C.26 Product Elimination

PRODUCT ELIMINATION AS A MARKETING VARIABLE

Although **product elimination** is an emotionally less satisfying process than its counterpart process of **new product development** (GLOSSARY entry C.17), businesses should regularly examine this need. Eliminating products can improve profits and allow reallocation of financial and managerial resources to more promising products, including new products.

The Need for Product Elimination. The need for product elimination arises when a product's sales and profits decline below acceptable levels. There are several explanations for this. According to the **product life-cycle** concept, products go into decline, losing sales and profits, when the product category has been made obsolete by the introduction of an innovative new product (see GLOSSARY concept A.15). In **strategic market planning,** products become candidates when they fall into the low growth/low share quadrant of the growth/share matrix and become "dogs." In this position, they no longer contribute cash flow and have poor prospects for doing so in the future (see GLOSSARY entry A.19). The **product line** concept also suggests why the need for product elimination arises. Product lines usually arise when line extensions are added to a successful line leader. The temptation is to "fill in" the line, adding more and more products, often without market testing. In time, however, sales success tends to center on relatively few items in the line, with the remainder declining in sales and contributing little or nothing to profits. These become candidates for elimination. (See GLOSSARY entry C.27 on **product line.**).

Several benefits result from the elimination of declining products. If the product has negative profits, elimination may improve the bottom line and improve cash flow. Elimination of a declining product may also free up investment resources that can then be reallocated to more promising products or to a new product development and introduction effort. Kotler suggests that many of the costs of a weak product are hidden and do not show up in financial accounting measures. Weak products, for example, require disproportionate managerial time, require disruptive, expensive, short production runs, and divert the sales force from more promising products.[1]

Product elimination is frequently resisted on highly emotional grounds. Managers develop personal attachments to products as a result of working with them over the years. Resistance to elimination of these products sometimes appears as exaggeration of benefits and rationalization of strengths. Arguments often advanced are that the product is an essential part of the "full line" and that customers will be lost for all items if the line is not complete. Or, the argument may be that the product is essential because it absorbs fixed costs that would be assigned to other products if the product were eliminated. Or the argument may be that the product is on the verge of doing better and simply requires more time. All of these arguments should be examined carefully to see if they are supported by the facts.

Alternatives to Product Elimination. Several marketing approaches are applicable to a weak product that are alternatives to elimination of the product. These alternatives should be considered before an elimination decision is made.

If a product is weak, but it is in the matu-

[1]See Philip Kotler, "Phasing Out Weak Products," *Harvard Business Review* (March–April 1965), p. 109.

rity rather than decline stage of the product life cycle, it may be possible to revitalize the product (see GLOSSARY entry A.15). This might be done by improving the product so that its competitive advantage is stronger or new uses might be found for the product to broaden its sales base. Product improvement might take the form of reducing cost of production, perhaps through product redesign, in order to improve the profit margin or to permit a reduction in price. (See GLOSSARY entry C.25 on **product design.**) On the other hand, depending on the competitive situation, it may be possible to raise the price of the product, again improving profit margins. (See GLOSSARY entry C.21 on **price determinants.**)

If product decline is due to competitive problems, it may be possible to reposition the product (see GLOSSARY entry B.1). Possibilities include changing to a less competitive target market, shifting the product benefit, or finding a more compelling competitive advantage.

Another alternative, more closely allied to product elimination, is countersegmentation.[2] Product weakness may have occurred because the market was oversegmented, resulting in a line of products, each tailored to a specialized market with too little potential. In **countersegmentation,** target markets are joined together and specialized products eliminated in favor of general use, no frills products. Recombination of the product line may result in production and marketing economies, permitting lower prices as customer compensation for less specialized products. (See GLOSSARY entry B.4 on **target market selection.**)

PROCESS AND CRITERIA FOR ELIMINATION OF PRODUCTS

Because of the emotional nature of the product elimination decision, several authors have recommended that the decision-making process be formalized with agreed elimination standards set in advance. Further, some have recommended that the analysis of elimination candidates be conducted impersonally by computer.[3] Avlonitis, in a study among British industrial firms, found that use of more formalized product elimination practices increased the managerial effectiveness of the process.[4]

The product elimination process, as usually presented, has four stages:

1. Identify candidates for elimination
2. Analyze elimination candidates
3. Select products to be eliminated
4. Develop a phase-out program

The process may, of course, be customized to meet the needs of a particular business.

Step 1: Identify Candidates for Product Elimination. The first step in the process is to develop a list of products to be considered further as candidates for elimination. The measures used to identify elimination candidates should be objective and measurable to eliminate emotion and the need for executive judgment. At this stage, use of a computer to screen the product line for elimination candidates would be more appropriate than use of managerial time.

Appropriate screening measures might be these:

1. Is the trend of sales downward? market share?
2. Is the product making a net loss?
3. How much does the product contribute to overhead?
4. Is the trend of the product's price downward?
5. What share of company sales does the product contribute?

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[2]See Alan J. Resnik, Peter B. B. Turney, and J. Barry Mason, "Marketers Turn to 'Countersegmentation,'" *Harvard Business Review* (September–October 1979), pp. 100–106.

[3]See Kotler, "Phasing Out Weak Products," pp. 107–118, and Paul W. Hamelman and Edward M. Mazze, "Improving Product Abandonment Decisions," *Journal of Marketing* 36 (April 1972), pp. 20–26.

[4]George J. Avlonitis, "Product Elimination Decision Making: Does Formality Matter?" *Journal of Marketing* 49 (Winter 1985), pp. 41–52.

A simple rating sheet might be developed to score products using these criteria and a cutoff score established to select those that require further consideration. Note that the measures used at this stage are symptomatic and are designed only to identify candidates for further analysis.

Step 2: Analyze Elimination Candidates. Measures to use in analyzing products for elimination must include causative as well as symptomatic measures such as sales and profits. Some measures will call for executive judgment rather than accounting data. Since a number of managers are likely to participate in this stage of the process, it is desirable to decide in advance on evaluation measures, weighting of the measures, and levels of scores that indicate further action is needed. A rating form providing the rating scales for the elimination criteria, criteria weights, and cutoff scores would be useful.[5]

The rating criteria should be designed to meet the needs of the business. Possible criteria, grouped in four categories, are suggested below.

- *Financial Criteria.* Most of the criteria used in screening for elimination candidates can also serve here as financial criteria. These include sales trend, market share trend, profit, and contribution to fixed costs. The affect of product elimination on the profitability of the other products is an important issue. It must be recognized that elimination of a product will not eliminate all costs, but will require reallocation of the product's assigned fixed costs to the remaining products. Fixed costs include both manufacturing and marketing overhead and shared costs.
- *Resource Allocation Criteria.* If a product is eliminated, resources allocated to that product will be released. It is important to determine what resources will be released, their value, and whether they can be converted to use by other products. It should be possible to liquidate some resources, such as inventories, accounts receivable, and prepaid expenses, freeing working capital for other products. Other resources such as plant capacity and production machinery may or may not be convertible to other uses. If the product carries a separate brand name, the brand name should be evaluated like a capital asset. More subjective is the allocation of managerial attention. How much management time is devoted to the product that could be reallocated to healthier products?
- *Marketing Criteria.* The marketing criteria involved in product elimination are mainly concerned with the affect of product elimination on the products remaining. Will elimination of the product injure customer relations? Will lack of a full line force customers to shift to another supplier, perhaps for all their needs? Will the company's reputation as a supplier suffer if the product is eliminated? It is important to determine what options are available to customers if the product is eliminated. If the company has a new product to replace the eliminated product, dropping it may encourage customers to switch to the new product and they may be more satisfied than before. If the company has no substitute product, does the competition? If so, competition may use the product elimination as a basis for recruiting customers. The marketing criteria tend to be judgmental and emotional. It is necessary to guard against unjustifiable concerns.
- *Competitive Criteria.* If not considered under marketing criteria, the reactions of competitors to the elimination of a product should be evaluated. Does elimination of a product create a competitive advantage for a competitor with a substitute product? Does it convert it into a profitable product or does it shift the losses to the competition? What is the stage of the product category life cycle? If the product category is not in decline, can the product be revitalized?

Step 3: Select Products for Elimination. If a rating form and agreed upon cut off scores were used in step 2, the results should be a final list of elimination candidates. The elimination decision will seldom be automatic. Each elimination candidate should be reexamined to confirm the rating and make a final decision. Subjective judgment will inevitably be involved at this stage, but it will hopefully be tempered by the data gathered as a part of step 2.

[5]For an example, see Kotler, "Phasing Out Weak Products," p. 116.

Step 4: Develop a Phase-Out Program. Once the decision has been made to delete a product, a phase-out program must be designed. There are several means of phase out that should be considered. The product could be immediately dropped and withdrawn from distribution or, if there is residual demand, the product can be "milked" by continuing to fill orders for the product, but without marketing support. If the brand is thought to have residual value, other alternatives are to contract out the production or the marketing to a firm able to handle those functions more economically or attempt to license the brand and product to another firm to market.

Timing of the phase-out should attempt to create the least disruption possible for customers. If a new product is to be marketed as a substitute, the product deletion should coincide with availability of the new product. When the product is deleted, a decision must be made on the availability of parts and service. Far less customer dissatisfaction will result if parts and service continue to be available. Provision must be made for inventories of the deleted product both at the manufacturer level and in the distribution channel. If the product is to be milked, an effort will be made to sell remaining stock through normal channels. To maintain goodwill with the trade, it is often necessary to accept returns of deleted products if they prove to be unsaleable. For some product classes, there are middlemen specializing in the sale of terminated merchandise. In other cases, remaining product has scrap value.

A final issue in the phase-out program is the conversion of customers of the deleted product to another of the company's products. If the business has a new product to substitute for the deleted one or a substitute in the going product line, an effort should be made to identify users of the deleted product. A marketing program can then be formulated to convert them to an alternate product in the line.

SUGGESTIONS FOR FURTHER READING

ALEXANDER, R. S. "The Death and Burial of 'Sick' Products." *Journal of Marketing* 28 (April 1964), pp. 1–7.

AVLONITIS, G. J. "Industrial Product Elimination: Major Factors to Consider." *Industrial Marketing Management* 13 (May 1984), pp. 77–86.

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C.27 Product Line

PRODUCT LINE DECISIONS

Most marketing concepts consider the product or brand as if it were a single item marketed to consumers, yet in many, probably most, situations the marketer offers lines of products, sometimes made up of dozens of products. This entry is concerned with the decisions that must be made in forming these lines of products.

What Is a Product Line? To avoid confusion with other decision areas, we will define product line rather narrowly. We will consider a **product line** to be a group of related products with a common brand name that are marketed to the same or closely related target markets. Thus, Duncan Hines cake mixes, cookie mixes, and cookies are parts of the Duncan Hines product line. By contrast, Tide and Cheer detergents, although both marketed by Procter and Gamble Company, are not members of the same product line because they are separately marketed as individual brands. Such brands are often referred to as **specialty brands.**

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