NEW PRODUCT MARKETING

LECTURE 1 – INTRODUCTION

ETHICS AND NEW PRODUCT MARKETING
- Depends on the values and views of the consumers

ENVIRONMENT
- Environmental reporting
- Nuclear power
- Climate change
- Pollution and toxics
- Habitats
- Resources

PEOPLE
- Human rights
- Worker's rights
- Supply chain policy
- Irresponsible marketing
- Armaments

POLITICS
- Political activity
- Boycott call
- Genetic engineering
- Anti-social finance
- Company ethos

ANIMALS
- Animal testing
- Factory farming
- Other animal rights

PRODUCT SUSTAINABILITY
- Organic
- Fairtrade
- Positive enviro features

LECTURE 2 – NEW PRODUCT PROCESS

WHY STUDY NEW PRODUCTS?
- $100 billion spend annually just on technical phase
- Lots of failures
- New products → key to most company's sustainability – makes 20% – 40% of the next three year's sales growth
    - Some companies can only survive if they constantly innovate
- Growth → key driver of shareholder value / company valuation – 80% of the company's value is typically in the terminal value
- Malcom Turnbull → innovation is crucial for the survival of each company

NEW PRODUCTS HOLD THE ANSWER TO MOST ORGANISATION'S BIGGEST PROBLEMS
- Competitors do the most damage when
    - Little product differentiation that price-cutting takes everyone's margins away
    - They have desirable items and we don't
- Profits fall
    - When we cannot ask, and get, a good margin over our costs
    - When new competition enters our market, markets with lower prices or superior features → constant innovation is needed otherwise competitors will do it
- A successful new product does more good for an organisation than anything else

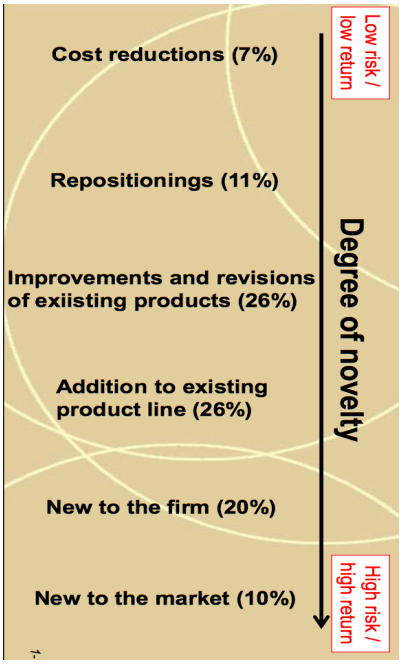
INNOVATION AS AN INVESTMENT
- Investment in innovation → critical to firm growth and even survival
- Radical innovations are particularly crucial to the firm
- Technology leaders view "business growth through innovation" as a major challenge facing them today
- Must be future oriented
- Top priority for governments → failures should not be penalised too much – there should be the belief that it will work in the long run

CASE STUDY → VINCOR

WHAT ARE THE MAIN REASONS FOR VINCOR TO INNOVATE?
- "Tremendous innovation" as companies were continuously adding new flavours and formats to their existing product lines, as well as launching new products
- 30% of coolers on the shelf each year → new products or line extensions
    - restricted shelf space on the market – stores will only stock products that will sell
- Short product life cycle – successful products only make about 3 years
- Dynamic industry – competitive pressure
- Consumer demand – exploratory consumer

WHAT IS A NEW PRODUCT?

- Can be categorised according to their degree of novelty
- Easier said than done
  - Top innovators view innovation as a long-term strategic goal eg. Apple
  - Without such focus, firms can fall back to "tweaking" existing products and relying on minor product improvements, instead of true product innovation that results in new-to-the-world products or really new product lines
- Cost reduction → process innovation
- Addition to existing product lines → **Vincor** case flavour introduced



A STRATEGIC APPROACH TO NPM

1. Company strategy
2. Product innovation charter
3. Product portfolio
4. The new products processes

VIDEO → APPLE'S STRATEGIC APPROACH TO NPM

- Company strategy → "the company is committed to bringing the best user experience to its customers through its innovative hardware, software and services"
- Product innovation charter → "as part of its strategy, the company continues to expand its platform for the discover and delivery of third party digital content and applications through the iTunes store"
- Product portfolio
- Has to enhance people's lives – guided the innovation process

NPM AND THE FOUR Ps (+ People)

- NPM decision needs to be aligned with price, promotion and placement → all guided by overall strategy and product portfolio

PRODUCT	PRICE	PROMOTION	PLACE
– Functionality	– List price	– Advertising	– Channel
– Brand	– Discounts	– Sales force	– Inventory
– Packaging	– Bundling	– Publicity	– Logistics
– Services	– Credit items	– Sales promotion	– Distribution

STRATEGIC APPROACH TO NPM – THE NEW PRODUCTS PROCESS

THE NEW PRODUCT DEVELOPMENT PROCESS

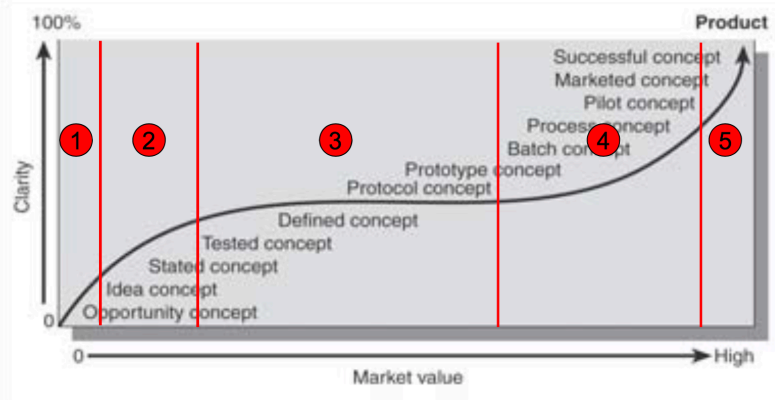
- Phase 1 → opportunity identification / selection
- Phase 2 → concept generation
- Phase 3 → concept / product evaluation
- Phase 4 → development
- Phase 5 → launch
- Most firms use a "Third Generation Process" → a flexible interpretation of the basic process, which allows overlapping phases and fuzzy gates

THE EVALUATION TASKS IN THE NEW PRODUCTS PROCESS

- Opportunity identification / selection
- Direction → where should we look?
- Concept generation
- Initial review → is the idea worth screening?
- Concept / project evaluation
- Full screen → should we try to develop it?
- Development
- Progress reports → have we developed it?
- Launch
- Market testing → should we market it?

THE LIFE CYCLE OF A CONCEPT

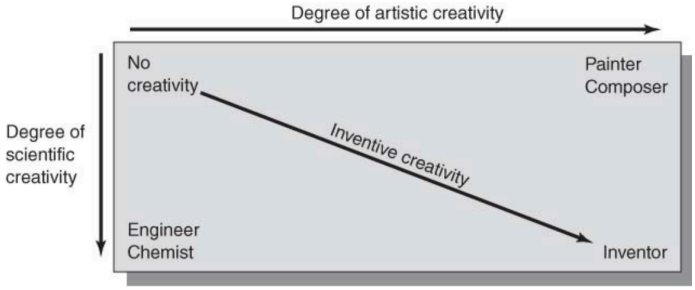
- Corresponding new products process phases
  1. Opportunity identification
  2. Concept generation
  3. Project evaluation
  4. Development
  5. Launch



PHASE 2 – CONCEPT GENERATION

CONCEPT GENERATION

THREE FORMS OF CREATIVITY



THE ROLE OF MANAGEMENT IN STIMULATING CREATIVITY

- Recognise individuality
- Be tolerant of mistakes
- Be supportive under stress
- Techniques include
    - Idea bank of unused ideas for possible reuse
    - Encourage interaction

BARRIERS TO FIRM CREATIVITY

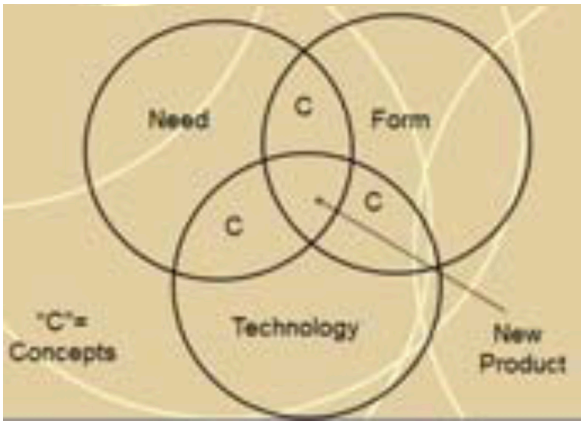
- Cross-functional diversity → danger of problem solving difficulties and information overload
- Allegiance to functional areas → team members need to feel they have a stake in the team's success otherwise only loyal to their functional area
- Social cohesion → danger of no candid debates
- Role of top management → management should encourage the teams to be adventurous, otherwise only incremental changes will occur

THE PRODUCT CONCEPT

- Why do you need a product concept and not just an idea?
    - Needs to be transformed into something so that it has real value
      eg. zero calorie ice cream – how do you do it?

REQUIRED INPUTS TO THE CREATION PROCESS / THREE DIMENSIONS

- Form → the physical thing created, or, for a service, the set of steps by which the service will be created
- Technology → the source by which the form is to be attained
- Benefit / need → benefit to the customer for which the customer sees a need or desire
- Product concept → verbal or prototype statement of what is going to be changed and how the customer stands to gain or lose
- Rule → you need at least two of the three inputs to have a feasible new product concept, and all three to have a new product



IMPORTANCE OF THREE DIMENSIONS FOR PRODUCT CONCEPTS

- Dimensions → form, need, benefit
- In most industries, one of the three often needs less attention
- Can be used to identify the critical avenue of innovation
- However, for a new product it still takes all three

EXAMPLES OF BENEFITS BEING LAST

- **Newton** was intended to be a complete reinvention of personal computing
- 1987 → Apple R&D developed a way of reading handwritten notes into a device
- A form was conceived, a pen-based, digitalised notepad on which ideas and data could be captured
- 1993 → apple, not believing in market research, launched the Newton for $700 – $800
- According to former Apple CEO, John Sculley, the corporation invested approximately $100 million to develop
- Newton was not the only Apple failure
    - Putting benefits last is not a good idea → should always have ideas of what the benefits are

LECTURE 5

PHASE 2 – CONCEPT GENERATION

DIFFERENT APPROACHES USE DIFFERENT TYPES OF ATTRIBUTES

- Trade-off analysis – conjoint or self-explicated approaches → descriptive attributes

BASIC IDEA OF ANALYTICAL ATTRIBUTE APPROACHES – PRODUCTS CAN BE DESCRIBED AS ATTRIBUTES

- Allow to create new product concepts by changing one or more of its current attributes or by adding attributes and assess desirability
- Trade-off techniques are usually based on descriptive attributes

AIM OF TRADE-OFF TECHNIQUES – DETERMINE UTILITY VALUES (PARTWORTHS) FOR ATTRIBUTE LEVELS

- Once we have determined partworths we can
  - Calculate utilities for different products (different combinations of attribute levels) based on a linear utility function
  - Can easily derive a bulk of essential information
    - Which product features (attributes) are the most valued ones?
    - Which product attributes generate how much demand?
    - How much are consumers willing to pay?

Attributes	Attribute levels	Partworths	Example
Brand	Canon	9	
	HP	3	3
	Nikon	2	
Colour	white	2	
	silver	5	
	black	6	6
Optical Zoom	3x	8	
	5x	10	10
	7x	12	
Resolution	8 MP	11	
	10 MP	14	14
	12 MP	17	
Price	$150	24	
	$200	20	
	$250	16	16
			49 UU (Utility Units)

+ + + +

MAIN IDEA

- Consumers evaluate complete products and are forced to make trade-offs
- Systematic variation of attributes and levels in stimuli
- Decompose the complete product evaluation into partworths for attribute levels by using statistical procedures eg. regression (**Partworths** → are numerical scores that measure how much each attribute and level influenced the customer's decision to make that choice)

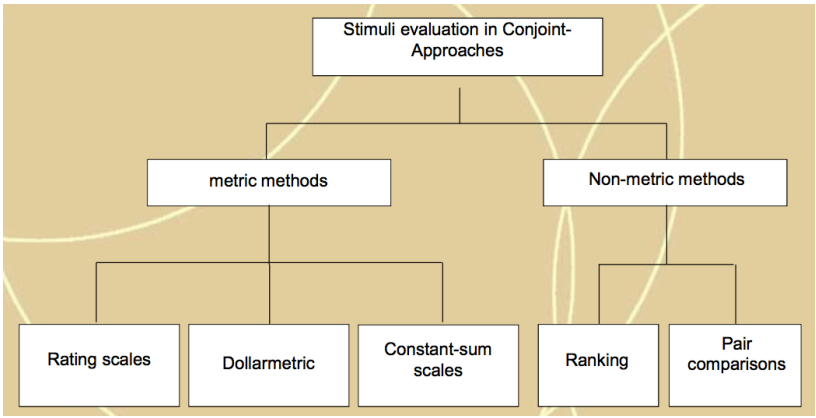
CONJOINT ANALYSIS STEPS

1. Select product attributes and attribute levels for the survey
2. Determine survey design
3. Evaluation of stimuli
4. Specification of utility function
5. Estimation of partworths
6. Validate results
7. Interpretation of results

STEP 2 – DETERMINE SURVEY DESIGN

- Demonstration of stimuli
  - Trade-off method → only two attributes are evaluated against each other
  - Full profile method → stimuli contain all considered attributes
    - Higher cognitive exposure for consumers
    - More realistic
    - Position effects
  - Demonstration method → verbal, animated
- Number of stimuli
  - Complete design → considers all possible combinations of attribute levels
    - 6 attributes, 4 levels → $4^6 = 4096$ stimuli
  - Fractioned designs → considers only a subset of all possible combinations of attribute levels – loss of information – choose the design that provides the most information

STEP 3 – EVALUATION OF STIMULI



OTHER AREAS OF PUBLIC POLICY DEBATE

PRODUCT PIRACY
- Threatens brand equity and intellectual property of firms
- Categories of product piracy
  - Counterfeiting → unauthorised production of goods
  - Brand piracy → unauthorised use of copyrights or patented brands eg. the $20 rolex
  - Near brand usage → slightly different brand names eg. Tonny Hilfiger clothes
  - Intellectual property copying → unauthorised copying of CDs and DVDs
- Protection against product piracy
  - Communication
  - Legal resource
  - Government
  - Direct contact
  - Labelling
  - Strong proactive marketing
  - Piracy as promotion

ENVIRONMENTAL NEEDS
- A new product is said to hurt the environment if
  - Its raw materials are scarce or hard to get to
  - Its design or manufacture causes pollution or excess power usage
  - Its use causes pollution
  - Its disposal cannot be handled by recycling
- Some companies test market their products in Germany and Scandinavia because of the strict greenness tests there

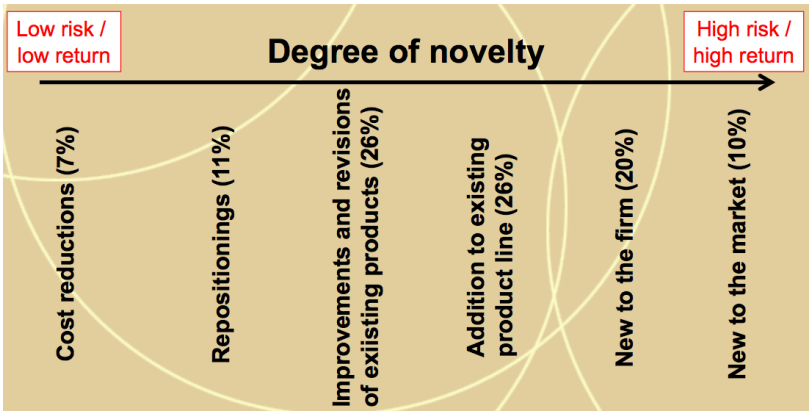
OTHERS
- Worthy products
- Morality
- Monopoly
- Personal ethics → what would you do?

WHAT CAN THE NEW PRODUCT MANAGER DO?
- Include in strategy → consider public policy implications in PIC
- Control systems
- Product testing
- Marketing prepares warnings / labels
- Adequate market testing → to identify miscommunications
- Education → to company personnel and customers

LECTURE 12

FINAL EXAM
- Time allowed → 2 hours, no reading time
- 40 marks
- 15 multiple choice (15 marks) → all lectures
- 4 theory questions (25 marks)
  - Cumulative expenditure curve (Week 6)
  - Product architecture (Week 7)
  - Prototype testing (Week 8)
  - BASS Model (Week 7)
  - Rate of diffusion of innovations (Week 7)
  - Real options analysis (Week 7)
  - Launch tactics (Week 10)
  - Case studies discussed in workshops (Weeks 7 – 10)

WHAT IS A NEW PRODUCT?
- New products can be categorised according to their degree of novelty



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