

Course- PG (Vocational ) MBA

Semester- 1

Faculty name - Trishna

College- J D Women's College

## **Topic- New Product Development (Product Decision)**

Any company, be it newly established or the existing ones, wants to be successful in the long-term. It has to engage in a new product development process to satisfy its customers' needs. Newness may be in terms of production, marketing, usage etc. Concept of a new product is important for managers. There are thousands of new products that enter into the process but only few reach the market and manage to survive.

### **What is a 'New Product'?**

A product that is offered for the first time to a new group of buyers is known as a new product. It is a product that is perceived by the customers in terms of benefit it offers.

### **Types of new product**

- ➔ **New to the world product-** it is a new product that has entered the world market for the first (eg. if we get a vaccine for Covid-19, then it shall be an entirely new product for the world)

- **New product line**- if a company enters an already established market with its new product line. ( i.e. the product is already being sold by competitors but the company is selling it for the first time)
- **Addition to existing product line**- when a new model or style is added to an established product line ( eg adding new flavours, package size etc.)
- **Improvement in existing products**- when new features, quality or services are added to the existing product. It provides greater perceived value to the customers.
- **Repositioning**- when an existing product is introduced in a new segment. (eg. Maruti van was introduced in a family car segment but later on it was repositioned as ambulance (new segment)

## **Reasons for developing a new product**

The dynamic nature of the business environment offers only two choices for the firms- innovate or fail. Innovation or development of new products is directly concerned with the survival and growth of a firm. Those who fail to respond at the right time have to withdraw from the market. Some important reasons for developing a new product are as follows:

- Changes in the Market
- Changes in technology
- Increasing competition
- Diversification of risk by companies
- Utilization of excess capacity

- Creating reputation and goodwill as an innovative firm

## **Steps in New product development**

1. Generation of Idea
2. Screening of Idea
3. Concept Development and Testing
4. Marketing Strategy Formulation
5. Business Analysis
6. Actual Product Development
7. Market Testing
8. Full Scale Commercialization

The various stages of new product development have been explained further:

**1. Generation of Idea-** It is a systematic search to find out new ideas. It comes from the internal as well as the external sources, which are:

- Internal Sources. Mostly, large companies have their own formal Research and Development department, employees, top management etc.
- External Sources-
  - Customers. A company should always listen to customers' query, complaints and feedback that help to generate new product ideas. The best ideas can always come from the unmet customer's needs
  - Competitors. To generate ideas companies can conduct competitors' swot analysis.

- Distributors and suppliers. Also known as collaborators are close to the market. They know the consumer problems and new ideas and techniques to address these problems.
- Other sources can be advertising agencies, industrial publications, marketing research firms, investors, consultants etc.

2. **Screening of Idea**- Idea generation can provide the firm with a pool of ideas. But the importance of this step lies in finding the good ideas and weeding out the poor ones. Following are some of the factors on which screening can be done:

- Is the product useful to customer's needs?
- Company objectives and resource ability (people and skills)?
- strengths and weaknesses of the company
- Current trends?
- Expected return on investment

3. **Concept Development and Testing**- A product concept provides an elaborated description of the idea. The ideas that qualify the screening stage to become a concept have to be tested. Companies cannot launch a new product without properly testing the concept. Product concept may expressed as:

- Users of the product
- Uses of the product
- Primary benefits offered by the product
- Price range

- Occasion of use (timing- breakfast, mid-morning, evening etc.)

**Concept testing helps companies to investigate customers' reactions** before introducing it into the market. The more the tested concept resembles the final product, the more dependable the testing is. As this stage the company has only pictures, symbols, sketch or computer aided design etc. to describe the product. The companies can view the customer's reaction on the following parameters:

- Does the product concept convey any meaning. Does it look believable?
- Does the product seem to fulfill your unmet needs?
- Does the price seem reasonable in terms of the value it offers?
- Do they intend to purchase the product whenever it is made available in the market?
- When and how often will they purchase the product?

Concept testing provides valuable and meaningful information about the possibility of success of the proposed product.

4. **Marketing Strategy Formulation**- if the concept testing gives favourable results, the company develops marketing and business strategy to introduce a new product in the market successfully. (**Many companies follow this step after the development of the product**).

Formulation of marketing strategy is done in three phases.

- First phase- this phase describes the size of target market, structure and behaviour, product positioning, sales, market share and profit goals in first few years.

- Second phase- this phase describes the various product, price, distribution and promotion strategy.
- Third phase- this stage describes the long run sales and profit goals and the company's plan for different stages of product life-cycle.

5. **Business Analysis**- the proposed product is checked with reference to overall business environment. A thorough feasibility study is done whether the product shall be financially feasible ( estimating the total cost and sales).

- **Estimating sales**- Also known as sales forecasting, an estimation of future sales of the product is done depending upon whether the product is a one- time purchase, an infrequently purchased product or a frequently purchased product.
- **Estimating cost**- The manager estimates total cost to find out cost per unit and profit margin. The development cost, manufacturing cost and marketing cost are estimated.
- **Determining profit margin**- on the basis of estimated sales and total costs the profit per unit can be calculated.

6. **Actual Product Development**- when the business analysis shows positive results, the company moves forward in actual development of the proposed product. The company will not jump into mass production. At this stage it will try to develop a prototype. Research & Development cost is very high at this stage. The prototype must satisfy the following conditions:

- Attributes must be similar to the product concept
- It must perform safely and smoothly under normal condition
- It must be prepared with the targeted budget.

- Customer testing is done in the laboratory. The test measures whether the customers find the prototype useful and beneficial

7. **Market testing**- if the prototype satisfies all expectations, then the company must proceed further with the putting the product into the test market. The new product is introduced in an authentic setting to learn how the consumers' and dealers react while handling, using the product. Sometimes the companies don't go for market testing and directly go for commercialization of the product.

8. **Full scale commercialization**- this is the stage of large scale production and full scale marketing of the product. Following decisions are important when launching a new product.

- **When** (timing) to introduce the product.
- **Where (geographical strategy)** to launch a new product in single or multiple location, national or international market.
- **To whom** (target market) the company must decide distribution and promotion (already decided in test marketing phase) to the best prospect customers.
- **How** (action plan) a company should introduce the new product in the target market.