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Product Life Cycle And Marketing Management Strategies

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Abstract

A company's positioning and differentiation strategy must change as the product, market and competitors change over the product life cycle(PLC).In this stage of rapid change, every organization wants the product to enjoy a long and happy life by improve their product process and systems. The understanding of a product's life cycle and marketing strategies can help an organization to understand and realize when it is time to launch and withdraw a product from market.

Thus, the purpose of this paper is to understudy the product life cycle and its marketing management strategies. A lot of factors were accounted for, and importance of marketing strategies and product life cycle highlighted. The paper further takes a look at various concepts of Scholars on marketing management strategies. Finally, the study shows that the value of Marketing strategies and when products move through their life cycle process, different marketing management strategies are developed and applied as appropriate.

Introduction

The concept of a product life cycle has occupied a prominent place in the marketing literature, both as forecasting tool and a guideline foe corporate marketing strategy. In its simplest form, it serves as a descriptive model of the stages of market acceptance of a product. There are several factors which can and do affect product's life cycle in the market such as customer's needs, competition, new technologies and other aspects of marketing environment. A firm's competitiveness is increases through effective product and marketing strategy which involves production of a variety of products and successfully marketing them. The deep knowledge of marketing management is most essential to improve products life cycle. In this paper I will try to present issues relating to the product life cycle as well as Marketing Management Strategies as applied in each stage of product life cycle. Such discussion will help the organizations to develop effective strategies and successfully manage a product's life cycle.

What is Product and Product Life?

Basically, a product is the object of the exchange process, the thing which the producer or supplier offers at a potential customer in exchange for something which the supplier thinks as equivalent or of greater value. The product is an important component of the marketing mix. A product is anything that can be offered to a market to satisfy a want or need. It includes goods, services, experiences, events, persons, place, properties, organizations, information and ideas.

Schewe and Smitch (1980:224) recognized the traditional expanded approaches to defining a product. Under the traditional approach, a product is seen as the entire bundle of utility that is offered by a marketer to the market place. This bundle contains a potential for satisfaction that comes in part from a tangible, objective feature of the product. Satisfaction is also derived from the intangible, subjective features of a product. Nwokoye (1981:95) sees a product as a bundle of physical and psychological satisfaction that a buyer receives from a purchase. This includes not only the tangible object, but also such supportive elements as packaging convenience of purchase, post purchase services and others that buyer's value. New products may lead to sales growth or stability, increase profits control, reduce risk through diversity, offer differential advantages, improve distribution and respond to consumer needs.

Those products which ultimate users buy for their final consumption are called consumer products, while those bought for resale or for producing other items intended for sales are industrial products.

Product Life- The definition of product life is context dependent as well as user-dependent, E.g., for a customer the product life is the period of time that she/he uses it(e.g. from purchasing until it is disposed of). In contrast to this, the product life is normally longer for the producing compony; it starts with the ideas of a product and concludes with the end of the production with the end of the service period for the product (Sendler2009).

The Product Life Cycle (PLC)

The product life cycle is the period of time over which an item is developed, brought to market and eventually removed from the market. It is an important tool for analysis and planning of the marketing mix activity.

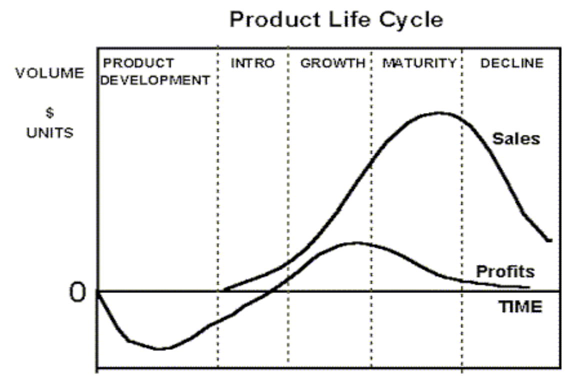
According to Wells et al.(1995:96), product life cycle is based on a metaphor that treats products as people and assumes they are born (introduction) ,develop (grow), age (mature), and die (decline). To Morden (1991:240), the product life cycle represents recognition of the fact that most products will only have a finite market life-be it short as in the case of fashion goods or long as in the case of certain type of industrial equipment.

Kotler (2000:303) see the concept as implying the following:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resources strategies in each life cycle stages.

The product life cycle is the concept that a product goes through several stages in the course of its life:

1. Product development stage.
2. Product introduction stage.
3. Product growth stage.
4. Product maturity stage.
5. Product decline stage.



Source: William D.

This cycle varies according to industry, product, technology, and market. The product life cycle is divided into 5 stages:

1. Development stage: The development stage of the product life cycle occurs when a corporation finds and develops a new product idea. A product is generally undergoing several changes involving a lot of money and time during development, before it is exposed to target customers via test market. At this stage, sales are zero and revenues are negative.
2. Introduction stage: The introduction stage of the product life cycle occurs when a product is first introduced to its target market. Large expenditure on promotion and advertising is common. A corporation must be prepared to spend a lot of money and get only a small proportion of that back. At this stage, sales are low, production costs tend to be high and profit is negative or very low.
3. Growth stage: The growth stage of the product life cycle occurs when demand for the new product starts increasing rapidly. This is the right time to focus on increasing the market share because innovators move from the trial to repeat purchase if they are satisfied with the product though innovators may influence others by word of-mouth, which is often considered the most effective mode of communication. A new growing market alerts the competition's attention. At this stage, sales are rise, revenues increase and profit rise.

4. Maturity stage: The maturity stage of the product life cycle occurs when demands have reached its planned or unplanned peak, and the percentage that it's ever going to buy the product has been reached. This stage of life cycle is the longest phase for most products. Competition is most intense during this stage. At this stage, sales reach peak, and market share may be high.
5. Decline stage: The decline stage of product life cycle occurs when sales continue a strong downward drift and profits erode rapidly toward the zero point. The typical reason for a product decline is the entry of new products coupled with decreases consumer interest in specific product.

What is Marketing?

According to American Marketing Association, Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, service to create exchanges that satisfy individual and organizational goals.

Kotler1980, Marketing is the human activity directed at satisfying human needs and wants through an exchange process.

While kotler1991, Marketing is a social and managerial process by which individuals and groups obtain what they want and need through creating, offering and exchanging products of value with others.

According to The Chartered Institute of Marketing, Marketing is the management process that identifies, anticipates and satisfies customer requirements profitably

The core marketing concepts is:

1. Target markets and segmentation.
2. Marketplace, market space and metamarket.
3. Needs, wants and demand.
4. Marketers & prospects.
5. Product offering and brand.
6. Value and satisfaction.
7. Relationship and network.
8. Marketing channels.
9. Supply chain.
10. Competition.
11. Marketing environment.
12. Marketing program.

Marketing Mix

The marketing mix is the set of marketing tools the firm uses to pursue its marketing objectives in the target market. McCarthy classified these tools into four broad groups that he called the four Ps of marketing:

1. Product- The product (or service) that the customer obtains

2. Price- How much the customer pays for the product?

3. Place- How the product is distributed to the customer.

4. Promotion- How the customer is found and persuaded to buy the product.

Marketing-mix decisions must be made for influencing the trade channels as well as the final consumers.

Marketing Mix			
Product	Price	Promotion	Place
Product Variety Quality Design Features Brand Name Packaging Size Service Warranties Returns	List Price Discounts Allowances Payment Period	Sales Promotion Advertising Sales Force Public relations Publicity	Cannels Coverage Assortments Locations Inventory Transport

Product Life Cycle and Marketing Strategy

The introductory period is characterized by heavy promotion aimed at building up primary demand; price is relatively unimportant. During the growth phase, more competition appears and there is an increasing pressure on price. Promotional expenditures decline in relation to sales; there is a shift to completion on the basis of brands and specific features. As the product enters maturity, there is increasing product brand competition, promotional expenditures and price tend to stabilize, manufactures begin efforts to extend life cycles and new brands may appear. Finally, in the decline phase, further declines in price and promotional expenditures can be expected.

Some authors have provided specific recommendations for marketing strategies at various stages of the product life cycle. Some of the more common recommendations are:

1. Advertising- According to Forrester (1961), in the introductory stage, advertising informs customers about the existence, advantages, and uses of new products. During the growth stage, advertising stresses the merits of the products compared to competing products. In the maturity phase, advertising attempts to create impression of product differentiation. And in the decline stage, the percentage of sales going into advertising decrease.

2. Product changes- Changes in the features, performance, design, and so for the of a product were explored by Schewing (1974), who suggested the following product changes at each stage of the product life cycle introduction of new product; growth-product modification; maturity- product modification and differentiating; saturation- product modification, differentiating, and diversification; and decline- product diversification.

3. Distribution- Initial distribution is believed to be selecting and learn, and to reach its full coverage at the growth stage, when retail outlets are seeking the product. At the maturity stage, retail outlets are the first to suffer from changes in consumer purchase patterns, hence a producer may start losing outlets. At the same time, efforts are made by manufactures to establish new methods of distribution and new outlets.

4. Pricing- Price we usually believed to be high at the introductory period and to decline with the product life cycle stages as price becomes an increasingly important completive weapon, especially at the late stages of growth and throughout the maturity and decline. In determining the product's price strategy, not only the introductory price should be considered, but also what the next move might be, being alternative competitive actions.

5. Life extension- According to Levitt (1965), when a company develops a new product or service, it should try to plan at the very outset a series of actions to be employed at various subsequent stages in the product's existence so that its sales and profit curve are constantly sustained rather than following their usual declining slope.

   Levitt suggest four possible strategies as follows:

   - Promoting more frequent use of the product among current users.
   - Developing more diverse use of the product among current users.
   - Creating new users for the product by expanding the market.
   - Finding new users for the basic material.

Market Strategies:

	Introduction	Growth	Maturity	Decline
Product	Offer a basic product	Offer Product Extension, 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 dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to minimal level
Sales Promotion	Use high sales promotion to entice trail	Reduce to take advantage of heavy consumer demand	Increase to encourage Brand switching	Reduce to minimal level

Product Portfolio Analysis

This framework was developed by Boston Consulting Group and is commonly called the product portfolio approach. The product portfolio means the range of the products a company has in development or available for consumers at any one time.

Peter Drucker suggested classifying products into six categories which reveal whether the potential for future sales growth is present. These are: tomorrow's bread winners, today's bread winners, product capable of becoming not contributors if something drastic is done, yesterday's breadwinners, the "also rans", and the failures.

Locating Products in their Life Cycles

The easiest way to locate a product in its life cycle is to study its performance, competitive history, and current position and match this information with the characteristics of a particular stage of the life cycle. Analysis of past performance of the product will include:

1. Examination of sales-growth progression since introduction.
2. Any design problems and technical bugs which need to be sorted out.
3. Sales and profit history of allied products (those similar in general character or function as well as those directly competitive).
4. Number of years the product has been on the market.
5. Casualty history of similar products in the past.

The review of competition will focus on:

1. Profit history.
2. Ease of entry with which other forms can get into the business.
3. Extent of initial investment needed to enter the business.
4. Number of competitors and their strengths.
5. Number of competitors which left the industry.
6. Life cycle of the industry.
7. Critical factors for success in the business.

The above information on the product may be related to the characteristics of the different stages of the product life cycle. The product life cycle stage with which the product perspectives match will indicate the position of the product in its life cycle. Needless to say, the whole process is highly qualitative in nature, and managerial intuition and judgment will bear heavily on the final placement of the product in its life cycle.

Developing a Portfolio

The current PLC position of different products may be determined by following the above procedure, and the net results of these positions may be computed. Similar analysis may be performed for a future time period. The difference between the current and future position will indicate what results management may expect if no strategic changes are made. These results may be compared with corporate expectations to determine the gap. The above procedure may be put into operation by following the steps given below:

1. Determine what percentages of the company's sales and profits fall within each phase of the PLC. These percentage figures indicate the present life-cycle (sales) profile and the present profit profile of the company's current line.

2. Calculate changes in the life-cycle and profit profiles over the past five years, and project these profiles over the next five years.

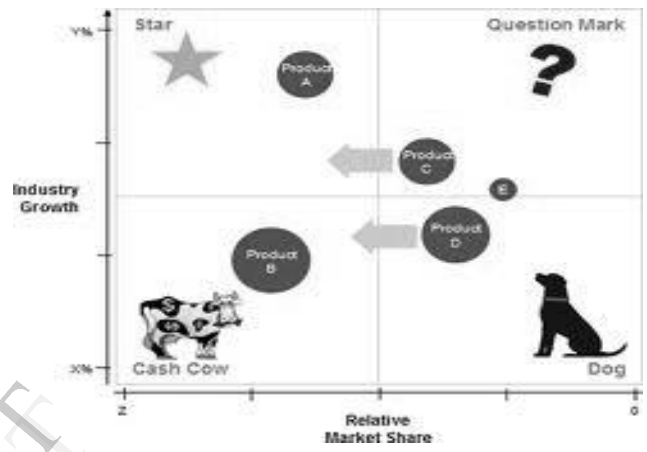
3. Develop a target life-cycle profile for the company and measure the company's present life-cycle profile against it.

With these steps completed management can assign priorities to such functions as new product development, acquisition, and product-line pruning, based on the discrepancies between the company's target and its present life-cycle profile.

Portfolio Matrix

The portfolio concept is used to establish the best mix of businesses in order to maximize the long term earnings growth of the firm. The portfolio concept addresses the issue of the potential value that a particular business has for the firm. This value has two valuables first, the potential value for generating attractive earnings levels now; and second, the potential for growth. The portfolio concept holds that these two variables can be quantified. Current earnings potential is measured by comparing the market position of the business to that of its competitors. Using the two dimensions, one can classify businesses into four categories.

Fig: Matrix Quadrants. Source: the BCG, Inc., 1970



1. Stars: high-growth market leaders are called stars. They generate large amounts of cash, but the cash they generate from earnings and depreciation is more than offset by the cash that must be put back into these businesses in the form of capital expenditures and increased working capital.

2. Cash Cows: Cash Cows are characterized by low growth and high market share. They are not providers of cash. Their high earnings coupled with their depreciation represent high cash inflows, while they need very little in the way of reinvestment. Thus, these products generate large cash surpluses which help to pay dividends and interest, provide debt capacity, supply funds for R&D, meet overheads, and also make cash available for investment in other products. Thus, cash cows are the foundation on which everything else depends.

3. Question Marks: Products which are in a growth market but have a low share are categorized as question marks. Because of

growth, these products require more cash than they are able to generate on their own since they have a low share of the market.

4. Dogs: Products with low market share and positioned in a low-growth situation are called dogs. Their poor competitive position condemns them to poor profits. Because growth is low, there is little potential for gaining sufficient share to achieve a viable cost position. Usually they are net users of cash. Their earnings are low, and the reinvestment required just to keep the business together eats it cash inflow.

Characteristics and Strategy Implications of Product in the Strategy Quadrants:

Quadrant	Investment Characteristics	Earning Characteristics	Cash-Flow Characteristic-s
Stars	-Continual expenditure for capacity expansion	Low to High	Negative cash flow(net cash user)
Cash Cows	-Capacity maintenance expenditures	High	Positive cash flow(net cash contributor)
Question Marks	-Heavy initial capacity expenditure -High P&D costs	Negative to Low	Negative cash flow(net cash user)
Dogs	-Gradually deplete capacity	High to Low	Positive cash flow(Net cash contributor)

Quadrant	Strategy Implication
Stars	Continue to increase market share. If necessary, at the expense of short term earnings.
Cash Cows	Maintain share and cost leadership until further investment becomes marginal.
Question Marks	Assess chances of dominating segment. If good, go after share. If bad, redefine business or withdraw.
Dogs	Plan an orderly withdrawal so as to maximize cash flow.

The first goal of a company should be to secure a position with cash cows but to guard against the frequent temptation to reinvest in them excessively. The cash generated from cash cows should first be used to support those stars which are not self-sustaining. The surplus cash may be used to finance selected question marks to dominance.

A dog may be restored to a position of visibility by shrewdly segmenting the market, i.e., rationalizing and specializing the business into a small niche which the product concerned may dominate. If this is not practical, a firm should manage the dogs for cash, i.e. cut off all investment in the business and liquidate it when an opportunity develops.

Conclusion

All the products go through the different life cycle stages of development, introduction, growth, maturity, and decline. A product life cycle may very last for a few days or continue for years. When an organization recognizes that a product has gone into decline or is not performing as well as it should, it has to decline what to do. Organizations need to determine the life cycle to set performance goals, such as sales and profit, growth targets, and make resources allocation decision, such as strategic and human resource planning. To improve successful product during each of its phase of its life cycle, a company must understand how marketing management works for customer, market and competitors.

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