New Product Development and Product Life-Cycle Strategies

Chapter 9

Product Life-Cycle Strategies

- After launching the new product, **management wants that product to enjoy a long and happy life**. Although it does not expect that product to sell forever, **the company wants to earn a decent profit to cover all the effort and risk that went into launching it**. Management is aware that each product will have a life cycle, although its exact shape and length is not known in advance

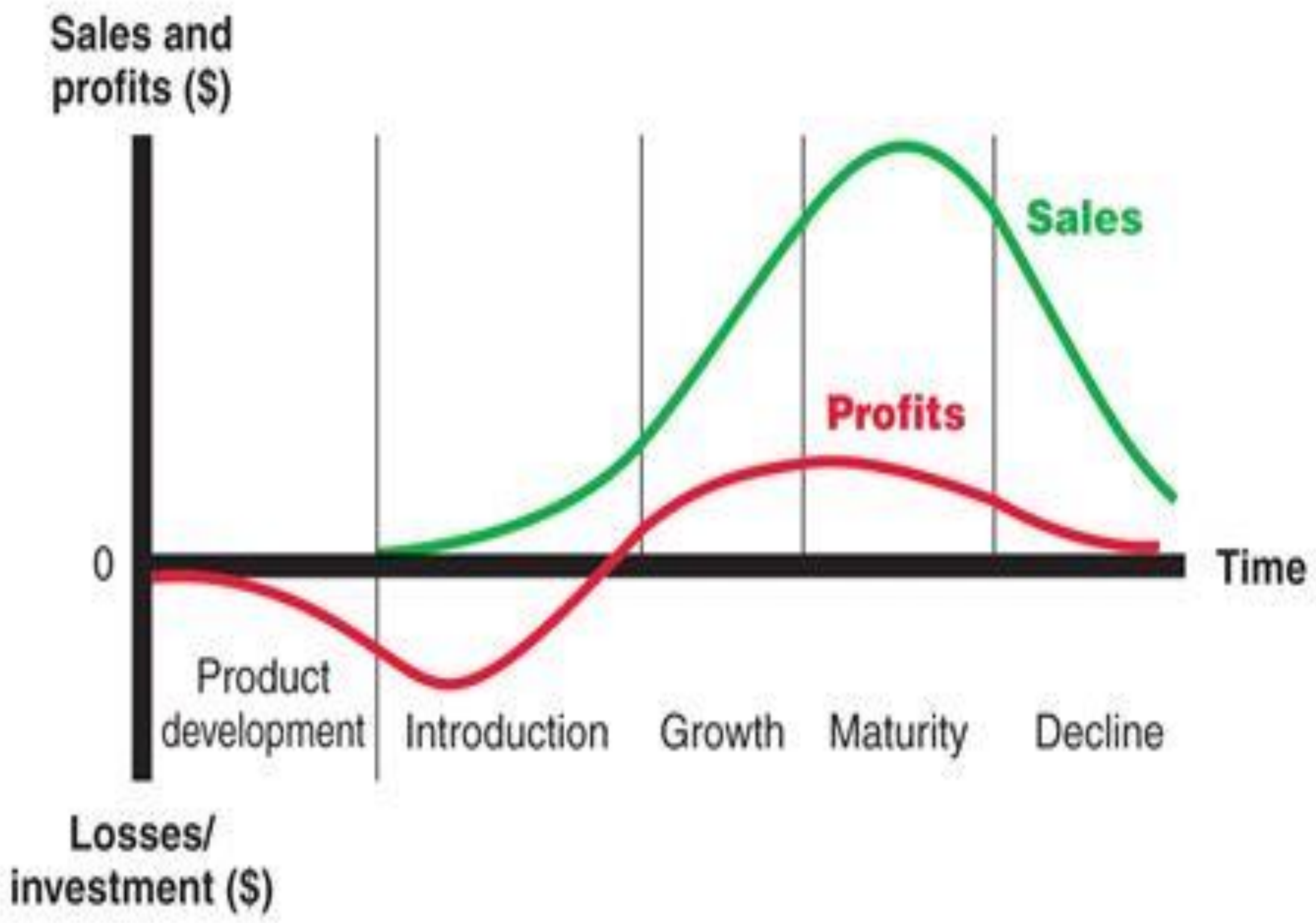

Figure 7: Sales and Profits over the Product's Life from Inception to Decline. (Kotler& Armstrong, pg. 274)

- the course that a product's sales and profits take over its lifetime. The PLC has five distinct stages:

1. **Product development begins when the company finds and develops a new-product idea**. During product development, sales are zero, and the company's investment costs mount.
2. **Introduction is a period of slow sales growth as the product is introduced in the market.** Profits are nonexistent in this stage because of the heavy expenses of product introduction.
3. **Growth is a period of rapid market acceptance and increasing profits.**
4. **Maturity is a period of slowdown in sales growth because the product has achieved acceptance** by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
5. **Decline is the period when sales fall off and profits drop**.

- Not all products follow all five stages of the PLC. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning**. It seems that a well-managed brand could live forever**

- The **PLC concept** can describe a **product class** (gasoline-powered automobiles), **a product form** (SUVs), **or a brand** (the Ford Escape).
- The PLC concept applies differently in each case. **Product classes have the longest life cycles**; the sales of many product classes stay in the mature stage for a long time. Product forms, in contrast, tend to have the standard PLC shape

- A specific brand’s life cycle can change quickly because of changing competitive attacks and responses. For example, although laundry soaps (product class) and powdered detergents (product form) have enjoyed fairly long life cycles, the life cycles of specific brands have tended to be much shorter.
- The PLC concept also can be applied to what are known as **styles, fashions, and fads**. Their special life cycles are
- **A style is** a basic and distinctive mode of expression. For example, styles appear in clothing (formal, casual), and art (realist, surrealist, abstract). **Once a style is invented, it may last for generations, passing in and out of vogue**. A style has a cycle showing several periods of renewed interest.

- **A fashion** is a currently accepted or popular style in a given field. Fashions tend to grow slowly, remain popular for a while, and then decline slowly.
- **Fads** are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity. A fad may be part of an otherwise normal life cycle, Or the fad may comprise a brand’s or product’s entire life cycle. “Pet rocks” are a classic example.
- **The PLC concept can help in developing good marketing strategies for its different stages**. But using the PLC concept for forecasting product performance or developing marketing strategies presents some practical problem

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Product Life Cycle Styles Fashion and Fads

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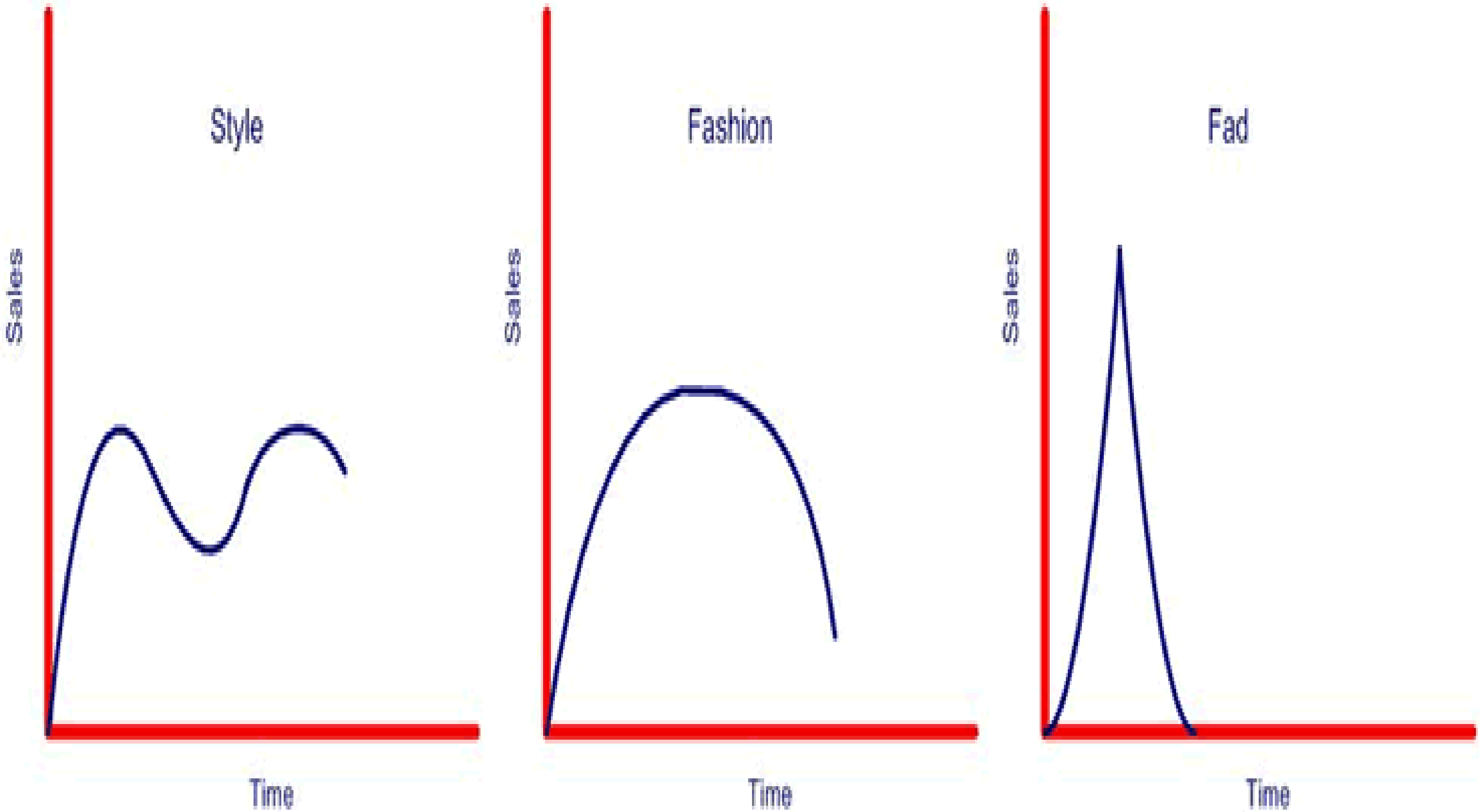

- marketers should not blindly push products through the traditional PLC stages. Instead, **marketers often defy the “rules” of the life cycle and position or reposition their products in unexpected ways**. By doing this, they can rescue mature or declining products and return them to the growth phase of the life cycle. Or they can leapfrog obstacles to slow consumer acceptance and propel new products forward into the growth phase. The moral of the product life cycle is that companies must continually innovate or else they risk extinction. No matter how successful its current product lineup, a company must skillfully manage the life cycles of existing products for future success. And to grow, it must develop a steady stream of new products that bring new value to customers

Introduction Stage

- The introduction stage starts when a new product is first launched. Introduction takes time, and sales growth is apt to be slow.
- In this stage, as compared to other stages, **profits are negative or low** because of the **low sales and high distribution and promotion expenses**. **Much money is needed to attract distributors and build their inventories**. **Promotion spending is relatively high to inform consumers of the new product and get them to try it**. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product.
- These firms focus their selling on those buyers who are the most ready to buy.

- A company, especially the **market pioneer**, must choose a launch strategy that is consistent with the intended product positioning. It should realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If **the pioneer chooses its launch strategy to make a "killing," it may be sacrificing long-run revenue for the sake of short-run gain.** As the pioneer moves through later stages of the life cycle, it must continuously formulate **new pricing, promotion, and other marketing strategies.** It has the best chance of building and retaining market leadership if it plays its cards correctly from the start.

Growth Stage

- If the new product satisfies the market, it will enter **a growth stage**, in which sales will start climbing quickly. The **early adopters** will continue to buy, and later buyers will start following their lead, especially if they hear favorable word of mouth.
- **Attracted by the opportunities for profit, new competitors will enter the market**. They will introduce new product features, and the market will expand.
- **The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories.** Prices remain where they are or decrease only slightly.
- Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition

- Profits increase during the growth stage as promotion costs are spread over a large volume and as unit manufacturing costs decrease. The firm uses several strategies to sustain rapid market growth as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

- In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product improvement, promotion, and distribution, the company can capture a dominant position. In doing so, however, it gives up maximum current profit, which it hopes to make up in the next stage.

Maturity Stage

- At some point, a product's sales growth will slow down, and it will enter the maturity stage. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product. The slowdown in sales growth results in many producers with many products to sell. In turn, this overcapacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product development budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors.

- Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products—a good offense is the best defense. They should consider modifying the market, product, and marketing mix.
- **In modifying the market**, the company tries to increase consumption by finding new users and new market segments for its brands. For example, mature 101-year old card maker American Greetings is now reaching younger consumers through social-networking widgets and instant-messaging channels

- The manager may also look for ways to increase usage among present customers. The company might also try modifying the product—changing characteristics such as quality, features, style, or packaging to attract new users and inspire more usage. It can improve the product’s styling and attractiveness. It might improve the product’s quality and performance—its durability, reliability, speed, and taste.

- Finally, the company can try ***modifying the marketing mix***—improving sales by changing one or more marketing mix elements. The company can offer new or improved services to buyers. It can cut prices to attract new users and competitors' customers. It can launch a better advertising campaign or use aggressive sales promotions—trade deals, cents-off, premiums, and contests. In addition to pricing and promotion, the company can also move into new marketing channels to help serve new users.

Decline Stage

- he sales of most product forms and brands eventually dip. The decline may be slow, as in the cases of stamps and oatmeal cereal, or rapid, as in the cases of cassette and VHS tapes. Sales may plunge to zero, or they may drop to a low level where they continue for many years. **This is the decline stage**. Sales decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. As sales and profits decline, some firms withdraw from the market. Those remaining may prune their product offerings. They may drop smaller market segments and marginal trade channels, or they may cut the promotion budget and reduce their prices further.

- Carrying a weak product can be very costly to a firm, and not just in profit terms. There are many hidden costs. A weak product may take up too much of management's time. It often requires frequent price and inventory adjustments. It requires advertising and salesforce attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products. The biggest cost may well lie in the future. Keeping weak products delays the search for replacements, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future

- For these reasons, companies need to pay more attention to their aging products. A firm's first task is to identify those products in the decline stage by regularly reviewing sales, market shares, costs, and profit trends. Then management must decide whether to maintain, harvest, or drop each of these declining products. Management may decide to **maintain** its brand, repositioning or reinvigorating it in hopes of moving it back into the growth stage of the PLC. P&G has done this with several brands, including Mr. Clean and Old Spice. Management may decide to harvest the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force), hoping that sales hold up. If successful, harvesting will increase the company's profits in the short run. Finally, management may decide to drop the product from its line. It can sell it to another firm or simply liquidate it at salvage value. In recent years, P&G has sold off several lesser or declining brands, such as Folgers coffee, Crisco oil, Comet cleanser, Sure deodorant, Duncan Hines cake mixes, and Jif peanut butter. If the company plans to find a buyer, it will not want to run down the product through harvesting.

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and innovators	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain most loyal customers
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level