

Chapter 14

Product Line Analysis



Ch14. Product Line Analysis

- Short Description
- Background
- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
- Process for Applying Technique
- Case Study: EBay
- FAROUT



Ch14. Product Line Analysis

Short Description

- Product line analysis (PLA) is the process of examining a company's product line to determine if the line is maximizing the company's use of resources.
- The process involves assessing:
 - Type of products in the line.
 - Optimal volume of products in line.
 - Life cycle stages products are in.
 - Product market segmentation.
 - Marketing methods.
 - How product is perceived.
 - Resource allocation.



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Background

- In Post WWII era was a vast and growing market for products.
- 1960s competition increased.
- Scope of managers' responsibilities started to include understanding the needs and wants of the customer.
- Designing products to meet their actual (and not just assumed) needs.
- By the 1970s, concepts like segmentation, perceptual mapping, consumer behavior, and the product life cycle had been generally accepted
- Constructs aided in the product line analysis process.



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Strategic Rationale and Implications

- In most industries market share will not grow unless it is being taken from competitors.
- Just-in-time delivery systems, succinct value chains, and shorter business cycles mean that product line managers must get right products to market fast.
- Customers are empowered and educated.
- When well thought-out new products fail, it wastes time and money.
- Knowing where a competitor's products are vulnerable can point to tactics for your company or vice versa.



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Strengths and Advantages

- PLA is a valuable tool in determining where and which products should be the recipient of scarce, valuable resources.
- Profit maximization for the life cycle can be realized.
- Increased efficiency because analyst can categorize markets and position products according to segments.
- PLA can reveal cannibalization, duplications, met or unmet customer needs & wants, and market size or structure.



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Weaknesses and Limitations

- External factors not taken into consideration.
- Risk that PLA may lead to abandonment of products or brands because they may appear to be at the end of their life cycle, even though they are profitable and may have following for years to come.
- Risk inherent in PLA is that management become “product focused” rather than “customer focused”.
- Risk that some managers will use PLA concepts as hard and fast rules to develop or eliminate strategies, without taking into consideration the many unquantifiable nuances that can result from product line changes.



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Process for Applying the Technique

Step 1: Initial Product Audit, Including:

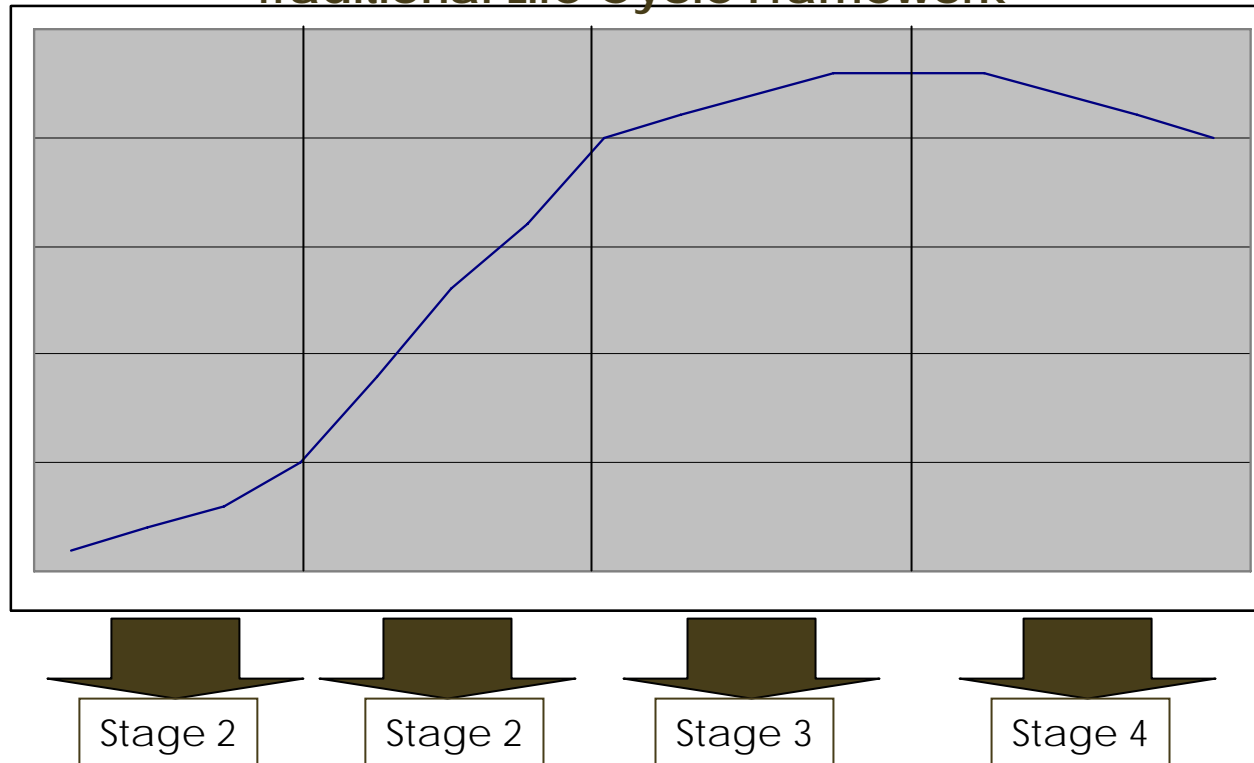
- Volume of products in a line.
 - Are number of products in the line consistent with generic strategy?
 - Is cannibalization occurring?
 - At a tolerable level?
- Data optimization techniques can use mathematical modeling to generate revenue projection based on objectives and constraints.
- View product within its expected life.

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Process for Applying the Technique

Step 2: Assess the Product relative to its position in the Product Life Cycle

Traditional Life Cycle Framework





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Process for Applying the Technique: PLC Stages

Stage 1	Stage 2	Stage 3	Stage 4
Development <ul style="list-style-type: none">•Slow Sales•Little profitability•Heavy Marketing, personal•Little differentiation•Innovator/early adopter target market	Growth <ul style="list-style-type: none">•Demand increases•Competitive Positioning•Increased profitability•Mass marketing•Fast- follower market	Maturity <ul style="list-style-type: none">•Production efficiency•Sales promotion-encourage new uses (Shewchuk, 1992)•Sales level off•Profits level off•Decreased marketing•Loyal market	Decline <ul style="list-style-type: none">•Sales decrease•Profits decrease•Direction towards substitutes

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Step 3: Product Market Segmentation

Product Related	Customer Related
Usage: How frequently is product used?	Geographic: Local, regional, national, etc.
Benefits desired: What are special features sought ?	Demographic: Age, gender, etc.
Price: Is buyer price sensitive or not?	Psychographic: What customer behaviour can one expect given their self-image? (Exp. An “innovator” sees themselves as adventurous and a risk taker, and will want to be the first to adopt a new product.)
Brand Loyalty: How loyal is the products’ following?	Orientation: What are customer needs in individual, work, family, or recreational profiles?
User Type: Who uses the product?	Socio-economic: What class structure does the customer belong to, and how much disposable income is the social class expected to afford them?
Application: What is product used for?	Family Life Cycle: What life stage is the customer in? (exp. “empty nesters” or “retirees”)
Competitor: Are customer locked in with a competitor? (cell phone users)	Psychological Segmenting: How far up is customer on “Maslow’s hierarchy of needs”? (Hierarchy of needs dictates that once our basic needs for food and shelter are met, our needs become more sophisticated.) (Lefton, Brannon, Boyes & Ogden, 2005)



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Process for Applying the Technique

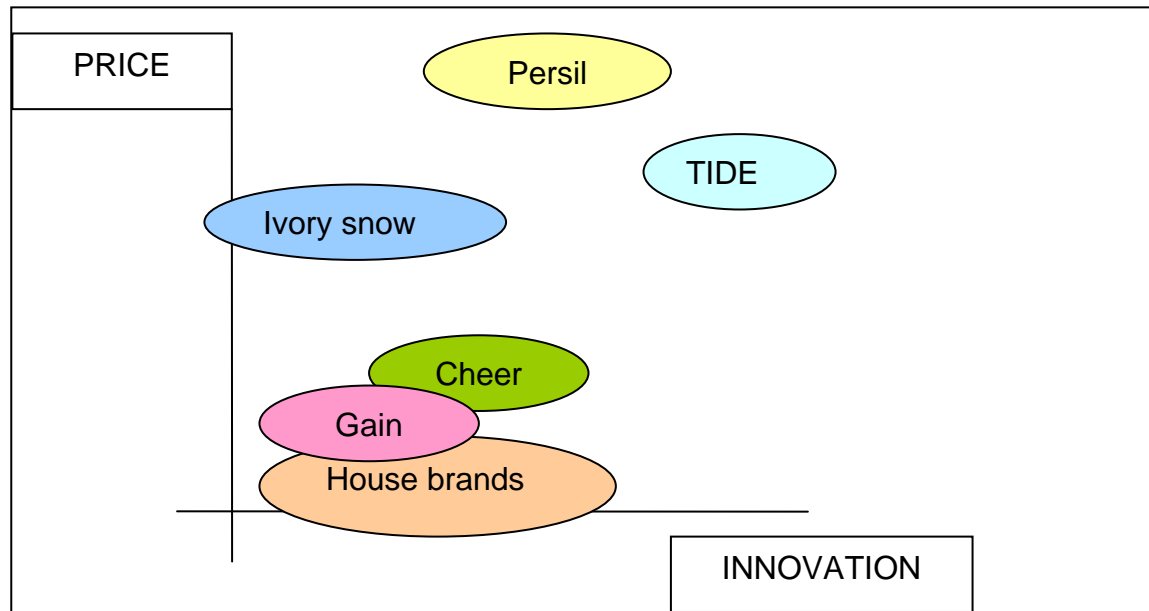
Step 4: Understanding Positioning

- Key to successful positioning is that a product delivers real desired benefits to the consumer in a form that they can easily understand and relate to (Tractinsky & Lowengart, 2003).
- Porter's Four Generic Strategies:
 - Cost Leadership
 - Differentiation
 - Cost Focus
 - Differentiation Focus
- Companies can conduct surveys or focus groups as a way of understanding customers' priorities.
- Companies can also hire third party market research firms to get unbiased feedback through surveys and data mining.

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Process for Applying the Technique

Step 4 Cont'd: Perceptual Maps - Perceptual map can be a useful tool to understand where the consumers see firms in the market place in terms of image and product offerings.





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Process for Applying the Technique

Step 5: Resource Allocation and the Product Line

- What are the incremental sales and profits that can be realized per unit of capital injection?
- What are the inter-relations and dependencies that exist between products in the line?
- How cohesive are the cost and design structures that bring the product to market?



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Case Study: EBay

- EBay has created the world's largest on-line auction community where people buy and sell goods of all kinds.
- Some product-line considerations:
 - Should EBay continue to grow by securing a global presence?
 - Should EBay grow their fixed price format and go toe to toe with e-tailers like Amazon.com and brick and mortar stores with on-line selling?



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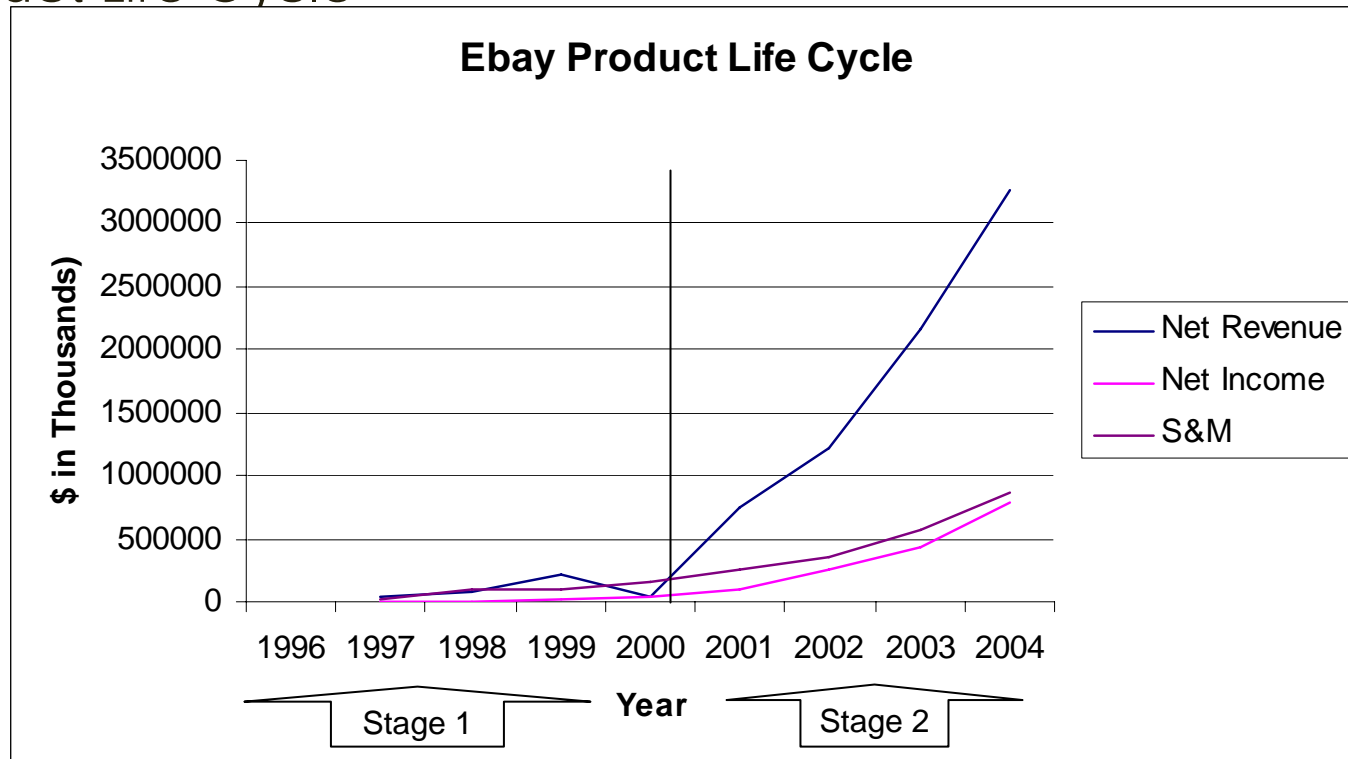
Case Study: EBay

- Product Audit:
 - On-line auction format, where buyers bid on items.
 - Fixed price format, where buyers have to pay a fixed “Buy it Now” price.
 - Store Inventory format, where registered users have their own store pages.
- Existing users are increasing their usage.
- New users are being attracted.
- Users have shifted in focus from collectors to bargain hunters.
- The fixed price format is increasing in popularity.

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Case Study: EBay

- Product Life Cycle





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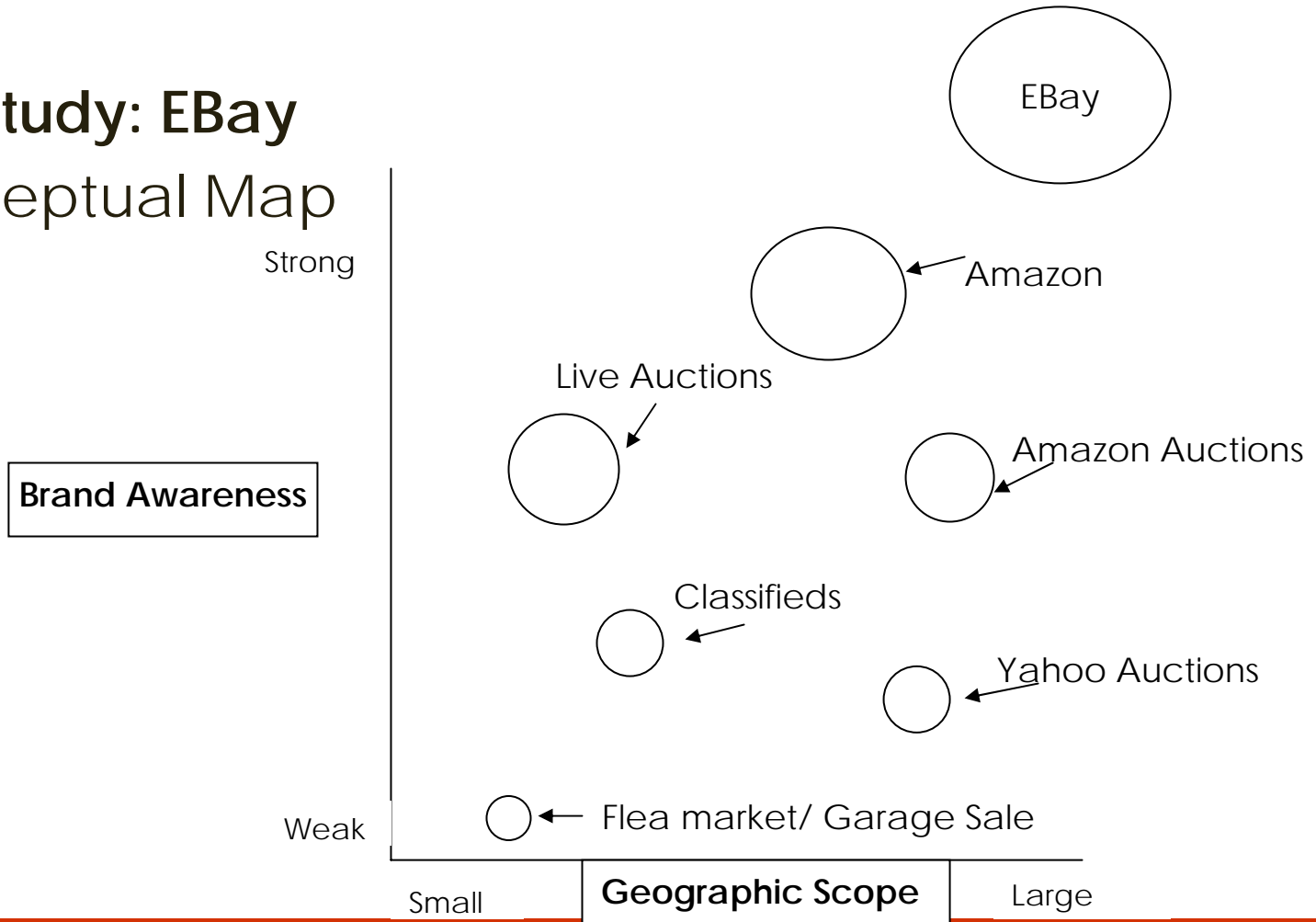
Case Study: EBay

- Positioning:
 - First Mover strategy.
 - Accumulated critical mass.
 - Sense of community between users has formed creating core competence.
 - Consistent with the differentiation positioning strategy.

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Case Study: EBay

- Perceptual Map





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Case Study: EBay

- The wiser money would be spent continuing international expansion and execute the first mover strategy, or acquiring existing on-line auction houses in new markets, particularly where internet usage is increasing.
- Many cultures worldwide are much more comfortable with bargaining than North American culture and may be even more receptive at first blush to EBay's platform.
- New markets also present opportunities to move into bigger ticket auctions, like cars and boats, which generate bigger fees, once the market is established.
- The fixed price format is attractive, but EBay would face fierce competition from traditional e-tailers, and face a significant departure from its format and culture.



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- FAROUT Summary**

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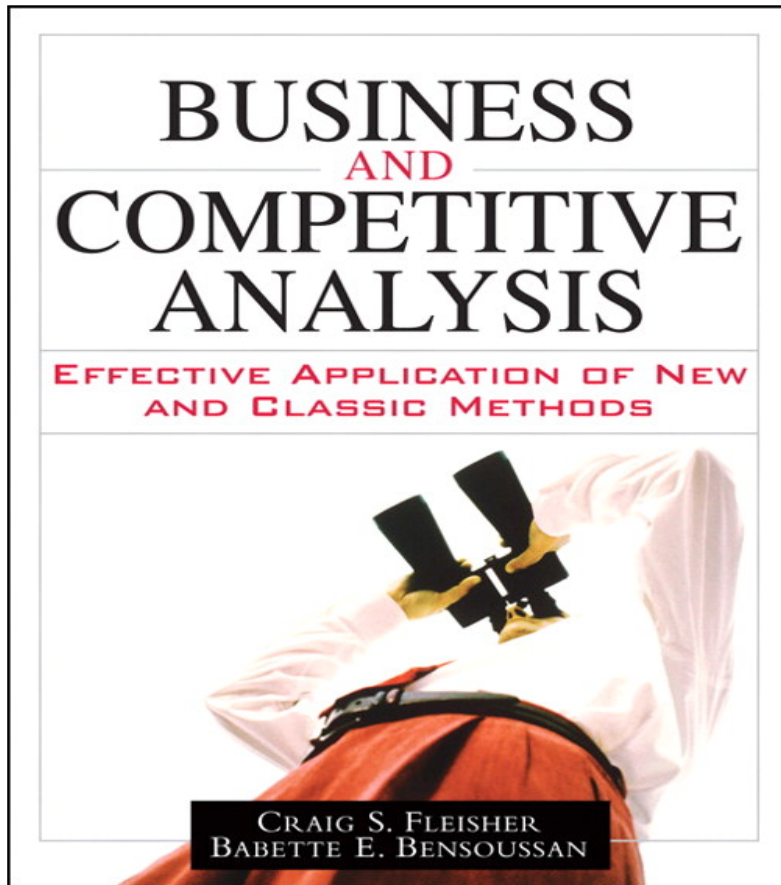


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Related Tools and Techniques

- Porter's Five Forces
- SWOT Analysis
- Customer Segmentation Analysis
- Product Life Cycle Analysis
- GE Business Screen / Portfolio Analysis
- Value Chain Analysis
- Strategic Group Analysis

Ch14. Product Line Analysis



For More About **Product Line Analysis** and 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

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