Product Category Lifecycles

How They Impact Your Product Strategy

A major driver of where you should go with your product strategy is the overall industry category in which your product resides. A product category also has a lifecycle with distinct stages that can dictate the product strategy options. This article discusses these stages and provides some general guidelines to help you frame your thoughts around updating your own product strategy.

The Product Category Lifecycle

To facilitate the discussion, we'll use our trusty Product Lifecycle Curve (PLC) to help frame the different options. As a brief review, there are four stages to the product lifecycle: Introduction, Growth, Maturity, and Decline.

In the Introduction stage, you're just getting your product off the ground, and the primary goal is to prove the product value and create demand. In the Growth stage, your product is taking off on a relatively steep revenue growth curve and your primary goal is to grow market share. In the Maturity stage, revenue growth levels off and your primary goal is defend your current market position. Lastly, in the Decline stage, revenue starts to decline and your primary decision is to harvest, replace or exit. Profitability also varies over the lifecycle, with the peak occurring during the Maturity stage.

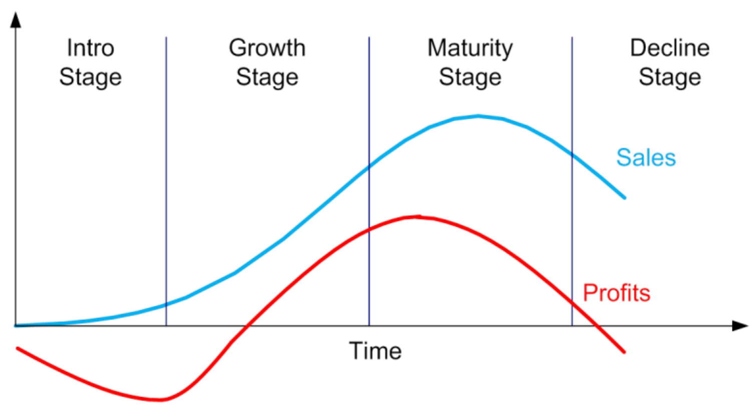

Figure 1 - Product & Category Lifecycle Curve

This curve can also be used to describe a product category in the market. For example, automobiles comprise a large category that is in an everlasting Maturity stage. Desktop computers would also be in a relatively mature stage, while tablets are still in an Introduction or Emerging stage. Each company competing within a category can have products that are going through their respective lifecycles.

These individual product lifecycles can last years or even decades for some products, such as building materials or foods, or can be in months or quarters, such as for high tech or fashion-driven products. The state of your categories and natural industry product cycles will dictate the pace at which you need to be updating your product strategy.

We'll walk through each category stage highlighting major issues from a strategy perspective and potential options to consider for addressing them.

The Mature Product Category

We'll start our journey in the middle of the lifecycle. Let's face it. Most products today are competing in mature product categories with mature products. It's a bloody Red Ocean characterized by incremental innovation, undifferentiated products and price competition. Ouch!

How do you break out of the pack and create growth? Times have changed and so should your strategy. It's certain that you won't break out if you keep thinking like you always have.

Take a look at Proctor & Gamble (P&G). Can you think of a more undifferentiated and commodity set of categories as beauty care, grooming, fabric care, baby & pet needs, and snacks? Yet, between 2002 and 2008, P&G DOUBLED their revenue from $40B to $83B while the rest of their peer group had relatively flat growth. And they did this almost entirely through organic growth with only one acquisition and through a strong emphasis on emerging markets and product innovation.

P&G has provided a century of disruptive innovations, including Crisco, Tide, Crest, Downy, Pampers, Head & Shoulders, and more recently Swiffer. They are masters at creating new product categories and then doing continuous incremental innovations and product line extensions, such as Tide Liquid, Tide Cold Water, and Tide Free. Now they are expanding into services with the opening of Tide Dry Cleaning stores. But wait.... there are even Mr. Clean Carwashes!

A new product type can also spur growth for an entire mature category. This is called a Revival stage. An example situation occurred in the auto industry with the introduction of SUVs in 1991. It kick started a Revival growth phase with accelerated replacement purchases for nearly a decade.

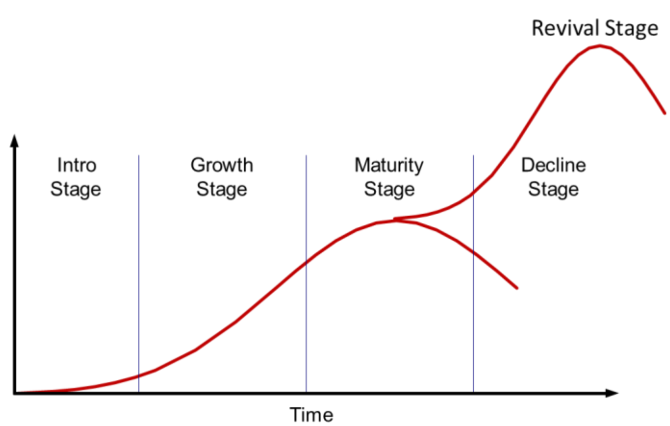

Figure 2 - Revival Stage

The general problem with a mature category is how do you create growth? The answer usually involves innovating. You have to find new problems to solve in a valuable way to your existing market or in a new market leveraging your core product or asset.

What emerging markets or related growth categories could you be assessing? How could you change your customer experience to create more value? What underserved market needs or related needs could you address with new or modified products?

The Emerging Product Category

Participating in an emerging category is like gambling against the house. It's the world of extremely high mortality rates of products and companies. In the venture capital arena, an 80% failure rate for early stage investments is a general expectation. This is clearly not the place for the skittish or risk averse. However, for the few winners that transition as market leaders to the Growth stage, the payoff can be huge. That's what makes the betting worthwhile.

What is an emerging product category? We'll define it as - a *potential* new type of product or service that solves a customer need in a new and significantly better way than current solutions. It has some early market success but may or may not evolve to the Growth stage. If it does evolve, it could be a disruptive innovation.

Let's take P&G's Swiffer as an example. It single-handedly created a new category due to its unique value proposition. It does the job of both a broom and a mop, is more convenient (especially the mop part), and is competitive in price. The concept went on to the Growth stage in a big way and has created a $500M product line of cleaning tools for P&G.

Note that it is actually pretty rare for the company that invents a category to be the one that takes it to the next level. More typical examples would be the initial MP3 player or smartphone markets. In both of these categories, several companies were swirling around different solutions and there was some market traction occurring, but overall market penetration was low. The categories were slowly emerging, but it wasn't until one company figured out the right combination of solution components to jumpstart general demand to get the markets to the Growth stage. That was Apple with the iPod and iPhone.

Another example is the early US auto industry. Dozens of automobile companies existed since the late 1800's, but it was Ford who put together the right functionality at the right price with the Model T and jumpstarted the industry in 1913. GM (as Buick at the time) was in the game when the market growth started, and was able to command second place. Together they garnered close to 75% of a fast growing market in 1916 and most of the competition was either later acquired or went out of business.

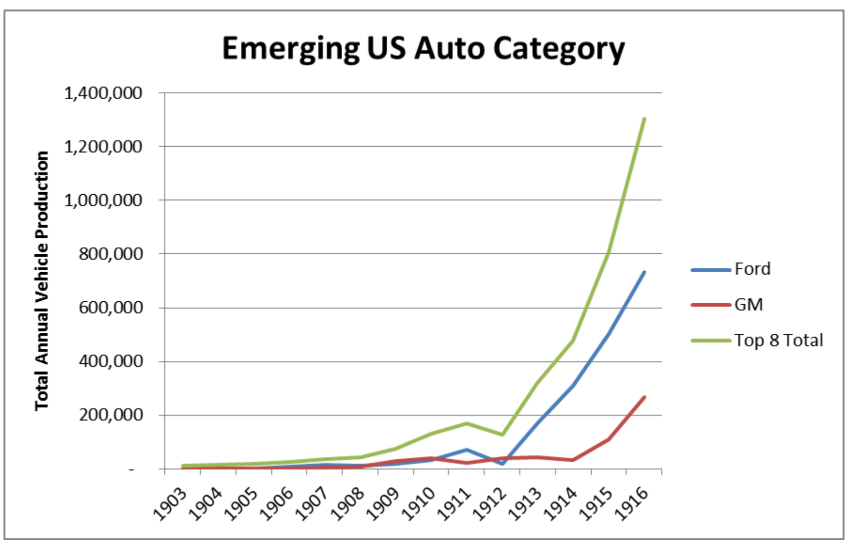

Figure 3 - US Auto Industry 1903-1916 Vehicle Production

The one company that finally figures out the right product and executes in the marketplace is usually the market share leader at the end of the Growth stage. Additionally, if you're not even in the game during the transition to the growth category, chances are pretty slim that you'll be part of it in a big way. Most organizations cannot react quickly enough with an effective strategy to respond when the hockey stick effect in revenue starts up. There's more about this in the Growth Category discussion.

It's very likely that an emerging product category never gets to a Growth stage and this has killed many startups. Moore's *Crossing the Chasm* book addresses this for technology products, but the concept occurs in all industries. While the solution may attract some early adopters, it may not address the needs of the mainstream markets and never gets beyond a small market penetration. Or it may be that the market size was overestimated to begin with and quickly saturated.

The reality is most new ideas never even get to the point of creating a new product category as they don't make a dent in the market even with early adopters. These are most of the 80% failed products bet on by venture capitalists or other investor sponsors.

How do you play in an emerging product category? Fail fast and learn. Get as many ideas as possible on the table and the best ones tested with real customers to come up with better solutions to their needs than existing solutions. Understand why the ideas fail and try again, as cheaply and as quickly as possible. And finally, when you think you've found a winner, commercialize it as quickly as you can. Edison is said to have tried over 9000 different ideas before commercializing the light bulb.

This process is well-suited to most start-ups and exceedingly difficult for established companies. The reason is the mature companies try to execute on this within their existing processes used to manage the core business. Activities like stage-gate reviews and business case development that are used effectively in the core business don't work for emerging or new product categories.

Stage-gate is a linear process designed to funnel out relatively less attractive projects and select the most promising options, but a fail-fast process requires iterative activities targeted at failing, learning and retrying quickly. It needs continuous funding with different measures of success. Business cases that are developed in the core business rely on extrapolated historical data for forecasts. For an emerging market, forecasts about growth and adoption have no history and result in pure guesses.

Another problem is the estimated size of the emerging market may be trivial compared to the core business and may not be considered big enough to even pay attention to. The end result will be premature killing of ideas that look like failures, underfunding or no funding, analysis paralysis or just completely ignoring the opportunities.

Every industry has a different risk profile and need for exploring emerging categories, as does the current situation for any given company. A consumer-goods company may be able to invest less in emerging solutions than a high tech company, just based on the industry tempo and drivers. However, the emerging category can also provide an opportunity to completely disrupt your industry, and companies with a strong history of innovation in all industries are very often the most profitable.

The Growth Product Category

The Growth category is the Holy Grail that most companies would love to find. The ability to be a major player in a growth category can have a significant impact on the trajectory of your company. Just look at Apple and the impact to the company by jumpstarting three emerging categories - music players, smartphones, and tablets.

Once you hit a category growth phase, your primary objective is to expand your market share as fast as possible, while still being able to satisfy demand. This means expanding the product capabilities or diversifying your product line to attract adjacent segments to your initial product offering. You also expand your marketing and sales channels to get as much market exposure as you can. It means rapidly expanding your operations, sales and support capabilities. It's not the time to try to optimize your systems or fine tune them for profitability.

Let's look at again at early Ford vs. GM and fast forward to 1921. Ford held ~60% market share to GM's ~20%. Ford continued to focus on cost reductions and efficient manufacturing ("Any color you'd like as long as it's black") while GM focused on product line diversity and differentiation. By 1923, Ford's "price conscience" segment was saturating and GM started to rapidly steal market share with more offerings at every price level.

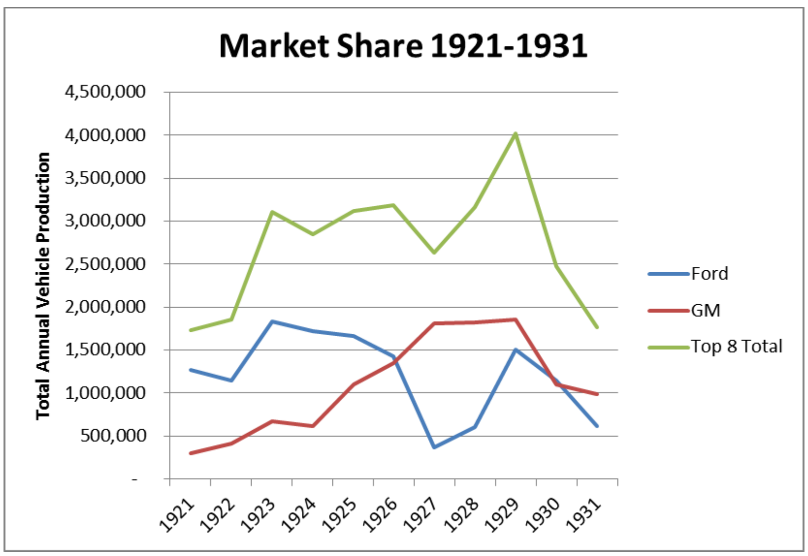

Figure 4 - US Auto Industry 1921-1931 Vehicle Production

By 1927, Ford was collapsing and GM took the market share crown that it kept through the Great Depression that started in 1929 and for the next 80 years. By expanding the product line, GM attracted buyers with different value drivers and was able to get broader market adoption. Ford's focus on efficiencies and costs were pre-mature, or maybe they thought the market was maturing. Even if their pricing was lower, so was the selection, and thus attracted only a portion of the available market. Cost optimization is a Mature stage activity once the category settles down and the market share pecking order is established.

All of the growth activities take investment, and sometimes big bucks. It's not the time to starve the product and this where having other cash generating products can be leveraged. It may also be possible to attract additional funding or financing from external sources based on the initial success if needed. So if you're in a growth category with a decent product and market share, your biggest challenge is keeping up with demand and not stumbling.

But what if you're not already in the growth category? As we discussed above, if you're not already in a growth category when it starts, the chances of being one of the big dogs is pretty low. If you happen to already be a big dog in a bigger category, one simple solution is to acquire the new growth category leader (and hope you don't kill it with your own bureaucracy).

However, most companies don't have pockets this big, so another option is to get onboard in a niche segment of the growing category and try to own it. What unique assets or capabilities do you have that would enable a specialization? Or maybe the growth product category could be complementary to your existing products in some way that would help you change the game in your industry. The Internet is providing lots of opportunities in this regard.

Try to find a growth category that you can somehow latch on to, or better yet, embrace. This is where your future growth may lay.

The Declining Product Category

Category decline is often the result of disruptive innovations from emerging categories that enter the Growth stage. One such beast is the Internet and its impact on traditional industries. From music to retail to advertising to newspapers, industries are being completely disrupted and put out to pasture.

When an entire category is declining, things get pretty drastic, as the viability of whole companies is at risk. Industry consolidation begins to occur to enable reduced costs and maintain profitability, but this is typically just a stopgap solution. Without a major change in the core business model, continued company decline is likely even for the strongest market leaders. The best way to survive this scenario is through diversification of the product line and markets served while leveraging core assets.

Let's look at IBM, which has been in business for over 100 years and has survived a few declining markets. In 1992, their core mainframe business was being disrupted by its own IBM PC and client-server applications, and IBM couldn't complete with specialized competitors in each of its segments. They lost over $8B that year.

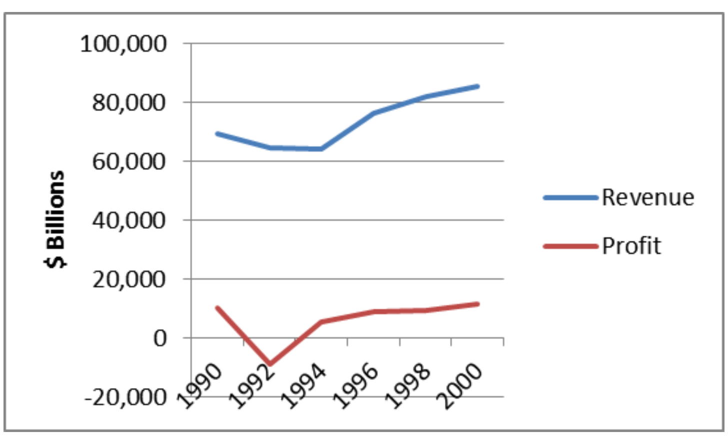

Figure 5 - IBM Financials 1990-2000

The obvious solution to then CEO John Akers was to split the company into autonomous separate business units to be able to compete with companies with lower cost structures. Akers was replaced by Lou Gerstner in 1993 who, after talking with customers, determined that the biggest market pain wasn't in acquiring emerging hardware and software components, but in integrating them together effectively. He then assessed that this was one of IBM's greatest strength historically as a solutions provider and this became the IBM strategy.

In parallel with cost savings measures, the company rebounded within two years and continues to be a top performer today. They survived by taking an outside-in approach to understanding the market needs that could leverage assets and strengths they had and applying them in a new way.

Competing in this same environment was Digital Equipment Corporation (DEC). They had very successful mini-computer lines and were one of the main competitors giving IBM fits. At one point, they nearly passed IBM as the top computer maker in the world. By the early 1990's, they too were faced with a declining market due to the IBM PC.

They did attempt a diversification strategy across a number of fronts with some innovative offerings, but the one theme that kept holding them back was the attempt to control the implementation through proprietary systems. This made them incompatible with the emerging computer standards and drove up the price of their products. By the end of the 1990's, the company had been split up and sold off. Their insistence on trying to maintain their old way of doing business while the industry was changing its business model to open systems was their ultimate demise. Had IBM pursued its initial business unit strategy, it likely would have suffered a similar fate.

One of the major issues for declining companies is that to diversify out of your old products and business model often requires major investment in the face of declining revenue and profits. This is often impossible due to a shortage of cash, especially the longer you wait. The company in this situation usually needs to sell itself or acquire a major investor.

Hello… Sugar Daddy! We're not talking about the kind of investor who acquires the assets only to bleed the last possible drop of cash flow out of it and then discard the lifeless carcass on the side of the road (though this will happen to some). Nope! We're talking about a visionary who sees some value in existing assets, then combines with other owned or acquired assets and creates a new entity. Maybe it's even your current parent company or corporate HQ.

In order to attract a Sugar Daddy, first you have to find something of value to offer. Just because your current business as a whole is going over a cliff doesn't mean there aren't valuable assets that could be leveraged for future growth. Do you have data, sales channels, systems, customers, or competencies that could be deployed in a more general or more specialized application? Are there pockets of growth in specific micro-segments (think Long Tail) or individual products? How could you parse them out and create a different (smaller) business from them but which has potential in a growth category? What could you start parsing off and selling to raise some working capital on your own (possibly what you consider core business assets today)?

Unfortunately, once your category is in the Decline stage, the clock is ticking on your available cash, much like a new start-up trying to reach viability but while wearing handcuffs (your current operations). While it may be a slow decline, why not start acting like a startup and reinvigorate with a new business model today? You're toast anyway, eventually. Small incremental steps aren't going to cut it and denial is futile.

Rolling Up Strategy Options

As a summary of the discussion, here's a table describing each category stage with the primary characteristics and some drivers of potential strategy options. For mature companies with larger portfolios across multiple market segments, you may have products in each of the categories to have to manage and attempt to balance.

Category Stage	Stage Characteristics	Strategy Drivers
Intro/Emerging	• New product types • Early adopters • Low penetration • Incomplete product or user experience • High risk	• Fail fast & learn • Non-traditional success metrics • Rapid commercialization
Growth	• Rapid growth • Dominant market leader • Possible fast-follower position • High cash usage • Niche opportunities • Disruptive to traditional industry	• Maximize market share • Diversify product offering • Rapid operational expansion • Rapid sales channel expansion • If sidelined, enter in niche; leverage existing strengths
Maturity	• Slowed growth • High market penetration • Established market share positions • Incremental innovations • Most profitable stage	• Defend market position • Offer replacements & add-ons to current market • Maximize profits to throw off cash • Fund Emerging & Revival products • Enter a Growth category or market
Decline	• Declining revenue and profits • Market consolidation • Price competition	• Survival • Identify niche successes • Revamp business model • Divest to invest • Find additional funding

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