacturing costs, and rate of return.

Focus should be given on questions such as

- Does the product meet a need?
- Would it offer superior value?
- Can it be distinctively advertised or promoted?
- Does the company have the necessary know-how and capital?
- Will the new product deliver the expected sales volume, sales growth, and profit?
- The current and future competitive pressure for the product idea?

Two serious errors to be avoided at idea screening stage – Drop error and Go error

3) Concept development and testing

At this stage, the product idea is converted into product concept.

Product Ideas means Possible product that company may offer to the market.

A product concept is a detailed version of the idea stated in meaningful consumer terms

When developing product concept following questions should be considered.

Who will use the product?

What primary benefit should this product provide?

When will this product be consumed?

Perceptual maps can be developed.

Concept testing means presenting the product concept to target consumers, physically or symbolically, and getting their reactions.

Creating physical prototypes was costly and time consuming. Hence firms can use rapid prototyping to design products on a computer and then produce rough models to show potential consumers for their reactions. Companies are also using virtual reality to test product concepts.

Researchers measure product dimensions by having consumers respond to questions like these:

1. Communicability and believability—“Are the benefits clear to you and believable?” If the scores are low, the concept must be refined or revised.

2. Need level—“Do you see this product solving a problem or filling a need for you?” The stronger the need, higher the expected consumer interest.

3. Gap level—“Do other products currently meet this need and satisfy you?” The greater the gap, the higher the expected consumer interest.

4. Perceived value—“Is the price reasonable in relationship to value?” The higher the perceived value, the higher is expected consumer interest.

5. Purchase intention—“Would you (definitely, probably, probably not, definitely not) buy the product?”

6. User targets, purchase occasions, purchasing frequency—“Who would use this product, when, and how often?”

4) Marketing strategy development

A preliminary three-part strategy plan for introducing the new product into the market.

The first part describes the

- Target market’s size, structure and behaviour
- The planned brand positioning
- The sales, market share, and profit goals sought in the short-term

The second part describes the

- Planned price
- Distribution strategy
- Marketing budget for the first year

The third part describes the

- Long run sales and profit goals
- Marketing mix strategy overtime

5) Business analysis

- Evaluate the proposal’s business attractiveness.
- This stage will decide whether from financial as well as marketing point of view, the project is beneficial or not.
- In Business Analysis
  - Estimate likely selling price based upon competition and customer feedback.
  - Estimate sales volume based upon size of market.
  - Estimate profitability and break-even point.
- Management needs to prepare sales, cost, and profit projections to determine whether they satisfy company objectives.
- If they do, the concept can move to the development stage. As new information comes in, the business analysis will undergo revision and expansion.

6) Product development

Up to now, the product has existed only as a word description, a drawing, or a prototype.

The job of translating target customer requirements into a working prototype is helped by a set of methods known as quality function deployment (QFD).

The methodology takes the list of desired customer attributes (CAs) generated by market research and turns them into a list of engineering attributes (EAs) that engineers can use.

Physical prototypes

The goal of the R&D department is to find a prototype that embodies the key attributes in the product-concept statement, performs safely under normal use and conditions, and can be produced within budgeted manufacturing costs.

Customer tests

When the prototypes are ready, they must be put through rigorous functional and customer tests

Alpha testing - tests the product within the firm to see how it performs in different applications.

Beta testing - After refining the prototype further, the company moves to beta testing with customers. Consumer testing can bring consumers into a laboratory or give them samples to use at home.

7) Market testing

After management is satisfied with functional and psychological performance, the product is ready to be branded with a name, logo, and packaging and go into a market test.

The Extent of market testing depends on:

a) Investment Cost & Risk: Higher investment cost/risk needs, market testing more thoroughly.

b) Time Pressure: May reduce testing time.

c) Newness of Product: More newness of product leads to more testing.

Business-goods market testing

Expensive industrial goods and new technologies will normally undergo alpha and beta testing.

During beta testing, the company's technical employees observe how customers use the product, unanticipated problems of safety, servicing and alerts the company to customer training and servicing requirements.

The company can also observe how much value the equipment adds to the customer's operation, as a clue to subsequent pricing.

Beta test results must be handled carefully because only a small number of test customers are used, they are not randomly drawn, and tests are somewhat

Methods of consumer goods market testing:

1) Sales-Wave Research

Consumers who initially try the product at no cost are reoffered it, or a competitor’s product, at slightly reduced prices.

The offer may be made as many as five times (sales waves).

Helps to study how many customers select it again and their reported level of satisfaction.

2) Simulated Test Marketing

30 to 40 qualified shoppers are asked about brand familiarity and preferences in a specific product category and attend a brief screening of both well-known and new TV or print ads.

The company notes how many consumers buy the new product of the brand and competing brands.

Consumers are asked the reasons for their purchases or non purchases.

Those who did not buy the new product are given a free sample.

Some weeks later, they are contacted to ascertain product attitudes, usage, satisfaction, and repurchase intention and are offered an opportunity to

3) Controlled test marketing

The company with the new product specifies the number of stores and geographic locations it wants to test.

Company research team/ an external research firm delivers the products to a panel of participating stores and controls the shelf position, pricing, number of facings, displays and point-of-purchase promotions.

The company can also evaluate the impact of local advertising and promotions and interview a sample of customers later to get their impressions of the product.

4) Test markets

The most effective way way to test a new consumer product is to put it into full-blown test markets.

The company chooses a few representative cities and puts on a full marketing communications campaign, and the sales force tries to sell the trade on carrying the product and giving it good shelf exposure.

Test marketing also measures the impact of alternative marketing plans by implementing them in different cities.

In designing a test market, management faces several decisions:

1) How many test cities?

2) Which cities?

3) Length of the test?

4) What information to collect?

5) What action to take?

If test market shows,

- High trial and repurchase rates: the marketer should launch the product nationally
- If high trial rate and low repurchase rate: redesign or drop the product
- If low trial rate and high repurchase rate: develop marketing communications to convince more people to try it
- If trial and repurchase rates are both low: abandon the product

8) Commercialization

For formally launching a New Product, the following decisions to be taken:

A) When to launch (Timing)

The company faces three choices:

First entry—The first firm entering a market usually enjoys the first mover advantages.. But if rushed to market before it has been thoroughly debugged, the first entry can backfire.

Parallel entry—The firm might time its entry to coincide with the competitor's entry.

Late entry—The firm might delay its launch until after the competitor has borne the cost of educating the market, and its product may reveal flaws the late entrant can avoid. The late entrant can also learn the size of the market.

B) Where to launch (Geographic Strategy)

C) To Whom (Target-Market Prospects)

D) How to launch (Introductory Market Strategy)

The Consumer-Adoption Process

Adoption is an individual’s decision to become a regular user of a product

Stages in adoption process

1. Awareness—The consumer becomes aware of the innovation but lacks information about it.

2. Interest—The consumer is stimulated to seek information about the innovation.

3. Evaluation—The consumer considers whether to try the innovation.

4. Trial—The consumer tries the innovation to improve his or her estimate of its value.

5. Adoption—The consumer decides to make full and regular use of the innovation.

Readiness to try new products and personal influence

The five adopter groups differ in their value orientations and their motives for adopting or resisting the new product.

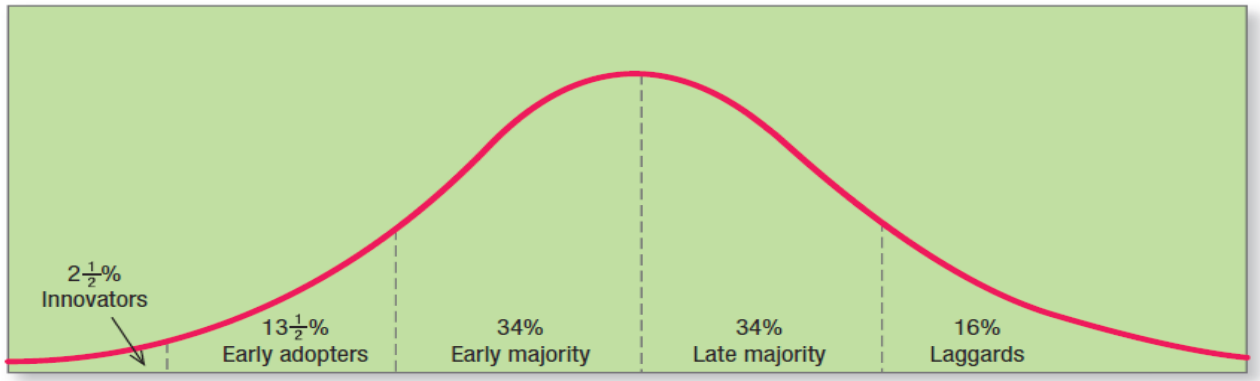
Innovators: are technology enthusiasts. They are happy to conduct alpha and beta testing and report on early weaknesses.

Early adopters: are opinion leaders who carefully search for new technologies that might give them a competitive advantage. They are less price sensitive and are willing to adopt the product if given personalized solutions and good service support.

Early majority: adopt the new technology when its benefits have been proven and a lot of adoption has already taken place. They make up the mainstream market.

Late majority: conservatives who are risk averse, technology shy, and price sensitive.

Laggards: are tradition-bound and resist the innovation until the status quo is no longer defensible.



Time of Adoption of Innovations

Characteristics of the innovation

Five characteristics influence an innovation's rate of adoption.

1. *Relative advantage*—the degree to which the innovation appears superior to existing products.
2. *Compatibility*—the degree to which the innovation matches consumers' values and experiences.
3. *Complexity*—the degree to which the innovation is difficult to understand or use.
4. *Divisibility*—the degree to which the innovation can be tried on a limited basis.
5. *Communicability*—the degree to which the benefits of use are observable or describable to others.

THANK YOU