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CH 9

Innovations show that products, customer behavior, and competition change over time. These changes create opportunities for marketing managers and pose challenges as well. Developing new products and managing existing products to meet changing conditions are important to the success of every firm.

Revolutionary products create new product-markets. The **product life cycle** describes the stages a really new product idea goes through from beginning to end. 4 stages: 1. Market introduction 2. Market growth 3. Market maturity and 4. Sales decline. The product life cycle is concerned with new types of products in the market, not just what happens to an individual brand.

Total sales of the product vary in each of its four stages. They move from very low in the market introduction to high at market maturity and then back to low in the sales decline stage. *Industry profits decline while industry sales are still rising.*

In the **market introduction** stage, sales are low as a new idea is first introduced to a market. Customers aren't looking for the product. Informative promotion is needed to tell potential customers about the advantages and uses of the new product concept. Most companies experience losses during this stage.

In the **market growth** stage, industry sales grow fast - but industry profits rise and then start falling. The innovator begins to make big profits as more and more customers buy. But competitors see the opportunity and enter the market. The new entries result in much product variety. So monopolistic competition - with down-sloping demand curves - is typical of the market growth stage. This is the time of biggest profits *for the industry*. It is also a time of rapid sales and earnings growth for companies with effective strategies. *But it is toward the end of this stage when industry profits begin to decline as competition and consumer price sensitivity increase.*

The **market maturity** stage occurs when the industry sales level off and competition gets tougher. Industry profits go down throughout the market maturity stage because promotion costs rise and some competitors cut prices to attract business. Some firms drop out of the market. New firms may still enter the market at this stage - increasing competition even more. Late entries skip the early life-cycle stages. Persuasive promotion is key.

During the **sales decline** stage, new products replace the old. Price competition from the dying products becomes more vigorous - but firms with strong brands may make profits until the end because they have successfully differentiated their products.

Product life cycles describe *industry sales and profits for a product idea* within a particular product-market. The sales and profits of an individual brand may not, and often do not, follow the life-cycle pattern. They may vary up and down throughout the life cycle - sometimes moving in the opposite direction of industry sales and profits. A firm may introduce or drop a specific product during *any* stage of the product life cycle. A product idea can also be in a different life-cycle stage in different markets (U.S. compared to Asia).

The cycle may vary from 90 days - in the case of toys like the Incredibles movie line - to more than 100 years for gas-powered cars.

A new product idea will move through the early stages of the life cycle more quickly when it has certain characteristics. For example, the greater the *comparative advantage* of a new product over those already on the market, the more rapidly its sales will grow. Sales growth is also faster when the product is *easy to use* and if its advantages are *easy to communicate*. If the product *can be tried* on a limited basis – without a lot of risk to the customer – it can usually be introduced more quickly. If the product is *compatible* with the values and experiences of target customers, they are likely to buy it more quickly.

In general, product life cycles are getting shorter partly due to rapidly changing technology. On average, pioneers tend to be less profitable over the long-run – in part because many do not survive. More often, there is an advantage to being the *second-mover* – one that quickly follows the pioneer. Second-movers that have strong customer focus and respond quickly with a superior marketing mix can build market share during the market growth stage.

The sales of some products are influenced by *fashion* – the currently accepted or popular style. Fashion-related products tend to have short life cycles. What is currently popular can shift rapidly. A *fad* is an idea that is fashionable only to certain groups who are enthusiastic about it.

When the early stages of the cycle will be fast, a low initial (penetration) price may make some sense to help develop loyal customers early and keep competitors out. Marketing managers need to carefully monitor initial customer reactions and be prepared to *pivot* – or move to a new marketing mix. Sometimes, before an innovation can take off, a number of different companies have to come together.

A firm shouldn't sit by as its sales decline. A firm can improve its product or develop an innovative new product for the same market. Or it can develop a new strategy targeted at a new market where the life cycle is not so far along.

In the highly competitive market maturity stage of the product life cycle, many firms slash prices to maintain market share. Creative marketers will find other ways to create value and maintain their margins. If the firm finds a new use for the product, it may stimulate overall demand. Marketing managers might also find new ways to use a product. Phasing out may be needed for a dying product. Phase-out is a *strategy* – and it must be market-oriented to cut losses.

A **new product** is one that is new in *any way* for the company concerned. *Continuous innovations* don't require customers to learn new behaviors. Such products usually entail minor variation on existing products. *Dynamically continuous innovations* require minor changes in customer behavior. Promotion needs to clearly communicate the benefits of the innovation. A *discontinuous innovation* requires that customers adopting the innovation significantly change their behavior. This type of innovation often results in a completely new product-market and new-product life cycle.

A firm can only call its product new for 6 months according to the Federal Trade Commission. To be called new, a product must be entirely new or changed in a “functionally significant or substantial respect.”

Ethical – “planned obsolescence” – releasing new products that the company plans to soon replace with improved new versions. Also faced when a company decides to stop supplying a product or the service and replacement parts to keep it useful.

Experts estimate that consumer packaged-goods companies spend more than \$20 million to introduce a new brand – and 80 to 90% of those new brands flop. A new product will fail for many reasons. Most often companies fail to offer a unique benefit or underestimate the competition. Sometimes the idea is good but the company has design problems – or the product costs much more to produce than expected. Some companies rush to get a product on the market without developing a complete marketing plan. Moving too slowly can be a problem too. The longer a new product development takes, the more likely it is that customer needs will be different when the product is actually introduced.

New-product development process with 5 steps: 1. Idea generation 2. Screening 3. Idea evaluation 4. Development (of product and marketing mix) 5. Commercialization

1. **Idea generation** – Customers. Can use *crowdsourcing*, which is picking a winner to use that is liked the most. Competitors, can use *reverse engineering*. Sometimes ideas from one product market can be adapted for another.
2. **Screening** – Evaluate ideas with SWOT analysis. Screening should consider how the strategy for a new product will hold up over the whole product life cycle. Real acceptance of the marketing concept prompts managers to screen new products on the basis of how safe they are. **Consumer Product Safety Act (1972)** set up the Consumer Product Safety Commission to encourage safety in product design and better quality control. **Product liability** means the legal obligation of sellers to pay damages to individuals who are injured by defective or unsafe products. Sellers may be held responsible for injuries related to their products no matter how the items are used or how well they're designed. A firm must set priorities to determine which ideas go to the next step in the process. Done by comparing the ROI (return on investment) for each idea – assuming the firm is ROI-oriented. The most attractive alternatives are pursued first.
3. **Idea evaluation** – The product idea represents a hypothesis about how to meet customer needs. By making assumptions – like the value customers place on convenience – explicit, marketing managers can conduct research to find out as quickly as possible if assumptions are true. Initial evaluation may come from informal focus groups. A more formal testing uses **concept testing** – getting reactions from customers about how well a new-product idea fits their needs. This uses market research – ranging from focus groups to surveys of potential customers. Product planners must think about wholesalers and retailer customers as well as final customers. Marketing research can also help identify the size of potential markets and that helps companies to estimate likely costs, revenues, and profitability.
4. **Development** – Leads to the creation of a **prototype** – an early sample or model built to test a concept. Customers may even be involved in a *co-creation process* – where customers react to prototypes and suggest improvements. This process often uses *rapid prototyping*, where customer input is received and quickly designed into a revision of the product – and then fed back to the customers for further input. Focus groups, panels, and surveys provide feedback on features and the whole product idea. Firms often use full-scale *market testing* to get customer reactions under real market conditions or to test variations in the marketing mix.
5. **Commercialization** – A product idea that survives this far can be placed on the market. Because of the size of the job, some firms introduce their products city by city or region by region – in a gradual “rollout” – until they have complete market coverage.

Marketing-oriented firms seek to satisfy customer needs at a profit with an integrated, whole company effort.