NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

MKTG-GB.2370.01
New Products
Professor Eitan Muller

Class time: Tuesday / Thursday 10:30-11:50
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Course description

The challenge of managing the introduction of new solutions to customer needs is fundamental in customer-centric markets. In classroom discussion, in cases, and in guest speaker presentations, we address managing and valuing new products in various industries, with special attention given to information, communication, and the entertainment industry.

We examine the notion of disruptive innovations such as the USB PD, and ask the question: To whom exactly are they disruptive? We consider ways of generating ideas, as well as methods of discovering the expected consumer valuation of a product. We demonstrate the power of social interactions in social networks, and why these interactions are responsible for the fact that growth of new products is a slow process, even for successful products such as portable navigation systems.

We ask whether Microsoft paid too much for Skype (a memorable $8.5 billion), or whether Spotify will ever be profitable; we compute the value of SiriusXM satellite radio’s customers; gain insight into why main market consumers aren’t impressed with early-market technophiles in product categories such as video game consoles; explain why network goods are even slower to grow, and demonstrate the fact that technological substitution is not getting faster, despite our perceptions of the generational shift between the adopters of portable CD players in the 1980s and the subsequent generation of MP3 adopters.

In several sessions we’ll use spreadsheets in order to explain and empirically predict the growth of new innovations. Network analysis will also be used to demonstrate the power of networks as accelerators of new product growth.

Reading

The book is available at the bookstore, and the cases on XanEdu. The set of transparencies used in class will be distributed in the first session, and are also available in the Resources section of NYU Classes. Additional optional readings are available at www.HiTechMarkets.net/New-Products.html.
Detailed course outline

The course consists of the following units:

1) **Marketing strategy & new products**
How do new products fit into firms’ marketing strategies? We’ll revisit the framework of marketing strategy, looking at the special role that new products play in segmentation and targeting, positioning, and growth. We conclude with the role of new products in the 4 Ps of marketing tactics.

2) **Diffusion and adoption of new products**
Can social contagion drive the growth of our new product? Can we identify dominant patterns? Is there a simple way to understand how customers drive the growth of an innovation? We look at examples of such growth patterns in the US and Europe, enabling understanding of why the adoption process is inherently slow.

3) **Foreseeing potholes along the diffusion road**
Is the decline in our sales permanent, or temporary? What does it have to do with a “saddle” in the midst of new product growth? We discuss the phenomenon of a temporary yet deep decline in sales during the growth stage of the product lifecycle, and look at examples in the US consumer electronics market such as DBS systems.

4) **Consumers’ valuation of the product**
Can we put a dollar value on each of the attributes of our new product? Can we do it for a product in development, as opposed to existing ones? We’ll demonstrate the use of conjoint analysis as one of the most widely used marketing research methods for measuring consumer preferences.

5) **Firm’s valuation of their consumers**
Can we put a dollar value on our customers? What does it have to do with customer lifetime value and the value of a new product? We introduce customer attrition and defection and estimate customer lifetime value and long-range customer equity of firms such as E*Trade, Ameritrade, eBay, and Amazon.

6) **The chilling effects of network goods**
Do network effects accelerate the growth process, or do they hold it back? DVD players, CD players and CB radios will serve as examples of the pattern of growth of network goods.

7) **Marketing actions at the new-brand level**
How does entry of a competitor affect our innovation equity? How do retention and social forces differ at the brand vs. the product level? We’ll use the diffusion of mobile services in Europe to demonstrate these concepts. We quantify the effect of “shock jock” Howard Stern on the rivalry between Sirius and XM satellite radio.

8) **Valuing the next generation**
How does entry of a new generation affect our innovation equity? How does the interaction between generations translate to innovation equity? We’ll apply our framework to four generations of IBM mainframes in the US, and two generations of mobile phones worldwide.
Case writeup

Case discussions are a critical component of this course. Be prepared for all case discussions, whether written individually or in groups. In addition, expect to be “cold called” during a discussion.

Each student must hand in four case writeups, at least one of which must be done individually; the rest may be done alone or in teams of up to three. In addition, the PBX assignment is done individually.

In each writeup, specific questions are asked, all of which must be answered. The length of the case writeups should be up to four typed pages, depending on the length and complexity of the case, excluding appendices (formatted as this syllabus: 12 point Times New Roman, left justified, single-spaced, 1” margins on all sides), accompanied, if necessary, by a spreadsheet. The writeups should be e-mailed before the class session in which the case is to be discussed. Students are permitted to discuss their cases with other members of the class.

Class participation

Grading class participation is necessarily subjective. Consider the following if you wish to effectively participate:

Are you prepared? Do your comments show evidence of thorough case analysis (vs. stating the facts)? Are you a good listener? Are the points made relevant to discussion? Are you an effective communicator? Are concepts presented in a concise, convincing fashion? Are you respectful? Everyone’s input, unless repetitious, must be valued and encouraged. Feel free to question or disagree with other students; however, such disagreement must be based on the idea and not the person. Universal respect is essential for great discussions and great learning experiences.

Grading breakdown

Group case writeups (three cases) 40%
Individual assignments (one case plus PBX) 40%
Class participation 20%

Attendance and attentiveness

Attend all class sessions, read cases, and e-mail the assignments before the beginning of class. Please minimize disturbances during class, such as late arrival. Laptops, tablets, phones, phablets, or whatever communication devices that might be invented before or during the semester may not be used during class unless needed for a specific activity.
Book

Case writeup questions and submission dates

**Dropbox: “It Just Works” (HBS 2014)**
Thursday, September 17, 2015
1. Dropbox is a late mover in a crowded market. What are the key elements of Dropbox’s current business model?
2. Is Dropbox currently profitable? Explain why / not. What’s your assessment of its future profitability?
3. Should Dropbox create a separate version for small and medium-sized businesses?

**PBX (Stern 2012)**
Thursday, October 1, 2015
1. See instructions for the case at Stern Classes.

**Apple, Inc. in 2015 (HBS 2015)**
Thursday, October 8, 2015
1. Historically, what have been Apple’s competitive advantages, and why did Apple struggle in the PC industry?
2. How sustainable is Apple’s competitive position in smartphones?
3. Evaluate Apple’s strategy for Apple Watch. Would you suggest any course corrections? If so, which?

**Iridium Satellite Communications (Stern 1999)**
Thursday, October 15, 2015
1. See instructions for the case at Stern Classes.
2. Under the assumption above, at what year would Iridium cover its operating and debt servicing costs? Back up your answer.

**Lady Gaga (A) (HBS 2011)**
Thursday, October 22, 2015
1. Which of the three touring options would you pursue for Lady Gaga, and why?
2. How much money does Lady Gaga stand to gain or lose under each option? Do the potential rewards justify the investment, and are there ways to mitigate the risks? Why or why not?
Uber: Technology Confronts Regulation (Stanford 2012)    Thursday, October 29, 2015

1. What alternatives did Uber have to address regulatory issues when beginning service in new cities? Describe the benefits and difficulties of each.

2. How do you expect the incumbent taxi operators to respond to Uber’s entry into DC? How about other cities, such as Paris?

3. What should Uber do in the face of the proposed DC legislation?

Microsoft Acquisition of Skype (IMD 2013)    Thursday, November 5, 2015

1. See instructions for the case at Stern Classes.

2. Under the assumption above, what should have been the average Skype Customer Lifetime Value to justify the price that Microsoft paid? Explain.

Spotify: Face the Music (IESE 2014)    Thursday, November 12, 2015

1. Will Spotify ever turn a profit? If so, how?

2. Can Spotify help the music industry grow its revenues after decades of decline? If so, how? If not, why not?

3. What is the likely consequence of Spotify increasing its advertising levels to the free users?

4. Did Taylor Swift make the right decision to pull her entire collection from Spotify in 2014? Why / why not?


1. See instructions for the case at Stern Classes.

2. Under the assumption above, does it make sense to subsidize the radio receiver by $50 for the first few years? Why / not?