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MARKETING STRATEGY ON DIFFERENT STAGES PLC AND ITS MARKETING IMPLICATIONS ON FMCG PRODUCTS

DR. NEETU SHARMA

ASST. PROF. COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE
CAREER COLLEGE, BARKATULLAH UNIVERSITY BHOPAL (M.P.)

ABSTRACT

"The world of fast moving consumer goods is possibly the hardest, cruelest and disciplined industries all them all: The sheer science, and extraordinary thought, the investment in consumer and competitor analysis for truly focused market orientation, the value validity and constancy of marketing knowledge determines market share, profitability and survival."A number of variations of the Industry Life Cycle model are used to direct the focus of the marketing activities during each phase of the model. Launch Engineering helps FMCG businesses be more productive, improve branding, expand marketing communications, control ad agencies and refine category management. FMCG outcomes include an easier, faster path to trial and brand adoption. Special proprietary (pre-launch) new product pre-launch assessment tool almost eliminates the chance of a product launch not going to plan; **a**dvanced market segmentation methods give you a competitive 'edge'. Improved returns from advertising, trade spend (sometimes called promotional budget), sales promotions & public relations (pr & publicity) pays for FMCG consultancy fees many times over! Most of the models are similar in respect of the direction provided in respect of the marketing effort and focus, despite the fact that they differ as to the number and names of the stages. Despite the criticism of the product life cycle model during the mid 70's, by a number of authors, the model continues to be a valuable tool for marketers. This criticism came about as a result of some product life cycles that started shrinking and others that were increasing without any apparent reason and other products that did not reflect the usual shape of the product life cycle graph. FMCG persisted with the use of the product life cycle concept continued to have a competitive advantage over those who did not. It is clear that the use of the model has a significant impact on the success of the business strategy and the associated corporate performance. The goals in respect of strategy, competition, product, price, promotion and distribution will be different for the different stages of the product life cycle. This article is focusing on a number of the primary product life cycle management techniques that can be used to optimize a product's revenues in respect to its effective positioning in a market during the introduction stage of the product life cycle.

KEY WORDS:- Marketing Strategy, Product Life Cycle, FMCG,

INTRODUCTION

When a new product is being introduced in to a market, it normally undergoes a series of step in the market; these steps are introduction growth, maturity and lastly the decline stage. These steps follow each other chronologically and thus referred to as the product life cycle (PLC. The PLC sequence or series is closely linked with the dynamics in the market environment and has subsequent effects on the product marketing mix and marketing strategies. A graph that is normally plotted of the revenue against the stages of product is referred to as the product life cycle graph.

In the introduction stage of the PLC, the firms normally aim at creating the product awareness in the market through the employment of the marketing mix. Initial stages involve the establishment of quality and branding couples with the intellectual property protection like the trade marks. The pricing strategy may be low to ease the entry into the market if there are already established firms while it may be high if there are no competitors and this enables fast recovery of the initial cost . Distribution is normally selective while the promotion targets early adaptors and innovators at the growth stage of the PLC, the firms aim at increasing its share market by offering additional features to its product quality while maintaining the prices. Distribution is increased to meet the increased demand while the promotion aims a bigger audience when your buyer says your brand is to be delisted; all you can hear is the blood pulsing through your heart, and the taste of bile on your mouth…″ The product can be defined as goods, services or both; in the other words it's anything that satisfies customer need. Each product has its own limited life, however it shares the same aspect and we define the period that the product goes through as the "Product life cycle".

- **Rural growth** - Most FMCG categories are growing faster in rural as compared to urban India. This growing importance of rural India will also mean that regional players and categories with a strong regional franchise will influence marketing plans. As these categories expand, they will influence the way adjacent categories and emerging alternatives will seek to market themselves.
- **Innovation Imperative** – Innovation is imperative in the FMCG category today. Differentiation is the key. Product life cycles are getting shortened given the highly competitive scenario. There is therefore a very strong thrust on innovation in the FMCG space across various aspects ranging from brand proposition, packaging, communication, consumer in sighting to pricing. We are constantly re-engineering our offerings on the innovation plank with the objective of serving the evolving needs of the consumer. Some of the examples in the innovation space include the launch of Goodnight Advanced Activ+ and Good Knight Advanced Low Smoke Coil.
- **Shopper Marketing** – With the growth in modern retail, the store is emerging as the most potent medium in the marketing of brands. The Indian consumer is clearly enjoying the modern trade shopping experience and is increasingly shopping there, as is evident from the increased spending at modern stores. Shopper marketing has, therefore, become an important tool for marketers driving brand choice inside the stores.

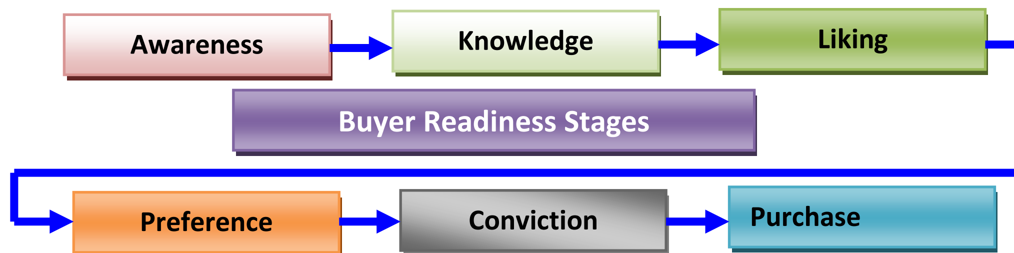
- **Connecting and engaging with the Indian Digital consumer** - With 50+ million active social media users, Indians spend more time on social media than on any other activity on the Internet, according to Nielsen. Increasingly marketers are focusing on this medium, however what will be critical is how brands can effectively break away from the pack in order to differentiate and improve social media engagement levels.

Some of our brand campaigns on social media including the 'HIT Kill Malaria' campaign have received an overwhelming response. We continue to be upbeat about consumer demand in 2012. As India is one of the fastest growing economies, we will witness significant play on innovation, leading to intensity of competition. We expect growth to be driven on the back of new product launches and renovations of existing products. We will invest significantly behind these launches and support our innovations.

The Product life cycle consist of four stages starting from introduction stage, growth stage, maturity stage and decline stage. At the introduction stage, the product is not popular and can't really make a lot of profit. Its marketing cost may be high in order to test a market and set up a distribution channel. At the growth stage, the product start making a profit, the sales increase rapidly with some cost on marketing especially brand building. Competitors enter the market, often in large number depending on how attractive the market is. When a profit starts to decline, it's the sign of 'Maturity stage'. At maturity stage, the sales continue to increase but at the decreasing rate until become stable, because of price competition. The product reaches its peak at this stage, most companies fight aggressively to maintain their market share. The competition is very intense, unfortunately a small firms will die one by one. During the decline stage, the profit start to drop gradually, each firm has to manage carefully. There're not many choice to choose now; take the most out of it before exit or expand the market by using marketing mix strategies in order to extend product life. All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases. Marketing and Information Systems are two different phenomena and which individually and collaboratively influencing an organization's development in gaining competitive advantage. The concept of Product Life Cycle (PLC) is very important and playing a key role in determining the stages of the organization's products in every marketing organizations. The theory of PLC was first introduced in the 1950s to explain the expected Life cycle of a typical product from design to Obsolescence. Writing in Marketing Tools, Carole Hedden observed that the Life cycle is represented by a curve that can be divided into four phases: Introduction, growth, maturity and decline. The goal is to maximize the product's value and profitability at each stage. It is primarily considered a marketing theory. Similarly the evolution and the revolution brought and organizations to use limited resources in an effective and efficient manner. (Tennakoon and Syed, 2008). The crucial role of IT in changing the way of economy works is clear for all of us (Parsons, 1983)

MARKETING STRATEGY OF FMCG MARKET SHARE GROWTH.

Timely product development and cannibalization-free growth across your product portfolio builds an impregnable defence against competitors. Sophisticated marketing strategy management can secure fairer balance of power with channel partners.



Analysis of buyer readiness stages helps make better decisions for integrated marketing communications strategy. In some industries IT is even capable of changing the nature of the products and service or their production processes. According to the advocates of Strategic weapon perspective, these unprecedented effects do not necessarily have the relative competitive position of economic factors unchanged. Among these concepts, the information Systems Strategic Grid (ISSG) of Mc Farlan and Me Kenney is one which stood the test of time. The ISSG analyses the applicability of IT as a Strategic weapon on the industry level. This grid classifies the industries according to their present and medium range affectedness by the Strategic impact of IT applications. During this period significant changes are made in the way that the product is behaving into the market i.e. its reflection in respect of sales to the company that introduced it into the market. Since an increase in profits is the major goal of a company that introduces a product into a market, the product's life cycle management is very important. Some companies use strategic planning and others follow the basic rules of the different life cycle phase that are analyzed later.

The understanding of a product's life cycle, can help a company to understand and realize when it is time to introduce and withdraw a product from a market, its position in the market compared to competitors, and the product's success or failure. For a company to fully understand the above and successfully manage a product's life cycle, needs to develop strategies and methodologies, some of which are discussed later on.

RESEARCH OBJECTIVES

The main objectives of this research could be listed as follows

- To find out the importance of the concepts of FMCG in a competitive business enterprise organization.
- To identify the application of these concepts in Product Vs Service marketing of FMCG organizations.

- To identify the relationship between these concepts in determining the organizational development in FMCG.
- To identify how far these concepts help the organization to gain higher market share and sustain competitive advantage

LITERATURE REVIEW

The FMCG differentiating and positioning strategy changes as the product market and competitors change overtime. Most Product Life Cycle curves are portrayed as bell-shaped. This curve is typically divided into four stages: introduction. Growth, maturity and decline (Wassen, 1978). A product has a Life cycle is to assert four things. Products have a limited Life; Product sales pass through distinct stages, each posing different challenges, opportunities and problems to the seller; profits rise and fall at different stages of the PLC; and products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage of their life cycle. (Kotler, 2000). According to Johansson (1997) in the typical marketing illustration, the product Life Cycle follows as S curve, with the growth period corresponding to where the S has its steepest ascent. This is when a new product is often introduced in foreign markets to capture first mover advantages. The PLC is a conceptual tool which provides a means of describing the sales patterns of products be they goods or service products, over their time in the market (Meldrum and Mc Donald, 1995). Researchers have identified from six to seventeen different PLC patterns. Three common alternative patterns of PLC are a growth – slump maturity pattern often characteristic of small kitchen appliances, the cycle – recycle pattern describes the sales of new drugs and the scalloped pattern especially for new product characteristics, uses or users. The PLC concept can be used to analyze a product category, a product form a product or a brand (William, 1967)

The PLC concept is best used to interpret product and market dynamics. As a planning tool the PLC concept help managers characterize the main marketing challenges in each stage of a product's life and develop major alternative marketing strategies (Kotler, 2000) Wasson (1978) believes that fashions end because they represent a purchase compromise and consumers start looking for missing attributes. In Launching new products a company can pursue one of four strategies – Rapid Skimming, slow skimming Rapid penetration and slow penetration. In the growth stage a rapid climb in sales could be observed. 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. The maturity stage normally lasts longer than the previous stages and poses formidable challenges to marketing management. The maturity stage divides into three phases growth, stable, and decaying maturity. In this stage some companies abandon weaker products and on new products.

Finally the decline might be slow as in the case of oatmeal; or rapid as in the case of the Edsel automobile. Sales may plunge in zero or they may petrify at a low level. Unfortunately most companies have not developed a well thought out policy for handling their aging products, (Alexander, 1964). Smith.(1994) suggests the life of your product or service changes as markets change, and customers‟ needs change over time, or new alternatives come on to the market meeting customer needs. It also suggests that any given product or service is likely to proceed through a number of stages in its life from birth to death. According to Dwyer and Tanner (1999)

products have been likened to living organisms. They are introduced to the market or have a birth. Then they grow (n sales) mature and at some point die out. This cycle of development, introduction, growth maturity and decline in sales is called the PLC.

PRODUCT LIFE CYCLE MODEL DESCRIPTION

The product's life cycle - period usually consists of five major steps or phases: Product development, Product introduction, Product growth, Product maturity and finally Product decline. These phases exist and are applicable to all products or services from a certain make of automobile to a multimillion-dollar lithography tool to a one-cent capacitor. These phases can be split up into smaller ones depending on the product and must be considered when a new product is to be introduced into a market since they dictate the product's sales performance.

Fig. 1: Product Life Cycle Graph

The concept also applies to services, although the shape may be markedly different. It can also apply to product categories and the market as a whole. It should be noted that the product life cycle is not necessarily a good 'predictor' of product behavior. Rather it can aid the marketer in understanding the market. For example, a product may have gone through a period of rapid growth and sales may have begun to level off. This does not necessarily mean that the product is maturing; it could just be a temporary slowdown that culminates in the product sales beginning to grow rapidly. With living beings it is possible to have a very shrewd idea of where they are in their life span, how long they are likely to live and consequently the sort of issues that are going to occur at any given time, it is more difficult to gain this level of understanding with products.
The following chart gives an indication of how sales will vary as a product goes through the various stages of its lifecycle.

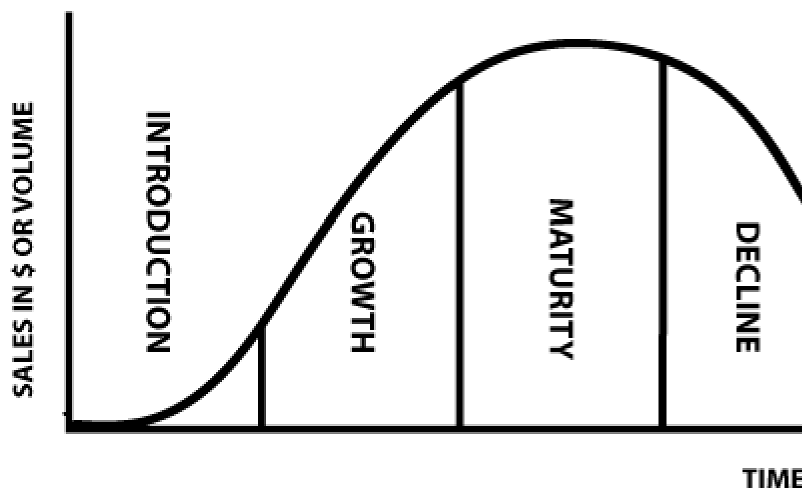


Figure 1: The product lifecycle

Introduction

It takes time of a new product to begin selling in volume. There may be manufacturing or logistics issues to contend with. The marketplace may be unfamiliar with the product and creating awareness takes time. Consequently product sales show a slow growth during the introduction phase. The FMCG adjust price, place (where the product is sold) and promotion to meet his marketing objectives. For example, in markets that are large with high potential competition it would make sense to invest heavily in promotion and to start with low prices. This strategy would also apply for a product for which production cost would decline quickly with economies of scale. Using this strategy, the FMCG penetrates quickly before competitors has a chance to introduce competing products.

Growth

The growth space is characterized by a rapid increase in sales volume. This is created by increased product demand. The FMCG and logistics issues are likely resolved and the market is far more aware of the product. Since economies of scale have started to take effect the marketer should be able to increase promotional activities. At the same time competition will begin to stiffen and so the marketer should make necessary adjustments to the 4 Ps of marketing. For example, it may be appropriate to tweak the products by adding new features. In this way the competition may be fended off. It may also make sense to reduce prices a little to bring in more price sensitive consumers.

Maturity

The maturity phase is characterized by sales volumes leveling off. At this point competition is strong and margins may begin to suffer. Signs of getting to this stage are that competitors may start advertising more strongly or using other promotional means to increase sales.

Decline

Finally product sales begin to decrease and it is at this point that some serious marketing decisions need to be made. It may be possible to extend the life of a product by changing some of its product attributes, repositioning it or by packaging it with other products. On the other hand it may make sense to delete the product from your portfolio.

Product portfolio management

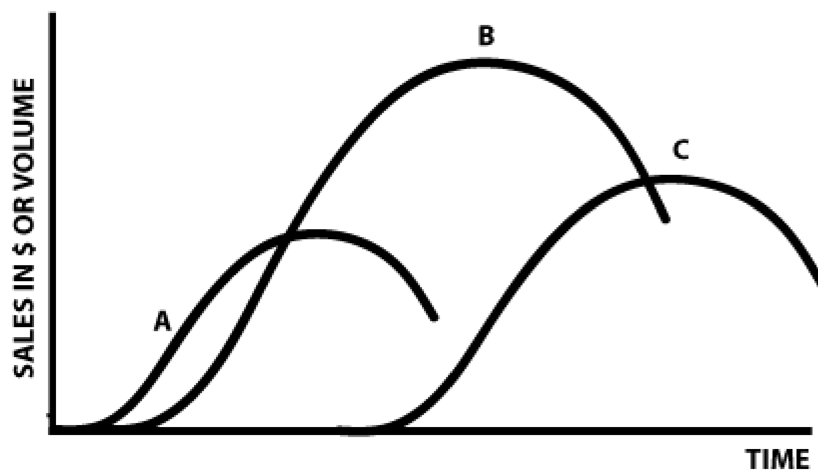


Figure 2: Simple product portfolio for products A, B and C

The idea behind product portfolio management is that, inevitably, products will eventually reach maturity and decline. Although it may be possible to extend their lives and some products have an extremely long product life cycle, it makes sense to manage a program of continually introducing new products. In this way, as some product revenues level off or decline, other product revenues increase. This is illustrated in figure 2.

PRODUCT DEVELOPMENT PHASE

The FMCG Product development phase begins when a company finds and develops a new product idea. This involves translating various pieces of information and incorporating them into a new product. A product is usually undergoing several changes involving a lot of money and time during development, before it is exposed to target customers via test markets. Those products that survive the test market are then introduced into a real marketplace and the introduction phase of the product begins. During the product development phase, sales are zero and revenues are negative. It is the time of spending with absolute no return.

INTRODUCTION PHASE

The introduction phase of a product the FMCG includes the product launch with its requirements to getting it launch in such a way so that it will have maximum impact at the moment of sale. A good example of such a launch is the launch of "Windows XP" by Microsoft Corporation. This period can be described as a money sinkhole compared to the maturity phase of a product. Large expenditure on promotion and advertising is common, and quick but costly service requirements are introduced. The FMCG must be prepared to spend a lot of money and get only a small proportion of that back. In this phase distribution arrangements of FMCG are introduced. Having the product in every counter is very important and is regarded as an impossible challenge. Some companies avoid this stress by hiring external contractors or outsourcing the entire distribution arrangement. This has the benefit of testing an important marketing tool such as outsourcing.
Pricing is something else for a company to consider during this phase. Product pricing usually follows one or two well structured strategies. Early customers will pay a lot for something new

and this will help a bit to minimize that sinkhole that was mentioned earlier. Later the pricing policy should be more aggressive so that the product can become competitive. Another strategy is that of a pre-set price believed to be the right one to maximize sales. This however demands a very good knowledge of the market and of what a customer is willing to pay for a newly introduced product. A successful product introduction phase may also result from actions taken by the company prior to the introduction of the product to the market. These actions are included in the formulation of the marketing strategy. This is accomplished during product development by the use of market research. Customer requirements on design, pricing, servicing and packaging are invaluable to the formation of a product design. A customer can tell a company what features of the product are appealing and what are the characteristics that should not appear on the product. He will describe the ways of how the product will become handy and useful. So in this way a company will know before its product is introduced to a market what to expect from the customers and competitors. A marketing mix may also help in terms of defining the targeted audience during promotion and advertising of the product in the introduction phase.

GROWTH PHASE

The growth phase the FMCG offers the satisfaction of seeing the product take-off in the marketplace. This is the appropriate timing to focus on increasing the market share. If the product has been introduced first into the market, (introduction into a "virgin" market or into an existing market) then it is in a position to gain market share relatively easily. A new growing market alerts the competition's attention. The company must show all the products offerings and try to differentiate them from the competitor's ones. A frequent modification process of the product is an effective policy to discourage competitors from gaining market share by copying or offering similar products. Other barriers are licenses and copyrights, product complexity and low availability of product components. Promotion and advertising continues, but not in the extent that was in the introductory phase and it is oriented to the task of market leadership and not in raising product awareness. A good practice is the use of external promotional contractors. This period is the time to develop efficiencies and improve product availability and service. Cost efficiency and time-to-market and pricing and discount policy are major factors in gaining customer confidence. Good coverage in all marketplaces is worthwhile goal throughout the growth phase. Managing the growth stage is essential. Companies sometimes are consuming much more effort into the production process, overestimating their market position. Accurate estimations in forecasting customer needs will provide essential input into production planning process. It is pointless to increase customer expectations and product demand without having arranged for relative production capacity. A company must not make the mistake of over committing. This will result into losing customers not finding the product "on the self".

MATURITY PHASE

When the market becomes saturated with variations of the basic product, and all competitors are represented in terms of an alternative product, the maturity phase arrives. In this phase market share growth is at the expense of someone else's business, rather than the growth of the market itself. This period is the period of the highest returns from the product. A company that has achieved its market share goal enjoys the most profitable period, while a company that falls

behind its market share goal, must reconsider its marketing positioning into the marketplace. During this period new brands are introduced even when they compete with the company's existing product and model changes are more frequent (product, brand, and model). This is the time to extend the product's life.
Pricing and discount policies are often changed in relation to the competition policies i.e. pricing moves up and down accordingly with the competitors' one and sales and coupons are introduced in the case of consumer products. Promotion and advertising relocates from the scope of getting new customers, to the scope of product differentiation in terms of quality and reliability. The battle of distribution continues using multi distribution channels. A successful product maturity phase is extended beyond anyone's timely expectations. A good example of this is "Tide" washing powder, which has grown old, and it is still growing. The decision for withdrawing a product seems to be a complex task and there a lot of issues to be resolved before with decide to move it out of the market. Dilemmas such as maintenance, spare part availability, service competitions reaction in filling the market gap are some issues that increase the complexity of the decision process to withdraw a product from the market. Often companies retain a high price policy for the declining products that increase the profit margin and gradually discourage the "few" loyal remaining customers from buying it. Such an example is telegraph submission over facsimile or email. Dr. M. Avlonitis from the Economic University of Athens has developed a methodology, rather complex one that takes under consideration all the attributes and the subsequences of product withdrawal process.
Sometimes it is difficult for a company to conceptualize the decline signals of a product. Usually a product decline is accompanied with a decline of market sales. Its recognition is sometimes hard to be realized, since marketing departments are usually too optimistic due to big product success coming from the maturity phase. This is the time to start withdrawing variations of the product from the market that are weak in their market position. This must be done carefully since it is not often apparent which product variation brings in the revenues. The prices must be kept competitive and promotion should be pulled back at a level that will make the product presence visible and at the same time retain the "loyal" customer. Distribution is narrowed. The basic channel is should be kept efficient but alternative channels should be abandoned. For an example, a 0800 telephone line with shipment by a reliable delivery company, paid by the customer is worth keeping.

ANALYSIS OF PRODUCT LIFE CYCLE MODEL

There are some major product life cycle management techniques that can be used to optimize a product's revenues in respect to its position into a market and its life cycle. These techniques are mainly marketing or management strategies that are used by most companies worldwide and include the know-how of product upgrade, replacement and termination. To comprehend these strategies one must first make a theoretical analysis of the model of product life cycle. In the mid 70's the model of product life cycle described in "Part 1", was under heavy criticism by numerous authors. The reasons behind this criticism are described below:

a. The shift changes in the demand of a product along a period of time makes the distinction of the product life cycle phase very difficult, the duration of those almost impossible to predict and the level of sales of the product somewhat in the realm of the imagination.
b. There are many products that do not follow the usual shape of the product life cycle graph as shown in fig. 1.
c. The product life cycle does not entirely depend on time as shown in fig. 1. It also depends on

other parameters such as management policy, company strategic decisions and market trends. These parameters are difficult to be pinpointed and so are not included in the product life cycle as described in "Part 1".

The model of product life cycle also depends on the particular product. There would be different models and so different marketing approaches. There are basically three different types of products: a product class (such as cars), a product form (such as a station wagon, coupe, family car etc of a particular industry) and a product brand of that particular industry (such as Ford Escort). The life cycle of the product class reflects changes in market trend and lasts longer than the life cycle of the product form or brand. In the other hand the life cycle of a product form or brand reflects the competitiveness of a company (i.e. sales, profits) and therefore follows more closely the product life cycle model.

Nevertheless, a product manager must know how to recognize which phase of its life cycle is a product, regardless of the problems in the model discussed above. To do that a good method is the one, suggested by Donald Clifford in 1965, which follows.

- Collection of information about the product's behavior over at least a period of 3 – 5 years (information will include price, units sold, profit margins, return of investment – ROI, market share and value).
- Analysis of competitor short-term strategies (analysis of new products emerging into the market and competitor announced plans about production increase, plant upgrade and product promotion).
- Analysis of number of competitors in respect of market share.
- Collection of information of the life cycle of similar products that will help to estimate the life cycle of a new product.
- Estimation of sales volume for 3 – 5 years from product launch.
- Estimation of the total costs compared to the total sales for 3 – 5 years after product launch (development, production, promotion costs). The estimate should be in the range of 4:1 in the beginning to 7:1 at the stage where the product reaches maturity.

Strategies that are applied as soon as the phase of product life cycle is recognized are given in the table below.

Table 1: Strategies of each product life cycle phase of The FMCG

	Development Phase	**Introduction Phase**	**Growth Phase**	**Maturity Phase**	**Decline Phase**
Strategic Goal	Makes product known and establish a test period	Acquires a strong market position	Maintains market position and build on it	Defends market position from competitors and improve products	"Milks" all remaining profits from products
Competition	Almost not there	Acquires a strong market position	Maintains market position and build on it	Establishment of competitive environment	Some competitors are already withdrawing from market
Product	Limited number of	Introduction of product	Improvement – upgrade of	Price decrease	Variations and models that

	variations	variations and models	product		are not profitable are withdrawn
Price Goal	High sales to middle men	Aggressive price policy (decrease) for sales increase	Re-estimation of price policy	Defensive price policy	Maintain price level for small profit
Promotion Goal	Creation of public – market product awareness	Reinforcement of product awareness and preference	Reinforcement of middle men	Maintain loyal to middle men	Gradual Decrease
Distribution Goal	Exclusive and selective distribution through certain distribution channels and creation of high profit margins for middle men	General and reinforced distribution through all distribution channels available	General and reinforced distribution with good supply to the middle men but with low margins of profit for them	General and reinforced distribution with good supply to the middle men but with low margins of profit for them	Withdrawal from most channels of distribution except those used in the development phase

PRODUCT LIFE CYCLE TECHNIQUE EXAMPLE: PRODUCT CANNIBALISM

Product cannibalization occurs when a company decides to replace an existing product and introduce a new one in its place, regardless of its position in the market (i.e. the product's life cycle phase does not come into account). This is due to newly introduced technologies and it is most common in high tech companies. As all things in life there is negative and positive cannibalization. In the normal case of cannibalization, an improved version of a product replaces an existing product as the existing product reaches its sales peak in the market. The new product is sold at a high price to sustain the sales, as the old product approaches the end of its life cycle. Nevertheless there are times that companies have introduced a new version of a product, when the existing product is only start to grow. In this way the company sustains peak sales all the time and does not wait for the existing product to enter its maturity phase. The trick in cannibalization is to know when and why to implement it, since bad, late or early cannibalization can lead to bad results for company sales.

UNFAVORABLE CANNIBALIZATION

Cannibalization should be approached cautiously when there are hints that it may have an unfavorable economic effect to the company, such as lower sales and profits, higher technical skills and great retooling. The causes of such economic problems are given bellow.

- The new product contributes less to profit than the old one: When the new product is sold at a lower price, with a resulting lower profit than the old one, then it does not sufficiently increase the company's market share or market size.

- The economics of the new product might not be favorable: Technology changes can force a product to be cannibalized by a completely new one. But in some cases the loss of profits due to the cannibalization is too great. For example a company that produced ready business forms in paper was forced to change into electronic forms for use in personal computers. Although the resulting software was a success and yield great profits, the sales of the paper forms declined so fast that the combined profit from both products, compared to the profits if the company did not cannibalize the original product showed a great loss in profits. (See table bellow)

Table 2: Comparison of revenues - profits

"Software" Revenue	"Software" Profit	Lost "Forms" Revenue	Lost "Forms" Profit	Change in Profit
$10	$5	$15	$10	-$5

Source: McGrath M.

- The new product requires significant retooling: When a new product requires a different manufacturing process, profit is lower due to the investment in that process and due to the write-offs linked to retooling the old manufacturing process.
- The new product has greater risks: The new product may be profitable but it may have greater risks than the old one. A company cannot cannibalize its market share using a failed or failing product. This can happen in high-tech companies that do not understand enough of a new technology so that to turn it into a successful and working product. As a result a unreliable product emerges and replaces a reliable one, that can increase service costs and as a result decrease expected profits.

OFFENSIVE CANNIBALIZATION STRATEGIES

Cannibalization favors the attacker and always hurts the market leader. For companies that are trying to gain market share or establish themselves into a market, cannibalization is the way to do it. Also cannibalization is a good way to defend market share or size. A usual practice is the market leader to wait and do not cannibalize a product unless it has to. It is thought that a company should acquire and develop a new technology that will produce a newer and better product than an existing one and then wait. Then as competitor's surface and attack market share, cannibalization of a product is ripe. Then and only then quick introduction of a new product into the market will deter competition, increase profits and keep market share. But this strategy does not always work since delays will allow the competition to grab a substantial piece of the market before the market leader can react.

DEFENSIVE CANNIBALIZATION STRATEGIES

Controlled cannibalization can be a good way to repel attackers as deforesting can repel fire. A market leader has many defensive cannibalization strategies that are discussed bellow.

- Cannibalize before competitors do: Cannibalization of a company's product(s) before a

competitor does, is a defensive strategy to keep the competitor of being successful. Timing is the key in this strategy. Do it too soon and profits will drop, do it to late and market share is gone.

- Introduction of cannibalization as a means of keeping technology edge over competition: A good strategy for the FMCG is to cannibalize its products as competitors start to catch up in terms of technology advancements. (For example "Intel Corporation" cannibalized its 8088 processor in favor of the 80286 after 2 ½ years, the 80286 in favor of the 386 after 3 years, the 386 in favor of the 486 after 4 years, the 486 in favor with the Pentium after another 4 ½ and so on). So the market leader dictates the pace and length of a product's life cycle. (In the case on Intel the replacement of 486 to Pentium took so long because competitors had not been able to catch up). Management of cannibalization rate through pricing: When cannibalization of a product is decided, the rate at which this will happen depends on pricing. The price of the new product should be at a level that encourages a particular mix of sales of the old and new product. If the price of the new product is lower than the price of the old then cannibalization rate slows down. If the opposite happens then the cannibalization rate is increased. Higher prices in new products can reflect their superiority over the old ones.

Minimization of cannibalization by introducing of the new product to certain market segments: Some market segments are less vulnerable to cannibalization to others. This is because there is more or less to lose or gain for each of them. By choosing the right segments to perform the cannibalizations of a product a company can gain benefits without loses and acquire experience on product behavior.

Conclusion

Product management is a middle level management function that can be used to manage a products life cycle and enables a company to take all the decisions needed during each phase of a product's life cycle. The moment of introduction and of withdrawal of a product is defined by the use of product management by a Product Manager. A Product Manager exists for three basic reasons. For starters he manages the revenue, profits, forecasting, marketing and developing activities related to a product during its life cycle. Secondly, since to win a market requires deep understanding of the customer, he identifies unfulfilled customer needs and so he makes the decision for the development of certain products that match the customers and so the markets needs. Finally he provides directions to internal organization of the company since he can be the eyes and ears of the products path during its life cycle. To improve a product success during each of its phase of its life cycle (development - introduction – growth – maturity – decline), a product manager must uphold the following three fundamentals.

- **Understand how product management works**: When responsible for a given_new product, a product manager is required to know about the product, the market, the customers and the competitors, so that he can give directions that will lead to a successful product. He must be capable of managing the manufacturing line as well as the marketing of the product. When the product manager has no specific authority over those that are

involved in a new product, he needs to gather the resources required for the organization to meet product goals. He needs to know where to look and how to get the necessary expertise for the success of the product.

- **Maintain a product / market balance**: The product manager as the person that_will make a new product to work, needs to understand and have a strong grasp of the needs of the customer / market and therefore make the right decisions on market introduction, product life cycle and product cannibalization. To achieve the above he must balance the needs of the customers with the company's capabilities. Also he needs to balance product goals with company objectives. The way a product's success is measured depends on where the product is in its life cycle. So the product manager must understand the strategic company direction and translate that into product strategy and product life cycle position.

- **Consider product management as a discipline**: Managing a product must not_be taken as a part time job or function. It requires continuous monitoring and review. Having said that, it is not clear why many companies do not consider product management as a discipline. The answer lies in the fact that product management is not taught as engineering or accounting i.e. does not have formalized training.

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