Where in the Product Life Cycle Is …

Planning for Business Growth

What Is Business Growth?

To grow a business means to make changes that result in greater sales. A business grows, or expands, in two ways: internally and externally. Organic growth is growth achieved by expanding a business internally-for example, adding new products or services for sale. External growth is achieved by buying other businesses or merging with them. Most small businesses experience organic growth rather than acquiring other companies.

When a business thrives, the owner must eventually decide whether to maintain the original strategy or take a bold step to grow the business. Because entrepreneurs are ambitious by nature, the question is often not whether to grow, but when and how to grow. Growth, like any business move, must be carefully thought out. A smart entrepreneur develops a carefully researched business plan before launching a business. Business growth also requires a great deal of planning. The original business plan should be updated or an entirely new one developed. In either case, the plan should outline steps for implementing the growth strategy and look at the possible consequences on the business.

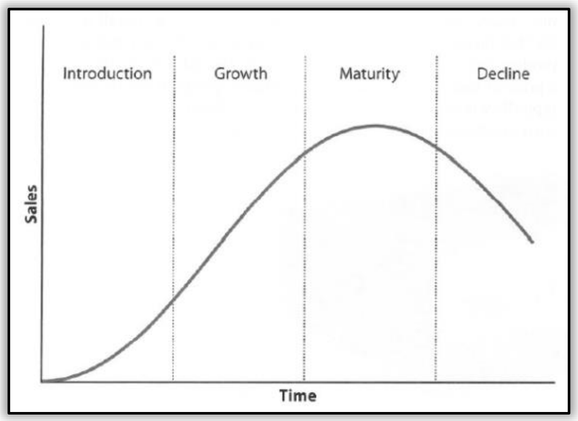
Deciding When to Grow

Three factors affect the decision to grow a business:

- Condition of the Business. A business is ready to grow when it has a solid base of customers and makes sales that meet or exceed forecasts and contribute to a satisfactory net profit. The business has become good at what it does. It makes a consistent profit and achieves quality standards and customer-satisfaction targets. The owner does not struggle to keep up with the day-to-day demands of the business but has enough time to devote to growth.
- Economic Climate. The economic climate in which the business operates is also important. Owners planning for growth must consider economic conditions at the local, national, and perhaps even global levels. Economies tend to follow cycles of upturns and downturns. A downturn is not necessarily a bad time to expand a business. It depends on the business and its markets.
- Life Goals of the Business Owner. Growing a business is not only an economic move, it's a personal one as well. An owner who decides to grow a business takes on new pressures and demands. Growth will require more time and money and introduce new risks. Owners who want to grow their businesses should schedule growth with their life goals in mind.

Product Life Cycles

A product life cycle is a series of stages-introduction, growth, maturity, and decline-that a product may pass through while it is on the market. This concept can be applied to a product type or industry (for example, automobiles), to a specific brand (for example, Ford), and to a particular product (like the Ford Explorer).



Product Life-Cycle Stages

Each stage in a product life cycle has specific cost and profit considerations. A conventional product life-cycle curve is shown to the right.

- Introduction. When a product is introduced, the marketing effort is devoted to building product awareness-that is, making consumers aware of the product. This is typically an expensive phase with high advertising and promotional expenses. Profits may be low at first.
- Growth. Sales and profit increase steadily as the product is embraced by consumers. Competitors may be few at this stage, allowing the business to expand distribution and take advantage of strong demand.
- Maturity. This is the stage during which sales and profits stop growing. They level off and may begin to decline. By now, the product probably faces stiff competition. The business may have to lower prices or enhance the product in some way to give it a new competitive advantage and extend its life.
- Decline. During the decline stage, product sales and profits fall steeply and don't recover. The product loses its appeal to consumers. In some cases, the decline is due to technological advances or governmental regulations. For example, the VCR has given way to the digital video recorder.

Product life-cycle curves have many variations. Some products are immensely and immediately popular. Their sales rocket upward but then decline quickly. This cycle is common in the fashion and entertainment industries. Other products endure for long periods. A perpetual life cycle is a product life cycle in which a product never undergoes a final decline, because it remains in the maturity stage forever. Basic food products, such as bread and other items of everyday use, are said to have a perpetual life cycle. However, individual brands and products within the bread industry can certainly decline.

Product Life Cycle in Growth Planning

The product life cycle is a useful concept for planning growth strategy. One way for a business to grow is to provide a product (or service) that it has not offered before. This product will be new to the business but may not be new to the market. It could be similar to other products already being offered. If you want to add a new product to your company's offerings, you must understand the product group's stage in the product life cycle. This knowledge will help you determine the level of competition you will face and the costs and marketing strategies that will be required to make the new offering successful.

The product may be completely new and different, with no competition. This is an introductory stage offering. The product may be similar to others that are in a growth phase. In this case, the new offering probably needs to be innovative to set itself apart from competitors. A business may decide to introduce a copycat product when the overall life cycle for that product group is in the maturity stage. At this point, price or product enhancements may be the competitive advantage. Introducing a product that is part of an existing product group in the decline stage typically wouldn't be a wise business move. However, the decline stage is an excellent time to introduce a replacement product for the one that is in decline. Businesses also have to consider the costs and risks of introducing a new product that competes against their existing products. For example, a business with an existing product in the maturity stage may find it difficult and expensive to lure customers away from that product to a new, but similar, offering.

Questions for Discussion

1. Explain the difference between internal and external business growth.

2. Name the three factors that affect the decision to grow a business.

3. Do you agree or disagree with the concept that a quality product will make a business successful in the long run? Explain your thinking.

4. Do you believe in paying more for a higher-quality product or in buying cheaper ones? Give an example of a high-quality product and explain how you would recognize it.

5. Why is it important for a business to understand a product group’s stage in the product life cycle before offering a new product for sale from that group?

In Depth

Choose TWO of the products listed below. Take a few minutes and analyze (1) where in the product life cycle it is; and (2) how the company could revise its marketing strategy according to the product's positioning in the product life cycle. For example, when Coke hit a decline stage, the company diversified and introduced Coke Zero and other flavors.

Skate Board

Post-It Notes

Cat Litter

Paper Clip

Bicycle

Smart Phone

Typewriters

Ice Cream

DVD Players

Toothbrush

3D Televisions

Self-Driving Cars

Blue Ray Players

Electric Car

VCRs

Virtual Reality Headsets

Holographic Projectors

Smart Watch

Laptops

Vending Machines

Yo-Yos

Remote Controls

Tennis Balls

Calculators

No.2 Pencils

Fax Machines

Play-Doh

PRODUCT 1 *(50 words)*

PRODUCT 2 *(50 words)*