Setting Product Strategy

At the heart of a great brand is a great product. Product is a key element in the market offering. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value.

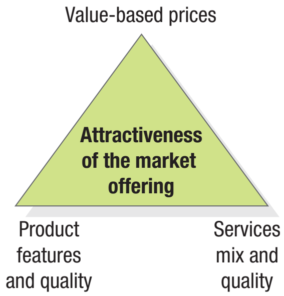
Ford Motor Company endured some tough times at the beginning of the 21st century. A safety controversy about its best-selling Ford Explorer and high gas prices that hurt sales of its trucks and SUVs put the company in deep financial straits. Perhaps the biggest concern was public perception that Ford products were not high quality. A new CEO, Alan Mulally, arrived in 2006 determined to set Ford on a different path. Rejecting government bailouts during the subsequent recession created some goodwill, but Mulally knew reliable, stylish, and affordable vehicles that performed well would make or break the company's fortunes. A redesigned high-mileage Ford Fusion with innovative Sync hands-free phone-and-entertainment system and an environmentally friendly hybrid option caught customers' attention, as did the hip, urban-looking seven-seat Ford Flex SUV with a center console mini-refrigerator.

Mulally felt it was critical to use Ford's vast infrastructure and scale to create vehicles that, with small adjustments, could easily be sold all over the world. The result of extensive global research, the Ford Fiesta hatchback was a striking example of this world-car concept. The rear of the car resembled a popular small sport-utility, its giant headlights were typical of more expensive cars, and dashboard instruments were modeled after a cell phone keypad. The company knew it had a winner when the Fiesta won a uniformly positive response in Chinese, European, and U.S. showrooms. Ford also relied on experiential and social media in marketing. Before its U.S. launch, 150 Fiestas toured the country for test drives and 100 were given to bloggers for six months to allow them to share their experiences. Ford's product and marketing innovations paid off. While the rest of the U.S. auto industry continued to tank, the Fiesta garnered thousands of preorders and Ford actually turned a profit in the first quarter of 2010.[1]

Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price (see Figure 12.1). In this chapter we examine product, in Chapter 13, services, and in Chapter 14, price. All three elements must be meshed into a competitively attractive offering.

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.



|Fig. 12.1|

Components of the Market Offering

Product Levels: The Customer-Value Hierarchy

In planning its market offering, the marketer needs to address five product levels (see Figure 12.2).[2] 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 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 offering.

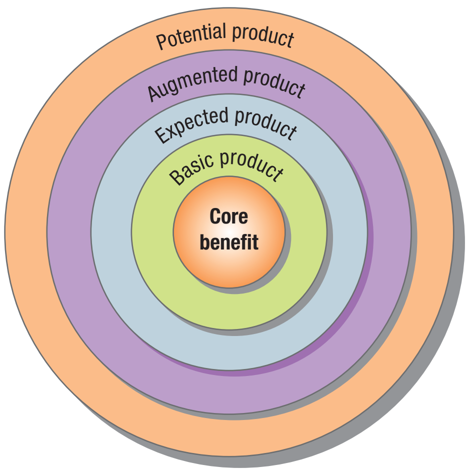
Differentiation arises and competition increasingly occurs on the basis of product augmentation, which also leads the marketer to look at the user's total **consumption system**: the way the user performs the tasks of getting and using products and related services.[3] Each augmentation adds cost, however, and augmented benefits soon become expected benefits and necessary points-of-parity in the category. If today's hotel guests expect satellite television, high-speed Internet access, and a fully equipped fitness center, competitors must search for still other features and benefits to differentiate themselves.

As some companies raise the price of their augmented product, others offer a stripped-down version for less. Thus, alongside the growth of fine hotels such as Four Seasons and Ritz-Carlton, we see lower-cost hotels and motels emerge such as Motel 6 and Comfort Inn, catering to clients who want simply the basic product. Striving to create an augmented product can be a key for success, as Jamestown Container has experienced.

Jamestown Container Companies What could be harder to differentiate than corrugated containers? Yet Jamestown Container Companies, a leading supplier of corrugated products for companies such as 3M, has formed strategic partnerships with area manufacturers to provide every part of the shipping system. It offers not only boxes

|Fig. 12.2|

Five Product Levels



but also tape, shrink-wrap, and everything else needed to display or ship a customer's final product. "It's a combination for survival," says the company's chief operating officer. "More customers want to call one place for everything. We have to keep reinventing ourselves and form these kinds of relationships to remain competitive."[4]

Jamestown Containers is offering additional packaging features to provide more value to customers.

Product Classifications

Marketers classify products on the basis of durability, tangibility, and use (consumer or industrial). Each type has an appropriate marketing-mix strategy.[5]

DURABILITY AND TANGIBILITY

Products fall into three groups according to durability and tangibility:

1. **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as beer and shampoo. 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 that normally require more quality control, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs.

CONSUMER-GOODS CLASSIFICATION

When we classify the vast array of consumer goods 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 minimal effort. Examples include soft drinks, soaps, and newspapers. *Staples* are convenience goods consumers purchase on a regular basis. A buyer might routinely purchase Heinz ketchup, Crest toothpaste, and Ritz crackers. *Impulse goods* are purchased without any planning or search effort, like candy bars and magazines. *Emergency goods* are purchased when a need is urgent—umbrellas during a rainstorm, boots and shovels during the first winter snow. Manufacturers of impulse and emergency goods will place them where consumers are likely to experience an urge or compelling need to purchase.

Shopping goods are those the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, and major appliances. *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 trains salespeople to inform and advise customers.

Specialty goods have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, stereo components, 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 where to find them.

Unsought goods are those the consumer does not know about or normally think of buying, such as smoke detectors. Classic examples of known but unsought goods are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support.

INDUSTRIAL-GOODS CLASSIFICATION

We classify industrial goods 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—potatoes, cheese, and beef. Some producers brand their products—Dole salads, Mott's apples, and Chiquita bananas.

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 these materials, long-term supply contracts are common. 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 makes price and supplier reliability 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, with branding and advertising 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 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.

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, buyers are numerous, and 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* (window cleaning, copier repair) and *business advisory services* (legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

Product and Services Differentiation

To be branded, products must be differentiated. At one extreme are products that allow little variation: chicken, aspirin, and steel. Yet even here, some differentiation is possible: Perdue chickens, Bayer aspirin, and India's Tata Steel have carved out distinct identities in their categories. 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.[6] Design has become an increasingly important means of differentiation and we will discuss it in a separate section later.

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. Marketers should consider how many people want each feature, how long it would take to introduce it, and whether competitors could easily copy it.[7]

To avoid "feature fatigue," the company must prioritize features and tell consumers how to use and benefit from them.[8] Companies must also think in terms of feature bundles or packages. Auto companies often manufacture cars at several "trim levels." This lowers manufacturing and inventory costs. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.

CUSTOMIZATION Marketers can differentiate products by 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. **Mass customization** is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.[9]

Levi's and Lands' End were among the first to introduce custom jeans. Other firms have introduced mass customization into other markets. Online retailers such as Zazzle and CafePress allow users to upload images and create their own clothing and posters or buy merchandise created by other users. Customers must know how to express their personal product preferences, however, or be given assistance to best customize a product.[10]

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. Firms should design a performance level appropriate to the target market and competition, however, not necessarily the highest level possible. They must also manage performance quality through time. Continuously improving the product can produce high returns and market share; failing to do so can have negative consequences.

When Mercedes-Benz's quality ratings took a dive, the automaker instituted a number of significant changes to bring them back up.

Mercedes-Benz

From 2003 to 2006, Mercedes-Benz endured one of its most painful stretches in its 127-year history. Its stellar quality reputation took a beating in J.D. Power and other surveys, and BMW surpassed it in global sales. To recoup, a new management team reorganized the company around functional elements—motors, chassis, and electronic systems—instead of by model lines. Engineers begin testing electronic systems a year earlier and put each new model through 10,000 tests that ran 24 hours a day for three weeks. Mercedes tripled its number of prototypes for new designs, allowing engineers to drive them 3 million miles before production. With these and other changes, the number of flaws in the cars dropped 72 percent from their 2002 peak and warranty costs decreased by 25 percent. As a side effect, Mercedes-Benz dealers have had to contend with a sizable drop in their repair and service businesses![11]

CONFORMANCE QUALITY Buyers expect a high **conformance quality**, the degree to which all produced units are identical and meet promised specifications. Suppose a Porsche 911 is designed to accelerate to 60 miles per hour within 10 seconds. If every Porsche 911 coming off the assembly line does this, the model is said to have high conformance quality. A product with low conformance quality will disappoint some buyers.

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. The extra price for durability must not be excessive, however, and the product must not be subject to rapid technological obsolescence, as personal computers, televisions, and cell phones have sometimes been.

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. Maytag has an outstanding reputation for creating reliable home appliances. Its long-running "Lonely Repairman" ad campaign was designed to highlight that attribute.

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. Some products include a diagnostic feature that allows service people to correct a problem over the telephone or advise the user how to correct it. Many computer hardware and software companies offer technical support over the phone, by fax or e-mail, or via real-time chat online.

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.[12] Strong style does not always mean high performance, however. A car may look sensational but spend a lot of time in the repair shop.

Services Differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. Rolls-Royce PLC has ensured its aircraft engines are in high demand by continuously monitoring their health for 45 airlines through live satellite feeds. Under its TotalCare program, airlines pay Rolls a fee for every hour an engine is in flight, and Rolls assumes the risks and costs of downtime and repairs.[13]

The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

Cemex guarantees cement delivery as fast as placing a pizza order.

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. Many financial service institutions offer secure online sites to help customers get information and complete transactions more efficiently.

DELIVERY **Delivery** refers to how well the product or service is brought to the customer. It includes speed, accuracy, and care throughout the process. Today's customers have grown to expect speed: pizza delivered in one-half hour, eyeglasses made in one hour, cars lubricated in 15 minutes. Many firms have computerized *quick response systems* (QRS) that link the information systems of their suppliers, manufacturing plants, distribution centers, and retailing outlets. Cemex, a giant cement company based in Mexico, has transformed its business by promising to deliver concrete faster than pizza. It equips every truck with a *global positioning system* (GPS) so dispatchers know its real-time location. If your load is more than 10 minutes late, you get up to a 20 percent discount.[14]

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. General Electric not only sells and installs expensive X-ray equipment in hospitals, it also gives extensive training to users. McDonald's requires its new franchisees to attend Hamburger University in Oak Brook, Illinois, for two weeks, to learn how to manage the franchise properly.

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.

Best Buy

Best Buy As consolidation and competitive pricing among electronics retailers continue, companies are increasingly looking for new ways to stand out in the crowd. That's why Best Buy contracted with the Geek Squad, a small residential computer services company, to revamp the chain's in-store computer repair services. Best Buy used to send PCs to regional repair facilities, a time-consuming process that contributed to a high degree of consumer dissatisfaction. Now about half of all repairs are made in Best Buy stores. But the real differentiator is the Geek Squad's ability to make house calls (at a higher fee) using its signature fleet of VW Beetles. Geek Squad employees even dress differently for house calls—they wear a distinctive "geek" look instead of the traditional Best Buy blue they wear at the in-store service centers.[15]

RETURNS A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially with online purchases. Although the average return rate for online sales is roughly 5 percent, return and exchange policies are estimated to serve as a deterrent for one-third to one-half of online buyers. The cost of processing a return can be two to three times that of sending an outbound shipment, totaling an average of $30 to $35 for items bought online.

We can think of product returns in two ways:[16]

- *Controllable returns* result from problems or errors by the seller or customer and can mostly be eliminated with improved handling or storage, better packaging, and improved transportation and forward logistics by the seller or its supply chain partners.
- *Uncontrollable returns* result from the need for customers to actually see, try, or experience products in person to determine suitability and can't be eliminated by the company in the short run through any of these means.

One basic strategy is to eliminate the root causes of controllable returns while developing processes for handling uncontrollable returns. The goal is to have fewer products returned and put a higher percentage back into the distribution pipeline to be sold again.

Road Runner Sports San Diego–based Road Runner Sports sells running shoes, clothing, and equipment through multiple channels. The firm trains its salespeople to be as knowledgeable as possible about recommending the right products. As a result, its return rate on running shoes is 12 percent, noticeably below the industry average of 15 percent to 20 percent. Road Runner also uses SmartLabels—prepaid, preaddressed, bar-coded return labels—to make returns quick and easy for those customers who need them.[17]

Road Runner Sports goes to great lengths to minimize the number of product returns from customers.

Design

As competition intensifies, design offers a potent way to differentiate and position a company's products and services.[18] **Design** is the totality of features that affect how a product looks, feels, and functions to a consumer. Design offers functional and aesthetic benefits and appeals to both our rational and emotional sides.[19]

The designer must figure out how much to invest in form, feature development, performance, conformance, durability, reliability, repairability, and style. To the company, a well-designed product is easy to manufacture and distribute. To the customer, a well-designed product is a pleasant to look at and easy to open, install, use, repair, and dispose of. The designer must take all these factors into account.[20]

As holistic marketers recognize the emotional power of design and the importance to consumers of how things look and feel as well as work, design is exerting a stronger influence in categories where it once played a smaller role. One factor fueling Hewlett-Packard's rise in the PC market is its strong emphasis on design, forcing Dell and others to become more style-conscious to compete. The rationale behind this shift is clear: in one survey consumers reported they would pay an average of $204 more for a high-end laptop that was well-designed.[21]

Certain companies and countries are winning on design.

Top Design Companies and Countries Some countries have developed strong reputations for their design skills and accomplishments, such as Italy in apparel and furniture and Scandinavia in products designed for functionality, aesthetics, and environmental consciousness. Finland's Nokia was the first to introduce user-changeable covers for cell phones, the first to have elliptical-shaped, soft, and friendly forms, and the first with big screens, all contributing to its remarkable ascent. Braun, a German division of Gillette, has elevated design to a high art in its electric shavers, coffeemakers, hair dryers, and food processors. Kohler brought art and design to luxury kitchen and bath fixtures and faucets. The International Design and Excellence Awards (IDEA) are given each year based on benefit to the user, benefit to the client/business, benefit to society, ecological responsibility, appropriate aesthetics and appeal, and usability testing. In 2009, Samsung won eight awards, Apple seven, Dell Experience Design Group six, and GE Healthcare five. One of the more successful design companies is IDEO.[22]

In an increasingly visually oriented culture, transmitting brand meaning and positioning through design is critical. "In a crowded marketplace," writes Virginia Postrel in *The Substance of Style*, "aesthetics is often the only way to make a product stand out."[23] The GM design team for the new plug-in electric 2011 Chevy Volt wanted to make sure the car looked better than other electric car models. As the Volt design director said, "Most electric cars are like automotive Brussels sprouts. They're good for you, but you don't want to eat them."

Bang & Olufsen's timeless, stylish designs command a significant price premium in the market.

Design can shift consumer perceptions to make brand experiences more rewarding. Consider the lengths Boeing went to in making its 777 airplane seem roomier and more comfortable. Raised center bins, side luggage bins, divider panels, gently arched ceilings, and raised seats made the aircraft interior seem bigger. As one design engineer noted, "If we do our jobs, people don't realize what we have done. They just say they feel more comfortable."

A bad design can also ruin a product's prospects. Sony's eVilla Internet appliance was intended to give consumers Internet access from their kitchens. But at nearly 32 pounds and 16 inches, the mammoth product was so awkward and heavy that the owner's manual recommended customers bend their legs, not their back, to pick it up. The product was withdrawn after only three months.

Design should penetrate all aspects of the marketing program so that all design aspects work together. In search of a universal identity scheme for Coca-Cola, David Butler, vice-president of global design, established four core principles. Each design, whether of packaging, point of sale, equipment, or any other consumer touch point, should reflect (1) bold simplicity, (2) real authenticity, (3) the power of red, and (4) a "familiar yet surprising" nature.[24]

Given the creative nature of design, it's no surprise that there isn't one widely adopted approach. Some firms employ formal, structured processes. *Design thinking* is a very data-driven approach with three phases: observation, ideation, and implementation. Design thinking requires intensive ethnographic studies of consumers, creative brainstorming sessions, and collaborative teamwork to decide how to bring the design idea to reality. Whirlpool used design thinking to develop the Architect Series II kitchen appliances with a more harmonized look than had existed in the category.[25]

On the other hand, the Danish firm Bang & Olufsen (B&O)—which has received many kudos for the design of its stereos, TV equipment, and telephones—trusts the instincts of a handful of designers who rarely consult with consumers. B&O does not introduce many new products in a given year, so every new product is expected to be sold for years. Its BeoLab 8000 speakers sold for $3,000 a pair when introduced in 1992 and for $4,500 more than 15 years later. Their designer, David Lewis, has seen three of his most successful B&O product creations placed in the Museum of Modern Art's permanent collection in New York.[26]

Design is often an important aspect of luxury products. "Marketing Insight: Marketing Luxury Brands" describes some of the broader marketing issues luxury brands face.

Product and Brand Relationships

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

Marketing Insight

Marketing Luxury Brands

Luxury products are perhaps one of the purest examples of branding, because the brand and its image are often key competitive advantages that create enormous value and wealth for organizations. Marketers for luxury brands such as Prada, Gucci, Cartier, and Louis Vuitton manage lucrative franchises that have endured for decades in what some believe is now a $270 billion industry.

Just like marketers in less expensive and more "down-to-earth" categories, however, those guiding the fortunes of luxury brands must do so in a constantly evolving—and sometimes rapidly changing—marketing environment. Globalization, new technologies, financial crises, shifting consumer cultures, and other forces necessitate that marketers of luxury brands be skillful and adept at their brand stewardship to succeed. Table 12.1 summarizes some key guidelines in marketing luxury brands.

Significantly higher priced than typical items in a category, luxury brands for years were about social status and who a customer was—or perhaps wanted to be. Times have changed, and especially in the face of a crippling recession, luxury has for many become more about personal pleasure and self-expression.

The common denominators of luxury brands are quality and uniqueness. A luxury shopper must feel that what he or she is getting is truly special. Enduring style and authenticity are often critical to justifying a sometimes highly extravagant price. Hermès, the French luxury leather-goods maker, sells its classic designs for hundreds or even thousands of dollars, "not because they are in fashion," as one writer put it, "but [because] they never go out of fashion." Look at how luxury brands have been created across a range of other categories:

- ***Sub-Zero refrigerators.*** Sub-Zero sells refrigerators that range from $1,600 for small, under-counter types to $12,000 for its specialty Pro 48 model with a stainless steel interior. The target is home owners with high standards of performance and design who cherish their home and what they buy to furnish it. Sub-Zero extensively surveys this group as well as the kitchen designers, architects, and retailers who plan for and sell their products.
- ***Patrón tequila.*** Cofounded by Paul Mitchell hair care founder John Paul DeJoria, Patrón came about after a 1989 trip to a distillery in the small Mexican state of Jalisco. Named Patrón to convey "the boss, the cool guy," the smooth agave tequila comes in an elegant hand-blown decanter and is sold in individually numbered bottles for $45 or more.
- ***Hearts on Fire diamonds.*** De Beers brought branding to diamonds decades ago, making them a symbol of love and commitment in part through its "Diamonds Are Forever" ad campaign in 1948. The marketers of Hearts of Fire diamonds have found a market niche as the "World's Most Perfectly Cut Diamond." Although diamonds have become increasingly commoditized on the basis of the four Cs that define quality—cut, clarity, color, and carat—Hearts on Fire have a unique "hearts and arrow" design. When viewed magnified from the bottom, eight perfect hearts appear; from the top, eight perfect fire bursts are seen. Sold through independent jewelers, Hearts on Fire commands a 15 percent to 20 percent premium over a comparable diamond from Tiffany & Co.

The recent economic recession challenged many luxury brands as they tried to justify their value proposition and avoid discounting their products. Those that have successfully extended their brands vertically across a range of price points are usually the most immune to economic downturns.

The Armani brand extended from high-end Giorgio Armani and Giorgio Armani Privé to mid-range luxury with Emporio Armani, to affordable luxury with Armani Jeans and Armani Exchange. Clear differentiation exists between these brands, minimizing the potential for consumer confusion and brand cannibalization. Each also lives up to the core promise of the parent brand, reducing chances of hurting the parent's image.

Horizontal extensions into new categories can also be tricky for luxury brands. Even the most loyal consumer might question a $7,300 Ferragamo watch or an $85 bottle of Roberto Cavalli vodka. Jewelry maker Bulgari has moved into hotels, fragrances, chocolate, and skin care, prompting some branding experts to deem the brand overstretched.

In the past, iconic fashion designers Pierre Cardin and Halston licensed their names to so many ordinary products that the brands were badly tarnished. Ralph Lauren, however, has successfully marketed an aspirational luxury brand with wholesome all-American lifestyle imagery across a wide range of products. Besides clothing and fragrances, Lauren boutiques sell linens, candles, beds, couches, dishware, photo albums, and jewelry. Calvin Klein has adopted a similarly successful expansive strategy, though with different lifestyle imagery.

In an increasingly wired world, some luxury marketers have struggled to find the appropriate online selling and communication strategies for their brand. Ultimately, success depends on getting the right balance of classic and contemporary imagery and continuity and change in marketing programs and activities. Luxury is also not viewed in the same way everywhere. In post-communist Russia for a time, the bigger and gaudier the logo the better. But in the end, luxury brand marketers have to remember they are often selling a dream, anchored in product quality, status, and prestige.

Sources: Beth Snyder Bulik, "Sub-Zero Keeps Its Cool in a Value-Obsessed Economy," *Advertising Age*, May 25, 2009, p. 14; David K. Randall, "Dandy Corn," *Forbes*, March 10, 2008, p. 70; Christopher Palmeri, "The Barroom Brawl over Patron," *BusinessWeek*, September 17, 2007, p. 72; Bethany McLean, "Classic Rock," *Fortune*, November 12, 2007, pp. 35–39; Dan Heath and Chip Heath, "The Inevitability of $300 Socks," *Fast Company*, September 2007, pp. 68–70; Stellene Volande, "The Secret to Hermès's Success," *Departures*, November–December 2009, pp. 110–12; Cathy Horyn, "Why So Stodgy, Prada.com?" *New York Times*, December 30, 2009; Christina Binkley, "Like Our Sunglasses? Try Our Vodka! Brand Extensions Get Weirder, Risking Customer Confusion," *Wall Street Journal*, November 8, 2007; Special Issue on Luxury Brands, *Fortune*, September 17, 2007.

TABLE 12.1 Guidelines for Marketing Luxury Brands

1. Maintaining a premium image for luxury brands is crucial; controlling that image is thus a priority.
2. Luxury branding typically includes the creation of many intangible brand associations and an aspirational image.
3. All aspects of the marketing program for luxury brands must be aligned to ensure quality products and services and pleasurable purchase and consumption experiences.
4. Brand elements besides brand names—logos, symbols, packaging, signage—can be important drivers of brand equity for luxury brands.
5. Secondary associations from linked personalities, events, countries, and other entities can be important drivers of brand equity for luxury brands.
6. Luxury brands must carefully control distribution via a selective channel strategy.
7. Luxury brands must employ a premium pricing strategy with strong quality cues and few discounts and markdowns.
8. Brand architecture for luxury brands must be managed very carefully.
9. Competition for luxury brands must be defined broadly as it often comes from other categories.
10. Luxury brands must legally protect all trademarks and aggressively combat counterfeits.

Source: Based on Kevin Lane Keller, "Managing the Growth Tradeoff: Challenges and Opportunities in Luxury Branding," *Journal of Brand Management* 16 (March–May 2009), pp. 290–301.

Sub-Zero targets its high-end refrigerators to homeowners looking for the best.

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 Systems and Mixes

A **product system** is a group of diverse but related items that function in a compatible manner. For example, the extensive iPod product system includes headphones and headsets, cables and docks, armbands, cases, power and car accessories, and speakers. 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. NEC's (Japan) product mix consists of communication products and computer products. Michelin has three product lines: tires, maps, and restaurant-rating services. At Northwestern University, separate academic deans oversee the schools of medicine, law, business, engineering, music, speech, journalism, and liberal arts among others.

A 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.

- 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.)

Michelin has three distinct, but somewhat related, product lines.

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 *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.[27] 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.

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

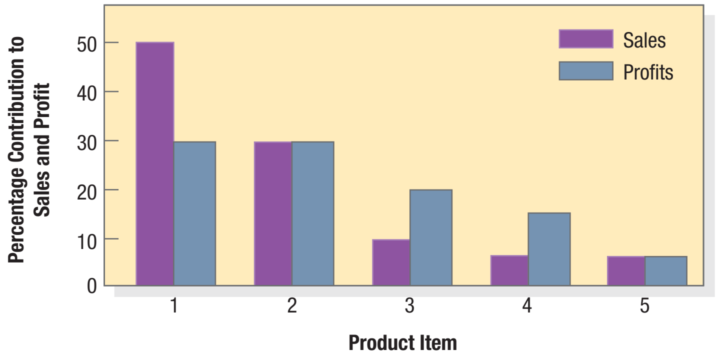
In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements and lower production costs. Car manufacturers build cars around a basic platform. Homebuilders show a model home to which buyers can add additional features. Product line managers need to know the sales and profits of each item in their line to determine which items to build, maintain, harvest, or divest.[28] 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 percent of total sales and 30 percent of total profits. The first two items account for 80 percent of total sales and 60 percent 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 percent 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 better margins on flowers, ethnic food lines, and freshly baked goods. A telecommunication company makes different margins on its core telephone service than on added services such as call waiting, caller ID,

|Fig. 12.3|

Product-Item Contributions to a Product Line's Total Sales and Profits



and voice mail. Companies should recognize that items can differ in their potential for being priced higher or advertised more as ways to increase their sales, their margins, or both.[29]

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.[30] Two paperboard attributes are weight and finish quality. Paper is usually offered at standard levels of 90, 120, 150, and 180 weights. 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.

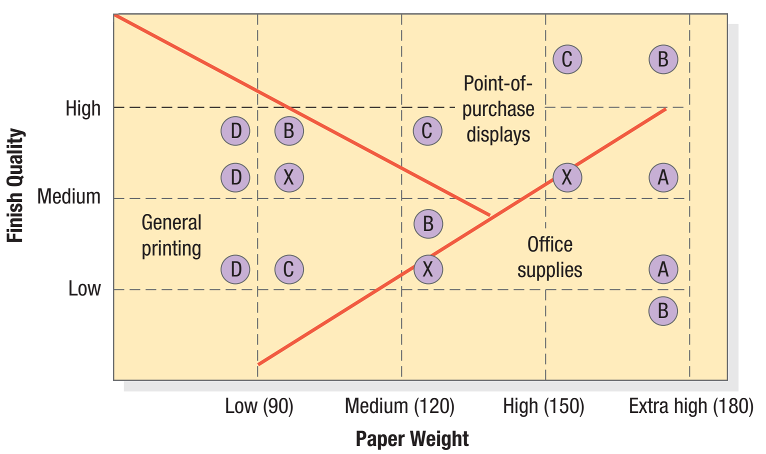
Another benefit of product mapping is that it identifies market segments. Figure 12.4 shows the types of paper, by weight and quality, preferred by the general printing industry, the point-of-purchase display industry, and the office supply industry. The map shows that company X is well positioned to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

|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.



Product Line Length

Company objectives influence product line length. One objective is to create a product line to induce up-selling: Thus BMW would like to move customers up from a 3-series vehicle to a 5-series and eventually even a 7-series vehicle. 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: Electrolux offers white goods such as refrigerators, dishwashers, and vacuum cleaners under different brand names in the discount, middle-market, and premium segments, in part in case the economy moves up or down. 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 for design and engineering, inventory carrying, manufacturing changeover, order processing, transportation, and new-item promotions. Eventually, top management may stop development because of insufficient funds or manufacturing capacity. A pattern of product line growth followed by massive pruning may repeat itself many times. Increasingly, consumers are growing weary of dense product lines, overextended 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

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Marketing Insight

When Less Is More

With thousands of new products introduced each year, consumers find it ever harder to navigate store aisles. One study found the average shopper spent 40 seconds or more in the supermarket soda aisle, compared to 25 seconds six or seven years ago.

Although consumers may think greater product variety increases their likelihood of finding the right product for them, the reality is often different. One study showed that although consumers expressed greater interest in shopping with a larger assortment of 24 flavored jams than a smaller assortment of 6, they were 10 times more likely to actually make a selection with the smaller assortment.

Similarly, if the product quality in an assortment is high, consumers would actually prefer a smaller than a larger set of choices. 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 and perhaps switching to a competitor's product.

Smart marketers realize it's not just the product lines making consumer heads spin—many products themselves are too complicated for the average consumer. Royal Philips Electronics asked 100 of its 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.

Sources: Dimitri Kuksov and J. Miguel Villas-Boas, "When More Alternatives Lead to Less Choice," *Marketing Science*, 2010, in press; Kristin Diehl and Cait Poynor, "Great Expectations?! Assortment Size, Expectations, and Satisfaction," *Journal of Marketing Research* 46 (April 2009), pp. 312–22; Joseph P. Redden and Stephen J. Hoch, "The Presence of Variety Reduces Perceived Quantity," *Journal of Consumer Research* 36 (October 2009), pp. 406–17; Alexander Chernev and Ryan Hamilton, "Assortment Size and Option Attractiveness in Consumer Choice Among Retailers," *Journal of Marketing Research* 46 (June 2009), pp. 410–20; Richard A. Briesch, Pradeep K. Chintagunta, and Edward J. Fox, "How Does Assortment Affect Grocery Store Choice," *Journal of Marketing Research* 46 (April 2009), pp. 176–89; Aner Sela, Jonah Berger, and Wendy Liu, "Variety, Vice and Virtue: How Assortment Size Influences Option Choice," *Journal of Consumer Research* 35 (April 2009), pp. 941–51; Susan M. Broniarczyk, "Product Assortment," Curt P. Haugtvedt, Paul M. Herr, and Frank R. Kardes, eds., *Handbook of Consumer Psychology* (New York: Taylor & Francis, 2008), pp. 755–79; Cassie Mogilner, Tamar Rudnick, and Sheena S. Iyengar, "The Mere Categorization Effect: How the Presence of Categories Increases Choosers' Perceptions of Assortment Variety and Outcome Satisfaction," *Journal of Consumer Research* 35 (August 2008), pp. 202–15; Alexander Chernev, "The Role of Purchase Quantity in Assortment Choice: The Quantity Matching Heuristic," *Journal of Marketing Research* 45 (April 2008), pp. 171–81; John Gourville and Dilip Soman, "Overchoice and Assortment Type: When and Why Variety Backfires," *Marketing Science* 24 (Summer 2005), pp. 382–95; Barry Schwartz, *The Paradox of Choice: Why More Is Less* (New York: Harper Collins Ecco, 2004); 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), pp. 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), pp. 995–1006.

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.

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 sub-brand name, such as P&G's Charmin Basics and Bounty Basics.
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 means brand equity will have to be built from scratch, but the equity of the parent brand name is protected.

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 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, 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. The leading Japanese auto companies have each introduced an upscale automobile: Toyota's Lexus, Nissan's Infiniti, and Honda's Acura. They invented entirely new names, because consumers might not have given the brand "permission" to stretch upward when those lines were first introduced.

Other companies have included their own name in moving up-market. Gallo sells Gallo Family Vineyards (priced at $10 to $30 a bottle) with a hip, young image to compete in the premium wine segment. General Electric introduced the GE Profile brand for its large appliance offerings in the upscale market.[31] Some brands have used modifiers to signal a quality improvement, such as Ultra Dry Pampers, Extra Strength Tylenol, and Power Pro Dustbuster Plus.

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:

- Pro Plan ($34.89/18 lb. bag)—helps dogs live long and healthy lives with high-quality ingredients (real meat, fish, and poultry)
- Purina ONE ($29.79/18 lb. bag)—meets dogs' changing and unique nutritional needs and provides superpremium nutrition for good health
- Purina Dog Chow ($18.49/20 lb. bag)—provides dogs with complete nutrition to build, replenish, and repair at each life stage
- Alpo by Purina ($10.99/17.6 lb. bag)—offers beef, liver, and cheese flavor combinations and three meaty varieties

Intercontinental Hotels Group

Intercontinental Hotels Group Intercontinental Hotels Group's Holiday Inn brand broke its domestic hotels into four separate chains to tap into different benefit segments—the upscale Crowne Plaza, the traditional Holiday Inn, the budget Holiday Inn Express, and the business-oriented Holiday Inn Select. Each chain received a different marketing program and emphasis. Holiday Inn Express launched the humorous "Stay Smart" advertising campaign, showing the brilliant feats ordinary people could attempt after staying at the chain. By developing the brands for distinct consumer targets with unique needs, Holiday Inn prevents overlap between them.[32]

LINE FILLING A firm can also lengthen its product line by adding more items within the present range. Motives for *line filling* include reaching for incremental profits satisfying dealers who complain about lost sales because of items missing from the line, utilizing excess capacity, trying to become the leading full-line company, and plugging holes to keep out competitors.

BMW AG

BMW AG In four years BMW has morphed from a one-brand, five-model carmaker into a powerhouse with 3 brands, 14 "Series," and roughly 30 distinct models. 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, X5, and X6 sports activity vehicles, 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. The latest challenges? Launching the 5-series Gran Turismo, which combines the formality of a four-door sedan, the cargo capacity of a station wagon, and the high seating position and convenient hatchback of a crossover SUV. After that, BMW still has to decide what type of environmentally friendly "green" vehicles to introduce.[33]

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.[34] 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 proposed item should also meet a market need and is not 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 need 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 question 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 lets competitors see changes and start redesigning their own lines.

In rapidly changing 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. It's important to time improvements so they do not appear too early (damaging sales of the current line) or too late (giving the competition time to establish a strong reputation).[35]

The product line manager typically selects one or a few items in the line to feature. Sears will announce a special low-priced washing machine 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 slower sellers, especially if a factory is idled by lack of demand, but it could be counterargued that the firm should promote items that sell well rather than prop up weak ones. 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 a moneymaker for the company due to collectable designs and tight supplies. Since their introduction, Air Force 1 shoes have been designed or inspired by many celebrities and athletes.[36]

Nike's classic Air Force 1 sneaker has been refreshed time and time again over the years, as these 25th-anniversary models show.

Using sales and cost analysis, product line managers must periodically review the line for deadwood that depresses profits.[37] 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 attracted new category buyers at the same time. These new buyers partially offset the sales losses among former buyers of the delisted items.[38]

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.[39] More than 90 percent 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" like Persil, the leading detergent in the United Kingdom.

Multibrand companies all over the world try to optimize their brand portfolios. This often means focusing on core brand growth and concentrating resources on the biggest and most established brands. Hasbro has designated a set of core toy brands, including GI Joe, Transformers, and My Little Pony, to emphasize in its marketing. Procter & Gamble's "back to basics strategy" concentrated on 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.

Volkswagen

Volkswagen Volkswagen has four different core brands of particular importance 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 Skoda and Seat, which had spartan interiors and utilitarian engine performance. To reduce costs, streamline part/systems designs, and eliminate redundancies, Volkswagen upgraded the Seat and Skoda brands, which captured market share with splashy interiors, a full array of safety systems, and reliable power trains. The danger, of course, is that by borrowing from its upper-echelon Audi and Volkswagen products, Volkswagen could dilute their cachet. Frugal European consumers may convince themselves that a Seat or Skoda is almost identical to its VW sister, at several thousand euros less.[40]

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. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations calling for product-mix pricing: product line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

PRODUCT LINE PRICING Companies normally develop product lines rather than single products and introduce price steps. 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.[41]

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.

Pricing options is a sticky problem, because companies must decide which to include in the standard price and which to offer separately. Many restaurants price their beverages high and their food low. The food revenue covers costs, and the beverages—especially liquor—produce the profit.

My Little Pony is one of Hasbro's core toy brands that receives special attention and support.

This explains why servers often press hard to get customers to order drinks. Other restaurants price their liquor low and food high to draw in a drinking crowd.

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.[42] AT&T may give a cellular phone free if the person commits to buying two years of phone service. If the captive product is priced too high in the aftermarket, however, counterfeiting and substitutions can erode sales. Consumers now can buy cartridge refills for their printers from discount suppliers and save 20 percent to 30 percent off the manufacturer's price.

Hewlett-Packard

Hewlett-Packard In 1996, Hewlett-Packard (HP) began drastically cutting prices on its printers, by as much as 60 percent in some cases. HP could afford to make these cuts because customers typically spend twice as much on replacement ink cartridges, toner, and specialty paper as on the printer over the life of the product, and inkjet supplies typically carry 45 percent to 60 percent profit margins. As the price of printers dropped, printer sales rose, and so did aftermarket sales. HP now owns about 46 percent of the worldwide printer business, a share that accounted for 32 percent of HP's $13.4 billion profit in 2008.[43]

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. The service firm faces a problem similar to captive-product pricing—namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase; profit can then come from the usage fees.

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. Formed in 1855, Australia's CSR was originally named Colonial Sugar Refinery and forged its early reputation as a sugar company. The company began to sell by-products of its sugar cane: waste sugar cane fiber was used to manufacture wallboard. Today, through product development and acquisition, the renamed CSR has become one of the top 10 companies in Australia selling building and construction materials.

PRODUCT-BUNDLING PRICING Sellers often bundle products and features. **Pure bundling** occurs when a firm offers its products only as a bundle. A talent agency might insist that a "hot" actor can be signed to a film only if the film company also accepts other talents the agency represented (directors, writers). This is a form of *tied-in sales.*

In **mixed bundling**, the seller offers goods both individually and in bundles, normally charging less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theater will price a season subscription lower than the cost of buying all the performances separately. Customers may not have planned to buy all the components, so savings on the price bundle must be enough to induce them to buy it.[44]

Some customers want less than the whole bundle in exchange for a lower price.[45] These customers ask the seller to "unbundle" or "rebundle" its offer. If a supplier saves $100 by not supplying unwanted delivery and reduces the customer's price by $80, it has kept the customer happy while increasing its profit by $20. "Marketing Memo: Product-Bundle Pricing Considerations" offers a few tips.

Co-Branding and Ingredient Branding

CO-BRANDING Marketers often combine their products with products from other companies in various ways. In **co-branding**—also called dual branding or brand bundling—two or more well-known brands are combined into a joint product or marketed together in some fashion.[46] One form of co-branding is *same-company co-branding,* as when General Mills advertises Trix cereal and Yoplait yogurt. Another form is *joint-venture co-branding,* such as General Electric and Hitachi lightbulbs in Japan, and the Citibank AAdvantage credit card. There is *multiple-sponsor co-branding,* such as Taligent, a one-time technological alliance of Apple, IBM, and Motorola.[47] Finally, there is *retail co-branding* in which two retail establishments use the same location to optimize space and profits, such as jointly owned Pizza Hut, KFC, and Taco Bell restaurants.

marketing **Memo**

Product-Bundle Pricing Considerations

As promotional activity increases on individual items in the bundle, buyers perceive less savings on the bundle and are less apt to pay for it. Research suggests the following guidelines for implementing a bundling strategy:

- Don't promote individual products in a package as frequently and cheaply as the bundle. The bundle price should be much lower than the sum of individual products or the consumer will not perceive its attractiveness.
- Limit promotions to a single item in the mix if you still want to promote individual products. Another option: alternate promotions, one after another, to avoid running conflicting promotions.
- If you offer large rebates on individual products, make them the absolute exception and do it with discretion. Otherwise, the consumer uses the price of individual products as an external reference for the bundle, which then loses value.
- Consider how experienced and knowledgeable your customer is. More knowledgeable customers may be less likely to need or want bundled offerings and prefer the freedom to choose components individually.
- Remember costs play a role. If marginal costs for the products are low—such as for proprietary software components that can be easily copied and distributed—a bundling strategy can be preferable to a pure component strategy where each component is purchased separately.
- Firms with single-products bundling products together to compete against a multiproduct firm may not be successful if a price war ensues.

Sources: Amiya Basu and Padmal Vitharana, "Impact of Customer Knowledge Heterogeneity on Bundling Strategy," *Marketing Science* 28 (July–August 2009), pp. 792–801; Bikram Ghosh and Subramanian Balachnadar, "Competitive Bundling and Counterbundling with Generalist and Specialist Firms," *Management Science* 53 (January 2007), pp. 159–68; Loren M. Hitt and Pei-yu Chen, "Bundling with Customer Self-Selection: A Simple Approach to Bundling Low-Marginal-Cost Goods," *Management Science* 51 (October 2005), pp. 1481–93; George Wuebker, "Bundles Effectiveness Often Undermined," *Marketing News,* March 18, 2002, pp. 9–12; Stefan Stremersch and Gerard J. Tellis, "Strategic Bundling of Products and Prices," *Journal of Marketing* 66 (January 2002), pp. 55–72.

The main advantage of co-branding is that a product can be convincingly positioned by virtue of the multiple brands. Co-branding can generate greater sales from the existing market and open opportunities for new consumers and channels. It can also reduce the cost of product introduction, because it combines two well-known images and speeds adoption. And co-branding may be a valuable means to learn about consumers and how other companies approach them. Companies in the automotive industry have reaped all these benefits.

The potential disadvantages of co-branding are the risks and lack of control in becoming aligned with another brand in consumers' minds. Consumer expectations of co-brands are likely to be high, so unsatisfactory performance could have negative repercussions for both brands. If the other brand enters a number of co-branding arrangements, overexposure may dilute the transfer of any association. It may also result in a lack of focus on existing brands. Consumers may feel less sure of what they know about the brand.[48]

For co-branding to succeed, the two brands must separately have brand equity—adequate brand awareness and a sufficiently positive brand image. The most important requirement is a logical fit between the two brands, to maximize the advantages of each while minimizing disadvantages. Consumers are more apt to perceive co-brands favorably if they are complementary and offer unique quality, rather than overly similar and redundant.[49]

Managers must enter co-branding ventures carefully, looking for the right fit in values, capabilities, and goals and an appropriate balance of brand equity. There must be detailed plans to legalize contracts, make financial arrangements, and coordinate marketing programs. As one executive at Nabisco put it, "Giving away your brand is a lot like giving away your child—you want to make sure everything is perfect." Financial arrangements between brands vary; one common approach is for the brand more deeply invested in the production process to pay the other a licensing fee and royalty.

Brand alliances require a number of decisions.[50] What capabilities do you *not* have? What resource constraints do you face (people, time, money)? What are your growth goals or revenue needs? Ask whether the opportunity is a profitable business venture. How does it help maintain or strengthen brand equity? Is there any risk of diluting brand equity? Does the opportunity offer extrinsic advantages such as learning opportunities?

INGREDIENT BRANDING

Ingredient branding is a special case of co-branding.[51] It creates brand equity for materials, components, or parts that are necessarily contained within other branded products. Successful ingredient brands include Dolby noise reduction technology, GORE-TEX water-resistant fibers, and Scotchgard fabrics. Some popular ingredient-branded products are Lunchables lunch combinations with Taco Bell tacos and Lay's potato chips made with KC Masterpiece barbecue sauce.

An interesting take on ingredient branding is "self-branded ingredients" that companies advertise and even trademark. Westin Hotels advertises its own "Heavenly Bed" and "Heavenly Shower." The Heavenly Bed has been so successful that Westin now sells the bed, pillows, sheets, and blankets via an online catalog, along with other "Heavenly" gifts, bath products, and even pet items. If it can be done well, using self-branded ingredients makes sense because firms have more control over them and can develop them to suit their purposes.[52]

Ingredient brands try to create enough awareness and preference for their product so consumers will not buy a "host" product that doesn't contain it.[53] DuPont has done so successfully.

DuPont DuPont has introduced a number of innovative products, such as Corian® solid-surface material, for use in markets ranging from apparel to aerospace. Many, such as Tyvek® house wrap, Teflon® non-stick coating, and Kevlar® fiber, became household names as ingredient brands in consumer products manufactured by other companies. Since 2004, DuPont has introduced more than 5,000 new products and received over 2,400 new patents. One of its recent award winners, Sorona® is a renewably sourced or bio-based polymer for use in carpet and apparel markets.[54]

DuPont's Stainmaster carpets have become a household name.

Many manufacturers make components or materials that enter final branded products but lose their individual identity. One of the few companies that avoided this fate is Intel. Intel's consumer-directed brand campaign convinced many personal computer buyers to buy only brands with "Intel Inside." As a result, major PC manufacturers—IBM, Dell, Compaq—purchase their chips from Intel at a premium price rather than buy equivalent chips from an unknown supplier.

What are the requirements for successful ingredient branding?[55]

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

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. Packages might have up to three layers. Cool Water cologne comes in a bottle (*primary package*) in a cardboard box (*secondary package*) in a corrugated box (*shipping package*) containing six dozen bottles in cardboard boxes.

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. Some packages can even be attractively displayed at home. Distinctive packaging like that for Kiwi shoe polish, Altoids mints, and Absolut vodka is an important part of a brand's equity.[56]

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

- ***Self-service.*** An increasing number of products are sold on a self-serve basis. In an average supermarket, which may stock 15,000 items, the typical shopper passes some 300 products per minute. Given that 50 percent to 70 percent of all purchases are made in the store, the effective package must perform many sales tasks: attract attention, describe the product's features, create consumer confidence, and make a favorable overall impression.
- ***Consumer affluence.*** Rising affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages.
- ***Company and brand image.*** Packages contribute to instant recognition of the company or brand. In the store, they can create a billboard effect, such as Garnier Fructis with its bright green packaging in the hair care aisle.
- ***Innovation opportunity.*** Unique or innovative packaging such as resealable spouts can bring big benefits to consumers and profits to producers.

Packaging must achieve a number of objectives:[57]

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

To achieve these objectives and satisfy consumers' desires, marketers must choose the aesthetic and functional components of packaging correctly. Aesthetic considerations relate to a package's size and shape, material, color, text, and graphics. There are a number of factors and criteria in each area.

Color is a particularly important aspect of packaging and carries different meanings in different cultures and market segments. Table 12.3 summarizes the beliefs of some visual marketing experts about its role.

Kiwi's distinctive packaging, name, and logo are all brand assets.

TABLE 12.3 The Color Wheel of Branding and Packaging
Red is a powerful color, symbolizing energy, passion or even danger. Red works best for action-oriented products or brands, products associated with speed or power, or dominant or iconic brands.
Orange often connotes adventure and fun. Like red, it's an attention-grabber and is thought to stimulate appetites, but it's less aggressive than red can be. Orange has been used to convey value and discounts, and recently has earned young, stylish associations thanks to the fashion industry.
Yellow is equated with sunny warmth and cheeriness. Its more vibrant shades elicit feelings of well-being and are said to stimulate mental activity, so yellow is often associated with wisdom and intellect. Yellow works well for products or brands tied to sports or social activities, or for products or content looking to garner attention.
Green connotes cleanliness, freshness and renewal—and, of course, environmental friendliness—but experts warn that green now is overused in the marketplace. It is one of the most predominant, naturally occurring colors, so it often is associated with wholesome attributes. It works well for organic or recycled products, or for brands associated with health and wellness.
Blue, another naturally predominant color, is regularly associated with security, efficiency, productivity and a clearness of mind. It has become a popular color in the corporate world and particularly in the high-tech industry. Blue also symbolizes cleanliness, openness and relaxation, and works well for everything from cleaning and personal care products to spas and vacation destinations.
Purple, for centuries, has symbolized nobility and wealth, and those associations hold true today. Purple is a powerful color for luxury brands and products, or for companies that want to lend an air of mystery or uniqueness to their wares. Purple is particularly popular with females of all ages.
Pink is a stereotypically girly color associated with frilliness and warmth, and is considered to have soft, peaceful, comforting qualities. Pink works well for personal care products and baby-related brands. Pink also is associated with sweetness and works well for food marketers touting sugary treats.
Brown is a strong, earthy color that connotes honesty and dependability. Brown often is cited as a favorite color among men. Its darker shades are rich and solid, while other shades work well as a foundational color. Brown often works best in conjunction with other colors
Black is classic and strong, and is a regular fixture in marketers' color schemes as either a primary component or an accent color for font or graphics. Black can convey power, luxury, sophistication and authority, and can be used to market everything from cars and electronics to high-end hotels and financial services.
White, the color of puffy clouds and fresh snow, logically connotes purity and cleanliness. It often is used as a background or accent color to brighten a color scheme, but also it can be used liberally to create clean associations for organic foods or personal care products. White also can symbolize innovation and modernity.

Source: Elisabeth Sullivan, "Color Me Profitable," *Marketing News*, October 15, 2008, p. 8. Reprinted with permission from *Marketing News*, published by the American Marketing Association.

Functionally, structural design is crucial. The packaging elements must harmonize with each other and with pricing, advertising, and other parts of the marketing program.

Packaging updates or redesigns can occur frequently to make the brand more contemporary, relevant, or practical. Although these can have immediate impact on sales, they also can have a downside, as PepsiCo learned for its Tropicana brand.

Tropicana

Tropicana PepsiCo experienced great success with its Tropicana brand, acquired in 1998. Then in 2009, the company launched a redesigned package to "refresh and modernize" the brand. The goal was to create an "emotional attachment by 'heroing' the juice and trumpeting the natural fruit goodness." Arnell Group led the extreme makeover that led to an entirely new look, downplaying the brand name, raising the prominence of the phrase "100 percent orange pure & natural," and replacing the "straw in an orange" graphic on the front of the package with a close-up of a glass of orange juice. Consumer response was swift and negative. The package looked "ugly" or "stupid," and some even confused it with a store brand. Sales dropped 20 percent. After only two months, PepsiCo management announced it would revert to the old packaging.[58]

After the company designs its packaging, it must test it. *Engineering tests* ensure that the package stands up under normal conditions; *visual tests,* that the script is legible and the colors harmonious; *dealer tests,* that dealers find the packages attractive and easy to handle; and *consumer tests,* that buyers will respond favorably. Eye tracking by hidden cameras can assess how much consumers notice and examine packages. For Comtrex cold medicine, tracking research was able to confirm that only 50 percent of consumers considered the old package on the shelf, versus 62 percent for a newly redesigned package.[59]

Although developing effective packaging may require several months and several hundred thousand dollars, companies must consider growing environmental and safety concerns about reducing packaging. Fortunately, many companies have gone "green" and are finding creative new ways to develop packaging. Frito-Lay's Sun Chips multigrain snacks, containing 30 percent less fat than potato chips, are positioned as a healthier, "good for you" snack option. Part of the firm's effort to also support a "healthier planet" was to unveil a fully compostable bag made from plant-based materials (although later withdrawn for some flavors when consumers complained of the noise the bags made) and to run its factory in Modesto on solar power.

Marketers must balance competing demands in their packaging; Sun Chips' environmentally friendly packaging was cut back shortly after its launch because many consumers complained about how noisy the bags were.

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. Advanced technology allows 360-degree shrink-wrapped labels to surround containers with bright graphics and accommodate more product information, replacing glued-on paper labels.[60]

Labels eventually need freshening up. The label on Ivory soap has been redone at least 18 times since the 1890s, with gradual changes in the size and design of the letters. As Tropicana found out, companies with labels that have become icons need to tread very carefully when initiating a redesign to preserve key branding elements.

A long history of legal concerns surrounds labels, as well as packaging. In 1914, the Federal Trade Commission Act held that false, misleading, or deceptive labels or packages constitute unfair competition. The Fair Packaging and Labeling Act, passed by Congress in 1967, set mandatory labeling requirements, encouraged voluntary industry packaging standards, and allowed federal agencies to set packaging regulations in specific industries.

The Food and Drug Administration (FDA) has required processed-food producers to include nutritional labeling that clearly states the amounts of protein, fat, carbohydrates, and calories contained in products, as well as vitamin and mineral content as a percentage of the recommended daily allowance.[61] The FDA has also taken action against potentially misleading uses of such descriptions as "light," "high fiber," and "low fat."

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.

Extended warranties and service contracts can be extremely lucrative for manufacturers and retailers. Analysts estimate that warranty sales have accounted for a large percentage of Best Buy's operating profits.[62] Despite evidence that extended warranties do not pay off, some consumers value the peace of mind.[63] These warranties still generate multibillion dollars in revenue for electronic goods in the United States, though the total has declined as consumers have become more comfortable seeking solutions to technical problems online or from friends.[64]

Many sellers offer either general or specific guarantees.[65] A company such as Procter & Gamble promises general or complete satisfaction without being more specific—"If you are not satisfied for any reason, return for replacement, exchange, or refund." A. T. Cross guarantees its Cross pens and pencils for life. The customer mails the pen to A. T. Cross (mailers are provided at stores), and the pen is repaired or replaced at no charge.

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.

Summary

1. Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labeling.
2. In planning its market offering, the marketer needs to think through the five levels of the product: the core benefit, the basic product, the expected product, the augmented product, and the potential product, which encompasses all the augmentations and transformations the product might ultimately undergo.
3. Products can be nondurable goods, durable goods, or services. In the consumer-goods category are convenience goods (staples, impulse goods, emergency goods), shopping goods (homogeneous and heterogeneous), specialty goods, and unsought goods. The industrial-goods category has three subcategories: materials and parts (raw materials and manufactured materials and parts), capital items (installations and equipment), and supplies and business services (operating supplies, maintenance and repair items, maintenance and repair services, and business advisory services).
4. Brands can be differentiated on the basis of product form, features, performance, conformance, durability, reliability, repairability, style, and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.
5. Design is the totality of features that affect how a product looks, feels, and functions. A well-designed product offers

functional and aesthetic benefits to consumers and can be an important source of differentiation.

6. Most companies sell more than one product. A product mix can be classified according to width, length, depth, and consistency. These four dimensions are the tools for developing the company's marketing strategy and deciding which product lines to grow, maintain, harvest, and divest. To analyze a product line and decide how many resources to invest in it, product line managers need to look at sales and profits and market profile.
7. A company can change the product component of its marketing mix by lengthening its product via line stretching (down-market, up-market, or both) or line filling, by modernizing its products, by featuring certain products, and by pruning its products to eliminate the least profitable.
8. Brands are often sold or marketed jointly with other brands. Ingredient brands and co-brands can add value, assuming they have equity and are perceived as fitting appropriately.
9. Physical products must be packaged and labeled. Well-designed packages can create convenience value for customers and promotional value for producers. Warranties and guarantees can offer further assurance to consumers.

Applications

Marketing Debate

With Products, Is It Form or Function?

The "form versus function" debate applies in many arenas, including marketing. Some marketers believe product performance is the be-all and end-all. Other marketers maintain that the look, feel, and other design elements of products are what really make the difference.

Take a position: **Product functionality is the key to brand success *versus* Product design is the key to brand success.**

Marketing Discussion

Product & Service Differentiation

Consider the different means of differentiating products and services. Which ones have the most impact on your choices? Why? Can you think of certain brands that excel on a number of these different means of differentiation?

Marketing Excellence

>>Caterpillar

Caterpillar was founded in 1925 when two California-based tractor companies merged. The name "Caterpillar," however, dates back to the early 1900s when Benjamin Holt, one of the company's founders, designed a tractor crawler with wide, thick tracks instead of wheels. These tracks prevented the machine from sinking into California's deep, rich soil, which was impassable when wet. The new farm tractor crept along the farmland in such a way that one observer said it "crawled like a caterpillar."

Holt sold the tractor under the Caterpillar brand, and once the merger occurred, the newly formed company became Caterpillar Tractor Company. Since then, Caterpillar Inc., or CAT, has grown into the largest manufacturer of earth-moving equipment and engines in the world. With over 300 different machines for sale, Caterpillar offers product solutions for eight industries: residential, nonresidential, industrial, infrastructure, mining and quarrying, energy, waste, and forestry. Its distinctive yellow machines are found all over the globe and have helped make the brand a U.S. icon.

So how did a small tractor company grow to become one of the biggest companies in the world? The company grew steadily at first, hitting a few critical milestones including the use of Caterpillar's trademark farm treads on Army tanks in WWI and WWII. Huge postwar construction and strong overseas demand kept sales strong through the mid-21st century, as did innovations like the diesel tractor and rubber-tired tractors.

Things changed, however, when the recession of the early 1980s hit Caterpillar hard and international competitors gained market share, including Japan's Komatsu. Caterpillar's high prices and inflexible bureaucracy nearly sent the company into bankruptcy. In 1982 alone, the firm lost \$6.5 billion, laid off thousands of employees, closed several factories, and suffered a long United Auto Workers strike.

In the 1990s, Caterpillar recognized that it desperately needed to change, and under new leadership it successfully pulled off one of the biggest turnarounds in corporate history. Several factors played a role.

- Caterpillar boldly fought the United Auto Workers and outlasted two strikes and seven years of disagreements.
- It decentralized and restructured into several business units, each responsible for its own P&L.
- It invested a significant amount of money (ultimately \$1.8 billion) in a factory-modernizing program that automated and streamlined its manufacturing process with a combination of just-in-time inventory and flexible manufacturing. By automating its manufacturing system, the company became more efficient and competitive, although it also was forced to lay off more of its workforce.
- It made research and development one of its biggest priorities, investing hundreds of millions of dollars in new technologies, products, and machines. As a result, CAT construction trucks became more high-tech, competitive, and environmentally friendly.

Today, Caterpillar ranks number one or number two in every industry it serves. Its products are unmatched in quality and reliability and the company has maintained its strong focus on innovation. With a \$2 billion annual research and development budget, new products are launched every year. Recent innovations include hybrid diesel-electric tractors—the first of their kind—and lower-emission engines with ACERT technology, a clean-diesel technology that also improves fuel efficiency.

Caterpillar's product range is immense. From a small 47 horsepower skid steer to an 850 horsepower tractor to a massive 3,370 horsepower mining truck, the firm develops products that serve each market and region's specific needs. In China, for example, a critical market to the future of Caterpillar, the company has divided its product strategy into three segments: World Class, Mid-Tier, and Low-End. Caterpillar is focused on innovating high-tech machinery for the growing World Class segment and leaving the Low-End segment to local competitors that will eventually be consolidated.

Another reason for Caterpillar's dominance in the market is its business model. Caterpillar sells it all: machines, services, and support for a wide range of industries. Fifty-three percent of its sales come from products and the rest from integrated services. Caterpillar accomplishes this feat through its extensive Global Dealer Network—specially trained independent CAT dealers who can provide services on a local basis, giving the global company a personal feel.

Feeling local is important considering that 56 percent of Caterpillar's business comes from overseas, making it one of the United States' biggest exporters. Caterpillar has been a leader in building roads, bridges, highways, and airports all over the world. In developing cities like Antamin, Peru, for example, which is abundant in copper, large mining companies spend hundreds of millions of dollars on CAT machinery and services each year. Up to 50 different kinds of CAT bulldozers, front loaders, excavators, and special mining trucks help clear roads, clean up spills, and dig for copper. These massive trucks are all manufactured in Decatur, Illinois, shipped in pieces, and assembled at the job site.

Caterpillar's sales hit \$51 billion in 2008 and dropped to \$32 billion in 2009 due to the recession. Japan's Komatsu remains a distant number two, with less than half the sales of Caterpillar. Caterpillar maintains 50 production facilities in the United States and 60 overseas, selling products in over 200 countries.

What's next for Caterpillar? As the company moves forward, it remains focused on reducing greenhouse gas emissions in its machinery, innovating more green technologies, maintaining its strong brand, and investing in the future of emerging countries like India and China. The company believes that in order to grow, it must be successful in emerging markets.

Questions

1. What were some of the key steps that led to Caterpillar's becoming the industry leader in earth-moving machinery?
2. Discuss Caterpillar's future. What should it do next with its product line? Where is the future growth for this company?

Sources: Green Rankings, The 2009 List," *Newsweek,* http://greenrankings.newsweek.com; Tim McKeough, "The Caterpillar Self-Driving Dump Truck," *Fast Company,* December 1, 2008; Alex Taylor III, "Caterpillar: Big Trucks, Big Sales, Big Attitude," *Fortune,* August 13, 2007; Tudor Van Hampton, "A New Heavyweight Among Hybrids," *New York Times,* January 21, 2010; Steven Pearlstein, "After Caterpillar's Turnaround, A Chance to Reinvent Globalization," *Washington Post,* April 19, 2006; Dale Buss, "CAT Is Back: An Icon That Once Seemed Headed for the Dustbin, Caterpillar Has Made an Impressive Turnaround. Here's How," *Chief Executive,* July 2005; Jessie Scanlon, "Caterpillar Rolls Out Its Hybrid D7E Tractor," *BusinessWeek,* July 20, 2009; Caterpillar, Inc. supporting materials at CLSA Asia USA Forum; www.cat.com.

Marketing Excellence

>>Toyota

In 1936, Toyota admitted following Chrysler's landmark Airflow and patterning its engine after a 1933 Chevrolet engine. But by 2000, when it introduced the first hybrid electric-gasoline car, the Prius, Toyota was the leader. In 2002, when the second-generation Prius hit showrooms, dealers received 10,000 orders before the car was even available. GM followed with an announcement that it would enter the hybrid market with models of its own.

Toyota offers a full line of cars for the U.S. market, from family sedans and sport utility vehicles to trucks and minivans. It has products for different price points, from lower-cost Scions to mid-priced Camrys to the luxury Lexus. Designing these different products means listening to different customers, building the cars they want, and then crafting marketing to reinforce each make's image.

After four years of carefully listening to teens, for instance, Toyota learned that the Scion's target age group of 16- to 21-year-olds wanted personalization. So it builds the car "mono-spec" at the factory, with just one well-equipped trim level, and lets customers choose from over 40 customization elements at dealerships, from stereo components to wheels and even floor mats. Toyota markets the Scion at music events and has showrooms where "young people feel comfortable hanging out and not a place where they just go stare at a car," said Scion Vice President Jim Letz.

In contrast, the tagline for the Lexus global strategy is "Passionate Pursuit of Perfection." Dealerships offer white-glove treatment, though Toyota understands that each country defines perfection differently. In the United States, perfection and luxury mean comfort, size, and dependability. In Europe, luxury means attention to detail and brand heritage. Thus, although Toyota maintains a consistent Lexus visual vocabulary, logo, font, and overall communication, the advertising varies by country.

Another big reason behind Toyota's success is its manufacturing. The firm is the master of lean manufacturing and continuous improvement. Its plants can make as many as eight different models at the same time, bringing huge increases in productivity and market responsiveness. And Toyota relentlessly innovates. A typical Toyota assembly line makes thousands of operational changes in the course of a single year. Toyota employees see their purpose as threefold: making cars, making cars better, and teaching everyone how to make cars better. The company encourages problem solving, always looking to improve the process by which it improves all other processes.

Toyota is integrating its assembly plants around the world into a single giant network. The plants will customize cars for local markets and shift production quickly to satisfy any surges in demand from markets worldwide. With a manufacturing network, Toyota can build a wide variety of models much more inexpensively. That means it will be able to fill market niches as they emerge without building whole new assembly operations. "If there's a market or market segment where they aren't present, they go there," said Tatsuo Yoshida, auto analyst at Deutsche Securities Ltd. And with consumers increasingly fickle about what they want in a car, such market agility gives Toyota a huge competitive edge.

In 2006, Toyota earned over $11 billion—more than all other major automakers *combined*. In 2007, it edged past General Motors to become the world's largest carmaker. And, in 2008, it manufactured 9.2 million vehicles, 1 million more than GM and almost 3 million more than Volkswagen.

Over the years, Toyota's automobiles have consistently ranked high in quality and reliability. That all changed in 2009 and 2010, however, when Toyota experienced a massive recall of over 8 million of its vehicles. A variety of problems ranging from sticking accelerator pedals to sudden acceleration to software glitches in the braking system affected many Toyota brands, including Lexus, Prius, Camry, Corolla, and Tundra.

Not only had these mechanical defects caused numerous crashes, they were linked to the deaths of over 50 people. Toyota's President Akio Toyoda testified before Congress and offered an explanation of what went wrong: "We pursued growth over the speed at which we were able to develop our people and our organization. I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced."

Analysts estimated the worldwide recall will cost Toyota $2 billion to $6 billion including repair costs, legal settlements, and lost sales. Market share dropped 4 percent in the first three months of the recall and was expected to drop even further as problems continued to unfold. Hoping to bring consumers back to the Toyota brand, the company offered incentives such as two years of free maintenance and zero-percent financing.

While Toyota rides the recall storm of 2010 and faces some challenging times, it can be comforted by the fact that it continues to lead the industry in a wide range of areas including lean manufacturing and environmentally friendly technologies.

Questions

1. Toyota has built a huge manufacturing company that can produce millions of cars each year for a wide variety of consumers. Why was it able to grow so much bigger than any other auto manufacturer?
2. Has Toyota done the right thing by manufacturing a car brand for everyone? Why or why not?
3. Did Toyota grow too quickly as Toyoda suggested? What should the company do over the next year, 5 years, and 10 years? How can growing companies avoid quality problems in the future?

Sources: Martin Zimmerman, "Toyota's First Quarter Global Sales Beat GM's Preliminary Numbers," *Los Angeles Times*, April 24, 2007; Charles Fishman, "No Satisfaction at Toyota," *Fast Company,* December 2006–January 2007, pp. 82–90; Stuart F. Brown, "Toyota's Global Body Shop," *Fortune*, February 9, 2004, p. 120; James B. Treece, "Ford Down; Toyota Aims for No. 1," *Automotive News*, February 2, 2004, p. 1; Brian Bemner and Chester Dawson, "Can Anything Stop Toyota?" *BusinessWeek*, November 17, 2003, pp. 114–22; Tomoko A. Hosaka, "Toyota Counts Rising Costs of Recall Woes," *Associated Press,* March 16, 2010; "World Motor Vehicle Production by Manufacturer," *OICA,* July 2009; Chris Isidore, "Toyota Recall Costs: $2 billion," http://money.cnn.com, February 4, 2010; www.toyota.com.