

# Marketing Strategy

## R&D and New Product Development

Fall 2009

# Marketing Strategy Until Now

### What we have covered until now:

Industry analysis – case Sony PlayStation 3  
Pricing strategy – golden rule of pricing  
New Product Development – case Nestle Refrigerated Foods  
Strategic segmentation – consumer heterogeneity, self-selection, French railways  
Market evolution – Bass model  
Resource allocation – golden rule of resource allocation  
Understanding customers – semantic scales, perceptual maps, conjoint analysis

MARKSTRAT

### Where we are going:

Today: R&D decisions  
Next week: Market planning  
Oct 20: Marketing Diagnostics  
Oct 27: Guest speaker Trevor Traina – marketing strategy for new product introduction  
Nov 3: Guest speaker Rohit Dube (Bain), strategy in technology markets  
Nov 10: Competition  
Nov 17: Competition. Case American Airlines  
Nov 19: Relationship marketing. Case Hilton HHonors  
Nov. 24: Guest speaker Marc Singer (McKinsey), dynamic segmentation  
Dec 1: Guest speaker Steven Chan (Clorox), case Brita products  
Dec. 3, 8: Markstrat & course wrap-up.

# Markstrat

Questions?

This week: R&D

## *Example*

### ***Cox Communications***

1997 First cable operator (Atlanta) to launch telephony service. Used traditional circuit-switched technology to carry phone traffic over cable plant. Only AT&T Broadband/Comcast (largest US operator) matched Cox's moves.

Other cable operators did not follow because:

- (1) Waiting for "voice over Internet Protocol" (VoIP) technology.
- (2) Higher debt leverage

2004

Cox: offers telephone to 50% of its 10M households passed; 1M telephone customers; good returns (40%) on telephone service.

Comcast: offers telephone to 10M of 40M households passed; 1.2M telephone customers; poor returns on telephone service

Cablevision and Time Warner started rollout of VoIP.

103M households are "passed" by cable. 64M subscribe to basic cable.

Direct broadcast satellite (DBS):

2000: 15M households subscribers

2003: 22M (no change in cable in same period)

One-way architecture (unlike two-way cable)

Could not offer "video-on-demand" (unlike cable) and started investing in digital video recorders (DVRs). In the end of 2003, 1.9M households had DBS DVRs, .9M had cable DVRs, 1.1M had standalone DVRs (TiVo, Replay, or recordable DVD players).

Incumbent Local Exchange Carriers (ILECs):

Open competition in 1996.

2004: lost 50% of business telephony market and 10% of residential

Competition with cable in DSL (cable 1.5-3Mbps, DSL .4-.8Mbps)

Competition with wireless service

Response: Bundle: local, long-distance, DSL, wireless, DBS

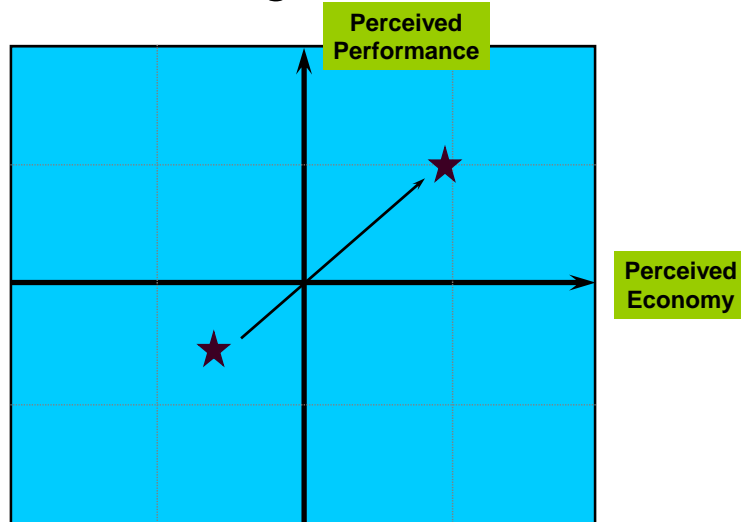
Questions for Cox:

1. Accelerate investment in VoIP (lower operating costs, expensive investment \$300M, service?)?
2. Accelerate investment in DVRs (\$250M)?

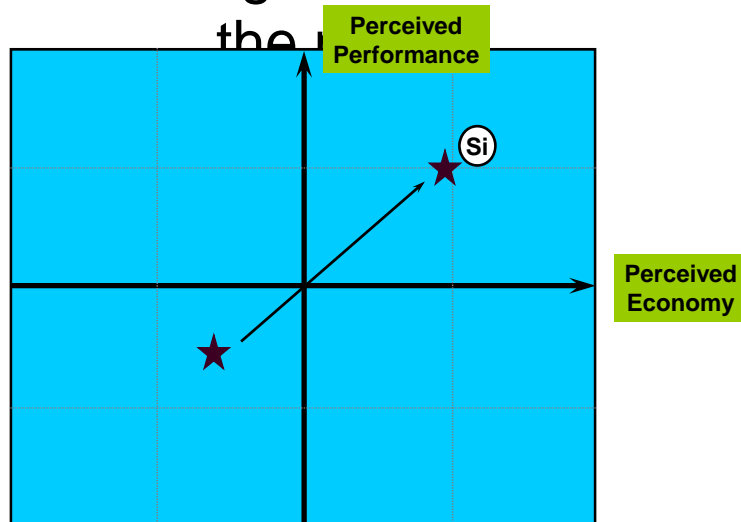
## How to position a product

- where are you?
- where would you like to be?
  - segment attractiveness
  - where a product is currently perceived
  - competition
- do you want to go there with a repositioned product or a totally new product
  - awareness
  - perception changes

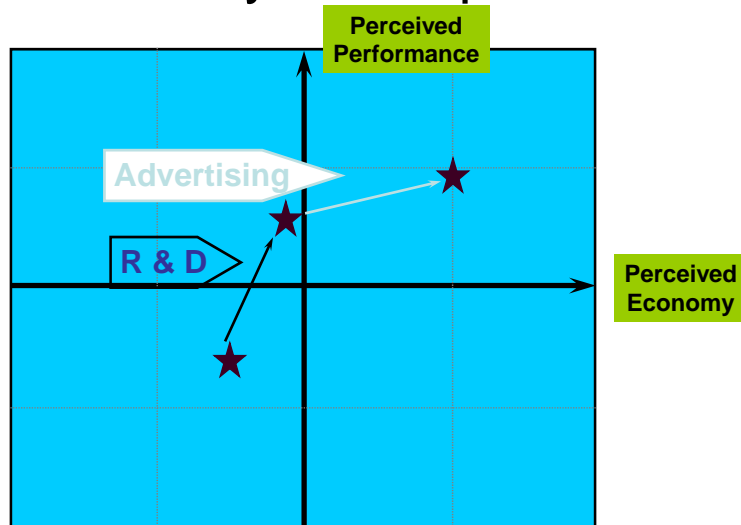
Lets get better!!!



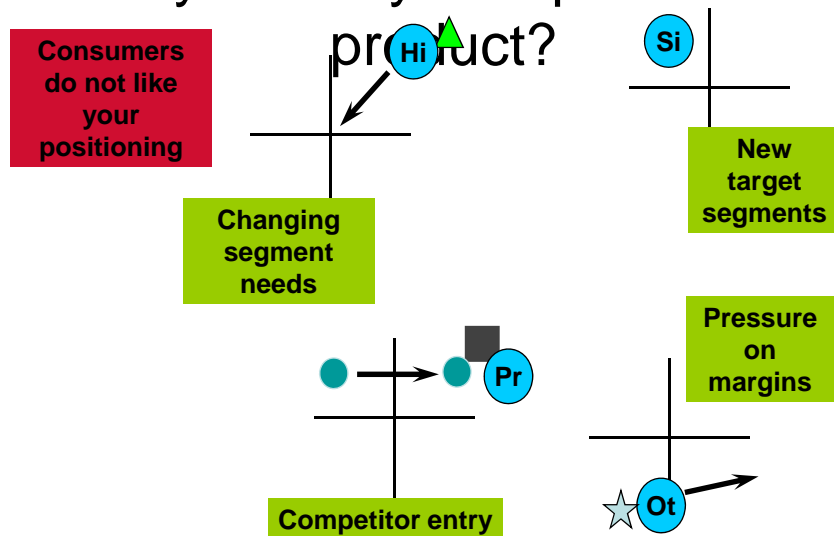
Have a target or a reason for



## Two Ways to Reposition



## Why would you reposition a product?



## *R&D*

- Relation of attributes to semantic scales, perceptual maps, conjoint analysis
- Cost of R&D:
  - Queries
  - Lower if closer to what you know (dynamics)
  - Lower if higher production costs
  - Uncertain
  - What are you good at?
- Improve brand => loose inventory

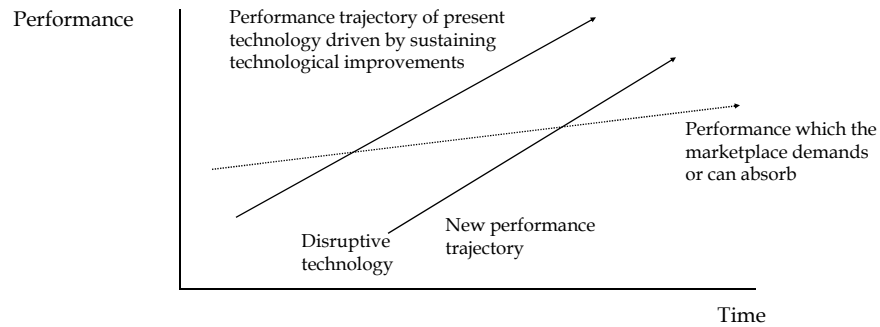
## *Strategic R&D*

There is an attractive segment that is covered in a limited way. Two potential firms can try to develop a product for that segment. Cost of developing the product is \$2M.

If only one firm develops the product that firm would make a profit of \$3M.

If both firms develop the product, each firm makes a profit of \$1M.

# Disruptive Technologies



There is significant strategic discretion involved in commercializing disruptive technologies

Disruptive technology

Should I push or stretch the technology until I can use it in existing market segments & applications, with existing customers?

Should I find or create a new market segment in which the attributes of the disruptive technology, as it exists today, are valued?

## Approaches to Managing a Disruptive Attack

“We ought to be able to do this inside”

DEC : Desktop computers

Apple: Palmtops

“Let’s face the Facts and create a new organization”

HP Ink jet printers

IBM PC division

General Motors: Saturn

## Key Takeaways

- Repositioning? Consumers, competitors
- Repositioning by R&D or advertising?
- Strategic R&D => understand the competitors
- Disruptive technologies: Always follow the needs of your customers? Or look also at other potential customers?