

PRODUCT CHURNING**Dr. B. Saranya**Assistant Professor, Department of Commerce,
PSG College of Arts and Science, Coimbatore, Tamil Nadu, India.**Abstract**

Product churning has very high impact on selling more product than is beneficial to the consumer. A consumer gets wider choice in selecting his products and thereby equalizes the money paid with utility derived from the product. Often we make purchasing decision based on wider variety of products at less cost; this churning involves selling a basic product at a loss or low profit margin but receiving very high profit margin on associated products that are necessary for the basic products continued usage. This sophisticated version of product churning helps the seller and the buyer for exponential growth in selling the product in the market. Companies sometimes intentionally deliver products which are not durable or reliable, so that the customer will have to replace them. Similarly, new models might be made incompatible with accessories used with old models to force consumers to purchase replacements. The operations and production launch of a multiple products hoping one will succeed the flooding of a market with new products in the hope that one of them will become successful. Product churning is especially prevalent in Japan, where prelaunch test marketing is often replaced by multiple product launches. Most of the products will decline and disappear but one or more of the new products churned out may become profitable. This article focuses on product churning, churn rate and how it helps the marketer to identify the churn rate and to focus on to retains their customers in the field of marketing.

Key words: *churn rate, customer retention survey, churn research, churn prediction by Indian firms.*

Introduction

Many people think that a product is a tangible offering, but a product can be more than that. A product is anything that can be offered to a market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas. A product should be in such a way that it should satisfy the basic needs of the customer, so also it should give the expected benefit to the customer. A marketer should prepare an augmented product so that it exceeds customer expectations. Consumers are the king, around whom the products are sold at large to meet their needs and also to earn profit.

In order to earn more and more profit, a marketer should not go in for a single product with highest price, but he should focus on varied or multiple products marketing system with lowest cost. Product innovation can be done through several ways in order to retain the existing customers. Product innovation is the result of bringing to life a new way to solve the customer's problem by improving the product or reducing the cost or by giving any addition to the product or any technological advancement in the product. In order to create a new product it requires adequate skill and knowledge. It is needed right from manufacturer who has to get adequate information regarding making the product, the engineer who designs the product, the marketing expert who must be well aware of products potential and shape its features through various marketing information, the financial advisors must be aware of the cost involved in making a product, the intermediaries must be aware of the quickest channels of distribution of products, the lawyers must assess as how to protect the product from its imitators. Thus these people all act as a stimulator in producing a product. So, all these efforts taken to produce a product by various people should not go waste, rather these product should reach right person at the right time for a right price. The key focus of a product is its customer. A product is simply a thing when it is not used by a customer. The long term corporate success lies in the hands of customers and also the turnover of its products, how efficiently the stocks are carried and sold. The higher the inventory turnover that will ease the manufacturer to relieve from the burden of

holding the stocks unnecessarily so that his capital will not be locked up for several periods. Thus the product must be designed in such a way that it is accepted by all the customers and easily movable in the market and at affordable price so that even the downtrodden also derive the benefit of utilizing the product. Thus, product churning helps the manufacturer to overcome the above said problems. Product churning is the practice of selling more products to the customer. An example is a stock broker who regularly buys and sells securities in the portfolio. But the customer may or may not gain, but the broker certainly piles up commission.

➤ **Concept of Product Churning**

It is the launch of multiple products hoping one will succeed the flooding of a market with new products in the hope that one of them will become successful. Product churning is especially prevalent in Japan, where prelaunch test marketing is often replaced by multiple product launches. Most of the products will decline and disappear, but one or more of the new products churned out may become profitable. There are various forms of product churning, one among is practiced by maintenance and service providers. These people will replace the worn-out parts with inferior quality parts, so that they are assured of a greater frequency of service requests. This is one way to improve their business and profitability position of handling the products.

It also involves selling a basic product at a lowest profit margin and its associated products at a very high price. An example of this strategy includes computer printers and their ink cartridge refills, cell phones and their usage time, photography and their prints. Thus this form of selling the associated products at higher price will definitely lead to profit for the manufactures. Because, people will not forgo the associated products, since they are inter related. Hence, a marketer should plan in such a way about the product churn to increase the price of its associated products; thereby it will be beneficial to both the buyer and the seller.

➤ **Skills needed by a marketer to adopt product churn**

A marketer has to have adequate skills and quick adaptability to product churn due to rapid innovation and also during the stages in product life cycle. The product turnover has increased substantially and new products are proliferating, during the maturity stage of a product, a marketer must be very much cautious enough to adopt flexibility as the profit stabilizes or may decline because of increase in competition, where the product achieves wide acceptance by most potential buyers. At this juncture, the marketer has to adopt carefully and adjust the associated products pricing strategy to capture the entire market share for his product. One reason is that as product lives shrink, the benefits of super-efficient production will fall, while adaptability for survival in the market becomes more important.

➤ **Product churning being a margin of adjustment**

Recently multi-product producing firms predict that product churning within the firm is another margin of adjustment taking place in response to globalization. Product churning is due to firm level productivity interacting with firm-product-specific competencies. It helps a firm to adjust its margin of profit and also to develop alternate product strategy when a product falls.

➤ **Churn Rate and Customer Retention**

Business secrets lie in its churn rates. This is the rate of attrition. A producer cannot go on produce his product, unless he is aware of his products churn rate. It plays a vital role in measuring the business turnover for the products. It is the measure of the number of individuals or items moving in to or out of a specific period of time. This will help the manufacturer to find out the changes in the movement of his business and to adopt adequate strategy for retention of his business alive. Moreover, this is measured in monthly terms in cable and satellite television and through wireless telephone industries. Business analysts must always have a thorough knowledge about churn rate on either quarterly or annual basis, which is a measure for further production.

Churn Rate = Rate at which customers stop using a product or service

Average number of customer

This formula can be applied for all the products by the manufacturer. The numerator denotes the discontinuation rate of product, whereas the denominator denotes the total number of customers for the same product, the rates when applied either on quarterly or annual basis will reveal the churn rate for a product. Retention of a customer for the product is very essential. This can be done only when the product is accepted in the market. This is possible only when there is adequate marketing research. The customer churn research helps to know about the causes for customer defection. This will help to improve overall customer retention rate.

➤ **Customers churn research and Customer Retention Survey**

Customer churn research is performed with lost customers, while customer retention research is performed with existing customers. Lost customer focuses on why they left the product and further research can be done on focusing on customer retention survey. Lower customer retention rate for a product are due to higher pricing strategy, better offer from competitor and less customer care. Hence, the seller has to concentrate on all these aspects and should try to retain the customer for his product. To effectively combat churn, companies need to build business around profitable customers while managing costs aggressively. The following questions will adequately help the manufacturer to analyze his customer.

- Who are the most valuable customers?
- Which products and services really add value?
- What are the costs of serving product, market and customer groups?
- What revenue hit are we willing to take to protect our customer base?

Churn analysis systems allow executives to answer these questions and provide them with accurate and valuable insights for reducing churn and increasing retention of their most profitable customers.

➤ **Churn Prediction for a product**

The churn rate is a vital tool for this churn prediction approach. This approach can be done by maintaining a large data set of churning and non-churning customers, which are used to construct a classifier. This classifier is an algorithm that is able to decide the given customer data set whether the customer will churn or not. These classifiers are constructed using artificial neuronal networks. The quality of the output of the classifier is measured in terms of sensitivity, specificity and accuracy. The sensitivity of a classifier to predict a class is defined as the number of data for which a correct prediction is given divided by number of all members of the class. The best possible classifier has a sensitivity and specificity of 100 per cent. Besides this the overall accuracy is used to describe the quality of prediction of churn rate. It is important to prevent the churn of customers who generate substantial revenues. Therefore adequate steps must be taken to predict the churn of customers for a particular product and proper analysis must be done to estimate the churn. Also the seller has to redesign the product in such a way that there is change in design, shape, packaging and more additional features are to be added in order to retain revenue generating customers.

➤ **Indian firms and product churn**

India is characterized by huge wealth disparities in its population and there is always demand for older products, which would have become obsolete in more developing countries like U.S. Moreover Indian firms exhibit less frequent changes in their product mix, and the firms dropping of a product in our country is very infrequent. India's multi-product firms are very strong performers and are much more profitable earners as there is loss in one product can be compensated by the profit of other product. Hence, creative destruction is not happening in our country. The firms can use certain variables to find out customer attitude and their behavior towards particular product such as:

- Money spent by the customer
- Time of purchase

- Post purchase behavior
- Feedback from the customer
- Switch over and reasons for switch over from the product
- Adequate marketing research

Further, there is a change in the product mix during the period of market reforms in our country. This change in product mix will eliminate the loss to certain extent for a manufacturer. According to the Indian Companies Act of 1956, the Indian firms have to disclose product-level information on capacities, production and sales in their annual reports. The CMIE (Center for Monitoring the Indian Economy) gives quantitative data in the form of databases and research reports on the Indian Economy and Companies and enables to track a firm's addition or deletion of products over time. For each product manufactured by the firm, the data provides the value of sales, quantity and units. Hence the firms have to abide by all the rules and regulations in order to make a change in product mix so that they can see tremendous profit in such adjustment. Moreover, the consumers will also be benefited in such change in product mix and thereby churn rate can be kept intact by the manufacturer.

Conclusion

It can be affirmed that product churning plays a pivotal role in selling the product to the customers. Manufacturers must note that they should always change the marketing strategies to the maximum extent in order to retain the revenue generating customers. Moreover, the manufacturer should concentrate on product redesign, sales forecasting and marketing research for their products. Also, E- services to customers by the manufacturers will make them feel that they are served very quickly without undue delay. Therefore product churning helps to generate more profit and a vigilant marketer should analyze the churn rate and should focus on customer retention principles and churn research must be enhanced to predict the movements in the market for further production and thereby to increase the profit in the long run.

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