**STUDY NOTE**

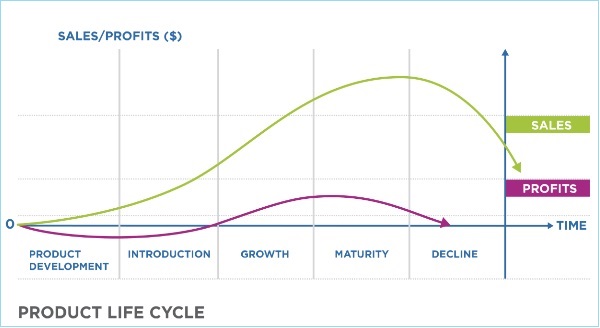
**UG : SEMESTER----2**

**Subject: Marketing Management**

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**LECTURE NO. 05**

**Product Life Cycle**



Product life cycle is the timeline of demand for the product from its initial stage of introduction. Let us now discuss the various stages of a product, starting from its innovation to its decline stage.

**Stages of Product Cycle**

Product life cycle can be defined as the life cycle of the product. It means the various stages a product sees in its complete life span.

Product life cycle comprises of the following four stages −

• Introduction or innovation

• Growth

• Maturity

• Decline

Let us start by describing the first stage we have in the product life cycle, that is, the introduction stage.

**Introduction Stage**

The product is introduced in the market in this stage; it is the initial stage of the product.

• Sales of the product are low in this stage because there may not be a need of the product in the market.

• The product may undergo brand trouble.

• In this stage, there is very little or no profit.

• The demand for the product is created and developed in this stage.

After this initial stage, the next stage of the product is the growth stage.

**Growth Stage**

In this stage, the demands and market share increases as well as competition emerges in the market.

• Generally, the price remains constant in this stage.

• Marketing and promotional expenses increase.

• There is rapid increase in sales.

• The manufacturing cost decreases so there is increase in profit margin.

• It penetrates other market segment.

In the growth stage, there is a boom in the demand of the product and the profit increases substantially.

**Maturity Stage**

The price of the product is comparatively low, but the advertisement and promotion cost increases in this stage.

• This stage remains for a comparatively longer duration.

• In this stage, there is high competition.

• Profit is decreased.

• Sales growth can be divided into the following three categories in the maturity stage −

o Growth

o Stability

o Decay

In growth, there is an increase in the demand of the product. In stability, the demand of the product remains constant. In decay, there is a slight decrease in the demand.

**Decline Stage**

There is a decrease in sales in this stage. Demand of product also decreases.

• There is decrease in the price of the product.

• Margins are lowered.

• There is introduction of new product in market.

• New strategies are implemented.

This is the final stage of the product. There is a decrease in demand and sales of the product.

**Importance of Product Life Cycle**

Product life cycle is an important tool for market forecasting, planning and control. Product life cycle is important in various ways. The situation of the product can be analyzed properly and changes can be made in order to increase profit. Some other important features are ;

• Helpful in formulating a proper product policy, production and pricing.

• Helpful in modifying the marketing policy.

• Helpful to the marketer regarding competition.

• Cautions the management about the decline stage of the product.

**New Product Development Process**

If a company needs to launch a new product in the market, there is a different development process to be considered. The following are the factors contributing to new product development −

• Demand in market

• Acceptance of a product in the market

• Acceptance of company strategy in market

• Economic viability of the product

• Changing the product as per consumer preference

• Adapting as per technological development

• Consideration of Government Policy

The development process has to consider these different perspectives for product development and has to adapt as per the market demand.

**Stages of New Product Development**

The following are the different stages of new product development −

• Stage 1 − Generation of new product ideas

• Stage 2 − Screening and evaluation of ideas

• Stage 3 − Development and testing of concept

• Stage 4 − Development of advertisement and promotion strategies

• Stage 5 − Analysis of business

• Stage 6 − Development of product

• Stage 7 − Testing product in market

• Stage 8 − Commercialization of the product

Development of a new product follows a long process, from the generation of an idea to the commercialization of the product in the market.

In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process. But they face a problem: although they must develop new products, the odds weigh heavily against success. Of thousands of products entering the process, only a handful reach the market. Therefore, it is of crucial importance to understand consumers, markets, and competitors in order to develop products that deliver superior value to customers. In other words, there is no way around a systematic, customer-driven new product development process for finding and growing new products. We will go into the eight major steps in the new product development process.

The 8 steps in the New Product Development Process

1. Idea generation – The New Product Development Process

The new product development process starts with idea generation. Idea generation refers to the systematic search for new-product ideas. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. Two sources of new ideas can be identified:

 Internal idea sources: the company finds new ideas internally. That means R&D, but also contributions from employees.

 External idea sources: the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source are customers, because the new product development process should focus on creating customer value.

1. Idea screening – The New Product Development Process

The next step in the new product development process is idea screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance.

1. Concept development and Testing – The New Product Development Process

To go on in the new product development process, attractive ideas must be developed into a product concept. A product concept is a detailed version of the new-product idea stated in meaningful consumer terms. You should distinguish

 A product idea à an idea for a possible product

 A product concept à a detailed version of the idea stated in meaningful consumer terms

 A product image à the way consumers perceive an actual or potential product.

1. Marketing strategy development – The New Product Development Process

The next step in the new product development process is the marketing strategy development. When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market.

The marketing strategy statement consists of three parts and should be formulated carefully:

 A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years

 An outline of the product’s planned price, distribution and marketing budget for the first year

 The planned long-term sales, profit goals and the marketing mix strategy.

1. Business analysis – The New Product Development Process

Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company’s objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. All the sales and costs figures together can eventually be used to analyse the new product’s financial attractiveness.

1. Product development – The New Product Development Process

The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype. But if the product concept passes the business test, it must be developed into a physical product to ensure that the product idea can be turned into a workable market offering. The problem is, though, that at this stage, R&D and engineering costs cause a huge jump in investment.

The R&D department will develop and test one or more physical versions of the product concept. Developing a successful prototype, however, can take days, weeks, months or even years, depending on the product and prototype methods.

Also, products often undergo tests to make sure they perform safely and effectively. This can be done by the firm itself or outsourced.

In many cases, marketers involve actual customers in product testing. Consumers can evaluate prototypes and work with pre-release products. Their experiences may be very useful in the product development stage.

1. Test marketing – The New Product Development Process

The last stage before commercialisation in the new product development process is test marketing. In this stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

The amount of test marketing necessary varies with each new product. Especially when introducing a new product requiring a large investment, when the risks are high, or when the firm is not sure of the product or its marketing programme, a lot of test marketing may be carried out.

1. Commercialisation

Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialisation. Commercialisation means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

Some factors should be considered before the product is commercialized:

 Introduction timing. For instance, if the economy is down, it might be wise to wait until the following year to launch the product. However, if competitors are ready to introduce their own products, the company should push to introduce the new product sooner.

 Introduction place. Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market? Normally, companies don’t have the confidence, capital and capacity to launch new products into full national or international distribution from the start. Instead, they usually develop a planned market rollout over time.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market. Only very few products actually get the chance to become a success. The risks and costs are simply too high to allow every product to pass every stage of the new product development process.

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