Aalto University
School of Business

Capstone: Product and Brand Management

Lecture 2
5.3.2019
Dr. Pekka Mattila, Professor of Practice

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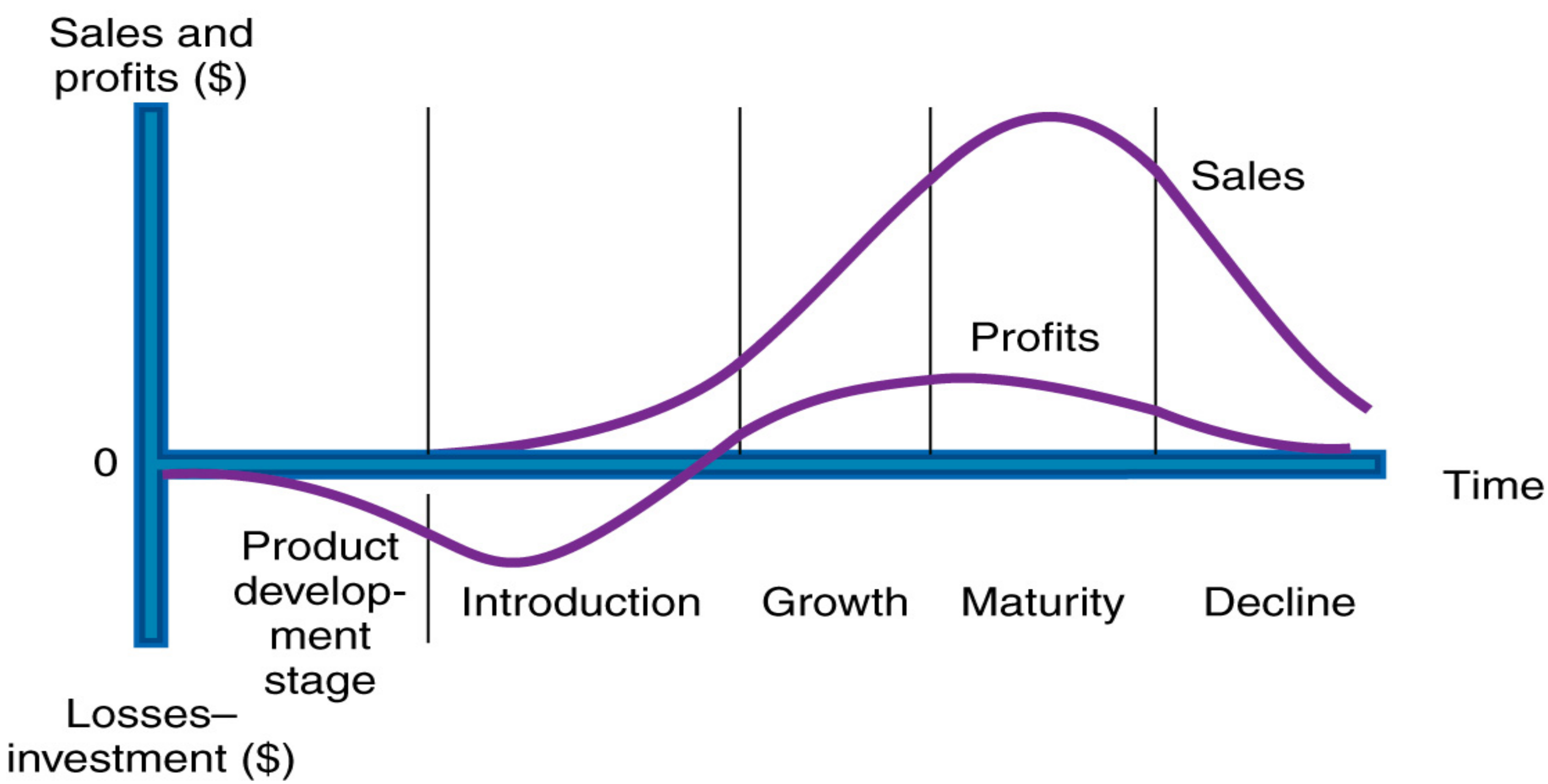
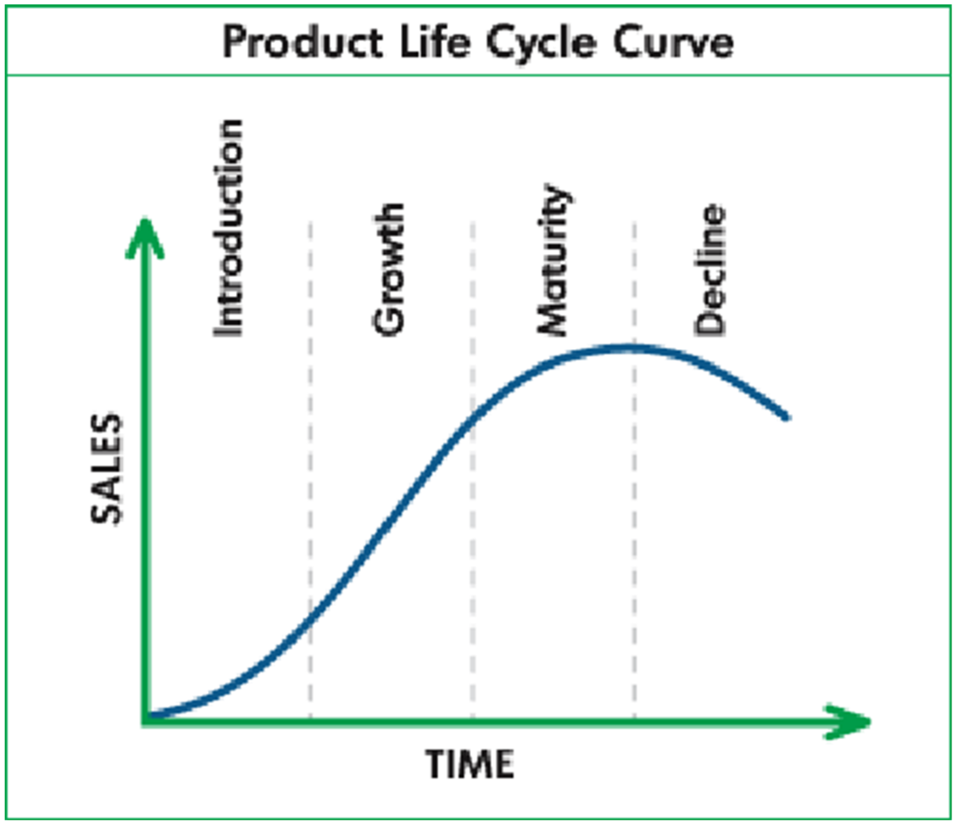
Product lifecycle management

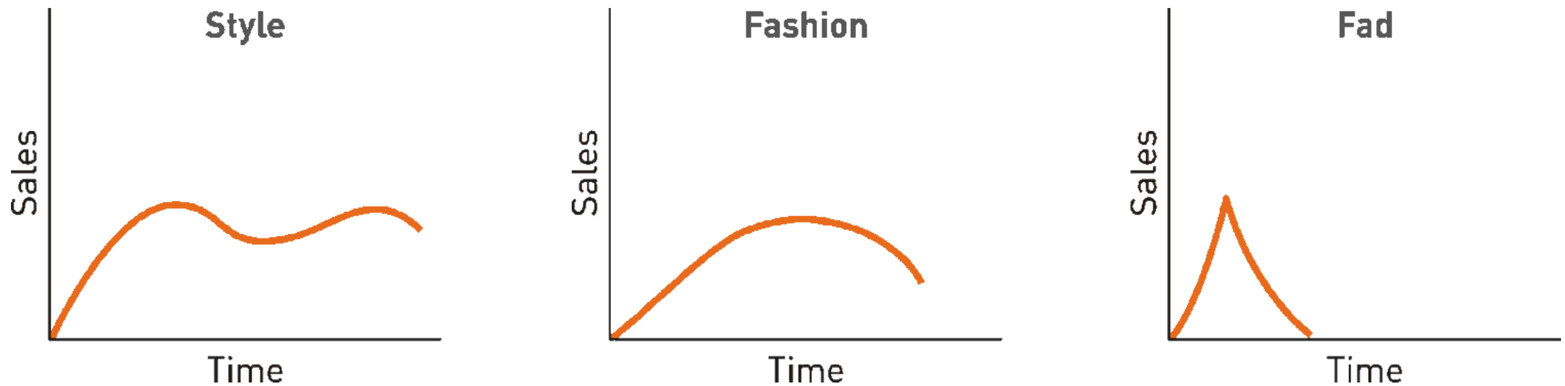
Product life cycle



Product life cycle



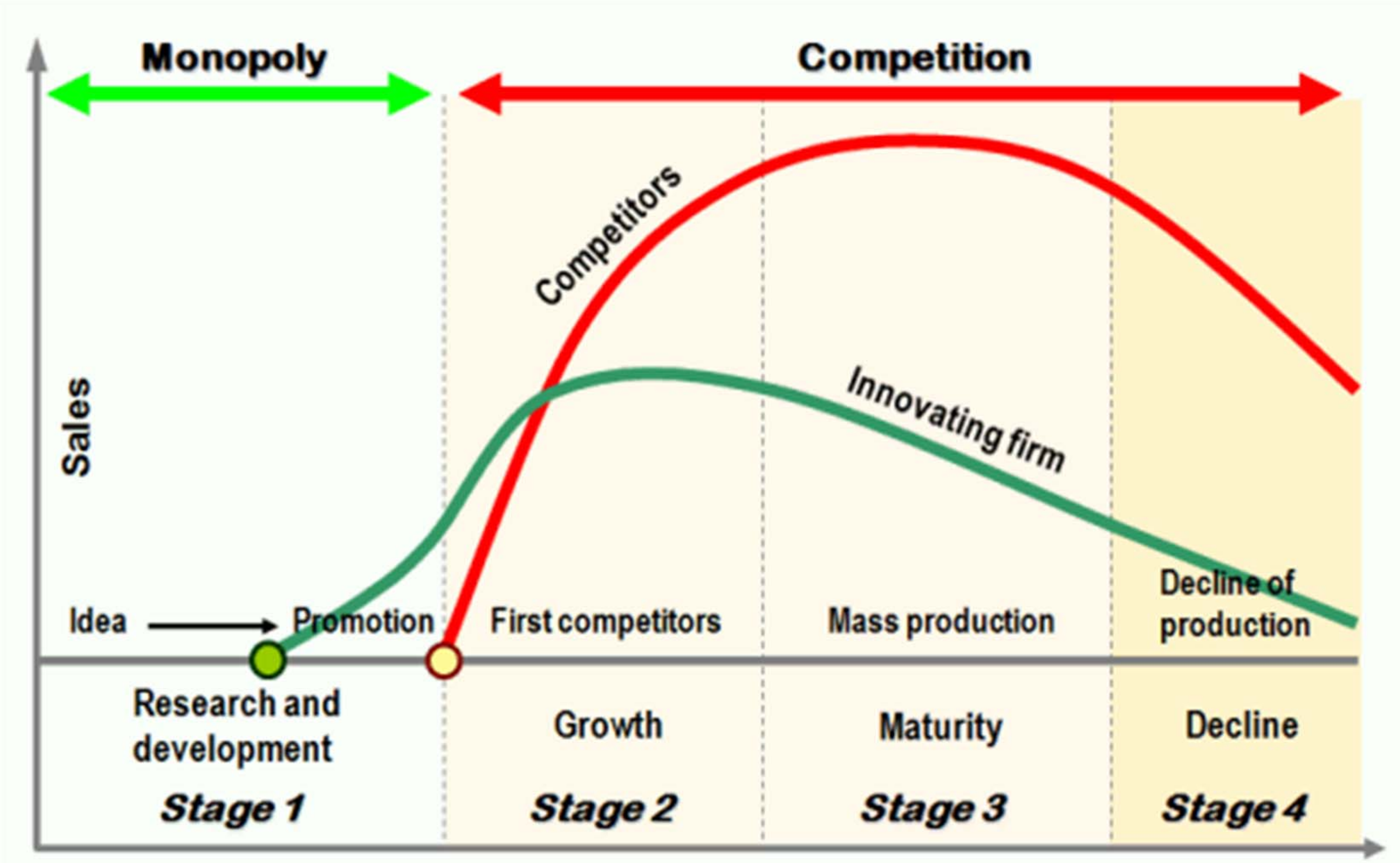
PLC concept in various special cases

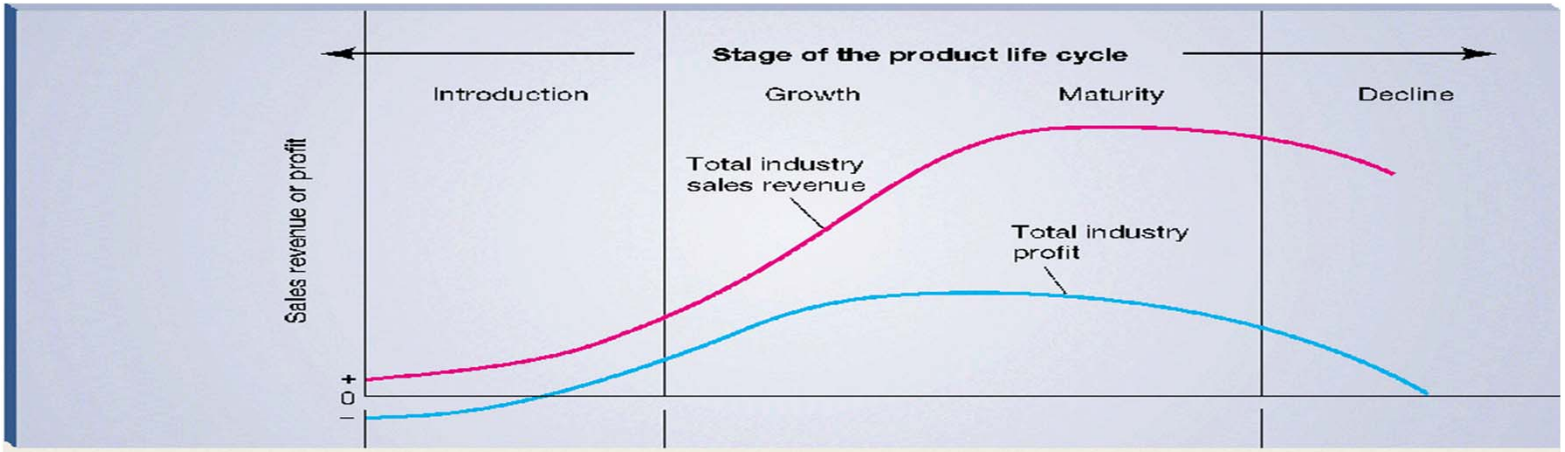


Style: A basic and distinctive mode of expression

Fashion: A currently accepted or popular style in a given field

Fad: A fashion that enters quickly, is adopted with great zeal, peaks early, and declines


Monopoly
Competition
Sales
Competitors
Innovating firm
Idea
Promotion
First competitors
Mass production
Decline of
production
Research and
development
Growth
Maturity
Decline
Stage 1
Stage 2
Stage 3
Stage 4

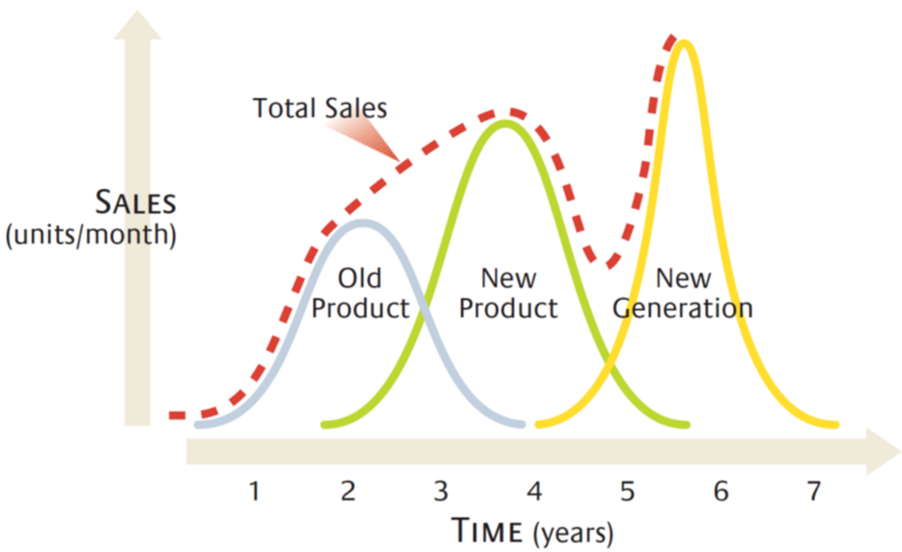


MARKETING OBJECTIVE	GAIN AWARENESS	STRESS DIFFERENTIATION	MAINTAIN BRAND LOYALTY	HARVESTING, DELETION
Competition	Few	More	Many	Reduced
Product	One	More versions	Full product line	Best sellers
Price	Skimming or penetration	Gain market share, deal	Defend market share, profit	Stay profitable
Promotion	Inform, educate	Stress competitive differences	Reminder oriented	Minimal promotion
Place (distribution)	Limited	More outlets	Maximum outlets	Fewer outlets

Managing product transitions
(Erhun & Concalves & Hopman 2007)

Smooth and Troubled Product Transitions

New product transitions should be organized to allow companies to increase sales over time without disrupting sales or profitability. When transitions are rocky, total revenues decline.



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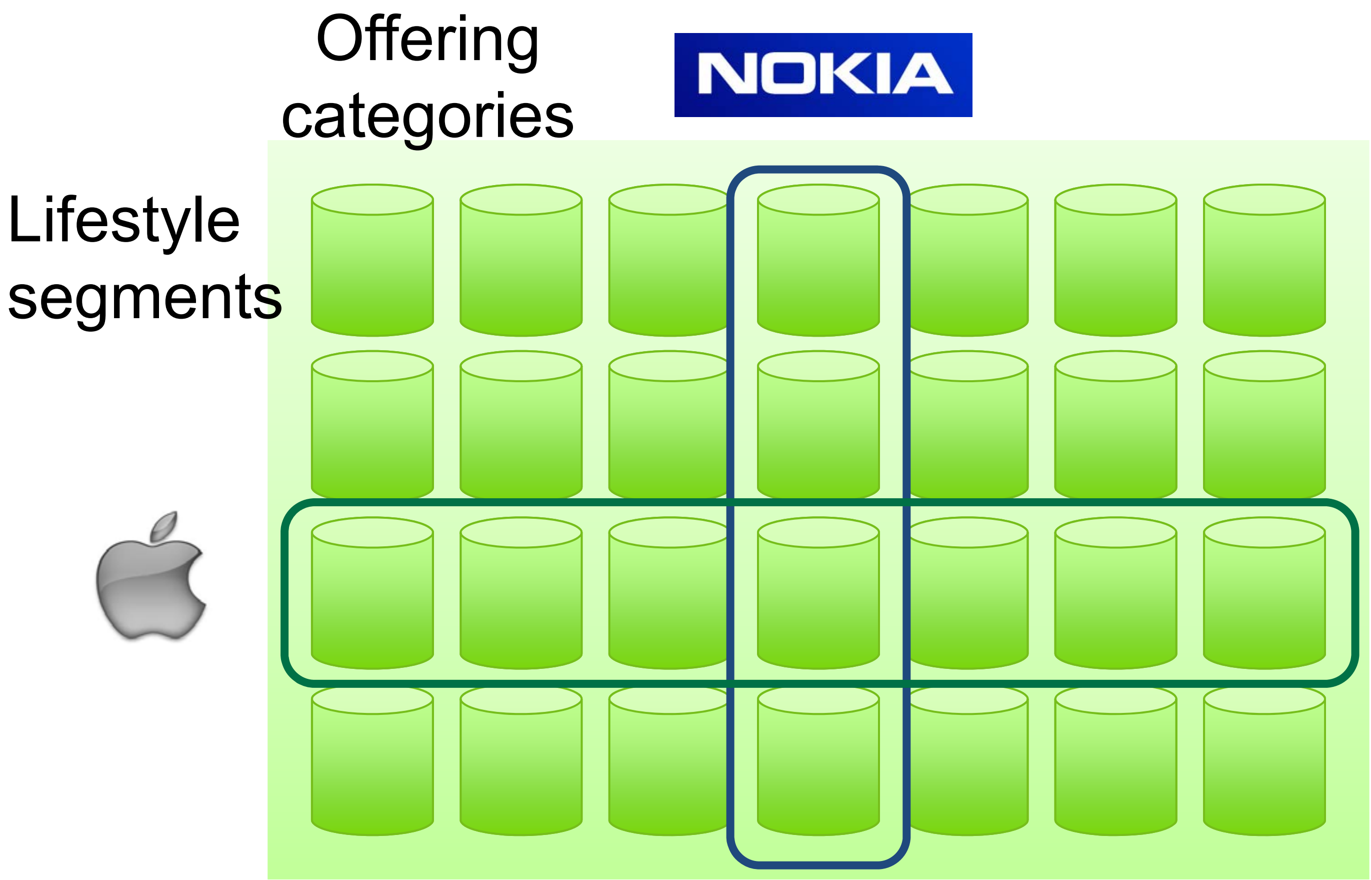
Product portfolio management

Nokia vs. Apple

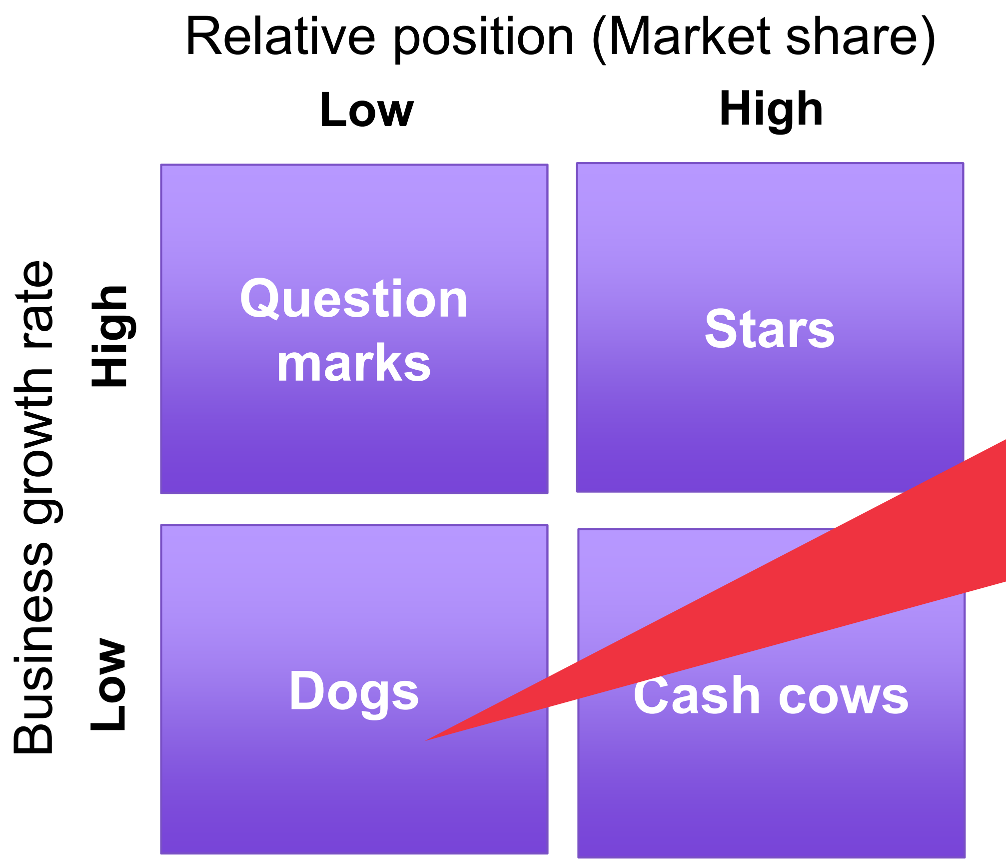


BCG Matrix for strategic product management

Relative position (Market share)

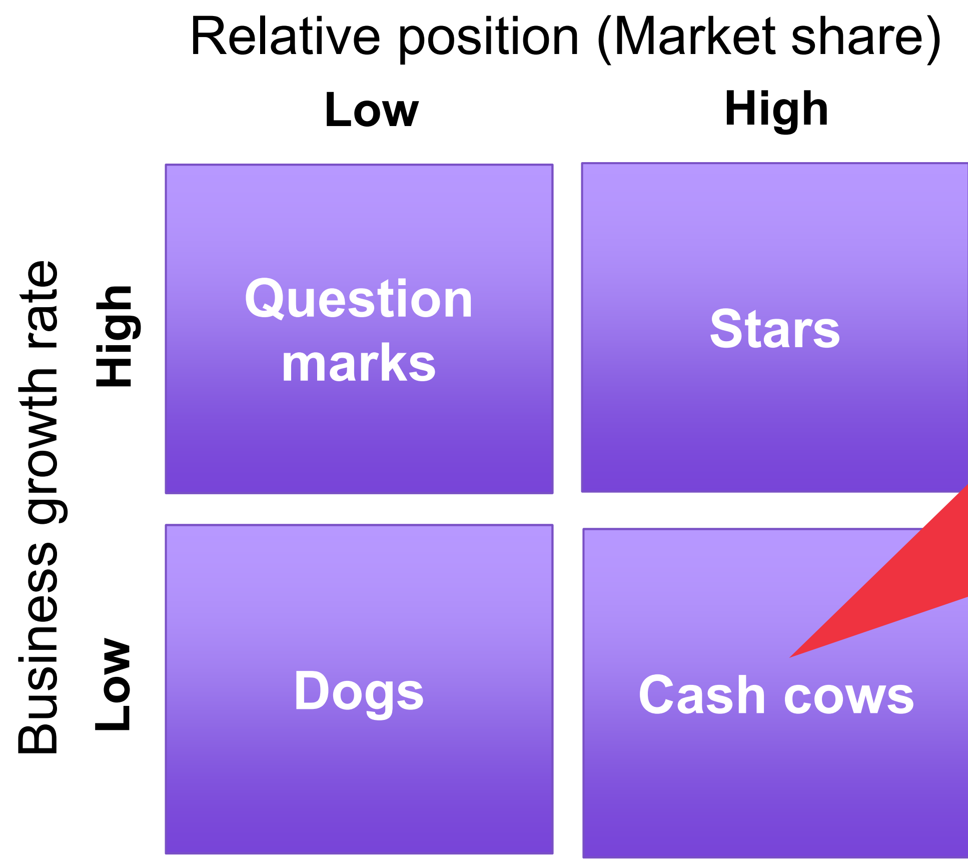
Business growth rate	Low	High
High	**Question marks**	**Stars**
Low	**Dogs**	**Cash cows**

What to do with the dogs?



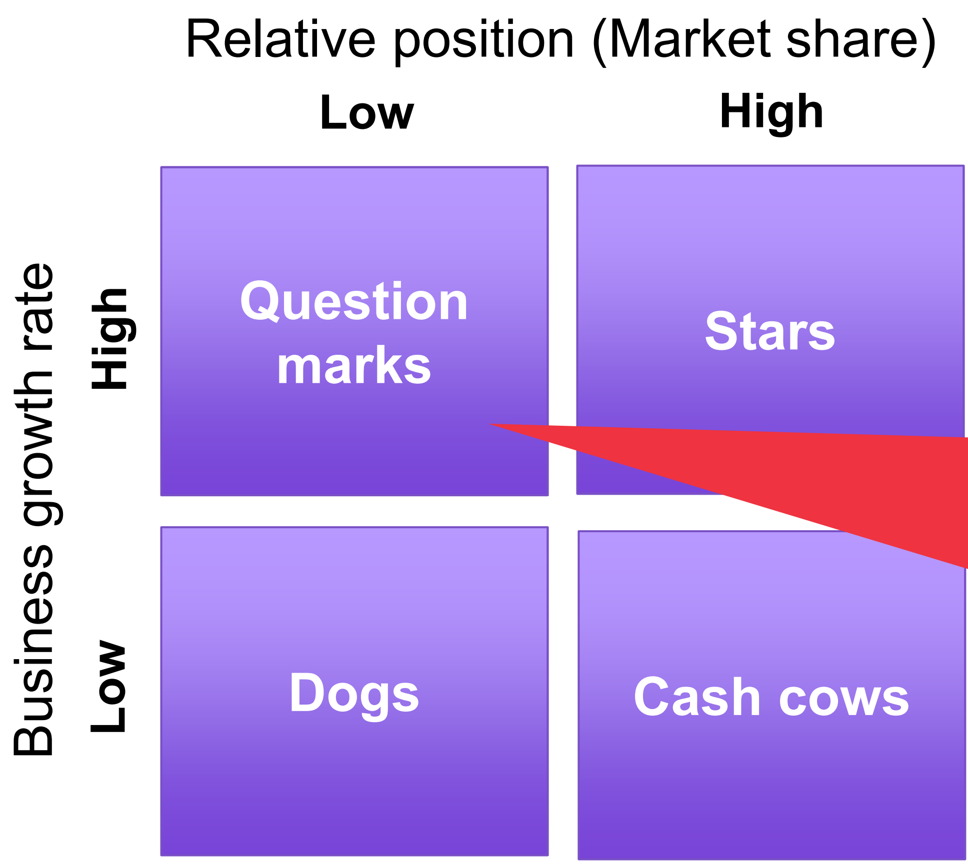
- Are the dogs needed for customer service?
- Are the dogs needed for customer retention?
- Are the dogs needed for the brand promise?
- Could the dogs be managed more efficiently?
- Could the positive externalities be leveraged?

What to do with the cash cows?



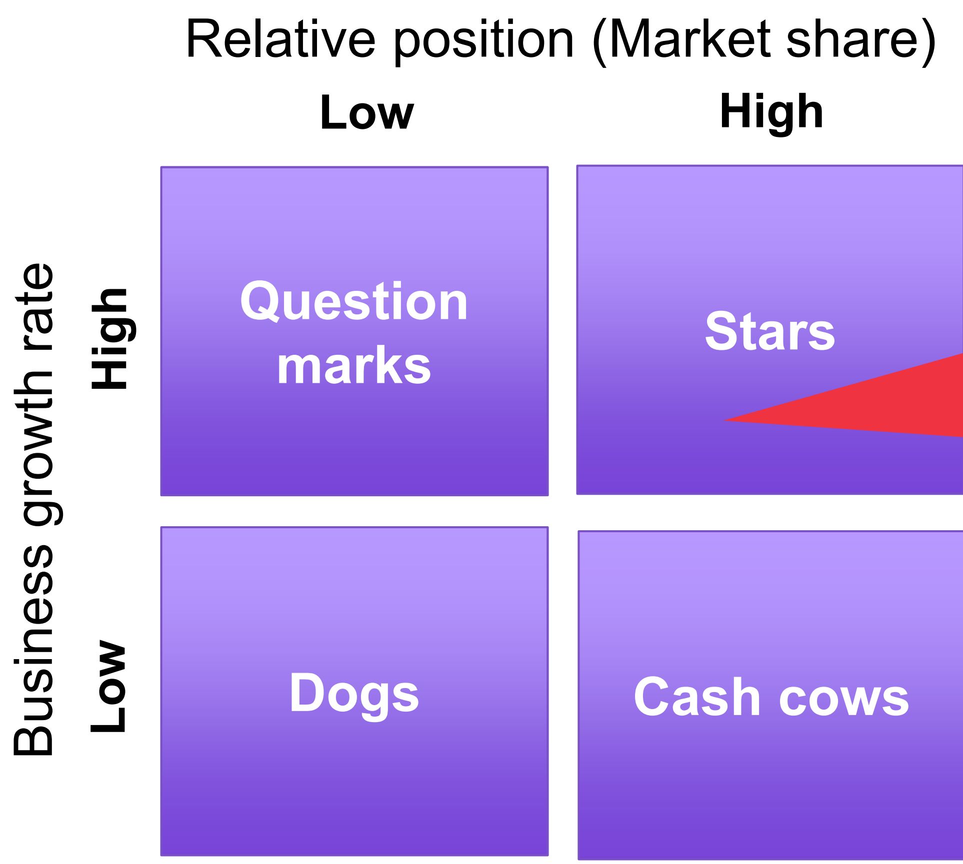
- Could the cash cows be managed more efficiently?
- Could their life time be extended?
- How should the eventual transition be managed?
- What kind of changes would it require to find new growth? Are these viable?

What to do with the question marks?



- What makes us expect market growth?
- How could we better make sure that the growth realizes?
- How could we make sure our position in the market improves?
- What kind of resources and priorities does this require?

What to do with the stars?



- How did we contribute to the success? What made difference?
- What are the threats to continued success?
- Could the success be somehow leveraged?

Combining products and services
(Shankar & Berry & Dotzel 2009)

Complementarity

Independence

1. **Flexible bundle**
   – Complex offerings
   – High independence
   – High complementarity
   – Oracle Demand / Demantra
   – Air engines

Combining products and services
(Shankar & Berry & Dotzel 2009)

2. Peace-of-mind bundle

- Assurance: best-of-breed
- High independence
- Low complementarity
- Kone

Combining products and services
(Shankar & Berry & Dotzel 2009)

3. Multi-benefit bundle

- Inseparable offerings
- Low independence
- High complementarity
- Securitas Direct

Combining products and services
(Shankar & Berry & Dotzel 2009)

4. One-stop bundle

- Driven by convenience
- No additional value in the bundle
- Minimal independence
- Minimal complementarity
- Hair care products at salons

Which products should we stock?
(Fisher & Vaidyanathan 2012)

1. **Understand Which Attributes Matter Most to Customers**
   - Identify which attributes are important to customers
   - Account for what customers will do if you don't offer their preferred product

Which products should we stock?
(Fisher & Vaidyanathan 2012)

2. Analyze Current and Potential Sales By Attribute

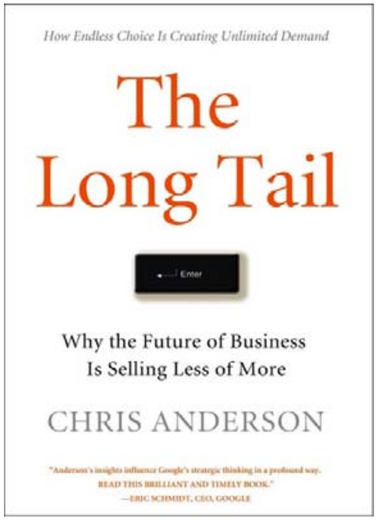
- Assemble sales data for a recent period
- Forecast demand for all potential SKUs
- Refine the forecast
- Account for trading up and down
- Look for self-fulfilling prophesies

Which products should we stock?
(Fisher & Vaidyanathan 2012)

3. **Optimize the Assortment**
   - Decide whether to maximize revenues or profits
   - Decide on pricing for potential SKUs
   - Decide on the final assortments
4. **Localize the Assortment**

But how about the long tail?

- "Why the future of business is selling less of more?"
- Concept of long tail
- Amazon
- eBay



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Pricing architecture and management

Importance of pricing

- Within the marketing mix price is the variable that most often makes or breaks the deal
- Senior managers spend all too little time on designing the pricing structure and all too much time on setting individual prices, soon to be corrupted by promotions and discounts

Having the price right (Dolan 1995)

- Eight steps to better pricing

1. Assess what value your customers place on a product or service
2. Look for variation in the way customers value the product
3. Assess customers' price sensitivity
4. Identify an optimal pricing structure

Having the price right (Dolan 1995)

- Eight steps to better pricing

5. Consider competitors' reactions
6. Monitor prices realized at the transaction level
7. Assess customers' emotional response
8. Analyze whether the returns are worth cost to serve

Price elasticity (Dolan 1995)

- Customer economics
  - Paying oneself?
    - *Percentage of total expenditure?*
    - *Being the end-user?*
    - *Does price signal quality?*

Price elasticity (Dolan 1995)

- Customer search and usage
  - Cost of shopping around
  - Significance of the time of purchase or delivery
  - Ability to compare prices and performance
  - Freedom to switch without extra cost

Customer loyalty matrix (Chernev 2009)

	Low price-sensitivity	High price-sensitivity
High value	High-value loyals	High-value switchers
Low value	Low-value loyals	Low-value switchers

Price elasticity (Dolan 1995)

- Competition
  - Differentiated offering?
  - Reputation?
  - Intangibles?

Value, price and cost

1. Perceived value > Price > Variable cost
   - Ideally pricing to value
   - Possibility for value pricing
   - Hard to know when pricing too low
   - Seller’s remorse as a curiosity
2. Price > Perceived value > Variable cost
   - Bad deal
   - Explicit customer response: decision not to buy
3. Variable cost > Price > Perceived value
   - Failed offering

Value, price and cost

- Low price often associated with low quality (Zeithaml 1988)
- Increasing perceived value

1. Improving the product or offering itself
2. Introducing value-added services
3. Advertising in order to improve the image
4. Improving the sales effort

Understanding elasticity

- How demand responds to price changes
- Ed = (% Δ in quantity demanded) / (% Δ in price charged)
- Price elasticities can take different forms:
  - Own-elasticity
  - Competitive cross-elasticity
  - Own cross-elasticity
- When is revenue maximized?
- When is profit maximized?

Understanding elasticity

- What factors determine price sensitivity?
  - Reference prices
  - Ease-of-comparability
  - Switching costs
  - Price-quality perceptions
  - Disposable income
  - Cost sharing
  - Fairness perceptions (procedural and distributive)
  - Framing of transaction

Understanding elasticity

- Demand is more price elastic for …
  - Categories characterized by intense competition
  - Smaller-share brands
  - Brands with low levels of loyalty
  - Durables (stockpiling)
  - Discretionary goods (vs. basic needs)

Starting points

- How important is my product to the customer?
- How important is price as a decision-criterion?
  - Habitual exaggeration of price as a decision parameter

Category considerations

- Threat of new entrants
- Power of buyers
  (retail chains: Kesko, S Group, WalMart)
- Power of suppliers
  (monopolistic partners: Microsoft, Intel, DeBeers)
- Rivalry (incumbents and new entrants)
- Substitutes (existing and new)
- Unused capacity (airlines, paper mills)

Cost considerations

- Allows management to set price floor:
  - Long term: full unit cost
  - Short term (excess capacity): true VUC
  - Short term (limited capacity): opportunity cost
- Cost structure indicates ability to compete
- Informs pricing decisions when demand is unknown

Cost considerations

- Competitors' cost
- Industry average unit cost
- Own costs
- Development costs
- Overhead costs
- Direct fixed costs
- Variable costs

Cost-plus pricing

- The most common pricing method (approx. 60% of firms) is to mark up average total unit cost by some constant
- Benefits
  - Simple
  - Easy
  - Tangible (plenty of data available)
  - Justifiable

Cost-plus pricing

- Problems
  - Allocation to the individual products
  - Hard to foresee: functions of volume
  - Promoting collusion
    - *Sometimes required by law*

Pricing to value

- Value-in-use
- Closely related to the concept of service-dominant logic

- Ideal but managerially demanding
- Realistic and holistic customer insights required
    - Conjoint analysis

Skimming strategy

- Highest value to the seller
- Suitable when
  - Strong relationship between price and perceived quality
  - Demonstrating strong competitive advantage
  - Positioning at the high end
  - Little chance for competition
  - Costs are not strongly related to volume
  - Trying to recover the investment fast

Penetration strategy

- Highest value to the buyer
- Suitable when
  - Initiating mass market entry
  - Building and keeping market share
  - Deterring and discouraging competition
  - Economies of scale matter
  - Establishing a standard
  - Facing high price elasticity

Penetration strategy

- Not suitable when
  - Strong relationship between price and perceived quality
  - Demonstrating strong competitive advantage

Price discrimination – Price customization

- Non-linear pricing
- Fixed prices are a product of mass manufacturing
  - Before that dynamic prices dominated

Price discrimination – Price customization

- Alternatives price discrimination
  - By product line and brand
    - *Horizontal (lifestyles)*
    - *Vertical (income tiers etc.)*
  - By customer profile and characteristics (students)
  - By transaction and channel characteristics (web vs. brick and mortar)
  - By controlled availability (movie releases)
  - Auctions

Price discrimination – Price customization

- Perceived fairness is a key reference point
  - Of two types: distributional and procedural
  - Huge implications for our ability to customize prices
  - Airplane seats vs. stadium seats
  - Considering brand and reputation damages
    - *Apple and iPhone*
    - *Amazon and DVDs*
- Too many options discourage purchasing (iTunes pricing)