## MARKETING MEMO — EXCEEDING CUSTOMER EXPECTATIONS

Crego and Schiffrin have proposed that customer-centered organizations should study what customers value and then prepare an offering that exceeds their expectations. They see this as a three-step process:

1. ***Defining the customer value model:*** The company first lists all the product and service factors that might influence the target customers' perception of value.
2. ***Building the customer value hierarchy:*** The company now assigns each factor to one of four groups: basic, expected, desired, and unanticipated. Consider the set of factors at a fine restaurant:
   - ***Basic:*** The food is edible and delivered in a timely fashion. (If this is all the restaurant does right, the customer would normally not be satisfied.)
   - ***Expected:*** There is good china and tableware, a linen tablecloth and napkin, flowers, discreet service, and well-prepared food. (These factors make the offering acceptable, but not exceptional.)
   - ***Desired:*** The restaurant is pleasant and quiet, and the food is especially good and interesting.
   - ***Unanticipated:*** The restaurant serves a complimentary sorbet between the courses and places candy on the table after the last course is served.
3. ***Deciding on the customer value package:*** Now the company chooses that combination of tangible and intangible items, experiences, and outcomes designed to outperform competitors and win the customers' delight and loyalty.

*Sources:* Edwin T. Crego Jr. and Peter D. Schiffrin, *Customer Centered Reengineering* (Homewood, IL: Irwin, 1995).

3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

## Product Life Cycles

Most product life-cycle curves are portrayed as bell-shaped (see Figure 10.1). This curve is typically divided into four stages: introduction, growth, maturity, and decline.[22]

1. ***Introduction*** – A period of slow sales growth as the product is introduced in the market. *Profits are nonexistent because of the heavy expenses of product introduction.*
2. ***Growth*** – A period of rapid market acceptance and substantial profit improvement.
3. ***Maturity*** – A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. ***Decline*** – Sales show a downward drift and profits erode.

The PLC concept can be used to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff). Not all products exhibit a bell-shaped PLC.[23] Three common alternate patterns are shown in Figure 10.2.

FIG. 10.1

Sales and Profit Life Cycles

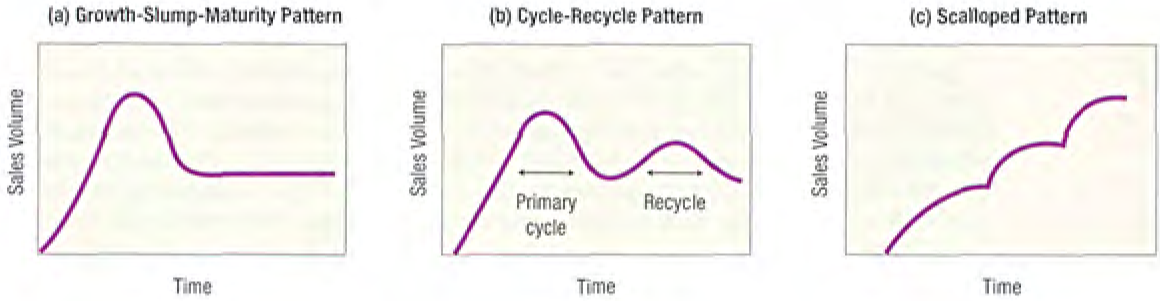


FIG. 10.2 Common Product Life-Cycle Patterns

Figure 10.2(a) shows a *growth-slump-maturity pattern*, often characteristic of small kitchen appliances such as handheld mixers and bread makers. Sales grow rapidly when the product is first introduced and then fall to a "petrified" level that is sustained by late adopters buying the product for the first time and early adopters replacing the product.

The *cycle-recycle pattern* in Figure 10.2(b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, and this produces the first cycle. Later, sales start declining and the company gives the drug another promotion push, which produces a second cycle (usually of smaller magnitude and duration).[24]

Another common pattern is the *scalloped PLC* in Figure 10.2(c). Here sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses, or users. The sales of nylon, for example, show a scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—that continue to be discovered over time.[25]

## Style, Fashion, and Fad Life Cycles

We need to distinguish three special categories of product life cycles—styles, fashions, and fads (Figure 10.3). A style is a basic and distinctive mode of expression appearing in a field of human endeavor. Styles appear in homes (colonial, ranch, Cape Cod); clothing (formal, casual, funky); and art (realistic, surrealistic, abstract). A style can last for generations, and go in and out of vogue. A fashion is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.[26]

The length of a fashion cycle is hard to predict. One point of view is that fashions end because they represent a purchase compromise, and consumers start looking for missing attributes.[27] For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Furthermore, too many consumers adopt the fashion, thus turning others away. Another observation is that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine

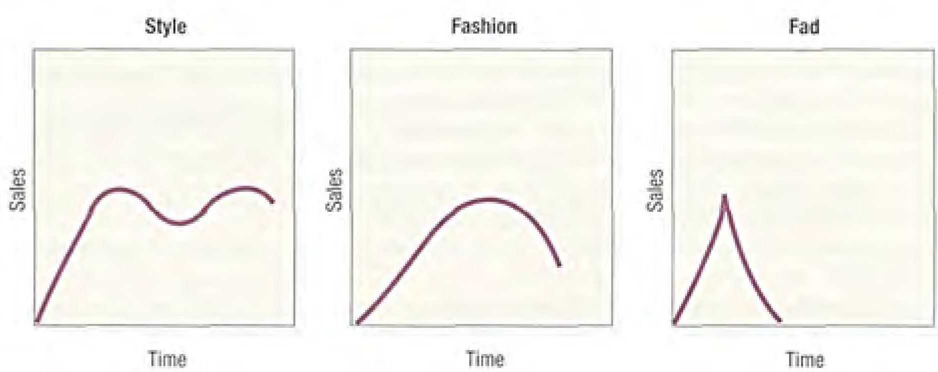


FIG. 10.3 Style, Fashion, and Fad Life Cycles

need, is consistent with other trends in the society, satisfies societal norms and values, and does not exceed technological limits as it develops.[28]

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following of those who are searching for excitement or want to distinguish themselves from others. Fads do not survive because they do not normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power. Here is a success story of a company that managed to extend a fad's life span:

### TRIVIAL PURSUIT

Since its debut at the International Toy Fair in 1982, Trivial Pursuit has sold 65 million copies in 18 languages in 32 countries, and it remains one of the best-selling adult games. Parker Brothers has kept the product's popularity going by making a new game with updated questions every year. It also keeps creating offshoots—travel packs, a children's version, Trivial Pursuit Genus IV, and an interactive CD-ROM from Virgin Entertainment Interactive. The game has its own Web site (www.trivialpursuit.com), which received 100,000 visitors in its initial two-month test period. If you are having trouble making dinner conversation on a date—no problem: NTN Entertainment Network has put Trivial Pursuit in about 3,000 restaurants.[29]

## Marketing Strategies: Introduction Stage and the Pioneer Advantage

Because it takes time to roll out a new product, work out the technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow at this stage.[30] Sales of expensive new products such as high-definition TV are slowed by additional factors such as product complexity and fewer potential buyers.

Profits are negative or low in the introduction stage. Promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.[31] Firms focus on those buyers who are the most ready to buy, usually higher-income groups. Prices tend to be high because costs are high.

Companies that plan to introduce a new product must decide when to enter the market. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength.

Speeding up innovation time is essential in an age of shortening product life cycles. Being early can pay off. One study found that products that came out six months late—but on budget—earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget cut their profits by only 4 percent.

Most studies indicate that the market pioneer gains the most advantage. Companies like Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance.[32] Carpenter and Nakamoto found that 19 out of 25 companies who were market leaders in 1923 were still the market leaders in 1983, 60 years later.[33] Robinson and Min found that in a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years, versus 48 percent of the early followers.[34]

What are the sources of the pioneer's advantage?[35] Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess. The pioneer's brand normally aims at the middle of the market and so captures more users. Customer inertia also plays a role; and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and other barriers to entry. Pioneers can have more effective marketing spending and enjoy higher rates of consumer repeat purchases. An alert pioneer can maintain its leadership indefinitely by pursuing various strategies.[36]

The pioneer advantage, however, is not inevitable.[37] Look at the fate of Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers), market pioneers who were overtaken by later entrants. Steven Schnaars studied 28 industries where the imitators surpassed the innovators.[38] He found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously, or using brute market power to overtake the pioneer. None of the companies that now dominate in the manufacture of personal computers—including Dell, Gateway, and Compaq—were first movers.[39]

Golder and Tellis raise further doubts about the pioneer advantage.[40] They distinguish between an *inventor* (first to develop patents in a new-product category), a *product pioneer* (first to develop a working model), and a *market pioneer* (first to sell in the new-product category). They also include nonsurviving pioneers in their sample. They conclude that although pioneers may still have an advantage, a larger number of market pioneers fail than has been reported and a larger number of early market leaders (though not pioneers) succeed. Examples of later entrants overtaking market pioneers are IBM over Sperry in mainframe computers, Matsushita over Sony in VCRs, and GE over EMI in CAT scan equipment. In a more recent study, Tellis and Golder identify the following five factors as underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.[41]

The pioneer should visualize the various product markets it could initially enter, knowing that it cannot enter all of them at once. Suppose market-segmentation analysis reveals the product market segments shown in Figure 10.4. The pioneer should analyze the profit potential of each product market singly and in combination and decide on a market expansion path. Thus the pioneer in Figure 10.4 plans first to enter product market $P_1M_1$, then move the product into a second market ($P_1M_2$), then surprise the competition by developing a second product for the second market ($P_2M_2$), then take the second product back into the first market ($P_2M_1$), and then launch a third product for the first market ($P_3M_1$). If this game plan works, the pioneer firm will own a good part of the first two segments and serve them with two or three products.

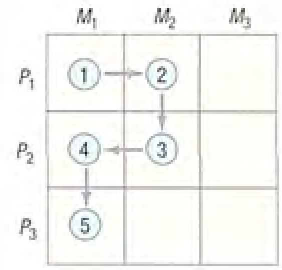


FIG. 10.4

Long-Range Product Market Expansion Strategy ($P_i$ = product i; $M_j$ = Market j)

## Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution.

Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain their promotional expenditures at the same or at a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion-sales ratio. Profits increase during this stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the producer learning effect. Firms have to watch for a change from an accelerating to a decelerating rate of growth in order to prepare new strategies.

During this stage, the firm uses several strategies to sustain rapid market growth:

- It improves product quality and adds new product features and improved styling.
- It adds new models and flanker products (i.e., products of different sizes, flavors, and so forth that protect the main product).
- It enters new market segments.
- It increases its distribution coverage and enters new distribution channels.
- It shifts from product-awareness advertising to product-preference advertising.
- It lowers prices to attract the next layer of price-sensitive buyers.

These market expansion strategies strengthen the firm's competitive position. Consider how Yahoo! has fueled growth.

### YAHOO!

Founded in 1994 by Web-surfing Stanford University grad students, Yahoo! has become the number-one place to be on the Web, averaging 120 million visitors in a month. The company grew into more than just a search engine; it became a portal, offering a full-blown package of information and services, from e-mail to online shopping malls. Yahoo!'s revenues, which exceeded \$1.3 billion in 2003, come from a number of sources—banner ads, paid search, subscriptions for services such as personals, and a broadband partnership with SBC Communications. Yahoo!'s \$1.6 billion acquisition of Overture Services, a key paid search competitor of Google, helped strengthen its claim as a one-stop shop for advertisers. Yahoo! also continued to grow globally with strong emphasis on Europe and Asia.[42]

A firm in the growth stage faces a trade-off between high market share and high current profit. By spending money on product improvement, promotion, and distribution, it can capture a dominant position. It forgoes maximum current profit in the hope of making even greater profits in the next stage.

## Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages and poses big challenges to marketing management. *Most products are in the maturity stage of the life cycle, and most marketing managers cope with the problem of marketing the mature product.*

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first phase, the sales growth rate starts to decline. There are no new distribution channels to fill. In the second phase, sales flatten on a per capita basis because of market saturation. Most potential consumers have tried the product, and future sales are governed by population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products.

The sales slowdown creates overcapacity in the industry, which leads to intensified competition. Competitors scramble to find niches. They engage in frequent markdowns. They increase advertising and trade and consumer promotion. They increase R&D budgets to develop product improvements and line extensions. They make deals to supply private brands. A shakeout begins, and weaker competitors withdraw. The industry eventually consists of well-entrenched competitors whose basic drive is to gain or maintain market share.

Dominating the industry are a few giant firms—perhaps a quality leader, a service leader, and a cost leader—that serve the whole market and make their profits mainly through high volume and lower costs. Surrounding these dominant firms is a multitude of market nichers, including market specialists, product specialists, and customizing firms. The issue facing a firm in a mature market is whether to struggle to become one of the "big three" and achieve profits through high volume and low cost or to pursue a niching strategy and achieve profits through low volume and a high margin.

Some companies abandon weaker products and concentrate on more profitable products and on new products. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found ways to offer new value to customers. Seemingly moribund brands like


Sustaining rapid market growth by adding new models and flanker products: the Snapple product line.

RCA, Jell-O, and Ovaltine have achieved sales revivals through the exercise of marketing imagination.[43] The resurgence in Hush Puppies' popularity in the footwear category is a case study in reviving an old, nearly forgotten brand.

### HUSH PUPPIES

Hush Puppies' suede shoes, symbolized by the cuddly, rumpled, droopy-eyed dog, were a kid's favorite in the 1950s and 1960s. Changes in fashion trends and a series of marketing mishaps eventually resulted in an out-of-date image and diminished sales. Wolverine World Wide, makers of Hush Puppies, made a number of marketing changes in the early 1990s to reverse the sales slide. New product designs and numerous offbeat color combinations, such as powder blue, lime green, and electric orange, enhanced the brand's fashion appeal. Popular designers began to use the shoes in their fashion shows. Wolverine also jacked the price up from $40 to $70, and showered free shoes on Hollywood celebrities. Once the shoes had garnered enough buzz, the company made them more widely available by distributing them to better department stores. Hush Puppies sales rose from 30,000 pairs in 1994 to more than 1.7 million pairs in 1996. When fashions shifted a few years later, Hush Puppies expanded into sandals and walking shoes, and new international markets, and experienced an all-time sales high in 2002.[44]

**MARKET MODIFICATION** A company might try to expand the market for its mature brand by working with the two factors that make up sales volume:

Volume = number of brand users × usage rate per user

It can try to expand the number of brand users by *converting nonusers.* The key to the growth of air freight service is the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.

### DENTAL FLOSS

Despite the fact that the Academy of General Dentistry touts brushing and flossing as the best methods for fighting tooth decay, only 24 percent of households use floss. Several oral care marketers see this as a golden opportunity to convert the floss-averse. Aquafresh, owned by GlaxoSmithKline, has created Aquafresh Floss 'N' Cap which combines toothpaste and floss with a cap that doubles as a built-in floss dispenser. Johnson & Johnson, the market leader in this category, has developed a special handheld flosser called the Reach Access Daily Flosser. Glide, newly acquired by Procter & Gamble and the most recommended brand by dentists, perhaps has the easiest job convincing people to floss; the company got a boost when hygiene-obsessed Jerry Seinfeld used Glide on his hugely popular TV show.[45]

It can also try to expand the number of brand users by *entering new market segments.* When Goodyear decided to sell its tires via Wal-Mart, Sears, and Discount Tire, it boosted market share from 14 to 16 percent in the first year.[46] In recent years AARP has tried the tack of reaching out to new market segments:[47]

### AARP

AARP, the American Association for Retired Persons, is a mature brand in more ways than one. The $625 million, 35-million-member organization serves people age 50 and over by offering advocacy efforts, products, services, and benefits. Yet, the organization has been dogged by the perception that it is only for elderly people living in retirement communities. With the boomer population expected to double in the next 30 years, AARP is repositioning itself to appeal to people in their late fifties who still have an active lifestyle. AARP's goal is to recruit 50 percent of people age 50 and over by 2003 and to that end it is hosting a number of activities. These include triathlons in several cities to promote fitness, a touring exhibit of Grandma Moses' art to inspire creativity, and an education campaign to prevent predatory mortgage lending and home improvement fraud. The challenge for AARP, however, is creating a single brand that not only attracts new members but also continues to appeal to those in the age 65 and over segment. As part of that effort, AARP is publishing several editions of its newly titled *AARP: The Magazine* (formerly called *Modern Maturity*): one for 50 to 59-year-old boomers, an edition for 60 to 69-year-olds, and one for those 70 and older.


Feature improvement: Vlasic Hamburger Stackers.

A third way to expand the number of brand users is *winning competitors' customers*. Examples of this approach abound. Marketers of Puffs facial tissues are always wooing Kleenex customers. Volume can also be increased by convincing current users to increase their brand usage: (1) *Use the product on more occasions.* Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows. Take Kodak pictures of your pets. (2) *Use more of the product on each occasion.* Drink a larger glass of orange juice. (3) *Use the product in new ways.* Use Tums antacid as a calcium supplement.[48]

**PRODUCT MODIFICATION** Managers also try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement.

*Quality improvement* aims at increasing the product's functional performance. A manufacturer can often overtake its competition by launching a "new and improved" product. Grocery manufacturers call this a "plus launch" and promote a new additive or advertise something as "stronger," "bigger," or "better." This strategy is effective to the extent that the quality is improved, buyers accept the claim of improved quality, and a sufficient number of buyers will pay for higher quality. In the case of the canned coffee industry, manufacturers are using "freshness" to better position their brands in the face of fierce competition from premium rivals, such as store brands where customers grind their own beans in the store. Kraft's Maxwell House will tout coffee sold in its new Fresh Seal packaging and P&G's Folger's ads will show how its AromaSeal canisters—plastic, peel-top, resealable and easy-grip packages—will make its ground beans fresher.[49]

However, customers are not always willing to accept an "improved" product, as the classic tale of New Coke illustrates.

## COCA-COLA

Battered by competition from the sweeter Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed the New Coke. Coca-Cola spent $4 million on market research. Blind taste tests showed that Coke drinkers preferred the new, sweeter formula, but the launch of New Coke provoked a national uproar. Market researchers had measured the taste but had failed to measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats, to force the retention of "The Real Thing." Ten weeks later, the company withdrew New Coke and reintroduced its century-old formula as "Classic Coke," giving the old formula even stronger status in the marketplace.

*Feature improvement* aims at adding new features (for example, size, weight, materials, additives, accessories) that expand the product's performance, versatility, safety, or convenience. In 1998, after years of research and development, Vlasic created a cucumber 10 times larger than the traditional pickle cucumber. The chips, sold as "Hamburger Stackers," are large enough to cover the entire surface of a hamburger and are stacked a dozen high in jars.[50]

Pfizer also embarked on feature improvement for its Listerine brand.

## PFIZER INC.

"Obviously it's very difficult for people to walk down the street with a bottle of Listerine, take a swig and spit it out," says Dermot Boden, vice president for global oral care at Pfizer Inc., which owns the Listerine brand. This is the rationale behind Cool Mint Listerine's PocketPak, oral care strips which dissolve instantly in the mouth, allowing for oral care on the go. Six years in the making, this new, convenient form of Listerine not only enabled the brand to reach younger consumers, but it also generated a hefty $120 million in less than a year after its release.[51]

This strategy has several advantages. New features build the company's image as an innovator and win the loyalty of market segments that value these features. They provide an opportunity for free publicity and they generate sales force and distributor enthusiasm. The chief disadvantage is that feature improvements are easily imitated; unless there is a permanent gain from being first, the feature improvement might not pay off in the long run.[52]

*Style improvement* aims at increasing the product's esthetic appeal. The periodic introduction of new car models is largely about style competition, as is the introduction of new packaging for consumer products. A style strategy might give the product a unique market identity. Yet style competition has problems. First, it is difficult to predict whether people—and which people—will like a new style. Second, a style change usually requires discontinuing the old style, and the company risks losing customers.

**MARKETING PROGRAM MODIFICATION** Product managers might also try to stimulate sales by modifying other marketing program elements. They should ask the following questions:

- ***Prices.*** Would a price cut attract new buyers? If so, should the list price be lowered, or should prices be lowered through price specials, volume or early purchase discounts, freight cost absorption, or easier credit terms? Or would it be better to raise the price to signal higher quality?
- ***Distribution.*** Can the company obtain more product support and display in existing outlets? Can more outlets be penetrated? Can the company introduce the product into new distribution channels?
- ***Advertising.*** Should advertising expenditures be increased? Should the message or copy be changed? Should the media mix be changed? Should the timing, frequency, or size of ads be changed?
- ***Sales promotion.*** Should the company step up sales promotion—trade deals, cents-off coupons, rebates, warranties, gifts, and contests?
- ***Personal selling.*** Should the number or quality of salespeople be increased? Should the basis for sales force specialization be changed? Should sales territories be revised? Should sales force incentives be revised? Can sales-call planning be improved?
- ***Services.*** Can the company speed up delivery? Can it extend more technical assistance to customers? Can it extend more credit?

Marketers often debate which tools are most effective in the mature stage. For example, would the company gain more by increasing its advertising or its sales promotion budget? Sales promotion has more impact at this stage because consumers have reached an equilibrium in their buying habits and preferences, and psychological persuasion (advertising) is not as effective as financial persuasion (sales promotion deals). Many consumer-packaged-goods companies now spend over 60 percent of their total promotion budget on sales promotion to support mature products. Other marketers argue that brands should be managed as capital assets and supported by advertising. Advertising expenditures should be treated as a capital investment. Brand managers use sales promotion because its effects are quicker and more visible to their superiors; but excessive sales promotion activity can hurt the brand's image and long-run profit performance.

## Marketing Strategies: Decline Stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All lead to overcapacity, increased price-cutting, and profit erosion. The decline might be slow, as in the case of sewing machines; or rapid, as in the case of the 5.25 floppy disks. Sales may plunge to zero, or they may petrify at a low level.

As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budgets and reduce prices further. Unfortunately, most companies have not developed a policy for handling aging products.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm—and not just by the amount of uncovered overhead and profit: There are many hidden costs. Weak products often consume a disproportionate amount of management's time; require frequent price and inventory adjustments; generally involve short production runs in spite of expensive setup times; require both advertising and sales force attention that might be better used to make the healthy products more profitable; and can cast a shadow on the company's image. The biggest cost might well lie in the future. Failing to eliminate weak products delays the aggressive search for replacement products. The weak products create a lopsided product mix, long on yesterday's breadwinners and short on tomorrow's.

In handling aging products, a company faces a number of tasks and decisions. The first task is to establish a system for identifying weak products. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance. The controller's office supplies data for each product showing trends in market size, market share, prices, costs, and profits. A computer program then analyzes this information. The managers responsible for dubious products fill out rating forms showing where they think sales and profits will go, with and without any changes in marketing strategy. The product-review committee makes a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.[53]

Some firms abandon declining markets earlier than others. Much depends on the presence and height of exit barriers in the industry.[54] The lower the exit barriers, the easier it is for firms to leave the industry, and the more tempting it is for the remaining firms to stay and attract the withdrawing firms' customers. For example, Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew.

According to one study of company strategies in declining industries, five strategies are available to the firm:

1. Increasing the firm's investment (to dominate the market or strengthen its competitive position).
2. Maintaining the firm's investment level until the uncertainties about the industry are resolved.
3. Decreasing the firm's investment level selectively, by dropping unprofitable customer groups, while simultaneously strengthening the firm's investment in lucrative niches.
4. Harvesting ("milking") the firm's investment to recover cash quickly.
5. Divesting the business quickly by disposing of its assets as advantageously as possible.[55]

The appropriate strategy depends on the industry's relative attractiveness and the company's competitive strength in that industry. A company that is in an unattractive industry but possesses competitive strength should consider shrinking selectively. A company that is in an attractive industry and has competitive strength should consider strengthening its investment. Look what Quaker Oats has done with oatmeal.

## QUAKER OATS

After being banished to the cupboard for years, instant oatmeal has staged a comeback with campaigns emphasizing health (for all) and fun (for kids) as oatmeal sales shot up in the late 1990s. The category turnaround began in January 1997 when the FDA permitted manufacturers to state that "diets low in saturated fat and cholesterol that include soluble fiber from oatmeal may reduce the risk of heart disease." Quaker Oats, which owns almost two-thirds of the category, capitalized on the opportunity to target kids by infusing fun with nutrition through new oatmeal products such as Sea Adventures and Dinosaur Eggs.[56]

If the company were choosing between harvesting and divesting, its strategies would be quite different. *Harvesting* calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures. It would try to cut these costs without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute. Yet many mature products warrant this strategy. Harvesting can substantially increase the company's current cash flow.[57]

Companies that successfully restage or rejuvenate a mature product often do so by adding value to the original product. Consider the experience of Pitney Bowes, the dominant producer of postage meters.

#### PITNEY BOWES

In 1996, critics, and even Pitney Bowes insiders, predicted that faxes would kill regular mail, on which Pitney's business relies. Then they predicted that e-mail would kill faxes and that all these technological advances combined would kill Pitney's profits. As it happens, the surge in direct mail and Internet-related bills has generated more mail, not less, but the Internet also enabled new companies such as e-Stamps and stamps.com to enter Pitney's territory by offering a way to download stamps over the Internet. Pitney recast itself as a messaging company—its slogan became "Engineering the Flow of Communication." It developed software products that let customers track incoming materials and outgoing products, convert bills and print files to fax or e-mail, and track when a document has been acted upon. Pitney also provides electronic billing services for e-commerce companies and even added an electronic-stamp business to compete with the stamp start-ups. Pitney's view: The Internet is not the enemy; rather, it is a vehicle for becoming a broad-based messaging company.[58]

When a company decides to drop a product, it faces further decisions. If the product has strong distribution and residual goodwill, the company can probably sell it to another firm. If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide on how much inventory and service to maintain for past customers.

### The Product Life-Cycle Concept: Critique

The PLC concept helps marketers interpret product and market dynamics. It can be used for planning and control, although it is useful as a forecasting tool. PLC theory has its share of critics. They claim that life-cycle patterns are too variable in shape and duration. Critics charge that marketers can seldom tell what stage the product is in. A product may appear to be mature when actually it has reached a plateau prior to another upsurge. They charge that the PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow:

> Suppose a brand is acceptable to consumers but has a few bad years because of other factors—for instance, poor advertising, delisting by a major chain, or entry of a "me-too" competitive product backed by massive sampling. Instead of thinking in terms of corrective measures, management begins to feel that its brand has entered a declining stage. It therefore withdraws funds from the promotion budget to finance R&D on new items. The next year the brand does even worse, panic increases. . . . Clearly, the PLC is a dependent variable which is determined by marketing actions; it is not an independent variable to which companies should adapt their marketing programs.[59]

Table 10.3 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the PLC.

## ::: Market Evolution

Because the PLC focuses on what is happening to a particular product or brand rather than on what is happening to the overall market, it yields a product-oriented picture rather than a market-oriented picture. Firms need to visualize a *market's* evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments.[60]

In the course of a product's or brand's existence, its positioning must change to keep pace with market developments. Consider the case of Lego.