Unit: II

PRODUCT DEVELOPMENT

In today's intense competitive environment, companies that fail to develop new product are putting themselves at risk. Their existing products are vulnerable to changing consumer needs and tastes, new technologies, shortened product life cycle and increased domestic and foreign competition. At the same time, new product development is a risky process. New product continue to fail at a disturbing rate. The new product failure rate in packed goods is estimated at 80%,and it is the same in financial products and services. And 75% new products fail at launch.

Ex: Ford lost $250 million on its ill-fated Ed-sell brand.

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NEW PRODUCT DEVELOPMENT

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1. A high-level executive might push a favorite idea through inspite of negative market research findings.
2. The idea is good, but the market size is over estimated.
3. The actual product is not well designed.
4. The new product is incorrectly positioned in the market, not advertised effectively, or over priced.
5. Development cost are higher than expected.

Competitors fight back harder than expected

Factors that hinders new product development

1.Shortage of important new-product ideas in certain areas: There may be few ways left to improve some basic product such as steel, detergents, etc,.

2.Fragmented market: Sever competition leads to market fragmentation. Companies have to aim their new products at smaller market segments , and this can mean lower sales and profit for each product.

3.Social and governmental constraints: New products have to satisfy certain criteria like consumer safety, and ecological compatibility .Government requirements have slowed down innovators and have complicated product design and advertising decisions in industries such as drugs ,chemicals, automobiles, industrial equipments.

4.Costliness of the new product development process: A company has to generate many new product ideas to beat their competitors. Cost for Research & Development ,manufacturing and marketing the new idea and new product is also very high.

5.Capital Shortages: Some companies with the new ideas and innovative products, are also able to develop because of the inability to raise the funds needed to research and manufacturing process.

6.Faster development time: Many competitors are likely to get the same idea at the same time and the victory often goes to the swiftest. Alert companies development time by using computer aided design and manufacturing techniques. Strategic partners, early concept tests and advanced marketing planning. They are also using new type of product development called Concurrent New-product development.

7. Concurrent New-product development: in which cross-functional teams work together to push new products through development and on to the market .If one functional area hits a lack/ failure, it works to restore the problem while the rest of the team moves on.

8.Shorter product Life Cycle: When a new product is successful, rivals are quick to copy the product with in short period of time, leaving hardly enough time for the producer to recoup their investments.

Steps involved in new product development/ process of new product development

I. Idea Generation: The new product development process starts with the search for ideas. Top manager should define the product and market to emphasize and should state the new products objectives. They

should state how much effort should be made to developing, break through products modifying existing products and copying competitors products.

Source of Idea-Generation:

1.Customers: Their needs and wants are the logical place to start the search for new-product ideas. The highest percentage of idea for new industrial product originate with the customers. Companies can identify customer's needs and wants through surveys, projective tests, focused group discussions and suggestions and complaint letters from customers. Many of the best ideas come from asking customers to describe their problems with current products.

2.Scientists: Companies also rely on their scientists, engineers, designers and other employees for new-product ideas. Successful companies have established a company culture that encourages every employee to seek new ways of improving the company's production, products and services.

3.Competitors: Companies can also find good idea by examining their competitor's products and services. They can learn form distributors, suppliers and sales representatives. They can find out what customers like and dislike in their competitor's new products. They can buy their competitors products, take them apart and build better ones.

4.Channel Members: Company's sales representatives and intermediates are good source of new ideas. They have 1st hand exposure to customers needs and complaints. They are often the first to learn about competitive developments. Most of the companies train and reward their sales representatives, and dealers for finding new ideas.

5.Top Management: It can be another major source of new product ideas. Some company leaders took personal responsibility for technological innovations in their companies. In companies that are known for innovation the role of top managers is not inventing products but marketing it possible for others to come up with new ideas and set them in motion.

II. Idea Screening: To reduce the number of ideas and select the best idea, screening need to be done.

1.Drop Error: Occurs when the company dismiss an otherwise good idea.

Ex: Henry Ford recognized the promise of automobile, General motors realized need to segment automobile market in to price and performance category to achieve their promise fully.

2.Go Error: Occurs when the company permits a poor idea to grow in to development and commercialization.

The purpose of screening is to spot and drop poor idea as early as possible. The reason for that is ,the product development cost rise substantially at each stage .When product reaches final stages,management often feels it has invested so much in development .So that product should be launched to get back some of the investment .But this is letting good money chase bad money, and the real solution is to not let the poor ideas get this far.

III. Concept Development And Testing: Product concept is the elaborate version of the idea expressed in meaningful consumer terms. Any product idea can be turned in to product concepts .

Ex: Resort Selling, Health Drinks-Target ,primary benefits it provides ,timings etc,.

Testing: Concept testing calls for testing product concept with an appropriate group of target consumers, then getting those consumers reactions. This concept can be presented symbolically or physically. The marketer summarizes the respondents answer to judge whether the concept has a broad and strong consumer appeal. The need-gap level and purchase intention levels can be checked against norms for the product

category to see whether the concept appears to be a winner a long shot, or a loser. Quantitative techniques like co-joint measures and trade-off analysis are used for testing alternative product concepts. Concept testing is of crucial importance, when a totally new product is being planned for introduction.

IV. Market Strategy Development:

After Market Testing ,a preliminary marketing strategy must be developed for introducing it in to the market. Marketing strategy will undergo further refinement in subsequent stages .It consists of 3 parts:

1.First part :Describes the target market size, structure, behaviour, planned product positioning and sales market share and profit goals sort for the first few years.

2.second part: outlines the product's planned price, distribution strategy and marketing budget for the first year.

3.Third part :describes the long-run sales and profit goals, marketing mix strategy over a long time.

V. Business Analysis:

After management develop the product concept and marketing strategy, it can evaluate the proposals business attractiveness .Management need to sales, cost and profit projections to determine whether they satisfy the company's objectives. If they do ,the product concept can move to product development stage.

As new information comes in the business analysis will undergo revision and expansion.

VI. Product Development: After business test, the product concept has to go to **R**esearch & **D**evelopment ,and or Re-engineering to be developed in to physical products. Up to now it has only existed as a word description, a drawing, or a proto type. This stage involves input of a large investment so by now the company will determine whether the product idea can be translated in to a technically and commercially feasible product .The R&D will develop one/more physical versions of the product concept .Lab scientists must not only design the product's required functional characteristics but also know how to communicate its psychological aspects through physical clues.

Ex: Yellow colour supports- Antiseptic claim, Red Colour supports– refreshing claim, blue/green-cool claim. When the proto types are ready, they must be put to the rigorous functional and consumer test.

Functional Tests: conducted under lab and field conditions to make sure that the product performs safely and effectively.

Ex. Packed goods –must have a long shelf-life, Drugs –should not create dangerous side effects.

Consumer Testing: can take a variety of forms, from bringing the customer to labs to give them the samples to use in their home, In-home product placement test etc,. If we want to compare fixed number of items the following three techniques can be used :

1.Simple Rank order Method.

2.Paired comparison method.

3.Monadic-Rating

VII. Market testing: After management is satisfied with the product's functional and psychological performance, the product is ready to be dressed up with a brand name, packaging and a preliminary marketing programme. The goals are to test the new product is more authentic to consumer settings and to learn how large the market is and how consumers and dealers react to handling ,using and purchasing the actual product.

VIII. Commercialization : Market test gives management enough information to make a final decision about whether to launch a new product. If a company goes a head with commercialization it will face its largest cost to built or rent a full scale manufacturing facility, for packing advertising and sales promotion at the beginning itself. In launching new product it must take the following 4 decisions:-

1.When(Timing) 2.Where (Geographical locations) 3.To whom(target-market prospect) 4.How(Introductory market strategy).

PRODUCT LIFE CYCLE

After launching the new product, management prays that the product will enjoy a long and happy life. Management hopes that the sale will be high and the profit will be long lost. Management is aware that the each product will exhibit a life-cycle ,although the exact shape and duration is not easily known in advance.

The product life cycle is an important concept that provides insight in to a product's competitive dynamics.

Stages in product life cycle :

Marketing strategy through out the product life cycle.

I During the Introduction Stage:

Promotion

High Low

Price

Rapid Skimming strategy	Slow Skimming strategy	High
Rapid Penetration Strategy	Slow Penetration Strategy	Low

II. During the Growth Stage: to sustain rapid market growth as long as possible.

1.It improves product quality and adds new product features to improve styling.

2.It ads new models flanker products to protect the main product.

3.It enters new market segment.

4.It increase its distribution coverage and enters new distribution channels.

5.It shifts from product awareness advertising to product preference advertising.

6.It lowers price to attract the next layer of the price sensitive buyers.

III. During the maturity stage: Some companies abandon their weaker products. They should systematically consider strategies of market, product and market mix modifications.

(a).Market Modification: They might try to expand the market for its mature brand by working with 2 factors that make ups the sales volume:

Volume = Number of brands * Usage rates/User.

(b).Product Modifications: i. Improve the quality, ii. Improve the features.

(c).Marketing Mix Modification: Modify Price, distribution channels ,Advertising and sales promotional tools and personal selling and after sales services.

IV. During the Declining stage:

1.Identify the weaker Products

2.Redetermine the marketing strategies.

3.The drop Decisions.

Role of marketing in the economic developments

Marketing plays a very important role in the economic growth and development of a country. Marketing is the bye-product of economic development. .A country becomes underdeveloped or poor because of the non-availability of resources for development.

This can be very well explained by the economic development cycle :

More investment → more employment → more production → more profit/ income → more savings

Cyclic process

Product Line

Definition: It is a group of products that are closely related, either because they function in a similar manner are sold to the same customer groups or marketed through the same type of out lets, or fall with in given price ranges.

Ex: product lines of **HLL:**

1.Bathing soaps : Liril, Lux, Lifebuoy , Rexona.

2.Detergents: Surff, rin, wheel.

Product line Decisions/ Strategies:

1.Product line sales and profits

2.Product line Market Profile.

3.Product line length.

(a). Line Stretching: i. Upward Stretching ,ii .Down ward Stretching, iii. Two way Stretching.

(b). Product Line Filling.

4.Line Modernization.

5.Line Featuring.

6.Line Prunning.

Product Mix: (Product assortment)

Definition: It is the set of all product lines and items that a particular seller offers for sale to buyers.

Ex: Bathing soaps, Detergents, tooth pastes, cooking medium etc.

Product Mix Strategies

our national economy is characterized by our over dependence on Agriculture.

1. There is always excess demand for many products but less supply.
2. Manufacturers concentrate their attention on production rather than marketing.
3. Markets are mostly seller's markets.
4. The management is not a professionalized body and gives no importance to functions of marketing.
5. Industries are quick in adopting new techniques in production, but not so much in marketing.

Importance of marketing in economic growth

Economic growth of a country depends on the performance of marketing activities, which stimulates the demand for goods and services., and leads to higher production.

Production may be the door to economic growth and development of an under developed /under developing country, but marketing is the key to economy

Marketing help in the development of the of the standard of products and services and increase the standard of all fields.

Marketing employs about 35% of total Labour force directly or indirectly.

Marketing provides a systematic discipline to economic activity and it promotes the growth of exchange economy.

Meaning of pricing

Definition for Price: It may be defined as the exchange of goods or services in terms of money. If money is not there ,exchange of goods can be undertaken, but without price, i.e., there is no exchange value of a product or service agreed upon in a market transaction ,is the key factor which affect the sale operation.

Ex: Tuition fees to teacher, salary ,interest, rent, etc,.

The following are the basic policies generally recognized in pricing.

1.Cost Based: The price determination of a product, under cost based method ,is made on the basis of cost of production plus an additional margin of cost, i.e. selling price is equal to cost of production plus anticipated profit. When the management adds to this cost some amount referred to mark up, this method is also called cost plus or target pricing method. Here the cost of manufacturing serves as base, for price fixation.

Advantages:

1.Simple system 2.Socially fair 3.No price war among competitors.
4.Safe recovery of cost guaranteed. 5.reasonable system in changing situation.

Disadvantages:

1.Demand ignored 2.Future cost not considered. 3.Unaccounted Competition.
4.Inefficiency during manufacturing stage not considered.

2.**Cost Demand Based:** Weakness of the cost based pricing is the base for this. On the basis of demand, cost for a particular product is fixed. Price is fixed by simply adjusting it to the market condition. It varies with different consumers. A high demand is followed by high Price and low demand followed by a low price. In some cases prices are fixed based on the historical data available.

Merits:

1.Consumer’s price elasticity and preference are considered. 2.Inefficiency is penalized.

3.New product pricing is facilitated.

De-Merits:

1.It is socially un-fair. 2.Consumers are at a Disadvantage.

3.It does not ensure competitive harmony.

3.Cost-demand Based : On the basis of cost data from accounting records ,demand schedules are built so as to develop the break even analysis. This is also known as break-even pricing. Because the interrelationship of cost and sales volume determines the amount of profit or loss,break even analysis helps in estimating the effects of different prices on profits.The firm tries to determine the price that would produce the profit it is seeking.

Objectives of Pricing

1.Pricing for target return(ROI): When a business man invests money in a business he calculates probable returns on his investments. A certain rate of return on investments is aimed and price is fixed accordingly. Firms want to secure a certain percentage of returns on their investments or on sales. Whole --salers and retailers may charge certain percentage over and above the price, they purchased which is enough to meet operational cost and desired profit.

2.Market Share: The target share of the market and the expected volume of sales are the most important considerations in pricing the products. Some companies adopt the main pricing objectives so as to maintain or improve the market share towards the products. The firms may reduce the price ,in comparison with the rivals products ,with a view to capture the market. By lowering the price ,market share can be increased ,besides attracting new customers.

3.To meet or prevent Competition: While fixing the price ,the price of similar products ,produced by other firms have to be considered One has to look to the prices of rivals products and the existing competition and chalk out pricing policies so as to face the market competition .At the time of introducing a new product ,a low price policy is likely to attract the customers, and can establish a good market share. The low price policy discourages the competitors.

4.Profit Maximization: It can be enjoyed only in monopolistic situations. The goal should be to maximize profit on total output, rather than on every item. It will develop an unhealthy image and exploits the customers. The customers will have a feeling of monopoly and high price

5.Stabilise Price: It is a long term objective and aim at prevent frequent and violent fluctuation in price.. It also prevent price war among competitors. When the price often changes there arises no confidence on the products. Thus firms forego maximum profits during periods of short supply of products.

6.Customers Ability to Pay: In some service industries prices are charged as per the customers ability to pay.

7.Resource Mobilization: The products are priced in such a way that sufficient resources are made available for the firm's expansion ,developmental investments etc., Marketers are interested in getting back the amount invested as speedily as possible. The management may fix a higher price and this trend will invite competitors with low priced similar products.

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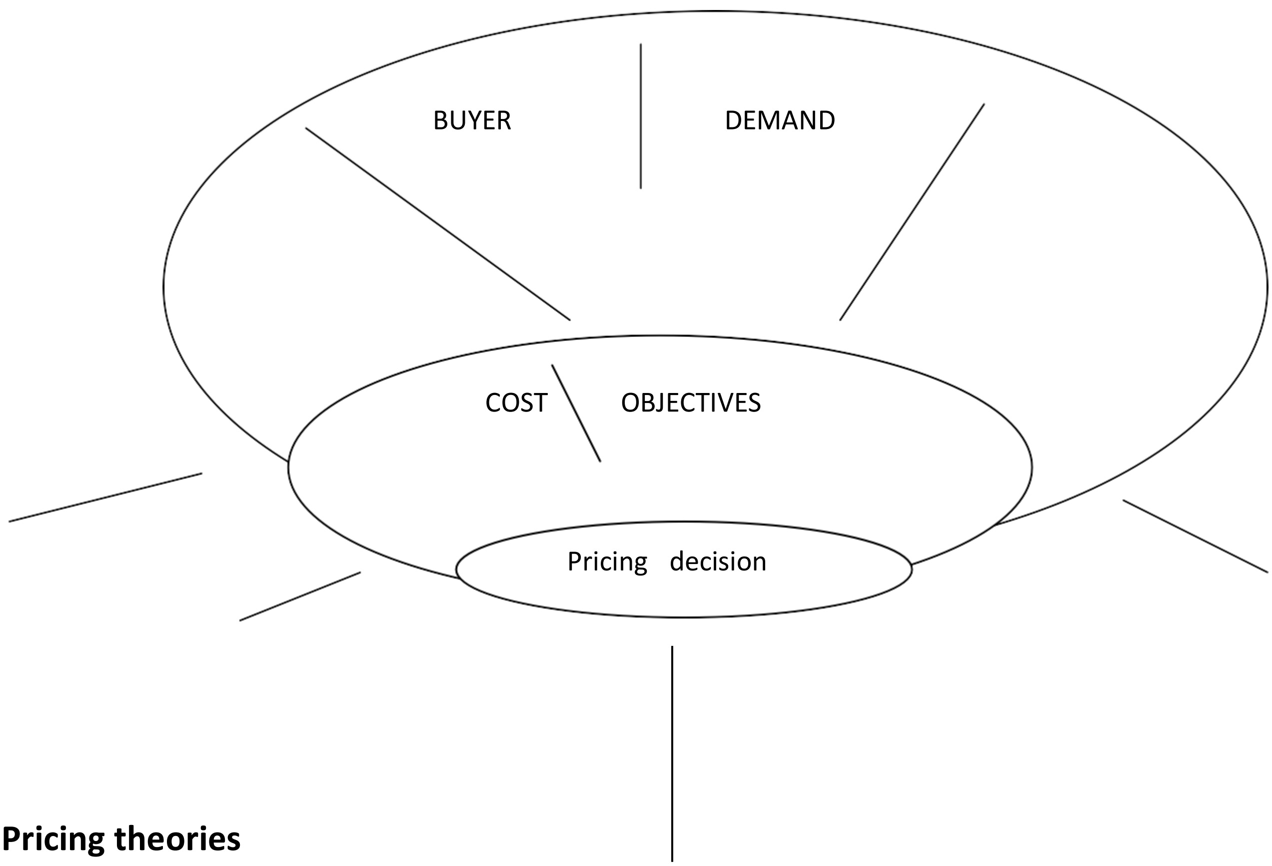
Factors Affecting Pricing Decisions



Pricing theories

Proactive Approach of Pricing

Some firms have this type of approach in pricing while the others have reactive or reflexive culture. Firms with proactive approach to pricing are usually a way ahead of those with a reflective approach in tapping the opportunities in the market, in retaining the consumers under the changing market conditions and in optimizing the profits. While reactive firms remain satisfied with certain simplistic criteria like covering the cost, maintaining the particular market share and matching the competition, the proactive approach goes far beyond this criteria and helps the firm realize the full opportunity that is available in the market. Naturally proactive approach calls for greater innovativeness and a deeper understanding of the pricing mechanism. It is not synonymous with rash pioneering in price fixing, but shrewd pioneering a part of proactive approaching. They gather all relevant information and use them to advantage in their pricing.

Example:

The Proactive pricing strategy adopted by the **Times Of India (TOI)** group of news paper in the recent past. In early 90’s growth in new paper demand has slow down considerably and the market has become highly competitive. In that situation TOI group they applied this strategy to increase their marketing strategy. The new strategy was first applied to **The Economic Times** and then to **Times of India** In those times news papers are sold on monthly basis ,TOI introduced this concept where they broken up the market in to days ,and encouraged readers to choose their news papers for each day depending on the price. In case of **The Economic Times** , It announced that on all Wednesday the price is Rs.2 against Rs.5, for all the remaining days. Subsequently ‘the two rupee pricing was extended to all days of the week except on Sundays and Saturdays ,on those days price was doubled to Rs.10. TOI’ s proactive pricing strategy amounted to a ‘response of the times’ and brought in rich dividends to the group.

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Kinds of Pricing

1.Psychological Pricing: Many consumers use price as an indicator of quality. Cost and other factors are important in pricing. Costly items like jewellery and diamond etc., reveal the status of the persons, who wear them. They demand highly priced items. Then in the retail shops another pricing called ‘odd pricing’ is used.

Ex: In Bata, the prices are set like this Rs.299.90 instead of Rs.300.

Odd pricing by psychology may bring more sales.

2.Customery Pricing: Customers expect a particular price to be charged for certain products. The prices are fixed to suit local conditions. For some standardized products , the customers are familiar with the market conditions and prices. So the manufacturers fix the price accordingly.

3. Skimming Pricing: This pricing strategy is characterized by high initial price of the product, at the time of introducing the product in the market. Manufacturers aims at profit maximization at the shortest period , where market conditions are also favorable. The price is brought down when competitors enter into market field .

4. Penetration Pricing: A low price is designed in the initial stage with a view to capture greater market share, then this is done only by adoption of low prices in the initial stage. Because of low price ,sales volume increases, competition falls down.

5. Geographical Pricing: The distance between the seller and the buyer is considered in geographical pricing. In India the cost of transportation is an important pricing factor, because of the wide geographical distance between the production center and consumption center. There are three ways of charging transit:-

(a).F.O.B Pricing: In Free On Board (original) pricing ,the buyer will have to incur the cost of transit and in FOB(destination) the price influences the cost of transit charges.

(b).Zone Pricing : The Company divides the market in to Various zones and quotes uniform prices to all buyers within a zone, but it varies with that of the buyer in another zone. The price quoted is by adding the average of the transport charges.

(c). Base Point Pricing : It is characterized by partial absorption of the transport cost by the company. One or more cities are selected as points from which all shipping charges are calculated.

6.Administratered Price: It is defined as the price resulting from managerial decisions, and not on the basis of cost ,competition ,demand etc. But the management after considering all relevant factors sets this price. Usually it remains unaltered for a considerable period of time.

7.Dual pricing: In this a producer is required compulsorily to sell a part of his production to the government or its authorized agency at a substantially low price .The rest may be sold in the open market at a price fixed by the producer.

8.Mark Up Pricing: This method is also known as '**Cost Plus Pricing'** and generally adopted by wholesaler and retailers. When they set up the price initially, a certain percentage is added to the cost before marking the price.

9.Price Lining: It consists of selecting a limited number of prices at which the store will sell its merchandise. Pricing decisions are made initially and remain constant for a long period. The firm should decide the number of lines and the levels of each price line.

10.Negotiated Pricing: It is also known as **variable Pricing**. The price is not fixed. The price to be paid on sale depends upon bargaining. In certain cases, the product may be prepared on the basis of specifications and designs by the buyer. In such case, the price has to be negotiated and then fixed.

11.Competitive Pricing: Big firms or the government calls for competitive bids when they want to purchase certain products or specialized items. The probable expenditure is worked out. Then the offer is made quoting the price, which is also known as contract price. The lowest bidder gets the work.

12.Monopoly Pricing: Monopolistic condition exists when exclusively one product or a seller sells a product. When a new product moves to the market, its price is monopolistic price. There is no competition or no substitute. Monopoly price will maximize the profits, as there is no pricing problem.

13.Oligopolistic Pricing: Oligopoly is a competitive market situation and the presence of a few large sellers , who compete for larger market share .No one has control over the price it charges.