

PRODUCT MIX STRATEGIES

A product mix strategy is a plan for determining which products a business will manufacture or stock. Businesses can use different product mix strategies depending on their resources and objectives. Some businesses develop completely new products to add to their existing product lines. Others expand or modify their current product lines. Sometimes businesses drop existing products to allow for new product offerings.

To make these decisions, a business must take an objective look at sales as well as other factors such as current trends. A product that has experienced success in the past may not continue to thrive if it fails to respond to changing consumer wants and needs.

DEVELOPING NEW PRODUCTS

New product development is an important business strategy for large consumer product manufacturers. The W.E. Kellogg Institute for Food and Nutrition Research has 400,000 square feet devoted to global product development. The Institute has office space, innovation labs, research facilities, an experimental production area, and a pilot plant for its cereal and snack lines.

Successful new products can add substantially to a company's overall sales and boost its market share. (See **Figure 30.1** on page 710.) Often a slight variation of the original or existing product can lead to increased sales.

Procter & Gamble® (P&G) is the number one U.S. manufacturer of personal care and household products. It devotes roughly 15 percent of its research and development budget to developing new products. Innovative P&G products that have created new consumer-goods categories include Febreze® Air Fresheners, the Swiffer® dry-mop system, and the Olay® anti-aging cosmetic line.

According to one study, new products (those less than five years old) account for about 35 percent of total sales for major consumer and industrial goods companies. New products can help a company's image by building the company's reputation among customers as an innovator and leader. In addition, a new product may increase markups and profits to sellers. This is because prices on new products tend to be 10 to 15 percent higher than that of some older, **comparable** products.

DIGITAL NATION



The Wisdom of Crowds

"Crowdsourcing" is a popular new approach to product development that uses social media to gather ideas from customers. To encourage customers to comment, companies set up blogs, Facebook® pages, Twitter® feeds, online polls, and even dedicated Web sites. Many companies ask for feedback about a specific idea or part of the business.

Free Ideas Pour In

Coffee chain Starbucks® created Mystarbucksidea.com, where tens of thousands of customers posted and voted on ideas for new drinks, food, and merchandise. They also vented frustrations and shared solutions to problems. Some customers even posted money-saving ideas, such as saving paper by turning off automatic receipt printing. The site also included a blog on which Starbucks explained how it implemented customers' ideas.

English Language Arts

Create Imagine that 22,000 people vote for a drink recipe submitted to a coffee company's Web site. What should the company do to test the idea? Write a paragraph with your ideas.

NCTE 12 Use language to accomplish individual purposes.

Mc
Graw
Hill **glencoe.com**

Get a Digital Nation Worksheet Activity.

FIGURE 30.1 Top Innovations of the Decade

New Ideas These ten innovations have significantly changed the world of marketing. *Why are new and innovative products and ideas so important?*

Top Marketing and Tech Innovations of the Decade
Ad Networks and Exchanges
Broadband Penetration
Digital Video Recorders (DVRs)
Flash (web-based technology)
Global Positioning Systems (GPS)
iPhones
Open Application Programming Interface Systems (APIS)
Search Marketing
Social Networks
Twitter® (micro-blogging service)

Source: Advertising Age, December 14, 2009

New product development generally involves seven key steps (see **Figure 30.2**):

1. Generating ideas
2. Screening ideas
3. Developing a business proposal
4. Developing the product
5. Testing the product with consumers
6. Introducing the product (commercialization)
7. Evaluating customer acceptance

GENERATING IDEAS

Creativity is essential for new product development. New product ideas come from a variety of sources, including customers, competitors, channel members, and company employees. Current and existing customers are frequently involved in focus groups and consumer panels. These groups are created to generate new product ideas in as many categories as possible.

Many companies that manufacture consumer packaged goods use a task force approach to new product development. With this approach, employees from departments such as marketing, sales, manufacturing, finance, and research and development, take a new concept from the idea stage through the seven steps of product development.

Companies that manufacture and sell industrial products may establish venture teams that are independent of any particular department. Venture teams normally develop new products that are not part of the company's existing business.

Best Buy®, a consumer electronics firm, involves employees working in idea incubators. Idea incubator teams often include salespeople, computer programmers, and engineers who brainstorm ideas. Team members work and live together in housing complexes for several weeks and exit with ideas for new products, services, and processes.

Microsoft® has developed product ideas using Windows Live® with actual users. The company maps user activities, tests new ideas, and runs statistical tests with controlled scientific experiments on new product ideas.

SCREENING IDEAS

During the screening process, ideas for products are evaluated. This process is done early on, before significant resources like time and money are used up. New product ideas are matched against the company's overall strategy, which defines customers, target markets, competitors, and existing competitive strengths.

FIGURE 30.2 | The Steps in New Product Development

From Ideas to New Products There are several key steps for new product development. *How does an idea lead to a new product or service?*

Steps 1 and 2

GENERATING AND SCREENING IDEAS

Generating ideas involves tracking cultural trends and observing customer behaviors. Screening ideas for new products includes eliminating possibilities until one or two ideas are selected for development.



Steps 3, 4, 5

WRITING A BUSINESS PROPOSAL/ DEVELOPING THE PRODUCT/ TESTING THE PRODUCT

A business proposal evaluates the proposed product in terms of size of market, potential sales, costs, profit potential, technology, the competition, and the level of risk involved. During the development and testing stage, a prototype is made and tested.



Step 6

INTRODUCING THE PRODUCT

If customer response is favorable, the product is introduced into the marketplace.



Step 7

EVALUATING CUSTOMER ACCEPTANCE

After the product has been introduced, marketers track customer acceptance.

RUSSIA

Marketing in Russia

A country with eleven time zones, Russia is a huge, sparsely populated nation with wide variations in demographic, psychographic, and geographic factors. This makes marketing products in Russia particularly challenging. It is difficult if not impossible to create one message that can reach all Russian people.

Translating Messages The Russian language has many suffixes, prefixes, and idiomatic flourishes. This makes it not only a very colorful language but also a



language that is difficult to precisely translate American marketing copy into. To counter this, marketers from other nations must customize their messages carefully.

Social Studies

Research and Create Find out different customs and symbols in Russia. Use your research to develop some ideas about how you might market a product or service there.

NCSS 1 B Culture Predict how data and experiences may be interpreted by people from diverse cultural perspectives and frames of reference.

Here are some entry-level phrases that are used in conversations about marketing all over the world.

English	Russian	
Hello	Privyet	Привет
Goodbye	Da zvidanja	до свидания
Yes/No	Da/Nyet	Да/Нет
Please	Pazjalste	Пожалуйста
Thank you	Spasiba	Спасибо
You're welcome	Ne za chto	Не за что

During the screening process, marketers evaluate new ideas for potential conflicts with existing products. What would a manufacturer of digital thermometers do if a new way to measure body temperature were invented? Suppose the invention was a disposable plastic strip that turned colors depending on body heat. Would the new product be in conflict with the existing product such as a digital thermometer?

A screening might involve concept testing with consumers. Consumers would identify qualities they like and dislike about the new concept, and whether they would buy such a product. If the company planned to market the new product globally, opinions from proposed foreign markets should be obtained.

The purpose of the screening stage is to find the products that deserve further study. A large number of products are rejected in the screening stage, making it an important early step.

DEVELOPING A BUSINESS PROPOSAL

Marketers evaluate a product idea that makes it through the screening process in terms of its profit potential. A business proposal is developed to evaluate the new product. Marketers must consider the size of the market, potential sales, costs, profit potential, technological trends, overall competitive environment, and level of risk.

During this stage, the company must also consider production requirements. How long will it take to create and introduce the new product? Can it be produced efficiently and at a competitive price? The business must plan a program to study the realities of making and marketing the new product.

DEVELOPING THE PRODUCT

During product development, the new product idea takes on a physical shape, and marketers develop a marketing strategy. The company makes plans relating to production, packaging, labeling, branding, promotion, and distribution.

During this phase of product development, technical evaluations are made to see whether the company can produce the new product and whether it is practical to do so. The Ben & Jerry's® ice cream company had difficulties when it first developed Cherry Garcia ice cream. The original idea was to add whole chocolate-coated cherries to the ice cream. But the whole cherries were too large to go through the production machinery, which caused the chocolate to break off the cherries. After numerous tests, the company finally added the cherries and the chocolate separately.

In addition to detecting difficulties with product production, a business must conduct tests on products to see how they will hold up during normal and not-so-normal use by the consumer.

A new product may be tested for durability in the lab. Testers use machines and experiments that will reproduce the actions or motions that the product will undergo during use. Technical problems should be detected at this stage so that they can be corrected before full-scale production begins.

Millions of dollars can be spent on this stage of product development for testing, prototypes, and research. A **prototype** is a model of the new product. Usually only a few models are made at first, as the business tests the idea and makes changes to improve the final product. A concept car is an example of a prototype.



New Product Launches Every year more than 30,000 new food, tobacco, health, and beauty products are introduced in North America.

The government requires extensive scientific testing in various stages for some products, such as prescription drugs and genetically engineered food products. These tests end with testing on human beings to determine side effects and problems with a product's safety. Getting final approval from the government for use by the general public can take years.

TESTING THE PRODUCT WITH CONSUMERS

New products are usually test-marketed in certain geographic areas to see whether consumers will accept them. Larger companies establish research and development departments that work with marketing staff, marketing research staff, and outside research companies to develop and test new products.

For example, PepsiCo® developed a low-calorie soft drink for the European market. Because international customers typically do not like diet beverages, the company spent more than two years testing the drink with different flavors. Finally, one flavor combination met the company's goal of having at least 40 percent of potential consumers choose Pepsi Max® over a competitor's product.

Not every new product must be test-marketed. A focus-group evaluation during development can provide additional input into final product design, revealing potential problems before production.

In some cases, the costs of test marketing, focus-groups, or direct-marketing tests may be too high. Marketers may skip the testing of other products because they do not yet have a product to be evaluated. Sometimes a company delays test marketing to keep information away from competitors. Such information might help competitors get a similar product on the market.

INTRODUCING THE PRODUCT

This stage is also called "commercialization." Introducing a new product can be expensive. For example, to convince adults to use Crest Whitening Expressions® toothpaste in cinnamon, citrus, and herbal mint flavors, Procter & Gamble spent about \$80 million on a marketing campaign.

New products must be advertised to introduce their benefits to consumers. A new or revised distribution network may be needed. The company may need to develop training programs for its sales force.

To pay these costs, the company must get its new products into the market as quickly as possible. The first company to introduce a new product has an advantage in acquiring customers and in building brand loyalty.

EVALUATING CUSTOMER ACCEPTANCE

The purpose of this step is to evaluate customer acceptance of the product and the marketing strategies used to introduce the product. Scanning equipment and computer systems can be used to compile large amounts of sales and market data on existing and new products. From this information, customized reports can be prepared. These reports help answer key questions such as:

- ▶ How often do customers buy the new product?
- ▶ When did customers last buy the new product?
- ▶ Where are the best customers for our new product?
- ▶ What new products are customers buying?