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C.18 New Product Introduction

REQUIREMENTS OF NEW PRODUCT INTRODUCTION

New product introduction represents the final stage of the **new product development** process presented in GLOSSARY entry C.17. New product introduction continues the activities of developing, testing, and revising begun in the development process.

The New Product Introduction Process. New product introduction can be broken down into a series of steps, making it easier to define the decisions that must be made as the product moves into the market. Assuming that the introductory marketing plan has been completed, the stages of new product introduction are:

1. Conduct pretest market research,
2. Test market the new product, and
3. Stage the national launch.

At each of these stages the marketer must make several decisions. These decisions are the subject of the second part of this entry.

- *Pretest Market Research.* There are several approaches for testing new product introduction strategies that, because they are less comprehensive than traditional test marketing, are usually conducted as a preliminary to full-scale test marketing. Two decisions must be made: Should pretest market research be conducted and, if so, which technique should be used?
- *Test Marketing.* The most comprehensive of the tests applied to new products is test marketing. The first decision the marketer must make is whether to test market or to go directly national with the product. If test marketing is elected, the test market and the translation of the national plan must be designed. Measures to monitor results and standards for evaluating the results must also be selected and put

in place so that information for the national launch decision is gathered.

- *National Launch.* Moving a product from test areas into full distribution is referred to as **going national**. The first decision to be made, whether or not to go national, is made based on the cumulative experience to date of the likely success of the product. If it is decided to go national, the introductory plan must be fine-tuned based on the pretest market and test market results. Timing must be decided, the breadth of expansion must be determined, and standards and measures for monitoring performance must be selected and put in place.

What Is Tested in New Product Introduction? The purpose of market test activities is to project the outcome of implementing the introductory marketing plan for the new product to provide a basis for making the national launch decision. The variable being tested is the total marketing plan or the marketing strategy. In the stages of the new product development process prior to market testing, individual elements of the marketing strategy are pretested. The product is tested, the package is tested, and the advertising is tested. Market testing is the first time where all the elements of the marketing strategy are tested simultaneously to determine their total and interactive effects.

The outcome measure used to determine success is usually product sales, which are projected to the national level. While preliminary sales forecasts for the new product are made based on concept and other pretest results, the sales projection resulting from market tests will be more reliable. The validity of sales as a measure of new product success can be evaluated in terms of the **new product adoption process** (see GLOSSARY entry A.12). Success for a new product requires that sales go beyond consumer trial of the product and that the product be adopted for

regular use. Tauber notes, "The key to predicting on-going sales is to be able to predict adoption, the percent of consumers who accept the product as a part of their life style or as 'their brand' and continue to use it over time."¹ For durable goods, such as consumer appliances or industrial accessories, one-time purchase represents adoption of the product and is a reliable measure of success. However, for frequently purchased consumables such as food, household products, and industrial supplies, product trial does not equate to adoption. Instead, it is essential to learn repeat purchase patterns indicating adoption in order to determine long-term sales success. Market test techniques vary in their ability to measure repeat purchase and purchase frequency.

A secondary measure of new product success is trade acceptance. For products that are sold through trade intermediaries, the willingness of wholesalers and retailers to stock the product is a prerequisite to success. Some market test techniques provide measures of trade acceptance.

While the primary purpose of market testing is to predict market success of the new product, market test techniques also provide, to varying degrees, diagnostic results and provide information on the effectiveness of various elements of the marketing strategy. These results help explain the success or lack of success of the marketing strategy and can be used to fine-tune the marketing plan before national introduction.

The Introductory Marketing Plan. The purpose of market testing is to project the outcome of the national marketing plan for a new product. In evaluating the success of a new product marketing plan, its difference from a plan for a going product should be recognized.

A new product marketing plan usually presents two marketing strategies, one for the introductory period and a second for the

sustaining period after successful introduction. While the **positioning** of the product will be the same for both strategies, the introductory **marketing mix** will be different.

- **Product.** The product offered may be the same for either the introductory or sustaining strategy. However, in the case of **product lines**, the introduction may be made with a single item or a shortened product line. The tendency is to introduce a basic version of the product with augmented versions and line extensions added after product acceptance has been established.
- **Promotion.** Introductory promotional budgets are usually heavier than the sustaining level in order to establish initial levels of product awareness and knowledge. Introductory **advertising copy** likewise differs, stressing brand recognition and basic product knowledge. Consumer **sales promotions** often play a major role in the introductory plan with the objective of encouraging sampling (getting trial) of the new product.
- **Distribution.** During the introductory period, emphasis is placed on establishing distribution for the new product, while the sustaining plan focuses on maintaining distribution. Trade **sales promotions** are frequently used during introduction to encourage initial stocking of the product.
- **Pricing.** **New product pricing** may be different than for the established product. If a skimming price policy is adopted, prices are likely to be lowered after introduction to attract the mass market. In other cases, low introductory prices are offered to encourage trial, after which prices are raised to a higher sustaining level (see GLOSSARY entry C.19).

NEW PRODUCT INTRODUCTION DECISIONS

The marketer must make decisions at each of the three stages of new product introduction.

Decisions in Pretest Market Research. Pretest market research offers a means of evaluating the outcome of a new product marketing strategy that is more advanced than

¹Edward M. Tauber, "Forecasting Sales Prior to Test Market," *Journal of Marketing* 41 (January 1977), p. 80.

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product use testing or concept testing because it tests the combined effect of several elements of the marketing strategy rather than just a single element. However, it is less comprehensive than test marketing that tests all marketing strategy elements simultaneously and in a natural market setting.

Pretest market research is sometimes used in place of test marketing, but more often as an intermediate evaluation between product use testing and test marketing. There are a number of pretest market research techniques, each with advantages and disadvantages. These characteristics, summarized in Figure C.18-1, should be considered in deciding whether or not to conduct pretest market research and which technique to use.

In general, compared to traditional test marketing, pretest market techniques are faster, offer greater confidentiality, are less susceptible to competitive interruption, and are at lower cost. However, again compared to test marketing, pretest market techniques provide a less **reliable prediction of sales volume**, do not measure trade response, provide less complete diagnostics, and allow less experimentation with individual marketing mix variables. Application of pretest marketing techniques has been largely limited to consumer package goods, although some approaches might be adapted to consumer durables or industrial products.

The three most widely used pretest market research techniques are sales wave tests,

FIGURE C.18-1
Characteristics of Pretest Market Research Techniques

| <i>PreTest Market Technique</i> | <i>Characteristics</i> |
|---------------------------------|--|
| Sales Wave Tests | |
| Strategy elements tested | Product and positioning |
| Outcome variables measured | Trial and repeat |
| Trade response measure | No |
| Diagnostics | Limited |
| Time required | Long |
| Confidential | Yes |
| Experimentation | Limited |
| Cost | Medium |
| Laboratory Test Markets | |
| Strategy elements tested | Positioning, product, promotion, price |
| Outcome variables measured | Trial, repeat based on intention |
| Trade response measure | No |
| Diagnostics | Limited |
| Time required | Short |
| Confidential | Yes |
| Experimentation | Yes, with multiple tests |
| Cost | High |
| Controlled Store Testing | |
| Strategy elements tested | All except distribution |
| Outcome variables measured | Trial and repeat |
| Trade response measure | No |
| Diagnostics | Can be programmed |
| Time required | Long |
| Confidential | Partial |
| Experimentation | Yes |
| Cost | High |

laboratory test markets, and controlled store tests. Understanding their characteristics will aid in selecting an appropriate technique.

- **Sales Wave Tests.** **Sales wave tests** are an extension of home-use tests. Product is initially presented together with a concept description, usually in the form of a prototype print advertisement. After sample members have used and reacted to the initial free product placement, they are offered periodic opportunities to buy additional product, usually at a reduced price. Initial and repeat purchase data from the sample are used to project new product performance.

Sales wave tests evaluate only product and, to a limited extent, promotion. The purchase situation is artificial, and the test takes an extended period of time. The greatest strength of sales wave research is that the resulting projection of sales success is based on actual product purchase and repeat purchase over a prolonged period.

- **Laboratory Test Markets.** Participants in a **laboratory test market (LTM)** are recruited at a central location such as a shopping mall. After a preliminary interview that records product attitudes, sample members are shown a television commercial for the test product. They are then reinterviewed to measure changes in product attitude and purchase intention toward the new product. Members are given discount coupons or purchase credits and are allowed to purchase products, including the test product, in a simulated store. Some laboratory test markets include telephone follow-up interviews and additional opportunities to purchase the test product.

Measurements provided by LTMs include intention to buy and trial (from the simulated store purchase), but repeat purchase and adoption are not measured unless posttest sales waves are included. Most research services offering LTMs have developed computer models that combine attitude, intentions, and purchase data to predict product performance upon introduction. Some offer validation studies and success standards. The purchase situation in LTMs is contrived, but it is more realistic than in sales wave research. LTMs do combine more elements of the marketing strategy, including promotion, product, and pricing, and can be carried out quickly and confidentially.

- **Controlled Store Testing.** The most comprehensive pretest market technique is the **controlled store test**, sometimes referred to as a **minimarket test**. Controlled store testing is designed much like a traditional test market except that the research firm offering the service contractually arranges for distribution of the test product in test market retail stores. The markets used are smaller and the number of stores stocking the product are less than in a normal test market. Except for distribution, the marketing strategy used in the test markets is normal. Product, promotion, and pricing are programmed as called for in the introductory marketing plan. Test product sales are recorded through audits or capture of scanner data in the test stores.

Controlled store tests evaluate a complete marketing strategy except for trade response. Controlling the distribution speeds up the test and avoids failure of the test because of lack of distribution. Purchase is made under natural conditions and, if the test is allowed to continue, can measure repeat purchase as well as trial. Controlled store tests are less confidential, more expensive, and more time consuming than other pretest market techniques.

Decisions in Test Marketing. A test market provides evaluation of the complete introductory marketing plan for a new product in a natural rather than contrived situation. It results in a more accurate prediction of the sales outcome of introducing the new product, the primary basis for deciding on national launch. In addition, a test market can provide diagnostic information that permits improvement of the marketing plan before launch. Offsetting these benefits of test marketing are the high cost and the delay in national introduction.

The first decision at this stage is whether to utilize a test market or go directly into national introduction; do the advantages of test marketing offset the disadvantages? Some considerations in making the decision are these:²

²See N. D. Cadbury, "When, Where, and How to Test Market," *Harvard Business Review* (May-June 1975), pp. 96-105.

- *Probability of Success.* If the probability of success of the new product is high, the test marketing step may be omitted. The probability of success will be high when the product class is a familiar one to the firm and the new product represents only a slight departure from current products. Product improvements and line extensions are likely to fall into this class. Similarly, if pretest market research was extensive and the results highly favorable, then the judgment may be made not to test market, but to go directly to national launch.
- *Risks of Failure.* If the consequences of a failed new product introduction would be severe, the product should be test marketed to limit risk. Failure risks may be financial. For example, the investment required in developing productive capacity for national introduction may be high or the marketing costs for national introduction may be very high. Failure risks may also be high to the firm's reputation or the brand. If a new product introduction fails, the firm's reputation with the trade may be damaged and the reputation of the brand name, if used on other products, may be injured with consumers.
- *Competitive Pressures.* If it is feared that test marketing will have undesirable competitive consequences, skipping the test market phase may be necessary. The marketer should consider it inevitable that competitors will become aware of new product test market programs. Two problems result. First, competitors may copy the new product and preempt the market by going directly to national launch. A second danger is that competitors may disrupt the test market with special promotions or large-scale product purchases to prevent a meaningful reading of results. One reason that marketers sometimes substitute pretest market research, such as laboratory test markets, for test marketing is to maintain competitive confidentiality and to speed up the timing of national introduction.
- *Differences in Cost.* If there is little difference in cost between test marketing and national introduction, the test marketing step may be omitted. If the investment in plant and equipment for producing the product is the same for test quantities as it is for full scale production, there may be little additional risk involved in going directly to national launch. Durable consumer and industrial products often fall into this category. For other products, computer software or books are exam-

ples, the major costs are in product development and are committed before introduction. Relatively little incremental cost is involved in quantity production. Again, national introduction would cost little more than test marketing.

If it is elected to utilize a test market, many individual decisions must be made in test market design.³ A test market is a controlled, field experiment in which the marketing plan is faithfully translated into a set of representative markets with sales and other results recorded over the life of the test. Several medium-sized representative markets that are isolated from external media influences should be selected. The combined markets for the test usually make up about 3 percent of total population. The introductory marketing program must be faithfully "translated" into the test markets so that the effort is representative of the one scheduled for national introduction. In order to read the outcome of the test market, monitoring measures must be selected and put into place. Most important, sales must be measured by store audits, consumer dairy panels, or scanner data. To gain diagnostic data, other measures may be used to measure advertising effectiveness, product reactions, or other marketing mix elements of concern. Alternative marketing strategies may be tested by using additional test markets and comparing outcomes to those in the first set of markets.

Evaluation of test market results is often difficult. Random and unforeseen events often disrupt test markets so that results are not representative of what can be expected upon introduction. Cadbury suggests setting test market performance standards in advance of the test. They should be drawn from **outcome projection** in the introductory marketing plan (see GLOSSARY entry D.5). Standards should include expected sales, market share, the source of sales, and the

³See David W. Nylen, *Advertising: Planning, Implementation and Control*, 3rd ed. (Cincinnati: South-Western Publishing Co., 1986), chapter 20.

level of distribution.⁴ The test market must be allowed to run long enough for the full program to be implemented, including achieving target levels of distribution. For consumable products, the test must be long enough for several rounds of repeat purchase so that the adoption or steady state sales level can be judged. This can seldom be accomplished in less than a year. If, based on early results, revisions are made to the introductory plan, the test market must be further extended to test the affect of these changes. Several models are available that process test market trial and repeat sales data to predict long term product sales and market share.⁵

The National Launch Decision. The decision to take a product national utilizes all of the experience of the new product to date, but the judgment should be dominated by the test market experience. Objectivity in making the decision is aided if, as suggested above, success standards were set in advance of test marketing.

If the decision is made to go forward with national launch, timing and breadth of launch must be decided. Timing of the launch should consider the season for the

product, the danger of competitive preemption, the availability of production capacity, and the timing of other new product introduction efforts by the firm. After test market, the firm may elect to introduce the product to the total market at once or they may elect a **rollout**, the gradual introduction of the product in one market or region at a time. Rollout stretches out resource demands and reduces the level of risk. However, if there is danger of competitive preemption and if resources for introduction are plentiful, full national marketing may be desirable.

A program for monitoring the introduction should be in place from the beginning of the launch. Sales should, of course, be carefully monitored and compared with test market results. In addition, diagnostic measures should be employed to suggest improvements in the marketing strategy.

SUGGESTIONS FOR FURTHER READING

CADBURY, N. D. "When, Where, and How to Test Market." *Harvard Business Review* (May-June 1975), pp. 96-105.

KLOMPMAKER, JAY E., G. DAVID HUGHES, and RUSSELL I. HALEY. "Test Marketing in New Product Development." *Harvard Business Review* (May-June 1976), pp. 128-38.

TAUBER, EDWARD M. "Forecasting Sales Prior to Test Market." *Journal of Marketing* 41 (January 1977), pp. 80-84.

⁴Cadbury, "When, Where, and How," p. 101.

⁵These models are reviewed and evaluated in Chakravarthy Narasimhan and Subrata Sen, "New Product Models for Test Market Data," *Journal of Marketing* 47 (Winter 1983), pp. 11-24.