New Product Marketing Strategies: Managing New Products

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1. PRODUCT CHAMPIONS
- Chrysler Minivan
- Ford Taurus
- Gillette Sensor
- L’eggs
- La Quinta Motor Inns

L’eggs
- Arguably the most successful consumer product of the 1970s
- Low brand recognition category → High brand recognition
- More resilient material
- Readily available
  - (12 times the exposure compared to department store and specialty store brand)
- Similar concept: Perdue chicken

La Quinta Motor Inns
- Stock prices rose 10-fold in ten years beginning 1973
- Holiday Inn quality at a 30% lower price
- Eliminated: function room, wedding area, conference room, large reception area, restaurants, kitchen: all unprofitable part of the business
- Restaurants also generate 95% of complaints
- Locate a Denny’s instead of an in-house restaurants

La Quinta Motor Inns ...contd
- Hotels, Inns, and Motels typically charge 1/1000 of the cost of a room
- The Plaza NY: $300,000 → $300
- No-Tell Motel: $20,000 → $20
- It costs La Quinta 30% less to build than Holiday Inn
- Holiday Inn comes up with Holiday Inn Express

FACTORS INITIATING NPD
- The product life cycle
- Substantial amount of profits accrue from new products
- e.g.
  - Automobiles: 5 year cycle
  - PCs: 3 years (386, 486, Pentium, Core Duo)
  - Golf clubs: 3 years
  - (wood-woods; metal woods; oversize; titanium; oversize titanium)
  - Clothing: 1 season
Why do people prefer new products?

- Latest products employ latest technology
- Latest models fit today's needs better
- Consumers are worried about product obsolescence
- Consumers want to develop image as innovator (looking good)
- New products are more fashionable
- New, better products increase productivity
- Consumers become bored with the same old product

OTHER INITIATING FACTORS

- Financial goals: future profits not present
- Sales and market share growth: e.g. McDonald's breakfast, drive-ins
- Competitive action: e.g. Holiday Inn Express
- Life cycle (discussed above)
- Technology:
  - Internet → internet business

OTHER FACTORS...(contd)

- PC capacity → software, games
- Titanium alloys → golf clubs
- Globalization: offensive and defensive (Asian car, China's nat'l car)
- Regulation:
  - Clean Air Act → catalytic converters
  - California's emission standards → electric cars
  - Airline deregulation → no-frills airline
  - Deregulation of brokerage commission → discount brokerage
- Materials cost and availability
  - Price of oil
  - Price of coffee beans

Invention: Polaroid, Silicon Valley, Route 128
- Demographics and life-style changes
  - Low fat
  - Low cholesterol
  - Low salt
- Customer request: process machinery, medical equipment
- Supplier/Distributor Initiatives and Reactions:
  - Tetrapak, concentrated detergent, Pringle potato chips
  - Alliances: NUMMI, Ford-Mazda-Kia
- Materials cost and availability
  - Price of oil
  - Price of coffee beans

4. PRODUCT JUGGERNAUTS

Caught in commodity traps
- Reason: Only Two Generic Strategies Employed:

  - Low cost
    - Recipe: for gaining M. Share = Cost Leader; economies of scale; superior operations efficiency...
  - High quality/differentiation
    - Superior Performance; attributes; quality; i.e. Unique benefits to consumers.
    - X Good for small firms. X

Beyond Cost / Quality Tradeoff

"Avoid commodity traps"
- Maverick firms break this either/or rule and surprise their competitors.
  - i.e., Need to find other ways to provide value.
  - Pioneer new strategies.
New Product Marketing Strategies:

A. Product proliferation strategy
B. Value for money strategy
C. Superior design strategy
D. Innovation strategy
E. Service strategy
F. Speed strategy

A. PRODUCT PROLIFERATION STRATEGY

- Provide wide choice
- More tailoring
- Choke out competitors
- Fill up shelves
- High Risk, High Reward approach
  - Better used by a leader to defend its position
  - Or by #2, #3 competitors to attack.
- Useful when patent protection cannot be enforced.

Honda

- Yamaha’s challenge in 1981
- Between 1981 and 1982: Honda had 80 new models and 113 product alterations; Yamaha countered – only had 34 new models and 37 product alterations...
  - So every market niche was filled...Yamaha’s penetration was preempted.
- Yamaha’s sales dropped 50%
- President of Yamaha resigned

Sony

- Could not prevent imitators of its Walkman –
  - A lifestyle innovation more than technology innovation.
- By 1982, imitators had grabbed 80% of the market.
- Used an aggressive proliferation strategy
- Introduced 170 new models of Walkman between 1981-1989
- Intense product churning ensured tailored products for every niche.
- MS increased to 40%

Hewlett-Packard

- high end calculators
- many models for different segments: scientific, financial, engineering
- Uses a common architecture and subsystems.
- Implies Higher grade components get into lower priced products (Printers!)

CAVEAT: MUST BE ABLE TO MANAGE COST

Product Proliferation

Table 1: Product Variety Comparison for Internet and Brick-and-Mortar Channels

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Amazon.com</th>
<th>Typical Large Brick-and-Mortar Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Books</td>
<td>2,300,000</td>
<td>50,000 – 100,000</td>
</tr>
<tr>
<td>CDs</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>DVDs</td>
<td>18,000</td>
<td>500 – 1,500</td>
</tr>
<tr>
<td>Digital Cameras</td>
<td>213</td>
<td>36</td>
</tr>
<tr>
<td>Portable MP3 players</td>
<td>128</td>
<td>16</td>
</tr>
<tr>
<td>Flatbed Scanners</td>
<td>171</td>
<td>13</td>
</tr>
</tbody>
</table>
New Economics of Internet: The Long Tail

- Netflix.com, Amazon.com, etc…
- Wine too?

BY PATRICK ANGELES, DIRECTOR OF TECHNOLOGY, INERTIA

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The “Tail” of Internet Wine Retailing

- 0.83% of products account for the first quartile of unit sales.
- 2.36% of the products occupy the 2nd quartile.
- 7.51% occupy the 3rd quartile.
- 89.3% of wine products account for the fourth quartile of sales.
- However, 36% of gross revenues comes from the fourth quartile.
- Products in the fourth quartile on average have a higher unit price than the products in the first three quartiles.

Nicke Products: “Hyperdifferentiation”

B. VALUE FOR MONEY STRATEGY

- Continuous Improvement---Toyota
  - Quality and cost is not a tradeoff
  - Lean production
  - Elimination of waste
  - JIT
  - Teams, Kaizen
  - Diffusion of lean production
  - Radical Restructuring
  - IKEA
    - Co-Creation of Value
      - (Prahalad & Ramaswamy):

C. SUPERIOR DESIGN STRATEGY

- Industrial design: Product, Graphic and Environmental
- Aesthetics
- Function
- Humanware
- Thomson, Bang Olufsen, Apple iPod; Powerbook, Chrysler, Nike, Swatch…
- Sony:
  - Laptop
  - Video Camera -> water dunk

D. INNOVATION STRATEGY

- Technological superiority leading to improved performance
  - Samsung: Dynamic RAM, over 3 billion in profits 1995; largest memory maker, 50% larger than Hitachi, takeover of AST mainly for innovation strategy
  - Sony: Personnel policies support innovation and creativity; subordinates can choose their boss; “unpopular” bosses do not get any engineers
  - 3M: “skunk works”; bottom-up innovation; incentives
  - Winners need to take the perspective of the consumers!
    - Philips vs Sony (DAT → DCC).

E. SERVICE STRATEGY

- Customer satisfaction through better service
- Marriott: Employee satisfaction → superior service → customer satisfaction
- Otis: speedy service
- Saturn: Distributor satisfaction → superior service → customer satisfaction
F. SPEED STRATEGY

- Time based competition
  - Honda, Chrysler: simultaneous engineering; heavy-weight project manager; supplier involvement
  - Benetton, Levi’s: QRS (quick response system); able to respond to changing fashion preferences faster; advantage over overseas manufacturing