Reading 2
A second extract from Marketing Essentials

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Reading 2 Product Life Cycles

Product life cycle
The four major stages through which products move:
Introduction, growth, maturity and decline

Just as biological cycles progress through growth and decline, so too do *product life cycles.* A new product is introduced into the marketplace; it grows; it matures; and when it loses appeal and sales decline, it is terminated. As explained in Chapter 9, different marketing

Figure 8.4: concepts of width of product mix and depth of product line applied to selected Procter & Gamble products

Source: information provided and reprinted by permission of the Procter & Gamble company, Public Affairs Division, Proctor & Gamble Plaza, Cincinnati, OH 45202-3315

	Laundry detergents	**Toothpastes**	**Bar soaps**	**Deodorants**	**Shampoos**	**Tissue/ Towel**
Product line depth	Ivory Snow 1930 Dreft 1933 Tide 1946 Cheer 1950 Bold 1965 Gain 1966 Era 1972	Gleem 1952 Crest 1955	Ivory 1879 Camay 1926 Zest 1952 Safeguard 1963 Olay 1993	Old Spice 1948 Secret 1956 Sure 1972	Head & Shoulders 1961 Pantene Pro 1965 Vidal Sasson 1974 Pert Plus 1979 Ivory 1983	Charmin 1928 Puffs 1960 Bounty 1965 Royale 1996
Product mix width						

Strategies are appropriate at different stages in the product life cycle. Thus packaging, branding and labelling techniques can be used to help create or modify products that have reached different points in their life.

As Figure 8.5 shows, a product life cycle has four major stages:

introduction

growth

maturity

decline.

When a product moves through its cycle, the strategies relating to competition, promotion, place/distribution, pricing and market information must be evaluated periodically and possibly changed. Astute marketing managers use the life-cycle concept to make sure that the introduction, alteration and termination of a product are timed and executed properly. By understanding the typical life-cycle pattern, marketers are better able to maintain profitable products and drop unprofitable ones.

Introduction

Introduction stage
A product's first appearance in the marketplace, before any sales or profits have been made.

The **introduction stage** of the life cycle begins at a product's first appearance in the marketplace, when sales are zero and profits are negative. Profits are below zero because a new product incurs development costs, initial revenues are low, and at the same time a company must generally incur the significant expenses incurred during promotion and distribution. As time passes, sales should move upwards from zero and profits should build up from the negative position (see Figure 8.5).

Because of cost, very few product introductions represent major inventions. Developing and introducing a new product can mean an outlay of many millions of pounds. The failure rate for new products is quite high, ranging from 60 to 90 per cent depending on the industry and on how product failure is defined. For example, in the food and drinks industry, 80 per cent of all new products fail. Typically, however, product introductions involve a new deodorant, a new type of vacuum cleaner or a new leisure concept rather than a major product innovation. In general, the more marketing-oriented the company, the more likely it will be to launch innovative products that are new to the market.

New product ideas are more likely to be successful when senior management is involved in product development and launch. In addition, research shows that a clear, stable vision, flexibility and improvisation, information exchange and collaboration are also key ingredients in new product success.

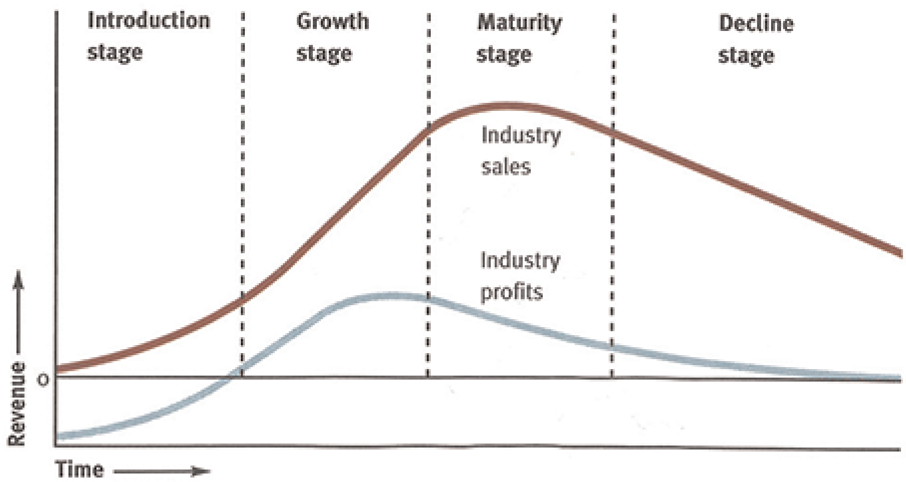

Figure 8.5: The four stages of the product life cycle

Growth

Growth stage
The stage at which a product's sales rise rapidly and profits reach a peak, before levelling off into maturity

During the **growth stage**, sales rise rapidly, and profits reach a peak and then start to decline (see Figure 8.5). The growth stage is critical to a product's survival because competitive reactions to its success during this period will affect the product's life expectancy. For example, Mars successfully launched Ice Cream Mars, the first ice-cream version of an established confectionery product. Today the product competes with more than a dozen other brands. Some of the competing brands failed quickly and others followed. Profits decline late in the growth stage as more competitors enter the market, driving prices down and creating the need for heavy promotional expenses. At this point a typical marketing strategy encourages strong brand loyalty, perhaps using sales promotion, and competes with aggressive emulators of the product. During the growth stage, a company tries to strengthen its market share and develop a competitive position by emphasising the product's benefits.

Aggressive promotional pricing, including price cuts, is typical during the growth stage. The Internet industry is now well into its growth stage, and many competitors have entered the market. Companies like AOL must battle hard to maintain their existing positions in this competitive arena.

Maturity

Maturity stage
The stage during which a product's sales curve peaks and starts to decline, and profits continue to decline

During the **maturity stage**, the sales curve peaks and starts to decline, and profits continue to decline (see Figure 8.5). This stage is characterised by severe competition, with many brands in the market. Competitors emphasise improvements and differences in their versions of the product. Inevitably, during the maturity stage, some weaker competitors are squeezed out or switch their attention to other products. For example, some brands of DVD player are perishing now that the product is reaching the maturity stage.

During the maturity stage, the producers who remain in the market must make fresh promotional and distribution efforts. These efforts must focus on dealers as much as on consumers to ensure that brand visibility is maintained at the point of sale. Advertising and dealer-oriented promotions are typical during this stage of the product life cycle. The promoters must also take into account the fact that, as the product reaches maturity, buyers' knowledge of it attains a high level. Consumers of the product are no longer inexperienced generalists, but rather experienced specialists.

Decline

Decline stage
The last stage of a product's life cycle, during which sales fall rapidly

During the **decline stage**, sales fall rapidly (see Figure 8.5). New technology or a new social trend may cause product sales to take a sharp downturn. For example, iPods have reduced CD sales and green concerns have damaged the sales volumes of certain models of vehicles. When this happens, the marketer must consider pruning items from the product line to eliminate those not earning a profit. Sony surprised the market by announcing it would be pulling out of selling PDAs. The decision came because Sony believed that technology changes are signalling a move away from handheld organisers towards multifunctional mobile phones. At this time, too, the marketer may cut promotion efforts, eliminate marginal distributors and, finally, plan to phase out the product.

Because most businesses have a product mix consisting of multiple products, a company's destiny is rarely tied to one product. A composite of life-cycle patterns is formed when various products in the mix are at different stages in the cycle. As one product is declining, other products are in the introduction, growth or maturity stage. Marketers must deal with the dual problems of prolonging the life of existing products and introducing new products to meet sales goals. More details of this kind of portfolio management activity are given in Chapter 9, which also explores the development of new products and considers how they can be managed in their various life-cycle stages.

Why Some Products Fail and Others Succeed

Thousand of new products are introduced each year and many of them fail. Some estimates put the product failure rate as high as 60 to 90 per cent. Failure and success rates vary in different industries and from company to company. Figures suggest that consumer products are more likely to fail than those directed at business markets. Being one of the first brands launched in a product category is no guarantee of success. One study found that in 50 product categories, only half of the pioneers survived.

Products fail for many reasons. One of the most common is the company's failure to match product offerings to customer needs. When products do not offer value and lack the feature customers want, they fail in the marketplace. Ineffective or inconsistent branding has also been blamed for product failures. Other reasons often given for new product failure include technical or design problems, poor timing, overestimation of market size, ineffective promotion and inefficient distribution. The problems leading to the downfall of Coca-Cola's UK launch of bottled water Dasani were widely debated in the press. Technical difficulties led to bromide contamination at the company's plant. At a time when consumers were already concerned about the purity of tap water, the withdrawal of the product was inevitable. For Cadbury Trebor Bassett's 24-7 chewing gum, failure was blamed on distribution problems and lack of in-store support.

Degrees of Product Failure

It is important to distinguish between degrees of product failure. Absolute failure occurs when a company loses money on a new product because it is unable to recover development, production and marketing costs. Such a product is usually deleted from the product mix. Relative product failure occurs when a product returns a profit but does not meet a company's profit or market share objectives. If a relative product failure is repositioned or improved, it may become a successful member of the product line. Some products experience relative product failure after years of success. Drinks business Diageo recently stepped in to stem declining sales of Guinness stout. Part of this effort involved reformulating the canned version of the drink, to make its taste closer to that of draught Guinness. The cans were also redesigned to appeal to a younger segment of drinkers. As the Marketing Insight explains, Guinness has been looking at various ways to reinvigorate its brand.

The Ingredients for Success

Despite this gloomy picture of product failure, some new products are very successful. Perhaps the most important ingredient for success is the product's ability to provide a significant and perceivable benefit to a sizeable number of customers. New products with an observable advantage over similar available products - such as more features, ease of operation or improved technology- have a greater chance of success.

Tangible and Intangible Product Characteristics

When developing products, marketers make many decisions. Some of these involve the tangible, or physical, characteristics of the product; others focus on less tangible support services that are very much a part of the total product.

Physical Characteristics and Product Quality

Quality
The core product's ability to achieve the basic functional requirements expected of it

The question of how much **quality** to build into the product is crucial for marketers. In the core product, quality constitutes the product's ability to achieve the basic functional requirements expected of it. A major dimension of quality is durability. Higher quality often demands better materials and more expensive processing, which increases production costs and, ultimately, the product's price. How much the target market is prepared to pay will affect the level of quality specified. The concepts of quality and value are related. A consumer may be happy to pay premium for a hard-wearing paint. Because they perceive it as better value than competing offerings. In general, a company should set consistent quality levels for all products with a similar brand. The quality of competing brands is also an important consideration. As explained in Chapter 7, marketing research plays an important role in determining the optimum physical features - such as quality - of a product.

Marketing Insight

Old Brands Battle the Effects of Ageing

Guinness and Kit-Kat have something in common. They are both very well-established brands that have attracted considerable customer support over the lengthy relationship they have enjoyed with different generations of consumers. Yet these well-loved brands are also facing crisis. Diageo's Guinness in the middle of the decade suffered a UK sales decline of 3 per cent. In Ireland, the brand’s domestic market, the sales fall reached 7 per cent during the same period. Meanwhile Nestlé’s kit Kat was also struggling, with UK sales declining by 5.4 per cent in just 12 months.

So what were the reasons for this malaise? According to the former executive chairman of The Henley Centre, 'The trouble with most mature brands is that they are being marketed to a population that is changing rapidly.' Over extension of the Kit-Kat brand may have diluted the consumer franchise for Kit-Kat, while a move away from the familiar advertising strapline, Have a Break…., also alienated some consumers who failed to latch on to newer campaigns. The challenge for both brands is to continue to communicate strongly with their loyal customer base, while doing more to reflect the needs of potential new customers.

For Guinness, there is a positive side to figures for the brand: the stout's global fortunes appear to be on the ascendant, with a 3 per cent increase in volume. So what went wrong in the UK and Ireland? Some believe that the brand's marketing may be partly to blame for the decline. During its 75 years of advertising, Guinness developed a reputation for innovative campaigns, many of which achieved iconic status. This started in 1929, with the now famous ‘Guinness is good for you’ strapline. Soon afterwards in 1935, the toucan was featured for the first time on advertising posters. Initially the plan had been to use a pelican. The idea was to run a 'Guinness-a-day’ theme (building on the 'Guinness is good for you' concept). The plan was to feature an image of a pelican with seven pints positioned along its beak. In the event, a toucan was substituted and an appropriate verse was written to accompany the advertising:

‘If he can say as you can

Guinness is good for you

How grand to be a toucan

Just think what toucan can do'

The toucan was finally retired in 1982. Other high-profile campaigns, such as the 'Pure Genius' advertising followed. However, recent advertising executions, including the 'moth' advertisement, which featured young people leaving a car in a dark forest to follow a cloud of moths towards the light coming from a Guinness bar, were criticised as uninspiring. Other industry experts suggest that the Guinness brand has been diluted by confusing innovations. Product extension Guinness Extra Cold, which some argued flew in the face of the warmth associated with traditional Guinness, was pinpointed as one culprit. Now Diageo wants to battle the effects of the mature stage of Guinness's life cycle, by focusing on its heritage as a status brand, and is backing up this strategy with a range of new advertising initiatives. The latest advertising, 'Hands' waiting in anticipation has been well received and recent performance has improved. Maintaining consumer interest in long standing products, no matter how successful they have been previously, is no easy matter. Both Nestlé with Kit-Kat and Diageo with Guinness are perpetually introducing new product varieties, innovative packaging and up-rated advertising concepts so as to avoid maturity creeping into the decline stage.

Sources: 'Guinness in face lift as volume dips', *Marketing Week*, 20 May 2004, p.8; Sonoo Singh, 'Struggling to keep up', *Marketing Week*; 20 May 2004, pp.24-7; www.thetoucan.co.uk, 26 November, 2007; http://landingpage.guinness.com, 26 November, 2007.

Supportive Product-related Services

All products possess intangible features. When prospective customers are unable to experience the product in advance, they are making decisions based on promises of satisfaction. A woman buying lingerie over the Internet hopes that when the garments she ordered arrive, they will meet her expectations of quality, look and fit. Should she be disappointed, she will expect to be able to return the items. Arrangements for product returns are just one of many product-related services. Others include product guarantees, credit and repair facilities. Although these product features may be less tangible than the product itself, they are often a strong influence on the choices that customers make. Can you imagine buying a watch with no guarantee, or a television that cannot be repaired?

The type of guarantee a company provides can be critical for buyers, especially when expensive, technically complex goods such as appliances are involved. A guarantee specifies what the producer or supplier will do if the product malfunctions. Some photographic processors offer free processing on prints not ready within 24 hours. Guarantors are legally required to state more simply and specifically the terms and conditions under which the company will take action. For example, changes in EU law now require electrical items to carry a two-year guarantee. Marketers are now using guarantees more aggressively as tools to give their brands a competitive advantage.

An effective guarantee should be unconditional, easy to understand and communicate, meaningful, easy to invoke, and quick and easy to act on. The customer should be able to return a product and get a replacement, a refund or a credit for the returned item. Such guarantees are beneficial because they generate feedback from customers and help build customer loyalty and sales.

Although it is more difficult to provide guarantees for services than for goods, some service marketers do guarantee customer satisfaction. For example, some opticians offering a one hour turnaround for new lenses or frames do not charge customers who have to wait longer than this time.

Establishing a system to provide replacement parts and repair services is an essential support service for complex and expensive consumer or business products. For example, builders expect construction machinery manufacturers like Caterpillar to be able to provide replacement parts quickly and without fuss. Sometimes these services are provided directly to buyers, in other cases regional service centres or middlemen are used.

Finally, a company must sometimes provide credit services to customers. Even though credit services place a financial burden on a business, they can be beneficial. For instance, a company may acquire and maintain a stable market share. Many major oil companies, for example, have competed effectively against petrol discounters by providing credit services. For marketers of relatively expensive items, such as cars or soft furnishings, offering credit services enables a larger number of people to buy the product, thus enlarging the market for the item.

Summary

A product is everything, both favourable and, unfavourable, that is received in an exchange. It is a complex set of tangible and intangible attributes, including functional, social and psychological utilities or benefits. A product can be a good, a service, an idea or any combination of these three. Consumers buy the benefits and satisfaction they think the product will provide

Products can be classified on the basis of the buyer's intentions. *Consumer products* are purchased to satisfy personal and family needs. *Industrial or business products* are purchased for use in a company's operations or to make other products. The same product may be classified as both a consumer product and a business product. Consumer products can be subdivided into convenience, *shopping, speciality and unsought products*. Business products can be divided into *raw materials, major equipment, accessory equipment, component ports, process materials, consumable supplies (MRO items) and business services.*

It is important to remember that a product has three levels: core, actual and augmented. The purchaser buys a core benefit or service {the core product) in addition to their product's brand name, features, capabilities, quality, packaging and design *(the actual product)*. Increasingly, aspects of the *augmented product* are important considerations for purchasers of consumer goods, services and business goods. Warranties, delivery and credit, personnel, installation, after-sales support and customer service are integral to the actual product's appeal and perceived benefits. The role of personnel in particular is of fundamental concern to marketers; people and customer service now form a central part of the marketing mix.

A *product item* is a specific version of a product that can be designated as a distinct offering among a business's products. A *product line* is a group of closely related product items that are a unit because of marketing, technical or end-use considerations. A company's total group of products is called the *product mix*. The *depth* of a product mix is measured by the number of different products offered in each product line. The *width* of the product mix is measured by the number of product lines a company offers.

The *product life cycle* describes how product items in an industry move through four major stages: *(1) introduction stage, (2) growth stage, (3) maturity stage and (4) decline stage.* The life-cycle concept is used to make sure that the introduction, alteration and termination of a product are timed and executed properly. The sales curve is at zero on introduction, rises at an increasing rate during growth, peaks at maturity and then declines. Profits peak towards the end of the growth stage of the product life cycle. The life expectancy of a product is based on buyers' wants, the availability of competing products and other environmental conditions. Most businesses have a composite of life-cycle patterns for various products. It is important to manage existing products and develop new ones to keep the overall sales performance at the desired level.

Thousands of new products are introduced each year and many of them fail. Some estimates put the product failure rate as high as 60 to 90 per cent.

Failure, and success rates vary in different industries and from company to company. Products fail for many reasons: because of a failure to match product offerings to customer needs, ineffective or inconsistent branding, technical or design problems, poor timing, overestimation of market size, ineffective promotion and inefficient distribution.

It is important to distinguish between degrees of product failure. Absolute failure occurs when a company loses money on a new product because it is unable to recover development, production and marketing costs. Relative product failure occurs when a product returns a profit but does not meet a company's profit or market share objectives.

Despite this gloomy picture of new product failure, some new products are very successful. Perhaps the most important ingredient for success is the product's ability to provide a significant and perceivable benefit to a sizeable number of customers.

When creating products, marketers must take into account other product-related considerations, such as physical characteristics and less tangible support services. Specific physical product characteristics that require attention are the level of quality and product features, such as textures, colours and sizes. Support services that may be viewed as part of the total product include guarantees, repairs/replacements and credit.