Introduction to the Product Management

What Is Marketing?

The American Marketing Association offers the following formal definition: *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large***.**

A marketer is someone who seeks a response—attention, a
purchase, a vote, a donation—from another party, called the prospect. If two parties are seeking to sell something to each other, we call them both marketers.

Eight demand states are possible:

1. *Negative demand*—Consumers dislike the product and may even pay to avoid it.

2. *Nonexistent demand*—Consumers may be unaware of or uninterested in the product.

3. *Latent demand*—Consumers may share a strong need that cannot be satisfied by an existing product.

4. *Declining demand*—Consumers begin to buy the product less frequently or not at all.

5. *Irregular demand*—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.

6. *Full demand*—Consumers are adequately buying all products put into the marketplace.

7. *Overfull demand*—More consumers would like to buy the product than can be satisfied.

8. *Unwholesome demand*—Consumers may be attracted to products that have undesirable social consequences.

Needs, Wants, and Demands

Needs are the basic human requirements such as for air, food, water, clothing, and shelter. Humans also have strong needs for recreation, education, and entertainment. These needs become *wants* when they are directed to specific objects that might satisfy the need. A U.S. consumer needs food but may want a Philly cheesesteak and an iced tea. A person in Afghanistan needs food but may want rice, lamb, and carrots. Wants are shaped by our society.

Demands are wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few are able to buy one. Companies must measure not only how many people want their product, but also how many are willing and able to buy it.

Marketers do not create needs: Needs preexist marketers. Marketers, along with other societal factors, influence wants. They might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Value and value proposition

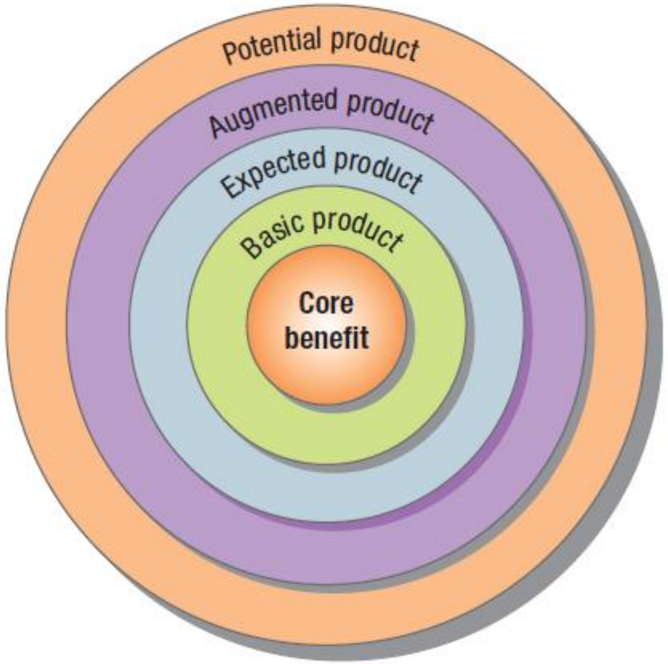
Value, a central marketing concept, is primarily a combination of quality, service, and price (qsp), called the customer value triad. Value perceptions increase with quality and service but decrease with price.

Companies address customer needs by putting forth a **value proposition**, a set of benefits that satisfy those needs. The intangible value proposition is made physical by an *offering*, which can be a combination of products, services, information, and experiences.

The Four P Components of the Marketing Mix

Product Characteristics and Classifications

Many people think a product is tangible, but 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.



Five Product Levels

Product Levels: The 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 minimally 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 offerings.

Product Differentiation

FORM: Many products can be differentiated in **form**—the size, shape, or physical structure of a product. Consider the many possible forms of aspirin. Although essentially a commodity, it can be differentiated by dosage size, shape, color, coating, or action time.

FEATURES: Most products can be offered with varying **features** that supplement their basic function. A company can identify and select appropriate new features by surveying recent buyers and then calculating *customer value* versus *company cost* for each potential feature.

CUSTOMIZATION: Marketers can differentiate products by customizing them. As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media.

PERFORMANCE QUALITY: Most products occupy one of four performance levels: low, average, high, or superior. **Performance quality** is the level at which the product's primary characteristics operate. Quality is increasingly important for differentiation as companies adopt a value model and provide higher quality for less money.

DURABILITY: Durability, a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for vehicles, kitchen appliances, and other durable goods.

RELIABILITY: Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period.

REPAIRABILITY: Repairability measures the ease of fixing a product when it malfunctions or fails. Ideal repairability would exist if users could fix the product themselves with little cost in money or time.

STYLE: Style describes the product's look and feel to the buyer. It creates distinctiveness that is hard to copy. Car buyers pay a premium for Jaguars because of their extraordinary looks. Aesthetics play a key role in such brands as Apple computers, Montblanc pens, Godiva chocolate, and Harley- Davidson motorcycles.

Service Differentiation

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

ORDERING EASE: **Ordering ease** refers to how easy it is for the customer to place an order with the company. Baxter Healthcare supplies hospitals with computer terminals through which they send orders directly to the firm.

DELIVERY: **Delivery** refers to how well the product or service is brought to the customer. It includes speed, accuracy, and care throughout the process.

INSTALLATION: **Installation** refers to the work done to make a product operational in its planned location. Ease of installation is a true selling point for buyers of complex products like heavy equipment and for technology novices.

CUSTOMER TRAINING: **Customer training** helps the customer's employees use the vendor's equipment properly and efficiently.

CUSTOMER CONSULTING: **Customer consulting** includes data, information systems, and advice services the seller offers to buyers. Technology firms such as IBM, Oracle, and others have learned that such consulting is an increasingly essential—and profitable—part of their business.

MAINTENANCE AND REPAIR: **Maintenance and repair** programs help customers keep purchased products in good working order. Firms such as Hewlett-Packard offer online technical support, or "e-support," for customers, who can search an online database for fixes or seek online help from a technician. Even retailers are getting into the act.

The Product Hierarchy

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy, using life insurance as an example:

1. ***Need family***—The core need that underlies the existence of a product family. Example: security.

2. ***Product family***—All the product classes that can satisfy a core need with reasonable effectiveness. Example: savings and income.

3. ***Product class***—A group of products within the product family recognized as having a certain functional coherence, also known as a product category. Example: financial instruments.

4. ***Product line***—A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, or a single family brand, or individual brand that has been line extended. Example: life insurance.

5. ***Product type***—A group of items within a product line that share one of several possible forms of the product. Example: term life insurance.

6. ***Item*** (also called *stock-keeping unit* or *product variant*)—A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute. Example: Prudential renewable term life insurance.

Product Mix

A **product mix** (also called a **product assortment**) is the set of all products and items a particular seller offers for sale. Company's product mix has a certain width, length, depth, and consistency. These concepts are illustrated in Table 12.2 for selected Procter & Gamble consumer products.

TABLE 12.2 Product Mix Width and Product Line Length for Procter & Gamble Products (including dates of introduction)

	Product Mix Width				
	Detergents	**Toothpaste**	**Bar Soap**	**Disposable Diapers**	**Paper Products**
Product Line Length	Ivory Snow (1930)	Gleem (1952)	Ivory (1879)	Pampers (1961)	Charmin (1928)
	Dreft (1933)	Crest (1955)	Camay (1926)	Luvs (1976)	Puffs (1960)
	Tide (1946)		Zest (1952)		Bounty (1965)
	Cheer (1950)		Safeguard (1963)		
	Dash (1954)		Oil of Olay (1993)		
	Bold (1965)				
	Gain (1966)				
	Era (1972)				

- The *width* of a product mix refers to how many different product lines the company carries. Table 12.2 shows a product mix width of five lines. (In fact, P&G produces many additional lines.)

- The *length* of a product mix refers to the total number of items in the mix. In Table 12.2, it is 20. We can also talk about the average length of a line. We obtain this by dividing the total length (here 20) by the number of lines (here 5), for an average product line length of 4.

- The *depth* of a product mix refers to how many variants are offered of each product in the line. If Tide came in two scents (Mountain Spring and Regular), two formulations (liquid and powder), and two additives (with or without bleach), it would have a depth of eight because there are eight distinct variants. We can calculate the average depth of P&G's product mix by averaging the number of variants within the brand groups.

- The *consistency* of the product mix describes how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. P&G's product lines are consistent in that they are consumer goods that go through the same distribution channels. The lines are less consistent in the functions they perform for buyers.

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, whether down-market, up-market, or both ways.

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 such as Walmart, Best Buy, and others 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.

Up-Market Stretch Companies may wish to enter the high end of the market to achieve more growth, realize higher margins, or simply 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.

Two-Way Stretch Companies serving the middle market might stretch their line in both directions. Robert Mondavi Winery, now owned by Constellation Brands, sells $35 bottles of wines as the first premium "New World wine," but it also sells $125 bottles of Mondavi Reserve at high-end wineries, restaurants, and vineyards and through direct order, as well as $11 bottles of Woodbridge created during the grape oversupply of the mid-1990s. Purina Dog Food has stretched up and down to create a product line differentiated by benefits to dogs, breadth of varieties, ingredients, and price

Product Mix Pricing

Marketers must modify their price-setting logic when the product is part of a product mix. In **product mix pricing**, the firm searches for a set of prices that maximizes profits on the total mix.

PRODUCT LINE PRICING: Companies normally develop product lines rather than single products and introduce price steps. A men's clothing store might carry men's suits at three price levels: $300, $600, and $900, which customers associate with low-, average-, and high-quality. The seller's task is to establish perceived quality differences that justify the price differences.

OPTIONAL-FEATURE PRICING: Many companies offer optional products, features, and services with their main product. A buyer of the 2010 Subaru Outback 2.5i can order four-way power passenger seats, an All-Weather package, and a power moon roof as optional features.

CAPTIVE-PRODUCT PRICING: Some products require the use of ancillary or **captive products**. Manufacturers of razors and cameras often price them low and set high markups on razor blades and film.

TWO-PART PRICING: Service firms engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Cell phone users pay a minimum monthly fee plus charges for calls that exceed their allotted minutes. Amusement parks charge an admission fee plus fees for rides over a certain minimum.

BY-PRODUCT PRICING: The production of certain goods—meats, petroleum products, and other chemicals—often results in by-products that should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

PRODUCT-BUNDLING PRICING: Sellers often bundle products and features. Pure bundling occurs when a firm offers its products only as a bundle.

Packaging, Labeling, Warranties, and Guarantees

Some product packages—such as the Coke bottle and Red Bull can—are world famous. Many marketers have called packaging a fifth P, along with price, product, place, and promotion. Most, however, treat packaging and labeling as an element of product strategy. Warranties and guarantees can also be an important part of the product strategy and often appear on the package.

Packaging

Packaging includes all the activities of designing and producing the container for a product. The package is the buyer's first encounter with the product. A good package draws the consumer in and encourages product choice. In effect, they can act as "five-second commercials" for the product. Packaging also affects consumers' later product experiences when they go to open the package and use the product at home.

Labeling

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

A label performs several functions.

- First, it *identifies* the product or brand—for instance, the name Sunkist stamped on oranges.
- It might also *grade* the product; canned peaches are grade-labeled A, B, and C.
- The label might *describe* the product: who made it, where and when, what it contains, how it is to be used, and how to use it safely.
- Finally, the label might *promote* the product through attractive graphics.

Warranties and Guarantees

All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations. **Warranties** are formal statements of expected product performance by the manufacturer. Products under warranty can be returned to the manufacturer or designated repair center for repair, replacement, or refund. Whether expressed or implied, warranties are legally enforceable.

Guarantees reduce the buyer's perceived risk. They suggest that the product is of high quality and the company and its service performance are dependable. They can be especially helpful when the company or product is not well known or when the product's quality is superior to that of competitors. Hyundai's and Kia's highly successful 10-year or 100,000 mile power train warranty programs were designed in part to assure potential buyers of the quality of the products and the companies' stability.