Business review

Ten things you need to know about the product life cycle

Ian Marcousé provides a framework of key concepts for your marketing revision

1 Birth

The process of turning a new product idea into an actual, launched product.

Example: Tesla's Model 3 car was started in 2015, announced in 2016 and expected to hit the roads in early 2018.

Advantage: competence at this stage can be hugely valuable — it has always been a talent of Apple to turn a product launch into a news event.

Disadvantage: the birth of a product is a period of sustained negative cash flow. In the development period all cash flows are outflows, but this often continues for quite a while after the launch, until breakeven sales levels are exceeded.

2 Cash cow

Within the Boston matrix, this is a brand with a high share of a static or declining market. Its growth days are behind it, but it's currently hugely profitable, allowing it to be 'milked' of its huge positive cash flow to provide finance for rising stars and even problem children.

Example: the market for sports drinks is dominated by Lucozade, which holds over 50% share. But sales in 2015 were down by 1.5%, in line with the sports drink sector.

Advantage: having a cash cow is wonderful, allowing the company's capital requirements to be financed internally (i.e. your cash cow is your bank account).

Disadvantage: the only disadvantage would come from over-milking, i.e. risking damaging your cash cow. That would be a classic sign of short-term thinking.

3 Dog

Within the Boston matrix, a dog is suffering low market share in a declining market, and will be 'put to sleep' once its cash flows turn negative.

Example: Trident gum, launched in 2007 by Cadbury, but turning from rising star to dog all too quickly. Today its market share is less than 1% and the chewing gum market is (gently) declining.

Advantage: knowing it's a dog makes it easy to cut off cash support and manage a brand's path to the hospice and then the graveyard.

Disadvantage: nobody should be too quick to assume that a brand is finished. Cadbury buried Wispa in 2003 but brought it back in 2008 after customer pressure. But Trident is clearly dying (see Business Review, Vol. 23, No. 2, pp. 6–9).

4 Extension strategy

A medium-to-long-term plan for extending a product's profitable life span.

Example: Shredded Wheat was long marketed as a breakfast stomach-filler ('Bet you couldn't eat three'). When weight and health became customer priorities, the focus on-pack and in advertising was changed to 'good for your heart'.

Advantage: keeping a big-selling brand going is far less expensive and less risky than launching something new.

Disadvantage: there's a risk of laziness — tweaking the original as sales fall away instead of researching and developing what modern consumers really want.

5 Maturity

When a brand's sales start to stabilise towards the end of the growth stage of its life cycle.

Example: Werther's Original sweets took off when they were launched, but by 2009 sales had stabilised. In 2009 sales were £17.8 million. In 2015 they were £17.7 million. That's a long period of maturity.

Advantage: once you know your brand has reached its maturity stage, you know there's no real point in 'investing' more into the brand, because its growth phase is over. Only a successful extension strategy could change things.

Disadvantage: now growth is over, in some ways you need to do more to keep retailers thinking they must keep stocking you — so maturity could prove expensive.

6 Problem child

Within the Boston matrix, a problem child has a small share of a growing market sector.

Example: the 'free-from' sector of UK grocery sales is growing at 20% a year. It is one of few booming sectors. But Kerry Foods' Pure brand took just 1% of the sector and saw its sales decline slightly. So its positioning is right, but somehow it is failing to connect with customers.

Advantage: some companies put their best managers on problem child brands. As with Kerry Foods, there's huge potential gain in turning a problem child into a rising star.

Disadvantage: it could be argued that if a brand isn't catching on with consumers, there must be a reason. So it may be much harder to make a problem child a success than senior managers tend to think. Nestlé spent 6 years trying to make Double Cream chocolate a success in the UK, at a cost of many tens of millions. It became known among staff as a 'career-breaker'.

7 Product life cycle

The theory that all products go through similar stages: birth, growth, maturity and decline.

Example: manufactured cigarettes launched in the UK in 1871, peaked in 1971 and perhaps will have died out completely by 2071.

Advantage: in markets for 'hardware', maturity comes when 'everyone who wants one has one', so this is a clear indicator of when new technology/innovations are needed (hence Apple's annual launch of a new iPhone).

Disadvantage: life-cycle graphs can only be drawn with hindsight, so it can be argued that the theory has no real value for business decision makers.

8 Product portfolio

The full range of products and brands offered by a business.

Advantage: the wider the portfolio, the more highly diversified the business and therefore the less risky the revenue stream. In the year to August 2016 Mars suffered sales declines for its Galaxy and Snickers brands, compensated for by a whopping 17.6% jump in sales of M&Ms.

Disadvantage: an overly wide portfolio can overstretch marketing resources. Unilever set a trend in 2001 when it chose to stop or sell-off hundreds of brands to focus on its key 'powerbrands', including Magnum ice cream and Persil detergent.

9 Rising star

Within the Boston matrix, a brand or product that is enjoying high and rising market share in a growth sector.

Example: in the year to March 2016 sales of Monster rose by 11.5% within the energy drink sector, itself growing by 3%. Monster's share of the sector was 25%. It is a rising star.

Advantage: businesses crave jam today and jam and cream tomorrow. A rising star is likely to be making good profits currently, yet still has the potential to grow further before setting into the static life of a cash cow. So companies put plenty of cash behind rising stars.

Disadvantage: there's a slight risk of overdoing the support for a rising star. In the past some companies have taken too much cash from their cows, and built stars while allowing the cash cows to fade too early

10 Timing

The key to the product life cycle is: how long?

Examples: loom bands were a short-term fad; cigarettes will have a cycle of perhaps 200 years.

Advantage: a long life cycle gives scope for big long-term profits without pressure to make a lot in the short-term, e.g. Sony's Playstation 3 had an 8-year lifespan, which is very long in a high-tech market.

Disadvantage: some brands last generations — Maltesers have been around for 80 years — while others last for little more than a year. You don't know which it'll be until afterwards, i.e. with hindsight.

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