



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

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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

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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

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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

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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

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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

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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

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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
 - ❑ Air-line deregulation → no-frills airline
 - ❑ Deregulation of brokerage commission → discount brokerage
- ❑ Materials cost and availability
 - ❑ Price of oil
 - ❑ Price of coffee beans

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- ❑ 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

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4. PRODUCT JUGGERNAUTS

(Deschamps & Nayak)

- ❑ 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; ie Unique benefits to consumers.
 - ❑ X Good for small firms. X

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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.

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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

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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.

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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

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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%!

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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

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Product Proliferation

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

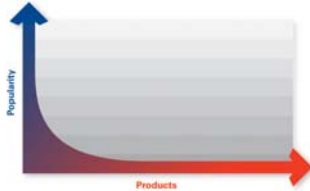
Product Category	Amazon.com	Typical Large Brick-and-Mortar Store
Books	2,300,000	40,000 – 100,000
CDs	250,000	5,000 – 15,000
DVDs	18,000	500 – 1,500
Digital Cameras	213	36
Portable MP3 players	128	16
Flatbed Scanners	171	13

**Consumer surplus in the digital economy: Estimating the value of increased product variety at online booksellers, Erik Brynjolfsson, Yu (Jeffrey) Hu, Michael D Smith, Management Science, Luthicum: Nov 2003, Vol. 49, Iss. 11: p. 1580

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New Economics of Internet: The Long Tail

- Chris Anderson, October 2004, Wired magazine.
- <http://web.archive.org/web/20041127085453/http://www.wired.com/wired/archive/12.10/tail.html>
- Netflix.Com; Amazon.com, etc...
- Wine too?



BY PATRICK ANGELES, DIRECTOR OF TECHNOLOGY, INERTIABEV
<http://271mg.inertiabev.com/index.php?entry=entry060710-234654>
 "...wine sold by all IBC wineries. Each dot on the x-axis represents a single SKU.
 The y-axis shows that product's popularity."

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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.
 - Patrick Angeles, Director of Technology, InertiaBev
- Niche Products: "Hyperdifferentiation"

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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):

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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

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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).

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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

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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

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