::: Product Characteristics and Classifications

Many people think a product is a tangible offering, but it can be more than that. Broadly, a **product** is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

Product Levels: The Customer-Value Hierarchy

In planning its market offering, the marketer needs to address five product levels (see Figure 12.2).[1] Each level adds more customer value, and the five constitute a **customer-value hierarchy**.

- The fundamental level is the **core benefit**: the service or benefit the customer is really buying. A hotel guest is buying "rest and sleep." The purchaser of a drill is buying "holes." Marketers must see themselves as benefit providers.
- At the second level, the marketer must turn the core benefit into a **basic product**. Thus, a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
- At the third level, the marketer prepares an **expected product**, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.
- At the fourth level, the marketer prepares an **augmented product** that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level. In developing and emerging markets such as India and Brazil, however, competition takes place mostly at the expected product level.
- At the fifth level stands the **potential product**, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offering.

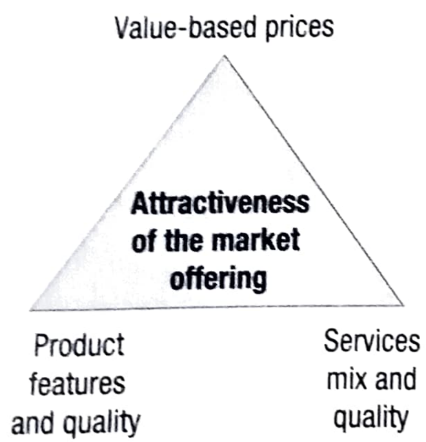


FIG. 12.1

Components of the Market Offering

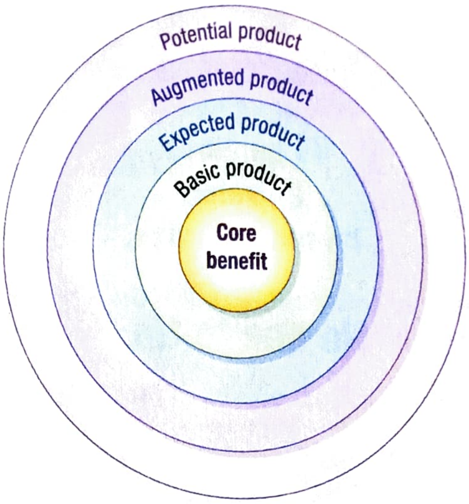


FIG. 12.2

Five Product Levels

Differentiation arises and competition increasingly occurs on the basis of product augmentation, which also leads the marketer to look at the user's total **consumption system**: the way the user performs the tasks of getting and using products and related services.[2] Each augmentation adds cost, however, and augmented benefits soon become expected benefits and necessary points of parity. Today's hotel guests expect cable or satellite television with a remote control and high-speed Internet access or two phone lines. This means competitors must search for still other features and benefits.

As some companies raise the price of their augmented product, others offer a "stripped-down" version at a much lower price. The ITC-Welcomgroup of hotels in India, for example, has four sets of properties under four different brands. The group's super-deluxe hotels are organized under the brand ITC Hotels; five-star hotels are under the brand Welcome Hotels; budget hotels in smaller towns and cities under the brand Fortune Hotels; and palaces, forts and *havelis* under the brand Welcome Heritage.[3] Similarly, the Indian Hotels Company and its subsidiaries belonging to the Tata group operate Taj hotels, resorts, and palaces under luxury, leisure, and business categories.[4] Some service providers carve out a profitable niche through innovative service configuration. Ginger Hotels, operated by Roots Corporation, is one such example.

MARKETING **INSIGHT** | METAMARKETS AND METAMEDIARIES

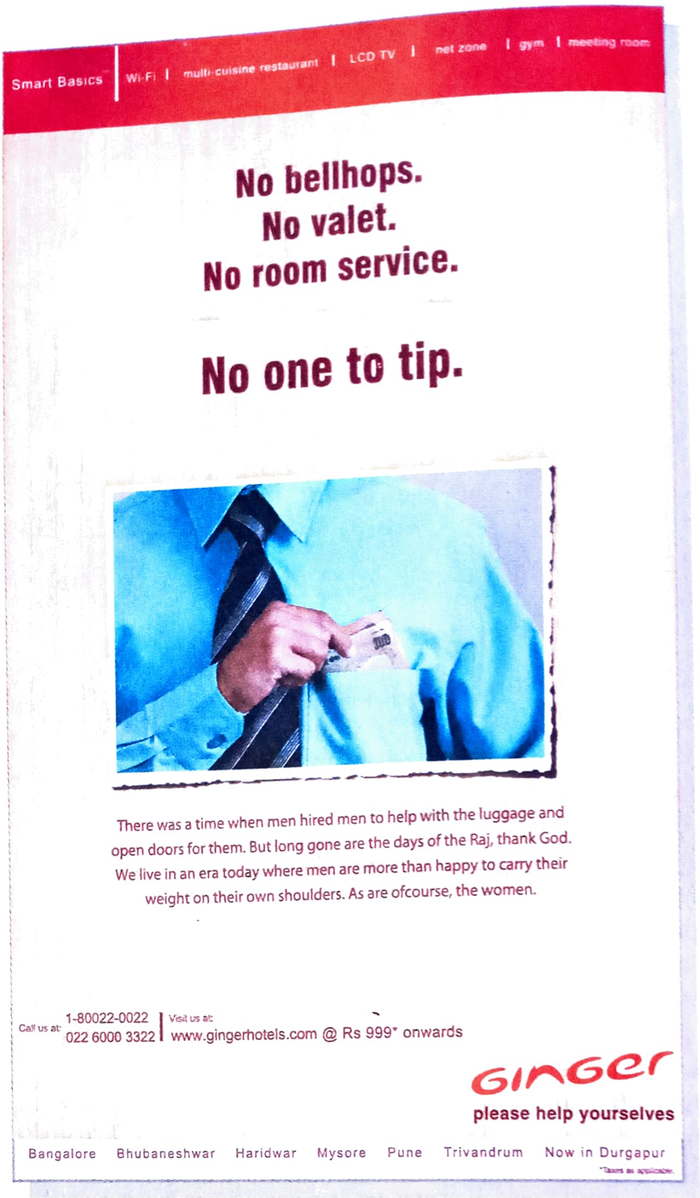
There are some products whose purchase necessitates other purchases. The new-automobile market is a good example of a "metamarket." The consumer chooses an automobile but also must buy insurance from an insurance company and often must get a loan from a bank. A smart auto company or auto dealer would make all three purchases easy for the buyer by partnering with an insurance company and a bank. Such an auto dealer is performing as a "metamediary."

The wedding market is also a metamarket. The bride and groom need a bridal gown and tuxedo respectively, a chapel, a hotel for the wedding, a caterer, and possibly a wedding consultant. Here the wedding dress seller or the wedding consultant might perform as a wedding metamediary.

Metamarkets are the result of marketers observing the total consumption system and "packaging" a system that simplifies carrying out these related product/service activities. Professor Mohan Sawhney defines a metamarket as "a set of products and services that consumers need to perform a ***cognitively related*** set of activities." Other metamarkets that are organized around major assets or major life events include:

- Buying a home
- Giving birth to a child
- Getting a divorce
- Planning a vacation

Source: Adapted from Mohan Sawhney, "Rethinking Marketing and Mediation in the Networked Economy," Winning Strategies for E-Commerce Lecture at the Kellogg School of Management, April 7–10, 1999.



GINGER HOTELS[5]

Ginger Hotels, a chain of hotels in India in the "smart basics" category, has set new standards of service quality at affordable prices. The concept of the hotel is loosely inspired from the success of the low-cost airlines and targets the modern, experienced traveler who does not relate low tariffs with poor standards. The hotels employ skeletal staff and most of the regular hotel services are outsourced. The hotels economize on cost by allowing the guests self check-in facility. The guests wheel in their own luggage and carry it to their rooms. The hotel does not provide any room service except for basic tea- and coffee-making facility in the rooms. The guests can avail of dial-a-meal facility from local restaurants and collect them from the front desk. The hotel also has a self-service multicuisine restaurant, vending machines for hot and cold beverages, ATMs, basic gym, and a Wi-Fi structure. In another innovation that displays sensitivity, the last room in the hotels in the Ginger chain is specially designed for physically challenged guests. The brand name implies something fresh, simple, warm, yet stylish. The hotels are located either at smaller business centers or tourist destinations that attract visitors round the year. In a short time, the hotel chain has achieved an occupancy rate of 85%, without significant advertising support.

Product Classifications

Marketers have traditionally classified products on the basis of durability, tangibility, and use (consumer or industrial). Each product type has an appropriate marketing-mix strategy.[6]

DURABILITY AND TANGIBILITY Marketers classify products into three groups according to durability and tangibility:

1. **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as soft drinks and soap. Because these goods are purchased frequently, the appropriate

strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.

2. **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. Durable products normally require more personal selling and service, command a higher margin, and require more seller guarantees.
3. **Services** are intangible, inseparable, variable, and perishable products. As a result, they normally require more quality control, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs.

CONSUMER-GOODS CLASSIFICATION We classify the vast array of goods consumers buy on the basis of shopping habits. We distinguish among convenience, shopping, specialty, and unsought goods.

The consumer usually purchases **convenience goods** frequently, immediately, and with a minimum of effort. Examples include soft drinks, soaps, and newspapers. Convenience goods can be further divided. *Staples* are goods consumers purchase on a regular basis. A buyer might routinely purchase Colgate toothpaste, Mysore Sandalwood toilet soap, and Britannia Marie biscuits. *Impulse goods* are purchased without any planning or search effort. Chocolates, candy bars, and potato chips are impulse goods. *Emergency goods* are purchased when a need is urgent—umbrellas and rain coats with the advent of monsoons, pullovers, sweaters, and shawls with the advent of winter. 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.

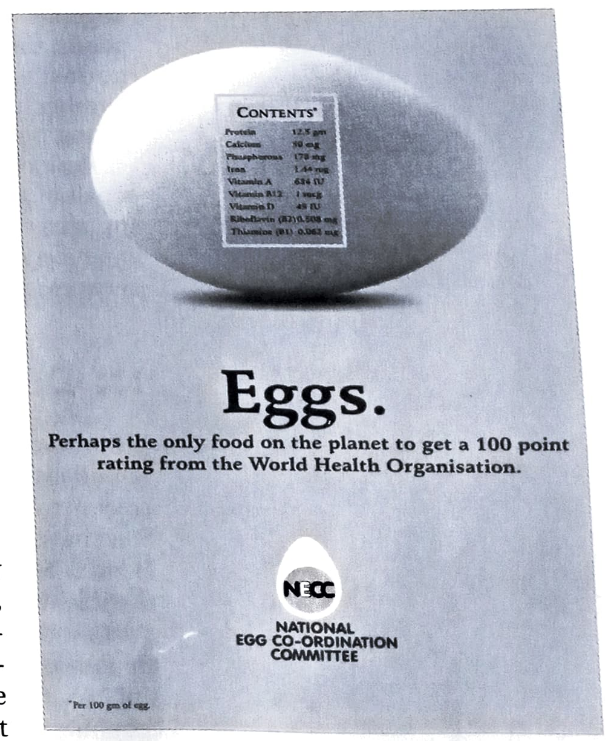
Shopping goods are goods that the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, used cars, and major appliances. We further divide this category. *Homogeneous shopping goods* are similar in quality but different enough in price to justify shopping comparisons. *Heterogeneous shopping goods* differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and must have well-trained salespeople to inform and advise customers.

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, stereo components, photographic equipment, and men's suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods don't require comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers don't need convenient locations, although they must let prospective buyers know their locations.

Unsought goods are those the consumer 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, encyclopedias, and reference books. 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: materials and parts, capital items, and supplies and business services. **Materials and parts** are goods that enter the manufacturer's product completely. They fall into two classes: raw materials, and manufactured materials and parts. *Raw materials* fall into two major groups: *farm products* (wheat, cotton, livestock, fruits, and vegetables) and *natural products* (fish, lumber, crude petroleum, iron ore). Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services. Their perishable and seasonal nature gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity, with some exceptions. At times, commodity groups will launch campaigns to promote their product. For example, in India, the National Egg Co-ordination Committee (NECC) regularly undertakes an intensive promotion campaign for increasing egg consumption through advertisements in press, radio, and television. These advertisements aim to increase the frequency of the consumption of egg among current users, convert nonusers, and educate the masses about the nutritive value of eggs.

Natural products are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on



Promoting consumption of egg: The National Egg Co-ordination Committee's advertisement highlighting the nutritional value of eggs.

these materials, long-term supply contracts are common. Pepsi Food Ltd., when it entered India in 1989 by establishing a state-of-the-art tomato processing plant in Punjab to produce pastes and purees, entered into contracts with farmers to ensure a supply of the right produce at the right time in the required quantities for its processing plant. The homogeneity of natural materials limits the amount of demand-creation activity. Price and delivery reliability are the major factors influencing the selection of suppliers.

Manufactured materials and parts fall into two categories: component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). *Component materials* are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually means that price and supplier reliability are key purchase factors. *Component parts* enter the finished product with no further change in form, as when small motors are put into vacuum cleaners, and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users. Price and service are major marketing considerations, and branding and advertising tend to be less important.

Capital items are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment. *Installations* consist of buildings (factories, offices) and heavy equipment (generators, drill presses, mainframe computers, elevators). Installations are major purchases. They are usually bought directly from the producer, whose sales force includes technical personnel, and a long negotiation period precedes the typical sale. Producers must be willing to design to specification and to supply postsale services. Advertising is much less important than personal selling. Bharat Heavy Electricals Ltd. (BHEL) and Larsen and Toubro (L&T) have emphasized on a customer-focused approach to attain and sustain leadership in their respective industries such as energy-related infrastructure, engineering, and construction.

Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks). These types of equipment don't become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries, because the market is geographically dispersed, the buyers are numerous, and the orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, although advertising can be used effectively.

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* (paint, nails, brooms) and *operating supplies* (lubricants, coal, writing paper, pencils). Together, they go under the name of MRO goods. Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight-rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geographic dispersion of customers. Price and service are important considerations, because suppliers are standardized and brand preference is not high.

Business services include *maintenance and repair services* (maintenance of air conditioners, repair of photocopying machines) and *business advisory services* (legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or are available from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

::: Differentiation

To be branded, products must be differentiated. Physical products vary in their potential for differentiation. At one extreme, we find products that allow little variation: chicken, aspirin, and steel. Yet even here, some differentiation is possible: Venky's Chicken, Bayer aspirin, and Tata Steel have carved out distinct identities in their categories. Procter & Gamble makes Pantene, Head & Shoulders, and Rejoice shampoos, each with a separate brand identity. Procter & Gamble makes Tide, Cheer, and Gain laundry detergents, each with a separate brand identity. At the other extreme are products capable of high differentiation, such as automobiles, commercial buildings, and furniture. Here the seller faces an abundance of differentiation possibilities, including form, features, customization, performance quality, conformance quality, durability, reliability, repairability, and style.[7] Design has become an increasingly important means of differentiation and we will discuss it separately. In services, differentiation is often achieved through the use of technology and by offering value-added services. Here is how, Blue Dart, one of the leading courier companies in India has achieved this.

Product Systems and Mixes

A **product system** is a group of diverse but related items that function in a compatible manner. For example, the PalmOne handheld and smartphone product lines come with attachable products including headsets, cameras, keyboards, presentation projectors, e-books, MP3 players, and voice recorders. A **product mix** (also called a **product assortment**) is the set of all products and items a particular seller offers for sale.

A product mix consists of various product lines. Seagate now makes 29 kinds of drives that are essential to servers, PCs, and consumer electronic products such as video games, DVRs, and cameras. In General Electric's Consumer Appliance Division, there are product-line managers for refrigerators, stoves, and washing machines. NEC's (Japan) product mix consists of communication products and computer products. The Godrej Agrovet division has a wide range of products in animal feeds, agricultural inputs, horticulture, tissue culture, and retailing. The consumer product portfolio of Nirma Limited consists of fabric-care products, personal-care products, food products, and scouring products. In each of these categories, the company has different brands and variants.

A company's product mix has a certain width, length, depth, and consistency. These concepts are illustrated in Table 12.1 for the consumer-product division of Hindustan Unilever Limited (HUL).

To read about French carmaker Renault and its strategy for pursuing international growth, visit www.pearsoned.co.uk/marketingmanagementeurope

- The *width* of a product mix refers to how many different product lines the company carries. Table 12.1 shows a product-mix width of eleven lines. (In fact, HUL has other businesses as well.)
- The *length* of a product mix refers to the total number of items in the mix. In Table 12.1, it is 28. We can also talk about the average length of a line. This is obtained by dividing the total length (here 28) by the number of lines (here 12), or an average product length of less than 3.
- The *depth* of a product mix refers to how many variants are offered of each product in the line. If Lux comes in four variants (exotic flower petals and jojoba oil, almond oil and milk cream, fruit extracts and honey in milk cream, and sandal saffron in milk cream) and in two sizes, then it has a depth of eight. The average depth of HUL's product mix can be calculated by averaging the number of variants within the brand groups.
- The *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. HUL's product lines are consistent insofar as they are consumer goods that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for the buyers.

TABLE 12.1 Product-Mix and Product-Line Length for Hindustan Unilever Limited

	Product-Mix Width											
	Home & Personal Care								**Foods**			
	Personal Wash	**Laundry**	**Skin Care**	**Hair Care**	**Oral Care**	**Deodorants**	**Ayurvedic Personal & Health care**	**Color Cosmetics**	**Tea**	**Coffee**	**Foods**	**Ice Cream**
Product-Line Length	Lux	Surf Excel	Fair & Lovely	Sunsilk Naturals	Pepsodent	Axe	Ayush	Lakme	Brooke Bond	Brooke Bond Bru	Kissan	Kwality Wall's
	Lifebuoy	Rin	Pond's	Clinic	Close-up	Rexona			Lipton		Knorr Annapurna	
	Liril	Wheel	Vaseline									
	Hamam											
	Breeze											
	Dove											
	Pears											
	Rexona											

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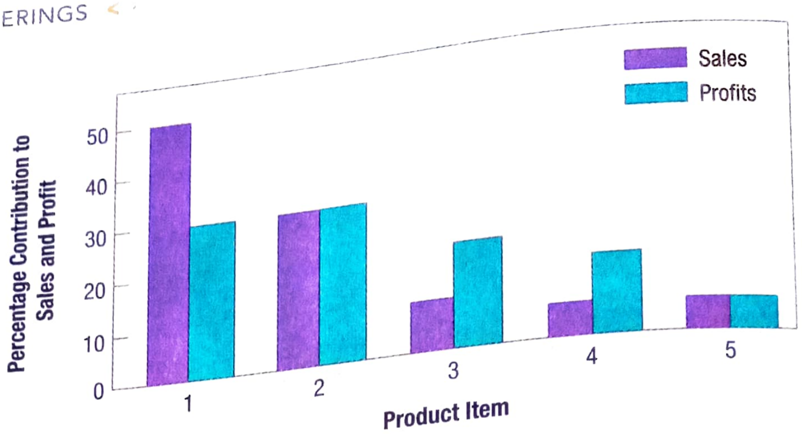


These four product-mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product-line consistency. To make these product and brand decisions, it is useful to conduct product-line analysis.

Product-Line Analysis

In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements. Car manufacturers build their cars around a basic platform. Homebuilders show a model home to which buyers can add additional features. This modular approach enables the company to offer variety and to lower production costs.

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.[23] They also need to understand each product line's market profile.

SALES AND PROFITS Figure 12.3 shows a sales and profit report for a five-item product line. The first item accounts for 50% of total sales and 30% of total profits. The first two items account for 80% of total sales and 60% of total profits. If these two items were suddenly hurt by a competitor, the line's sales and profitability could collapse. These items must be carefully monitored and protected. At the other end, the last item delivers only 5% of the product line's sales and profits. The product-line manager may consider dropping this item unless it has strong growth potential.

Every company's product portfolio contains products with different margins. Supermarkets make almost no margin on bread and milk; reasonable margins on canned and frozen foods; and even better margins on flowers, ethnic food lines, and freshly baked goods. A local telephone company makes different margins on its core telephone service, call waiting, caller ID, and voice mail.

A company can classify its products into four types that yield different gross margins, depending on sales volume and promotion. To illustrate with laptop computers:

- ***Core products.*** Basic laptop computers that produce high sales volume and are heavily promoted but with low margins because they are viewed as undifferentiated commodities.
- ***Staples.*** Items with lower sales volume and no promotion, such as faster CPUs or bigger memories. These yield a somewhat higher margin.
- ***Specialties.*** Items with lower sales volume but that might be highly promoted, such as digital moviemaking equipment; or might generate income for services, such as personal delivery, installation, or on-site training.
- ***Convenience items.*** Peripheral items that sell in high volume but receive less promotion, such as carrying cases and accessories, upscale video or sound cards, and software. Consumers tend to buy them where they buy the original equipment because it is more convenient than making further shopping trips. These items can carry higher margins.

The main point is that companies should recognize that these items differ in their potential for being priced higher or advertised more as ways to increase their sales, their margins, or both.[24]

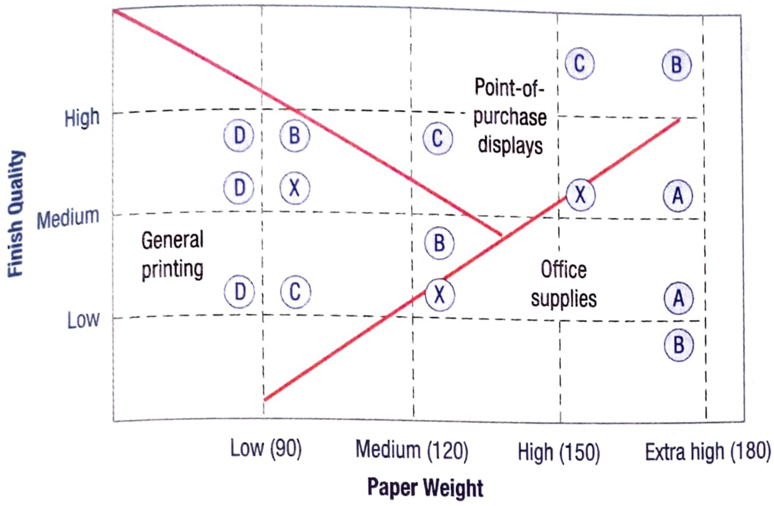


FIG. 12.4

Product Map for a Paper-Product Line

Source: Benson P. Shapiro, *Industrial Product Policy: Managing the Existing Product Line* (Cambridge, MA: Marketing Science Institute Report No. 77–110). Copyright © 2003. Reprinted by permission of Marketing Science Institute and Benson P. Shapiro.

MARKET PROFILE The product-line manager must review how the line is positioned against competitors' lines. Consider paper company X with a paperboard product line.[25] Two paperboard attributes are weight and finish quality. Paper is usually offered at standard levels of 90, 120, 150, and 180 weight. Finish quality is offered at low, medium, and high levels. Figure 12.4 shows the location of the various product-line items of company X and four competitors, A, B, C, and D. Competitor A sells two product items in the extra-high weight class ranging from medium to low finish quality. Competitor B sells four items that vary in weight and finish quality. Competitor C sells three items in which the greater the weight, the greater the finish quality. Competitor D sells three items, all lightweight but varying in finish quality. Company X offers three items that vary in weight and finish quality.

The **product map** shows which competitors' items are competing against company X's items. For example, company X's low-weight, medium-quality paper competes against competitor D's and B's papers, but its high-weight, medium-quality paper has no direct competitor. The map also reveals possible locations for new items. No manufacturer offers a high-weight, low-quality paper. If company X estimates a strong unmet demand and can produce and price this paper at low cost, it could consider adding this item to its line.

Another benefit of product mapping is that it identifies market segments. Figure 12.4 shows the types of paper, by weight and quality, preferred by the general printing industry, the point-of-purchase display industry, and the office supply industry. The map shows that company X is well positioned to serve the needs of the general printing industry but is less effective in serving the other two industries.

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

Product-Line Length

Company objectives influence product-line length. One objective is to create a product line to induce upselling: Thus, Maruti would like to move customers from Maruti 800 to Alto or Zen. A different objective is to create a product line that facilitates cross-selling: Hewlett-Packard sells printers as well as computers. Still another objective is to create a product line that protects against economic ups and downs; Videocon offers white goods such as refrigerators, washing machines, televisions, microwave ovens, and air conditioners under different brand names to cater to the entry-level, mid-level, and premium segments. Companies seeking high market share and market growth will generally carry longer product lines. Companies that emphasize high profitability will carry shorter lines consisting of carefully chosen items.

Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product-line manager to develop new items. The sales force and distributors also pressure the company for a more complete product line to satisfy customers. But as items are added, costs rise: design and engineering costs, inventory-carrying costs, manufacturing-changeover costs, order-processing costs, transportation costs, and new-item promotional costs. Eventually, someone calls a halt: Top management may stop development because of insufficient funds or manufacturing capacity. The controller may call for a study of money-losing items. A pattern of product-line growth followed by massive pruning may repeat itself many times. Increasingly, consumers are growing weary of dense product lines, over-extended brands, and feature-laden products (see "Marketing Insight: When Less Is More").

A company lengthens its product line in two ways: line stretching and line filling.

LINE STRETCHING Every company's product line covers a certain part of the total possible range. For example, Mercedes automobiles are located in the upper price range of the automobile market. **Line stretching** occurs when a company lengthens its product line beyond its current range. The company can stretch its line down-market, up-market, or both ways.

MARKETING INSIGHT — WHEN LESS IS MORE

Although many consumers find the notion of having more choices appealing, the reality is that consumers can sometimes be overwhelmed by the choices involved. With thousands of new products introduced each year, consumers find it harder and harder to successfully navigate through store aisles. One study found that the average shopper spent 40 seconds or more in the supermarket soda aisle, compared to 25 seconds six or seven years ago. Another research study showed that although consumers expressed greater interest in shopping with a larger assortment of 24 different flavored jams than a smaller assortment of 6, they were 10 times more likely to actually make a selection with the smaller assortment.

Marketers are learning through the sometimes painful experience that product lines can get too long, or products can become just too complicated.

Although consumers with well-defined preferences may benefit from more differentiated products that offer specific benefits to better suit their needs, too much product choice may be a source of frustration, confusion, and regret for other consumers. Product proliferation has another downside. Exposing the customer to constant product changes and introductions may nudge them into reconsidering their choices, resulting in their switching to a competitor's product as a result.

And not all the new choices may be winners anyway, as Nestlé found out with its KitKat bars, among the best-selling candy bars in the United Kingdom since they were invented there in the 1930s. To increase sales in 2004, the company rolled out a vast array of new flavors. The summer saw the launch of strawberries and cream, passion fruit and mango, and red berry versions; with winter came Christmas pudding, tiramisu (with real wine and marscapone), and low-carb versions. The new flavors were a disaster—the tastes were too sweet and unusual for many—and even worse, some consumers couldn't find the classic KitKat bars among all the new varieties. An ill-timed switch from the classic slogan, "Have a Break, Have a KitKat," didn't help, and sales dropped 18% as a result. The new flavors were then discontinued.

Smart marketers are also realizing that it's not just the product lines that are making consumer heads spin—many products themselves are just too complicated for the average consumer. Royal Philips Electronics learned its lesson when the company asked 100 top managers to take various Philips electronic products home one weekend and see whether they could make them work. The number of executives who returned frustrated and angry spoke volumes about the challenges the ordinary consumer faced. A Yankee Group research study in 2004 reinforces this fact: Almost a third of all home-networking products sold that year were returned because the consumer couldn't get them to work; almost half of potential digital camera buyers were delaying their purchase because they thought the products were too complicated; and about a quarter of consumers thought they already owned an HDTV (they didn't). Philips launched an initiative in September 2004 with a goal to make technology simpler, backed by a $100 million ad campaign "Sense and Simplicity."

Sources: Deborah Ball, "Flavor Experiment for KitKat Leaves Nestlé with a Bad Taste," *Wall Street Journal*, July 6, 2006; Barry Schwartz, *The Paradox of Choice: Why More Is Less* (New York: Harper Collins Ecco, 2004); Frisco Endt, "It Is Rocket Science," *Newsweek*, October 18, 2004, p. E8; Alexander Chernev, "When More Is Less and Less Is More: The Role of Ideal Point Availability and Assortment in Choice," *Journal of Consumer Research* 30 (September 2003): 170–83; Sheena S. Iyengar and Mark R. Lepper, "When Choice Is Demotivating: Can One Desire Too Much of a Good Thing?" *Journal of Personality and Social Psychology* 79, no. 6 (December 2000): 995–1006; Ravi Dhar, "Consumer Preference for a No-Choice Option," *Journal of Consumer Research* 27 (September 1997): 233–48.

Down-Market Stretch 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 attract a growing number of shoppers who want value-priced goods.
2. The company may wish to tie up lower-end competitors who might otherwise try to move up-market. If the company has been attacked by a low-end competitor, it often decides to counterattack by entering the low end of the market.
3. The company may find that the middle market is stagnating or declining.

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

1. Use the parent brand name on all its offerings. Sony has used its name on products in a variety of price tiers.
2. Introduce lower-priced offerings using a subbrand name, such as P&G's Charmin Basics, Gillette Good News, and Ramada Limited.
3. Introduce the lower-priced offerings under a different name, such as The Gap's Old Navy brand. This strategy is expensive to implement, and consumers may not accept a new brand that lacks the equity of the parent brand name.

Moving down-market carries risks. Kodak introduced Kodak Funtime film to counter lower-priced brands, but it did not price it low enough to match the lower-priced film. It also found some of its regular customers buying Funtime, so it was cannibalizing its core brand. Kodak withdrew the product and may have also lost some of its quality image in the process. On the other hand, Mercedes successfully introduced its C-Class cars at $30,000 without injuring its ability to sell other Mercedes cars for $100,000. John Deere introduced a lower-priced line of lawn tractors called Sabre from John Deere while still selling its more expensive tractors under the John Deere name. In these cases, consumers may have been better able to compartmentalize the different brand offerings and understand and rationalize functional differences between offerings in higher and lower price tiers.

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 manufacturers. Many markets have spawned surprising upscale segments: Starbucks in coffee, Häagen-Dazs in ice cream, and Evian in bottled water. The leading Japanese auto companies have each introduced an upscale automobile: Toyota's Lexus; Nissan's Infiniti; and Honda's Acura. Note that they invented entirely new names rather than using or including their own names, because consumers may not have given the brand "permission" to stretch upward at the time when those different lines were first introduced.

Two-Way Stretch Companies serving the middle market might decide to stretch their line in both directions. Titan introduced its first watches in the medium-price, medium-quality segment of the market. Gradually, it has added watches in the premium segment, under brand names such as Titan Edge, Nebula, and Xylus, where it competes with European brands. In the economy segment, Titan introduced the Sonata collection. This kind of two-way stretch has helped Titan gain the market dominance in the watch category. Hidesign, the leather accessory brand, introduced collections targeted at the teenage and young customers at lower price points with the brand name Salsa, and high-end collections at higher price points than the main brand with the name Hidesign Couture.

HOLIDAY INN

Holiday Inn Worldwide also has performed a two-way stretch of its hotel product line. The hotel chain broke its domestic hotels into five separate chains to tap into five different benefit segments—the upscale Crowne Plaza, the traditional Holiday Inn, the budget Holiday Inn Express, and the business-oriented Holiday Inn Select and Holiday Inn Suites & Rooms. Different branded chains received different marketing programs and emphasis. Holiday Inn Express has been advertised with the humorous "Stay Smart" advertising campaign showing the brilliant feats that ordinary people could attempt after staying at the chain. By basing the development of these brands on distinct consumer targets with unique needs, Holiday Inn is able to ensure against overlap between brands.

The relative position of a brand and its competitor context will also affect consumer acceptance. Research has shown that a high-end model of a low-end brand is favored over a low-end model of a high-end brand, even when information about competing categories is made available.[26]

LINE FILLING A firm can also lengthen its product line by adding more items within the present range. There are several motives for *line filling*: reaching for incremental profits, trying to satisfy dealers who complain about lost sales because of missing items in the line, trying to utilize excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors.

BMW AG

In four years BMW has morphed from a one-brand, 5-model carmaker into a three-brand, 10-model powerhouse. Not only has the carmaker expanded its product range downward with Mini Coopers and its compact 1-series models, but it has also built it upward with Rolls-Royce and filled the gaps in between with its X3 and X5 sports activity vehicles, the Z3 and Z4 roadsters, and a 6-series coupe. The company has used line filling successfully to boost its appeal to the rich, the super-rich, and the wannabe-rich, all without departing from its pure premium positioning.[27]

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, customers are more attuned to relative than to absolute difference.[28] They will perceive the difference between boards 2 and 3 feet long and boards 20 and 30 feet long, but not between boards 29 and 30 feet long. The company should also check that the proposed item meets a market need and is not being added simply to satisfy an internal need. The infamous Edsel automobile, on which Ford lost $350 million in the late 1950s, met Ford's internal positioning needs for a car between its Ford and Lincoln lines, but not the market's needs.

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. Companies plan improvements to encourage customer migration to higher-valued, higher-priced items. Microprocessor companies such as Intel and AMD, and software companies such as Microsoft and Oracle, continually introduce more-advanced versions of their products. A 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. A white-goods company will announce a special low-priced television to attract customers. At other times, managers will feature a high-end item to lend prestige to the product line. Sometimes a company finds one end of its line selling well and the other end selling poorly. The company may try to boost demand for the slower sellers, especially if they are produced in a factory that is idled by lack of demand; but it could be counterargued that the company should promote items that sell well rather than try to prop up weak items. Nike's Air Force 1 basketball shoe, introduced in the 1980s, is a billion-dollar brand that is still a consumer and retailer favorite and moneymaker for the company due to collectable designs and tight supplies.[29]

Product-line managers must periodically review the line for deadwood that is depressing profits.[30] The weak items can be identified through sales and cost analysis. One study found that for a big Dutch retailer, a major assortment reduction led to a short-term drop in category sales, caused mainly by fewer category purchases by former buyers, but it also attracted new category buyers at the same time. These new buyers partially offset the sales losses among former buyers of the delisted items.[31]

Pruning slow-selling brands from product lines often benefits the brar that are left, like Unilever's global bestsellers that includes Lipton worldwide.

In 1999, Unilever announced its "Path to Growth" program designed to get the most value from its brand portfolio by eliminating three-quarters of its 1,600 distinct brands by 2003.[32] More than 90% of its profits came from just 400 brands, prompting Unilever cochairman Niall FitzGerald to liken the brand reduction to weeding a garden, so "the light and air get in to the blooms which are likely to grow the best." The company retained global brands such as Lipton, as well as regional brands and "local jewels" such as Persil, the leading detergent in the United Kingdom.

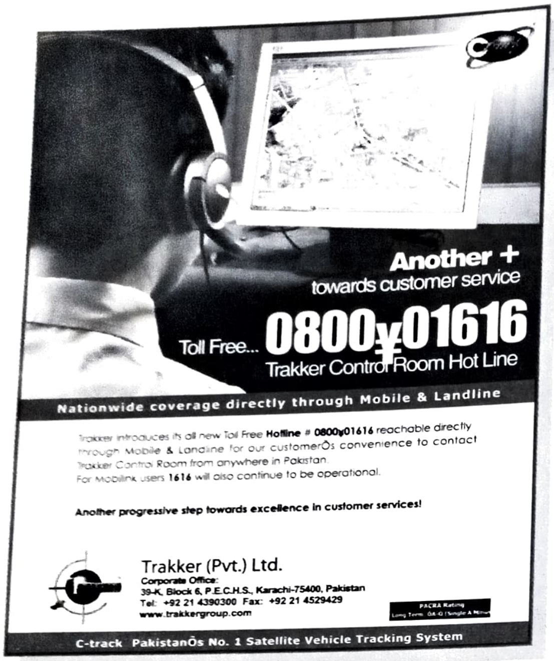
Multibrand companies all over the world are attempting to optimize their brand portfolios. In many cases, this has led to a greater focus on core brand growth and to concentrating energy and resources on the biggest and most established brands. Procter & Gamble's "back to basics strategy" concentrated on its brands with over $1 billion in revenue, such as Tide, Crest, Pampers, and Pringles. Every product in a product line must play a role, as must any brand in the brand portfolio.

VW

VW has four different brands to manage in its European portfolio. Initially, Audi and Seat had a sporty image and VW and Skoda had a family-car image. Audi and VW were in a higher price-quality tier than their respective counterparts. Skoda and Seat with their basic spartan interiors and utilitarian engine performance were clearly differentiated. With the goal of reducing costs, streamlining part/systems designs, and eliminating redundancies, Volkswagen upgraded the Seat and Skoda brands. Once viewed as subpar products by European consumers, Skoda and Seat have captured market share with splashy interiors, a full array of safety systems, and reliable powertrains borrowed from Volkswagen. The danger, of course, is that by borrowing from its upper-echelon Audi and Volkswagen products, Volkswagen may have diluted their cachet. Frugal European automotive consumers may convince themselves that a Seat or Skoda is almost identical to its VW sister, at several thousand Euros less.[33]

Product-Mix Pricing

Chapter 14 describes pricing concepts in detail, but let's quickly consider some basic product-mix pricing issues here. 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. Pricing is difficult because the various



An advertisement showing the Trakker team at work.

Categories of Service Mix

The service component can be a minor or a major part of the total offering. We distinguish five categories of offerings:

1. ***Pure tangible good***—The offering consists primarily of a tangible good such as soap, toothpaste, or salt. No services accompany the product.
2. ***Tangible good with accompanying services***—The offering consists of a tangible good accompanied by one or more services. Typically, the more technologically advanced the product, the greater the need for a broad range of high-quality supporting services. Services are often crucial for cars, computers, and cell phones.
3. ***Hybrid***—The offering consists of equal parts goods and services. For example, people patronize restaurants for both the food and its preparation.
4. ***Major service with accompanying minor goods and services***—The offering consists of a major service along with additional services or supporting goods. For example, though the trip includes a few tangibles such as snacks and drinks, what airline passengers buy is transportation. This service requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.
5. ***Pure service***—The offering consists primarily of a service. Examples include babysitting, psychotherapy, and massage.

The range of service offerings makes it difficult to generalize without a few further distinctions.

- Services vary as to whether they are *equipment based* (automated car washes, vending machines) or *people based* (window washing, accounting services). People-based services vary by whether unskilled, skilled, or professional workers provide them.
- Service companies can choose among different *processes* to deliver their service. Restaurants have developed cafeteria-style, fast-food, buffet, and candlelight service formats.
- Some services need the *client's presence.* Brain surgery requires the client's presence, a car repair does not. If the client must be present, the service provider must be considerate of his or her needs. Thus beauty salon operators will invest in décor, play background music, and engage in light conversation with the client.
- Services may meet a *personal need* (personal services) or a *business need* (business services). Service providers typically develop different marketing programs for personal and business markets.
- Service providers differ in their *objectives* (profit or nonprofit) and *ownership* (private or public). These two characteristics, when crossed, produce four quite different types of organizations. The marketing programs of a private investor hospital will differ from those of a private charity hospital or a Veterans' Administration hospital.[8]

Customers cannot judge the technical quality of some services even after they have received them. Figure 13.2 shows various products and services according to difficulty of evaluation.[9] At the left are goods high in *search qualities*—that is, characteristics the buyer can evaluate before purchase. In the middle are goods and services high in *experience qualities*—characteristics the buyer can evaluate after purchase. At the right are goods and services high in *credence qualities*—characteristics the buyer normally finds hard to evaluate even after consumption.[10]

Because services are generally high in experience and credence qualities, there is more risk in purchase. This factor has several consequences. First, service consumers generally rely on word of mouth rather than advertising. Second, they rely heavily on price, personnel, and physical cues to judge quality. Third, they are highly loyal to service providers who satisfy them. Fourth, because switching costs are high, consumer inertia can make it challenging to entice a customer away from a competitor.

Distinctive Characteristics of Services

Services have four distinctive characteristics that greatly affect the design of marketing programs: *intangibility, inseparability, variability,* and *perishability.*[11]

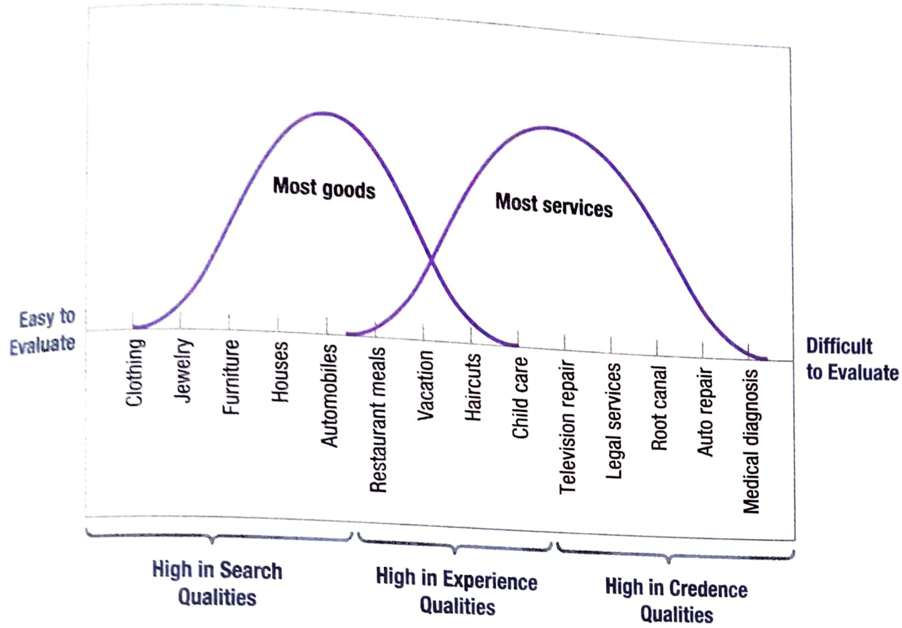


FIG. 13.2

Continuum of Evaluation for Different Types of Products

Source: Valarie A. Zeithaml, "How Consumer Evaluation Processes Differ between Goods and Services," in *Marketing of Services*, ed. James H. Donnelly and William R. George (Chicago: American Marketing Association, 1981). Reprinted with permission of the American Marketing Association.

INTANGIBILITY Unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. A person getting cosmetic surgery cannot see the results before the purchase, and the patient in the psychiatrist's office cannot know the exact outcome of treatment. To reduce uncertainty, buyers will look for evidence of quality by drawing inferences from the place, people, equipment, communication material, symbols, and price. Therefore, the service provider's task is to "manage the evidence," to "tangibilize the intangible."[12]

Service companies can try to demonstrate their service quality through *physical evidence* and *presentation*.[13] A hotel will develop a look and a style of dealing with customers that realizes its intended customer-value proposition, whether it's cleanliness, speed, or some other benefit. Suppose a bank wants to position itself as the "fast" bank. It could make this positioning strategy tangible through any number of marketing tools:

1. *Place*—The exterior and interior should have clean lines. The layout of the desks and the traffic flow should be planned carefully. Waiting lines should not get overly long.
2. *People*—Personnel should be busy, but there should be a sufficient number of employees to manage the workload.
3. *Equipment*—Computers, copying machines, and desks should be and look like "state of the art."
4. *Communication material*—Printed materials—text and photos—should suggest efficiency and speed.
5. *Symbols*—The name and symbol could suggest fast service.
6. *Price*—The bank could advertise that it will deposit Rs. 50 in the account of any customer who waits in line for more than five minutes.

Service marketers must be able to transform intangible services into concrete benefits and a well-defined experience.[14] The Disney Company is a master at "tangibilizing the intangible" and creating magical fantasies in its theme parks; so are companies such as Jamba Juice and Barnes & Noble in their respective retail stores.[15]

Similarly, the luxury tourist train Palace on Wheels, a joint venture of Rajasthan Tourism Development Corporation and Indian Railways, is highly successful due to the careful design and execution of various service elements that help in delivering superior customer experience.

PALACE ON WHEELS

Palace on Wheels takes tourists on a journey through Rajasthan, the land of sand dunes and regal palaces, and Agra, the land of the Taj Mahal. Rated as one among the ten best luxurious rail journeys in the world, it aims to provide the ultimate royal experience. The Palace on Wheels was started in 1982 as a heritage holiday train by joining the coaches of the original royal saloons owned by the princely states of Gujarat, Rajputana, the Nizam

The Maharani restaurant on the Palace of Wheels train combines a royal and luxurious ambience with excellent service and a choice of cuisines for the guests.

of Hyderabad, and the Viceroy of British India. Later, these coaches were replaced by modern air-conditioned coaches, but the royal ambience was maintained. Presently the train has 14 saloons. Each coach has four twin-bedded chambers decorated in colourful Rajasthani art, and the panels and ceilings are covered with miniature traditional motifs that reflect courtly life. The saloons are equipped with world-class facilities such as channel music, intercom, attached toilets, running hot and cold water, shower stalls, and wall-to-wall carpeting. Each saloon has personal attendants called "*khidmatgars*," at the beck and call of the guests. The train also has two restaurants named "The Maharaja" and "The Maharani" with a princely ambience where guests have a choice of Continental, Chinese, Indian, and Rajasthani cuisines, prepared by the chefs in the adjacent kitchens. In addition, the train also has a well-stocked bar and a library. The train travels mostly in the night and stops during the day to allow the guests to visit the palaces and the forts. The Palace on Wheels experience has become one of the most sought-after luxuries for international tourists, and has long passenger lists that require guests to book months in advance in order to get their share of the royal experience.

INSEPARABILITY Whereas physical goods are manufactured, put into inventory, distributed through multiple resellers, and consumed later, services are typically produced and consumed simultaneously. A barber can't give a haircut without being present. If a person renders the service, then the provider is part of the service. Because the client is also often present as the service is produced, provider–client interaction is a special feature of services marketing.

In the case of entertainment and professional services, buyers are interested in the specific provider of the service. A music concert is not the same if Ustad Zakir Hussain is replaced by a local, or even a well-known national-level artist. When clients have strong provider preferences, the price is raised, both to ration the preferred provider's limited time, and also to shield him/her from overexposure.

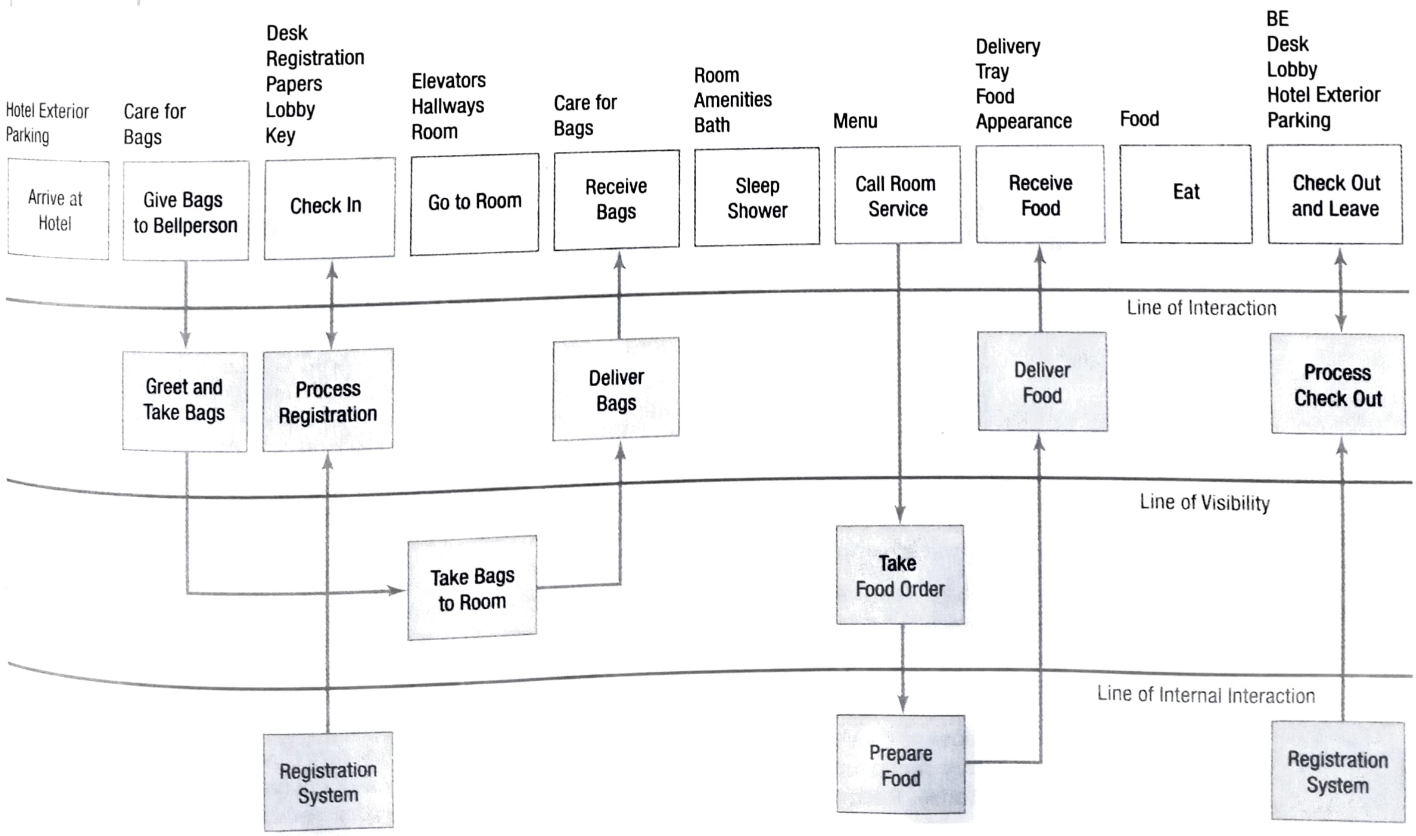
Several strategies exist for getting around the limitations of inseparability. The service provider can learn to work with larger groups. Psychotherapists have moved from one-on-one therapy to small-group therapy to groups of over 300 people in a large hotel ballroom. The service provider can learn to work faster—the psychotherapist can spend 30 more-efficient minutes with each patient instead of 50 less-structured minutes and can see more patients. The service organization can train more service providers and build up client confidence.

VARIABILITY Because the quality of services depends on who provides them, when and where, and to whom, services are highly variable. Some doctors have an excellent bedside manner; others are less empathic.

Service buyers are aware of this variability and often talk to others before selecting a service provider. To reassure customers, some firms offer *service guarantees* that may reduce consumer perceptions of risk.[16] Here are three steps service firms can take to increase quality control.

1. ***Invest in good hiring and training procedures***—Recruiting the right employees and providing them with excellent training is crucial, regardless of whether employees are highly skilled professionals or low-skilled workers. Better-trained personnel exhibit six characteristics: *Competence:* They possess the required skill and knowledge; *courtesy:* They are friendly, respectful, and considerate; *credibility:* They are trustworthy; *reliability:* They perform the service consistently and accurately; *responsiveness:* They respond quickly to customers' requests and problems; and *communication:* They make an effort to understand the customer and communicate clearly.[17]
2. ***Standardize the service-performance process throughout the organization***—A *service blueprint* can simultaneously map out the service process, the points of customer contact, and the evidence of service from the customer's point of view.[18] Figure 13.3 shows a service blueprint for a guest spending a night at a hotel.[19] The guest's experience includes a series of steps he or she must enact before even getting to sleep. Behind the scenes, the hotel must skillfully help the guest move from one step to the next. Service blueprints can be helpful in developing new service, supporting a "zero defects" culture, and devising service recovery strategies.
3. ***Monitor customer satisfaction***—Employ suggestion and complaint systems, customer surveys, and comparison shopping. General Electric sends out 700,000 response cards a year asking households to rate its service people's performance. Citibank checks continu-

FIG. 13.3 Blueprint for Overnight Hotel Stay



Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 4th ed. (New York: McGraw-Hill, 2006).

ously on measures of ART (accuracy, responsiveness, and timeliness). Recognizing how customer needs may vary in different geographical areas can allow firms to develop region-specific programs to improve total customer satisfaction.[20] Firms can also develop customer information databases and systems to permit more personalized, customized service, especially online.[21]

PERISHABILITY Services cannot be stored, so their perishability can be a problem when demand fluctuates. For example, public transportation companies must own much more equipment because of rush-hour demand than if demand were even throughout the day. Some doctors charge patients for missed appointments because the service value (the doctor's availability) exists only at the time of the appointment.

Demand or yield management is critical—the right services must be available to the right customers at the right places at the right times and right prices to maximize profitability. Several strategies can produce a better match between demand and supply in a service business.[22] On the demand side:

- ***Differential pricing*** will shift some demand from peak to off-peak periods. Examples include low early-evening movie prices and weekend discounts for car rentals.[23]
- ***Nonpeak demand*** can be cultivated. McDonald's pushes breakfast service, and hotels promote minivacation weekends.
- ***Complementary services*** can provide alternatives to waiting customers, such as cocktail lounges in restaurants and automated teller machines in banks.
- ***Reservation systems*** are a way to manage the demand level. Airlines, hotels, and physicians employ them extensively.

On the supply side:

- ***Part-time employees*** can serve peak demand. Colleges add part-time teachers when enrollment goes up, stores hire extra clerks during holiday periods, and restaurants call in part-time servers when needed.
- ***Peak-time efficiency*** routines can allow employees to perform only essential tasks during peak periods. Paramedics assist physicians during busy periods.
- ***Increased consumer participation*** can be encouraged. Consumers fill out their own medical records or bag their own groceries.
- ***Shared services*** can improve offerings. Several hospitals can share medical-equipment purchases.
- ***Facilities for future expansion*** can be a good investment. An amusement park buys surrounding land for later development.

Many airlines, hotels, and resorts send e-mail alerts to self-selected segments of their customer base that offer special short-term discounts and promotions. Club Med uses early to midweek e-mails to people in its database to pitch unsold weekend packages, typically 30% to 40% off the standard package price.[24] After 40 years of making people stand in line at its theme parks, Disney instituted Fastpass, which allows visitors to reserve a spot in line and eliminate the wait. When visitors were polled, it turned out that 95% like the change. Disney's vice president, Dale Stafford, told a reporter, "We have been teaching people how to stand in line since 1955, and now we are telling them they don't have to. Of all the things we can do and all the marvels we can create with the attractions, this is something that will have a profound effect on the entire industry."[25]

::: Marketing Strategies for Service Firms

At one time, service firms lagged behind manufacturing firms in their use of marketing because they were small, or they were professional businesses that did not use marketing, or they faced large demand or little competition. This has certainly changed. "Marketing Memo: Recommendations for Improving Service Quality" offers a comprehensive set of guidelines to which top service-marketing organizations can adhere.

Auth... ...u'll see, this
Commen... ...ptively simple question
has a ver... ...ex answer. For
example, ...ck to the opening
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product

What Is a Product?

Product
Anything th... ...n be offered to a market for ... ...ion, acquisition, use, or consump... ...that might satisfy a want or nee...

Service
An activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything.

We define a **product** as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible objects, such as cars, clothing, or mobile phones. Broadly defined, products also include services, events, persons, places, organizations, and ideas or a mixture of these. Throughout this text, we use the term *product* broadly to include any or all of these entities. Thus, an Apple iPhone, a Toyota Camry, and a Caffé Mocha at Starbucks are products. But so are a trip to Las Vegas, Schwab online investment services, your Instagram account, and advice from your family doctor.

Because of their importance in the world economy, we give special attention to services. **Services** are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, hotel, airline travel, retail, wireless communication, and home-repair services. We will look at services more closely later in this chapter.

Products, Services, and Experiences

Products are a key element in the overall *market offering*. Marketing mix planning begins with building an offering that brings value to target customers. This offering becomes the basis on which the company builds profitable customer relationships.

A company's market offering often includes both tangible goods and services. At one extreme, the market offer may consist of a *pure tangible good*, such as soap, toothpaste, or salt; no services accompany the product. At the other extreme are *pure services*, for which the market offer consists primarily of a service. Examples include a doctor's exam and financial

● **Creating customer experiences: More than just selling products, Apple's highly successful retail stores create engaging life-feels-good brand experiences.**

Area 52 Advertising Inc/Getty Images

services. Between these two extremes, however, ma goods-and-services combinations are possible.

Today, as products and services become m commoditized, many companies are moving to new level in creating value for their customers. differentiate their offers, beyond simply maki products and delivering services, they are creati and managing customer *experiences* with their bran or companies.

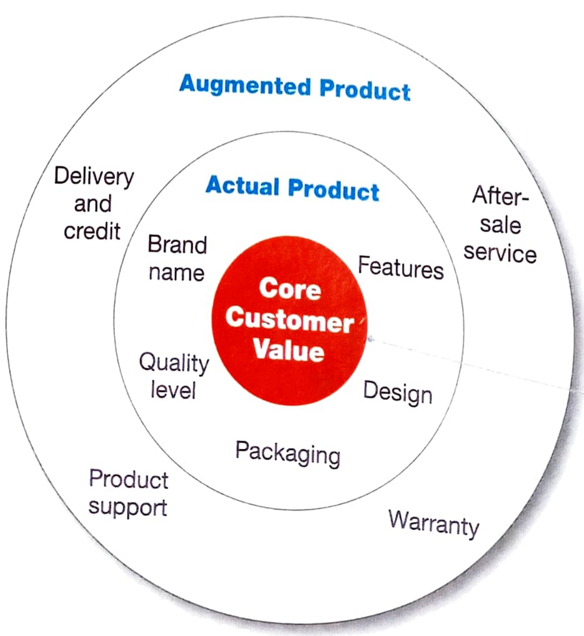
Experiences have always been an important pa of marketing for some companies. Disney has lo manufactured dreams and memories through its mo ies and theme parks—it wants theme park cast mem bers to deliver a thousand "small wows" to every cu tomer. And Nike has long declared, "It's not so muc the shoes but where they take you." Today, howeve all kinds of firms are recasting their traditional good and services to create experiences. ● For example Apple's highly successful retail stores don't just sel the company's products. They create an engagin Apple brand experience:[2]

> Apple's retail stores are very seductive places, where "life-feels-good" experiences abound. The store design is clean, simple, and just oozing with style—much like an Apple iPad or a featherweight MacBook Air. The bustling stores feel more like community centers than retail outlets, with crowds of customers sampling the goods and buzzing excitedly about all things Apple. The stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of fully functioning Macs, iPods, iPads, and iPhones sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. The stores offer expert technical assistance at the Genius Bar and a full schedule of workshops where customers at all experience levels can learn about their Apple devices and explore their creative sides. You don't just visit an Apple store—you experience it in a way that no other consumer electronics company can match. As one Apple retail executive explains, "I don't want to be sold to when I walk into a store. Don't sell! No! Because that's a turn-off. Build an amazing brand experience, and then [sales] will just naturally happen."

Levels of Product and Services

Product planners need to think about products and services on three levels (see ● **Figure 8.1**). Each level adds more customer value. The most basic level is the *core customer value*, which addresses the question: *What is the buyer really buying?* When designing products, marketers must first define the core, problem-solving benefits or services that consumers seek. A woman buying lipstick buys more than lip color. Charles Revson of Revlon saw this

● FIGURE | 8.1
Three Levels of Product



At the most basic level, the company asks, "What is the customer really buying?" For example, people who buy an Apple iPad are buying more than just a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity—a mobile and personal window to the world.

Core, actual, and augmented product: People who buy an iPad are buying much more than a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity—a mobile and personal window to the world.

Betsie Van der Meer/Getty Images

early: "In the factory, we make cosmetics; in the store, we sell hope." And people who buy an Apple iPad are buying much more than just a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity with friends and family—a mobile and personal window to the world.

At the second level, product planners must turn the core benefit into an *actual product*. They need to develop product and service features, a design, a quality level, a brand name, and packaging. For example, the iPad is an actual product. Its name, parts, styling, operating system, features, packaging, and other attributes have all been carefully combined to deliver the core customer value of staying connected.

Finally, product planners must build an *augmented product* around the core benefit and actual product by offering additional consumer services and benefits. The iPad is more than just a digital device. It provides consumers with a complete connectivity solution. Thus, when consumers buy an iPad, Apple and its resellers also might give buyers a warranty on parts and workmanship, quick repair services when needed, and web and mobile sites to use if they have problems or questions. Apple also provides access to a huge assortment of apps and accessories, along with an iCloud service that integrates buyers' photos, music, documents, apps, calendars, contacts, and other content across all of their devices from any location.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the *core customer value* that consumers seek from the product. They must then design the *actual* product and find ways to *augment* it to create customer value and a full and satisfying brand experience.

Product and Service Classifications

Products and services fall into two broad classes based on the types of consumers who use them: *consumer products* and *industrial products*. Broadly defined, products also include other marketable entities such as experiences, organizations, persons, places, and ideas.

Consumer Products

Consumer product
A product bought by final consumers for personal consumption.

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services further based on how consumers go about buying them. Consumer products include *convenience products*, *shopping products*, *specialty products*, and *unsought products*. These products differ in the ways consumers buy them and, therefore, in how they are marketed (see Table 8.1).

Convenience product
A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Convenience products are consumer products and services that customers usually buy frequently, immediately, and with minimal comparison and buying effort. Convenience products and services are bought by the consumers as soon as a need for them is felt and at their earliest convenience. Examples include laundry detergent, candy, magazines, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need or want them.

Shopping product
A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price, and style.

Shopping products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. As the name indicates, the reputation of the 'shop' selling them matters a lot and plays a decisive role in consumers' choice of making a purchase. Examples include furniture, clothing, major appliances, and hotel services. Shopping product marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Table 8.1 | Marketing Considerations for Consumer Products

	Type of Consumer Product			
Marketing Considerations	**Convenience**	**Shopping**	**Specialty**	**Unsought**
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

Specialty product
A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Unsought product
A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Industrial product
A product bought by individuals and organizations for further processing or for use in conducting a business.

Specialty products are consumer products and services with unique characteristics or brand identifications for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands of cars, high-priced photography equipment, designer clothes, gourmet foods, and the services of medical or legal specialists. A Lamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted brands.

Unsought products are consumer products that a consumer either does not know about or knows about but does not normally consider buying. Most major new innovations are unsought until consumers become aware of them through marketing. Classic examples of known but unsought products and services are life insurance, preplanned funeral services, and blood donations to the Red Cross. By their very nature, unsought products require a lot of promoting, personal selling, and other marketing efforts.

Industrial Products

Industrial products are those products purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the *purpose* for which the product is purchased. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

The three groups of industrial products and services are materials and parts, capital items, and supplies and services. *Materials and parts* include raw materials as well as manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important.

Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (computers, fax machines, desks). These types of equipment have shorter lives than do installations and simply aid in the production process.

The final group of industrial products is *supplies and services*. Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

Organizations, Persons, Places, and Ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings: organizations, persons, places, and ideas.

Organizations often carry out activities to "sell" the organization itself. *Organization marketing* consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization. Both profit and not-for-profit organizations practice organization marketing.

Business firms sponsor public relations or *corporate image marketing* campaigns to market themselves and polish their images. For example, as noted in Chapter 6, GE's long-running "Imagination at Work" campaign markets the industrial giant as a company whose imaginative products and technologies are making a difference in the world. ● Consider one recent award-winning TV spot, called "Childlike Imagination." The whimsical ad brings GE's products—from jet engines and diesel locomotives to giant wind turbines and hospital diagnostics machines—to life through the eyes of a wide-eyed young girl whose mom works at GE. GE is "Building, powering, moving, and curing the world," says the company. "Not just imagining. Doing. GE works."[3]

● **Organization marketing: GE's long-running Imagination at Work campaign markets the industrial giant as a company whose imaginative products and technologies are making a difference in the world.**

GE

People can also be thought of as products. *Person marketing* consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And businesses, charities, and other organizations use well-known personalities to help sell their products or causes. For example, Nike spends almost $1 billion annually on endorsement deals with a stable of stars spanning almost every conceivable sport worldwide, including headliners such as tennis greats Maria Sharapova and Rodger Federer, world soccer superstars Cristiano Ronaldo and Neymar, and current and former NBA all-stars Michael Jordan, Kobe Bryant, LeBron James, and Kevin Durant.[4]

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places. Cities, states, regions, and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. The New Orleans city website shouts "Go NOLA" and markets annual events such as Mardi Gras festivities and the New Orleans Jazz and Heritage Festival. Tourism Australia advertises that "There's Nothing Like Australia" and provides a website and smartphone app complete with videos, holiday ideas, destination information, and about anything else travelers might need to plan an Australian vacation.[5]

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest

Social marketing
The use of traditional business marketing concepts and tools to encourage behaviors that will create individual and societal well-being.

toothpastes create "healthy, beautiful smiles for life." Here, however, we narrow our focus to the marketing of *social ideas*. This area has been called **social marketing** and consists of using traditional business marketing concepts and tools to encourage behaviors that will create individual and societal well-being.

Social marketing programs cover a wide range of issues. The Ad Council of America (www.adcouncil.org), for example, has developed dozens of social advertising campaigns involving issues ranging from health care, education, and environmental sustainability to human rights and personal safety. But social marketing involves much more than just advertising. It involves a broad range of marketing strategies and marketing mix tools designed to bring about beneficial social change.[6]

Author Comment | Now that we've answered the "What is a product?" question, we dig into the specific decisions that companies must make when designing and marketing products and services.

Product and Service Decisions

Marketers make product and service decisions at three levels: individual product decisions, product line decisions, and product mix decisions. We discuss each in turn.

Individual Product and Service Decisions

● **Figure 8.2** shows the important decisions in the development and marketing of individual products and services. We will focus on decisions about *product attributes, branding, packaging, labeling and logos*, and *product support services*.

Product and Service Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as *quality, features*, and *style and design*.

Product quality
The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

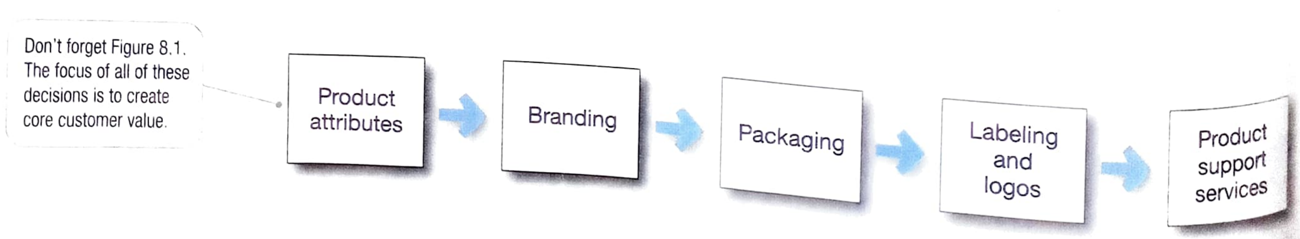
Product Quality. **Product quality** is one of the marketer's major positioning tools. Quality affects product or service performance; thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "no defects." But most marketers go beyond this narrow definition. Instead, they define quality in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. Similarly, Siemens defines quality this way: "Quality is when our customers come back and our products don't."[7]

Total quality management (TQM) is an approach in which all of the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a *return-on-quality* approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.

Product quality has two dimensions: level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's positioning. Here, product quality means *performance quality*—the product's ability to perform its functions. For example, a Rolls-Royce provides higher performance quality than a Chevrolet: It has a smoother ride, lasts longer, and provides more handcraftsmanship, custom design, luxury, and "creature comforts." Companies rarely try to offer the highest possible performance quality level; few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce automobile, a Viking range, or a Rolex watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

Beyond quality level, high quality also can mean high levels of quality consistency. Here, product quality means *conformance quality*—freedom from defects and consistency in delivering a targeted level of performance. All companies should strive for high levels

● FIGURE | 8.2
Individual Product Decisions



of conformance quality. In this sense, a Chevrolet can have just as much quality as a Rolls-Royce. Although a Chevy doesn't perform at the same level as a Rolls-Royce, it can just as consistently deliver the quality that customers pay for and expect.

By consistently meeting or exceeding customers' quality expectations, Chick-fil-A has won a trophy case full of awards for top food and service quality, helping it build a fierce following of loyal customers.

Bloomberg/Getty Images

Similarly, the Chick-fil-A fast-food chain doesn't aspire to provide gourmet dining experiences. However, by consistently meeting or exceeding customers' quality expectations, the chain has earned a trophy case full of awards for top food and service quality. Last year, for instance, the chain was the only restaurant named to *24/7 Wall Street's* Customer Service Hall of Fame, based on a survey of 2,500 adults asked about the quality of customer service at 150 of America's best-known companies across 15 industries. Chick-fil-A placed second overall, alongside the likes of Amazon, Marriott, and Apple.[8] Although it doesn't try to be Ritz-Carlton, it does send its managers to the Ritz-Carlton quality training program, where they learn things such as how to greet customers and how to probe for and serve unexpressed needs. Such consistency in meeting quality expectations has helped Chick-fil-A build a following of fiercely loyal customers.

Product Features. A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can then create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? It should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers to these questions provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value highly in relation to costs should be added.

Product Style and Design. Another way to add customer value is through distinctive *product style and design*. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks.

Good design doesn't start with brainstorming new ideas and making prototypes. Design begins with observing customers, understanding their needs, and shaping their product-use experience. Product designers should think less about technical product specifications and more about how customers will use and benefit from the product. For example, using smart design based on consumer needs, Sonos created a wireless, internet-enabled speaker system that's easy to use and fills a whole house with great sound.

> In the past, setting up a whole-house entertainment or sound system required routing wires through walls, floors, and ceilings, creating a big mess and lots of expense. And if you moved, you couldn't take it with you. Enter Sonos, which took home-audio and theater systems to a new level worthy of the digital age. The innovative company created a wireless speaker system that's not just stylish but also easy to set up, easy to use, and easy to move to meet changing needs. With Sonos, you can stream high-quality sound through a variety of stylish speakers anywhere in your home with just an app and a tap on your smartphone. Smart design has paid off handsomely for Sonos. Founded in 2002, over just the past two years the company's sales have nearly tripled to an estimated $1 billion a year.[9]

Brand
A name, term, sign, symbol, or design, or a combination of these, that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol, or design or a combination of these that identifies the maker or seller of a product or service. Consumers view a brand

Product Line Decisions

Product line
A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Beyond decisions about individual products and services, product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel, and Marriott offers several lines of hotels.

The major product line decision involves *product line length*—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Managers need to analyze their product lines periodically to assess each item's sales and profits and understand how each item contributes to the line's overall performance.

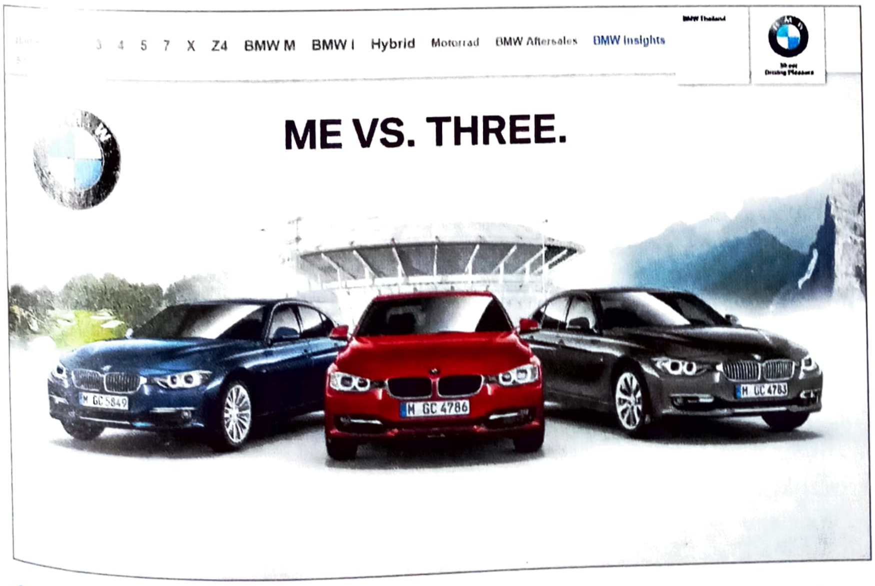
A company can expand its product line in two ways: by *line filling* or *line stretching*. *Product line filling* involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalization (eating up sales of the company's own existing products) and customer confusion. The company should ensure that new items are noticeably different from existing ones.

Product line stretching occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways. Companies located at the upper end of the market can stretch their lines *downward*. For example, Mercedes has stretched downward with the CLA line to draw in younger, first-time buyers. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments. Companies can also stretch their product lines *upward*. Sometimes, companies stretch upward to add prestige to their current products or to reap higher margins. P&G did that with brands such as Cascade dishwashing detergent and Dawn dish soap by adding "Platinum" versions at higher price points.

As they grow and expand, many company both stretch and fill their product lines. Consider BMW:[17]

Pro[illegible] mix (or product portfolio)
The [illegible] product lines and items that a pa[illegible] seller offers for sale.

Over the years, BMW Group has transformed itself from a single-brand, five-model automaker into a powerhouse with three brands, 14 "Series," and dozens of distinct models. The company has expanded downward with its MINI Cooper line and upward with Rolls-Royce. Its BMW line brims with models from the low end to the high end to everything in between. The brand's seven "Series" lines range from the entry-level 1-Series subcompact to the luxury-compact 3-Series to the midsize 5-Series sedan to the luxurious full-size 7-Series. In between, BMW has filled the gaps with its X1, X3, X4, X5, and X6 SUVs; M-Series performance models; the Z4 roadster; and the i3 and i8 hybrids. Thus, through skillful line stretching and filling, while staying within its premium positioning, BMW now has brands and lines that successfully appeal to the rich, the super-rich, and the hope-to-be-rich.



Product line stretching and filling: Through skillful line stretching and filling, BMW now has brands and lines that successfully appeal to the rich, the super-rich, and the hope-to-be-rich.
BMW of North America

Product Mix Decisions

An organization with several product lines has a product mix. A **product mix** (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale. For example, Colgate-Palmolive is perhaps best known for its toothpaste and other oral care products. But, in fact, Colgate is a $17.3 billion consumer products company that makes and markets a full product mix