Introduction

It is sometimes said that 'you can sell any product to consumers once, but to establish loyalty and good customer relationships, the product must be right'. If the product does not meet customer expectations, as discovered by market research, regarding:

- quality
- durability
- performance
- appearance...

then no matter how low the price or how expensive the advert for it costs, it will not sell successfully in the long term.

The term 'product' includes consumer and industrial goods and services. Goods have a physical existence, such as washing machines and chocolate bars. Services have no physical existence but satisfy consumer needs in other ways – hairdressing, car repairs, childminding and banking are examples of services. Industrial products such as mining equipment are purchased by businesses not final consumers.

KEY TERMS

product the end result of the production process sold on the market to satisfy a customer need

consumer durables manufactured products that can be re-used and are expected to have a reasonably long life, such as cars and washing machines

product line a set of related products sold by a business

product mix the variety of product lines that a business produces or a retailer stocks

product range all of the types of products made by a business

New product design and development

New product development (NPD) is crucial to the success of some businesses operating in markets with constant technological changes, such as computer games consoles. It is also important in the pharmaceuticals industry, where the opportunities to make huge profits from newly patented drugs are great, and in industrial markets, such as machine tools, where robots have revolutionised production methods. In contrast, in other markets, it is possible to sell the same product for many years or to adjust and adapt it slightly to meet changing tastes and to enter new segments, such as Pepsi Cola.

Financing NPD can be a major problem as the research and development costs often have to be paid years before any returns are earned from the sale of the innovative products.

THE NEW PRODUCT DEVELOPMENT PROCESS

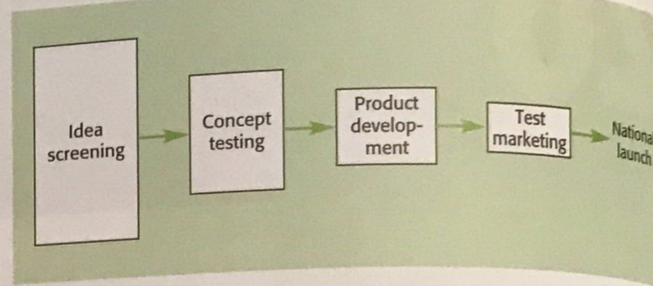


Figure 26.1 *Not all new ideas are turned into successful products*

There are seven stages in the NPD process:

1. Generating new ideas, e.g. market research, brainstorming, adapting existing products.
2. Idea screening – eliminate those ideas that have the least chance of being commercially successful.
3. Concept testing – establishing most likely consumers, possible cost of production, specific features that the product will have.
4. Business analysis – analysing likely impact of the new product on revenue, costs and profits.
5. Product testing – developing prototypes to assess performance and to obtain feedback.
6. Test marketing – launching the developed product in a small but representative section of the market to assess likely sales following a national launch.
7. Commercialisation – full-scale launch of the product with appropriate promotion and distribution.

A very small proportion of new ideas ever reach the commercialisation stage – the NPD process should reduce the risk of failure by eliminating unsuitable and unprofitable products before they reach the final stage.

Product life cycle

KEY TERM

product life cycle the pattern of sales recorded by a product from launch to withdrawal from the market

Knowing when to launch a new product or update an existing one can give a business a crucial advantage. Allowing existing models of cars or computers to 'soldier on' in the market when other firms are introducing attractive new or revamped ones is a classic business error that has led to many failures. An awareness of the product life cycle principle can assist greatly in dealing with this problem. The life cycle of a product records the sales of that product over time. There are several stages in this life cycle and these are shown in Figure 26.2.

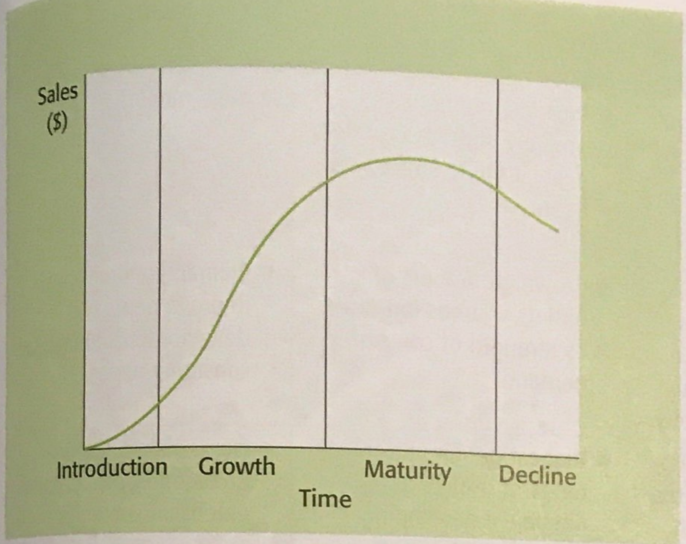


Figure 26.2 Product life cycle – the length of each stage will vary from product to product

Points to note on the first three stages:

- Introduction. This is when the product has just been launched after development and testing. Sales are often quite low to begin with and may increase only quite slowly – but there are exceptions, such as a newly launched DVD by a major rock star.
- Growth. If the product is effectively promoted and well received by the market, then sales should grow significantly. This stage cannot last for ever, although all firms wish that it would. Eventually, and this may take days, weeks or even years, sales growth will begin to slow and might stop altogether, which leads the product into the next stage. The reasons for declining growth include increasing competition, technological changes making the product less appealing, changes in consumer tastes and saturation of the market.
- Maturity or saturation. At this stage, sales fail to grow, but they do not decline significantly either. This stage can last for years, for example Coca-Cola. The saturation of consumer durables markets is caused by most consumers who want a certain product having already bought one. The best recent example is mobile phones. Although the world market has grown phenomenally in recent years, in 2009 sales growth ended altogether. This was put down to the vast number of consumers who already possessed a mobile. It is only when their own phone breaks down or is replaced by newer technology that a further spurt to sales growth will be received. This is why all phone companies are working so hard on the next generation of mobile phone – to make existing models obsolete.

EXTENSION STRATEGIES

KEY TERM

extension strategies marketing plans that extend the maturity stage of the product before a brand new one is needed

Such strategies include developing new markets for existing products, for example export markets, new uses for existing products and product relaunches involving new packaging and advertising (see Figure 26.3).

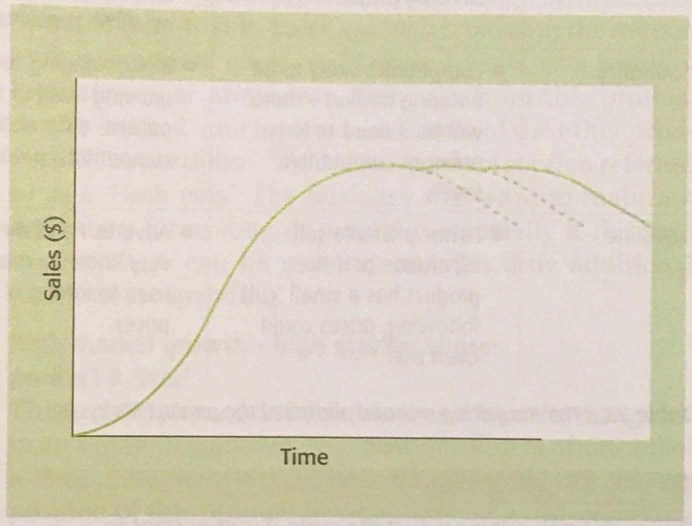


Figure 26.3 Product life cycle – showing the effect of extension strategies

During the 'decline' phase, sales will fall steadily. Either no extension strategy has been tried, or it has not worked or the product is so obsolescent that the only option is replacement. Newer competitors' products are the most likely cause of declining sales and profits – and when the product becomes unprofitable or when its replacement is ready for the market, it will be withdrawn.

USES OF THE PRODUCT LIFE CYCLE

The life-cycle concept has two main uses.

Assisting with the planning of marketing mix decisions

- When would you advise a firm to lower the price of its product – at the growth or at the decline stage?
- In which phase is advertising likely to be most important – during introduction or at maturity?
- When should variations be made to the product – during introduction or at maturity?

Table 26.1 explains how marketing mix decisions can be influenced by knowledge of the product life cycle.

Product life-cycle phase	Price	Promotion	Place (distribution outlets)	Product
Introduction	• May be high compared to competitors (skimming) or low (penetration).	• High levels of informative advertising to make consumers aware of the product's arrival on the market.	• Restricted outlets – possibly high-class outlets if a skimming strategy is adopted.	• Basic model.
Growth	• If successful, an initial penetration pricing strategy could now lead to rising prices.	• Consumers need to be convinced to make repeat purchases – brand identification will help to establish consumer loyalty.	• Growing numbers of outlets in areas indicated by strength of consumer demand.	• Planning of product improvements and developments to maintain consumer appeal.
Maturity	• Competitors likely to be entering market – there will be a need to keep prices at competitive levels	• Brand imaging continues – growing need to stress the positive differences with competitors' products.	• Highest geographical range of outlets as possible – developing new types of outlets where possible.	• New models, colours, accessories, etc. as part of extension strategies.
Decline	• Lower prices to sell off stock – or if the product has a small 'cult' following, prices could even rise.	• Advertising likely to be very limited – may just be used to inform of lower prices.	• Eliminate unprofitable outlets for the product.	• Prepare to replace with other products – slowly withdraw from certain markets.

***Table 26.1** The marketing mix and phases of the product life cycle*

EXAM TIP

When discussing the product life cycle it is important to remember that no two products are likely to have exactly the same pattern of sales growth/maturity and decline.

Identifying how cash flow might depend on the product life cycle

- Cash flow is vital to business survival and ignoring the link between cash flow and product life cycles could be very serious. Figure 26.4 shows this typical relationship.

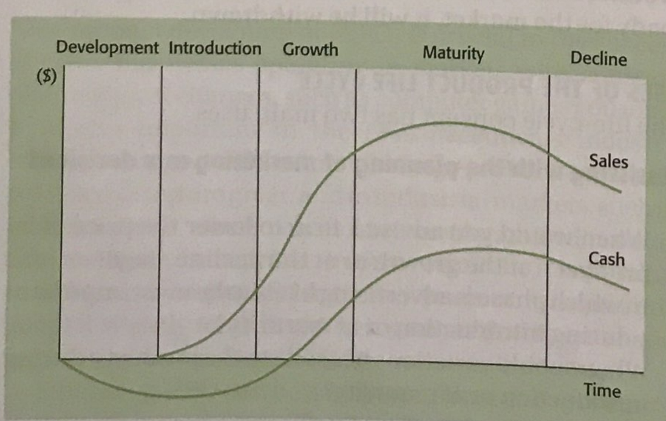
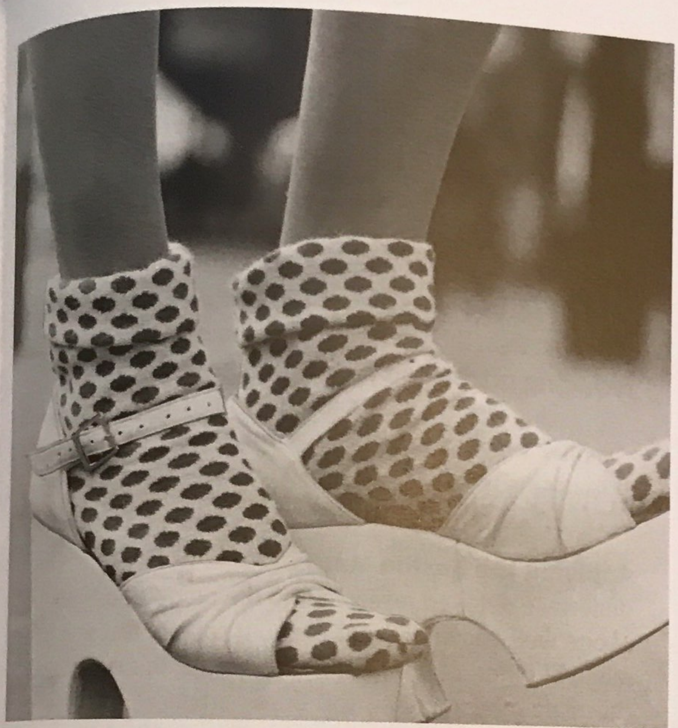


***Figure 26.4** The link between cash flow and product life cycle*

- Cash flow is negative during the development of the product as costs are high, but nothing has yet been produced or sold.
- At introduction, the development costs might have ended but heavy promotional expenses are likely to be incurred – and these could continue into the growth phase. In addition, there is likely to be much unused factory capacity at this stage which will place a further strain on costs. As sales increase, then cash flow should improve – precisely when will depend on the length of consumer credit being offered.
- The maturity phase is likely to see the most positive cash flows, because sales are high, promotional costs might be limited and spare factory capacity should be low.
- As the product passes into decline, so price reductions and falling sales are likely to combine to reduce cash flows. Clearly, if a business had too many of its products either at the decline or the introduction phase then the consequences for cash flow could be serious. Firms will benefit from a balanced portfolio of products, at different stages of their life cycles, so that cash from those entering maturity can be used to provide investment funds for developing eventual replacement products.



When do you think this photo was taken?

H HIGHER LEVEL

Boston Matrix – product portfolio analysis

This method of analysing the market standing of a firm's products and the firm's overall product portfolio was developed by the Boston Consulting Group (see Figure 26.5)

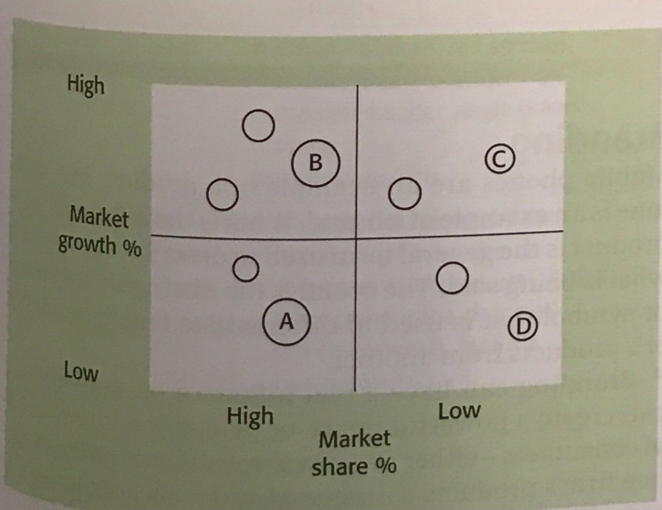


Figure 26.5 The Boston Matrix

KEY TERM

Boston Matrix a method of analysing the product portfolio of a business in terms of market share and market growth

It highlights the position of each of a firm's products when measured by market share and market growth. This allows not only an analysis of the existing product portfolio but also what future strategies the firm could take next. The size of each circle represents the total revenue earned by each product. The four sectors created by the matrix can be analysed in the following way.

Low market growth – high market share: product A 'Cash cow'

This is a well-established product in a mature market. Typically, this type of product creates a high positive cash flow and is profitable. Sales are high relative to the market and promotional costs are likely to be low, as a result of high consumer awareness. The cash from this product can be 'milked' and injected into some of the other products in the portfolio – hence, this product is often referred to as a 'Cash cow'. The business will want to maintain cash cows for as long as possible, especially if the high market share can be maintained with little additional promotional spending.

High market growth – high market share: product B 'Star'

This is clearly a successful product as it is performing well in an expanding market – because of this it is often called a 'Star'. The firm will be keen to maintain the market position of this product in what may be a fast-changing market – therefore, promotional costs will be high to help differentiate the product and reinforce its brand image. Despite these costs a star is likely to generate high amounts of income. If their status and market share can be maintained, they should become the cash cows of the future as the market matures and market growth slows.

High market growth – low market share: product C 'Problem child'

The 'Problem child' consumes resources but it generates little return – at least in the short term. If it is a newly launched product, it is going to need heavy promotional costs to help become established – this finance could come from the cash cow. The future of the product may be uncertain, so quick decisions may need to be taken if sales do not improve, such as revised design, relaunch or even withdrawal from the market. It should, however, have potential as it is selling in a market sector that is growing fast and businesses need to analyse carefully which problem children are worth developing and investing in and which are the best ones to drop and stop selling.

Low market growth – low market share: product D 'Dog'

'Dogs' seem to offer little to the business either in terms of existing sales and cash flow or future prospects, because the market is not growing. They may need to be replaced shortly, or the firm could decide to withdraw from this market sector altogether and position itself into faster-growing sectors.

BOSTON MATRIX AND STRATEGIC ANALYSIS

By identifying the position of all of the firm's products a full analysis of the portfolio is possible. This should help focus on which products need support or which need corrective action. This action could include the following strategies:

- Building – supporting problem child products with additional advertising or further distribution outlets. The finance for this could be obtained from the established cash cow products.
- Holding – continuing support for star products so that they can maintain their good market position. Work may be needed to 'freshen' the product in the eyes of the consumers so that high sales growth can be sustained.
- Milking – taking the positive cash flow from established products and investing in other products in the portfolio.
- Divesting – identifying the worst performing dogs and stopping the production and supply of these. This strategic decision should not be taken lightly as it will involve other issues, such as the impact on the workforce and whether the spare capacity freed up by stopping production can be used profitably for another product.

These strategies can only be undertaken if the business has a balanced portfolio of products. If there are too many dogs or problem children, then the overall shortage of cash may not allow the firm to take appropriate action.

EVALUATION OF THE BOSTON MATRIX

This analytical tool has relevance when:

- analysing the performance and current position of existing products
- planning action to be taken with existing products
- planning the introduction of new products.

No technique can guarantee business success – this will depend on the accuracy of the analysis by the marketing managers and the skills they possess in employing appropriate marketing strategies.

The Boston Matrix helps to establish the current situation in which the firm's products find themselves – but it is of little use in 'predicting' future success or failure.

- On its own it cannot tell a manager what will happen next with any product. Detailed and continuous market research will help – but at all times, decision-makers must be conscious of the potentially dramatic effects of competitors' decisions, technological changes and the fluctuating economic environment.
- It is only a planning tool and it has been criticised as simplifying a complex set of factors determining product success.
- The assumption is made that higher rates of profit are directly related to high market shares – this is not necessarily the case if sales are being gained by reducing prices and profit margins.

ACTIVITY 26.1

Applying the Boston Matrix

Undertake detailed research into the product portfolio of one well-known business in your country that sells a range of different products. For example, this might be a chocolate manufacturer, soft drinks producer, car manufacturer and so on. Try to discover the market share of the different products sold and the rate of growth of the market segment the products are sold in.

24 marks, 35 minutes

1 Analyse the firm's product portfolio using the Boston Matrix. [12]

2 Evaluate **two** strategies that the business could adopt for any **one** of its products. [12]

H

Branding

Mobile phones are an example of a product, but Vodafone is an example of a brand. What is the difference? The product is the general term used to describe the nature of what is being sold. The brand is the distinguishing name or symbol that is used to differentiate one manufacturer's products from another.

Branding can have a real influence on marketing. It can create a powerful image or perception in the minds of consumers – either negative or positive – and it can give one firm's products a unique identity. Successful brands can often charge premium prices as consumers are loyal to the product and the image that it generates. This helps to make the price elasticity of demand for the brand low (see Chapter 27).

However, attempting to establish a new brand is often expensive. Increasing brand awareness and brand loyalty are primary goals of promotional activity in the early months or years of a product's launch. It can cost millions of dollars to attempt to create an effective brand image – and success cannot be guaranteed. If a brand image receives bad publicity – such as Nestlé's marketing of powdered baby milk in developing countries – then the image of all products in the 'corporate brand' will be damaged.

KEY TERMS

brand an identifying symbol, name, image or trademark that distinguishes a product from its competitors

brand awareness extent to which a brand is recognised by potential customers and is correctly associated with a particular product – can be expressed as a percentage of the target market

brand development measures the infiltration of a product's sales, usually per thousand population. If 100 people in 1000 buy a product, it has a brand development of 10

brand loyalty the faithfulness of consumers to a particular brand as shown by their repeat purchases irrespective of the marketing pressure from competing brands

H HIGHER LEVEL

TYPES OF BRANDING

Table 26.2 looks at the different types of branding, their benefits and limitations.

KEY TERMS

family branding a marketing strategy that involves selling several related products under one brand name (also known as umbrella branding)

product branding each individual product in a portfolio is given its own unique identity and brand image (also known as individual branding)

company or corporate branding the company name is applied to products and this becomes the brand name

own-label branding retailers create their own brand name and identity for a range of products

manufacturers' brands producers establish the brand image of a product or a family of products, often under the company's name

Type of branding	Examples	Benefits	Limitations
Family branding	• Mars Bar was the original product – now joined by Mars ice cream, Mars energy drink and Mars muffins.	• Marketing economies of scale when promoting the brand. • Makes new product launches easier.	• Poor quality of one product under the brand may damage them all.
Individual branding	• Toyota created the Lexus brand of luxury cars. • Procter & Gamble sells Head and Shoulders, Pampers, Duracell and Braun with separate brand identities.	• Each product is perceived as its own unique and separate brand – unconnected in consumers' minds with the parent company.	• Loses the positive image of a strong company brand.
Company or corporate branding	• Virgin – airlines, rail services, mobile phone provider – all marketed under single brand name. • Disney products.	• Similar points to family branding – but now applies to all products produced under the company's brand name.	• As for individual branding.
Own-label branding	• Walmart has numerous own brands, e.g. Sam's Choice (premium food products), Faded Glory (Americana clothing), Life (menswear), Metro 7 (womenswear).	• Often cheaper than name-brand products. • Each own-brand label appeals to different consumer groups and tastes. • Often little spent on advertising – in-store promotions used instead.	• Consumers often perceive products to have a lower quality image.
Manufacturers' brands	• Levi's • Coca-Cola • Mercedes-Benz	• Successful branding by manufacturers establishes a unique 'personality' for the product which many consumers want to be associated with – and will often pay premium prices to purchase.	• The brand has to be constantly promoted and defended.

Table 26.2 Different types of branding – limitations and benefits

THE ROLE OF BRANDING IN A GLOBAL MARKET

Branding is now an international process, not confined to one country or region. Establishing a successful brand image across national borders opens up the potential for increased sales and economies of scale – especially in terms of globally marketing products with the same range of promotions under the same name. It is increasingly important that businesses which have a multinational presence build up a consistent and recognisable brand image that is transferable between countries. UBS Bank has achieved this. Created by a series of mergers and takeovers that gave it many separate brand names and products, the bank lacked recognition in markets outside Switzerland. It merged many products under the UBS name and re-launched itself as a global bank serving local needs but with the prestige and image that come from being the sixth largest bank in the world.

Globalised branding and marketing can have substantial benefits (see Chapter 29 'International marketing and e-commerce'), but there are limitations too if the international brand and image fail to link in with localised culture and customer tastes.

H

THEORY OF KNOWLEDGE

Microsoft 'is king of UK brands'

Microsoft takes back the number one position in a survey of UK brands

US computer giant Microsoft has won back its crown as the number one consumer brand in the UK. A list of about 1400 brands was considered by a panel of experts, with more than 2000 UK consumers taking part in a vote. At number two was Rolex, while Google slipped two places to third. Lego and Coca-Cola were new to the top ten.

Prepare a presentation to give to the rest of the class. What role do emotion, logic and experience play in making leading brands so attractive to consumers?

OVER TO YOU

REVISION CHECKLIST

1 Use an example to explain the difference between product line and product range.
2 Outline the stages of new product development.
3 Identify different products which could be classified into the stages of a typical product life cycle (PLC).
4 Explain **one** use of the PLC to a car manufacturer.
H 5 Explain **one** use of the Boston Matrix to a multi-product firm of your choice.
H 6 Differentiate, with examples, between brands and products.

REVISION ACTIVITY 1

Read the case study below and then answer the questions that follow.

Body Shop held back by product errors

Mistakes with new products and a failure to control stock properly caused underlying profits to drop by a fifth last year at Body Shop International. 'I take responsibility for the performance of the company,' said Patrick Gournay, chief executive of the retailer best known for its green and ethical stance. 'We have been going through a huge change process, and some of the things we did have not gone so well. We tried to do too many things, too fast. For instance, we changed the packaging on a new haircare range and discontinued some existing lines. The customers didn't like it very much,' he admitted.

Improvements are under way, Mr Gournay said, including launching fewer products and making sure they were closer to the brand's ethical traditions that customers identified with. He also wants to keep better control of costs, so that new products do not sell at lower margins than the goods they were replacing. He expected profit this year to be higher than last time, but warned that more intense seasonal sales fluctuations would depress first-half results below last year's £6.8 million.

12 marks, 23 minutes

1 What evidence is there that Body Shop did not undertake sufficient market research before making 'product' changes? [4]

2 Why might it be important for the future sales success and profitability of Body Shop for it to keep 'closer to the brand's traditions' and a 'better control on costs'? [8]