

Chapter 8

Why develop new products?

Fashion cycles goes from introduction to rise to peak to decline to obsolescence, changing customer needs, market saturation
Microeconomic market saturation: This situation happens when demand for a particular business disappears. For example, if **customers stop coming to your bakery because a new one opened up across the street**, you would be in a saturated market, managing risk through diversity, improving value, competitive pressures, improving business relations.

How firms develop new products?

Idea generation, concept testing testing the new product idea among a set of potential customers, Product development, market testing testing the actual product in a few test markets, product launch, evaluation of results analyze performance and make appropriate modifications.

1. Idea generation

Ideas make come within the firm itself. However they can also come from outside sources including customers, individuals in society, competitors, suppliers, government research lab, universities. Many companies will generate ideas through crowdsourcing: the practice of obtaining information or input into a task or project by enlisting the services of a large number of people. Because this will generate a lot of ideas, firms need a process to select the based idea based on their competencies and strengths.

2. Concept Testing

Concept is a brief written description of the product performance capabilities and design, or because of the advancement in technology now days it could be a computer model of the product . Customer reactions determines whether it goes forward. Triggers the marketing research process.

3.Product Development

Now that the product has been made. A **prototype** is the first physical form of a new product, allows customers to interact physically with product. In this stage both alpha and beta testing occurs. Alpha testing tests whether product will perform according to its design and whether it satisfies customer needs. Beta testing occurs when potential customers examine the prototype in a real use setting to determine its functionality, performance, potential problems, etc... **Alpha Testing is done before the launch of software product** into the market whereas Beta Testing is done at the time of software product marketing. Alpha Testing is conducted in the presence of developers and in the absence of end-users whereas for Beta Testing this is exactly reversed.

4. Market Testing

Companies can do two types of market testing including premarket tests and test marketing. Premarket test involves small group of potential consumers. The goal of this testing is to figure out how many customers will try and continue to use the product. In test marketing the product is offered in a select geographic area, prior to official launch. Premarket tests customers exposed, customers surveyed, firm makes decision. Test Marketing mini product launch, more expensive than premarket. There are three types of test marketing including standard, controlled, and simulated. **Standard test markets-** conducts a full marketing campaign in a few small test cities/areas to gauge product performance. **Controlled test markets-** controlled panels of stores that agree to carry the new products for a fee. Sales are tracked to gauge impact. **Simulated test markets-** Simulated shopping environment. Sample of consumers are shown ads & promotions of products including the new product. They're invited to a lab or real store & given money, which they can keep or use to buy products including competing brands. Their purchases are tracked and are asked for the reasons for their purchases. Follow-up interviews a couple of weeks later to gauge attitude, usage, satisfaction, repurchase intentions.

Market testing cons

Standard test markets costly & time consuming, competitors try to distort impact by cutting prices or take other actions, customers get time to find weaknesses & develop their own strategies

Controlled test markets concerns about size & representativeness of test markets. Allows competitors to learn about the product. Less costly & time consuming.

Simulated test markets maybe less reliable because of the simulated conditions and small samples. Less costly & time consuming.

5. Product launch

In this stage the company determines its 4 p's. However timing is also key to determine, when they will launch their product, whats the best time. Companies that are the first to market a product can gain from it, this is called first mover advantage. Therefore when they launch their new product they must consider promotion, place, pricing, and timing.

6. Evaluation of results

Lastly once the product is in the market, the company must evaluate the success or failure. Based on satisfaction with performance, customer acceptance, met firms financial projections, met market performance.

Why do new products fail?

Too small target market, poor design, low product quality, incorrect positioning, wrong pricing strategy, poor marketing communications, competition.

Diffusion of Innovation

Diffusion refers to the time it takes for a product to become widely adopted in the market place. According to the diffusion of innovation theory, 4 factors influence how quickly products are adopted. **Relative advantage**: degree to which a new product is superior to existing alternatives. **Compatibility**: extent to which new product is consistent with your need and lifestyle. **Observability**: extent to which the product can be observed in use and showing its benefits. In retail stores for example when someone is demonstrating how to use the product and goes over its benefits. **Complexity and trial-ability**: products requiring much learning takes longer; being able to try the product reduces time to adoption.

In terms of product adoption and diffusion, the telephone which was set in the market in 1900 took 70 years for 80% of consumers to adopt it. However the cellphone created in 1990 took only 15 years for 80% of consumers to adopt it.

Diffusion of innovation or consumer adoption model

The first to adopt the product making up 2.5% of consumption are **innovators**: venturesome, risk-takers, not price sensitive. The second is **early adopters** making up 13.5% of consumption, they are opinion leaders because many people look to their response of how good the product is in deciding if to be buy or not, take less risk than innovators because they spend a little more time to make sure it is an improved product. Next is **early majority** making up 34%. They adopt before average person, are a little price sensitive, not risk takers, perfect product. Then **late majority** 34%. They avoid risks and need a perfect product to buy, they are also price sensitive. Finally **laggards** 16%, don't like change, very price sensitive.

Product life cycle gives different view of the diffusion of innovation. The previous model focused on people, this model PLC focuses on sales, profits, and competition. How sales unfold over time. There are 5 stages including development of product, introduction, growth, maturity in a state of equilibrium when there is an absence of significant growth or a lack of innovation., and decline. Sales and profits will grow through the introduction, and growth stage and start decreasing in the maturity and decline stage. As well profits start at below \$0 when first introduced, this reflects negative profits from investing. Different marketing strategies are needed in the different stages. For example in introduction phase: sales are slow and few competitors, promotion should be based on awareness of product.

Stages in the Product Life Cycle

	Introduction	Growth	Maturity	Decline
Sales	Low	Rising	Peak	Declining
Profits	Negative or low	Rapidly rising	Peak to declining	Declining
Typical consumers	Innovators	Early adopters and early majority	Late majority	Laggards
Competitors (number of firms and products)	One or few	Few but increasing	High number of competitors and competitive products	Low number of competitors and products

Strategies to extend the product life cycle:

Develop new uses, modify product, increase frequency of use, increase number of users, find new users, reposition product, tweak marketing strategy.

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Product management decisions- Layers of a Product

A product consists of 3 layers. First layer is **core product**: core customer benefit/value. **Actual product**: brand name, quality, packaging, design. **Augmented product**: associated services such as financing, warranty, support. These three layers can help a small business owner understand the product features and benefits that will best deliver value to current and prospective customers. These layers also provide the bases for differentiating and positioning the product. Lets use this and discuss water. Core Product or benefit/value of Water: Quench thirst & hydrates us! Increases Energy & Relieves Fatigue; helps you think, focus and concentrate; Promotes Weight Loss; Removes by-products of fat, reduces hunger, raises metabolism and zero calories! Next layer is Actual Product? – the physical features of the of the water – bottle shape, color material plastic vs. glass, brand names, logos, etc.. Finally Augmented Product: Associated Services such as delivery, installation, financing, warranty, support services, ongoing maintenance, etc.

Product Classification

Marketers classify products based on the way they are used and purchased. There are 4 different classifications: Convenience, shopping, speciality, unsought. Convenience products: bought frequently & immediately staples, impulse, low price. Shopping products: bought less frequently suitability, quality, style, price. Specialty products: bought occasionally unique characteristics, brand identity. Unsought products: rarely purchased, costly, innovative, often requires personal selling.

Characteristics of the 4 different classifications:

Convenience: Customer buying behaviour: Frequent purchase, little comparison or shopping effort, low customer involvement. Price: Low. Place: Widespread in convenient locations. Promotion: mass promotion by the producer. Examples: Toothpaste, magazines, laundry detergent.

Shopping: Customer buying behaviour: Less frequent purchase, little comparison effort, comparison of brands on price, quality, style. Price: higher. Place: selective in fewer outlets. Promotion: Advertising and personal selling by both producer and resellers. Examples: Major appliances, televisions, furniture, clothing.

Speciality: Customer buying behaviour: Strong brand preference and loyalty, special purchase effort, comparison of brands, low price sensitivity. Price: High. Place: Exclusive in only one or a few outlets per market area. Promotion: More carefully targeted promotion by both producer and resellers. Examples: Luxury goods, such as Rolex watches or fine crystal

Unsought: Customer buying behaviour: Little product awareness, knowledge or if aware, little or even negative interest. Price: Varies. Place: Varies. Promotion: Aggressive advertising and personal selling by producer and resellers. Examples: Life insurance, dental services Innovative products. Unsought Goods are goods that the consumer does not know about or does not normally think of buying

Product management decisions

5 product decisions firms have to make. **Product mix:** complete set of all products offered by a firm. **Product lines:** groups of associated items consumers use together or think of them as a group. A product line is a group of related products produced by one manufacturer. For example, products that are intended to be used for similar purposes or to be sold in similar types of shops.” If you have several products with something in common, you can put them into one group. **Product category:** A group of products that offer similar benefits can be referred to as product categories. Products from a same product category will have similar physical features and will offer similar benefits. **Product mix breadth:** number of product lines. Product line depth: number of products within a product line. Firms must take into account these decisions to enhance their profitability, customer loyalty, and competitiveness.

What is a brand?

A brand is business concept that helps people identify a company, product, or individual. A brand is identified by its name, logos, symbols, characters, slogans, jingles and even distinctive packages.

What is branding?

A process concerned with creating & maintaining a set of values – tangible & intangible – that are relevant to consumers and distinguishes it from competitors' brands. Essentially, it is a promise to consumers that it will always deliver these values. Branding is the marketing practice of actively shaping your brand, differentiating yourself from the rest.

Benefits of Branding

Customer loyalty: Once shoppers begin to recognize and buy a service or product, a good brand can keep them coming back for more—and can make them loyal “followers” of that brand. When a company combines a great product with engaging branding that hits all the right notes with shoppers, a business will see their customer loyalty begin to build and build and build.

Protects from competition: Gives them more differentiation from other brands that sell similar products.

Reduce marketing costs: relates to customer loyalty.

Brand Equity:

Brand Equity: set of assets & liabilities associated with a brand that +/- value. Brand equity, in marketing, is the worth of a brand in and of itself — i.e., the social value of a well-known brand name. $BE = \text{Brand Awareness} + \text{Brand Associations} + \text{Brand Loyalty} + \text{Perceived Value}$. **Brand awareness:** # of consumers familiar with the brand & what it stands for. **Brand associations** are the attributes of brand which come into consumers mind when the brand is talked about. Brand should be associated with something positive so that the customers relate your brand to being positive. **Brand loyalty:** repeat purchases & positive word of mouth. **perceived value** is the customers' evaluation of the merits of a product or service, and its

ability to meet their needs and expectations, especially in comparison with its peers.

Branding ownership strategies:

Manufacturer brands: They are created by producers and bear their chosen brand name. The responsibility for marketing the brand lies with the producer. Most manufacturer brands are supported by massive advertising budgets. offer greater control of brand. **Private-Label or Store Branding:** Also called store branding, private-label branding has become increasingly popular. In cases where the retailer has a particularly strong identity, the private label may be able to compete against even the strongest brand leaders and may outperform those products that are not otherwise strongly branded. The northeastern U.S. grocery chain Wegman's offers many grocery products that carry the Wegman's brand name. Meanwhile national grocery chain Safeway offers several different private label "store" brands: Safeway Select, Organics, Signature Cafe, and Primo Taglio, among others.

Generic brands: A number of companies successfully pursue "no-brand" strategies by creating packaging that imitates generic-brand simplicity. "No brand" branding can be considered a type of branding since the product is made conspicuous by the absence of a brand name. "Tapa Amarilla" or "Yellow Cap" in Venezuela during the 1980s is a prime example of no-brand strategy. It was recognized simply by the color of the cap of this cleaning products company.

Brand Naming Strategies:

Individual Brands: use of individual brand names for each product. Individual branding is a marketing strategy in which every product a company sells has its own unique brand name. The policy helps establish a unique image and identity. It also helps make a brand occupy a distinct position relative to rival brands, i.e., positioning. Individual branding also protects a company's other products if one of them fails. It allows the company to offer a wider range of products of different quality. For example, cheap products will not undermine the image of the more expensive ones. **Family brands:** A common brand name is used for all the products of the company. The goodwill attached to the family brand name benefits all brands and the use of the name in advertisement of one brand helps the promotion of all the brands carrying the family name. kellogs. **Brand Extension:** use of the same brand name for new products microfoost excel, word, etc...

Branding dilution: Brand dilution happens when a brand loses its value from overuse. Value is lost when a product does not meet the expectations customers have of the brand .The brand gets watered down. Brand extensions can lead to

brand dilution if the new product does not live up to the brand promise of the original product. Licensing is the biggest cause of brand dilution; poor quality or unrelated products with the brand name on it can take away the brand's meaning.

Co-branding

Co-branding is a marketing strategy that utilizes multiple brand names on a good or service as part of a strategic alliance. The point of co-branding is to combine the market strength, brand awareness, positive associations, and cachet of two or more brands to compel consumers to pay a greater premium for them. Go-pro and red bull is an example of co-branding. Benefits: enhances consumers' perception of quality when reputable brands come together 2.improves brand image 3.shares marketing promotions, costs, and other resources 4. gives access to each other's customers 5.enables them to appeal to new markets or segments. Risks:This strategy could fail if customer profiles of the cobrands are too different or conflicts among the partners.

Brand licensing/ merchandising:

Brand Licensing/Merchandising: A brand allows another company to use its brands for a fee. Brand licensing gives visibility to the brands and increases brand equity and generates greater revenues. A major risk for licensor is brand dilution from overuse.

Things to consider when creating packaging and labeling of a product:

Standout, Be simple, Distinct brand mark, Emotional attachment, Iconic – packaging & design

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The service-product continuum: most offerings lie somewhere in the middle but from left to right from service dominant to product dominant- doctors, hotels, dry cleaners, restaurant, apparel speciality store, grocery store.

Characteristics affecting service:

Intangibility: Intangibility is an important consideration that complicates the functional responsibility of a marketing manager, specially while influencing and motivating the customers. The goods of tangible nature can be displayed, the prospects or buyers can have a view and they can even test and make a trial before making the buying decisions. The selling processes are thus found easier. We are aware of the fact that services are of intangible nature and it is intangibility that complicates the task of decision-makers. Therefore marketers must use cues, atmosphere, and images when marketing to consumers. Cues that could convey benefits or high quality to consumers include dress code, the nicer you dress the better you look in the eyes of consumers. Also the way the the store looks, the more clean and organized the better.

Inseparability: Both consumer and service provider must be present for consumption to take place. Also because inseparability focuses on the fact that the services are not of separable nature. Generally, the services are created and supplied simultaneously, consumers can not try the service before purchase, and then cannot return after it has been consumed. Therefore marketers can lower risk by offering guarantees, and warranties.

Inconsistency: Because services are performed by humans and not a manufactured product. There can be inconsistency is the service you are receiving. For example one massage can be better than another. Marketers can reduce inconsistency in services by providing training, or replacing people with machines.

Inventory: Once service is offered it cannot be stored like physical products, so if it is not used it will be wasted or perishable. For example if a plane is half full, this is an example of services be wasted, because half the seats are not being used. Therefor for each of these markets can use strategies to deal with these.

The Gaps Model:

Identifies areas where customers believe the services they are getting are poorer then they expect. Therefore gap between what customers are getting and what they

expect. The gaps model is used to address service quality problems. There are four gaps:

Knowledge gap: difference between what customer expect in terms of service quality and what the manager perceive the customer expectations are.

Standards gap: gap between what managers perception of customer expectations are and the standards they set for delivering the service. Managers responsible for setting standards often believe that customers' expectations are irrational or illogical.

Delivery Gap: the difference between Organisations with a Delivery Gap may specify the service required to support consumers but have subsequently failed to train their employees, put good processes and guidelines in action

The communication gap: promises made by companies through advertising media and communication raise customer expectations. When over-promising in advertising does not match the actual service delivery, it creates a communication gap.

Evaluating service quality:

Marketers use 5 dimension to evaluate service quality.

Reliability: the ability to perform the service dependably and accurately.

Responsiveness: the willingness to help customers and provide prompt service.

Assurance: the knowledge of and courtesy by employees and their ability to convey trust and confidence.

Empathy: The caring, individualized attention provided to customers.

Tangibles: The appearance of physical facilities, equipment, personnel, and communication materials.

Even though consumers have expectations, they still have a range of acceptable outcomes that they are willing to accept. This is referred to as zone of tolerance. The difference between what customers really want and what they are willing to accept.

An example is waiting in line for coffee you expect to wait 5 minutes but you are willing to wait 8 before you complain or go somewhere else.

How to fix the gap?

It requires external market research to understand consumers. As well internal to understand their employees and organization culture.

How to ensure high quality service is delivered: Provide emotional and other necessary support, reward employees and use consistent management practice, set standards, Use technology, develop systems to ensure high quality service. Manage customer expectations & promise only what you can deliver. Provide service guarantee.

What to do when you mess up service or provide poor service?

To increase service recovery: listen to customers, resolve problem quickly, provide a fair solution- **Distributive fairness**. Making sure the benefits or outcome he receives prior to problem is better or the same as the cost to him that resulted from the service mishap. **Procedural fairness**. Reflects to the customer's perception of the fairness of the process used to resolve complaints about service.