

*New-Product Development and  
Product Life-Cycle Strategies*

Chapter 10

**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 or development.
- New products suffer from high failure rates.
- Several reasons account for failure.

## 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 substantially 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.
    - Concept tests ask target consumers to evaluate product concepts.

## 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

## 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

## 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*
- *Introduction*
- *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*
- **Growth**
- *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*
- **Maturity**
- *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

## Keywords

- Idea generation
- Screening
- Concept Development
- Marketing Strategy
- Business Analysis
- Product development
- Test Marketing
- Commercialization
- Product Life Cycle
- Introduction
- Growth
- Maturity
- Decline
- Early adopters
- Penetration pricing