

## Summary Chapter 12: SETTING PRODUCT STRATEGY

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First of all it is necessary to situate the subject that will be dealt with throughout this chapter. In chapter 5 we've seen that in order to build sustainable competitive advantages it is necessary to differentiate. Brands can be differentiated on the basis of many variables, such as:

**Personnel:** Companies can have better trained employees;

**Channel:** Companies can more effectively and efficiently design their distribution channels' coverage, expertise and performance;

**Image:** Companies can craft powerful, compelling images;

**Service:** Ease to order, delivering, maintenance etc;

**Product:** Design, Performance, Durability, Quality and features. And that's what chapter 12 is about.

In addition to that, chapter 5 presents that in the choosing process, customers are value maximizers. It means that they estimate which offer will deliver the most perceived value and act on it. The customer perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. The benefits are expected from a given market offering because of the products, services, personnel and image involved. In this way, if a seller is at a customer-perceived-value disadvantage, there are 2 alternatives: to increase total customer benefits or to decrease total customer cost. In this way, chapter 12 is about strengthening the economical, functional and psychological benefits of the variable Product.

In the Dolan model, the variable Product is situated in The 4 P's Mix, and involves the following characteristics: Design, Variety, Packaging, Services, Quality, Warranties, Sizes, Brand name and Features, which are going to be presented in details throughout chapter 12.

The customer will judge the offering by three basic elements: product features and quality, service mix and quality and price (Figure 1). In chapter 12, product is examined.



Figure 1 – Components of marketing offering

In this way, at the heart of a great brand is a great product. Product is the key element in the marketing offering.

## Product characteristics and classifications

Many people think that a product is a tangible offering, but a product can be more than that.

**Product** is everything that can be offered to market to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas.

## Product levels: The Customer-Value Hierarchy

*Fundamental level:* Core benefit - the service or benefit the customer is really buying (marketers – benefit providers);

*Second level:* Basic product - to turn the core benefit into a basic product;

*Third level:* Expected product - a set of attributes and conditions buyers normally expect when they purchase this product;

*Fourth level:* Augmented product - exceeds customer expectations (differentiation);

**Consumption system:** the way the user performs the task of getting and using product and related services;

It is necessary to know that:

- Each augmentation adds costs;
- Augmented benefits soon become expected benefits and necessary points-of-parity;
- As companies raise the price of their augmented product, some companies offer a stripped-down version at a much lower price.

*Fifth level:* Potential product - encompasses all the possible augmentations and transformations the product or the offering might undergo in the future.

To better explain that, let's consider the example of a car:

*Core product:* The client is looking for transportation from one place to another.

*Actual Product:* The brand of the car, its looks and design etc.

*Expected Product:* Decent mileage, proper engine, inflated tires etc.

*Augmented Product:* After-sale services, insurance policy etc.

*Potential Product:* May run more smoothly as it wears off a little.

The passage from one level to the next happens when the previous level is satisfied. If the customer goes to a hotel and finds some chocolate bars on his bed, it exceeds his expectations and causes an enchantment. But after that, the customer will always

expect a chocolate bar on his bed, and it won't cause an enchantment anymore. It will be considered part of the expected product. With that in mind, marketers must find a way of providing always something in order to exceed customer expectations and cause a continuous enchantment. Marketers must find, in this way, not only customers current needs, but also its future needs, what can be done throughout market research.

## Product classifications

Each product type has an appropriate marketing-mix strategy.

### ***Durability and tangibility:***

- **Nondurable goods:** tangible goods normally consumed in one or a few uses (beer and soap). These goods are consumed quickly and purchased frequently. Appropriate strategy: make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
- **Durable goods:** tangible goods that normally survive many uses (refrigerators, clothing). Appropriate strategy: require more personal selling and services, command a higher margin, and require more sales guarantees.
- **Services:** intangible, inseparable, variable, and perishable products. Appropriate strategy: require more quality control, supplier credibility, and adaptability (haircuts, legal advice).

### ***Consumer-goods classification:***

The consumer usually purchases **convenience goods** frequently, immediately, and with a minimum of effort. Examples include soft drinks.

- **Staples** are goods consumers purchase on a regular basis.
- **Impulse goods** are purchased without any planning or search effort.
- **Emergency goods** are purchased when a need is urgent – umbrellas during a rainstorm. Manufacturers of impulse and emergency goods will place them in those outlets where consumers are likely to experience an urge or compelling need to make a purchase.

**Shopping goods** are goods that consumer characteristically compares on such bases as suitability, quality, price and style. Examples include furniture, clothing, used cars and major appliances. We further divide this category:

- **Homogeneous shopping goods** are similar in quality but different enough in price to justify shopping comparisons.
- **Heterogeneous shopping goods** differ in product features and services that may be more important than price.
- **Specialty goods** have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. Examples include: cars and photographic equipments.
- **Unsought goods** are those the consumers does not know about or does not normally think of buying, such as smoke detectors. The classic examples of

known but unsought goods are life insurance and encyclopedias. Unsought goods require advertising and personal-selling support.

### ***Industrial-goods classification:***

Industrial goods can be classified in terms of their relative cost and how they enter the production process: material and parts, capital items and supplies and business services.

**Material and parts** are goods that enter the manufacturer's product completely. They fall into two classes:

- **Raw materials:** farm products and natural products;
- **Manufactured materials and parts:** component materials and components parts.

**Capital items** are long-lasting goods that facilitate developing or managing the finished product. They include two groups:

- **Installations**
- **Equipment**

**Supplies and business services** are short-term goods and services that facilitate developing or managing the finished product. Supplies are of two kinds:

- **Maintenance and repair items**
- **Operating supplies**

## **Differentiation**

To be branded, products must be differentiated. The seller faces an abundance of differentiation possibilities, including form, features, customization, performance quality, conformance quality, durability, reliability, repairability and style. Design has become increasingly important.

### **Product differentiation**

**Form** – any products can be differentiated in form (the size, shape, or physical structure);

**Features** – Most products can be offered with varying features that supplement their basic function. The marketer must be aware of customer value versus company cost for each potential feature. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.

**Customization** – marketers can differentiate products by making them customized to an individual;

**Mass customization** – is the ability of a company to meet each customer's requirements (to prepare on a mass basis individually designed products, services, programs and communications);

**Performance quality** - most products are established at one of four performance levels: low, average, high or superior. Performance quality is the level at which the product's primary characteristics operate. The manufacturer must design a performance level appropriate to the target market and competitors' performance levels;

**Conformance quality** – buyers expect products to have a high conformance quality, which is the degree to which all the produced units are identical and meet the promised specifications;

**Durability** – is a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for certain products;

**Reliability** – buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period;

**Repairability** – is a measure of the ease of fixing a product when it malfunctions or fails;

**Style** – describes the products look and feel to the buyer.

## Design

As competition intensifies, design offers a potent way to differentiate and position a company's products and services. In increasingly fast-paced markets, price and technology are not enough. Design is the factor that will often give a company its competitive edge. **Design** is the totality of features that affect how a product looks, feels, and functions in terms of customer requirements.

In the firm's point of view, a well-design product is the one that is easy to manufacture and distribute. In the customer's point of view a well-design product is pleasant to look at and easy to open, install, use, repair and dispose of.

**Holistic marketers** recognize the emotional power of design and the importance to customers of how things look and feel.

In summary, in a increasingly visually oriented culture, translating brand meaning and positioning through design is critical.

## Service Differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. The main services differentiators are ordering ease, delivery, installation, customer training, customer consulting and maintenance and repair.

**Ordering ease:** how easy it is for the customer to place an order with the company.

**Delivery:** how well the product or service is brought to the customer. It includes speed, accuracy and care throughout the process. Two tools that help the delivery process are: *Quick Response Systems (QRS)* and *Global Positioning System (GPS)*.

**Installation:** the work done to make a product operational in its planned location.

**Customer training:** training the customer's employee to use the vendor's equipment properly and efficiently.

**Customer consulting:** data, information system and advice services that the seller offer to buyers.

**Maintenance and repair:** service program for helping customers keep purchased products in good working order.

**Return:** product returns in two ways:

- *Controllable returns* results from problems, difficulties or errors of the seller or customer and can mostly be eliminated with proper strategies and programs;
- Uncontrollable returns can't be eliminated by the company in the short-run through any of the aforementioned means.

## Product and Brand Relationship

Each product can be related to other products to ensure that a firm is offering and marketing the optimal set of products. Example: UNILEVER

## The Product Hierarchy

It stretches from basic needs to particular items that satisfy those needs. It has six levels and we will use a cosmetic example in order to better explain:

1. **Need family:** underlies the existence of a product family. PERSONAL CARE
2. **Product family:** product classes that can satisfy a core need with reasonable effectiveness. COSMETICS, SKIN CREAMS, SHAMPOOS, CONDITIONERS, SOAPS
3. **Product class:** a group of products within the product family recognized as having a certain functional coherence. HAIR CLEANING AGENTS
4. **Product line:** a group of products class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. SHAMPOOS (SEDA, MONANGE, ALL CLEAR ETC)
5. **Product type:** a group of items within a product line that share one of several possible forms of the product. DANDRUFF CONTROL SHAMPOOS

6. **Item:** a distinct unit, distinguishable by size, price, appearance or some other attribute. A SACHET OF CLINIC ALL CLEAR

## Product System and Mixes

A Product system is a group of diverse but related items that function in a compatible manner. For example, I phone and Palms product lines come with attachable products: cameras, keyboard, e-books, MP3 players, voice recorders, GPS etc.

*The product mix* means a set of all products and items a particular seller offers for sale. It consists of various product lines. The product mix has four dimensions:

- Width: how many different product lines the company carries.
- Length: the total number of items in the mix.
- Depth: refers to how many variants are offered of each product in the line.
- Consistency: how closely related the various product lines are in end use, production requirements, distribution channels or some other way.

The product mix dimension permit the company to expand its business in four ways: add new product line, lengthen each product line, add more product variants and deepen its product mix and pursue more product line consistency. For instance, Avon's product mix consists of four major product lines: cosmetics, jewelry, fashions, and household items.

## Product Line Analysis

Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest.

**Sales and profits:** it is possible for companies to know how well its lines are performing by the sales and profit report. Every company's product portfolio contains products with different margins. A company can classify its products into four types that yield different gross margins, depending on sales volume and promotion:

- *Core products*: high sales volume, heavily promoted, low margins;
- *Staples*: lower sales volume and no promotion, higher margin;
- *Specialties*: lower sales volume, highly promoted;
- *Convenience items*: high volume, less promotion, higher margins.

**Market Profile:** how the line is positioned against competitors' lines. The **product map** shows which competitors' items are competing against a regarding company's items. Another benefit of product mapping is that it identifies market segments. Product-line

analysis provides information for two key decision areas-product-line length and product-mix pricing.

## Product-Line Length

One objective is to create a product line to induce up-selling. A different objective is to create a product line that facilitates cross-selling. Another objective is to create a product line that protects against economic ups and downs. Companies seeking high market share and market growth will generally carry longer product lines. Product lines tend to lengthen over time. Excessive manufacturing capacity puts pressure on the product-line manager to develop new items. A company lengthens its product line in two ways: line stretching and line filling.

***Line Stretching*** - occurs when a company lengthens its products line beyond its current range. The company can strength its line down-market, up-market or both ways.

Down-Market - A company positioned in the middle market may want to introduce a lower-priced line for any of three reasons:

- 1- The company may notice strong growth opportunities as mass retailers.
- 2- The company may wish to tie up lower-end competitors who might otherwise try to move up-market.
- 3- The company may find that the middle market is stagnating or declining.

A company faces a number of naming choices in declining to move a brand down-market:

- 1- Use the parent brand name on all its offerings;
- 2- Introduce lower-priced offerings using a sub brand name;
- 3- Introduce the lower-priced offerings under a different name.

Moving down-market carries risks and it can cannibalize its core brand.

Up – Market Stretch - Companies may wish to enter the high end of the market to achieve more growth, to realize higher margins, or simply to position themselves as full –line manufactures.

Two – Way Stretch - Companies serving the middle market might decide to stretch their line in both directions.

***Line Filling*** - A firm can also lengthen its product line by adding more items within the present range. There are several reasons for line filling: reaching for incremental profits. Line filling is overdone if it results in self-cannibalization and customer confusion. The company needs to differentiate each item in the consumer's mind with a just-noticeable difference. According to Weber's law, consumers are more attuned to relative then absolute difference.



**Line modernization, featuring, and pruning** - Product lines need to be modernized. The issue is whether to overhaul the line piecemeal or all at once. A piecemeal approach allows the company to see how customers and dealers take to the new style. It is also less draining on the company's cash flow, but it allows competitors to see changes and to start redesigning their own lines.

In rapidly changing product markets, modernization is continuous. Major issue is timing improvements so they do not appear too early (damaging sales of the current line) or too late (after the competition has established a strong reputation for more advanced equipment).

The product-line manager typically selects one or a few items in the line to feature, and also they must periodically review the line for deadwood that is depressing profits. The weak items can be identified through sales and cost analysis.

## Product-Mix Pricing

Marketers must modify their price-setting logic when the product is part of a product mix. In product-mix pricing, the firm searches for a set of prices that maximizes profits on the total mix. Six situations calling for product-mix pricing: product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

**Product – line pricing**- Companies normally develop product lines rather than single products and introduce price steps. The seller's task is to establish perceived quality differences that justify the price differences.

**Optional – feature pricing** - Many companies offer optional products, features and services along with their main product.

**Captive – product pricing** - Some products require the use of ancillary products, or captive products. Manufacturers of razors, digital phones, and cameras often price them low and set high markups on razor blades and film.

There is a danger in pricing the captive product too high in the aftermarket, however. If parts and service are too expensive, counterfeiting and substitutions can erode sales.

**Two-part pricing** - Service firms engage in two-part pricing consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond a certain area.

**By-product pricing** - The production of certain goods-meats, petroleum products, and others chemicals often results in by-products. If the by-products have value to a consumer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

**Product-bundling pricing** - Sellers bundle products and features. Pure bundling occurs when a firm offers its products only as a bundle. It can be a kind of tied-in sales, when a product is sold accompanied with others products. In mixed bundling, the seller offers goods both individually and in bundles. The seller normally charges less for the bundle than if the item were purchased separately.

The promotional activity affects the items in the bundle, as it increases the buyers perceive less saving on the bundle and are less apt to pay for it. To correctly implement the bundling strategy, there are three guidelines:

- Don't promote individual products in a package as frequently and cheaply as the bundle. The bundle price should be much lower than the sum of individual products or the customer will not perceive its attractiveness.
- Limit promotions to a single item in the mix if you still want to promote individual products, or alternate promotions to avoid conflicting promotions.
- If you decide to offer large rebates on individual products, make them absolute exception and do it with discretion.

## Co-Branding and Ingredient Branding

### **Co-Branding**

Marketers often combine their products with products from other companies in various ways. In co-branding – also called dual branding or brand bundling – two or more well-known brands are combined into a joint product or marketed together in some fashion. There are various ways to form a combination: same-company co-branding, joint-venture co-branding, multiple-sponsor co-branding, or retail co-branding.

Co-branding can generate greater sales, reduce cost of product introduction, and may be a valuable means to learn about consumers and how other companies approach them. The potential disadvantages of co-branding are the risk and lack of control in becoming aligned with another brand in the minds of consumers, do not overcome the consumer's expectations generating dissatisfaction affecting both brand negatively.

For co-branding to succeed, the two brands must separately have brand equity a logical fit between them.

### **Ingredient Branding**

Ingredient branding is a special case of co-branding. It creates brand equity for materials, components, or parts that are necessarily contained within other branded products. For example, there's Danone Activia Yogurt that advertises its trademarked probiotic *Bacillus Regularis*, promoting healthy digestion.

An interesting take on ingredient branding, as exposed in Activia's example, is "self-branding" in which companies advertise and even trademark their own branded ingredients. It's a way to create individual identity to the product, protection it from competitors.

Ingredient branding has the follow requirements to be successful:

1. Consumers must perceive that the ingredient matters to the performance and success of the end product. Ideally, this intrinsic value is easily seen or experienced.
2. Consumers must be convinced that not all ingredient brands are the same and that the ingredient is superior.
3. A distinctive symbol or logo must clearly signal to consumers that the host product contains the ingredient. Ideally, the symbol or logo would function like a "seal" and would be simple and versatile and credibly communicate quality and confidence.
4. A coordinated "pull" and "push" program must help consumers understand the importance and advantages of the branded ingredient. Channel members must offer full support. Often this will require consumer advertising and promotions and - sometimes in collaboration with manufacturers - retail merchandising and promotion programs.

## **Packaging, Labeling, Warranties and Guarantees**

Most physical products must be packaged and labeled. Due to this fact, many marketers have called packaging a fifth P, along with price, product, place, and promotion. Most marketers, however, treat packaging and labeling as an element of product strategy. Warranties and guarantees can also be an important part of the product strategy, which often appear on the package.

### **Packaging**

We define packaging as all the activities of designing and producing the container for a product. Packages might include up to three levels of material. Cool Water cologne comes in a bottle (primary package) in a cardboard box (secondary package) in a corrugated box (shipping package) containing six dozen boxes.

Well-designed packages can build brand equity and drive sales. The package is the buyer's first encounter with the product and is capable of turning the buyer on or off.

Various factors have contributed to the growing use of packaging as a marketing tool:

- Self-service: package provides the sales in a self-service basis, like in a supermarket where consumers buy directly from the shelf.
- Consumer affluence: consumers are willing to pay more for the convenience, appearance, dependability, and prestige of better packages.
- Company and brand image: packages contribute to instant recognition of the company or brand.

- Innovation opportunity: innovative packaging can bring large benefits to consumers and profits to producers.

From the perspective of both the firm and consumers, packaging must achieve a number of objectives:

1. Identify the brand.
2. Convey descriptive and persuasive information.
3. Facilitate product transportation and protection.
4. Assist at-home storage.
5. Aid product consumption.

Marketers must choose the aesthetic and functional components of packaging correctly. Aesthetic considerations relate to a package's size and shape, material, color, text, and graphics. The packaging elements must harmonize with each other and with pricing, advertising, and other parts of the marketing program.

After the company designs its packaging, it must test it. Engineering tests ensure that the package stands up under normal conditions; visual tests, that the script is legible and the colors harmonious; dealer tests, that dealers find the packages attractive and easy to handle; and consumer tests, that buyers will respond favorably.

Companies must pay attention to growing environmental and safety concerns to reduce packaging. Fortunately, many companies have gone "green" and are finding new ways to develop their packaging.

## Labeling

The label may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. It might carry only the brand name, or a great deal of information. Even if the seller prefers a simple label, the law may require more.

Labels perform several functions:

- Identifies the product or brand;
- Grade the product;
- Describe the product;
- Promote the product;

Labels eventually become outmoded and need freshening up.

## Warranties and Guarantees

All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations. Warranties are formal statements of expected product performance by

the manufacturer. Products under warranty can be returned to the manufacturer or designated repair center for repair, replacement or refund.

Extended warranties can be sold by the retailer or manufacturer to customers and can be extremely lucrative for them. It represented 30% of Best Buy's operating profits in 2005.

Guarantees reduce the buyer's perceived risk. They suggest that the product is of high quality and that the company and its service performance are dependable. They can be especially helpful when the company or product is not that well known or when the product's quality is superior to competitors.

Guarantees is more than legal statements that guides the warranties, they can be seen as extra benefits to induce consumer to buy the product. For instance, Procter & Gamble promises complete satisfaction without being more specific (General Guarantee) and A. T. Cross guarantees its Cross pens and pencils for life, repairing and replacing at no charges (Specific Guarantee).