© WJEC | CBAC

Product

The product is any good or service offered for sale to customers. A product can be quite simple such as a biro or a pair of socks; but often there is more to a product than just the item itself. For example, a jar of coffee is not just a jar of coffee – it is a gateway to a more exotic life, or a method of ensuring that friends come round for a chat in the morning. Some products are purchased to show personal style or to pretentiously demonstrate wealth. Products often come wrapped in add-ons, such as service packages or free delivery and installation on electrical goods. Do not just think of a product as a purely functional item: consider its personality and what it says about the consumer too.

Product portfolio

The product portfolio is the mix of products the business produces and sells. Having a product portfolio makes a great deal of sense in a number of ways. A product portfolio:

- spreads fixed costs;
- allows for greater economies of scale;
- allows the targeting of wider markets;
- reduces risk;
- smoothes out overall sales;
- creates opportunities for growth.

The product portfolio of Proctor and Gamble includes:

© WJEC | CBAC

Product breadth and depth

Breadth is the number of product lines a business produces or retails: its depth is the number of product varieties within each product line. The product portfolio of Proctor and Gamble is made up of over 20 brands (product breadth), but is also made up of the varieties within each branded product (product depth). For example, there will be a number of sizes of Duracell batteries, but also different sizes of packs. We can multiply the 20 products by the number of varieties to measure the complete product portfolio. Having depth increases the number of repeat buyers looking for variations of the product and also allows targeting of different market niches (rechargeable, alkaline and quantum batteries, for example).

Branding

A brand can be defined in several ways – examples of different definitions are given below:

- 'A brand is the name given to a product to help differentiate it from other similar products.'
- 'A brand is a product consumers rely on, for quality, value and service.'
- 'A brand involves a distinctive identity for a product with which users can identify.'
- 'A brand is a name, term, sign, symbol or design which identifies a seller's products and differentiates them from competitors' products.'
- 'A brand is a product which can be identified easily by consumers and, in the eyes of consumers, has value, properties or an image that separates it from the competition.'

Marketing is often brand driven – the objective is to establish a product with a separate identity in consumers' minds, making the product desirable, wanted, even needed. Brands are important for customers because they represent attributes, values, benefits and personality. Brands can offer long-term profitability to businesses, offering a degree of predictability to sales and revenues. However, brands do not just happen – they must be developed carefully, and when mature, the development must continue so that full long-term value is extracted from the brand.

Why use branding?

Advantages:

- To create increased consumer loyalty – this is important when competition is intense.
- To separate the product from the herd – especially in markets where there is otherwise little differentiation and products are marked by their similarities rather than their differences.
- To increase price inelasticity of demand – this gives greater control over pricing strategies.
- To increase value of the business – brand values are often higher than other asset

© WJEC | CBAC

values of a business.
- To ease customer choice – brand identity makes recognition of products easier, making purchase more likely.

Disadvantages:

- High cost of advertising – brands must constantly be kept in the consumer's eye.
- Loss of brand value for one product can affect a whole range of similarly branded products.
- Brands invite competition – often from copycat manufacturers.
- High cost of research and development in ensuring that the brand continues to develop and lead the market.

Unique selling point/proposition (USP)

By unique selling point, we mean that the product or service has a feature or features that can be used to separate it from the competition. This could be the result of a technological advantage. A good example of this is the Dyson range of vacuum cleaners. Dyson is now the market leader, with vacuums selling at around £250. Before Dyson, with its bagless system and bright colours, the market leader was priced at £90.
USP can also result from some feature of the product and its design. For example, the hole in Polo mints or the design of the iPad.

Product differentiation

Making your products different from the competition is important. This separates your brand from competitor brands. Products might be very similar in the way that they are made or how they are used but may be perceived quite differently by consumers. Products can be differentiated from the competition by:

- methods of promotion – creating a personality for the product;
- packaging – eco-packaging;
- form – making your products look different from the competition;
- the provision of add-ons – Kia cars have a seven year warranty;
- quality and reliability – these are features which can be emphasised (for example, BMW and Rolls Royce cars).

Product differentiation helps create customer loyalty and gives a business more control over the pricing strategies used.

© WJEC | CBAC

The product life cycle

This represents the different stages in the life of a product and the sales that are achieved at each stage. For some products the life cycle can be short – for example, one-hit wonder bands or this summer's fashion. Others appeal for a longer period and then go out of fashion or are replaced by newer, more up-to-date or technologically advanced products. However, there are some products that are unique: for these the life cycle goes on and on. Coca Cola, the VW Golf and Mars bars are examples of products with impressively long and ongoing life cycles. Whatever the product, it will have a life cycle of some sort.

The stages of the product life cycle

Marketing experts have divided the product life cycle into five stages:

- Introduction
- Growth
- Maturity
- Saturation
- Decline

Introduction
The product is new to the market and few potential consumers know of its existence. Price can be high and sales may be restricted to early adopters (those that must have new technology, gadgets or fashions first). Profits are often low as development costs have to be repaid and advertising expenditure can often be high.

Growth
The product is becoming more widely known and consumed. Advertising tries to establish or strengthen the brand and develop an image for the product. Profits may start to be earned but advertising expenditure is still high. Prices may fall.

Maturity
The product range may be extended. Competition will increase and this has to be responded to. Advertising should be used to firm-up the image of the product in the consumers' minds. Sales are at their peak, profits should be high.

Saturation
Very few new customers are gained, replacement purchases are the trend. Businesses should try to reduce their costs, so that prices can be more flexible. The battle to survive is beginning and the market for the product is 'full'. Profits may start to decline.

© WJEC | CBAC

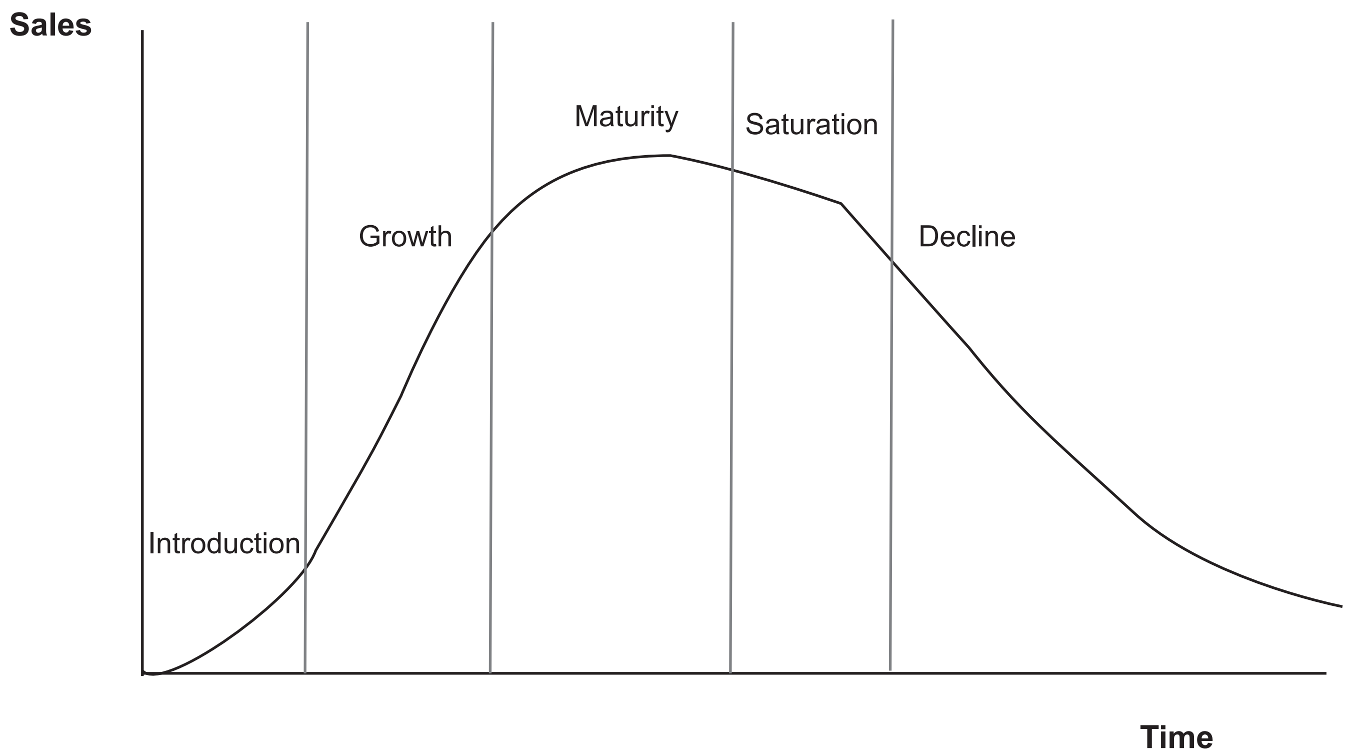
Decline

Sales can now fall fast and the product range may be reduced, with the business concentrating on core products. Advertising costs will be reduced, with attempts made to mop-up what is left of the potential market. Overall profits will fall. Price is likely to fall, but by concentrating on remaining market niches there may be some price stability.

Businesses will try to make the product stay in the maturity stage as long as possible as this will maximise profits and help the business gain the greatest return on the money invested in the product. To do this, the business will need to use extension strategies.

Example life cycles

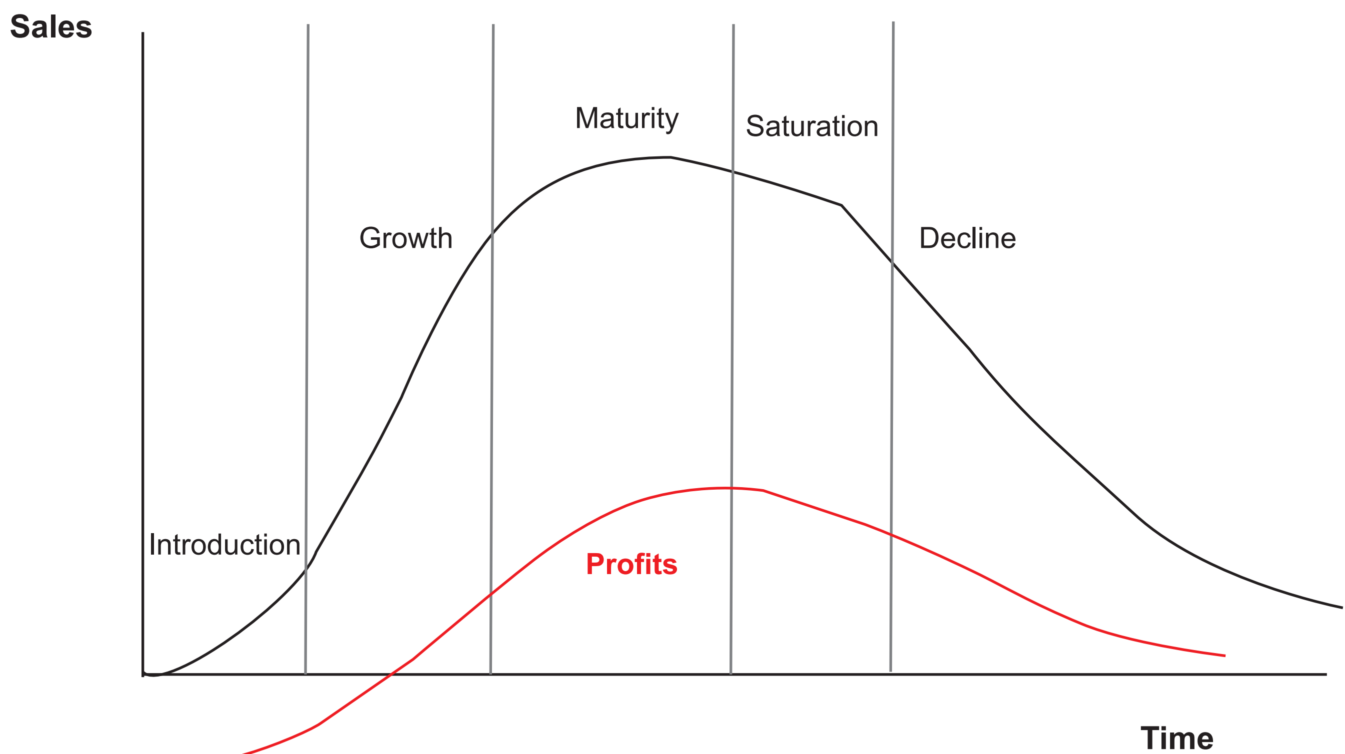
Below we see a typical, or classic, product life cycle:



In this example we see the five stages, starting with introduction, through growth, maturity, saturation and finally decline. The product life cycle measures the change in sales of the product that occurs over time. We can see that sales increase through introduction, growth and into maturity until we reach the saturation stage of the product life cycle. Sales now start to fall and the product moves into decline.

Profits can be plotted against a life cycle. The red line below shows the likely change in profitability of the product over its life. Initially losses are made as research and development costs have to be recouped and advertising costs are likely to be high. As the life cycle moves through growth into maturity, profits are made. Profits are likely to continue to be made through to the end of the cycle, though at a lower level.

© WJEC | CBAC



This is a typical structure of a product life cycle but there are many products that do not fit into this classic model.

In the 'Straw on Fire' life cycle, the product quickly moves through all the stages. Introduction is short and market saturation may be reached in a matter of months. During this time sales can become incredibly high and products with 'Straw on Fire' life cycles can dominate the market for a short period. Some of the best examples of this type of life cycle can be found in the children's toy market: there have been many over the years including Furbies, Cabbage Patch dolls, hula hoops, yo-yos, loom bands etc.

The 'Extended' product life cycle demonstrates that some products remain in the marketplace for a long time – often much longer than competitor products. These products stay in maturity and seem to avoid decline. Consider the shape of the life cycle of Coca Cola or Rice Krispies. Are these products in decline, or are sales being maintained?

Extension strategies

These are used to extend the life cycle of the product. They may be necessary because a new product has not been developed to replace an ageing product. They may also be used as a product has a declining market share in a large or growing market.

Extension strategies could include:

- repositioning the product in the marketplace;

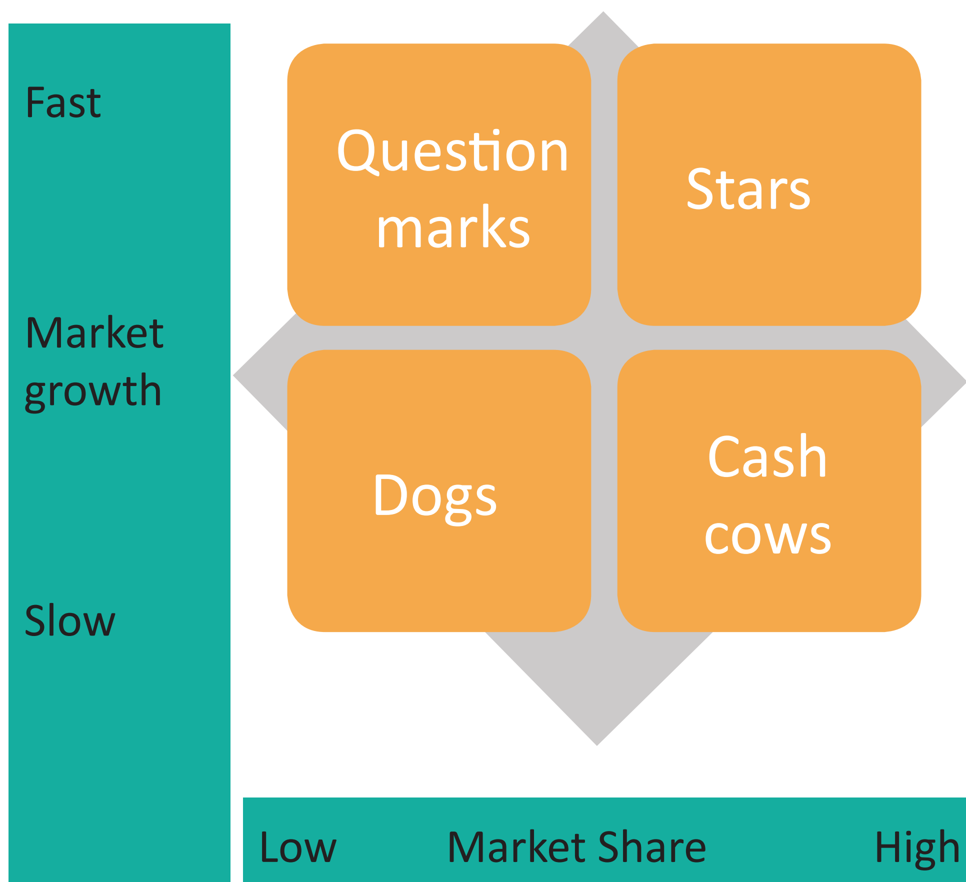
© WJEC | CBAC

- relaunching the product, aiming at a different segment, e.g. promoting the healthy aspects of consuming the product;
- using the 'now with' policy – this tactic is often used with limited edition cars.

Successful extension strategies can transform the position of a product in the marketplace. Lucozade was once a drink for children who were unwell – now it is marketed as a sports drink. Other extension strategies do little more than delay the end of the life cycle. Hopefully the delay will be long enough to allow a new profitable product to become established, replace the product in decline and help the business keep a balanced product portfolio.

The Boston Matrix

The Boston Matrix was devised by the Boston Consultancy Group in the 1960s and it allows the analysis of a business's products by dividing the products into four categories. The categories the products are placed in depend on their market share and the level of growth that is occurring in the market. In the diagram below we see the structure of the Boston Matrix. This structure can be used as a guide to product mix management.



© WJEC | CBAC

Cash cows (High market share – slow market growth)

Cash cows are very profitable products and expenditure on such things as advertising is relatively low. Customers know and understand the product, and brand value has been established. It is also likely that development costs have already been recouped, increasing profitability further. Examples of such products would be the Ford Focus, Kellogg's Corn Flakes and Cadbury's Dairy Milk.

Stars (High market share – fast market growth)

The market may be somewhat immature, with new customers being attracted to the marketplace and new competitors being tempted by potential profits and market share. Competition is high – businesses are fighting for a share of potentially huge profits. Stars are products that have a high market share in a fast growing market. Star products have high levels of revenue, but also have high levels of costs. Advertising and marketing expenditure is high. Brands have to be established and hopefully the products will develop into cash cows. The classic example of a recent product that was a star and has become a cash cow is the Apple iPad.

Question marks/Problem children (Low market share – fast growing market)

This is one of the worst situations for professional marketing people. They have a product in a fast growing market but the products are not selling. They are being beaten by the competition. They are failing, but it is likely to be worth doing something about it. After all, it is not good business for businesses to have products that fail to capture market share in markets that are growing in importance, especially when the new market may eventually replace an existing market.

For products which are question marks, a product relaunch may solve the problem or a basic redesign may increase sales. In the mid 1980s jeans were out of fashion but the market for teenage clothes was growing fast. Levis relaunched their jeans, led by advertising for 501s, which had never been a style of jean worn for fashion. Within a few months sales had increased by a factor of 10 – the product became a star. The TV adverts used pop songs as soundtracks, starting a trend which is still popular in marketing 30 years later. In contrast, there have been many competitors to the iPad since launch and most have ended up as question marks, heavily discounted and eventually withdrawn.

Dogs (Low market share – slow growing or shrinking market)

Dogs have low market share in a mature market. It is not generally worth spending money on redeveloping, redesigning or advertising the products as it is unlikely to be recouped in increased revenue. Even so, dogs may still be marginally profitable. Problems with dogs exist

© WJEC | CBAC

as they may take up management time, tie up assets and give very low returns.

The issues surrounding so-called 'dog' products can be quite complex. Some businesses still sell hand push carpet sweepers. You do not see them advertised on TV, competing for market share against the Dyson, but they still produce profits for niche businesses. The development costs of this type of product were paid back long ago, marketing is virtually non-existent and they are profitable enough to ensure that manufacture continues. Currently sales of alcohol through public houses are falling and there is a shrinking market. Businesses with a portfolio of bars and pubs sell off the less successful ones (often small pubs with no food facilities) and focus on large city centre bars and gastropubs where profits are higher.

It can be worth holding on to dogs especially if they provide synergies – for example, a company may boast that it provides a complete range of products, which can help attract customers who may occasionally wish to buy the dog. A business may also subsidise loss-making products in order to appear ethical – thereby winning customers and enhancing their reputation. If a business has dogs that are unproductive or do not provide synergies for the whole organisation, one solution is to sell off the dogs to small specialist niche businesses and use the money raised to invest in developing new products.

How to use the Boston Matrix

Businesses must ensure that they use the Boston Matrix in the way intended:

- to judge how to manage individual products and the product range, given market conditions;
- to recognise the importance of using successful, profitable products to fund the development of the stars and cash cows of the future;
- to see whether they have products in fast growing and potentially very profitable market sectors.

The Boston Matrix can help businesses analyse whether they have the portfolio that they want and whether it matches the objectives of the organisation. From analysing their product portfolio using the Boston Matrix, managers can then establish their marketing strategy in order to obtain the desired portfolio.

Most businesses would like to have a product mix or portfolio which has no problem children, many cash cows and plenty of stars that look like developing into cash cows. However, in the real world there are very few businesses that are that successful. Even Microsoft, the world's largest software company, is struggling in some sectors including tablets and mobile phones.

© WJEC | CBAC

Discussion themes
Explain what is meant by a product portfolio.
Why is branding important for a business?
What costs are involved in establishing and maintaining a brand?
‘Every product should have a USP.’ Discuss this statement.
‘Product life cycles can help a business create an effective product portfolio.’ Discuss this statement.
‘Extension strategies are a waste of money.’ Do you agree with this statement?
How can a business use the Boston Matrix to manage their product portfolio?
Read the article and summarise how a business can use extension strategies to prolong the life of a product. Product life cycle extension strategies: http://smallbusiness.chron.com/product-life-cycle-extension-strategies-3280.html
Sales Director Samantha Fernando explains how an understanding of the product life cycle has helped when developing new products: https://www.nibusinessinfo.co.uk/content/heres-how-understanding-product-life-cycle-has-helped-my-business-flash-video
The Boston Matrix on You Tube: http://www.youtube.com/watch?v=TXKU7gVnBqs http://www.youtube.com/watch?v=1gZmmlKl6uk