PRINCIPLES OF MARKETING

UNIT-III

PREPARED BY

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PRODUCT PLANNING AND DEVELOPMENT:

PRODUCT-DEFINITION

Product is the starting point of all marketing activities. A product is a bundle of perceived physical, chemical and/or intangible attributes that has the potential to satisfy present and potential customer wants.

Product is anything that can be offered to a market for attention, acquisition or consumption that : might satisfy a want or need and includes physical objects, services, persons, places, organisations and idea." -Philip Kotler

PRODUCT PLANNING- DEFINITION

"Product planning is an act of making out and supervising the search, screening, development and commercialisation of a new product, the modification of existing lines and the discontinuation of marginal or unprofitable items.- Karl H. Tietjen

Product planning is the starting point of the overall marketing program of the firm. It is concerned with deviations related to the nature and other related aspects of product producer. It is a wide activities.

The entire product planning centers around the following:

- Development and introduction of new product
- Modification of the existing product
- Elimination of unprofitable product.

PRODUCT DEVELOPMENT:

Product development is a wider term. It is concerned with the technical engineering and design of product.

SCOPE OF PRODUCT PLANNING AND DEVELOPMENT:

In the view of William Stanton, it encompasses the following:

- Decisions on product to be produced.
- Decision on number of product lines to be entered.
- Finding new user for the existing product.
- Branding and packing decisions.
- Design of the product in terms of size, colour, shape, materials etc.,’
- The volume of production of each and every product
- Pricing of each and every product category.

NEW PRODUCT DEVELOPMENT PROCESS

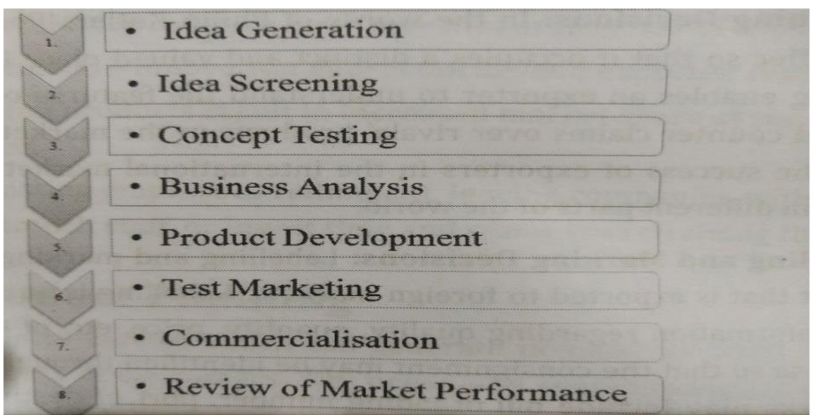
Product innovation is not an option in today's business world - it's a necessity. Now, companies must keep pace with the rapid changes in technology and consumer behaviour by either innovating new products or improving existing ones in order to drive growth and profitability. A new product from a firm's point of view can be broadly divided into three groups:

(a) Imitation of existing product.

(b) Significantly modified product.

(c) Innovative product

It is not easy to create and develop o new product. It requires a lot of patience and investment in terms of money and efforts. Although, there is no standard process for developing a new product, certain steps necessary for creating a new product. These steps have been explained below:



(a) Idea Generation:

The first stage in new product development is the generation of as many new product ideas as possible. Some of the sources of new product ideas are:

• Ideas generated through marketing research.

• Ideas generated from consumers through letters and questionnaires.

• Ideas generated from company's sales force, competitors, etc.

• Ideas generated in brainstorming sessions.

Any of the above technique or combination of these techniques can be used to generate ideas for the development of a new product.

(b) Idea Screening: All ideas generated by the above method(s) may not be equally feasible. Some of the ideas may be impractical or unprofitable. Thus, ideas need to be evaluated. There are two important considerations which affect the process of idea evaluation:

• Cost of executing the idea.

• Benefits reaped from its execution.

The idea, which offers the maximum benefit from the minimum costs, should be selected for execution. This calls for undertaking break-even analysis for determining various levels of cost, volume and profits.

(c) Concept Testing:

Concept testing mean seeking expert advice on production and marketing of a new product It includes advice from production experts, marketing experts, cost analysts, distributors, agents, sales experts, etc., This is necessary in order to determine the success or failure of the product idea on execution.

(d) Business Analysis:

Business analysis is undertaken to determine the commercial feasibility of the product concept in terms of scale of production, demand and cost and profit potential.

- **Demand Analysis:** Demand analysis includes sales forecasting, estimation of degree of competition, elasticity of demand, projecting the life cycles of the product and so on.
- **Cost Analysis:** Cost analysis includes estimating production and marketing costs, production capacity, distribution requirements and so on.
- **Profit Potential:** Profit potential means determining the expected rate of return on investment through Cost Volume and Profit (CVP) analysis (break-even analysis).

(e) Product Development:

Product development encompasses the technical activities of engineering and designing a new product. It is the practical application and execution of product concept with the help of human and non-human resources.

(f) Test Marketing:

Test marketing refers to testing of the actual product in one or two markets on a relatively smaller scale before launching it on a large scale in all segments of a market lf the new product is successful on a smaller scale, then it is introduced on a large scale. However, if it fails in the test market then the company finds out the reasons for its failure and makes necessary changes in the product mix and re-launch it If the new product fails again, then the company may drop the idea and may look for a new market opportunity. Thus, test marketing reduces the risk of product failure.

(g) Commercialisation:

After the marketer is fully satisfied with the results of test marketing. steps are taken to launch a full-fledged programme for the production, promotion and marketing of the product. It is the stage where a new product is born; and it enters the life cycle process. The company makes large investments in the new product It arranges for various resources - human as well as non-human - for its large-sc.ale production and distribution. It advertises the new product on the mass media like TV, Radio, Newspapers and Magazines, etc. to create awareness and attract customers' attention,

(h) **Review of Market· Performance:**

The company must review the marketing performance of the new product. ft must answer the following questions:

- Has the new product been accepted by the consumers?
- Are the demand, sales and profits as per expectation?
- Are the consumers satisfied with the performance of the product"?
- Are the various stakeholders like marketing staff, middlemen, etc. are satisfied?
- Are the compct1tors Introducing a similar new product in the market?

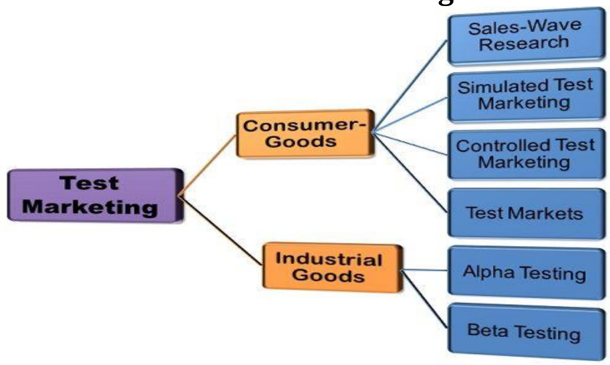
The company must continuously monitor the performance of the new product and must make necessary changes in their marketing plans and strategies else the product may not survive long.

TEST MARKETING:

The **Test marketing** is a tool used by the companies to check the viability of their new product or a marketing campaign before it is being launched in the market on a large scale. The market test is generally carried out to ascertain the probable market success in terms of new product’s performance, the level of acceptance of the product, customer satisfaction, and the efficiency of the marketing campaign.

The test marketing of the consumer goods and the industrial goods vary.

Consumer-Goods Market Testing



This test is conducted to know the consumer behavior in terms of:

- Trial: Whether a consumer will try a product, at least once.
- Repeat: Whether the consumer will repurchase it after the trial.
- Adoption: Whether the consumer accepts the product and will purchase it again.
- Purchase Frequency: How often the consumer will buy the product.

To ascertain these variables the following test are conducted:

1. ***Sales-Wave Research:*** Under this test, the consumer is offered the product, again and again, free of cost. This is done to determine the willingness of the customers to use the product every time it is offered.
2. ***Simulated Test Marketing***: Under this test, 30-40 customers are selected and are invited to the store where they can buy anything. The new products are placed with the old or competitor's product and then consumer's preference is ascertained through their selection of the products. In case, the new product is not chosen by them, then the free samples are given to the customers and are inquired telephonically about their product experience after some weeks.
3. ***Controlled Test Marketing:*** Under this test, the company selects certain stores in different geographic areas and ask them to keep its new product into their stores in return for a fee. The company controls the shelf position, displays, point of purchase promotions and pricing.
4. ***Test Markets:*** Under this, the firm chooses the representative cities where the full-fledged launch of the new product is done starting from the promotion campaign to the ultimate sales. Once it is successful, the firm goes for the national launch.

Industrial-Goods Market Testing

There are two types of market testing:

1. Alpha testing (within the firm)
2. Beta testing (with outside customers)

Alpha Testing: The alpha testing is done within the firm by test engineers or employees who check the marketing mix of a new product and fix the issues arising in any steps of launch.

Beta Testing: The Beta Testing is done with the customers where they are asked to use the product and give their feedback on its usage. The other way to test the business goods is to introduce it to the trade shows and observe the reaction of customers to it. Also, these goods can be tested at distributors and dealers showrooms the attention of the customers can be gained.

BENEFITS OF TEST MARKETING

Let's look at the benefits of test marketing in detail:

1. **It gives a product the chance to sell itself:** Great products sell themselves. Having a great product can serve as its marketing tool. Over time, customers will come to rely on the product that they are using and decide to stick to it. When that happens, the company will have converted a free trial into a paying customer who loves the product and will come back for even more.
2. **Competitive edge over similar competitor products:** For some industries, providing a free product trial may not be considered the standard practice. If consumers in the industry expect a free product trial because that's what everyone else is doing, then not offering one may hurt the companies reputation. Much of this depends on how the company can showcase the features.
3. **People are allowed to invest time into the brand:** Money is valued higher than time. But, from a marketing perspective, time with the test products and brand message is more valuable than cash inflow. When people are using the products and investing time into the company, they're naturally building a relationship with the brand. Relationships create loyalty. Loyalty creates customers who keep coming back for more great products.
4. **Critical feedback is received about the product:** The whole idea of test marketing is that a product trial allows the brand to see how the product will react in real consumer environments..
5. **Offer incentives:** Once customers try a product and think of purchasing it, offering a discount or an incentive on it may help to gain the customer. Referral discounts are another way to help close a deal and find new prospects that might be interested in what the brand is offering.
6. **It gives consumers a sense of urgency:** One of the benefits of test marketing is when prospective consumers are faced with a sense of urgency; they quickly evaluate the pros and cons of keeping the product.
7. **It aligns customer interests with company values:** Once a trial is offered on the product, it helps the company set expectations on their offerings. Brands can communicate clearly to each prospective customer, letting them know what to expect from the product and how to use it properly. In doing so, brands can align the interests of the customer with the values of the company, which helps to further reinforce the relationships they're trying to form with exposure to their products.
8. **Brands can see the seriousness of their customers:** If a prospect has no interest in the product, then offering a trial to them will confirm that the lead has grown cold. Brands will always come across people who take a product trial without the intent of buying the product. But many people try products when they have an interest in the results. This process allows brands to score leads better, create stronger follow-ups, and grow their inbound marketing opportunities.

9. **Data provided is from actual customer spending:** Replicating the sample selected for test marketing helps the brand understand the trends that may arise once the product is put up for sale.
10. **Risk of a full-scale launch eliminated:** Huge costs can be saved on branding, manufacturing, and marketing if the product doesn't pass the test. The pitfalls found during the test launch can be rectified by the brand. Changes can be made based on the feedback and data collected from the test sample.. This saves the reputation of the brand too along with saving on money.

REASONS FOR THE FAILURE OF NEW PRODUCTS:

1. **Poor product quality**: Obviously, a product, which is of poor quality, cannot be sold in the market.
2. **Higher price**: Another reason for the failure of certain products is the price factor. Higher production and distribution costs may lead to higher price. Such a product cannot be sold in a market consisting of middle and lower income buyers.
3. **Poor timing**: It is important that a product, to be successful, is introduced in the market at the correct time. If it is introduced at an unsuitable time it may turn out to be a failure. Example: Publishers of textbooks usually bring out books in the beginning of the academic year.
4. **Inherent defect**: There may be an inherent defect in the product, which may affect its market potentialities. Such a product may not be preferred by the buyers even if the defect is rectified later.
5. **Extent of competition**: A monopolist may not have any difficulty in marketing his product. In the case of a market where there are a large number of sellers for a particular product, the buyer will have many alternatives. Therefore, in such a condition unless the marketer brings out the product to the satisfaction of the buyers, he cannot be successful.
6. **Lack of promotional measures**: Popularizing the brand, particularly, in the introduction stage of a product is essential. Such a step will ensure repeated buying and bring long-term benefits for the marketer. Failure to do so will 'prove to be disastrous for the product.
7. **Faulty distribution policy**: It is important that a product reaches the right market at the right time and at the right price. The faulty distribution policy of the marketer may lead to many problems, i.e., the goods may not be available when required, may lead to higher price and so on.
8. **Unavailability of spare parts**: In the case of durable goods like televisions sets, Air-conditioners, etc., and also in the case of two wheeler and cars, easy availability of spare parts is an important requirement. Unavailability of spares may frustrate the buyers. Such buyers would not recommend the product to their friends and relatives.
9. **Poor after-sale service**: The quality of after sale service is yet another important cause. Most marketers, particularly those marketing durables, two-wheeler, etc., are courteous while making sale. When the customer requires service later and approaches the seller, the latter may show indifference.
10. **Imitation products**: Last, but not the least, the presence of a number of imitation products in the market makes the genuine products vulnerable. An average buyer may not be able to distinguish between the genuine product and the fake one.

MEASURES TO PREVENT PRODUCT FAILURES

1. The marketer shall ensure that the product he markets is in demand.

2. He can determine the price at which the retailers must sell the product to the buyers. This will prevent manipulation of the price.

3. Before launching the product, steps must be taken to ensure that there are no inherent defects.

4. All efforts must be made to popularize the brand name particularly in the introduction stage.
5. The marketer shall select the right distribution network so that there is no delay in the consumer getting the product.
6. It is also important to make available genuine spare parts in the market at fair prices.

7. The quality of after-sale service must conform to high standards.

8. In the case of consumer and industrial goods, it is beneficial to get the quality certified by the Indian standards Institution (ISI) and/or by the International Standards Organization (ISO).

9. The product may constantly be updated to incorporate all the features that the buyers expect in it. Taking the case of Maruti Udayog, the company has updated all its models over a period of time, which is probably one of the main reasons for its success.

10. Steps must be taken to eliminate duplicate goods in the market. This may be done by cautioning the buyers on spurious goods. The problem may also be legally approached.

PRODUCT LIFE CYCLE

Product life cycle (PLC) is the extension of the human life cycle It Is the cycle through which every product goes through from introduction to withdrawal or eventual demise.

"Product life cycle is an attempt to recognise distinct stages in the sales history of the product" **- Philip Kotler.**

In the fast changing global business environment, products are becoming obsolete fast due to ever improving technology. This has shortened the life cycle of products. Typically, there are four stages in the life cycle of any product. These stages have been explained below in general as well as in the context of International market

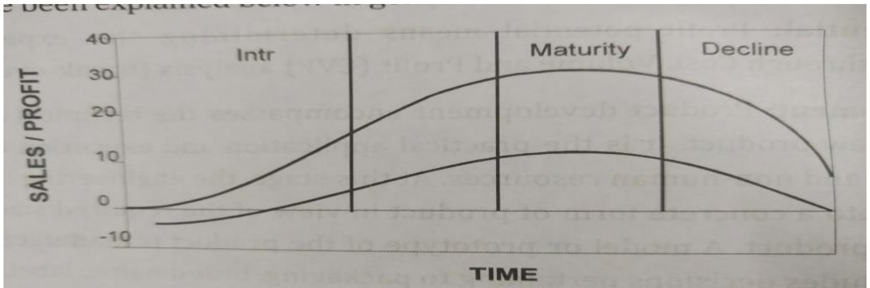


Fig. 7.3 Stages in International Product Life Cycle

(a) Introduction Stage: Introductory stage of product life cycle, which starts with the launch of a new product, is characterised by:

• Low sales due to limited coverage and low customer acceptability.

• High cost per unit due to low sales and high promotional expenditure. • Absence of or low competition, if the product is newly invented.

• Loss or negligible profit due to low sales and high costs.

(b) Growth Stage: During growth stage, the product gets recognition in the market, and its market share increases. This stage is characterised by:

- Rapid increase in sales due to increasing awareness and acceptability.
- Rising profits due to increasing sales and economies of scale.
- Increase in competition due to the entry of new sellers.
- Market segmentation and introduction of new models .

(c) Maturity Stage: During maturity stage, the product is well settled in the market and is ready to face competition. This stage is characterised by:

• Saturation of market demand.

• Entry of new sellers continues, resulting in falling market share

• Falling profits and profit margin due to high promotional expenditure.

• Intensive sales promotional expenditure.

(d) Decline Stage: During decline stage, sales decline due to the entry of new innovated products. This stage is characterised by:

• Entry of new innovated products with improved features.

• Decline in sales.

• Sharp decline in profit, which may even become negative.

• High turnover of firms.

PLC analysis, if done properly, can alert a company as to the health of the product in relation to the market it serves. PLC also forces a continuous scan of the market and allows the company to take corrective action faster.

DIFFERENT MARKETING STRATEGIES

Based on their objectives, resources and their share in the target market, firms formulate a suitable marketing strategy to achieve their ultimate objectives.

STRATEGIES AT DIFFERENT STAGES OF PRODUCT LIFE CYCLE

Each product has a certain length of life, during which they pass through different stages. From birth to death, each product passes six different stages, namely,

- Introduction
- Growth
- Maturity
- Decline

1. Strategies at introduction stage

At the introduction stage of a product, the market likely to be characterized by,

- Fewer competitors
- High costs and prices
- Little or no variation in product design or style
- Heavy promotional effort.

Strategy followed at this stage is,

- Promotional effort should be attempt to create awareness among customers and dealers
- Distribution effort should ensure wide availability of product in market due to convenient purchase of customers.

Considering only price and promotion, management can pursue one of the four strategies.

(a) Rapid skimming strategy:
It consists of,

- Launching a product at a high price and high promotional effort.
- Firm charges high price in order to gain more gross profit per unit as possible.
- In order to convince the market even at a price, the marketer should spend more on promotional activities.

The main assumptions of the strategies are,

- A large part of the potential market is unaware of the product.
- Those who become aware of the product, are enthusiastic to buy the product and can pay the asking price, and
- The firm faces potential competition and wants to build up brand preference.

(b) Slow skimming strategy:
It consists of,

- Launching a new product at a high price and low promotional effort.
- The high price assists to get back as much profit as possible.
- Low level of promotion expenses keeps marketing expenses down.

The strategy is possible when,

- The size of the market is limited
- Market is already aware of the product
- Consumers are desirous of paying high price
- Hidden competition is not likely to be happened immediately.

(c) Rapid penetration price:It consists of,

- Launching a new product at a low price and high promotional effort.
- It promises to bring about the largest share in the market and fastest market penetration.

This strategy is applied when,

- The size of market is large
- The market is not aware of the product
- Consumers are price sensitive
- There exist strong hidden competition.

(d) Slow penetration strategy:It consists of,

- Launching a product at a low price and low promotional effort
- The low price will induce rapid acceptance
- The low promotion will help to realize more net profit.

The strategy is possible when,

- The size of market is large
- Market is already aware of the product very well
- Consumers are price sensitive
- There is some potential competition.

2**. Strategies at Growth stage:** Under this stage,

- Product gains popularity among consumers mind
- The demand and sales go up tremendously due to promotional effort
- Profit of the firm start going up and up because of, (i) Large scale production (ii) per unit cost is reduced.
- High profit attract the competitors to enter the market.

In order to sustain as long as possible, the firm adopts several strategies:

- It improves quality of product and adds new product features and improves styling.
- It adds new models.
- It enters new market segmentation.
- It enters new market distribution channels.
- It reduces the prices so as to attract the next layer of price – sensitive consumers.

- It adopts product – preferences advertising rather than product – awareness advertising.

3. **Strategies at Maturity stage:**

In this stage,

- Competition increases
- Sales of product continue to go up but at a lower speed.
- The advertisement and distribution costs increase in order to make the product survive.
- The profit rate begins to decline.

Various strategies that can be adopted at this stage are:

- Abandoning the weaker product
- Concentrating on existing profitable products and on new products.
- Improving the quality of the existing products.
- Reduces the prices of the product.
- Making modifications in the market, marketing and product mixtures.

4. Strategies at Decline stage: In this stage,

- Displacement of product by some new invention of change in consumer behaviour.
- New products are marketed by the competitors.
- Sales come down.
- Cost control becomes necessary to reduce the price in order to compete.

Strategies followed at this stage are:

- Constant review is required to judge when, and from which market the product should be withdrawn.
- Recycle the product and stretch its life cycle.

It is advised to stop the production of product and switch off to other products.

Managing the Product life cycle: The following table summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the product life cycle:

S. No.	**Characteristics**	**Introduction**	**Growth**	**Maturity**	**Decline**
1	Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
2	Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
3	Profits	Negative	Rising profits	High profits	Declining profit
4	Customers	Innovators	Early adopters	Middle majority	Laggards
5	Competitors	Few	Growing number	Stable number beginning to declining	Declining number
6	Main objectives	Create product awareness & Trail	Maximize market share	Maximize profit	Reduce expenditure & milk the brand
S. No.	**Strategies**	**Introduction**	**Growth**	**Maturity**	**Decline**
1	Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands & items	Phase out weak models
2	Price	Charge cost- plus	Price to market penetration	Price to match or best competition	Cut price
3	Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective – phase out unprofitable outlets
4	Advertising	Build product awareness among early adopters & dealers	Build awareness & interest in the mass market	Stress brand differences & benefits	Reduce to level needed to retain hard- core loyal
5	Sales promotion	Use heavy promotion to entice trail	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level