CHAPTER 2

Theoretical Framework and Methodology

In the present research, the Product Life Cycle theory has been used extensively. The Product Life Cycle portrays distinct stages in the sales history of a product. Corresponding to these stages are distinct opportunities and problems with respect to marketing strategy and profit potential. By identifying the stage that a product is in, or may be headed towards, companies can formulate better marketing plans. The Product Life Cycle comprises of four stages : (I) Products have a limited life, (ii) Product sales pass through distinct stages, each posing different challenges to the seller, (iii) Profits rise and fall at different stages of the product life cycle. (iv) Products require different marketing, financial, manufacturing, purchasing and personnel strategies in each stage of their life cycle[6].

2.1 Product Life Cycle

Chester R. Wasson[7] has explained that the Product Line Cycle always follows an 'S' shaped curve as illustrated in Exhibit 1. This curve is typically divided into four stages, known as (1) Introduction, (2) Growth, (3) Maturity and (4) Decline. A particular firm's marketing mix usually must change during the Product Life Cycle. There are several reasons why. Customers' attitudes and needs may change over the Product Life Cycle. The product may aimed at entirely different target markets at different stages. And the nature of competition moves toward pure competition or oligopoly.

Further to this, the total sales of the product by all competitors in the industry may vary in each of its four stages. They move from very low in the introduction stage

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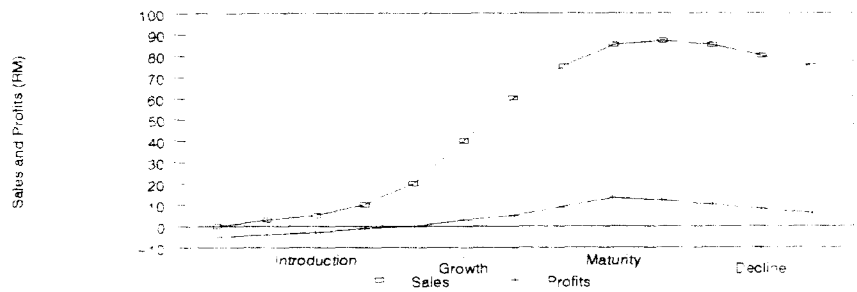
[6] McCarthy & Perrault, 6th ed (1994), Essentials of Marketing - *Global Managerial Approach*, USA Irwin, pp.206-214.

[7] *Dynamic Competitive Strategy and Product Life Cycle*, Austin, TX:Austin Press, 1978

to high at maturity and then back to low in the decline stage. Mc Carthy, Perreault etc al have been described that profit picture change as Product Life Cycle change[8].

Exhibit 1 **Summary of Product Life Cycle Characteristics, Objectives, and Strategies**

Sales and Product Life Cycle



CHARACTERISTICS

Sales	Low Sales	Rapidly rising Sales	Peak Sales	Declining Sales
Costs	High cost per Customer	Average cost per customer	Low cost per per customer	Low cost per per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number begin to decline	Declining number

MARKETING OBJECTIVES

	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

STRATEGIES

Product	Offer a basic product	Offer product extension, service & Warranty	Diversify brands and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build Intensive distribution	Build more Intensive distribution	Go selective phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness & interest in the mass market	Stress brand differences & benefits	Reduce to level needed to retain hardcore loyals
Sales Promotion	Use heavy Sales Promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Sources : This table was assembled from several sources Chester R. Wasson, Dynamic Competitive Strategy and Product Life Cycles (Austin, TX:Austin Press 1978) John A. Weber,"Planning Corporate Growth with Inverted Product Life Cycles," Long Range Planning; October 1976, pp 12-29; and Peter Doyle "The Realities of the Product Life Cycle," Quarterly Review of Marketing, Summer 1976,pp.1-6

[8] McCarthy & Perrault. 6th ed. (1994), Essential of Marketing - *A Global Managerial Approach*, IRWIN, USA. pp 204-223.

2.1.1 Introduction Stage

It is the stage where the new product idea is first introduced. Customers are not aware of the product. They do not buy in the first stage. Even though a firm promotes its new product, it takes time for customers to learn that the product is available. Most companies experience losses during the introduction stage because of the high initial promotion costs.

2.1.2 Growth Stage

In the growth stage, industry wise profits initially increase, but latter they start falling. In this stage, new innovative products are released to the market. Customer demand increases, and hence the profit increases. As a result of increasing profit, more players(competitors) enter into the market. The new firms may bring in various types of new products. This tough competition leads to a decline in the profit margin.

2.1.3 Maturity Stage

The industry achieves maturity stage when sales level off and competition get tougher. Many aggresive competitors would enter into the race for profits,- except in an oligopolistic market. Industry profits go down throughout the maturity stage because promotion costs rise and some competitors cut prices to attract customers. Less efficient firms that cannot compete usually drop out of the market.

New firms may still enter into the market at this stage, and competition may increase even more. Normally late entries skip the early life-cycle stages, including the profitable market growth stage. They try to take a share of the saturated market from established firms, which is difficult and expensive.

Persuasive promotion becomes more important during the maturity stage. Products may differ only slightly if at all. The various brands become almost similar in preference in the minds of potential consumers. This stage normally continue for many years.

2.1.4 Decline Stage

During the decline stage, new products replace old products. Price competition from dying products becomes more vigorous, but firms that successfully differentiate their products may make profits until the end. They may keep some old products for their loyal customers.

Sales decline at this stage for a number of reasons, including technological advances, consumer shifts in preferences, and increase domestic and foreign competition. As sales and profit decline, some firms withdraw from the market. The competitors who would stay may reduce the number of product offerings. They may withdraw from smaller market segments and weaker trade channels. They may cut the promotion budget and reduce their price further.

Unfortunately, most companies have not developed a well-thoughtout policy for handling their first product, treating it like an old trusted friend. Logic also plays a role. The management may believe that product sales will improve when the economy improves, or when the marketing strategy is revised, or when the product is improved They may retain a product because of its alleged contribution to the sales of the company's other products.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm. It is very difficult to determine the cost. Financial accounting cannot convey adequately all the hidden costs: The weak product might consume a disproportionate amount of the management's time; it often requires frequent price and inventory adjustments. It generally involves short production runs in spite of expensive setup times. The biggest cost might well lie in the future. This could be one of the reasons that the industry does not want to invest in R&D.

2.2 Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis - The Internal Analysis

SWOT analysis is a useful tool for analyzing an organization's overall situation. (SWOT stands for strengths, weaknesses, opportunities, and threats.) This approach attempts to balance the internal strengths and weaknesses of an organization with the opportunities and threats that the external environment presents. This approach suggests that the major issues facing an organization can be isolated through careful analysis of each of these four elements. Strategies can then be formulated to address these issues. Exhibit 2 lists several key questions in each area that managers should address when performing a SWOT analysis.

Exhibit 2 : Important Considerations For SWOT Analysis

I. Internal Analysis :

(1) Strength:-

A distinctive competence? Adequate financial resources? Good competitive skills? Well thought of by buyers? An acknowledged market leader? Well-conceived functional area startegies? Acess to economies of scale? Insulated(at least somewhat) from strong competitive pressures? Proprietary technology? Cost advantages? Competitive advantages? Proven management?Others?

(2) Weaknesses:-

No clear strategic direction? A deteriorating competitive position? Obselete facilities? Subpar profitability because..? Lack of managerial depth and talent? Missing any key skills or competence? Poor track record in implementing strategy? Plagued with internal operating problems? Vulnerable to competitive pressures? Falling behind in R&D? Too narrow a product line?

Weak market image? Competitive disadvantages? Below-average marketing skills? Unable to finance need changes in strategy? Others?

II. External Analysis:

(1) Opportunities:-

Enter new markets or segments? Add to Product line? Diversify into related products? Add complementary products? Vertical integration? Ability to move to better strategic group? Faster market growth? Others?

(2) Threat:-

Likely entry of new competitors? Rising sales of substitute products? Slower market growth? Adverse government policies? Growing competitive pressures? Vulnerability to recession and business cycle? Growing bargaining power of customers or suppliers? Changing buyer needs and tastes? Adverse demographic changes? Others?

Source:Adapted from Arthur A Thompson, Jr.,and A.J.Strickland III, Strategic Management : Concepts and Cases (Plano. Tax.:Business Publications, 1987, pp.98)

2.3 Political, Economic, Social and Technological(PEST) Analysis - The External Analysis

It is useful to consider as a starting point the environmental factors that have been particularly important in the past and the changes that are occurring which may make any of these factors more or less significant in the future for the organisation and its competitors. Exhibit 5 can help with such an audit by providing a summary of some of the questions to ask about likely key forces at work in the wider environment. Sometime, it is known as a PEST analysis, which would indicate the importance of political, economic, social and technological influences on the organization[9].

Exhibit 3 : A PEST Analysis of Environmental Influences

(1) What environmental factors are affecting the organisation?
(2) Which of these are the most important at the present time? In the next few years?
(a) Political/Legal
Monopolies legislation, Environmental protection laws, Taxation policy, Foreign Trade Regulations, Employment law. Government stability.
(b) Economic
Business cycles, GNP trends, Interest rates, Money Supply, Inflation, Unemployment, Disposable income. Energy availability and cost.
(c) Social-Cultural
Population demographics, Income distribution, Social mobility, Lifestyle changes, Attitudes to work and leisure, Consumerism Levels of education.
(d) Technological
Government spending on research, Government and industry focus of technology, New effort discoveries/development speed of technology transfer, Rates of obsolescence.

Source: Gerry Johnson and Keven Scholes(1993), Exploring Corporate Strategy - Text & Cases, 3rd ed.,Prentice Hall UK.pp 82-84.

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[9] Gerry Johnson and Keven Scholes(1993), "*Exploring Corporate Strategy*", 3rd ed., Prentice Hall UK,pp.82-84.

There are four main ways in which PEST can contribute to strategic analysis:

(I) The Exhibit 3, can be used as a checklist when considering and analysing the different environmental influences on the organisation?

(ii) It may, however, be possible to identify a small number of key environmental influences on the organisation?

(iii) PEST analysis may also be helpful in identifying the long-term drivers of change. For example, given the increasing globalisation of some markets, it is important to identify the forces leading to this development. These include rapid changes in technology, leading to shorter life spans of such technology, and therefore to the need for greater scale economies in its use.

(iv) PEST analysis may also help to examine the differential impact of external influences on organizations either historically or in terms of likely future impact. This approach builds on the identification of key trends or influences, and asks to what extent such external influences will affect different organisations perhaps competitors differently

The SWOT analysis is a useful tool for analyzing Torita's overall situation that attempts to balance the internal strengths and weaknesses of an organization with the opportunities and threats that the external environment presents. This approach suggests that the major issues faced by Torita can be isolated through careful analysis of each of these four elements. Strategies can then be formulated to address these issues. Therefore, the PEST and SWOT analysis are used in the present study. These analysis could help Torita to conduct the environment searching and subsequently enable Torita to formulate, evaluates and implement strategies in coping with the challenges

2.4 Research Methodology

The research is basically based upon case study method. A detailed case study method has been used for this research to collect Torita's data, the researcher has also employed a causal research method to identify cause and effect relationship among the variables which has been delineated in the scope of the research. Both primary and secondary data has been used for this study. Primary data is in the form of interviewing people who are involved in the rubber industry in general and some managerial people of Torita company. Secondary data are in the form of accounts related report and other printed documents.

2.5 Sources of Data

The main source of this research is the last 15 years of financial report of Torita Rubber Works Sendirian Berhad. This financial reports help to identify and analyse the performances of Torita. Beside the financial reports, various journals that related to the Malaysia rubber industry has been used for theoritical framework.