An interesting definition of mature product marketing essay

An interesting definition of mature product market is found in Economics in Business Context by Colin Haslam, Alan Neale and Sukhdev Johal (2002, p. 92). As per this definition, " a product market reaches maturity when demand for the product is determined by replacement". I will try to elaborate this definition. In a mature product market, there is little or no scope for the further growth of the product. In simple words, the product has been sold to the maximum number of targeted customers. Hence, customers will demand the product only when the previously bought product has to be replaced. Does maturity necessarily lead to deterioration of market? This question can be answered using the concept of cyclicality.

Economics in Business Context (Haslam et al. 2002, p. 92) further defines cyclical markets as " generally mature markets in which volume fluctuates at or around steady pattern of demand". Depending on the replacement period of the product, the product will be required by the customers every few years, months or weeks. During the period when maximum customers replace the product, the demand for the product will be at its positive peak. This period is followed by a period of low sales. Thus, fluctuation in the demand for a mature product makes it cyclical. Some products have longer replacement periods than the others, making them cyclical. For example, a refrigerator may be replaced after every ten years but cold drinks manufactured by Coco Cola or Pepsi are bought by billions of people every day. Therefore, refrigerators may be termed as mature and cyclical. Coco Cola and Pepsi have reached maturity but they are not cyclical.

Let me illustrate with the help of a hypothetical example. Consider a product XYZ. Say, I had introduced XYZ in the market in 1990. The replacement period of this product was five years. Using excellent marketing strategy, XYZ had gained popularity amongst the customers by 1991. But, I had not yet sold XYZ to maximum number of targeted customers. I had to maximize my sales as well as confront a new problem; a competitor introduced a similar product called ABC in the market in the year 1992. After a research on XYZ, I realized that the product could be manufactured in a better way, leading to an increase its durability. The replacement period after increase in durability became 8 years. Increase in the durability of XYZ attracted more number of customers. Because it was a very popular product, XYZ reached maturity by 1995. It was sold to maximum number of customers. If I had not increased the durability of XYZ, more number of people would have bought XYZ every few years.

Thus, the product was sold to maximum number of customers in its initial years in the market. But later, maturity, increase in durability and competition in the market led to a drop in the sales. After this, the sales reached a positive peak only when the demand reached a peak. And the demand for XYZ reached a peak only when maximum customers replaced the product.

If a product like XYZ cannot survive the period of low sales, it may vanish from the market. Is the growth of a product in a mature market possible? Can it reach more number of customers despite the competition and maturity? Can a company that manufactures a mature product increase its revenue drastically? Through his article ‘ How Organizations Overachieve and Outrun Mature Markets’ (2005, p. 1) in Ivey business journal, Al Magrath (director of corporate marketing, 3M Canada) says, it is possible. He illustrates the following ways of doing this task with examples: “ 1. Participate in a different value stream 2. Use technology to invent new sectors 3. Conquer new geographies 4. Extend branding power 5. Elongate your price/value 6. Help value changes in your market and 7. Use high end technology.” Some companies also use cost reduction along with the above measures. Cost reduction, extending branding power, using high end technology to upgrade a product or a manufacturing process, acquisitions, mergers and asset reorganization form a part of what is called as ‘ corporate restructuring’.

As western automobile markets reached saturation, automobile giants like Chrysler and Volkswagen resorted to restructuring. Volkswagen had concentrated on its portfolio restructuring since early 90’s. Volkswagen acquired Skoda in 1991. Volkswagen helped Skoda to emerge out of bankruptcy and Skoda soon became “ U. K.’s best loved car” (kn. theit. org 2009). This in turn helped Volkswagen, whose profits were declining around the same time. It gained access to the little penetrated car market of Eastern Europe. In 2009, it acquired 49. 9% stake in Porsche. During recession, Porsche plunged into debts. Volkswagen used this opportunity to gain from its rival, who had a respected brand name globally (english. peopledaily. com. cn 2009). And now, Volkswagen is coming up with a strategy to acquire Toyota (in. reuters. com 2010). Even though the car market has matured in western parts of the globe, Volkswagen has been using strategic acquisitions to grow further.

The financial restructuring process of Volkswagen, called as ‘ ForMotion’ is well-known. This restructuring process began in 2004.

With the commencement of ‘ ForMotion’, a number of workers lost their jobs. The working hours of most of the workers were extended (www. wsws. org 2006). Downsizing for restructuring had become infamous by then. A number of companies operating in mature market had adopted downsizing. Did the downsizing of its plants work for Volkswagen?

‘ Restructuring hurts Volkswagen’ was the headline of Los Angeles Times on October 28, 2006 (articles. latimes. com 2006). The profit of Volkswagen had plunged by 92% in the third quarter of 2005. Spokeswoman Christiane Ritz said “ the costs of employee buyouts and a deal with metalworkers union IG Metall to provide one-time payments of 6, 279 Euros per person into workers’ pension funds were booked in the third quarter”.

But as demand for Volkswagen cars grew, the profit started rising. During the release of financial statements for the year 2005, the group chairman, Dr. Bernd Pischetsrieder, revealed the following facts: “ Profit before tax rose by 58. 2 percent to €1. 7 billion in 2005. Overall, however, the level of earnings we achieved remains unsatisfactory”. Hence, the group decided to continue with the restructuring plan (volkswagenag. com 2006).

But the true test of any company in the automotive industry was the global recession in 2008. Initially, in 2008, Volkswagen, too, felt the heat of the recession. But 2009 saw Volkswagen emerge as the only survivor in the automotive industry. Portfolio restructuring had helped Volkswagen to work in newer car markets. Even after the financial restructuring, its position was weak in the United States of America. But it proved to be a boon for Volkswagen. “ VW is coasting through 2009, boosting its share of global car sales to 12% from 9. 9% in the first half of the year", reported time. com (2009). If Volkswagen had used only financial restructuring, it may have suffered major losses. It had invested money in financial restructuring, which was yet to be recovered through its profit. During recession, some of the smaller Skoda cars had performed better than the parent brand in the car markets (independent. co. uk 2007). But the cost reduction achieved through the financial restructuring complemented the portfolio restructuring and Volkswagen survived. Thus, a mixture of restructuring strategies helped Volkswagen in alleviation of harm caused by the recession.

The restructuring process surely helped Volkswagen in a mature market. But the sales have started stabilizing again. And this time, Volkswagen has come up with a new strategy. It has begun exploring hitherto unexplored markets. Initially, it was the cheap labour in India that attracted Volkswagen. But now, Volkswagen has set its eyes on the unexplored Indian car markets. Volkswagen began the execution of its plan with the launch of ' Polo' in India. The Indian car market is predicted to be favourable for Volkswagen and is expected to generate additional revenues (thelocal. de 2009).

Thus, it is true that restructuring (both financial and portfolio restructuring) has helped Volkswagen to not only survive in a mature market but also emerge as a leader in the automotive industry. But as observed from the study of Volkswagen, corporate restructuring can aid a mature industry only to a certain extent. It may help a company to perform better than its competitors in a mature market. It may also assist the growth of a company through acquisitions. But after a certain point, the company has to look for newer avenues of business.

It is evident from the scenario in the automotive industry that restructuring of industries in a mature and cyclical product market is essential. Use of the right kind of restructuring, as in case of Volkswagen, is also important. But to supplement the growth of the product, exploration of newer markets is inevitable.