

M. COM. SEM. - II

MC 202: Marketing Management

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NEW PRODUCT DEVELOPMENT (NPD)

New product development (NPD) is the process of bringing a new product to the marketplace. Your business may need to engage in this process due to changes in consumer preferences, increasing competition and advances in technology or to capitalize on a new opportunity. Innovative businesses thrive by understanding what their market wants, making smart product improvements, and developing new products that meet and exceed their customers' expectations.

New products may be:

1. Products that your business has never made or sold before but have been taken to market by others
2. Product innovations created and brought to the market for the first time. They may be completely original products, or existing products that you have modified and improved.

It is advised that various questions should be answered by the managers before new product decisions to determine whether NPD will bring profit or loss to the business. These questions are:

1. What types of products or services should they offer?
2. Is the product new to the business or its customers?
3. What markets are they looking at?

There are several descriptions made for product term in the literature. Few descriptions will be given here to make clear what it is meant by product. NPD is not limited to existing businesses. New businesses, sole traders or even freelancers can forge a place in the market by researching, developing and introducing new or even one-off products. Similarly, you don't need to be an inventor to master NPD. You can also consider purchasing new products through licensing or copyright acquisition.

New product development strategy

Considering new product development (NPD) strategy, you can avoid wasting time, money and business resources. An NPD strategy will help you organize your product planning and research, capture your customers' views and expectations, and accurately plan and resource your NPD

project. There are several important steps you will need to plan into your NPD strategy. Your strategy will also help you avoid:

1. Launching a poorly designed product, or a product that doesn't meet the needs of your target customers
2. Overestimating and misreading your target market
3. Incorrectly pricing products
4. Exposing your business to risks and threats from unexpected competition
5. Spending resources you don't have on higher-than-anticipated development costs

To make NPD effective, there should be coordination between the manufacturing, engineering, research and development (R&D), marketing, finance and purchasing departments. Marketing department first has to make an assessment about new product, and then a cross-functional team created for the new product has to come into the scene for development of new product

Classifications of New Product

There are several types of classifications for 'New Product'. One of these is classifications of new products into four groups. These are as follows:

1. Product improvements.

Contrary to the 'major innovation' group, products in 'product improvement' group are not produced with the aim of creating new market. Instead, they target customers of competitors in the market. This kind of new products is popular in cosmetics, chemistry (especially detergent products) and food (diet, fat-free, allergen-free products) industries. Businesses in these industries try to attract customers to their products by differentiating their products from competitors' products in the market.

2. Product additions.

These are imitation products which use the market created by the producers of original products. Even though these products may claim new features, benefits (which are what customers experience differently to the original product) will be limited. This kind of new product is usually chosen by small businesses which have limited resources to create an original product. Therefore, they use original product's existing market and sell with lower prices because of less cost for production of these products without product development costs. In this situation, business that produced original product will face with imitation products with lower prices which will attract customers and will endure product development costs.

3. Repositioned products.

Repositioned products are promoted in a new way to attract different kinds of customers. These are not new products, are not new formulations or are not new features, but they are positioned in a different way in the market for attracting different groups of customers.

4. Major innovations.

Major innovations are absolutely new in the market. They are created by new technological developments and provide new experiences to the customers. For example, phones, smart phones, computers and tablets were not present before they were released for the first time. They created new markets instead of old ones as a result of attracting potential customers by claiming to ease their lives with if they use these products. However, there is a risk about attracting potential customers to major innovation product as potential customers may doubt about its worth. They can hesitate to spend money on something which did not yet prove its reliability and usefulness.

Stages of New Product Development (NPD)

NPD completes in eight stages. The stages of the marketing process for this should be planned and implemented following the new product development process categorized below. At the end of each stage, business should make a decision, continue to the next stage, leave to develop products or look for extra information. The eight stages shown are as follows:

1. Generation of new product ideas,
2. Screening and evaluation of ideas,
3. Concept development and testing,
4. Marketing strategy,
5. Business analysis,
6. Product development,
7. Test marketing and
8. Commercialization

Stage 1:

Generation of new product ideas

To initiate a new product development, first, there has to be an idea beforehand to create it. A lot of ideas are generated till the business finds the most suitable ones. Businesses use internal sources like R&D department, external sources like customers and competitors and other sources like seminars, universities, investors, etc. to generate ideas for new product development. It was shown in a survey including 750 interviews of CEOs in global businesses that 41% of new product ideas were generated by employees, 36% of ideas were generated by customers and only 14% of ideas were generated by R&D department.

Stage 2:

Screening and evaluation of ideas

At this stage, all generated ideas in Stage 1 are screened and evaluated to limit ideas to a manageable number including most useful ideas in order to ease new product development process in later stages and reduce costs and time spent for not useful ideas. Firstly, all ideas are

screened to distinguish more useful ideas from less useful ones. Secondly, three questions that are involved in new product screening framework created by a marketing expert are applied to selected ideas. These questions are defined in a sum as R-W-W ('real, win, worth doing'), and business must give all these questions 'yes' answers:

1. Is it real? Is there a need that will force customers to buy it?
2. Can we win? Does it provide a considerable benefit for the business? Are there enough resources to make new product successful?
3. Is it worth doing? Is this product compatible with the business's growth strategy?

Stage 3:

Concept development and testing

After the most useful product ideas that are selected at Stage 2, product concepts will be developed. The selected product ideas will be presented in a detailed and meaningful way as product concepts.

Then, concept testing will be applied to the developed product concepts. At this test, the thoughts of selected customer groups about new product concepts will be taken, and the product concept that received the best score will be selected as a new product to be developed.

Stage 4:

Marketing strategy

At this stage, a marketing strategy will be created for the selected concept. Marketing strategy is created in three steps. These steps are:

1. Identify which market will new product concept be sold, how much profit is targeted from new product concept and what are its planned value proposition, sales and market share for the first few years.
2. Identify the price new product concept will be sold, how it will be distributed in the market and what will marketing budget be for the first year.
3. Identify how much new product concept will be sold in the long term, how much profit is targeted from long-term sale and what will be long-term marketing mix strategy.

Stage 5:

Business strategy

Business strategy is created in two steps:

1. The first step is projection of new product concept sales. Sales can be projected by market research and review of similar products' sale numbers in the past. Then, business calculates risk by estimating minimum and maximum sales.

2. The second one is projection of cost and profit. All costs involved in new product development such as investment, operation, marketing, R&D costs and profits from sales of new product are estimated at this stage. Calculated numbers will indicate financial attractiveness of new product.

If these projections are compatible with the business's objectives, it will be moved to the next stage.

Stage 6:

Product development

A sample or samples of new product will be created by the R&D department of the business. Then, samples will be tested to assess new product concept whether it is attractive for customers; it can be produced at expected cost and time. Several tests are made to samples to ensure the safety, attractiveness and effectiveness of new product concept; therefore, test process may take a while to choose the most suitable sample. Businesses either do tests themselves or get a service from another business.

Stage 7:

Test marketing

At this stage, tests will be made to identify how marketing of new product concept must be conducted for the best results before enduring costs for unsuitable marketing strategies. All marketing elements such as new product concept's target market, position in the market, advertisement, distribution, packaging, costs, etc. Marketing test provides businesses a suitable marketing strategy for new product concept to be commercialized at the next stage. Passing marketing test and going to commercialization directly may make business face with more than expected costs till the level of exceeding profit. Therefore, it is crucial for the businesses to conduct marketing test before going for commercialization at the next stage.

Stage 8:

Commercialization

The first thing to be done at this stage is determining the time when new product concept will be commercialized or introduced to the market. Then, at in which scale new product concept will be introduced to the market, at a small scale such as a city, medium scale such as a region, or at a big scale such as the national market, or the international market. Usually, most businesses prefer to introduce new products into the market at small or medium scales and expand the market in the process as introduction of new product at a big scale requires more capital, confidence and capacity which only few businesses have.