

Product Strategies

*Good is not good where
better is expected.*

THOMAS FULLER

Product strategies specify market needs that may be served by different product offerings. It is a company's product strategies, duly related to market strategies, that eventually come to dominate both overall strategy and the spirit of the company. Product strategies deal with such matters as number and diversity of products, product innovations, product scope, and product design. In this chapter, different dimensions of product strategies are examined for their essence, their significance, their limitations, if any, and their contributions to objectives and goals. Each strategy will be exemplified with illustrations from marketing literature.

DIMENSIONS OF PRODUCT STRATEGIES

The implementation of product strategies requires cooperation among different groups: finance, research and development, the corporate staff, and marketing. This level of integration makes product strategies difficult to develop and implement. In many companies, to achieve proper coordination among diverse business units, product strategy decisions are made by top management. At Gould, for example, the top management decides what kind of business Gould is and what type it wants to be. The company pursues products in the areas of electro-mechanics, electrochemistry, metallurgy, and electronics. The company works to dispose of products that do not fall strictly into its areas of interest.¹

In some companies, the overall scope of product strategy is laid out at the corporate level, whereas actual design is left to business units. These companies contend that this alternative is more desirable than other arrangements because it is difficult for top management to deal with the details of product strategy in a diverse company. In this chapter, the following product strategies are recognized:

- Product-positioning strategy
- Product-repositioning strategy
- Product-overlap strategy
- Product-scope strategy
- Product-design strategy
- Product-elimination strategy
- New-product strategy
- Diversification strategy
- Value-marketing strategy

Each strategy is examined from the point of view of an SBU. The appendix at the end of this chapter summarizes each strategy, giving its definition, objectives, requirements, and expected results.

PRODUCT-POSITIONING STRATEGY

The term *positioning* refers to placing a brand in that part of the market where it will receive a favorable reception compared to competing products. Because the market is heterogeneous, one brand cannot make an impact on the entire market. As a matter of strategy, therefore, a product should be matched with that segment of the market in which it is most likely to succeed. The product should be positioned so that it stands apart from competing brands. Positioning tells what the product stands for, what it is, and how customers should evaluate it.

Positioning is achieved by using marketing mix variables, especially design and communication. Although differentiation through positioning is more visible in consumer goods, it is equally true of industrial goods. With some products, positioning can be achieved on the basis of tangible differences (e.g., product features); with many others, intangibles are used to differentiate and position products. As Levitt has observed:

Fabricators of consumer and industrial goods seek competitive distinction via product features—some visually or measurably identifiable, some cosmetically implied, and some rhetorically claimed by reference to real or suggested hidden attributes that promise results or values different from those of competitors' products.

So too with consumer and industrial services—what I call, to be accurate, “intangibles.” On the commodities exchanges, for example, dealers in metals, grains, and pork bellies trade in totally undifferentiated generic products. But what they “sell” is the claimed distinction of their execution—the efficiency of their transactions in their client's behalf, their responsiveness to inquiries, the clarity and speed of their confirmations, and the like. In short, the offered product is differentiated, though the generic product is identical.²

The desired position for a product may be determined using the following procedure:

1. Analyze product attributes that are salient to customers.
2. Examine the distribution of these attributes among different market segments.
3. Determine the optimal position for the product in regard to each attribute, taking into consideration the positions occupied by existing brands.
4. Choose an overall position for the product (based on the overall match between product attributes and their distribution in the population and the positions of existing brands).

For example, cosmetics for the career woman may be positioned as “natural,” cosmetics that supposedly make the user appear as if she were wearing no makeup at all. An alternate position could be “fast” cosmetics, cosmetics to give the user a mysterious aura in the evenings. A third position might be “light” cosmetics, cosmetics to be worn for tennis and other leisure activities.

Consider the positioning of beer. Two positioning decisions for beer are light versus heavy and bitter versus mild. The desired position for a new brand of beer can be determined by discovering its rating on these attributes and by considering the size of the beer market. The beer market is divided into segments according to these attributes and the positions of other brands. It may be found that the

heavy and mild beer market is large and that Stroh and Budweiser compete in it. In the light and mild beer market, another big segment, Miller and Anheuser-Busch are the dominant competitors. Management may decide to position a new brand in competition with Miller Lite and Bud Light.

Disney stores demonstrate how adequate positioning can lead to instant success.³ Disney stores earn more than three times what other specialty stores earn per every square foot of floor space. Disney has created retail environments with entertainment as their chief motif. As a customer enters the store, he/she sees the Magic Kingdom, a land of bright lights and merry sounds packed full of Mickey Mouse merchandise. From a phone at the front of each store, a customer can get the Disney channel or book a room in a Disney World hotel. Disney designers got down on their hands and knees when they laid out the stores to be sure that their sight lines would work for a three-year-old. The back wall, normally a prime display area, is given over to a large video screen that continuously plays clips from Disney's animated movies and cartoons. Below the screen, at kid level, sit tiers of stuffed animals that toddlers are encouraged to play with. Adult apparel hangs at the front of the stores to announce that they are for shoppers of all ages. Floor fixtures that hold the merchandise angle inward to steer shoppers deeper into this flashy money trap. Managers spend six weeks in intensive preparatory classes and training before being assigned to a store. Garnished with theatrical lighting and elaborate ceiling displays, the stores have relatively high start-up and fixed costs, but once up and running, they earn high margins.

Six different approaches to positioning may be distinguished:

1. Positioning by attribute (i.e., associating a product with an attribute, feature, or customer benefit).
2. Positioning by price/quality (i.e., the price/quality attribute is so pervasive that it can be considered a separate approach to promotion).
3. Positioning with respect to use or application (i.e., associating the product with a use or application).
4. Positioning by the product user (i.e., associating a product with a user or a class of users).
5. Positioning with respect to a product class (e.g., positioning Caress soap as a bath oil product rather than as soap).
6. Positioning with respect to a competitor (i.e., making a reference to competition, as in Avis's now-famous campaign: "We're number two, so we try harder.").

Two types of positioning strategy are discussed here: single-brand strategy and multiple-brand strategy. A company may have just one brand that it may place in one or more chosen market segments, or, alternatively, it may have several brands positioned in different segments.

Positioning a Single Brand

To maximize its benefits with a single brand, a company must try to associate itself with a core segment in a market where it can play a dominant role. In addition, it may attract customers from other segments outside its core as a fringe benefit. BMW does very well, for example, positioning its cars mainly in a limited segment to high-income young professionals.

An alternative single-brand strategy is to consider the market undifferentiated and to cover it with a single brand. Several years ago, for example, the Coca-Cola Company followed a strategy that proclaimed that Coke quenched the thirst of the total market. Such a policy, however, can work only in the short run. To seek entry into a market, competitors segment and challenge the dominance of the single brand by positioning themselves in small, viable niches. Even the Coca-Cola Company now has a number of brands to serve different segments: Classic Coke, Diet Coke, Fanta, Sprite, Tab, Fresca, and even orange juice.

Consider the case of beer. Traditionally, brewers operated as if there were one homogeneous market for beer that could be served by one product in one package. Miller, in order to seek growth, took the initiative to segment the market and positioned its High Life brand to younger customers. Thereafter, it introduced a seven-ounce pony bottle that turned out to be a favorite among women and older people who thought that the standard 12-ounce size was simply too much beer to drink. But Miller's big success came in 1975 with the introduction of another brand, low-calorie Lite. Lite now stands to become the most successful new beer introduced in the United States in this century.

To protect the position of a single brand, sometimes a company may be forced to introduce other brands. Kotler reports that Heublein's Smirnoff brand had a 23 percent share of the vodka market when its position was challenged by Wolfschmidt, priced at \$1 less a bottle. Instead of cutting the price of its Smirnoff brand to meet the competition, Heublein raised the price by one dollar and used the increased revenues for advertising. At the same time, it introduced a new brand, Relska, positioning it against Wolfschmidt, and also marketed Popov, a low-price vodka. This strategy effectively met Wolfschmidt's challenge and gave Smirnoff an even higher status. Heublein resorted to multiple brands to protect a single brand that had been challenged by a competitor.⁴

Anheuser-Busch has been dependent on Bud and Bud Light for more than two-thirds of its brewery volume and for over half of its sales revenues. It was this dependence on a single brand that led the company to introduce Michelob. This brand, however, is not doing as well as expected, and at the same time, rivals are showing signs of fresh energy and determination, making it urgent for the company to diversify.⁵

Whether a single brand should be positioned in direct competition with a dominant brand already on the market or be placed in a secondary position is another strategic issue. The head-on route is usually risky, but some variation of this type of strategy is quite common. Avis seemingly accepted a number two position in the market next to Hertz. Gillette, on the other hand, positioned Silkience shampoo directly against Johnson's Baby Shampoo and Procter & Gamble's Prell. Generally, a single-brand strategy is a desirable choice in the short run, particularly when the task of managing multiple brands is beyond the managerial and financial capability of a company. Supposedly, this strategy is more conducive to achieving higher profitability because a single brand permits better control of operations than do multiple brands.

There are two requisites to managing a single brand successfully: a single brand must be so positioned that it can stand competition from the toughest rival, and its unique position should be maintained by creating an aura of a distinctive product. Consider the case of Cover Girl. The cosmetics field is a crowded and highly competitive industry. The segment Cover Girl picked out—sales in supermarkets and discount stores—is one that large companies, such as Revlon, Avon, and Estee Lauder, have not tapped. Cover Girl products are sold at a freestanding display without sales help or demonstration. As far as the second requisite is concerned, creating an aura of a distinctive product, an example is Perrier. It continues to protect its position through the mystique attached to its name. In other words, a single brand must have some advantage to protect it from competitive inroads.

Positioning Multiple Brands

Business units introduce multiple brands to a market for two major reasons: (a) to seek growth by offering varied products in different segments of the market and (b) to avoid competitive threats to a single brand. General Motors has a car to sell in all conceivable segments of the market. Coca-Cola has a soft drink for each different taste. IBM sells computers for different customer needs. Procter & Gamble offers a laundry detergent for each laundering need. Offering multiple brands to different segments of the same market is an accepted route to growth.

To realize desired growth, multiple brands should be diligently positioned in the market so that they do not compete with each other and create cannibalism. For example, 20 to 25 percent of sales of Anheuser-Busch's Michelob Light are to customers who previously bought regular Michelob but switched because of the Light brand's low-calorie appeal.⁶ The introduction of Maxim by General Foods took sales away from its established Maxwell House brand. About 20 percent of sales of Miller's Genuine Draft beer come from Miller High Life.⁷ Thus, it is necessary to be careful in segmenting the market and to position the product, through design and promotion, as uniquely suited to a particular segment.

Of course, some cannibalism is unavoidable. But the question is how much cannibalism is acceptable when introducing another brand. It has been said that 70 percent of Mustang sales in its introductory year were to buyers who would have purchased another Ford had the Mustang not been introduced; the remaining 30 percent of its sales came from new customers. Cadbury's experience with the introduction of a chocolate bar in England indicates that more than 50 percent of its volume came from market expansion, with the remaining volume coming from the company's existing products. Both the Mustang and the chocolate bar were rated as successful introductions by their companies. The apparent difference in cannibalism rates shows that cost structure, degree of market maturity, and the competitive appeal of alternative offerings affect cannibalism sales and their importance to the sales and profitability of a product line and to individual items.⁸

An additional factor to consider in determining actual cannibalism is the vulnerability of an existing brand to a competitor's entry into a presumably open spot in the market. For example, suppose that a company's new brand derives 50

percent of its sales from customers who would have bought its existing brand. However, if 20 percent of the sales of this existing brand were susceptible to a competitor's entry (assuming a fairly high probability that the competitor would have indeed positioned its new brand in that open spot), the actual level of cannibalism should be set at 30 percent. This is because 20 percent of the revenue from sales of the existing brand would have been lost to a competitive brand had there been no new brand.

Multiple brands can be positioned in the market either head-on with the leading brand or with an idea. The relative strengths of the new entry and the established brand dictate which of the two positioning routes is more desirable. Although head-on positioning usually appears risky, some companies have successfully carried it out. IBM's personal computer was positioned in head-on competition with Apple's. Datril, a Bristol-Myers painkiller, was introduced to compete directly with Tylenol.

Positioning with an idea, however, can prove to be a better alternative, especially when the leading brand is well established. Positioning with an idea was attempted by Kraft when it positioned three brands (Breyers and Sealtest ice cream and Light 'n' Lively ice milk) as complements rather than as competitors. Vick Chemical positioned Nyquil, a cold remedy, with the idea that Nyquil assured a good night's sleep. Seagram successfully introduced its line of cocktail mixes, Party Tyme, against heavy odds in favor of Holland House, a National Distillers brand, by promoting it with the Snowbird winter drink.

Positioning of multiple brands and their management in a dynamic environment call for ample managerial and financial resources. When these resources are lacking, a company is better off with a single brand. In addition, if a company already has a dominant position, its attempt to increase its share of the market by introducing an additional brand may invite antitrust action. Such an eventuality should be guarded against. On the other hand, there is also a defensive, or share-maintenance, issue to be considered here even if one has the dominant entry. A product with high market share may not remain in this position forever if competitors are permitted to chip away at its lead with unchallenged positions.

As a strategy, the positioning of multiple brands, if properly implemented, can lead to increases in growth, market share, and profitability.

PRODUCT-REPOSITIONING STRATEGY

Often, a product may require repositioning. This can happen if (a) a competitive entry is positioned next to the brand, creating an adverse effect on its share of the market; (b) consumer preferences change; (c) new customer preference clusters with promising opportunities are discovered; or (d) a mistake is made in the original positioning.

Citations from the marketing literature serve to illustrate how repositioning becomes desirable under different circumstances. When A & W went national in 1989 with its cream soda, it failed to clearly articulate the position. As a result, research showed that consumers perceived cream soda as an extension of the root

beer family. To correct this, the company repositioned the brand as a separate soda category by emphasizing the vanilla flavor through advertising and packaging. Following the repositioning, cream soda's sales increased rapidly.⁹

Over the years, Coca-Cola's position has shifted to keep up with the changing mood of the market. In recent years, the theme of Coca-Cola's advertising has evolved from "Things go better with Coke" to "It's the real thing" to "Coke is it" to "Can't beat the feeling" to "Catch the Wave" to "Always new, always real, always you, always Coke." The current perspective of Coca-Cola's positioning is to reach a generation of young people and those young at heart.

The risks involved in positioning or repositioning a product or service are high. The technique of perceptual mapping may be used gainfully to substantially reduce those risks. Perceptual mapping helps in examining the position of a product relative to competing products. It helps marketing strategists

- Understand how competing products or services are perceived by various consumer groups in terms of strengths and weaknesses.
- Understand the similarities and dissimilarities between competing products and services.
- Understand how to reposition a current product in the perceptual space of consumer segments.
- Position a new product or service in an established marketplace.
- Track the progress of a promotional or marketing campaign on the perceptions of targeted consumer segments.

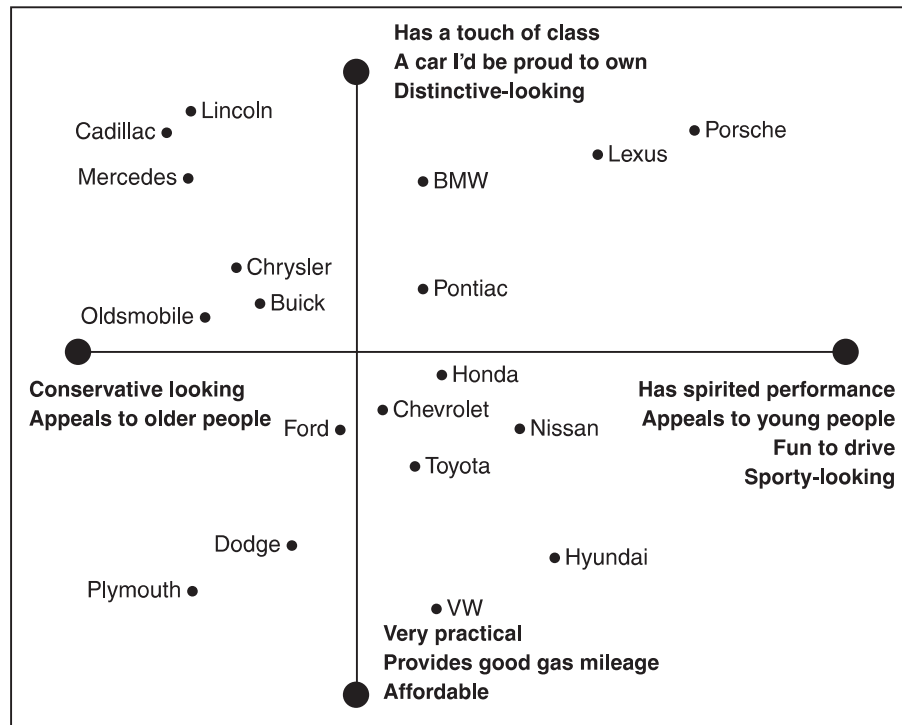
The use of perceptual mapping may be illustrated with reference to the automobile industry. Exhibit 14-1 shows how different cars are positioned on a perceptual map. The map helps the marketing strategist in calculating whether a company's cars are on target. The concentration of dots, which represent competing models, shows how much opposition there is likely to be in a specific territory on the map. Presumably, cars higher up on the graph fetch a higher price than models ranked toward the bottom where the stress is on economy and practicality. After looking at the map, General Motors might find that its Chevrolet division, traditionally geared to entry-level buyers, ought to move down in practicality and more to the right in youthfulness. Another problem for General Motors, which the map so clearly demonstrates, is the close proximity of its Buick and Oldsmobile divisions. This close proximity suggests that the two divisions are waging a marketing war more against each other than against the competition.

Basically, there are three ways to reposition a product: among existing users, among new users, and for new uses. The discussion that follows will elaborate on these repositioning alternatives.

Repositioning among Existing Customers

Repositioning a product among existing customers can be accomplished by promoting alternative uses for it. To revitalize its stocking business, Du Pont adopted a repositioning strategy by promoting the "fashion smartness" of tinted hose. Efforts were directed toward expanding women's collections of hosiery by creating a new fashion image for hosiery: hosiery was not simply a neutral accessory;

EXHIBIT 14-1
Perceptual Map of Brand Images



rather, a suitable tint and pattern could complement each garment in a woman's wardrobe.

General Foods Corporation repositioned Jell-O to boost its sales by promoting it as a base for salads. To encourage this usage, the company introduced a variety of vegetable-flavored Jell-Os. A similar strategy was adopted by 3M Company, which introduced a line of colored, patterned, waterproof, invisible, and write-on Scotch tapes for different types of gift wrapping.

The purpose of repositioning among current users is to revitalize a product's life by giving it a new character as something needed not merely as a staple product but as a product able to keep up with new trends and new ideas. Repositioning among users should help the brand in its sales growth as well as increasing its profitability.

*Repositioning
among New Users*

Repositioning among new users requires that the product be presented with a different twist to people who have not hitherto been favorably inclined toward it. In so doing, care must be taken to see that, in the process of enticing new customers, current customers are not alienated. Miller's attempts to win over new customers

for Miller High Life beer are noteworthy. Approximately 15 percent of the population consumes 85 percent of all the beer sold in the United States. Miller's slogan "the champagne of bottled beer" had more appeal for light users than for heavy users. Also, the image projected too much elegance for a product like beer. Miller decided to reposition the product slightly to appeal to a wider range of beer drinkers without weakening its current franchise: "Put another way, the need was to take Miller High Life out of the champagne bucket, but not to put it in the bathtub." After conducting a variety of studies, Miller came up with a new promotional campaign built around this slogan: "If you've got the time, we've got the beer." The campaign proved to be highly successful. Through its new slogan, the brand communicated three things: that it was a quality product worth taking time out for; that it was friendly, low-key, and informal; and that it offered relaxation and reward after the pressures of the workday.

At Du Pont, new users of stockings were created by legitimizing the wearing of hosiery among early teenagers and subteenagers. This was achieved by working out a new ad campaign with an emphasis on the merchandising of youthful products and styles to tempt young consumers. Similarly, Jell-O attempted to develop new users among consumers who did not perceive Jell-O as a dessert or salad product. Jell-O was advertised with a new concept—a fashion-oriented, weight-control appeal.

The addition of new users to a product's customer base helps enlarge the overall market and thus puts the product on a growth route. Repositioning among new users also helps increase profitability because very few new investments, except for promotional costs, need to be made.

Repositioning for New Users

Repositioning for new uses requires searching for latent uses of the product. The case of Arm and Hammer's baking soda is a classic example of an unexplored use of a product. Today this product is popular as a deodorizer, yet deodorizing was not the use originally conceived for the product. Although new uses for a product can be discovered in a variety of ways, the best way to discover them is to gain insights into the customer's way of using a product. If it is found that a large number of customers are using the product for a purpose other than the one originally intended, this other use could be developed with whatever modifications are necessary.

Repositioning for new uses may be illustrated with reference to Disney World's efforts to expand its business. In 1991, it opened a Disney Fairy Tale Weddings Department, which puts on more than 200 full-service weddings a year, each costing about \$10,000.¹⁰

At Du Pont, new uses for nylon sprang up in varied types of hosiery (stretch stockings and stretch socks), tires, bearings, etc. Its new uses have kept nylon on the growth path: wrap knits in 1945, tire cord in 1948, textured yarns in 1955, carpet yarns in 1959, and so on. Without these new uses, nylon would have hit the saturation level as far back as 1962.

General Foods found that women used powdered gelatin dissolved in liquid to strengthen their fingernails. Working on this clue, General Foods introduced a flavorless Jell-O as a nail-building agent.

The new-use strategy is directed toward revamping the sales of a product whose growth, based on its original conceived use, has slowed down. This strategy has the potential to increase sales growth, market share, and profitability.

PRODUCT-OVERLAP STRATEGY

The product-overlap strategy refers to a situation where a company decides to compete against its own brand. Many factors lead companies to adopt such a strategic posture. For example, A&P stores alone cannot keep the company's 42 manufacturing operations working at full capacity. Therefore, A&P decided to distribute many of its products through independent food retailers. A&P's Eight O'Clock coffee, for example, is sold through 7-Eleven stores. Procter & Gamble has different brands of detergents virtually competing in the same market. Each brand has its own organization for marketing research, product development, merchandising, and promotion. Although sharing the same sales force, each brand behaves aggressively to outdo others in the marketplace. Sears' large appliance brands are actually manufactured by the Whirlpool Corporation. Thus, Whirlpool's branded appliances compete against those that it sells to Sears.

There are alternative ways in which the product-overlap strategy may be operationalized. Principal among them are having competing lines, doing private labeling, and dealing with original-equipment manufacturers.

Competing Brands

In order to gain a larger share of the total market, many companies introduce competing products to the market. When a market is not neatly delineated, a single brand of a product may not be able to make an adequate impact. If a second brand is placed to compete with the first one, overall sales of the two brands should increase substantially, although there will be some cannibalism. In other words, two competing brands provide a more aggressive front against competitors.

Often the competing-brands strategy works out to be a short-term phenomenon. When a new version of a product is introduced, the previous version is allowed to continue until the new one has fully established itself. In this way, the competition is prevented from stealing sales during the time that the new product is coming into its own. In 1989, Gillette introduced the Sensor razor, a revolutionary new product that featured flexible blades that adjusted to follow the unique contours of the face. At the same time, its previous razor, Atra, continued to be promoted as before. It is claimed that together the two brands were very effective in the market. It is estimated that 36 percent of Sensor users converted from Atra. If Atra had not been promoted, this figure would have been much more, and Sensor would have been more vulnerable to the Schick Tracer and other rigid Atra look-alikes.¹¹ Interestingly, however, when Gillette introduced the Mach 3 razor in 1998, it decided to run down stocks of its Sensor and Atra shavers ahead of the new product's launch.¹²

To expand its overall coffee market, Procter & Gamble introduced a more economical form of ground coffee under the Folgers label. A more efficient milling process that refines coffee into flakes allows hot water to come into contact with

more of each coffee particle when brewing, resulting in savings of up to 15 percent per cup. The new product, packaged in 13-, 26-, and 32-ounce cans, yielded the same number of cups of coffee as standard 16-, 32-, and 48-ounce cans, respectively. Both the new and the old formulations were promoted aggressively, competing with each other and, at the same time, providing a strong front against brands belonging to other manufacturers.

Reebok International products under the Reebok brand name directly compete with its subsidiary's brand, Avia. As noted earlier, the competing-brands strategy is useful in the short run only. Ultimately, each brand, Avia and Reebok, should find its special niche in the market. If that does not happen, they will create confusion among customers and sales will be hurt. Alternatively, in the long run, one of the brands may be withdrawn, thereby yielding its position to the other brand. This strategy is a useful device for achieving growth and for increasing market share.

Private Labeling

Private labeling refers to manufacturing a product under another company's brand name. In the case of goods whose intermediaries have significant control of the distribution sector, private labeling, or branding, has become quite common. For large food chains, items produced with their label by an outside manufacturer contribute significantly to sales. Sears, J.C. Penney, and other such companies merchandise many different types of goods—textile goods, electronic goods, large appliances, sporting goods, etc.—each carrying the company's brand name.

The private-label strategy from the viewpoint of the manufacturer is viable for the following reasons:

- Private labeling represents a large (and usually growing) market segment.
- Economies of scale at each step in the business system (manufacturing capacity, distribution, merchandising, and so on) justify the search for additional volume.
- Supplying private labeling will improve relationships with a powerful organized trade.
- Control over technology and raw materials reduces the risk.
- There is a clear consumer segmentation between branded and unbranded goods that supports providing private labels.
- Private labeling helps eliminate small, local competitors.
- Private labeling offers an opportunity to compete on price against other branded products.
- Private labeling increases share of shelf space—a critical factor in motivating impulse purchases.

But here are also strong arguments against the private-label strategy:

- Market share growth through private-label supply always happens at the expense of profitability, as price sensitivity rises and margins fall.
- Disclosing cost information to the trade—usually essential for a private-label supplier—can threaten a firm's branded products.
- In order to displace existing private-label suppliers, new entrants must undercut current prices, and thus risk starting a price war—in an environment where trade loyalty offers little protection.

- In young, growing markets, it is the brand leaders, not the private-label suppliers, that influence whether the market will develop toward branded or commodity goods.
- Private labeling is inconsistent with a leader's global brand and product strategy—it raises questions about quality and standards, dilutes management attention, and affects consumers' perception of the main branded business.

Many large manufacturers deal in private brands while simultaneously offering their own brands. In this situation, they are competing against themselves. They do so, however, hoping that overall revenues will be higher with the offering of the private brand than without it. Coca-Cola, for example, supplies to A&P stores both its own brand of orange juice, Minute Maid, and the brand it produces with the A&P label. At one time, many companies equated supplying private brands with lowering their brands' images. But the business swings of the 1980s changed attitudes on this issue. Frigidaire appliances at one time were not offered under a private label. However, in the 1980s Frigidaire began offering them under Montgomery Ward's name. An interesting question that can be raised about private branding is whether cars can be sold under a distributor's own label. The idea has surfaced at Auto Nation, the country's biggest car retailer, who might one day buy a car manufactured in, say, South Korea, and sell it under its own label.¹³

A retailer's interest in selling goods under its own brand name is also motivated by economic considerations. The retailer buys goods with its brand name at low cost, then offers the goods to customers at a slightly lower price than the price of a manufacturer's brand (also referred to as a national brand). The assumption is that the customer, motivated by the lower price, will buy a private brand, assuming that its quality is on a par with that of the national brand. This assumption is, of course, based on the premise that a reputable retailer will not offer something under its name if it is not high quality. Consider the Save-A-Lot chain, a unit of Minneapolis food distribution Super Valu Inc. whose 85% of sales come from private-label items. With a total of 706 stores in 31 states, with sales amounting to \$ 3 billion, it is one of the nation's fastest growing grocery chains.¹⁴

*Dealing with
Original-Equipment
Manufacturers
(OEMs)*

Following the strategy of dealing with an OEM, a company may sell to competitors the components used in its own product. This enables competitors to compete with the company in the market. For example, in the initial stages of color television, RCA was the only company that manufactured picture tubes. It sold these picture tubes to GE and to other competitors, enabling them to compete with RCA color television sets in the market.

The relevance of this strategy may be discussed from the viewpoint of both the seller and the OEM. The motivation for the seller comes from two sources: the desire to work at near-capacity level and the desire to have help in promoting primary demand. Working at full capacity is essential for capitalizing on the experience effect (see Chapter 12). Thus, by selling a component to competitors, a company may reduce the across-the-board costs of the component for itself, and it will have the price leverage to compete with those manufacturers to whom it

sold the component. Besides, the company will always have the option of refusing to do business with a competitor who becomes a problem.

The second source of motivation is the support competitors can provide in stimulating primary demand for a new product. Many companies may be working on a new-product idea. When one of them successfully introduces the product, the others may be unable to do so because they lack an essential component or the technology that the former has. Since the product is new, the innovator may find the task of developing primary demand by itself tedious. It may make a strategic decision to share the essential-component technology with other competitors, thus encouraging them to enter the market and share the burden of stimulating primary demand.

A number of companies follow the OEM strategy. Auto manufacturers sell parts to each other. Texas Instruments sold electronic chips to its competitors during the initial stages of the calculator's development. In the 1950s, Polaroid bought certain essential ingredients from Kodak to manufacture film. IBM has shared a variety of technological components with other computer producers. In many situations, however, the OEM strategy may be forced upon companies by the Justice Department in its efforts to promote competition in an industry. Both Kodak and Xerox shared the products of their technology with competitors at the behest of the government. Thus, as a matter of strategy, when government interference may be expected, a company will gain more by sharing its components with others and assuming industry leadership. From the standpoint of results, this strategy is useful in seeking increased profitability, though it may not have much effect on market share or growth.

As far as the OEMs are concerned, the strategy of depending upon a competitor for an essential component only works in the short run because the supplier may at some point refuse entirely to sell the component or may make it difficult for the buyer to purchase it by delaying deliveries or by increasing prices enormously.

PRODUCT-SCOPE STRATEGY

The product-scope strategy deals with the perspective of the product mix of a company (i.e., the number of product lines and items in each line that the company may offer). The product-scope strategy is determined by making reference to the business unit mission. Presumably, the mission defines what sort of business it is going to be, which helps in selecting the products and services that are to become a part of the product mix.

The product-scope strategy must be finalized after a careful review of all facets of the business because it involves long-term commitment. In addition, the strategy must be reviewed from time to time to make any changes called for because of shifts in the environment. The point may be elaborated with reference to Eastman Kodak Company's decision to enter the instant photography market in the early 1970s. Traditionally, Polaroid bought negatives for its films, worth \$50 million, from Kodak. In 1969, Polaroid built its own negative plant. This meant

that Kodak would lose some \$50 million of Polaroid's business and be left with idle machinery that had been dedicated to filling Polaroid's needs. Further, by producing its own film, Polaroid could lower its costs; if it then cut prices, instant photography might become more competitive with Kodak's business. Alternatively, if Polaroid held prices high, it would realize high margins and would soon be very rich indeed. Encouraged by such achievements, Polaroid could even develop a marketing organization rivaling Kodak's and threaten it in every sphere. In brief, Kodak was convinced that it would be shut out of the instant photography market forever if it delayed its entry any longer. Subsequently, however, a variety of reasons led Kodak to change its decision to go ahead with instant photography. Its pocket instamatic cameras turned out to be highly successful, and some of the machinery and equipment allocated to instant photography had to be switched over to pocket instamatics. A capital shortage also occurred, and Kodak, as a matter of financial policy, did not want to borrow to support the instant photography project. In 1976, Kodak again revised its position and did enter the field of instant photography.¹⁵

In brief, commitment to the product-scope strategy requires a thorough review of a large number of factors both inside and outside the organization. The three variants of product-scope strategy that will be discussed in this section are single-product strategy, multiple-products strategy, and system-of-products strategy. It will be recalled that in the previous chapter three alternatives were discussed under market-scope strategy: single-market strategy, multimarket strategy, and total-market strategy. These market strategies may be related to the three variants of product-scope strategy, providing nine different product/market-scope alternatives.

Single Product

A business unit may have just one product in its line and must try to live on the success of this one product. There are several advantages to this strategy. First, concentration on a single product leads to specialization, which helps achieve scale and productivity gains. Second, management of operations is much more efficient when a single product is the focus. Third, in today's environment, where growth leads most companies to offer multiple products, a single-product company may become so specialized in its field that it can stand any competition.

A narrow product focus, for example, cancer insurance, has given American Family Life Assurance Company of Columbus, Georgia, a fast track record. Cancer is probably more feared than any other disease in the United States today. Although it kills fewer people than heart ailments, suffering is often lingering and severe. Cashing in on this fear, American Family Life became the nation's first marketer of insurance policies that cover the expenses of treating cancer.

Despite its obvious advantages, the single-product company has two drawbacks: First, if changes in the environment make the product obsolete, the single-product company can be in deep trouble. American history is full of instances where entire industries were wiped out. The disposable diaper, initially introduced by Procter & Gamble via its brand Pampers, pushed the cloth

diaper business out of the market. The Baldwin Locomotive Company's steam locomotives were made obsolete by General Motors' diesel locomotives.

Second, the single-product strategy is not conducive to growth or market share. Its main advantage is profitability. If a company with a single-product focus is not able to earn high margins, it is better to seek a new posture. Companies interested in growth or market share will find the single-product strategy of limited value.

Multiple Products

The multiple-products strategy amounts to offering two or more products. A variety of factors lead companies to choose this strategic posture. A company with a single product has nowhere to go if that product gets into trouble; with multiple products, however, poor performance by one product can be balanced out. In addition, it is essential for a company seeking growth to have multiple product offerings.

In 1970, when Philip Morris bought the Miller Brewing Company, it was a one-product business ranking seventh in beer sales. Growth prospects led the company to offer a number of other products. By 1978, Miller had acquired the number two position in the industry with 15 percent of the market. Miller continues to maintain its position (market share in 1998 was 18.2 percent), although Anheuser-Busch, the industry leader, has taken many steps to dislodge it.¹⁶ As another example, consider Chicago-based Dean Foods Company, which traditionally has been a dairy concern. Over the years, diet-conscious and aging consumers have increasingly shunned high-fat dairy products in favor of low-calorie foods, and competition for the business that remains is increasingly fierce. To successfully operate in such an environment, the company decided to add other faster-growing, higher-margin refrigerated foods, such as party dips and cranberry drink, to the company's traditional dairy business. Dean's moves have been so successful that, although many milk processors were looking to sell out, Dean was concerned that it might be bought out. Similarly, Nike began with a shoe solely for serious athletes. Over the years, the company has added a number of new products to its line. It now makes shoes, for both males and females, for running, jogging, tennis, aerobics, soccer, basketball, and walking. Lately, it has expanded its offerings to include children.

Multiple products can be either related or unrelated. Unrelated products will be discussed later in the section on diversification. Related products consist of different product lines and items. A food company may have a frozen vegetable line, a yogurt line, a cheese line, and a pizza line. In each line, the company may produce different items (e.g., strawberry, pineapple, apricot, peach, plain, and blueberry yogurt). Note, in this example, the consistency among the different food lines: (a) they are sold through grocery stores, (b) they must be refrigerated, and (c) they are meant for the same target market. These underpinnings make them related products.

Although not all products may be fast moving, they must complement each other in a portfolio of products. The subject of product portfolios was examined in Chapter 10. Suffice it to say, the multiple-products strategy is directed toward

achieving growth, market share, and profitability. Not all companies get rich simply by having multiple products: growth, market share, and profitability are functions of a large number of variables, only one of which is having multiple products.

System of Products

The word *system*, as applied to products, is a post-World War II phenomenon. Two related forces were responsible for the emergence of this phenomenon: (a) the popularity of the marketing concept that businesses sell satisfaction, not products; and (b) the complexities of products themselves often call for the use of complementary products and after-sale services. A cosmetics company does not sell lipstick, it sells the hope of looking pretty; an airline should not sell plane tickets, it should sell pleasurable vacations. However, vacationers need more than an airline ticket. Vacationers also need hotel accommodations, ground transportation, and sightseeing arrangements. Following the systems concept, an airline may define itself as a vacation packager that sells air transportation, hotel reservations, meals, sightseeing, and so on. IBM is a single source for hardware, operating systems, packaged software, maintenance, emergency repairs, and consulting services. Thus, IBM offers its customers a system of different products and services to solve data management problems. Likewise, ADT Ltd. is a company whose product is security systems. Beginning with consulting on the type of security systems needed, ADT also provides the sales, installation, service, updating on new technologies to existing systems, and the actual monitoring of these alarm systems either by computer or with patrol services and security watchmen.

Offering a system of products rather than a single product is a viable strategy for a number of reasons. It makes the customer fully dependent, thus allowing the company to gain monopolistic control over the market. The system-of-products strategy also blocks the way for the competition to move in. With such benefits, this strategy is extremely useful in meeting growth, profitability, and market share objectives. If this strategy is stretched beyond its limits, however, a company can get into legal problems. Several years ago, IBM was charged by the Justice Department with monopolizing the computer market. In the aftermath of this charge, IBM has had to make changes in its strategy. Lately, Microsoft has been under fire for its dominant hold on the Internet technology.

The successful implementation of the system-of-products strategy requires a thorough understanding of customer requirements, including the processes and functions the consumer must perform when using the product. Effective implementation of this strategy broadens both the company's concept of its product and market opportunities for it, which in turn support product/market objectives of growth, profitability, and market share.

PRODUCT-DESIGN STRATEGY

A business unit may offer a standard or a custom-designed product to each individual customer. The decision about whether to offer a standard or a customized product can be simplified by asking these questions, among others: What are our

capabilities? What business are we in? With respect to the first question, there is a danger of overidentification of capabilities for a specific product. If capabilities are overidentified, the business unit may be in trouble. When the need for the product declines, the business unit will have difficulty in relating its product's capabilities to other products. It is, therefore, desirable for a business unit to have a clear perspective about its capabilities. The answer to the second question determines the limits within which customizing may be pursued.

Between the two extremes of standard and custom products, a business unit may also offer standard products with modifications. These three strategic alternatives, which come under the product-design strategy, are discussed below.

Standard Products

Offering standard products leads to two benefits. First, standard products are more amenable to the experience effect than are customized products; consequently, they yield cost benefits. Second, standard products can be merchandised nationally much more efficiently. Ford's Model T is a classic example of a successful standard product. The standard product has one major problem, however. It orients management thinking toward the realization of per-unit cost savings to such an extent that even the need for small changes in product design may be ignored.

There is considerable evidence to suggest that larger firms derive greater profits from standardization by taking advantage of economies of scale and long production runs to produce at a low price. Small companies, on the other hand, must use the major advantage they have over the giants, that is, flexibility. Hence, the standard-product strategy is generally more suitable for large companies. Small companies are better off as job shops, doing customized work at a higher margin.

A standard product is usually offered in different grades and styles with varying prices. In this manner, even though a product is standard, customers have broader choices. Likewise, distribution channels get the product in different price ranges. The result: standard-product strategy helps achieve the product/market objectives for growth, market share, and profitability.

Customized Products

Customized products are sold on the basis of the quality of the finished product, that is, on the extent to which the product meets the customer's specifications. The producer usually works closely with the customer, reviewing the progress of the product until completion. Unlike standard products, price is not a factor for customized products. A customer expects to pay a premium for a customized product. As mentioned above, a customized product is more suitable for small companies to offer. This broad statement should not be interpreted to mean that large companies cannot successfully offer customized products. The ability to sell customized products successfully actually depends on the nature of the product. A small men's clothing outlet is in a better position to offer custom suits than a large men's suit manufacturer. On the other hand, GE is better suited to manufacture a custom-designed engine for military aircraft than a smaller business.

An innovative aspect of this product strategy is mass customization, making goods to each customer's requirements. One company that practices mass customization is Customer Foot. It makes shoes that meet individual tastes and size requirements, yet does so on a mass-production basis, at slightly lower prices than many premium brands sold off the shelf.¹⁷ This requires a flexible manufacturing system that anticipates a wide range of options. Many companies can find an important competitive edge in mass customization. If Company X offers a one-size-fits-all product and Company Y can tailor the same product to individual tastes without charging much more, the latter will be more successful. It is a powerful tool for building relationships with customers, since it requires a company to gather information, often of a very personal nature, about customers' tastes and needs.

Over and above price flexibility, dealing in customized products provides a company with useful experience in developing new standard products. A number of companies have been able to develop mass market products out of their custom work for NASA projects. The microwave oven, for example, is an offshoot of the experience gained from government contracts. Customized products also provide opportunities for inventing new products to meet other specific needs. In terms of results, this strategy is directed more toward realizing higher profitability than are other product-design strategies.

Standard Products with Modifications

The strategy of modifying standard products represents a compromise between the two strategies already discussed. With this strategy, a customer may be given the option to specify a limited number of desired modifications to a standard product. A familiar example of this strategy derives from the auto industry. The buyer of a new car can choose type of shift (standard or automatic), air conditioning, power brakes, power steering, size of engine, type of tires, and color. Although some modifications may be free, for the most part the customer is expected to pay extra for modifications.

This strategy is directed toward realizing the benefits of both a standard and a customized product. By manufacturing a standard product, the business unit seeks economies of scale; at the same time, by offering modifications, the product is individualized to meet the specific requirements of the customer. The experience of a small water pump manufacturer that sold its products nationally through distributors provides some insights into this phenomenon. The company manufactured the basic pump in its facilities in Ohio and then shipped it to its four branches in different parts of the country. At each branch, the pumps were finished according to specifications requested by distributors. Following this strategy, the company lowered its transportation costs (because the standard pump could be shipped in quantity) even while it provided customized pumps to its distributors.

Among other benefits, this strategy permits the business unit to keep in close contact with market needs that may be satisfied through product improvements and modifications. It also enhances the organization's reputation for flexibility in meeting customer requirements. It may also encourage new uses of existing

products. Other things being equal, this strategy can be useful in achieving growth, market share, and profitability.

PRODUCT-ELIMINATION STRATEGY

Marketers have believed for a long time that sick products should be eliminated. It is only in recent years that this belief has become a matter of strategy. A business unit's various products represent a portfolio, with each product playing a unique role in making the business viable. If a product's role diminishes or if it does not fit into the portfolio, it ceases to be important.

When a product reaches the stage where continued support is no longer justified because performance is falling short of expectations, it is desirable to pull the product out of the marketplace. Poor performance is easy to spot. It may be characterized by any of the following:

1. Low profitability.
2. Stagnant or declining sales volume or market share that is too costly to rebuild.
3. Risk of technological obsolescence.
4. Entry into a mature or declining phase of the product life cycle.
5. Poor fit with the business unit's strengths or declared mission.

Products that are not able to limp along must be eliminated. They drain a business unit's financial and managerial resources, resources that could be used more profitably elsewhere. Hise, Parasuraman, and Viswanathan cite examples of a number of companies, among them Hunt Foods, Standard Brands, and Crown Zellerbach, that have reported substantial positive results from eliminating products.¹⁸ The three alternatives in the product-elimination strategy are harvesting, line simplification, and total-line divestment.

Harvesting

Harvesting refers to getting the most from a product while it lasts. It is a controlled divestment whereby the business unit seeks to get the most cash flow it can from the product. The harvesting strategy is usually applied to a product or business whose sales volume or market share is slowly declining. An effort is made to cut the costs associated with the business to improve cash flow. Alternatively, price is increased without simultaneous increase in costs. Harvesting leads to a slow decline in sales. When the business ceases to provide a positive cash flow, it is divested.

Du Pont followed the harvesting strategy in the case of its rayon business. Similarly, BASF Wyandotte applied harvesting to soda ash. As another example, GE harvested its artillery business a few years ago. Even without making any investments or raising prices, the business continued to provide GE with positive cash flow and substantial profits. Lever Brothers applied this strategy to its Lifebuoy soap. The company continued to distribute this product for a long time because, despite higher price and virtually no promotional support, it continued to be in popular demand.

Implementation of the harvesting strategy requires severely curtailing new investment, reducing maintenance of facilities, slicing advertising and research budgets, reducing the number of models produced, curtailing the number of distribution channels, eliminating small customers, and cutting service in terms of delivery time, speed of repair, and sales assistance. Ideally, harvesting strategy should be pursued when the following conditions are present:

1. The business entity is in a stable or declining market.
2. The business entity has a small market share, but building it up would be too costly; or it has a respectable market share that is becoming increasingly costly to defend or maintain.
3. The business entity is not producing especially good profits or may even be producing losses.
4. Sales would not decline too rapidly as a result of reduced investment.
5. The company has better uses for the freed-up resources.
6. The business entity is not a major component of the company's business portfolio.
7. The business entity does not contribute other desired features to the business portfolio, such as sales stability or prestige.

Line Simplification

Line-simplification strategy refers to a situation where a product line is trimmed to a manageable size by pruning the number and variety of products or services offered. This is a defensive strategy that is adopted to keep a falling line stable. It is hoped that the simplification effort will restore the health of the line. This strategy becomes especially relevant during times of rising costs and resource shortages.

The application of this strategy in practice may be illustrated with an example from GE's housewares business. In the early 1970s, the housewares industry faced soaring costs and stiff competition from Japan. GE took a hard look at its housewares business and raised such questions as: Is this product segment mature? Is it one we should be harvesting? Is it one we should be investing money in and expanding? Analysis showed that there was a demand for housewares, but demand was just not attractive enough for GE at that time. The company ended production of blenders, fans, heaters, and vacuum cleaners because they were found to be on the downside of the growth curve and did not fit in with GE's strategy for growth.

Similarly, Sears, Roebuck & Co. overhauled its retail business in 1993, dropping its famous catalog business, which contributed over \$3 billion in annual sales. Sears's huge catalog operations had been losing money for nearly a decade (about \$175 million in 1992), as specialty catalogs and specialty stores grabbed market share from the country's once-supreme mail-order house.¹⁹ Kodak discovered that more than 80% of all its sales are achieved by less than 20% of the product line. Therefore, the company eliminated 27% of all sales items.²⁰ Procter & Gamble got rid of marginal brands such as Bain de Soleil sun-care products. In addition, the company cut product items by axing extraneous sizes, flavors, and other variants.

The implementation of a line-simplification strategy can lead to a variety of benefits: potential cost savings from longer production runs; reduced inventories; and a more forceful concentration of marketing, research and development, and other efforts behind a shorter list of products.

However, despite obvious merits, simplification efforts may sometimes be sabotaged. Those who have been closely involved with a product may sincerely feel either that the line as it is will revive when appropriate changes are made in the marketing mix or that sales and profits will turn up once temporary conditions in the marketplace turn around. Thus, careful maneuvering is needed on the part of management to simplify a line unhindered by corporate rivalries and intergroup pressures.

The decision to drop a product is more difficult if it is a core product that has served as a foundation for the company. Such a product achieves the status of motherhood, and a company may like to keep it for nostalgic reasons. For example, the decision by General Motors to drop the Cadillac convertible was probably a difficult one to make in light of the prestige attached to the vehicle. Despite the emotional aspects of a product-deletion decision, the need to be objective in this matter cannot be overemphasized. Companies establish their own criteria to screen different products for elimination.

In finalizing the decision, attention should be given to honoring prior commitments. For example, replacement parts must be provided even though an item is dropped. A well-implemented program of product simplification can lead to both growth and profitability. It may, however, be done at the cost of market share.

Total-Line Divestment

Divestment is a situation of reverse acquisition. It may also be a dimension of market strategy. But to the extent that the decision is approached from the product's perspective (i.e., to get rid of a product that is not doing well even in a growing market), it is an aspect of product strategy. Traditionally, companies resisted divestment for the following reasons, which are principally either economic or psychological in nature:

1. Divestment means negative growth in sales and assets, which runs counter to the business ethic of expansion.
2. Divestment suggests defeat.
3. Divestment requires changes in personnel, which can be painful and can result in perceived or real changes in status or have an adverse effect on the entire organization.
4. Divestment may need to be effected at a price below book and thus may have an adverse effect on the year's earnings.
5. The candidate for divestment may be carrying overhead, buying from other business units of the company, or contributing to earnings.

With the advent of strategic planning in the 1970s, divestment became an accepted option for seeking faster growth. More and more companies are now willing to sell a business if the company will be better off strategically. These

companies feel that divestment should not be regarded solely as a means of ridding the company of an unprofitable division or plan; rather, there are some persuasive reasons supporting the divestment of even a profitable and growing business. Businesses that no longer fit the corporate strategic plan can be divested for a number of reasons:

- There is no longer a strategic connection between the base business and the part to be divested.
- The business experiences a permanent downturn, resulting in excess capacity for which no profitable alternative use can be identified.
- There may be inadequate capital to support the natural growth and development of the business.
- It may be dictated in the estate planning of the owner that a business is not to remain in the family.
- Selling a part of the business may release assets for use in other parts of the business where opportunities are growing.
- Divestment can improve the return on investment and growth rate both by ridding the company of units growing more slowly than the basic business and by providing cash for investment in faster-growing, higher-return operations.

Whatever the reason, a business that may have once fit well into the overall corporate plan can suddenly find itself in an environment that causes it to become a drain on the corporation, either financially, managerially, or opportunistically. Such circumstances suggest divestment.

Divestment helps restore balance to a business portfolio. If the company has too many high-growth businesses, particularly those at an early stage of development, its resources may be inadequate to fund growth. On the other hand, if a company has too many low-growth businesses, it will often generate more cash than is required for investment and will build up redundant equity. For a business to grow evenly over time while showing regular increments in earnings, a portfolio of fast- and slow-growth businesses is necessary. Divestment can help achieve this kind of balance. Finally, divestment helps restore a business to a size that will not lead to an antitrust action.

The use of this strategy is reflected in GE's decision to divest its consumer electronics business in the early 1980s. In order to realize a return that GE considered adequate, the company would have had to make additional heavy investments in this business. GE figured that it could use the money to greater advantage in an area other than consumer electronics. Hence, it divested the business by selling it to Thomson, a French company.

Essentially following the same reasoning, Olin Corporation divested its aluminum business on the grounds that maintaining its small 4 percent share required big capital expenditures that could be employed more usefully elsewhere in the company. Westinghouse sold its major appliance line because it needed at least an additional 3 percent beyond the 5 percent share it held before it could compete effectively against industry leaders GE and Whirlpool. GE and Whirlpool divided about half the total market between them. Between 1986 and

1988, Beatrice sold two-thirds of its business, including such well-known names as Playtex, Avis, Tropicana, and Meadow Gold. The company considered these divestments necessary to transform itself into a manageable organization.²¹

It is difficult to prescribe generalized criteria to determine whether to divest a business. However, the following questions may be raised, the answers to which should provide a starting point for considering divestment:

1. **What is the earnings pattern of the unit?** A key question is whether the unit is acting as a drag on corporate growth. If so, then management must determine whether there are any offsetting values. For example, are earnings stable compared to the fluctuation in other parts of the company? If so, is the low-growth unit a substantial contributor to the overall debt capacity of the business? Management should also ask a whole series of "what-if" questions relating to earnings: What if we borrowed additional funds? What if we brought in new management? What if we made a change in location? etc.
2. **Does the business generate any cash?** In many situations, a part of a company may be showing a profit but may not be generating any discretionary cash. That is, every dime of cash flow must be pumped right back into the operation just to keep it going at existing levels. Does this operation make any real contribution to the company? Will it eventually? What could the unit be sold for? What would be done with the cash from this sale?
3. **Is there any tie-in value—financial or operating—with existing business?** Are there any synergies in marketing, production, or research and development? Is the business countercyclical? Does it represent a platform for growth internally based or through acquisitions?
4. **Will selling the unit help or hurt the acquisitions effort?** What will be the immediate impact on earnings (write-offs, operating expenses)? What effect, if any, will the sale have on the company's image in the stock market? Will the sale have any effect on potential acquisitions? (Will I, too, be sold down the river?) Will the divestment be functional in terms of the new size achieved? Will a smaller size facilitate acquisitions by broadening the "market" of acceptable candidates, or, by contrast, will the company become less credible because of the smaller size?

In conclusion, a company should undertake continual in-depth analysis of the market share, growth prospects, profitability, and cash-generating power of each business. As a result of such reviews, a business may need to be divested to maintain balance in the company's total business. This, however, is feasible only when the company develops enough self-discipline to avoid increasing sales volume beyond a desirable size and instead buys and sells businesses with the sole objective of enhancing overall corporate performance.

NEW-PRODUCT STRATEGY

New-product development is an essential activity for companies seeking growth. By adopting the new-product strategy as their posture, companies are better able to sustain competitive pressures on their existing products and make headway. The implementation of this strategy has become easier because of technological innovations and the willingness of customers to accept new ways of doing things.

Despite their importance in strategy determination, however, implementation of new-product programs is far from easy. Too many products never make it in the marketplace. The risks and penalties of product failure require that companies move judiciously in adopting new-product strategies.

Interestingly, however, the mortality rate of new product ideas has declined considerably since the 1960s. In 1968, on average, 58 new-product ideas were considered for every successful new product. In 1981, only seven ideas were required to generate one successful new product. However, these statistics vary by industry. Consumer nondurable companies consider more than twice as many new-product ideas in order to generate one successful new product, compared to industrial or consumer durable manufacturers.²²

Top management can affect the implementation of new-product strategy; first, by establishing policies and broad strategic directions for the kinds of new products the company should seek; second, by providing the kind of leadership that creates the environmental climate needed to stimulate innovation in the organization; and third, by instituting review and monitoring procedures so that managers are involved at the right decision points and can know whether or not work schedules are being met in ways that are consistent with broad policy directions.

The term *new product* is used in different senses. For our purposes, the new-product strategy will be split into three alternatives: (a) product improvement/modification, (b) product imitation, and (c) product innovation.

Product improvement/modification is the introduction of a new version or an improved model of an existing product, such as “new, improved Crest.” Improvements and modifications are usually achieved by adding new features or styles, changing processing requirements, or altering product ingredients. When a company introduces a product that is already on the market but new to the company, it is following a product-imitation strategy. For example, Schick was imitating when it introduced its Tracer razor to compete with Gillette’s Sensor. For our purposes, a product innovation will be defined as a strategy with a completely new approach in fulfilling customer desires (e.g., Polaroid camera, television, typewriter) or one that replaces existing ways of satisfying customer desires (e.g., the replacement of slide rules by pocket calculators). About 90% of new products are simply line extensions, such as Frito-Lay’s Doritos Flamin, Hot Tortilla Chips in snack-size bags. This is despite the fact that truly original products—the remaining 10%—possess the real profit potential.²³

New-product development follows the experience curve concept; that is, the more you do something, the more efficient you become at doing it (for additional details, see Chapter 12). Experience in introducing products enables companies to improve new-product performance. Specifically, with increased new-product experience, companies improve new-product profitability by reducing the cost per introduction. More precisely, with each doubling of the number of new-product introductions, the cost of each introduction declines at a predictable and constant rate. For example, among the 13,000 new products introduced by 700 companies surveyed by Booz, Allen, and Hamilton between 1976 and 1981, the experience effect yielded a 71 percent cost curve. At each

doubling of the number of new products introduced, the cost of each introduction declined by 29 percent.²⁴

*Product
Improvement
Modification*

An existing product may reach a stage that requires that something be done to keep it viable. The product may have reached the maturity stage of the product life cycle because of shifts in the environment and thus has ceased to provide an adequate return. Or product, pricing, distribution, and promotion strategies employed by competitors may have reduced the product to the me-too category. At this stage, management has two options: either eliminate the product or revitalize it by making improvements or modifications. Improvements or modifications are achieved by redesigning, remodeling, or reformulating the product so that it satisfies customer needs more fully. This strategy seeks not only to restore the health of the product but sometimes seeks to help distinguish it from competitors' products as well. For example, it has become fashionable these days to target an upscale, or premium, version of a product at the upper end of the price performance pyramid. *Fortune's* description of Kodak's strategy is relevant here:

On the one hand, the longer a particular generation of cameras can be sold, the more profitable it will become. On the other hand, amateur photographers tend to use less film as their cameras age and lose their novelty; hence, it is critical that Kodak keep the camera population eternally young by bringing on new generations from time to time. In each successive generation, Kodak tries to increase convenience and reliability in order to encourage even greater film consumption per camera—a high “burn rate,” as the company calls it. In general, the idea is to introduce as few major new models as possible while ringing in frequent minor changes powerful enough to stimulate new purchases.

Kodak has become a master of this marketing strategy. Amateur film sales took off with a rush after 1963. That year the company brought out the first cartridge-loading, easy-to-use instamatic, which converted many people to photography and doubled film usage per camera. A succession of new features and variously priced models followed to help stimulate film consumption for a decade. Then Kodak introduced the pocket instamatic, which once again boosted film use both because of its novelty and because of its convenience. Seven models of that generation have since appeared.²⁵

Kodak's strategy points out that it is never enough just to introduce a new product. The real payoff comes if the product is managed in such a way that it continues to flourish year after year in a changing and competitive marketplace.

In the 1990s, the company continued to pursue the strategy with yet another new product, the throwaway camera. Fun, cheap, and easy to use are the features that have turned the disposable camera (basically a roll of film with a cheap plastic case and lens) into a substantial business. In 1992, the sales at retail reached over \$200 million with Kodak holding over 65% of the market.²⁶

There is no magic formula for restoring the health of a product. Occasionally, it is the ingenuity of the manager that may bring to light a desired cure. Generally, however, a complete review of the product from marketing perspectives is needed to analyze underlying causes and to come up with the modifications and improvements necessary to restore the product to health. For example, General

Mills continues to realize greater profits by rejuvenating its old products—cake mixes, Cheerios, and Hamburger Helper. The company successfully builds excitement for old products better than anyone else in the food business by periodically improving them. Compared with Kellogg, which tends not to fiddle with its core products, General Mills takes much greater risks with established brands. For instance, the company introduced two varieties of Cheerios—Honey Nut in 1979 and Apple Cinnamon in 1988—and successfully created a megabrand.²⁷

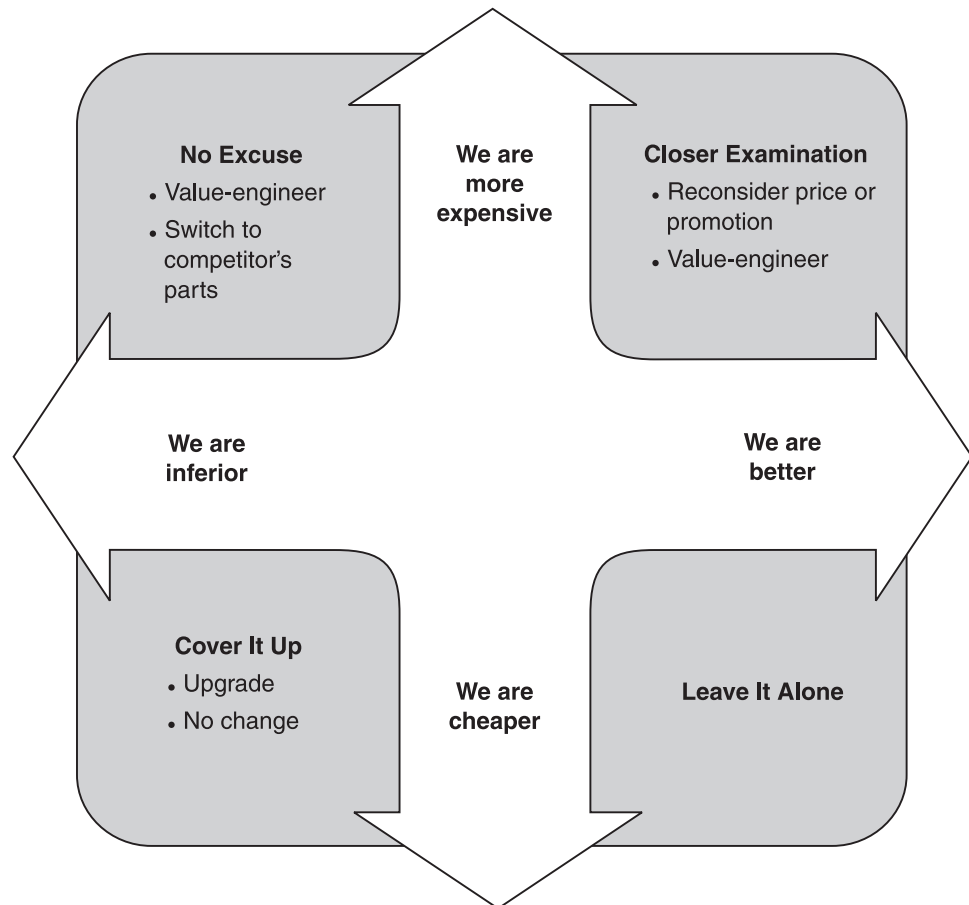
To identify options for restoring a damaged product to health, it may be necessary to tear down competing products and make detailed comparative analyses of quality and price. One framework for such an analysis is illustrated in Exhibit 14-2.

The basic premise of Exhibit 14-2 is that by comparing its product with that of its competitors, a company is able to identify unique product strengths on which to pursue modifications and improvements. The use of the analysis suggested by Exhibit 14-2 may be illustrated with reference to a Japanese manufacturer. In 1978, Japan's amateur color film market was dominated by Kodak, Fuji, and Sakura, the last two being Japanese companies. For the previous 15 years, Fuji had been gaining market share, whereas Sakura, the market leader in the early 1950s with over half the market, was losing ground to both its competitors. By 1976, Sakura had only about a 16 percent market share. Marketing research showed that, more than anything else, Sakura was the victim of an unfortunate word association. Its name in Japanese means "cherry blossom," suggesting a soft, blurry, pinkish image. The name Fuji, however, was associated with the blue skies and white snow of Japan's sacred mountain. Being in no position to change perceptions, the company decided to analyze the market from structural, economic, and customer points of view. Sakura found a growing cost consciousness among film customers: to wit, amateur photographers commonly left one or two frames unexposed in a 36-exposure roll, but they almost invariably tried to squeeze extra exposures onto 20-exposure rolls. Here Sakura saw an opportunity. It decided to introduce a 24-exposure film. Its marginal costs would be trivial, but its big competitors would face significant penalties in following suit. Sakura was prepared to cut its price if the competition lowered the price of their 20-frame rolls. Its aim was twofold. First, it would exploit the growing number of cost-minded users. Second, and more important, it would be drawing attention to the issue of economics, where it had a relative advantage, and away from the image issue, where it could not win. Sakura's strategy paid off. Its market share increased from 16 percent to more than 30 percent.²⁸ PepsiCo has developed a new product, Pepsi One, to fulfill the unmet needs of young men. The company launched the product with about \$100 million promotion and hoped to generate \$1 billion in annual retail sales.²⁹ Overall, the product-improvement strategy is conducive to achieving growth, market share, and profitability alike.

Product Imitation

Not all companies like to be first in the market with a new product. Some let others take the initiative. If the innovation is successful, they ride the bandwagon of the successful innovation by imitating it. In the case of innovations protected by

EXHIBIT 14-2
Product-Change Options after Competitive Teardown



Source: Kenichi Ohmae, "Effective Strategies for Competitive Success," *McKinsey Quarterly* (Winter 1978): 57. Reprinted with permission of the publisher.

patents, imitators must wait until patents expire. In the absence of a patent, however, the imitators work diligently to design and produce products not very different from the innovator's product to compete vigorously with the innovator.

The imitation strategy can be justified in that it transfers the risk of introducing an unproven idea/product to someone else. It also saves investment in research and development. This strategy particularly suits companies with limited resources. Many companies, as a matter of fact, develop such talent that they can imitate any product, no matter how complicated. With a limited investment

in research and development, the imitator may sometimes have a lower cost, giving it a price advantage in the market over the leader.

Another important reason for pursuing an imitation strategy may be to gainfully transfer the special talent a company may have for one product to other similar products. For example, the Bic Pen Corporation decided to enter the razor business because it thought it could successfully use its aggressive marketing posture in that market. In the early 1970s, Hanes Corporation gained resounding success with L'eggs, an inexpensive pantyhose that it sold from freestanding racks in food and drugstore outlets.

The imitation strategy may also be adopted on defensive grounds. Being sure of its existing product(s), a company may initially ignore new developments in the field. If new developments become overbearing, however, they may cut into the share held by an existing product. In this situation, a company may be forced to imitate the new development as a matter of survival. Colorado's Adolph Coors Company conveniently ignored the introduction of light beer and dismissed Miller Lite as a fad. Many years later, however, the company was getting bludgeoned by Miller Lite. Also, Anheuser-Busch began to challenge the supremacy of Coors in the California market with its light beer. The matter became so serious that Coors decided to abandon its one-product tradition and introduced a low-calorie light beer.

Another example of product imitation is the introduction of specialty beers by major brewers. While the U.S. beer industry has been stagnating throughout the 1990s, the specialty brews have been growing at better than a 40 percent annual rate. This has led the four major beer companies that control 80 percent of the market to offer their own brands of specialty beers: Anheuser (Redhook Ale, Red Wolf, Elk Mountain, Crossroads); Miller (Red Dog, Icehouse, Celis); Coors (Sandlot, George Killman); and Stroh (Steeman, Red River Valley).³⁰

Imitation also works well for companies that want to enter new markets without resorting to expensive acquisitions or special new-product development programs. For example, Owens-Illinois adapted heavy-duty laboratory glassware into novelty drinking glasses for home use.

Although imitation does avoid the risks involved in innovation, it is wrong to assume that every imitation of a successful product will succeed. The marketing program of an imitation should be as carefully chalked out and implemented as that of an innovation. Imitation strategy is most useful for achieving increases in market share and growth.

Product Innovation

Product-innovation strategy includes introducing a new product to replace an existing product in order to satisfy a need in an entirely different way or to provide a new approach to satisfy an existing or latent need. This strategy suggests that the entrant is the first firm to develop and introduce the product. The ballpoint pen is an example of a new product; it replaced the fountain pen. The VCR was a new product introduced to answer home entertainment needs.

Product innovation is an important characteristic of U.S. industry. Year after year companies spend billions of dollars on research and development to innovate.

In 1997, for example, American industry spent almost \$100 billion on research and development. Research and development expenditures are expected to continue rising at an average of 10 percent annually as we enter the next century. This shows that industry takes a purposeful attitude toward new-product and new-process development.

Product innovation, however, does not come easy. Besides involving major financial commitments, it requires heavy doses of managerial time to cut across organizational lines. And still the innovation may fail to make a mark in the market. A number of companies have discovered the risks of this game. Among them is Texas Instruments, which lost \$660 million before withdrawing from the home computer market. RCA lost \$500 million on ill-fated videodisc players. RCA, GE, and Sylvania, leaders in vacuum-tube technology, lost out when transistor technology revolutionized the radio business. RJR Nabisco abandoned the “smokeless” cigarette, Premier, after a 10-year struggle and after spending over \$500 million.³¹

Most innovative products are produced by large organizations. Initially, an individual or a group of individuals may be behind it, but a stage is eventually reached where individual efforts require corporate support to finally develop and launch the product. To encourage innovation and creativity, many large companies are spinning off companies. For example, Colgate-Palmolive Co. launched Colgate Venture Co. to support entrepreneurship and risk taking. In this way, a congenial environment within the large corporation is maintained for generating and following creative pursuits.³²

In essence, innovation flourishes where divisions are kept small (permitting better interaction among managers and staffers), where there is willingness to tolerate failure (encouraging plenty of experimentation and risk taking), where champions are motivated (through encouragement, salaries, and promotions), where close liaison is maintained with the customer (visiting customers routinely; inviting them to brainstorm product ideas), where technology is shared corporate wide (technology, wherever it is developed, belongs to everyone), and where projects are sustained, even if initial results are discouraging.³³

The development of a product innovation typically passes through various stages: idea generation, screening, business analysis, development of a prototype, test market, and commercialization. The idea may emerge from different sources: customers, private researchers, university researchers, employees, or research labs. An idea may be generated by recognizing a consumer need or just by pursuing a scientific endeavor, hoping that it may lead to a viable product. Companies follow different procedures to screen ideas and to choose a few for further study. If an idea appears promising, it may be carried to the stage of business analysis, which may consist of investment requirements, revenue and expenditure projections, and financial analysis of return on investment, pay-back period, and cash flow. Thereafter, a few prototype products may be produced to examine engineering and manufacturing aspects of the product. A few sample products based on the prototype may be produced for market testing. After changes suggested in market testing have been incorporated, the innovation may be commercially launched.

Procter & Gamble's development of Pringles is a classic case of recognizing a need in a consumer market and then painstakingly hammering away to meet it.³⁴ Americans consume about one billion dollars' worth of potato chips annually, but manufacturers of potato chips face a variety of problems. Chips made in the traditional way are so fragile that they can rarely be shipped for more than 200 miles; even then, a quarter of the chips get broken. They also spoil quickly; their shelf life is barely two months. These characteristics have kept potato chip manufacturers split into many small regional operations. Nobody, before Procter & Gamble, had applied much technology to the product since it was invented in 1853.

Procter & Gamble knew these problems because it sold edible oils to the potato chip industry, and it set out to solve them. Instead of slicing potatoes and frying them in the traditional way, Procter & Gamble's engineers developed a process somewhat akin to paper making. They dehydrated and mashed potatoes and pressed them for frying into a precise shape, which permitted the chips to be stacked neatly on top of one another in hermetically sealed containers that resemble tennis ball cans. Pringles potato chips stay whole and have a shelf life of at least a year.

After a new product is screened through the lab, the division that will manufacture it takes over and finances all further development and testing. In some companies, division managers show little interest in taking on new products because the costs of introduction are heavy and hold down short-term profits. At Procter & Gamble, executives ensure that a manager's short-term record is not marred by the cost of a new introduction.

Before a new Procter & Gamble product is actually introduced to the market, it must prove that it has a demonstrable margin of superiority over its prospective competitors. A development team begins refining the product by trying variations of the basic formula, testing its performance under almost any conceivable condition, and altering its appearance. Eventually, a few alternative versions of the product are produced and tested among a large number of Procter & Gamble employees. If the product gets the approval of employees, the company presents it to panels of consumers for further testing. Procter & Gamble feels satisfied if a proposed product is chosen by fifty-five out of one hundred consumers tested. Though Pringles potato chips passed all these tests, they only recently started showing any profits for Procter & Gamble.

There is hardly any doubt that, if an innovation is successful, it pays off lavishly. For example, nylon still makes so much money for Du Pont that the company would qualify for the Fortune 500 list even if it made nothing else.³⁵ However, developing a new product is a high-risk strategy requiring heavy commitment and having a low probability of achieving a breakthrough. Thus, the choice of this strategy should be dictated by a company's financial and managerial strengths and by its willingness to take risks. Consider the case of Kevlar, a super-tough fiber (lightweight but five times stronger than steel) invented by Du Pont. It took the company 25 years and \$900 million to come out with this product, more time and money than the company had ever spent on a single product.

Starting in 1985, however, the payoff began: annual sales reached \$300 million. Du Pont forecasts Kevlar's annual sales growth at 10 percent during the 1990s. Meanwhile, the company continues its quest for new applications that it hopes will make Kevlar a blockbuster.³⁶

Exhibit 14-3 suggests an approach that may be used to manage innovations successfully. As a company grows more complex and decentralized, its new-product development efforts may fail to keep pace with change, weakening vital lines between marketing and technical people and leaving key decisions to be made by default. The possible result is the ultimate loss of competitive edge. To solve the problem, as shown in Exhibit 14-3a, both technical and market opportunity may be plotted on a grid. From this grid, innovations may be grouped into three classes: heavy emphasis (deserving full support, including basic research and development); selective opportunistic development (i.e., may be good or may be bad; may require a careful approach and top management attention); and limited defense support (i.e., merits only minimum support). Exhibit 14-3b lists the relevant kinds of programs for each area. This approach helps gear research efforts to priority strategic projects.

DIVERSIFICATION STRATEGY

Diversification refers to seeking unfamiliar products or markets or both in the pursuit of growth. Every company is best at certain products; diversification requires substantially different knowledge, thinking, skills, and processes. Thus, diversification is at best a risky strategy, and a company should choose this path only when current product/market orientation does not seem to provide further opportunities for growth. A few examples will illustrate the point that diversification does not automatically bring success. CNA Financial Corporation faced catastrophe when it expanded the scope of its business from insurance to real estate and mutual funds: it ended up being acquired by Loews Corporation. Schrafft's restaurants did little for Pet Incorporated. Pacific Southwest Airlines acquired rental cars and hotels, only to see its stock decline quickly. Diversification into the wine business (by acquiring Taylor Wines) did not work for the Coca-Cola Company.³⁷

The diversification decision is a major step that must be taken carefully. On the basis of a sample from 200 Fortune 500 firms and the PIMS database (see Chapter 12), Biggadike notes that it takes an average of 10 to 12 years before the return on investment from diversification equals that of mature businesses.³⁸

The term *diversification* must be distinguished from integration and merger. *Integration* refers to the accumulation of additional business in a field through participation in more of the stages between raw materials and the ultimate market or through more intensive coverage of a single stage. *Merger* implies a combination of corporate entities that may or may not result in integration. Diversification is a strategic alternative that implies deriving revenues and profits from different products and markets. The following factors usually lead companies to seek diversification:

EXHIBIT 14-3
Managing Innovations

		Market Opportunity		
		Low	Moderate	High
Technical Opportunity	High			Heavy emphasis
	Moderate		Selective emphasis	
	Low	Limited support		

(a) The R&D Effort Portfolio

R&D Program Elements						
<i>R&D Emphasis</i>	<i>Primary Level of Funding</i>	<i>Focus of Work</i>	<i>Level of Basic Research</i>	<i>Technical Risk</i>	<i>Acceptable Time for Payoff</i>	<i>Projects to Exceed or Maintain Competitive Parity</i>
Heavy	High	Balance between new and existing products	High	High	Long	Many
Selective	Medium	Mainly existing products	Low	Medium	Medium	Few
Limited	Low	Existing processes	Very low	Low	Short	Very few

(b) Implied Nature of R&D Effort

Source: Richard N. Foster, "Linking R&D to Strategy," *Business Horizons*, December 1980. Copyright 1980, by the Foundation for the School of Business at Indiana University. Reprinted by permission.

1. Firms diversify when their objectives can no longer be met within the product/market scope defined by expansion.
2. A firm may diversify because retained cash exceeds total expansion needs.
3. A firm may diversify when diversification opportunities promise greater profitability than expansion opportunities.
4. Firms may continue to explore diversification when the available information is not reliable enough to permit a conclusive comparison between expansion and diversification.

Diversification can take place at either the corporate or the business unit level. At the corporate level, it typically entails entering a promising business outside the scope of existing business units. At the business unit level, it is most likely to involve expanding into a new segment of the industry in which the business presently participates. The problems encountered at both levels are similar and may differ only in magnitude.

Diversification strategies include internal development of new products or markets (including development of international markets for current products), acquisition of an appropriate firm or firms, a strategic alliance with a complementary organization, licensing of new product technologies, and importing or distributing a line of products manufactured by another company. The final choice of an entry strategy involves a combination of these alternatives in most cases. This combination is determined on the basis of available opportunities and of consistency with the company's objectives and available resources.

Caterpillar Tractor Company's entry into the field of diesel engines is a case of internal diversification. Since 1972, the company has poured more than \$1 billion into developing new diesel engines "in what must rank as one of the largest internal diversifications by a U.S. corporation."³⁹ Hershey Foods ventured into the restaurant business by buying the Friendly Ice Cream Corporation, illustrating diversification by acquisition. Hershey adopted the diversification strategy for growth because its traditional business, chocolate and candy, was stagnant because of a decline in candy consumption, sharp increases in cocoa prices, and changes in customer habits. Hershey subsequently sold Friendly in 1988 to a private company, Tennessee Restaurant Co.⁴⁰

An empirical study of entry strategy shows that higher barriers are more likely to be associated with acquisition than with entry through internal development. Thus, in choosing between these two entry modes, business unit managers should take into account, among other factors, the entry barriers surrounding the market and the cost of breaching them. Despite high apparent barriers, the entrant's relatedness to the new entry may make entry financially more desirable.

Essentially, there are three different forms of diversification a company may pursue: concentric diversification, horizontal diversification, and conglomerate diversification. No matter what kind of diversification a company seeks, the three essential tests of success are

1. **The attractiveness test**—The industries chosen for diversification must be structurally attractive or capable of being made attractive.
2. **The cost-of-entry test**—The cost of entry must not capitalize all future profits.
3. **The better-off test**—The new unit must either gain competitive advantage from its link with the corporation or vice versa.⁴¹

Concentric Diversification

Concentric diversification bears a close synergistic relationship to either the company's marketing or its technology, or both. Thus, new products that are introduced share a common thread with the firm's existing products, either through marketing or production. Usually, the new products are directed to a new group

of customers. Texas Instrument's venture into pocket calculators illustrates this type of diversification. Using its expertise in integrated circuits, the company developed a new product that appealed to a new set of customers. On the other hand, PepsiCo's venture into the fast-food business through the acquisition of Pizza Hut is a case of concentric diversification in which the new product bears a synergistic relationship to the company's existing marketing experience. (Recently, PepsiCo spun off Pizza Hut along with Taco Bell and Kentucky Fried Chicken into a new \$8.5 billion-a-year company called Tricon.)

Toys "R" Us branched into children's clothing on the ground that its marketing as well as technological skills (purchasing power, brand name, storage facilities, retail outlets, and sophisticated information systems) would give it an edge in the new business. Similar logic persuaded Honda to diversify from motorcycles to lawn mowers and cars; and Black & Decker from power tools to home appliances.⁴²

Although a diversification move per se is risky, concentric diversification does not lead a company into an entirely new world because in one of two major fields (technology or marketing), the company will operate in familiar territory. The relationship of the new product to the firm's existing product(s), however, may or may not mean much. All that the realization of synergy does is make the task easier; it does not necessarily make it successful. For example, Gillette entered the market for pocket calculators in 1974 and for digital watches in 1976. Later it abandoned both businesses. Both pocket calculators and digital watches were sold to mass markets where Gillette had expertise and experience. Despite this marketing synergy, it failed to sell either calculators or digital watches successfully. Gillette found that these lines of business called for strategies totally different from those it followed in selling its existing products.⁴³ Two lessons can be drawn from Gillette's experience. One, there may be other strategic reasons for successfully launching a new product in the market besides commonality of markets or technology. Two, the commonality should be analyzed in breadth and depth before drawing conclusions about the transferability of current strengths to the new product.

Philip Morris's acquisition of Miller Brewing Company illustrates how a company may achieve marketing synergies through concentric diversification. Cigarettes and beer are distributed through many of the same retail outlets, and Philip Morris had been dealing with them for years. In addition, both products serve hedonistic consumer markets. Small wonder, therefore, that the marketing research techniques and emotional promotion appeals of cigarette merchandising worked equally well for beer. Miller moved from seventh to second place in the beer industry in the short span of six years.

Horizontal Diversification

Horizontal diversification refers to new products that technologically are unrelated to a company's existing products but that can be sold to the same group of customers to whom existing products are sold. A classic case of this form of diversification is Procter & Gamble's entry into potato chips (Pringles), toothpaste (Crest and Gleem), coffee (Folgers), and orange juice (Citrus Hill). Traditionally a

soap company, Procter & Gamble diversified into these products, which were aimed at the same customers who bought soap. Similarly, Maytag's entry into the medium-priced mass market to sell refrigerators and ranges, in addition to selling its traditional line of premium-priced dishwashers, washers, and dryers, is a form of horizontal diversification. Mattel's introduction of clothing items (skirts, shoes, jeans, shirts, and pajamas) for little girls, sizes 4 to 6x, under the Barbie brand name is another example of horizontal diversification. Using the Barbie phenomenon, the company has successfully launched the new business. As a company executive puts it, "Barbie is a designer brand for the little customers, their Calvin Klein."⁴⁴

Note that in the case of concentric diversification, the new product may have certain common ties with the marketing of a company's existing product except that it is sold to a new set of customers. In horizontal diversification, by contrast, the customers for the new product are drawn from the same ranks as those for an existing product.

Other things being equal, in a competitive environment horizontal diversification is more desirable if present customers are favorably disposed toward the company and if one can expect this loyalty to carry over to the new product; in the long run, however, a new product must stand on its own. For example, if product quality is lacking, if promotion is not effective, or if the price is not right, a new product will flop despite customer loyalty to the company's other products. Thus, while Crest and Folgers made it for Procter & Gamble, Citrus Hill has been struggling, and Pringles has been disappointing, even though all these products are sold to the same "loyal" customers. In other words, horizontal diversification should not be regarded as a route to success in all cases. An important limitation of horizontal diversification is that the new product is introduced and marketed in the same economic environment as the existing products, which can lead to rigidity and instability. Stated differently, horizontal diversification tends to increase the company's dependence on a few market segments.

Conglomerate Diversification

In conglomerate diversification, the new product bears no relationship to either the marketing or the technology of the existing product(s). In other words, through conglomerate diversification, a company launches itself into an entirely new product/market arena. ITT's ventures into bakery products (Continental Baking Company), insurance (Hartford Insurance Group), car rentals (Avis Rent-A-Car System, Inc.), and the hotel business (Sheraton Corporation) illustrate the implementation of conglomerate diversification. (ITT divested its car rental business a few years ago.)

Dover Corp. provides another example of conglomerate diversification. The company, with annual sales of over \$3 billion, is a manufacturer with 54 operating companies engaged in more than 70 diverse businesses, from elevators and garbage trucks to valves and welding torches.⁴⁵

It is necessary to remember here that companies do not flirt with unknown products in unknown markets without having some hidden strengths to handle conglomerate diversification. For example, the managerial style required for a new product to prosper may be just the same as the style the company already

has. Thus, managerial style becomes the basis of synergy between the new product and an existing product. By the same token, another single element may serve as a dominant factor in making a business attractive for diversification.

Inasmuch as conglomerate diversification does not bear an obvious relationship to a company's existing business, there is some question as to why companies adopt it. There are two major advantages of conglomerate diversification. One, it can improve the profitability and flexibility of a firm by venturing into businesses that have better economic prospects than those of the firm's existing businesses. Two, a conglomerate firm, because of its size, gets a better reception in capital markets.

Overall, this type of diversification, if successful, has the potential of providing increased growth and profitability.

VALUE-MARKETING STRATEGY

In the 1990s, *value* has become the marketer's watchword. Today, customers are demanding something different than they did in the past. They want the right combination of product quality, good service, and timely delivery. These are the keys to performing well in the next century. It is for this reason that we examine this new strategic focus.

Value marketing strategy stresses real product performance and delivering on promises. Value marketing doesn't mean high quality if it is only available at ever-higher prices. It doesn't necessarily mean cheap, if cheap means bare bones or low-grade. It doesn't mean high prestige, if the prestige is viewed as snobbish or self-indulgent. At the same time, value is not about positioning and image mongering. It simply means providing a product that works as claimed, is accompanied by decent service, and is delivered on time.

The emphasis on value is part atmospherics, part economics, and part demographics. Consumers are repudiating the wretched excesses of the 1980s and are searching for more traditional rewards of home and family. They are concerned about the seemingly nonending economic ups and down. The growing focus on value also stems from profound changes in the American consumer marketplace.

For example, real income growth for families got a boost when women entered the work force. But now, with many women already working and many baby boomers assuming new family responsibilities, the growth in disposable income is scarily slow. Aging baby boomers whose debt burden is already high realize that they must worry about their children's college tuitions and their own retirement. At the same time, the new generation of consumers is both savvy and more cynical than were its predecessors. Briefly, consumers want products that perform, sold by advertising that informs. They are concerned about intrinsic value, not simply buying to impress others.

Quality Strategy

Traditionally, quality has been viewed as a manufacturing concern. Strategically, however, the idea of total quality is perceived in the market; that is, quality must exude from the offering itself and from all the services that come with it. The

important point is that quality perspectives should be based on customer preferences, not on internal evaluations. The ultimate objective of quality should be to delight the customer in every way possible, providing levels of service, product quality, product performance, and support that are beyond his/her expectations. Ultimately, quality may mean striving for excellence throughout the entire organization. For assessing perceived quality, the step-by-step procedure used by the Strategic Planning Institute may be followed:

1. A meeting is held, in which a multifunctional team of managers and staff specialists identify the nonprice product and service attributes that affect customer buying decisions. For an office equipment product, these might include durability, maintenance costs, flexibility, credit terms, and appearance.
2. The team is then asked to assign "importance weights" for each attribute representing their relative decisions. These relative importance weights sum to 100. (For markets in which there are important segments with different importance weights, separate weights are assigned to each segment.)
3. The management team creates its business unit's product line, and those of leading competitors, on each of the performance dimensions identified in Step 1. From these attribute-by-attribute ratings, each weighted by its respective importance weight, an overall relative quality score is constructed.
4. The overall relative quality score and other measures of competitive position (relative price and market share) and financial performance (ROI, ROS, and ROE) are validated against benchmarks based on the experience of "look-alike" businesses in similar strategic positions in order to check the internal consistency of strategic and financial data and confirm the business and market definition.
5. Finally, the management team tests its plans and budgets for reality, develops a blueprint for improving market perceived quality, relative to competitors', and calibrates the financial payoff.

In many cases, the judgmental ratings assigned by the management team are tested (and, when appropriate, modified) by collecting ratings from customers via field interviews.⁴⁶

This approach to assessing relative quality is similar to the multiattribute methods used in marketing research. These research methods are, however, employed primarily for evaluating or comparing individual products (actual or prospective), whereas the scores here apply to a business unit's entire product line.

Attaining adequate levels of excellence and customer satisfaction often requires significant cultural change; that is, change in decision-making processes, interfunctional relationships, and the attitudes of each member of the company. In other words, achieving total quality objectives requires teamwork and cooperation. People are encouraged and rewarded for doing their jobs right the first time rather than for their success in resolving crises. People are empowered to make decisions and instilled with the feeling that quality is everyone's responsibility.

The following are the keys to success in achieving world-class total quality. First, the program requires unequivocal support of top management. The second key to success is understanding customer need. The third key is to fix the business process, if there are gaps in meeting customer needs. The fourth key is to compress

cycle time to avoid bureaucratic hassles and delays. The next is empowering people so that they are able to exert their best talents. Further, measurement and reward systems must be reassessed and revamped to recognize people. Finally, the total quality program should be a continuous concern, a constant focus on identifying and eliminating waste and inefficiency throughout the organization.⁴⁷

Organizationally, the single most important aspect of implementing a quality strategy is to maintain a close liaison with the customer. Honda's experience in this matter in designing the new Accord is noteworthy:

When Honda's engineers began to design the third-generation (or 1986) Accord in the early 1980s, they did not start with a sketch of a car. The engineers started with a concept—"man maximum, machine minimum" that captured in a short, evocative phrase the way they wanted customers to feel about the car. The concept and the car have been remarkably successful: since 1982, the Accord has been one of the best-selling cars in the United States; in 1989, it was the top-selling car. Yet when it was time to design the 1990 Accord, Honda listened to the market, not to its own success. Market trends were indicating a shift away from sporty sedans toward family models. To satisfy future customers' expectations and to reposition the Accord, moving it up-market just a bit, the 1990 model would have to send a new set of product messages—"an adult sense of reliability." The ideal family car would allow the driver to transport family and friends with confidence, whatever the weather or road conditions; passengers would always feel safe and secure.

This message was still too abstract to guide the engineers who would later be making concrete choices about the new Accord's specifications, parts, and manufacturing processes. So the next step was finding an image that would personify the car's message to consumers. The image that managers emerged with was "a rugby player in a business suit." It evoked rugged, physical contact, sportsmanship, and gentlemanly behavior—disparate qualities the new car would have to convey. The image was also concrete enough to translate clearly into design details. The decision to replace the old Accord's retractable head lamps with headlights made with a pioneering technology developed by Honda's supplier, Stanley, is a good example. To the designers and engineers, the new lights' totally transparent cover glass symbolized the will of a rugby player looking into the future calmly, with clear eyes.

The next and last step in creating the Accord's product concept was to break down the rugby player image into specific attributes the new car would have to possess. Five sets of key words captured what the product leader envisioned: "open minded," "friendly communication," "tough spirit," "stress-free," and "love forever." Individually and as a whole, these key words reinforced the car's message to consumers. "Tough spirit" in the car, for example, meant maneuverability, power, and sure handling in extreme driving conditions, while "love forever" translated into long-term reliability and customer satisfaction. Throughout the course of the project, these phrases provided a kind of shorthand to help people make coherent design and hardware choices in the face of competing demands.⁴⁸

There are three generic approaches to improving quality performance: catching up, pulling ahead, and leapfrogging.⁴⁹ Catching up involves restoring those aspects about which the firm has been behind to standard. Catching up is a defensive strategy where the emphasis is either to be as good as the competition or to barely meet market requirements. Pulling ahead, going further than the customer

asks or achieving superiority over the competition, provides a firm competitive advantage that may lead to greater profitability. Thus, it makes sense to resist the temptation to focus on just catching up and to find a way to make a sustainable move to pull ahead. Finally, leapfrogging involves negating competitive disadvantage, that is, creating a sustainable competitive advantage through differentiation. In other words, leapfrogging comprises coming from behind and getting ahead of the competition through providing a quality product in keeping with customer demands. For example, by leapfrogging Detroit on several key attributes, Japanese companies rolled further up the “quality-for-price curve”; that is, they shifted into better value positions.

Several benefits accrue to businesses that offer superior perceived quality, including stronger customer loyalty, more repeat purchases, less vulnerability to price wars, ability to command higher relative price without affecting share, lower marketing costs, and share improvements.

Customer-Service Strategy

Customer service has come to occupy an important place in today’s competitive market. Invariably, customers want personal service, the kind of service delivered by live bodies behind a sales counter, a human voice at the other end of a telephone, or people in the teller’s cage at the bank. Paying attention to the customer is not a new concept. In the 1950s, General Motors went all the way toward consumer satisfaction by designing cars for every lifestyle and pocketbook, a breakthrough for an industry that had been largely driven by production needs ever since Henry Ford promised to deliver any color car as long as it was black. General Motors rode its insights into customers’ needs to a 52 percent share of the U.S. car market in 1962.⁵⁰ But with a booming economy, a rising population, and virtually no foreign competition, many U.S. companies had it too easy. Through the 1960s and into the 1970s, many U.S. car makers could sell just about anything they could produce. With customers seemingly satisfied, management concentrated on cutting production costs and making splashy acquisitions. To manage these growing behemoths, CEOs turned to strategic planning, which focused on winning market share, not on getting in touch with remote customers. Markets came to be defined as aggregations of competitors, not as customers.

In recent times, Japanese companies were the first to recognize a problem. They started to rescue customers from the limbo of so-so merchandise and take-it-or-leave-it service. They built loyalty among U.S. car buyers by assiduously uncovering and accommodating customer needs. The growing influence of Japanese firms as well as demographics and hard economic times have forced American companies to realize the need to listen to customers.

Creative changes in service can make the difference. For example, companies offering better service can charge 10 percent more for their products than competitors.⁵¹ Even smaller companies with fewer management layers are finding that personal relationships between senior executives and customers can help in various ways. Many companies attach so much importance to service that they require their senior managers to put in time at the front lines. For example, Xerox requires that its executives spend one day a month taking complaints from customers

about machines, bills, and service. Similarly, at Hyatt Hotels, senior executives put in time as bellhops.⁵²

Briefly, a company must decide who it wants to serve, discover what those customers want, and set a strategy that single-mindedly provides that service to those customers. With such clearly articulated goals, top management can give frontline employees responsibility for responding instantly to customer needs in those crucial moments that determine the company's success or failure. The following episode, which underlines Scandinavian Airlines's emphasis on service, shows how far a company can go to stand by the customer.

Rudy Peterson was an American businessman staying at the Grand Hotel in Stockholm. Arriving at Stockholm's Arlanda airport for an important day trip with a colleague to Copenhagen on a Scandinavian Airlines (SAS) flight, he realized he'd left his ticket in his hotel room.

Everyone knows you can't board an airplane without a ticket, so Rudy Peterson resigned himself to missing the flight and his business meeting in Copenhagen. But when he explained his dilemma to the ticket agent, he got a pleasant surprise. "Don't worry, Mr. Peterson," she said with a smile. "Here's your boarding card. I'll insert a temporary ticket in here. If you just tell me your room number at the Grand Hotel and your destination in Copenhagen, I'll take care of the rest."

While Rudy and his colleague waited in the passenger lounge, the ticket agent dialed the hotel. A bellhop checked the room and found the ticket. The ticket agent then sent an SAS limo to retrieve it from the hotel and bring it directly to her. They moved so quickly that the ticket arrived before the Copenhagen flight departed. No one was more surprised than Rudy Peterson when the flight attendant approached him and said calmly, "Mr. Peterson? Here's your ticket."

What would have happened at a more traditional airline? Most airline manuals are clear: "No ticket, no flight." At best, the ticket agent would have informed her supervisor of the problem, but Rudy Peterson almost certainly would have missed his flight. Instead, because of the way SAS handled his situation, he was both impressed and on time for his meeting.⁵³

The SAS experience shows how far a business must be willing to go to become a truly customer-driven company, a company that recognizes that its only true assets are satisfied customers, all of whom expect to be treated as individuals.

Many firms argue that service by definition is difficult to guarantee. Services are generally delivered by human beings, who are less predictable than machines. Services are also usually produced at the same time that they are consumed. Although there can be exceptions to the rule, service can be guaranteed in any field. Consider the guarantee offered by "Bugs" Burger Bug Killers (BBBK), a Miami-based pest extermination company, a division of S.C. Johnson and Sons:

Most of BBBK's competitors claim that they will reduce pests to "acceptable levels"; BBBK promises to eliminate them entirely. Its service guarantee to hotel and restaurant clients promises:

- You don't owe one penny until all pests on your premises have been eradicated.
- If you are ever dissatisfied with BBBK's service, you will receive a refund for up to 12 months of the company's services plus fees for another exterminator of your choice for the next year.

- If a guest spots a pest on your premises, BBBK will pay for the guest's meal or room, send a letter of apology, and pay for a future meal or stay.
- If your facility is closed down due to the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profits, plus \$5,000. In short, BBBK says, "If we don't satisfy you 100%, we don't take your money."⁵⁴

The company's service program has been extremely successful. It charges up to 10 times more than its competitors and yet has a disproportionately high market share in its operating areas.

In designing a good service program, a company should be conversant with a number of important trends. First, customers don't read (e.g., customers don't read assembly and operation instructions). Second, customers don't understand ownership responsibilities (e.g., some hotels require customers to program their own wake-up calls into a confusing computerized system). Third, high technology and product complexity make product differentiation difficult (i.e., with like products, better service can become an important differentiating factor). Fourth, consumers have lower confidence and expectations for products and services (i.e., customer service can have an enormous impact on consumer confidence). Fifth, high-quality service has become a product attribute (i.e., consumers rate qualitative service factors as more important than product cost and features). Sixth, consumer attention is drawn to negative publicity (i.e., negative word of mouth is extremely detrimental). Seventh, consumers believe they are not getting their money's worth.

Improved customer service can play a major role in changing customer perceptions about a product and its value and can directly affect a company's success and profitability. The quality of service a company provides depends largely on people, not only those with direct customer responsibility but also with managers, supervisors, and support staff. Thus, success in providing adequate service largely depends on preparing employees for it.

Time-Based Strategy

When a product market changes quickly, companies must respond quickly if they want to preserve their positions. In today's changing markets, time-based strategy that aims to beat the competition has assumed new dimensions.

GE has cut the time to deliver a custom-made industrial circuit breaker box from three weeks to three days. In the past, AT&T needed two years to design a new phone; now it needs only one year. Motorola used to take three weeks to turn out electronic pagers after the factory received the order; now it takes two hours.⁵⁵

Time-based strategy brings about important competitive benefits. Market share grows because customers love getting their orders now. Inventories of finished goods shrink because they are not necessary to ensure quick delivery; the fastest manufacturers can make and ship an order the day it is received. For this and other reasons, costs fall. Many employees become satisfied because they are working for a more responsive, more successful company and because speeding operations requires giving them more flexibility and responsibility. Quality also improves. Briefly, doing it fast forces a firm to do it right the first time.

Speed can also pay off in product development even if it means going over budget by as much as 50 percent. For example, a model developed by McKinsey and Co. shows that high-tech products that come to market on budget but six months late earn 33 percent less profit over five years. In contrast, coming out 50 percent over budget but on time cuts profits only by 4 percent.⁵⁶

To implement a time-based strategy, the entire production process must be redesigned for speed. GE's experience is relevant here. Its circuit breaker business was old and stagnant. Market growth was slow and Siemens and Westinghouse were strong competitors. GE assembled a team of manufacturing, design, and marketing experts to focus on overhauling the entire process. The goal was to cut the time between order and delivery from three weeks to three days. Six plants around the United States were producing circuit breaker boxes. The team consolidated production into one plant and automated its facilities. But the team did not automate operations as they were. In the old system, engineers custom-designed each box, a task that took about a week. Engineers chose from 28,000 unique parts to create a box. To set up an automated system to handle that many parts would have been a nightmare. The design team reduced the number of parts to 1,275, making most parts interchangeable. Even with this drastic reduction in parts, customers were still given 40,000 different sizes, shapes, and configurations from which to choose.

The team also devised a way to phase out the engineers, by replacing them with computers. Now a salesperson enters the specifications for a circuit breaker into a computer at GE's main office and the order flows to a computer at the plant, which automatically programs factory machines to custom-make the order with minimum waste.

Although these advances are indeed impressive, the team still had to conquer another source of delay—solving problems and making decisions on the factory floor. The solution was to eliminate all line supervisors and quality inspectors, reducing the organizational layers between worker and plant manager from three to one. Everything middle managers used to handle—vacation scheduling, quality, work rules—became the responsibility of the 129 workers on the floor, who were divided into teams of 15 to 20. It worked. The more responsibility GE gave the workers, the faster problems were solved and decisions were made.

The results: The plant that used to have a two-month backlog of orders now works with a two-day backlog. Productivity has increased 20 percent over the past year. Manufacturing costs have dropped 30 percent, or \$5.5 million a year, and return on investment is running at over 20 percent. The speed of delivery for a higher-quality product with more features has shrunk from three weeks to three days. And GE is gaining share in a flat market.⁵⁷

Another area ripe for time-based strategy is the administrative/approval area. According to the Thomas Group, a Dallas-based consulting firm specializing in speed, manufacturing typically takes only 5 to 20 percent of the total time that is needed to get an order for a given product to market; the rest is administrative.⁵⁸ For example, at Adca Bank, a subsidiary of West Germany's Reebobank (with assets of \$90 billion), an application for a loan used to go

through numerous layers of bureaucracy. A branch would send a loan application to a loan officer at headquarters, who would look at it and change it. Then the loan officer's manager would look at the application and change it, and so on. The bank eventually got rid of five layers of management and gave officers in all branches more authority to make loans. It used to take 24 managers to approve a loan. Now it takes 12.

Teamwork seems to be the key ingredient among the fastest companies. Nearly all of them form multidepartment teams. AT&T formed teams of six to twelve members, including engineers, manufacturers, and marketers, with complete authority to make every decision about how a product would look, work, be made, and cost. At AT&T the key was setting rigid speed requirements, such as six weeks, and leaving the rest to the team. Teams could meet these strict deadlines because they did not need to send each decision up the line for approval. With this new approach, AT&T cut development time for its new 4200 phone from two years to just a year while lowering costs and increasing quality.

Application of time-based strategy to distribution is equally important. Even the world's fastest factory cannot provide much of a competitive advantage if everything it produces gets snagged in the distribution chain. For example, Benetton takes its distribution very seriously and has created an electronic loop that links sales agent, factory, and warehouse. If a saleswoman in one of Benetton's Los Angeles shops finds that she is starting to run out of a best-selling sweater, she calls one of Benetton's 80 sales agents, who enters the order in a personal computer, which sends it to a mainframe in Italy. The mainframe computer, which has all of the measurements for the sweater, sets the knitting machines in motion. Once the sweaters are finished, workers box them up and label the box with a bar code containing the Los Angeles address. The box then goes into the warehouse. The computer next sends a robot flying. The robot finds the box and any others going to Los Angeles, picks them up, and loads them onto a truck. Including manufacturing time, Benetton can get an order to Los Angeles in four weeks.

Implementation of time-based strategy requires a number of steps. First, start from scratch (i.e., set a time goal and revamp entire operations to meet this goal rather than simply improving efficiency in current operations). Second, wipe out approvals (i.e., cut down bureaucratic layers of control and let people make decisions on the spot). Third, emphasize teamwork (i.e., establish multidepartment teams to handle the work). Fourth, worship the schedule (i.e., nothing short of disaster should be a valid excuse for delay). Fifth, develop time-effective distribution (i.e., snags in distribution must be simultaneously worked out). Sixth, put speed in the culture (i.e., train people in the company at all levels to understand and appreciate the significance of speed).

The advantages of speed are undeniably impressive. Although it is a common precept that time is money, in practice, companies have paid only lip service to it. The time it took to do a job, whatever the amount, was considered a necessity to meet organizational requirements, systems, procedures, and hierarchical relationships. Now, however, there is a new realization that time saved is

a strategic factor for gaining competitive advantage. Companies that grasp and appreciate the unprecedented advantages of getting new products to market sooner and orders to customers faster hold the key for achieving competitive preeminence in the 1990s and beyond.

SUMMARY

Product strategies reflect the mission of the business unit and the business it is in. Following the marketing concept, the choice of product strategy should bear a close relationship to the market strategy of the company. The various product strategies and the alternatives under each strategy that were discussed in this chapter are outlined below:

1. Product-positioning strategy
 - a. Positioning a single brand
 - b. Positioning multiple brands
2. Product-repositioning strategy
 - a. Repositioning among existing customers
 - b. Repositioning among new users
 - c. Repositioning for new uses
3. Product-overlap strategy
 - a. Competing brands
 - b. Private labeling
 - c. Dealing with original-equipment manufacturers (OEMs)
4. Product-scope strategy
 - a. Single product
 - b. Multiple products
 - c. System of products
5. Product-design strategy
 - a. Standard products
 - b. Customized products
 - c. Standard product with modifications
6. Product-elimination strategy
 - a. Harvesting
 - b. Line simplification
 - c. Total-line divestment
7. New-product strategy
 - a. Product improvement/modification
 - b. Product imitation
 - c. Product innovation

8. Diversification strategy
 - a. Concentric diversification
 - b. Horizontal diversification
 - c. Conglomerate diversification
9. Value-marketing strategy
 - a. Quality strategy
 - b. Customer-service strategy
 - c. Time-based strategy

The nature of different strategies was discussed, and their relevance for different types of companies was examined. Adaptations of different strategies in practice were illustrated with citations from published sources.

DISCUSSION QUESTIONS

1. Discuss how a business unit may avoid problems of cannibalism among competing brands.
2. Conceptualize how a lagging brand (assume a grocery product) may be repositioned for new uses.
3. What criteria may be employed to determine the viable position for a brand in the market?
4. What conditions justify a company's dealing in multiple products?
5. Are there reasons other than profitability for eliminating a product? Discuss.
6. What factors must be weighed to determine the viability of divesting an entire product line?
7. Under what circumstances is it desirable to adopt a product-imitation strategy?

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APPENDIX

Perspectives of Product Strategies

I. *Product-Positioning Strategy*

Definition: Placing a brand in that part of the market where it will have a favorable reception compared with competing brands.

Objectives: (a) To position the product in the market so that it stands apart from competing brands. (b) To position the product so that it tells customers what you stand for, what you are, and how you would like customers to evaluate you. In the case of positioning multiple brands: (a) To seek growth by offering varied products in differing segments of the market. (b) To avoid competitive threats to a single brand.

Requirements: Use of marketing mix variables, especially design and communication efforts. (a) Successful management of a single brand requires positioning

the brand in the market so that it can stand competition from the toughest rival and maintaining its unique position by creating the aura of a distinctive product. (b) Successful management of multiple brands requires careful positioning in the market so that multiple brands do not compete with nor cannibalize each other. Thus it is important to be careful in segmenting the market and to position an individual product as uniquely suited to a particular segment through design and promotion.

Expected Results: (a) Meet as much as possible the needs of specific segments of the market. (b) Limit sudden changes in sales. (c) Make customers faithful to the brands.

II. Product- Repositioning Strategy

Definition: Reviewing the current positioning of the product and its marketing mix and seeking a new position for it that seems more appropriate.

Objectives: (a) To increase the life of the product. (b) To correct an original positioning mistake.

Requirements: (a) If this strategy is directed toward existing customers, repositioning is sought through promotion of more varied uses of the product. (b) If the business unit wants to reach new users, this strategy requires that the product be presented with a different twist to the people who have not been favorably inclined toward it. In doing so, care should be taken to see that, in the process of enticing new customers, current ones are not alienated. (c) If this strategy aims at presenting new uses of the product, it requires searching for latent uses of the product, if any. Although all products may not have latent uses, there are products that may be used for purposes not originally intended.

Expected Results: (a) Among existing customers: increase in sales growth and profitability. (b) Among new users: enlargement of the overall market, thus putting the product on a growth route, and increased profitability. (c) New product uses: increased sales, market share, and profitability.

III. Product-Overlap Strategy

Definition: Competing against one's own brand through introduction of competing products, use of private labeling, and selling to original-equipment manufacturers.

Objectives: (a) To attract more customers to the product and thereby increase the overall market. (b) To work at full capacity and spread overhead. (c) To sell to competitors; to realize economies of scale and cost reduction.

Requirements: (a) Each competing product must have its own marketing organization to compete in the market. (b) Private brands should not become profit drains. (c) Each brand should find its special niche in the market. If that doesn't happen, it will create confusion among customers and sales will be hurt. (d) In the long run, one of the brands may be withdrawn, yielding its position to the other brand.

Expected Results: (a) Increased market share. (b) Increased growth.

IV.
Product-Scope
Strategy

Definition: The product-scope strategy deals with the perspectives of the product mix of a company. The product-scope strategy is determined by taking into account the overall mission of the business unit. The company may adopt a single-product strategy, a multiple-product strategy, or a system-of-products strategy.

Objectives: (a) Single product: to increase economies of scale by developing specialization. (b) Multiple products: to cover the risk of potential obsolescence of the single product by adding additional products. (c) System of products: to increase the dependence of the customer on the company's products as well as to prevent competitors from moving into the market.

Requirements: (a) Single product: company must stay up-to-date on the product and even become the technology leader to avoid obsolescence. (b) Multiple products: products must complement one another in a portfolio of products. (c) System of products: company must have a close understanding of customer needs and uses of the products.

Expected Results: Increased growth, market share, and profits with all three strategies. With system-of-products strategy, the company achieves monopolistic control over the market, which may lead to some problems with the Justice Department, and enlarges the concept of its product/market opportunities.

V.
Product-Design
Strategy

Definition: The product-design strategy deals with the degree of standardization of a product. The company has a choice among the following strategic options: standard product, customized product, and standard product with modifications.

Objectives: (a) Standard product: to increase economies of scale of the company. (b) Customized product: to compete against mass producers of standardized products through product-design flexibility. (c) Standard product with modifications: to combine the benefits of the two previous strategies.

Requirements: Close analysis of product/market perspectives and environmental changes, especially technological changes.

Expected Results: Increase in growth, market share, and profits. In addition, the third strategy allows the company to keep close contacts with the market and gain experience in developing new standard products.

VI.
Product-
Elimination
Strategy

Definition: Cuts in the composition of a company's business unit product portfolio by pruning the number of products within a line or by totally divesting a division or business.

Objectives: To eliminate undesirable products because their contribution to fixed cost and profit is too low, because their future performance looks grim, or because they do not fit in the business's overall strategy. The product-elimination strategy aims at shaping the best possible mix of products and balancing the total business.

Requirements: No special resources are required to eliminate a product or a division. However, because it is impossible to reverse the decision once the elimination

has been achieved, an in-depth analysis must be done to determine (a) the causes of current problems; (b) the possible alternatives, other than elimination, that may solve problems (e.g., Are any improvements in the marketing mix possible?); and (c) the repercussions that elimination may have on remaining products or units (e.g., Is the product being considered for elimination complementary to another product in the portfolio? What are the side effects on the company's image? What are the social costs of an elimination?).

Expected Results: In the short run, cost savings from production runs, reduced inventories, and in some cases an improved return on investment can be expected. In the long run, the sales of the remaining products may increase because more efforts are now concentrated on them.

VII.
***New-Product
Strategy***

Definition: A set of operations that introduces (a) within the business, a product new to its previous line of products; (b) on the market, a product that provides a new type of satisfaction. Three alternatives emerge from the above: product improvement/modification, product imitation, and product innovation.

Objectives: To meet new needs and to sustain competitive pressures on existing products. In the first case, the new-product strategy is an offensive one; in the second case, it is a defensive one.

Requirements: A new-product strategy is difficult to implement if a "new product development system" does not exist within a company. Five components of this system should be assessed: (a) corporate aspirations toward new products, (b) organizational openness to creativity, (c) environmental favor toward creativity, (d) screening method for new ideas, and (e) evaluation process.

Expected Results: Increased market share and profitability.

VIII.
***Diversification
Strategy***

Definition: Developing unfamiliar products and markets through (a) concentric diversification (products introduced are related to existing ones in terms of marketing or technology), (b) horizontal diversification (new products are unrelated to existing ones but are sold to the same customers), and (c) conglomerate diversification (products are entirely new).

Objectives: Diversification strategies respond to the desire for (a) growth when current products/markets have reached maturity, (b) stability by spreading the risks of fluctuations in earnings, (c) security when the company may fear backward integration from one of its major customers, and (d) credibility to have more weight in capital markets.

Requirements: In order to reduce the risks inherent in a diversification strategy, a business unit should (a) diversify its activities only if current product/market opportunities are limited, (b) have good knowledge of the area in which it diversifies, (c) provide the products introduced with adequate support, and (d) forecast the effects of diversification on existing lines of products.

Expected Results: (a) Increase in sales. (b) Greater profitability and flexibility.

IX.
**Value-Marketing
Strategy**

Definition: The value-marketing strategy concerns delivering on promises made for the product or service. These promises involve product quality, customer service, and meeting time commitments.

Objectives: Value-marketing strategies are directed toward seeking total customer satisfaction. It means striving for excellence to meet customer expectations.

Requirements: (a) Examine customer value perspectives. (b) Design programs to meet customer quality, service, and time requirements. (c) Train employees and distributors to deliver on promises.

Expected Results: This strategy enhances customer satisfaction, which leads to customer loyalty and, hence, to higher market share. This strategy makes the firm less vulnerable to price wars, permitting the firm to charge higher prices and, thus, earn higher profits.