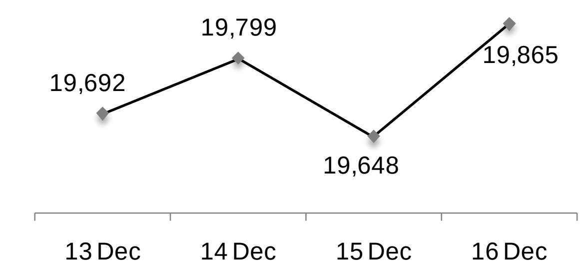
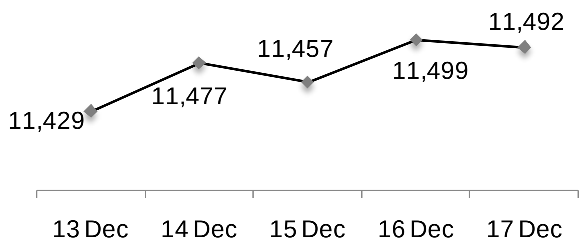
Business This Week – India

20 December 2010

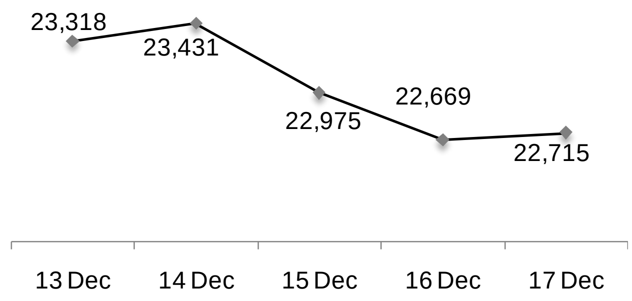
BSE Sensex



Dow Jones

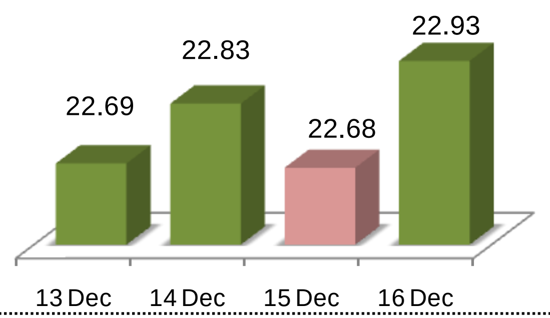


Hang Seng



BSE: 19,865		FTSE: 5.872		Nikkei: 10,304		Dow Jones: 11,492		S&P: 1,244		NASDAQ: 2,643		Hang Sang: 22,1715	
356	1.82%	59	1.01%	92	0.90%	82	0.72%	4	0.28%	5	0.21%	(448)	(1.93%)

BSE Sensex P/E



Currency

	12 Dec'10	19 Dec'10
USD	46.2352	46.5700
EUR	61.1770	61.4426
GBP	73.0849	72.3749
JPY	0.5511	0.5549

Sectoral Indices in the week

Sector	% Change
IT	5.04%
TECk	4.35%
Metal	3.93%
Conusmer Durables	2.41%
Oil & Gas	2.39%

BSE Sensex

Indian markets wrapped the short and sweet week on a buoyant note due to positive economic news mainly from the domestic space. The Reserve Bank of India`s (RBI) decision to keep key rates unchanged on the last trading day of the week boosted investor sentiments. The 30 share index, Sensex rose 356 points, or 1.82%, to 19,865 in the week ended 16 Dec'10.

FIIs Activity

FIIs were the net sellers in the week selling equities worth INR 6,586M. So far Dec'10 seems to be vacation time for FIIs as they have sold (net sales) equities worth INR 40B in the months. Just 3 out of 10 trading days, FIIs have ended in green in Dec'10.

FIIs

Crude Oil

Crude oil prices closed US futures higher Friday, supported by optimism regarding the economy, after two major indicators showed that the recovery of the world's largest economy is gaining momentum, which covered the concerns regarding the problems of debt in the euro area. Benchmark crude for Jan'11 settled at $88.02 a barrel, up by 0.26% in the week, on the NYMEx.

Gold

Gold rose unexpectedly in late trade on Friday, paring most losses for the week, after the American dollar came off its intraday high levels which prompted buyers of physical gold to take advantage of a recent pullback. However, the precious metal ended negative for the 2nd consecutive week to end at $1375.10 an ounce. It lost almost $5 in the week as the US jobless claims came lower and industrial activity came up at 24.3% signaling economic recovery.

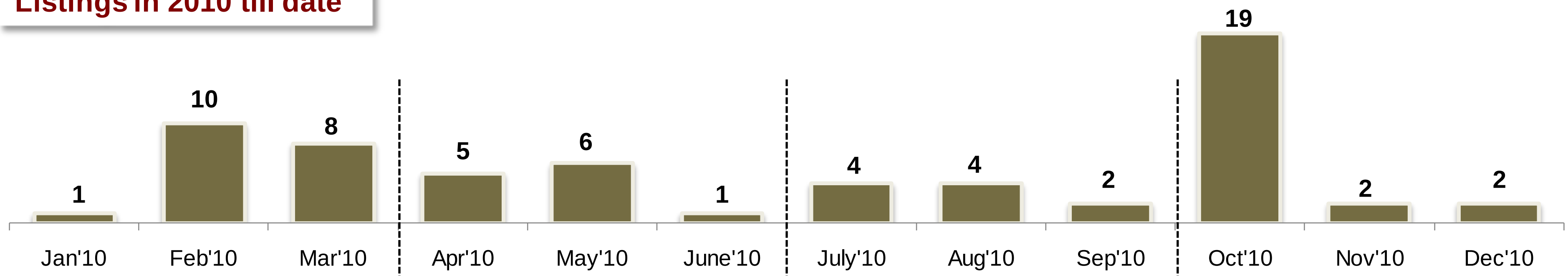
Latest IPO Listings

Listing Date	Company Name	IPO Price (₹)	Listing Price (₹)	Closing on 16 Dec (₹)	Change on IPO Price
15 Dec'10	MOIL	375.00	551.00	461.95	23.2%
06 Dec'10	RPP Infra Projects	75.00	75.00	59.80	(20.3%)

DRHPs Filed

Company	Date of Filling
Sabari Inn Limited	16 Dec'10
Shree Hanuman Sugar	15 Dec'10
VRL Logistics	15 Dec'10
Reid and Taylor	13 Dec'10

Listings in 2010 till date



CY Q1 March'10 :– 19	CY Q2 June'10 :– 12	CY Q3 September'10 :– 10	CY Q4 December'10 :– 22*
CY Q1 March'09 :– 1	CY Q2 June'09 :– 1	CY Q3 September'09:– 8	CY Q4 Dec'09:– 7

The Product Life Cycle: Six Decades of Controversy

Introduction

The past five decades (1950-2010) have witnessed an explosion in the number of manufactured fast moving consumer goods (FMCG). This is in consonance with global population growth, as products are meant to meet the needs and wants of this ever increasing generation. Accordingly, this has sparked up a sharp increase in competition in the sector among these products and their organisations.

Market research findings suggest that forty five percent (45%) of new products fail in returning adequate sales revenue and profitability. Hence, the need for proper management (Kotler, 2008), as this will not only help products survive but thrive. Consequently, a theoretical model for product management with practical applications became essential (Baker & Hart, 1999). It follows that the field of marketing was in dire need to prove its worth in times of rising and compounding economic changes.

Ejindu Morah Iwelu

As a result the product life cycle (PLC) model was developed in the 1950's (Dean, 1950) to proffer solution to the dilemma of most FMCG. The PLC theory has been a subject of so much controversy as various authors in the field of marketing have varying views on its validity and applicability (Lambin, 1997). The solution to products marketing challenges becomes expedient as the cost of product failure could prove fatal to any marketing organisation, hence the need for extensive research on the theory.

Attacks and responses on the theory

The product life cycle (PLC) theory in marketing describes the stages products progress throughout their lives and is a biological analogy of products birth, growth and death. The stages products transit include; introduction, growth, maturity and decline. PLC is a well known metaphor for describing and explaining market dynamics (Day,1981).

The proponents of the PLC theory consider it a useful tool for forecasting, planning and control, while its critics argue that the variations in real product histories causes it to be relatively useless (Dhalla & Yuspeh, 1976). Hence, academics are heavily divided on the benefits of employing the concept in our modern marketing practice. Levitt (1965) posits that sales and profits generated will alter from the introduction to decline stages of the life cycle; hence marketers need to maximally exploit the theory.

For decades the controversy surrounding the usefulness and better still the efficacy of the PLC theory rages on. Dhalla & Yuspeh (1976), challenge the very existence of the concept and describes its process as ''curve fitting approach ''and sterile taxonomy''. This was further compounded as Wood (1990) opine that the concept has outlived its useful life span and calls it the PLC myopia. These attacks are based on the difficulties , they suggest in identifying the stage of a product lack of definition of the ''life'' we mean, differences in the observed shapes of the PLC and understanding of the duration of each stage.

Dhalla & Yuspeh (1976) in their article "Forget the product life cycle concept" recommend the implementation of marketing activities without the consideration of the PLC concept. Their argument centres on nurturing of old products to generate higher sales and profitability as against the proliferation of new products.

These critics base their arguments on the following plc issues:

- The difficulties in identifying the stage of a product on the life cycle
- Limitations in its use as a forecasting model

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These critics base their arguments on the following plc issues:

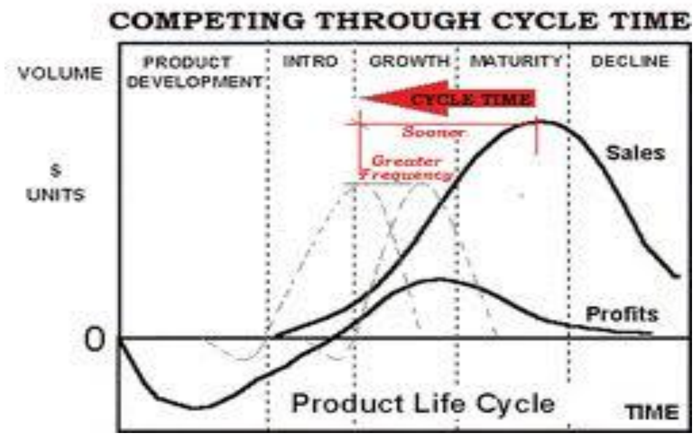
- The difficulties in identifying the stage of a product on the life cycle
- Limitations in its use as a forecasting model
- Complications of the empirical research
- Lack of proper definition of the ''life'' in question.
- The effective use of the theory, given all known knowledge.
- Evidence of companies who have used the tool but made costly errors and squandered opportunities
- The phases in the life cycle are not clearly definable.

This is rather a biased judgement with the intention of destroying a marketing tool that could be pivotal to the success of a products and organisations. Kotler et al (2009) disagree with the authors as the assert that new product development (NPD) remains a veritable tool for guaranteeing the future success of any organisation.

Various researchers including Cox (1965), Kotler (2008), Nadeau & Casselman (2008), Harrell & Taylor (1981) share this view. All disagree with submissions of Dhalla & Yuspeh and Wood. Harrell & Taylor (1981) argue that the PLC remains the basic fuel which supplies the lifeblood of the industry. Kotler (1988) supports this as he opines that the theory possesses a strong forecasting and strategic planning and control ability.

Wood (1990) laments that the use of the PLC theory as a marketing tool inevitably encourages an unhealthy myopia and brand / product focus.

Based on the research on ethical drugs , Cox (1967) contends that the identification and estimation of a products life could be well employed in planning the introduction of new products and the withdrawal of old non-performing ones. This view is supported by Bauer & Fischer (2000) as they assert that the PLC is one of the oldest concepts employed in analysing and solving business problems. The concept has a great heuristic power in almost all corporate functions. The works of Golder & Tellis (1998), Urban & Hauser (1993),Nadeau & Casselman (2008) support this argument credence to this.



The concept is limited in its assumption concerning sales life cycle of various products (domestically and internationally).Although it surfers from lack of generalisation, it is however still an enduring framework in business and product management (Bauer & Fischer, 2000). The adoption of the concept has grouped product sales development into four stages of introduction, growth, maturity and decline. This is very logical, as it gives organisation managers the needed tool for better product management (Baker & Hart, 1999). Empirically, the patterns are being

The Product Life Cycle: Six Decades of Controversy

proved by research findings in various product categories by Harrel & Taylor (1981), Polli & Cook (1969), Thorelli & Burnnette (1981), Nadeau & Casselman (2008), Wong & Ellis (2007). Therefore, it may be correct to state that the PLC is justified for its popularity and not just a theoretical construct.

The empirical generalisation of the theory has been criticised by several writers. The research of Golder & Tellis (1998) has hitherto addressed the issue of metrics trailing the concept. Cox (1967), notes that the identification of the stages of a product on the PLC accords it the power of a strong forecasting tool. This is relevant as it provides the basis for the development of market-development models which facilitates the adoption of a useful system of good product planning and control (Lambin, 1999). The need to allocate economic and company resources optimally in a multi-product company playing in different market segments lends credence to the use of the PLC.

Most attacks on the concept have been on the non-differentiation of product classes from product forms. The research by Polli & Cook (1969) on food, health and personal care categories has however proffered a solution. As sales histories employed in their research were for both product forms and product classes, they found that the PLC model would be a better descriptor of sales behaviour of health and personal care products than food items. It is key to note that the theory applies best where sales of the products are not affected significantly by variations in supply situations.

The PLC helps companies in answering strategic question of what products should require more investments (funding) and what areas of our business should we enhance (Harrell &Taylor, 1981). Accordingly, it provides evaluations of opportunities and risks, research directions for the organisations .Kotler et al, (2009) support this line of reasoning as they submit that the model is essential in the crafting of marketing strategies for products. Knowledge of the stage of a product on the PLC, its sales behaviour and environment give an insight into the necessary business actions managers could employ.

Lancaster et al, (2002) contend that the PLC is particularly a useful tool for planning beyond the life of an existing product as well as eliciting the much needed predictable sales pattern of products. It follows that the use of this tool ensures the consistent generation of profit by companies, as products launched at different times give the needed sales and profitability security. Hence, new products tend to start yielding profits as older ones go into the decline stage (Osuagwu, 2006) thus; the necessary financial resources are derived from the sales and profitability of older products. Baker & Hart, (1999), Nadeau & Casselmam (2008), Lancaster et al (2002) and Doyle & Stern (2006) posit that the concept is more useful in helping to guide organisational managers in the use of appropriate mix elements.

Finally, even with these criticisms and flaws, the PLC has, is and will continually prove to be a useful framework in the field of marketing and consequently need further extensions if used with other marketing tools.

About the Author

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The author is a chartered marketer, an associate member of the National Institute of Marketing (NIMN) of Nigeria. He has years of experience in the Banking, Oil & Gas and Management Consulting sectors of the economy.

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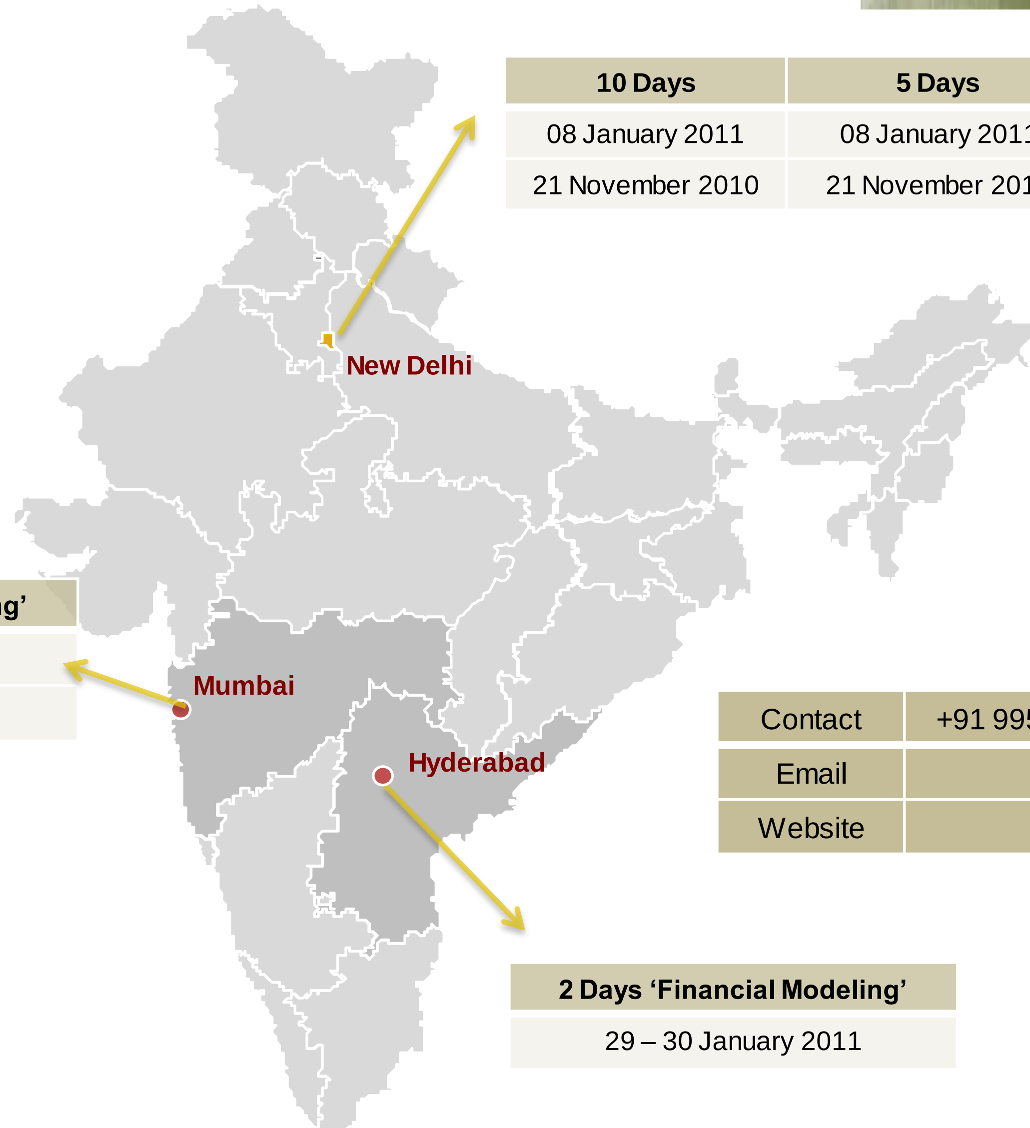

2 Days 'Financial Modeling'
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