PRODUCT MANAGEMENT ISSUES

Lecture Notes

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PRODUCT MANAGEMENT ISSUES

Ultimately, products and services are to provide value for buyers.

General observations:

1. Product management depends on where the product is in its current innovation-imitation life cycle.

   Much of the redesign and modification takes place during the introductory and growth stages of the life cycle.

2. New product development is best viewed as an ongoing, continuous process

3. New ideas can come from many outside sources. An attitude that says "forget it if it's not invented here" is competitively irrational

4. When managing the development and introduction of new products, constantly test the new product idea with customers and get their feedback; keep improving the product after it is introduced

5. A brand name is a valuable asset that needs to be carefully managed

6. The positioning of a new brand is enhanced by choosing a brand-name logo that is attention getting, distinctive, memorable, and communicates the products' benefits

7. When brand reputation is uncertain, performance guarantees or warranties are very important to assure customers of quality performance
8. Package and product *labeling* persuade and educate the customer and distribution channel, thus providing communication that reduces risk and enhances the ease of use.

9. The product's packaging must meet the *requirements of the distribution channel*.

10. It is easier to *design and launch new services* than new goods.

11. *Operations management* plays a dominant role in new service developments because the operations' people work *for* and *with* customers. They are *closest to the customer*. It is their job to also understand the human engineering involved in designing a service that delivers high satisfaction to the target market.

12. Global marketing has greatly *increased the rate of innovation and imitation* in new product design. International marketing also poses special problems for brand management, packaging, and labels.

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**EXPANDED PRODUCT LIFE CYCLE CONCEPT AND THE PRODUCT MANAGEMENT PROCESS**

1. **PLC Limitations:**
   a. Most products go through several innovation-imitation-improvement life cycles.
   b. Only fads have a single life cycle.

2. PLC gives managers a *good framework to think about managing their products*.

3. Various levels of addressing PLCs:
   a. whole industry
   b. single model of a specific product
   c. product form - supercomputers, photocopiers, hand-held calculators
4. LC of product form most useful because:
   a. definable groups of direct and close competitors
   b. a core technology
   c. broad groups of users/buyers

Some product management strategies suggested by PLC based analysis:

1. INTRODUCTION: LAUNCH
   a. Target on best prospects: innovators and enthusiasts
   b. Use most loyal distributors
   c. Use free samples
   d. Public demonstrations and trade shows
   e. Bed down quality control
   f. Make final product and service modifications
   g. Use specialist media and catalogs

2. EARLY GROWTH: TAKE OFF PHASE
   a. Redirect focus and promotion
   b. Invest in expanding production
   c. Build inventory
   d. Expand distributor network
   e. Train expanded sales force
   f. Institute marketing controls
   g. Invest heavily in advertising

3. GROWTH: RAPID GROWTH PHASE
   a. Rapid expansion of distributors
   b. Product line expansion
   c. Niche marketing
   d. Continued heavy promotion
   e. Sales force incentives and management
   f. Encourage referrals
   g. Search for new sources of supply
   h. Need to balance supply and demand
   g. Stock-out and back-order damage control
4. **LATE GROWTH: SHAKEOUT PHASE**

   a. Freeze investment in plant
   b. Productivity review
   c. Special trade promotion to keep channels happy
   d. Focused attacks on vulnerable competitors
   e. Long-term price reduction or at least a short-term price promotion
   f. Keep plant at maximum capacity and subcontract excess

5. **MATURITY:**

   a. Strongly defend home-market niches
   b. Prune product lines
   c. Emphasize gross contribution rather than market share and sales volume
   d. Reduce pioneering sales force effort, more telemarketing
   e. More trade than consumer promotion
   f. Introduce flankers, private labels, generics
   g. Reinvest in market research and R&D
   h. Use promotions to increase heavy-user loyalty

6. **DECLINE**

   a. Cut low gross margin products from the line
   b. Withdraw from channels in order of their unprofitability
   c. Freeze R&D and product modifications
   d. Freeze advertising and promotions
   e. Attempt to maintain price to the end
   f. Buy back remaining stock and redistribute
   g. Maintain spare parts and service
   h. Consider divesting while it is a going concern
   i. Go through product elimination decision process

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**NEW PRODUCT POLICY: COMPANY CULTURAL ATTITUDE TO INNOVATION–IMITATION**
Two general strategies with product development activity:

1. **Continuous stream of modestly successful products:** Each product builds on the firm's customer knowledge and its technology

2. **Big hit or discontinuous innovation approach:** search for revolutionary product that changes market and the company. Accompanied by reshaping of the product-market or even the creation of a new one. Requires substantial R&D commitment.

**Management implications:**

Principal criteria that drives top mgmt's choice of NPD approaches are the firm's resources, financial goals, and the nature of the market

Big hit: promise of market leadership; luck involved or must fund several R&D efforts due to high failure risk.

Incremental approach: more viable if resources are limited
**Exploratory approach:**
bootstrap an innovation in an emerging market

Steps involved:

1. considerable customer contact during the initial design stage;
2. quickly launching the first version of a product to a relatively small initial market;
3. receives feedback quickly from market
4. redesign the product
5. launch the revised version preferred by customers

Compared to traditional approach to prod development: performing mkt research, product testing, and subsequent redesign, all before the product is introduced. This approach offers several advantages:

1. A faster inception-to-market speed, permitting a faster creation of positive cash flow
2. The potential for a lower expenditure of resources to get a first version out
3. The potential for a more efficient use of resources in redesign efforts
4. More efficient and accurate learning about customer desires, since the feedback is based on an actual offering rather than market/product research instruments

Major proponent and successful practitioner of the exploratory approach: Apple Macintosh

Guy Kawasaki: "The Macintosh Way":
lead,
take a short,
listen,
respond,
then lead again
Developing marketing strategies for new products in technical companies:
What founders and marketing managers say

1. **Exploratory Approach:**
   a. Gets products into market very quickly so it can receive feedback from customers
   b. Revises the strategy rapidly and gets a new version of the product launched to a somewhat different and larger market; revises strategy
   c. Goes through several iterations of the product and strategy
   d. Requires informal customer contact while the strategy is being developed initially; and after the product is offered.

2. **Experimental:**
   a. All portions of the marketing strategy developed and tested before the launch; use formal and informal market research
   b. Launches product believing it is the right one for the market; does not expect any major adjustments to the strategy after launch

3. **Incremental:**
   a. Used in markets where firm has an established technology and a built-in relationship with an existing group of customers.
   b. Builds on the established base to offer this customer group more and more value
   c. Product is offered and little adjustments are needed after launch.

4. **Over-the-wall:**
   a. Antithesis of the experimental approach.
   b. Develops a product with little or no input from customers.
   c. Product is believed to be the right product for the market... based more speculation until customers in the market buy the product or not

Cross-functional New Product Development
1. Needs a champion who believes in the new product and be strong enough to protect development from detractors.

2. Cross-functional with these skills: product design and engineering, market research, marketing, production, purchasing, and cost accounting.

3. Major advantage: constant, frank interaction between group members; enables marketing, design, operational, and cost problems to be solved at simultaneously, rather than sequentially.

4. Increases shared insights, learning, and control.

5. Reduces the time between product concept and when it breaks even in the marketplace.

6. Team leadership is important.
   a. Leader is someone with broad experience and a broad business outlook.
   b. team must confidence in leader
   c. Leader is both the informal and formal leader
   d. Must be given authority and be willing to make the tough calls
   e. Leader be given stake in the outcome as incentive for commitment
   f. Adopt intrapreneurial approach ... let team continue to run business after launch. Controversial.
How The Japanese Keep Costs Low

<table>
<thead>
<tr>
<th>U.S. Approach</th>
<th>Japanese Approach</th>
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<td>Market Research</td>
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<tr>
<td>Product Characteristics</td>
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<tr>
<td>Design</td>
<td>Planned selling price less desired profit</td>
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<tr>
<td>Engineering</td>
<td>Target cost</td>
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<tr>
<td>Supplier cost</td>
<td>Design Engineering</td>
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<tr>
<td>Supplier pricing</td>
<td>Target costs for each component force marketers designers, and engineers from all suppliers to struggle and negotiate</td>
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Cost

If cost is too high return to design phase

Manufacturing

Continuous cost

Periodic cost reduction
Contrasting Approaches to New Product Design:

1. In the traditional approach followed by many US companies, cost is considered too late in the new product development process.

2. Japanese firms often use price, along with other product features, to position the product.

3. They then set a profit margin and subtract it to determine the target direct cost.

4. This target cost, along with QFD-determined features, drives the concurrent engineering process.

5. Afterward, the drive to reduce costs continues unabated.

BRAND IDENTITY AND BRAND EQUITY

1. **Efficiency in info processing** - use of symbols such as brands to stand for larger chunks of info and simplify info handling

2. **Brand knowledge** helps determines choice

3. Brand names assure customers will receive same quality in future purchases of same product

4. High equity in brand also means that many firms are unwilling to take the risks and effort to launch new brands and prefer to market new products under the umbrella of well-established brand names that have become part of our cultural heritage.

DURABILITY OF BRAND NAMES

1. 10 of the top 20 candy bars (include Snickers and Hershey's) have been around for 50 years and account for over 80% of all candy bar sales!
2. Strong brand equity is useful in roll out of new products and break into new markets

3. Strong brand names serve formidable barriers, making it difficult for competitors to enter or expand in the market

4. Brand management neglect can cause major losses to firms. E.g., Gucci stretched its brand name, reputation, and equity to the limit by indiscriminately putting its logo on 14,000 different products, including T-shirts, key chains, sunglasses, watches, and coffee
The Many Aspects of Managing Brand Equity

Brand quality

1. **Brand loyalty**
   - Reduced marketing costs
   - Trade leverage
   - Attracting new customers
     - create awareness
     - reassurance
   - Time to respond to competitive threats

2. **Brand awareness**
   - Anchor to which other associations can be attached
   - Familiarity-Liking
   - Signal of substance/commitment
   - Brand to be considered

3. **Perceived quality**
   - Reason-to-buy
   - Differentiate/position
   - Price
   - Channel member interest
   - Extensions

4. **Brand associations**
   - Help process/retrieve info
   - Differentiate/position
   - Reason-to-buy
   - Create positive attitude/feelings
   - Extensions

5. **Other proprietary brand assets**
   - Competitive advantage

All the above provide value to customer by enhancing customer's:
   - interpretation/processing of info
   - confidence in the purchase decision
   - use satisfaction

These also provide value to firm by enhancing
   - efficiency and effectiveness of marketing programs
   - brand loyalty
   - prices/margins
• brand extensions
• trade leverage
• competitive advantage