CHAPTER 11

Product and service decisions

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- explain the mix of product and service elements
- explore levels of a product offer
- define the categories of service
- determine the 'service quality gap'
- explore the stages in 'new product development'
- discuss different forms of the product life cycle
- discuss what it means to develop new products for foreign markets
- discuss the term brand equity
- define and explain the different branding alternatives
- discuss how the Internet might be integrated in future product innovations
- discuss the implications of the 'long tail' concept

11.1 INTRODUCTION

The product decision is among the first decisions that a marketing manager makes in order to develop a marketing mix. This chapter examines product-related issues and suggests conceptual approaches for handling them. Also discussed are product development, brand (labelling) strategies, service policies and Internet product decisions (including 'long tail').

What is a product?

Products, or services, are the vital ingredients of the market offering and are the vehicles for providing customer satisfaction. The product is the object of the exchange process, the thing which the producer or supplier offers to a potential customer in exchange for something else which the supplier perceives as equivalent or greater value. Conventionally, this something else is money. In the absence of money, we must resort to barter or counter trade where goods are traded against other goods. It follows that for an exchange to occur someone must have a demand for the object in question and be willing to exchange money or other assets, which are seen as possessing value.

Two particularly important ideas have been introduced in the discussion of demand preference and substitutability. Preference defines the extent to which a consumer will favour one product over another, while substitutability reflects how well one product may take the place of another. The latter qualification is particularly important to marketers because it is similar to brand switching.

Importance of service

According to Samiee (1999), 25 per cent of the global merchandise trade belongs to the service category. The value of global trade in services has been growing by over 10 per cent per year and this trend is expected to continue. It is seen from the definition of a product that services often accompany products. Increasingly it is accepted that because buyers are concerned with benefits or satisfaction this is a combination of both tangible products and intangible services (Baker and Hart, 1999). As Figure 11.1 shows, the mix of a product and a service element may vary substantially.

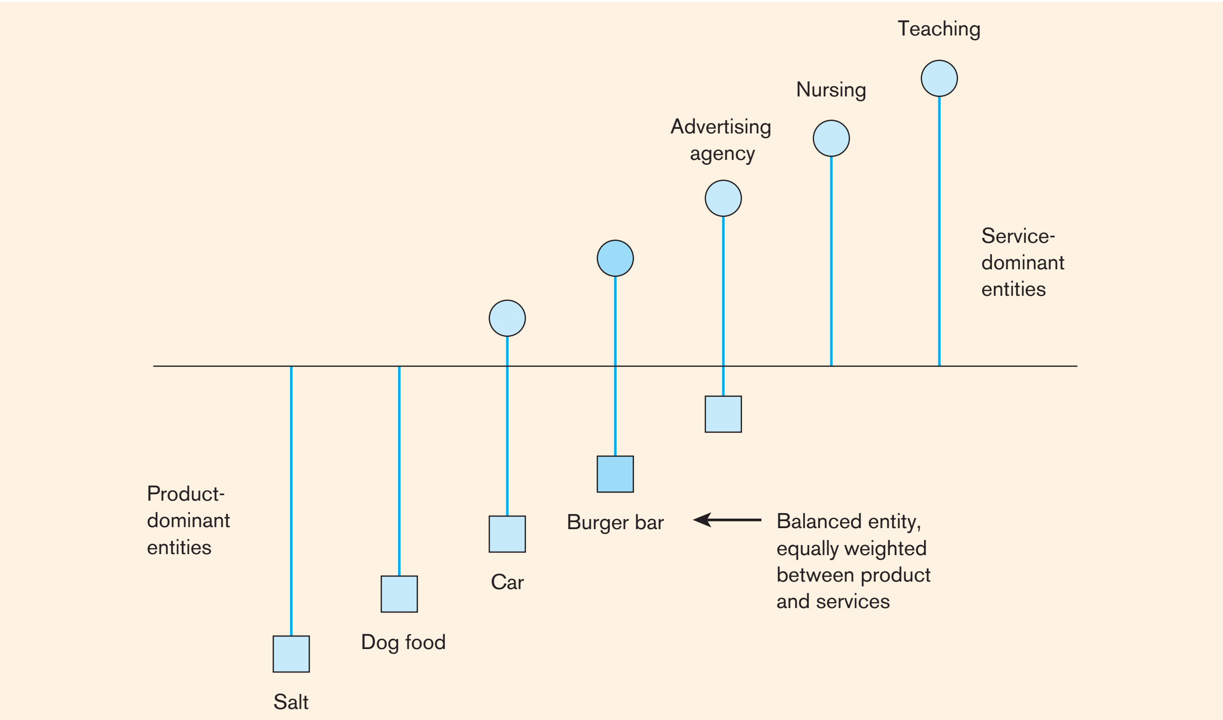

Figure 11.1 Combination of service and product for different products

Source: From Shostack, G. L. (1981) How to design a service, in J. Donnelly and W. George (eds) *Marketing of Services*, American Marketing Association, Chicago, p. 22. Reproduced with permission.

11.2 THE COMPONENTS OF THE PRODUCT OFFER

In creating an acceptable product offer for international markets, it is necessary to examine first what contributes to the total product offer. Kotler (2000) suggests that there are five levels of the product offer which should be considered by marketers in order to make the product attractive to international markets. In the product components of Figure 11.2 we include not just the core physical properties, but also additional elements such as packaging, branding and after-sales service that make up the total package for the purchaser.

We can also see from Figure 11.2 that it is much easier to standardise the core product benefits (functional features, performance, etc.) across borders than it is to standardise the support services, which often have to be tailored to the business culture and sometimes to individual customers.

11.3 SERVICE STRATEGIES

Characteristics of services

Before considering possible international service strategies, it is important to consider the special nature of global service marketing. Services are characterised by the following features:

Intangibility
A characteristic of services, namely that they cannot be touched, seen, tasted or smelled.

- **Intangibility**: as services such as air transportation or education cannot be touched or tested, the buyers or services cannot claim ownership or anything tangible in the traditional sense. Payment is for use or performance. Tangible elements of the service, such as food or drink on airlines, are used as part of the service in order to confirm the benefit provided and to enhance its perceived value.
- *Perishability*: services cannot be stored for future usage – for example, unfilled airline seats are lost once the aircraft takes off. This characteristic causes considerable problems

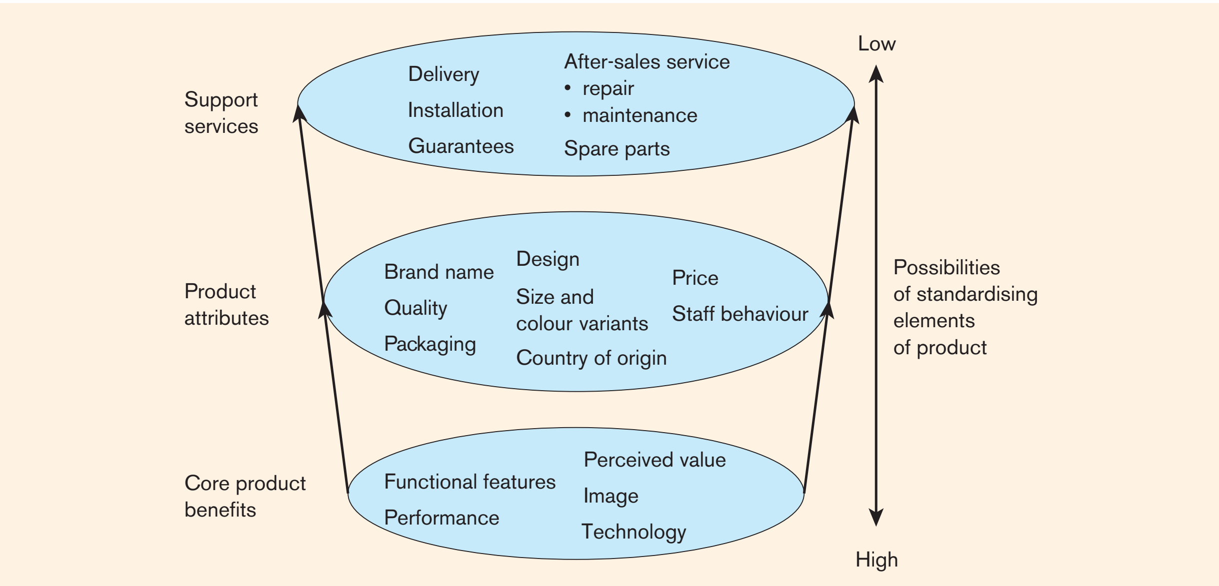

Figure 11.2 The three levels of a product
Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 396. Reproduced with permission.

in planning and promotion in order to match supply and demand. To maintain service capacity constantly at levels necessary to satisfy peak demand will be very expensive. The marketer must therefore attempt to estimate demand levels in order to optimise the use of capacity.

- *Heterogeneity*: services are rarely the same because they involve interactions between people. Furthermore, there is high customer involvement in the production of services. This can cause problems of maintaining quality, particularly in international markets where there are quite different attitudes towards customer service.
- **Inseparability**: the time of production is very close to or even simultaneous with the time of consumption. The service is provided at the point of sale. This means that economies of scale and experience curve benefits are difficult to achieve, and supplying the service to scattered markets can be expensive, particularly in the initial setting-up phase.

Inseparability
A characteristic of services, namely that their production cannot be separated from their consumption.

Categories of service

All products, both goods and services, consist of a core element that is surrounded by a variety of optional elements. If we look first at the core service products, we can assign them to one of three broad categories depending on their tangibility and the extent to which customers need to be present during service production. These categories are presented in Table 11.1.

Determining the service quality gap

Quality is often considered to be one of the keys to success. The competitive advantage of the firm is said to depend on the quality and value of its goods and services.

Figure 11.3 illustrates how quality factors are connected to traditional marketing activities resulting in a perceived service quality. Good total quality is obtained when the gap between the customer's expected service quality and perceived service quality is zero or very small, meaning that perceived service quality meets the customer's expectations of the expected service quality. If expected service quality is much higher than the perceived service quality, the gap will be large and the total service quality will be low, even if the perceived service quality, measured in an objective way, is good.

As shown in Figure 11.3 the customer's expected service quality and perceived service quality is a function of a number of factors, most of which can be controlled by the company. The expected service quality is highly influenced by the firm's marketing and communication tools. The image and word of mouth factors, as well as public relations, are only indirectly controlled by the firm. The needs of the customers and their past experience with the company may also have an impact on their expectations.

On the other hand, what really counts is the quality as it is perceived by the customers (perceived service quality). Basically, the perceived service quality has two factors: a *technical* or outcome factor, and a *functional* or process-related factor. The hotel guest will be provided with a room and a bed to sleep in, the airline passenger will be transported from one place to another, a company may get its goods transported from its warehouse to a customer. These are examples of the technical quality factor. What the customers basically receive in their interaction with a firm is clearly important to them and their quality perception. It is what the customer is left with, when the service production process and its buyer–seller interactions are over. Sometimes this dimension can be measured relatively objectively by customers because of its characteristic as a technical solution to a problem. However, as there are a number of interactions between the service provider and the customer, the customer will also be influenced by the way in which the technical quality is transferred to him or her. This is called the functional quality of the process. It is easy to see that the functional quality cannot be evaluated as objectively as the technical factor; it is frequently perceived very subjectively. The

Table 11.1 Three categories of service

Categories of service	Characteristics	Examples (service provider)	Possibilities of worldwide standardisation (hence utilising economies of scale, experience effects, lower costs)
People processing	Customers become part of the production process. The service firm needs to maintain local geographic presence.	Education (schools, universities). Passenger transportation (airlines, car rental). Healthcare (hospitals). Food service (fast food resturants). Lodging service (hotel).	No good possibilities: because of 'customer involvement in production', many local sites will be needed, making this type of service very difficult to operate globally.
Possession processing	Involve tangible actions to physical objects to improve their value to customers. The object needs to be involved in the production process, but the owner of the object (the customer) does not. A local geographic presence is required.	Car repair (garages). Freight transport (forwarding agent). Equipment installation (electrician). Laundry service (laundrette).	Better possibilities: compared to people-processing services, this involves a lower degree of contact between the customer and the service personnel. This type of service is not so culture-sensitive.
Information-based services	Collecting, manipulating, interpreting and transmitting data to create value. Minimal tangibility. Minimal customer involvement in the production process.	Telecommunication services (telephone companies). Banking. News. Market analysis. Internet services (producers of homepages on Web, database providers).	Very good possibilities: worldwide standardisation from one central location (**single sourcing**) because of the 'virtual' nature of these services.

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 399. Reproduced with permission.

Single sourcing
Purchasing a product on a regular basis from a single vendor.

two quality factors, what and how, are not only valid for services. The technical solution for a customer provided by, for example, a machine – in the production function – is part of the overall technical quality perceived by this customer. But attempts to tailor this machine to the specific demands of a customer is an additional value and therefore part of the overall functional quality which the customer experiences.

The technical quality of a service process is normally a prerequisite for good quality. It has to be at an acceptable level. The definition of an acceptable level depends on the firm's strategy and the needs and expectations of the customers. However, once the outcome is good enough, this becomes transparent, and should not be used as a way of differentiating the product or service.

The functional quality (how) perception is also influenced by elements of the physical environment. The where aspect is considered to be part of the how factor, which is logical

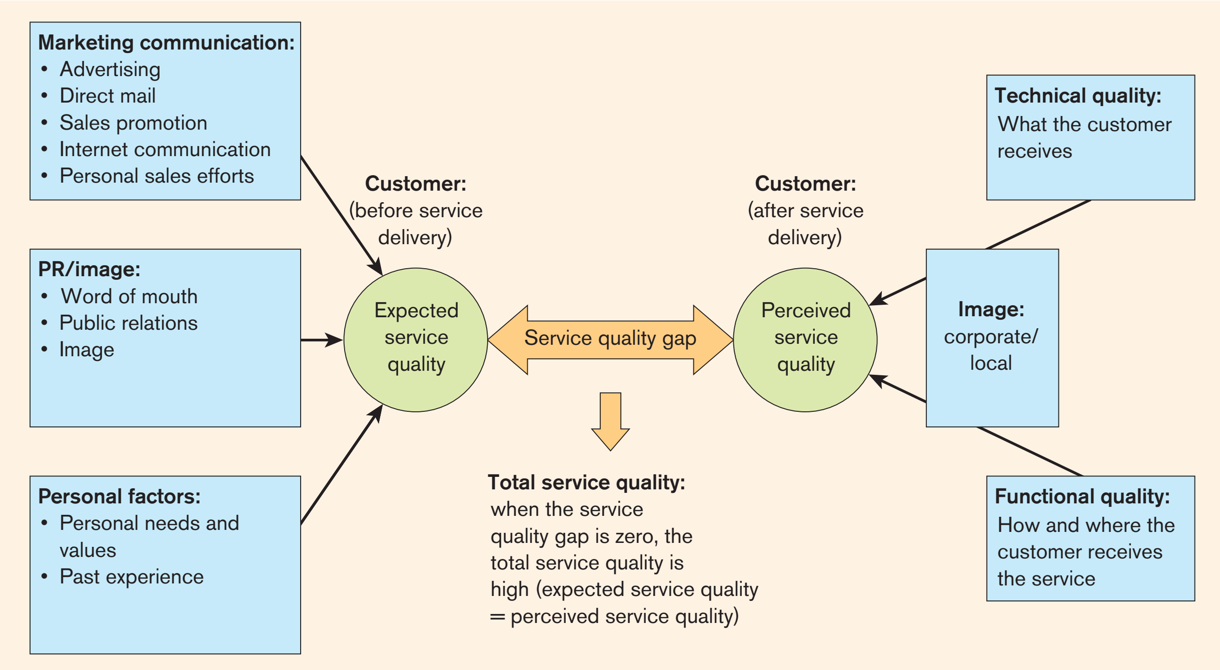

Figure 11.3 The total service quality gap

because the perception of the process clearly is dependent on the service process in, for example, a restaurant.

Usually the service provider cannot hide behind brand names or distributors. In most cases the firm, its resources and its operating methods are visible to the customers. The firm's corporate and/or local image is therefore of the utmost importance to most services. It can affect the perception of quality in various ways. If the provider has a favourable image in the minds of the customers, minor mistakes will probably be forgiven. However, if mistakes often occur, the image will be damaged.

As far as the perceived service quality is concerned, the image can be viewed as a filter, as illustrated in Figure 11.3 (Grönroos, 2000).

After-sales services (AS)

Customer service provides one important means by which a company can tailor its offerings to the needs and desires of its customers. By offering good service, a company assures consumers that it stands behind its products and projects a reliable and high-quality image. Customer services offered after the sales transaction is completed are of crucial importance in this respect. Here, AS is defined as those activities in which a firm engages after purchase of its product that minimise potential problems related to product use and maximise the value of the consumption experience. Researchers have suggested that AS consists of a number of elements. Here, AS is conceptualised as consisting of: the installation and start-up of the purchased product, the provision of spare parts for products, the provision of repair services, technical advice regarding the product, and the provision and support of warranties.

AS adds to the product's value and is often treated as an integral part of the product. Levitt (1983) suggests that because the provision of AS enhances product value in a manner similar to other intangible product components, these service elements should be regarded as part of the augmented product (Asugman *et al.*, 1997).

The potential financial importance of these services has been called to the attention of corporations. Herbig and Palumbo (1993) suggest that 'Profit margins for aftermarket services are typically about 15% to 25% before taxes, whereas those for products are only 7% to 11% . . . Often, up to 25% to 40% of corporate revenues and from 20% to 50% of corporate profits can be generated from the aftermarket service components of a business.'

Customer support in after-sales service

Goffin and New (2001) suggest that there are seven key elements of customer support in B2B after-sales service:

- *Installation*: for many products, the first element of product support following the sale is installation. For complex products, or where safety issues are involved, personnel from the manufacturing company or their representatives usually perform this.
- *User training*: the complexity of some types of equipment means that manufacturers must provide good training for users. For example, the successful implementation of new manufacturing equipment often depends on extensive training. Many products include functions that help users learn to use them more efficiently; these can range from simple help functions to full computer training packages.
- *Documentation*: most products require some form of documentation. Typical forms of documentation cover equipment operation, installation, maintenance and repair. Good documentation can reduce support costs (Miskie, 1989).
- *Maintenance and repair*: historically, this has always been an important element of customer support. Maintenance is necessary to clean, refurbish or replace parts or equipment which otherwise would be liable to fail. If equipment fails, fast and efficient repair is essential in many markets because down-time costs are very high – often many times the price of spare parts or service. Manufacturers need to have effective logistics for the management of customer support engineers and the movement of spares, the parts used in repairs.
- *Online support*: telephone advice on products is important in many industries. Product experts give online consultations to customers to help them use products more efficiently, or sometimes to trace the cause of faults.
- *Warranty*: manufacturers' warranties reduce the financial risk of owning products. Over the working lifetime of a product, support costs can be high and so many manufacturers offer customers the possibility to purchase an extended warranty.
- *Upgrades*: customers may be offered the opportunity to enhance the performance of existing products. For example, computer upgrades increase the working lifetimes of products.

Over the years there has been a change in the relative importance of different elements of customer support. In the past, when many products had high failure rates, the most important aspect of support was fast and reliable repair. New technologies have now typically led to more reliable products. However, increased product complexity (which is often software based) means that the importance of user training and online support has increased.

Full service contracts

Based on Stremersch *et al.* (2001), 'full service' can be defined as:

> a comprehensive bundle of products and/or services, that fully satisfies the needs and wants of a customer related to a specific event or problem.

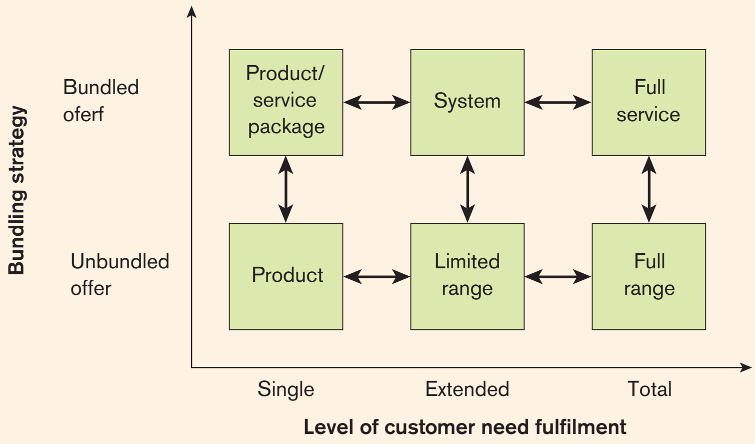

Figure 11.4 The full service concept

Source: From Stremersch, S., Wuyts, S. and Frambach, R. T. (2001) The purchasing of full-service contracts, *Industrial Marketing Management*, 30. Copyright © 2001 Elsevier Science. Reproduced with permission.

The concept of a full service strategy is clearly related to the concepts of 'bundling' and 'systems selling'. Bundling can be defined as 'the offering of groups of products and/or services as a package'.

Thus, the concept of full service is composed of two conceptually distinct components, that is, a bundling strategy (a bundle of products and/or services) and an extension in customer need fulfilment (that fully satisfies the needs and wants of a customer related to a specific event or problem).

In Figure 11.4 these components are examined in the following way:

- *Bundling strategy*: does the supplier firm bundle its products and/or services? Within this component three types are distinguished: pure components (unbundled offer), mixed bundling (components are available in a bundled as well as an unbundled offer) and pure bundling (components are only available in a bundled offer) (Smith, 2006).
- *Extension in need fulfilment*: this component comprises the extent to which customer needs are satisfied by the supplier firm; the three levels of customer need fulfilment are indicated in Figure 11.4, that is, single, extended and total.

Figure 11.4 positions full-service strategies relative to other (B2B) marketing strategies. It illustrates that firms pursuing a full-service strategy can be challenged on two factors. Competitive offerings may compete with full-service suppliers by focusing on satisfying specific customer needs, either by means of bundled or unbundled offers. Alternatively, competitors may choose to satisfy multiple needs by offering different unbundled solutions. This approach may appeal to customers seeking high levels of flexibility in their purchasing behaviour.

Therefore, it is clear that industrial customer firms will evaluate full service offerings differently from mere product or service offerings. These differences are likely to be related to both the purchasing criteria used as well as the purchasing process itself. The high degree of comprehensiveness and potential implications for full service contracts is likely to positively influence both more of the DMU (decision making unit) members and the DMU's heterogeneity.

In the research of service maintenance contracts, Stremersch *et al.* (2001) found that maintenance companies (and OEMs) will have to broaden their marketing and sales approach in a horizontal as well as a vertical way. Higher management levels are involved in the buying process as well as other departments. Furthermore, other buying motives will come into play through the involvement of different people. Maintenance firms will also have to be prepared for a longer decision-making process and develop specific tools, for instance to calculate the total cost of ownership, for specific phases throughout the extended buying process (Heskett *et al*., 2008; Reinarttz, 2008; Frei, 2008; Allmendinger and Lombreglia, 2005).

11.4 NEW PRODUCT DEVELOPMENT (NPD)

Long-term success is dependent on the ability to compete with others. One of the most important conditions for achieving this is to ensure that your firm's products are superior to the competition, by adding new competitive products to the product portfolio.

The traditional NPD model involves the following stages in product development: **idea generation**, screening, concept development and testing, business analysis, product development and testing, **test marketing**, commercialisation or launch (Baker and Hart, 1999, pp. 154–7).

Idea generation stage
The stage in new product development in which a marketer engages in a continuing search for product ideas consistent with target market needs and the organisation's objectives.

Test marketing
The stage of new product development where the product and marketing programme are tested in realistic market settings, such as a well-defined geographic area.

The multiple convergent process model

Baker and Hart (1999) have suggested the following multiple convergent process model (Figure 11.5) that has been derived from the idea of parallel processing (Smith *et al*., 2007).

In the multiple convergent approach, there are tasks that must be carried out in different internal departments (research and development, marketing, engineering/design, manufacturing) and carried out in cooperation with external partners (suppliers and customers). Hence, the total number of different actors/departments involved in the NPD process is six, as illustrated in Figure 11.5. The tasks have to be carried out simultaneously and the results must converge at some point, which is likely to happen several times due to the iterations in the process.

Consequently, there are multiple convergent points that link the activity-stage model to the decision-stage models. The extent of involvement of internal and external groups will be determined by the firm's specific needs in the product development process.

One of the advantages of this model is that it recognises the involvment of external partners in the product development process. There is growing interest in the need for supplier and customer involvement in the NPD. From the customers, the firm can benefit from new product ideas and product adaptations to specific customer needs. The supplier can contribute with supplier innovation and just-in-time techniques.

Product platform/modularity in NPD

The modular approach to product development is an important success factor in many markets. By sharing components and production processes across a product platform, companies can develop differentiated products efficiently, increase the flexibility and responsiveness of their manufacturing processes, and take market share away from competitors that develop only one product at a time.

The modular approach is also a way to achieve successful mass customisation – the manufacture of products in high volumes that are tailored to meet the needs of individual customers. It allows highly differentiated products to be delivered to the market without consuming excessive resources.

Product modularity consists of designing a platform that is a collection of assets that are shared by a set of products. These assets can be divided into four categories (Robertson and Ulrich, 1998), as follows:

- *Components*: the part designs of a product, the fixtures and tools needed to make them, the circuit designs, and the programs burned into programmable chips or stored on disks.

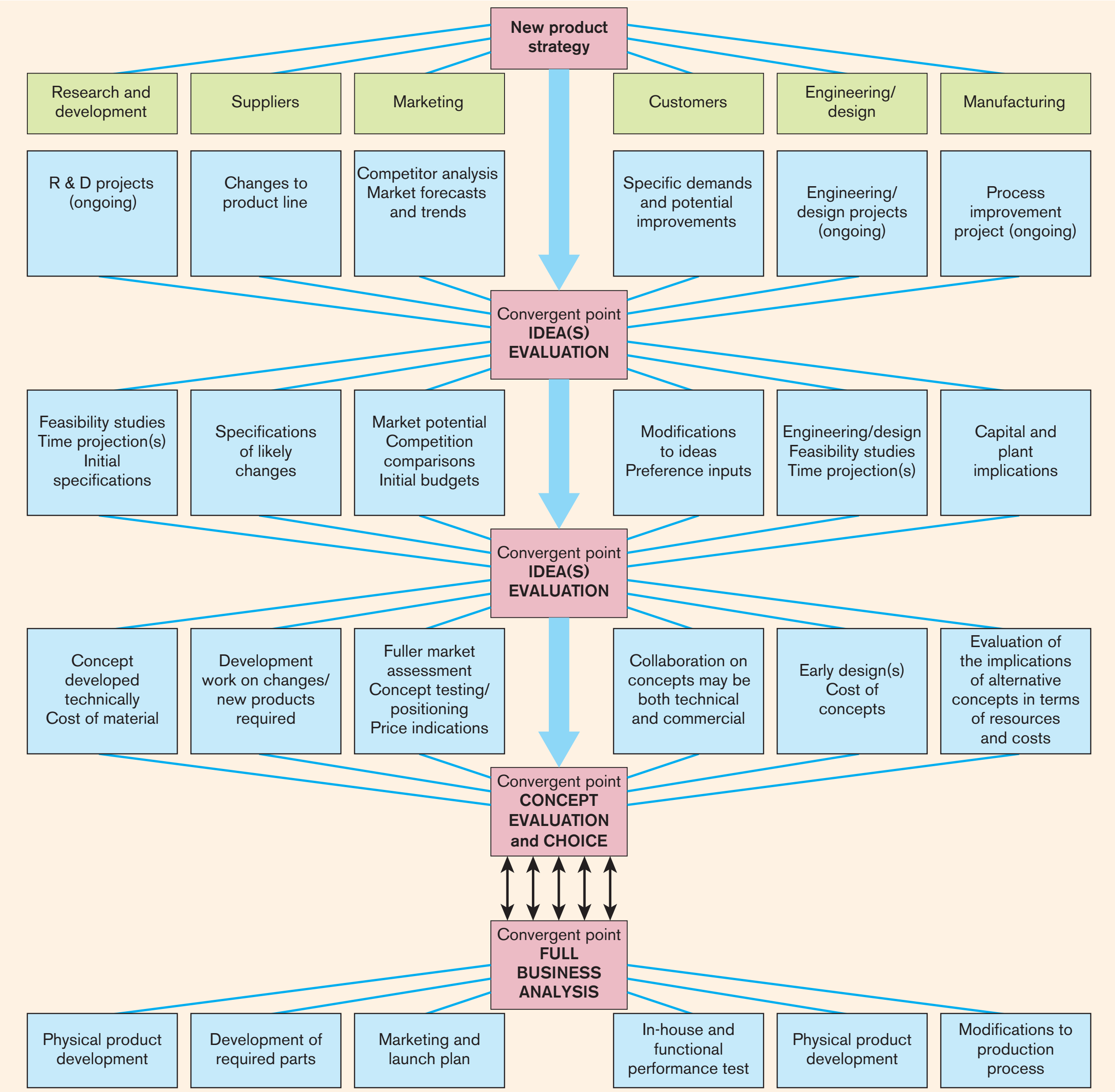

Figure 11.5 The multiple convergent process model for NPD

Source: After Baker, M. and Hart, S. (1999) *Product Strategy and Management*, Prentice Hall, Harlow, p. 175. Reproduced with permission from Pearson Education Ltd and M. Baker.

- *Processes*: the equipment used to make components or to assemble components into products and the design of the associated production process and supply chain.
- *Knowledge*: design know-how, technology applications and limitations, production techniques, mathematical models and testing methods.
- *People and relationships*: teams, relationships among team members, relationships between the team and the larger organisation, and relationships with a network of suppliers.

This general product platform should then be used for tailoring end products to the needs of different market segments or customers. The platform approach reduces the incremental cost of addressing the specific needs of a market segment or of an individual customer. See also Figure 11.6 for an example of the modular approach in new product development. For simplicity, only the interaction between two product modules is illustrated.

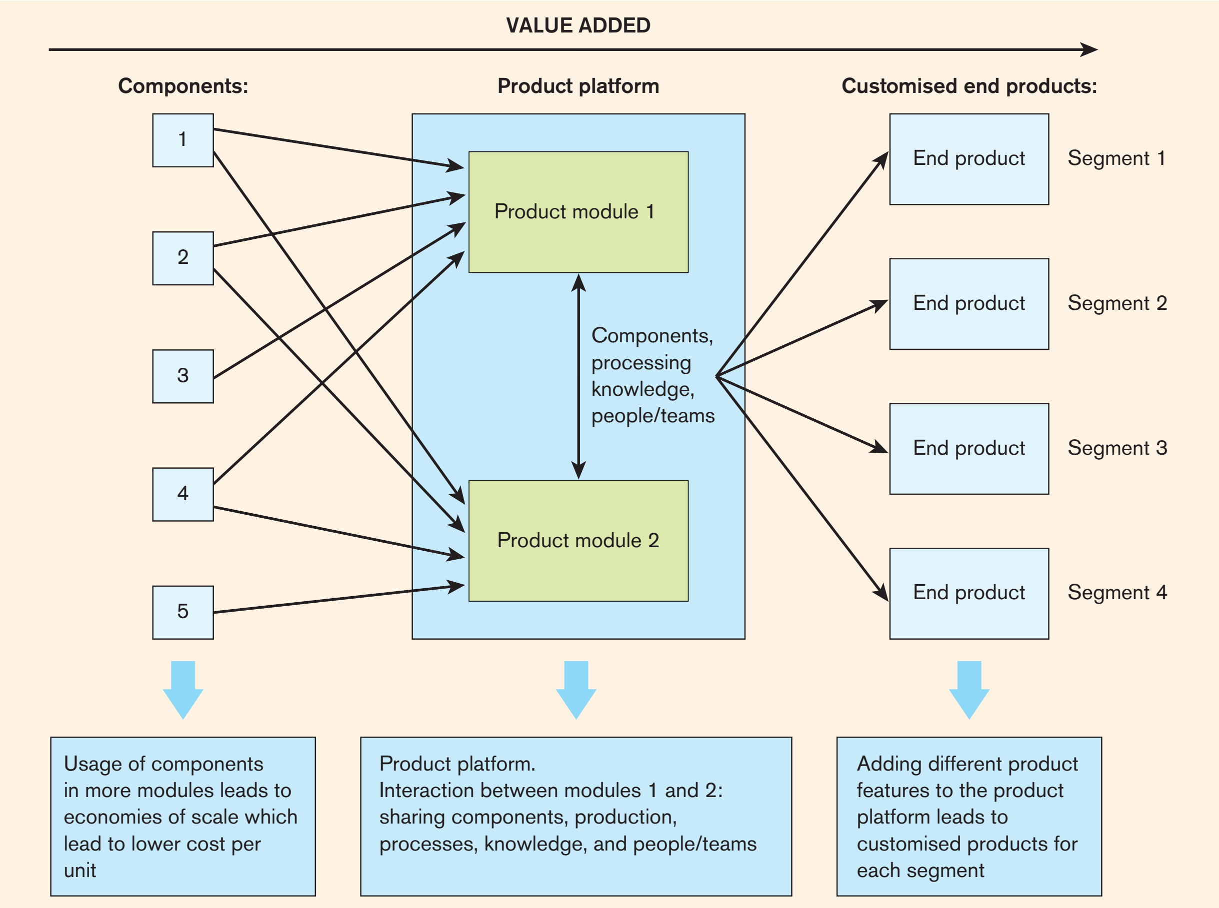

Figure 11.6 Principle of using modularity in creating product platforms

The firm's advantages in using product modularity are:

- *reduction of development cost and time*: parts and assembly processes developed for one end product can be used for other products;
- *reduction of variable costs*: when producing larger volumes of common components, companies achieve economies of scale, which cuts costs in materials management, logistics, distribution, inventory management, sales and service, and purchasing;
- *reduction of production investments*: machinery, equipment and tooling, and the engineering time needed to create them, can be shared across higher production volumes;
- *reduction of risks*: the lower investment required for each product developed from a platform results in decreased risk for each new product. Sharing components across products allows companies to stock fewer parts in their production and service parts inventories, which translates into better service levels and/or lower service costs.

11.5 THE PRODUCT LIFECYCLE

The concept of the product lifecycle (PLC) provides useful inputs into making product decisions and formulating product strategies (Kvesic, 2008).

Products, like individuals, pass through a series of stages. Each stage is identified by its sales performance and characterised by different levels of profitability, various degrees of competition

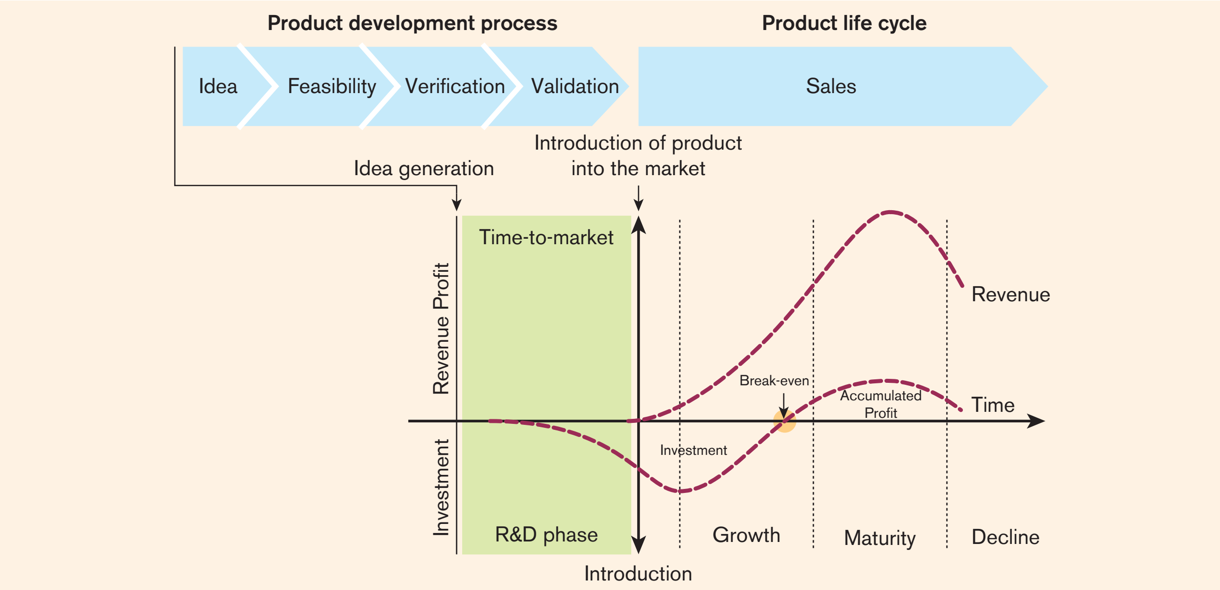

Figure 11.7 The PLC and time-to-market

and distinctive marketing programmes. The four stages of the product life cycle are introduction, growth, maturity and decline. The basic model of the PLC is shown in Figure 11.7, where also the stages prior to the actual sales are included. In total these stages represent the so-called time to market (TTM).

Time to market (TTM) is the length of time it takes from a product being conceived to its being available for sale. TTM is important in industries where products are outdated quickly, for example in the IT industry.

Rapid time-to-market is important for the competitive success of many companies for the following reasons:

- competitive advantage of getting to market sooner;
- premium prices early in life cycle;
- faster break-even on development investment and lower financial risk;
- greater overall profits and higher return on investment.

The key process requirements for rapid time-to-market are:

- clear understanding of customer needs at the start of the project and stability in product requirements or specifications;
- a characterised, optimised product development process;
- a realistic project plan based on this process;
- availability of needed resources to support the project and use of full-time, dedicated personnel;
- early involvement and rapid staffing build-up to support the parallel design of product and process;
- virtual product development including digital assembly modelling and early analysis and simulation to minimise time-consuming physical mock-ups and testing;
- design re-use and standardisation to minimise the design content of a project.

Pure speed, that is, bring the product to market as quickly as possible, is valuable in fast-moving industries, but it is not always the best objective. Many managers figure that the shorter the product development project, the less it will cost, so they attempt to use TTM as a means of cutting expenses. Unfortunately, a primary means of reducing TTM is to staff the project more heavily, so a faster project may actually be more expensive.

The PLC emphasises the need to review marketing objectives and strategies as products pass through various stages. It is helpful to think of marketing decisions during the lifetime of a product, but managers need to be aware of the limitations of the PLC so they are not misled by its prescriptions.

Limitations of the product life cycle

Misleading strategy prescriptions

The PLC is a dependent variable that is determined by the marketing mix; it is not an independent variable to which firms should adapt their marketing programmes (Dhalla and Yuspeh, 1976). If a product's sale is declining, management should not conclude that the brand is in the decline stage. If management withdraws marketing resources from the brand, it will create a self-fulfilling prophecy and the brand's sales will continue to decline. Instead, management might increase marketing support in order to create a new cycle. This could be realised by use of one or more of the following measures:

- product improvements (e.g. new product packaging);
- reposition perception of the product;
- reach new users of the product (via new distribution outlets);
- promote more frequent use of the product (fulfilling same need);
- promote new uses of the product (fulfilling new needs).

Fads

Fads
Fashions that enter quickly are adopted with great speed, peak early and decline very fast.

Not all products follow the classic PLC curve. **Fads** are fashions that are adopted very quickly by the public, peak early and decline very fast. It is difficult to predict whether something will be only a fad, or how long it will last. The amount of mass-media attention together with other factors will influence the fad's duration.

Unpredictability

The duration of the PLC stages is unpredictable. Critics charge that markets can seldom tell what stage the product is in. A product may appear to be mature when actually it has only reached a temporary plateau prior to another upsurge.

Levels of the product life cycle

The PLC concept can be examined at various levels, from the life cycle of a whole industry or product form (the technological life cycle or TLC) (Popper and Buskirk, 1992) to the life cycle of a single model of a specific product. It is probably most useful to think in terms of the life cycle of a product form such as photocopiers or video cassette recorders. Life cycles for product forms include definable groups of direct and close competitors and a core technology. These characteristics make life cycles for product forms easier to identify and analyse, and would seem to have more stable and general implications. In Figure 11.8 an example of different PLC levels is shown.

Another example of a TLC shift happened when the compact disc (CD) format was introduced as a result of a joint development between Philips and Sony. A key success factor of the CD format in displacing the old LP record format was the ownership by Sony of CBS in the USA, and by Philips of Polygram in Europe, which are two of the biggest music companies in the world. This contributed to the new CD format establishing itself as the industry standard.

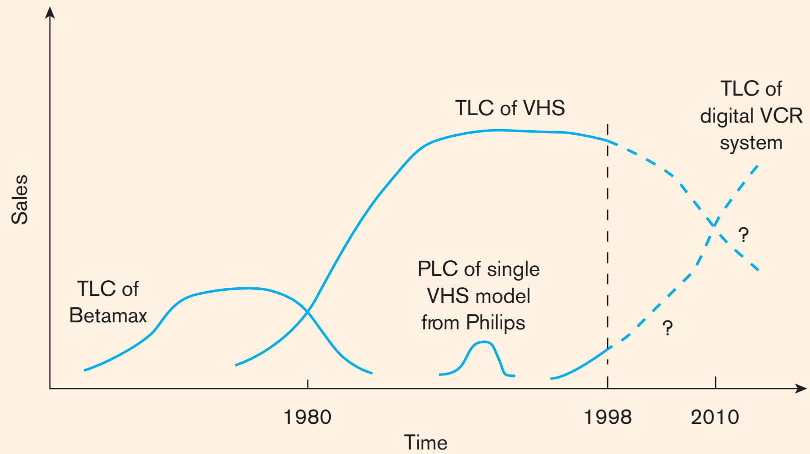

Figure 11.8 Comparisons of TLC for different VCR systems and PLC of a single VCR model
Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 403. Reproduced with permission.

However, there were also a number of barriers to the adoption of the new format. The potential users had already invested in LP record collections and the prices of discs and players were relatively high at the beginning of the TLC.

11.6 NEW PRODUCTS FOR THE INTERNATIONAL MARKET

Customer needs are the starting point for product development, whether for domestic or global markets. In addition to customer needs, conditions of use and ability to buy the product form a framework for decisions on new product development for the international market.

Developing new products/cutting the time-to-market

As a consequence of increasing international competition, speed is becoming a key success factor for an increasing number of companies that manufacture technologically sophisticated products.

This speed of change in the environment is accelerating, leading to greater complexity and added ‘turbulence’, or discontinuity. Technological developments are combining to shorten product life cycles and speed up commercialisation times. The increasing turbulence in the market makes it particularly difficult to predict. As a result planning time scales have been shortened. Where long-term plans in relatively predictable markets could span 10–15 years, very few companies today are able to plan beyond the next few years in any but the most general terms.

In parallel to shorter PLCs, the product development times for new products are being greatly reduced. This applies not only to technical products in the field of office communication equipment, but also to cars and consumer electronics. In some cases there have been reductions in development times of more than half.

Similarly, the time for marketing and selling, and hence also to pay off R&D costs, has gone down from about four years to only two years and less for a number of products, such as printers and computers, over a period of ten years (Töpfer, 1995, p. 68).

For all types of technological products it holds true that the manufactured product must be as good as required by the customer (i.e. as good as necessary), but not as good as is technically feasible. Too frequently, technological products are over-optimised and therefore too expensive from the customer’s point of view.

Traditionally, Japanese and European suppliers to the car industry have had different approaches to the product development process. Normally the Japanese have been able to develop a product in a shorter time using the newest technology.

The reason for the better time competition of the Japanese manufacturers is the intensive use of:

- early integration of customers and suppliers;
- multi-skilled project teams;
- interlinking of R&D, production and marketing activities;
- total quality management;
- parallel planning of new products and the required production facilities (simultaneous engineering);
- high degree of outsourcing (reduction of internal manufacturing content).

Today product quality is not enough to reach and to satisfy the customer. Quality of design and appearance play an increasingly important role. Highly qualified product support staff and high quality customer service are also required.

Degrees of product newness

A new product can have several degrees of newness. A product may be an entirely new invention (new to the world) or it may be a slight modification of an existing product (cost reductions). In Figure 11.9, newness has two factors: newness to the market (consumers, channels and public policy) and newness to the company.

Let us briefly discuss the main categories in Figure 11.9.

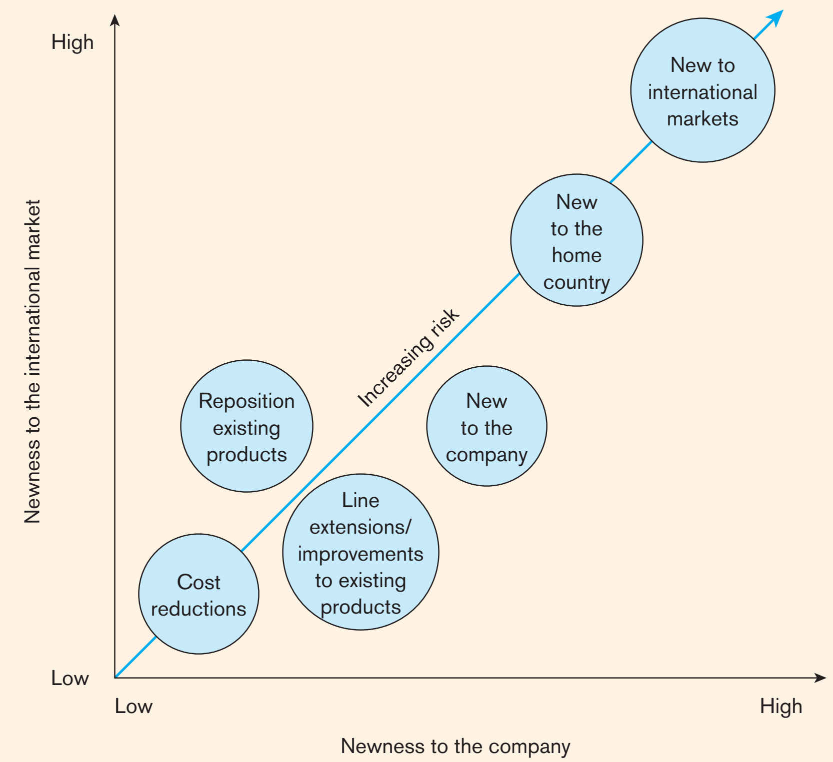

Figure 11.9 Different degrees of product newness

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 409. Reproduced with permission.

New to international markets

These represent a small proportion of all new products introduced. Most new products modify and improve a company's existing products. They are inventions that usually contain a significant development in technology such as a new discovery or manipulation of existing technology in a very different way leading to revolutionary new designs such as the Sony Discman. Other examples include Polaroid's instant camera and 3M's Post-its.

New to the company

Although not new to the marketplace, these products are new to the particular company. They provide an opportunity for the company to enter an established market for the first time. For example, Microsoft was able to enter the games console market when it launched X-Box, competing with Sony and Nintendo.

Line extensions

In this situation the company already has a line of products in the market. For example Virgin Soft Drink's Energy is an addition to its established line of cola brands.

Reposition existing products

This has more to do with new customer perception and branding than technical development. Therefore, this alternative may be new to the market (new perception) but not new to the company itself.

11.7 PRODUCT CANNIBALISATION

Cannibalisation
A situation where a new brand gains sales at the expense of another of the company's brands.

Introducing new brands that have a negative impact on the sales of existing products has often been regarded as a wrong product strategy. However, it is important that managers realise that proactive **cannibalisation** may be a sound strategy under certain conditions (Cravens *et al.*, 2000). This strategy ensures a continuing flow of new products, and recognises that products need to be replaced as they move through their life cycles. Managers of innovative firms often resist the instinct to preserve the value of part of the investment in products. Instead, these companies pursue a continuing strategy of investing in new products that will cannibalise existing products (Chandy and Tellis, 1998).

Conditions for successful cannibalisation

Successful cannibalisation strategies are more likely to occur in companies where:

- Effective market-sensing capabilities have been developed, enabling the firms to form accurate visions about their markets and how they are most likely to change.
- Some internal competition across business units is prevalent. Innovation is encouraged, and managers must compete for resources. Executives in these organisations accept cannibalisation threats, but by encouraging competition across business units, they focus their attention on the most promising product concepts. Senior management must coordinate these processes towards optimal performance for the product portfolio.
- New product champions are able to influence corporate decisions. For example, the chief executive may play a central leadership role in new product development.

A good example of successful proactive cannibalisation is as follows (Cravens *et al.*, 2000).

The German automobile group Volkswagen (VW) now holds more than 18 per cent of the European market, six points clear of its nearest rival, Fiat. This gain has been achieved by VW's multi-brand strategy. The VW group includes automobiles from the VW brand portfolio, but also the Audi, Seat and Skoda operations. There are several platforms across the group and shared R&D. The brands compete directly with each other in several car segments across Europe, but have different strengths in different national markets. Although the VW brand's sales have been cannibalised, the result has been overall market leadership.

11.8 PRODUCT POSITIONING

Product positioning is a key element in the successful marketing of any organisation in any market. The product or company that does not have a clear position in the customer's mind consequently stands for nothing and is rarely able to command more than a simple commodity or utility price. Premium pricing and competitive advantage are largely dependent upon the customer's perception that the product or service on offer is markedly different in some way from competitive offers (Devaney and Brown, 2008). How can we achieve a credible market position in international markets?

Since it is the buyer/user perception of benefit-generating attributes that is important, product positioning is the activity by which a desirable 'position' in the mind of the customer is created for the product. Positioning a product for international markets begins with describing specific products as comprising different attributes that are capable of generating a flow of benefits to buyers and users.

The global marketing planner puts these attributes into bundles so that the benefits generated match the special requirements of specific market segments. This product design problem involves not only the basic product components (physical, package, service and country of origin), but also brand name, styling and similar features.

Viewed in a multidimensional space (commonly denoted as 'perceptual mapping'), a product can be graphically represented at a point specified by its attributes. The location of a product's point in perceptual space is its 'position'. Competitors' products are similarly located (see also Johansson and Thorelli, 1985). If points representing other products are close to the point of the prototype then these other products are close competitors of the prototype. If the prototype is positioned away from its closest competitors in some international markets and its positioning implies important features for customers, then it is likely to have a significant competitive advantage.

11.9 BRAND EQUITY

A study by Citibank and Interbrand in 1997 found that companies basing their business on brands had outperformed the stock market for 15 years. The same study does, however, note the risky tendency of some brand owners to have reduced investments in brands in the mid-1990s with negative impacts on their performance (Hooley *et al.*, 1998, p. 120).

The following two examples show that brands add value for customers:

- The classic example is that in blind tests 51 per cent of consumers prefer Pepsi to Coca-Cola, but in open tests 65 per cent prefer Coca-Cola to Pepsi: soft drink preferences are based on brand image, not taste (Hooley *et al.*, 1998, p. 119).
- Skoda cars have been best known in the United Kingdom as the butt of bad jokes, reflecting a widespread belief that the cars are of very low quality. In 1995 Skoda was preparing to launch a new model in the United Kingdom, and did 'blind and seen' tests of the consumers' judgement of the vehicle. The vehicle was rated as better designed and worth more by those who did not know the make. With the Skoda name revealed, perceptions of the design were less favourable and estimated value was substantially lower. This leads us from the reputation of the company to branding (Hooley *et al.*, 1998, p. 117).

Definitions of 'brand equity'

Brand equity
The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations and other assets such as patents, trademarks and channel relationships.

Although the definition of **brand equity** is often debated (Raggio, 2009; Neal and Strauss, 2008), the term deals with the brand value, beyond the physical assets associated with its manufacture.

David Aaker of the University of California at Berkeley, one of the leading authorities on brand equity, has defined the term as 'a set of *brand assets and liabilities* linked to the brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm or to the firm's customers' (Aaker, 1991, p. 15).

Aaker has clustered those assets and liabilities into five categories:

1. *Brand loyalty*: encourages customers to buy a particular brand time after time and remain insensitive to competitors' offerings.
2. *Brand awareness*: brand names attract attention and convey images of familarity. May be translated to: how big a percentage of the customers know the brand name.
3. *Perceived quality*: 'perceived' means that the customers decide upon the level of quality, not the company (Wise and Zednickova, 2009).
4. *Brand associations*: the values and the personality that are linked to the brand.
5. *Other proprietary brand assets*: these include trademarks, patents and marketing channel relationships.

Brand equity can be thought of as the additional cash flow achieved by associating a brand with the underlying values of the product or service. In this connection it is useful (although incomplete) to think of a brand's equity as *the premium a customer/consumer would pay for the branded product or service compared to an identical unbranded version of the same product/service.*

Hence brand equity refers to the strength, depth and character of the consumer–brand relationship. A strong equity implies a positive force that keeps the consumer and the brand together, in the face of resistance and tension. The strength, depth and character of the customer–brand relationship is referred to as the *brand relationship quality* (Marketing Science Institute, 1995).

Closely linked to product positioning is the question of branding.

11.10 BRANDING

A brand signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical. From the customer's point of view, a brand can be defined as the total accumulation of his or her experiences, and is built at all points of contact with the customer (Ghodeswar, 2008).

The basic purposes of branding are the same everywhere in the world. In general, the functions of branding are as follows:

- to distinguish a company's offering and differentiate one particular product from its competitors;
- to create identification and brand awareness;
- to guarantee a certain level of quality and satisfaction;
- to help with promotion of the product.

All of these purposes have the same ultimate goals: to create new sales (market shares taken from competitors) or induce repeat sales (keep customers loyal).

Company name	What they stand for	Brand attributes	Brand theme
The Coca-Cola Company (www.coca-cola.com)	The spirit of refreshment. Only the original will do. Bringing people together.	Refreshing, exciting sociable, red	Always Coca-Cola
McDonald's Corporation (www.mcdonalds.com)	Affordable good food for the family.	Trust, convenience, value	To be the nations favourite family restaurant
British Airways (www.british-airways.com)	The world's leading provider of travel services.	Global, caring	The world's favourite airline
Intel Corporation (www.intel.com)	To do a great job for our customers, stockholders and employees by being the pre-eminent building block supplier to the computer industry worldwide.	Safety, technology, leader, intelligence, unexpected	Intel inside
Nike Inc. (www.nike.com)	Experiencing the emotion of competition, winning and crushing competitors.	Performance, achievement, individualism, attitude	Just do it
American Express Company (www.americanexpress.com)	Personal enablement. Heroic customer service. Worldwide reliability of services.	Respect, worldliness, trust, security, success	Do more
BMW Group (www.bmw.com)	The best car company in the world.	Quality, performance, technology	The ultimate driving machine

Figure 11.10 Some world-class brands

Source: First published in Allen, D. (2000) The ACID Test™: a communications tool for leadership teams who want to interact with the whole organisation, *The Journal of Brand Management*, 7(4). Reproduced with permission.

World-class brand
A product that is widely distributed around the world with a single brand name that is common to all countries and is recognised in all its markets.

Thus a brand name is more than a label employed to differentiate among the manufacturers of a product. It is a complex symbol that represents a variety of ideas and attributes. It tells the consumer many things – not only by the way it sounds (and its literal meaning if it has one), but more importantly by the body of associations it has built up and acquired as a public object over a period of time. The net result is the public image, character or personality that may be more important for the customers. Figure 11.10 shows the communication of some **world-class brands** and what they stand for.

The concept of the brand represents an acceptance of the fact that all purchasing decisions for both products and services involve a combination of rational and emotional criteria. The rational criteria are the physical components or factual elements of the product or service in question. The emotional criteria are the sum of the impressions, ideas, opinions and random associations that the potential purchaser has stored in his or her mind about the product or service. Rational and emotional elements combine to form a brand image. The word 'brand' is used to represent everything that people know, think or feel about anything. There are a number of implications of this definition.

Successful brand management necessitates the firm innovating to stay abreast of constantly changing market conditions, ideally anticipating evolving tastes, and telling their brand stories to each new generation of consumers. The notion of storytelling is key. Well-managed brands are continually telling stories about themselves, and updating these stories to take account of underlying changes in society, though their core values usually remain constant. Clever brand management also involves decisions about the service element that supports a brand and the extent to which a brand should embrace some higher-order universal value.

Nike is the most quoted example of this phenomenon. This hugely successful worldwide brand rarely talks about the product itself, which is understandable as all manufacturing is outsourced, but about core values such as achievement, competitiveness and winning. Nike stories are parables, a tried and trusted technique for communicating desired messages. John Scully, the well-known chief executive of Apple, is another proponent of this approach. He is on record as saying that he doesn't want Apple advertising to mention anything to do with megabytes or memory or any other technical terms that could be employed to create a superior brand store for Apple computers. Scully believes that Apple's core value is that it believes that people with passion can change the world for the better (Fanning, 1999).

Branding decisions

As Figure 11.11 shows, there are four levels of branding decisions. Each alternative at the four levels has a number of advantages and disadvantages, which are presented in Table 11.2. We will discuss these options in more detail.

Brand versus no brand

Branding is associated with added costs in the form of marking, labelling, packaging and promotion. Commodities are unbranded or undifferentiated products. Examples of products with no brand are milk, metals, salt, beef and other agricultural products.

Private label versus co-branding versus manufacturer's own brand

These three options can be graded, as shown in Figure 11.12.

The question of consumers having brand loyalty or shop loyalty is a crucial one. The competitive struggle between the manufacturer and the retailer emphasised the need for a better understanding of shopping behaviour (Herstein and Gamliel, 2006). Both players need to be aware of the determinants of shop choice, shopping frequency and in-store behaviour. Where manufacturers pay little attention to the shopping behaviour of consumers, this information helps to anticipate the increasing power of certain retail chains (Moss, 2008).

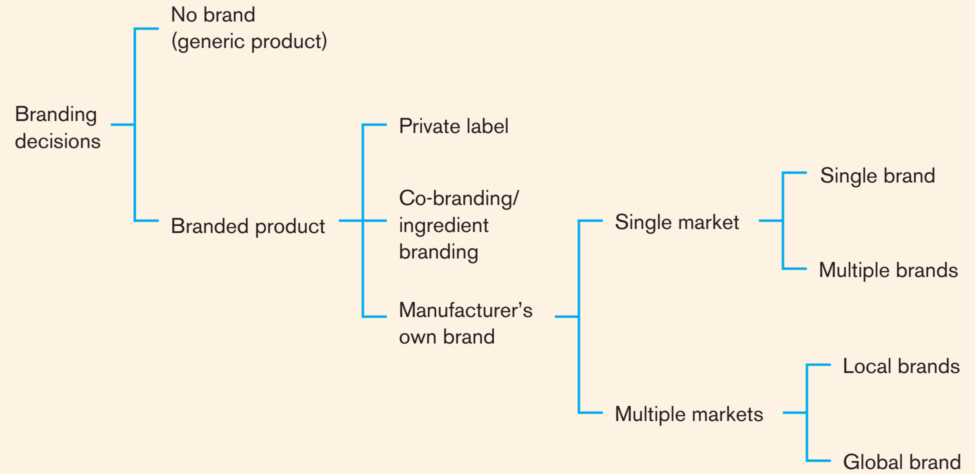

Figure 11.11 Branding decisions

Source: Onkvisit, S. and Shaw, J. J. (1993) *International Marketing: Analysis and Strategy*, 2nd ed., p. 534. Reproduced with permission from Sak Onkvisit and John J. Shaw.

Table 11.2 Advantages and disadvantages of branding alternatives

	Advantages	Disadvantages
No brand	Lower production cost. Lower marketing cost. Lower legal cost. Flexible quality control.	Severe price competition. Lack of market identity.
Branding	Better identification and awareness. Better chance for production differentiation. Possible brand loyalty. Possible premium pricing.	Higher production cost. Higher marketing cost. Higher legal cost.
Private label	Possibility of larger market share. No promotional problems.	Severe price competition. Lack of market identity.
Co-branding/ ingredient branding	Adds more value to the brand. Sharing of production and promotion costs. Increases manufacturer's power in gaining access to retailer's shelves. Can develop into long-lasting relationships based on mutual commitment.	Consumers may become confused. Ingredient supplier is very dependent on the success of the final product. Promotion cost for ingredient supplier.
Manufacturer's own brand	Better price due to higher price inelasticity. Retention of brand loyalty. Better bargaining power. Better control of distribution.	Difficult for small manufacturer with unknown brand. Requires brand promotion.
Single market, single brand	Marketing efficiency. Permits more focused marketing. Eliminates brand confusion. Good for product with good reputation (halo effect).	Assumes market homogeneity. Existing brand's image harmed when trading up/down. Limited shelf space.
Single market/ multiple brands	Market segmented for varying needs. Creates competitive spirit. Avoids negative connotation of existing brand. Gains more retail shelf space. Does not harm existing brand's image.	Higher marketing cost. Higher inventory cost. Loss of economies of scale.
Multiple markets, local brand	Meaningful names. Local identification. Avoidance of taxation on international brand. Allows variations of quantity and quality across markets.	Higher marketing cost. Higher inventory cost. Loss of economies of scale. Diffused image.
Multiple markets, global brands	Maximum marketing efficiency. Reduction of advertising costs. Elimination of brand confusion. Good for culture-free product. Good for prestigious product. Easy identification/recognition for international travellers. Uniform worldwide image.	Assumes market homogeneity. Problems with black and grey markets. Possibility of negative connotation. Requires quality and quantity consistency. LDCs' opposition and resentment. Legal complications.

Source: Adapted from Onkvisit, S. and Shaw, J. J. (1993) *International Marketing: Analysis and Strategy,* 1st ed., Macmillan, Andover. Reproduced with permission.

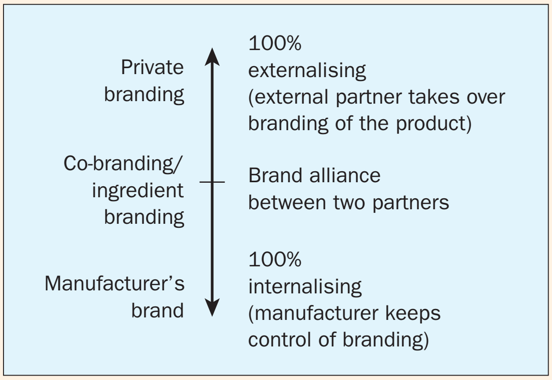

Figure 11.12 The three brand options
Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 417. Reproduced with permission.

Private label

Private brand (or label)
A brand created and owned by a reseller (retailer) of a product or service.

Private labelling is most developed in the United Kingdom, where Marks & Spencer, for instance, only sells own-label (**private label**) products. At Sainsbury's own labels account for 60 per cent of the sales. Compared with the high share of private labelling in northern Europe, the share in southern Europe (e.g. Spain and Portugal) is no higher than 10 per cent.

The retailer's perspective

For the retailer there are two main advantages connected with own-label business:

- Own labels provide better profit margins. The cost of goods typically makes up 70–85 per cent of a retailer's total cost (*The Economist*, 1995). So if the retailer can buy a quality product from the manufacturer at a lower price, this will provide a better profit margin for the retailer. In fact, private labels have helped UK food retailers to achieve profit margins averaging 8 per cent of sales, which is high by international standards. The typical figure in France and the USA is 1–2 per cent.
- Own labels strengthen the retailer's image with its customers. Many retail chains try to establish loyalty to their particular chain of shops by offering their own quality products. In fact, premium private-label products (e.g. Marks & Spencer's St Michael) that compete in quality with manufacturers' top brands have seen a growth in market share, whereas the share of cheap generics is tiny and declining.

The manufacturer's perspective

Although private brands are normally regarded as threats for manufacturers, there may be situations where private branding is a preferable option:

- Since there are no promotional expenses associated with private branding for the producer, the strategy is especially suitable for SMEs with limited financial resources and limited competences in the downstream functions.
- The private brand manufacturer gains access to the shelves of the retail chains. With the increasing internationalisation of the big retail chains, this may also result in export business for the SME that has never been in international markets.

There are also a number of reasons why private branding is bad for the manufacturer:

- By not having its own identity, the manufacturer must compete mainly on price, because the retail chain can always switch supplier.

- The manufacturer loses control over how its products should be promoted. This may become critical if the retailer does not do a good job in pushing the product to the consumer.
- If the manufacturer is producing both its own brands and private brands, there is a danger that the private brands will cannibalise the manufacturer's brand name products.

Exhibit 11.1 shows an example with Kellogg, which has moved the other way, from a brand strategy to a private brand strategy.

Quelch and Harding (1996) argue that many manufacturers have overreacted to the threat of private brands. Increasing numbers of manufacturers are beginning to make private-label products to take up excess production capacity. According to Quelch and Harding (1996), more than 50 per cent of the US manufacturers of branded consumer goods already make private-label goods as well.

Managers typically examine private-label production opportunities on an incremental marginal cost basis. The fixed overhead costs associated with the excess capacity used to make the private-label products would be incurred anyway. But if private-label manufacturing were evaluated on a full-cost basis rather than on an incremental basis, it would, in many cases, appear much less profitable. The more private-label production grows as a percentage of total production, the more an analysis based on full costs becomes relevant (Quelch and Harding, 1996).

Manufacturer's own brand

From the Second World War until the 1960s the brand manufacturers managed to build a bridge over the heads of the retailers to the consumers. They created consumer loyalty for their particular brand by using sophisticated advertising (culminating in TV advertising) and other promotional techniques.

Since the 1960s various sociological changes (notably the car) have encouraged the rise of large, efficient retailers. Nowadays the distribution system is being turned upside down. The traditional supply chain, powered by manufacturer push, is becoming a demand chain, driven by consumer pull. Retailers have won control over distribution not just because they decide the price at which goods are sold but also because individual shops and retail companies have become much bigger and more efficient. They are able to buy in bulk and to gain economies of scale, mainly due to advances in transport and, more recently, in information technology. Most retail chains have not only set up computer links between each store and the distribution warehouses, they are also linked to the computers of the firm's main suppliers, through an EDI (electronic data interchange) system.

Generic product, or generic brand
A product that carries neither a manufacturer nor a distributor brand. The goods are plainly packaged with stark lettering that simply lists the contents.

After some decades of absence, private labels reappeared in the 1970s as **generic products** pioneered by Carrefour in France but were soon adopted by UK and US retailers. Some 15 years ago, there was a distinct gap in the level of quality between private-label and brand name products. In recent years the gap has narrowed: private-label quality levels are much higher

EXHIBIT 11.1
Kellogg is under pressure to produce Aldi's own-label goods

In February 2000 Kellogg (the cereal giant) made an own-label deal with German supermarket chain Aldi. It is the first time that Kellogg has supplied own-label goods.

A slogan on Kellogg's cereal packets claims: 'If you don't see Kellogg's on the box . . . it isn't Kellogg's in the box'. But now Kellogg has negotiated a deal with Aldi to supply products in Germany bearing a different brand name. Reports in Germany say that the deal was made after Aldi announced it would no longer pay brand suppliers' prices and threatened to cut top brands from its shelves.

Sources: Adapted from various public media.

than ever before, and they are more consistent, especially in categories historically characterised by little product innovation.

Co-branding/ingredient branding

This has already been discussed in Chapter 6.

Single brand versus multiple brands (single market)

A single brand or family brand (for a number of products) may be helpful in convincing consumers that each product is of the same quality or meets certain standards. In other words, when a single brand in a single market is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact.

The company may also choose to market several (multiple) brands on a single market. This is based on the assumption that the market is heterogeneous and consists of several segments.

Local brands versus a global brand (multiple markets)

A company has the option of using the same brand in most or all of its foreign markets, or using individual, local brands. A single, global brand is also known as an international or universal brand. A Eurobrand is a slight modification of this approach, as it is a single product for a single market of 12 or more European countries, with an emphasis on the search for inter-market similarities rather than differences.

A global brand is an appropriate approach when a product has a good reputation or is known for quality. If global brands have any power, it is when they provide better value for the customer (Pitta and Franzak, 2008). In such a case, a company would be wise to extend the brand name to other products in the product line. Examples of global brands are Coca-Cola, Shell and the Visa credit card. Although it is possible to find examples of global brands, local brands are probably more common among big multinational companies than people realise (Hollensen, 2001, pp. 424–5).

11.11 IMPLICATIONS OF THE INTERNET FOR PRODUCT DECISIONS

Firms are realising the importance of collaboration for creating and sustaining competitive advantage. Collaboration with partners and even competitors has become a strategic imperative for firms in the networked world of business. More recently, scholars in strategy and marketing have focused on collaboration with customers to co-create value (Prahalad and Ramaswamy, 2004).

The Internet is an open, cost-effective and ubiquitous network. These attributes make it a global medium with unprecedented reach, contributing to reduce constraints of geography and distance. The Internet enhances the ability of firms to engage customers in collaborative innovation in several ways. It allows firms to transform episodic and one-way customer interactions into a persistent dialogue with customers. Internet-based virtual environments allow the firm to engage in interaction with a much larger number of customers without significant compromises on the richness of the interaction (Evans and Wuster, 2000).

Customisation and closer relationships

The new business platform recognises the increased importance of customisation of products and services. Increased commoditisation of standard features can only be countered through customisation, which is most powerful when backed up by sophisticated analysis of customer data.

Mass-marketing experts such as Nike are experimenting with ways of using digital technology to enable customisation. Websites that can display three-dimensional images, for example, will certainly boost the attractiveness of custom tailoring.

The challenge is clear: to use IT to get closer to customers. There are already many examples of this. Dell is building a closer relationship with its end customers by letting them design their own PCs on the Internet. Customers who have ordered their computers from Dell can then follow their computers along the various stages of the production process in real time on their personalised website. Such experimentation is advisable because the success of 'build-to-order' models such as Dell's represents a challenge to current 'build-to-stock' business platforms, which Compaq generally uses. A comparison of the business models of Dell and HP shows that Dell's basic business principle is the close relationship between the PC manufacturer and the end customer, without further intermediaries in the distribution channel. This allows Dell to individualise the computers to customers' specific needs.

Computers can also be remotely diagnosed and fixed over the network today; this may soon be true of many other appliances. Airlines now communicate special fares to preferred customers through e-mails and special websites. Cars will soon have Internet protocol addresses, which will make possible a range of personal, in-vehicle information services.

Customers can also be involved in the early stages of product development so that their inputs can shape product features and functionality. Pharmaceutical companies are experimenting with the possibility of analysing patients' genes to determine precisely what drugs should be administered in what dosages.

The transformation in the business platform can be seen in university textbook publishing. This industry – which has seen little innovation since the advent of the printing press – is now in the midst of major changes. Publishers are creating supplementary website links to provide additional ways for students and lecturers to be connected during courses (e.g. www.pearsoneduc.com and www.wiley.com). The publisher's role, which traditionally was selling textbooks at the beginning of term, is becoming that of an educational consultant or value-adding partner throughout the term.

EXHIBIT 11.2
Ducati motorcycles – product development through Web communities

Founded in 1926, Italian Ducati builds racing-inspired motorcycles characterised by unique engine features, innovative design, advanced engineering and overall technical excellence. The company produces motorcycles in six market segments which vary in their technical and design features and intended customers: Superbike, Supersport, Monster, Sport Touring, Multistrada and the new SportClassic. The company's motorcycles are sold in more than 60 countries worldwide, with a primary focus in Western European, Japanese and North American markets. Ducati has won 13 of the last 15 World Superbike Championship titles and more individual victories than the competition put together.

A Ducati motorcycle club meeting
Source: © David Morgan/Alamy

Ducati was quick to realise the potential of using the Internet to engage customers in its new product development efforts. The company set up a Web division and a dedicated website, www.ducati.com. Ducati considers the community of fans to be a major asset of the company and it strives to use the Internet to enhance the 'fan experience'. Ducati involves its fans on a systematic basis to reinforce the places, the events and the people that express the Ducati lifestyle and Ducati's desired brand image. The community function is tightly connected with the product development and the fan involvement in the community directly influences product development.

Virtual communities play a key role in helping Ducati to explore new product concepts. Ducati has promoted and managed ad hoc online forums and chat rooms for over three years to harness a strong sense of community among Ducati fans.

Modern and classic Ducati motorcycles
Source: © frank'n'focus/Alamy

Ducati has also realised that a significant number of its fans spend their leisure time not only riding their bikes, but also maintaining and personalising them. As a result, Ducati fans have deep technical knowledge that they are eager to share with other fans. To support such knowledge sharing, the company has created the 'Tech Café', a forum for exchanging technical knowledge. In this virtual environment, fans can share their projects for customising motorcycles, provide suggestions to improve Ducati's next generation products, and even post their own mechanical and technical designs, with suggestions for innovations in aesthetic attributes as well as mechanical functions.

While not all fans participate in the online forums, those who do participate provide rich inputs for exploring new product concepts and technical solutions. These forums also help Ducati to enhance customer loyalty, because its fans are more motivated to buy products they have helped to create.

Ducati managers also monitor vertical portals created for bikers, including Motorcyclist.com and Motoride.com; and Ducati monitors other virtual communities that have lifestyle associations with the Ducati brand. For instance, Ducati has entered into a partnership with the fashion company DKNY to tap into its community and interact with its members.

To validate its insights, Ducati uses online customer surveys to test product concepts and to quantify customer preferences. As a testimony to the ability of Ducati to create an ongoing customer dialogue and create a sense of engagement with its fans, Ducati gets extraordinary response rates, often in excess of 25 per cent when it surveys its customers. Ducati uses customer feedback for activities that go beyond product development.

Ducati also pursues Internet-based customer collaboration at the back end of its NPD process. Virtual communities play an important role at the product design and market testing stages. For instance, in early 2001, the community managers of Ducati.com identified a group of customers on its website that had particularly strong relationships with the company. They decided to transform such customers into active partners, involving them in virtual teams that cooperate with Ducati professionals from R&D, Product Management and Design. These virtual teams of customers work with the company's engineers to define attributes and technical features for the 'next bike'.

Within the virtual community, current and future Ducati bike owners discuss and review proposed product modifications that can be tested online in the form of virtual prototypes. They can even vote to reject proposed modifications, personalise products to their preferences, and ask Ducati technicians for suggestions on personalising their bikes to individual taste.

Sources: Adapted from Ducati Motor Holding S.p.A. (www.ducati.com) and Sawhney *et al.* (2005).

Dynamic customisation of product and services

The second stage of the customer interaction vector focuses on the opportunities and challenges in dynamically customising products and services. Competitive markets are rapidly eroding margins due to price-based competition, and companies are seeking to enhance margins through customised offerings. Dynamic customisation is based on three principles; modularity, intelligence and organisation:

1. *Modularity*: An approach for organising complex products and processes efficiently. Product or service modularity requires the partitioning of a task into independent modules that function as a whole within overall architecture.
2. *Intelligence*: Continuous information exchange with consumers allows companies to create products and processes using the best possible modules. Website operators can match buyer and seller profiles and make recommendations based on their shared interests. The result is intelligent sites that learn their visitors' (potential buyers') tastes and deliver dynamic, personalised information about products and services.
3. *Organisation*: Dynamic customisation of products and services requires a customer-oriented and flexible approach that is fundamentally committed to operating in this new way.

How can the Internet be integrated in the future product innovation?

Figure 11.13 shows some of the implications of the Internet on future product innovation. The Internet is seen as the medium through which each 'box' communicates with the R&D function in the company:

- *Design*: data is gathered directly from the product and is part of designing and developing the product. New product features (such as new versions of software programs) may be built into the product directly from the Internet.

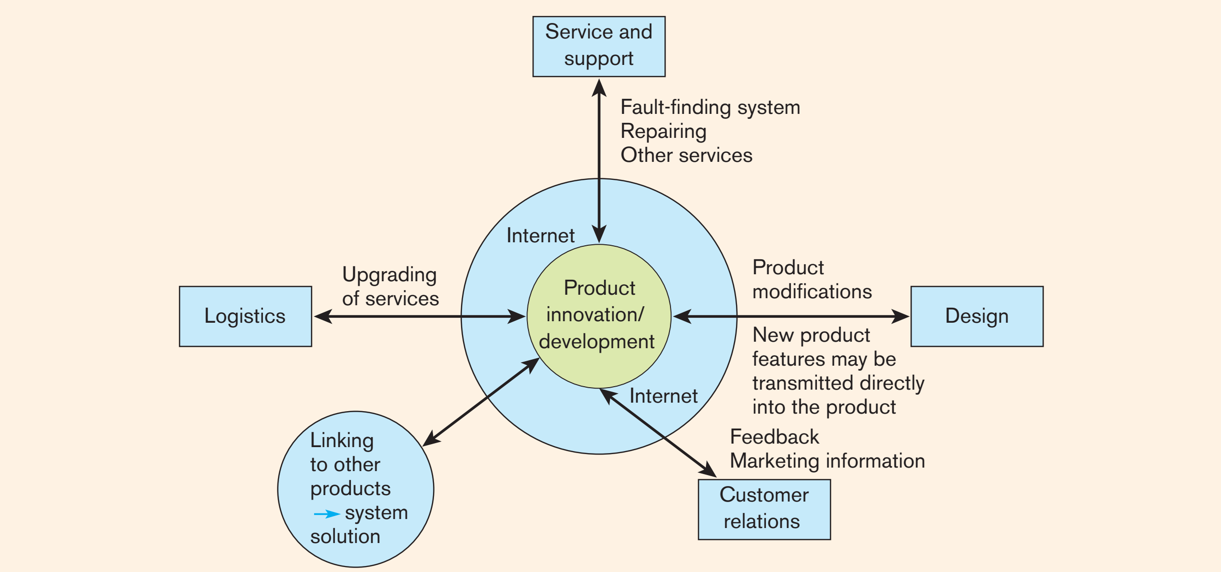

Figure 11.13 Product innovation through the Internet
Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 428. Reproduced with permission.

- *Service and support*: the service department can perform troubleshooting and correction directly through the Internet set-up. For example, a Mercedes car driving on the highway may be directly connected to the Mercedes service department. It will monitor the main functions of the car and if necessary make online repairs of, for example, the software of the car.
- *Customer relations*: data gathered from the product may form part of statistics, comparisons between customers, etc. In this way the customer can compare the performance of their product (e.g. a car) with other customers' product (a kind of benchmarking). This may also strengthen an existing customer relationship.
- *Logistics*: concurrently with increasing demands for just-in-time deliveries, the Internet will automatically find the distribution and transport that will take the goods from the sub-supplier to the producer and then to the customers in the cheapest and most efficient way (and on time).

A fundamental shift in thinking is to replace the term 'supply chain' with 'demand chain'. The critical difference is that demand-chain thinking starts with the customers and works backwards. This breaks away from parochial approaches that focus solely on reducing transport costs. It supports a 'mass customisation' viewpoint, in which bundles of goods and services are offered in ways that support customers' individual objectives.

This does not necessarily imply product differentiation. In fact the service aspects often require differentiation. For example, a company such as Unilever will provide the same margarine to both Tesco and Sainsbury's. However, the ways in which the product is delivered, transactions are processed and other parts of the relationship are managed can and should be different, since these two competing supermarket chains each have their own ways of evaluating performance. The information systems required to coordinate companies along the demand chain require a new and different approach to that required within individual companies. Some managers believe that if they and their suppliers choose the same standard software package, such as SAP, they will be able to integrate their information systems.

Link to other products

Sometimes a product is used as a subcomponent in other products. Through links in the Internet such subcomponents may be essential inputs for more complex product solutions. The car industry is an example of an industry that already makes a targeted effort in this direction. New 'stylish' cars are linked together by the Internet. In the wake of this development a new industry is created, the purpose of which is to provide integrated transport. In this new industry developing and producing cars is only one of several important services. Instead systems are to be developed that can diagnose faults (and correct the error) while the car is running, systems for regulation of traffic, and interactive systems that enable drivers to have the desired transport at their disposal when and where they want it without tiresome rental agreements, etc.

The music industry is also undergoing a change. Today you can buy portable 'players' that can download music from the Internet using the MP3 format, and subsequently play the music that is stored in the 'player'. The CD is skipped – and so is the whole distribution facility. The music industry will become completely altered through the different economic conditions. The struggle will be about creating the best portal to the Internet, where the consumer can find the best information on music and the largest selection of music. The problems regarding rights are, however, still being discussed, and the lawyers and politicians have to find a final solution before the market can increase significantly.

Thus innovative product development of the future demands that a company possesses the following characteristics:

- *Innovative product development and strategic thinking*: product development will contain much technology and demand an interdisciplinary, strategic overview and knowledge in order to find out what new services are worth aiming at.

- *Management of alliances*: few companies have all the necessary qualifications themselves – innovative product development and the resulting services demand that companies enter into alliances very dynamically and yet in a structured way.
- *New customer relations*: the above-mentioned car industry example clearly shows that the customers are not car buyers any longer but *buyers of transport services*, and that is quite another matter. This means that companies have to focus on understanding the customers' needs in a quite different way.

Developing brands on the Internet

Clearly consumer product companies such as Procter & Gamble, Colgate and Kraft Foods and consumer durables and business-to-business companies such as General Motors, General Electric, Allied Signal and Caterpillar have crafted their business strategies by leveraging physical assets and developing powerful global brands supported by mass advertising and mass distribution. But remote links with customers apply equally well to these companies. Remote and continuous links with customers become critical as the concepts of brand identity and brand equity are redefined by the Internet.

Kraft Interactive Kitchen (www.kraftfoods.com) is an example of a consumer products company keeping in touch with its consumers by providing information-based services such as meal planners, recipes, tips and cooking techniques. Kraft's intention is to have remote connections and interactions with consumers in new ways.

However, some companies find it difficult to translate a strong offline brand (such as Nike and Levi's) to the Internet, because many of the well-known brands are based on an extensive 'physical' retail distribution system, and many of the retailers are reluctant to support online brands because of the fear of disintermediation (see section 11.6 for more discussion of this issue).

In fact many sites that are run by top brands register minimal online traffic, according to a report by Forrester Research. Forrester studied brand awareness and Web surfing behaviour among 16- to 22-year-olds, whom advertisers consider to be strongly brand conscious.

Companies are taking a broad approach to branding, integrating it with an overall advertising and marketing strategy. On the Net branding is more than logos and colour schemes; it is about creating experiences and understanding customers. Consequently Web brand building is not cheap. Building a brand requires a persistent online presence. For some brands, that entails a mass-appeal site; for others, brand building requires a combination of initiatives, from banner ads to sponsorships.

11.12 'LONG TAIL' STRATEGIES

Anderson's (2006) '**long tail**' is basically a theory of selling that suggests that in the Internet era, selling fewer copies to more people is a new strategy that can be successfully pursued. In the past, all the interesting business was around a few hits, and many businesses focused entirely on producing the next hit. The group of people that buy the hard-to-find or 'non-hit' items is the customer demographic called the 'long tail'. Given a large enough availability of choice, a large population of customers, efficient search engines and negligible stocking and distribution costs, it becomes possible to profitably target the long tail in Chris Anderson's view.

Chris Anderson (2008) puts forth two distinct but related ideas:

1 Merchandise assortments are growing because when goods do not have to be displayed on store shelves, physical and cost constraints on selection disappear. Search and recommendation tools can keep a selection's vastness from overwhelming customers. In Figure 11.14, all possible offerings in an imagined product sector are ranked by their sales volume, with the

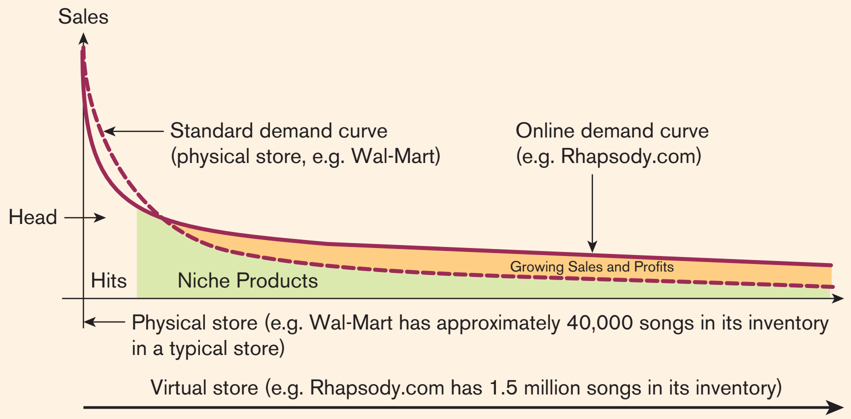

Figure 11.14 Long tail theory: online channels will fatten the Long Tail

Source: Anderson, C. (2006) *The Long Tail: Why the Future of Business Is Selling Less of More*, New York: Hyperion. Reproduced with permission.

Long tail
Refers to a graph showing fewer products selling in large quantities versus many more products that sell in low quantities. The low-quantity items (the very broad product range) stretch out on the x-axis of the graph, creating a very long tail that generates more revenue overall. Even though a smaller quantity of each item is sold, there is a much greater variety of these items to sell and these 'rare' items are very easy to find via online search tools.

'green' part representing products that are unprofitable through brick-and-mortar channels. The long tail, in other words, reveals a previously untapped demand.

2 Online channels actually change the shape of the demand curve, because consumers value niche products geared to their particular interests more than they value products designed for mass appeal. As Internet retailing enables them to find more of the former, their purchasing will change accordingly. In other words, the tail will steadily grow not only longer, as more obscure products are made available, but also fatter (including the red part in Figure 11.14), as consumers discover products better suited to their tastes.

In Figure 11.14 the power of the long tail is illustrated by an example: the online download music company Rhapsody.com, which has an inventory of some 1.5 million tracks, receives 40 per cent of its revenue from songs that are simply not available in retail stores. In contrast, a typical Wal-Mart store has a maximum of 40,000 songs on their CDs on the shelves, and their top 200 CD albums account for 90 per cent of Wal-Mart's sales because they do not have the space to stock tracks that might sell only once a month. For online stores that use technology to cut their cost of inventory, the amount of total business for objects in the tail increases.

However, Elberse (2008) tries to prove that Anderson's 'long tail' concept is very problematic. It seems that Elberse (2008) is saying that consumers are not finding 'hidden gems' out in the long tail, and in fact that they are not even venturing into the tail that much. She gives evidence that the activity in the head is even more unusual. What happened? Elberse's (2008) research implies that anything good out on the long tail will quickly be elevated to the head if it has any broad appeal at all because of the way the Internet works. It will only be those products of an extremely limited appeal that do not make that jump. Suddenly, a perfectly legitimate long tail buying process has resulted in the 'discovery' of a blockbuster and in the process has ignored the fact that it started out in the long tail.

11.13 SUMMARY

All goods and services consist of a core element that is surrounded by a variety of optional elements. If we look first at the core service products, we can assign them to one of three broad categories depending on their tangibility and the extent to which customers need to be physically present during service production.

The perceived service quality has two factors: a technical or outcome factor and a functional or process-related factor. The technical quality of a service process is normally a prerequisite for good quality. It has to be at an acceptable level.

After-sales service adds to the product's value and is often treated as an integral part of the product.

The traditional new product development models involve the following stages in product development: idea generation, screening, concept development and testing, business analysis, product development and testing, test marketing, and commercialisation or launch.

Products pass through a series of stages. Each stage is identified by its sales performance and characterised by different levels of profitability, various degrees of competition and distinctive marketing programmes. The four stages of the product life cycle are introduction, growth, maturity and decline.

A new product can have several degrees of newness. A product may be an entirely new invention (new to the world) or it may be a slight modification of an existing product.

Brand equity can be defined as 'a set of brand assets and liabilities linked to the brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm or to the firm's customers'.

Branding is a very important issue and alternatives have been discussed. For example, because large (often transnational) retail chains have won control over distribution, they try to develop their own labels. For the retailer, private labels provide better profit margins and strengthen the retailer's image with its customers. Because of the power shift to retailers, the percentage of retail grocery sales derived from private brands has increased in recent years.

The basic purposes of branding are the same everywhere in the world. In general, the functions of branding are:

- to distinguish a company's offering and differentiate one particular product from its competitors;
- to create identification and brand awareness;
- to guarantee a certain level of quality and satisfaction;
- to help with promotion of the product.

The products sold over electronic markets and the Internet can be grouped into two categories: physical products and purely digital goods and services.

The 'long tail' is basically a theory of selling that suggests that in the Internet era, selling fewer copies to more people is a new strategy that can be successfully pursued.

CASE STUDY 11.1

Fisherman's Friend

Introducing chewing gum in some new markets

Lofthouse of Fleetwood Ltd, a family-owned company, first created Fisherman's Friend Original Extra Strong Lozenges in 1865 in Fleetwood, Lancashire. James Lofthouse, a Fleetwood pharmacist, devised a fluid made with liquorice, capsicum, eucalyptus and menthol to protect fishermen against the rigours of the North Atlantic fishing grounds.

Today the lozenges are available in 120 countries worldwide, and have grown to become a major international brand (www.fishermansfriend.com). The core proposition of Fisherman's Friend as a unique, strong-tasting medicinal sweet that comes wrapped in a paper bag remains constant globally (Fisherman's Friend Original Extra Strong Lozenges are still manufactured to exactly the same formulation as in 1865) but other elements of the marketing mix vary country by country. The lozenges are now available in many different versions including Original Extra Strong, Aniseed, Original Tooth-friendly, Mint Sugar Free, and Lemon Sugar Free.

Source: Courtesy of Lofthouse of Fleetwood Ltd

History

The Friend was unknown outside Fleetwood until 1963. In 1969 the Lofthouse family gave up the unequal struggle of hand packing their growing orders and turned an old tram shed into a packing and distribution warehouse. The company then employed 8; now it provides work for 250 as the town's second-largest private employer. It has a 300,000 sq ft plant with computer-controlled lines producing lozenges 21 hours a day.

By 1974 the Friend was being exported to Norway and was beginning to move into the European Community. A second flavour, aniseed, was introduced in 1976, a mere 111 years after the first. Fisherman's Friend is now one of Britain's greatest export successes, with annual sales of over 4.5 billion lozenges in a total of 107 countries.

Introduction of Fisherman's Friend chewing gum

All in all it has been a very profitable business during recent years, as indicated in Table 11.3. However, during the last three years the revenues have been stagnating, which also leads the Managing Director of Lofthouse of Fleetwood, J. A. Lofthouse, to conclude that it is necessary to supplement the famous lozenges with another confectionery product where the brand, Fisherman's Friend, can also be used. After some time, the management of the company chose chewing gum as the next product.

In 2006, Lofthouse introduced chewing gum into its product range. The chewing gum stays true to the brand's trademark of being the 'strongest there is' (in terms of a fresh taste). Available in the strong mint and eucalyptus menthol varieties, the gum, manufactured in Denmark, has a long-lasting cooling sensation, is sugar-free and does not cause tooth decay.

But what should the marketing plan for the new product look like? Managing Director J. A. Lofthouse thinks that it is important in the beginning to start penetrating the home market (UK) with the new product.

Table 11.3 Lofthouse of Fleetwood – key financial figures 2005–2007

	2007	2006	2005
Total revenue (£m)	31.9	30.8	33.9
Pre-tax profit (£m)	7.2	2.8	3.9
Number of employees	305	310	312

Source: Adapted from LexisNexis.

Then afterwards the company may consider further international markets. In order to get some good input for the marketing mix decisions, J. A. Lofthouse has got hold of a short report about the global chewing gum industry, and a further report about the UK chewing gum market.

The global chewing gum industry

Chewing gum has benefited enormously from the rise in health consciousness that has affected sales of other confectionery products. The heightened interest in the dental benefits of sugar-free chewing gum and the introduction of a wide variety of functional chewing gums have reinvigorated a category that was stagnating just 10 years ago. Chewing gum is currently the most dynamic category.

One of the major factors driving high growth in the chewing gum industry is higher consumption of sugar-free gums that is growing 4 per cent above the overall growth of chewing gum markets globally. Another chewing gum category, the well-being category (based on functional items offering health and wellness benefits), is posting 15 per cent annual growth and is presently undergoing a round of innovation.

Two multinational companies, Wrigley and Cadbury, together account for some 60 per cent market share of the worldwide chewing gum market. The estimated global market shares for the top 5 chewing gum companies are shown in Table 11.4.

The worldwide chewing gum industry in 2007 is estimated to be worth $19 billion in sales or 1.3 million metric tonnes of gum, and has grown by more than 7 per cent in the last 3 year.

Chewing gum accounts for 85 per cent of global sales, and bubble gum the other 15 per cent.

What follows is a characterisation of the two main players in the global chewing gum industry, Mars-Wrigley and Cadbury-Schweppes.

Mars-Wrigley

Until recently Wrigley was the world's No. 1 maker of chewing and bubble gum. The company's products include such popular brands as Big Red, Doublemint, Eclipse, Extra, Freedent, Juicy Fruit, Orbit, Spearmint and Winterfresh, as well as novelty gums (Hubba Bubba Bubble Tape and other kid-friendly chews). It also offers non-gum products including Altoids, Creme Savers, Life Savers and Velamints. The Wrigley family controlled the company. In 2008 it agreed to be acquired by the candy company Mars.

Wrigley sells its products in more than 180 countries and has 22 manufacturing operations in 14 countries. The company derives nearly all its revenues from gum. Competition from mint makers and other candy companies (especially Cadbury) has hurt Wrigley's sales in North America; however, the company has grown in the non-North American sector, which now accounts for about 68 per cent of sales.

Table 11.4 The global chewing gum market, 2007

Manufacturer (country)	Most popular brands	Value market share (%)
Mars-Wrigley (USA)	Extra, Airwaves, Freedent, Orbit, Hubba Bubba, Spearmint, Doublemint, Juicy Fruit	35
Cadbury Schweppes (UK)	Trident, Dentyne, Clorets, Hollywood, Stimorol, V6, Chiclets, Sportlife, Tonigum, Bubblicious, Bubbaloo	26
Lotte (South Korea/Japan)	Cool Mint, Eve, Free Zone, Fresh Mist, Freshmint, Enervic, Bub Up, Bupuro	14
Perfetti Van Melle (Italy/NL)	Chlormint, Happydent, Vigorsol, Big Babol, Brooklyn Chewing Gum	6
Hershey's (USA)	Ice Breakers, Bubble Yum	2
Others (approximately 200 smaller gum manufacturers – some will also produce private (store) brands		17
Total		100
Total world market (2006)		$19 billion in sales or 1.3 million metric tonnes

Sources: Adapted from Euromonitor International (www.euromonitor.com) and different public media.

Until May 2008 Mars had virtually no exposure to the chewing gum market. Then, in May 2008, Mars completed an £11.5 billion takeover of the chewing gum group Wrigley, making it the largest worldwide confectioner. The merged Mars-Wrigley dominates global confectionery with a 14.4 per cent market share, ahead of Cadbury with 10.1 per cent and Nestlé with 7.7 per cent, according to Euromonitor.

Warren Buffet's Berkshire Hathaway is helping finance the acquisition and upon closing the deal, which is contingent on regulatory approval, Buffett will own a 10 per cent interest in Wrigley.

Mars, which is family-owned and based close to Washington DC, is the world's largest chocolate seller. Adding Wrigley's worldwide gum and mints business to its operations will vault the company ahead of Britain's Cadbury Schweppes Plc as the world's largest confections maker.

After the buy-out is completed, in 6 to 12 months, Wrigley will become a Mars subsidiary and a private company. Wrigley will continue to be based in Chicago, where it has operated since it was founded by the Wrigley family in 1891.

The combined organisation will have a product portfolio containing some of the world's most recognisable and well-loved confectionery brands – including Orbit, Extra, Doublemint, M&M's, Snickers and Mars – as well as leading food, beverage and petcare brands, totalling over $27 billion in global sales. Combining the marketing and distribution operations of both companies will result in increased synergies, as well as cost savings, particularly in times of rising commodity prices.

The merger could spark a wave of further consolidation in the confectionery market. Competitors, most notably Cadbury, Hershey's and Nestlé, may feel pressure given the scale, scope and power of the Mars-Wrigley combination, which brings together a big stable of brands with worldwide distribution.

Cadbury Schweppes

Cadbury Schweppes Plc is the world's leading confectioner, and also has a diverse international business comprising a number of packaged food and beverages sectors. Its confectionery interests cover chocolate and sugar confectionery, as well as gum, and include tablets, bagged selflines/softlines, boxed assortments, seasonal chocolate, boiled sweets, mints and chewing gum. Among the company's best-known confectionery brands are Cadbury, Trident, Trebor, Halls, Dentyne and Hollywood.

The company operates 67 manufacturing plants for its confectionery throughout the world, of which the key centre is still Bournville, near Birmingham, England.

In 2006, the company's sales increased to £6.6 billion, from £6.4 billion in the previous year. Profit from operations fell by 9 per cent to £909 million, and margins were down to 11 per cent, compared to its competitors Wrigley and Hershey's, whose margins were over 18 per cent.

Cadbury's gum business has been successful in recent years, fuelled by several significant acquisitions of regional gum players. Cadbury's global gum sales witnessed growth of 11 per cent between 2005 and 2006. In gum, sugar-free gum was the most dynamic type with sales growth of 19 per cent between 2005 and 2006. The company's share in gum was boosted by the highly successful launch of centre-filled gum under local brand names such as Trident Splash in Greece, Hollywood Sweet Gum in France, and Stimorol Fusion in Sweden, Switzerland and Benelux. Cadbury is positioned well to benefit from the overall market growth as the majority of its chewing gum brands are sugar free and brand penetration is high in Latin America and Western Europe, with share in gum 65 per cent and 21 per cent respectively in 2006.

The UK market for chewing gum

In the UK chewing gum is still dominated by Mars-Wrigley, but it has seen a significant decline in value share, of 8 percentage points compared to 2006, due to the entrance of Cadbury Trebor Bassett's Trident brand. However, its value sales stand strong, at £285 million in 2008. Trident has experienced a substantial increase in its share of the gum sector, jumping by 10 percentage points to 13 per cent, although it is still a long way behind Wrigley's 72 per cent share. Trident's sales increased to £50 million in 2008, a massive rise from the £9 million achieved in 2006.

Cadbury has set a new standard, and its model is what other players should look to for inspiration. Trident has adopted a different strategy to Wrigley, and has steered clear of 'breath freshening' as its main objective. Trident's flavours, which have now expanded to include Trident Splash Apple and Apricot, Raspberry and Peach, and Strawberry Smoothie.

Private label has a very small share in UK gum. This is due to the increase in popularity of discounters and supermarket retailers, which have also expanded their chewing gum ranges. The high street pharmacist and beauty retailer Boots has its own brand of chewing gum, competing mainly with Wrigley's brand Extra.

Trends in UK chewing gum

Whitening is no longer a desired functionality of gum with British chewers having lost faith in the results and, consequently, the UK currently does not have any major

Table 11.5 The UK market for chewing gum, 2008

Manufacturer (country)	Most popular brands	Value market share (%)
Mars-Wrigley (USA)	Extra, Airwaves, Orbit, Hubba Bubba, Juicy Fruit, Spearmint, Doublemint	72
Cadbury Schweppes (UK)	Trident, Clorets, Bubblicious, Bubbaloo, Trebor	13
Private labels	e.g. Boots	4
Others		11
Total		**100**
Total UK market (2007)		€700 million in sales or 31,000 tonnes

Sources: Adapted from Euromonitor International (www.euromonitor.com) and different public media.

teeth-whitening gums; for example, Orbit's focus is not on whitening but on oral care as a whole. For new trends, gum manufacturers could look abroad to Japan, where gum and flavour is used as an appetite suppressant and a way to help lose weight, as with a grapefruit-flavoured chewing gum. Other ideas to revive functional gum include gum products which contain vitamins and ingredients that are beneficial to the skin.

The German market for chewing gum

The key trend in gum over 2007–08 was the success of larger plastic tub formats, which hold around 45 pieces of chewing gum. Wrigley was the first company to adopt this packaging format, doing so in an effort to help its gum brands stand out from the plethora of other confectionery products on retail shelves. During the early part of the review period, the trend towards shopping less frequently and buying more in one go in Germany had a negative impact on chewing gum, where purchases tend to be made on impulse. The introduction of larger plastic tub packs helped manufacturers to get round this problem, as evidenced by healthy growth in chewing gum volume and current value sales over 2006–08.

Sugar-free products accounted for 80 per cent of total gum volume sales in 2008, with standard sugarised variants claiming the remaining 20 per cent. The share of sugar-free gum products rose steadily throughout the review period, thanks largely to rising awareness of the damage that sugarised products can do to teeth. This trend continued into 2008, with media reports and advertising campaigns leading more Germans to realise that sugar-free gum products can help to reduce the build up of plaque on teeth, particularly after meals.

Table 11.6 The German market for chewing gum, 2008

Manufacturer (country)	Most popular brands	Value market share (%)
Mars-Wrigley (USA)	Extra, Airwaves, Orbit, Hubba Bubba, Juicy Fruit, Spearmint, Doublemint	73
Hitschler International (Germany)	Hitschler	4
Haribo (Germany)	Vademecum	2
Private labels		9
Others		12
Total		**100**
Total German market (2008)		€645 million in sales or 23,000 tonnes

Sources: Adapted from Euromonitor International (www.euromonitor.com) and different public media.

Table 11.7 The French market for chewing gum, 2008

Manufacturer (country)	Most popular brands	Value market share (%)
Cadbury (UK)	Hollywood, Malabar, Stimorol, Tonigum	43
Mars-Wrigley (USA)	Freedent, Extra, Airwaves, X-cite, Hubba Bubba	42
Perfetti	Mentos	5
Private labels		2
Others		8
Total		**100**
Total French market (2008)		€815 million in sales or 23,000 tonnes

Sources: Adapted from Euromonitor International (www.euromonitor.com) and different public media.

Trends in German chewing gum

The success of functional gum, the most dynamic category in volume and current value growth terms in 2008, is mainly due to its comparatively healthy image. During recent years, the category has also benefited from the growing preoccupation with cosmetic surgery and image enhancement in Germany, which has fuelled demand for tooth-whitening gum products. For many Germans, such products provide a low-cost alternative to professional tooth-whitening services that they cannot afford.

The French market for chewing gum

A key influence on the gum sector has been the smoking ban in France, starting 1 January 2008. It represents a major development opportunity for gum. Manufacturers in the sector took advantage of this new legislation to create a communication buzz, which helped to increase sales. For example, Wrigley France SNC ran a campaign focusing on changing the former 'smoking area' in cafés and bars to a 'chewing area'. According to a study commissioned by Wrigley, 52 per cent of the French population consider gum as a good aid to stopping smoking.

Cadbury France SA remained the leader in the gum sector in 2007, with 43 per cent of value sales. Cadbury France SA increased its sales thanks to the success of its Hollywood range. However, Cadbury France is being strongly challenged by Wrigley France SNC. Advertising was once again key in the gum sector. The campaigns were quite similar, with a focus on the diverse new product development in the sector. New products tended to be backed by sample distribution in order to create awareness. Wrigley France SNC was particularly active, with free sample distribution for Freedent Tabs and an online advertising campaign for Freedent White.

Trends in French chewing gum

The fastest growing subsector in 2008 was functional gum, with 14 per cent growth in volume terms and 16 per cent in value terms. This strong growth was due in part to the fact that the functional gum subsector remains underdeveloped compared to the main sugar-free gum subsector in France. The cosmetic promise of whiter teeth has proved to be extremely successful among French consumers. Manufacturers developed their offer further with products such as Freedent Expert and Mentos Cube with xylitol.

The US market for chewing gum

Gum sales in 2008 were characterised once again by a distinct shift from sugarised to sugar-free and functional gums. These gums are promoted as being beneficial to teeth and gum health, as well as being better alternatives than higher calorie snacks. One of the largest recent hits since its launch in 2007 was Wrigley's 5, a gum that claims to add sensations to the mouth when chewed: tingling for spearmint, warming for cinnamon, and cooling for peppermint. Such novelties continue to make sugar-free gums much more interesting to consumers than older, unhealthier sugarised brands.

Cadbury Adams, as a subsidiary of a large multinational corporation (Cadbury Schweppes UK), remains the only company with the resources, investment and distribution might to seriously challenge the lead of Wrigley in US gum sales. Distant third ranked Hershey's remains more focused on the development of its chocolate and sugar confectionery brands.

Table 11.8 The US market for chewing gum, 2008

Manufacturer (country)	Most popular brands	Value market share (%)
Mars-Wrigley (USA)	Orbit, Extra, Eclipse, Wrigley's 5, Airwaves, Hubba Bubba, Juicy Fruit, Spearmint, Doublemint,	50
Cadbury Adams (US/UK)	Trident, Dentyne, Stride, Clorets, Bubblicious, Bubbaloo, Trebor	31
Hershey's	Ice Breakers, Bubble Yum	4
Others		15
Total		**100**
Total US market (2007)		€3,200 million in sales or 217,000 tonnes

Sources: Adapted from Euromonitor International (www.euromonitor.com) and different public media.

Private label does not play any role in the US gum market.

Trends in US chewing gum

Since sugar-free gums have now become the more common form of gum purchased, consumers do not have the same letdown in expectations when they buy these brands, making them more marketable as a food to be consumed instead of sweet snacks.

One possible threat to future gum sales is a wave of bad publicity surrounding sorbitol, an artificial sweetener used in several sugar-free gums, among other products. Sorbitol can act as a laxative when consumed in large quantities. This side-effect has been detailed in many other clinical studies over the years, and gum manufacturers typically have responded by pointing out the large amounts of gum that would need to be consumed to cause adverse effects, anywhere from 15 to 20 sticks to 60 pieces or more per day. Nevertheless, such negative media coverage could continue to make consumers worried, especially as it runs counter to the message of health and wellness behind most sugar-free gum marketing.

QUESTIONS

1 Is it a wise decision to launch a Fisherman's Friend chewing gum? Why / why not?
2 How should the Fisherman's Friend product strategy in chewing gum be differentiated from the two major global players' chewing gum?
3 Please prepare a ranking of the four most attractive markets for the Fisherman's Friend's chewing gum.
4 Would you suggest a standardised or differentiated product strategy across the target international markets?

QUESTIONS FOR DISCUSSION

1 How would you distinguish between services and products? What are the main implications of this difference for the marketing of services?
2 What implications does the product life cycle theory have for product development strategy?
3 Why is the international product policy likely to be given a higher priority in most firms than other elements of the global marketing mix?
4 What are the requirements that must be met so that a commodity can effectively be transformed into a branded product?

5 Discuss the factors that need to be taken into account when making packaging decisions for a firm's products.

6 When is it appropriate to use multiple brands in (a) a single market and (b) several markets/countries?

7 What is the importance of 'country of origin' in international product marketing?

8 What are the distinguishing characteristics of services? Explain why these characteristics make it difficult to sell services in foreign markets.

9 Identify the major barriers to developing brands.

10 Discuss the decision to add or drop products to or from the product line in existing markets.

11 Why should customer-service levels differ internationally? Is it, for example, ethical to offer a lower customer-service level in developing countries than in industrialised countries?

12 What are the characteristics of a good international brand name?

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