13 Setting Product Strategy

At the heart of a great brand is a great product. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value. Lexus has conquered the luxury car market in the United States and elsewhere, in part due to a relentless focus on product and service quality.[1]

Since its inception in 1989, Lexus has emphasized top-notch product quality and customer care, as reflected by its long-time slogan, "The Relentless Pursuit of Perfection." At one point, in response to customer complaints over minor problems with its LS 400, the company sent technicians to each owner's home to fix the vehicles for free. As part of its "Lexus Covenant," it has vowed to "have the finest dealer network in the industry, and treat each customer as we would a guest in our own home." To this end, Lexus built its dealership framework from the ground up, hand-picking dealers committed to its promise to provide an exceptional experience to customers, a system competitors acknowledge is the industry ideal. The company offers a full product line anchored by its flagship LS sedan, as well as its GS sports coupe, RX SUVs, and ES midsize car. It is consistently highly rated in the Luxury Institute's annual Luxury Consumer Experience surveys, bolstered by strong dealership experience. In addition, J. D. Power and Associates has ranked Lexus the "most dependable" automotive brand 16 times since 1995, and the company consistently ranks above the industry average in customer retention. With its average buyer in his or her mid-50s, Lexus has set its sights on attracting younger buyers by emphasizing more aggressive styling, handling dynamics, and driver engagement. A new marketing initiative uses television advertising to link the brand and the LS sedan to a lavish, cool lifestyle. Social media and other promotions and events also create novel customer experiences around food, fashion, entertainment, and travel.

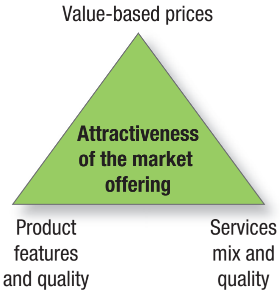
Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering on three basic elements: product features and quality, service mix and quality, and price (see Figure 13.1). In this chapter we examine product, in Chapter 14, services, in Chapter 15, new products and services, and in Chapter 16, price. All three elements—products, services, and pricing—must be meshed into a competitively attractive market offering.

Product Characteristics and Classifications

Many people think a product is tangible, but technically a **product** is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

PRODUCT LEVELS: THE CUSTOMER-VALUE HIERARCHY

In planning its market offering, the marketer needs to address five product levels (see Figure 13.2).[2] Each level adds more customer value, and together the five constitute a **customer-value hierarchy.**



| Fig. 13.1 |

Components of the Market Offering

- The fundamental level is the **core benefit:** the service or benefit the customer is really buying. A hotel guest is buying rest and sleep. The purchaser of a drill is buying holes. Marketers must see themselves as benefit providers.
- At the second level, the marketer must turn the core benefit into a **basic product.** Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
- At the third level, the marketer prepares an **expected product,** a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.
- At the fourth level, the marketer prepares an **augmented product** that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level. In developing and emerging markets such as India and Brazil, however, competition takes place mostly at the expected product level.
- At the fifth level stands the **potential product,** which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here companies search for new ways to satisfy customers and distinguish their offering.

Differentiation arises and competition increasingly occurs on the basis of product augmentation. Each augmentation adds cost, however, and augmented benefits soon become expected benefits and necessary points-of-parity in the category. If today's hotel guests expect large-screen HD TVs, wireless Internet access, and a fully equipped fitness center, competitors must search for still other features and benefits to differentiate themselves.

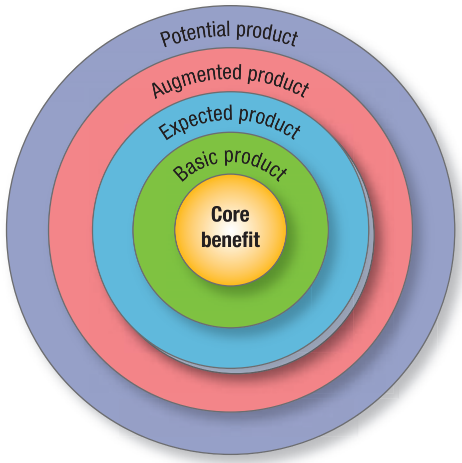
As some companies raise the price of their augmented product, others offer a stripped-down version for less. Thus, alongside the growth of expensive luxury hotels such as Four Seasons and Ritz-Carlton, we see lower-cost discount hotels and motels emerge such as Motel 6 and Comfort Inn, catering to clients who want simply the basic product. Marketers must be sure, however, that consumers not see lower quality or limited capability versions as unfair.[3]

Great companies make great products and services, as evident by Lego.[4]

LEGO LEGO may have been one of the first mass-customized brands. Every child who has ever had a set of the Danish company's most basic blocks has built his or her own unique creations with it, brick by plastic brick. Although LEGO defines itself as being in the "business of play," parents like the idea of buying LEGO's products as a means of also enhancing their children's motor skills, creativity, and other cognitive capabilities. Some bricks and systems are exactly the same as 50 years ago, but the company is always developing new product offerings. Popular play sets tied in with the *Pirates of the Caribbean* and *Star Wars* film franchises also include video games. LEGO Design byME lets customers design, share, and build their own custom products by downloading free Digital Designer 3.0 software. The creations that result can exist—and be shared with other enthusiasts—solely online, or, if customers want to build them, the software tabulates the pieces required and sends an order to LEGO's Enfield, Connecticut, warehouse. Customers can request step-by-step building guide instructions and even design their own box to store the pieces. The success of *The LEGO Movie* in 2014 further underscored the widespread popularity of the brand.

Source: © Richard McDowell/Alamy

Timeless toy manufacturer Lego constantly innovates so that its brand stays relevant with kids of all ages.



| Fig. 13.2 |

Five Product Levels

PRODUCT CLASSIFICATIONS

Marketers classify products on the basis of durability, tangibility, and use (consumer or industrial). Each type has an appropriate marketing-mix strategy.[5]

DURABILITY AND TANGIBILITY Products fall into three groups according to durability and tangibility:

1. **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as beer and shampoo. Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
2. **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. They normally require more personal selling and service, command a higher margin, and require more seller guarantees.
3. **Services** are intangible, inseparable, variable, and perishable products that normally require more quality control, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs.

CONSUMER-GOODS CLASSIFICATION When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among convenience, shopping, specialty, and unsought goods.

The consumer usually purchases **convenience goods** frequently, immediately, and with minimal effort. Examples include soft drinks, soaps, and newspapers. *Staples* are convenience goods consumers purchase on a regular basis. A buyer might routinely purchase Heinz ketchup, Crest toothpaste, and Ritz crackers. *Impulse goods* are purchased without any planning or search effort, like candy bars and magazines. *Emergency goods* are purchased when a need is urgent—umbrellas during a rainstorm, boots and shovels during the first winter snow. Manufacturers of impulse and emergency goods will place them where consumers are likely to experience an urge or compelling need to purchase.

Shopping goods are those the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, and major appliances. *Homogeneous shopping goods* are similar in quality but different enough in price to justify shopping comparisons. *Heterogeneous shopping goods* differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and trains salespeople to inform and advise customers.

Specialty goods have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, audio-video components, and men's suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods don't require comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers don't need convenient locations, though they must let prospective buyers know where to find them.

Unsought goods are those the consumer does not know about or normally think of buying, such as smoke detectors. Other classic examples are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support.

INDUSTRIAL-GOODS CLASSIFICATION We classify industrial goods in terms of their relative cost and the way they enter the production process: materials and parts, capital items, and supplies and business services. **Materials and parts** are goods that enter the manufacturer's product completely. They fall into two classes: raw materials and manufactured materials and parts. *Raw materials* in turn fall into two major groups: *farm products* (wheat, cotton, livestock, fruits, and vegetables) and *natural products* (fish, lumber, crude petroleum, iron ore).

Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services. The perishable and seasonal nature of farm products gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity. At times, commodity groups will launch campaigns to promote their product—potatoes, cheese, and beef. Some producers brand their products—Dole salads, Mott's apples, and Chiquita bananas.

Natural products are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials limits the amount of demand-creation activity. Price and reliable delivery are the major factors influencing the selection of suppliers.

Manufactured materials and parts fall into two categories: component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). *Component materials* are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually makes price and supplier reliability key purchase factors. *Component parts* enter the finished product with no further change in form, as when small motors are put into vacuum cleaners and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users. Price and service are major marketing considerations, with branding and advertising less important.

Capital items are long-lasting goods that facilitate developing or managing the finished product. They fall into two groups: installations and equipment. *Installations* consist of buildings (factories, offices) and heavy equipment (generators, drill presses, mainframe computers, elevators). Installations are major purchases. They are usually bought directly from the producer, whose sales force includes technical staff, and a long negotiation precedes the typical sale. Producers must be willing to design to specification and to supply postsale services. Advertising is much less important than personal selling.

Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (desktop computers, desks). These types of equipment don't become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries because the market is geographically dispersed, buyers are numerous, and orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, though advertising can be used effectively.

Supplies and business services are short-term goods and services that facilitate developing or managing the finished product. Supplies are of two kinds: *maintenance and repair items* (paint, nails, brooms) and *operating supplies* (lubricants, coal, writing paper, pencils). Together, they go under the name of MRO goods. Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight-rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geographic dispersion of customers. Price and service are important considerations because suppliers are standardized and brand preference is often not high.

Business services include *maintenance and repair services* (window cleaning, copier repair) and *business advisory services* (legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

Differentiation

To be branded, products must be differentiated. At one extreme are products that allow little variation: chicken, aspirin, and steel. Yet even here some differentiation is possible: Perdue chickens, Bayer aspirin, and India's Tata Steel have carved out distinct identities in their categories. Procter & Gamble makes Tide, Cheer, and Gain laundry detergents, each with a separate brand identity. At the other extreme are products capable of high differentiation, such as automobiles, commercial buildings, and furniture. Here the seller faces an abundance of differentiation possibilities.

As Chapter 10 described, well-differentiated products can create significant competitive advantages. Intuitive Surgical sells million-dollar robotic systems for operating rooms. Watching a high-definition video feed from a camera inside the patient, surgeons use a joystick, pedals, and a robotic arm with tiny scalpels and needles to perform minimally invasive cardiac and urological procedures. One analyst said of Intuitive Surgical in 2010, "In our view, they've got a decade's worth of technological lead."[6]

Means for differentiation include form, features, performance quality, conformance quality, durability, reliability, repairability, and style.[7] Design has become an increasingly important differentiator, and we discuss it separately later in the chapter.

PRODUCT DIFFERENTIATION

FORM Many products can be differentiated in **form**—the size, shape, or physical structure of a product. Consider the many possible forms of aspirin. Although essentially a commodity, it can be differentiated by dosage, size, shape, color, coating, or action time.

FEATURES Most products can be offered with varying **features** that supplement their basic function. A company can identify and select appropriate new features by surveying recent buyers and then calculating *customer value* versus *company cost* for each potential feature. Marketers should consider how many people want each feature, how long it would take to introduce it, and whether competitors could easily copy it.[8]

To avoid "feature fatigue," the company must prioritize features and tell consumers how to use and benefit from them.[9] Marketers must also think in terms of feature bundles or packages. Auto companies often manufacture cars at several "trim levels." This lowers manufacturing and inventory costs. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.

PERFORMANCE QUALITY Most products occupy one of four performance levels: low, average, high, or superior. **Performance quality** is the level at which the product's primary characteristics operate. Quality is growing increasingly important for differentiation as companies adopt a value model and provide higher quality for less money. Firms should design a performance level appropriate to the target market and competition, however, not necessarily the highest level possible. They must also manage performance quality through time. Continuously improving the product can produce high returns and market share; failing to do so can have negative consequences.

MERCEDES-BENZ From 2003 to 2006, Mercedes-Benz endured one of the most painful stretches in its 127-year history. The company saw its reputation for stellar quality take a beating in J. D. Power and other surveys, and BMW surpassed it in global sales. To recoup, a new management team reorganized around functional elements—motors, chassis, and electronic systems—instead of model lines. Engineers now begin testing electronic systems a year earlier and put each new model through 10,000 diagnostics that run 24 hours a day for three weeks. Mercedes-Benz also tripled its number of prototypes for new designs, allowing engineers to drive them 3 million miles before production. With these and other changes, the number of flaws in the company's cars dropped 72 percent from their 2002 peak, and warranty costs decreased 25 percent. As an interesting side effect, Mercedes-Benz dealers have had to contend with a sizable drop in their repair and service businesses! The challenge now is to match the impressive levels of quality and reliability set by Japanese luxury foes.[10]

CONFORMANCE QUALITY Buyers expect a high **conformance quality,** the degree to which all produced units are identical and meet promised specifications. Suppose a Porsche 911 is designed to accelerate to 60 miles per hour within 10 seconds. If every Porsche 911 coming off the assembly line does this, the model is said to have high conformance quality. A product with low conformance quality will disappoint some buyers. Firms thoroughly test finished products to ensure conformance. Although men account for almost three-quarters of the world's beer sales, SABMiller found that women were actually more sensitive to levels of flavor in beer and thus were better product testers.[11]

DURABILITY **Durability,** a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for vehicles, kitchen appliances, and other durable goods. The extra price for

After experiencing some declines in product quality, Mercedes-Benz changed how it made and tested its cars, with positive results.

Source: TRIPPLAAR KRISTOFFER/SIPA/Newscom

durability must not be excessive, however, and the product must not be subject to rapid technological obsolescence, as personal computers, televisions, and cell phones have sometimes been.

RELIABILITY Buyers normally will pay a premium for more reliable products. **Reliability** is a measure of the probability that a product will not malfunction or fail within a specified time period. Maytag has an outstanding reputation for creating reliable home appliances. Its long-running "Lonely Repairman" ad campaign was designed to highlight that attribute.

REPAIRABILITY **Repairability** measures the ease of fixing a product when it malfunctions or fails. Ideal repairability would exist if users could fix the product themselves with little cost in money or time. Some products include a diagnostic feature that allows service people to correct a problem over the telephone or advise the user how to correct it. Many computer hardware and software companies offer technical support over the phone, by fax or e-mail, or via real-time chat online.

STYLE **Style** describes the product's look and feel to the buyer and creates distinctiveness that is hard to copy. Car buyers pay a premium for Jaguars because of their extraordinary looks. Aesthetics play a key role for such brands as Apple computers, Godiva chocolate, and Harley-Davidson motorcycles.[12] Strong style does not always mean high performance, however. A car may look sensational but spend a lot of time in the repair shop.

CUSTOMIZATION As Chapter 9 described, customized products and marketing allow firms to be highly relevant and differentiating by finding out exactly what a person wants—and doesn't want—and delivering on that. Online retailers such as Zazzle and CafePress allow users to upload images and create their own clothing and posters or buy merchandise created by other users. NikeiD, which allows customers to personalize and design their own shoes and clothing either online or in store at NikeiD Studios, now generates hundreds of millions of dollars in revenue.[13]

The demand for customization is certainly there. One Forrester study found that more than one-third of U.S. online consumers were interested in customizing product features or in purchasing build-to-order products that use their specifications. And companies have responded: M&M's allows you to print specialized messages on your candies; Pottery Barn Kids allows you to personalize a children's book; and for $2,000 or so, Burberry allows you to select the fabric, color, style, and five other features for your own personalized trench coat.[14]

SERVICES DIFFERENTIATION

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. Rolls-Royce PLC has ensured its aircraft engines are in high demand by continuously monitoring their health for 1,300 airplane engines around the world through live satellite feeds. Under its TotalCare and CorporateCare programs, airlines pay Rolls a fee for every hour an engine is in flight, and Rolls assumes the risks and costs of downtime and repairs.[15]

The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair, and returns.

ORDERING EASE **Ordering ease** describes how easy it is for the customer to place an order with the company. Baxter Healthcare supplies hospitals with computer terminals through which they send orders directly to the firm. Many financial service institutions offer secure online sites to help customers get information and complete transactions more efficiently.

DELIVERY **Delivery** refers to how well the product or service is brought to the customer, including speed, accuracy, and care throughout the process. Today's customers have grown to expect speed: pizza delivered in half an hour, eyeglasses made in 60 minutes, cars lubricated in 15 minutes. Many firms have computerized *quick response systems* (QRS) that link the information systems of their suppliers, manufacturing plants, distribution centers, and retailing outlets to improve delivery.

Cemex, a giant cement company based in Mexico, has transformed its business by promising to deliver concrete faster than pizza, equipping every truck with a global positioning system (GPS) so dispatchers know its real-time location. Its 24/7 LOAD service program guarantees delivery within a 20-minute window, providing important flexibility in an industry where delays are costly but common.[16]

INSTALLATION **Installation** refers to the work done to make a product operational in its planned location. Ease of installation is a true selling point for technology novices and for buyers of complex products like heavy equipment.

CUSTOMER TRAINING **Customer training** helps the customer's employees use the vendor's equipment properly and efficiently. General Electric not only sells and installs expensive X-ray equipment in hospitals, it also gives users extensive training. McDonald's requires its new franchisees to attend Hamburger University in Oak Brook, Illinois, for two weeks to learn how to manage the franchise properly.

CUSTOMER CONSULTING **Customer consulting** includes data, information systems, and advice services the seller offers to buyers. Technology firms such as IBM, Oracle, and others have learned that such consulting is an increasingly essential—and profitable—part of their business.

MAINTENANCE AND REPAIR **Maintenance and repair** programs help customers keep purchased products in good working order. These services are critical in business-to-business settings. Goodyear's TVTrack program helps its fleet customers monitor and manage tires more effectively.[17] Many firms offer online technical support, or "e-support," for customers, who can search an online database for fixes or seek online help from a technician. Appliance makers such as LG, Kenmore, and Miele have introduced products that can transmit self-diagnostic data over the phone to a customer service number that electronically describes the nature of any technical problems.[18]

Makers of luxury products especially recognize the importance of a smooth repair process. Although Movado watches are high-end, its repair process had been anything but, requiring time-consuming manual labor and customer inconvenience. Recognizing the need to offer more digital services in general, Movado created a Web site where customers can buy products directly from the company as well as execute many of the initial steps in the repair process online, such as registering any problems and identifying possible repair options before contacting customer service directly. The database created by users of the site has also allowed the company to recruit potential focus group participants and identify repair trends that may suggest recurring production problems.[19]

RETURNS A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially in online purchases. Free shipping, growing more popular, makes it easier for customers to try out an item, but it also increases the likelihood of returns.

Returns can add up. One estimate is that 10 percent to 15 percent of overall holiday sales come back as returns or exchanges, and the total annual cost may be $100 billion.[20] To the consumer, returns can be inconvenient, embarrassing, or difficult to complete. Returns have a downside for merchants too, when the returned merchandise is not in re-sellable condition, lacks proper proof of purchase, or is returned to the wrong store. It may even be used or stolen. Yet if the merchant is reluctant to accept returns, customers can become annoyed.[21]

Of course, product returns do have an upside. Physically returning a product can get the consumer into the store, maybe for the first time. One research study found that a lenient return policy left customers more willing to make other purchases and refer the company to others.[22]

We can think of product returns in two ways:[23]

- *Controllable returns* result from problems or errors made by the seller or customer and can mostly be eliminated with improved handling or storage, better packaging, and improved transportation and forward logistics by the seller or its supply chain partners.
- *Uncontrollable returns* result from the need for customers to actually see, try, or experience products in person to determine suitability and can't be eliminated by the company in the short run.

One basic strategy is to eliminate the root causes of controllable returns while developing processes for handling uncontrollable returns. The goal is to have fewer products returned and put a higher percentage back into the distribution pipeline to be sold again. San Diego-based Road Runner Sports, which sells running shoes, clothing, and equipment through multiple stores, catalogs, and a Web site, trains its salespeople to be as knowledgeable as possible in order to recommend the right products. As a result, its return rate on running shoes has been 12 percent, noticeably below the industry average of 15 percent to 20 percent.[24]

Design

As competition intensifies, design offers a potent way to differentiate and position a company's products and services. **Design** is the totality of features that affect the way a product looks, feels, and functions to a consumer. It offers functional and aesthetic benefits and appeals to both our rational and emotional sides.[25]

Source: Courtesy Hermn Miller

Herman Miller has brought form and function to office furniture with their stylish, well-designed products.

DESIGN LEADERS

As holistic marketers recognize the emotional power of design and the importance to consumers of look and feel as well as function, design is exerting a stronger influence in categories where it once played a small role. Herman Miller office furniture, Viking ranges and kitchen appliances, and Kohler kitchen and bathroom fixtures and faucets are among the brands that now stand out in their categories thanks to attractive looks added to efficient and effective performance.[26]

Some countries have developed strong reputations for their design skills and accomplishments, such as Italy in apparel and furniture and Scandinavia in products designed for functionality, aesthetics, and environmental consciousness. Finland's Nokia was the first to introduce user-changeable covers for cell phones, the first to have elliptical-shaped, soft, and friendly forms, and the first with big screens, all contributing to its remarkable ascent. When it later failed to innovate its smart-phone designs, its fortunes dramatically declined. Braun, a German division of Gillette, has elevated design to a high art in its electric shavers, coffeemakers, hair dryers, and food processors.

The International Design and Excellence Awards (IDEA) are given each year based on benefit to the user, benefit to the client/business, benefit to society, ecological responsibility, appropriate aesthetics and appeal, and usability testing. IDEO has been one of the more successful design companies through the years. Then in 2013 Samsung Electronics won 10 awards, 3M four, and Coway, Lenovo, LG Electronics, Nokia, and PearsonLloyd three each.[27] Samsung's design accomplishments have been a result of a concerted effort.[28]

SAMSUNG Much of Samsung's remarkable marketing success comes from innovative new products that have captured the imagination of consumers all over the world. The company has invested heavily in R&D and in design capabilities, with big payoffs. It has a clear design philosophy it calls "Design 3.0," and an internal design slogan, "Make it Meaningful," that reflects its relentless focus on making beautiful and intuitive products that will be integrated into customers' lifestyles. Samsung applies three design criteria: (1) simple and intuitive, (2) efficient and long-lasting, and (3) adaptive and engaging. Like its chief rival Apple, the company organizes its design efforts through a cross-divisional Corporate Design Center that reports directly to the CEO. The Corporate Design Center aligns the design efforts of various divisions and analyzes cultural trends to help forecast the future of design. It also coordinates the work done at Samsung's five Global Design Centers, located in London, San Francisco, Shanghai, Tokyo, and Delhi. Among the many awards the company has received for design were two IF Gold Awards in 2013—from one of the world's top three design contests—for its "split concept" color printer and its twin-tub washing machine especially designed for Southeast Asia users.

POWER OF DESIGN

In a visually oriented culture, transmitting brand meaning and positioning through design is critical. "In a crowded marketplace," writes Virginia Postrel in *The Substance of Style,* "aesthetics is often the only way to make a product stand out."[29]

Design is especially important with long-lasting durable goods such as automobiles. As GM's VP of Design Ed Welburn notes, "…every car has its own mood, whether it's a van for India or a Cadillac for China, and needs to connect with customers at an emotional level." The GM design team for the 2011 plug-in electric Chevy Volt wanted to make sure the car looked better than other electric cars. As the Volt design director said, "Most electric cars are like automotive Brussels sprouts. They're good for you, but you don't want to eat them."[30]

Design can shift consumer perceptions to make brand experiences more rewarding. Consider the lengths Boeing went to in making its 777 airplane seem roomier and more comfortable. Raised center bins, side luggage bins, divider panels, gently arched ceilings, and raised seats make the aircraft interior seem bigger. One design engineer noted, "If we do our jobs, people don't realize what we have done. They just say they feel more comfortable."

APPROACHES TO DESIGN

"Design is more than just creativity, or a phase in creating a product, service, or application. It's a way of thinking that can transform an entire enterprise."[31] Design should penetrate all aspects of the marketing program so all design aspects work together. To the company, a well-designed product is easy to manufacture and distribute. To the customer, it is pleasant to look at and easy to open, install, use, repair, and dispose of. The designer must take all these goals into account.[32]

Given the creative nature of design, it's no surprise there isn't one widely adopted approach. Some firms employ formal, structured processes. *Design thinking* is a very data-driven approach with three phases: observation, ideation, and implementation. Design thinking requires intensive ethnographic studies of consumers, creative brainstorming sessions, and collaborative teamwork to decide how to bring the design idea to reality. Whirlpool used design thinking to develop the KitchenAid Architect Series II kitchen appliances with a more harmonized look than had existed in the category.[33] Not everyone employs design thinking, however.[34]

BANG & OLUFSEN The Danish firm Bang & Olufsen (B&O)—which has received many kudos for the design of its stereos, TV equipment, and telephones—trusts the instincts of a handful of designers who rarely consult with consumers. The company does not introduce many new products in any given year, so each one is expected to be sold for a long time. Its BeoLab 8000 speakers sold for $3,000 a pair when introduced in 1992 and retailed for more than $5,000 almost 20 years later. When the company was the subject of a special exhibition at the Museum of Modern Art in New York City, the museum noted, "Bang & Olufsen design their sound equipment as beautiful objects in their own right that do not inordinately call attention to themselves." Today, 15 B&O products are part of MOMA's permanent design collection.

Luxury Products

Design is often an important aspect of luxury products, though these products also face some unique issues. They are perhaps one of the purest examples of the role of branding because the brand and its image are often key competitive advantages that create enormous value and wealth. Marketers for luxury brands such as Prada, Gucci, Cartier, and Louis Vuitton manage lucrative franchises that have endured for decades in what some believe is now a $270 billion industry.[35]

CHARACTERIZING LUXURY BRANDS

Significantly higher priced than typical items in their categories, luxury brands for years were about social status and who a customer was—or perhaps wanted to be. Times have changed, and especially in the aftermath of a crippling recession, luxury for many has become more about style and substance, combining personal pleasure and self-expression.[36]

A luxury shopper must feel he or she is getting something truly special. Thus the common denominators of luxury brands are quality and uniqueness. A winning formula for many is craftsmanship, heritage, authenticity, and history, often critical to justifying a sometimes extravagant price. Hermès, the French luxury leather-goods maker, sells its classic designs for hundreds or even thousands of dollars, "not because they are in fashion," as one writer put it, "but [because] they never go out of fashion."[37] Here is how several luxury brands have become enduring market successes:

- ***Sub-Zero refrigerators.*** Sub-Zero sells refrigerators that range from $1,600 for small, under-counter models to $12,000 for a specialty Pro 48 with a stainless steel interior. The target is customers with high standards of performance and design who cherish their home and what they buy to furnish it. Sub-Zero extensively surveys this group as well as the kitchen designers, architects, and retailers who recommend and sell its products.[38]
- ***Patrón tequila.*** Cofounded by Paul Mitchell hair care founder John Paul DeJoria, Patrón came about after a 1989 trip to a distillery in the small Mexican state of Jalisco. Named Patrón to convey "the boss, the cool guy," the smooth agave tequila comes in an elegant hand-blown decanter and is sold in individually numbered bottles for $45 or more. Essentially creating the high-end tequila market, with more than $1.1 billion in retail sales, Patrón has surpassed Jose Cuervo to become the world's largest tequila brand.[39]
- ***Montblanc luxury goods.*** The goal of Montblanc, whose products now range from pens to watches to leather goods and fragrances, is to be a strong luxury brand to as many classes of luxury customers as possible, while still retaining a prominent public image. The brand promise is that "the product you buy is of highest esteem, based on its timeliness, elegant design and the high quality, which is derived from the excellence of our craftsmen." The company branched out from its origins in writing instruments into categories such as leather goods and timepieces, where it could "rely on the trust of our customers, who believed in Montblanc as a brand that provides excellence in its core category writing instruments based on its philosophy of manufacturing competence, highest quality, sustainable value and creativity."[40]

Source: ©David Pruter/Shutterstock

With its unique product formulation and bottle, Patron pioneered the high end tequila market.

GROWING LUXURY BRANDS

The recent recession challenged many luxury brands as they tried to justify their value proposition and avoid discounting their products.[41] Those that had already successfully extended their brands vertically across a range of price points were usually the most immune to economic downturns.

The Armani brand has extended from high-end Giorgio Armani and Giorgio Armani Privé to mid-range luxury with Emporio Armani to affordable luxury with Armani Jeans and Armani Exchange. Clear differentiation exists between these brands, minimizing the potential for consumer confusion and brand cannibalization. Each also lives up to the core promise of the parent brand, reducing chances of hurting the parent's image.

Horizontal extensions into new categories can also be tricky for luxury brands. Even the most loyal consumer might question a $7,300 Ferragamo watch or an $85 bottle of Roberto Cavalli vodka. Jewelry maker Bulgari has moved into hotels, fragrances, chocolate, and skin care, prompting some branding experts to deem the brand overstretched.[42] In the past, iconic fashion designers Pierre Cardin and Halston licensed their names to so many ordinary products that the brands were badly tarnished.

Ralph Lauren, however, has successfully marketed an aspirational luxury brand with wholesome all-American lifestyle imagery across a wide range of products. Besides clothing and fragrances, Lauren boutiques sell linens, candles, beds, couches, dishware, photo albums, and jewelry. Calvin Klein has adopted a similarly successful expansive strategy, though with different lifestyle imagery.

Much of the growth in luxury brands in recent years has been geographical. China has overtaken the United States as the world's largest luxury market; it's forecast that one-third of all high-end goods will be sold there in the coming years. Although initially very "logo-driven" and interested in conspicuous brand signals, Chinese luxury consumers have also become more quality and design conscious, like luxury consumers in other parts of the world.[43]

MARKETING LUXURY BRANDS

Luxury marketers have learned that luxury is not viewed the same way around the world. In post-communist Russia for a time, as in China, the bigger and gaudier the logo, the better. But in the end, luxury brand marketers have to remember they are often selling a dream, anchored in product quality, status, and prestige.

Just like marketers in less expensive categories, those guiding the fortunes of luxury brands operate in a constantly evolving marketing environment. Globalization, new technologies, financial crises, shifting consumer cultures, and other forces require them to be skillful and adept at their brand stewardship to succeed. Table 13.1 summarizes some key guidelines in marketing luxury brands.

One trend for luxury brands is to wrap personal experiences around the products. Top-end fashion retailers are offering such experiences alongside their wares, expecting that customers who have visited a workshop or met the designer will feel closer to the brand. Gucci is inviting its biggest spenders to fashion shows, equestrian events, and the Cannes Film Festival.[44]

Porsche Sport Driving Schools and Experience Centers in Germany, the United States, and other parts of the world allow Porsche drivers to "train their driving skills and enjoy the all-out pleasure of driving, on-road, off-road, or on snow and ice." The recently opened state-of-the-art facility in Southern California features 45-degree off-road inclines and a simulated ice hill.[45]

TABLE 13.1 Guidelines for Marketing Luxury Brands

1. Maintaining a premium image for luxury brands is crucial; controlling that image is thus a priority.
2. Luxury branding typically includes the creation of many intangible brand associations and an aspirational image.
3. All aspects of the marketing program for luxury brands must be aligned to ensure high-quality products and services and pleasurable purchase and consumption experiences.
4. Besides brand names, other brand elements—logos, symbols, packaging, signage—can be important drivers of brand equity for luxury products.
5. Secondary associations from linked personalities, events, countries, and other entities can boost luxury-brand equity as well.
6. Luxury brands must carefully control distribution via a selective channel strategy.
7. Luxury brands must employ a premium pricing strategy, with strong quality cues and few discounts and markdowns.
8. Brand architecture for luxury brands must be managed carefully.
9. Competition for luxury brands must be defined broadly because it often comes from other categories.
10. Luxury brands must legally protect all trademarks and aggressively combat counterfeits.

Source: Based on Kevin Lane Keller, "Managing the Growth Tradeoff: Challenges and Opportunities in Luxury Branding," *Journal of Brand Management* 16 (March–May 2009), pp. 290–301.

Porsche has created driving tracks and schools so its owners can learn and experience more about their vehicles.

Source: © Caro/Alamy

In an increasingly wired world, some luxury marketers have struggled to find the appropriate online selling and communication strategies for their brand.[46] Some fashion brands have begun to go beyond glossy magazine spreads to listening to and communicating with consumers through Facebook, Twitter, Foursquare, and other digital and social media channels. Coach and Tiffany are two luxury brands praised for their Web site and digital operations. E-commerce has also begun to take hold for some luxury brands. Sites such as Gilt Groupe and Ideel now offer new ways for fashion brands to move high-end goods.[47]

Ultimately, luxury marketers are learning that, as for all marketers, success depends on getting the right balance of classic and contemporary imagery and continuity and change in marketing programs and activities.

Environmental Issues

Environmental issues are also playing an increasingly important role in product design and manufacturing. Many firms are considering ways to reduce the negative environmental consequences of conducting business, and some are changing the manufacture of their products or the ingredients that go into them. "Marketing Memo: A Sip or a Gulp: Environmental Concerns in the Water Industry" considers some of the environmental issues raised by the sale of bottled water.

In a fascinating twist, Levi-Strauss found a highly creative way to address the problem of proliferating plastic bottles.[48]

LEVI'S WASTE<LESS If someone said your jeans were "made of garbage," you might be insulted, but not if they were made by Levi-Strauss. Levi's new "Waste<Less" jeans and jackets carry a clothing tag that says exactly that—because they are! Twenty percent of the material in the denim comes from plastic bottles and black food trays recycled from municipal sites, including about eight 12- to 20-ounce bottles per pair. Much research and development went into creating the Waste<Less line, for which the plastic is cleaned, sorted, shredded into flakes, and made into a polyester fiber that's then blended with cotton. The resulting fabric looks and feels like traditional denim except for the color of the underside, which varies according to the hue of the plastic. The jeans retail for $69 to $128. Levi's is not a newcomer to the market for environmentally friendly products; sustainability is a company-wide priority. "Water<Less" jeans helped farmers grow cotton with less water, let Levi's manufacture with less water, and educated consumers about cleaning and disposing of the garments with less water. Both lines have made a tangible difference: The Water<Less line saved more than 360 million liters of water in its first full year, while the Waste<Less line recycled 3.5 million bottles and trays in its first full year.

marketing memo — A Sip or A Gulp: Environmental Concerns in the Water Industry

The huge popularity of bottled water has been a boon to many companies, but at a high cost to the environment. One estimate put the amount of plastic used in disposable bottles at 2.7 million tons a year, which requires about 47 million gallons of oil to manufacture. Unfortunately, fewer than 20 percent of these bottles are believed to be recycled in the United States. These high environmental costs have a number of implications for marketers.

Colleges all over the country—from Western Washington University to Brown University, the University of Vermont, and the University of California at Berkeley—have banned the sale of plain bottled water, typically as part of a student-led movement toward greater sustainability on campus. The College of Saint Benedict in Minnesota equipped 31 fountains with an extra spigot to make them "hydration stations," a practice adopted by many other schools that banned bottled water. Nor are schools alone. Many public institutions from zoos to national parks are similarly installing water filling stations and banning the sale of bottled water.

As more consumers seek to reduce their personal environmental footprint, sales of reusable water bottles have exploded. Sigg Switzerland sells cleverly designed lightweight aluminum water bottles for $25 to $30, choosing 100 new products from among 3,000 different designs each year. Features popular in other brands include caps with built-in micro-filtration systems.

Glass bottles promote their environmental advantages over plastic and reassure consumers who fear chemicals can leak into foods and beverages from plastic. They now account for an increasingly large percentage of water bottle sales. Glass is also being developed for greater safety if broken; for instance, PURE glass bottles uses clear protective Safe-Shell coating.

Soft drink makers face similar pressures from environmentally aware consumers. Soda Stream sells equipment that allows people to carbonate and flavor plain tap water using reusable glass bottles. The company promotes three key benefits: Using tap water is cheaper, it can be slightly healthier, and there is no waste. Coca-Cola reports reclaiming more than one-third of its bottles and cans in North America, diverting 250 million pounds of waste from landfills each year. When PepsiCo launched Eco-Fina packaging for its Aquafina water brand, which uses 50 percent less plastic, it estimated it would save more than 75 million pounds of plastic annually.

Perhaps the most important lesson here is that environmental concerns matter to consumers, and they expect companies to make changes to address their concerns. Second, competition will emerge in all forms as companies try to find ways to better suit consumers' unmet needs, even for a sip of water.

Source: SIGG Switzerland AG. Creators of "The Original Bottle" made in Switzerland.

Emphasizing product design and variety, Swiss made Sigg has caught on as sales of reusable water bottles exploded.

Sources: Caleb Melby, "SodaStream's Moneymaking Battle Cry: Get Rid of Plastic Bottles," *Forbes*, July 19, 2012; Stephanie Strom, "Wary of Plastic, and Waste, Some Consumers Turn to Glass," *New York Times*, June 20, 2012; Kirsti Marohn, "Colleges Moving Away from Plastic Water Bottles," *USA Today*, September 15, 2011; Lindsay Armstrong, "The Best Reusable Water Bottles," *Huffington Post*, May 25, 2011; Helen Coster, "The $25 Water Bottle," *Fortune*, March 19, 2009; "PepsiCo's Aquafina Launches the Eco-Fina Bottle, the Lightest Weight Bottle in the Market," www.pepsico.com, March 25, 2009.

Product and Brand Relationships

Each product can be related to other products to ensure that a firm is offering and marketing the optimal set of products.

THE PRODUCT HIERARCHY

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy, using life insurance as an example:

1. ***Need family***—The core need that underlies the existence of a product family. Example: security.
2. ***Product family***—All the product classes that can satisfy a core need with reasonable effectiveness. Example: savings and income.
3. ***Product class***—A group of products within the product family recognized as having a certain functional coherence, also known as a product category. Example: financial instruments.
4. ***Product line***—A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, a single family brand, or an individual brand that has been line extended. Example: life insurance.
5. ***Product type***—A group of items within a product line that share one of several possible forms of the product. Example: term life insurance.
6. ***Item*** (also called *stock-keeping unit* or *product variant*)—A distinct unit within a brand or product line distinguishable by size, price, appearance, or some other attribute. Example: Prudential renewable term life insurance.

PRODUCT SYSTEMS AND MIXES

A **product system** is a group of diverse but related items that function in a compatible manner.[49] For example, the extensive iPod product system includes headphones and headsets, cables and docks, armbands, cases, power and car accessories, and speakers. A **product mix** (also called a **product assortment**) is the set of all products and items a particular seller offers for sale.

A product mix consists of various product lines. NEC's (Japan) product mix consists of communication products and computer products. Michelin has three product lines: tires, maps, and restaurant-rating services. At Northwestern University, separate academic deans oversee the schools of medicine, law, business, engineering, music, speech, journalism, and liberal arts, among others.

A company's product mix has a certain width, length, depth, and consistency. These concepts are illustrated in Table 13.2 for selected Procter & Gamble consumer products.

- The *width* of a product mix refers to how many different product lines the company carries. Table 13.2 shows a product mix width of five lines. (In fact, P&G produces many additional lines.)

TABLE 13.2 Product Mix Width and Product Line Length for Procter & Gamble Products (including year of introduction)

	Product Mix Width				
	Detergents	**Toothpaste**	**Bar Soap**	**Disposable Diapers**	**Paper Products**
Product Line Length	Ivory Snow (1930)	Gleem (1952)	Ivory (1879)	Pampers (1961)	Charmin (1928)
	Dreft (1933)	Crest (1955)	Camay (1926)	Luvs (1976)	Puffs (1960)
	Tide (1946)		Zest (1952)		Bounty (1965)
	Cheer (1950)		Safeguard (1963)		
	Dash (1954)		Oil of Olay (1993)		
	Bold (1965)				
	Gain (1966)				
	Era (1972)				

Source: Kris Tripplaar/Sipa USA/Newscom

Tide comes in many forms and varieties to suit different consumer needs.

- The *length* of a product mix refers to the total number of items in the mix. In Table 13.2, it is 20. We can also talk about the average length of a line. We obtain this by dividing the total length (here 20) by the number of lines (here 5), for an average product line length of 4.
- The *depth* of a product mix refers to how many variants are offered of each product in the line. If Tide came in two scents (Clean Breeze and Regular), two formulations (liquid and powder), and with two additives (with or without bleach), it would have a depth of eight because there are eight distinct variants.[50] We can calculate the average depth of P&G's product mix by averaging the number of variants within the brand groups.
- The *consistency* of the product mix describes how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. P&G's product lines are consistent in that they are consumer goods that go through the same distribution channels. The lines are less consistent in the functions they perform for buyers.

These four product mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency. To make these product and brand decisions, marketers can conduct product line analysis.

PRODUCT LINE ANALYSIS

In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements and lower production costs. Car manufacturers build cars around a basic platform. Homebuilders show a model home to which buyers can add additional features. Product line managers need to know the sales and profits of each item in their line to determine which items to build, maintain, harvest, or divest.[51] They also need to understand each product line's market profile and image.[52]

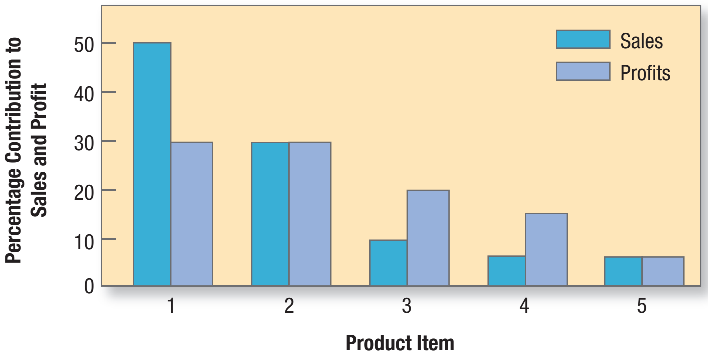
SALES AND PROFITS Figure 13.3 shows a sales and profit report for a five-item product line. The first item accounts for 50 percent of total sales and 30 percent of total profits. The first two items account for 80 percent of total sales and 60 percent of total profits. If these two items were suddenly hurt by a competitor, the line's sales and profitability could collapse. These items must be carefully monitored and protected. At the other end, the last item delivers only 5 percent of the product line's sales and profits. The product line manager may consider dropping this item unless it has strong growth potential.

Every company's product portfolio contains products with different margins. Supermarkets make almost no margin on bread and milk, reasonable margins on canned and frozen foods, and better margins on flowers, ethnic food lines, and freshly baked goods. Companies should recognize that different items will allow for different margins and respond differently to changes in level of advertising.[53]

MARKET PROFILE AND IMAGE The product line manager must review how the line is positioned against competitors' lines. Consider paper company X with a paperboard product line.[54] Two paperboard attributes are weight and finish quality. Paper is usually offered at standard levels of 90, 120, 150, and 180 weights. Finish quality is offered at low, medium, and high levels.

| Fig. 13.3 |

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



The **product map** in Figure 13.4 shows the location of the various product line items of company X and four competitors, A, B, C, and D. Competitor A sells two product items in the extra-high weight class ranging from medium to low finish quality. Competitor B sells four items that vary in weight and finish quality. Competitor C sells three items in which the greater the weight, the greater the finish quality. Competitor D sells three items, all lightweight but varying in finish quality. Company X offers three items that vary in weight and finish quality.

The product map also shows which competitors' items are competing against company X's items. For example, company X's low-weight, medium-quality paper competes against competitor D's and B's papers, but its high-weight, medium-quality paper has no direct competitor. The map also reveals possible locations for new items. No manufacturer offers a high-weight, low-quality paper. If company X estimates a strong unmet demand and can produce this paper at low cost and price it accordingly, it could consider adding it to its line.

Another benefit of product mapping is that it identifies market segments. Figure 13.4 shows the types of paper, by weight and quality, preferred by the general printing industry, the point-of-purchase display industry, and the office supply industry. The map shows that company X is well positioned to serve the needs of the general printing industry but less effective in serving the other two markets.

Product line analysis provides information for two key decision areas: product line length and product mix pricing.

PRODUCT LINE LENGTH

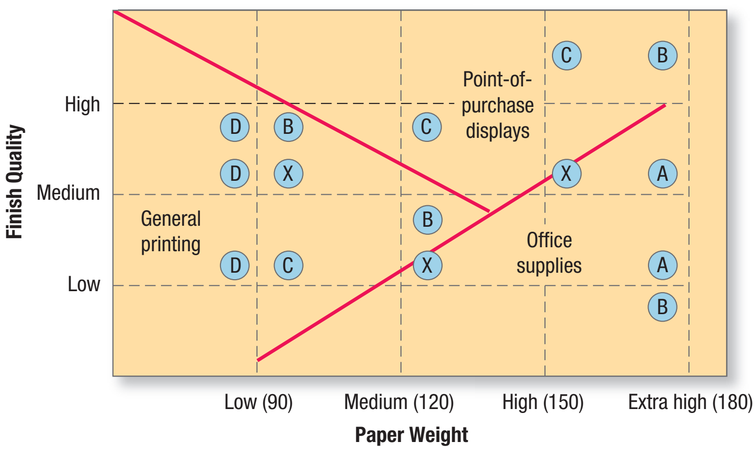
Company objectives influence product line length. One objective is to create a product line to induce up-selling. Mercedes C-Class plays a critical function as an entry point to the brand. As one industry analyst notes: "The C-Class is critical for the luxury race because it creates the most amount of volume for Benz. It also opens the Benz brand to potential future buyers by catching them while they're young with the hopes that they upgrade as they get more affluent and older."[55]

A different objective is to create a product line that facilitates cross-selling: Hewlett-Packard sells printers as well as computers. Still another is to protect against economic ups and downs: Electrolux offers white goods such as refrigerators, dishwashers, and vacuum cleaners under different brand names in the discount, middle-market, and premium segments, in part as a hedge when the economy moves up or down. Companies seeking high market

| Fig. 13.4 |

Product Map for a Paper-Product Line

Source: Benson P. Shapiro, *Industrial Product Policy: Managing the Existing Product Line* (Cambridge, MA: Marketing Science Institute Report No. 77–110). Copyright © 2003. Reprinted by permission of Marketing Science Institute and Benson P. Shapiro.



share and market growth will generally carry longer product lines. Those emphasizing high profitability will carry shorter lines consisting of carefully chosen items.

Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product line manager to develop new items. The sales force and distributors also lobby for a more complete product line to satisfy customers. But as items are added, costs rise for design and engineering, inventory carrying, manufacturing changeover, order processing, transportation, and new-item promotions. Eventually, top management may stop development because of insufficient funds or manufacturing capacity. A pattern of product line growth followed by massive pruning may repeat itself many times. Increasingly, consumers are growing weary of dense product lines, overextended brands, and feature-laden products (see "Marketing Insight: When Less Is More").[56]

A company lengthens its product line in two ways: line stretching and line filling.

LINE STRETCHING Every company's product line covers a certain part of the total possible range. For example, Mercedes automobiles are located in the upper price range of the automobile market. **Line stretching** occurs when a company lengthens its product line beyond its current range, whether down-market, up-market, or both ways.

Down-Market Stretch A company positioned in the middle market may want to introduce a lower-priced line for any of three reasons:

1. The company may notice strong growth opportunities. Mass retailers such as Walmart, Target, and others attract a growing number of shoppers who want value-priced goods.
2. The company may wish to tie up lower-end competitors who might otherwise try to move up-market. If the company has been attacked by a low-end competitor, it often decides to counterattack by entering the low end of the market.
3. The company may find the middle market stagnating or declining.

Marketers face a number of naming choices in deciding to move a brand down-market:

1. Use the parent brand name on all its offerings. Sony has used its name on products in a variety of price tiers.
2. Introduce lower-priced offerings using a sub-brand name, such as P&G's Charmin Basic and Bounty Basic.
3. Introduce the lower-priced offerings under a different name, such as the Gap's Old Navy brand. This strategy is expensive to implement and means brand equity will have to be built from scratch, but the equity of the parent brand name is protected.

marketing insight

When Less Is More

With thousands of new products introduced each year, consumers find it ever harder to navigate store aisles. One study found the average shopper spent 40 seconds or more in the supermarket soda aisle, compared with 25 seconds six or seven years ago.

Although consumers may think greater product variety increases their likelihood of finding the right product for them, the reality is often different. One study showed that although consumers expressed greater interest in shopping a larger assortment of 24 flavored jams than a smaller assortment of 6, they were 10 times more likely to actually make a selection when given the smaller assortment. Presented with too many options, people "choose not to choose," even if it may not be in their best interests.

Similarly, if product quality in an assortment is high, consumers actually prefer fewer choices. Those with well-defined preferences may benefit from more-differentiated products that offer specific benefits, but others may experience frustration, confusion, and regret. Product proliferation has another downside. Constant product changes and introductions may nudge customers into reconsidering their choices and perhaps switching to a competitor's product.

Some companies are getting the message. When Procter & Gamble went from 20 different kinds of Head & Shoulders to 15, sales for the brand increased by 10 percent. Smart marketers realize it's not just product lines making consumer heads spin—many products themselves are too complicated. Technology marketers need to be especially sensitive to the problems of information overload. The launch of the HTC One smartphone succeeded in part because the company adopted a "less is more" approach instead of just adding features.

Sources: John Davidson, "One Classic Example of When Less Is More," *Financial Review*, April 9, 2013; Carolyn Cutrone, "Cutting Down on Choice Is the Best Way to Make Better Decisions," *Business Insider*, January 10, 2013; Dimitri Kuksov and J. Miguel Villas-Boas, "When More Alternatives Lead to Less Choice," *Marketing Science*, 29 (May/June 2010), pp. 507–24; Kristin Diehl and Cait Poynor, "Great Expectations?! Assortment Size, Expectations, and Satisfaction," *Journal of Marketing Research* 46 (April 2009), pp. 312–22; Joseph P. Redden and Stephen J. Hoch, "The Presence of Variety Reduces Perceived Quantity," *Journal of Consumer Research* 36 (October 2009), pp. 406–17; Alexander Chernev and Ryan Hamilton, "Assortment Size and Option Attractiveness in Consumer Choice Among Retailers," *Journal of Marketing Research* 46 (June 2009), pp. 410–20; Richard A. Briesch, Pradeep K. Chintagunta, and Edward J. Fox, "How Does Assortment Affect Grocery Store Choice," *Journal of Marketing Research* 46 (April 2009), pp. 176–89; Susan M. Broniarczyk, "Product Assortment," Curt P. Haugtvedt, Paul M. Herr, and Frank R. Kardes, eds., *Handbook of Consumer Psychology* (New York: Taylor & Francis, 2008), pp. 755–79.

Moving down-market carries risks. In one classic example, when Kodak introduced Kodak Funtime Film to counter lower-priced brands, it did not price it low enough to match competitors. It also found some of its regular customers buying Funtime, so it was cannibalizing its core brand. Kodak withdrew the product and may have also lost some of its quality image in the process. P&G also introduced Tide Basic in test markets—priced lower but also lacking some of the latest detergent technology of its famous parent brand—and decided against rolling it out.[57]

On the other hand, Mercedes successfully introduced its C-Class cars at $30,000 without injuring its ability to sell other Mercedes cars for $100,000. John Deere introduced a lower-priced line of lawn tractors called Sabre from John Deere, while still selling its more expensive tractors under the John Deere name. In these cases, consumers may have been better able to compartmentalize the different offerings and understand the functional differences between them.[58]

Up-Market Stretch Companies may wish to enter the high end of the market to achieve more growth, realize higher margins, or simply position themselves as full-line manufacturers. Many markets have spawned surprising upscale segments: Starbucks in coffee, Häagen-Dazs in ice cream, and Evian in bottled water. The leading Japanese auto companies each introduced a highly successful upscale automobile nameplate: Toyota's Lexus, Nissan's Infiniti, and Honda's Acura. They invented entirely new names because consumers might not have given the brand "permission" to stretch upward when those lines were first introduced.

Other companies have included their own names in moving up-market. Gallo sells Gallo Family Vineyards (priced at $10 to $30 a bottle) with a hip, younger image to compete in the premium wine segment. General Electric introduced the GE Profile brand for its large-appliance offerings in the upscale market. Some brands have used modifiers to signal a quality improvement, such as Ultra Dry Pampers, Extra Strength Tylenol, and Power Pro Dustbuster Plus.

Two-Way Stretch Companies serving the middle market might stretch their line in both directions. Robert Mondavi Winery, now owned by Constellation Brands, sells $35 bottles of wines as the first premium "New World" wine, but it also sells $125 bottles of Mondavi Reserve at high-end wineries, restaurants, and vineyards and through direct order, as well as $11 bottles of Woodbridge created during the grape oversupply of the mid-1990s. Purina Dog Food has stretched up and down to create a product line differentiated by benefits to dogs, breadth of varieties, ingredients, and price:

- Pro Plan ($38.99/18 lb. bag)—helps dogs live long and healthy lives with high-quality ingredients (real meat, fish, and poultry)
- Purina ONE ($22.99/16.5 lb. bag)—meets dogs' changing and unique nutritional needs and provides super-premium nutrition for good health
- Purina Dog Chow ($12.24/18.5 lb. bag)—provides dogs with complete nutrition to build, replenish, and repair at each life stage
- Alpo by Purina ($8.69/17.6 lb. bag)—offers beef, liver, and cheese flavor combinations and three meaty varieties

LINE FILLING A firm can also lengthen its product line by adding more items within the present range. Motives for *line filling* include reaching for incremental profits, satisfying dealers who complain about lost sales because of items missing from the line, utilizing excess capacity, trying to become the leading full-line company, and plugging holes to keep out competitors. Consider BMW.[59]

BMW AG In four years, BMW has morphed from a one-brand, five-model carmaker into a powerhouse with three brands, 14 "Series," and roughly 30 distinct models. Not only has the carmaker expanded its product range downward with MINI Coopers and its compact 1-series models, but it has also built it upward with Rolls-Royce and filled the gaps in between with its X1, X3, X5, and X6 sports activity vehicles, Z4 roadsters, and a 6-series coupe. The company has used line filling successfully to boost its appeal to the rich, the super-rich, and the hope-to-be-rich, all without departing from its pure premium positioning. BMW has also built a clear brand migration strategy within its product line. It would like to move customers up from a 1-series or 3-series vehicle to a 5-series and eventually even a 7-series.

Line filling is overdone if it results in cannibalization and customer confusion. The company needs to differentiate each item in the consumer's mind with a *just-noticeable difference.* According to Weber's law, customers are

Source: © philipus/Alamy

BMW has filled its product line to offer more vehicle choices to its customers.

more attuned to relative than to absolute difference.[60] They will perceive the difference between boards 2 and 3 feet long and boards 20 and 30 feet long, but not between boards 29 and 30 feet long. The proposed item should also meet a market need and not be added simply to satisfy an internal need. The infamous Edsel automobile, on which Ford lost $350 million in the late 1950s, met Ford's internal positioning need for a car between its Ford and Lincoln lines, but not the market's needs.

LINE MODERNIZATION, FEATURING, AND PRUNING Product lines regularly need to be modernized. The question is whether to overhaul the line piecemeal or all at once. A piecemeal approach allows the company to see how customers and dealers take to the new style. It is also less draining on the company's cash flow, but it lets competitors see changes and start redesigning their own lines.

In rapidly changing markets, modernization is continuous. Companies plan improvements to encourage customer migration to higher-value, higher-price items. Microprocessor companies such as Intel and AMD and software companies such as Microsoft and Oracle continually introduce more advanced versions of their products. Marketers want to time improvements so they do not appear too early (damaging sales of the current line) or too late (giving the competition time to establish a strong reputation).[61]

The product line manager typically selects one or a few items in the line to feature. Best Buy will announce a special low-priced big-screen TV to attract customers. At other times, managers will feature a high-end item to lend prestige to the product line. Sometimes a company finds one end of its line selling well and the other end selling poorly.

It may try to boost demand for slower sellers, especially if a factory is idled by lack of demand, but it could be counterargued that the firm should promote strong sellers rather than prop up weak ones. Nike's Air Force 1 basketball shoe, introduced in the 1980s, is a billion-dollar brand that is still a consumer and retailer favorite and a moneymaker for the company thanks to collectable styles and tight supplies. Since their introduction, the shoes have been designed or inspired by many celebrities and athletes.[62]

Using sales and cost analysis, product line managers must periodically review the line for deadwood that depresses profits.[63] One study found that for a big Dutch retailer, a major assortment reduction led to a short-term drop in category sales, caused mainly by fewer category purchases by former buyers, but it also attracted new category buyers who partially offset the losses.[64]

Multi-brand companies all over the world try to optimize their brand portfolios. This often means focusing on core brand growth and concentrating resources on the biggest and most established brands. Hasbro has designated a set of core toy brands to emphasize in its marketing, including GI Joe, Transformers, and My Little Pony. Procter & Gamble's "back to basics" strategy concentrated on brands with more than $1 billion in revenue, such as Tide, Crest, Pampers, and Pringles. Every product in a product line must play a role, as must any brand in the brand portfolio.[65]

VOLKSWAGEN Volkswagen has four different core brands of particular importance in its European portfolio. Initially, Audi and Seat had a sporty image and VW and Skoda had a family-car image. Audi and VW were in a higher price-quality tier than Skoda and Seat, which had spartan interiors and utilitarian engine performance. To reduce costs, streamline part/systems designs, and eliminate redundancies, Volkswagen upgraded the Seat and Skoda brands, which captured market share with splashy interiors, a full array of safety systems, and reliable power trains. The danger, of course, is that by borrowing from its upper-echelon Audi and Volkswagen products, Volkswagen could dilute their cachet. Frugal European consumers may convince themselves that a Seat or Skoda is almost identical to its VW sister, at several thousand euros less.

PRODUCT MIX PRICING

Marketers must modify their price-setting logic when the product is part of a product mix. In **product mix pricing,** the firm searches for a set of prices that maximizes profits on the total mix. The process is challenging because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations calling for product-mix pricing: product line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

PRODUCT LINE PRICING Companies normally develop product lines rather than single products, so they introduce price steps. A men's clothing store might carry men's suits at three price levels: $300, $600, and $900, which customers associate with low, average, and high quality. The seller's task is to establish perceived quality differences that justify the price differences.[66]

OPTIONAL-FEATURE PRICING Many companies offer optional products, features, and services with their main product. The 2013 Subaru Outback 2.5i was available in five trim levels. Premium trim additional features included an eight-way power driver's seat, windshield wiper de-icer, leather-wrapped steering wheel, and 17-inch aluminum wheels; the more luxurious Limited trim added even more features, including perforated leather, dual-zone automatic climate control, heated front seats, heated side mirrors, and a Harman/Kardon audio system with satellite radio.[67]

Pricing options is a sticky problem because companies must decide which to include in the standard price and which to offer separately. Many restaurants price their beverages high and their food low. The food revenue covers costs, and the beverages—especially liquor—produce the profit. This explains why servers often press hard to get customers to order drinks. Other restaurants price their liquor low and food high to draw in a drinking crowd.

CAPTIVE-PRODUCT PRICING Some products require the use of ancillary or **captive products.** Manufacturers of razors often price them low and set high markups on razor blades. Movie theaters and concert venues often make more from concessions and merchandise sales than from ticket receipts.[68] AT&T may give a cell phone for free if the person commits to buying two years of phone service.

If the captive product is priced too high in the aftermarket, however, counterfeiting and substitutions can erode sales. Consumers now can buy cartridge refills for their printers from discount suppliers and save 20 percent to 30 percent off the manufacturer's price. Hewlett-Packard has attempted to strike the right balance in its printer pricing, though changes in the marketing environment are upending its well-honed profit machine.[69]

HEWLETT-PACKARD In 1996, Hewlett-Packard (HP) began drastically cutting prices on its printers, by as much as 60 percent in some cases. The company could afford to make these cuts because over the life of the product customers typically spend twice as much on replacement ink cartridges, toner, and specialty paper as on the printer, and inkjet supplies typically carry 45 percent to 60 percent profit margins. As the price dropped, printer sales rose, and so did aftermarket sales. Over the next decade, with a market share above 40 percent, the printer division was a highly profitable cash cow for the company. But with more consumers using tablets and smart phones and sharing images and information via cloud computing, HP's bigger challenge now is countering the continuing decline in sales of PCs. Lower PC sales have meant lower printer sales and a steady drop in profit margin and revenue in recent years.

Source: Handout/MCT/Newscom

HP prices its printers recognizing that its real profits comes from the supplies it sells customers afterwards.

TWO-PART PRICING Service firms engage in **two-part pricing,** consisting of a fixed fee plus a variable usage fee. Cell phone users may have to pay a minimum monthly fee plus charges for calls that exceed their allotted minutes. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The service firm faces a problem similar to captive-product pricing—namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase; profit can then come from the usage fees.

BY-PRODUCT PRICING The production of certain goods—meats, petroleum products, and other chemicals—often yields by-products that should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so. Formed in 1855, Australia's CSR was originally named Colonial Sugar Refinery and forged its early reputation as a sugar company. The company began to sell by-products of its sugar cane; waste sugar cane fiber was used to manufacture wallboard. Today, through product development and acquisition, the renamed CSR has become one of the top 10 companies in Australia selling building and construction materials.

PRODUCT-BUNDLING PRICING Sellers often bundle products and features.[70] **Pure bundling** occurs when a firm offers its products only as a bundle. Providers of aftermarket products for automobiles increasingly are bundling their offerings in customizable three-in-one and four-in-one programs, especially second-tier products such as tire-and-wheel protection and paintless dent repair.[71] A talent agency might insist that a "hot" actor can be signed to a film only if the film company also accepts other talent the agency represents such as directors or writers. This is a form of *tied-in sales.*

In **mixed bundling,** the seller offers goods both individually and in bundles, normally charging less for the bundle than if the items were purchased separately. A theater will price a season subscription lower than the cost of buying all the performances separately. Customers may not have planned to buy all the components, so savings on the price bundle must be enough to induce them to buy it.[72]

Some customers want less than the whole bundle in exchange for a lower price.[73] These customers ask the seller to "unbundle" or "rebundle" its offer. If a supplier saves $100 by not supplying unwanted delivery and reduces the customer's price by $80, it has kept the customer happy while increasing its profit by $20. "Marketing Memo: Product-Bundle Pricing Considerations" offers a few tips.

CO-BRANDING AND INGREDIENT BRANDING

CO-BRANDING Marketers often combine their products with products from other companies in various ways. In **co-branding**—also called dual branding or brand bundling—two or more well-known brands are combined into a joint product or marketed together in some fashion.

marketing memo

Product-Bundle Pricing Considerations

As promotional activity increases on individual items in the bundle, buyers perceive less savings from the bundle and are less apt to pay for it. Research suggests the following guidelines for implementing a bundling strategy:

- Don't promote individual products in a package as frequently or for as little as the bundle. The bundle price should be much lower than the sum of individual products or the consumer will not perceive its attractiveness.
- If you still want to promote individual products, choose a single item in the mix. Another option is to alternate promotions to avoid running conflicting ones.
- If you offer large rebates on individual products, do so with discretion and make them the absolute exception. Otherwise, the consumer uses the price of individual products as an external reference for the bundle, which then loses value.
- Consider how experienced and knowledgeable your customer is. More knowledgeable customers may be less likely to need or want bundled offerings and prefer the freedom to choose components individually.
- Make sure the value of the bundle is easily understood. Bundles can streamline choices and make it easier for a consumer to appreciate different sets of benefits.
- Remember costs play a role. If marginal costs for the products are low—such as for proprietary software components that can be easily copied and distributed—a bundling strategy can be preferable to a pure component strategy where each component is purchased separately.
- Firms with single products that bundle their products together to compete against a multiproduct firm may not be successful if a price war ensues.

Sources: Dina Gerdeman, "Product Bundling Is a Smart Strategy—But There's a Catch," *Forbes*, January 18, 2013; Timothy P. Derdenger and Vineet Kumar, "The Dynamic Effects of Bundling as a Product Strategy," *Marketing Science* 32 (November–December 2013), pp. 827–59; Aaron Brough and Alexander Chernev, "When Opposites Detract: Categorical Reasoning and Subtractive Valuations of Product Combinations" *Journal of Consumer Research* 39 (August 2012), pp. 399–414; Amiya Basu and Padmal Vitharana, "Impact of Customer Knowledge Heterogeneity on Bundling Strategy," *Marketing Science* 28 (July–August 2009), pp. 792–801; Bikram Ghosh and Subramanian Balachnadar, "Competitive Bundling and Counterbundling with Generalist and Specialist Firms," *Management Science* 53 (January 2007), pp. 159–68.

One form of co-branding is *same-company co-branding,* as when General Mills advertises Trix cereal and Yoplait yogurt. Another form is *joint-venture co-branding,* such as General Electric and Hitachi lightbulbs in Japan or the Citi Platinum Select AAdvantage Visa Signature credit card in which three different parties are involved. There is *multiple-sponsor co-branding,* such as Taligent, a one-time technological alliance of Apple, IBM, and Motorola. Finally, there is *retail co-branding* in which two retail establishments use the same location to optimize space and profits, such as jointly owned Pizza Hut, KFC, and Taco Bell restaurants.

The main advantage of co-branding is that a product can be convincingly positioned by virtue of the multiple brands. Co-branding can generate greater sales from the existing market and open opportunities for new consumers and channels. It can also reduce the cost of product introduction because it combines two well-known images and speeds adoption. And co-branding may be a valuable means to learn about consumers and how other companies approach them. Companies in the automotive industry have reaped all these benefits.

The potential disadvantages of co-branding are the risks and lack of control in becoming aligned with another brand in consumers' minds. Consumer expectations of co-brands are likely to be high, so unsatisfactory performance could have negative repercussions for both brands. If the other brand enters a number of co-branding arrangements, overexposure may dilute the transfer of any association. It may also result in a lack of focus on existing brands. Consumers may feel less sure of what they know about the brand.[74]

For co-branding to succeed, the two brands must separately have brand equity—adequate brand awareness and a sufficiently positive brand image. The most important requirement is a logical fit between the two brands, to maximize the advantages of each while minimizing disadvantages. Consumers are more apt to perceive co-brands favorably if they are complementary and offer unique quality, rather than being overly similar and redundant.

Managers must enter co-branding ventures carefully, looking for the right fit in values, capabilities, and goals and an appropriate balance of brand equity. There must be detailed plans to legalize contracts, make financial arrangements, and coordinate marketing programs. As one executive at Nabisco put it, "Giving away your brand is a lot like giving away your child—you want to make sure everything is perfect." Financial arrangements between brands vary; one common approach is for the brand more deeply invested in the production process to pay the other a licensing fee and royalty.

Brand alliances require a number of decisions.[75] What capabilities do you *not* have? What resource constraints do you face (people, time, money)? What are your growth goals or revenue needs? Ask whether the opportunity is a profitable business venture. How does it help maintain or strengthen brand equity? Is there any risk of diluting brand equity? Does the opportunity offer extrinsic advantages such as learning opportunities?

INGREDIENT BRANDING **Ingredient branding** is a special case of co-branding.[76] It creates brand equity for materials, components, or parts that are necessarily contained within other branded products. For host products whose brands are not that strong, ingredient brands can provide differentiation and important signals of quality.[77]

Successful ingredient brands include Dolby noise reduction technology, GORE-TEX water-resistant fibers, and Scotchgard fabrics. Vibram is the world leader in high-performance rubber soles for outdoor, work, military, recreation, fashion, and orthopedic shoes. Look under your shoe and you may find Vibram soles—they are used by a wide range of footwear manufacturers, including The North Face, Saucony, Timberland, Lacoste, L.L. Bean, Wolverine, Rockport, Columbia, Nike, and Frye.[78]

An interesting take on ingredient branding is *self-branded ingredients* that companies advertise and even trademark.[79] Westin Hotels advertises its own "Heavenly Bed"—a critically important ingredient to a guest's good night's sleep. The brand has been so successful that Westin now sells the bed, pillows, sheets, and blankets via an online catalog, along with other "Heavenly" gifts, bath products, and even pet items. The success of the bed has also created a halo for the Westin brand as a whole. Heavenly Bed enthusiasts are more likely to rate other aspects of their room or stay as more positive.[80] If it can be done well, using self-branded ingredients makes sense because firms have more control over them and can develop them to suit their purposes.

Ingredient brands try to create enough awareness and preference for their product so consumers will not buy a host product that doesn't contain it. DuPont has introduced a number of innovative products, such as Corian® solid-surface material, for use in markets ranging from apparel to aerospace. Many of its products, such as Tyvek® house wrap, Teflon® non-stick coating, and Kevlar® fiber, became household names as ingredient brands in consumer products manufactured by other companies. Since 2004, DuPont has introduced more than 5,000 new products and received more than 2,400 new patents.[81]

Many manufacturers make components or materials that enter final branded products but lose their individual identity. One of the few companies that avoided this fate is Intel. Intel's consumer-directed brand campaign convinced many personal computer buyers to buy only brands with "Intel Inside." As a result, major PC manufacturers—Dell, HP, Lenovo—typically purchase their chips from Intel at a premium price rather than buy equivalent chips from an unknown supplier.

Source: © David L. Moore - CA/Alamy

Westin has successfully built an ingredient brand around their "Heavenly Bed" innovation.

What are the requirements for successful ingredient branding?[82]

1. Consumers must believe the ingredient matters to the performance and success of the end product. Ideally, this intrinsic value is easily seen 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 that the host product contains the ingredient. Ideally, this symbol or logo functions like a "seal" and is simple and versatile, credibly communicating quality and confidence.
4. A coordinated "pull" and "push" program must help consumers understand the advantages of the branded ingredient. Channel members must offer full support such as consumer advertising and promotions and—sometimes in collaboration with manufacturers—retail merchandising and promotion programs.

Packaging, Labeling, Warranties, and Guarantees

Some product packages—such as the Coke bottle and Red Bull can—are world famous. Many marketers have called packaging a fifth P, along with price, product, place, and promotion. Most, however, treat packaging and labeling as an element of product strategy. Warranties and guarantees can also be an important part of the product strategy and often appear on the package.

PACKAGING

Packaging includes all the activities of designing and producing the container for a product. Packages might have up to three layers. Cool Water by Davidoff For Men cologne comes in a bottle (*primary package*) inside a cardboard box (*secondary package*), shipped in a corrugated box (*shipping package*) containing six dozen bottles in cardboard boxes.

Packaging is important because it is the buyer's first encounter with the product. A good package draws the consumer in and encourages product choice. In effect, it can act as a "five-second commercial" for the product. It also affects consumers' later product experiences when they open it and use what's inside. Some packages can even be attractively displayed at home. Distinctive packaging like that for Kiwi shoe polish, Altoids mints, and Absolut vodka is an important part of a brand's equity.

Several factors contribute to the growing use of packaging as a marketing tool.

- ***Self-service.*** In an average supermarket, which may stock 15,000 items, the typical shopper passes some 300 products per minute. Given that 50 percent to 70 percent of all purchases are made in the store, the effective package must perform many sales tasks: attract attention, describe the product's features, create consumer confidence, and make a favorable overall impression.
- ***Consumer affluence.*** Rising affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages.
- ***Company and brand image.*** Packages contribute to instant recognition of the company or brand. In the store, they can create a billboard effect, as Garnier Fructis does with its bright green packaging in the hair care aisle.
- ***Innovation opportunity.*** Unique or innovative packaging can bring big benefits to consumers and profits to producers. Companies are always looking for a way to make their products more convenient and easier to use—often charging a premium when they do so. The SC Johnson Smart Twist Cleaning System has a hand-held sprayer and carousel that rotates between concentrated versions of three different cleaning products; Kleenex hand towels use a dispenser that fits upside down in a bathroom towel rack; and Kiwi Express Shine shoe polish has a dispenser and applicator to shine shoes without the need to spread newspaper, wear a glove, or use a brush.[83]

Formally, packaging must achieve a number of objectives:

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

Source: © Simon Lord/Alamy

Tiffany's brand is defined in part by its iconic Tiffany Blue packaging.

To achieve these objectives and satisfy consumers' desires, marketers must choose the functional and aesthetic components of packaging correctly. Functionally, structural design is crucial. The packaging elements must harmonize with each other and with pricing, advertising, and other parts of the marketing program. Aesthetic considerations relate to a package's size and shape, material, color, text, and graphics.

Color is a particularly important aspect of packaging and carries different meanings in different cultures and market segments. As one expert says, "Color is all-pervasive. It is language-neutral, but loaded with meaning. It's completely overt, yet each person sees color through different eyes, both literally and figuratively."[84]

Color can define a brand, from Tiffany's blue box to Cadbury's purple wrapping and UPS's brown trucks. Orange, the telecom mobile operator, uses color as both its name and its look. Table 13.3 summarizes the beliefs of some visual marketing experts about the role of color in Western culture.

TABLE 13.3 The Color Wheel of Branding and Packaging

Red symbolizes excitement, energy, passion, courage, and being bold.
Orange connotes friendliness and fun. It combines the energy of red and the warmth of yellow.
Yellow, as the color of the sun, is equated with warmth, joy, and happiness.
Green, as the color of nature, connotes health, growth, freshness, and renewal.
Blue, as the color of the sky and sea, is associated with dependability, trust, competence, and integrity.
Purple has symbolized nobility, wealth, and wisdom. It combines the stability of blue and the energy of red.
Pink is considered to have soft, peaceful, comforting qualities.
Brown, as the color of the earth, connotes honesty and dependability.
Black is seen as classic, strong, and balanced.
White connotes purity, innocence, and cleanliness.

Sources: Elisabeth Sullivan, "Color Me Profitable," *Marketing News*, October 15, 2008, p. 8; "Color Meaning," www.color-wheel-pro.com, accessed June 2, 2014; Melissa Stanger, "How Brands Use the Psychology of Color to Manipulate You," *Business Insider*, December 29, 2012; The Logo Company, "Color Emotion Guide," www.thelogocompany.net/blog/infographics/psychology-color-logo-design, January 13, 2013; Lauren Labrecque and George R. Milne, "Exciting Red and Competent Blue: the Importance of Color in Marketing," *Journal of Academy of Marketing Science* 40 (September 2012), pp. 711–27.

Packaging updates and redesigns can occur frequently to keep the brand contemporary, relevant, or practical. Although these changes can have immediate impact on sales, they also can have a downside, as PepsiCo learned for its Tropicana brand.[85]

TROPICANA PepsiCo experienced great success with its Tropicana brand, acquired in 1998. Then in 2009, the company launched a redesigned package to "refresh and modernize" the brand. The goal was to create "emotional attachment by 'heroing' the juice and trumpeting the natural fruit goodness." Arnell Group led the extreme makeover, which led to an entirely new look, downplaying the brand name, highlighting the phrase "100 percent orange pure & natural," and replacing the "straw in an orange" graphic on the front with a close-up of a glass of orange juice. Consumer response was swift and negative. The package was deemed "ugly" or "stupid," and some even confused the product with a store brand. Sales dropped 20 percent. After only two months, PepsiCo management announced it would revert to the old packaging.

After the company designs its packaging, it must test it. *Engineering tests* ensure that the package stands up under normal conditions; *visual tests,* that the script is legible and the colors harmonious; *dealer tests,* that dealers find the packages attractive and easy to handle; and *consumer tests,* that buyers will respond favorably.

Although developing effective packaging may require several months and several hundred thousand dollars, companies must consider growing environmental and safety concerns about excess and wasteful packaging. Fortunately, as discussed above, many firms have gone "green" and are finding creative new ways to package their wares.

Dell introduced bamboo packaging as an alternative to corrugated cardboard, foam, molded paper pulp, and plastic and took other steps to reduce the overall volume of packaging used.[86] Developmental environmentally friendly packaging that also satisfies customers' needs can be challenging, as Frito-Lay found out.[87]

SUN CHIPS Frito-Lay's Sun Chips multigrain snacks, containing 30 percent less fat than potato chips, have succeeded as a healthier, "good for you" snack option. Part of the firm's effort to also support a "healthier planet" was to to run its factory in Modesto on solar power and unveil a novel 100 percent compostable bag made of plant-based materials. Much research went into the development of the bag, and it was launched with fanfare in 2010. Unfortunately, it included polymers that made it "kind of crispy and crunchy" at room temperature, and consumers began to complain about how noisy it was. One Air Force pilot said it was louder than the cockpit of his jet. To prove his point, he squeezed the new Sun Chips bag and recorded a 95-decibel level with a sound meter, considerably more than the 77-decibel level recorded when he squeezed a conventional Tostitos bag. When thousands of people chose to friend a Facebook page called "Sorry But I Can't Hear You Over This Sun Chips Bag"—and with sales sliding—Frito-Lay decided to drop the bag after an 18-month run.

LABELING

The label can be a simple attached tag or an elaborately designed graphic that is part of the package. It might carry a great deal of information, or only the brand name. Even if the seller prefers a simple label, the law may require more.

A label performs several functions. First, it *identifies* the product or brand—for instance, the name Sunkist stamped on oranges. It might also *grade* the product; canned peaches are grade-labeled A, B, and C. The label might *describe* the product: who made it, where and when, what it contains, how it is to be used, and how to use it safely. Finally, the label might *promote* the product through attractive graphics. Advanced technology allows 360-degree shrink-wrapped labels to surround containers with bright graphics and accommodate more product information, replacing glued-on paper labels.

Labels eventually need freshening up. The label on Ivory soap has been redone at least 18 times since the 1890s, with gradual changes in the size and design of the letters. As Tropicana found out (see above), companies with labels that have become icons need to tread very carefully in order to preserve key branding elements when undertaking a redesign.

A long history of legal concerns surrounds labels and packaging. In 1914, the Federal Trade Commission Act held that false, misleading, or deceptive labels or packages constitute unfair competition. The Fair Packaging and Labeling Act, passed by Congress in 1967, set mandatory labeling requirements, encouraged voluntary industry packaging standards, and allowed federal agencies to set packaging regulations in specific industries.

The Food and Drug Administration (FDA) has required processed-food producers to include nutritional labeling that clearly states the amounts of protein, fat, carbohydrates, and calories contained in products, as well as vitamin and mineral content as a percentage of the recommended daily allowance.[88] The FDA has also taken action against potentially misleading uses of such descriptions as "light," "high fiber," and "low fat."

Not all countries apply such strict definitions. In the United Kingdom, "light" and "lite" do not have an official meaning in law, though "low fat" does—the food product must be less than 3 percent fat to qualify. As a result, some foods branded "light" there have been found to contain up to seven times more fat than those described as "low fat."[89]

WARRANTIES AND GUARANTEES

All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations. **Warranties** are formal statements of expected product performance by the manufacturer. Products under warranty can be returned to the manufacturer or designated repair center for repair, replacement, or refund. Whether expressed or implied, warranties are legally enforceable.

Extended warranties and service contracts can be extremely lucrative for manufacturers and retailers. Analysts estimate that warranty sales have accounted for a large percentage of Best Buy's operating profits.[90] Despite evidence that extended warranties do not pay off for them, some consumers value the peace of mind.[91] These warranties still generate multibillion dollars in revenue for electronic goods in the United States, though the total has declined as consumers have become more comfortable seeking solutions to technical problems online or from friends.[92]

Many sellers offer either general or specific guarantees. A company such as Procter & Gamble promises general or complete satisfaction without being more specific—"If you are not satisfied for any reason, return for replacement, exchange, or refund." A. T. Cross guarantees its Cross pens and pencils for life. The customer mails the pen to A. T. Cross (mailers are provided at stores), and the pen is repaired or replaced at no charge.

Guarantees reduce the buyer's perceived risk. They suggest that the product is of high quality and the company and its service performance are dependable. They can be especially helpful when the company or product is not well known or when the product's quality is superior to that of competitors. Hyundai's and Kia's highly successful 10-year or 100,000-mile power train warranty programs were designed in part to assure potential buyers of the quality of the products and the companies' stability.

Summary

1. Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labeling.
2. In planning its market offering, the marketer needs to think through the five levels of the product: the core benefit, the basic product, the expected product, the augmented product, and the potential product, which encompasses all the augmentations and transformations the product might ultimately undergo.
3. Products can be nondurable goods, durable goods, or services. In the consumer-goods category are convenience goods (staples, impulse goods, emergency goods), shopping goods (homogeneous and heterogeneous), specialty goods, and unsought goods. The industrial-goods category has three subcategories: materials and parts (raw materials and manufactured materials and parts), capital items (installations and equipment), and supplies and business services (operating supplies, maintenance and repair items, maintenance and repair services, and business advisory services).
4. Brands can be differentiated on the basis of product form, features, performance, conformance, durability, reliability, repairability, style, customization, and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.
5. Design is the totality of features that affect how a product looks, feels, and functions. A well-designed product offers functional and aesthetic benefits to consumers and can be an important source of differentiation.
6. Luxury brands command price premiums and often have a strong lifestyle component. They can require some special considerations in how they are sold.

7. Products and their packaging must be designed to reduce adverse environmental impact as much as possible.
8. Most companies sell more than one product. A product mix can be classified according to width, length, depth, and consistency. These four dimensions are the tools for developing the company's marketing strategy and deciding which product lines to grow, maintain, harvest, and divest. To analyze a product line and decide how many resources to invest in it, product line managers need to look at sales and profits and market profile.
9. A company can change the product component of its marketing mix by lengthening its product via line stretching (down-market, up-market, or both) or line filling, by modernizing its products, by featuring certain products, and by pruning its products to eliminate the least profitable.
10. Brands are often sold or marketed jointly with other brands. Ingredient brands and co-brands can add value, assuming they have equity and are perceived as fitting appropriately.
11. Physical products must be packaged and labeled. Well-designed packages can create convenience value for customers and promotional value for producers. Warranties and guarantees can offer further assurance to consumers.

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Applications

Marketing **Debate**

With Products, Is It Form or Function?

The "form vs. function" debate applies in many arenas, including marketing. Some marketers believe product performance is the be-all and end-all. Other marketers maintain that the look, feel, and other design elements of products are what really make the difference.

Take a position: **Product performance is the key to brand success *versus* Product aesthetics are the key to brand success.**

Marketing **Discussion:**

Product and Service Differentiation

Consider the many 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 of these means of differentiation?

Marketing Excellence

>> Nivea

In 1882, pharmacist Paul C. Beiersdorf established his company with a patent for medical plasters. Beiersdorf sold his company to Oscar Troplowitz in 1890. By 1911, Oscar Troplowitz had developed the world's first stable skin cream based on a water-in-oil emulsion. He named the product Nivea, derived from the Latin words *nix*, *nivis*, meaning "snow" or "of snow." With this brand name, the core benefit of Nivea was being highlighted: Nivea protected the skin so that it stayed white as snow—the ideal of female beauty in Europe at the beginning of the last century.

By 1914, the company had already generated 42 percent of their sales outside of Germany and was doing business in 34 countries. Fourteen years after its market introduction, Nivea underwent what we would today call a relaunch. Before 1925, Nivea crème was sold in an off-white tin with the brand name written in green cursive lettering. With the relaunch, the package design was modernized. The dye of the tin was changed to blue, a color that is today associated with the brand, and the typography was changed to a more modern font. Furthermore, the positioning strategy was switched to keep up with the social changes of that time. Nivea now allowed its consumers to get a "healthy suntan" to reflect the changed ideals of beauty. After a difficult period during World War II, Beiersdorf started anew. In many countries, the Nivea trademarks were lost since they had been seized by the victorious nations. Soon after the war, Beiersdorf started buying back the trademarks. In 1963, it introduced innovative products like the world's first "liquid cream," Nivea Milk. With Nivea Men After Shave Balsam, Beiersdorf introduced in 1980 the first aftershave product that soothed the skin. By the 1990s, Nivea was the world's leading skin care brand with a standardized global brand policy. It had expanded its product line into new areas, like makeup, men's facial crème, and deodorants.

In only 10 years after standardizing its global brand policy, sales had quadrupled and Nivea became Beiersdorf's largest brand. But not all product line extensions were successful and several of the company's international ventures were failures. The purchase of C-Bons in 2007, China's number two hair care brand, was a flop. Even in Western Europe, Nivea sales dropped for several years in a row. Nevertheless, Nivea continued its international expansion strategy with a series of local product adaptations while the brand appearance was standardized. In Asian countries, for example, facial products sold much better since they contained ingredients promoting a fair complexion whereas in the Middle East local fragrances like musk were used.

In 2011, Beiersdorf started to restructure Nivea's product portfolio and brand appearance. Above all, Nivea's current square logo was redesigned to resemble the classic Nivea logo. It now mirrors the famous tin packaging with a round blue logo with the brand name Nivea placed prominently in the middle. All Nivea products underwent these logo changes to reconnect the brand to its core product, Nivea crème. Tests showed that with the new logo Nivea's visibility at the points of purchase had improved. In addition, the package design of most Nivea products was changed. For example, the cap of all body lotion packages was reshaped. It is now tilted toward the user, and has a more inviting look and feel.

Nivea for Men was renamed Nivea Men to strengthen the brand's position in the fast growing market for men's cosmetics. Also, the product line of Nivea was rearranged. Several products and categories, that were less successful and not enough in sync with the brand's slightly reshaped core values—trust, care, and closeness—were abandoned. All in all, the product portfolio was reduced by approximately 25 percent, especially in over-segmented categories like deodorants. Beauty was dropped as an additional core value of the brand that had been added in the 1990s. Consistently, makeup products were withdrawn from the product line. But the innovation process still continued. With In-Shower Body Moisturizer, Nivea introduced a highly innovative and successful product to be used on wet skin that is faster and more convenient to use than traditional body lotion.

Today, Nivea is one of the strongest face care brands. Around 30 percent of all women around the world use Nivea products. The global brand awareness for Nivea is 93 percent. Nivea is the market leader in the skin care segment in 46 countries, and has repeatedly been voted the Most Trusted Skin Care Brand by consumers in 12 European countries.

Questions

1. What were the key steps in maintaining Nivea's leading position in the global facial care market?
2. Explain the connection between cultural norms and product choice. What is Nivea's strategy in respecting cultural diversity while pursuing a global brand strategy?
3. Discuss Nivea's future. What should Beiersdorf do next with its product line? Where is the future growth for the brand?

Sources: Gregor Kessler, "Neue Rezeptur," *Capital*, October 18, 2012; Michael Brandtner, "Innovation & Branding," *A3BOOM*, September 25, 2014; Frauke Schobelt, "Weltweit neues Design: Beiersdorf adelt die Dose," *w&v*, January 15, 2013; Beiersdorf, www.beiersdorf.com; Nivea, www.nivea.com.

Marketing Excellence

>> Toyota

The world's largest automaker, Toyota has come a long way in its nearly 80-year history. The company launched its first passenger car, the Model AA, in 1936, copying the body design of Chrysler's landmark Airflow and the engine of a 1933 Chevrolet. Toyota then suffered several challenges, including a financial crisis in 1950. However, when consumers wanted smaller, more fuel-efficient automobiles during the 1973 oil crisis, the company responded. The Toyota Corona and Toyota Corolla offered basic features and acted as the company's new entry-level cars. Toyota also launched the Cressida, with the fuel efficiency consumers desired but space and amenities like air conditioning and AM-FM radio.

During the 1980s and 1990s, Toyota gradually added more models ranging in price, size, and features. In 1982, the company introduced the Camry—a four-door, mid-sized car that offered more space than the Corona and became the best-selling passenger car in North America. The first of the company's popular SUVs, the 4Runner, appeared in 1984 looking and acting much like a pickup truck. It later morphed into more of a passenger vehicle and led the way for the Rav4, Highlander, and LandCruiser. Toyota also introduced a full-sized pickup truck—today's Tundra—and several sporty and affordable cars that targeted young adults.

In 1989, it launched Lexus, its luxury division, promising an unparalleled experience starting with white-glove treatment at the dealership. Toyota understood, however, that each country defines luxury differently. In the United States, it meant comfort, size, and dependability; in Europe, attention to detail and brand heritage. As a result, the company varied its advertising depending on the country and culture.

In 1997, Toyota launched the Prius, the first mass-produced hybrid car, for $19,995—between the Corolla and the Camry. The company's keen focus on developing a clean-energy car was brilliantly timed. Before the second-generation Prius hit showrooms in 2002, dealers had already received 10,000 orders. Over the next decade, Ford, Nissan, GM, and Honda followed the Prius with models of their own.

Toyota also started creating vehicles for specific target groups, like the Scion for young adults. Having learned this market wanted more personalization, the company now builds the car "mono-spec" at the factory, with just one well-equipped trim level, letting customers choose from dozens of customization elements at dealerships. Toyota marketed the Scion at music events and has showrooms where "young people feel comfortable hanging out and not a place where they just go stare at a car," said Scion Vice President Jim Letz.

Another big reason behind Toyota's success is its mastery of lean manufacturing and continuous improvement. Its plants can make as many as eight models at the same time, bringing huge increases in productivity and market responsiveness. The company also relentlessly innovates; a typical Toyota assembly line makes thousands of operational changes in a year. Employees see their purpose as threefold: making cars, making cars better, and teaching everyone how to make cars better. The company encourages problem solving, always looking to improve the process by which it improves all other processes.

Toyota has integrated its assembly plants around the world into a single giant network that can customize cars for local markets and shift production quickly to meet surges in demand from markets worldwide. The company is thus able to fill market niches inexpensively as they emerge, without building whole new assembly operations. "If there's a market or market segment where they aren't present, they go there," said Tatsuo Yoshida, auto analyst at Deutsche Securities Ltd.

Over the years, Toyota automobiles have consistently ranked high in quality and reliability. In 2009 and 2010, however, the company recalled more than 8 million cars for potential perceived problems ranging from sticking accelerator pedals to sudden acceleration to software glitches in the braking system. The Lexus, Prius, Camry, Corolla, and Tundra brands were all affected. Next, Toyota lost billions of dollars when an earthquake and tsunami in Japan destroyed the company's plants and parts suppliers in 2011. TMC President Akio Toyoda said, "We have faced many challenges since 2009, but have learned valuable lessons including the need for Toyota to maintain sustainable growth."

Despite these challenges, Toyota recouped its losses. Its strong focus on hybrid vehicles has proved profitable and helped the company rebound. It sold its 4 millionth unit in 2012 and plans to continue to innovate hybrids, believing "there are many more gains we can achieve with hybrids." Today, Toyota offers a full line of cars for the global market, from family sedans and sport utility vehicles to trucks and minivans. In 2013, the company earned more than 22 trillion yen (or $217 billion) and sold 8.87 million automobiles, edging past General Motors to become the world's largest carmaker.

Questions

1. Toyota has built a huge manufacturing capacity that can produce millions of cars each year for a wide variety of consumers. Why was it able to become so much bigger than any other auto manufacturer?
2. Has Toyota done the right thing by manufacturing a car brand for everyone? Why or why not?

Sources: Martin Zimmerman, "Toyota's First Quarter Global Sales Beat GM's Preliminary Numbers," *Los Angeles Times*, April 24, 2007; Charles Fishman, "No Satisfaction at Toyota," *Fast Company,* December 2006–January 2007, pp. 82–90; Stuart F. Brown, "Toyota's Global Body Shop," *Fortune*, February 9, 2004, p. 120; James B. Treece, "Ford Down; Toyota Aims for No. 1," *Automotive News*, February 2, 2004, p. 1; Brian Bemner and Chester Dawson, "Can Anything Stop Toyota?," *BusinessWeek*, November 17, 2003, pp. 114–22; Tomoko A. Hosaka, "Toyota Counts Rising Costs of Recall Woes," *Associated Press,* March 16, 2010; "World Motor Vehicle Production by Manufacturer," *OICA,* July 2009; Chris Isidore, "Toyota Recall Costs: $2 Billion," http://money.cnn.com, February 4, 2010; Associated Press, "Toyota Sells Most Cars despite China Slump," July 26, 2013; Trefis Team, "Japan Quake, Tsunami Take Heavy Toll On Toyota," *Forbes,* April 8, 2011; Mike Ramsey, "Toyota Calls Hybrids 'Sturdy Bridge' to Automotive Future," *Wall Street Journal,* September 30, 2013; Toyota Motor Corporation 2013 Annual Report; www.toyota.com.

USAA's legendary quality of service and continual innovation has created strong customer loyalty.

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In This Chapter, We Will Address the Following **Questions**

1. How can services be defined and classified, and how do they differ from goods? (p. 421)
2. What are the new services realities? (p. 428)
3. How can companies achieve excellence in services marketing? (p. 432)
4. How can companies improve service quality? (p. 439)
5. How can goods marketers improve customer-support services? (p. 440)