Marketing Management II

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Lecture No. W2-L5
Strategy for New Product Introduction – II

Hello and welcome to our course marketing management part2. This is week 2 section 5 and we are discussing about product life cycle management. I am Shashi Shekhar Mishra and I have with me senior professor Jayanta Chatterjee. We are from department of Industrial and Management Engineering IIT Kanpur. So, I will just give you a brief recap of what we were discussing in the last section.

And there we have started talking about what is products product life cycle management what is the concept of product life cycle and then we have looked in to the different stages of product life cycle and then we have looked in to the different stages of product life cycle we are starting from growth maturity and declined and professor Chatterjee has explained that curve of sales Vs profit in much more depth you can refer back to the previous section.

If you go back and have a look on that and then we started talking about the introduction stage in particular we have talked about introduction stage. Where we have seen that a new product is introduced in the market the company generally face technical religious in initial stage they have to ramp up their production process dealer pipelines have to be failed and the customer has to accept in that is the most important thing is and then we have seen also in the introduction phase is characterized by heavy investment in the promotion side.

Because the product is really new you have to make customers aware about the product category the product its benefit the cost attach with the product. What are the basically how to use that product you have to induce trail lot of investment and resources goes in to that part and then also in basically dealing with the other things which are part of the overall promotional strategy in general. You will see that introduction stage is a quite resource extensive stage.

And then we have once disused that we started talking about introduction strategy some of choices a manager or marketing manager has to make in the introduction stage whether you should be pioneer or whether you should be follower. So, we discussed about bee the benefits of being pioneer and then there we have talked about some of the benefits of the pioneer is high brand recall that the category itself is began to known as a brand actually.

So, we have given you some examples of bandage zipper escalators and then establish basically the pioneer establishes in the mind of the consumers they create knowledge about the product category. So, what are the basically important attributes in the choice of making the selection of the product that is being more or less being decided by the pioneers and then we also talked about customers in Asia.

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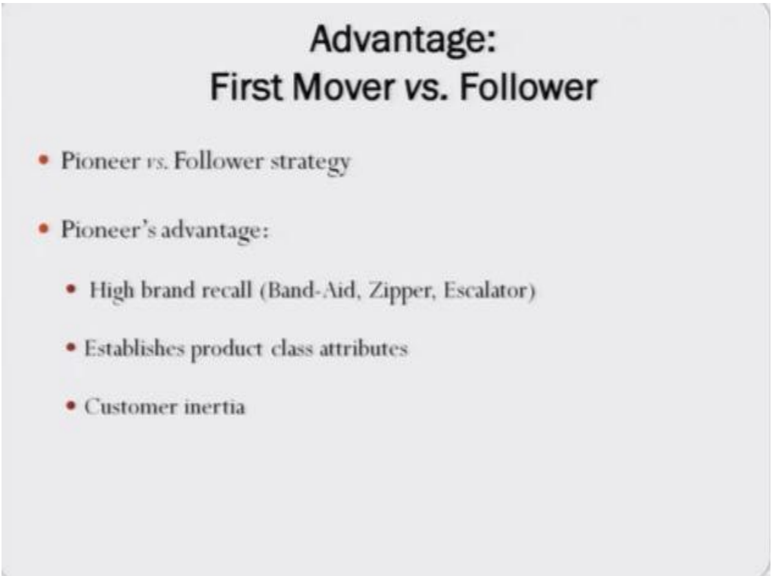

That customer once custom to certain kind of product will find difficult to switch to another more brand and that is huge advantage to a pioneer. Because customer reluctance is embedded in the fact that will continue to use a product if they are satisfied until unless they get an opportunity or substitute which is significantly better than the existing thing and then a economy of a scales we have talked about the spread of the fix cost and then we have looked in to the this one more thing which was technologically leadership.

We started talking about finest disadvantage there we have seen the initially when the products comes they are generally I mean quite commonly they are proved in their nature they come with technical glitches you do not know as a marketing manager. What is exact positioning of what should be the most appropriate positing for you then you arrive earlier the time you should reach in the market and lack of resources to complete big forms is another problem.

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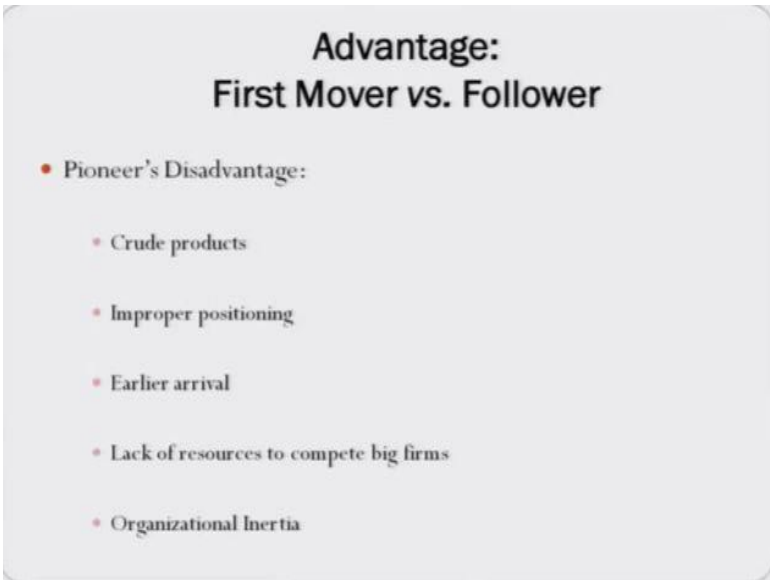

So, the last point where I have stopped. I will began from there another thing what happens to the finances is that increasingly in the past the past has shown this behavior of organizational inertia. Where in forms have tasted the inertia success at they have been success or they have been successful with in the new products but later on the same company fails Nokia is one of the big example of that, we can have a case about it in later sections, So Nokia has been so success full in as a companies in 90 and the first initial part of the post 2000 also they were the market leaders.

But they actually fall they had a fall in what was the reason of this fall was it was some of the analyst says that the fall was embedded in the success actually. So basically, they what has made an organization successful makes them believe that continue to succeed then in the same way however as we say the changes only the permanent thing market changes are very fast and if you don't force those changes coming you may fail.

So, success becomes a trap for failure yes. So, what is the reason some of the scholars have attributed to this is many times managers in the organization if, they have invested in a technology in a product they will like too continue in the product or the technology would like to harvest as much as they can so that they can increase a return from that product however in this process of what you are trying to maximizes and return from a particular product you don't see the change in the needs are the change in the trends in the market.

And then you don't keep up base with that changes and that is where the forms loose so the organizational inertia one of the part is like this rigidity comes from investment once you have inversed in something you got like to remain in invested there and you don't want to basically see the changes because of your existing investments. The second thing which is some of the scholars said attribute is that your process are very bureaucratic in nature or this is a design of the organization bureaucratic over the period of time.

Organization when its starts from the small form and small startup it grows with the success of this product once it become very big the channels of the communication and the process become very rigid. So, any idea or anything which has to move across the different levels of organization at the management it takes lot of time that basically reduces responsiveness of an organization on the other side if there is a small form or basically an entrepreneurial efforts.

They mean they can do whatever they want to do in a minimal time actually that's why make these organization large organization very susceptible to this kind of changes in the market but in even in the entrepreneurial organizations another form of this inertia happens. That also is you see entrepreneur is initially successful then in the entrepreneur mind some kind of complacency or invincibility a sense of invincibility develops.

And so, it there are more examples were the entrepreneur did not listen to his or her own team mates and because he or she had taken risks earlier and they were successful so they believed to that they would able to come up with innovative break through ideas every time. So sometimes they can you know make a very wrong decision and keep on pursuing it Roxy thinking that no last time I made a breakthrough by keeping on this time also it will happen it an completely flop.

Though we see therefore inertia or this inability to interpret the signals for change be it in product feature beat in the pricing mechanism beat in the product placement or distribution mechanism in all of these cases this inertia is can be very big drag and therefore and one has to create the necessary motive force insight to count this drag so this probably we talked about I think our discussion on this pioneers advantage and disadvantage sufficient when we will also look it into the followers strategy.

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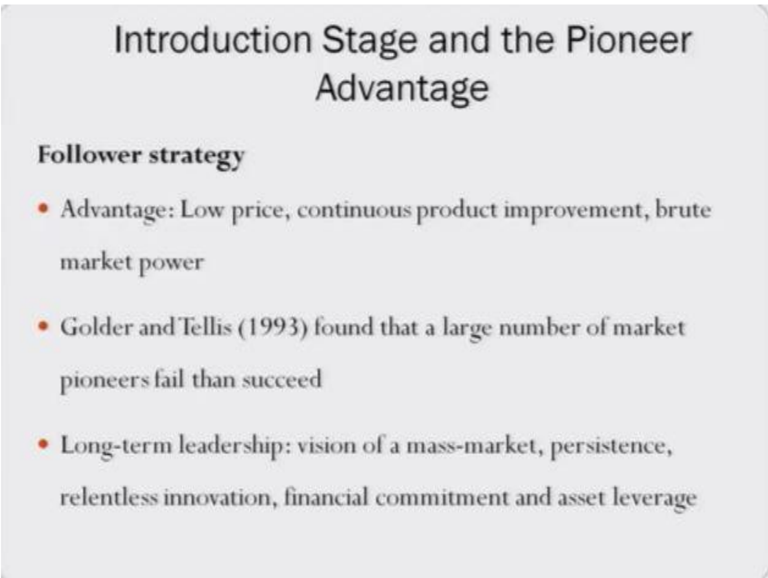

Like what are their advantages and what are their disadvantages. So, when we look in to the follower advantages one the biggest advantage of the follower is that they don’t have to incur as much as probably pioneer has to invest. So, the R and D investments are very few compared to your the incumbent pioneer investments and that makes their fixed cost to be very less as you are imitating your product cost is less.

And you can prize it low and that is you’re the one of the biggest weakness of the finest product comes from there that followers can comes with the product at a significantly lower price and that is the probably and sometimes they as the Japanese have done it again and again to the Americans like that it happened in the camera market it happened in the television market it happens in the music systems market. The Japanese came later and they were not the pioneers they were followers but they came with significantly better engineer’s products of higher quality and more attractive price wise.

So, the second point what you were talking about combined with the first point is continuous product improvement so whatever might be the weaknesses of the pioneer products the first product in the market as your saying Japanese have observed those thing very closely looked at the market reaction to them and based on those things. I mean those feed back or the reaction they have continuously improved the product improved the product in the way it becomes significantly better than the pioneers offering and that basically toppers them pioneers from the market position. So that is another thing and the third thing that comes is like some of the blash forms.

They have group market part in terms of the distribution channel in terms of their marketing function size and efficiency and the way they promote the product or probably their brand which can give them advantage in the market so based on these things that Golden tellers have suggested that large number of pioneers actually fail and then basically say that what can be done by the basically the allover or what can be done by the basically the pioneers one of the suggestions that comes for any organization in such scenario.

Particularly in technology sector is that they should continuously innovate and what one of the one probably recommendation of Prasad Tel us in his research is that that companies actually managers fears about the cannibalization of their product. But he says that the smart managers are those who can deliberately cannibalize their existence better that you cannibalize your own product rather than somebody else.

And you provide the migration path from one product point to the second product point to your customers. So, the customer's remains with you and the same time you keep on basically moving up in the ladder but there are some you know very interesting cases here take for an example Sony and Sony's Walkman. So, this personal or portable music system existed before Sony's walkman but Sony walkman engineer itself form factor in to a size etc.

Which really made blitz in the market and Sony was very good in the sense that they followed all these that they were persistence. Sony introduced relentless number of changes. So even though many companies in Europe many companies in America, Asia they copied walkman. But Sony was a head and Sony remained almost for two decades and they create they introduced I think 10s of 20 changes model changes continues improvement with respect to battery life continues improvement with respect to music fidelity at this anti rocking.

That means you can you will hear perfect music even when you're running or even when your Joking or even under water all that but yet they were not able to see the coming change which came with apple and interestingly people say that the reason they did not see that the change coming or even if they so are sense that change they could not grass pit. Because, by that time, Sony had already acquired assets to produce tapes continuously.

So, they were in a way wedded to the success of the their cassette business and or they are CD DVD Business so they did not see this wireless delivery which apple brought in you know one sound at a time all that freedom they bought to the customer and so in spite of being adhering to all this things that we have their long term leadership vision of the market persistence real time television. So, which means that you cannot rest you just can't rest on the laurels of past achievements.

Even after 15 years of maintaining a very good record you can fail miserably you know Sony walkman today is out of the market because this apple I pod and I phone is completely changed the music delivery the way in the industry. And those products are today gone completely gone so if even you have a leading product and you have come as a fast follower you have been very successful even then you can be filed by your own game if you're not alert. Okay

So, this probably it takes as to the conclusion of the decision about pioneer versus as follower that we characterize advantages and disadvantages of both as you have actually said like conclusively saying that which one is going to win is difficult to predict actually. So, one thing is that there what I get from you said is that one should not be as an organization should be cannot take anything for granted in such markets and has to continuously look for what is happen happening in the markets with their customers and more than serving the existing needs focus on the lateral needs or the needs for tomorrow is something,

Which was very important and that's and why we grow who a professor of Stanford, but he was also the CEO of Intel and he gets the slogan. Which is I think even part on and today he talked about may be twenty years back that only the paranoids survey that means he have to all the time look behind and see who is trying to catch up with you with kind of game plan and anti grove even when turn to say that see those the chief executing managing directors traditionally their role had been seen as personal. Who kind of keeps everything together is a person who sort of calms the organization keep sintering stable.

And whereas anti-group said that in high tech organization in a consumer electronic organization where changes continue it is the sea use duty what he called to create the burning platform. you know when you were in a ship the ship is burning everyone is anxious people want to change they want to jump in to the water they are not because they feel they stay on they will be burnt with the ship so that sensation that we must change and change is what we have to impress is and we have to paranoid about that.

The competitors can come from any side the competitors can come from your own domain or we have seen in case of Apple that Sony was in music system business in a consumer electronics were as Apple was in computer which was supposed to professional electronics. But today they are mixed up so you need to have both a long vision as well as a wide vision both lenses must work together for you to top of this game on new product and succeeding with new products.

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So, looking at the next choice level with the introduction stage of the product is the whether you are going to have the penetration prizing or probably you are going to skimming prizing. So, penetration is like where you want to take the products to the maximum possible customers in the market and the skimming is you want to restrict. Your product to the customers which high paying customers high paying customers who ever greater willingness to pay and that is how you want to extract the maximum profit at the initially stage at the market now these two strategy.

If I want to basically apply so there are some of guidelines like which way you go for like a you have to decide a what kind of demand it is if it's an operational product then probably a then skimming is better than going for a penetration starting and that were you will see that what you have talked about I think in previous session about apple prizing that apple keeps the prices on the another side and they will bring down the prizes after the particular time period.

Because that basically first target to the aspiration growth which takes I phone is something which closer to the aspirations that makes them to pay for much higher prizes then probably a regular mobile phone will fetch the second thing is that how distinctive is you are offering from your competitor so the more the difference it is probably it will go for the skimming prizing. Third thing is important of prizing choice criteria. If prize is not a very important thing then probably the penetration is better because customer.

If you take the prize beyond the point the threshold they will probably not purchase the product because of the higher prizing. The 4^{th} thing is that the yeast of duplication also. So, in case if you keep the prizes on the higher side then that the copycats can come in to the market and similar types of product can come in to the market. Because they see there is a huge margin for that product and even they sell it slightly for cheaper prices people will be ready to go and purchase that such kind of product and then you have at the last you have to look into the RYR probably the organizational objective.

What kind of basically, profit in the organizational is looking from that product or what kind of organizational objective or organization or a form is trying to achieve through that product. So, that will probably give you the direction between the penetration Vs skimming. And you know 35 years back when we studied marketing that time. We all admired DuPont because DuPont was a company they come up with innovative products again and again and they followed this skimming prize strategy they always pegged it high and then over time they brought it down by that time they were ready with some other products etc.

And but later on I would say may be when fifteen years back when I was teaching marketing I always used to say the days of skimming is gone. And I said that no longer the speed of catching up by your nearest compotator is so fast that you can’t just have a skimming strategy no more it will you have to penetrate quickly as possible and occupy market space and get customer loyalty as fast as possible so I used to teach that no longer company can follow skimming strategy then an apple I was surprised because apple came in to a market which early reversed Nokia, Samsung they were all following in a way prizing penetration strategy.

They were all try to reach as many customers as possible and they try to keep it as low as possible but then came apple they made skimming raising again a valid strategy. So, it's very difficult it all ultimately depend I think how good you understand your products your customers the point you said that phone which when apple came in verse and utilitarian product Nokia or Samsung they were all selling on the basis of bits and bytes of speed functionality and so on.

An apple set of came in not with of that prepositions and I mean their function was excellent it had all that famous user interface keys of use of apple. But on top of that they made it I think the product of beauty the people were proud to possess an I phone they were proud to show people how beautiful this picture is by use my I phone and so they change the game from the utility and logic based marketing game to an emotion an aspiration based Aesthetic based marketing game.

So, they understood the they were large number of customers who were looking for something they could be proud of and something that not was a phone but was not a style statement personality statement. And they created a product which that particular requirement and they won so, I think the interesting thing from your slide. I can say is that like fashion I think no strategy marketing goes dies and new strategy marketing is often re born as reincarnation of strategy and it all ultimately depends on how will you understand your customers.

How will you understand your product and how will you understand the matching between the 2? I think we can stop here today and then we will meet in the next session we can talk about the I think last part of last part we can look at some cases may be so we can began with some cases which talks about these example mm and then we can conclude our wrap up remaining stages of the lifecycle management in the next session Okay, Thank you!