Chapter 10
Setting Product Strategy and Marketing Through the Life Cycle

Chapter Questions
• What are the characteristics of products, and how can they be classified?
• How can a company build and manage its product mix and product lines?
• How can companies use packaging, labeling, warranties, and guarantees as marketing tools?

Chapter Questions
• What are the main stages in developing and managing new products?
• What factors affect the rate of diffusion and consumer adoption of new products?
• What marketing strategies are appropriate at each stage of the product life cycle?

Product
Anything that can be offered to a market to satisfy a want or need, including goods, services, experiences, events, persons, places, properties, organizations, information, and ideas

Components of the Product Offering
• Attractiveness of the market offering
  • Value-based prices
  • Product features and quality
  • Services mix and quality

Five Product Levels
• Potential product
• Augmented product
• Expected product
• Basic product
• Core benefit
Product Classification Schemes

• Durability and tangibility
• Consumer goods
• Industrial goods

Durability and Tangibility

• Services
• Nondurable goods
• Durable goods

Consumer Goods Classification

• Convenience
• Shopping
• Specialty
• Unsought

Industrial Goods Classification

• Materials and parts
• Capital items
• Supplies/business services

Product Systems and Mixes

• Product system
• Product mix
• Product assortment
• Depth

• Length
• Width
• Consistency

Product Line Analysis

• Evaluate sales and profits associated with each item in product line
• Evaluate line positioning relative to competition
• Decide whether to build, maintain, harvest, or divest
Line Stretching
- Down-market stretch
- Up-market stretch
- Two-way stretch

Packaging: The 5th P
All the activities of designing and producing a product’s container

Packaging and Levels of Material
- Shipping
- Primary
- Secondary

Packaging Has Been Influenced by...
- Self-service
- Consumer affluence
- Company/brand image
- Innovation opportunity

Functions of Labels
- Identifies
- Grades
- Describes
- Promotes

New Product Development
- What is a “new” product?
  - New-to-the-world products
  - New product lines
  - Additions to existing product lines
  - Improvements and revisions of existing products
  - Repositioned products
  - Cost-reduction products
New Product Success and Failure

- New product failure is rampant:
  - 95% of new U.S. consumer products
  - 90% of new European consumer products
- Reasons for failure include ignoring unfavorable market research, overestimating market size, marketing mix decision errors, and stronger than anticipated competitive actions

Attributes of Successful New Products

- Offer a strong relative advantage
- Reflect better understanding of customer needs and beat the competition to market
- Exhibit higher performance-to-cost ratios and higher contribution margins
- Are launched with larger budgets
- Have stronger top management support

New Product Development Decision Process

- Step 1: Idea generation
- Step 2: Idea screening
- Step 3: Concept development and testing
- Step 4: Marketing strategy development
- Step 5: Business analysis
- Step 6: Product development
- Step 7: Market testing
- Step 8: Commercialization

Idea Screening

- Does the product meet a need and offer superior value?
- Will it deliver sales volume, sales growth, and profit?
- What is the likelihood of success?
- Does the company have the necessary resources to pursue the concept?

Marketing Strategy Development

- Description of target market size, structure, and behavior
- Planned product positioning
- Goals (sales, market share, and profit)

Business Analysis

- Sales, cost, and profit projections
- Break-even analysis
- Risk analysis
  - Optimistic
  - Pessimistic
  - Most likely
Product Development
- Can the idea be translated into a technically and commercially feasible product?
  - Prototype development
  - Functional and customer tests
    - Alpha testing
    - Beta testing

Methods of Market Testing
- Sales-wave research
- Controlled test marketing
- Simulated test marketing
- Test marketing

Commercialization
First Entry  Parallel Entry  Late Entry

The Consumer Adoption Process
- Awareness
- Interest
- Evaluation
- Trial
- Adoption

Factors Influencing Adoption Process
- Relative advantage
- Complexity
- Compatibility
- Divisibility
- Communicability

Adopter Categorization
- Innovators
- Early adopters
- Early majority
- Late majority
- Laggards
Marketing Through the Product Life Cycle

- Products have a limited life
- Product sales pass through distinct stages
- Profits rise and fall at different stages
- Products require different marketing, financial, manufacturing, purchasing, and human resource strategies

Product Life Cycle

- Introduction
- Growth
- Maturity
- Decline

Stages of the Product Life Cycle

<table>
<thead>
<tr>
<th>PLC Stages</th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
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<tr>
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<td>Low sales</td>
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<td>High costs per customer</td>
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<td>Negative profits</td>
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<td>Innovator customers</td>
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<td>Few competitors</td>
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<tr>
<td></td>
<td>Rising sales</td>
<td>Average costs</td>
<td>Rising profits</td>
<td>Early adopters and customers</td>
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PLC Objectives and Strategies

PLC Stages

- Objective: to create awareness and trial
- Offer a basic product
- Price at cost-plus
- Selective distribution
- Awareness–dealers and early adopters
- Induce trial via heavy sales promotion

PLC Stages

- Objective: maximize market share
- Offer service, product extensions, warranty
- Price to penetrate
- Intensive distribution
- Awareness and interest–mass market
- Reduce promotions due to heavy demand
Stages of the Product Life Cycle

**PLC Stages**
- Introduction
- Growth
- Maturity
- Decline

**PLC Objectives and Strategies**
- **Objective:** maximize profit while defending market share
- Diversify brands/items
- Price to match/beat competition
- Intensive distribution
- Stress brand differences
- Increase promotions to encourage switching

**Stages of the Product Life Cycle**

- **PLC Stages**
  - Introduction
  - Growth
  - Maturity
  - Decline

- **PLC Objectives and Strategies**
  - **Objective:** reduce costs and milk the brand
  - Phase out
  - Cut prices
  - Selective distribution
  - Reduce promotions to minimal levels

**PLC Stages**
- Peak sales
- Low costs
- High profits
- Middle majority customers
- Stable/declining competition

**PLC Objectives and Strategies**
- **Objective:** maximize profit while defending market share
- Diversify brands/items
- Price to match/beat competition
- Intensive distribution
- Stress brand differences
- Increase promotions to encourage switching

**PLC Stages**
- Declining sales
- Low costs
- Declining profits
- Laggard customers
- Declining competition

**PLC Objectives and Strategies**
- **Objective:** reduce costs and milk the brand
- Phase out
- Cut prices
- Selective distribution
- Reduce promotions to minimal levels