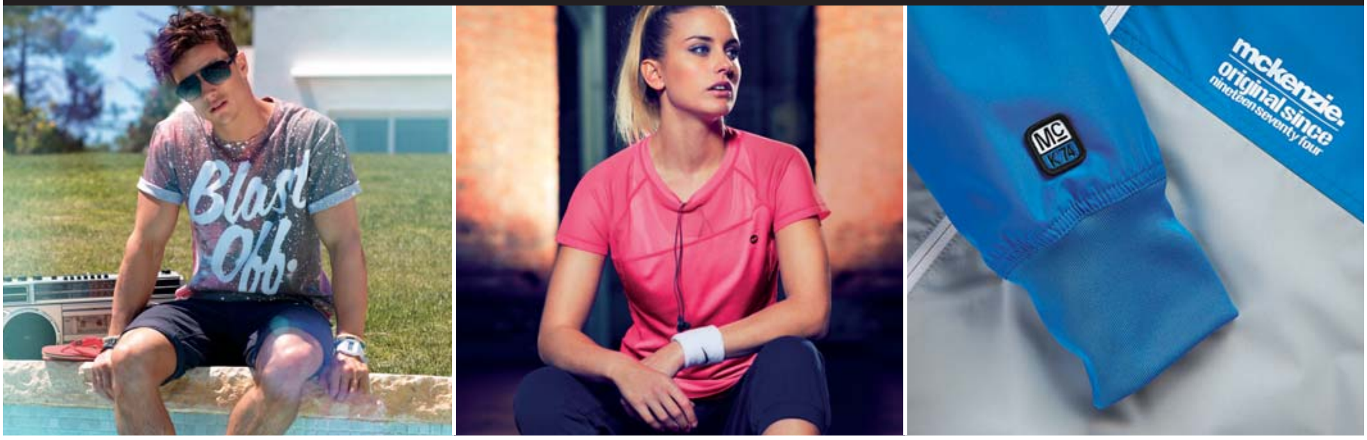
MARKETING

Balancing the product portfolio to satisfy customer demand



Introduction

JD is the UK's leading retailer and distributor of fashionable sports and casual wear. JD has a reputation as the most innovative visual merchandiser of sportswear and branded fashion. It was founded in 1981 in Bury, in the North West of England, with one shop - John David Sports. The JD Sports Fashion PLC Group now has over 900 stores across the UK and the Republic of Ireland. In more recent years it has entered the European market with stores in France, Spain and Holland.

JD is acknowledged as the leading specialist multiple retailer of fashionable branded and own brand sports and casual wear. It combines globally recognised brands such as Nike and adidas with its own brand labels such as Mckenzie, Carbrini, Brookhaven and The Duffer of St. George. JD also operates an online business with the website servicing one million unique visitors a week.

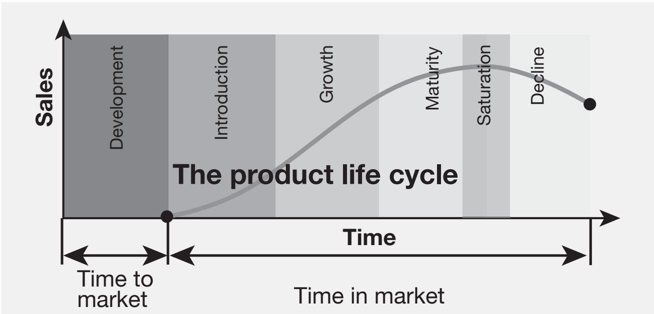
Having a range of products, priced correctly, is a key component of a business' marketing strategy. This range of products is referred to as the product portfolio and a business needs to have the right balance of new, growing and mature products as part of its portfolio. The product life cycle (PLC) is the term used to describe the stages a product goes through from an initial idea to being removed from the market and no longer sold.

JD is proud of the fact that it provides its customers with the latest sport and athletic inspired fashion apparel and footwear, as well as fashion and outdoor clothing products and equipment from the very best brands. This case study shows how JD balances its product portfolio to continually sell products that customers want to buy at prices they are prepared to pay.

The product life cycle

The product life cycle (PLC) is the term used to describe the stages a product goes through from initial development (start of life) to its removal from the market when sales have declined (end of life). There are six stages to the PLC:

- Development
- Introduction
- Growth
- Maturity
- Saturation
- Decline



Development is the first stage of the cycle when a business has a new product idea. The idea may come from market research, customer demand, updating existing products or in response to a competitor's product. This development phase will incur costs but the business will not receive income from any sales until the product is launched into the market. Introduction is the stage when the product is launched into the market.

Curriculum topics covered: • Product portfolio • The product life cycle • Boston matrix • Promotion and extension strategies

A business will promote the product to build sales. JD buys third party brands such as Nike and adidas six months before the products are in stores. This gives time for JD to develop targeted advertising campaigns online and in the stores ready for the launch of a new product.

As sales grow and new and existing customers buy the product, it moves into the growth stage of the life cycle. During the maturity stage although growth in sales has slowed down there is still a steady demand for the product. At the saturation stage sales begin to drop because there may be a new or alternative product on the market and the final stage is reached, that of decline, when the sales of the product fall.

The length of each stage will vary depending on the product. JD monitors and manages the life of its products very closely. Product sales are assessed immediately after the product has been launched in store. After four to six weeks an assessment is made as to whether the product needs to be marked down as a reduced price product. For any product not sold after it has been reduced it is then stored ready for a sale. JD usually runs two sale periods during the year in June and December.

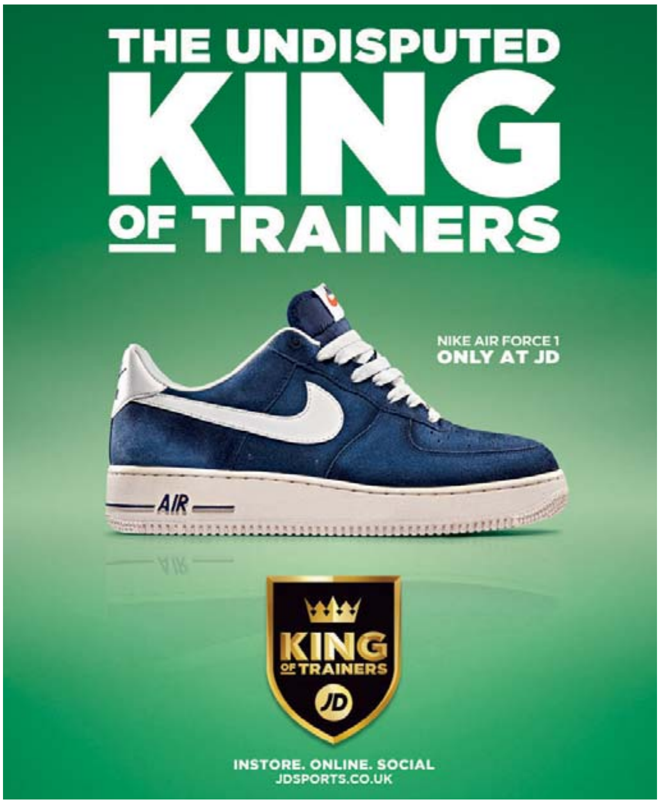
Purpose of the product life cycle

Understanding the life cycle of a product is important to a business for a number of reasons. One important reason is that understanding the PLC will help a business to manage its cash flow. In the development stage money will be spent on developing the product with no sales to cover the cost of that development. When the product is introduced into the market the business will probably incur significant costs in marketing campaigns. Sales revenue in the introductory stage is unlikely to cover costs. As the product moves into its growth phase, the cost of promoting the product should decrease as cash flow from product sales increase and the business can see a profit. Profits should continue through maturity until sales fall as the product begins to decline.

In the sport and casual wear sector changing fashions will also affect the life cycle of a product. JD buys branded products such as Nike and adidas six months before launch so they usually have a pre-determined price. In this price and fashion sensitive market, prices may have to change even on the day of the launch because of other retailers' pricing strategies.

Monitoring the life cycle will help to identify when products should be replaced or renewed. JD is subject to seasonal trends in its fashion and outdoor wear whereas products such as Nike Air Max 95 trainers will have a longer 'life'. Consequently, stores are allocated the product based on individual demand.

A business can extend the PLC by changing its pricing strategies, for example 'buy one get one free' offers or free postage and packaging to encourage more sales. Other pricing strategies can be used at appropriate stages of the PLC, for example a business can use price skimming when the product is first launched by charging high prices. The aim of skimming is to gain high profits in the early stages of the PLC. Skimming is successful when the product is new and different so that consumers will pay a high price for being the first to have it. The opposite strategy to skimming is termed penetration pricing, this means setting a low price when the product first enters the market. The aim is to get the maximum possible market share quickly and to shorten the launch stage of the PLC.



Promotion

There are several ways a business can promote its product to maintain growth at the peak of the PLC. JD is a market-orientated business which means its focus is on satisfying the needs of its customers. It segments its market demographically and uniquely understands the buying habits of its predominantly sports and fashion conscious customers.

A product that JD decides to feature in its promotional campaigns usually becomes a 'hero' product in one of their seasonal campaigns. Each campaign will be accompanied by a photo-shoot, where JD will 'hero' the product. The images and video are then used to create a campaign both in store and online. Once in store the products are visually merchandised to enhance their desirability to customers. This relates to how and where it is presented in store. Front of store, displays on walls and displays in windows are key areas used to promote the product.

JD advertises online by using images on the website, as well as targeted e-mailing and social media posts to its existing database. JD also uses search engine optimisation (SEO). SEO is the process that uses keywords and phrases to improve web traffic through a search field. This ensures that it is high on search lists, such as Google, when searched for by customers. JD promotes its products through various channels on both a local level and national level. For example, FHM magazine receives key products to review and use in the editorial section of the magazine, both on shelf and online.

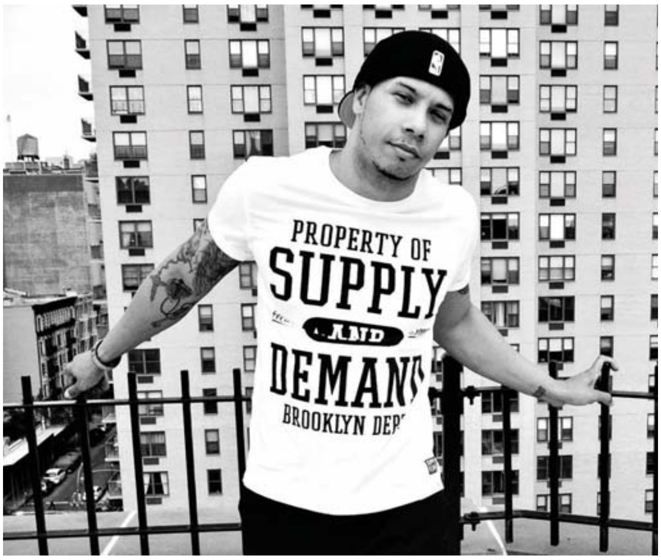
Larger JD promotional campaigns include press advertising and outdoor media campaigns. Carefully selected press promote the JD message. It regularly uses specially selected outdoor media venues in key cities throughout the UK and Ireland.

Extension strategies

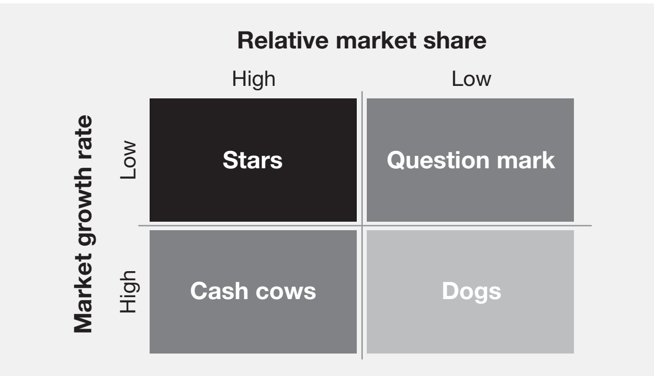
As sales begin to decline, a business needs to decide whether to withdraw the product or use extension strategies to boost product sales and extend its 'life'. Extension strategies include re-packaging, adding extra features or changing the product price.

A business needs to have a mix of products at different stages of the PLC to meet the demands of its customers as well as maintaining a profitable business. To help identify the right product mix a business can use an analysis tool called the Boston matrix. The Boston matrix compares the market growth of a product with its share of the market. The matrix analysis refers to products as question marks, stars, cash cows and dogs.

All new products are seen as question marks, this is because they are new entrants to the market and so are not yet profitable and the product may succeed or fail. Stars are those products with



high growth and high market share; they are in the profitable growth stage of the PLC. Cash cows are in the maturity stage of the PLC as they are products with a high market share, but their growth in the market has stabilised. At this stage the costs of the product in terms of production and promotion are generally lower, so cash cows generate high revenue for the business. Finally, dogs are products that have a low market share and low market growth. They can be a drain on a business' resources so are often sold off if they are no longer making a profit. For a business to survive, it needs a balanced product portfolio so that it can invest the revenue it generates from its cash cow products to develop new question marks so that they become stars.



JD monitors product sales and its products portfolio closely. For example, if one of its products is not selling as expected, the company will decide to reduce the price of the product in order to encourage more sales. If the product is not selling well after four to six weeks, it becomes an 'offer' product. The product is then displayed using a vibrant orange and grey price ticket and will be on display in store with other 'offer' products.

By sectioning these products off from full price products, it encourages a high footfall of customers looking for a bargain. This process also applies to its online sales. JD uses 'offer' pages on its website to promote these products as well as sending e-mails to previous offer customers in order to sell the products more quickly and clear stocks.

Conclusion

Understanding customer buying habits and having the right mix and balance of products is essential for business survival, particularly in the fast moving environment of fashion and sports retail. JD understands the importance of market research to understand what its customers want. JD constantly analyses its product portfolio to ensure that it reflects these wants. A business needs a mix of products in its portfolio so that if one product fails to sell it still has other products that it can depend on. The stages of the PLC help a business to measure the return on its investment in new products and to develop appropriate marketing activities to promote products through their 'life'.

Pricing of the product and the balance of products can be changed in response to the stage of the life cycle that the product has reached. The PLC helps in planning and forecasting the revenue likely to be generated, from the product development stage through to maturity and decline. JD invests heavily in its promotional activity to ensure products are targeted to its fashion conscious market. Its innovative visual merchandising and promotional strategies help it to remain the UK's leading retailer and distributor of fashionable sports and casual wear.

Exam-style questions

1. Explain the term product portfolio. *(2 marks)*
2. Describe the stages of the product life cycle. *(4 marks)*
3. Analyse the impact of the product life cycle on the cash flow and profits of a business. *(6 marks)*
4. Evaluate how JD's promotional activities contribute to its market position as a leading retailer of fashionable sports and casual wear. *(8 marks)*