

## Product Life-Cycle Marketing Strategies

A company's positioning and differentiation strategy must change as its product, market, and competitors change over the *product life cycle* (PLC). To say a product has a life cycle is to assert four things:

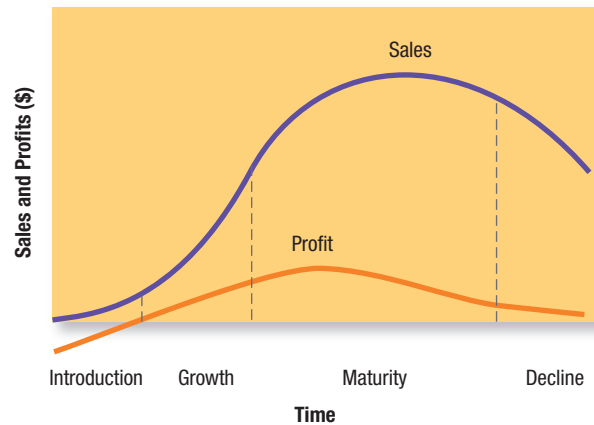
1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing,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

### PRODUCT LIFE CYCLES

Most product life cycles are portrayed as bell-shaped curves, typically divided into four stages: introduction, growth, maturity, and decline<sup>55</sup> (see Figure 12.5).

1. **Introduction**—A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses of product introduction.
2. **Growth**—A period of rapid market acceptance and substantial profit improvement.
3. **Maturity**—A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. **Decline**—Sales show a downward drift and profits erode.

We can use the PLC concept to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Absolut). Not all products exhibit a bell-shaped PLC.<sup>56</sup> Three common alternate patterns are shown in Figure 12.6.



| Fig. 12.5 |

## Sales and Profit Life Cycles

Figure 12.6(a) shows a *growth-slump-maturity pattern*, characteristic of small kitchen appliances like bread makers and toaster ovens. Sales grow rapidly when the product is first introduced and then fall to a “petrified” level sustained by late adopters buying the product for the first time and early adopters replacing it.

The *cycle-recycle pattern* in Figure 12.6 (b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, producing the first cycle. Later, sales start declining, and another promotion push produces a second cycle (usually of smaller magnitude and duration).<sup>57</sup>

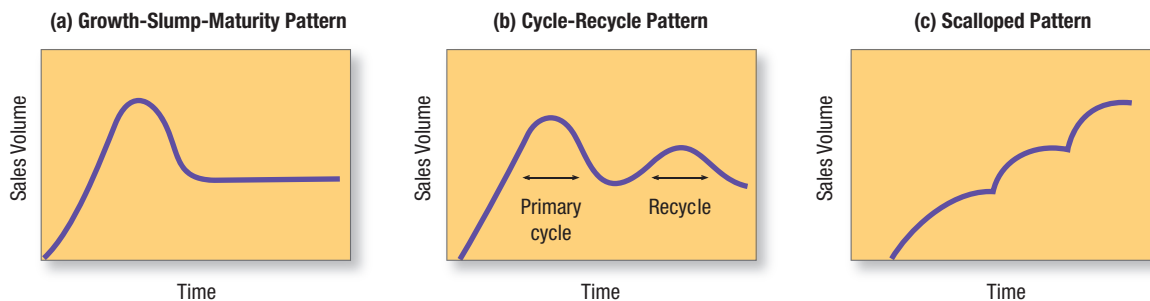
Another common pattern is the *scallop PLC* in Figure 12.6 (c). Here, sales pass through a succession of life cycles based on the discovery of new product characteristics, uses, or users. Sales of nylon showed a classic scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—discovered over time.<sup>58</sup>

## STYLE, FASHION, AND FAD LIFE CYCLES

We need to distinguish three special categories of product life cycles: styles, fashions, and fads (Figure 12.7). A *style* is a basic and distinctive mode of expression appearing in a field of human endeavor. Homes can be colonial, ranch, or Cape Cod; clothing is formal, business casual, or sporty; art is realistic, surrealistic, or abstract. A style can last for generations and go in and out of vogue. A *fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.<sup>59</sup>

The length of a fashion cycle is hard to predict. One view is that fashions end because they represent a compromise, and consumers start looking for the missing attributes.<sup>60</sup> For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Another explanation is that too many consumers adopt the fashion, discouraging others. Still another is that the length of a fashion cycle depends on whether the fashion meets a genuine need, is consistent with other trends, satisfies societal norms and values, and keeps within technological limits as it develops.<sup>61</sup>

*Fads* are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following searching for excitement or wanting

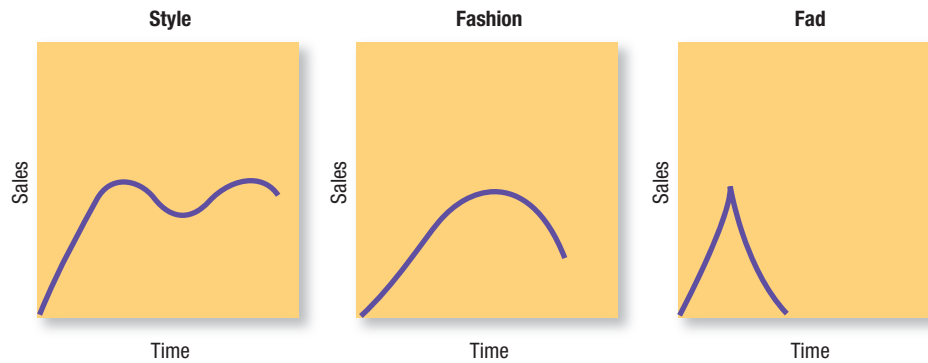


| Fig. 12.6 |

## Common Product Life-Cycle Patterns

| Fig. 12.7 |

## Style, Fashion, and Fad Life Cycles



to distinguish themselves from others. Heelys wheeled shoes were the rage with kids—for a while. Dwindling sales resulted in a sale to a private equity company for a fraction of what the company was worth at its IPO.<sup>62</sup>

Fads decline because they don't normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power, as Crocs has tried to do.<sup>63</sup>

**CROCS** Crocs' signature plastic clogs or "boat shoes"—colorful, comfortable, perfect for summer—succeeded soon after their introduction in Boulder, CO, in 2002. The company's 2006 IPO was the largest ever in U.S. footwear, raising \$208 million. Its stock peaked a year later when Crocs' sales reached \$847 million. But the recession and consumer fatigue with the brand were a double whammy that led to a steep drop in sales and drove the stock price down to a mere \$1 in what the CFO now calls a "near-death experience." By 2011, however, Crocs had rebounded with more than \$1 billion in revenues and growth goals of 15 percent to 20 percent. What happened? The company had diversified into more than 300 styles of stylish, comfortable boots, loafers, sneakers, and other shoes that helped to reduce its reliance on clogs to less than 50 percent of sales. It also adopted a multichannel distribution approach to sell wholesale through retailers like Kohl's and Dick's Sporting Goods (60 percent of business), as well as directly online (10 percent) and through more than 500 of its own retail stores (30 percent). International sales now make up more than half its sales, including in emerging marketing and the growing middle-class markets in Asia and Latin America.

With sales fading fast, Crocs turned around its fortunes by expanding its product line, adopting a multichannel distribution approach, and tapping into global markets.



Source: © Per Andersen/Alamy

## MARKETING STRATEGIES: INTRODUCTION STAGE AND THE PIONEER ADVANTAGE

Because it takes time to roll out a new product, work out technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow in the introduction stage. Profits are negative or low, and promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.<sup>64</sup> Prices tend to be higher because costs are high, and firms focus on buyers who are the most ready to buy. Consider the challenges Zipcar faced in trying to establish itself in the hourly car rental market.<sup>65</sup>

**ZIPCAR** Car sharing started in Europe as a means to serve those who frequently used public transportation but still needed a car a few times a month. In the United States, the appeal of Zipcar, the market leader and pioneer in car sharing, has been both environmental and economic. With a \$50 membership fee and rates that total less than \$100 a day—including gas, insurance, and parking—a typical family could save \$3,000 to \$4,000 a year by substituting Zipcar use for car ownership. The firm estimated that every car it added kept up to 20 private cars off the road. Targeting major cities and college campuses, offering a wide variety of vehicles, and facing little competition, it grew about 30 percent annually for a number of years. Rental leader Hertz decided to enter the hourly car rental business in 2012, however, equipping its entire 375,000-vehicle U.S. fleet with devices that let customers use a computer or smart phone to reserve and unlock a rental car. Unlike Zipcar, Hertz offers one-way rentals and charges no membership or annual fees. With Enterprise also entering the market at home, Zipcar set its sights overseas, concentrating initially on the United Kingdom and Spain. Needing resources to capitalize on global opportunities, in January 2013 it agreed to be acquired by Avis Budget, the number-two rental car company.

Companies that plan to introduce a new product must decide when to do so. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength to create a market advantage. We next consider some of the pros and cons of being a pioneer in a new market.

**PIONEERING ADVANTAGES** Studies show that a market pioneer can gain a great advantage.<sup>66</sup> Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance. Nineteen of 25 market leaders in 1923 were still the market leaders 60 years later.<sup>67</sup> In a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years versus 48 percent of early followers.<sup>68</sup>



Source: © ZUMA Press, Inc./Alamy

Zipcar pioneered the hourly car rental market in the U.S. but encountered stiff competition from established car rental companies.

## marketing insight

### Understanding Double Jeopardy

Double jeopardy is an empirical generalization that has roots in many areas but was popularized in marketing by the British academic Andrew Ehrenberg. It boils down to the fact that a small-share brand is penalized twice—it has fewer buyers than a large-share brand, and they buy less frequently. As a consequence, most of a brand's market share is explained by its market penetration and the size of its customer base, rather than by customers' repeat purchases.

Implicit in the principle of double jeopardy is the assumption that brands are substitutable and have target segments in common. It is, in fact, most often observed with weakly differentiated brands targeting the same group of people. Exceptions are highly differentiated niche brands that thrive on small shares and high loyalty and seasonal brands that offer unique value and tally cluster purchases in short periods of time.

One implication drawn by double jeopardy proponents is that marketers seeking growth should focus on increasing the size of the customer base rather than on deepening the loyalty of existing customers. They see PR efforts, distribution plans, and any means to increase brand exposure, familiarity, and availability as more important than persuasive advertising to target switchers or CRM efforts to reward loyal customers.

Critics of double jeopardy question how inevitable it is and see other implications for marketers. For example, they view new or established brands with a new positioning or message as differentiated enough to avoid double jeopardy's predicted results.

**Sources:** John Scriven and Gerald Goodhardt, "The Ehrenberg Legacy," *Journal of Advertising Research*, June 2012, pp. 198–202; Byron Sharp, *How Brands Grow: What Marketers Don't Know* (Melbourne, Australia: Oxford University Press, 2010); Nigel Hollis, "The Jeopardy in Double Jeopardy," [www.millwardbrown.com](http://www.millwardbrown.com), September 2, 2009; Andrew Ehrenberg and Gerald Goodhardt, "Double Jeopardy Revisited, Again," *Marketing Research*, 2002. See also Andrew Ehrenberg: *A Tribute (1926–2010)*, Special Section, *Journal of Advertising Research* 52 (June 2012).

What are the sources of the pioneer's advantage? "Marketing Insight: Understanding Double Jeopardy" describes one way market leaders can benefit from loyalty due to their size. Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess.<sup>69</sup> It normally aims at the middle of the market and so captures more users. Customer inertia also plays a role, and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and the ability to erect other barriers to entry. Pioneers can spend marketing dollars more effectively and enjoy higher rates of repeat purchases. An alert pioneer can lead indefinitely.

**PIONEERING DRAWBACKS** But the pioneering advantage is not inevitable.<sup>70</sup> Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers) were market pioneers overtaken by later entrants. First movers also have to watch out for the "second-mover advantage."

Steven Schnaars studied 28 industries in which imitators surpassed the innovators.<sup>71</sup> He found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, continuously improving the product, or using brute market power to overtake the pioneer.

Peter Golder and Gerald Tellis raise further doubts about the pioneer advantage.<sup>72</sup> They distinguish between an *inventor*, first to develop patents in a new-product category, a *product pioneer*, first to develop a working model, and a *market pioneer*, first to sell in the new-product category. Including nonsurviving pioneers in their sample, they conclude that although pioneers may still have an advantage, more market pioneers fail than has been reported, and more early market leaders (though not pioneers) succeed. Later entrants overtaking market pioneers through the years included Matsushita over Sony in VCRs, GE over EMI in CAT scan equipment, and Google over Yahoo! in search.

Follow-up research by Golder and his colleagues of 625 brand leaders in 125 categories from 1921 to 2010 provides further insight:<sup>73</sup>

- Leading brands are more likely to persist during economic slowdowns and when inflation is high and less likely to persist during economic expansion and when inflation is low.
- Half the leading brands in the sample lost their leadership after being a leader over periods ranging from 12 to 39 years.



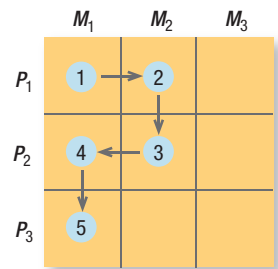
- The rate of brand leadership persistence has been substantially lower in recent eras than in earlier eras (e.g., more than 30 years ago).
- Once brand leadership has been lost, it is rarely regained.
- Categories with above-average brand leadership persistence are food and household supplies; those with below-average rates are durables and clothing.

**GAINING A PIONEERING ADVANTAGE** Tellis and Golder also identified five factors underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.<sup>74</sup> Other research has highlighted the role of genuine product innovation.<sup>75</sup> When a pioneer starts a market with a really new product, like the Segway Human Transporter, surviving can be very challenging. For incremental innovators, like MP3 players with video capabilities, survival rates are much higher.

Speeding up innovation is essential in an age of shortening product life cycles. Being early has been shown to pay. One study found that products debuting six months late but on budget earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget sacrificed only 4 percent of potential profits.<sup>76</sup>

Companies should not try to move too fast; they must carefully design and execute their product-launch marketing. General Motors rushed out its newly designed Malibu to get a leg up over its Honda, Nissan, and Ford midsize competitors. When all the different versions were not ready for production at launch, the brand's momentum stalled.<sup>77</sup> One study found Internet companies that realized benefits from moving fast (1) were first movers in large markets, (2) erected barriers of entry against competitors, and (3) directly controlled critical elements necessary for starting a company.<sup>78</sup>

The pioneer should visualize the product markets it could enter, knowing it cannot enter all of them at once. Suppose market-segmentation analysis reveals the segments shown in Figure 12.8. The pioneer should analyze the profit potential of each singly and of all together and decide on a market expansion path. Thus, the pioneer in Figure 12.8 plans first to enter product market  $P_1M_1$ , then move into a second market ( $P_1M_2$ ), then surprise the competition by developing a second product for the second market ( $P_2M_2$ ), then take the second product back into the first market ( $P_2M_1$ ), then launch a third product for the first market ( $P_3M_1$ ). If this game plan works, the pioneer firm will own a good part of the first two segments, serving each with two or three products.



**| Fig. 12.8 |**

**Long-Range Product Market Expansion Strategy** ( $P_i$  = product  $i$ ;  $M_j$  = market  $j$ )

## MARKETING STRATEGIES: GROWTH STAGE

The growth stage is marked by a rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution. Prices stabilize or fall slightly, depending on how fast demand increases.

Companies maintain marketing expenditures or raise them slightly to meet competition and continue to educate the market. Sales rise much faster than marketing expenditures, causing a welcome decline in the marketing-to-sales ratio. Profits increase as marketing costs are spread over a larger volume, and unit manufacturing costs fall faster than price declines, owing to the producer-learning effect. Firms must watch for a change to a decelerating rate of growth in order to prepare new strategies.

To sustain rapid market share growth now, the firm:

- improves product quality and adds new features and improved styling.
- adds new models and flanker products (of different sizes, flavors, and so forth) to protect the main product.
- enters new market segments.
- increases its distribution coverage and enters new distribution channels.
- shifts from awareness and trial communications to preference and loyalty communications.
- lowers prices to attract the next layer of price-sensitive buyers.

By spending money on product improvement, promotion, and distribution, the firm can capture a dominant position. It trades off maximum current profit for high market share and the hope of even greater profits in the next stage.

Sustaining a competitive advantage in the face of many possible marketplace changes can be challenging but not impossible, as evidenced by some of the long-time market leaders noted above. Finding new ways to consistently

improve customer satisfaction can go a long way. Brambles, a leading Australian logistics supplier, designed plastic bins for its grocery customers that could be filled in farmers' fields and placed directly on store shelves, saving the grocers significant labor costs in the process.<sup>79</sup>

## MARKETING STRATEGIES: MATURITY STAGE

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. Most products are in this stage of the life cycle, which normally lasts longer than the preceding ones.

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first, sales growth starts to slow. There are no new distribution channels to fill. New competitive forces emerge. In the second phase, sales per capita flatten because of market saturation. Most potential consumers have tried the product, and future sales depend on population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products.

This third phase poses the most challenges. The sales slowdown creates overcapacity in the industry, which intensifies competition. Weaker competitors withdraw. A few giants dominate—perhaps a quality leader, a service leader, and a cost leader—and they profit mainly through high volume and lower costs. Surrounding them is a multitude of market nichers, including market specialists, product specialists, and customizing firms.

The question is whether to struggle to become one of the big three and achieve profits through high volume and low cost or to pursue a niching strategy and profit through low volume and high margins. Sometimes the market will divide into low- and high-end segments, and market shares of firms in the middle will steadily erode. Here's how Swedish appliance manufacturer Electrolux has coped with this situation.<sup>80</sup>

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**ELECTROLUX AB** In 2002, Swedish manufacturer Electrolux faced a rapidly polarizing appliance market. Low-cost Asian companies such as Haier, LG, and Samsung were applying downward price pressure, while premium competitors like Bosch, Sub-Zero, and Viking were growing at the expense of the middle-of-the-road brands. Electrolux's CEO at the time, Hans Stråberg, decided to escape the middle by rethinking customers' wants and needs. He segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumers to help target and position the company's broad portfolio of brands, which includes Electrolux as well as Frigidaire refrigerators, AEG ovens, and Zanussi coffee machines. Electrolux now successfully markets its steam ovens to health-oriented consumers, for example, and its compact dishwashers, originally for smaller kitchens, to a broader consumer segment that washes dishes more often. To companies stuck in the middle of a mature market, Stråberg offered this advice: "Start with consumers and understand what their latent needs are and what problems they experience... then put the puzzle together yourself to discover what people really want to have. Henry Ford is supposed to have said, 'If I had asked people what they really wanted, I would have made faster horses' or something like that. You need to figure out what people really want, although they can't express it." Under new CEO Keith McLoughlin, Electrolux is concentrating on the top end of the appliance market, selling professional-grade ranges to the ultra-luxury consumer segment. With distribution and local market presence in more than 150 countries, the company is well positioned for global growth, especially in emerging markets.

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Some companies abandon weaker products to concentrate on new and more profitable ones. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by Japanese firms, who found ways to offer customers new value. Three ways to change the course for a brand are market, product, and marketing program modifications.

**MARKET MODIFICATION** A company might try to expand the market for its mature brand by working with the two factors that make up sales volume, number of brand users and usage rate per customer, as in Table 12.1, but competitors may match this strategy.

**PRODUCT MODIFICATION** Managers also try to stimulate sales by improving quality, features, or style. *Quality improvement* increases functional performance by launching a "new and improved" product. *Feature*

**TABLE 12.1** Alternate Ways to Increase Sales Volume

Expand the Number of Users	Increase the Usage Rates among Users
<ul style="list-style-type: none"> <li>• <i>Convert nonusers.</i> The key to the growth of air freight service was the constant search for new users to whom air carriers could demonstrate the benefits of using air freight rather than ground transportation.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use the product on more occasions.</i> Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Enter new market segments.</i> When Goodyear decided to sell its tires in Walmart, Sears, and Discount Tire, it immediately boosted its market share.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use more of the product on each occasion.</i> Drink a larger glass of orange juice.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Attract competitors' customers.</i> Marketers of Puffs facial tissues are always wooing Kleenex customers.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Have consumers use the product in new ways.</i> Use Tums antacid as a calcium supplement.</li> </ul>

*improvement* adds size, weight, materials, supplements, and accessories that expand the product's performance, versatility, safety, or convenience. *Style improvement* increases the product's esthetic appeal.

Any of these improvements can attract consumer attention. In the highly competitive digital photography space, Shutterfly has grown revenue to \$600 million in annual sales by converting customers' digital images to tangible items: photo books, calendars, greeting cards, wedding invitations, wall decals, and more.<sup>81</sup>

The paper industry is also coping with the challenges of the digital era. As long as some consumers prefer to read, store, or share hard-copy documents, the industry recognizes it must also provide as environmentally sound a solution as possible. Suppliers have worked to develop a more environmentally friendly supply chain from seedlings and reforestation, adopt greener pulp and paper production, recycle, and reduce their carbon footprint.<sup>82</sup> Such efforts are crucial for success and even survival. Due to the rise of e-mail, online bill payments, and other digital developments, leading envelope maker National Envelope declared Chapter 11 bankruptcy twice from 2011 to 2013 as a result of dwindling sales, while leading postage meter supplier Pitney Bowes expanded its digital operations.<sup>83</sup>

**MARKETING PROGRAM MODIFICATION** Finally, brand managers might also try to stimulate sales by modifying non-product elements—price, distribution, and communications in particular—as we will review in later chapters. They should assess the likely success of any changes in terms of their effects on new and existing customers.

## MARKETING STRATEGIES: DECLINE STAGE

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All can lead to overcapacity, increased price cutting, and profit erosion. The decline might be slow, as for sewing machines and newspapers, or rapid, as it was for 5.25 floppy disks and eight-track cartridges. Sales may plunge to zero or petrify at a low level. These structural changes are different from a short-term decline resulting from a marketing crisis of some sort. "Marketing Memo: Managing a Marketing Crisis" describes strategies for a brand in temporary trouble.

As sales and profits decline, some firms withdraw. Those remaining may reduce the number of products they offer, exiting smaller segments and weaker trade channels, cutting marketing budgets, and reducing prices further. Unless strong reasons for retention exist, carrying a weak product is often very costly. Encyclopædia Britannica ceased production of its iconic bound sets of encyclopedias once consumers felt they could get adequate content elsewhere for much less or free. The company rebounded by focusing on the online educational market. Valuing



marketing  
memo

## Managing a Marketing Crisis

Marketing managers must assume a brand crisis will someday arise. Chick-fil-A, BP, Domino's, and Toyota have all experienced damaging and even potentially crippling brand crises. Bank of America, JPMorgan, AIG, and other financial services firms have been rocked by scandals that significantly eroded investor trust. Repercussions include (1) lost sales, (2) reduced effectiveness of marketing activities, (3) increased sensitivity to rivals' marketing activities, and (4) reduced impact of the firm's marketing activities on competing brands.

In general, the stronger the brand equity and corporate image—especially credibility and trustworthiness—the more likely the firm can weather the storm. Careful preparation and a well-managed crisis management program are also critical, however. As Johnson & Johnson's legendary and nearly flawless handling of the Tylenol product-tampering incident taught marketers everywhere, consumers must see the firm's response as both *swift* and *sincere*. They must feel an immediate sense that the company truly cares. Listening is not enough.

The longer the firm takes to respond, the more likely consumers can form negative impressions from unfavorable media coverage or word of mouth. Perhaps worse, they may find they don't like the brand after all and permanently switch. Getting in front of a problem with PR, and perhaps even ads, can help avoid those problems.

A classic example is Perrier—the one-time brand leader in the bottled water category. In 1994, Perrier was forced to halt production worldwide and recall all existing product when traces of benzene, a known carcinogen, were found in excessive quantities in its bottled water. Over the next weeks it offered several explanations, creating confusion and skepticism. Perhaps more damaging, the product was off shelves for more than three months. Despite an expensive relaunch featuring ads and promotions, the brand struggled to regain lost market share, and a full year later sales were less than half what they had been. With its key “purity” association tarnished, Perrier had no other compelling points-of-difference. Consumers and retailers had found satisfactory substitutes, and the brand never recovered. Eventually it was taken over by Nestlé SA.

The more sincere the firm's response—ideally a public acknowledgment of the impact on consumers and willingness to take necessary steps—the less likely consumers will form negative attributions. When shards of glass were found in some jars of its baby food, Gerber tried to reassure the public there were no problems in its manufacturing plants but adamantly refused to withdraw products from stores. After market share slumped from 66 percent to 52 percent within a couple of months, one company official admitted, “Not pulling our baby food off the shelf gave the appearance that we aren't a caring company.”

If a problem exists, consumers need to know without a shadow of a doubt that the company has found the proper solution. One of the keys to Tylenol's recovery was J&J's introduction of triple tamper-proof packaging, successfully eliminating consumer worry that the product could ever be tampered with again.



Source: © SQUIB/Alamy

By mishandling a brand crisis, Perrier lost market share which it never recovered.

**Sources:** Norman Klein and Stephen A. Greyser, “The Perrier Recall: A Source of Trouble,” Harvard Business School Case #9-590-104 and “The Perrier Relaunch,” Harvard Business School Case #9-590-130; Harald Van Heerde, Kristiaan Helsen, and Marnik G. Dekimpe, “The Impact of a Product-Harm Crisis on Marketing Effectiveness,” *Marketing Science* 26 (March–April 2007), pp. 230–45; Michelle L. Roehm and Alice M. Tybout, “When Will a Brand Scandal Spill Over and How Should Competitors Respond?” *Journal of Marketing Research* 43 (August 2006), pp. 366–73; Michelle L. Roehm and Michael K. Brady, “Consumer Responses to Performance Failures by High Equity Brands,” *Journal of Consumer Research* 34 (December 2007), pp. 537–45; Alice M. Tybout and Michelle Roehm, “Let the Response Fit the Scandal,” *Harvard Business Review*, December 2009, pp. 82–88; Andrew Pierce, “Managing Reputation to Rebuild Battered Brands,” *Marketing News*, March 15, 2009, p. 19; Kevin O'Donnell, “In a Crisis Actions Matter,” *Marketing News*, April 15, 2009, p. 22; Anne Marie Kelly, “Has Toyota's Image Recovered from the Brand's Recall Crisis?,” *Forbes*, March 5, 2012; Mark Guarino, “Chick-fil-A: Will the Controversy Hurt Chain's Expansion Plans?,” *Christian Science Monitor*, August 3, 2012; Mark McNeilly, “5 Steps to Handling Your Next Brand Crisis,” *Fast Company*, August 15, 2012; Kathleen Cleeren, Harald J. van Heerde, and Marnik G. Dekimpe, “Rising from the Ashes: How Brands and Categories Can Overcome Product-Harm Crises,” *Journal of Marketing* 77 (March 2013), pp. 58–77.

the company's long-standing mission to bring expert knowledge to the general public, more than half of U.S. students and teachers have access to some Britannica content.<sup>84</sup>

**ELIMINATING WEAK PRODUCTS** Besides being unprofitable, weak products consume a disproportionate amount of management's time, require frequent price and inventory adjustments, incur expensive setup for what are usually short production runs, draw advertising and sales force attention better used to make healthy products more profitable, and cast a negative shadow on company image. Maintaining them also delays the aggressive search for replacement products, creating a lopsided product mix long on yesterday's breadwinners and short on tomorrow's.

Recognizing these drawbacks, General Motors decided to drop the floundering Oldsmobile and Pontiac lines.<sup>85</sup> Unfortunately, most companies have not developed a policy for handling aging products. The first task is to establish a system for identifying them. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance who, based on all available information, make a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.<sup>86</sup>

Some firms abandon declining markets earlier than others. Much depends on the height of exit barriers in the industry. The lower the barriers, the easier for firms to leave the industry, and the more tempting for the remaining firms to stay and attract the withdrawing firms' customers. Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew.

The appropriate strategy also depends on the industry's relative attractiveness and the company's competitive strength in it. A company in an unattractive industry that possesses competitive strength should consider shrinking selectively. A company in an attractive industry that has competitive strength should consider strengthening its investment. Companies that successfully restage or rejuvenate a mature product often do so by adding value to it.

**HARVESTING AND DIVESTING** Strategies for harvesting and for divesting are quite different. *Harvesting* calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures, ideally without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute, yet many mature products warrant this strategy. And it can substantially increase current cash flow.<sup>87</sup>

When a company decides to *divest* a product with strong distribution and residual goodwill, it can probably sell it to another firm. Some firms specialize in acquiring and revitalizing "orphan" or "ghost" brands that larger firms want to divest or that have encountered bankruptcy, such as Linens n' Things, Folgers and Brim coffee, Nuprin



Source: © John Gaffen 2/Alamy

Despite its history with one-time popular models like the GTO, General Motors chose to cease production of the floundering Pontiac product line.

pain reliever, and Salon Selective shampoos.<sup>88</sup> These firms attempt to capitalize on the residue of awareness in the market to develop a brand revitalization strategy. Reserve Brands bought Eagle Snacks in part because research showed 6 of 10 adults remembered the brand, leading Reserve's CEO to observe, "It would take \$300 million to \$500 million to recreate that brand awareness today."<sup>89</sup>

If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide how much inventory and service to maintain for past customers.

## EVIDENCE FOR THE PRODUCT LIFE-CYCLE CONCEPT

Table 12.2 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the product life cycle. The PLC concept helps marketers interpret product and market dynamics, conduct planning and control, and do forecasting. Another study by Golder and Tellis of 30 product categories unearthed a number of interesting findings about the PLC:<sup>90</sup>

- New consumer durables show a distinct takeoff, after which sales increase by roughly 45 percent a year, but they also show a distinct slowdown, when sales decline by roughly 15 percent a year.
- Slowdown occurs at 34 percent penetration on average, well before most households own a new product.

**TABLE 12.2** Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
<b>Characteristics</b>				
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
<b>Marketing Objectives</b>				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
<b>Strategies</b>				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak products
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Communications	Build product awareness and trial among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits and encourage brand switching	Reduce to minimal level needed to retain hard-core loyals

**Sources:** Chester R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles* (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," *Long Range Planning* (October 1976), pp. 12–29; Peter Doyle, "The Realities of the Product Life Cycle," *Quarterly Review of Marketing* (Summer 1976).

- The growth stage lasts a little more than eight years and does not seem to shorten over time.
- Informational cascades exist, meaning people are more likely to adopt over time if others already have, instead of making careful product evaluations. One implication is that product categories with large sales increases at takeoff tend to have larger sales declines at slowdown.

## CRITIQUE OF THE PRODUCT LIFE-CYCLE CONCEPT

PLC theory has its share of critics, who claim life-cycle patterns are too variable in shape and duration to be generalized and that marketers can seldom tell what stage their product is in. A product may appear mature when it has actually reached a plateau prior to another upsurge. Critics also charge that, rather than an inevitable course, the PLC pattern is the self-fulfilling result of marketing strategies and that skillful marketing can in fact lead to continued growth.<sup>91</sup>

## MARKET EVOLUTION

Because the PLC focuses on what's happening to a particular product or brand rather than the overall market, it yields a product-oriented rather than a market-oriented picture. Firms also need to visualize a *market's* evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments and change product and brand positioning to keep pace.<sup>92</sup> Like products, markets evolve through four stages: emergence, growth, maturity, and decline. Consider the evolution of the paper towel market.

**PAPER TOWELS** Homemakers originally used cotton and linen dishcloths and towels in their kitchens. Then a paper company looking for new markets developed paper towels, crystallizing a latent market that other manufacturers entered. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced “absorbent” towels and increased its market share. Competitors produced their own versions of absorbent paper towels, and the market fragmented again. One manufacturer introduced a “superstrength” towel that was soon copied. Another introduced a “lint-free” towel, subsequently copied. A later innovation was wipes containing a cleaning agent (like Clorox Disinfecting Wipes) that are often surface-specific (for wood, metal, or stone). Thus, driven by innovation and competition, paper towels evolved from a single product to one with various absorbencies, strengths, and applications.

## Marketing in a Slow-Growth Economy

Given economic cycles, there will always be tough times, such as the recession of 2008–2009 and the slow recovery that has followed. Despite reduced funding for marketing programs and intense pressure to justify them as cost effective, some marketers have survived—or even thrived—in tough economic times. Here are five guidelines for improving the odds for marketing success in a slow-growth economy.<sup>93</sup>

## EXPLORE THE UPSIDE OF INCREASING INVESTMENT

Forty years of evidence suggests those willing to invest during a recession have, on average, improved their fortunes more than those that cut back.<sup>94</sup> Marketers should consider the potential upside of increasing investment to exploit a marketplace advantage like an appealing new product, a weakened rival, or a neglected target market to develop. Here are two companies that did.

- General Mills increased marketing expenditures for the 2009 fiscal year by 16 percent, increased revenues by 8 percent to \$14.7 billion, and increased operating profit by 4 percent. As CEO Ken Powell explained, “In an



environment where you have consumers going to the grocery store more often and thinking more about meals at home, we think that is a great environment for brand building, to remind consumers about our products.”<sup>95</sup>

- UK supermarket giant Sainsbury launched an advertising and point-of-sale campaign called “Feed Your Family for a Fiver” that played off its corporate slogan, “Try Something New Today,” to encourage shoppers to try new recipes that would feed families for only £5 (or \$9).

## GET CLOSER TO CUSTOMERS

Consumers with leveling incomes may change what they want and where and how they shop. A downturn or slow-growth period is an opportunity to learn even more about what consumers are thinking, feeling, and doing, especially the loyal base that yields so much profitability.<sup>96</sup>

Firms should characterize any changes as temporary rather than permanent shifts.<sup>97</sup> In explaining the need to look forward, Eaton CEO Alex Cutler noted, “It is a time when businesses shouldn’t be assuming that the future will be like the past. And I mean that in virtually every dimension whether it is economic growth, value propositions, or the level of government regulation and involvement.”<sup>98</sup>

A recent Booz & Company survey of 1,000 U.S. households found 43 percent were eating at home more and 25 percent were cutting spending on hobbies and sports activities; respondents said they would likely continue to do so.<sup>99</sup> Spending has shifted in many ways, and the potential value and profitability of some customers may change. As one retail analyst commented, “Moms who used to buy every member of the family their own brand of shampoo are buying one big cheap one.”<sup>100</sup>

## REVIEW BUDGET ALLOCATIONS

Slowed growth provides an opportunity for marketers to review their spending, opening promising new options and eliminating sacred cows if they don’t yield results. It can be a good time to experiment. In London, T-Mobile created spontaneous “happenings” to convey its brand positioning that “Life’s for Sharing” and generate massive publicity. Its “Dance” video, featuring 400 dancers getting subway riders to dance, was viewed millions of times on YouTube.<sup>101</sup>

Firms as diverse as Century 21 realtors and Red Robin gourmet burgers have increased online marketing activities.<sup>102</sup> Dentists are turning to marketing, communicating with patients via e-mail newsletters, calling to set up appointments, and sending Twitter messages about new products or services.<sup>103</sup>

## PUT FORTH THE MOST COMPELLING VALUE PROPOSITION

Focusing heavily on price reductions and discounts can harm long-term brand equity and price integrity. Marketers should increase—and clearly communicate—their brands’ value, conveying all the financial, logistical, and psychological benefits.<sup>104</sup> GE changed its ad messages for the \$3,500 Profile washer-and-dryer set during the

In a slow growth economy, many dentists have embraced marketing to better connect with their patients.



Source: © CandyBox Images/Shutterstock



downturn to emphasize its practicality—it optimizes the use of soap and water per load and is gentle on clothes, extending their life.<sup>105</sup>

Marketers should ensure pricing has not crept up unduly over time.<sup>106</sup> Procter & Gamble adopted a “surgical” approach during the recession, reducing prices in some categories while communicating about innovation and value to support premium prices in others. Ads for Bounty claimed it was more absorbent than a “bargain brand”; ads for Olay Professional Pro-X’s Intensive Wrinkle Protocol called it as effective as prescription “at half the price.”<sup>107</sup>

Discounting successful brands is not a good option because it tells the market two things: your prices were too high before, and your products won’t be worth the price once the discounts are gone. Appealing to frugal customers with a new brand at lower prices avoids alienating those still willing to pay for higher-priced brands.

## FINE-TUNE BRAND AND PRODUCT OFFERINGS

Marketers can review product portfolios and brand architecture to confirm that brands and sub-brands are clearly differentiated, targeted, and supported based on their prospects. Luxury brands can benefit from lower-priced brands or sub-brands in their portfolios. Armani is an example.<sup>108</sup>

**ARMANI** Armani differentiates its product line into three tiers distinct in style, luxury, customization, and price. In the most expensive, Tier I, are Giorgio Armani and Giorgio Armani Privé, custom-made couture products selling for thousands of dollars. In Tier II are Emporio Armani—young, modern, more affordable styles—and Armani jeans. In lower-priced Tier III are youthful and street-savvy versions, A/X Armani Exchange, sold exclusively at 268 retail locations. Each extension lives up to the Armani brand’s core promise without diluting the parent’s image. But clear differentiation minimizes consumer confusion and brand cannibalization. During slow growth, the lower end picks up the slack and helps maintain profitability. In 2011, the Giorgio Armani line accounted for 32 percent of total sales, Emporio Armani for 27 percent, and Armani Exchange for 14 percent.

Brands and sub-brands targeting the lower end of the socioeconomic spectrum may be particularly important during slow growth. Value-driven companies like McDonald’s, Walmart, Costco, Aldi, Dell, E\*TRADE, Southwest Airlines, and IKEA may benefit most. Spam, the oft-maligned can of spiced ham and pork, found sales soaring during the recession.<sup>109</sup>

Slow times also are an opportunity to prune products with diminished prospects. In the post-9/11 recession, Procter & Gamble divested stagnant brands including Comet cleanser, Folgers coffee, Jif peanut butter, and Crisco oil and shortening to concentrate on higher-growth opportunities.



Source: © Michael Kemp/Alamy

Armani’s three price tiers within its product lines helps the company survive and prosper in good and bad times.

# Summary

1. Growing the core or seeking organic growth—focusing on opportunities with existing products and markets—is often a prudent way to increase sales and profits.
2. A market leader has the largest market share in the relevant product market. To remain dominant, it looks to expand total demand and protect and perhaps increase its current share.
3. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. There are five types of general attack and specific attack strategies.
4. A market follower is a runner-up firm willing to maintain its market share and not rock the boat. It can be a cloner, imitator, or adapter.
5. A market nicher serves small market segments ignored by larger firms. The key is specialization, which can command a premium price in the process.
6. Companies should maintain a good balance of consumer and competitor monitoring and not overly focus on competitors.
7. Technologies, product forms, and brands exhibit life cycles with distinct stages, usually introduction, growth, maturity, and decline. Most products today are in the maturity stage.
8. The introduction stage is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. In the maturity stage, sales growth slows and profits stabilize. Finally, the product enters a decline stage. The company's task is to identify truly weak products and phase them out with minimal impact on company profits, employees, and customers.
9. Like products, markets evolve through stages: emergence, growth, maturity, and decline.
10. In a slow-growth economy, marketers must explore the upside of increasing investments, get closer to customers, review budget allocations, put forth the most compelling value proposition, and fine-tune brand and product offerings.

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# Applications

## Marketing Debate

### Do Brands Have Finite Lives?

Often, after a brand begins to slip in the marketplace or disappears altogether, commentators observe, “All brands have their day,” implying brands have a finite life and cannot be expected to be leaders forever. Other experts contend brands *can* live forever and that their long-term success depends on marketers’ skill and insight.

**Take a position:** Brands cannot be expected to last forever *versus* There is no reason for a brand to ever become obsolete.

## Marketing Discussion:

### Industry Roles

★ Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, and nicher. How would you characterize the nature of competition? Do the firms follow the principles described in this chapter?

## Marketing Excellence

### >> Samsung

Korean consumer electronics giant Samsung has made a remarkable transformation since its founding in 1938. Originally created as an exporter of dried Korean fish, vegetables, and fruit, the company evolved into a provider of value-priced commodity products during the 1970s and 1980s that original equipment manufacturers (OEMs) sold under their own brands. When Samsung's founder passed away in 1987, his son Kun-Hee Lee succeeded him and restructured the company with the goal of becoming one of the world's top electronic companies.

Samsung initially focused on volume and market domination rather than profitability. During the Asian financial crisis of the late 1990s, other Korean *chaebols* or conglomerates collapsed beneath a mountain of debt, but Samsung took a different approach. The company cut costs and refocused its vision on product quality, complete customer satisfaction, and manufacturing flexibility. This revolutionary strategy allowed its consumer electronic products to go from project phase to store shelves within six months. Samsung invested heavily in innovation, and many of its products—from semiconductors to LCD screens—gained significant market share and became industry leaders in their respective categories. The company also focused intently on its memory-chip business, which established an important cash cow and made it the largest chipmaker in the world.

Samsung continued to pour money into R&D during the 2000s, budgeting \$40 billion for 2005–2010 alone. The company made innovation one of its highest priorities and emphasized its importance through extensive training and recruiting. As a result, it introduced a wide range of electronic products under its strong brand umbrella. Samsung also partnered with longtime market leader Sony to create a \$2 billion state-of-the-art LCD factory in South Korea and signed a milestone agreement to share 24,000 basic patents for components and production processes.

Today, Samsung is a global marketer of premium-priced, Samsung-branded consumer electronics such as smart phones, flat-screen TVs, digital cameras, batteries, digital appliances, and semiconductors. The company's high-end smart phones and cell phones are now its growth engines, leading to a steady stream of innovations including the first cell phone with an

MP3 player, the first Blu-ray disc player, and the first Smartwatch.

Samsung's success has been driven not only by successful product innovation, but also by aggressive brand building. The company has spent billions of dollars in marketing over the past decade, including sponsoring the Olympics since 1998 and running several global ad campaigns themed "Imagine," "Quietly Brilliant," and "Men Are Idiots," all of which included brand messages such as "technology," "design," and "human sensation." In 2005, Samsung surpassed Sony in the Interbrand ranking for the first time, and it continues to outperform Sony today.

Samsung faces competitors in several different industries, including Google and Apple. However, the company is unique because, unlike rival firms, it has become a global leader in making both the components for electronics products and the actual devices sold to consumers. It controls virtually everything in the smart phone supply chain, from the chips to the screen, while Apple has to outsource these products. As a result, Samsung can keep costs low, create many products for many needs, make design changes quickly, and introduce new products at an unusually fast pace. The company recently passed Apple as the number-one player in smart phones.

With record sales of \$327 billion in 2013 and more than 275,000 employees worldwide, Samsung continues to work toward its goal of earning \$400 billion in revenue by the year 2020.

### Questions

1. What are some of Samsung's greatest competitive strengths?
2. Samsung's goal of earning \$400 billion in sales by 2020 would bring it to the same level as Walmart. Is this a feasible goal? Why or why not?

**Sources:** Moon Ihlwan, "Samsung Is Having a Sony Moment," *BusinessWeek*, July 30, 2007, p. 38; Martin Fackler, "Raising the Bar at Samsung," *New York Times*, April 25, 2006; "Brand New," *Economist*, January 15, 2005, pp. 10–11; Patricia O'Connell, "Samsung's Goal: Be Like BMW," *BusinessWeek*, August 1, 2005; Heidi Brown and Justin Doeble, "Samsung's Next Act," *Forbes*, July 26, 2004; John Quelch and Anna Harrington, "Samsung Electronics Company: Global Marketing Operations," *Harvard Business School*, January 16, 2008; Evan Ramstad, "Samsung's Swelling Size Brings New Challenges," *Wall Street Journal*, November 11, 2009; "Looking Good? LG v. Samsung," *Economist*, January 24, 2009; Haydn Shaughnessy, "What Makes Samsung Such an Innovative Company," *Forbes*, March 7, 2013; Zach Epstein, "Samsung Smashes Apple as Smartphone Explosion Continues in Q2," *BGR.org*, July 26, 2013; Darrell Etherington, "Samsung Goes First, Google Experiments and Apple Refines," *Techcrunch.com*, October 9, 2013; Chuck Jones, "Apple vs. Samsung: Who Could Win the Smartphone War?," *Forbes*, August 20, 2013; Ashraf Eassa, "Apple Has a Problem," *The Motley Fool*, September 27, 2013; Tim Worstall, "Why Samsung Beats Apple or Perhaps Vice Versa," *Forbes*, September 9, 2013; Samsung.com.

## Marketing Excellence

### >> SABIC

Saudi Basic Industries Corporation (SABIC) is a petrochemical company headquartered in Riyadh, Saudi Arabia. It was set up in 1976 by the Saudi government to add value to the country's natural resources. The industrial model consisted of capturing crude oil-related gases and to delivering them as raw material to manufacture various industrial commodities. A chain of basic industries were located next to these natural resources to contribute to downstream industrial diversification in Saudi Arabia. Throughout the 1980s, SABIC was headquartered in Al-Jubail city. The latter consequently witnessed an intense and empowering transformation from a small fishing village on the Arabian Sea into a modern industrial hub. While SABIC built the basic industries, the Royal Commission put in place the necessary infrastructure. SABIC is majority owned by the Saudi government (70 percent) along with private investors from Saudi and other GCC countries (30 percent).

SABIC is the fourth largest petrochemical company in the world, based on turnover. The industry leader is the German BASF, followed by the U.S. Dow and the Dutch LyondellBasell. SABIC is the largest company in the Middle East with a market capitalization of \$94.4 billion (2014). SABIC's total assets were valued at \$33 billion and sales reached \$50.4 billion in May, 2014. The company employs 40,000 employees in 45 countries. It has accumulated 9,000 patent portfolio filings. SABIC is the world leader in the production of MTBE, ethylene glycol, and fertilizers, and the second largest producer of methanol (2013).

SABIC consists of six strategic business units that manufacture four different products: chemicals, fertilizers, metals, and plastics. The chemicals represent over 60 percent of the company total production by value. SABIC's manufacturing network in Saudi Arabia comprises 18 technology and innovation centers that employ 1,400 scientists.

At the international stage, SABIC's global presence has grown steadily over the years. The company is partner in three regional ventures in Bahrain. In 2002, SABIC Europe Petrochemical (SEP) was established after the acquisition of the petrochemical business from the Dutch group DSM. SEP has two major manufacturing complexes in Geleen in the Netherlands and Gelsenkirchen in Germany. The global network of the company includes strategically located offices, distribution centers,

and storage facilities to better serve its key markets worldwide. SABIC has established technology centers that serve as satellite research and development units. Recently, it has expanded its business into China with the building of new petrochemical plants.

The feedstock (raw material) used in the petrochemical industry has historically been a source of competitive advantage for SABIC. The latter has enjoyed low-cost gas feedstock, such as methane, ethane, propane, butane, light naphtha, and other natural gas liquids from ARAMCO, a prominent Saudi oil company. It has also benefited, and continues to do so, from land leased from the Saudi government at no cost. However, there is a growing gas shortage in the Gulf region, a fact that may inevitably cut into SABIC's margins and reduce its overall cost advantage.

Although each business unit has adopted its own business strategy, SABIC pursues a cost-leadership strategy. Exceptionally, SABIC has not been successful in espousing a cost-leadership strategy for the metals business unit. Hence, the company focuses on the quality of its steel products and the adoption of a differentiation strategy. Historically speaking, SABIC was able to make it to the global arena thanks to its cost-leadership strategy. However, due to keen competition in recent years, SABIC has begun shifting to differentiation. Regarding its fertilizers, as SABIC provides for mainly Saudi farmers who benefit from government subsidies, the company adopts a focused cost-leadership strategy.

At present, with strong competition from other global petrochemical companies, other factors have become an absolute must for success in this industry. To do so, SABIC has established a state-of-the-art industrial complex for research and development in Riyadh, Saudi Arabia. The complex consists of research and technology innovation-related activities and services destined to enhance SABIC's capabilities. This industrial complex has also allowed SABIC to reach a competitive advantage by maximizing product quality for its customers. For growth prospects, SABIC is aware that it can no longer solely rely on its abundant feedstock. Also, innovation has turned out to be a key success factor. The company banks on the capability of transforming feedstock into solutions for its customers.

Recently, ARAMCO and a few other key petrochemical players, such as Dow Chemical Co., have begun the process of building petrochemical plants in Saudi Arabia. This increased competition in the raw materials industry may result in SABIC further limiting the cost advantages it has had for decades.

### Questions

1. There are very few Middle Eastern companies that have made it to the global arena due to various factors. What are the key factors for SABIC's success?
2. What business risks and drawbacks does SABIC face? What strategic direction should the company pursue to avoid potential risks?

**Sources:** *SABIC Annual Report 2013*; SABIC, [www.sabic.com](http://www.sabic.com); "SABIC: Firms must innovate to compete, stay ahead of change," *Saudi Gazette*, November 25, 2014; Saudi Basic Industries, *Forbes*, May, 2014, <http://www.forbes.com/companies/saudi-basic-industries/>;

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