A hamburger by any other name
costs twice as much.

EVAN ESAR (MODERN MARKETER)

Product

IN PART FIVE WE LOOK at the first component in the marketing mix – the product.

Designing good products that customers want to buy is a challenging task. Customers do not buy mere products. They seek product benefits and are often willing to pay more for a brand that genuinely solves their problems. **Chapter 13** explores how marketers can satisfy customer needs by adding value to the basic product; it also shows the complexity arising in product, branding and packaging decisions, and how various forces in the environment pose tough challenges for marketers in the new century.

Markets do not stand still. Companies must adapt their current offerings or create new ones in response to changing customer needs, or to take advantage of new marketing and technological opportunities. **Chapter 14** looks at how to develop and commercialise new products. Importantly, after launch, marketing managers must carefully manage the new product over its lifetime to get the best return from their new-product effort.

While Chapters 13 and 14 deal with products, **Chapter 15** looks more specifically at intangible products or services. It examines the unique characteristics of services and how organisations adapt their approach when marketing them.

PART
five

> What's in a name? That which we call a rose
> by any other name would smell as sweet.

WILLIAM SHAKESPEARE

Product and branding strategy

Chapter objectives

After reading this chapter, you should be able to:

- Define the term *product* including the core, actual and augmented product.
- Explain the main classifications of consumer and industrial products.
- Describe the decisions companies make regarding individual products, product lines and product mixes.
- Discuss branding strategy in relation to the decisions that companies make in building and managing their brands.
- Discuss additional branding issues with respect to socially responsible brand decisions and international marketing.

Mini Contents List

◄ SOURCE: Freeserve/MC Saatchi.

Prelude case   L'Oréal: are you worth it?

L'Oréal sells cosmetics and toiletries to consumers around the world. One market that has certainly been booming lately is that for hair care products. Brands such as Elvive, Lancôme, Helena Rubenstein and Kérastase, part of the L'Oréal stable, are capitalising on this trend. In one sense, L'Oréal's hair care products – shampoo, conditioners, styling agents – are no more than careful mixtures of chemicals with different smells and colours. But L'Oréal knows that when it sells shampoos and conditioners, it sells much more than a bottle of coloured or fragrant soapy fluids – it sells what the fluids can do for the women who use them.

> L'Oréal sells much more than a bottle of coloured or fragrant soapy fluids – it sells what the fluids can do for the women who use them.

Many hair care products are promoted using alluring chat-up lines: 'Your hair is instantly shinier, stronger, healthier, and getting better and better and . . .'. Who would believe that shampoos and conditioners that are designed to rinse away can have any lasting benefits? But women do not see shampoos and conditioners that way. Many things beyond the ingredients add to a shampoo's allure. While hair is dead, it is organic, so will respond to some care and attention. Many consumers believe that their favourite shampoo does more than wash away the grit in their hair; it makes them feel good about themselves.

Thanks to recent scientific breakthroughs, many hair care products can make a difference.

The L'Oréal laboratories in Paris, employing 2,500 employees, dedicate over £180 million a year to R&D. This investment pays. For example, Kérastase, part of the L'Oréal group, developed Ceramide F – a synthetic copy of naturally occurring hair ceramides – which reconstructs the hair's internal structure. Sounds far fetched? But consumers say it works. Kérastase Forcintense revitalises hair that is severely damaged through colouring, overstyling or perming. Other L'Oréal product innovations include colour and conditioning agents – Majirel, Majirouge and Majiblond – for treating fading hair colours due to washing or sunlight, and special formulations – Majimèches – for blondes. All these functional benefits enable L'Oréal to promote the brand's superior performance benefits to consumers.

The wash-in, wash-out nature of hair care suggests that product performance alone may be sufficient to satisfy users. Hairstylist Sam McKnight says that it is an emotionally charged marketplace: a bad hair day means an unhappy woman. There is also a limit to what all the scientific breakthroughs in hair care can do for how a woman feels when she has had a hair wash. McKnight argues that scents and colours must be chosen carefully to match women's desires, moods and lifestyles. His new range of products eschew science and concentrate on the smell. Called 'Sexy', they are expensive, exclusive and smell like no other shampoo has ever smelled before.

Additionally, hair care brands have done well because of the advertising spends that have gone in to promote shampooing as a pleasurable pastime rather than an activity akin to doing a load of washing. L'Oréal and rival firms know just how important this is. Brands such as Elvive, Pantene (by Procter & Gamble) and Organics (by Elida/Lever Fabergé) have advertising spends that will make a girl's hair curl. L'Oréal's leading brand Elvive also tries to capture the essence of pleasure using advertisements that sound tempting: 'Because I'm worth it', says L'Oréal.

Companies also have to play on the shampoo's name, an important product attribute. Names such as Sexy, Dream Hair Sensational and Frizz-Ease suggest that the shampoos and conditioners will do something more than just wash your hair. L'Oréal must also package its hair care products carefully. To consumers, the bottle and package are the most tangible symbols of the product's image. Bottles must feel comfortable, be easy to handle and help to differentiate the product from other brands on the shelf.

So when a woman buys hair shampoos and conditioners, she buys much, much more than simply soapy fluids. The product's image, its promises, its feel, its name and package, even the company that makes it, all become a part of the *total product*.

Hope in a bottle or just so much hype? The answer: it's up to each of us to decide whether we're worth it.[1]

Questions

1. Distinguish between the core, tangible and augmented product that L'Oréal sells.

2. A hair care product's name is a central product attribute. What are the key branding decisions that L'Oréal's marketing managers have to make?

3. L'Oréal markets its hair care products worldwide. What major considerations does the firm face in determining global product decisions?

Introduction

The preview case shows that, clearly, toiletries and cosmetics are more than just toiletries and cosmetics when L'Oréal sells them. This chapter begins with a deceptively simple question: *What is a product?* After answering 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 move from decisions about individual products to the critically important issue of how marketers build and manage brands. Finally, we address socially responsible product decisions and some complex considerations in international product decisions.

What is a product?

A pair of Adidas trainers, a Volvo truck, a Nokia mobile telephone, a Tony & Guy haircut, an Oasis concert, a Club Med vacation, a NatWest e-savings account, advice from your doctor – all are products. We define a **product** as anything that is offered to a market for attention, acquisition, use or consumption and that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, persons, places, organisations, ideas or mixes of these entities. Thus, throughout this text, we use the term *product* broadly to include any or all of these entities.

    Services are products that consist of activities, benefits or satisfactions that are offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, haircuts, tax preparation and home repair services. Because of the importance of services in the world economy, we will look at services marketing in greater detail in Chapter 15.

Levels of product

Product planners need to think about the product on three levels. Each level adds more customer value. The most basic level is the **core product**, which addresses the question: *What is the buyer really buying?* As Figure 13.1 illustrates, the core product stands at the centre of the total product. It consists of the core, problem-solving benefits that consumers seek. A woman buying lipstick buys more than lip colour. Charles Revson of Revlon saw this early: 'In the

Product—Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas.

Services—Activities, benefits or satisfactions that are offered for sale.

Core product—The problem-solving services or core benefits that consumers are really buying when they obtain a product.
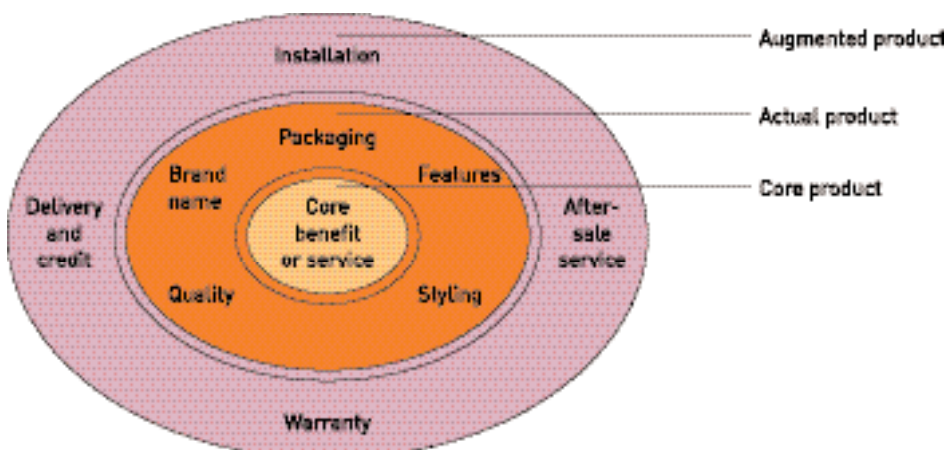

Figure 13.1 Three levels of product

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factory, we make cosmetics; in the store, we sell hope.' Theodore Levitt has pointed out that buyers 'do not buy quarter-inch drills; they buy quarter-inch holes'. Thus when designing products, marketers must first define the core of *benefits* that the product will provide to consumers.

At the second level, product planners must turn the core benefit into an **actual product**. Actual products may have as many as five characteristics: a *quality level*, product and service *features*, *styling*, a *brand name* and *packaging*. For example, Sony's cam camcorder is an actual product. Its name, parts, styling, features, packaging and other attributes have all been combined carefully to deliver the core benefit – a convenient, high-quality way to capture important moments.

Finally, the product planner must build an **augmented product** around the core and actual products by offering additional consumer services and benefits. Sony must offer more than a camcorder. It must provide consumers with a complete solution to their picture-taking problems. Thus when consumers buy a Sony camcorder, Sony and its dealers might also give buyers a warranty on parts and workmanship, instructions on how to use the camcorder, quick repair services when needed and a freephone number to call if they have problems or questions. To the consumer, all of these augmentations become an important part of the total product.

Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex *bundles of benefits* that satisfy their needs. When developing products, marketers must first identify the *core* consumer needs that the product will satisfy. They must then design the *actual* product and finally find ways to *augment* it in order to create the bundle of benefits that will best satisfy consumers.

Today, most competition takes place at the product augmentation level. Successful companies add benefits to their offers that will not only *satisfy*, but also *delight* the customer. However, each augmentation costs the company money, and the marketer has to ask whether customers will pay enough to cover the extra cost. Moreover, augmented benefits soon become *expected* benefits. For example, hotel guests now expect cable television, Internet access, trays of toiletries and other amenities in their rooms. This means that competitors must search for still more features and benefits to differentiate their offers.

Product classifications

Products can be classified according to their durability and tangibility. **Non-durable products** are goods that are normally consumed quickly and used on one or a few usage occasions, such as beer, soap and food products. **Durable products** are products used over an extended period of time and normally survive for many years. Examples are refrigerators, cars and furniture.

Marketers have also divided products and services into two broad classes based on the types of customer that use them – consumer products and industrial products.

Consumer products

Consumer products are those bought by final consumers for personal consumption. Marketers usually classify these goods based on *consumer shopping habits*. Consumer products include *convenience products*, *shopping products*, *speciality products* and *unsought products*. These products differ in the way consumers buy them, so they differ in how they are marketed (see Table 13.1).

Convenience products are consumer goods and services that the consumer usually buys frequently, immediately and with a minimum of comparison and buying effort. Examples are soap, sweets, newspapers and fast food. Convenience goods are usually low priced, and

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Actual product—A product's parts, quality level, features, design, brand name, packaging and other attributes that combine to deliver core product benefits.

Augmented product—Additional consumer services and benefits built around the core and actual products.

Non-durable product—A consumer product that is normally consumed in one or a few uses.

Durable product—A consumer product that is usually used over an extended period of time and that normally survives many uses.

Consumer product—A product bought by final consumers for personal consumption.

Convenience product—A consumer product that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort.

Marketing consideration	Type of consumer product			
	Convenience	**Shopping**	**Speciality**	**Unsought**
Customer buying behaviour	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, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness or knowledge; 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 producer and resellers	More carefully targeted promotion by both producer and resellers	Aggressive advertising and personal selling by producer and resellers
Examples	Toothpaste, magazines, laundry detergent	Major appliances, televisions, furniture, clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance, blood donations

Table 13.1 Marketing considerations for consumer products

marketers place them in many locations to make them readily available when customers need them.

Shopping products are less frequently purchased and consumers spend considerable time and effort gathering information and comparing alternative brands carefully on suitability, quality, price and style. Examples of shopping products are furniture, clothing, used cars and major household appliances. Shopping products marketers usually distribute their products through fewer outlets but provide deeper sales support to give customers information and advice to help them in their comparison efforts.

Speciality products are consumer goods with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of car, high-priced home entertainment systems and photographic equipment, luxury goods, designer clothes and the services of medical or legal specialists. A jukebox, for example, is a speciality good because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare speciality goods. They invest only the time needed to reach dealers carrying the wanted products.

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

Shopping product—A consumer product that the customer, in the process of selection and purchase, characteristically compares with others on such bases as suitability, quality, price and style.
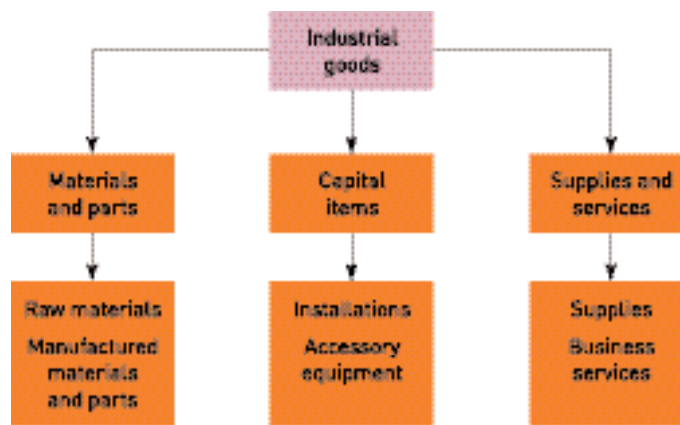
Speciality product—A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Unsought product—A consumer product that the consumer either does not know about or knows about but does not normally think of buying.

Figure 13.2 Classification of
industrial goods

Industrial products

Industrial product—A pro-
duct bought by individuals
and organisations for further
processing or for use in
conducting a business.

Materials and parts—
Industrial products that
enter the manufacturer's
product completely,
including raw materials and
manufactured materials and
parts.

Capital items—Industrial
goods that partly enter the
finished product, including
installations and accessory
equipment.

Supplies and services—
Industrial products that
do not enter the finished
product at all.

Industrial products are those bought 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 lawnmower for home use, the lawnmower is a consumer product. If the same consumer buys the same lawnmower for use in a landscaping business, the lawnmower is an industrial product.

There are three groups of industrial product: *materials and parts*, *capital items* and *supplies and services* (see Figure 13.2).

Materials and parts are industrial goods that become a part of the buyer's product, through further processing or as components. They include raw materials and manufactured materials and parts.

Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, timber, crude petroleum, iron ore).

Manufactured materials and parts include component materials (iron, yarn, cement, wires) and component parts (small motors, tyres, castings). Component materials are usually processed further – for example, pig iron is made into steel, and yarn is woven into cloth. Component parts enter the finished product complete with no further change in form, as when Electrolux puts small motors into its vacuum cleaners and Volvo adds tyres to its automobiles. Most manufactured materials and parts are sold directly to industrial users. Price and service are the most significant marketing factors, while branding and advertising tend to be less important.

Capital items are industrial products that help in the buyers' production or operations. They include installations and accessory equipment. *Installations* consist of buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, lifts). *Accessory equipment* includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, computers, desks). These products do not become part of the finished product. They have a shorter life than installations and simply aid in the production process.

Supplies and services are industrial products that do not enter the finished product at all. *Supplies* include operating supplies (lubricants, coal, computer paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience goods 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.

Organisations, persons, places and ideas

In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other 'marketable entities' – namely, organisations, persons, places and ideas.

Organisations often carry out activities to 'sell' the organisation itself. *Organisation marketing* consists of activities undertaken to create, maintain or change the attitudes and behaviour of target consumers towards an organisation. Both profit and non-profit organisations practise organisation marketing. Business firms sponsor public relations or corporate advertising campaigns to polish their images. *Corporate image advertising* is a major tool companies use to market themselves to various publics. For example, IBM wants to establish itself as the company to turn to for 'e-Business Solutions'. Similarly, non-profit organisations, such as churches, colleges, charities, museums and performing arts groups, market their organisations in order 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 behaviour towards particular people. All kinds of people and organisations practise person marketing. Presidents or prime ministers of nations must be skilful in marketing themselves, their parties and their platforms to get needed votes and programme support. Entertainers and sports figures use marketing to promote their careers and improve their impact and incomes. Professionals such as doctors, lawyers, accountants and architects market themselves in order to build their reputations and increase business. Business leaders use person marketing as a strategic tool to develop their companies' fortunes as well as their own. Businesses, charities, sports teams, fine arts groups, religious groups and other organisations also use person marketing. Creating or associating with well-known personalities often helps these organisations achieve their goals better. Thus, brands such as TAG Heuer, Adidas, Nike, Coca-Cola and others have invested millions of euros to link themselves with celebrities.
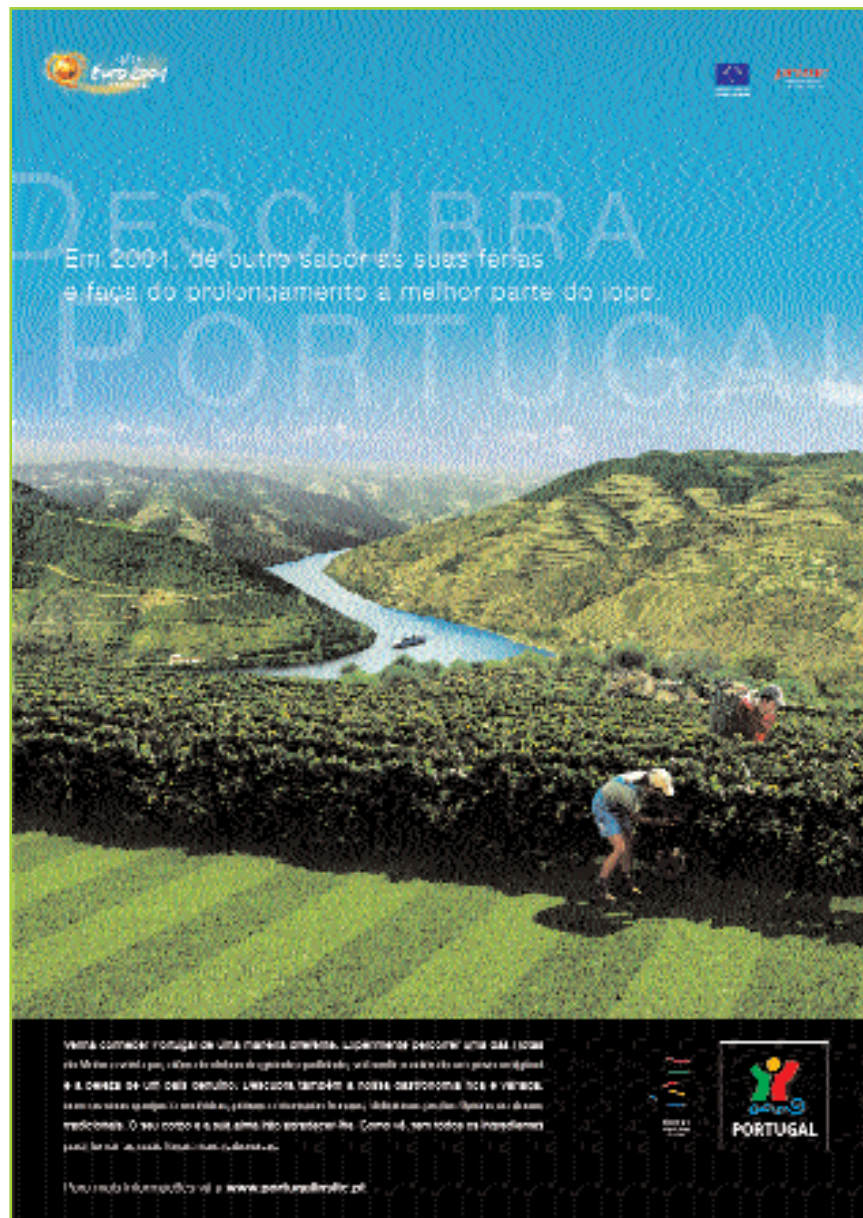
Place marketing involves activities undertaken to create, maintain or change attitudes or behaviour towards particular places. Thus, cities, states, regions and even entire nations compete to attract tourists, new residents, conventions and company offices and factories. For example, today, it is common to find cities, counties and countries marketing their tourist attractions. Many of these also operate industrial development offices that try to sell companies on the advantages of locating new plants in their locations. For example, Ireland is an outstanding place marketer. The Irish Development Board has attracted over 1200 companies to locate their plants in Ireland. At the same time, the Irish Tourist Board has built a flourishing tourism business, and the Irish Export Board has created attractive markets for Irish exports.[2]

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it be the general idea of brushing your teeth or the specific idea that AquaFresh provides an effective decay prevention. Here, however, we narrow our focus to the marketing of *social*

ideas, such as public health campaigns to reduce smoking, alcoholism, drug abuse, child abuse and overeating; environmental campaigns to promote wilderness protection, clean air and conservation; and other campaigns such as education reforms, organ donations, family planning, human rights and racial equality. This area has been called *social marketing*, which includes the design, implementation and control of programmes seeking to increase the acceptability of a social idea, cause or practice among a target group.

But social marketing involves much more than just advertising. Many public marketing campaigns fail because they assign advertising the primary role and fail to develop and use all the marketing mix tools.[3]

Product decisions

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

Individual product decisions

Here, we look at decisions relating to the development and marketing of individual products, namely *product attributes*, *branding*, *packaging*, *labelling* and *product-support services*.

Product attributes

Developing a product involves defining the benefits that the product will offer. These benefits are communicated and delivered by tangible product attributes, such as *quality*, *features, style* and *design*. Decisions about these attributes are particularly important as they greatly affect consumer reactions to a product. We will now discuss the issues involved in each decision.

Product quality

Quality is one of the marketer's major positioning tools. Quality has a direct impact on product performance; hence, 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 customer satisfaction. For example, Siemens defines quality this way: 'Quality is when our customers come back and our products don't.'[4] This customer-focused definition suggests that quality begins with customer needs, goes beyond customer satisfaction and ends with customer retention.

'Total quality management' (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services and business processes. During the past two decades, companies, large and small, have credited TQM with greatly improving their market shares and profits. Recently, however, the total quality movement has drawn criticism. Too many companies viewed TQM as a magic cure-all and created token total quality programmes that applied quality principles only superficially.[5] Still others became obsessed with narrowly defined TQM principles, losing sight of broader concerns for customer value and satisfaction. As a result, many such programmes failed, causing a backlash against TQM.

When applied in the context of creating customer satisfaction, however, total quality principles remain a requirement for success. Although many firms do not use the 'TQM label' any more, for most top companies, customer-driven quality has become a way of doing business. Today, most companies are taking a 'return on quality' approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.[6]

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 position in the target

Product quality—The ability of a product to perform its functions; it includes the product's overall durability, reliability, precision, ease of operation and repair, and other valued attributes.

market. Here, **product quality** stands for the ability of a product to perform its functions. It includes the product's overall durability, reliability, precision, ease of operation and repair, and other valued attributes. Although some of these attributes can be measured objectively, from a marketing point of view, quality should be measured in terms of buyers' perceptions. Companies rarely try to offer the highest possible quality level – few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce, a Sub Zero refrigerator 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 can also mean high levels of quality *consistency*. Here, product quality means *conformance quality* – freedom from defects and *consistency* in delivering a targeted level of performance. In this sense, a Nissan can have just as much quality as a Rolls-Royce. Although a Nissan does not perform as well as a Rolls, it can consistently deliver the quality that customers pay for and expect.

Thus, many companies today have turned customer-driven quality into a potent strategic weapon. They create customer satisfaction and value by consistently and profitably meeting customers' needs and preferences for quality. In fact, quality has now become a competitive necessity – in the twenty-first century, only companies with the best quality will thrive.

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 more features by adding higher-level models. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and 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? The company 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? How much would you pay for each feature? The answers provide the company with a rich list of feature ideas. Each feature should be assessed on the basis of its *customer value* versus its *company cost*. Features that customers value little in relation to costs should be dropped; those 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*. Some companies have reputations for outstanding style and design, such as Black & Decker in cordless appliances and tools, Bose in audio equipment and Braun in shavers and small household appliances.

Some companies have integrated style and design with their corporate culture. They recognise that design is one of the most powerful competitive weapons in a company's marketing arsenal.

Consider IKEA, the Swedish home furnishing chain. Its corporate culture is 'småländsk' – thrift is a virtue, no extravagance is allowed. This identity is reflected in IKEA's thrifty (but stylish) designs and the dominance of traditional Scandinavian materials of light wood, linen and cotton textiles. Another company, the carmaker Saab, promotes a design philosophy of simplicity and purity. 'There are few excesses; form follows function. We also believe in fidelity to materials – when it's plastic, we don't try to make it look like wood', says a Saab spokesperson.[7]

Many companies, however, lack a 'design touch'. Their product designs function poorly or are dull or common looking. Some companies like Fiat Auto have learnt that design and style matters.

The Italian car company's European market share had collapsed from 10 per cent in 1990 to 6 per cent in 2003. Part of the problem is that they have alienated drivers by succeeding in making some rather ugly-looking cars: Britain's *Car* magazine has described Fiat's Multipla

Streets ahead.

To develop the most refined 4x4, we've explored every avenue. Sleek aerodynamic design. Best power to weight ratio in its class. 3-litre V6 engine. 4-level air suspension. Motorised tailgate. Steerable headlight system. Sequential control 5-speed transmission. Nine airbag system. And DVD satnav with rear view camera. For more information, call 0845 600 9760 or visit www.lexus.co.uk/rx300 The Lexus RX300. It changes everything.

THE RX300

Top Manufacturer for Quality, Reliability and Customer Care in the UK. BBC Top Gear magazine Motoring Survey 2002 and 2003.

Lexus – 1st place, Gold Award J.D. Power and Associates 2001-2004 UK Customer Satisfaction Studies.℠

Auto Express Driver Power Survey, Lexus Best Manufacturer 2002-2004.

The Lexus RX300 ad highlights product attributes which put the model streets ahead of competitors in the same product class. The RX300 is an example of distinctive product style and design.
SOURCE: Lexus (GB) Ltd.
Photographer: Mathias Baumann, Defrance, Düsseldorf, Germany.

Model shown RX300 SE-L. Specifications listed above apply to RX300 SE-L model. RX300 SE-L £37,825 OTR. RX300 range prices start from £28,995 to £41,200 OTR. Prices correct at time of going to press. BBC Top Gear magazine Motoring Survey 2003 based on the results of questionnaires from over 40,000 motorists spanning 137 models from 35 manufacturers. Auto Express Driver Power Study 2004 based on 37,000 respondents. J.D. Power and Associates 2004 United Kingdom Customer Satisfaction Study℠ based on a total of 23,641 responses from owners of two-year old vehicles. www.jdpower.com
Fuel economy figures: extra-urban 9.4 L/100km (30.1 mpg), urban 16.9 L/100km (16.7 mpg), combined 12.2 L/100km (23.2 mpg). CO_2 emissions 288g/km.

people-carrier as having 'bozz-eyed swamp-hog looks' and that its Dobio MPV is a 'Toytown-styled utilo-box' that is 'very big if you're desperate for space. But you'd have to be'. To reverse the falling European sales, Fiat's design director, Humberto Rodriguez, has set out to 'abolish all the strange things' they have done to these vehicles and to spearhead a new design direction for the automotive group – sleeker, family-feeling cars that may not necessarily be head-turners, like the Multipla is; but they will not leave the driver cringing with embarrassment.[8]

Design is a broader concept than style. *Style* simply describes the appearance of a product. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. In some cases, it might even result in worse performance. For example, a chair may look great yet be extremely uncomfortable. 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.

The Lexus RX300 as shown in the above advert is an example of distinctive product style and design. The advert features the slogan 'Streets ahead' to promote the RX300's attributes such as technology and styling to suggest that the RX, and hence the driver, is *Streets ahead* of the competition.

As competition intensifies, design will offer one of the most potent tools for differentiating and positioning products of all kinds. That investment in design pays off has certainly been recognised by global companies which have embraced design. Nike, for example, employs some 60 designers and releases over 500 footwear designs each year. Its shoes are worn by athletes, but are aimed primarily at a youthful market for which high-performance footwear is currently fashionable.[9] Apple's iMac computer, introduced in 1998, combined style and content. In response to the project brief – to design a new computer for consumers that was

simple, approachable and affordable – Jonathan Ive, Apple's chief designer, produced the award-winning iMac. The computer's cuteness and distinctive colour single-handedly turned the tide for Apple, making it the fastest-selling computer in Apple's history. Others like Canon (cameras), Sony (hi-fis), Philips (compact disc players and shavers), Ford (cars) and Swatch (watches) have also profited from their commitment to product design. Differentiating through design is also a familiar strategy in premium products such as Rolex and Omega watches, Porsche cars and Herman Miller office furniture. These products stand out from the crowd. Good design can attract attention, improve product performance, cut production costs and give the product a strong competitive advantage in the target market.[10]

Branding

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect and enhance brands of their products. A **brand** is a name, term, sign, symbol, design or a combination of these, that identifies the maker or seller of the product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. For example, most consumers would perceive a bottle of Chanel perfume as a high-quality, expensive product. But the same perfume in an unmarked bottle would probably be viewed as lower in quality, even if the fragrance were identical. A brand can provide a guarantee of reliability and quality. For example, a book buyer might not entrust her credit card details with an unknown online book store, but would have little hesitation doing so when buying from Amazon.com as experience had taught her to trust the Amazon brand.

Branding has become so strong that today hardly anything goes unbranded.[11] Salt is packaged in branded containers, common nuts and bolts are packaged with a distributor's label, and automotive parts – spark plugs, tyres, filters – bear brand names that differ from those of the carmakers. Even fruit and vegetables are branded – Sunkist oranges, Del Monte pineapples and Chiquita bananas.

Some products, however, carry no brands. 'Generic' products are unbranded, plainly packaged, less expensive versions of common products ranging from such items as spaghetti to paper towels and canned peaches. They often bear only black-stencilled labels and offer prices as much as 40 per cent lower than those of main brands. The lower price is made possible by lower-quality ingredients, lower-cost packaging and lower advertising costs.

Despite the limited popularity of generics, the issue of whether or not to brand is very much alive today. This situation highlights some key questions: Why have branding in the first place? Who benefits? How do they benefit? At what cost?

Branding helps buyers in many ways:

■ Brand names tell the buyer something about product quality. Buyers who always buy the same brand know that they will get the same quality each time they buy.

■ Brand names also increase the shopper's efficiency. Imagine a buyer going into a supermarket and finding thousands of generic products.

■ Brand names help call consumers' attention to new products that might benefit them. The brand name becomes the basis upon which a whole story can be built about the new product's special qualities.

Branding also gives the supplier several advantages:

■ The brand name makes it easier for the supplier to process orders and track down problems.

■ The supplier's brand name and trademark provide legal protection for unique production features that otherwise might be copied by competitors.

■ Branding enables the supplier to attract a loyal and profitable set of customers.

Brand—A name, term, sign, symbol or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

■ Branding helps the supplier to segment markets. For example, Cadbury offers Dairy Milk, Roses and other brands, not just one general confectionery product for all consumers.

In addition, branding adds value to consumers and society:

■ Those who favour branding suggest that it leads to higher and more consistent product quality.

■ Branding also increases innovation by giving producers an incentive to look for new features that can be protected against imitating competitors. Thus, branding results in more product variety and choice for consumers.

■ Branding helps shoppers because it provides much more information about products and where to find them.

Thus, building and managing brands represents one of the most important marketing tasks. We will discuss branding strategy in more detail later in this chapter.

Packaging

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

Packaging involves designing and producing the container or wrapper for a product. The package may include the product's primary container (the tube holding and protecting Aquafresh toothpaste); a secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Aquafresh); and the shipping package necessary to store, identify and ship the product (a corrugated box carrying six dozen tubes of Aquafresh toothpaste). Labelling, printed information appearing on or with the package, is also part of packaging.

In recent times, many factors, beyond containing and protecting the product, have made packaging an important marketing tool. 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 realising the power of good packaging to create instant consumer recognition of the company or brand. For example, in an average supermarket, which stocks 15,000 to 17,000 items, the typical shopper passes by some 300 items per minute, and 53 per cent of all purchases are made on impulse. In this highly competitive environment, the package may be the seller's last chance to influence buyers. It becomes a 'five-second commercial'. Research shows that a sizeable chunk of buyers can be swayed at the last minute from buying their cat's favourite tin of tuna bites if their eye is caught by a well-designed, competitive brand. Hence, manufacturers must use pack design – shape, graphics and texture – to project their brand values and differentiate them in an overcrowded market.

Innovative packaging can give a company an advantage over competitors. For example, Heineken used creative packaging to differentiate the product. In its green-glass bottle, with 'export' on the label, as opposed to the usual brown containers for beer, and priced to match its suggestion of exclusivity, it caught on as a beer for special occasions. According to the company's late founder, Mr Heineken, the firm was selling warmth and happiness, and they had to make the product more distinctive.[12]

Packaging concept—What the package should be or do for the product.

Developing a good package for a new product requires making many decisions. The first task is to establish the **packaging concept**, which states what the package should *be* or *do* for the product. Should the main functions of the package be to offer product protection, introduce a new dispensing method, communicate certain qualities about the product, the brand or the company, or something else? Decisions, then, must be made on package design that cover specific elements of the package, such as size, shape, materials, colour, text and brand mark. These elements must work together to support the product's position and marketing strategy and be consistent with the product's advertising, pricing and distribution.

In recent years, product safety has also become a major packaging concern. We have all learned to deal with hard-to-open 'childproof' packages. And after the rash of product tampering scares during the 1980s, most drug producers and food makers are now putting their products in tamper-resistant packages. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, many companies have gone 'green'.

For example, Tetra Pak, a Swedish multinational, is noted for its innovative packaging that takes environmental concerns into account. Tetra Pak invented an 'aseptic' package that enables milk, fruit juice and other perishable liquid foods to be distributed without refrigeration. Not only is this packaging more environmentally responsible, it also provides economic and distribution advantages. Aseptic packaging allows dairies to distribute milk over a wider area without investing in refrigerated trucks and facilities. Supermarkets can carry Tetra Pak packaged products on ordinary shelves, allowing them to save expensive refrigerator space. Tetra's motto is 'the package should save more than it cost'. Tetra Pak advertises the benefits of its packaging to consumers directly and even initiates recycling programmes to save the environment.

Labelling

Labels may range from simple tags attached to products to complex graphics that are part of the package. 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 *grade* the product, or *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 *promote* the product through attractive graphics.

There has been a long history of legal concerns about packaging and labels. Labels can mislead customers, fail to describe important ingredients or fail to include needed safety warnings. As a result, many countries have laws to regulate labelling. The EU, for example, has comprehensive European Community legislation, which set mandatory labelling requirements and adherence to packaging standards. For drinks, an EU directive has been recently enforced which subjects both non-alcoholic and alcoholic beverages to stringent labelling requirements.[13]

Labelling has also 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 labelling* (stating the nutritional values in the product). In the case of the latter, sellers are required to provide detailed nutritional information on food products. In some countries, the use of health-related terms such as *low-fat*, *light* and *high-fibre* is also regulated. As such, sellers must ensure that their labels contain all the required information and comply with national or international (e.g. US, EU) requirements.

Product-support services

Customer service is another element of product strategy. A company's offer to the marketplace usually includes some services, which can be a minor or a major part of the total offer. In Chapter 15, we will discuss services as products in themselves. Here, we address **product-support services** – services that augment actual products. More and more companies are using product-support services as a major tool in gaining competitive advantage.

Good customer service makes sound business sense. It costs less to keep the goodwill of existing customers than it does to attract new customers or woo back lost customers. A study

Product-support services— Services that augment actual products.

comparing the performance of businesses that had high and low customer ratings of service quality found that the high-service businesses managed to charge more, grow faster and make more profits.[14] Clearly, marketers need to think about their service strategies.

A company should design its product and support services to meet the needs of target customers. Customers vary in the value they assign to different services. Some consumers want credit and financing services, fast and reliable delivery, or quick installation. Others put more weight on technical information and advice, training in product use, or after-sale service and repair. The first step in deciding which product-support services to offer is to determine both the services that target consumer value and the relative importance of these services.

Determining customers' service needs involves more than simply monitoring complaints that come in over freephone lines or on comment cards. The company should periodically survey its customers to assess the value of current services and to obtain ideas for new ones. Once the company has assessed the value of various services to customers, it must next assess the costs of providing these services. It can then develop a package of services that will both delight customers and yield profits to the company.

Many companies are now using the Internet and other modern technologies to provide support services that were not possible before. For example, using the Internet, 24-hour telephone help lines, self-service kiosks and other digital technologies, companies are able to empower consumers to tailor their own service and support experiences.

Product-line decisions

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 outlet, or fall within given price ranges.

We have looked at decisions about individual products. But 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 outlet, or fall within given price ranges. For example, Nokia produces several lines of telecommunications products, Philips produces several lines of audio entertainment systems and Nike produces several lines of athletic shoes and clothings. We will examine the major product line decisions next.

Product line stretching: DaimlerChrysler introduced several smaller, lower-priced models, including Smart city-coupé, starting at €8405.64; Smart is the innovative brand for the sub-a segment in the DaimlerChrysler group.
SOURCE: MCC Smart GmbH, www.media.smart.com.

Product line-length decisions

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. Product line length is influenced by company objectives and resources. Companies that want to be positioned as full-line companies, or that are seeking high market share and market growth, usually carry longer lines. Companies that are keen on high short-term profitability generally carry shorter lines consisting of selected items. Another objective may be to allow upselling. For example, BMW seeks to move customers from its 3-series models to 5- and 7-series models. Still another objective might be to allow cross-selling: Hewlett-Packard sells printers as well as cartridges.

Over time, product line managers tend to add new products. However, as the manager adds items, several costs rise: design and engineering costs, inventory carrying costs, manufacturing changeover costs, order-processing costs, transportation costs, and promotional costs to introduce new items. Consequently, the company must plan product line growth carefully. It can systematically increase the length of its product line in two ways: by *stretching* its line and by *filling* its line. **Product line stretching** occurs when a company lengthens its product line beyond its current range. Figure 13.3 shows that the company can stretch its line downwards, upwards or both ways.

Product line stretching—
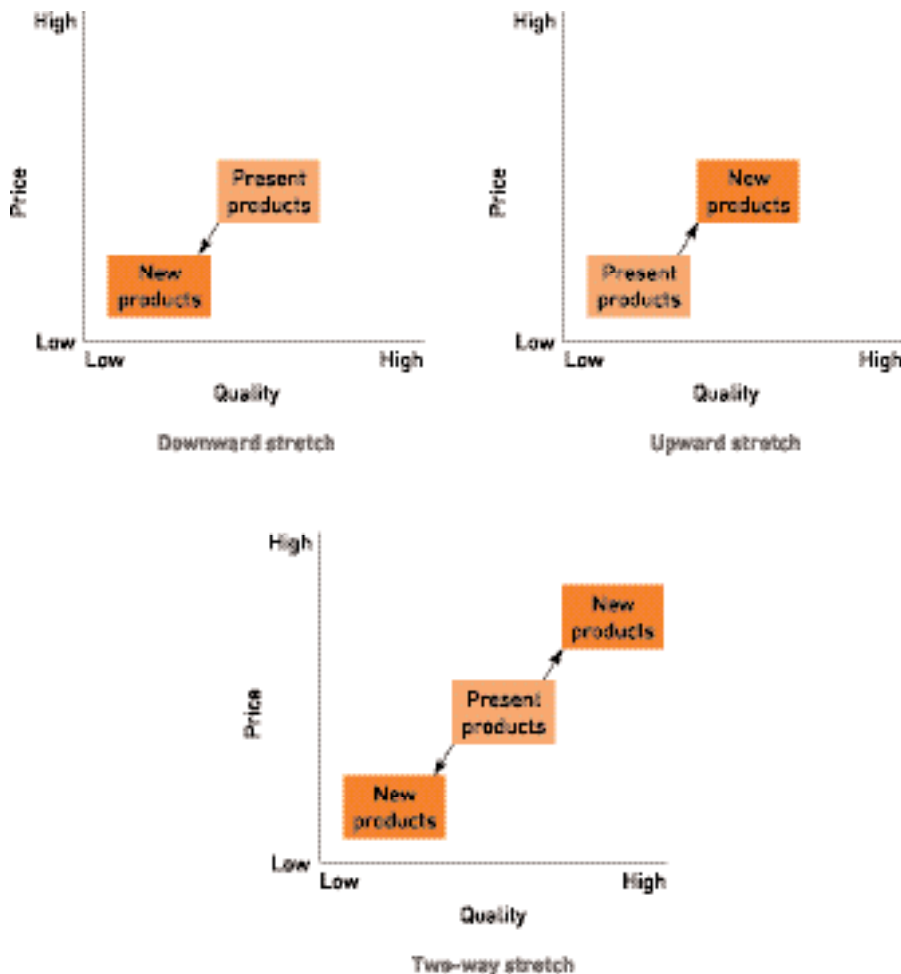Increasing the product line by lengthening it beyond its current range.

Figure 13.3 Product-line stretching decisions

Downward stretch

Many companies initially locate at the upper end of the market and later stretch their lines downwards. A company may stretch downwards to plug a market hole that otherwise would attract a new competitor or to 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.

Mercedes stretched downwards for all these reasons. Facing a slow-growth luxury car market and attacks by Japanese automakers on its high-end positioning, Mercedes successfully introduced its C-Class cars at €35,000 without harming its ability to sell other Mercedes for €100,000 or more. And in the joint venture with Switzerland's Swatch watchmaker, Mercedes launched the Smart microcompact car, priced from € 8,000 upwards.[15] Similarly, Compaq and IBM had to add less expensive personal computer lines to fend off competition from low-priced 'clones' and to take advantage of faster market growth in the lower end of the computer market.

Upward stretch

Companies at the lower end of the market may want to stretch their product lines *upwards*. Sometimes, companies stretch upwards in order to add prestige to their current products. They may be attracted by a faster growth rate or higher margins at the higher end, or they may simply want to position themselves as full-line manufacturers. Thus, Toyota, the leading Japanese auto company, introduced an up-market line – Lexus – and used an entirely new name rather than its own name. Other companies have included their own names in moving up-market. For example, Gallo introduced Ernest and Julio Gallo Varietals and priced these wines at more than twice the price of its regular wines.[16]

An upward stretch decision can be risky. The higher-end competitors not only are well entrenched, but also may strike back by entering the lower end of the market. Prospective customers may not believe that the newcomer can produce quality products. Finally, the company's salespeople and distributors may lack the talent and training to serve the higher end of the market.

Two-way stretch

Companies in the middle range of the market may decide to stretch their lines in both directions. Sony did this to hold off copycat competitors of its Walkman line of personal tape players. Sony introduced its first Walkman in the middle of the market. As imitative competitors moved in with lower-priced models, Sony stretched downwards. At the same time, in order to add lustre to its lower-priced models and to attract more affluent consumers keen to trade up to a better model, Sony stretched the Walkman line upwards. It sells more than 100 models, ranging from a plain playback-only version for €30 to a high-tech, high-quality €550 version that both plays and records. Using this two-way stretch strategy, Sony came to dominate the global personal tape player market.

Product line-filling decisions

Product line filling—

Increasing the product line by adding more items within the present range of the line.

An alternative to product line stretching is **product line filling** – 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 excess capacity, being the leading full-line company, and plugging holes to keep out competitors. Thus, Sony filled its line by adding solar-powered and waterproof Walkmans and an ultralight model that attaches to a sweatband for exercisers, the Minidisc Walkman, the CD Walkman and the Memory Stick Walkman, which enables users to download tracks straight from the Internet. As another example, Cadbury's Dairy Milk line includes Fruit & Nut, Whole Nut, Mint Chips, Caramel, Bubbly, Crunchie Bits, Crispies, Short Cake Biscuit and Turkish. However, line filling is overdone if it results in cannibalisation and customer confusion. The company should, therefore, ensure that new items are *noticeably different* from existing ones.

Product-mix decisions

Some companies may offer not one but several lines of products which form a **product mix** or *product assortment*. For example, a cosmetics firm may have four main product lines in its product mix: cosmetics, jewellery, fashions and household items. Each product line may consist of sublines. For example, cosmetics beak down into lipstick, powder, nail varnish, eye-shadows and so on. Each line and subline may have many individual items. For example, eye-shadows contain a string of items, ranging from different colours to alternative application modes (e.g. pencil, roll-on, powder).

A company's product mix has four important dimensions: width, length, depth and consistency. For example, Unilever markets a fairly wide product mix consisting of many product lines, including paper, food, household cleaning, cosmetics and personal care products. Product mix *length* refers to the total number of items the company carries within its product lines. Product line *depth* refers to the number of versions offered of each product in the line. For Unilever offers different sizes and formulations (liquid, powder, tablet) of laundry detergent. 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. Unilever's packaged goods lines are consistent insofar as they are consumer products that 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, thus 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 product 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.

Product mix (product assortment)—The set of all product lines and items that a particular seller offers for sale to buyers.

Branding strategy: building strong brands

Brands are viewed as *the* major enduring asset of a company, outlasting the company's specific products and facilities. John Stewart, co-founder 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'. The CEO of McDonald's agrees. Consider a situation where every asset the company owns, every building and every piece of equipment were destroyed in a terrible natural disaster. McDonald's CEO argues that he would be able to borrow all the money to replace these assets very quickly because of the value of the brand. The brand is more valuable than the totality of all these assets![17]

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

Brand equity

Brands are more than just names and symbols. Brands represent consumers' perceptions and feelings about products and its performance – everything that the product or service *means* to consumers. As one branding expert suggests, 'Ultimately, brands reside in the minds of consumers'.[18] Thus, the real value of a strong brand is its power to capture consumer preference and loyalty.

Brands vary in the amount of power and value they have in the marketplace. Some brands are largely unknown to most buyers. Other brands have a high degree of consumer *brand awareness*. Still others enjoy *brand preference* – buyers select them over the others. Finally, some brands command a high degree of *brand loyalty*. A powerful brand has high **brand equity**. Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service. Brands have higher brand equity to the extent that they have higher brand loyalty, name awareness, perceived quality, strong brand associations and other assets such as patents, trademarks and channel relationships.[19] A measure of the brand's equity is the extent to which customers are willing to pay more for the brand. One study found that 72 per cent of customers would pay a 20 per cent premium for their brand of choice relative to the closest competing brand; 40 per cent said they would pay a 50 per cent premium.[20]

A brand with strong brand equity is a valuable asset. Companies have sought to put a value on their brands. *Brand valuation* is the process of estimating the total financial value of a brand. Measuring the actual equity of a brand name is difficult.[21] However, according to one estimate, the brand value of Coca-Cola is $69 billion, that of Microsoft is $65 billion, and IBM's is $53 billion. Other brands rating among the world's most valuable include General Electric, Nokia, Intel, Disney, Ford, McDonald's, and AT&T.[22] 'Brand equity has emerged over the past few years as a key strategic asset', observes a brand consultant. 'CEOs in many industries now see their brands as a source of control and a way to build stronger relationships with customers.'[23]

Because it is so hard to measure, companies usually do not list brand equity on their balance sheets. Although it is difficult to incorporate brand values in balance sheets, accounting standards (e.g. the UK Financial Reporting Standard, FRS 10, and its international equivalent, IAS 38) compel firms to put a value on their acquired brands on their balance sheets. Accounting for brands may pose a challenge to marketers in the new millennium, but given the recent mergers and acquisition trends in Europe, assessing how much brands are worth helps management to see the link between the money spent on acquiring a brand and the value created (see Marketing Insights 13.1).

Brand accounting makes sense as it gets managers to consider how they might manage the acquired brand as an asset that the company has paid, often handsomely, for.[24] For example, Germany's Mannesmann paid nearly £20 billion for the mobile phone brand Orange. Britain's Vodafone AirTouch acquired Mannesmann in 2000 for $190 billion. Volkswagen snapped up Rolls-Royce Motor Cars Ltd for £479 million. Unilever paid $20.3 billion for Bestfoods, the maker of Knorr soups and Hellmann's mayonnaise.

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty, and the company will incur lower marketing costs relative to revenues. Because consumers expect stores to carry the brand, the company has more leverage in bargaining with retailers. Because the brand name carries high credibility, the company can more easily launch line and brand extensions, as when Lever Brothers leveraged its well-known Persil brand to introduce dishwashing detergent. Above all, a powerful brand offers the company some defence against fierce price competition.

Marketers need to manage their brands carefully to preserve brand equity. In order to maintain or improve brand awareness, perceived brand quality and usefulness, and positive brand associations over time, they need to work with R&D to provide a constant flow of improved and innovative products to satisfy customers' changing needs. Investment in skilful advertising and excellent trade and consumer service is also necessary. Some companies appoint 'brand equity managers' to guard their brands' images, associations and quality. They work to prevent brand managers from overpromoting brands in order to produce short-term profits at the expense of long-term brand equity.

Brands: what are they worth?

13.1

marketing insights

Given the importance of brand value, how do companies determine what their brands are worth? According to Jeremy Bullmore of WPP, while everyone agrees that brands are valuable, there is no consensus on how to value them. He adds: 'The only time you can be sure of the value of your brand is just after you have sold it.'

One of the most commonly quoted brand valuation studies is by Interbrand, the branding consultancy. Using publicly available financial and marketing information, Interbrand estimates the economic earnings – which is equal to the brand's future operating profits minus a capital and tax charge – for the world's best-known brands and translates those forecasts into brand valuations. Interbrand calculates the proportion of future earnings that is attributable to the brand, based on an assessment of the role played by brands in different markets, and applying a discount to reflect the amount of risk. The method of analysis means that private companies' brands where information is unavailable (e.g. Levi's, Lego, Mars) or firms where earnings are not generated in the accepted sense (e.g. Visa, MasterCard, the BBC) are omitted.

However, others argue that there are weaknesses in the Interbrand approach, claiming that it fails to measure what markets want to know: the future growth potential of the brand, including the potential impact of strategies such as brand extension.

According to Alec Rattray, marketing director at Landor Associates, one thing is simple and certain: there is no such thing as a static measure. The value of a brand is based on a number of dynamic variables including competitive set, category strength, differentiation, relevance, management ability, corporate strategy and existing intangible and tangible assets. Not only do these change regularly, but the focus on each one changes depending on the requirements of the business. Brand value is a relative measure, contingent on circumstances and perspective. Ultimately, brands are valued by their audiences, not by consultants.

So, what is the right way to value a brand? It very much depends on the firm's objective. Is it seeking to measure the disposal or acquisition value of the company, division, service or product? Is it seeking to allocate an appropriate marketing investment? Does it want to put its intangibles on the books? Does it simply want to know what difference the brand makes?

Depending on the question, there are two fundamentally different approaches. The first is shareholder value – a measure of the future growth potential of a company by understanding the contribution made by a brand or brands. This is generally expressed in terms of the potential effect on share price, earnings and/or sales, and

...13.1

is the conventional 'corporate' perspective. Calculating shareholder value is based on four measures: tangible and intangible assets – the meat and drink of accountants – and strategic robustness plus managerial capability. This second group is where sophistication lies. Measuring past performance provides little guidance as to future growth; leadership and vision is a more valid measure.

These measures must then be factored through an analysis of brand saliency in a specific category. For example, brands have a greater role to play in mobile as opposed to fixed-line telephony. This 'brand factor' must be based on empirical data. Databases such as Y&R's Brand Asset Valuator® and WPP's BrandZ are ideal for this type of rigorous contextualisation. Using BAV data, BrandEconomics™ has emerged as a significant advance in brand valuation. It correlates the proportion of intangible value with brand image tracking, to determine a relationship between brand strength and the earnings of the business.

The second approach to valuing brands is brand equity – a measure of the historical and present value a brand commands in shaping trial, preference and loyalty. This is the classic 'consumer' perspective. Calculating brand equity is based on the fundamentals of brand building – recognising that superior differentiation is a cypher for premium pricing and that superior relevance is highly correlated to market share. Differentiation and relevance are understood by consumers as special characteristics of function, performance, personality and authority. Hence, measuring how brands outperform their competitors against these characteristics – identifying brand equity – provides a yardstick for the brand's value.

As with shareholder value, you need a broad base of knowledge: what are the specific characteristics that shape purchase behaviour in a given sector? Through which services or channels are they best delivered and communicated?

Brand valuation is critical, but it is not a mystery. You determine what you want to measure and why. And you combine shareholder value and brand equity methodologies to make a robust measure.

Yet, behind every powerful brand stands a set of loyal customers. Therefore, the basic asset underlying brand equity is *customer equity* – the value of the consumer relationships that the brand creates. This suggests that the proper focus of marketing planning is that of extending *loyal customer lifetime value*, with brand management serving as an essential marketing tool.[25]

Branding poses challenging decisions to the marketer. Figure 13.4 shows the major branding decisions involving brand positioning, brand name selection, brand sponsorship and brand development. We will examine each of these in turn.
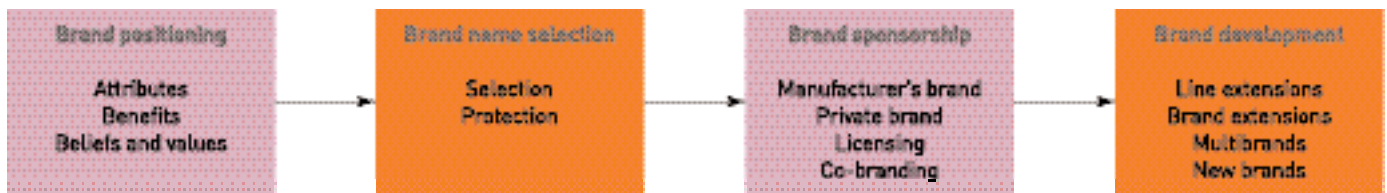
Figure 13.4 Major brand strategy decisions

Brand positioning

Marketers need to position their brands clearly in target customers' minds. But a brand is a complex symbol that can convey several levels of meaning:[26]

1. *Attributes.* A brand first brings to mind certain product attributes. For example, Mercedes suggests such attributes as 'well engineered', 'well built', 'durable', 'high prestige', 'fast', 'expensive' and 'high resale value'. The company may use one or more of these attributes in its advertising for the car. For years, Mercedes advertised 'Engineered like no other car in the world'. This provided a positioning platform for other attributes of the car.

2. *Benefits.* Customers do not buy attributes, they buy benefits. Therefore, attributes must be translated into functional and emotional benefits. For example, the attribute 'durable' could translate into the functional benefit 'I won't have to buy a new car every few years.' The attribute 'expensive' might translate into the emotional benefit 'The car makes me feel important and admired.' The attribute 'well built' might translate into the functional and emotional benefit 'I am safe in the event of an accident.'

3. *Values.* A brand also says something about the buyers' values. Thus Mercedes buyers value high performance, safety and prestige. A brand marketer must identify the specific groups of car buyers whose values coincide with the delivered benefit package.

4. *Culture.* A brand also represents a certain culture. The Mercedes represents 'German culture': high performance, efficient, high quality.

5. *Personality*. A brand also projects a personality. Motivation researchers sometimes ask 'If this brand were a person, what kind of person would it be?'. Consumers might visualise a Mercedes automobile as being a wealthy, middle-aged business executive. The brand will attract people whose actual or desired self-images match the brand's image.

All this suggests that a brand is a complex symbol. If a company treats a brand only as a name, it misses the point of branding. The challenge of branding is to develop a deep set of meanings or associations for the brand. Given the five levels of a brand's meaning, marketers must decide the level(s) at which they will position the brand and to promote the brand. It would be a mistake to promote only the brand's attributes. Remember, buyers are interested not so much in brand attributes as in brand benefits. Moreover, competitors can easily copy attributes. Or the current attributes may later become less valuable to consumers, hurting a brand that is tied too strongly to specific attributes.

Even promoting the brand on one or more of its benefits can be risky. Suppose Mercedes touts its main benefit as 'high performance'. If several competing brands emerge with as high or higher performance, or if car buyers begin placing less importance on performance as compared to other benefits, Mercedes will need the freedom to move into a new benefit positioning.

The most lasting and sustainable meanings of a brand are its core values and personality. They define the brand's essence. Thus Mercedes stands for 'high achievers and success'. The company must build its brand strategy around creating and protecting these values and personality. Although Mercedes has recently yielded to market pressures by introducing

lower-priced models, this might prove risky. Marketing less expensive models might dilute the personality that Mercedes has built up over the decades.

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 the buyers. It can be thought of as a contract to the customer regarding how the product or service will deliver value and satisfaction. The brand contract must be simple and honest. Sleep Inn, for example, offers clean rooms, low prices and good service but does not promise expensive furniture or large bathrooms. In contrast, Ritz-Carlton offers luxurious rooms and a truly memorable experience but does not promise low prices.

Brand name selection

Selecting the right name is a crucial part of the marketing process. 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.

Desirable qualities for a brand name include the following:

1. It should suggest something about the product's benefits and qualities. Examples are Pro-activ (a cholesterol-lowering margarine), Oasis (a refreshing fruit drink), Frisp (a light savoury snack) and TimeOut (a chocolate biscuit to go with coffee or tea breaks).

2. It should be easy to pronounce, recognise and remember. Short names help. Examples are Benecol (cholesterol-lowering dairy products), Dove (soap), Yale (security products) and Hula Hoops (potato crisps shaped like the name). But longer ones are sometimes effective, such as 'I Can't Believe It's Not Butter' margarine.

3. The brand name should be distinctive. Examples are Shell, Kodak and Virgin.

4. The name should translate easily (and meaningfully) into foreign languages. For example, in Chinese Ferrari is pronounced as 'fa li li', the Chinese symbols for which mean 'magic, weapon, pull, power', which flatter the brand. But accountancy firm Price Waterhouse was reported to have been translated as 'expensive water closet'.

Finding a name for a product designed for worldwide markets is not easy. Companies must avoid the pitfalls inherent in injudicious product naming.
SOURCE: Interbrand.

5. It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names. Also, brand names that are merely descriptive or suggestive may not be protectable. For example, the Miller Brewing Company registered the name Lite for its low-calorie beer and invested millions in establishing the name with consumers. But the courts later ruled that the terms *lite* and *light* are generic or common descriptive terms applied to beer and that Miller could not use the Lite name exclusively.[27]

Once chosen, the brand name must be registered with the appropriate Trade Marks Register, giving owners intellectual property rights and preventing competitors from using the same or a similar name (see Marketing Insights 13.2). Many firms try to build a brand name that will eventually become identified with the product category. Brand names such as Hoover, Kleenex, Levi's, Scotch Tape, Post-it Notes, Formica and Fiberglas 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.[28]

Brand sponsor

A manufacturer has four sponsorship options. The product may be launched as a **manufacturer's brand** (or national brand), as when Lever Brothers, Nestlé and IBM sell their output under their own manufacturer's brand names. Or the manufacturer may sell to intermediaries that give it a **private brand** (also called *retailer brand*, *distributor brand* or *store brand*). For example, Cott, a Canadian company, makes store-branded foods and drinks, and supplies to retailers worldwide. Although most manufacturers create their own brand names, others market **licensed brands**. For example, some clothing and fashion accessory sellers pay large fees to put the names or initials of fashion innovators such as Calvin Klein, Pierre Cardin and Gucci on their products. Finally, companies can join forces and **co-brand** a product.

Manufacturers' brands versus private brands

Manufacturers' brands have long dominated the retail scene. In recent times, however, an increasing number of supermarkets, department and discount stores, and appliance dealers have developed their own private brands. These private brands are often hard to establish and costly to stock and promote. However, intermediaries develop private labels because they can be profitable. They can often locate manufacturers with excess capacity that will produce the private label at a low cost, resulting in a higher profit margin for the intermediary. Private brands also give intermediaries exclusive products that cannot be bought from competitors, resulting in higher store traffic and loyalty. For example, Sainsbury's, the grocery retailer, offers its own brand of laundry detergents, called Novon, which is marketed alongside branded products produced by P&G and Lever Brothers.

In the so-called *battle of the brands* between manufacturers' and private brands, retailers have many advantages. They control what products they stock, where they go on the shelf and which ones they will feature in local circulars. Intermediaries can give their own store brands better display space and make certain they are better stocked. They price store brands lower than comparable manufacturers' brands, thereby appealing to budget-conscious shoppers, especially in difficult economic times.

As store brands improve in quality and as consumers gain confidence in their store chains, store brands will continue to pose a strong challenge to manufacturers' brands. The battle rages on. Winners are most likely to follow one simple rule – achieve success through delivering superior value to target customers. Ultimately, consumer franchise is the name of the game![29]

Manufacturer's brand (national brand)—A brand created and owned by the producer of a product or service.

Private brand (middleman, distributor or store brand)—A brand created and owned by a reseller of a product or service.

Licensed brand—A product or service using a brand name offered by the brand owner to the licensee for an agreed fee or royalty.

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

marketing insights

13.2   Trademarks worth fighting for!

What's in a name? Quite a lot, brand loyalists might say. But what's in a slogan, a shape, a smell or a colour? Plenty that's worth fighting for, many might add. Philips' razors, Wall's ice-cream, Pampers' nappies, Wrigley's chewing-gum, Nestlé's confectionery, . . . the range of trademark cases passing before the European Court of Justice, the European Union's ultimate arbiter on trademark law, could hardly be more diverse.

Nestlé, the Swiss confectionery and food group, which makes KitKat, has already trademarked the phrase 'Have a Break, Have a KitKat'. But it has lost its battle to secure similar intellectual property rights over the simpler 'Have a Break' phrase. Back in 2002, its application to the Trade Mark Registry was turned down after objections by US-owned arch-rival Mars. The registry's hearing officer said that the mark was 'devoid of any distinctive character' and therefore lacked 'inherent distinctiveness'. Nestlé, however, appealed to the High Court, pointing to consumer research suggesting that use of the mark 'Have a Break' elicited the response 'Have a KitKat' from a substantial number of snack-munchers – and also that a chocolate bar called 'Have a Break' would be supposed to come from the makers of KitKat. But Mr Justice Rimer had regarded the survey exercise as 'somewhat pointless', acknowledging that many of those questioned associated the phrase 'Have a Break' with KitKat or were reminded of the chocolate bar. He added: 'The survey demonstrated, and could demonstrate, no more than that a high proportion of the public will make the association. It did not, and could not, show that "Have a Break" had acquired a distinctiveness as a result of its use as a mark.'

In April 2003, a preliminary opinion in the Wrigley's Doublemint case narrowed the extent to which brand names with a descriptive element can be protected. Under the EU's Community Trade Mark Regulation, names made up solely of descriptions are barred from registration. Nevertheless, back in 2001 Procter & Gamble succeeded in registering the Pampers 'Baby Dry' brand. Baby Dry's success, according to Francis Jacobs, Advocate-General (A-G), was because of its 'extreme ellipsis, unusual structure, resistance to any intuitive grammatical analysis' and the fact that it was an 'invented term'. In the case of Doublemint, 'whose features are . . . very considerably less marked', while the word 'doublemint' might not appear in any dictionary, 'its creation is essentially limited to removing the space between two words which may well be used together descriptively.'

What about the trademarking of shapes? Compared to names or slogans, 'shapes' has been a thorny area for intellectual property law, partly because a shape is often marketed in association with a brand name. 'It's often difficult to prove sufficient distinctiveness for a secondary mark [such as the shape]', said Elaine Rowley, a

...13.2

lawyer at Marks & Clerk, a trademark specialist. A long legal tussle between Philips and Remington over electric shaver designs finally provided guidance in 2002 for 'functional shapes'. Essentially, a company cannot monopolise an engineering design by registering it as a trademark. While the famous Coke bottle has long been trademarked, other cases – such as Unilever's Viennetta ice-cream dessert – are only now working their way through the court. Unilever, who makes Viennetta, claims that the fancily decorated block of ice-cream represents a distinctive shape. But lawyers say there is still confusion over the extent to which 'aesthetic shapes' can be trademarked. What is meant by 'distinctiveness'?

In the Viennetta case, a High Court judge said he was inclined to refuse registration of the ice-cream's shape as a trademark. First, although Viennetta was widely recognised by the public, it had not been shown that Unilever had used the shape to denote trade origin or that the public depended on the shape alone to denote trade origin. 'What has not been proved is that any member of the public would rely upon the appearance alone to identify the goods. They recognise it but do not treat it as a trademark', the judge suggested. Secondly, he said the shape had not acquired a 'distinctive character' because a small but significant proportion of the public confused other fancy ice-cream desserts with Viennetta: research submitted by Unilever suggested that 15 per cent of those questioned confused other products with Viennetta.

Trademark parameters in such areas as colour and smell are even more controversial. Colour is an area that is attracting a great deal of interest. In a recent Libertel case – where the Dutch group was trying to register a shade of orange for telecoms-related goods and services – the advocate-general decided that it could not be determined how the company planned to use the colour in relation to its services and products, and found that a colour in itself – unassociated with any other element or object – could not be a trademark. It looks like very broad registrations will face an uphill task.

As for smell, a German applicant – a Mr Sieckmann – was rebuffed by the court. He had attempted to register an olfactory mark, by outlining its chemistry, depositing a sample of the scent in a container, and describing it verbally as 'balsamically fruity with a slight hint of cinnamon'. But the court said his efforts failed to meet the registration requirement that a mark's representation be 'clear, precise, self-contained, easily accessible, intelligible, durable and objective'.

Certainly, trademark battles will rage on and the European Commission's efforts to harmonise trademark standards and build up a cohesive body of case law have some way to go. Meanwhile, be prepared for plenty of courtroom surprises!

SOURCES: Nikki Tait, 'Time to test the boundaries', *Financial Times, Special Report: Intellectual Property* (30 April 2003), p. II; Nikki Tait, 'Viennetta trademark case cuts no ice with judge', *Financial Times* (19 December 2002), p. 3; Nikki Tait, 'Nestlé loses battle over "Have a Break" trademark', *Financial Times* (3 December 2002), p. 4.

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 celebrities, and characters from popular movies and books – for a fee, any of these can provide an instant and proven brand name. Clothing 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, Gucci, Tommy Hilfiger 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. The character names include such classics as Disney's Mickey and Minnie Mouse, Barbie, Scooby Doo, Winnie the Pooh and Sesame Street to the more recent Teletubbies, Pokémon, Powerpuff Girls and Harry Potter characters.

The fastest-growing licensing category is **corporate brand licensing** – renting a corporate trademark or logo made famous in one category and using it in a related category. Some examples include Cosmopolitan underwear, swimwear and home furnishings, Royal Ascot ties, hats, cashmere socks and jewellery, and Porsche sunglasses and accessories.

Name and character licensing has become big business in recent years. More and more for-profit and non-profit organisations are licensing their names to generate additional revenues and brand recognition. Coca-Cola's licensing programme has met with extraordinary success. It consists of a department overseeing more than 320 licensees in 57 countries producing more than 10,000 products, ranging from baby clothes and boxer shorts to earrings and even a fishing lure shaped like a tiny Coke can. Even the Vatican engages in licensing: heavenly images from its art collection, architecture, frescoes and manuscripts are now imprinted on such earthy objects as T-shirts, ties, glassware, candles and ornaments.[30]

Corporate brand licensing—A form of licensing whereby a firm rents a corporate trademark or logo made famous in one product or service category and uses it in a related category.

Co-branding

Although companies have been co-branding products for many years, there has been a recent resurgence in co-branded products. Co-branding occurs when two established brand names of different companies are used on the same product or service. Co-branding partners seek to mutually enhance each other's service or product brand through close association. For example, Kellogg's joined forces with ConAgra to co-brand Kellogg's Healthy Choice cereals. In most co-branding situations, one company licenses another company's well-known brand to use in combination with its own.

Co-branding offers many advantages. Because each brand dominates in a different category, the combined brands create broader consumer appeal and greater brand equity. Co-branding also allows companies to enter new markets with minimal risk or investment. For example, by licensing its Healthy Choice brand to Kellogg, ConAgra entered the breakfast segment with a solid product. In return, Kellogg could leverage the broad awareness of the Healthy Choice name in the cereal category.

Co-branding also has its limitations. If a company chooses the wrong partner, or the partner suffers a setback or bad publicity, the company will be tainted by the association. In addition, 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.[31]

Brand development

A company has four choices when it comes to developing brands (see Figure 13.5). It can introduce *line extensions* (existing brand names extended to new forms, sizes and flavours of an existing product category), *brand extensions* (existing brand names extended to new product categories), *multibrands* (new brand names introduced in the same product category) or *new brands* (new brand names in new product categories).
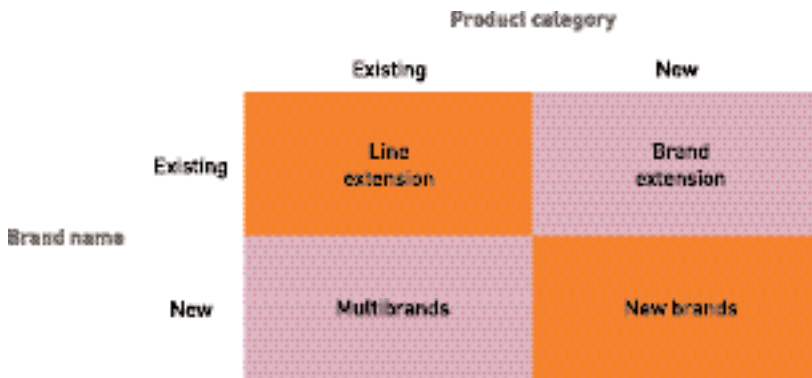
Figure 13.5 Brand development strategies

Line extensions

Line extensions occur when a company introduces additional items in a given product category under the same brand name, such as new flavours, forms, colours, ingredients or package sizes. Thus, Danone has added several new flavours to its yoghurt line, as well as fat-free and large, family/economy-size varieties.

The vast majority of new-product activity consists of line extensions. A company introduces line extensions in order to meet consumers' desire for variety, utilise excess capacity, or simply command more shelf-space from resellers. Or it might recognise a latent consumer want and try to capitalise on it. However, line extensions involve some risks. An overextended brand might lose its specific meaning – some marketing strategists call this the 'line-extension trap'.[32] Heavily extended brands can also cause consumer confusion or frustration. A consumer buying cereal at a supermarket will be confronted by more than 150 brands, up to 30 different brand flavours and sizes of oatmeal alone. By itself, Quaker offers its original Quaker Oats, several flavours of Quaker instant oatmeal, and several dry cereals such as Oatmeal Squares, Toasted Oatmeal and Toasted Oatmeal-Honey Nut.

Another risk is that sales of an extension may come at the expense of other items in the line. A line extension works best when it takes sales away from competing brands, not when it 'cannibalises' the company's other items.[33]

Brand extensions

A **brand extension** (or brand stretching) strategy is any effort to use a successful brand name to launch new or modified products in a new category. Swiss Army Brand sunglasses is a brand extension. Swatch spread from watches into telephones. And Honda stretched its company name to cover different products such as its cars, motorcycles, lawnmowers, marine engines and snowmobiles.

A brand-extension strategy offers many advantages. A well-regarded brand name helps the company enter new product categories more easily as it gives a new product instant recognition and faster acceptance. Sony puts its name on most of its new electronic products, creating an instant perception of high quality for each new product. Thus, brand extensions also save the high advertising cost usually required to familiarise consumers with a new brand name.

At the same time, a brand-extension strategy involves some risk. Brand extensions such as Bic pantyhose, Heinz pet food and Cadbury soup met early deaths. In each case, the brand name was not appropriate to the new product, even though it was well made and satisfying. Brand extensions fail if the established brand name is launched into a very different market from the original brand and target customers in the new market did not value the brand's associations. Would you consider buying Chanel galoshes? Or a Pepsi single malt whisky?

Line extension—Using a successful brand name to introduce additional items in a given product category under the same brand name, such as new flavours, forms, colours, added ingredients or package sizes.

Brand extension—Using a successful brand name to launch a new or modified product in a new category.

A brand name may also lose its special positioning in the consumer's mind through overuse. The extension may confuse the image of the main brand. If the brand extension fails, it may harm consumer attitudes towards the other products carrying the same brand name. *Brand dilution* occurs when consumers no longer associate a brand with a specific product or even highly similar products. Business observers, for example, have questioned the 'elasticity' of the Virgin name. Richard Branson has extended the Virgin name, which appears on a huge range of disparate products, ranging from music and entertainment media shops, airlines, mobile phones and Internet services to personal financial services, cosmetics, cola drinks, vodka and bridal wear. They argue that Virgin runs the risk of overusing the brand's power of quality, innovation, value for money and fun, and its emotional 'take on the big bullies and give you something better' associations.

Transferring an existing brand name to a new customer segment or product group requires great care. The best result is one when the extension enhances the core brand and builds the sales of both current and new products. Companies that are tempted to transfer a brand name must research whether the brand's associations fit the new product.[34]

Multibrands

Multibranding offers a way to establish different features and appeal to different buying motives. It also allows a company to lock up more reseller shelf-space. Or the company may want to protect its major brand by setting up *flanker* or *fighter brands*. Seiko uses different brand names for its higher-priced watches (Seiko Lasalle) and lower-priced watches (Pulsar) to protect the flanks of its mainstream Seiko brand. Companies such as Lever Brothers, Nestlé, Mars and Procter & Gamble create individual brand identities for each of their products. Lever's line of laundry detergents – Persil, Surf, etc. – have distinct labels, with the corporate name hardly featured. Similarly, Procter & Gamble produces at least nine brands of laundry products. These manufacturers argue that a **multibrand strategy** – managing a stable of brand names within the same product category – permits finer segmentation of the market, with each brand name suggesting different functions or benefits appealing to different buying motives of different customer segments.

Some companies develop multiple brands, not for individual products, but for different families of products. For example, the Japanese electronics group Matsushita has opted to use **range branding** and developed separate range names for its audio product families – Technics, National, Panasonic and Quasar.

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.

The multibranding approach contrasts with the **corporate branding** strategy. In corporate branding, the firm makes its company name the dominant brand identity across all of its products, as in the case of Mercedes-Benz, Philips and Heinz. The main advantages are economies of scale in marketing investments and wider recognition of the brand name. It also facilitates introduction of new products, especially when the corporate name is well established.

Other companies have used a **company and individual branding** approach. This focuses on both the corporate and individual brand names. Kellogg's (e.g. Cornflakes, Raisin Bran, Rice Krispies, Coco Pops, Nutri-Grain, etc.), Nestlé (KitKat, Nescafé, Coffee-Mate, etc.) and Cadbury's (e.g. Dairy Milk, Roses, Milk Tray) are supporters of this branding strategy.

New brands

Firms that favour a multibrand approach are likely to create a new brand to differentiate a new product, whether it is introduced into an existing or a new-product category. However,

Multibrand strategy— A brand strategy under which a seller develops two or more brands in the same product category.

Range branding strategy— A brand strategy whereby the firm develops separate product range names for different families of product.

Corporate branding strategy—A brand strategy whereby the firm makes its company name the dominant brand identity across all of its products.

Company and individual branding strategy—A branding approach that focuses on the company name and individual brand name.

for some companies, a new brand may be created because it is entering a new-product category for which none of the company's current brands seems appropriate. For example, Toyota established a separate family name – the Lexus – for its new luxury executive cars in order to create a distinctive identity for the latter and to position these well away from the traditional mass-market image of the 'Toyota' brand name. Alternatively, a company may be compelled to differentiate its new product, and a new brand is the best route to signal its identity. For example, Siemens' new line of upmarket, fashion mobile phones were launched in 2003 under a new brand name – Xelibri – to create a distinctive identity for these phones.

As with multibranding, offering too many brands can result in a company spreading its resources too thinly. 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, Lever Brothers, Procter & Gamble and other large consumer product marketers are now pursuing *megabrand* strategies – weeding out weaker brands and focusing their marketing dollars only on brands that can achieve the number-one or number-two market-share positions in their categories.

Managing brands

Companies must carefully manage their brands. 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 to build preference and loyalty. For example, General Motors spends nearly $820 million annually to promote its Chevrolet brands. McDonald's spends more than $660 million.[35]

Such advertising campaigns can help to create name recognition, brand knowledge and maybe even some brand preference. However, the fact is that brands are not maintained by advertising but by the *brand experience*. Today, customers come to know a brand through a wide range of contacts and touchpoints. These include advertising, but also personal experience with the brand, word of mouth, personal interactions with company people, telephone interactions, company Web pages and many others. Any of these experiences can have a positive or negative impact on brand perceptions and feelings. The company must put as much care into managing these touchpoints as it does into producing its ads.

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-centred. Even better, the company should build pride in its employees regarding their products and services so that their enthusiasm will spill over to customers. Companies such as Lexus, Dell and Harley-Davidson have succeeded in turning all of their employees into enthusiastic brand builders. Companies can carry on internal brand building to help employees to understand, desire and deliver on the brand promise.[36] Many companies go even further by training and encouraging their distributors and dealers to serve their customers well.

All of this suggests that managing a company's brand assets can no longer be left only to brand managers. Brand managers do not have enough power or scope to do all the things necessary to build and enhance their brands. Moreover, brand managers often pursue short-term results, whereas managing brands as assets calls for longer-term strategy. Thus, some companies are now setting up brand asset management teams to manage their major brands. Canada Dry and Colgate-Palmolive have appointed *brand equity managers* to maintain and protect their brands' images, associations and quality, and to prevent short-term actions by over-eager brand managers from hurting the brand. Similarly, Hewlett-Packard has appointed a senior executive in charge of the customer experience in each of its two divisions, consumer and B2B. Their job is to track, measure and improve the

customer experience with H-P products. They report directly to the presidents of their respective divisions.

Finally, companies need to periodically audit their brands' strengths and weaknesses.[37] They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all of our consumer touchpoints 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 to be repositioned because of changing customer preferences or new competitors. Some cases may call for completely *rebranding* a product, service or company. The recent wave of corporate mergers and acquisitions has set off a flurry of corporate rebranding campaigns. A prime example is Diageo, created by the merger of Grand Metropolitan and Guinness. However, building a new image and re-educating customers can be a huge undertaking.

Additional product considerations

Product decisions and social responsibility

Product decisions have attracted much public attention in recent years. When making such decisions, marketers should consider carefully a number of public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety and product warranties.

Regarding the addition of new products, national governments or competition authorities may prevent companies from adding products through acquisitions if the effect threatens to lessen competition. Companies dropping products must be aware that they have legal obligations, written or implied, to their suppliers, dealers and customers who have a stake in the discontinued product. Companies must also obey patent laws when developing new products. A company cannot make its product illegally similar to another company's established product.

In whichever country manufacturers market their products, they must comply with specific laws regarding product quality and safety which serve to protect consumers. For example, various Acts provide for the inspection of sanitary conditions in the meat- and poultry-processing industries. Safety legislation exists to regulate fabrics, chemical substances, automobiles, toys, drugs and poisons. Irrespective of whether laws exist to regulate company's actions, consumers today increasingly expect companies to behave ethically. A recent study of service industries suggests that consumers' ethical perceptions of service providers impact satisfaction levels: while unethical behaviour damages the supplier, ethical behaviour is simply expected.[38]

If consumers have been injured by a product that has been designed defectively, they can sue manufacturers or dealers. Product liability suits can lead to manufacturers paying victims awards that can run into millions of euros. Faulty products can cost the company money because of the need to recall and replace faulty merchandise. For example, in September 1999, Intel had to recall and scrap some one million motherboards because of a problem with Intel chips. The recall had cost Intel over $300 million (€357 million).[39] But some product defects can cost customers a great deal of anxiety or pain. Sagami Rubber Industries, a Japanese condom producer, had to withdraw from sale 850,000 multipack packets of its new polyurethane condoms (called Sagami Original) because invisible pinholes were found in the condoms. The recall cost the company $2.3 million, but imagine the misfortune awaiting unsuspecting users of the defective condoms![40]

International product decisions

International marketers face special product and packaging challenges. As discussed in Chapter 6, they must decide what products to introduce in which countries, and how much of the product to standardise or adapt for world markets. On the one hand, companies would like to standardise their offerings. Standardisation helps a company to develop a consistent worldwide image. It also lowers manufacturing costs and eliminates duplication of research and development, advertising and product design efforts. On the other hand, consumers around the world differ in their cultures, attitudes and buying behaviours. And markets vary in their economic conditions, competition, legal requirements and physical environments. Companies must usually respond to these differences by adapting their product offerings. Something as simple as an electrical outlet can create big product problems:

> Those who have travelled to Europe know the frustration of electrical plugs, different voltages, and other annoyances of international travel. . . . Philips, the electrical appliance manufacturer, has to produce 12 kinds of irons to serve just its European market. The problem is that Europe still lacks a universal [electrical] standard. The ends of irons bristle with different plugs for different countries. Some have three prongs, others two; prongs protrude straight or angled, round or rectangular, fat, thin and sometimes sheathed. There are circular plug faces, squares, pentagons and hexagons. Some are perforated and some are notched. One French plug has a niche like a keyhole; British plugs carry fuses.[41]

Packaging also presents new challenges for international marketers. Packaging issues can be subtle. For example, names, labels and colours may not translate easily from one country to another. Consumers in different countries also vary in their packaging preferences. Europeans like efficient, functional, recyclable boxes with understated designs. In contrast, the Japanese often use packages as gifts. Thus in Japan, Lever Brothers packages its Lux soap in stylish gift boxes. Packaging may even have to be tailored to meet the physical characteristics of consumers in various parts of the world. For instance, soft drinks are sold in smaller cans in Japan to fit the smaller Japanese hand better.

Companies may have to adapt their packaging to meet specific regulations regarding package design or label contents. For instance, some countries ban the use of any foreign language on labels; other countries require that labels be printed in two or more languages. Labelling laws vary greatly from country to country. Thus, although product and package standardisation can produce benefits, the international company must usually modify its offerings to the unique needs of specific international markets.

In summary, whether domestic or international, product strategy calls for complex decisions on product line, product mix, branding, packaging and service support strategy. These decisions must be made not only with a full understanding of consumer wants and competitors' strategies, but also with considerable sensitivity to the broader, particularly regulatory, environment affecting product, packaging and labelling.

Summary

A product is more than a simple set of tangible features. The concept of a *product* is complex and can be viewed on three levels. The *core product* consists of the core problem-solving benefit(s) that the customer seeks when they buy a product. The *actual product* exists around the core and includes the features, styling, design, quality level, brand name and packaging. The *augmented product* is the actual product plus the various services offered with it, such as warranty, free delivery, installation and maintenance.

We defined the product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a need or want. Marketable entities, such as physical objects, services, persons, places, organisations or ideas can all be thought of as products.

Products fall into two broad classes based on the types of buyers that use them. *Consumer goods* are sold to the final end-user for personal consumption. They are classified according to consumer shopping habits (convenience, shopping, speciality and unsought products). *Industrial goods* are bought by individuals or organisations for further processing or use in conducting a business. They are classified according to their cost and the way they enter the production process (materials and parts, capital items and supplies and services).

Marketers make decisions regarding their individual products, product lines and product mixes. Individual product decisions involve *product attributes*, *branding*, *packaging*, *labelling* and *product-support services*. *Product attributes* deliver tangible benefits such as the product quality, features, style and design. A *brand* identifies and differentiates goods or services through the use of a name or distinctive design element, resulting in long-term value known as *brand equity*. Branding decisions include selecting a brand name and determining a brand strategy. *Packaging* provides many 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 offer a product line rather than a single product. A *product line* is a group of products that are closely related because of similar function, customers, channels of distribution or pricing. To occupy a gap that might be otherwise filled by a competitor, the company can increase its product line length by *stretching upwards* to a higher-priced segment, or *downwards* to a lower-priced segment, or by *stretching both ways.* Profits can sometimes be increased by *product line filling*, adding more items within the present range of the line. The set of product lines and items within these lines offered to customers make up the *product mix* which can be described according to its *width*, *length*, *depth* and *consistency*. These dimensions are the tools for developing the company's product strategy.

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 service *means* to consumers. *Brand equity* is the positive differential effect that knowing the brand name has on customer response to the product or 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 *manufacturer's brand* (or national 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* (new brand names in new product categories).

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help but brands are not maintained by advertising but by the *brand experience*. Customers come to know a brand through a wide range of contacts and touchpoints. The company must put as much care into managing these touchpoints as it does into producing its ads. Thus, managing a company's brand assets can no longer be left only to brand managers. Some companies set up brand asset management teams to manage their major brands. Finally, companies must periodically audit their brands' strengths and weaknesses. In some cases, brands may need to be repositioned because of changing customer preferences or new competitors. Other cases may call for completely *rebranding* a product, service or company.

Marketers must consider two additional product issues. The first is *social responsibility*. These include public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety, and product warranties. The second involves the special challenges facing international product marketers, including decisions about what products to introduce in what countries, whether to *standardise* the product and packaging, and whether to *adapt* it to local conditions.

Overall, developing products and brands is a complex and demanding task. Market-oriented firms create a differential advantage through evaluating the many issues surrounding product decisions and maintaining consistency with broad company objectives. Customer needs and wants invariably lie at the heart of sound product strategies.

Discussing the issues

1. What are the three levels at which a product may be viewed? In your answer, use product examples to show how these different levels may be applied to help product marketers define their product offering.

2. Various classes of consumer products differ in the ways that consumers buy them. Provide examples of the four types of consumer products and discuss how they differ in the way they are marketed.

3. Why are many people willing to pay more for branded products than for unbranded products? What does this say about the value of branding?

4. Coca-Cola started with one type of cola drink. Now we find Coke in nearly a dozen varieties. It seems that almost every major brand has been greatly extended, some even past the breaking point. Why do consumer-goods manufacturers extend their brands? What issues do these brand extensions raise for manufacturers, retailers and consumers?

5. Brand name and symbol licensing has become a multi-billion-dollar worldwide business. Compare brand extension by the brand owner with licensing a brand name for use by another company. What are the opportunities and risks of each approach?

6. In recent years, many European and US carmakers have tried to reposition many of their brands. Thinking about examples of such repositioning efforts, describe whether a brand has moved to a high-quality end of the market or moved down-market. How easy is it for carmakers to reposition their brands? What else could they do to change consumers' perceptions of their cars?

Applying the concepts

1. The 'core product' offered by automobile manufacturers is transportation. The major problem-solving benefit is how to get from one place to another quickly and safely. However, most automobile manufacturers differentiate their products with additional service benefits. The various service approaches are almost as varied as are the automobile manufacturers themselves. Examine the websites for Fiat (www.fiat.com), Renault (www.renault.com), Mercedes-Benz (www.mercedes.co.uk), Ford (www.ford.com), General Motors (www.gm.com), Honda (www.honda.com), Lexus (www.lexus.com) and Toyota (www.toyota.com). Look beyond the automobiles themselves and closely examine the manufacturers' services and service options.

  (a) What primary services do the various automobile manufacturers offer? Prepare a grid that compares each company to the others.
  (b) What services do the different companies appear to offer in common? What services do the various companies use to differentiate themselves from one another?
  (c) Do any of the sites suggest that a company understands the service–profit chain? Explain.
  (d) Do any of the auto companies employ interactive marketing with respect to the service component? Explain.
  (e) What role does the Internet play in the product/service strategies of the companies in question?

2. A strong brand is often considered by managers to be their company's most important asset. Interbrand, the branding consultancy, analyses economic earnings forecasts for the world's best-known brands and translate those forecasts into brand valuations (www.interbrand.com).

  (a) According to recent studies, Coca-Cola tops the list of the world's strongest brands, followed by Microsoft, IBM and GE. Why do these brands command so much respect?
  (b) What makes a strong brand? How would you measure brand equity?
  (c) What does it take a brand (like Coca-Cola) to become the number one brand in the world?
  (d) Identify the top ten brands in the world today. Examine their websites for indicators of brand strength. Based on your answers to question 2(b), draw a grid that evaluates each of the brands based on the characteristics you listed. Examine the information in your grid. Which company is superior based on your own evaluation?

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Concluding concepts 13
Colgate: one squeeze too many?

Colgate is the world's number one toothpaste company but they have their eye on another market – over the counter (OTC) drugs. What would you think of Colgate aspirin or Colgate antacid? Would you buy Colgate laxatives or Colgate dandruff shampoo? That is exactly what Colgate-Palmolive would like to know. Colgate wants to investigate the possibility of entering the over-the-counter (OTC) drugs market. Can it use its Colgate brand name, developed in the oral-care products market, in the OTC healthcare market?

Why does the OTC market interest Colgate? The first reason is market size. The worldwide OTC market annually accounts for over €50 billion in sales. It is the largest non-food consumer products industry, and it is growing at over 6 per cent annually.

Several trends are fuelling this rapid growth. Consumers are more sophisticated than they were and they increasingly seek self-medication rather than seeing a doctor. Companies are also switching many previously prescription-only drugs to OTC drugs. The companies can do this when they can show, based on extensive clinical tests, that the drug is safe for consumers to use without monitoring by a doctor. Moreover, OTC drugs tend to have very long product life-cycles. Medical researchers are also discovering new drugs or new uses or benefits of existing drugs. For example, researchers have found that the psyllium fibre used in some OTC natural laxatives is effective in controlling cholesterol.

Beyond the size and growth of the market, Colgate also knows that the OTC market can be extremely profitable. Analysts estimate that the average cost of goods sold for an OTC drug is only 29 per cent, leaving a gross margin of 71 per cent. Advertising and sales promotions are the largest expenditure categories for these products, accounting for an average of 42 per cent of sales. OTC drugs produce on average 11 per cent after-tax profit.

Because of the OTC market's attractiveness, Colgate conducted studies to learn the strength of its brand name with consumers. Colgate believes in the following equation: brand awareness + brand image = brand equity. Its studies found that Colgate was no. 1 in brand awareness, no. 2 in brand image and no. 2 in brand equity among OTC consumers in the US, even though it did not sell OTC products. The Tylenol brand name earned the number one spot in both brand image and brand equity. Similar studies among OTC consumers in major European markets supported Colgate's relatively strong brand equity position. Thus, Colgate's research shows that the OTC market is very large, is growing rapidly and is very profitable, and that Colgate has a strong brand equity position with OTC consumers. Most companies would find such a situation very attractive.

Colgate realises that entering the OTC market will not be easy. The company faces challenges in entering the OTC market:

1. Its research suggests that the typical OTC product does not reach the break-even point for four years and does not recover development costs until the seventh year. OTC firms must therefore be correct in their product development decisions or they risk losing a great deal of money.

2. OTC drugs require a high level of advertising and promotion expenditures: 25 per cent of sales on year-round media alone. A firm must have substantial financial resources to enter this market.

3. The market is attractive so entering firms face stiff competition. The market has many competitors and is the least concentrated of any large consumer market. In Europe, no company has more than 3.5 per cent of the market and the top 15 companies account for only 25 per cent market share. Established companies like Bayer, Rhône-Poulenc Rorer, Sanofi, Boots, Boehringer Ingelheim and Warner-Lambert have strong sales forces and marketing organisations. They are strong financially and are willing to take competitors to court if they perceive any violations of laws or regulations. These firms also have strong research and development organisations that spin out new products. As governments squeeze state drug budgets, ethical drug companies have been aggressively working their way into the OTC market. There have been strings of acquisitions, ranging from Roche's purchase of Nicholas Laboratories to SmithKline Beecham's purchase of Stirling Winthrop from Kodak. Merck, America's leading drug company, has teamed up with Johnson & Johnson in the OTC market.

> Colgate believes in the following equation: brand awareness + brand image = brand equity.

4. Because of the high and rising level of fixed costs, such as the costs of advertising and R&D, many smaller firms are leaving the industry or being acquired by larger firms. Many leading ethical drug companies' industry observers estimate that an OTC firm must have at least several hundred million dollars in sales. It needs this to cover fixed costs and to have the power to match big retailers. So, the OTC firms are growing larger and larger, and they are willing to fight aggressively for market share.

Given all these barriers to entry, you might wonder why Colgate would want to pursue OTC products, even if the industry is growing and profitable. Colgate has adopted a strategy that aims to make it the best global consumer products company. It believes that oral-care and OTC products are very similar. Both rely on their ingredients for effectiveness, are highly regulated and use similar marketing channels.

Colgate set up its Colgate Health Care Laboratories to explore product and market development opportunities in the OTC market. Colgate carried out a test market for a line of OTC products developed by its Health Care Laboratories. It test-marketed a wide line of OTC products, from a nasal decongestant to a natural fibre laxative, under the brand name Ektra. The predominantly white packages featured the Ektra name with the Colgate name in smaller letters below it.

Following the test market results, Colgate quietly established another test market to test a line of ten OTC healthcare products, all using the Colgate name as the brand name. The line includes aspirin-free pain reliever, ibuprofen, cold tablets, nighttime cold medicine, antacid, natural laxative and anti-dandruff shampoo. The test sought to establish how well the Colgate name would compete against established brands in each of the ten OTC product sectors.

Industry observers realise that the new line represents a significant departure from Colgate's traditional, high-visibility household goods and oral-care products. Responding to enquiries, Colgate suggests that: 'The Colgate name is already strong in oral hygiene, now we want to learn whether it can represent healthcare across the board. We need to expand into more profitable categories.'

Colgate will not talk specifically about its new line. Pharmacists, however, say that Colgate has blitzed the town with coupons and ads. Representatives have given away free tubes of toothpaste with purchases of the new Colgate products and have handed out coupons worth virtually the full price of the new products. If all that promotion was not enough, the manager of one store points out that Colgate has priced its line well below competing brands – as much as 20 per cent below in some cases. The same manager reports that the new products' sales are strong, but also adds 'With all the promotion they've done, they should be. They're cheaper, and they've got Colgate's name on them.'

Yet even if Colgate's test proves a resounding success, marketing consultants say expanding the new line could prove dangerous and, ultimately, more expensive than Colgate can imagine. 'If you put the Colgate brand name on a bunch of different products, if you do it willy-nilly at the lowest end, you're going to dilute what it stands for – and if you stand for nothing, you're worthless', observes a spokesperson from Lipincott and Margolies, a firm that handles corporate identity projects. Colgate might also end up alienating customers by slapping its name on so many products. If consumers are dissatisfied with one product, they might be dissatisfied with everything across the board.

Moreover, Colgate's new line moves far from its familiar turf. Although its new line is selling well, sales might not stay so strong without budget prices and a barrage of advertising and promotion. 'People are looking at it right now as a generic-style product', observes one store manager. 'People are really price conscious, and as long as the price is cheaper, along with a name that you can trust, people are going to buy that over others.'

Al Ries, chairman of Trout & Ries marketing consultants, questions whether any line extensions make sense – not only for Colgate, but also for other strong brand names. He says the reason Colgate has been able to break into the OTC drugs market is that other drugs have expanded and lost their niches. Mr Ries argues that Colgate and the traditional OTC medicine companies are turning their products into generic drugs instead of brands. They are losing 'the power of a narrow focus', he says. 'It reflects stupidity on the part of the traditional over-the-counter marketers. . . . If the traditional medicines maintained their narrow focus, they wouldn't leave room for an outsider such as Colgate.'

If Colgate is too successful, meanwhile, it also risks cannibalising its flagship product. Consultants note that almost all successful line extensions, and many not-so-successful ones, hurt the product from which they took their name. 'If Colgate made themselves to mean over-the-counter medicine, nobody would want to buy Colgate toothpaste', contends Mr Ries.

A Colgate spokesperson argues that Colgate could 'save tens of millions of dollars by not having to introduce

a new brand name' for its new products. However, in doing so, it might also 'kill the goose that laid the golden egg'. Other marketing consultants believe that Colgate may be able to break into the market, but that it will take much time and money. 'They just don't bring a lot to the OTC party', one consultant indicates.

Although senior management at Colgate says that the company will continue to try to build share in its traditional cleanser and detergent markets, personal care is considered a stronger area. Leveraging a name into new categories can be tricky, requiring patience from sceptical retailers and fickle consumers. 'It isn't so much a question of where you can put the brand name', says one marketing consultant. 'It's what products the consumer will let you put the brand name on.'

Questions

1. What core product is Colgate selling when it sells toothpaste or the other products in its new line?
2. How would you classify these new products?

3. What implications does this classification have for marketing the new line?
4. What brand decisions has Colgate made? What kinds of product line decision? Are these decisions consistent?
5. How would you package the new products and what risks do you see in these packaging decisions?
6. Even if Colgate is successful in extending the brand into a range of OTC product markets in the US, to what extent will the company be able to repeat this success in its European markets?

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