# Part I

# Product Development and Portfolio Analysis Tools

CHAPTER 1

# The Product Life Cycle

## LEARNING OBJECTIVES

*After examining this chapter, readers will have the ability to:*

- Recognize that all product offerings possess limited life spans, necessitating appropriate product succession planning efforts.
- Appreciate the value of the Product Life Cycle as a tool for product succession planning and related product management activities, including portfolio planning, strategy formulation, and forecasting.
- Identify the four stages of the Product Life Cycle and understand methods for strategically and tactically managing offerings during each of these stages.
- Utilize the Product Life Cycle in the nonprofit sector to effect enhanced marketing outcomes.

## INTRODUCTION

As with all living things, products, including those offered in the nonprofit sector, have finite life spans. There is no set life span, but in time all offerings will be replaced. Drivers of product obsolescence are numerous and vary depending on the nature of the given product offering. Technology certainly plays a role, as most any veteran librarian will well recall, having witnessed the decline of physical books, journals, and newspapers and the subsequent rise of electronic versions of the same. Imagine the community library that refused to adapt to the changing environment and revise its offerings accordingly.

Technological developments have affected colleges and universities as well, forcing them to realign their product portfolios to ensure survival, growth, and prosperity. Their age-old, core product offering of educational classes held in face-to-face settings is being challenged by classes offered in cyberspace, fueled by new online platforms that permit learning at a distance with virtually no encumbrances. Clearly, the modern age is taking some institutions out of their comfort zones, forcing them to enhance, upgrade, or produce altogether new offerings to please their target audiences.

Another common driver of product obsolescence is perhaps more finicky in that it simply pertains to changing customer preferences, desires, and expectations. A museum, for example, must be very cognizant of the fact that the latest, greatest exhibit likely will run its course and witness declining interest over time, necessitating an enhancement or replacement if patronage and financial support are to be retained. A public television or radio station, too, would need to ensure that it keeps its finger on the pulse of the consumer, as preferences can change quickly, which could potentially result in diminishing audiences and render the given nonprofit media company unviable.

Product obsolescence, regardless of its cause or particular time line, forces nonprofit executives to think about both today and tomorrow. They simply cannot afford to focus only on the current product offerings provided by their establishments. Instead, they also must actively seek to develop new products that will succeed those entering decline.

Not only do products possess limited life spans, but like their living counterparts, their life spans consist of a number of developmental stages, with each of these stages presenting its own unique array of opportunities and constraints. Indeed, products must be managed differently during the different stages of their life cycles, making it imperative for nonprofit executives to understand these stages and the appropriate strategies to be employed—a task facilitated by a model known as the Product Life Cycle. Illustrated in Figure 1-1, the Product Life Cycle consists of a vertical axis representing sales, a horizontal axis representing time, a curve illustrating sales growth in relation to time, and four stages of development: introduction, growth, maturity, and decline.

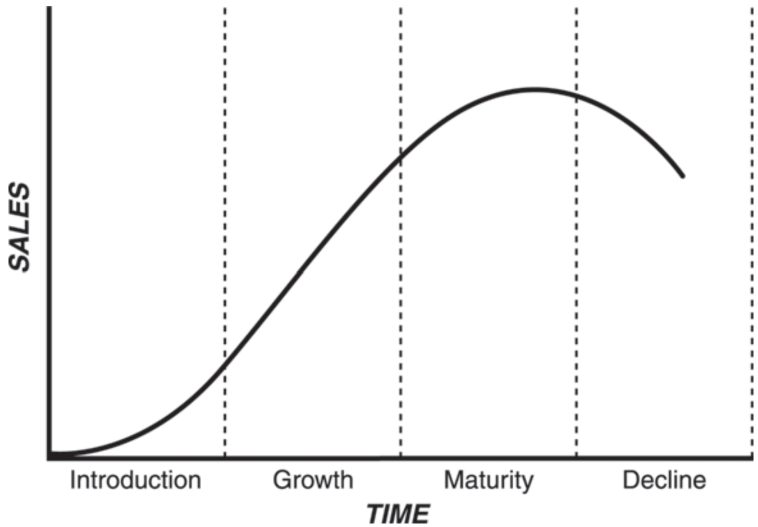


**FIGURE 1-1** The Product Life Cycle

## STAGE 1: INTRODUCTION

The introduction stage of the Product Life Cycle involves the initial presentation of a product in the market. During this stage, sales growth slowly begins to increase as the public gains awareness of newly introduced product offerings through promotional efforts. It is important to note that a "sale" would constitute any form of positive exchange (e.g., calls to a suicide prevention hotline, admissions at a charitable medical clinic, gate receipts at a zoo) depending on the nature of the nonprofit offering. Direct competitors in the market are few or nonexistent at this point. Here, nonprofit executives are primarily concerned with developing innovative promotional strategies that will increase product awareness in the market.

As an example, consider a suburban community that is experiencing rapid growth. The closest colleges are located miles away in the urban center of the region. A savvy college might decide to establish an outreach center in this burgeoning suburb for recruitment, classes, community events, and so on. Leading up to and following the grand opening of the outreach center, the college would do well to promote the importance of obtaining a college education, noting that it now can be obtained more conveniently than ever.

## STAGE 2: GROWTH

The growth stage of the Product Life Cycle is characterized by rapidly escalating sales, courtesy of increased product awareness. This rapid sales growth generates significant, positive attention (e.g., cash inflow, publicity, community praise), but it also attracts competitors to the market who seek to gain similar benefits. This effect necessitates that organizations leverage garnered resources and ply them back into these products to fend off new entrants. During this stage, nonprofit executives shift their attention from building product awareness to building brand awareness. In other words, they direct efforts toward promoting their own, specific version of the noted product offering, providing defenses against competitive threats.

Continuing with the college example, the specific institution that initially established an outreach center in this burgeoning suburb can rest assured that if it experiences success, the competing colleges in the region will follow it into this particular market. Once these newcomers enter this suburban community, the first-in-market college must take steps to defend itself against these competitors, promoting its brand as being superior to others by providing the best educational choice for area citizens.

## STAGE 3: MATURITY

During the maturity stage of the Product Life Cycle, sales growth levels off in what has now become an established market. Plateauing sales growth causes weaker competitors to exit the market, leaving their stronger counterparts to compete for market dominance. At this point, products are the most lucrative for their organizations. Because mature offerings are established in the market, it is not necessary to reinvest the entirety of resources that these products generate. Here, nonprofit executives seek to increase market share by further differentiating their products from competitive offerings.

Further extending the college example, as a mature market, this suburban community now features multiple colleges competing for students and other patrons. This once open market is now saturated. Competition reaches its fever pitch and, over time, the strong will emerge and dominate; the weak will retreat or hold diminished positions. Here, overt efforts must be taken to communicate to the public why degree offerings from College A are superior to those offered by Colleges B, C, and D.

Perhaps College A can tout that it possesses a higher level of accreditation, better value, more degree offerings, or some other unique feature that can be used to convince residents to look to it, rather than competitors, for educational wants and needs.

## STAGE 4: DECLINE

During the decline stage of the Product Life Cycle, sales growth rapidly decreases, as does the number of competitors in the marketplace. Falling consumer demand leads establishments to either eliminate these products or seek to extend the life spans of declining offerings through the discovery of new product uses or through product repositioning.

Wrapping up the college example, if the given suburb reaches its peak and the population shifts back to the central urban area or perhaps to a new suburban area, the college's outreach center would likely find itself with a smaller pool of potential prospects and witness declining enrollments. In such cases, the college might seek to withdraw from the community if the decline is severe enough. Alternatively, it could seek to alter its scope and mission in the community. If it had focused solely on graduate offerings, for example, perhaps it could add undergraduate offerings, or possibly even vocational and technical training, to its product mix in hopes of stemming declines.

## PRODUCT LIFE CYCLE VARIANTS

Although typically illustrated as an S-shaped curve, the appearance of the Product Life Cycle varies based on the marketplace experiences of product offerings. Figure 1-2 illustrates six curves that could potentially develop.

Figure 1-2A illustrates the life cycle of a product that witnessed a very lengthy ascent to maturity. This lengthy ascent possibly occurred because the public was not ready or willing to accept the new offering or perhaps because the entity had difficulties informing the public of the new product's existence. Any newly established nonprofit entity seeking to enter established markets with established competitors would likely face this type of life cycle scenario as it strives to develop a clientele base.

Figure 1-2B depicts the life cycle of a product that gained immediate acceptance followed by a period of enduring maturity. Such a curve would possibly develop upon the placement of a charitable medical clinic in

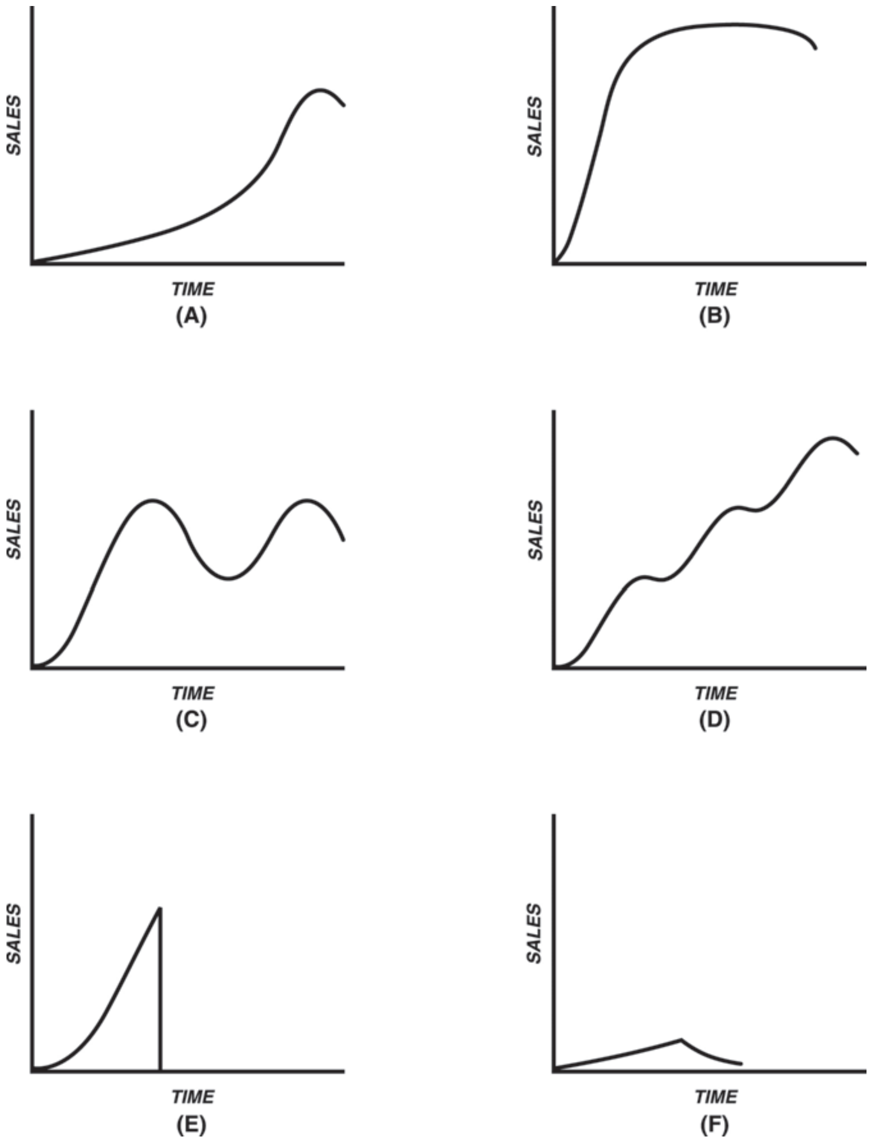


**FIGURE 1-2** Product Life Cycle Variants

a rural community previously unaddressed by medical practitioners. Such an endeavor would be immediately welcomed by residents, resulting in a better-served community, steadfast patronage for the clinic, and mission fulfillment.

Figure 1-2C depicts the life cycle of a product that entered maturity, declined, reentered maturity, and reentered decline. This cyclical pattern would be representative of, for example, a veterans support organization that experiences the ebb and flow of need from servicemen and servicewomen in tandem with transitions between peacetime and wartime.

Figure 1-2D illustrates the life cycle of a product that reentered the growth stage multiple times after reaching maturity. An example of such a product would be a zoological park that routinely, at the first sign of decline, took steps to bolster its exhibits and offerings, which generated new interest and attention, resulting in extended growth beyond its initial maturity stage.

Figure 1-2E illustrates the life cycle of a product that experienced a period of rapid growth followed by an immediate decline. This type of curve would be representative of, for example, a blood bank that was suddenly shut down due to safety violations. This curve would also be illustrative of a homeless shelter that was forced to close because of reduced support by volunteers and financial contributors.

Figure 1-2F illustrates the life cycle of a product that failed after its introduction into the market. This unfortunate life cycle could represent any of the multiple new nonprofit initiatives that are introduced into the market but fail to achieve commercial success.

These examples illustrate only a few of the many Product Life Cycle variants that could possibly develop. Obviously, there are no guarantees that products will move through any or all of the stages of development. Given the unpredictable nature of product and market dynamics, it stands to reason that Product Life Cycles cannot be predetermined.

## OPERATIONAL MATTERS

Given that all products have limited lives, nonprofit executives must actively assemble and manage product portfolios that are formulated to achieve long-term growth and prosperity. The Product Life Cycle assists nonprofit executives in this endeavor, serving as a useful portfolio-planning tool. Ideally, organizations will have products at all stages of the Product Life Cycle. By assembling balanced product portfolios, nonprofit executives position their organizations for consistent, enduring growth.

In addition to its strength as a portfolio-planning tool, the Product Life Cycle also serves as a guide for designing marketing strategies.

Because different developmental stages require different marketing actions, the Product Life Cycle provides nonprofit executives with a decision-making tool for formulating marketing strategy.

The Product Life Cycle can also be used as a forecasting tool where efforts are made to predict the Product Life Cycles of new and anticipated product offerings (Levitt, 1965). Even though Product Life Cycles cannot be predetermined, marketing strategy can be improved by formulating potential life cycle scenarios.

## SUMMARY

The Product Life Cycle provides nonprofit executives with an effective tool for portfolio planning, strategy formulation, and forecasting. It serves as a reminder of the limited life spans possessed by products and hence the necessity for product succession planning—an essential marketing task in an ever-changing world. The insights offered by the Product Life Cycle can greatly improve the marketing performance of nonprofit organizations.

## EXERCISES

1. Define and comprehensively discuss the Product Life Cycle and its four associated stages, providing an illustration of this important marketing tool. Direct appropriate attention to the Product Life Cycle's use in portfolio planning, strategy formulation, and forecasting. Share your thoughts regarding the tool's implications and uses in the nonprofit sector.
2. Contact a local nonprofit entity and arrange an informational interview with its top executive. Present the Product Life Cycle and request insights regarding the appearance of the particular curves for several of the entity's product offerings. Does the given nonprofit entity actively use the Product Life Cycle as a tool for portfolio planning, strategy formulation, and forecasting? What other tools does the organization employ for such endeavors? Report your findings in detail.

## REFERENCE

Levitt, T. (1965, November/December). Exploit the product life cycle. *Harvard Business Review*, *43*, 81–94.