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Setting Product Strategy

Marketing Management:

An Asian Perspective
(5th edition)

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Setting Product Strategy

12

At the heart of a great brand is a great product. Product is a key element in the market offering. Market leaders generally offer products and services of superior quality.

Learning Objectives:

- Understand what are the characteristics of products and how do marketers classify products.
- Understand how companies can differentiate products
- Understand how a company can build and manage its product mix and product lines
- Understand how companies can combine products to create strong co-brands or ingredient brands
- Understand how companies can use packaging, labeling, warranties, and guarantees as marketing tools

The **essence** of Chapter Twelve:

At the heart of a great brand is a great product.

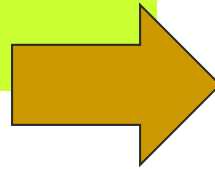
A product is a key element in the market offering. Market leaders generally offer products and services of superior quality. Marketing planning begins with formulation an offering to meet target customers' needs or wants.

The customer will judge the offering by three basic elements: product features and quality, services, quality, and price.

What is a product?

- A product is anything that can be offered to a market to satisfy a want or need.

Products that are marketed include:



- Physical goods
- Services
- Experiences
- Events
- Persons
- Places
- Properties
- Organizations
- Information
- Ideas

Figure 12.1 Components of the Market Offering



Product Levels: The Customer Value Hierarchy

- In planning its market offering, the marketer needs to address five product levels. Each level adds more customer value, and the five constitute a customer value hierarchy.

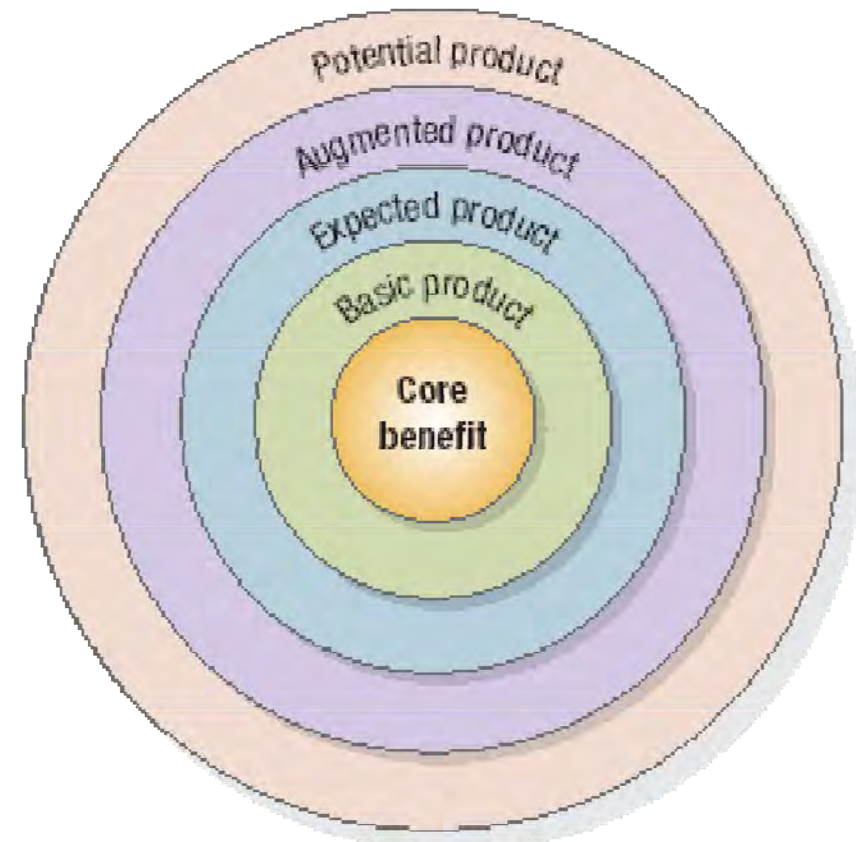


Figure 12.2 Five Product Levels

Product Levels: The Customer Value Hierarchy

- **Core benefit:** Service customer buys
- Turned into **basic product**
- **Expected product** - attributes expected
- **Augmented product** - exceeds expectations
- **Potential product-** all possible future augmentations & transformations of product

Product Levels: The Customer Value Hierarchy

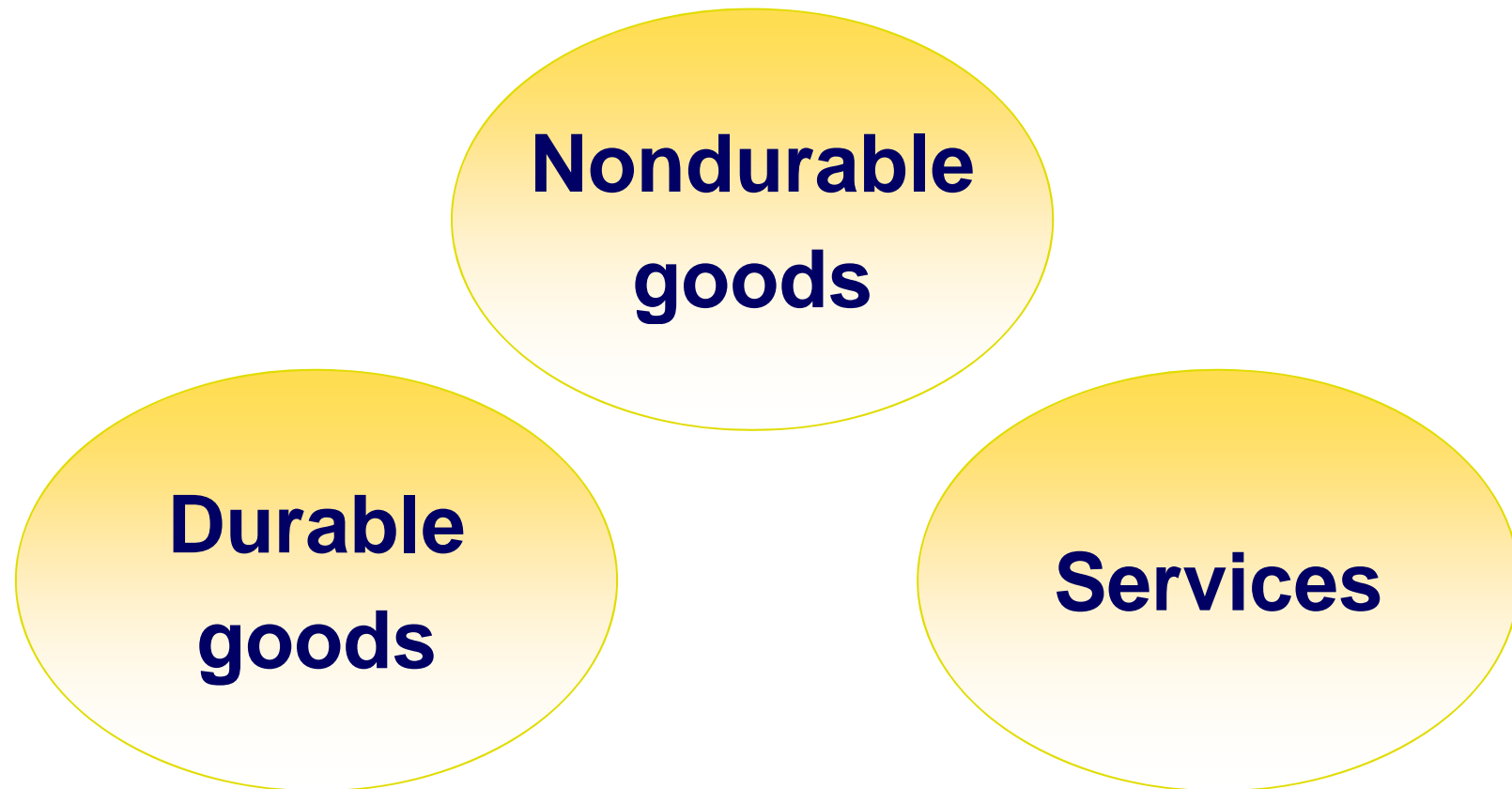
Product augmentation

- **Consumption system** - Way user performs tasks to get & use product
 1. Adds cost
 2. Augmented become expected benefits
 3. Price rises, competitors - “stripped-down” version - lower price

Product Characteristics & Classifications

- Products traditionally classified:
 - **Durability**
 - **Tangibility &**
 - **Use (consumer or industrial)**
- Each product type - own marketing-mix strategy

Durability and Tangibility



Product Characteristics & Classifications

DURABILITY & TANGIBILITY

1. **Non-durable goods** - tangible goods - one/few uses – eg: beer & soap
2. **Durable goods** - tangible goods - many uses – eg: refrigerators
3. **Services** - intangible, inseparable, variable & perishable products

Consumer Goods Classification



Product Characteristics & Classifications

CONSUMER-GOODS

1. **Convenience goods** – frequent, quick purchases, requires minimum effort
2. **Shopping goods** – compare suitability, quality, price & style
3. **Specialty goods** – unique character or brand - few will buy
4. **Unsought goods** – not aware of or never thought of buying

Product Characteristics & Classifications

INDUSTRIAL-GOODS CLASSIFICATION

■ Materials & parts

1. Raw materials - *farm & natural products*
2. *Manufactured materials & parts*
 - *Component materials* - further fabricated
 - *Component parts* - no change in form

Product Characteristics & Classifications -

- **Capital items** - long-lasting

1. Installations

- Buildings & heavy equipment

2. Equipment

- Factory, office equipment/tools

Product Characteristics & Classifications

■ **Supplies and business services** - short-term

1. Supplies

- *Maintenance & repair items*
- *Operating supplies*

2. Business services

- *Maintenance & repair services*
- *Business advisory services*

Differentiation

– *Product Differentiation*

- **FORM:** size, shape or physical structure
- **FEATURES:** supplement basic function
- **PERFORMANCE QUALITY**
 - Level- primary characteristics operate
- **CONFORMANCE QUALITY**
 - Degree units – identical, meet promised specification

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As part of its performance quality, Essilor introduced Varilux Physio 360°, the first progressive lens to use technology that was used in laser surgery and advanced astronomy for sharper vision and great looks.

Differentiation

– *Product Differentiation*

■ DURABILITY

- Product's expected operating life

■ REPAIRABILITY

- Ease of fixing product – malfunctions/fails

■ RELIABILITY

- Probability product will not malfunction or fail in a stated time period

■ STYLE

- Product's look & feel to a potential buyer

Toyota

**Toyota's
product
strategy is
built on
innovation
and agility**

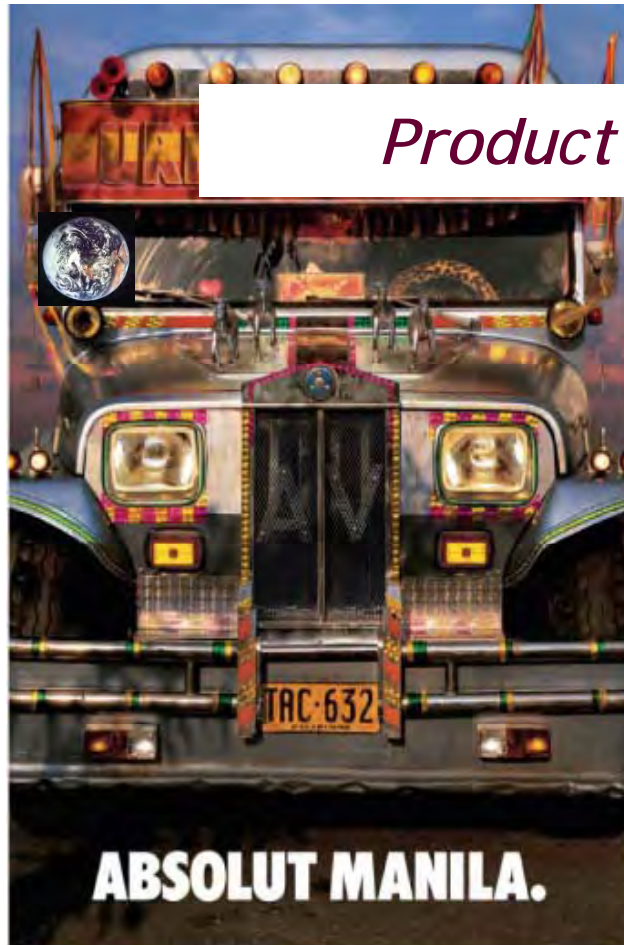


Style

3 style principles for Asia

1. *Complexity & decoration*
2. *Balancing various aesthetic elements*
3. *Naturalism*

Product Differentiation through design



ABSOLUT vodka uses aesthetics in its print ads to appeal to different market segments

Differentiation

– *Design The Integrative Force*

Design

Totality of features
that affects how
product looks & functions
in terms of
customer requirements

Differentiation

– *Design The Integrative Force*

■ Design

- Essential to differentiate & position product/service
- Gives company a competitive edge

Differentiation – *Services* *Differentiation*

- If physical product not easily differentiated,
- Then, the key to competitive success may lie in
**adding valued services &
improving their quality**

Differentiation – *Services* *Differentiation*

Main service differentiators:

- **ORDERING EASE:** ease to place an order
- **DELIVERY:** how well is the product delivered
- **INSTALLATION:** work done before a product is considered operational in a planned location

Differentiation – *Services* *Differentiation*

■ CUSTOMER TRAINING

- Employee user training - vendor equipment

■ CUSTOMER CONSULTING

- Data, information systems & advice services seller offers to buyers

■ MAINTENANCE & REPAIR

- Service program - help customers ensure bought products are in good working order

The Product Hierarchy

6 levels of product hierarchy



Product & Brand Relationships

–Product Systems & Mixes

■ Product system

- Diverse but related items - function - compatible manner

■ Product mix

- All products seller offers for sale
- Certain width, length, depth & consistency

Product & Brand Relationships

–Product Systems & Mixes

- **Width** – number of product lines
- **Length** - number of items in mix
- **Depth** - how many variants in each line
- **Consistency** - how close lines are in end use, distribution etc

How to expand businesses - product -line
analysis - usefulness

Table 12.1

Product-Mix Width & Product-Line Length for Lion Products

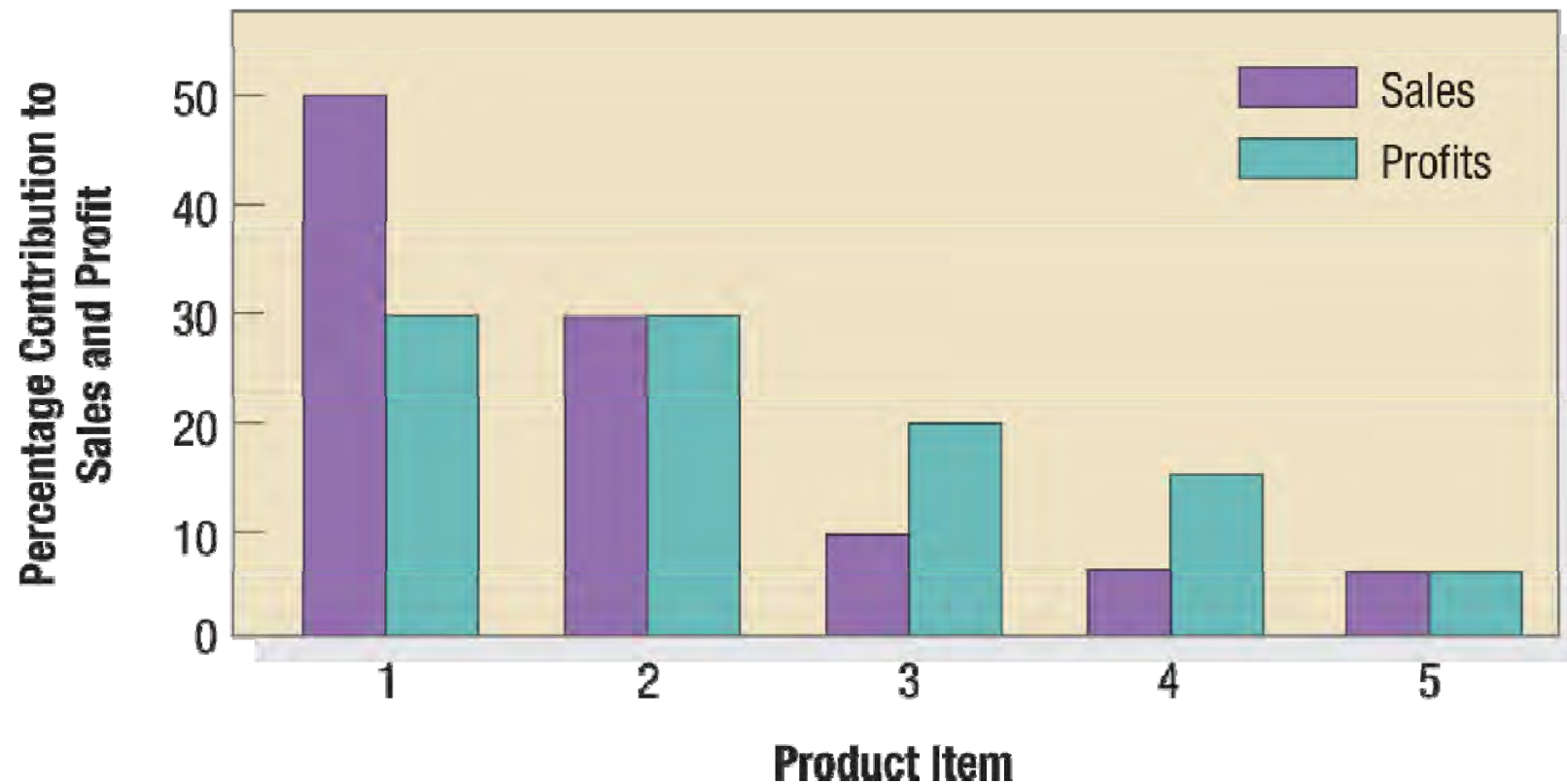
	Product-Mix Width				
	Toothpaste	Shampoo	Soaps	Laundry Detergents	Dishwashing Detergents
PRODUCT	Clinica	Shokubutsu-	Shokubutsu-	Top	Charmy
LINE	Dentor	Monotari	Monogatari	Heyaboshi	
LENGTH	Prime	Soft-in-One	Kireikirei	Blue Dia	
	Hitect	Free & Free Damage Aid		Acron	

Product & Brand Relationships

–Product-Line Analysis

- **Product line** - basic platform & modules - meet different customer requirements
- **Product-line managers** – sales, profits & market profile of each product line

Figure 12.3 Product-Item Contributions to a Product Line's Total Sales and Profits



Product Line Analysis

4 product types with
different gross margins

Core product

Staples

Specialties

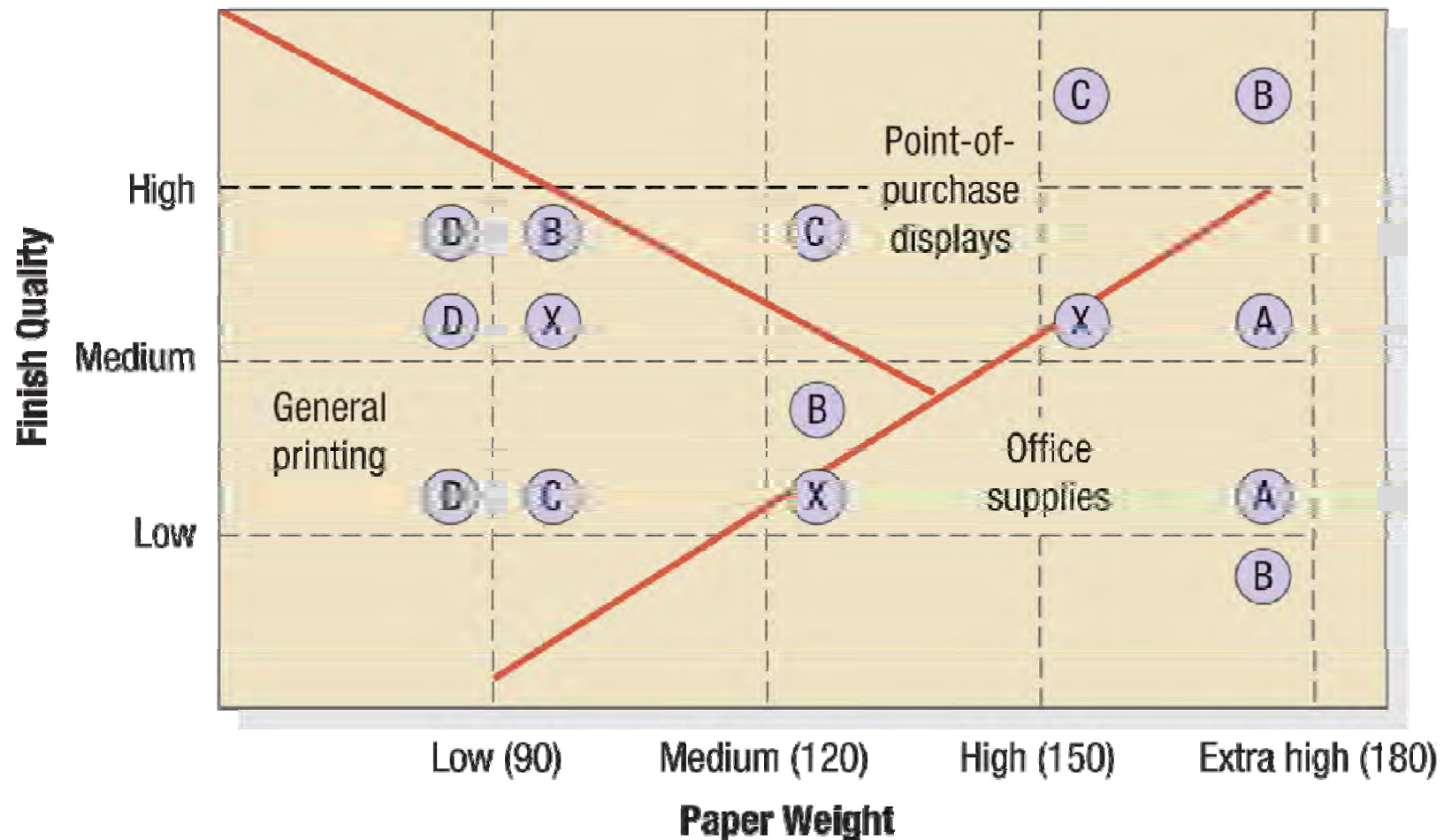
**Convenience
items**

Product & Brand Relationships

–Product-Line Analysis

- **MARKET PROFILE** - how the line is positioned against a competitors' line
- **Product map** shows:
 - *Which competitors' items compete against company X's items*
 - *Possible locations for new items*
 - *Identifies market segments*

Figure 12.4 Product Map for a Paper-Product Line



Product & Brand Relationships

–Product-Line Length

- **LINE STRETCHING** - lengthens product line beyond current range
 1. **Down-Market Stretch** - introduce lower-priced line > WHY?
 - i. Growth opportunities as mass-retailers
 - ii. Tie up lower-end competitors
 - iii. Its market - stagnating or declining

Product & Brand Relationships

–Product-Line Length

2. **Up-market Stretch** - enter high end of market for:
 - i. More growth
 - ii. Higher margins, or
 - iii. Position as full-line manufacturers
3. **Two-Way Stretch** – if currently in middle market - stretches line in both directions

Product & Brand Relationships

–Product-Line Length

■ LINE FILLING

- Product line lengthened - add more items in present range
 - i. Reach for profits
 - ii. Satisfy dealers-lost sales -missing line items
 - iii. Utilize excess capacity
 - iv. Be full-line company
 - v. Plug holes - keep out competitors

When less is more....



Marketers are learning through, sometimes, painful experiences that product lines can get too long, or products can become just too complicated.

Product & Brand Relationships

–Product-Line Length

LINE MODERNIZATION, FEATURING & PRUNING

- Product lines - constantly modernized in a rapidly changing market
- Encourage customer migration to higher-valued, higher-priced items
- Feature 1 or few items in line
- Periodic line review for deadwood that lowers profits

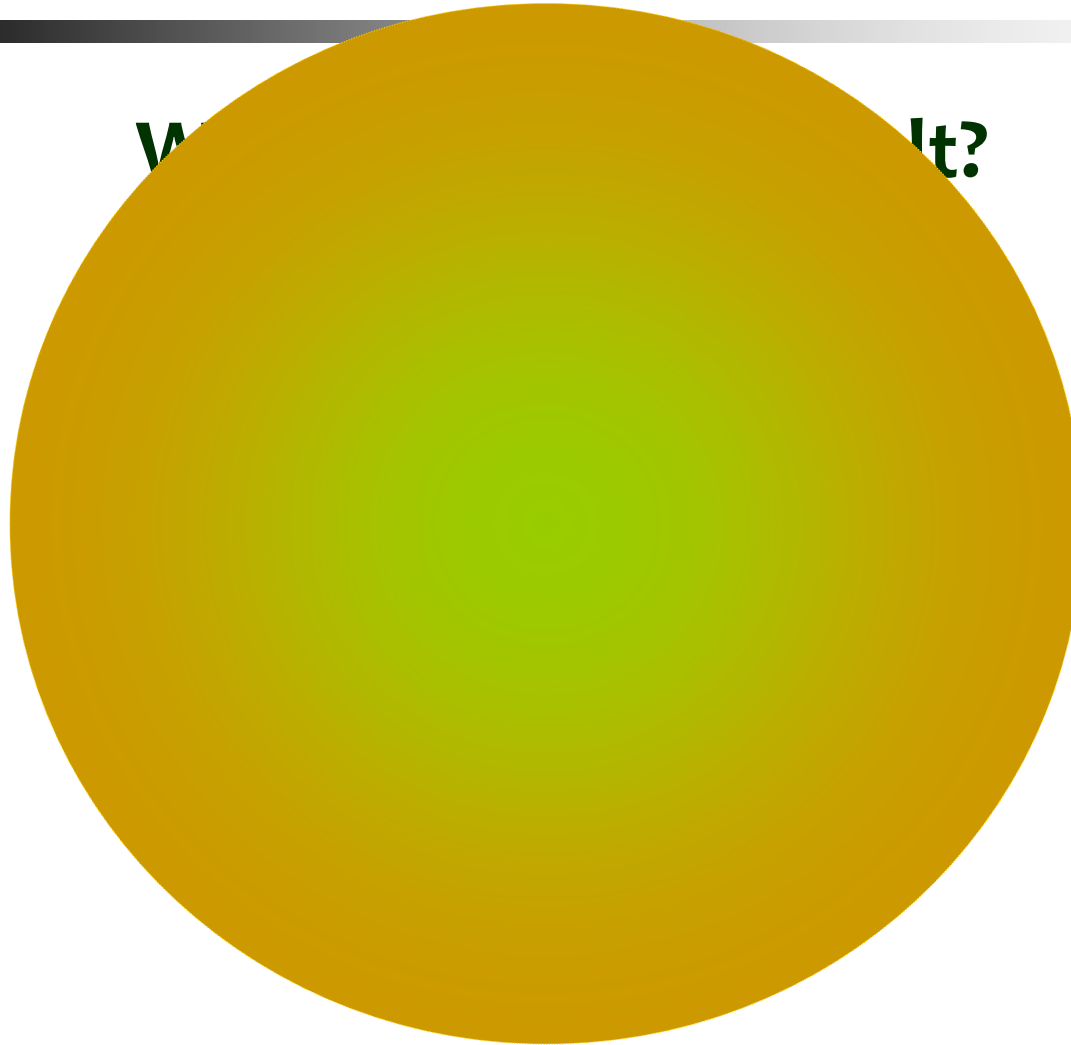


Pruning slow-selling brands from product lines often benefits the brands that are left, such as Unilever's bestsellers including Knorr's *ikan bilis* (anchovies) stock in Asia.

Product & Brand Relationships

–Product-Mix Pricing

What? It?



Product & Brand Relationships

–Product-Mix Pricing

■ **PRODUCT-LINE PRICING**

- Develop product lines, not single products & introduce price steps

■ **OPTIONAL-FEATURE PRICING**

- Offer optional products, features & services along with main product

Product & Brand Relationships

–Product-Mix Pricing

- **CAPTIVE-PRODUCT PRICING** - use of ancillary or **captive products**
- **TWO-PART PRICING** = fixed +variable fee
Often used by service firms
- **BY-PRODUCT PRICING** – Producing certain goods result in by-products

Product & Brand Relationships

–Product-Mix Pricing

■ **PRODUCT-BUNDLING PRICING** -bundle products & features

1. **Pure bundling**

- ◆ Only offers products as a bundle

2. **Mixed bundling**

- ◆ Offers goods, individually & in bundles

Co-Branding

- **CO-BRANDING:** ≥ 2 current brands combine - joint product, marketed as 1
 - *Same-company co-branding*
 - *Venture co-branding*
 - *Multiple-sponsor co-branding*
 - *Retail co-branding*

Product & Brand Relationships

– Co-Branding & Ingredient Branding



An example of retail co-branding:
Kasikornbank in Thailand has **Starbucks**
located in its branches to optimize space &
each other's image

Product & Brand Relationships

– *Co-Branding & Ingredient Branding*

Advantages

- Product convincing - multiple brands
- Reduce costs to introduce product
- Learn more about consumers

Disadvantages

- Risks & lack of control due to pair-up
- Lack of focus on existing brands

Co-Branding & Ingredient Branding

- For co-branding to be a success:
 1. The 2 brands each have **brand equity**
 2. Logical fit of the 2 brands:
 - Combined activity maximizes advantages
 - Minimizes disadvantages for both

Co-Branding & Ingredient Branding

Brand alliances decisions:

- *Capabilities you do not have?*
- Resource constraints you are faced with?
- *Growth goals or revenue needs you have?*

Product & Brand Relationships

– *Co-Branding & Ingredient Branding*

■ **INGREDIENT BRANDING**

- Create brand equity for materials or parts used in other branded products
- Enough awareness so buyers do not buy the “host” product without ingredients
- “Self-branding”- advertise their own branded ingredients
 - *Example: Westin Hotels - “Heavenly Bed”*

MARKETING MEMO

MAKING INGREDIENT BRANDING WORK

What are the requirements for success for ingredient branding?

1. **Consumers must perceive that the ingredient matters** to the performance and success of the end product. Ideally, this intrinsic value is easily visible or experienced.
2. **Consumers must be convinced that not all ingredient brands are the same** and that the ingredient is superior.
3. **A distinctive symbol or logo must clearly signal to consumers** that the host product contains the ingredient. Ideally, the symbol or logo would function like a "seal" and
4. **A coordinated "pull" and "push" program must help consumers understand the importance and advantages of the branded ingredient.** Channel members must offer full support. Often this will involve consumer advertising and promotions and—sometimes in collaboration with manufacturers—retail merchandising and promotion programs.

Sources: Kevin Lane Keller, *Strategic Brand Management*, 3rd ed., (Upper Saddle River, NJ: Prentice-Hall, 2007); Paul F. Nunes, Stephen F. Dull, and Patrick D. Lynch, "When Two Brands are Better Than One." *Outlook*, 2003, 1, pp. 14–23.

Packaging

- Packaging

- Activities to design & produce the container for a product

- Well-designed packages

- Create convenience & promotional value

Factors Contributing to the Emphasis on Packaging

Self-service

Consumer affluence

Company/brand image

Innovation opportunity



Packaging

Packaging must achieve these objectives:

1. Identify the brand
2. Convey descriptive & persuasive information
3. Facilitate product transportation & protection
4. Assist at-home storage &
5. Aid product consumption

Labeling

- A **Label** carries brand name or a great deal of information

Performs **several functions:**

- A label *identifies* the product or brand
- A label might also *grade* the product
- A label might *describe* the product
- A label might *promote* the product

Warranties & Guarantees

- All sellers are legally responsible to fulfill a buyer's normal expectations
- Warranties
 - Formal statements of expected product performance by manufacturer
- Whether expressed or implied - legally enforceable

Warranties & Guarantees

- Sellers offer general/specific guarantee
- Reduce buyer's perceived risk

Guarantees effective in 2 situations:

1. Company/product - well-known
2. Product quality superior to competition

Marketing Debate – Are Line Extensions

Final discussion

The “form versus function” debate applies in many arenas,

including marketing. Some marketers believe that product performance is the end all & be all. Other marketers maintain that the looks, feel & other design elements of products are what really make the difference.

Take a position: Product functionality is the key to brand success *versus* Product design is the key to brand success.

Marketing Discussion

Consider the different means of differentiating products and

services. Which ones have the most impact on your choices?

Why? Can you think of certain brands that excel on a number