



UNIT-5

Developing a Marketing Strategy

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Explain the meaning and importance of product innovation
- ✓ Describe the factors which effect price determination
- ✓ Explore various pricing strategies

Unit 5

Developing a Marketing Strategy

The subject of this unit is regarding the integration and co-ordination of a firm's marketing plans, the production of such marketing plans and ensuring that the plans are carried out effectively.

The Marketing Planning Process

The planning process is shown in the Figure 6.1 below. A decision is said to be strategic if it concern the direction in which the organisation is headed. Strategy outlines where a firm wants to be, whereas tactics are the specific decisions which get the firm there. Once undertaken, a strategic decision is generally difficult to reverse, and generally involve turning down a number of other strategic decisions, as a result strategic decisions generally involve a major personal commitment on the part of the person undertaking the decision. A tactical decision, on the other hand, is quite the opposite. Tactical decisions are easy to reverse, can run along other tactical decisions and require much less personal commitment. An overview and comparison of strategic and tactical decisions is shown in Figure 5.1.



Fig: 5.1 the marketing planning process

Strategic decisions	Tactical decisions
Concern overall direction	Concern methods of achievement
Difficult to reverse	Relatively easy to change
Involve rejection of alternatives	Allow combination of alternatives

TABLE 5.1 Comparison of strategic and tactical decisions

Strategy must be integrated across the entire spectrum of marketing efforts, it must be drawn up after thorough analysis, and should include a system of feedback such that the strategy can be adapted if the external environment changes. A strategy is influenced by many factors, such as; the economic environment the firm operates in, the resources at a firm's disposal, the structure and competition in the market that the firm operates in, and the amount of risk that the firm is willing to undertake. A strategy must be able to cope with and formulated after, the following issues are taken into account:

- a) What market the firm should operate in?
- b) What are the firm's strengths and weaknesses
- c) What are the firm's long term goals- where it wants to be in say 30 years time
- d) How the firm's competitors are likely to react to its strategy
- e) Does the firm have sufficient resource to achieve the objectives of the strategy

The first step in this strategy planning process is to assess where the firm currently stands. This can be accessed via a marketing audit.

The Marketing Audit

When we talk about marketing, strategic planning involves issues such as new product launch, changing the name of a brand, deciding which market segments to target, and designing promotional campaigns. The marketing audit is a review of where the company currently stands in terms of its objectives, strategies, organisation, performance and activities and it primarily assess the firm's strengths and weaknesses to guide the managers in the future. It evaluates how effectively the organisation is performing its marketing activities within in context of the 7 Ps of marketing- product, price, place, promotion, people, process and physical evidence. The market audit provides a snapshot of where the company stands at the current point in time. Therefore, it is carried out on a fairly routine basis- taking into consideration the cost-benefit trade off of this activity.

The marketing audit consists of a SWOT and a STEP analysis. After the audit has been carried out, managers should have a very clear idea of what needs to be changed in order to meet the firm's goals and objectives.

Corporate Objectives

A Corporate Objective is a statement of where the company intends to be. Examples of some objectives are given below:

- ✓ Financial: percentage share of the market, turnover, profit, return on capital employed, etc.
- ✓ Philosophical: Maybe a mission statement expressing the core values of the Firm.
- ✓ Qualitative: service levels, innovation, new products launched etc.

Corporate objectives often involve trade-offs, this is because all firms have finite Resources and can focus on only one area at a time. In certain cases the tradeoffs consist of diametrically opposed objectives. Weinberg proposes a set of eight trade-offs in setting objectives, as follows:

1. Short-term profit v long-term growth.
2. Profit margin v market positioning.
3. Direct sales effort v market development.
4. Penetrating existing markets v developing new ones.
5. Profit v non-profit goals.
6. Growth v stability.
7. Change v stability.
8. Low-risk v high-risk environments.

Setting the overall corporate objectives may indicate strategic sub-objectives;

Generally speaking most firms want to grow. Growth increases the firm's foothold and security in a given market along with the influence of the managers (not to mention their salaries) and helps reduce costs.

When a market is growing, growth is going to take place anyway, even if there aren't any formal attempts to encourage it: in such a case it is important to measure whether the company is growing faster, slower or at the same pace as the market. Generally, firms which focus on revenue as a measure of growth fail to notice that they are growing slower than the market and therefore losing market to the competitors. The solution to this trap is to use matrices of market share as a measure of growth, considering that reliable measures of market share are available.

Once managers have a clear understanding of where the firm stands and what the long term objectives are i.e. where it wants to be- they can then start formulating tactics.

Tactical Planning

As marketers are usually seeking competitive advantage, they will try to offer a product offering which is differentiated from the alternatives available in the market. This is where marketing is different from other business functions. If employees from the legal function of one company were to leave and seek employment with a competitor, there would be no problem with the transition, as the requirements of the role remains the same. Likewise, if the production managers or finance managers were to transfer from one competitor to another they would have no problem as the production techniques and the financial structure would remain the same. However, if the marketers were to move companies they would probably take some time to adjust with the new company; as the distributors, clients and market segments served would be different.

For example, cosmetics are traditionally sold in pharmacies and department stores. Avon however has become the largest cosmetics company by adopting a different approach and selling cosmetics direct to the household via door to door salespeople. While the original approach of selling door to door had to be modified somewhat, due to safety concerns the approach still pays off.

There are three generic strategies which a company can follow:

- ✓ Cost leadership: Cost leadership entails keeping cost so low that there is a high profit margin even when the market is competitive.
- ✓ differentiation: Differentiation entails distinguishing the product offering from those of competitors
- ✓ focus: Focus entails serving a specific market segment

Marketing professionals will usually use the latter two strategies, in particular Differentiation.

The competitive tactics deployed depend on the portfolio of products that the company currently offers and the tactics of the competitors.

Marketing tactics are usually creative and different and depend on the marketing professional; it is difficult to spell out, in black and white, the rules for a marketing approach. However there are some useful guidelines which can be used:

- Pursue something which the competition has not yet thought of
- Involve everyone who is part of the marketing team. Salespeople especially should be made part of the process as they do not, generally, like to be told what to do by the Head Office.
- Be patient, results will take some time; however monitor the results to get feedback.
- Ensure that the messages being given to all relevant stakeholders- suppliers, middlemen and customers- are consistent.
- Be prepared for a response from the competitors; try to anticipate the likely course of action that they will take.

- Keep in mind that communication is a part of the marketing campaign and not the marketing campaign itself, therefore communication tools should not be deployed to achieve marketing objectives, and they should be deployed to help support marketing objectives.

It must be ensured that all promotional campaigns are cost effective; this is one of the reasons for the success of direct marketing throughout the world. Digital technology has allowed a more accurate segmenting and targeting of the consumers which has led to an increased response rate, generally. This is why the focus of marketers has turned away from contact numbers to response rates from promotions.

When devising tactical alternatives, it is important to keep in mind that marketing professional refer to mixes: the marketing mix, the promotional mix etc. This means that each part of marketing crosses over on every other area and those decisions about, for example, advertising tactics cannot be taken in isolation of let's say the pricing strategy.

Having finalized the details of what is to be done, the marketing strategy and tactics must now be implemented. Occasionally the marketing manager may face opposition from co-workers from other departments, as a result of which plans may need to be revised as a result of experience and learning. There should, because of this reason, be some flexibility in the marketing plan.

Promotional Strategies

Devising a promotional strategy entails deciding the overall aims and objectives. The aims of the promotional strategy may be one of the following:

The objective may be to persuade consumers that a product will meet the needs of the consumer. This may be somewhat difficult when the product is initially introduced.

- **Brand Awareness:** This is the process of correcting the brand and its perception that the consumer has. The brand should stand out from other products and should be positioned accordingly.
- **Brand attitude:** Leading on from brand awareness is brand attitude. In this instance the marketer's objective is to build a favorable attitude in the mind of the consumer; this is ensuring more than just familiarity with the brand.
- **Brand purchase intention:** This ensures creating a positive image on part of the consumer. The objective is to persuade the consumer to 'get some today!'
- **Purchase facilitation:** This involves ensuring that the product is available and the consumer is aware of where to purchase it from

There is no sequence to the above five objectives, and they may be followed in any order. It may be the case that the earlier stages will already have been achieved by other markets. A good example of this is

found in the marketing of Radion washing powder, which went straight to the brand awareness stage when it was launched in the UK.

This was accomplished by using Day-Glo billboard advertisements with the brand name in 1 metre high letters. After a brand name had been established, the company may then want to move on to developing positive brand attitude. There was no need to inform the consumer of where to buy the product, as intuitively such a product is expected to be distributed through the supermarkets.

When coming up with a distribution strategy, marketers need to decide which of the two approaches to use: push strategy or pull strategy, or maybe a mix of the two.

Push Strategies

A push strategy involves pushing the product to the next entity in the supply chain, this would mean focusing on selling to the wholesalers and leaving it up to them to sell it to the retailers, who would then sell it to the consumer. This is a fairly cost effective strategy and makes sense intuitively as each organisation in the supply chain is familiar with its own customer; however it is not a consumer oriented strategy.

Pull Strategies

Pull strategies are more consumers oriented than push strategies, considering that an increase in the demand from consumers will pull supply throughout the distribution chain.

A push strategy emphasises personal selling and advertising aimed at the members of the distribution channel. A pull strategy focuses on the end consumers and lays an emphasis on advertising to the end consumer and merchandising. Most new product launches will involve a mix of the pull and the push strategy. Retailers, for instance, generally view TV advertising as being effective and will stock a product if they know that there is going to be a TV ad campaign. Retailers are of the opinion that TV advertising will generate demand for the product, which in turn will generate sales; likewise giving a prominent display space to the product will also generate sales

A pull strategy is especially useful if the distribution channel is well integrated, in which case greater effort can be focused on generating demand, as the rest of the supply chain members are going to cooperate. If however if the channel is not closely integrated or is not dominated by the retailers or wholesalers a push strategy is more likely to be the better option, as the channel members need to be convinced to stock the products.

As already mentioned, the two strategies are likely to be used together. As channel members and consumers both need to move up the hierarchy of communications effects. Tactically, the promotional mix should be followed closely to ensure that the correct things happen at the correct times.

Setting the Budget

After the marketing campaign has been decided, the marketer needs to shift his/her efforts to see what the company can afford, in terms of budget allocation.

As already mentioned a mix of the above mentioned strategies will be followed. Even an objective and task approach will start from looking at how the competitors are spending (comparative parity approach), if only to determine what the likely spend would have to be to overcome clutter. Similarly a marketer may be told, part-way through the marketing campaign, that there is a lack of monetary resources that is available (or may that more than the budgeted resources are available) and may, therefore, be forced to switch to an what-you-can-afford approach.

Monitoring and Evaluating Marketing Performance

After a plan has been implemented, managers need to ensure that it works as planned. To ensure this and to monitor performance, feedback is important, and marketing strategies would not, generally, be undertaken without a evaluation and feedback system in place.

Two evaluate performance, two general approaches are taken:

- a. sales analysis, This approach entails analyzing the sales revenue generated from the sales of the product
- b. Marketing cost analysis, This approach entails looking at the costs incurred to generate income

Customer evaluation is a very important task in relationship marketing settings. Measuring customer equity can sometimes be difficult and involves a combination of the how profitable the customer is (this in itself is a tradeoff between the sales from the customer and the cost of serving that customer) the length of the relationship with the customer and its value (how long the customer will do business with the company, how often the customer purchases goods from the company and in what quantity). Once customer equity is calculated it can be used to focus the marketing activities on the most valuable customers.

On the other hand it is also necessary to analyze the cost of achieving the stated objectives that have been set out. Marketing Cost Analysis is a set of techniques for breaking down the costs of a firm's activities and aligning them to their marketing objectives. Broadly speaking, costs may be broken down into:

- **Direct costs** An example of this is a salesperson's salary which is directly traceable to a given activity.
- **Traceable common costs** For example, the cost of advertising which can be traced to a certain product.

- **non-traceable common costs** Examples of such costs include the cost of PR or advertising for the entire company, these costs cannot be traced to any particular product range.

The main issue with marketing cost analysis lies with organizing a firm’s accounting function such that the analysis can be carried out. For instance, payroll may not lend itself to such analysis: it may be a problem to break down the cost of the payroll for admin staff into marketing activities and non-marketing activities, even the breakup of payroll to find out the cost of the sales force may be difficult. Also, defining exactly what job is a marketing job and what job is a non-marketing job is also difficult. For example when you look at the cost of servicing customers in remote areas it is clearly a marketing related cost, however should the cost of transportation and mileage both be taken into account? Also, if a given product is not performing well, should we be looking at the costs of production?

For firms operating in the dyed-in-the-wool sector these answers are obvious, as all activities of the firm are marketing activities. In other markets, these answers may not be as obvious and managers may have differing opinions. At the least, most individuals find it difficult to apply this theory into practice and to gear the firm’s activities towards the consumer.

Method	Explanation	Advantages	Disadvantages
Objective and task	Identify the overall aims which are to be achieved and then specify the resources and costs required.	Is logically intuitive and if carried out correctly will accomplish the firm’s strategic goals.	Difficult to determine the necessary spend to achieve the objective. Time-consuming and costly in terms of market research.
Percentage of sales method	The planner allows a certain, predetermined, percentage of the company’s sales revenue to be used for marketing. The promotional budget varies with the sales revenue i.e. goes up as sales go up and goes down as sales go down. A commonly used method of budgeting.	easy to calculate; also ensures that, if sales drop off, costs also drop.	Falsely assumes that sales cause promotion, rather than promotion causing sales. Logically, if sales fall, marketing expenditure should be increased to bring the customers back in.
Comparative Parity method	Marketing budget is compared to that of the competitors. Thus the firm does not lose ground if a competing firm increases its budget.	Makes sure that the marketing budget is comparative to that of competing products in the market	Does not take account of changing market conditions, or opportunities which may become available with time; in other words, this approach lacks customer orientation

Marginal approach	Marketer spends only up to the point where any further spending would not generate enough extra business to justify the outlay.	This method would maximize profits since no excess spending would result.	Extremely difficult to calculate, given the changing nature of markets.
All-you-can-Afford method	The marketing spend consists of whatever can be afforded by the business after all other activities have been paid for, this is usually used for small companies or start-ups	Company does not become over-committed or get into trouble by relying on sales that do not, in the end, materialize.	Again, there is no relationship with the state of the market Also, this approach relies on the capability of the marketer to persuade other departments to give up some of their budgets.

Table: 5.2

Feedback Systems

When a gap appears between the expected and the actual performance, the marketing manager needs to take effective action. Such action will involve the following sequence of steps:

1. Determine the reason for the discrepancy. Was there a problem with the original plan, was it achievable? Have the actions of competing firms stopped the initiative in some way, so as to change the scenario? Is someone to be blamed?
2. Feed these findings back to the staff concerned. This may take place during a meeting to discuss the situation, or it may be in the shape of written communication such as a report.
3. Develop a plan for correcting the situation. This will generally involve the cooperation of all of the concerned staff

Feedback should be timely and concise, criticisms should generally be constructive; managers should avoid going to sales meetings to criticize alone since this may cause the sales staff to harbor resentment

Marketing strategy and planning is much like any other planning exercise: it is reliant on accurate information, a clear understanding of where the organisation is going and regular monitoring of outcomes and methods to ensure that the plan meets its stated objectives.

Product Development and Product Life Cycle

For the endurance and growth of any company, it is vital that they offer an innovative product line-up. However, new products do not just appear out of nowhere. They need to be engineered and the firm has to design it. This unit will cover the methodology involved in the development of a new product, the idea of the product's life cycle, the stages in its life cycle and the marketing tactics that have to be employed at each stage.

Value of Product Innovation

To innovate means to launch new things, to initiate uniqueness or make alterations. Applying this definition to a product means that the innovated item may be created as a totally new product or take an available product and offer with modifications and alterations. A new product is defined as an item that gives rise to a brand new market, taking the place of a product already available, or radically enhancing the market of the already available product. It is obvious why a firm would require an entirely new or renovate an existing product. No organization can depend on the same product line up endlessly. Competitors are always on the lookout to snatch a share of other firms' market. This is why generating new products is thought to be a vital part of any business. Usually establishments continuously introduce new items, each assuring new and extra benefits for customers. In fact, the existence of a company can be justified by its talent to keep customers happy. Hence a business has the obligation to provide the needed satisfaction to its consumers through its products, innovation and services.

Nature has bequeathed us with an abundance of resources, yet they aren't limitless. Unless used with care, we will exhaust them and leave future generations in the dark. Crude oil is one example. Unless we tread with caution when it comes to its use, it will not be too long in the future when we will exhaust crude oil supply. Imagine the chaos without crude oil; no petrol for vehicles, no energy for industry to run on, natural gas all gone and furnace oil all finished. The endless list is horrifying. Hence, it is essential that new products are carefully designed so natural resources are utilized in an optimal way. Such gifts of nature can't be wasted. Without proper planning, products may fail upon introduction and all efforts go to waste. Despite this, many products do meet this fate, so caution is the key word here. It is essential to determine the requirements of the potential customers and then to utilize the appropriate technology to fulfil the assessed need by corresponding it with a fitting service of the product. The ability of a company to continue to exist is totally dependent on its profitability. This is achieved by introducing new products and then supporting them with an appropriate marketing agenda. It has to be understood however that adding a new product line requires major finances. Without appropriate research and monitoring, the new addition may not produce the expected results. Failing of products can lead to financial losses to the company.

Consumers now are becoming choosier when it comes to selecting a product. With increasing competition, an organization has no choice but to search for the latest thoughts to be able to come up with newest products to fit the situation. In conclusion, we can quote Peter Drucker, a renowned

management thinker. He stated that “any business enterprise has only these two basic functions: marketing and innovation”.

New Product Development

By now you will have realised that it is imperative to employ a policy for developing new products. Since a lot of products end up failing, for an organization to continue expanding sales, new products must be produced. The idea of a product has to be tested before the company goes into designing it and it is important to have proper plan for creating the new products and putting them in the market. Developing new products requires marking and overseeing the search, vetting, developing and finally commercialising. So it is necessary to take decisions relating to the kind of product idea to be taken up, the process of development, and finally putting it in customer’s hands to fulfil his demand. This marketing philosophy requires the implementation of logical, well developed and exclusively satisfying products. This will allow the firm to confront competition from a strong position. Creating a new product thus begins with the conception of the idea of a product, its eventual vetting for economic and mechanical viability, exploration of market viability and consumer reception, matching with firm’s facilities and the eventual availability to the biggest segment of the market. This approach to developing a new product is defined as customer-oriented approach to product planning. From the previous discussion, it will be realized that introducing a new product is a very complex and difficult job that requires long-term effort. It comes with high costs. Even after development is completed, the marketing costs are very high and there is no assurance that it will be successful. Hence, a firm must proceed in a systemic way from one stage to the next. This advance is made up of seven steps shown in Figure 5.2

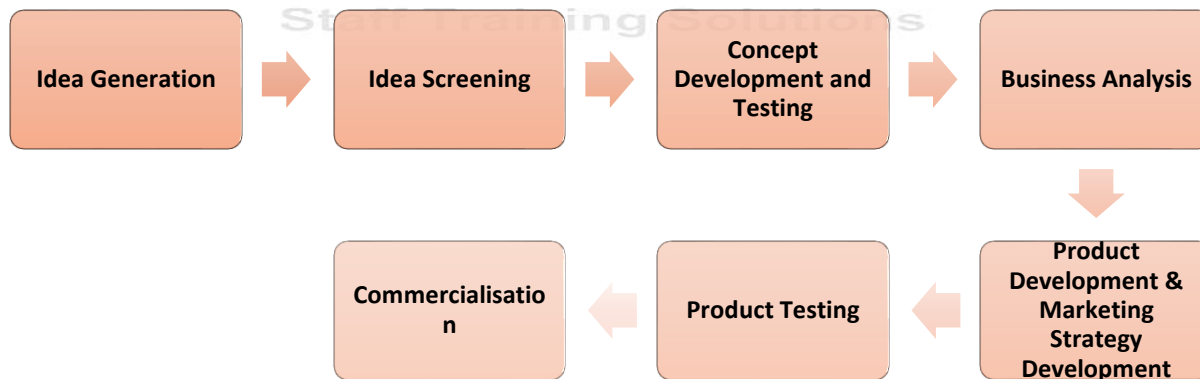


Figure 5.2

Generating an Idea

The approach to a new product begins with formulating the idea of a product. This means having to match an apparent need with the identification of technical prospect. The said requirement can be old or a new one. An idea for a new product can come from any of the following sources:

- a. **Customer:** Since marketing aims to fulfill the needs of a consumer, a watchful marketer can get new product ideas from customers by being attentive and more importantly by keeping an open mind to recognize the needs which have as yet no been expressed. Take for instance the example of refrigerators; someone came up with the plan to have refrigerators with two doors while another person envisioned the idea of a ball point pen which eliminated the need to having to refill fountain pens. New ideas are born out of the needs of customers which require solutions. A customer can give a suggestion or point out a need that as yet has not been filled.
- b. **Competition:** A new product can be launched by a competitor or the development of a new product can be picked up market intelligence. Using the information as a clue, the firm itself can formulate an idea and start its own experiments with it.
- c. **Company Sources:** At times ideas can be suggested by the company's own salespeople or its distribution channels. These ideas warrant further investigation as these company sources are in direct contact with the market and in a position to detect an unfulfilled need. Likewise, a new technical breakthrough can be proclaimed by the firm's own development and research section. New ideas can be put forth by company managers who keep on thinking of new and better ideas. Brain-storming sessions are also practiced in some companies to generate new ideas. These are carried out by people at different levels of the organization, which maintains a flow of ideas.

Many people claim that executives of firms are gathered together and asked about new ideas or products. They name things without any thought to evaluation. No criticism is involved. The answers are recorded so the chain is uninterrupted. Finally, the generated answers are appraised.

Idea Vetting

Once the gathering of ideas is completed, the next stage is to vet them for their value. At this stage the product ideas collected undergo a critical evaluation. Poor ideas are discarded without wasting unnecessary costs of processing them further. This type of appraisal allows the firm to see which ideas are suitable for further researching and which should be abandoned. The ideas not conforming to the company agenda or limitations are dropped. Every idea has to be compatible with the firm's objectives and its marketing requirements, as well as its limitations. A technically solid idea may not be suitable for a company due to the large capital it requires and the firm can't afford. Likewise, a company known for manufacture of economical merchandise may not be able to easily market a costly product due to its image of producer of cheap products. So instead of pursuing all the ideas produced, it is best to pursue only those ideas which fit the company and market anticipation. Companies can never take up all ideas generated at the same time. Hence, the main idea of vetting is to filter the ideas and choose only the ones with most potential. To achieve this, the firm has to analyse things like market potential, probable sales quantity, profits, availability of raw materials required, production facilities, distribution channels and sales force, finances the company can direct to the project, etc.

Concept Development and Testing

Once an idea passes screening, it is expanded into a firm business proposal. From just a term, it now develops into a total picture of company proposal. In clear terminology, it has specifications about target consumers, the exact need that has to be fulfilled, and the way in which it will be fulfilled, the benefit it will bring the consumer and the price of this need-satisfaction for the customer.

Now, the idea needs to be presented to the target customer, as far as feasible and their feedback gathered for further assessment. The idea developed in this way has to be assessed in a wider point of view which includes sales and profit capacity of the completed product line, while maximizing the marketing and manufacturing

amenities. For instance, discuss about other modes of transport such as “battery driven cars” to same on petrol. To be publically introduced, the product has to be tested in the surroundings in which it is to be eventually sold.

Business Analysis

The continuing process of product development requires a very detailed appraisal at the stage of business analysis. The task is made up of projecting the impending demand, expenses, sales, investments and return. Hence, the total synopsis of the planned product is worked out. It may be said that such calculations cannot be worked out accurately: to make up for this, the firm estimates the finances of the project using a wide ranging set of assumptions for vital components like sales, profits and costs. These types of sensitivity analysis aid the firm to project the tolerable range of product performance and reaching those targets.

Product Development and Marketing Strategy Development

Up to this point the idea has be exhaustively vetted and analysed. It is time to transform the concept into a product. At his stage the abstract concept is given a solid shape, with all the required traits that were previously assumed. The effort is put into creating a prototype of the anticipated product. This will allow the determination if the concept has the required technical capacity and if the firm can generate the required technology. This stage will entail a close synchronization of the Engineering and Marketing Departments. Engineers need to produce the suitable drawings, designs and construct the prototype in accordance with the prearranged specifications. All attention of the whole job is to create a product prototype that is as close as possible to the consumer product expectations and specifications.

In addition to the progression of product development, the tentative marketing approach has to be developed by the marketing department of the firm. A proposal regarding the pricing policy, promotion, and supply strategy of the product has to be made. The whole package of indentifying sales force required, advertising schedule and tools of sales promotion regarding the new product have to be worked out. While all this is being determined, all of the firm’s available resources and abilities in this regard are considered alongside. If the firm gives the go ahead signal to the concept of the new product, the following jobs have to be initiated:

- Set-up development project.
- If changes are found to be necessary, construct the prototype with altered specifications.
- Carry out the total laboratory evaluation.
- Upon completion of the exploratory marketing strategy, release the prototype for a test run

Market Testing

Once the idea of the product has taken the shape of a prototype, and a provisional marketing programme had been designed, the firm can step into commercial manufacture and circulation in the market. However, an experienced marketer will not render the open to unnecessary threat and will work towards an affirmative market response. To achieve this he will proceed with a 'test marketing' of the anticipated product. This type of product testing allows for additional customer feedback so that any required changes in the prototype can be made along with the proposed marketing strategy, if it is required. So test marketing is described as a research method in which the product being studied is put on sale at a select group of areas and the product acceptance by the customer is monitored, recorded, analysed. The purpose is to test the planned marketing course in a representative segment of the market in the same marketing surroundings in which the planned product will eventually be sold. By running a marketing test, the marketer can gain comfort from the facts collected about sales volume and profit levels of the product. He additionally ascertains the initial consumer reaction to the product, but it also initiates competitive reaction to the new product. With all this information, the marketing manager can fine tune the marketing strategy crafted in the early stages.

The following facts are collected during a marketing test:

- 1) Prospective volume of sales that may be generated.
- 2) Ascertain buyers with pioneering mind set.
- 3) Draw a comparison between behavior of target buyers and actual buyers.
- 4) Reception of product's strong points by buyers.
- 5) Evaluate advertising message impact
- 6) Evaluate distribution capability to make the product accessible in the chosen target areas.
- 7) Uncover the potential of repeat demands.

Commercialisation

Using the information collected in test marketing, the product is accordingly modified and improvements made, and approach regarding distribution, pricing and promotion are refined. Finally the product is ready for general market release. Commercial production of the product begins and it becomes available in the market for sale. Depending on the marketing plan, the firm may choose to introduce the product in the whole market at the same time; or it can be introduced in segments in various areas. This is decided based on the level of production to assure that it does not end up being short in the market soon after being introduced.

Reasons for Product Failure

Despite careful planning and vetting at numerous stages of product development, not all new products are destined for success. So the question becomes why the failure? There are six main reasons for products failing according to Cundiff and Still. These are:

1. **Product Issues:** Product failure can be the result of problems with the newly produced product itself, ignorance of market requirements or preferences, function defects in the product, inferior technical design or appearance, awkward sizing and poor packaging, unreliable performance, or too great a difference in quality etc.
2. **Channeling and Distribution Troubles:** Products also fail when there are distribution issues like badly chosen outlets or channels, no cooperation from middlemen, and bad physical distribution system, etc.
3. **Promotional Set Backs:** Problems that lead to product failure due to poor promotions include improper or ineffective promotion campaign, advertising aimed at the incorrect market, wrong appeals, poor coordination with distribution system, and sales force not properly trained, etc.
4. **Pricing Problems:** Poor estimates of the price customers would be willing to pay, price not compatible with quality of product, too high asking price due to poor estimates of cost, and not enough margin for the middleman are all possible reasons for products failing.
5. **Problems with Timing:** Introduction of a product too soon or late in the market can also be a cause for its failure.
6. **Competitive Problems:** The hard-hitting competitor strategies with regard to distribution, promotion and price of the product may be a blow to the product in the market. The company in this situation has to react defensively instead of being aggressive. The wide range of reasons leading to product failure indicates that the success of a new product relies upon the skills and schemes of not only product innovation but implementation of marketing strategy. During the product innovation phase, it is essential that management keep a keen eye on the target market. A suitable organization is needed to steer and coordinate the innovation process at all stages. Beyond ensuring that the product is introduced at the right time, the various marketing components (product, promotion, pricing, marketing channels, and distribution) have to be unified in just the right proportions during each stage of the developmental life cycle. While in the implementation stage, the marketing plan must be adaptable to changing strategies according to changing market conditions and competition.

Like all living things, products too have definite life cycles. A product goes through four phases from the time it is born to the time it dies. These stages are as follows:

- a) Introduction
- b) Growth
- c) Maturity
- d) Decline/Obsolescence

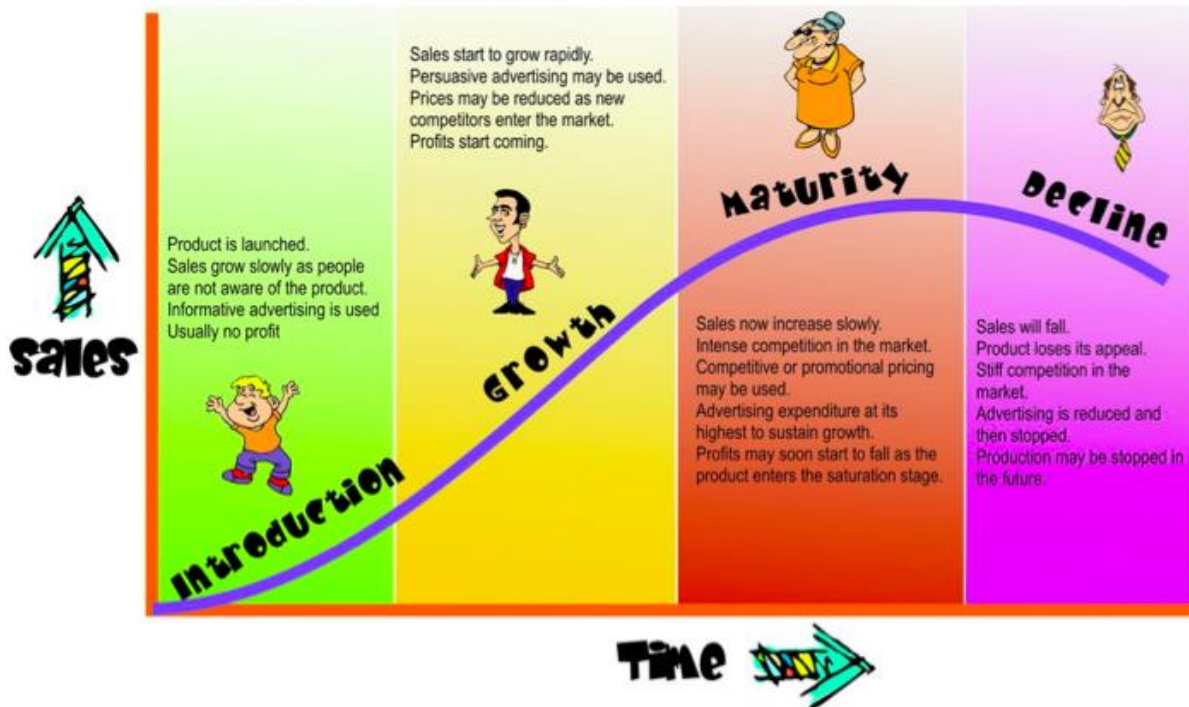


Fig: 5.3.

Hence, the life cycle of a product refers to the phases the product passes through from the time it is introduced, through the growing and maturity period and finally to its deterioration and eventual death (being removed from market). Needless to say, the company introducing the product wishes for the product to be profitable and give customers the satisfaction they want for a long duration. However, this does not always take place in practice. Thus, businesses make every effort to be aware of what is happening during the entire life of the product in regards of sales and the resulting profits. The profit and sales volume curves vary with every product, but the general shape and the existing relationship between the two factors normally stays consistent. As previously mentioned, new products are the key to survival of businesses and for every new product, stock has to be taken of the relationship between sales volumes and profits. The relationship between the mentioned curves (sales volume and profit margin curve) has to be unmistakably understood before the marketing policy is designed.

The business establishment has to comprehend and control the different stages of the product life cycle to guarantee marketing success. The actual duration of the life of a product varies. It can last from a few weeks (in case of fads or passing fashion) to many years (in case of motor cycles or refrigerators). It

should also be noted that in different products the lengths of the stages varies. Some products stay in the introductory stage for many years whereas other products get market acceptance in just a matter of weeks and are ready to move on to the next phase of the life cycle. Likewise, not all products get through all the stages in a life cycle. A product can for example, fail at the introductory stage. There may be cases where a company prefers to wait and not jump into a market until another company's product gains popularity and reaches growth or maturity phase. All products do however enter the decline and possibly the abandonment stage. This can be due to any of the three following reasons. First, there is no need for the product second, a better or cheaper product already exists in the market and third, better marketing endeavours by a competitor force a company product out of the market. Study Figure 5.4 thoroughly. It shows the relationship existing between sales volume and profit volume at the various stages of the product's life.

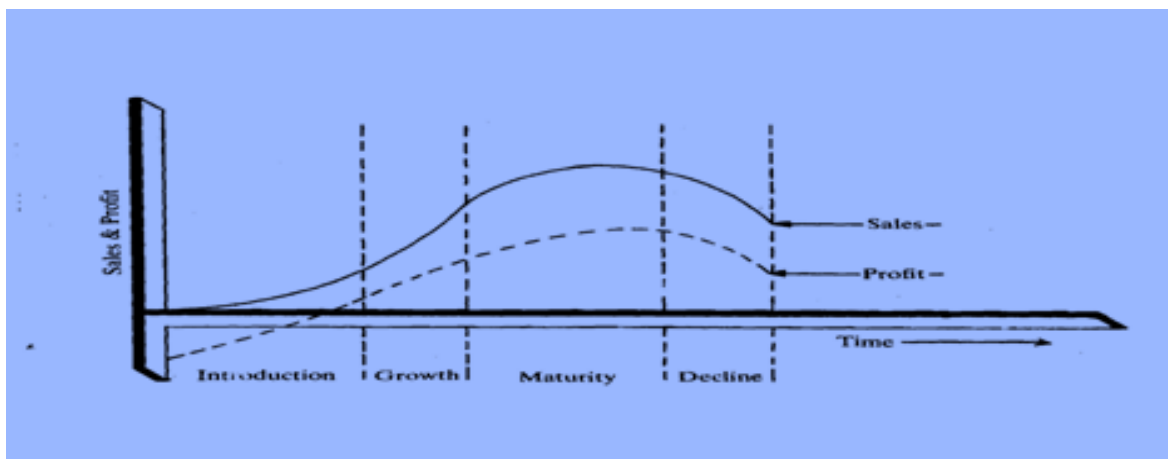


Fig: 5.4

Introductory Stage

This is the stage in which full scale production arrangements are carried out, the marketing strategy is given the final shape, and the product is made available in the market but initially the growth rate is very slow. At this phase, since production is new and being made available for the first time in the market, it will not face opposition in the market.

The organization has to correspond with the intended market and notify future customers of the new product launch in a grand way, thus encountering a huge promotional expense. The advertising endeavour is also aimed at suggesting to the potential customers to purchase the test product. Additionally it is aimed at acquiring distribution rights at retail outlets. Great amounts of money is exhausted in attracting distributors for the new product line. Due to the high cost of promotion and limited sales volume, the profit margins of the company are very low and at times even in the red at this stage.

When there are only a few competitors offering the basic version of a new product without any further fine tunings, selling then has to be aimed at buyers who can be motivated to out an purchase the

product. At this point the product cost is normally high since the production level is low and promotion and distribution is expensive.

Growth Stage

Once the product is accepted in the market, meaning it is received by the consumers along with traders, it steps into the growth phase. At this point the demand of the product will rise quickly, and usually outpacing the supply. Due to the increased sales volume, the profits of the company rise too. To cash in on the increasing demand, the company gives increased sales volume topmost priority. With rising demand of a product, many competitors start to step into the market. They begin adding new additional features to the product to make it more appealing than the original. With increased competition, the number of distribution centres also rise, resulting in higher demand to 'fill the pipeline'. Prices usually stay at the same level or might fall slightly. Speed of promotional activities is normally maintained or even enhanced to confront the competition.

Maturity Stage

To think that sales will continue to shoot up endlessly is just being too wishful. Chances are greater, that competitors will become more aggressive. In your product is a unique one, by this time the competitors will have introduced a similar product to go against yours. So, your sales will most probably be pushed down due to the competition and your advertising activities will have to go up to maintain the sales. A point will come when sales will attain a plateau. This means the product has reached 'maturity stage' or 'saturation'. It will be too difficult to push sales any higher at this point. Profits will most likely be stable at this point or even begin a downward trend since more promotional activities will be needed to counter competition. That is unless, your product already has the greatest market share and your product requires no extra efforts.

Decline or Obsolescence Stage

Beyond this point, sales will begin to go down and the product will have reached the 'obsolescence' phase. Efforts should be made to delay or prevent this stage thereby avoid a decline. The decline can be the result of a number of reasons like changes in the customer preferences, technological advancements and inauguration of better substitutes. At this point profits decline very quickly and the last stage surfaces. Holding on to a product after this stage can be chancy and definitely not profitable for the company. So the company must decide between total desertion of the product or continuation in a limited, specialised market. The decision has to be based on the chances of opportunities remaining and the management abilities in this situation.

Marketing Strategies at Different Stages of PLC

As a concept, product life cycle is linked to the overall marketing philosophy of the company. As it not only affects product planning workouts but other factors of marketing mix like pricing, promotion and delivery. Now let us look at the different strategies employed at the various phases of PLC.

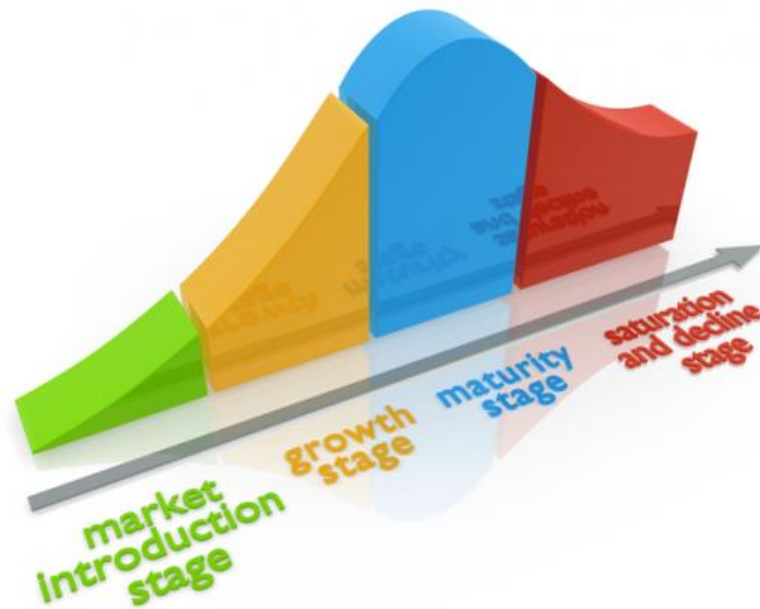


Fig: 5.5

Introduction Stage

At the stage of product introduction, we must increase sales and so, much is spent on actual delivery and promotion. The general idea is to create familiarity and acceptance of the product. Availability of the product also has to be increased. If a product is advertised but not physically available when a customer wants to purchase it, means energy and money has been wasted. All available resources of the organisation must be fully utilized. So, delivery must be arranged before the launch of a product. The firm may make use of skimming price strategy if there is a fear of too many competitors in the pipeline. On the other hand, the firm can adopt the entry price policy (minimum price) just to infiltrate the target market, thus making it difficult for competitors if not impossible. Skimming price is usually more successful if competition threat in short run does not exist and the firm is certain of return on the investment from the very beginning. If on the other hand, there is a chance of competitors entering the market, penetration strategy is more beneficial at keeping competitors at a distance.

Growth Stage

In the growth stage, there are increasing expenses in every aspect of the marketing mix, the chances of growth require large financial investments. These huge economic outpourings give surety to the company of a large market share. When sales graph indicates a quickly rising trend, the firm then has to invest significant amounts to maintain production at par with rising sales. It all calls for greater production, deeper distribution penetration, and well planned pricing and promotion policy. In the growth stage, when the sales are going up and the firm is content with the generated profits, competitors will start to step into the market and might even offer new features for the produce. Thus, the firm will have to consider improving the product so the ultimate decline stage is not reached too

quickly. Hence, the advertising expenses are maintained at the existing levels or even raised somewhat, in order to confront the competition.

Maturity Stage

We now come to the maturity phase. This phase normally is longer lasting than other phases and proves to be difficult for the management in terms of sustaining sales levels. In reality, the growth rate of sales declines in case of matured goods. The company should consider adopting a three-point strategy. 1) market modification, 2) product modification, and 3) marketing mix modification.

1. In Market Modification the firm makes every effort to discover opportunities of locating new buyers. This is achieved by seeking new markets or new market sectors. Conversely, new ways to use the same product can be found. The firm can also try repositioning the product and focus the promotional energies in a new, growing market sector. This allows for improvement in market share.
2. By this point the product becomes stereotyped and there exists a need to step out of the stagnant situation. This can be achieved by making changes in the characteristics of the product so it appeals to new customers or existing customers start to use it more. Product Modifications are made by improving quality, features or style of the product.
3. A firm will try to encourage sales in the maturity stage by modifying the marketing mix techniques. It can assume from any of the given forms 1) cut price to draw new customers, 2) create advertising campaign that is more affective, 3) develop aggressive promotional material that involves gifts, deals, contests and free trips, 4) provide improved or new services to the customers and 5) provide greater incentives to channel members.

Declining Stage

When a project enters the decline stage, various strategies need to be employed. The decline can be quick or slow. It can come about as a result of better substitute products, improved competition, more technological advances with which the firm may not have kept up, or it could be due to a number of other reasons. Such a product becomes expensive for the firm to maintain. The firm at this point has to be willing to let go of a project with limited or no profits. Nonstop monitoring of sales volume at every market segment is essential, so total withdrawal can be made from areas where it becomes uneconomical to maintain the product. Management must deal with the issue of total or partial desertion of a product instead of wasting the firm's resources on barren pursuits.

Further Reading:

- ✓ *Marketing Strategy,(2012), By O. C. Ferrell, Michael Hartll*
- ✓ *Marketing Strategy: Analysis, Development and Implementation,(2008) By Isobel Doole, Robin Lowe*