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Products, Services, and Brands Building Customer Value

Chapter Preview After examining customer-driven marketing strategy, we now take a deeper look at the marketing mix: the tactical tools that marketers use to implement their strategies and deliver superior customer value. In this and the next chapter, we'll study how companies develop and manage products and brands. Then, in the chapters that follow, we'll look at pricing, distribution, and marketing communication tools. The product is usually the first and most basic marketing consideration. We start with a seemingly simple question: What *is* a product? As it turns out, the answer is not so simple.

Before starting into the chapter, let's look at an interesting brand story. Marketing is all about building brands that connect deeply with customers. So, when you think about top brands, which ones pop up first? Perhaps traditional megabrands such as Coca-Cola, Nike, or McDonald's come to mind. Or maybe a trendy tech brand such as Google or Facebook. But if we asked you to focus on sports entertainment, you'd probably name ESPN. When it comes to your life and sports, ESPN probably has it covered.

The ESPN Brand: Every Sport Possible—Now

When you think of ESPN, you probably don't think of it as a "brand." You think of it as a cable TV network, a magazine, or perhaps a Web site. ESPN is all of those things. But more than that, ESPN is a brand experience—a meaningful part of customers' lives that goes well beyond the cable networks, publications, and other entities it comprises. To consumers, ESPN is synonymous with sports entertainment, inexorably linked with their sports memories, realities, and anticipations.

In 1979, entrepreneur Bill Rasmussen took a daring leap and founded the round-the-clock sports network ESPN (Entertainment and Sports Programming Network). Two years later, George Bodenheimer took a job in ESPN's mailroom. The rest, as they say, is history. Despite many early skeptics, Bodenheimer (who rose through the ranks to become ESPN's energetic president in 1998) currently presides over a multibillion dollar sports empire.

Today, ESPN is as much recognized and revered as iconic megabrands like Coca-Cola, Nike, or Google. No matter who you are, chances are good that ESPN has touched you in some meaningful way. Perhaps you're a *SportsCenter* junkie who just has to watch ESPN every day to keep up with all the sports news and scores. Or perhaps you're one of the more than five million fans in March who post their brackets for the NCAA men's basketball tournament. Or perhaps you rely on ESPN Radio for up-to-the-minute scores and knowledgeable sports talk while at work or in your car. No matter what the sport or where, ESPN seems to be everywhere at once.

Here's a brief summary of the incredible variety of entities tied together under the ESPN brand:

Television: From its original groundbreaking cable network—which now serves 98 million households—the ESPN brand has sprouted six additional networks—ESPN2, ESPN Classic, ESPNEWS, ESPNU, ESPN Deportes (Spanish language), and ESPN International (46 international networks around the world serving fans in more than 200 countries on every continent). ESPN also produces the sports programming on ABC, dubbed ESPN on ABC, and is the home of the NBA Finals, NASCAR, college football, college basketball, World Cup Soccer, the Indy 500, the Little League World Series, and more.

One of the pioneers in high-definition TV broadcasting, ESPN last year outbid the major broadcast networks to capture the rights to air college football's Bowl Championship Series (BCS) beginning in 2011. Paying a reported \$500 million for those rights, ESPN settled a decade-long argument over whether cable TV had the mass appeal necessary to support major sports events.

Radio: Sports radio is thriving, and ESPN operates the largest sports radio network, with 750 U.S. affiliates and more than 350 full-time stations plus Spanish-language ESPN Deportes in major markets. Overseas, ESPN has radio and syndicated radio programs in 11 countries.

The ever-expanding ESPN brand is as much recognized and revered as iconic megabrands like Coca-Cola, Nike, or Google. When it comes to your life and sports, chances are good that ESPN plays a meaningful role.

Digital: ESPN.com is one of the world's leading sports Web sites. And ESPNRadio.com is the most listened-to online sports destination, with 35 original podcasts each week. ESPN360.com—a broadband sports network available at no cost to fans who receive their high-speed Internet connection from an affiliated service provider—delivers more than 3,500 live sporting events each year. It also provides on-demand video from ESPN's other networks plus exclusive content and video games. ESPN also delivers mobile sports content via all the major U.S. wireless providers—including real-time scores, stats, late-breaking news, video-on-demand, and even live TV. ESPN recently extended the brand further through an agreement with YouTube, featuring an ESPN channel of ad-supported short-form sports content and highlights.

Publishing: When ESPN first published *ESPN The Magazine* in 1998, critics gave it little chance against the mighty *Sports Illustrated* (SI). Yet, with its bold look, bright colors, and unconventional format, the ESPN publication now serves more than 2 million subscribers and growing, as compared with SI's stagnant 3.3 million subscribers. ESPN also publishes books through its ESPN Books division, including 10 new titles last year.

As if all this weren't enough, ESPN also manages events, including the X Games, the Winter X Games, ESPN Outdoors (featuring the Bassmaster Classic), the Skins Games, the Jimmy V Classic, and several football bowl games. It also develops ESPN-branded consumer products and services, including CDs, DVDs, video games, and even golf schools. If reading all this makes you hungry, you may be near an ESPN Zone, which includes a sports-themed restaurant, interactive games, and sports-related merchandise sales.

You'll now find ESPN content in airports and on planes, in health clubs, and even in gas stations. "Now you're not going to be bored when you fill up your tank. It gives new meaning to pulling into a full-service station," says Bodenheimer. "I've been on flights where people are watching our content and don't want to get off the flight."

Sports fans around the world love their ESPN. This fan affinity for the brand, in turn, makes it attractive to marketers as



a vehicle for reaching their customers. Advertisers recently ranked ESPN number one for the sixth consecutive year for having appealing audience demographics, providing creative marketing and promotion opportunities, and having a positive brand image and an appealing programming environment. The combination of per-subscriber-based revenue from cable affiliates plus revenues from advertisers who buy time on its networks gives ESPN the financial muscle to compete with the traditional broadcast networks for sports programming.

Thus, no matter what your sport or where you are, the ESPN brand probably plays a prominent part in the action. To fans around the world, ESPN means sports. Tech savvy, creative, and often irreverent, the well-managed, ever-extending brand continues to build meaningful customer experiences and relationships. If it has to do with your life and sports—large or small—ESPN covers it for you, anywhere you are, 24/7.

Bodenheimer notes that ESPN's flagship show, *SportsCenter*, is locally produced in 13 locales and eight languages around the globe. "The sun never sets on *SportsCenter*," he boasts. Perhaps the company should rename ESPN to stand for Every Sport Possible—Now.¹

ESPN is more than just cable networks, publications, and other media. To consumers, ESPN is synonymous with sports entertainment, inextricably linked with consumers' sports memories, realities, and anticipations.

As the ESPN example shows, in their quest to create customer relationships, marketers must build and manage products and brands that connect with customers. This chapter begins with a deceptively simple question: *What is a product?* After addressing this question, we look at ways to classify products in consumer and business markets. Then we discuss the important decisions that marketers make regarding individual products, product lines, and product mixes. Next, we examine the characteristics and marketing requirements of a special form of product—services. Finally, we look into the critically important issue of how marketers build and manage product and service brands.

Objective OUTLINE

Objective 1

Define *product* and the major classifications of products and services.

[What Is a Product? \(224–229\)](#)

Objective 2

Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

[Product and Service Decisions \(229–236\)](#)

Objective 3

Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require.

[Services Marketing \(236–243\)](#)

Objective 4

Discuss branding strategy—the decisions companies make in building and managing their brands.

[Branding Strategy: Building Strong Brands \(243–252\)](#)

Author Comment As you'll see, this is a deceptively simple question with a very complex answer. For example, think back to our opening ESPN story. What is the ESPN "product"?

What Is a Product? (pp 224–229)

We define a **product** as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible objects, such as cars, computers, or cell phones. Broadly defined, "products" also include services, events, persons, places, organizations, ideas, or a mixture of these. Throughout this text, we use the term *product* broadly to include any or all of these entities. Thus, an Apple iPhone, a Toyota Camry, and a Caffé Mocha at Starbucks are products. But so are a trip to Las Vegas, E*Trade online investment services, and advice from your family doctor.

Because of their importance in the world economy, we give special attention to services.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, hotel services, airline travel, retail, wireless communication, and home-repair services. We will look at services more closely later in this chapter.

Products, Services, and Experiences

Products are a key element in the overall *market offering*. Marketing-mix planning begins with building an offering that brings value to target customers. This offering becomes the basis on which the company builds profitable customer relationships.

A company's market offering often includes both tangible goods and services. At one extreme, the market offer may consist of a *pure tangible good*, such as soap, toothpaste, or salt; no services accompany the product. At the other extreme are *pure services*, for which the market offer consists primarily of a service. Examples include a doctor's exam or financial services. Between these two extremes, however, many goods-and-services combinations are possible.

Today, as products and services become more commoditized, many companies are moving to a new level in creating value for their customers. To differentiate their offers, beyond simply making products and delivering services, they are creating and managing customer *experiences* with their brands or company.

Experiences have always been an important part of marketing for some companies. Disney has long manufactured dreams and memories through its movies and theme parks. And Nike has long declared, "It's not so much the shoes but where they take you." Today, however, all kinds of firms are recasting their traditional goods and services to create ex-

Product

Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Service

An activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything.



● **Creating customer experiences:** The Olive Garden sells more than just Italian food. It serves up an idealized Italian family meal experience. “When you’re here, you’re family.”

periences. ● For example, the Olive Garden knows that it’s selling more than just Italian food; it’s selling a complete dining experience.²

A decade ago, Olive Garden’s menu had grown stale, and sales were declining. Research showed that “people missed the emotional comfort and connectivity that comes with family,” says Drew Madsen, president and COO of parent company Darden Restaurants. So the Olive Garden set out to recraft its guest dining experience, under the tagline “When you’re here, you’re family.” To actually deliver that guest experience, the Olive Garden began tying everything it did to an idealized Italian family meal. For example, it designed new restaurants to suggest Italian farmhouses, with a large family-style table, modeled on one in a Florentine trattoria. In partnership with Italians, the Olive Garden even founded the Culinary Institute of Tuscany (CIT) in an 11th-century Tuscan village.

Through CIT, hundreds of Olive Garden chefs and restaurant team members have traveled to Italy to gain inspiration and learn the secrets of authentic Italian foods “that you’ll enjoy sharing with your friends and family.” More than 10 times a year, the company sends restaurant team members, many of whom have never set foot in Italy, to spend a week at CIT, where local experts expose them to everything from how olive oil gets pressed to how to layer flavors in Bolognese. Back home, such inspiring employee experiences translate into an authentic guest experience that’s rare for a casual dining restaurant. “People come to a restaurant for both physical and emotional nourishment,” says Madsen. “The physical is the food; and the emotional is how you feel when you leave.” The now highly successful Olive Garden chain delivers on both.

Companies that market experiences realize that customers are really buying much more than just products and services. They are buying what those offers will *do* for them. A recent BMW ad puts it this way: “We realized a long time ago that what you make people feel is just as important as what you make.” “A brand, product, or service is more than just a physical thing. Humans that connect with the brand add meaning and value to it,” says one marketing executive. “Successfully managing the customer experience is the ultimate goal,” adds another.³

Levels of Product and Services

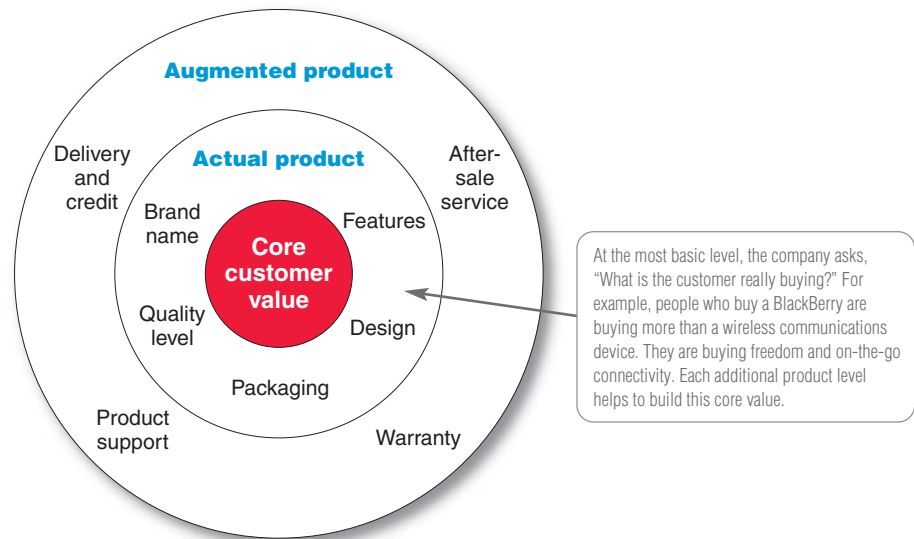
Product planners need to think about products and services on three levels (see ● **Figure 8.1**). Each level adds more customer value. The most basic level is the *core customer value*, which addresses the question *What is the buyer really buying?* When designing products, marketers must first define the core, problem-solving benefits or services that consumers seek. A woman buying lipstick buys more than lip color. Charles Revson of Revlon saw this early: “In the factory, we make cosmetics; in the store, we sell hope.” ● And people who buy a BlackBerry smartphone are buying more than a cell phone, an e-mail device, or a personal organizer. They are buying freedom and on-the-go connectivity to people and resources.

At the second level, product planners must turn the core benefit into an *actual product*. They need to develop product and service features, design, a quality level, a brand name, and packaging. For example, the BlackBerry is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been carefully combined to deliver the core customer value of staying connected.



● **Core, actual, and augmented product:** People who buy a BlackBerry device are buying more than a cell phone, an e-mail device, or an organizer. They are buying freedom and on-the-go connectivity to people and resources.

● FIGURE | 8.1
Three Levels of Product



Finally, product planners must build an *augmented product* around the core benefit and actual product by offering additional consumer services and benefits. The BlackBerry is more than just a communications device. It provides consumers with a complete solution to mobile connectivity problems. Thus, when consumers buy a BlackBerry, the company and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the device, quick repair services when needed, and a toll-free telephone number and Web site to use if they have problems or questions.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the *core customer value* that consumers seek from the product. They must then design the *actual product* and find ways to *augment* it to create this customer value and the most satisfying customer experience.

Product and Service Classifications

Products and services fall into two broad classes based on the types of consumers that use them: *consumer products* and *industrial products*. Broadly defined, products also include other marketable entities such as experiences, organizations, persons, places, and ideas.

Consumer Products

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services further based on how consumers go about buying them. Consumer products include *convenience products*, *shopping products*, *specialty products*, and *unsought products*. These products differ in the ways consumers buy them and, therefore, in how they are marketed (see ● Table 8.1).

Convenience products are consumer products and services that customers usually buy frequently, immediately, and with minimal comparison and buying effort. Examples include laundry detergent, candy, magazines, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need or want them.

Shopping products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. Examples include furniture, clothing, used cars, major appliances, and hotel and airline services. Shopping products marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Specialty products are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special pur-

Consumer product

A product bought by final consumers for personal consumption.

Convenience product

A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Shopping product

A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price, and style.

Specialty product

A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

● TABLE | 8.1 Marketing Considerations for Consumer Products

Marketing Considerations	Type of Consumer Product			
	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness; knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

chase effort. Examples include specific brands of cars, high-priced photographic equipment, designer clothes, and the services of medical or legal specialists. A Lamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.

Unsought products are consumer products that the consumer either does not know about or knows about but does not normally consider buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, preplanned funeral services, and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

Unsought product

A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Industrial Products

Industrial products are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the *purpose* for which the product is purchased. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

The three groups of industrial products and services include materials and parts, capital items, and supplies and services. *Materials and parts* include raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important.

Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (computers, fax machines, desks). They have a shorter life than installations and simply aid in the production process.

Industrial product

A product bought by individuals and organizations for further processing or for use in conducting a business.

The final group of industrial products is *supplies and services*. Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

Organizations, Persons, Places, and Ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings: organizations, persons, places, and ideas.

Organizations often carry out activities to “sell” the organization itself. *Organization marketing* consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization. Both profit and not-for-profit organizations practice organization marketing. Business firms sponsor public relations or *corporate image advertising* campaigns to market themselves and polish their images. For example, food, agriculture, and industrial products giant Cargill markets itself to the public as a company that works closely with its business customers—from farmers and fisherman to fast-food restaurants and furniture manufacturers—to help bring the world everything from heart-healthy milk and trans fat-free french fries to furniture and bedding foam created from renewable resources. It says in its ads, “This is how Cargill works with customers: “collaborate > create > succeed.” Similarly, not-for-profit organizations, such as churches, colleges, charities, museums, and performing arts groups, market their organizations to raise funds and attract members or patrons.

People can also be thought of as products. *Person marketing* consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And businesses, charities, and other organizations use well-known personalities to help sell their products or causes. For example, Nike is represented by well-known athletes such as Kobe Bryant, Serena Williams, and hundreds of others around the globe in sports ranging from tennis and basketball to ice hockey and cricket. At the other extreme, Taylor Guitar markets a Baby Taylor model named after country pop superstar Taylor Swift, and Fender offers a John Mayer Stratocaster.

The skillful use of marketing can turn a person’s name into a powerhouse brand. Carefully managed and well-known names, including Oprah Winfrey, Martha Stewart, and Donald Trump, now adorn everything from sports apparel, housewares, and magazines to book clubs and casinos. Such well-known names hold substantial branding power. ● Consider the chefs on the Food Network. These days it’s hard to shop for kitchen products without bumping into goods endorsed by these culinary all-stars:⁴



● **Person marketing:** Food Network chefs like Rachael Ray and Bobby Flay now approximate rock stars. Each offers a slew of cook books, endorsed brands, and signature lines of cookware and condiments.

In an age when its chefs approximate rock stars, the Food Network is the ultimate launching ground for their endorsed products. Every chef offers a library of cookbooks, but it goes far beyond that. Fans can cook just like their favorite Food Network guru by purchasing accessories to outfit their kitchens and a variety of essential signature flavors to stock their pantries. For example, Emeril Lagasse’s

name peppers products such as his own spices (Bam!!) and a line of cookware from All-Clad. Giada De Laurentiis has her own spread of goods to create the perfect everyday Italian meal—from cheese graters to pasta—available only at Target. “Good Eats” and “Iron Chef” host Alton Brown is a spokesperson for Welch’s and GE Appliances and has his own line of Shun knives. And Rachael Ray is a one-woman marketing phenomenon. Beyond her Food Network shows, she landed her own daytime talk show; endorses a litany of orange-colored cookware, bakeware, and cutlery; has her own brand of dog food called Nutrish; and brands her own EVOO (extra virgin olive oil, for those not familiar with Rayisms).

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places. Cities, states, regions, and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. New York State advertises “I ♥ NY, and California urges you to “Find yourself here.” Tourism Ireland, the agency responsible for marketing Irish tourism to the rest of the world, invites travelers to “Go where Ireland takes you.” The agency works with the travel trade, media, and other partners in key world markets, such as the United States, Canada, Australia, and a dozen European countries. At its Discover Ireland Web site, Tourism Ireland offers information about the country and its attractions, a travel planner, special vacation offers, lists of tour operators, and much more information that makes it easier to say “yes” to visiting Ireland.⁵

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest toothpastes create “healthy, beautiful smiles for life.” Here, however, we narrow our focus to the marketing of *social ideas*. This area has been called **social marketing**, defined by the Social Marketing Institute (SMI) as the use of commercial marketing concepts and tools in programs designed to bring about social change.⁶

Social marketing programs include public health campaigns to reduce smoking, drug abuse, and obesity. Other social marketing efforts include environmental campaigns to promote wilderness protection, clean air, and conservation. Still others address issues such as family planning, human rights, and racial equality. The Ad Council of America (www.adcouncil.org) has developed dozens of social advertising campaigns, involving issues ranging from preventive health, education, and personal safety to environmental preservation.

But social marketing involves much more than just advertising—the SMI encourages the use of a broad range of marketing tools. “Social marketing goes well beyond the promotional ‘P’ of the marketing mix to include every other element to achieve its social change objectives,” says the SMI’s executive director.⁷

Social marketing

The use of commercial marketing concepts and tools in programs designed to influence individuals’ behavior to improve their well-being and that of society.

Author Comment | Now that we’ve answered the “What is a product?” question, we dig into the specific decisions that companies must make when designing and marketing products and services.

Product and Service Decisions (pp 229–236)

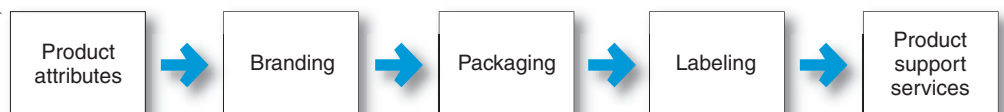
Marketers make product and service decisions at three levels: individual product decisions, product line decisions, and product mix decisions. We discuss each in turn.

Individual Product and Service Decisions

● **Figure 8.2** shows the important decisions in the development and marketing of individual products and services. We will focus on decisions about *product attributes, branding, packaging, labeling, and product support services*.

Don’t forget Figure 8.1! The focus of all of these decisions is to create core customer value.

● **FIGURE | 8.2**
Individual Product Decisions



Product quality

The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Product and Service Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as *quality, features, and style and design*.

Product Quality. **Product quality** is one of the marketer's major positioning tools. Quality has a direct impact on product or service performance; thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "freedom from defects." But most customer-centered companies go beyond this narrow definition. Instead, they define quality in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. Similarly, Siemens defines quality this way: "Quality is when our customers come back and our products don't."⁸

Total quality management (TQM) is an approach in which all of the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a "return on quality" approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.

Product quality has two dimensions: level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's positioning. Here, product quality means *performance quality*—the ability of a product to perform its functions. For example, a Rolls-Royce provides higher performance quality than a Chevrolet: It has a smoother ride, provides more luxury and "creature comforts," and lasts longer. Companies rarely try to offer the highest possible performance quality level; few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce automobile, a Viking range, or a Rolex watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

Beyond quality level, high quality also can mean high levels of quality consistency. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality. In this sense, a Chevrolet can have just as much quality as a Rolls-Royce. Although a Chevy doesn't perform at the same level as a Rolls-Royce, it can deliver as consistently the quality that customers pay for and expect.

Product Features. A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? It should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers to these questions provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value highly in relation to costs should be added.

Product Style and Design. Another way to add customer value is through distinctive *product style and design*. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks.

Good design doesn't start with brainstorming new ideas and making prototypes. Design begins with observing customers and developing a deep understanding of their needs. More than simply creating product or service attributes, it involves shaping the customer's

We've remodeled the most important parts of your kitchen.

obsolete, it's to make them better. If we can't make them better, we don't make them at all. Pick up OXO Good Grips® and you'll feel what we mean. They're easy to hold, easy to use and easy to love. In fact, they might just change the way you feel about your kitchen.

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● **Product design:** OXO focuses on the desired end-user experience and then translates its pie-cutter-in-the-sky notions into eminently usable gadgets.

product-use experience. Product designers should think less about product attributes and technical specifications and more about how customers will use and benefit from the product.

● Consider OXO's outstanding design philosophy and process:⁹

OXO's uniquely designed kitchen and gardening gadgets look pretty cool. But to OXO, good design means a lot more than good looks. It means that OXO tools work—*really* work—for anyone and everyone. "OXO is practically the definition of 'good experience,'" notes one observer. For OXO, design means a salad spinner that can be used with one hand; tools with pressure-absorbing, nonslip handles that make them more efficient; or a watering can with a spout that rotates back toward the body, allowing for easier filling and storing. Ever since it came out with its supereffective Good Grips vegetable peeler in 1990, OXO has been known for clever designs that make everyday living easier. Its eye-catching, super-useful houseware designs have even been featured in museum exhibitions, and OXO is now extending its design touch to office supplies, medical devices, and baby products.

Much of OXO's design inspiration comes directly from users. "Every product that we make starts with . . . watching how people use things," says Alex Lee, OXO's president. "Those are the gems—when you pull out a latent problem." For example, after watching people struggle with the traditional Pyrex measuring cup, OXO discovered a critical flaw: You can't tell how full it is without lifting it up to eye level. The resulting OXO

measuring cups have markings down the *inside* that can be read from above, big enough to read without glasses. Thus, OXO begins with a desired end-user experience and then translates pie-cutter-in-the-sky notions into eminently usable gadgets.

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. Customers attach meanings to brands and develop brand relationships. Brands have meaning well beyond a product's physical attributes. For example, consider Coca-Cola:¹⁰

In an interesting taste test of Coca-Cola versus Pepsi, 67 subjects were connected to brain-wave-monitoring machines while they consumed both products. When the soft drinks were unmarked, consumer preferences were split down the middle. But when the brands were identified, subjects choose Coke over Pepsi by a margin of 75 percent to 25 percent. When drinking the identified Coke brand, the brain areas that lit up most were those associated with cognitive control and memory—a place where culture concepts are stored. That didn't happen as much when drinking Pepsi. Why? According to one brand strategist, it's because of Coca-Cola's long-established brand imagery—the almost 100-year-old contour bottle and cursive font and its association with iconic images ranging from Mean Joe Greene and the Polar Bears to Santa Claus. Pepsi's imagery isn't quite as deeply rooted. Although people might associate Pepsi with a hot celebrity or the "Pepsi generation" appeal, they probably don't link it to the strong and emotional American icons associated with Coke. The conclusion? Plain and simple: Consumer preference isn't based on taste alone. Coke's iconic brand appears to make a difference.

Brand

A name, term, sign, symbol, design, or a combination of these, that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Branding has become so strong that today hardly anything goes unbranded. Salt is packaged in branded containers, common nuts and bolts are packaged with a distributor's label, and automobile parts—spark plugs, tires, filters—bear brand names that differ from those of the automakers. Even fruits, vegetables, dairy products, and poultry are branded—Sunkist oranges, Dole Classic iceberg salads, Horizon Organic milk, and Perdue chickens.

Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also say something about product quality and consistency—buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. And branding helps the seller to segment markets. For example, Toyota Motor Corporation can offer the major Lexus, Toyota, and Scion brands, each with numerous subbrands—such as Camry, Corolla, Prius, Matrix, Yaris, Tundra, Land Cruiser, and others—not just one general product for all consumers.

Building and managing brands are perhaps the marketer's most important tasks. We will discuss branding strategy in more detail later in the chapter.

Packaging

The activities of designing and producing the container or wrapper for a product.

Packaging

Packaging involves designing and producing the container or wrapper for a product. Traditionally, the primary function of the package was to hold and protect the product. In recent times, however, numerous factors have made packaging an important marketing tool as well. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks—from attracting attention, to describing the product, to making the sale.

Companies are realizing the power of good packaging to create immediate consumer recognition of a brand. For example, an average supermarket stocks 47,000 items; the average Walmart supercenter carries 142,000 items. The typical shopper passes by some 300 items per minute, and from 40 percent to 70 percent of all purchase decisions are made in stores. In this highly competitive environment, the package may be the seller's last and best chance to influence buyers. Thus, for many companies, the package itself has become an important promotional medium.¹¹

Poorly designed packages can cause headaches for consumers and lost sales for the company. Think about all those hard-to-open packages, such as DVD cases sealed with impossibly sticky labels, packaging with finger-splitting wire twist-ties, or sealed plastic clamshell containers that take the equivalent of the fire department's Jaws of Life to open. ● Such packaging causes what Amazon.com calls “wrap rage”—the frustration we feel when trying to free a product from a nearly impenetrable package.” Amazon.com recently launched a multiyear initiative to alleviate wrap rage. It's working with companies such as Fisher-Price, Mattel, Microsoft, and others to create “frustration-free packaging”—smaller, easy-to-open recyclable packages that use less packaging material and no frustrating plastic clamshells or wire ties. These new packages not only reduce customer frustration, but they also cut down on packaging waste and energy usage. “It will take many years,” says the company, “but our vision is to offer our entire catalog of products in frustration-free packaging.”¹²

Innovative packaging can give a company an advantage over competitors and boost sales. Sometimes even seemingly small packaging improvements can make a big difference. For example, Heinz revolutionized the 170-year-old condiments industry by inverting the good old ketchup bottle, letting customers quickly squeeze out even the last bit of ketchup. At the same time, it adopted a “fridge-door-fit” shape that not only slots into shelves more easily but also has a cap that is simpler for children to open. In the four months following the introduction of the new package, sales jumped 12 percent. Even more, the new package does double duty as a promotional tool. Says a packaging analyst, “When consumers see the Heinz logo on the fridge door every time they open it, it's taking marketing inside homes.”¹³

amazon.com

Dear Customers,

“Wrap rage” describes the frustration we humans feel when trying to free a product from a nearly impenetrable package.

Some products are hermetically sealed inside plastic clamshell cases, while others (especially toys) use plastic-coated steel-wire ties. Without the right tools, wire ties can be painful and time-consuming to untwist.

Today, we're excited to announce the beginning of a multi-year initiative designed to alleviate wrap rage—Amazon “Frustration-Free Packaging.”

Amazon is working with leading manufacturers to deliver products inside smaller, easy-to-open, recyclable cardboard boxes with less packaging material (and no frustrating plastic clamshells or wire ties).

One of the first products to launch with Frustration-Free Packaging is the **Fisher-Price Imaginext Adventures Pirate Ship**, which is now delivered in an easy-to-open, recyclable cardboard box.

The new packaging eliminates:

- 1,576.5 square inches of printed corrugated package inserts
- 175.25 square inches of PVC blisters
- 36.1 square inches of folding carton materials
- 36 inches of plastic-coated steel wire ties
- Two molded plastic fasteners
- 3.5 square inches of ABS molded styrene

● **Better packaging:** Amazon.com recently launched a multiyear initiative to create “frustration-free packaging” and eliminate “wrap rage.” Its goal is to eventually offer its entire catalog of products in frustration-free packaging.

In recent years, product safety has also become a major packaging concern. We have all learned to deal with hard-to-open “childproof” packaging. After the rash of product tampering scares in the 1980s, most drug producers and food makers now put their products in tamper-resistant packages. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, many companies have gone “green” by reducing their packaging and using environmentally responsible packaging materials.

Labeling

Labels range from simple tags attached to products to complex graphics that are part of the packaging. They perform several functions. At the very least, the label *identifies* the product or brand, such as the name Sunkist stamped on oranges. The label might also *describe* several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might help to *promote* the brand, support its positioning, and connect with customers. For many companies, labels have become an important element in broader marketing campaigns.

Labels and brand logos can support the brand’s positioning and add personality to the brand. For example, many companies are now redesigning their brand and company logos to make them more approachable, upbeat, and engaging. “The boxy, monochromatic look is out, and soft fonts, lots of colors, and natural imagery is in,” says one analyst. For instance, Kraft recently replaced its blocky red, white, and blue hexagon logo with a lowercase, multi-

font, multicolor one that includes a colorful starburst and the company’s new slogan, “Make today delicious.” Similarly, Walmart swapped its blocky, single-color logo for one that has two colors and a sun icon. And Pepsi’s recently updated packaging sports a new, more uplifting smiling logo. “It feels like the same Pepsi we know and love,” says a brand expert, “but it’s more adventurous, more youthful, with a bit more personality to it.” It presents a “spirit of optimism and youth,” says a Pepsi marketer.¹⁴

Along with the positives, labeling also raises concerns. There has been a long history of legal concerns about packaging and labels. The Federal Trade Commission Act of 1914 held that false, misleading, or deceptive labels or packages constitute unfair competition. Labels can mislead customers, fail to describe important ingredients, or fail to include needed safety warnings. As a result, several federal and state laws regulate labeling. The most prominent is the Fair Packaging and Labeling Act of 1966, which set mandatory labeling requirements, encouraged voluntary industry packaging standards, and allowed federal agencies to set packaging regulations in specific industries.

Labeling has been affected in recent times by *unit pricing* (stating the price per unit of standard measure), *open dating* (stating the expected shelf life of the product), and *nutritional labeling* (stating the nutritional values in the product). The Nutritional Labeling and Educational Act of 1990 requires sellers to provide detailed nutritional information on food products, and recent sweeping actions by the Food and Drug Administration (FDA) regulate the use of health-related terms such as *low fat*, *light*, and *high fiber*. Sellers must ensure that their labels contain all the required information.

Product Support Services

Customer service is another element of product strategy. A company’s offer usually includes some support services, which can be a minor part or a major part of the total offering. Later in this chapter, we will discuss services as products in themselves. Here, we discuss services that augment actual products.



● Labeling and logos can enhance a brand’s positioning and personality: Pepsi’s new logo is “more adventurous, more youthful, with a bit more personality to it.” It presents a “spirit of optimism and youth.”



● Nordstrom thrives on stories about its after-sale service. Nordstrom wants to “Take care of customers, no matter what it takes,” before, during, and after the sale.

Support services are an important part of the customer’s overall brand experience. ● For example, upscale department store retailer Nordstrom knows that good marketing doesn’t stop with making the sale. Keeping customers happy *after* the sale is the key to building lasting relationships. Nordstrom’s motto: “Take care of customers, no matter what it takes,” before, during, and after the sale.¹⁵

Nordstrom thrives on stories about its after-sale service heroics, such as employees dropping off orders at customer’s homes or warming up cars while customers spend a little more time shopping. In one case, a sales clerk reportedly gave a customer a refund on a tire—Nordstrom doesn’t carry tires, but the store prides itself on a no-questions-asked return policy. In another case, a Nordstrom sales clerk stopped a customer in the store and asked if the shoes she was wearing had been bought there. When a customer said yes, the clerk insisted on replacing them on the spot, saying that they hadn’t worn as well as they should. There’s even a story about a man whose wife, a loyal Nordstrom customer, died with her Nordstrom account \$1,000 in arrears. Not only did Nordstrom settle the account, but it also sent flowers to the funeral. Such service heroics keep Nordstrom customers coming back again and again.

The first step in designing support services is to survey customers periodically to assess the value of current services and obtain ideas for new ones. Once the company has assessed the quality of various support services to customers, it can take steps to fix problems and add new services that will both delight customers and yield profits to the company.

Many companies are now using a sophisticated mix of phone, e-mail, fax, Internet, and interactive voice and data technologies to provide support services that were not possible before. For example, HP offers a complete set of sales and after-sale services. It promises “HP Total Care—expert help for every stage of your computer’s life. From choosing it, to configuring it, to protecting it, to tuning it up—all the way to recycling it.” Customers can click on the HP Total Care service portal that offers online resources for HP products and 24/7 tech support, which can be accessed via e-mail, instant online chat, and telephone.¹⁶

Product line

A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product Line Decisions

Beyond decisions about individual products and services, product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel, and Marriott offers several lines of hotels.

The major product line decision involves *product line length*—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Managers need to analyze their product lines periodically to assess each item’s sales and profits and understand how each item contributes to the line’s overall performance.

Product line length is influenced by company objectives and resources. For example, one objective might be to allow for upselling. Thus BMW wants to move customers up from its 1-series models to 3-, 5-, 6-, and 7-series models. Another objective might be to allow cross-selling: HP sells printers as well as cartridges. Still another objective might be to protect against economic swings: Gap runs several clothing-store chains (Gap, Old Navy, and Banana Republic) covering different price points.

A company can expand its product line in two ways: by *line filling* or *line stretching*. *Product line filling* involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using ex-

cess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalization and customer confusion. The company should ensure that new items are noticeably different from existing ones.

Product line stretching occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways. Companies located at the upper end of the market can stretch their lines *downward*. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments. Honda stretched downward for all these reasons by adding its thrifty little Honda Fit to its line. The Fit, economical to drive and

priced in the \$14,000 to \$15,000 range, met increasing consumer demands for more frugal cars and preempted competitors in the new-generation minicar segment.

Companies can also stretch their product lines *upward*. Sometimes, companies stretch upward to add prestige to their current products. Or they may be attracted by a faster growth rate or higher margins at the higher end. For example, some years ago, each of the leading Japanese auto companies introduced an up-market automobile: Honda launched Acura; Toyota launched Lexus; and Nissan launched Infiniti. They used entirely new names rather than their own names.

Companies in the middle range of the market may decide to stretch their lines in *both directions*. Marriott did this with its hotel product line. Along with regular Marriott hotels, it added eight new branded hotel lines to serve both the upper and lower ends of the market. For example, Renaissance Hotels & Resorts aims to attract and please top executives; Fairfield Inn by Marriott, vacationers and business travelers on a tight travel budget; and Courtyard by Marriott, salespeople and other "road warriors."¹⁷ The major risk with this

strategy is that some travelers will trade down after finding that the lower-price hotels in the Marriott chain give them pretty much everything they want. However, Marriott would rather capture its customers who move downward than lose them to competitors.



● **Product line stretching:** Marriott offers a full line of hotel brands—each aimed at a different target market.

Product mix (or product portfolio)

The set of all product lines and items that a particular seller offers for sale.

Product Mix Decisions

An organization with several product lines has a product mix. A **product mix** (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale. Colgate's product mix consists of four major product lines: oral care, personal care, home care, and pet nutrition. Each product line consists of several sublines.¹⁸ For example, the home care line consists of dishwashing, fabric conditioning, and household cleaning products. Each line and subline has many individual items. Altogether, Colgate's product mix includes hundreds of items.

A company's product mix has four important dimensions: width, length, depth, and consistency. Product mix *width* refers to the number of different product lines the company carries. For example, the "Colgate World of Care" includes a fairly contained product mix, consisting of personal and home care products that you can "trust to care for yourself, your home, and the ones you love." By contrast, GE manufactures as many as 250,000 items across a broad range of categories, from light bulbs to jet engines and diesel locomotives.

Product mix *length* refers to the total number of items a company carries within its product lines. Colgate typically carries many brands within each line. For example, its personal care line includes Softsoap liquid soaps and body washes, Irish Spring bar soaps, Speed Stick deodorant, and Skin Bracer and Afta aftershaves.

Product mix *depth* refers to the number of versions offered for each product in the line. Colgate toothpastes come in 16 varieties, ranging from Colgate Total, Colgate Max Fresh, Colgate Sensitive, Colgate Cavity Protection, and Colgate Tartar Protection to Ultrabrite, Colgate Sparkling White, Colgate Luminous, and Colgate Kids Toothpastes. Each variety comes in its own special forms and formulations. For example, you can buy Colgate Total in regular, mint stripe gel, or whitening liquid.

Finally, the *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Colgate product lines are consistent insofar as they are consumer products and go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

These product mix dimensions provide the handles for defining the company's product strategy. The company can increase its business in four ways. (1) It can add new product lines, widening its product mix. In this way, its new lines build on the company's reputation in its other lines. (2) The company can lengthen its existing product lines to become a more full-line company. (3) It can add more versions of each product and thus deepen its product mix. (4) The company can pursue more product line consistency—or less—depending on whether it wants to have a strong reputation in a single field or in several fields.

In the face of recent economic difficulties, many companies have streamlined their product mixes to pare out marginally performing lines and models and sharpen their value propositions. Others have bolstered their product mixes by adding more affordable options. Because of the economy, "consumers are talking about reassessing their favorite brands . . . if they think they can get a better value with the same price," says a marketing consultant. As consumers rethink their brand preferences and priorities, marketers must do the same. They need to align their product mixes with changing customer needs and profitably create better value for customers.¹⁹

Author Comment | As noted at the start of this chapter, services are "products," too—intangible ones. So all the product topics we've discussed so far apply to services as well as to physical products. However, in this section, we focus on the special characteristics and marketing needs that set services apart.

Services Marketing (pp 236–243)

Services have grown dramatically in recent years. Services now account for close to 80 percent of the U.S. gross domestic product (GDP). And the service industry is growing. By 2014, it is estimated that nearly four out of five jobs in the United States will be in service industries. Services are growing even faster in the world economy, making up 64 percent of the gross world product.²⁰

Service industries vary greatly. *Governments* offer services through courts, employment services, hospitals, military services, police and fire departments, the postal service, and schools. *Private not-for-profit organizations* offer services through museums, charities, churches, colleges, foundations, and hospitals. A large number of *business organizations* offer services—airlines, banks, hotels, insurance companies, consulting firms, medical and legal practices, entertainment and telecommunications companies, real-estate firms, retailers, and others.

The Nature and Characteristics of a Service

A company must consider four special service characteristics when designing marketing programs: intangibility, inseparability, variability, and perishability (see ● **Figure 8.3**).

Service intangibility means that services cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, people undergoing cosmetic surgery cannot see the result before the purchase. Airline passengers have nothing but a ticket and a promise that they and their luggage will arrive safely at the intended destination, hopefully at the same time. To reduce uncertainty, buyers look for "signals" of service quality. They draw conclusions about quality from the place, people, price, equipment, and communications that they can see.

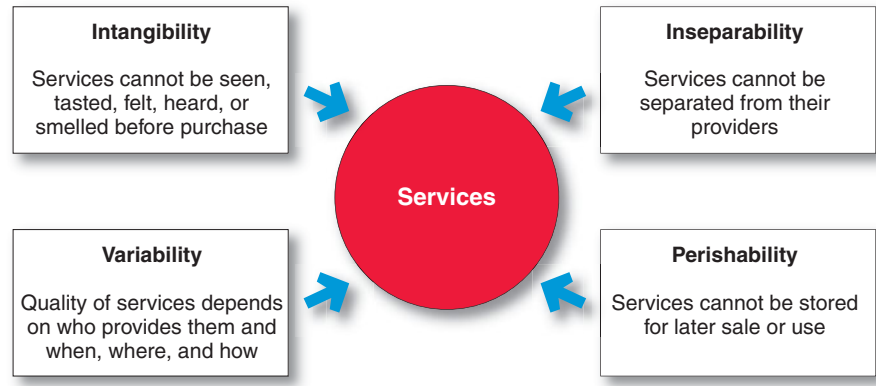
Therefore, the service provider's task is to make the service tangible in one or more ways and send the right signals about quality. One analyst calls this *evidence management*,

Service intangibility

Services cannot be seen, tasted, felt, heard, or smelled before they are bought.

FIGURE | 8.3
Four Service Characteristics

Although services are “products” in a general sense, they have special characteristics and marketing needs. The biggest differences come from the fact that services are essentially intangible and that they are created through direct interactions with customers. Think about your experiences with an airline versus Nike or Apple.



in which the service organization presents its customers with organized, honest evidence of its capabilities. The Mayo Clinic practices good evidence management:²¹

When it comes to hospitals, it’s very hard for the average patient to judge the quality of the “product.” You can’t try it on, you can’t return it if you don’t like it, and you need an advanced degree to understand it. And so, when we’re considering a medical facility, most of us unconsciously turn into detectives, looking for evidence of competence, caring, and integrity. The Mayo Clinic doesn’t leave that evidence to chance. By carefully managing a set of visual and experiential clues, both inside and outside the clinic, the Mayo Clinic offers patients and their families concrete evidence of its strengths and values.

Service inseparability

Services are produced and consumed at the same time and cannot be separated from their providers.

Inside, staff is trained to act in a way that clearly signals Mayo Clinic’s patient-first focus. “My doctor calls me at home to check on how I am doing,” marvels one patient. “She wants to work with what is best for my schedule.” The clinic’s physical facilities also send the right signals. They’ve been carefully designed to offer a place of refuge, convey caring and respect, and signal competence. Looking for external confirmation? Go online and hear directly from those who’ve been to the clinic or work there. The Mayo Clinic now uses social networking—everything from blogs to Facebook and YouTube—to enhance the patient experience. For example, on the Sharing Mayo Clinic blog (<http://sharing.mayoclinic.org>), patients and their families retell their Mayo experiences, and Mayo employees offer behind-the-scenes views. The result? Exceptionally positive word of mouth and abiding customer loyalty have allowed the Mayo Clinic to build what is arguably the most powerful brand in health care with very little advertising. “The quality of the [patient] experience is key,” says Dr. Thoraf Sundt, a heart surgeon and chair of Mayo’s marketing committee.



By providing customers with organized, honest evidence of its capabilities, the Mayo Clinic has built one of the most powerful brands in healthcare. Its Sharing Mayo Clinic blog lets you hear directly from those who have been to the clinic or work there.

Physical goods are produced, then stored, later sold, and still later consumed. In contrast, services are first sold and then produced and consumed at the same time. In services marketing, the service provider is the product. **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. Because the customer is also present as the service is produced, *provider-customer interaction* is a special feature of services marketing. Both the provider and the customer affect the service outcome.

Service variability

The quality of services may vary greatly depending on who provides them and when, where, and how.

Service perishability

Services cannot be stored for later sale or use.

Service profit chain

The chain that links service firm profits with employee and customer satisfaction.

Service variability means that the quality of services depends on who provides them as well as when, where, and how they are provided. For example, some hotels—say, Marriott—have reputations for providing better service than others. Still, within a given Marriott hotel, one registration-counter employee may be cheerful and efficient, whereas another standing just a few feet away may be unpleasant and slow. Even the quality of a single Marriott employee’s service varies according to his or her energy and frame of mind at the time of each customer encounter.

Service perishability means that services cannot be stored for later sale or use. Some doctors charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up. The perishability of services is not a problem when demand is steady. However, when demand fluctuates, service firms often have difficult problems. For example, because of rush-hour demand, public transportation companies have to own much more equipment than they would if demand were even throughout the day. Thus, service firms often design strategies for producing a better match between demand and supply. Hotels and resorts charge lower prices in the off-season to attract more guests. And restaurants hire part-time employees to serve during peak periods.

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. JetBlue promises “Happy Jetting”; Target says “Expect more. Pay less.” At Hampton, “We love having you here.” And St. Jude Children’s Hospital it is “Finding cures. Saving children.” These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The Service Profit Chain

In a service business, the customer and the front-line service employee *interact* to create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus their attention on *both* their customers and their employees. They understand the **service profit chain**, which links service firm profits with employee and customer satisfaction. This chain consists of five links:²²

- *Internal service quality*: superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in . . .
- *Satisfied and productive service employees*: more satisfied, loyal, and hardworking employees, which results in . . .
- *Greater service value*: more effective and efficient customer value creation and service delivery, which results in . . .
- *Satisfied and loyal customers*: satisfied customers who remain loyal, repeat purchase, and refer other customers, which results in . . .
- *Healthy service profits and growth*: superior service firm performance.

Therefore, reaching service profits and growth goals begins with taking care of those who take care of customers. Four Seasons Hotels and Resorts, a chain legendary for its outstanding customer service, is also legendary for its motivated and satisfied employees (see Real Marketing 8.1). Similarly, customer-service all-star Zappos.com, the online shoe, clothing, and accessories retailer, knows that happy customers begin with happy, dedicated, and energetic employees.²³

Most of Zappos.com’s business is driven by word-of-mouth and customer interactions with company employees. So keeping *customers* happy really does require keeping *employees* happy. Zappos.com, Inc., starts by recruiting the right people and training them thoroughly in customer-service basics. Then the Zappos family culture takes over, a culture that emphasizes “a satisfying and fulfilling job . . . and a career you can be proud of. Work hard. Play hard. All the time!” It’s a great place to work. The online retailer

Real Marketing 8.1

The Four Seasons: Taking Care of Those Who Take Care of Customers

At a Four Seasons hotel, every guest is a somebody. Other exclusive resorts pamper their guests, but the Four Seasons has perfected the art of high-touch, carefully crafted service. Guests paying \$1,000 or more a night expect to have their minds read, and this luxury hotel doesn't disappoint. Its mission is to perfect the travel experience through the highest standards of hospitality. "From elegant surroundings of the finest quality, to caring, highly personalized 24-hour service," says the company, "Four Seasons embodies a true home away from home for those who know and appreciate the best."

As a result, the Four Seasons has a cult-like customer clientele. As one Four Seasons Maui guest recently told a manager, "If there's a heaven, I hope it's run by Four Seasons." But what makes the Four Seasons so special? It's really no secret. Just ask anyone who works there. From the CEO to the doorman, they'll tell you: It's the Four Seasons staff. "What you see from the public point of view is a reflection of our people—they are the heart and soul of what makes this company succeed," says Isadore Sharp, the founder and CEO of the Four Seasons. "When we say people are our most important asset—it's not just talk." Just as it does for customers, the Four Seasons respects and pampers its employees. It knows that happy, satisfied employees make for happy, satisfied customers.

The Four Seasons customer-service legacy is deeply rooted in the company's culture, which in turn is grounded in the Golden Rule. "In all of our interactions with our guests, customers, business associates, and colleagues, we seek to deal with others as we would have them deal with us," says Sharp. "Personal service is not something you can dictate as a policy," he adds. "How you treat your employees is a reflection of how you expect them to treat customers."

The Four Seasons brings this culture to life by hiring the best people, orienting them carefully, instilling in them a sense of pride, and motivating them by recognizing and rewarding outstanding service deeds. It all starts with hiring the right people—those who fit the Four Seasons culture. "Every job applicant,

whether hoping to fold laundry or teach yoga, goes through at least four interviews," notes one reporter. "We look for employees who share that Golden Rule—people who, by nature, believe in treating others as they would have them treat us," says Sharp.

Once on board, all new employees receive three months of training, including improvisation exercises that help them to fully understand customer needs and behavior. At the Four Seasons, the training never stops. But even more important are the people themselves and the culture under which they work. "I can teach anyone to be a waiter," says Sharp. "But you can't change an ingrained poor attitude. We look for people who say, 'I'd be proud to be a doorman.'" And the most important cultural guideline, restates Sharp, is "the Golden Rule: Do unto others. . . . That's not a gimmick." As a result, Four Seasons employees know what good service is and are highly motivated to give it.

Most importantly, once it has the right people in place, the Four Seasons treats them as it would its most important guests. According to the reporter:

Compared with the competition, Four Seasons salaries are in the 75th to 90th percentile, with generous retirement and profit sharing plans. All employees—for example, seamstresses, valets, the ski concierge, and the general manager—eat together regularly, free, in the hotel cafeteria. It may not have white linen or a wine list, but the food and camaraderie are good. Another killer perk for all employees: free rooms. After six months, any staffer can stay three nights free per year at any Four Seasons hotel or resort. That number increases to six nights after a year and steadily thereafter. Although the benefit may cost a few thousand dollars a year per employee, the returns seem invaluable. The room stays make employees feel as important and pampered as the guests they serve. Says employee Kanoe Braun, a burly pool attendant at the Four Seasons Maui, "I've been to the one in Bali. That was by far my favorite. You walk in, and they say, 'How are you, Mr. Braun?' and you say, 'Yeah, I'm somebody!'" Adds another Four Season staffer, "You're never treated like just an employee. You're a guest. You come back from those trips on fire. You want to do so much for the guests."



The service-profit chain: Happy employees make for happy customers. At the Four Seasons, employees feel as important and pampered as the guests.

As a result, the Four Seasons staff loves the hotel just as much as customers do. Although guests can check out anytime they like, employees never want to leave. The annual turnover for full-time employees is only 18 percent, half the industry average. The Four Seasons has been included on *Fortune* magazine's list of 100 Best Companies to Work For every year since the list began in 1998. And that's the biggest secret to the Four Seasons'

success. Just as the service profit chain suggests, taking good care of customers begins

with taking good care of those who take care of customers.

Sources: Extract adapted from Jeffrey M. O'Brien, "A Perfect Season," *Fortune*, January 22, 2008, pp. 62–66. Other quotes and information from Michael B. Baker, "Four Seasons Tops Ritz-Carlton in Deluxe Photo-Finish," *Business Travel News*, March 23, 2009, p. 10; Sean Drakes, "Keeping the Brand Sacred," *Black Enterprise*, April 2009, p. 47; "100 Best Companies to Work For," *Fortune*, February 8, 2010, p. 55; and <http://jobs.fourseasons.com/Pages/Home.aspx> and www.fourseasons.com/about_us/, accessed November 2010.



● The service profit chain: Zappos.com knows that happy customers begin with happy, dedicated, and "perpetually chipper" employees.

Internal marketing

Orienting and motivating customer-contact employees and supporting service people to work as a team to provide customer satisfaction.

Interactive marketing

Training service employees in the fine art of interacting with customers to satisfy their needs.

creates a relaxed, fun-loving, and close-knit family atmosphere, complete with free meals, full benefits, profit sharing, a nap room, and even a full-time life coach. ● The result is what one observer calls "1,550 perpetually chipper employees." Every year, the company publishes a "culture book," filled with unedited, often gushy testimonials from Zapponians about what it's like to work there. "Oh my gosh," says one employee, "this is my home away from home. . . . It's changed my life. . . . Our culture is the best reason to work here." Says another, "the most surprising thing about coming to work here is that there are no limits. So pretty much anything you are passionate about is possible." And about what are Zapponians most passionate? The Zappos family's No. 1 core value: "Creating WOW through service."

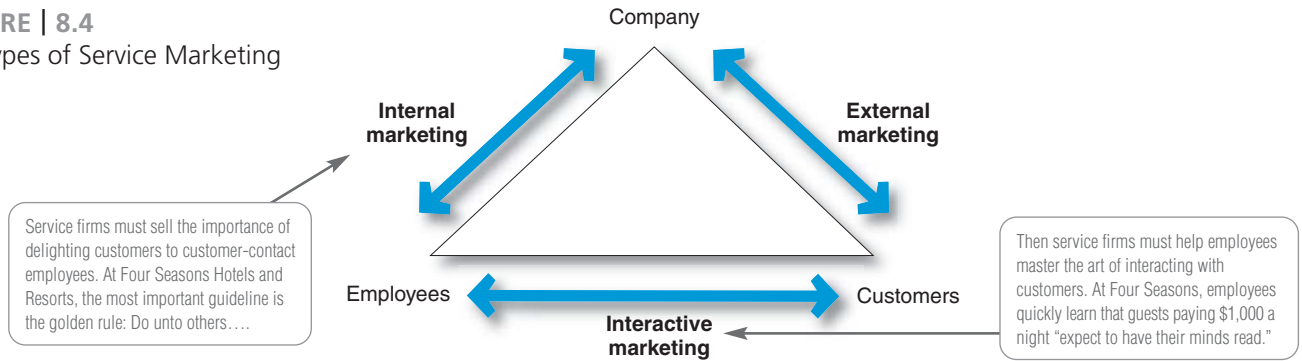
Thus, service marketing requires more than just traditional external marketing using the four Ps. ● **Figure 8.4** shows that service marketing also requires

internal marketing and *interactive marketing*. **Internal marketing** means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a *team* to provide customer satisfaction. Marketers must get everyone in the organization to be customer centered. In fact, internal marketing must *precede* external marketing. For example, Four Seasons Hotels and Resorts starts by hiring the right people and carefully orienting and inspiring them to give unparalleled customer service.

Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, Four Seasons selects only people with an innate "passion to serve" and instructs them carefully in the fine art of interacting with customers to satisfy their every need. All new hires complete a three-month training regimen, including improvisation exercises to help them improve their customer-interaction skills.

In today's marketplace, companies must know how to deliver interactions that are not only "high touch" but also "high tech." For example, customers can log onto the Charles Schwab Web site and access account information, investment research, real-time quotes, after-hours trading, and the Schwab learning center. They can also participate in live online events and chat online with customer-service representatives. Customers seeking more personal interactions can contact service representatives by phone or visit a local Schwab

● FIGURE | 8.4
Three Types of Service Marketing



branch office to "talk with Chuck." Thus, Schwab has mastered interactive marketing at all three levels—calls, clicks, and personal visits.

Today, as competition and costs increase, and as productivity and quality decrease, more service marketing sophistication is needed. Service companies face three major marketing tasks: They want to increase their *service differentiation*, *service quality*, and *service productivity*.

Managing Service Differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price.

The solution to price competition is to develop a differentiated offer, delivery, and image. The *offer* can include innovative features that set one company's offer apart from competitors' offers. Some hotels offer no-wait kiosk registration, car-rental, banking, and business-center services in their lobbies and free high-speed Internet connections in their rooms. Some retailers differentiate themselves by offerings that take you well beyond the products they stock. ● For example, PetSmart isn't your average pet shop. Most locations offer training, grooming salons, veterinarian services, and even a "PetsHotel with a Doggie Day Camp," making it your one-stop shop for all your pet's needs.

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, developing a superior physical environment in which the service product is delivered, or designing a superior delivery process. For example, many grocery chains now offer online shopping and home delivery as a better way to shop than having to drive, park, wait in line, and tote groceries home. And most banks allow you to access your account information from almost anywhere—from the ATM to your cell phone.

Finally, service companies also can work on differentiating their *images* through symbols and branding. Aflac adopted the duck as its symbol in its advertising—even as stuffed animals, golf club covers, and free ring tones and screensavers. The well-known Aflac duck helped make the big but previously unknown insurance company memorable and approachable. Other well-known service symbols include Merrill Lynch's bull, MGM's lion, McDonald's golden arches, Allstate's "good hands," and the Travelers red umbrella.

Managing Service Quality

A service firm can differentiate itself by delivering consistently higher quality than its competitors provide. Like manufacturers before them, most service industries have now joined the customer-driven quality movement. And like product marketers, service providers need to identify what target customers expect in regard to service quality.



● Service differentiation: PetSmart differentiates itself by offering services that go well beyond the products it stocks. It even offers a PetsHotel with a Doggie Day Camp.

Unfortunately, service quality is harder to define and judge than product quality. For instance, it is harder to agree on the quality of a haircut than on the quality of a hair dryer. Customer retention is perhaps the best measure of quality; a service firm's ability to hang onto its customers depends on how consistently it delivers value to them.

Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service; they strive for 100 percent defect-free service. A 98 percent performance standard may sound good, but using this standard, the U.S. Postal Service would lose or misdirect 560,000 pieces of mail each hour, and U.S. pharmacists would misfill more than 1.4 million prescriptions each week.²⁴

Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. As hard as they may try, even the best companies will have an occasional late delivery, burned steak, or grumpy employee. However, good *service recovery* can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place. Consider this example:²⁵

Bob Emig was flying home from St. Louis on Southwest Airlines when an all-too-familiar travel nightmare began to unfold. After his airplane backed away from the gate, he and his fellow passengers were told that the plane would need to be de-iced.

When the aircraft was ready to fly two and a half hours later, the pilot had reached the

hour limit set by the Federal Aviation Administration, and a new pilot was required. By that time, the plane had to be de-iced again. Five hours after the scheduled departure time, Emig's flight was finally ready for takeoff. A customer-service disaster, right? Not if you hear Emig tell it. Throughout the wait, the pilot walked the aisles, answering questions and offering constant updates. Flight attendants, who Emig says "really seemed like they cared," kept up with the news on connecting flights. And within a couple of days of arriving home, Emig received a letter of apology from Southwest that included two free round-trip ticket vouchers.

Unusual? Not at all. It's the standard service-recovery procedure for Southwest Airlines. ● Years ago, Southwest created a high-level group—headed by a senior manager of proactive customer service communications—that carefully coordinates information sent to all frontline reps in the event of major flight disruptions. It also sends out letters, and in many cases flight vouchers, to customers caught up in flight delays or cancellations, customer bumping incidents, baggage problems, or other travel messes—

even those beyond Southwest's control. Thanks to such caring service recovery, Southwest doesn't just appease wronged customers like Bob Emig; it turns them into even more loyal customers.



● **Service recovery:** Southwest created a high-level group—headed by Fred Taylor, senior manager of proactive customer service communications—that carefully coordinates responses to major flight disruptions, turning wronged customers into even more loyal ones.

Managing Service Productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can train current employees better or hire new ones who will work harder or more skillfully. Or they can increase the quantity of their service by giving up some quality. The provider can "industrialize the service" by adding equipment and standardizing production, as in McDonald's assembly-line approach to fast-food retailing. Finally, a service provider can harness the power of technology. Although we

often think of technology's power to save time and costs in manufacturing companies, it also has great—and often untapped—potential to make service workers more productive.

However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to industrialize a service or cut costs can make a service company more efficient in the short run. But that can also reduce its longer-run ability to innovate, maintain service quality, or respond to consumer needs and desires. For example, some airlines have learned this lesson the hard way as they attempt to economize in the face of rising costs. They stopped offering even the little things for free—such as in-flight snacks—and began charging extra for everything from curbside luggage check-in to aisle seats. The result is a plane full of resentful customers who avoid the airline whenever they can. In their attempts to improve productivity, these airlines mangled customer service.

Thus, in attempting to improve service productivity, companies must be mindful of how they create and deliver customer value. In short, they should be careful not to take the “service” out of service.

Author Comment | A brand represents everything that a product or service *means* to consumers. As such, brands are valuable assets to a company. For example, when you hear someone say “Coca-Cola,” what do you think, feel, or remember? What about “Target”? Or “Google”?

Branding Strategy: Building Strong Brands (pp 243–252)

Some analysts see brands as *the* major enduring asset of a company, outlasting the company's specific products and facilities. John Stewart, former CEO of Quaker Oats, once said, “If this business were split up, I would give you the land and bricks and mortar, and I would keep the brands and trademarks, and I would fare better than you.” A former CEO of McDonald's declared, “If every asset we own, every building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand. . . . The brand is more valuable than the totality of all these assets.”²⁶

Thus, brands are powerful assets that must be carefully developed and managed. In this section, we examine the key strategies for building and managing product and service brands.

Brand Equity

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance—everything that the product or the service *means* to consumers. In the final analysis, brands exist in the heads of consumers. As one well-respected marketer once said, “Products are created in the factory, but brands are created in the mind.” Adds Jason Kilar, CEO of the online video service Hulu, “A brand is what people say about you when you're not in the room.”²⁷

A powerful brand has high *brand equity*. **Brand equity** is the differential effect that knowing the brand name has on customer response to the product and its marketing. It's a measure of the brand's ability to capture consumer preference and loyalty. A brand has positive brand equity when consumers react more favorably to it than to a generic or unbranded version of the same product. It has negative brand equity if consumers react less favorably than to an unbranded version.

Brands vary in the amount of power and value they hold in the marketplace. Some brands—such as Coca-Cola, Nike, Disney, GE, McDonald's, Harley-Davidson, and others—become larger-than-life icons that maintain their power in the market for years, even generations. Other brands create fresh consumer excitement and loyalty, brands such as Google, YouTube, Apple, eBay, Twitter, and Wikipedia. These brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers.

Ad agency Young & Rubicam's Brand Asset Valuator measures brand strength along four consumer perception dimensions: *differentiation* (what makes the brand stand out), *relevance* (how consumers feel it meets their needs), *knowledge* (how much consumers know about the brand), and *esteem* (how highly consumers regard and respect the brand). Brands with strong brand equity rate high on all four dimensions. The brand must be distinct, or consumers will

Brand equity

The differential effect that knowing the brand name has on customer response to the product or its marketing.

have no reason to choose it over other brands. But the fact that a brand is highly differentiated doesn't necessarily mean that consumers will buy it. The brand must stand out in ways that are relevant to consumers' needs. But even a differentiated, relevant brand is far from a shoe-in. Before consumers will respond to the brand, they must first know about and understand it. And that familiarity must lead to a strong, positive consumer-brand connection.²⁸



● Consumers sometimes bond very closely with specific brands. Perhaps the ultimate expression of brand devotion is tattooing the brand on your body.

Thus, positive brand equity derives from consumer feelings about and connections with a brand. Consumers sometimes bond *very* closely with specific brands. ● As perhaps the ultimate expression of brand devotion, a surprising number of people—and not just Harley-Davidson fans—have their favorite brand tattooed on their bodies.

A brand with high brand equity is a very valuable asset. *Brand valuation* is the process of estimating the total financial value of a brand. Measuring such value is difficult. However, according to one estimate, the brand value of Google is a whopping \$100 billion, with Microsoft at \$76 billion and Coca-Cola at \$67 billion. Other brands rating among the world's most valuable include IBM, McDonald's, Apple, China Mobile, GE, Walmart, and Nokia.²⁹

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty. Because consumers expect stores to carry the particular brand, the company has

more leverage in bargaining with resellers. Because a brand name carries high credibility, the company can more easily launch line and brand extensions. A powerful brand offers the company some defense against fierce price competition.

Above all, however, a powerful brand forms the basis for building strong and profitable customer relationships. The fundamental asset underlying brand equity is *customer equity*—the value of customer relationships that the brand creates. A powerful brand is important, but what it really represents is a profitable set of loyal customers. The proper focus of marketing is building customer equity, with brand management serving as a major marketing tool. Companies need to think of themselves not as portfolios of products but as portfolios of customers.

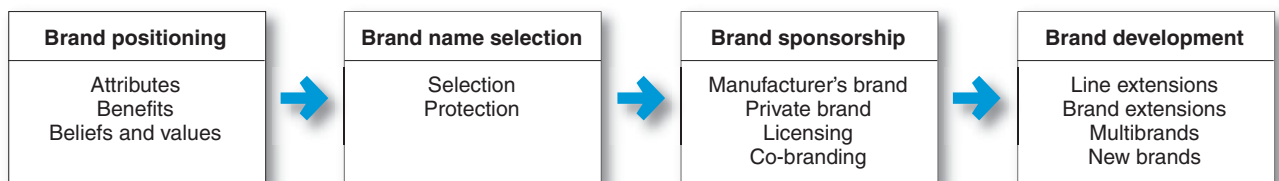
Building Strong Brands

Branding poses challenging decisions to the marketer. ● **Figure 8.5** shows that the major brand strategy decisions involve *brand positioning*, *brand name selection*, *brand sponsorship*, and *brand development*.

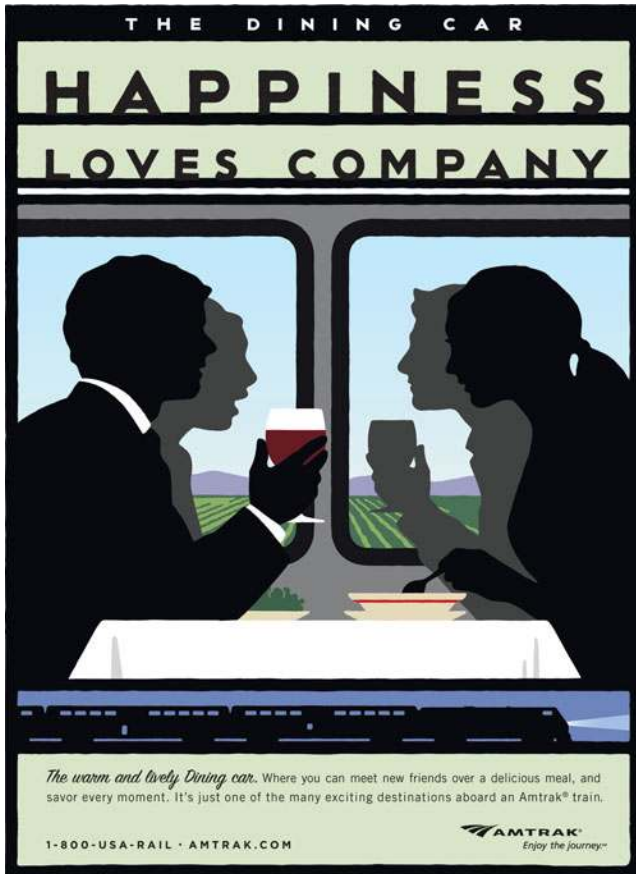
Brand Positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.³⁰ At the lowest level, they can position the brand on *product attributes*. For example, P&G invented the disposable diaper category with its Pampers brand. Early Pampers marketing focused on attributes such as fluid absorption, fit, and disposability. In general, however, attributes are the least desirable level for brand positioning. Competitors can easily copy attributes. More importantly, customers are not interested in attributes as such; they are interested in what the attributes will do for them.

Brands are powerful assets that must be carefully developed and managed. As this figure suggests, building strong brands involves many challenging decisions.



● **FIGURE | 8.5**
Major Brand Strategy Decisions



● **Brand positioning: Amtrak goes beyond attributes and benefits, engaging customers on a deeper level. In the “warm and lively dining room . . . you can meet new friends over a delicious meal, and savor every moment. Enjoy the journey.”**

A brand can be better positioned by associating its name with a desirable *benefit*. Thus, Pampers can go beyond technical product attributes and talk about the resulting containment and skin-health benefits from dryness. “There are fewer wet bottoms in the world because of us,” says Jim Stengel, P&G’s former global marketing officer. Some successful brands positioned on benefits are FedEx (guaranteed on-time delivery), Nike (performance), Lexus (quality), and Walmart (low prices).

The strongest brands go beyond attribute or benefit positioning. They are positioned on strong *beliefs and values*. These brands pack an emotional wallop. Brands such as Godiva, Apple, Victoria’s Secret, and Trader Joe’s rely less on a product’s tangible attributes and more on creating surprise, passion, and excitement surrounding a brand. ● Even a seemingly mundane brand such as Amtrak can be positioned this way. Recent Amtrak ads suggest that an Amtrak train ride does more than just get you from point A to point B. In a “spacious and peaceful coach car . . . you can gaze at a pristine landscape onboard a greener alternative to cars and planes.” In “the warm and lively dining car . . . you can meet new friends over a delicious meal, and savor every moment.” Don’t just ride a train, says Amtrak. “Enjoy the Journey.”

Successful brands engage customers on a deep, emotional level. According to Stengel, “marketing inspires life, and life inspires marketing.” Thus, P&G knows that, to parents, Pampers mean much more than just containment and dryness:³¹

In the past, we often thought of P&G’s brands in terms of functional benefits. But when we began listening very closely to customers, they told us Pampers meant much more to them: Pampers are more about parent-child relationships and total baby care. So we started to say, “We want to be a brand experience; we want to be there to help support parents and

babies as they grow and develop.” In the initial days people thought we were nuts. How can a diaper help a baby’s development? But babies wear diapers 24/7 for almost three years. It actually reorients R&D to ask a question like “How can we help babies sleep better?” Why are we concerned about babies sleeping better? Because sleep is important to brain development. It helps relationship skills. Thinking like that, we’re able to help improve life for our consumers. The equity of great brands has to be something that a consumer finds inspirational and the organization finds inspirational. You know, our baby care business didn’t start growing aggressively until we changed Pampers from being about dryness to helping mom with her baby’s development.

When positioning a brand, the marketer should establish a mission for the brand and a vision of what the brand must be and do. A brand is the company’s promise to deliver a specific set of features, benefits, services, and experiences consistently to buyers. The brand promise must be simple and honest. Motel 6, for example, offers clean rooms, low prices, and good service but does not promise expensive furnishings or large bathrooms. In contrast, The Ritz-Carlton offers luxurious rooms and a truly memorable experience but does not promise low prices.

Brand Name Selection

A good name can add greatly to a product’s success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies. After that, naming a brand becomes part science, part art, and a measure of instinct.

Desirable qualities for a brand name include the following: (1) It should suggest something about the product’s benefits and qualities. Examples: Beautyrest, Acuvue, Breathe

Right, Food Saver. (2) It should be easy to pronounce, recognize, and remember: Tide, Jelly Belly, iPod, JetBlue. (3) The brand name should be distinctive: Panera, Uggs. (4) It should be extendable; Amazon.com began as an online bookseller but chose a name that would allow expansion into other categories. (5) The name should translate easily into foreign languages. Before changing its name to Exxon, Standard Oil of New Jersey rejected the name Enco, which it learned meant a stalled engine when pronounced in Japanese. (6) It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.

Choosing a new brand name is hard work. After a decade of choosing quirky names (Yahoo!, Google) or trademark-proof made-up names (Novartis, Aventis, Accenture), today's style is to build brands around names that have real meaning. For example, names like Silk (soy milk), Method (home products), Smartwater (beverages), and Blackboard (school software) are simple and make intuitive sense. But with trademark applications soaring, *available* new names can be hard to find. Try it yourself. Pick a product and see if you can come up with a better name for it. How about Moonshot? Tickle? Vanilla? Treehugger? Simplicity? Google them and you'll find that they're already taken.

Once chosen, the brand name must be protected. Many firms try to build a brand name that will eventually become identified with the product category. Brand names such as Kleenex, Levi's, JELL-O, BAND-AID, Scotch Tape, Formica, and Ziploc have succeeded in this way. However, their very success may threaten the company's rights to the name. Many originally protected brand names—such as cellophane, aspirin, nylon, kerosene, linoleum, yo-yo, trampoline, escalator, thermos, and shredded wheat—are now generic names that any seller can use. To protect their brands, marketers present them carefully using the word *brand* and the registered trademark symbol, as in "BAND-AID® Brand Adhesive Bandages." Even the long-standing "I am stuck on BAND-AID and BAND-AID's stuck on me" jingle has now become "I am stuck on BAND-AID *brand* and BAND-AID's stuck on me."

Brand Sponsorship

A manufacturer has four sponsorship options. The product may be launched as a *national brand* (or *manufacturer's brand*), as when Sony and Kellogg sell their output under their own brand names (Sony Bravia HDTV or Kellogg's Frosted Flakes). Or the manufacturer may sell to resellers who give the product a *private brand* (also called a *store brand* or *distributor brand*). Although most manufacturers create their own brand names, others market *licensed brands*. Finally, two companies can join forces and *co-brand* a product. We discuss each of these options in turn.

National Brands versus Store Brands. National brands (or manufacturers' brands) have long dominated the retail scene. In recent times, however, an increasing number of retailers and wholesalers have created their own **store brands** (or **private brands**). Although store brands have been gaining strength for more than a decade, recent tougher economic times have created a store-brand boom. Studies show that consumers are buying more private brands, and most don't plan to return to name brands anytime soon. "Bad times are good times for private labels," says a brand expert. "As consumers become more price-conscious, they also become less brand-conscious."³² (See Real Marketing 8.2.)

In fact, store brands are growing much faster than national brands. In all, private label goods account for more than 22 percent of all unit sales. Since 2008, unit sales of private label goods have grown at more than twice the rate of national brands. Private-label apparel, such as Hollister, The Limited, Arizona Jean Company (JCPenney), and Xhilaration (Target), captures a 40 percent share of all U.S. apparel sales.³³

Many large retailers skillfully market a deep assortment of store-brand merchandise. For example, Kroger, the nation's largest grocery retailer, stocks some 14,000 store brand items under its own Private Selection, Banner, and Value brands. Store brands now account for more than 27 percent of Kroger's dollar sales and more than one-third of all its unit sales. At the other end of the grocery spectrum, upscale Whole Foods Market offers an array of store brand products under its 365 Everyday Value brand, from organic Canadian maple syrup and frozen chicken Caesar pizza to chewy children's multivitamins and organic whole wheat pasta.³⁴

Store brand (or private brand)

A brand created and owned by a reseller of a product or service.

Real Marketing 8.2

Bad Times Are Good Times for Store Brands. But What's a National Brand to Do?

Over the past six months, Elizabeth O'Herron has banished nearly all brand names from her household. So long Pampers, Hefty, and Birds Eye. Instead, the pantry is stocked with cheaper imitations of the same goods: Walmart diapers, BJ's garbage bags, and Stop & Shop's frozen veggies. At the local Walmart, she stocks up on store's Great Value brand; at Kroger it's Private Selection or Kroger Value products. "I'm not loyal to any grocery store or any brand," says O'Herron. "I'm loyal to savings."

These days, more and more consumers are joining O'Herron's way of thinking. In the aftermath of the recent recession, as shoppers look to stretch their dollars, the popularity of store brands has soared. From trying cheaper laundry detergents to slipping on a more affordable pair of jeans, Americans are changing their spending habits to save money. "Bad times are good times for private labels," says one analyst. "As consumers become more price-conscious, they also become less brand-conscious."

It seems that almost every retailer now carries its own store brands. Walmart's private brands account for a whopping 40 percent of its sales: brands such as Great Value food products; Sam's Choice beverages; Equate pharmacy, health, and beauty products; White Cloud brand toilet tissue and diapers; Simple Elegance laundry products; and Canopy outdoor home products. Its private label brands alone generate nearly twice the sales of all P&G brands combined, and Great Value is the nation's largest single food brand. At the other end of the spectrum, even upscale retailer Saks Fifth Avenue carries its own clothing line, which features \$98 men's ties, \$200 halter tops, and \$250 cotton dress shirts.

Once known as "generic" or "no-name" brands, today's store brands are shedding their image as cheap knockoffs of national brands. Store brands now offer much greater selection, and they are rapidly achieving name-brand quality. In fact, retailers such as Target and Trader Joe's are out-innovating many of their national-brand competitors. Rather than simply creating low-end generic brands that offer a low-price alternative to national brands, retailers are now moving toward

higher-end private brands that boost both a store's revenues and its image.

As store-brand selection and quality have improved, and as the recent recession put the brakes on spending, consumers have shown an ever-increasing openness to store brands. Some 50 percent of U.S. consumers now purchase store brands "all the time" as part of their regular shopping behavior, up from just 12 percent in the early 1990s. And in a recent 23-country survey, 89 percent of consumers agreed that store brands are "the same as or better than" national brands when it comes to "providing a good value for the money." Eighty percent agreed that store brands are as good or better at "offering products that I trust."

Some retail strategists predict that the slowdown in consumer spending could last for

years. The new consumer frugality could "lead to a 'downturn generation' that learns to scrimp and save permanently, including buying more private-label," says one strategist.

Just ask shopper Lisa Dean, whose shopping cart last week was filled with store-brand goods—milk, eggs, tomato sauce, tortilla chips, and trash bags, to name a few. "Once I started trying store brands, and the quality, taste, and price was right, I have continued to purchase store brands and try new things," she says. She estimates that she is saving at least 30 percent on groceries. Will she return to her old favorite brands in an improved economy? No way. "This is absolutely a permanent switch," says Dean.

Does the surge in store brands spell doom for name-brand products? Not likely. But what should national-brand marketers do to thwart the growing competition from store brands? For starters, they need to sharpen their value propositions in these more frugal times.

So far, many national brands have been fighting back with a variety of value pitches. P&G rolled out campaigns for Pantene and Gillette,



The popularity of store brands has soared recently. Walmart's store brands account for a whopping 40 percent of its sales, and its Great Value brand is the nation's largest single food brand.

among others, that stress the brand's bang for one's buck. Pantene positions itself as an affordable salon alternative. And Gillette Fusion claims that its pricey razor blades deliver "high-performance" shaves for "as little as a dollar a week." According to one P&G rep, that claim is meant to address an outdated notion about the brand. "Guys have consistently told us that they think our blades are costly, so reframing the true expense for them makes good sense." Faced with tighter-fisted consumers, other national brands have reacted by significantly repositioning themselves. For example, Unilever has integrated a value message into its campaign for Ragú. One print ad reads, "With Ragú and a pound of pasta, you can feed a family of four for less than four dollars. The perfect meal when your family is growing and the economy is shrinking."

Although such value pitches might work for now, long-term national-brand success requires continued investment in product innovation and brand marketing. In these lean times and beyond, rather than cheapening their products or lowering their prices, national brands need to distinguish themselves through superior customer value. For example, the Ragú value positioning emphasizes affordable quality rather than low prices.

When asked whether, in a weak economy, consumers aren't more concerned about

lower prices (via store brands) than brand purchase (via national brands), marketing consultant and former P&G global marketing chief Jim Stengel replied:

I don't think it's an either/or. I think great brands have a strong sense of their meaning, their ideals, their mission—and their ideas represent a tremendous value to consumers. I think great brands have to tell their stories. They have to do great things . . . [bringing] joy, help, and service to people by making them laugh, giving them an idea, or solving a problem. If they do that, [more than survive in down times,] national brands will thrive.

So, even when the economic pendulum swings downward, national-brand marketers must remain true to their brand stories. "You can have a value proposition that accentuates good value, but you don't want to walk away from the core proposition of the brand," says one marketing executive. "That's the only

thing you have to protect yourself" from private labels in the long run. Even some die-hard store-brand buyers prove this important point.

Kalixt Smith has recently given up national brands for bread, milk, toilet paper, and dish detergent, saving up to \$50 a month on groceries for her family of four. She's even gone to great lengths to hide some of the changes from her family. "I resorted to buying things like store-brand ketchup, hot sauce, BBQ sauce, and syrup in bulk or large containers and reusing the containers from Heinz, Frank's Red Hot, Kraft, and Mrs. Butterworth's to mask the switch," says Smith. "My kids do not seem to notice the difference." But there're some store-brand items she can't sneak under the family radar, including attempted replacements for Honey Nut Cheerios and Velveeta Shells & Cheese. And, to her surprise, Spam. It turns out that there is no tasty substitute for Spam, at least not for her brood. Thus, despite her tighter spending, Smith still finds many national brands well worth the higher price.

Sources: Excerpts adapted from Jenn Abelson, "Seeking Savings, Some Ditch Brand Loyalty," *Boston Globe*, January 29, 2010; Elaine Wong, "Foods OK, But Some Can't Stomach More Increases," *Brandweek*, January 5, 2009, p. 7; and Elaine Wong, "Stengel: Private Label, Digital Change Game," *Brandweek*, April 13, 2009, pp. 7, 37. Also see Sarah Skidmore, "Walmart Revamping Own Brand," *Cincinnati Enquirer*, March 17, 2009, <http://news.cincinnati.com/article/20090317/BIZ/903170336/-1/TODAY>; Mark Dolliver, "Consumers Praise Store Brands," *Adweek*, April 8, 2010, www.adweek.com; and <http://walmartstores.com/Video?id=1305>, accessed November 2010.

In the so-called *battle of the brands* between national and private brands, retailers have many advantages. They control what products they stock, where they go on the shelf, what prices they charge, and which ones they will feature in local circulars. Retailers often price their store brands lower than comparable national brands, thereby appealing to the budget-conscious shopper in all of us. Although store brands can be hard to establish and costly to stock and promote, they also yield higher profit margins for the reseller. And they give resellers exclusive products that cannot be bought from competitors, resulting in greater store traffic and loyalty. Fast-growing retailer Trader Joe's, which carries 80 percent store brands, began creating its own brands so that "we could put our destiny in our own hands," says the company's president.³⁵

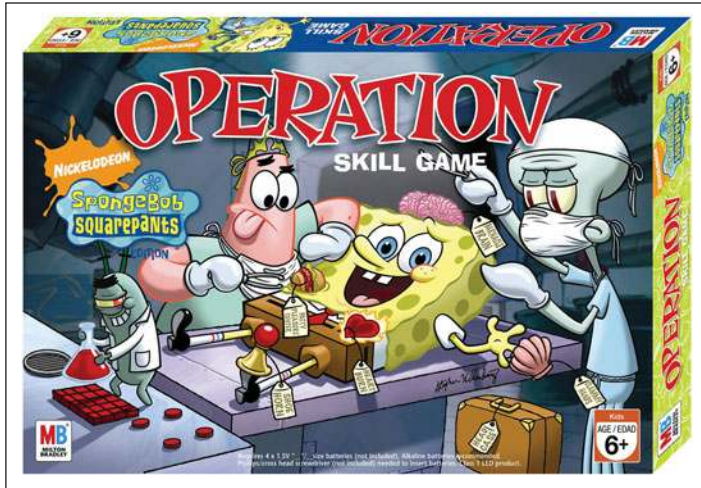
To compete with store brands, national brands must sharpen their value propositions, especially in these lean economic times. In the long run, however, leading brand marketers must invest in R&D to bring out new brands, new features, and continuous quality improvements. They must design strong advertising programs to maintain high awareness and preference. And they must find ways to "partner" with major distributors in a search for distribution economies and improved joint performance.

Licensing. Most manufacturers take years and spend millions to create their own brand names. However, some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name.

Apparel and accessories sellers pay large royalties to adorn their products—from blouses to ties and linens to luggage—with the names or initials of well-known fashion innovators such as Calvin Klein, Tommy Hilfiger, Gucci, or Armani. Sellers of children’s products attach an almost endless list of character names to clothing, toys, school supplies, linens, dolls, lunch boxes, cereals, and other items. Licensed character names range

from classics such as Sesame Street, Disney, Star Wars, the Muppets, Scooby Doo, Hello Kitty, and Dr. Seuss characters to the more recent Dora the Explorer; Go, Diego, Go!; Little Einsteins; and Hannah Montana. And currently a number of top-selling retail toys are products based on television shows and movies.

Name and character licensing has grown rapidly in recent years. Annual retail sales of licensed products worldwide have grown from only \$4 billion in 1977 to \$55 billion in 1987 and more than \$192 billion today. Licensing can be a highly profitable business for many companies. For example, Disney, the world’s biggest licensor, reported more than \$30 billion in worldwide merchandise sales last year. And Nickelodeon has developed a stable full of hugely popular characters, such as Dora the Explorer; Go, Diego, Go!; iCarly; and SpongeBob SquarePants. SpongeBob alone has generated more than \$8 billion in sales and licensing fees over the past decade. “When it comes to licensing its brands for consumer products, Nickelodeon has proved that it has the Midas touch,” states a brand licensing expert.³⁶



● **Licensing:** Nickelodeon has developed a stable full of hugely popular characters, such as SpongeBob SquarePants, that generate billions of dollars of retail sales each year.

Co-branding

The practice of using the established brand names of two different companies on the same product.

Co-branding. Co-branding occurs when two established brand names of different companies are used on the same product. Co-branding offers many advantages. Because each brand dominates in a different category, the combined brands create broader consumer appeal and greater brand equity. For example, high-end shaving products brand The Art of Shaving partnered with mainstream marketer Gillette to create the Fusion Chrome Collection, featuring a \$150 power razor billed as “the world’s most technologically advanced razor.” Through the partnership, The Art of Shaving gains access to Gillette’s broader market; Gillette, in turn, adds high-end luster to its shaving products line.

Co-branding can take advantage of the complementary strengths of two brands. For example, the Tim Hortons coffee chain is establishing co-branded Tim Hortons–Cold Stone Creamery shops. Tim Hortons is strong in the morning and midday periods, with coffee and baked goods, soups, and sandwiches. By contrast, Cold Stone Creamery’s ice cream snacks are strongest in the afternoon and evening, which are Tim Hortons’s nonpeak periods. The co-branded locations offer customers a reason to visit morning, noon, and night.³⁷

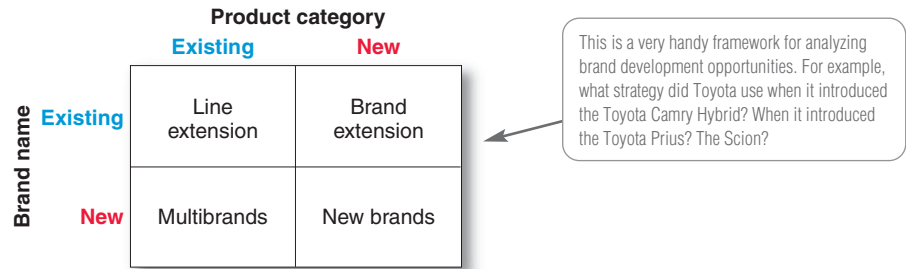
Co-branding also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone. For example, Nike and Apple co-branded the Nike+iPod Sport Kit, which lets runners link their Nike shoes with their iPods to track and enhance running performance in real time. “Your iPod Nano [or iPod Touch] becomes your coach. Your personal trainer. Your favorite workout companion.” The Nike+iPod arrangement gives Apple a presence in the sports and fitness market. At the same time, it helps Nike bring new value to its customers.³⁸

Co-branding can also have limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts. Finally, when co-branding, each partner must trust that the other will take good care of its brand. If something damages the reputation of one brand, it can tarnish the co-brand as well.

Brand Development

A company has four choices when it comes to developing brands (see ● **Figure 8.6**). It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

FIGURE | 8.6
Brand Development Strategies



Line extension

Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

Line Extensions. Line extensions occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category. Thus, the Cheerios line of cereals includes Honey Nut, Frosted, Yogurt Burst, MultiGrain, Banana Nut, Yogurt Burst, and several other variations.

A company might introduce line extensions as a low-cost, low-risk way to introduce new products. Or it might want to meet consumer desires for variety, use excess capacity, or simply command more shelf space from resellers. However, line extensions involve some risks. An overextended brand name might lose some of its specific meaning. Or heavily extended brands can cause consumer confusion or frustration.

Want a Coke? Okay, but what kind? You can pick from some 20 different varieties. In no-calorie versions alone, Coca-Cola offers two subbrands: Diet Coke and Coke Zero. Throw in flavored and no-caffeine versions—caffeine-free Diet Coke, cherry Diet Coke, black cherry vanilla Diet Coke, Diet Coke with lemon, Diet Coke with lime, vanilla Coke Zero, cherry Coke Zero—and you come up with a head-spinning ten diet colas from Coca-Cola. And that doesn't count Diet Coke with Splenda, Diet Coke Plus (with vitamins B3, B6, and B12 plus minerals zinc and magnesium). Each subbrand has its own marketing spin. But really, are we talking about choices here or just plain confusion? I mean, can you really tell the difference?

Another risk is that sales of an extension may come at the expense of other items in the line. For example, how much would yet another Diet Coke extension steal from Coca-Cola's own lines versus Pepsi's? A line extension works best when it takes sales away from competing brands, not when it "cannibalizes" the company's other items.

Brand extension

Extending an existing brand name to new product categories.

Brand Extensions. A brand extension extends a current brand name to new or modified products in a new category. For example, Kellogg's has extended its Special K cereal brand into a full line of cereals plus lines of crackers, fruit crisps, snack and nutrition bars,

breakfast shakes, protein waters, and other health and nutrition products. Victorinox extended its venerable Swiss Army brand from multitool knives to products ranging from cutlery and ballpoint pens to watches, luggage, and apparel. And P&G has leveraged the strength of its Mr. Clean household cleaner brand to launch several new lines: cleaning pads (Magic Eraser), bathroom cleaning tools (Magic Reach), and home auto cleaning kits (Mr. Clean AutoDry). It even launched Mr. Clean-branded car washes.

A brand extension gives a new product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name. At the same time, a brand extension strategy involves some risk. The extension may confuse the image of the main brand. Brand extensions such as Cheetos lip balm, Heinz pet food, and Life Savers gum met early deaths. And if a brand extension fails, it may harm consumer attitudes toward other products carrying the same brand name. Furthermore, a brand name may not



Brand extensions: P&G has leveraged the strength of its Mr. Clean brand to launch new lines, including Mr. Clean-branded car washes.

be appropriate to a particular new product, even if it is well made and satisfying—would you consider flying on Hooters Air or wearing an Evian water-filled padded bra (both failed).

Each year, a survey by brand consultancy TippingSprung rates the year's best and worst brand extensions. The most recent poll gave a strong thumbs-up to extensions such as Coppertone sunglasses, Mr. Clean car washes, Zagat physician ratings, and Thin Mint Cookie Blizzard (Girl Scout–inspired treat at Dairy Queen, which sold 10 million in only one month). Among the worst extensions—those that least fit the brand's core values—were Burger King men's apparel, Playboy energy drink, Allstate Green insurance, and Kellogg's hip-hop streetwear. "Marketers have come to learn that the potential harm inflicted on the brand can more than offset short-term revenue opportunities," says TippingSprung co-founder Robert Sprung. "But that doesn't seem to stop many from launching extensions that in retrospect seem questionable or even ludicrous." Thus, companies that are tempted to transfer a brand name must research how well the brand's associations fit the new product.³⁹

Multibrands. Companies often market many different brands in a given product category. For example, in the United States, P&G sells six brands of laundry detergent (Tide, Cheer, Gain, Era, Dreft, and Ivory), five brands of shampoo (Pantene, Head & Shoulders, Aussie, Herbal Essences, and Infusium 23); and four brands of dishwashing detergent (Dawn, Ivory, Joy, and Cascade). *Multibranding* offers a way to establish different features that appeal to different customer segments, lock up more reseller shelf space, and capture a larger market share. For example, P&G's six laundry detergent brands combined capture a whopping 62 percent of the U.S. laundry detergent market.

A major drawback of multibranding is that each brand might obtain only a small market share, and none may be very profitable. The company may end up spreading its resources over many brands instead of building a few brands to a highly profitable level. These companies should reduce the number of brands they sell in a given category and set up tighter screening procedures for new brands. This happened to GM, which in recent years has cut numerous brands from its portfolio, including Saturn, Oldsmobile, Pontiac, Hummer, and Saab.

New Brands. A company might believe that the power of its existing brand name is waning, so a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of its current brand names are appropriate. For example, Toyota created the separate Scion brand, targeted toward millennial consumers.

As with multibranding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands, with too few differences between them. Thus, P&G, Frito-Lay, Kraft, and other large consumer-product marketers are now pursuing *megabrand* strategies—weeding out weaker or slower-growing brands and focusing their marketing dollars on brands that can achieve the number-one or number-two market share positions with good growth prospects in their categories.

Managing Brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and build preference and loyalty. For example, Verizon spends more than \$3.7 billion annually to promote its brand. McDonald's spends more than \$1.2 billion.⁴⁰

Such advertising campaigns can help create name recognition, brand knowledge, and perhaps even some brand preference. However, the fact is that brands are not maintained by advertising but by customers' *brand experiences*. Today, customers come to know a brand through a wide range of contacts and touch points. These include advertising but also personal experience with the brand, word of mouth, company Web pages, and many others. The company must put as much care into managing these touch points as it does into producing its ads. "Managing each customer's experience is perhaps the most important



● Managing brands requires managing “touch points.” Says a former Disney executive: “A brand is a living entity, and it is enriched or undermined cumulatively over time, the product of a thousand small gestures.”

ingredient in building [brand] loyalty,” states one branding expert. “Every memorable interaction . . . must be completed with excellence and . . . must reinforce your brand essence.” ● A former Disney top executive agrees: “A brand is a living entity, and it is enriched or undermined cumulatively over time, the product of a thousand small gestures.”⁴¹

The brand’s positioning will not take hold fully unless everyone in the company lives the brand. Therefore the company needs to train its people to be customer centered. Even better, the company should carry on internal brand building to help employees understand and be enthusiastic about the brand promise. Many companies go even further by training and encouraging their distributors and dealers to serve their customers well.

Finally, companies need to periodically audit their brands’ strengths and weaknesses.⁴² They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all of our consumer touch points support the brand’s positioning? Do the

brand’s managers understand what the brand means to consumers? Does the brand receive proper, sustained support? The brand audit may turn up brands that need more support, brands that need to be dropped, or brands that must be rebranded or repositioned because of changing customer preferences or new competitors.

REVIEWING Objectives AND KEY Terms

A product is more than a simple set of tangible features. Each product or service offered to customers can be viewed on three levels. The *core customer value* consists of the core problem-solving benefits that consumers seek when they buy a product. The *actual product* exists around the core and includes the quality level, features, design, brand name, and packaging. The *augmented product* is the actual product plus the various services and benefits offered with it, such as a warranty, free delivery, installation, and maintenance.

Objective 1 Define *product* and the major classifications of products and services. (pp 224–229)

Broadly defined, a *product* is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include physical objects but also services, events, persons, places, organizations, or ideas, or mixtures of these entities. *Services* are products that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible, such as banking, hotel, tax preparation, and home-repair services.

Products and services fall into two broad classes based on the types of consumers that use them. *Consumer products*—those bought by final consumers—are usually classified according to consumer shopping habits (convenience products, shopping products, specialty products, and unsought products). *Industrial products*—purchased for further processing or for use in conducting a business—include materials and parts, capital items, and supplies and services. Other marketable entities—such as organizations, persons, places, and ideas—can also be thought of as products.

Objective 2 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes. (pp 229–236)

Individual product decisions involve product attributes, branding, packaging, labeling, and product support services. *Product attribute* decisions involve product quality, features, and style and design. *Branding* decisions include selecting a brand name and developing a brand strategy. *Packaging* provides many key benefits, such as protection, economy, convenience, and promotion. Package decisions often include designing *labels*, which identify, describe, and possibly promote the product. Companies also develop *product support services* that enhance customer service and satisfaction and safeguard against competitors.

Most companies produce a product line rather than a single product. A *product line* is a group of products that are related in function, customer-purchase needs, or distribution channels. All product lines and items offered to customers by a particular seller make up the *product mix*. The mix can be described by four dimensions: width, length, depth, and consistency. These dimensions are the tools for developing the company’s product strategy.

Objective 3 Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require. (pp 236–243)

Services are characterized by four key characteristics: they are *intangible*, *inseparable*, *variable*, and *perishable*. Each characteristic poses problems and marketing requirements. Marketers work to

find ways to make the service more tangible, increase the productivity of providers who are inseparable from their products, standardize quality in the face of variability, and improve demand movements and supply capacities in the face of service perishability.

Good service companies focus attention on *both* customers and employees. They understand the *service profit chain*, which links service firm profits with employee and customer satisfaction. Services marketing strategy calls not only for external marketing but also for *internal marketing* to motivate employees and *interactive marketing* to create service delivery skills among service providers. To succeed, service marketers must create *competitive differentiation*, offer high *service quality*, and find ways to increase *service productivity*.

Objective 4 Discuss branding strategy—the decisions companies make in building and managing their brands. (pp 243–252)

Some analysts see brands as *the* major enduring asset of a company. Brands are more than just names and symbols; they embody everything that the product or the service *means* to consumers. *Brand equity* is the positive differential effect that knowing the

brand name has on customer response to the product or the service. A brand with strong brand equity is a very valuable asset.

In building brands, companies need to make decisions about brand positioning, brand name selection, brand sponsorship, and brand development. The most powerful *brand positioning* builds around strong consumer beliefs and values. *Brand name selection* involves finding the best brand name based on a careful review of product benefits, the target market, and proposed marketing strategies. A manufacturer has four *brand sponsorship* options: it can launch a *national brand* (or manufacturer's brand), sell to resellers who use a *private brand*, market *licensed brands*, or join forces with another company to *co-brand* a product. A company also has four choices when it comes to developing brands. It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help. However, brands are not maintained by advertising but by customers' *brand experiences*. Customers come to know a brand through a wide range of contacts and interactions. The company must put as much care into managing these touch points as it does into producing its ads. Companies must periodically audit their brands' strengths and weaknesses.

KEY Terms

OBJECTIVE 1

Product (p 224)
Service (p 224)
Consumer product (p 226)
Convenience product (p 226)
Shopping product (p 226)
Specialty product (p 226)
Unsought product (p 227)
Industrial product (p 227)
Social marketing (p 229)

OBJECTIVE 2

Product quality (p 230)
Brand (p 231)
Packaging (p 232)
Product line (p 234)
Product mix (product portfolio) (p 235)

OBJECTIVE 3

Service intangibility (p 236)
Service inseparability (p 237)
Service variability (p 238)

Service perishability (p 238)
Service profit chain (p 238)
Internal marketing (p 240)
Interactive marketing (p 240)

OBJECTIVE 4

Brand equity (p 243)
Store brand (private brand) (p 246)
Co-branding (p 249)
Line extension (p 250)
Brand extension (p 250)



- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **Service Marketing**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Define *product* and the three levels of product. (AACSB: Communication)
2. Compare and contrast industrial products and consumer products. (AACSB: Communication; Reflective Thinking)
3. Explain the importance of product quality and discuss how marketers use quality to create customer value. (AACSB: Communication)
4. Compare and contrast the four brand sponsorship options available to a manufacturer and give an example of each. (AACSB: Communication; Reflective Thinking)
5. Discuss the brand development strategies marketers use to develop brands. Give an example of each strategy. (AACSB: Communication; Reflective Thinking)
6. Describe the four characteristics of services that marketers must consider when designing marketing programs. According to these characteristics, how do the services offered by a massage therapist differ from those offered by a grocery store? (AACSB: Communication, Reflective Thinking)

Applying the Concepts

1. What do Betty Crocker, Pillsbury, Cheerios, and Hamburger Helper have in common? They are all familiar brands that are part of the General Mills product mix. Visit the General Mills Web site (www.generalmills.com) and examine its list of brands. Name and define the four dimensions of a company's product mix and describe General Mills' product mix on these dimensions. (AACSB: Communication; Reflective Thinking; Use of IT)
2. Branding is not just for products and services; states are getting in on the action, too, as you learned from reading about *place marketing* in the chapter. One of the most recent examples of state branding comes from Michigan with its "Pure Michigan" campaign, resulting in millions of dollars of tourism revenue. Other famous place branding campaigns include "Virginia is for Lovers," "Florida—the Sunshine State," and "What Happens in Vegas Stays in Vegas." In a small group, develop a brand identity proposal for your state. Present your idea to the rest of the class and explain the meaning you are trying to convey. (AACSB: Communication; Reflective Thinking)
3. A product's package is often considered a "silent salesperson." It is the last marketing effort before consumers make a selection in the store. One model that is used to evaluate a product's package is the view model: visibility, information, emotion, and workability. Visibility refers to the package's ability to stand out among competing products on the store shelf. Information is the type and amount of information included on the package. Some packages try to simulate an emotional response to influence buyers. Finally, all product packages perform the basic function of protecting and dispensing the product. Select two competing brands in a product category and evaluate each brand's packaging on these dimensions. Which brand's packaging is superior? Suggest ways to improve the other brand's packaging. (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

Who would pay \$330,000 for a virtual space station? Or \$100,000 for an asteroid space resort? How about \$99,000 for a virtual bank license? Players of Entropia Universe, a massively multiplayer online game (MMOG), did. Those players are making money, and so are the game developers. There's a new business model—called "freemium"—driving the economics of these games. Under this model, users play for free but can purchase virtual goods with real money. Worldwide sales of virtual goods were \$2.2 billion in 2009 and are predicted to reach \$6 billion by 2013. Most virtual goods are inexpensive—costing about \$1—such as the tractor you can buy in *Farmerville* or a weapon in *World of*

Warcraft. That doesn't seem like much, but when you consider that Zynga's *Frontierville* had five million players within one month of launch, we're talking real money!

1. How would you classify virtual goods—a tangible good, an experience, or a service? Discuss the technological factors enabling the growth of virtual goods. (AACSB: Communication; Reflective Thinking)
2. How do players purchase virtual goods? Identify three virtual currencies and their value in U.S. dollars. (AACSB: Communication; Reflective Thinking)

FOCUS ON Ethics

"Meet us before you need us"—that's the motto of a cemetery in Denver. Facing decreasing demand as more Americans choose cremation, cemeteries across the country are marketing to the living in hopes they will become customers in the future. Although funeral homes and cemeteries have long urged customers to pre-purchase funeral services before they are needed, it's the new marketing that is drawing criticism. Some activities are low-key, such as poetry workshops, art shows, and nature walks, but some are downright lively. One cemetery staged a fireworks show and sky divers. Other festivities include concerts, outdoor movies, and clowns. Cemetery directors pine for the old days when, more than

a century ago, cemeteries were a place for social gatherings where families visited and picnicked near a loved one's grave. Although many of the new activities are staged in the evening, some occur during the day, so directors must use discretion to avoid interrupting a funeral.

1. What types of products are burial plots and pre-purchased funeral services? Explain. (AACSB: Communication; Reflective Thinking)
2. Are these marketing activities appropriate for this product? (AACSB: Communication; Ethical Reasoning)

MARKETING & THE Economy

Batteries Plus

A retail store that sells only batteries? That might sound like a sure-fire product flop in any economy. But weak economic conditions during and following the Great Recession have given a major jolt to Batteries Plus, the nation's first and largest all-battery franchise operation. Same-store sales are up a whopping 20 percent year-over-year. What is the secret to this chain's success? Demand for its products and services comes from products that retain high

consumption patterns regardless of economic conditions. Specifically, no matter what the economy, people and businesses alike still use laptops, mp3 players, digital cameras, cell phones, camcorders, and even vehicles. And all these necessary items need battery power. In fact, as people hold onto their devices longer instead of replacing them, that's all the better for Batteries Plus. As older batteries lose their ability to hold a charge, consumers head to Batteries Plus for replacements. This dynamic has made Batter-

ies Plus one of the top franchise opportunities in the United States. People may cut back on luxuries, but the demand for batteries is here to stay.

1. Based on derived demand principles—as in the nature of demand for Batteries Plus’s market offering—what other businesses should do well in a weak economy?

2. If Batteries Plus does nothing, it still does well in an economic downturn. What recommendations would you make to Batteries Plus to take even better advantage of such conditions and position itself for an economic upturn?

MARKETING BY THE Numbers

What is a brand’s worth? It depends on who is measuring it. For example, in 2009, Google was valued to be worth \$100 billion by one brand valuation company but only \$32 billion by another. Although this variation is extreme, it is not uncommon to find valuations of the same brand differing by \$20 to \$30 billion. Interbrand and BrandZ publish global brand value rankings each year, but a comparison of these two companies’ 2009 ranking reveals an overlap of only six of the top ten brands.

1. Compare and contrast the methodologies used by Interbrand (www.interbrand.com) and BrandZ (www.brandz.com) to

determine brand value. Explain why there is a discrepancy in the rankings from these two companies. (AACSB: Communication; Reflective Thinking; Analytical Reasoning)

2. In 2008, BrandZ ranked Toyota the number one brand of automobiles, valuing the brand at more than \$35 billion. In 2010, however, it valued the Toyota brand under \$22 billion. Discuss some of the reasons for the drop in Toyota’s brand value. (AACSB: Communication; Reflective Thinking)

VIDEO Case

General Mills—GoGurt

General Mills makes a lot of food. As the sixth largest food company in the world, it sold almost \$15 billion worth of packaged food last year. In the United States alone, General Mills markets more than 100 leading brands, such as Cheerios, Betty Crocker, Pillsbury, and Green Giant. With all this experience in managing brands, it has an advantage when it comes to building equity in brands.

Such is the case of GoGurt. The GoGurt video illustrates how General Mills virtually created the category of portable yogurt. But as competitive pressures mounted and dipped into GoGurt’s mar-

ket share, the brand faced many challenges. GoGurt managers needed to apply many branding and brand management concepts to turn GoGurt around and reestablish it as the dominant market leader. After viewing the video featuring GoGurt, answer the following questions about the company.

1. GoGurt is the pioneer brand in its category. Is that an advantage or a disadvantage?
2. Discuss brand equity as it relates to GoGurt.
3. How did the managers of GoGurt apply principles of branding to confront the challenges that the brand faced?

COMPANY Case

Las Vegas: What’s Not Happening in Vegas

When you hear someone mention Las Vegas, what comes to mind? Sin City? Wholesome entertainment for the entire family? An indulgent luxury vacation? Or perhaps a value-oriented reward for hard-working Americans? If you answered “all of the above,” you wouldn’t necessarily be wrong. The truth: All of these have been characteristics associated with Las Vegas over the years. In recent times, the Las Vegas Convention and Visitors Authority (LVCVA) fielded several national ad campaigns. Tourism is Vegas’s biggest industry, and the LVCVA is charged with maintaining the city’s brand image and keeping visitors coming to one of the world’s most famous cities.

Although the positioning of the Vegas brand has changed from time to time, the town will probably never entirely lose the “Sin

City” label. That title was born when Las Vegas was young—an anything-goes gambling town full of smoke-filled casinos, bawdy all-girl revues, all-you-can-eat buffets, Elvis impersonators, and no-wait weddings on the Vegas Strip. This was the Vegas epitomized by the Rat Pack, when Frank Sinatra, Dean Martin, Sammy Davis Jr., and the rest of the crew appeared nightly on stage to standing-room-only crowds at the Sands Hotel. Sinatra was even known for referring to anywhere that wasn’t Las Vegas as “dullsville.”

But as the 1990s rolled around, many Las Vegas officials felt that the town needed to broaden its target audience. So they set out to appeal to—of all things—families. Some of the biggest casinos on the Las Vegas Strip built roller coasters and other thrill rides, world-class water parks, and family-friendly shows like Treasure Island’s live-action swashbuckler spectacle, visible to everyone passing by on the street. Although this strategy seemed effective for a brief time, marketers came to realize that the family image just didn’t sync well with the classic vices that were still alive and well in Vegas.

As the LVCVA started to consider its options, the terrorist attacks of September 11, 2001, dealt Las Vegas tourism one of its worst blows ever. Declining tourism led to 15,000 lost jobs. The LVCVA decided that it was time to unabashedly proclaim that Las Vegas was a destination for adults. That didn't just mean a return to the classic vices. The LVCVA engineered an image of Vegas as a luxury destination oozing with excess and indulgence. The theme parks were replaced by five-star resorts, high-rise condos, expansive shopping malls filled with the world's top luxury brands, and restaurants bearing the names of world-renowned chefs. A new breed of expensive stage shows for adult audiences replaced family-friendly entertainment. This change of strategy worked. Even as Las Vegas struggled through economic recovery in the post 9-11 world, visitors returned in record numbers.

However, to Rossi Ralenkotter, CEO of the LVCVA, it soon became apparent that the town was much more than just an assortment of facilities and amenities. "We talked to old customers and new customers to determine the essence of the brand of Las Vegas," he said. The LVCVA found that to the nearly 40 million who flocked to the city each year, Vegas is an emotional connection—a total brand experience.

And just what *is* the "Las Vegas experience"? Research showed that when people come to Las Vegas, they're a little naughtier—a little less inhibited. They stay out longer, eat more, do some gambling, and spend more on shopping and dining. "We found that [the Las Vegas experience] centered on adult freedom," says Ralenkotter. "People could stay up all night and do things they wouldn't normally do in their own towns."

Based on these customer insights, the LVCVA coined the now-familiar catchphrase—"Only Vegas: What happens here, stays here." The phrase captured the essence of the Las Vegas experience—that it's okay to be a little naughty in Vegas. That simple phrase became the centerpiece of what is now deemed one of the most successful tourism campaigns in history. The campaign transformed Las Vegas's image from the down-and-dirty "Sin City" to the enticing and luxurious "Only Vegas."

The \$75 million ad campaign showed the naughty nature of people once they arrive in Las Vegas. In one ad, a woman spontaneously married a visibly younger man in a Las Vegas wedding chapel. Then, ignoring his ardent pleas, she kissed him goodbye and pulled herself away, insisting that she had to get back to her business convention. In another ad, an outgoing young woman is shown introducing herself to various men, each time giving a different name. In a third ad, a sexy woman hops into a limo, flirts with the driver, and emerges from the car at the airport for her trip home as a conservative business woman. At the end of each ad was the simple reminder, "What happens here, stays here."

The LVCVA continued investing heavily in the bold and provocative campaign and in a variation on the theme, "Your Vegas is showing." All the while, Las Vegas experienced its biggest growth boom in history. Hotel occupancy rates hovered at an incredible 90 percent, visitors came in ever-increasing numbers, and there was seemingly no end to the construction of lavish new luxury properties. To top it off, Las Vegas was dubbed the number two hottest brand by respected brand consultancy Landor Associates, right behind Google. It seemed that the LVCVA had found the magic formula and that Vegas had found its true identity. With everything going so well, what could possibly go wrong?

Then in 2008, Las Vegas suffered another one-two punch. First, the worst recession since the Great Depression had consumers scaling back on unnecessary expenses. Second, in the wake of government bailouts and a collapsing financial industry, company CEOs and executives everywhere came under scrutiny

for lavish expenses. Suddenly, Las Vegas' carefully nurtured, naughty, indulgent image, made even prudent, serious company conferences held there look bad. It didn't help matters when President Obama delivered a statement that Las Vegas' mayor, Oscar Goodman, perceived as the straw that broke the camel's back. Obama scolded Wall Street executives by saying, "You can't get corporate jets; you can't go take a trip to Las Vegas or go down to the Super Bowl on the taxpayer's dime." As a result of the new economic realities, both leisure travel and the convention industry—two staples in Las Vegas' success—took a big hit.

As a result, 2008 and 2009 were some of the worst years ever for Las Vegas. For 2009, the total number of visitors dropped to 36.4 million, 7 percent less than the 2007 peak of 39.1 million. This translated into a 24 percent decrease in convention attendance, a 22 percent drop in room occupancy, and a 10 percent decline in gambling revenues. "People aren't coming in the numbers they used to, and those that are bet on the cheaper tables" said Steven Kent, an analyst for Goldman Sachs. Nevada's unemployment rate climbed to one of the highest in the United States. The Las Vegas hospitality industry responded by chopping prices. Rooms on the Las Vegas Strip could be had as cheaply as \$25 a night. Gourmet meals were touted for half price. The town was practically begging for visitors.

After years of successfully pedaling Vegas naughtiness as the primary selling point, the LVCVA realized it had to make a shift. So in the midst of the economic carnage, with so much to offer and great deals to be had, it focused on the value and affordability of a Vegas vacation. A new ad campaign, "Vegas Bound," urged hard-working Americans to take a well-deserved break in Las Vegas to recharge their batteries before returning home to brave the tough economy. A series of Vegas Bound ads and online mini-documentaries showed average Americans in high-end nightclubs, spas, and restaurants. One grinning 81-year-old woman was even shown giving a thumbs-up after an indoor skydiving session.

"We had to think how we should address our customers during this financial crisis when they're reluctant to make big financial commitments," said Ralenkotter at the start of the campaign. "We're appealing to Americans saying, 'You're working hard. It's OK to take a break.'" The campaign didn't eliminate glamour and luxury. Rather, it repackaged these traits in an "affordable" and "well-deserved" wrapper.

But after so many years of hearing about Las Vegas as a guilt-free adult playground, no matter what the ad campaign said, consumers had a hard time seeing Vegas as prudent. Research showed that even in a painful recession, consumers still saw Vegas for what it was: a place they could go to for simple pleasures not available at home. It took the LVCVA only five months to pull the plug on "Vegas Bound" and resurrect "What happens here, stays here." In a near 180-degree flip, Ralenkotter said, "We feel it is time to get back to our brand messaging."

Although there is rarely a magic bullet in a situation like the one Las Vegas faced, the LVCVA's return to its core brand message seems to be working. As 2010 unfolded, the number of visitors was up. The LVCVA projected a 3 percent growth in visitors for the year to 37.5 million. "I think there's pent-up demand," said Cathy Tull, senior vice president of marketing for the authority. "People want to travel, they want to escape, and Vegas works very well for that."

Just as the needle started to budge, MGM Resorts International opened the most ambitious project Las Vegas had ever seen. In fact, its \$8.5 billion CityCenter was said to be the largest privately funded construction project in U.S. history. A pedestrian-friendly resort, CityCenter was designed as a small city in and of itself with four luxury hotels, two residential condo towers, and a 500,000-square-foot high-end shopping and dining center.

Adding 6,000 rooms and 12,000 jobs to the Las Vegas Strip has met with mixed reactions. Some speculate that this game-changing property will put an exclamation point on Las Vegas' image and provide additional oomph in a time of crisis. "History has shown that new properties increase visitation across the board," said Ralenkotter. But others see the introduction of such a large property as hazardous to recovery. "Will it cannibalize other properties?" asked Tony Henthorne, professor and chair of tourism and convention administration at the University of Nevada at Las Vegas. "Probably so, within a short-term period."

But even as such major signs of life are sprouting up along the Las Vegas Strip, there's an air of caution. Jim Murren, CEO for MGM believes his company is not yet out of the woods. When asked if he thought CityCenter was in the clear, he responded emphatically. "Absolutely not. We're not declaring victory at all. We are a year or two away from even having a chance to consider that." That is probably the best attitude to take. After all, the Las Vegas Monorail just filed for bankruptcy. Two other major projects that were expected to boost the Vegas economy have been shelved. Cheap (i.e., inexpensive) rooms are still available on the Las Vegas Strip. And although tourist visits are on the rise, even if Las Vegas makes its projections for 2010, it will still be down from its 2007 peak.

Las Vegas has certainly had its share of ups and downs. Times may be brightening now. But the city will face many challenges in the months and years to come. Goldman analyst Kent expresses confidence in the brand. "For the long-term, we believe in Vegas and its ability to transform itself and attract more customers." R&R Partners, the ad agency handling the Las Vegas marketing campaigns, made an important discovery that supports Kent's point of

view. It found through its research that, especially during hard economic times, people wanted to know that the same Vegas they've known and loved is still there.

Questions for Discussion

1. Given all the changes in the branding strategy for Las Vegas over the years, has the Vegas brand had a consistent meaning to consumers? Is this a benefit or a detriment to the city as it moves forward?
2. What is Las Vegas selling? What are visitors really buying? Discuss these questions in terms of the core benefit, actual product, and augmented product levels.
3. Will the most recent efforts by the LVCVA continue to work? Why or why not?
4. What recommendations would you make to LVCVA managers for Las Vegas' future?

Sources: Jeff DeLong, "After a Down Year, Vegas Hoping for a Rebound," *USA Today*, May 21, 2010, p. 2A; Nancy Trejos, "Las Vegas Bets the Future on a Game-Changing New Hotel Complex," *Washington Post*, January 31, 2010, p. F01; Tamara Audi, "Vegas Plans a New Push to Attract More People," *Wall Street Journal*, January 7, 2008, p. B2; John King, "Luck Running Low in Las Vegas—Will It Turn Around," *CNN.com*, May 22, 2009, accessed at www.cnn.com; Tamara Audi, "Vegas Tries Luck with Old Slogan," *Wall Street Journal*, May 13, 2009, p. B5; Damon Hodge, "Tourism Chief Aims to Continue Vegas' Hot Streak," *Travel Weekly*, February 12, 2007, p. 64; and Tamara Audi, "Las Vegas Touts Its Affordability," *Wall Street Journal*, February 4, 2009, p. B5.