chapter 8

Product, Services, and Branding Strategy

Previewing the Concepts

Now that you've had a good look at marketing strategy, we'll take a deeper look at the marketing mix—the tactical tools that marketers use to implement their strategies. In this and the next chapter, we'll study how companies develop and manage products and brands. Then, in the chapters that follow, we'll look at pricing, distribution, and marketing communication tools. The product is usually the first and most basic marketing consideration. We'll start with a seemingly simple question: What *is* a product? As it turns out, however, the answer is not so simple.

To start things off, remember that seemingly simple question—what is a product? Well, what is water? That's right, *water*. As it turns out, to a FIJI Water customer, water is more than just a liquid you draw out of the tap to wash down a sandwich or to quench your thirst after a workout. FIJI Water is "the nature of water."

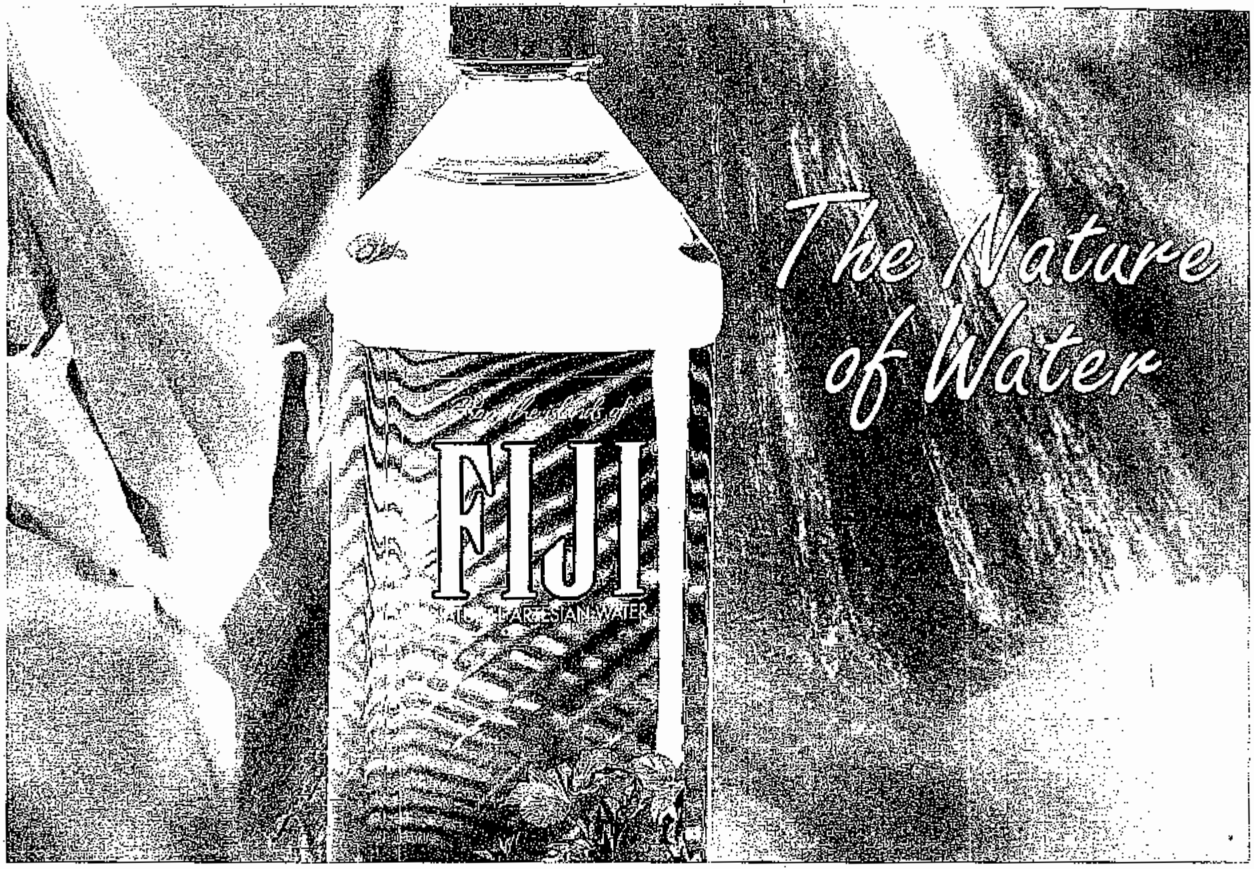
The best things in life are free. *That's what the old song says.* The flowers in spring, the robins that sing, the sunbeams that shine, they're yours, they're mine! *The air that we breathe, the water we drink . . . oops, not so fast. The water we drink? Free? Consider the following account:*

> At Jean-Georges, a celebrated Manhattan restaurant known for its artful cuisine and fine wines, a waiter lifts a tall silver decanter and fills three goblets from the bottle cradled within. Its contents must be precious: Chef Jean-Georges Vongerichten even uses this beverage as an ingredient in broths and sorbets. A rare vintage, perhaps? Try again. It's FIJI Natural Artesian Water, the latest bottled water brand to elevate the world's simplest drink to celebrity status. Today, at all of his restaurants, Mr. Vongerichten exclusively pours FIJI, which looks and sounds almost as exotic as the French dishes on his menu.

FIJI water may be one of the best things in life, but it's certainly not free. A quick check of the Jean-Georges menu shows that FIJI sells there for $10 a bottle. $10! Shop around, perhaps at a lesser restaurant, and you might find a bottle at the bargain price of $2.75. And you thought gas was expensive. Why would anyone pay those kinds of prices for water, something they could get for free out of the tap?

Well, it turns out the FIJI water is very, very good water. Drawn from an underground source on Viti Levu, the main island of the South Pacific country of Fiji, it has an ultraclean taste and contains not a hint of impurities or pollutants. But when you drink FIJI Water, you're getting a lot more than just pure, good-tasting water. According to the company, not all waters are created equal. FIJI water is untouched by man—it's "the nature of water."

> Rainfall in a Fijian forest is a symphony of sound in a theater of green. Somewhere overhead, raindrops strike palm fronds that move with the wind, clicking and tapping like hundreds of castanets. Around you is a glimpse of Eden: giant leaves large enough to lie on, ferns like trees, bamboo and grasses taller than a man. And the rain, formed in clouds above the blue Pacific, dances down through the forest canopy and seeps into the rich volcanic soil, wending its way to the aquifer far below the forest floor. Water, like wine, gets its taste from the terrain that forms it. FIJI Water comes from a virgin ecosystem deep in the South Pacific, from tropical rain filtered for hundreds of years through volcanic stone. This natural artesian water is known for its signature soft, smooth taste and well-balanced mineral content including a



The Nature of Water

high level of silica, a youth-preserving antioxidant. You can taste the purity in every sip. It's The Nature of Water!

Everything about FIJI Water contributes to this "nature of water" brand experience—from its name, packaging, and label to the places that sell and serve it, to the celebrities that drink and endorse it. The name was a natural—FIJI Natural Artesian Water evokes visions of unspoiled natural beauty and purity. The unique square bottle and colorful labeling also set the brand apart. The clear plastic front label presents the FIJI name with a flower resting below. Looking through the front label to the inside of the back label, you see an image of palm leaves. In combination, the front and back labels create a striking 3-D picture that emphasizes FIJI Water's clarity and purity. "The bottle appears to have a magic in it," says a company official.

Skillful marketing has also helped to build the brand's ultrachic image. Initial ads played up FIJI's exotic origins—raindrops falling into Fiji's pristine tropical forests and filtering through layers of volcanic rock. "We're sure you'll agree, it was worth the 450-year wait," said the ads. To boost the brand's status, the company sent samples to movies stars, athletes, and other celebrities, and it pursued product placements in films and TV shows. For example, in the movie *Dodgeball*, Lance Armstrong, the seven-time Tour de France winner, sat at a bar while drinking FIJI water. And Drew Barrymore clutched a bottle of FIJI in "50 First Dates." Such efforts

Objectives

1. define *product* and the major classifications of products and services
2. describe the decisions companies make regarding their individual products and services, product lines, and product mixes
3. discuss branding strategy—the decisions companies make in building and managing their brands
4. identify the four characteristics that affect the marketing of a service and the additional marketing considerations that services require

have given FIJI top billing as what one observer calls "the bottled water of the stars." Further adding to the brand's allure, Estée Lauder even released new Island Michael Kors FIJI fragrance—each bottle contains a splash of FIJI Water.

At the same time, the company convinced luxury hotels and restaurants of the merits of FIJI Water, urging that superb food and atmosphere needed to be paired with water of the same quality. It trained restaurant wait staff to educate consumers on the brand's taste and purity. The company even convinced chefs at leading restaurants to use FIJI Water as a *cooking ingredient* in their kitchens. "Great chefs spend all their time carefully choosing ingredients and crafting a wine list, then they use a water that doesn't complement the taste of either," notes FIJI's chief executive. Finally, to make FIJI Water's plastic bottles more table worthy, the company came up with its own distinctive silver serving sleeve, custom-made to fit FIJI's square bottle. That silver sleeve tells everyone in a restaurant that the customer who ordered FIJI water appreciates the best and can afford it.

So not all waters are created equal. When you need something to quench your thirst after a good workout, gulping a glass of tap water might do the trick. But for special occasions, you may want something more—something that tastes really good, or that makes you feel special, or that tells others something about who you are. On such occasions, the FIJI brand promises a special experience—much like a fine wine with a gourmet meal. When FIJI sells water, it sells more than just the tangible liquid. It sells purity and great taste, good health, refinement, status, and exclusivity.

But, still, could any water be worth $10 a bottle, or even $2.75? Apparently so! Despite an increasingly crowded bottled-water market, FIJI is scrambling to keep up with surging demand. Last year, while primary competitor Evian's U.S. sales volume decreased 23 percent, FIJI's sales shot up 61 percent. And the company recently added a new bottling line that tripled its capacity. Thus, more and more people are buying into FIJI's "The Nature of Water" brand promise, despite the high price—or maybe because of it.[1]

Clearly, water is more than just water when FIJI sells it. 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 look into the critically important issue of how marketers build and manage brands. Finally, we examine the characteristics and marketing requirements of a special form of product—services.

What Is a Product?

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

We define a **product** as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, events, persons, places, organizations, ideas, or mixes of these entities. Throughout this text, we use the term *product* broadly to include any or all of these entities. Thus, an Apple iPod, a Toyota Camry, and a Caffé Mocha at Starbucks are products. But so are a European vacation, Fidelity online investment services, and advice from your family doctor.

Service
Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

Because of their importance in the world economy, we give special attention to services. **Services** are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, retail, tax preparation, and home-repair services. We will look at services more closely later in this chapter.

Products, Services, and Experiences

Product is a key element in the overall *market offering*. Marketing-mix planning begins with formulating an offering that brings value to target customers. This offering becomes the basis upon which the company builds profitable relationships with customers.

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

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

Experiences have always been important in the entertainment industry—Disney has long manufactured memories through its movies and theme parks. Today, however, all kinds of firms are recasting their traditional goods and services to create experiences. For example, American Girl Inc. does more than just make and sell high-end dolls. It takes additional steps to create special experiences between the dolls and the girls who adore them.[2]

> To extend its reach and to put more smiles on the faces of the girls who adore their American Girl dolls, the company has opened American Girl Places in Chicago, New York, and Los Angeles. Inside a Place—which has become as much of a destination spot as it is a store—are a series of wonderfully engaging experiences for girls, mothers, and grandmothers (not to mention the occasional male who's either dragged into the Place or who loves his daughter very much). There's a theater with a live play centered on the doll collection; there's a café for a grown-up dining experience; there's a salon to style a doll's hair; and a doll hospital to fix one up as good as new. Before, during, and after all these experiences, shopping does go on—and the purchases become memorabilia for the experiences visitors have. Moreover, these same visitors buy more from the catalog, frequent the Web site to purchase items more often, and tell their friends about their American Girl Place experience. Much more than a store that sells dolls, says the company, "it's the place where imaginations soar—from boutiques to special events, from the café to the theater and beyond."

Marketing experiences: American Girl, Inc., does more than just make and sell high-end dolls. It now takes additional steps to create special experiences between the dolls and the girls who adore them.

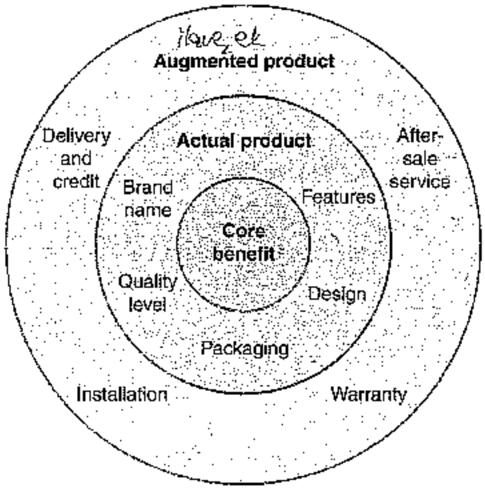
Companies that market experiences realize that customers are really buying much more than just products and services. They are buying what those offers will *do* for them.

Levels of Product and Services

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

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

FIGURE 8.1
Three levels of product



Consumer product
Product bought by final consumer for personal consumption.

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

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

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the *core* consumer needs the product will satisfy. They must then design the *actual* product and find ways to *augment* it in order to create the bundle of benefits that will provide the most satisfying customer experience.

Core, actual, and augmented product: People who buy a Blackberry are buying more than a wireless mobile phone, e-mail and Web-browsing device, or personal organizer. They are buying freedom and on-the-go connectivity to people and resources.

Product and Service Classifications

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

Consumer Products

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

Convenience products are consumer products and services that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort.

TABLE 8.1 Marketing Considerations for Consumer Products

Marketing Considerations	Type of Consumer Product: Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, much planning and shopping effort, comparison of brands on price, quality, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness, knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both 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, Red Cross blood donations

Examples include soap, candy, newspapers, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need them.

Shopping product
Consumer good that the customer, in the process of selection and purchase, characteristically compares on such bases as suitability, quality, price, and style.

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

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

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

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

Unsought products are consumer products 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 products and services are life insurance, preplanned funeral services, and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

Industrial Products

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

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

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

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

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

Organizations, Persons, Places, and Ideas

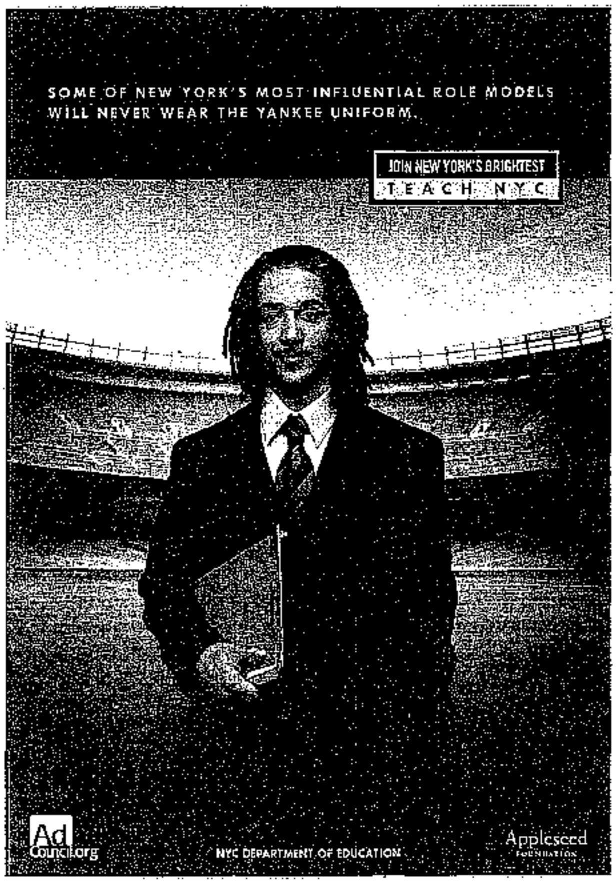
In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other market offerings—organizations, persons, places, and ideas.

Organizations often carry out activities to "sell" the organization itself. *Organization marketing* consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization. Both profit and not-for-profit organizations practice organization marketing. Business firms sponsor public relations or *corporate image advertising* campaigns to polish their images and market themselves to various publics. For example, BASF ads say "We don't make a lot of the products you buy, we make a lot of the products you buy better." Similarly, not-for-profit organizations, such as churches, colleges, charities, museums, and performing arts groups, market their organizations 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 behavior toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And businesses, charities, and other organizations use well-known personalities to help sell their products or causes. For example, more than a dozen different companies—including Nike, Apple, Tag Heuer, Buick, American Express, Wheaties, and Accenture—combine to pay more than $80 million a year to link themselves with golf superstar Tiger Woods.[3]

The skillful use of person marketing can turn a person's name into a powerhouse brand. The brand power of Oprah Winfrey's name has made her a billionaire: Oprah-branded products include her television show, TV and feature movies, *O, The Oprah Magazine*, Oprah's Angel Network, Oprah's Boutiques online shop, and Oprah's Book Club. And businessman Donald Trump has slapped his well-known name on everything from skyscrapers and casinos to bottled water, magazines, and reality TV programs:

> Donald Trump has made and lost fortunes as a real-estate developer. But Trump's genius is in brand building, and he is the brand. Thanks to tireless self-promotion, "The Donald" has established the Trump brand as a symbol of quality, luxury, and success. What's the value of the Trump brand? Trump's name now adorns everything from magazines and bottled water (Trump Ice) to fashion (Donald J. Trump Signature Collection) and reality TV shows (*The Apprentice*). Trump does commercials for Verizon, was host of *Saturday Night Live*, and even unveiled a Trump Rewards Visa card, which rewards cardholders with casino discounts. "He's like P.T. Barnum on steroids," says a friend. "What's his greatest asset? It's his name. He's a skillful marketing person, and what he markets is his name."[4]



Social marketing: The Ad Council has created thousands of public service campaigns that have created positive and lasting social change. For example, it joined with the New York City Department of Education and the Appleseed Foundation to create ads like this one that helped recruit promising young teachers to New York City public schools.

Place marketing involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places. Cities, states, regions, and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. Texas advertises "It's Like a Whole Other Country" and New York state shouts, "I Love New York!" The Iceland Tourist Board invites visitors to Iceland by advertising that it has "Discoveries the Entire Year." Icelandair, the only airline that serves the island, partners with the tourist board to sell world travelers on the wonders of Iceland—everything from geothermal spas and glacier tours to midnight golf and clubbing.[5]

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest toothpastes "create smiles every day." Here, however, we narrow our focus to the marketing of *social ideas*. This area has been called **social marketing**, defined by the Social Marketing Institute as the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society.[6]

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

But social marketing involves much more than just advertising—the Social Marketing Institute (SMI) encourages the use of a broad range of marketing tools. "Social marketing goes well beyond the promotional 'P' of the marketing mix to include every other element to achieve its social change objectives," says the SMI's executive director.[7]

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

Product and Service Decisions

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

Individual Product and Service Decisions

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

Product and Service Attributes

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

FIGURE 8.2
Individual product decisions

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

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

Total quality management (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a "return on quality" approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.[9]

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

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

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

How can a company identify new features and decide which ones to add to its product? 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? The answers provide the company with a rich list of feature ideas. The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value highly in relation to costs should be added.

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

Good design begins with a deep understanding of customer needs. More than simply creating product or service attributes, it involves shaping the customer's product-use experience. Consider the design process behind Procter & Gamble's Swiffer CarpetFlick.

> P&G's innovative Swiffer home-cleaning gadget was really cleaning up. However, it worked only on hardwood, tile, and linoleum floors; and some 75 percent of U.S. floors are carpeted. P&G needed to find a way to "Swiffer" a carpet. Award-winning design firm IDEO set out to help P&G design a solution. But IDEO didn't start in its labs with R&D-like scientific research. Instead, IDEO designers went into people's homes, snapping photos and asking questions about how folks cleaned their carpets. There was a young mother who complained that the noise of the vacuum scared her child, but she had time to vacuum only when he was asleep. There was an older woman with a busted knee who relied on two vacuums—a heavy one for once-a-

Good design begins with a deep understanding of customer needs. P&G's Swiffer CarpetFlick looks good, but it works even better than it looks.

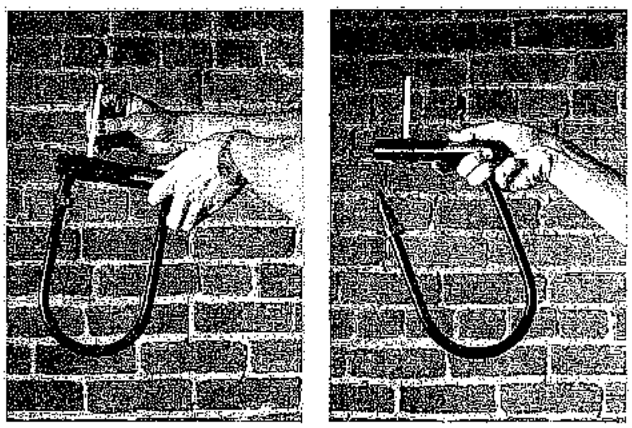
week cleaning when she took painkillers for her knee, and one she could easily lift for spot cleaning. Most consumers found vacuum cleaners bulky, noisy, and hard to use; carpet sweepers were more convenient but not very effective.

With this deep understanding of customer needs, IDEO's design team immersed itself in an intensive, 10-month development effort, attacking countless messy carpet squares—sucking, scraping, stamping, sticking, and trying anything else they could come up with to clean carpet. The result was a revolutionary new carpet sweeping system, the Swiffer CarpetFlick, which flicks dirt, crumbs, and other small bits off the carpet and traps them onto a disposable adhesive cartridge. The CarpetFlick design certainly *looks* good—it is sleek, stylish, and very "Swifferesque." But it *works* even better than it looks. It is quiet, convenient, and effective—just the thing for "quick carpet clean-ups between vacuuming."[10]

Thus, product designers should think less about product attributes and technical specifications and more about how customers will use and benefit from the product. IDEO has used this same customer-experience approach to develop award-winning designs for everything from high-tech consumer electronics products and more user-friendly software to more satisfying and functional hotel rooms, retail stores, and health clinic layouts.[11]

Just as good design can improve customer value, cut costs, and create strong competitive advantage, poor design can result in lost sales and embarrassment.

When you're a bike-lock maker whose slogan is "Tough World, Tough Locks," it doesn't get much tougher than finding out that most of the locks you've been making for the past 30 years can be picked with a Bic pen. That, sadly, is what happened to Ingersoll-Rand subsidiary Kryptonite, after bloggers began posting videos showing just how easy it was to pop open the company's ubiquitous U-shaped locks. Kryptonite reacted quickly, agreeing to exchange old locks for new Bic-proof ones. But the damage was already done. The news spread quickly through cycling chat rooms and blogs, and within weeks the company was sued for alleged product defects. The design mistake damaged Kryptonite's pocketbook as well as its reputation. Exchanging the locks cost the company an estimated $10 million. In the meantime, many dealers have received no shipments of new locks, costing Kryptonite as much as an additional $6 million in sales.[12]



Poor product design can be costly and embarrassing, as Kryptonite learned when bloggers revealed that most of the locks it had been making for the past 30 years could be picked with a Bic pen.

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand

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

as an important part of a product, and branding can add value to a product. For example, most consumers would perceive a bottle of White Linen perfume as a high-quality, expensive product. But the same perfume in an unmarked bottle would likely be viewed as lower in quality, even if the fragrance was identical.

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

Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also say something about product quality and consistency—buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built around a product's special qualities. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. And branding helps the seller to segment markets. For example, General Mills can offer Cheerios, Wheaties, Chex, Total, Kix, Golden Grahams, Trix, and many other cereal brands, not just one general product for all consumers.

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

Packaging

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. Traditionally, the primary function of the package was to hold and protect the product. In recent times, however, numerous factors have made packaging an important marketing tool. 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.

Innovative packaging can give a company an advantage over competitors and boost sales. When Heinz inverted the good old ketchup bottle, next-year sales grew at three times the industry rate.

Companies are realizing 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 more than 60 percent of all purchases are made on impulse. In this highly competitive environment, the package may be the seller's last chance to influence buyers. "Not long ago, the package was merely the product's receptacle, and the brand message was elsewhere—usually on TV," says a packaging expert. But changes in the marketplace environment are now "making the package itself an increasingly important selling medium."[13]

Poorly designed packages can cause headaches for consumers and lost sales for the company. By contrast, innovative packaging can give a company an advantage over competitors and boost sales. Sometimes even seemingly small packaging improvements can make a big difference. For example, Heinz revolutionized the 170-year-old condiments industry by inverting the good old ketchup bottle, letting customers quickly squeeze out even the last bit of ketchup. In the year following the new bottle's debut, Heinz ketchup sales grew at three times the industry rate. It started a packaging trend that quickly spread to other categories. Similarly, Kraft learned that many Chips Ahoy customers were frustrated by those hard-to-use, end-opening bags. They often transferred the cookies into jars for easier access and to keep them fresh. Kraft solved both problems by creating a resealable bag that opens from the top. In the following year, the new packaging raked in sales nearly double those of the old packaging. "Companies make a lot of money by making things less annoying," says a packaging expert.[14]

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

Labeling

Labels range from simple tags attached to products to complex graphics that are part of the 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 *describe* several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might help to *promote* the product and support its positioning.

For example, in the never-ending search for ways to stand out, the apparel industry seems to be rediscovering the promotional value of the product label.

> Some clothing labels send strong messages. A "booklet tag" hanging from a workout garment might reinforce the brand's positioning, describing in detail how the garment is used by certain high-profile athletes or what types of special materials are used in its construction. Other brasher statements include pocket flashers and "lenticular tags," which generate 3-D or animation effects. At the other extreme, tagless heat-transfer labels are replacing sewn-in woven labels, promising ultimate comfort. Even low-key labels are using more brilliant colors or elaborate graphics, beautifying the product and reinforcing the brand message. Rich treatments on labels add pizzazz to luxury items; futuristic tags support emerging technical, man-made fabrications; tags adorned with playful characters evoke a sense of fun for kids' garments. "The product label is a key cog in branding strategy," says a labeling expert. "The look, feel, or even smell of the label—if done creatively—can complement a brand."[15]

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

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

Product Support Services

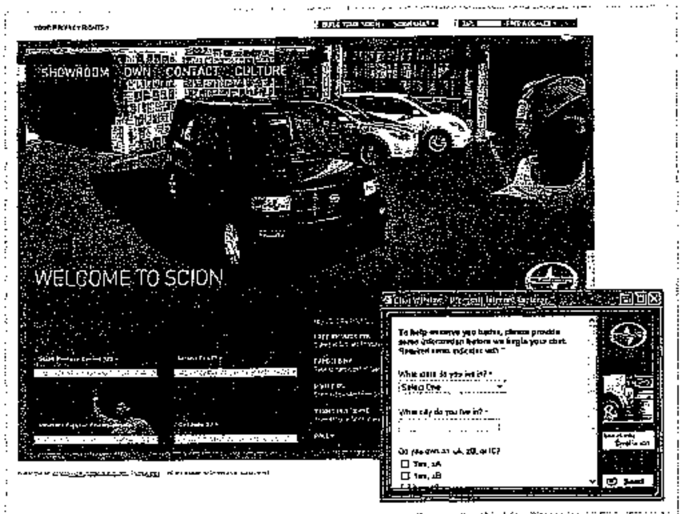
Customer service is another element of product strategy. A company's offer usually includes some support services, which can be a minor or a major part of the total offering. Later in the chapter, we will discuss services as products in themselves. Here, we discuss services that augment actual products.

The first step is to survey customers periodically to assess the value of current services and to obtain ideas for new ones. For example, Cadillac holds regular focus group interviews with owners and carefully watches complaints that come into its dealerships. From this careful monitoring, Cadillac has learned that buyers are very upset by repairs that are not done correctly the first time.

Once the company has assessed the value of various support 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. Based on its consumer interviews, Cadillac has set up a system directly linking each dealership with a group of 10 engineers who can help walk mechanics through difficult repairs. Such actions helped Cadillac jump, in one year, from 14th to 7th in independent rankings of service. For the past several years, Cadillac has rated at or near the top of its industry on the American Customer Satisfaction Index.[16]

Many companies are now using a sophisticated mix of phone, e-mail, fax, Internet, and interactive voice and data technologies to provide support services that were not possible before. Consider the following examples:

> Some online merchants are watching where you surf, then opening a chat window on your screen to ask—just as they would in the store—if you have questions about



Product support services: Many companies are now using a sophisticated mix of interactive technologies to provide support services that were not possible before. For example, at the Scion Web site, clicking the Scion Chat button puts you in realtime touch with someone who can answer your questions or help you to design your own personalized Scion.

the goods they see you eyeing. For example, at the Scion Web site, clicking on the Scion Chat button puts you in real-time touch with someone who can answer your questions or help you to design your personalized Scion. Hewlett-Packard sends pop-up chat boxes to visitors who are shopping on HP.com's pages for digital-photography products. If a shopper loiters a few minutes over some gear, up pops a photo of an attractive woman with the words, "Hello, need information? An HP live chat representative is standing by to assist you." Click on "Go" and type a question, and a live sales agent responds immediately. Since launching its pop-up chat feature, HP has seen a 65 percent surge in online questions. SunTrust Banks is taking proactive chat one step further by experimenting with co-browsing. This feature essentially lets chat agents take control of a customer's computer screen, opening Web pages directly on their browser to help them find what they're looking for. In the future, "call cams" will even let customers see an agent on their screen and talk directly through voice-over-Web capabilities.[17]

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 outlets, or fall within given price ranges.

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

The major product line decision involves *product line length*—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Managers need to conduct a periodic *product line analysis* to assess each product item's sales and profits and to understand how each item contributes to the line's performance.

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

A company can lengthen its product line in two ways: by *line stretching* or by *line filling*. *Product line stretching* occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways.

Companies located at the upper end of the market can stretch their lines *downward*. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or 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. DaimlerChrysler stretched its Mercedes line downward for all these reasons. Facing a slow-growth luxury car market and attacks by Japanese automakers on its high-end positioning, it successfully introduced its Mercedes C-Class cars. These models sell in the $30,000 range without harming the firm's ability to sell other Mercedes at much higher prices.

Companies at the lower end of a market can stretch their product lines *upward*. Sometimes, companies stretch upward in order to add prestige to their current products. Or they may be attracted by a faster growth rate or higher margins at the higher end. For example, each of the leading Japanese auto companies introduced an upmarket automobile: Toyota

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

launched Lexus; Nissan launched Infinity; and Honda launched Acura. They used entirely new names rather than their own names.

Companies in the middle range of the market may decide to stretch their lines in *both directions*. Marriott did this with its hotel product line. Along with regular Marriott hotels, it added new branded hotel lines to serve both the upper and lower ends of the market. Renaissance Hotels & Resorts aims to attract and please top executives; Marriott, upper and middle managers; Courtyard by Marriott, salespeople and other "road warriors"; and Fairfield Inn by Marriott, vacationers and business travelers on a tight travel budget. Marriott ExecuStay provides temporary housing for those relocating or away on long-term assignments of 30 days or longer. Residence Inn by Marriott provides a relaxed, residential atmosphere—a home away from home for people who travel for a living. TownePlace Suites by Marriott provide a comfortable atmosphere at a moderate price for extended-stay travelers. And SpringHill Suites by Marriott has 25 percent more space than an average hotel room—offering a separate living and work space for business travelers.[18] The major risk with this strategy is that some travelers will trade down after finding that the lower-price hotels in the Marriott chain give them pretty much everything they want. However, Marriott would rather capture its customers who move downward than lose them to competitors.

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. However, line filling is overdone if it results in cannibalization and customer confusion. The company should ensure that new items are noticeably different from existing ones.

Product Mix Decisions

Product mix (or product portfolio)
The set of all product lines and items that a particular seller offers for sale.

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

A company's product mix has four important dimensions: width, length, depth, and consistency. Product mix *width* refers to the number of different product lines the company carries. For example, Colgate markets a fairly contained product mix, consisting of personal and home care products that you can "trust to care for yourself, your home, and the ones you love." By comparison, 3M markets more than 60,000 products, a typical Wal-Mart stocks 100,000 to 120,000 items, and GE manufactures as many as 250,000 items, ranging from lightbulbs to jet engines.

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

Product mix *depth* refers to the number of versions offered of each product in the line. Colgate toothpastes come in 11 varieties, ranging from Colgate Total, Colgate Tartar Control, Colgate 2in1, and Colgate Cavity Protection to Colgate Sensitive, Colgate Fresh Confidence, Colgate Max Fresh, Colgate Simply White, Colgate Sparkling White, Colgate Kids Toothpastes, and Colgate Baking Soda & Peroxide. Then, each variety comes in its own special forms and formulations. For example, you can buy Colgate Total in regular, mint fresh stripe, whitening paste and gel, advanced fresh gel, or 2in1 liquid gel versions.[19] (Talk about niche marketing! Remember our Chapter 7 discussion?)

Finally, the *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Colgate's product 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. It can add new product lines, widening its product mix. In this way, its new lines build on the company's reputation in its other lines. The company can lengthen its existing product lines to become a more full-line company. Or it can add more versions of each product and thus deepen its product mix. Finally, 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.

Branding Strategy: Building Strong Brands

Some analysts see brands 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." A former CEO of McDonald's agrees: "If every asset we own, every building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand. . . . The brand is more valuable than the totality of all these assets."[20]

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.

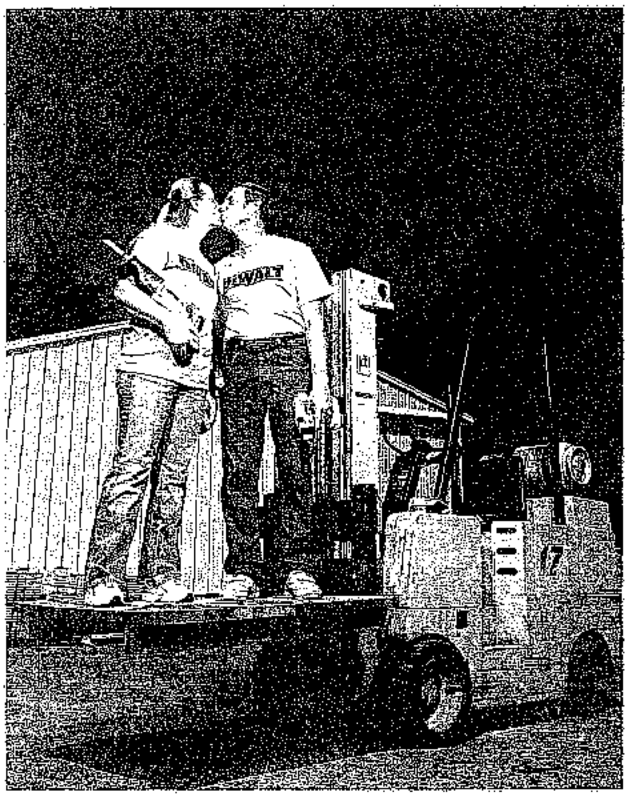
Brand Equity

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance—everything that the product or service *means* to consumers. In the final analysis, brands exist in the minds of consumers.

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—such as Coca-Cola, Tide, Nike, Harley-Davidson, Disney, and others—become larger-than-life icons that maintain their power in the market for years, even generations. These brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers.

Consumers sometimes bond *very* closely with specific brands. Consider the feelings of one Michigan couple about Black & Decker's DeWalt power tool brand:[21]

> Rick and Rose Whitaker weren't comfortable with the idea of a white-gown-and-tux wedding. They kept coming back to the fact that Rick, a carpenter, had a passion for power tools. Specifically, DeWalt power tools. So at the July nuptials, 50-plus guests gathered in Rick's backyard wearing DeWalt's trademark yellow-and-black T-shirts. The Michigan couple—both are now 44—dressed in shirts emblazoned with an image of DeWalt-sponsored NASCAR driver Matt Kenseth. They made their way to a wooden chapel that they had built with their DeWalt gear. There they exchanged power tools, cutting the cake with a power saw.



Consumers sometimes bond very closely with specific brands. Jokes the bride: "He loves DeWalt nearly as much as he loves me."

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. One measure of a brand's equity is the extent to which customers are willing to pay more for the brand. One study found that 72 percent of customers would pay a 20 percent premium for their brand of choice relative to the closest competing brand; 40 percent said they would pay a 50 percent premium. Tide and Heinz lovers are willing to pay a 100 percent premium.[22]

A brand with strong brand equity is a very valuable asset. *Brand valuation* is the process of estimating the total financial value of a brand. Measuring such value is difficult. However, according to one estimate, the brand value of Coca-Cola is $67 billion, Microsoft is $57 billion, and IBM is $56 billion. Other brands rating among the world's most valuable include GE, Intel, Nokia, Toyota, Disney, McDonald's, and Mercedes-Benz.[23]

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty. Because consumers expect stores to carry the brand, the company has more leverage in bargaining with resellers. Because the brand name carries high credibility, the company can more easily launch line and brand extensions. A powerful brand offers the company some defense against fierce price competition.

Above all, however, a powerful brand forms the basis for building strong and profitable customer relationships. The fundamental asset underlying brand equity is *customer equity*—the value of the customer relationships that the brand creates. A powerful brand is important, but what it really represents is a profitable set of loyal customers. The proper focus of marketing is building customer equity, with brand management serving as a major marketing tool. Says one marketing expert, "Companies need to be thought of as portfolios of customers and not portfolios of products."[24]

Brand equity
The positive differential effect that knowing the brand name has on customer response to the product or service.

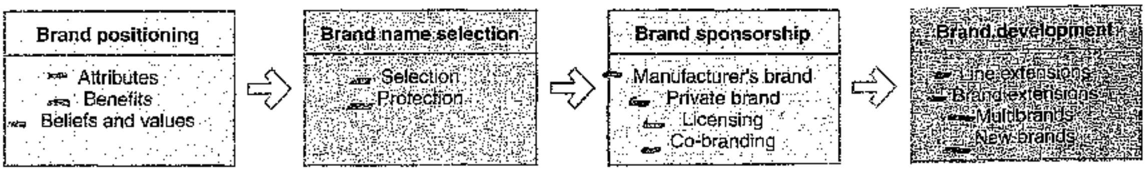
Building Strong Brands

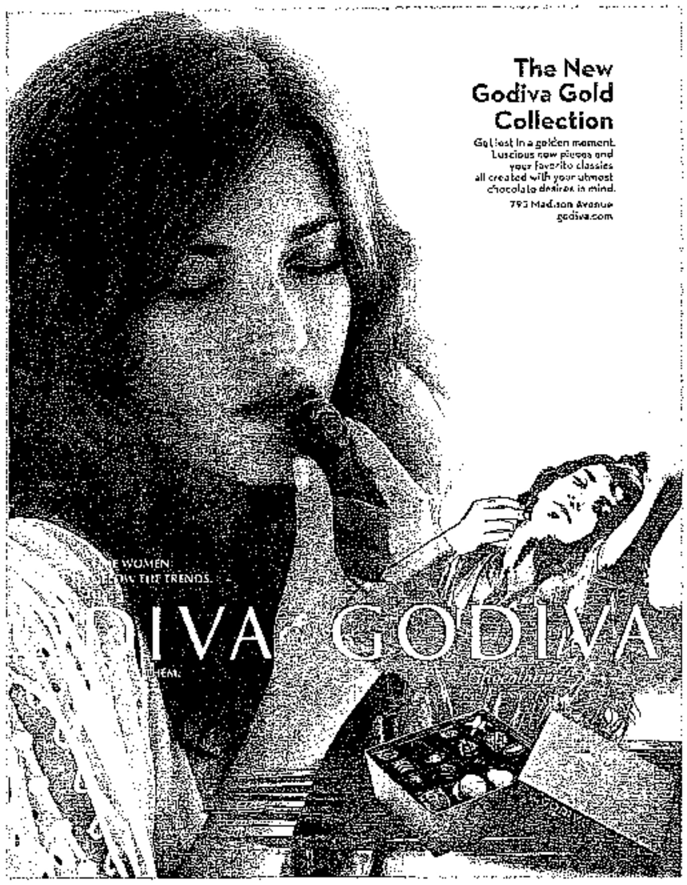
Branding poses challenging decisions to the marketer. Figure 8.3 shows that the major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship, and brand development.

Brand Positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.[25] At the lowest level, they can position the brand on *product attributes*. Thus, The Body Shop marketers can talk about their products' natural, environmentally friendly ingredients, unique scents, and special textures. However, attributes are the least desirable level for brand positioning. Competitors can easily copy attributes. More

FIGURE 8.3 Major brand strategy decisions





Brand positioning: The strongest brands go beyond attribute or benefit positioning. Godiva engages customers on a deeper level, touching universal emotions.

important, customers are not interested in attributes as such; they are interested in what the attributes will do for them.

A brand can be better positioned by associating its name with a desirable *benefit*. Thus, The Body Shop can go beyond product ingredients and talk about the resulting beauty benefits, such as clearer skin from its Tea Tree Oil Facial Wash and sun-kissed cheeks from its Bronzing Powder. Some successful brands positioned on benefits are Volvo (safety), FedEx (guaranteed on-time delivery), Nike (performance), and Lexus (quality).

The strongest brands go beyond attribute or benefit positioning. They are positioned on strong *beliefs and values*. These brands pack an emotional wallop. Thus, The Body Shop can talk not just about environmentally friendly ingredients and skin-care benefits, but about how purchasing these products empowers its socially conscious customer to "make up your mind, not just your face."[26] Successful brands engage customers on a deep, emotional level. Brands such as Starbucks, Victoria's Secret, and Godiva rely less on a product's tangible attributes and more on creating surprise, passion, and excitement surrounding a brand.

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. The brand promise must be simple and honest. Motel 6, for example, offers clean rooms, low prices, and good service but does not promise expensive furniture or large bathrooms. In contrast, The Ritz-Carlton offers luxurious rooms and a truly memorable experience but does not promise low prices.

Brand Name Selection

A good name can add greatly to a product's success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies. After that, naming a brand becomes part science, part art, and a measure of instinct (see Real Marketing 8.1).

Desirable qualities for a brand name include the following: (1) It should suggest something about the product's benefits and qualities. Examples: Beautyrest, Craftsman, Curves, OFF! bug spray. (2) It should be easy to pronounce, recognize, and remember. Short names help. Examples: Tide, Silk, JetBlue. But longer ones are sometimes effective. Example: "I Can't Believe It's Not Butter" margarine. (3) The brand name should be distinctive. Examples: Lexus, Kodak, Oracle. (4) It should be extendable: Amazon.com began as an online bookseller but chose a name that would allow expansion into other categories. (5) The name should translate easily into foreign languages. Before spending $100 million to change its name to Exxon, Standard Oil of New Jersey tested several names in 54 languages in more than 150 foreign markets. It found that the name Enco referred to a stalled engine when pronounced in Japanese. (6) It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.

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

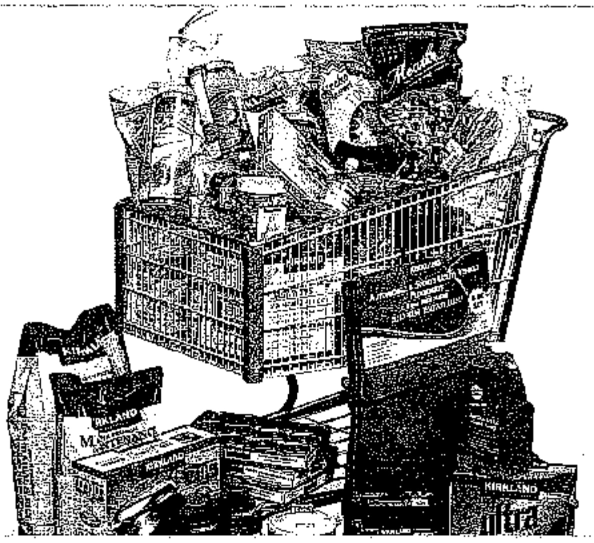
Brand Sponsorship

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

Manufacturers' brands have long dominated the retail scene. In recent times, however, an increasing number of retailers and wholesalers have created their own **private brands (or store brands)**. And in many industries, these private brands are giving manufacturers' brands a real run for their money:

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

> Melanie Turner has forgotten her shopping list, but the 42-year-old pension consultant doesn't seem to mind. Entering her local Costco store, Turner knows right where she's going. In the dish detergent section, her hand goes past Procter & Gamble's Cascade to grab two 96-ounce bottles of Kirkland Signature, the in-store brand that Costco has plastered on everything from cashews to cross-trainer sneakers. Trolling for some fresh fish for dinner, she hauls in a 2 1/2-pound package of tilapia—it, too, emblazoned with the bold red, white, and black Kirkland logo. Then it's off to the paper aisle, where she picks up mammoth packs of Kirkland dinner napkins, Kirkland toilet paper, and . . . wait, where are the Kirkland paper towels? Her eyes scan the store's maze of hulking pallets—no sign of them—before coming to rest on a 12-pack of P&G's Bounty. A moment of decision. "I'll wait on this," she says finally.
>
> And there, in microcosm, is why Melanie Turner scares the pants off Procter & Gamble, Unilever, Kraft, and just about every consumer-goods company out there. Her shopping cart is headed for the checkout aisle, and there's hardly a national brand in it. . . . A subtle tectonic shift has been reshaping the world of brands. Retailers—once the lowly peddlers of brands that were made and marketed by big, important manufacturers—are now behaving like full-fledged marketers.[27]



An increasing number of retailers have created their own store brands. Costco's Kirkland brand adorns everything from baby wipes to barbeques.

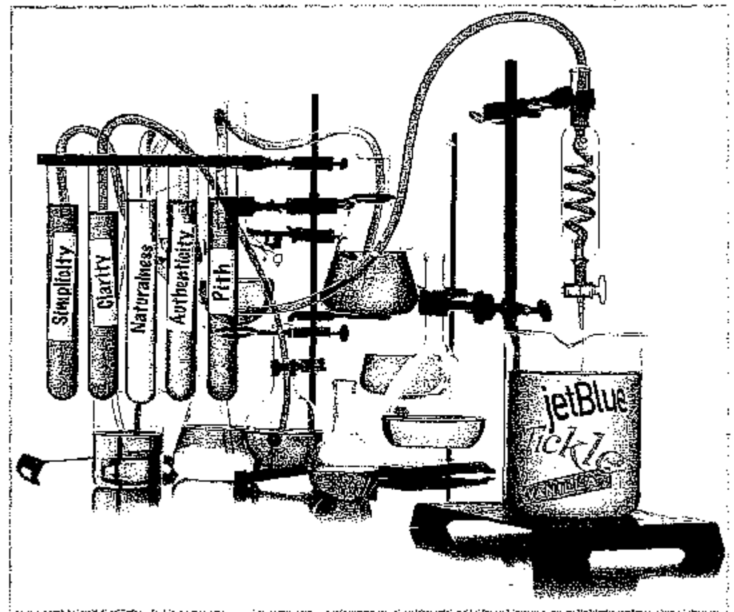
It seems that almost every retailer now carries its own store brands. Wal-Mart offers Sam's Choice beverages and food products, Equate pharmacy and health and beauty products, and White Cloud brand toilet tissue, diapers, detergent, and fabric softener. More than half the products at your local Target are private brands, and grocery giant Kroger markets some 8,000 items under a variety of private brands, such as Private Selection, Kroger Brand, F.M.V. (For Maximum Value), Naturally Preferred, and Everyday Living. And private labels make up more than 80 percent of Trader Joe's merchandise. At the other end of the spectrum, upscale retailer Saks Fifth Avenue carries its own clothing line, which features $98 men's ties, $200 halter-tops, and $250 cotton dress shirts.

In all, private brands capture more than 20 percent of all U.S. consumer products sales. Private-label apparel, such as Gap, The Limited, Arizona Jeans (JC Penney), and Liz Lange (Target), captures a 36 percent share of all U.S. apparel sales.[28]

Real Marketing

8.1 Every company wants a name that's "sticky"—one that stands out from the crowd, a catchy handle that will remain fresh and memorable over time. But the issue of stickiness turns out to be kind of, well, sticky. Such names are hard to find, especially because naming trends change—often decade by decade. Whereas the giddy 1990s were all about quirky names (Yahoo, Google, Fogdog) or trademark-proof monikers concocted from scratch (Novartis, Aventis, Lycos), tastes have shifted amid the uncertainties of the new millennium.

Today's style is to build corporate identity around words that have real meaning, to name things in the spirit of what they actually are. The new names are all about purity, clarity, and organicism. For example, names like Silk (soy milk), Method (home products), Blackboard (school software), and Smartwater (beverages) are simple and make intuitive sense. "There's a trend toward meaning in words. When it comes down to evocative words versus straightforward names, straightforward will win in testing every time," says an executive from a New York branding firm.



Naming brands: There's some science to it, and some basic rules to be heeded, but there's also a big dose of art and more than a little instinct.

Embracing real words over fake ones hardly comes as a surprise, of course. But why has it taken so long for this idea to catch on? In part, the wave of meaningless names during the 1990s can be traced to a spike in trademark applications that resulted from the surge in dot-com start-ups. In 1985, 64,677 applications were filed. Ten years later that number had almost tripled, before peaking at 375,428 in 2000. As the pool of registered trademarks has grown, so has the challenge of finding an available name. In that context, choosing a whimsical or made-up name was a simple way to sidestep the crowd. There was also some method to this madness: A company with a new and different word can supply whatever associations it chooses and expand into any business it wants.

But the problem with all these meaningless names became clear as the number of companies adopting them grew. As more and more Accentures and Covisints dotted the landscape, it became harder for

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, what prices they charge, and which ones they will feature in local circulars. Most retailers also charge manufacturers *slotting fees*—payments from the manufacturers before the retailers will accept new products and find "slots" for them on their shelves. Slotting fees, which generate over $9 billion for the placement of new products alone, have recently received much scrutiny from the Federal Trade Commission and state legislatures, which worry that they might dampen competition by restricting retail shelf access for smaller manufacturers who can't afford the fees.[29]

Private brands can be hard to establish and costly to stock and promote. However, they also yield higher profit margins for the reseller. And they give resellers exclusive products that cannot be bought from competitors, resulting in greater store traffic and loyalty. Retailers price their store brands lower than comparable manufacturers' brands, thereby appealing to budget-conscious shoppers, especially in difficult economic times. And most shoppers believe that store brands are often made by one of the larger manufacturers anyway. They're right. National brand makers such as Birds Eye, Del Monte, Hormel, Kimberly-Clark, and Sara Lee also make store brands.

To fend off private brands, leading brand marketers must invest in R&D to bring out new brands, new features, and continuous quality improvements. They must design strong advertising programs to maintain high awareness and preference. They must find ways to "partner" with major distributors in a search for distribution economies and improved joint performance.

consumers to keep track of the differences between them. Change came after the economic boom went bust and the number of trademark applications declined. Coming up with unique names is still difficult, but the pressure to come up with something—anything—that a company can call its own has subsided.

Hence, the return to grace of real, natural-sounding names. Of course, there's really nothing all that novel about using natural-sounding brand names. Apple Computer did it more than 25 years ago, as did Simple Shoes in 1991. So where did JetBlue come from?

Traditionally, Airlines have borne names that either refer to the carrier's geographic roots (American, Northwest, Southwest) or evoke the idea of global reach (United, or the now defunct Pan American and Trans World Airlines). But as a new airline with plans to offer budget travelers a stylish and unique way to fly, JetBlue decided to take a different approach. "We didn't want to jump on the made-up-word bandwagon," recalls JetBlue's VP for corporate communications. "We wanted to use a real word, but we didn't want it to sound like an airline."

Working first with its New York ad agency and then with branding consultancy Lander Associates, the airline came up with early naming candidates such as Fresh Air, Taxi, Egg, and It. But the name Blue—with its simple evocation of clear skies and serenity—emerged a finalist. After trademark lawyers pointed out that it would be impossible to protect the name Blue without a distinctive qualifier, TrueBlue emerged. But that name was already held by a car-rental agency. Eventually, JetBlue was born. The name worked, and when JetBlue inaugurated service in 2000, so did the branding model. The new airline's success spawned a naming trend among other discount carriers, including United's Ted and Delta's Song (now merged back into Delta).

Ted and Song? Simple and easy to remember. But what do those words have to do with the airline industry? Nothing—and that's partly the point. "It's effective to use ordinary words out of context," says consultant Laura Ries, coauthor of *The 22 Immutable Laws of Branding*. It also works to use names "that are suggestive of the category. These are names like Blockbuster, Curves, Amazon, Palm, and Subway. Assuming the words are simple, your brand name will be easy to say, spell, and remember." Likewise, firms are also waking up to the idea that some organic names are fun to say—and that makes them easier to spread by word of mouth. In an age where everything can be found by way of Google, simple names do double duty as easy-to-remember keywords.

That's what happened to Aliph, a start-up that recently launched its first product—a device built from military-grade technology that allows people talking on cell phones to be heard over background noise. No one can remember Aliph, of course. But the product's name, Jawbone, refers to both the idiomatic expression for talking and the fact that the device works by actually monitoring jawbone and cheek vibrations. "We knew we would have to be different in every way—from the design of the device to our name," says Aliph's VP for product development. The name turned out to be a handy way for customers to find the product. Aliph was able to buy the jawbone.com domain, and now when people type "jawbone"—a common noun—into Google, the company's site comes up first in the results. Indeed, the search engine might be the best indicator of how sticky a name really is.

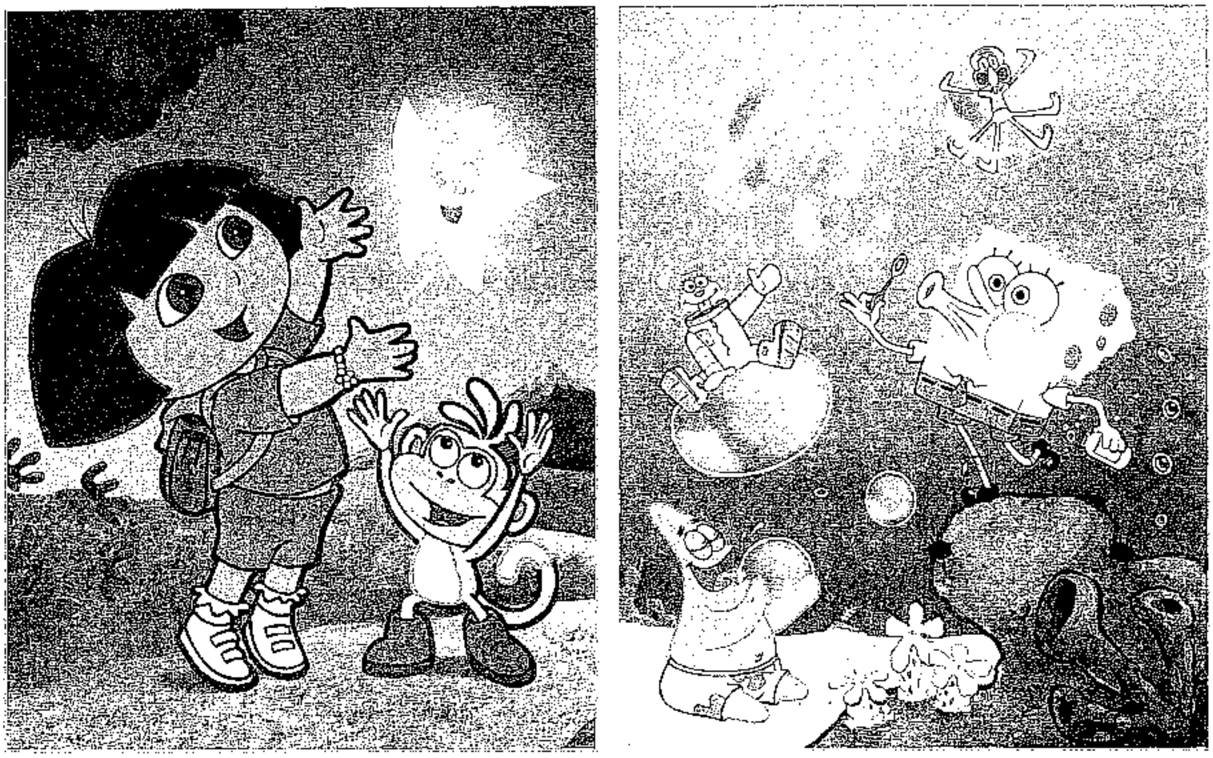
So, it's clear that finding just the right brand name is hard work. There's certainly some science to it, and some basic rules that need to be heeded. But there's also a big dose of art, and more than a little instinct. Try it yourself. Pick a product and see if you can come up with a better name for it. How about Moonshot? Tickle? Vanilla? Treehugger? Simplicity? Sorry. Google them and you'll find that they're already taken.

Source: Adapted from Alex Frankel, "The New Science of Naming," *Business 2.0*, December 2004, pp. 53–55.

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

Apparel and accessories sellers pay large royalties to adorn their products—from blouses to ties, and linens to luggage—with the names or initials of well-known fashion innovators such as Calvin Klein, Tommy Hilfiger, Gucci, or Armani. Sellers of children's products attach an almost endless list of character names to clothing, toys, school supplies, linens, dolls, lunch boxes, cereals, and other items. Licensed character names range from classics such as *Sesame Street*, Disney, Peanuts, Winnie the Pooh, the Muppets, Scooby Doo, and Dr. Seuss characters to the more recent Dora the Explorer, Powerpuff Girls, Rugrats, Blue's Clues, and Harry Potter characters. And currently a number of top-selling retail toys are products based on television shows and movies such as *Superman Mighty Muscles Suit, the Spider-Man Triple Action Web Blaster,* and *Dora's Talking Dollhouse*.

Name and character licensing has grown rapidly in recent years. Annual retail sales of licensed products in the United States and Canada have grown from only $4 billion in 1977 to $55 billion in 1987 and more than $175 billion today. Licensing can be a highly profitable business for many companies. For example, Nickelodeon has developed a stable full of hugely popular characters—such as Dora the Explorer, the Rugrats clan, and SpongeBob SquarePants. Products sporting these characters generate more the $5 billion in annual retail



Licensing: Nickelodeon has developed a stable full of hugely popular characters—such as Dora the Explorer, the Rugrats clan, and SpongeBob SquarePants—which generate more than $5 billion in annual retail sales.

sales. "When it comes to licensing its brands for consumer products, Nickelodeon has proved that it has the Midas touch," states a brand licensing expert.[30]

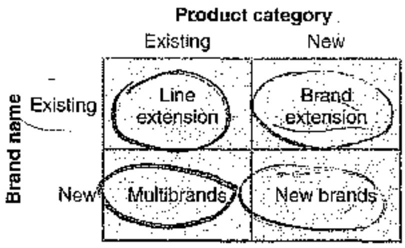
Co-branding
The practice of using the established brand names of two different companies on the same product.

Although companies have been **co-branding** products for many years, there has been a recent resurgence in co-branded products. Last year alone, 524 new co-branded products were introduced. Co-branding occurs when two established brand names of different companies are used on the same product. For example, Bravo! Foods (which markets Slammers dairy brands) co-branded with MasterFoods (which markets M&Ms, Snickers, Starburst, and many other familiar candy brands) to create Starburst Slammers, 3 Musketeers Slammers, and Milky Way Slammers. GE worked with Culligan to develop its Water by Culligan Profile Performance refrigerator with a built-in Culligan water filtration system. 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 a company to expand its existing brand into a category it might otherwise have difficulty entering alone. For example, consider the co-branding efforts of SunTrust Banks and Wal-Mart, through which SunTrust is setting up in-store branches co-branded as "Wal-Mart Money Center by SunTrust." The arrangement gives SunTrust a presence in Wal-Mart's massive supercenters. In return, it gives Wal-Mart a foothold in financial services and lets it serve its customers better by offering check cashing, money transfers, money orders, and other services.[31]

Co-branding also has limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts. Finally, when co-branding, each partner must trust the other will take good care of its brand. For example, consider the marriage between Kmart and the Martha Stewart Everyday housewares brand. When Kmart declared bankruptcy, it cast a shadow on the Martha Stewart brand. In turn, when Martha Stewart was convicted and jailed for illegal financial dealings, it created negative associations for Kmart. Kmart was further embarrassed when Martha Stewart recently struck a major licensing agreement with

FIGURE 8.4
Brand development strategies



Macy's, announcing that it would separate from Kmart when the current contract ends in 2009. Thus, as one manager puts it, "Giving away your brand is a lot like giving away your child—you want to make sure everything is perfect."[32]

Brand Development

A company has four choices when it comes to developing brands (see Figure 8.4). It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

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

Line extensions occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category. Thus, Yoplait introduced several line extensions, including new yogurt flavors, a yogurt smoothie, and a yogurt with added cholesterol reducers. And Morton Salt has expanded its line to include regular iodized salt plus Morton Course Kosher Salt, Morton Sea Salt, Morton Lite Salt (low in sodium), Morton Popcorn Salt, Morton Salt Substitute, and several others. The vast majority of all new-product activity consists of line extensions.

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

> Want a Coke? Not so easy. Pick from more than 16 varieties. In zero-calorie versions alone, Coke comes in three subbrands—Diet Coke, Diet Coke with Splenda, and Coca-Cola Zero. Throw in the flavored and free versions—Diet Cherry Coke, Diet Coke with Lemon, Diet Coke with Lime, Diet Coke Black Cherry Vanilla, and Caffeine-Free Diet Coke—and you reach a dizzying nine diets from Coke. And that doesn't count "mid-calorie" Coca-Cola C2. Each subbrand has its own hype—Diet Coke tells you to "light it up," and Coke Zero allows you to "enjoy Coke-ness with zero calories." And Coca-Cola C2 has "1/2 the carbs, 1/2 the calories, all the great taste." But it's unlikely that many consumers fully appreciate the differences. Instead, the glut of extensions will likely cause what one expert calls "profusion confusion." Laments one cola consumer, "How many versions of Diet Coke do they need?"[33]

Another risk is that sales of an extension may come at the expense of other items in the line. For example, the original Hershey's Kisses have now morphed into a full line of Kisses, including such morsels as Rich Dark Chocolate Hershey's Kisses, Hershey Kisses Filled with Caramel, Hershey Kisses Filled with Dulce de Leche, and a dozen others. Although all are doing well, the original Hershey's Kiss brand now seems like just another flavor. A line extension works best when it takes sales away from competing brands, not when it "cannibalizes" the company's other items.

Brand extension
Extending an existing brand name to new product categories.

A **brand extension** extends a current brand name to new or modified products in a new category. For example, Kimberly-Clark extended its market-leading Huggies brand from disposable diapers to a full line of toiletries for tots, from shampoos, lotions, and diaper-rash ointments to baby wash, disposable washclothes, and disposable changing pads. Victorinox extended its venerable Swiss Army brand from multitool knives to products ranging from cutlery and ball point pens to watches, luggage, and apparel. And Brinks leveraged its strong reputation in commercial security to launch Brink's Home Security systems.

A brand extension gives a new product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name. At the same

Brand extensions: Brinks leveraged its strong reputation in commercial security to launch Brink's Home Security systems.

time, a brand extension strategy involves some risk. Brand extensions such as Bic pantyhose, Heinz pet food, LifeSavers gum, and Clorox laundry detergent met early deaths. The extension may confuse the image of the main brand. And if a brand extension fails, it may harm consumer attitudes toward the other products carrying the same brand name.

Further, a brand name may not be appropriate to a particular new product, even if it is well made and satisfying—would you consider buying a Harley-Davidson cake-decorating kit or an Evian water-filled padded bra (both failed)? Companies that are tempted to transfer a brand name must research how well the brand's associations fit the new product.[34]

Companies often introduce additional brands in the same category. Thus, Procter & Gamble markets many different brands in each of its product categories. *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.

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.

A company might believe that the power of its existing brand name is waning and a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of the company's current brand names are appropriate. For example, Toyota created the separate Scion brand, targeted toward GenY consumers. Japan's Matsushita uses separate names for its different families of consumer electronics products: Panasonic, Technics, JVC, and Quasar, to name just a few.

As with multibranding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands, with too few differences between them. Thus, Procter & Gamble, Frito-Lay, 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. "We . . . sort through our smaller brands," says P&G's CEO, and "divest the ones that don't have a strategic role or cannot deliver."[35]

Managing Brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and to build preference and loyalty. For example, Verizon spends more than $1.7 billion annually to promote its brand. Coca-Cola spends $317 million on its Coca-Cola and Diet Coke brands.[36]

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 touch points. These include advertising, but also personal experience with the brand, word of mouth, company Web pages, and many others. The company must put as much care into managing these touch points as it does into producing its ads. "A brand is a living entity," says former Disney chief executive Michael Eisner, "and it is enriched or undermined cumulatively over time, the product of a thousand small gestures."[37]

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

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 overeager brand managers from hurting the brand.

Finally, companies need to periodically audit their brands' strengths and weaknesses.[38] They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all of our consumer touch points support the brand's positioning? Do the brand's managers understand what the brand means to consumers? Does the brand receive proper, sustained support? The brand audit may turn up brands that need more support, brands that need to be dropped, or brands that must be rebranded or repositioned because of changing customer preferences or new competitors.

Services Marketing

Services have grown dramatically in recent years. Services now account for close to 79 percent of U.S. gross domestic product. And the service industry is growing. By 2014, it is estimated that nearly four out of five jobs in the United States will be in service industries. Services are growing even faster in the world economy, making up 37 percent of the value of all international trade.[39]

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

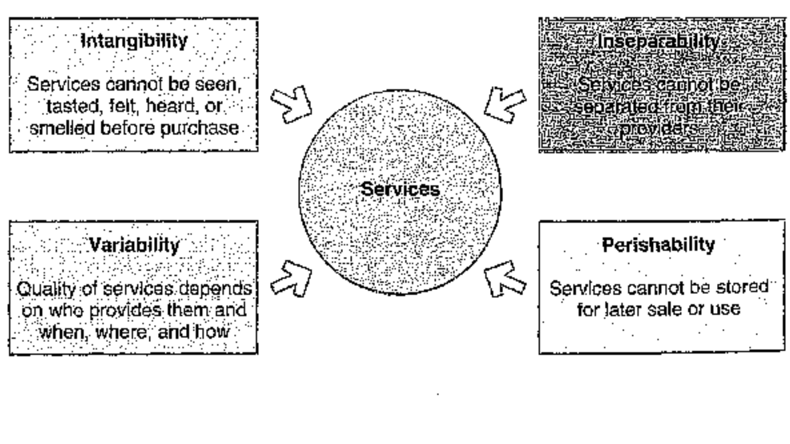
Nature and Characteristics of a Service

A company must consider four special service characteristics when designing marketing programs: *intangibility, inseparability, variability,* and *perishability* (see Figure 8.5).

Service intangibility
A major characteristic of services—they cannot be seen, tasted, felt, heard, or smelled before they are bought.

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

FIGURE 8.5
Four service characteristics



Therefore, the service provider's task is to make the service tangible in one or more ways and to send the right signals about quality. One analyst calls this *evidence management*, in which the service organization presents its customers with organized, honest evidence of its capabilities. The Mayo Clinic practices good evidence management:[40]

> When it comes to hospitals, it's very hard for the average patient to judge the quality of the "product." You can't try it on, you can't return it if you don't like it, and you need an advanced degree to understand it. And so, when we're considering a medical facility, most of us unconsciously turn detective, looking for evidence of competence, caring, and integrity. The Mayo Clinic doesn't leave that evidence to chance. By carefully managing a set of visual and experiential clues, Mayo offers patients and their families concrete evidence of its strengths and values. For example, staff people at the clinic are trained to act in a way that clearly signals its patient-first focus. "My doctor calls me at home to check on how I am doing," marvels one patient. "She wants to work with what is best for my schedule." Mayo's physical facilities also send the right signals. They've been carefully designed to relieve stress, offer a place of refuge, create positive distractions, convey caring and respect, signal competence, accommodate families, and make it easy to find your way around. The result? Exceptionally positive word of mouth and abiding customer loyalty, which have allowed Mayo Clinic to build what is arguably the most powerful brand in health care—with very little advertising.

Service inseparability
A major characteristic of services—they are produced and consumed at the same time and cannot be separated from their providers.

Service variability
A major characteristic of services—their quality may vary greatly, depending on who provides them and when, where, and how.

Service perishability
A major characteristic of services—they cannot be stored for later sale or use.

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

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

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

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. Target promises "Expect more, pay less." The Ritz-Carlton Hotels positions itself as offering a memorable experience that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests." At the Mayo Clinic, "the needs of the patient come first." These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The Service-Profit Chain

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

In a service business, the customer and front-line service employee *interact* to create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus their attention on *both* their customers and their employees. They understand the **service-**

profit chain, which links service firm profits with employee and customer satisfaction. This chain consists of five links:[41]

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

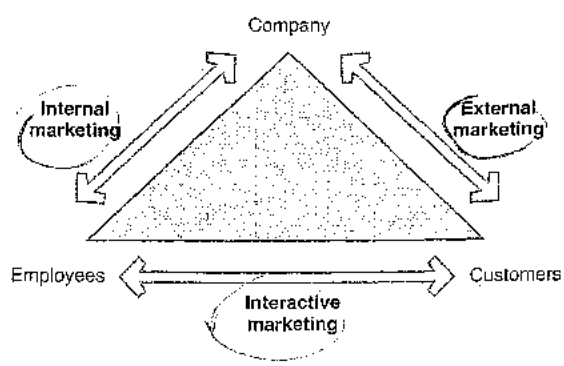
Therefore, reaching service profits and growth goals begins with taking care of those who take care of customers (see Real Marketing 8.2). In fact, legendary founder and former CEO of Southwest Airlines, Herb Kelleher, always put employees first, not customers. His reasons? "If they're happy, satisfied, dedicated, and energetic, they'll take good care of customers," he says. "When the customers are happy, they come back, and that makes shareholders happy."[42] Consider Wegmans, a 71-store grocery chain in the Mid-Atlantic States.

The service-profit chain: Happy employees make for happy customers. "The biggest reason Wegmans is a shopping experience like no other is that it is an employer like no other."

> Wegmans customers have a zeal for the store that borders on obsession. Says one regular, "Going there isn't just shopping, it's an event." A recent national survey of food retailer customer satisfaction put Wegmans at the top. Last, year, Wegmans received more than 7,000 letters from around the country, about half of them asking Wegmans to come to their town. The secret? Wegmans knows that happy, satisfied employees produce happy, satisfied customers. So Wegmans takes care of its employees. It pays higher salaries, shells out money for employee college scholarships, covers 100 percent of health insurance premiums for employees making less than $55,000 a year, and invests heavily in employee training. In fact, last year Wegmans topped *Fortune* magazine's best-companies-to-work-for list. "The biggest reason Wegmans is a shopping experience like no other is that it is an employer like no other," says a Wegmans watcher.[43]

Thus, service marketing requires more than just traditional external marketing using the Four Ps. Figure 8.6 shows that service marketing also requires *internal marketing* and *interactive marketing*. **Internal marketing** means that the service firm must orient and motivate

FIGURE 8.6
Three types of service marketing



Real Marketing

The Ritz-Carlton, a chain of luxury hotels renowned for outstanding service, caters to the top 5 percent of corporate and leisure travelers. The company's Credo sets lofty customer-service goals: "The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission. . . . The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."

The Credo is more than just words on paper—The Ritz-Carlton delivers on its promises. In surveys of departing guests, some 95 percent report that they've had a truly memorable experience. In fact, at The Ritz-Carlton, exceptional service encounters have become almost commonplace. Take the experiences of Nancy and Harvey Heffner of Manhattan, who stayed at the Ritz-Carlton Naples, in Naples, Florida (recently rated the best hotel in the United States and fourth best in the world, by *Travel + Leisure* magazine). As reported in the *New York Times:*

> "The hotel is elegant and beautiful," Mrs. Heffner said, "but more important is the beauty expressed by the staff. They can't do enough to please you." When the couple's son became sick last year in Naples, the hotel staff brought him hot tea with honey at all hours of the night, she said. When Mr. Heffner had to fly home on business for a day and his return flight was delayed, a driver for the hotel waited in the lobby most of the night.

Or how about this account: "An administrative assistant at The Ritz-Carlton Philadelphia overheard a guest lamenting that he'd forgotten to pack a pair of formal shoes and would have to wear hiking boots to an important meeting. Early the next morning, she delivered to the awestruck man a new pair of formal shoes in his size and favorite color."

Such personal, high-quality service has also made The Ritz-Carlton a favorite among conventioneers. For six straight years, the luxury hotel came out on top in *Business Travel News's* Top U.S. Hotel Chain Survey of business travel buyers. "They not only treat us like kings when we hold our top-level meetings in their hotels, but we just never get any complaints," comments one convention planner. Says another, who had recently held a meeting at The Ritz-Carlton at Half Moon Bay, "The . . . first-rate catering and service-oriented convention services

The Ritz-Carlton knows that to deliver on its promise of creating truly memorable experiences, it must first take care of those who take care of customers.

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

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

its customer-contact employees and supporting service people to work as a *team* to provide customer satisfaction. Marketers must get everyone in the organization to be customer centered. In fact, internal marketing must *precede* external marketing. For example, The Ritz-Carlton orients its employees carefully, instills in them a sense of pride, and motivates them by recognizing and rewarding outstanding service deeds.

Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of the delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, Ritz-Carlton selects only "people who care about people" and instructs them carefully in the fine art of interacting with customers to satisfy their every need.

In today's marketplace, companies must know how to deliver interactions that are not only "high-touch" but also "high-tech." For example, customers can log onto the Charles Schwab Web site and access account information, investment research, real-time quotes, after-hours trading, and the Schwab learning center. They can also participate in live online events and chat online with customer service representatives. Customers seeking more-staff [and] The Ritz-Carlton's ambiance and beauty—the elegant, Grand Dame-style lodge, nestled on a bluff between two championship golf courses overlooking the Pacific Ocean—makes a day's work there seem anything but."

Since its incorporation in 1983, The Ritz-Carlton has received virtually every major award that the hospitality industry bestows. In addition, it's the only hotel company ever to win the prestigious Malcolm Baldrige National Quality Award and one of only two companies from any industry to win the award twice. The recent *Consumer Reports* Hotels issue ranked The Ritz-Carlton Hotel Company the number-one luxury hotel company in all areas, including value, service, upkeep, and problem resolution. More than 90 percent of The Ritz-Carlton customers return. And despite its hefty room rates, the chain enjoys a 70 percent occupancy rate, almost nine points above the industry average.

Most of the responsibility for keeping guests satisfied falls to The Ritz-Carlton's customer-contact employees. Thus, the hotel chain takes great care in finding just the right personnel. The Ritz-Carlton goes to great lengths to "rigorously—even fanatically—select and train employees, instill pride, and compensate generously," says an industry insider. "We don't hire or recruit, we select," says Ritz-Carlton's director of human resources. "We want only people who care about people," notes the company's vice president of quality. Once selected, employees are given intensive training in the art of coddling customers. New employees attend a two-day orientation, in which top management drums into them the 12 Ritz-Carlton "Service Values." Service Value number one: "I build strong relationships and create Ritz-Carlton guests for life."

Employees are taught to do everything they can never to lose a guest. "There's no negotiating at The Ritz-Carlton when it comes to solving customer problems," says the quality executive. Staff learn that *anyone* who receives a customer complaint *owns* that complaint until it's resolved (Ritz-Carlton Service Value number six). They are trained to drop whatever they're doing to help a customer—no matter what they're doing or what their department. The Ritz-Carlton employees are empowered to handle problems on the spot, without consulting higher-ups. Each employee can spend up to $2,000 to redress a guest grievance. And each is allowed to break from his or her routine for as long as needed to make a guest happy. Thus, while competitors are still reading guest comment cards to learn about customer problems, The Ritz-Carlton has already resolved them.

The Ritz-Carlton instills a sense of pride in its employees. "You serve," they are told, "but you are not servants." The company motto states, "We are ladies and gentlemen serving ladies and gentlemen." Employees understand their role in The Ritz-Carlton's success. "We might not be able to afford a hotel like this," says employee Tammy Patton, "but we can make it so people who can afford it will want to keep coming here." As the general manager of The Ritz-Carlton Naples puts it, "When you invite guests to your house, you want everything to be perfect."

The Ritz-Carlton recognizes and rewards employees who perform feats of outstanding service. Under its 5-Star Awards program, outstanding performers are nominated by peers and managers, and winners receive plaques at dinners celebrating their achievements. For on-the-spot recognition, managers award Gold Standard Coupons, redeemable for items in the gift shop and free weekend stays at the hotel. The Ritz-Carlton further motivates its employees with events such as Super Sports Day, an employee talent show, luncheons celebrating employment anniversaries and birthdays, a family picnic, and special themes in employee dining rooms. As a result, The Ritz-Carlton's employees appear to be just as satisfied as its customers. Employee turnover is less than 25 percent a year, compared with 44 percent at other luxury hotels.

The Ritz-Carlton's success is based on a simple philosophy: To take care of customers, you must first take care of those who take care of customers. Satisfied employees deliver high service value, which then creates satisfied customers. Satisfied customers, in turn, create sales and profits for the company.

Sources: Quotes and other information from Duff McDonald, "Roll Out the Blue Carpet," *Business 2.0*, May 2004, pp. 53–54; Marshall Krantz, "Buyers Say Four Seasons Is Most Luxurious," *Meeting News*, May 9, 2005, pp. 1–3; Edwin McDowell, "Ritz-Carlton's Keys to Good Service," *New York Times*, March 31, 1993, p. D1; "The Ritz-Carlton, Half Moon Bay," *Successful Meetings*, November 2001, p. 40; Bruce Serlen, "Ritz-Carlton Retains Hold on Corporate Deluxe Buyers," *Business Travel News*, February 7, 2005, pp. 15–17; Peter Sanders, "Takin' Off the Ritz—A Tad," *Wall Street Journal*, June 23, 2006, p. B1; and The Ritz-Carlton Web site at www.ritzcarlton.com, August 2006.

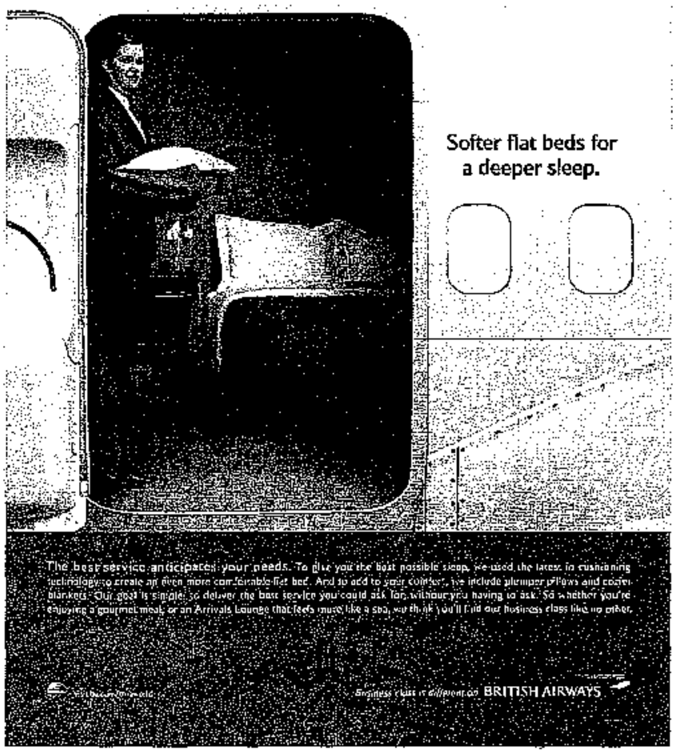
personal interactions can contact service reps by phone or visit a local Schwab branch office. Thus, Schwab has mastered interactive marketing at all three levels—calls, clicks, *and* visits.

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

Managing Service Differentiation

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

The solution to price competition is to develop a differentiated offer, delivery, and image. The *offer* can include innovative features that set one company's offer apart from competitors' offers. Some hotels offer car-rental, banking, and business-center services in their lobbies and free high-speed Internet connections in their rooms. Airlines differentiate their offers though frequent-flyer award programs and special services. For example, Qantas offers personal entertainment screens at every seat and "Skybeds" for international business class flyers.



Service differentiation: At British Airways, says this ad, "Our goal is simple: to deliver the best service you can ask for, without you having to ask."

Lufthansa provides wireless Internet access and real-time surfing to every seat—it makes "an airplane feel like a cyber café." And British Airways offers spa services at its Arrivals Lounge at Heathrow airport and softer in-flight beds, plumper pillows, and cozier blankets. Says one ad: "Our goal is simple: to deliver the best service you can ask for, without you having to ask."

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, by developing a superior physical environment in which the service product is delivered or by designing a superior delivery process. For example, many grocery chains now offer online shopping and home delivery as a better way to shop than having to drive, park, wait in line, and tote groceries home.

Finally, service companies also can work on differentiating their *images* through symbols and branding. The Harris Bank of Chicago adopted the lion as its symbol on its stationery, in its advertising, and even as stuffed animals offered to new depositors. The well-known Harris lion confers an image of strength on the bank. Other well-known service symbols include Merrill Lynch's bull, MGM's lion, McDonald's Golden Arches, and Allstate's "good hands."

Managing Service Quality

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

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

Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service; they aim for 100 percent defect-free service. A 98 percent performance standard may sound good, but using this standard, UPS would lose or misdirect 296,000 packages each day and U.S. pharmacists would misfill close to 1.4 million prescriptions each week.[44]

Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. As hard as they try, even the best companies will have an occasional late delivery, burned steak, or grumpy employee. However, good *service recovery* can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place. Therefore, companies should take steps not only to provide good service every time but also to recover from service mistakes when they do occur.

The first step is to *empower* front-line service employees—to give them the authority, responsibility, and incentives they need to recognize, care about, and tend to customer needs. At Marriott, for example, well-trained employees are given the authority to do whatever it takes, on the spot, to keep guests happy. They are also expected to help management ferret out the cause of guests' problems and to inform managers of ways to improve overall hotel service and guests' comfort.

Managing Service Productivity

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

However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to industrialize a service or to cut costs can make a service company more efficient in the short run. But they can also reduce its longer-run ability to innovate, maintain service quality, or respond to consumer needs and desires. Many airlines are learning this lesson the hard way as they attempt to streamline and economize in the face of rising costs.

Pushing service productivity too far—in its passion to drive down costs, Northwest Airlines "mangled its relationships with customers."

Over the past year, Northwest Airlines has stopped offering free magazines, pillows, movies, and even minibags of pretzels on its domestic flights. Passengers can still get an in-flight snack of raisins and nuts, but it costs $1. The airline is also charging a $15 fee for a roomier seat on the aisle or in an exit row. Combine that with higher fares and a sharply curtailed schedule, and it's little wonder that flyers rate Northwest dead last among the nation's major airlines. "If at all possible, I don't fly Northwest," says one veteran traveler. "I have found a lack of interest in the customer." A services marketing expert agrees: "The upshot is that some companies, in their passion to drive down costs, have mangled their relationships with customers."[45]

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

Reviewing the Concepts

A product is more than a simple set of tangible features. In fact, many market offerings consist of combinations of both tangible goods and services, ranging from *pure tangible goods* at one extreme to *pure services* at the other. Each product or service offered to customers can be viewed on three levels. The *core product* consists of the core problem-solving benefits that consumers seek when they buy a product. The *actual product* exists around the core and includes the quality level, features, design, brand name, and packaging. The *augmented product* is the actual product plus the various services and benefits offered with it, such as warranty, free delivery, installation, and maintenance.

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

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

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

Most companies produce a product line rather than a single product. A *product line* is a group of products that are related in function, customer-purchase needs, or distribution channels. *Line stretching* involves extending a line downward, upward, or in both directions to occupy a gap that might otherwise by filled by a competitor. In contrast, *line filling* involves adding items within the present range of the line. All product lines and items offered to customers by a particular seller make up the *product mix*. The mix can be described by four dimensions: width, length, depth, and consistency. These dimensions are the tools for developing the company's product strategy.

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

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*.

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help. However, brands are not maintained by advertising but by the *brand experience*. Customers come to know a brand through a wide range of contacts and interactions. The company must put as much care into managing these touch points as it does into producing its ads. Thus, managing a company's *brand assets* can no longer be left only to brand managers. Some companies are now setting 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.

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

Services are characterized by four key characteristics: they are *intangible, inseparable, variable*, and *perishable*. Each characteristic poses problems and marketing requirements. Marketers work to find ways to make the service more tangible, to increase the productivity of providers who are inseparable from their products, to standardize the quality in the face of variability, and to improve demand movements and supply capacities in the face of service perishability.

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

Reviewing the Key Terms

Brand 226
Brand equity 231
Brand extension 237
Co-branding 236
Consumer product 220
Convenience product 220
Industrial product 221
Interactive marketing 242
Internal marketing 242
Line extension 237
Packaging 226
Private brand (or store brand) 233
Product 218
Product line 228
Product mix (or product portfolio) 229
Product quality 224
Service 218
Service inseparability 240
Service intangibility 239
Service perishability 240
Service-profit chain 240
Service variability 240
Shopping product 221
Social marketing 223
Specialty product 221
Unsought product 221

Discussing the Concepts

1. Is Microsoft's Windows XP Professional operating software a product or a service? Describe the core, actual, and augmented levels of this software offering.
2. Classify the following consumer products as convenience, shopping, specialty, or unsought goods: a laptop computer, a surgeon, automobile tires.
3. What is a brand? Describe the value of branding for both the buyer and seller.
4. Brand positioning can occur on three levels. How is Old Navy's brand positioned on these three levels?
5. What are the four brand sponsorship options a manufacturer faces? How does a manufacturer decide which one makes the most sense for its products?
6. Merrill Lynch is one of the world's leading financial services and advisory companies (see www.ml.com). Do Merrill Lynch's financial advising activities meet the four special characteristics of a service? Explain.

Applying the Concepts

1. Using the six qualities that a good brand name should possess, create a brand name for a personal care product that has the following positioning statement: "Intended for X-Games sports participants and enthusiasts, ________ is a deodorant that combines effective odor protection with an enduring and seductive fragrance that will enhance your romantic fortunes."

2. You are the marketing director for a snowboard manufacturer that holds 45 percent of the men's 18–29-year-old segment. Using the four brand development strategies discussed in the chapter, give examples of products you could add to your brand.

3. Farber Cancer Institute has been a leading hospital providing care for cancer patients and their families. Describe how the service-profit chain is essential for this organization's success.

Focus on Technology

For decades, consumers have dreamed of owning home robots. Industry uses many production-line robots, and many companies are now working on products for the consumer. Some basic products currently available for consumers include navigation systems, home security robots, cleaning tools such as robotic vacuums, and toys that provide some elementary robotic functions. Several companies are working on the next step—humanoid robots that can serve consumers. In designing these products, companies must determine what features are most desirable to consumers and the benefits their products can offer.

Two leading products are Honda's Asimo and Sony's QRIO. The products, both in the development stage, will offer companionship to humans. Honda's Asimo stands four feet tall and can walk smoothly on its two feet in any direction, including slopes and steps. It has voice and visual recognition, which allows it to greet people by name and follow basic commands. In Japan, Asimo is now being used by museums as a guide and by some high-tech companies to greet visitors. It is not yet available for purchase in the United States. Sony's QRIO has many of the same features. Like Honda, Sony is developing the product to make people's lives easier. In addition, Sony's wants to make life fun and happy and to provide a navigator as the world becomes more complex. See the corporate Web sites for more information on Asimo (http://world.honda.com/ASIMO/) and QRIO (www.sony.net/SonyInfo/QRIO/).

1. Explain the core, actual, and augmented levels of a home robot.
2. When these products are available, how might corporate branding and the brand name of the robot tie into the consumer's purchase decision? Would you keep or change the current names?
3. How must Honda and Sony consider services marketing when they eventually sell this product to end consumers?

Focus on Ethics

The U.S. organic foods market has exploded in the past ten years. Now a $15-billion industry, organic foods have moved past specialty manufacturers and Whole Foods Markets to national manufacturers and retailers. Recently Kellogg introduced organic versions of three major cereal brands, including Raisin Bran, Rice Krispies, and Frosted Mini Wheats. As many other food manufacturers look to the organic market, they are also keeping a keen eye on the U.S. government's strict standards on the use of the word "organic." Regulations state that foods labeled as "organic" must consist of at least 95 percent organically produced ingredients, and those labeled "made with organic ingredients" must contain at least 70 percent organic ingredients. If a product contains less than 70 percent organic ingredients, the term organic cannot be used anywhere on the front of the package. In addition, operations that process organic food must be certified by one of 60 USDA-accredited certifying agents. A civil penalty of up to $10,000 will be levied for any person who knowingly mislabels a product.

1. Explain the product line reasoning behind Kellogg's adding organic products.
2. Do you think that average consumers know the differences in organic label designations? Do you?
3. General Mills markets organic cereals under the Cascadian Farm brand name. Compare its brand development strategy for organic cereals to Kellogg's strategy.

Video Case **Accenture**

Remember Andersen Consulting? One of the world's largest consulting firms, Andersen Consulting enjoyed tremendous name recognition and worked with some of the largest companies worldwide, include 87 of the *Fortune* Global 100. But, today, you're probably more familiar with the company's new name, Accenture. Accenture is a global management consulting, technology services, and outsourcing company. In 2001, a court ruling forced the company to change its name, jeopardizing the firm's brand equity. Rather than viewing the name change as a setback, Accenture's marketing executives used it as an opportunity to reposition the company and reintroduce it to customers.

The name Accenture, a combination of the words accent and future, was suggested by an Andersen employee and was received with considerable excitement by customers. Some skeptics wondered about the effectiveness of a "made-up" name that had no real meaning. However, others saw it as an opportunity to start fresh and create new positioning with a name that carried no previous baggage. Today, Accenture's annual revenues total more than $15 billion. Perhaps more importantly, the new company enjoys the same or even more brand recognition and brand equity than it did under its old name.

After viewing the video featuring Accenture, answer the following questions about branding strategy.

1. How did Accenture transfer the brand equity from its original name, Andersen Consulting, to the new company name?
2. Evaluate the Accenture brand name using the six criteria detailed in the chapter.
3. How did Accenture use the requirement to rename the company as an opportunity to reposition itself?

Company Case Converse: We Love You, Chucks!

The first Olympic basketball team wore them; they dominated the basketball courts—amateur and professional—for more than 40 years; Dr. J made them famous; Kurt Cobain died in them. What are they? Converse All Stars—more particularly the famous Chuck Taylor All Stars, known around the world as Chucks.

Compared to today's marvels of performance engineering, Chucks have always been very basic shoes. The first Chucks were introduced in 1923 as high-top canvas lace-ups with rubber-covered toes in black, white, and red with a blue label on the back that read "Made in the U.S.A." More than 80 years and 750 million pairs later, that formula has changed very little. They may be basic, but they are also downright affordable. A standard pair of Chuck Taylor high-tops still costs only about $38.

Converse invented basketball shoes, and by the mid-1970s, 70 to 80 percent of basketball players still wore Converse. But by the year 2000, the company's market share had dwindled to only about 1 percent of the total athletic shoe market. In 2001, Converse declared Chapter 11 bankruptcy and was purchased by an investment group. In 2003, Nike bought the wavering company for $305 million. What would a behemoth like Nike want with a bankrupt brand? Before dealing with that question, let's look at Converse's history.

THE LEGEND BEGINS

Converse was founded in 1908 in North Reading, Massachusetts by Marquis. In 1917, the company introduced a canvas, high-top called the All Star. By 1923, it was renamed the Chuck Taylor, after a semiprofessional basketball player from Akron, Ohio. After his basketball career ended, Charles "Chuck" Taylor became an aggressive member of the Converse sales force. He drove throughout the Midwest, stopping at playgrounds to sell the high-tops to players. Some consider Taylor to be the original Phil Knight, Nike's CEO, who also started out selling his shoes at track meets from the back of his van. Throughout the '30s, '40s, '50s, and '60s, Chucks were *the* shoes to have.

By the early 1980s, with a secure hold on the basketball shoe market (it thought), Converse branched out, introducing both tennis and running shoes. This strategy appeared to be successful, helping to boost revenue in 1983 by 21 percent to $209 million. By 1986, however, Converse's fortunes had taken a turn for the worse, and it was acquired by consumer products maker and retailer Interco for approximately $132 million. By the late 1980s, Converse had been overtaken by a host of competitors. In 1989, the top four athletic shoe companies were Nike with a 26 percent market share, Reebok with 23 percent, L.A. Gear with 13 percent, and Converse with 5 percent. Strangely, while Nike was grabbing basketball shoe sales at a rapid clip, Converse was still the official shoe of the NBA, which gave it the right to use the NBA logo in its advertising.

By 1993, an ailing Converse had changed its positioning strategy. Instead of focusing on basketball and Chucks, it aimed at capitalizing on an image that was both sexy and streetwise. Converse launched a provocative, edgy ad campaign where nothing was sacred. And without the aid of advertising, the venerable Chuck Taylor All Star was dissociated from basketball and given new life as a fashion statement. Candy Pratts, fashion director of shoes and accessories at Vogue, used high-top canvas sneakers on models in numerous layouts. The best part, according to Candy, was that this trend didn't come from advertising, but from the kids on the street.

But financially, things only continued to get worse for Converse. In 1992, it was forced to abandon the treasured "Made in the U.S.A." label, sending manufacturing to India in order to cut costs. In 1996, Converse restructured, cutting 594 jobs from a little over 2,000 and reorganizing its product line into four categories: basketball, athletic-leisure, cross-training, and children's. (Notice the absence of tennis and running shoes, although Converse had once been big in those areas.) To boost its basketball shoes, Converse put the famous Chuck Taylor signature patch on a new line of performance wear—the All Star 2000 collection.

Encouraged by the successful relaunch of the All Star 2000, the company chose to launch another new line called Dr. J 2000. A remake of a '70s shoe, it was backed by heavy advertising. Dr. J was chosen because kids told Converse researchers that Dr. J was cool enough to have a shoe. The campaign tagline was "Take the Soul to the Hole," and ads consisted of a cartoon Julius Irving performing his famous moves to a Stevie Wonder soundtrack. Unfortunately, the Dr. J 2000 produced disappointing results.

At the turn of the century, nostalgia was in. Jimi Hendrix was on Rolling Stone and the VW Beetle was a hot-selling car. Consumers were looking for "retro," so companies were redesigning classic products. And no athletic shoe was more classic than Chucks. So Converse introduced an updated black shoe, the EZ Chucks.

In addition to this bump from the nostalgia trend, classic Chucks enjoyed a counterculture following that dated back to the punk rock movement of the '70s and '80s. In the 1990s, street kids had begun wearing Converse because of their affordability. In 2000, Converse capitalized on this segment and introduced a line of shoes for skateboarders. The company became a favorite of the antiestablishment, anticorporate crowd, fueled by the unfortunate fact that it had such a small market presence and did very little advertising. Converse also appealed to the antiflash group, tired of polyester and synthetic, Michael Jordan-endorsed shoes. This segment wanted "antibrands" reflecting its antiglobalization perspective. Punk rocker Joey Ramone wore Chucks in the 70s. Molly Ringwald's record-store clerk wore them in 1986's "Pretty in Pink." And in 1994, Kurt Cobain donned a pair when he committed suicide.

NIKE TO THE RESCUE

Converse was hanging in, but only by the skin of its teeth. In 2001, the company had 180 employees and sales of $1.85 million. But Converse had global brand recognition and strong brand equity in the market. The question was, "Could the company make the products to back up its reputation?" Enter Nike and the buy-out. Initially, Nike left Converse management alone to implement its own business strategy. It also allowed Converse products to go without the famous Swoosh, unlike other acquired brands such as Bauer hockey equipment (now Nike Bauer Hockey). But Nike did help Converse with advertising dollars. In 2001, Converse had spent a mere $163,500 on promotions. In 2004, Nike poured more than $4 million into advertising for Converse, quadrupling promotional expenses in 2005 to over $17 million.

After nearly a decade-long absence from TV advertising, Converse produced ads with the tagline "The first school." The focus was on basketball, not famous players. The ads featured a basketball being dribbled and shot, but no player. They were "narrated" by Mos Def. "Before Mr. Taylor taught the world to play. Before fiberglass. Before parquet. Before the word 'doctor' was spelled with a J. And ballrooms were ball courts where renaissance played. Before the hype and before the dunk. After the rhythm, but before the funk. Before the money and before the fame. Before new and old school. Before school had a name. There was only the ball and the soul of the game." The ad ended with shots of the Converse logo or the Chuck Taylor All Star.

So, back to the original question. What does a megabrand like Nike do with a fading icon like Converse? Converse's new parent gave that question considerable thought. Some observers believed that Converse should become a second-tier brand. Nike could use Converse to sell millions and millions of shoes in Wal-Mart and Target—a sort of "Sam Walton meets Chuck Taylor" scenario. But Nike filled that void in 2004 when it bought Exeter Brands Group, the maker of the lower-price Starter line of apparel and footwear that now sell in Wal-Mart.

Instead, Nike has taken Converse in two different directions. After many years without the endorsement of a professional athlete, Converse is back on pro basketball courts as a performance shoe. The "Wade," named for Miami Heat superstar Dwyane Wade, hit the shelves of athletic footwear chains in 2005. So far, sales are promising. Converse now offers a $175 two-pack featuring the signature Wade bundled with a special edition of the classic Converse Pro Leather. Originally made famous by Julius "Dr. J" Erving, it features a sockliner map of Dwyane Wade's hometown of Chicago. And, it comes only in blue and gold, a nod to Wade's days at Marquette University where he led his team to the Final Four.

A DIFFERENT KIND OF CHUCKS?

But while Converse is currently retesting the waters of the performance shoe market, it is springboarding off the Chucks' trendy roots and doing a cannonball dive into the fashion shoe market. The current line-up of the longest-selling athletic shoe includes the classic high- and low-top canvas Chucks. But pricey variations include gold-metallic Chucks ($72), knee-high shearling-lined Chucks ($175), tattooed Chucks ($52), and customer-designed Chucks ($65 and up); there's even a "limited edition" snakeskin high-top going for $1,800. In all, Converse currently offers more than 1,000 different types of Chucks in outlets ranging from retail chains such as Foot Locker and Journeys to upscale stores such as Saks, Bloomingdales, and Barneys. This may seem like a big order for the tiny 12-person design team at Converse. But Nike has opened the doors to its creative labs, giving the team access to its designers, engineers, and biomechanics experts.

As if this weren't enough, Converse has enlisted the talent of designer John Varvatos to not only design a line of Chucks, but to put the "C. Taylor" label on a full line of men's and women's clothing that includes blazers, merino wool hoodies, military coats, jeans, and T-shirts. Prices range from $55 to $125 for T-shirts and from $295 to $795 for outerwear and jackets.

But this new fashion strategy begs an interesting question. Can the affordable, antiestablishment image of the Chuck Taylor All Star survive what can only be viewed as the antithesis? Some of the Converse old guard are not pleased with Nike's handiwork. One skate-shop manager says the new Chucks don't have the same vibe as the classics. "What's happening is that Converse has now gotten greedy. That's why those are not as cool."

Converse may well lose some of its devoted Chuck Taylor customer base. But given that U.S. sales of Converse footwear hit $400 million in 2005, it may not care. That's still only 1.5 percent of the market, but it's more than double the company's revenue from just four years earlier. And sales are continuing on an upward trend. Converse plans more fashion variations for the Chucks line, asserting that the possibilities are endless. And encouraged by the success of the Wade, Converse is set to launch "All Star Revolution," a shoe with the Chuck Taylor look but performance features and technology. In light of this drastic turnaround at Converse, it appears that Nike may have once again demonstrated its magic touch.

Questions for Discussion

1. What are the core, actual, and augmented product benefits of the Converse Chuck?
2. When Converse outsourced production of its shoes to India, it entered into a licensing arrangement. What are the benefits and risks of that action? Do you think it has helped or hurt the company? The brand?
3. What are the sources of brand equity for both Converse and Chuck Taylor All Stars?
4. Analyze the Nike-era direction of Converse. (a) Assess the benefits and risks of the fashion and performance strategies individually, and of the combined two-tiered approach. (b) What targeting and positioning would you recommend for the Converse brand in the future?

Sources: Stephanie Kang, "Nike Takes Chuck Taylors from Antifashion to Fashionista," *Wall Street Journal*, June 23, 2006, p. B1; Michelle Jeffers, "Word on the Street," *Adweek*, May 16, 2005; Hilary Cassidy, "Shoe Companies Use Body and Sole to Track Down Sales," *Brandweek*, June 21, 2004, p. S.50; Lisa van der Pool and David Gianatasio, "Converse Hearkens Back to Roots in New Campaign," *Adweek*, August 4, 2003, p. 10; Jennifer Laabs, "Converse Will Restructure and Cut Jobs," *Personnel Journal*, January 1996, p. 12; Kevin Goldman, "Converse Sneaker Seeks Statement of Fashion Instead of Foul Shots," *Wall Street Journal*, May 6, 1993, p. B8; Brian Bagot, "Shoeboom!" *M&MD*, June 1990, p. 89; Donna Goodison, "Converse is Convert to Designer Clothing," *Boston Herald*, May 16, 2006, p. 30; and "From Court to Street, Converse Kicks It Double Time with Dwyane Wade Signature Product in Two-Pack," *PR Newswire*, February 13, 2006.