New Product Planning and Pricing: From Idea to Commercialization – A marketing approach

Overview: -- As noted in prior handouts, companies seek *product differentiation*, or uniqueness. They target to market segments to gain larger share. They build on successful products by developing product lines. They price according to strategy to achieve their objectives.

In Section A, "Product Planning" we will look at what types of products are out there, why some fail and others succeed. We then look at cost and process considerations.
In Section B, "Product Pricing" we will look at internal and external pricing considerations, objectives and strategies.

Section A. New Product Planning[i]

There are 6 types of new products according to Booz Allen Hamilton, management consultants:

- New to the world products- totally new market
- New product lines- a way for a company to enter a new market
- Additions to existing lines- related to existing offerings
- Improvements and revisions – newer versions of old products which convey greater perceived value or performance
- Repositioning- existing products that are targeted to new markets or segments
- Cost reductions- similar performance at lower costs. Abrams reissue of coffee table art books at 40% of list

Why do new products fail?

- Pet projects proceed without heeding market research
- Market size is overestimated
- Poor product design resulting in faulty manufacturing, returns and cost overruns
- Poorly positioned, advertised
- Poorly priced or overpriced
- Higher production and development costs
- Stiff competition, lowering margins and cost effectiveness and shortening of product life cycle
- Lack of sufficient capital
- Slow from idea to market, losing out to others

Why do products succeed:[ii]

- High product advantage, ie. uniqueness, superiority in quality features, value
- Well defined product concept prior to development- careful assessment of target market, design requirements, and benefits
- Good execution
- Good market characteristics
- Compatibility of technology expertise and marketing ability
- Higher probability of success correlates with: deeper understanding of customer's needs; higher performance to cost ratios; time advantage; higher margins; money spent on advertising; top management support and greater crossfunctional teamwork.
- High amount of teamwork between R and D, engineering, manufacturing, purchasing, marketing and finance *from the beginning.*

Cost of Finding a new product for a sampling of 64 ideas [iii]

Stage	Number of Ideas	Pass Ratio	Cost per product idea	Total Cost
Screening	64	1:4	1,000	64,000
Concept Testing	16	1:2	20,000	320,000
Product Dev	8	1:2	200,000	1,600,000
Test Mkting	4	1:2	500,000	2,000,000
National Launch	2	1:2	5,000,000 5,721,000	10,000,000 13,984,000

The Development Process

Idea Generation

1. Research shows that highest percentage of ideas for industrial products start with the customer. In focus surveys companies ask lead customers to describe their problems and complaints with current items used.
2. Research and Design provides new products and improvements to old products
3. Competitors products
4. Sales reps and intermediaries provide leads and clues

Concept development and Testing

1. Conversion of ideas to testable product concepts or detailed consumer oriented testable idea.
2. After testing, develop a marketing strategy plan which has three parts:
    a. Market size, structure and behavior, product positioning and sales, market share and profit goals in first years
    b. Planned pricing, distribution strategy and marketing budget for year one
    c. Long term sales goals, profit goals and marketing mix strategy over time.

Business analysis:

a. sales, cost and profit projections

Product Development:

After concept is approved, it goes to R and D and engineering to be turned into a physical product. Prior to this it might be a description, drawing or prototype.

Next is functional and consumer testing. ie. people paid to walk miles on carpeting, spilling and baking computers, volunteers at gilette to test blades.

Then packaging and getting ready for real consumer testing. formal test marketing, controlled test marketing.ie. stores carrying products for a test fee, trade shows Unilever's Power laundry detergent. No test marketing, P and g warned them but they went ahead and their product tattered clothing.

Next is commercialization: Contract out manufacturing, build or rent facilities.

Marketing and Market entry timing considerations.

Geographic entry location and strategy are key:

Choices of entry are: One locality; a region or larger area; national or international. Large companies start a product regionally. Most start domestically and then go international

Who to target: go after your best prospects which include:

Early adopters
Heavy users
Opinion leaders
Low cost to reach

Section B. Product Pricing:

Pricing Techniques:

- List prices and discounts (quantity or incentive escalators and surcharges, geographic policies),
- Costs plus fixed fee scheduling.

Internal Constraints:

- The learning curve. (*The more you have made the cheaper the cost to you. Different producers have different cost levels because they are on different places on the learning curve but all producers have a similar external pricing level to be concerned with*).
- Costs, capacity, and interdependence between lines establishes minimum price.

External Constraints:

- Market size and growth,
- Economic conditions,
- Competition,
- Market acceptance (elasticity of demand, elastic situation where decrease in price causes large increase in demand)
- Government regulations,
- International policy (ie. drug costs in Canada);
- Public sentiment (HIV drug pricing).

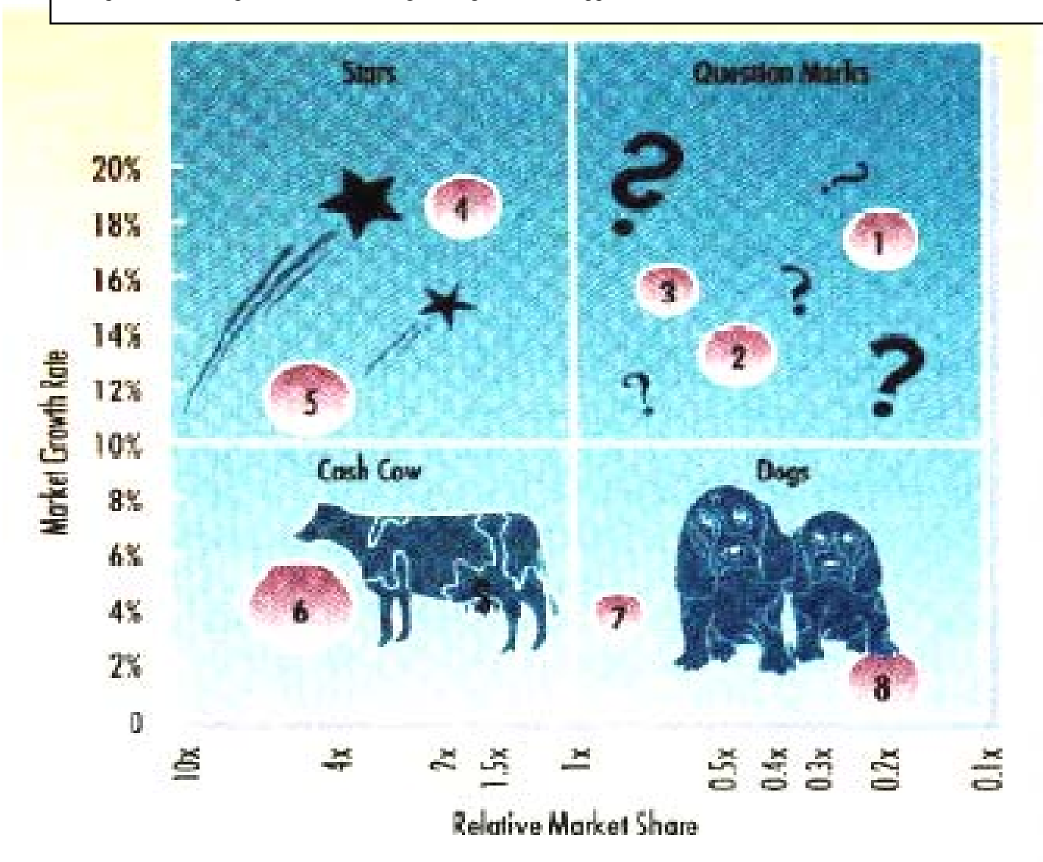
Objectives:

- Increase market share (larger share gives higher profit &stability)
- Decrease share to exit market,
- Stabilize prices

Strategies:

- Use low prices to buy business but use high prices to get out.
- Lag or follow others pricing and then meet them.
- **Boston Consulting Group Strategy** (see below chart), which is based on the *learning curve*.
    - Aggressive (ie. low) pricing and willingness to add capacity increases a company's accumulated experience and pushes it down the learning curve, thereby increasing profits and discouraging competitors. This strategy is most useful in a growing but homogenous market.

A COMPANY'S EIGHT BUSINESS UNITS-Boston Consulting Group MODEL
Adapted from Philip Kotler's Marketing Management 1997 pp 72-4



Business Portfolio Planning Using The Growth Share Matrix

QUESTION MARKS???: high growth low share- new entry. Question is should company continue to pour in money.
STARS: a market leader but not necessarily a money maker
CASH COWS: market dominant in a mature growth area, i.e.< 10% per annum growth.

- **Low capital investement due to stable growth**
- **Economies of developed market and scale**
- **Important to have more than one as cows support stars and pay the bills**

DOGS: low market share in low growth market. Need to analyze reason for keeping dogs-phase out or down.

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[i] Philip Kotler, Marketing Management 1997 pg 307
[ii] Philip Kotler, ibid quoting Madique and Zirger
[iii] ibid pg 310