Part One

Product Development & Portfolio Analysis Tools

CHAPTER 1

The Product Life Cycle

LEARNING OBJECTIVES

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

- Recognize that all healthcare products 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 products during each of these stages.
- Utilize the Product Life Cycle in the healthcare industry to effect enhanced marketing outcomes.

INTRODUCTION

As with all living things, products have finite life spans. This is particularly evident in the healthcare industry where continuous innovation and change have become commonplace. Regardless of the particular healthcare component examined—medical technologies, pharmaceutical products, surgical techniques and procedures, durable medical equipment manufacturing, service delivery systems, and so on—innovation is pervasive. Rapid innovation, while beneficial to society, drives existing products into obsolescence very quickly, creating obvious challenges—logistical, financial, and otherwise—for marketers who are dually charged with managing current product offerings while actively seeking 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. Products must be managed differently during the different stages of their life cycles, making it imperative for marketing managers 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. These stages of development are defined as follows.

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 begins to gain awareness of newly introduced product offerings through promotional efforts. Competitors are few or nonexistent at this point. Here, marketers are primarily concerned with developing innovative promotional strategies that will increase *product* awareness in the market.

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 large amounts of cash, but it also attracts competitors to the market. This necessitates that organizations reinvest the resulting cash windfalls back into these products to fend off new entrants. During this stage, marketers shift their attention from building *product* awareness to building *brand* awareness.

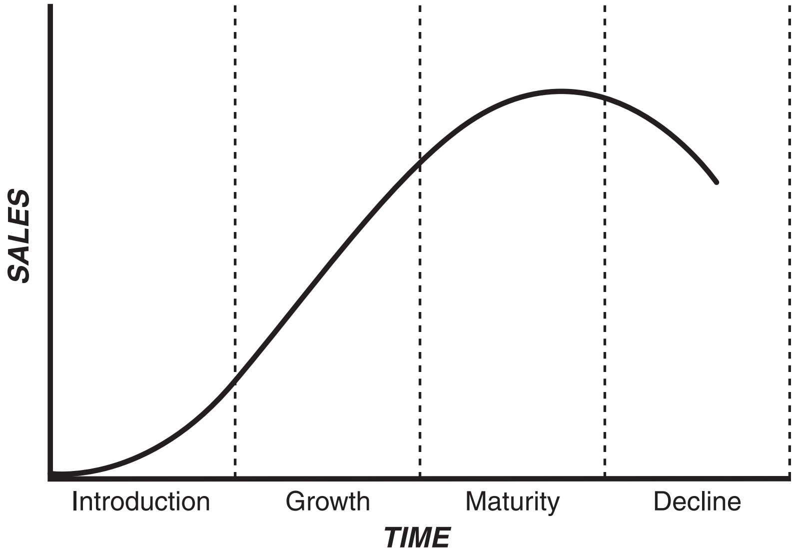

FIGURE 1-1 The Product Life Cycle

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 who intensely 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 cash that these products generate. Here, marketers seek to increase market share by further differentiating their products from competitive offerings.

STAGE 4: DECLINE

During the decline stage of the Product Life Cycle, sales growth rapidly decreases, as well as the number of competitors in the marketplace. Falling consumer demand leads marketers 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.

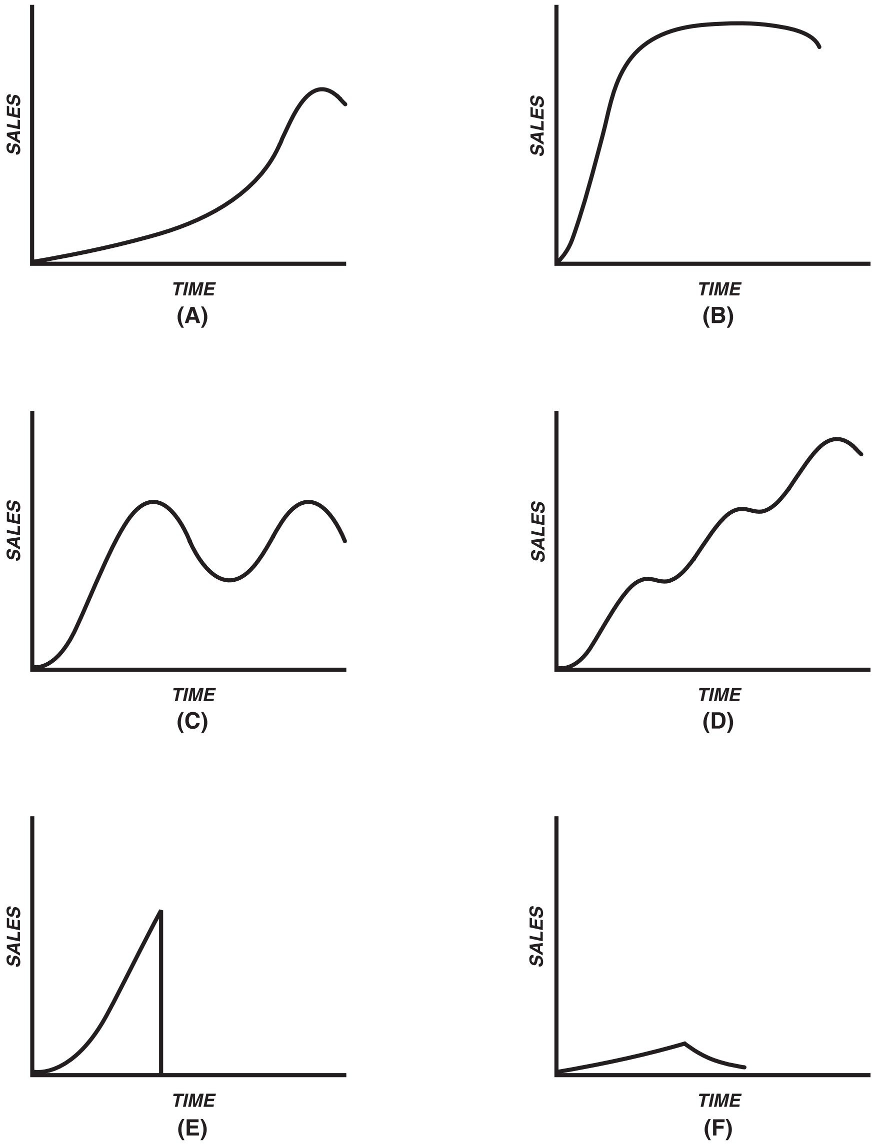

FIGURE 1-2 Product Life Cycle Variants

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, possibly because the public was not ready or willing to quickly accept the new offering or perhaps because the entity had difficulties informing the public of the new product's existence. Newly established medical clinics, pharmacies, dental offices, etc. seeking to enter established markets with established providers would likely face this type of life cycle scenario as they strive to develop a customer 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 discovery of a medical breakthrough that was immediately welcomed by customers, such as the discovery of a therapeutic intervention for a previously untreatable illness.

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 medical therapy that experienced provider and patient interest and disinterest over time.

Figure 1-2D illustrates the life cycle of a product that reentered the growth stage multiple times after reaching maturity. Such a curve would be representative of, for example, a pharmaceutical product that was found to be useful for purposes beyond its original scope, 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 pharmaceutical product that was suddenly pulled from the market due to newly discovered health concerns. This curve would also be illustrative of a home health agency that was forced to close because of reduced reimbursement rates.

Figure 1-2F illustrates the life cycle of a product that failed after its introduction into the market. This unfortunate life cycle could possibly represent any of the multiple new product offerings 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, marketers must actively assemble and manage product portfolios that are formulated to achieve long-term growth and prosperity. The Product Life Cycle assists marketers in this endeavor, serving as a useful portfolio planning tool.

Ideally, firms will have products at all stages of the Product Life Cycle. Established offerings provide excess amounts of cash that can be used to develop and grow new products that will ensure the future viability of organizations. By assembling balanced product portfolios, marketers 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 marketers with a decision-making tool for formulating marketing strategy.

The Product Life Cycle can also be used, as Theodore Levitt suggested in his classic article entitled "Exploit the Product Life Cycle," as a forecasting tool where marketers attempt to predict the Product Life Cycles of new and anticipated product offerings. 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 marketers 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 the innovation-rich healthcare marketplace. The insights offered by the Product Life Cycle can greatly improve the marketing performance of organizations.

EXERCISES

1. Define and comprehensively discuss the Product Life Cycle and its four associated stages, providing an illustration of this important marketing tool. Ensure that appropriate attention is directed toward 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 healthcare industry.

2. Contact a local healthcare entity (e.g., hospital, retail pharmacy, medical clinic) and arrange an informational interview with a marketing 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 marketing department actively use the Product Life Cycle as a tool for portfolio planning, strategy formulation, and forecasting? What other tools does the marketing executive employ for such endeavors? Report your findings in detail.

REFERENCE

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