

# **P**roducts

Most companies define themselves by a product. We are a “car manufacturer,” a “soft drink manufacturer,” and so on. Theodore Levitt, former Harvard Business School faculty member, pointed out years ago the danger of focusing on the product and missing the underlying need. He accused the railroads of “marketing myopia” by failing to define themselves as being in the transportation business and overlooking the threat of trucks and airplanes. Steel companies did not pay enough attention to the impact of plastics and aluminum because they defined themselves as steel companies, not materials companies. Coca-Cola missed the development of fruit-flavored drinks, health and energy drinks, and even bottled water by overfocusing on the soft drink category.

How do companies decide what to sell? There are four paths:

1. Selling something that already exists.
2. Making something that someone asks for.
3. Anticipating something that someone will ask for.
4. Making something that no one asked for but that will give buyers great delight.

The last path involves much higher risk but the chance of much higher gain.

Don't just sell a product. Sell an experience. Harley Davidson sells more than a motorcycle. It sells an ownership experience. It delivers membership in a community. It arranges adventure tours. It sells a lifestyle. The *total product* far exceeds the motorcycle.

And help the buyer use the product. Explain how it works, how it can be used safely, how its life can be extended. If I pay \$30,000 for a car, I would like to buy it from a company that helps me stretch the most value from its use. Carl Sewell preached this message in his book (with Paul Brown), *Customers for Life*.<sup>50</sup> He not only sold cars, but assumed responsibility for fixing them, cleaning them, offering loaners, and so on.

It costs more to build and sell bad products than good products. The late Bruce Henderson, who was head of the Boston Consulting Group, noted: **“The majority of the products in most companies are cash traps. . . . They are not only worthless but a perpetual drain on corporate resources.”** In slow economies in particular, companies need to concentrate their investments in a smaller group of power brands that command a price premium, high loyalty, and a leading market share, and are stretchable into related categories. Unilever decided to prune its 1,600 brands and focus its huge advertising and promotion budget on 400 power brands.

Too many companies carry a poorly constructed product portfolio. My advice is that your company must participate in several parts of any market that it wants to dominate. Marriott's major role in the hotel marketplace is based on its use of different price brands from Fairmont to Courtyard to Marriott to Ritz-Carlton. And Kraft conquered the frozen pizza market by creating four brands: Jack's aims at the low-price end; Original Tombstone competes with the midprice frozen brands; DiGiorno's competes in quality with freshly delivered pizzas; and California Pizza Kitchen aims at the high end, charging three times the price per pound of the lower-end offerings.

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At the same time, it is not always the best product that wins the market. Many users regard Apple's Macintosh software as better than Microsoft's software, but Microsoft owns the market. And Sony's Betamax offered better recording quality than Matsushita's VHS, but VHS won. Sometimes it is the better marketed product, not the better product, that wins. Professor Theodore Levitt of Harvard observed: **"A product is not a product unless it sells. Otherwise it is merely a museum piece."**

**P**rofits

Should a company aim at maximizing current profits? No! Companies formerly thought that they would make the most profit by paying the least to their suppliers, employees, distributors, and dealers. This is *zero-sum thinking*, namely that there is a fixed pie and the company keeps the most by giving its partners the least. This is a fallacy; the company ends up attracting poor suppliers, poor employees, and poor distributors. Their outputs are poor, they are demoralized, many leave, replacement costs are high, and the company is impoverished.

Today's winning companies work on the *positive-sum theory of marketing*. They contract with excellent suppliers, employees, distributors, and dealers. They operate together as a team seeking a win-win outcome. And the company ends up as a stronger winner.