Chapter 12

Developing New Products & Services
• Identify the reasons firms create new products.
• Describe the different groups of adopters.
• Describe the various stages involved in developing a new product or service.
• Explain the product life cycle.
Innovation → process by which ideas are transformed into new offerings

Without innovation firms have two options
   1. Continue to market current products to current customers
   2. Take the same product to a new market
Creating or maintaining a sustainable competitive advantage!!!
Pioneers radically change competition and consumer preferences by introducing new-to-the-world products
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- Have **first mover** advantage → readily recognizable by consumers
- But many fail!
  - Google Glass
  - Apple Newton
  - New Coke
  - ...
Diffusion of innovation
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They don’t like changes and avoid them.

- Innovators: 2.5%
- Early adopters: 13.5%
- Early majority: 34%
- Late majority: 34%
- Laggards: 16%

Number of users

Time of adoption of the innovation
In very general terms, these are the stages of new-product (or service) development:

- **Idea generation**
  - Development of viable new product ideas.

- **Concept testing**
  - Testing the new product idea among a set of potential customers.

- **Product development**
  - Development of prototypes and/or the product.

- **Market testing**
  - Testing the actual products in a few test markets.

- **Product launch**
  - Full-scale commercialization of the product.

- **Evaluation of results**
  - Analysis of the performance of the new product and making appropriate modifications.

But even if you have a great idea, the new-product development process can become somewhat **messy, costly, and aimless** in the absence of a very clearly-articulated (and well-executed) new product development methodology!
Microsoft didn't create **Internet Explorer** to be a way of downloading **Google Chrome** but...

1. Idea Generation

Source of ideas

- Customer input
- Competitor’s products
- Internal R&D
- R&D consortia
- Licensing
- Outsourcing
- Brainstorming
Internal R&D

- High product development costs
- Often the source of technological products or breakthrough products
R&D Consortia

• Firms join together to form research consortiums

• Lower costs and risks

• Benefits spread to all firms

• Example: pharmaceutical industry research
• Firms purchase the rights to technology or ideas from other research-intensive firms
• University research centers also often provide such licenses
• Groups work together to generate ideas
• No idea can be immediately dismissed
Leverage outside firms to generate new ideas
Competitors’ Products

- Reverse engineering
- Copycat products

Products with **patents** or other **proprietary protections** cannot be copied, so reverse engineered products must be substantively different from their source product.
Customer Input

What would be yummy as a chip? Create it, and you could WIN $1 MILLION!
2. Concept testing

- Concept is a brief written description of the product
- Customers reactions determine whether or not it goes forward
- Triggers the marketing research process
Prototype is created
- Alpha testing
  - Within the firm
- Beta testing
  - Uses potential customers

4. Market Testing

• Premarket tests (product not in the market yet)
  – Customers exposed
  – Customer surveyed
  – Sales estimated
  – Firm makes decision

• Test marketing (only for a limited geo area)
  – Mini product launch
  – More expensive than premarket
  – Market demand estimated
5. Product launch

Part art and part science
  – Tech companies use events
    • Apple
    • Google
    • Airbnb
  – Tesla did too!

Convey characteristics and **KEY BENEFITS** (which will convince buyers!)
6. Evaluation of Results

• Satisfaction of technical requirements

• Customer acceptance

• Satisfaction of the firm’s financial requirements
# Product life cycle

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*Typical consumers* includes innovators, early adopters, and early majority, late majority, and laggards.

*Competitors* refer to the number of firms and products, ranging from one or few to high number, reflecting the increasing or decreasing competition.