LEARNING PLAN 4: FINDING AND GROWING PRODUCTS

COMPETENCIES

RELATE THE MARKETING MIX TO THE TOOLS MARKETERS USE TO IMPLEMENT STRATEGIES. EXPLORE THE PROCESS FOR FINDING AND GROWING SUCCESSFUL NEW PRODUCTS.

This learning plan addresses the following learning objectives to help you master the competency:

a) Identify the major classifications of products and services.
b) Describe how a company develops strategies for branding, packaging, labeling and product support.
c) Identify the four characteristics affecting the marketing of a service.
d) Describe marketing considerations unique to services.
e) Describe marketing considerations unique to non-profit organizations.
f) Identify the basic process companies use to find and develop new-product ideas.
g) Describe the eight steps in new-product development.
h) Identify key elements of the product life-cycle.
i) Describe ways marketing strategies change during a product’s life-cycle.

OVERVIEW

Think about the different types of food markets. Why are there so many? Can you get all the products at all the stores? How do their product offerings differ? Why? If you had the opportunity, what product would you invent? Why? What is the reason it hasn’t been invented already?

In this learning plan, we will explore the major classifications of consumer goods and services, and their unique characteristics.

Branding strategies are discussed, assessing the importance of establishing a "mind share," or an image of the product or service in the mind of the customer through discrete marketing activities designed to capture and influence the attention of the consumer, and to hold the consumer's attention for future purchases of products or services from an organization.

So why is the marketing program of today so important to the overall corporate strategic plan? It is new ideas regarding meeting customer wants and needs rather than old ideas that are making the difference in a corporation’s revenue streams, enhancing a longer corporate life.

Today, if a firm has a good idea, it may go out of popularity in just a few years, if not sooner. Just think of all of the software companies of 10 years ago that are out of business today. Product and marketing developments have become the main core of a business’ survival. The old era where accounting and management were in control of the firm has gone. Products have shorter lives now than ever before, and that is putting new product creation and marketing at the forefront of business. For this reason,
marketing courses will become one of the most important classes you take.

In this learning plan, we will discuss the processes and techniques used by marketers to find and develop new product ideas, and for growing both new and existing markets through product development processes.

LEARNING OBJECTIVE: IDENTIFY MAJOR CLASSIFICATIONS OF PRODUCTS AND SERVICES.

The way consumers purchase goods differs from product to product because of effort, attributes, frequency, and value.

1. Effort made by the consumer when he or she makes his or her decision. Does it require a quick decision, or does it take time for the consumer to decide?
2. Attributes used in the purchase — the more attributes, the more information required to make a decision.
3. Frequency of purchase. If the consumer makes the decision once in a while, then he or she doesn't need to create a purchasing plan. However, if it is a repeated purchase, a purchasing plan or other procedures will be necessary.
4. Value significance of the purchase in terms of its value in relationship to a person's budget.

Because of these reasons, there are different classifications of products and services. You may recall from a previous learning plan that the main classifications of consumer goods and services are: convenience, shopping, specialty, and unsought goods.

CONSUMER GOODS

**Convenience goods** are goods that a consumer purchases with very little thought or effort. Toothpaste is an item that requires little decision-making time. When we enter the supermarket, very little thought is expended as to what brand or price of toothpaste is being offered. Let’s face it — a tube of toothpaste does not drastically affect a person’s budget, so we can make a rapid decision without much regret if we buy a product that doesn’t suit our needs. Impulse items, those items bought on a whim, are also convenience products because they are usually inexpensive.

**Shopping goods** are goods for which a consumer will pay more than for convenience goods or are those products that will consume a larger portion of an individual’s budget. As a result, he or she compares each good with comparable goods. An example of a shopping good is an article of clothing. The article of clothing costs more than toothpaste. It is not just the cost of the item itself, but resulting behaviors may occur when one is purchasing something of more significant value, such as in having to drive back to the store to exchange the item if one makes a wrong choice. When purchasing a shopping good, a consumer will usually compare prices, quality, and styles and typically these decisions take time before the decision to purchase is made.
Specialty goods are items that require a personal choice that an individual will make and that probably is unique to that person. An example of a specialty good may be the purchase of a Rolex watch. A consumer must make a concerted effort to seek out and then purchase such an item. Diamonds, too, are specialty goods, and a person may visit several jewelry stores to find a diamond that is to his or her liking. Specialty goods make up an even higher percentage of a person’s budget, so much more time and effort will be taken before purchasing these higher priced items.

Unsought goods are commodities that a consumer knows very little about and has little care toward. The importance (or lack of importance) that an individual places on the purchase of a particular item may place it into the unsought category. If a person has no interest in or doesn’t understand the significance of a product or service, the individual will not seek it out. For example, let’s say that you live in West Texas, where a pair of ostrich leather cowboy boots is a part of the cultural experience of the area, and that when one has a pair of ostrich leather cowboy boots, one is known to be in the “popular” crowd. If you are not a part of the West Texas culture and don’t understand the importance of this type of cowboy boot, the ostrich leather cowboy boot would be an example of an unsought good.

LEARNING OBJECTIVE: DESCRIBE HOW A COMPANY DEVELOPS STRATEGIES FOR BRANDING, PACKAGING, LABELING, AND PRODUCT SUPPORT SYSTEMS.

BRANDING STRATEGY

There are four types of branding strategies. The first branding strategy is known as manufacturer branding. It is made up of both MULTI-PRODUCT and MULTI-BRANDING strategies. Multi-product is defined as A MANUFACTURER BUILDING MANY PRODUCTS UNDER ONE BRAND NAME. Let’s use Toro lawn and garden equipment as an example. The Toro products include Toro snow-blowers, lawn mowers, garden hoses, and sprinklers — each under the Toro name. Marketers refer to products as “a package.” A package can be developed for sale and includes parts and supplies from all over the globe. Using Toro as an example, supplies and parts used in making Toro products arrive at manufacturing facilities from every corner of the globe. The manufacturing facility assembles or creates the package for sale, either in the U.S. or abroad.

So that you understand the concept of “a package,” let’s use Dell as yet another example of a product package assembled as a result of receiving parts and supplies from around the globe. If you have ever received a Dell computer (or any other computer that comes in a box shipped directly to your door), you know what packaging is all about. You would have noticed that within the box you received was the hardware, wires, and software, as well as your Dell computer. It was sent as a total Dell package. Attention is paid to “bundling” the product with all of the necessary peripherals and gadgets you need as a consumer to use the product you ordered. The “package” is decided upon by the marketer and is assembled according to specifications gathered in market research activities to ensure that the
consumers’ needs are met. Further, these needs are met from suppliers and contributors to the product from around the globe.

**Multi-branding** is a strategy deployed by Procter & Gamble, which creates the “battle of the brands.” Such a practice is called the battle of the brands because P&G creates competition among its own products so as to reduce the number of competitors entering into the market and thereby maintaining P&G’s market share. For example, detergents that P&G produces are Tide, Cheer, Ivory Snow, and Bold. P&G specifically advertises all of these products on television, which gives most customers the perception that competition exists in the detergent marketplace, while, in fact, all of the products are created and distributed by P&G.

**Private branding**, or **private labeling** as it is sometimes referred to, helps an organization develop a brand identity of its own. For example, Sears uses private branding or private labeling in marketing products and services to its customers. In private labeling, Sears may approach Toro to have it create a special lawnmower product under the Sears name. The consumer obtains the product quality that Toro is known for, but the Sears name and brand image, as a supplier of lawnmowers, becomes the image a consumer holds in mind as he or she purchases the product or as he or she has the product serviced through Sears’ service facilities. You can see that this type of private labeling pertains to both labeling and to product support services. Sears’ own private brand for its appliances is called Kenmore. Sears may, in fact, contract with Maytag to make its Kenmore appliance line. Sears has Maytag put the Kenmore label on all of its appliances. Customers purchasing the Kenmore line assume that Sears makes Kenmore appliances. Why is that so important? The customer knows that if Sears/Kenmore makes the appliance then Sears/Kenmore will service their machine if the appliance breaks down.

In the mind of a customer, “packaging service” is an important part of the product package. When a necessary appliance breaks down, a consumer can feel a tremendous amount of anguish, as these items are critical to the effective running of a household. Sears knows this. Sears promotes seamless service as a part of the market strategy, indicating that when you purchase a Kenmore appliance, the Sears warranty will cover the repair of all of their Kenmore products. When a customer buys a Sears appliance, he or she is receiving peace of mind. Sears’ private brand, Kenmore, adds a service factor into all of the appliances it sells. In the eyes of a consumer, it is the servicing of an appliance that earns most of Sears’ sales.

A **mixed brand** strategy represents a compromise made between using the manufacturer brand and private branding. Epson makes its own printers, as well as manufacturing IBM’s printers. A firm such as Epson will manufacture a different printer for IBM and a different printer for its own Epson label. Using these same examples, the major difference between private labeling and mixed brand strategies is that Maytag makes the very same appliance for Sears or its Kenmore product as it does for its own customers who purchase Maytag products. All Maytag does is put the Kenmore label onto a Maytag washer or dryer. This strategy allows a supplier like Maytag to have its products assembled all over the globe, holding down the costs of manufacturing as a result. Epson is producing a different printer under IBM’s exact specifications. The Epson printer manufactured specifically for Epson customers and the IBM
model manufactured to IBM specifications are different printers. So IBM is not just putting its IBM label onto an Epson printer; IBM has contracted its printer manufacturing to Epson. What does this do for IBM? The strategy allows IBM to focus its time and attention on what it does best: selling and consulting. Epson wins, too, because it has an extra income source other than its own printer sales.

Underlying this discussion, there is another business principle at work. Most of our production today is done in remote locations throughout the world and is shipped to the U.S. for delivery. The reason for foreign production is a need to reduce costs of doing business. Moving operations to developing countries allows manufacturers to reduce labor, shipping, and warehouse costs. As markets and price of the product become more competitive, manufacturers seek additional margins from reduction in costs rather than from price increases. As U.S. labor costs continually rise at a higher percentage than labor abroad, U.S. firms use foreign labor or highly sophisticated manufacturing techniques, such as robotics, to aid in cost reduction and management of margins of profitability in most manufacturing activities today.

LEARNING OBJECTIVE: IDENTIFY THE FOUR CHARACTERISTICS AFFECTING THE MARKETING OF A SERVICE.

Since products and services are different, their marketing needs are different as well. While we most often think of products, we should also understand the four characteristics that affect the marketing of services. These four are: Intangibility, inconsistency, inseparability, and inventory.

**Intangibility**: As we have discussed previously, one of the differences between products and services is tangibility. TANGIBILITY refers to the actual features, functions, and capacity of a product to perform some set of outcomes for a consumer. For instance, a dryer has the capacity to dry clothes and can do so in a specific amount of time. It has features for the accommodation of different fabrics so that the dryer will leave clothes wrinkle free. These tangible aspects of a product can be identified and are proven to be available to the customer through trial tests or product demonstrations.

Intangible, however, refers to the inability to touch something. Service is an INTANGIBLE benefit to customers. Customers may or may not need to have an appliance repaired, but if they should require it, the service will be available to them when they need it. It is very much like an insurance policy that reassures customers who know that if something should occur, they will be taken care of by the service policies of the supplier of a product. What marketers need to do is to provide examples to consumers about services that are as tangible to the customer’s way of thinking as possible. For example, financial planners can tell a client exactly how much money he or she will have accumulated by the time he or she retires, if a set amount of money is put each month into an investment plan.

**Inconsistency** refers to the inability of a service provider to keep their services the same each time a consumer uses them. Customers usually expect that services are provided consistently or the same each time they are used. Consistency is also an attempt for businesses to ensure quality of service. Because
services depend on the job performance of the person performing the service, however, the quality of service varies with each person’s capabilities and thus affects the way it is marketed.

**Inseparability** occurs when what the company represents and what the person providing the service represents differ. For example, a university may represent high quality, but a particular instructor of that university may not. Therefore, the perception of the university from the students in the instructor’s class is not likely to be the true indication of a university’s standard as a whole. In effect, it is difficult to separate the instructor from the school. How could this situation be effectively marketed?

**Inventory** within a service has a slightly different meaning than when we are referring to physical inventory. If a service worker in a medical clinic spends time waiting for patients, rather than caring for a patient, the medical clinic will still have to pay this worker while he or she is biding his or her time. Inventory here refers to the capacity of the service worker to provide service, and when the service worker is not fully deployed against a consumer’s need, there is an inventory of service provision that is underused. Underuse of a service worker can be very costly to an organization because service organizations are typically very labor intensive. The job of an individual who is managing a service operation is to fully deploy its people against the needs of the consumer.

Economists believe that the service sector will become larger than the product sector in years to come. So how did our attention to service begin? Over 50 years ago, McDonald’s created the first self-service, cafeteria-style restaurant. Ray Kroc, the original owner of McDonald’s, created a cafeteria-style operation for fast food so that the customer would feel in control. But it was not only the food. It was also McDonald’s attention to service or innovation and in making the customer feel as though he or she was in control that made McDonald’s so successful. A person eating at McDonald’s gets to choose exactly what he or she wants to eat and how much, given the menu that McDonald’s offers. McDonald’s lets people feel they are in control, even if that feeling is realized for only a few minutes a day. So as the U.S. economy keeps moving into the service sector from the products sector, economists suggest that it is services rather than products that will be the market of choice in the next century.

**LEARNING OBJECTIVE:** DESCRIBE MARKETING CONSIDERATIONS THAT AFFECT MARKETING THAT ARE UNIQUE TO SERVICES.

When a customer has an experience with a service organization, the customer doesn't own a product. The product is in the form of an experience. He or she only has a memory and the outcome of a transaction. The goal of a service organization is to make each customer’s service experience unique. Service experiences cannot be stockpiled like capital and occur on a moment-by-moment basis. The product customer is an end-user for a product, and the service customer is a partner in the creation of a service experience. The organization creates a service, and the consumer receives the service experience. The customer conducts quality control by comparing past experiences of service with the organization. If the consumer has a poor service experience, apologies or reparations may be the only means of recovery. Customers can determine the amount of service they are willing to receive throughout the service-delivery process. There is a high degree of trust and collaboration between the
buyer and the seller of a service. Finally, there are more product brands but fewer services available to a customer.

LEARNING OBJECTIVE: DESCRIBE MARKETING CONSIDERATIONS UNIQUE TO NONPROFIT ORGANIZATIONS.

The major difference between a profit-based organization and a not-for-profit organization is that a profit organization makes profits that can be distributed to shareholders. However, in the case of nonprofit organizations, extra income has to remain within the organization. Historically, nonprofit organizations have kept a low profile in comparison to corporate, for-profit organizations. As we stated before, service industries are on the rise. Service nonprofit organizations account for about 7 percent of the Gross Domestic Product (GDP), which is the total market value of all the goods and services produced within the borders of a nation during a specified period.

The American Red Cross, the United Way, the Salvation Army, the U.S. Postal Service, the police, fire departments, hospitals, and many universities are all nonprofit organizations. Marketers for these not-for-profit organizations need to understand the business environment in which they operate. These organizations are faced with increased competition for funds. Advertising is beginning to play an important role in how they let the public know what products/services they provide. The nonprofit group is also expected to rise as the U.S. enters the service economy.

OVERVIEW

So why is the marketing program of today so important to the overall corporate strategic plan? It is new ideas regarding meeting customer wants and needs rather than old ideas that are making the difference in a corporation's revenue streams, enhancing a longer corporate life.

Today, if a firm has a good idea it may go out of popularity in just a few years, if not sooner. Just think of all of the software companies of 10 years ago that are out of business today. Product and marketing development has become the main core of a business' survival. The old era where accounting and management was in control of the firm has gone. Products have shorter lives now than ever before, and that is putting new product creation and marketing at the forefront of business. For this reason, marketing courses will become one of the most important classes you take.

In this part of the learning plan, we will discuss the processes and techniques used by marketers to find and develop new product ideas, and for growing both new and existing markets through product development processes.
Before we address the process for finding and growing successful new products, we should examine the importance of market timing or when to introduce a new product. Being first to market, or being ahead of the market, may not always be a good policy. In such cases, an organization must develop a need for the product or service. For example, we have had caller-ID technology for about 25 years. AT&T and the Bell System, nationwide in the U.S., did not introduce the product immediately because they didn't believe that the consumer would be willing to pay for the service. AT&T and the Bell System waited until voice-mail was well-integrated. Changes in our lifestyles, and perhaps security issues that occurred in the last part of the 20th century, indicated that the time was right to introduce the product. Most consumers today actively use caller-ID services as a part of their communicative patterns. Here you can see that if AT&T and the Bell System would have introduced the product in the United States earlier than they did, the paying consumer may not have been interested in the service.

It is the role of the marketing professionals within the organization to determine whether or not a customer is ready for a product or service. If it will take a few years to develop and test the readiness of a product, the organization will have to bear the burden of development costs without an accompanying revenue stream to pay back investments in new product development. The customer has to feel a need or want for the product. Without a consumer need or want, and therefore without a sufficient revenue stream to support the product, a company's chances of survival in the market are slim.

LEARNING OBJECTIVE: IDENTIFY THE BASIC PROCESS COMPANIES USE TO FIND AND DEVELOP NEW PRODUCT IDEAS.

As mentioned throughout this course, one of the primary responsibilities of a marketing group is the identification of new streams of revenue for the organization. New streams of revenue help ensure the viability of the organization in its marketplace by identifying and then producing products and services for the market. Years ago, many firms were able to continue in business for 20 to 30 years selling one product. However, times have changed. Firms that pay attention to discovering new products each year continue in business, and those that don't, fail. For this reason, new product formulation is probably the most important part of the marketing process. The following grid identifies the relationship between new and existing products and services as well as new and existing markets that can be developed or mined, and the opportunities that exist when these factors of products and markets come together.
Figure 8.1 Organization Strategies based on Products and Markets

<table>
<thead>
<tr>
<th>Markets</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Customers</td>
<td>Market Penetration</td>
</tr>
<tr>
<td>New Customers</td>
<td>Market Development</td>
</tr>
</tbody>
</table>

Figure 8.1 exemplifies the four primary market strategies of a firm. This helps show the marketing strategy that may work best given the relationship between new and existing markets and new and existing products. Understanding these strategies promotes optimal performance of an organization.

You'll notice that the left-hand side identifies the customers or markets category of the grid. We find that both "Present" and "New" markets are defined here as opportunities available to the market planner for new products and services. Across the top, we have the “Products” category of the grid. Products can be "present" or existing products and services, or "new" products or areas of product that are yet to be developed and sold. Within the grid, we have identified the types of activities that a marketer will pursue, given the relationship of the “present” or “new” condition of the market, and the "present" or "new" condition of the products within the market. Let's look within the grid to understand the options available to the marketer.

Where the grid identifies a present market and a present product, the grid identifies “Market Penetration” as an option for the marketer in managing the marketplace. When we refer to "market penetration," we are referring to the opportunity of the marketer to take a larger share of the market by further marketing the products and services of the company, and by encouraging consumers in the market to “share shift,” or move away, from an existing supplier of a product or service. For example, if a firm decides to step up its sales in its present products with its present customers, this is called Market Penetration. “Got Milk,” the ad used by the Dairy Association, applied such a strategy.

Many firms do not like change and hold onto old ideas and fail to meet the demand of an ever-changing industry. However, more aggressive firms see their business as always expanding. This is referred to as Market Development. If there is the opportunity for a new market for a present product or service, the grid identifies that "Market Development," or the creation of a market for a product or service would be the appropriate activity for a marketer to pursue. For example, even McDonald’s, after many years of reduced franchise growth throughout the U.S., has taken its business abroad.

However, as we said earlier, most firms must continue creating new products that meet existing consumers' needs to survive. This type of market strategy is referred to as Product Development. For example, Ping Golf Equipment Company is continually upgrading its clubs and related golf equipment as...
it markets to its existing customers. In other words, they are not static in their product offerings. Product Development will be discussed in further detail in the next section.

Where there is a need for a product or service and no existing market, “Diversification” is an attractive option for the organization. By diversification, we mean development of new product revenue streams for the organization as it branches or diversifies into new product and service offerings, perhaps even away from those products and services upon which it has built its reputation in an existing market.

Diversification refers to a firm that moves into a totally new business that is different from the parent company. Philip Morris, seeing its cigarette business declining, bought Kraft Foods to diversify its holdings. Nestle Quick sold powdered chocolate and strawberry varieties of flavoring for milk products in most supermarkets. However, Nestle, seeing the ready-to-drink market expanding, diversified its product offering through new customers and new products. Nestle now sells a wide assortment of its ready-to-drink milk or chocolate milk products to many stores all over the U.S. Firms such as Nestle see new markets either as those that have not been tapped nationally or abroad as expansion opportunities. In the case of Philip Morris, the company chose a completely new line of products, but Nestle chose products closely related to its core business.

C. Merle Crawford and C. Anthony Di Benedetto, authors of NEW PRODUCTS MANAGEMENT, offer perspectives on new product strategies. Product Development or Diversification may be reflected in the following examples depending on whether these new products are marketed for existing or new customers.

1. New-to-the-world products. These are products that are new to even the present customers of your firm. Examples of these are the Polaroid camera, the first car, and personal digital assistants (PDA).

2. Additions to product lines. Products that are extensions of current products. Examples are Tide Liquid Detergent, Bud Light, and Apple’s Power Mac.

3. Product improvements. Most firms must make some adjustments as consumers begin using a product. Test marketing is used to understand how the product will perform in a market. However, the real market test begins after the product launch into the market. It is here that additional product data is gathered and adjustments, sometimes major, are made to the product after introduction. Crest Whitestrips, for example, proved to be successful in the market. They were so successful that Crest launched Whitestrips Premium, Premium Plus, and Renewal.

4. Repositioning. Products that are retargeted for a new use or application. One such product is Arm & Hammer baking soda incorporated into toothpaste and underarm deodorant, and is used as a refrigerator freshener. Baby shampoo became another repositioned product by entering the senior market.
5. New category entries. Products that take a firm into a category that is new for the firm but not new to the world. Examples are Procter & Gamble’s first shampoo product and Hallmark gift products.

**LEARNING OBJECTIVE: DESCRIBE THE EIGHT STEPS IN NEW PRODUCT DEVELOPMENT.**

As indicated in the chart on the previous page, when a new market indicates the need for the development of a new product or service, new-product development becomes an attractive feature for an organization. "New-product development" is a rigorous and important set of decisions and activities, because the firm will invest significant money into the research and development of new products and services to meet market needs. The features of the new-product process are as follows:

1. **New Product Strategy Development.** Usually, new-product development will take on a team dimension, because information from alternative departments within the organization sheds light on the potential product and market features required for successful development activity. Hewlett-Packard employs cross-functional teams that are small groups of technical and staff professionals from several departments. Members of a new-product team may be the marketing manager, a sales representative, a research and development (R&D) representative, an accountant, an engineer, a chemist, etc. Each person has his or her role in providing information to examine the feasibility of a new product offering.

2. **Idea Generation.** This is a very creative process for a brand new product, but it becomes a less creative process for an already existing product. At this stage, in the new-product development process, the firm will talk to customers, suppliers, employees, research and development engineers, etc. As an example, at Sony, new-product division engineers have been able to assimilate four new projects every day. This represents research and development by the corporation. Sony has hired these individuals specifically to search for new products, knowing that they will only glean a few relevant product ideas worth commercialization. Most of the product ideas will not work because of some problem, such as whether it is unfeasible to create, whether the revenue or cost is not favorable or whether consumer testing suggests that customers would not accept the product once it were marketed. One of the problems with research and development is that there are so many obstacles to get past, most product ideas are certain not to make it. Only a small percentage of products that are invented will ever make it to full acceptance. However, two products that made Sony’s success list were the Walkman and the VCR. These two product successes represent only a small percentage of all of the other product ideas that failed this marketing process.

3. **Screening and Evaluation.** Screening and evaluation involve an INTERNAL review, followed by an external review. During the INTERNAL REVIEW process, the team will examine whether the new product ideas can meet the firm’s objectives and whether or not the technical difficulties can be overcome. Also, the relationship between the price the company will be able to charge for the product or service and the cost for manufacturing or developing the product or service
will be assessed to determine whether the product is a viable one. One of the most significant business considerations facing the marketer is the attractiveness of a product or service based on its “profit margin” — the difference between price and cost for overall profitability of a stream of revenue from a product. At this stage in the process, a brief analysis of price and cost is undertaken. This analysis is not as extensive as will be done during a BUSINESS ANALYSIS, but if the idea is too expensive, the idea will likely be discarded. All of the “what if” bugs are worked out before an external audit is taken.

Within the screening and analysis phase of the new-product development process, the team will perform an EXTERNAL AUDIT. An external audit is executed only after an INTERNAL REVIEW (identified above) has been accepted. Drawings and promotional literature are designed as the team continues checking the new product’s feasibility in product and service design, market assessment, and data gathering. Market situations, as determined by the market research, are vital to this phase.

4. **Business Analysis.** In the business analysis phase, marketers will forecast the market potential, growth, revenues, and overall costs of introducing a product or service. Forecasting allows an organization to determine the overall profitability of a product or service before the introduction of the product or service in the market. This is where a complex forecast of its feasibility will be done either by the accounting department or by the company finance officer. To forecast the profitability of a product or service, a full marketing plan indicating the growth and diffusion of an idea into a market will be assessed, cost and price factors analyzed and the overall anticipated results of the introduction of a new product or service will be developed into a marketing plan.

5. **Prototype.** Finally, a prototype of the product will be created for its 3D effects. Most of these new-product costs are captured under research and development. Careful accounting of new-product development costs in research and development are recorded because many of them are eligible for investment tax credit but, more important, because new-product development is an expensive and risky activity. Business and marketing executives keep a watchful eye on new-product development money, anticipating future revenue streams from the investments made in new products and markets.

6. **Test Marketing.** Now that the product has been identified and a prototype has been developed, test marketers take a new product or service to the marketplace to develop information about how customers perceive the features, function, and overall price of the product. Test marketers test the product or service by identifying a normative test market situation. The test marketer will create a controlled experiment in a limited geographic location. An example of a controlled experiment might be where a group of people are given product A, which is the product the firm wants to test, and compares it with product B, the competition. Then, each of the people in the group responds to which one he or she liked best and why. Or the test marketers might take two groups of people, have the first group test product A, and have the second group test product B, then compare the responses of the two groups. If there is a significant difference and the firm’s new product is liked the best, then commercialization will be the next step. While
they are testing the new product, the test marketers may also be able to discover other activities that the firm could do to make the commercialization process more successful, such as packaging or advertising ideas for the new product.

7. **Commercialization.** Assuming that all other stages indicate that a product or service is a good investment, the company will proceed to the commercialization phase of the new-product development process. Most companies should proceed very slowly and carefully when moving into the commercialization stage. They “go slow to go fast” because this is the most expensive step. This phase can cost millions of dollars, so most firms will first conduct a series of tests. It is the same approach a statistician makes: Study a small group first because it is cheaper. If the test result fails, the firm is not out much. For example, if Pepsi wanted to commercialize a new product, it might test the new product in a localized area. If it succeeds, then the researcher will try a larger test to see if that one passes. If it fails, the firm, in this case Pepsi, is still not out much. If it passes, then the firm moves on to a still bigger test. Can you now see why a firm “goes slowly to go fast”? Research is a very expensive proposition, but because it must be done, it is better that a researcher do it in increments. So, the researcher will move from a smaller group to successively larger groups with its market research roll-out. By going slowly rather than too fast, an organization can minimize its losses.

If a firm is in an industry with a very short product life cycle and there is a chance that other firms might steal its idea, then this firm will probably use a TEAM INTRODUCTION METHOD and will be operating several studies at once. Cost is not an issue here but speed is, so the firm that gets to market first wins the prize. In the case of many high-tech industries, speed rather than money is important.

8. **Product or Market Improvements.** More often than not, as a company enters the commercialization stage, it will find some oddities in rolling out the product. This is a time for the firm to experiment beforehand so that it can get the regional launch right before it proceeds with a national launch.

**LEARNING OBJECTIVE:** IDENTIFY KEY ELEMENTS OF THE PRODUCT LIFE CYCLE.

As we’ve mentioned earlier, products do not last forever. As a general rule of thumb, a consumer product will not last as long in the market as a business product. The life of products, including consumer and business, usually go through four stages called the product life-cycle. The four product life cycle stages are: **INTRODUCTION, GROWTH, MATURITY, and DECLINE.**

The following graphic depicts the life cycle of products. It is important for a marketer to know how the market is characterized in this life cycle. In other words, the marketer will manage the market differently if the product is in "introduction" or "growth" as opposed to "maturity" or "decline."

1. **Introduction Stage.** The first stage is the introduction stage, companies spend heavily on research and development for new product launches. Once a product is developed, they also
spend heavily on advertising to create an awareness of a firm’s new product. This makes product launches very expensive. For example, Gillette spent $1 billion to launch its Mach3 razor.

TAKE A LOOK AT “SURVIVING INNOVATION” AT: http://www.copernicusmarketing.com/about/docs/surviving_innovation.htm, AND YOU WILL SEE HOW DIFFICULT IT MAY BE TO INTRODUCE A NEW PRODUCT INTO THE MARKET.

2. Growth Stage. Once the introduction stage succeeds and the product slowly gains acceptance, the growth stage begins. Remember, this happens only if the product satisfies the market, in which case, sales begin climbing. This is also the period in which copycat firms will enter. Whether the firm began with “skimming” or “penetration” pricing will determine the number of copycat firms that will enter. In most cases, firms will enter skimming, trying to make as much as they can out of the launch. However, once other firms see the profitability, they also will enter. For example, fax machines cost over $3,000 as they entered the market, and the number of firms that entered the market grew exponentially from 1986 to 1992. That was the “growth stage” of that business. Right after the growth stage, the price dropped to half, or from $3,000 to $1,500.

3. Maturity Stage. The maturity stage, often called “saturation,” is marked by many firms in the market, which forces sales prices to level-off or drop. From 1992 to 2000 was the maturity stage of the fax industry. During the maturity stage, there were over $9 billion in fax sales. As prices began to drop, weaker businesses were forced to leave the market and only a few firms remained. By 2002, 80 percent of the fax market was controlled by four firms: Brother, Canon, Panasonic, and Sharp. This is the stage in which firms have two choices — either hold on to what they have or try to differentiate their products from the competition. In most cases, it is the differentiators that remain.

4. Decline Stage. The decline stage is signaled by a steady and sustained fall in sales after the maturity/saturation phase. This is where the decision to remain or abandon the market is critical, because the product quickly moves from a positive to negative revenue situation. Fax sales began to drop around 2002. The Internet with e-mail caused most of the fax bubble to burst. Technological advances, such as the Internet, came at the middle of the maturity stage of fax machines in 1996. It took six more years before its decline stage kicked in. When a firm is in a decline tailspin, it has one of two choices: It can delete or drop the product, or it can “harvest,” or keep producing but reduce marketing costs, so that the outgoing costs are very low. The product continues to be offered by over-the-counter sellers rather than a company’s sales staff.

LEARNING OBJECTIVE: DESCRIBE WAYS IN WHICH MARKETING STRATEGIES CHANGE DURING A PRODUCT’S LIFE CYCLE.

Marketing strategies will change considerably during the four-stage life cycle. During the introduction, the firm will enter applying either of two approaches. The first is "skimming." The firm will try to get the highest price possible from the start. This is the method that most firms will take. However, some firms
with deeper pockets, such as Wal-Mart, may decide to prevent other firms from entering the market. These firms will use "market penetration." They will set the lowest price possible.

Once the product enters the growth stage, the marketing arm of the company will try to increase its market share. The bigger firms are forced to continue advertising or they will not remain into the maturity stage. Other firms begin to enter at this stage, so the firm needs to increase its promotional activities to gain a higher market share as new firms enter.

During the maturity stage, the firm will advertise to defend its market and profits. This is the time when only a few strong firms can survive and all others will be forced to exit.

Finally, during the decline stage a firm will do very little promoting. However, it may search for other markets to be able to spread its products. Some firms have been able to take their products, during their decline, to other foreign markets to keep profits coming in. Companies may also reduce but not eliminate manufacturing of the product and make it available on a much smaller scale.