UNIT 5 PRODUCT CONCEPTS AND CLASSIFICATION

Structure

5.0 OBJECTIVES

After studying this unit you should be able to:

- explain the meaning of product and its essential attributes;
- distinguish between various types of products;
- describe the terms product mix' and 'product line' and explain product line related strategies; and
- narrate the concept of product diversification and related strategies.

5.1 INTRODUCTION

In the previous four units you have learnt the basic concepts of marketing, i.e., nature and scope of marketing, marketing environment, and markets and market segmentation. When a marketer starts his operation, he has to content with certain environmental forces that tend to influence his activities. To match such forces, keeping organisational strengths and limitations in mind, he develops an overall marketing programme called marketing mix. The marketing mix is composed of four elements viz., product mix, pricing mix, place mix and promotion mix. It is also referred to as four "Ps' of the marketing mix. In this unit you will study the first element of the marketing mix, i.e., **the product.** You will study the meaning and essential attributes of a product, types of products, product mix and product line, related strategies, and the concept of product diversification and related strategies.

5.2 MEANING OF PRODUCT

We take steel sheet, nuts and bolts, a motor, paint, and other accessories, process them a given manner and our effort may result in the form of a washing machine. However, When the consumer buys the machine, it is not simply the machine that emerged out of the efforts and things that went into it. The consumer buys it because he has a specific want (i.e., something to aid in washing clothes) and the consumer is exploring a way to satisfy that want. He looks for an accepted brand name, a warranty, an assured after-sales service, some appealing physical features and an impressive colour. Thus, marketers should recognise that people are not simply interested in buying the physical features of the product, but they buy to satisfy their wants. For that matter some products which people buy do not have physical feature at all. Take for instance an income-tax consultant. He sells his advice which does not have any physical features. It means, apart from physical products, we must also include services within the scope of our discussion.

Thus, a product may be defined in a narrow as well as broad sense. In a narrows sense, it is a set of tangible physical and chemical attributes in an identifiable and readily recognisable form. In a broader sense we may look at it in the form of an object idea, service, person, place, activity, goods, or an organisation. It can even be a combination of some of these factors.

Let us study how 'product' is being defined by various people. According to Philip Kotler, a *product is anything that can be offered to a market for attention, acquisition use of consumption, it includes physical objects, service, personalities, place, organisation and ideas.*

Jay Diamond and Gerald Pintel states that *the total product, in addition to the physical, product, includes guarantees, installation, instructions for use, packaging, branding and the availability of service. The total product is what the customer buys, and frequently the fringe characteristics such as guarantees and servicing are as important as the physical product itself.*

William J. Stanton defined the term 'product' as *a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs*.

As defined by Jerome McCarthy, *a product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfils some psychological needs and the assurance that service facilities will be available to meet the customer's needs after the purchase.*

According to W. Alderson, *a product is a bundle of utilities consisting of various product features and accompanying services.*

Schwartz defined a product as something a firm markets that will satisfy a personal want or fill a business or commercial need; and includes, all the peripheral factors that may contribute to consumer's satisfaction.

From the above definitions it can safely be concluded that the word product, in the context of marketing, has a much wider connotation. It is applicable to any offering to a market for possible purchase or use. It encompasses physical objects i.e., a television), services (e.g., airlines), places (e.g., tourist resorts), organisations (e.g. red cross), persons (e.g., an athlete) and ideas (e.g., flood relief aid). It also includes supporting services e.g., design, brand, package, label, price, etc. **To sum up a product is a combination of physical, economic, social and psychological benefits.**

Essential Attributes of a Product

Based on the above definitions, we can list out the essential characteristics of a product as follows:

1) **Tangible or Intangible:** It may be capable of being touched, seen and presence felt. For example, products like a comb, refrigerator and motor cycle are tangible. At the same time, a product need not necessarily be tangible. It can be intangible but capable of providing a service. For instance, repairing, hair-dressing, insurance, etc., are intangible but provide satisfaction to the customers.

2) **Associated Attributes:** A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including colour, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products from each other.

3) **Exchange Value:** A product must be capable of being exchanged between a buyer and a seller at a mutually acceptable cost.

4) **Satisfaction:** It should be capable of providing satisfaction to the buyer, both real and psychological. As far as the seller is concerned, it should provide the much needed business profit.

Check Your Progress A

1) What is a product?
2) State whether the following statement are True or False
   i) A product is always tangible.
   ii) A product provides satisfaction to the customer.
   iii) A product cannot be identified
   iv) Every product has exchange value.

5.3 PRODUCT MIX AND PRODUCT LINE

A firm may be selling a single product or a wide range of products. For instance, Godrej Company manufactures a variety of products like office furniture (tables, chairs, steel almirahs) office equipment (typewriters), cosmetics (toilet soap), domestic appliances (refrigerators), etc While referring to the range of products manufactured or sold by a firm, marketers use two concepts very extensively. Those concepts are 1) product line, 2) product mix. Let us discuss these terms in detail

Product Line: A product line is an expression generally used to describe a group of closely related products. A group of products may be referred to as a product line either because they cater to the needs of a particular group of buyers, or they function in similar manner or they are sold through identical marketing facilities or fall within the same price range. The crux of the situation is that such reasoning may be consistently used for referring to a product group as a product line. A seller may identify a number of product lines to be offered to buyers by keeping in view the buyer's considerations, economy of production, distribution, etc.

Product Mix: The expression product mix refers to all the products offered by a particular seller. Product mix has three components, viz., breadth, depth and consistency. The **breadth** (or width) of the product mix indicates as to how many product lines are offered by a seller. For example, Bajaj Electrical offers a variety of electrical appliances such as fans, mixers, lamps, gysers, etc. The term **depth** refers to the assortment of sizes, colours, and models offered within each product line. For example, Palmolive Soap is offered in three different types to cater to different types of skin of the consumers. **Consistency** means the closeness of the product lines in end-use, production requirements, distribution channels, etc.

A product item can be defined as a specific version of a product that has a separate brand name or designation in the seller's list.

Let us understand these three terms 'product line', 'product mix' and 'product items' through an illustration. Delhi Cloth and General Mills Limited deal in product lines Like vanaspati, sugar, chemicals, calculators, fertilisers and readymade garments. All these Product lines taken together are the company's product mix. However, double bull shirts are its product item.

Look at Figure 5.1 for a diagrammatic illustration of the concepts of product mix and product line.

Figure 5.1 shows that there are five product lines. Here the **width of the product mix** is five product lines. The **length of the product line** refers to the total number product items offered in a product line. For instance, the first product line has the length of five product items and third product line has the length of only one product item. **The length of the product mix** refers to the total number of product items offered by the company. In this illustration the length of the product mix is 15. We can also calculate the **average length of product line** by dividing the length of product mix (here 15) by the number of product line (here 5). In this case average length of product line is three (15 ÷ 5).

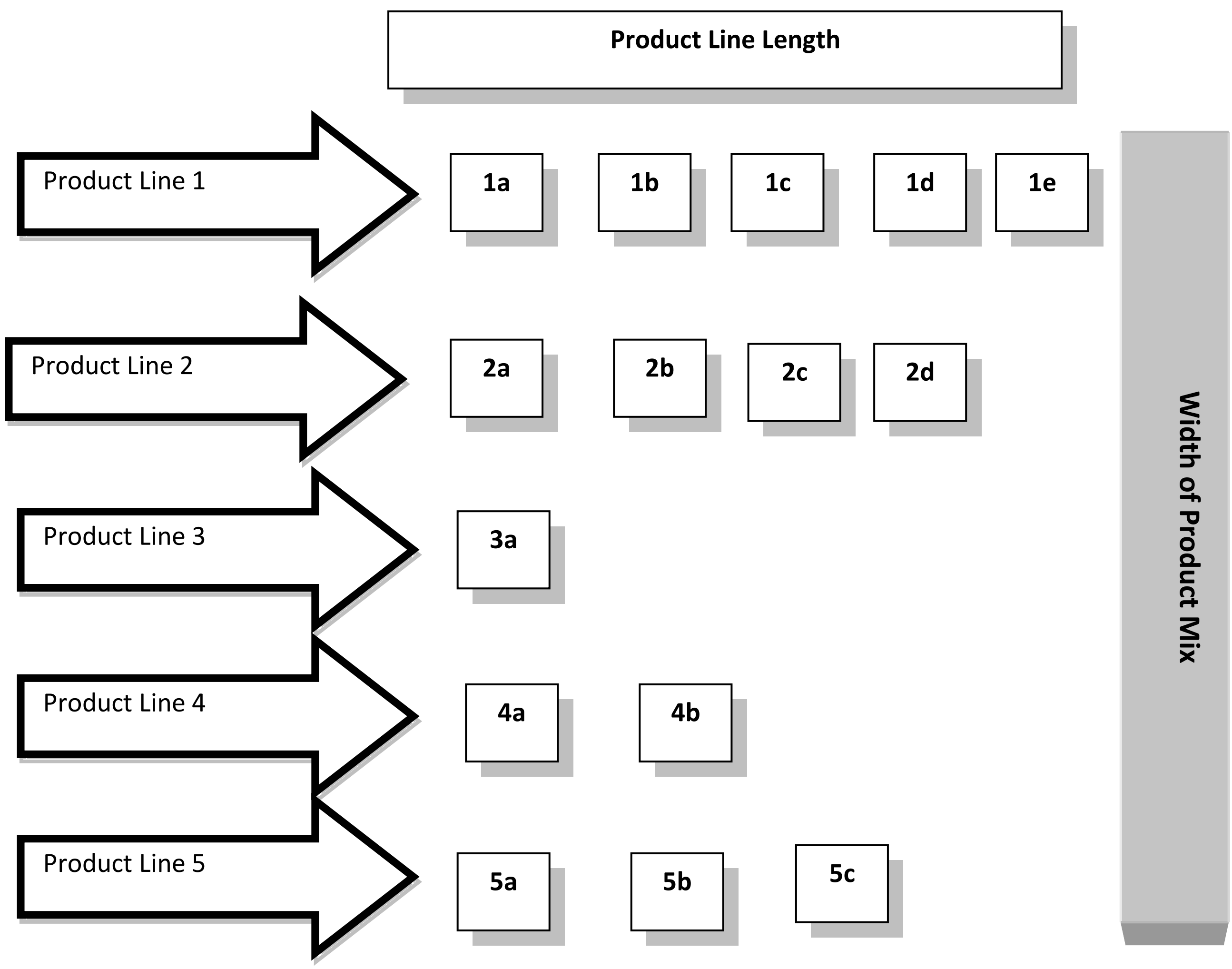

Figure 5.1: The concepts of Product Line and Product Mix

5.4 PRODUCT MIX AND PRODUCT LINE STRATEGIES

Product mix of a seller, while giving expression to its current position, is also an indicator of the future. Thus, product mix is not a static position but a highly dynamic concept. A company may withdraw a product from its existing mix, if the product is not contributing to the profitability and growth of the company. Similarly, a new product may also be added to cash on some attractive opportunity that comes its way, Thus, the companies always attempt to maintain an optimal product mix with a view to maintain a balance between current profitability, and future growth and stability. For this end, a company alters or modifies the existing product line in any of the following ways:

1) **Contraction of the Product Line:** When a company finds that some of its products are no more profitable, it may decide to suspend their production. Similarly, changes in the marketing environment may also necessitate withdrawal of a product. A product may also be dropped from the product line if it is found that the same resources used for the production of the product can be put to more profitable use by producing another product. Decisions relating to these aspects are termed as *"Contraction of the Product Line". Thus, thinning out the product mix either by eliminating an entire line or simplifying the product items within the line is called contraction of product line.* This is also called **Contraction of Production Mix or Product Line Simplification.** This strategy is adopted mainly to eliminate low-profit products and to get more profit from fewer products.

2) **Expansion of Product Mix:** To cash on available opportunities, a company decides to expand its present product line. It may also increase the number of product lines and/or the depth within a line. Such new lines may be related or unrelated to the existing product mix. For example, a company dealing in drugs and chemicals may add products in a relatively new area like Computers.

3) **Changes in Quality Standards:** When the market expectations undergo a change a firm may have to react by altering the quality standards of the existing product techniques. Such changes can be brought about through **Trading Up and Trading down techniques.**

   i) **Trading Up:** When we add a higher priced prestige product to the existing low-priced product line, it is termed as trading up. This strategy is adopted with the hope of increasing the sales volume of the existing low-priced products. If conditions so demand in future, the company may increase promotional efforts for the new product and thus add to overall sales volume though the new product, thereby improving profitability of the firm. In this manner a company known for low-quality products tries to raise its image of dealing in high-quality goods on the one hand and offering an alternative to buyer to choose from. We often hear such terms as "Janta Model" and "Deluxe Model" and this illustrates the point.

ii) **Trading Down :** It is the reverse of trading up. When a firm adds low quality products at relatively lower price to its line of high priced prestige products, it is termed as trading down strategy. It helps in widening the marketing base and results in expanding overall sales volume. Introduction of moped by a company manufacturing motor cycles is a case of trading down.

4) **Affecting Change in Model/Style of an Existing Product:** The desire of the consumer varies with varying times. To cope with such change in the consumer mood a company can react by offering new models of a product or changing the style of an existing product.

5) **Product Differentiation:** Under this strategy, a firm tries to differentiate its products from the competitor's products or other products within the same product line offered by the company by highlighting quality or design. This strategy is aimed at avoiding competition on price basis. The competition is then met at non-price front and a price-war is avoided. The firm, thus, promotes awareness of the good attributes of the product offering. In view of the fact that this strategy involves large promotional effort with huge financial outlays, it is also known as **promotional strategy.**

6) **Product Positioning:** As an integral part of product segmentation, after the market is segmented, it becomes necessary to pinpoint the needs of each segment and offer products to satisfy the needs of specific segments. This process is referred to as **product positioning.** It includes all activities from identification of a market segment to directing marketing effort at.

7) **New Product:** In view of increasing competition, scientific advancement, enhanced consumer expectations, it is necessary that new products are introduced. Such introduction is essential for the survival and growth of an organisation. The rate of increase in expenditure on Research and Development by many organisations is a clear proof of the need and realisation to introduce new products.

Check Your Progress B

1) What is the meaning of product mix?
2) What is a product line?
3) Differentiate between trading up and trading down.
4) What is contraction of product mix?
5) Distinguish between product item and product line
6) Match the items in Column A with the items in Column B.

Column A	**Column B**
i) Trading up	a) To avoid competition on price basis
ii) Product line	b) Adding a low priced product to a high price
iii) Contraction of product line	c) Group of closely related products
iv) Product Differentiation	d). Adding a high priced product to a low price
v) Trading down	e) Suspension of a product item from the product line

5.5 CLASSIFICATION OF PRODUCTS

You have studied in Unit 3 that, in order to make the market programme effective, the markets are segmented and marketing strategies are developed for each segment. In the same way, it is also useful to classify products into homogeneous groups as different types of products require different marketing approach. There are several ways of classifying products:

1) On the basis of the user status, products may be classified as consumer goods and industrial goods.
2) On the basis of the extent of durability, products may be classified as durable goods and non-durable goods.
3) On the basis of tangibility, products may be classified as tangible goods and non-tangible These non-tangible goods are referred to as services.

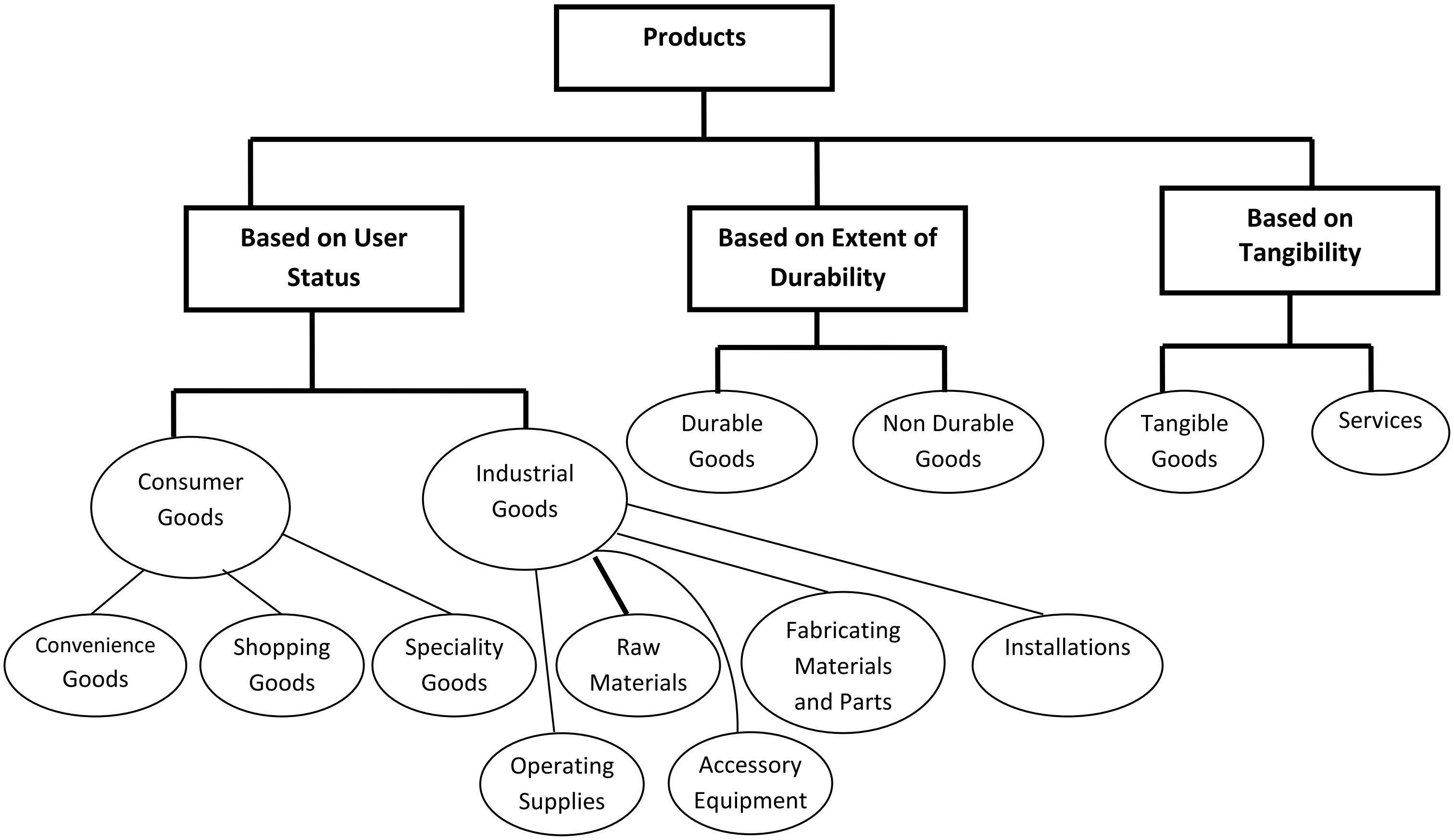

Figure 5.2 : Classification of Products

Look at Figure 5.2 carefully for a detailed classification of products. These classifications are necessary for a marketer, as different types of products require different marketing strategies. Let us now take the following four major types, and analyse their characteristics and marketing strategies:

1) Consumer goods
2) Industrial goods
3) Durable and Non-durable goods
4) Services.

5.5.1 Consumer Goods

Consumer goods are those products which are bought by the households or ultimate consumers for personal non-business use. Consumer's use the product in the form in which the product is being offered i.e., no further processing is done. For example, a tooth brush, a comb, a wrist watch or a moped are all meant for personal use of households and are, thus, classified as consumer goods. Consumer goods may be classified into three types as: 1) convenience goods, 2) shopping goods, and 3) speciality goods. Let us discuss about these three categories in detail.

Convenience Goods

A class of consumer goods that people buy frequently with the least possible time and effort are called 'convenience goods'. These are the products the consumers want to purchase frequently, immediately and with a minimum effort. Milk, bread, butter, eggs, soap, newspaper, biscuits, tooth pastes, etc., are some examples of convenience goods. This category of goods has a low unit price, is not bulky and not greatly affected by fad and fashion. They have two significant characteristics : 1) the consumer has complete knowledge of the products which he want to buy and 2) the Product purchased with a minimum of effort. Convenience goods are usually sold by brand name and are low-priced. Many of them such as bread, milk and edible oil, are staple items, and the supply must be constantly replenished. In most cases, the buyer has already decided to buy a particular brand at a particular store and spends little time deliberating about the purchase decision. So convenience goods must be readily accessible when the consumer demand arises. To ensure this, the manufacturer must secure wide distribution.

The consumers rarely visit competing stores to compare price and quality while purchasing convenience goods. The possible gains from such comparisons are outweighed by the costs of acquiring the additional information. This does not mean however, that the consumer remains permanently loyal to one brand of cigarettes, or soap or biscuit. A consumer is willing to accept any of several brands and thus will buy the brand that is most accessible. Since the price of most convenience goods is low, trial purchase of competing brands or products are made with little financial risk, and often new habits are developed.

Retailers usually carry several competing brands or products and are not able to promote any particular brand. Therefore, the promotional burden to develop consumer acceptance for the products falls on the manufacturer.

Shipping Goods

There are a class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., of alternative products in competing stores. The purchaser of shopping goods lacks complete information prior to the shopping trip and gather information during it. For instance a woman intending to buy a new dress may visit many stores, try on a number of dresses, and spend making the final choice. She may go from store to store in surveying competing offerings and ultimately select the dress that most appeals to her. In addition to women's apparel, shopping goods include such items as jewellery, furniture, appliances, shoes, etc. It is important to place the convenience goods in stores located near other stores carrying competing items, as it facilitates the convenience goods customers to compare the product, Shopping goods are typically more expensive than convenience goods.

Some shopping goods, such as children's shoes, are considered homogeneous i.e. the consumer views them as essentially the same. Others such as furniture and clothing are considered heterogeneous i.e., essentially different. Price is an important factor in the purchase of homogeneous shopping goods, while quality and style are relatively more important in the purchase of heterogeneous goods. Manufacturers of convenience goods require some retail outlets as consumers are willing to look around a bit for what they want. Normally, manufacturers directly supply the goods to the retail stores that buy in large quantities.

Speciality Goods

A class of consumer goods with perceived unique characteristics, such that consumers are willing to spend special effort to buy them, are known as Speciality Goods. The buyer of speciality goods is well aware of what he or she wants and is willing to make a special effort to obtain it. The nearest camera dealer may be twenty miles away, but the camera enthusiast will go there to inspect and buy that camera. To purchase a colour TV a person in a village may require a special trip to a nearby city which is several miles away. Still he will go there, spend his time in inspecting several brands and finally buy a set of his choice. Examples of some of the speciality goods are photographic equipment, TV sets, VCRs, stereo sound equipment, new automobiles, etc.

Speciality Goods possess unique characteristics that cause the buyer to prefer that particular brand. For these products the buyer possesses complete information prior to the shopping trip and is unwilling to accept substitutes. Speciality goods are typically high-priced and are always branded. Since consumers are willing to exert considerable effort to obtain them, fewer retail outlets are needed. Since brand is important, the manufacturers of speciality goods advertise extensively.

This three-way classification of consumer goods allows the marketing manager to gain additional information for developing an effective marketing strategy for the product. For instance, once the new food product has been classified as a convenience product, you gain insight about marketing strategies in branding, promoting, pricing and distribution methods.

5.5.2 Industrial Goods

Industrial goods are those goods which are meant to be bought by the buyers as inputs in production of other products or for rendering some service. The product may, thus, undergo *further commercial processing*. *Industrial products are meant for non-personal and commercial use.* Industrial goods include items like machinery, raw materials, components, etc. It may be worthwhile clarifying a point that the same product may sometimes be classified as a consumer product and as an industrial product depending upon the end-use. Take the case of coconut oil. When it is used by a person as hair oil or cooking oil, it would be treated as a consumer product. However, when coconut oil used in the manufacture of a toilet soap, it is as an industrial product. Similar, take the case of car tyres. When it is used by car owner, it becomes consumer product. The same tyre when used by a car manufacturing company, it becomes an industrial product. Thus, many products can be treated as industrial goods as well as consumer goods. However, the industrial buyer is cost conscious and is concerned about the quality and standard of the product being offered to him. An industrial buyer is not impulsive and is rational in buying effort. Therefore, industrial goods are to be sold in a different way from consumer goods. You have studied in detail about the difference between industrial buyer and ultimate consumers in Unit 4.

Depending on how the goods enter the production process, industrial goods may be classified into five groups as follows:

Raw Materials

Raw materials are those industrial goods that become part of another physical product. Raw materials include goods found in natural state such as minerals, marine products of forests, etc., and agricultural goods like corn, cotton, fruits, milk, eggs etc. Marketing strategies for the two categories of raw material are different. First group of raw materials are normally bulky and have low unit value. They are produced by a few large producers. Second category of raw materials (agricultural rural products) is produced by a large number of small producers spread over a large area. Most of the second category products are perishable.

Fabricating Materials and Parts

This category of industrial goods also becomes actual part of the finished product. Unlike raw materials, fabricating materials and parts have already been processed, to some extent, but may need further processing before actual use. For example, yarn being woven into cloth and pig iron being converted into steel.

Installations

They are manufactured industrial products, e.g., a generator and a large pump set for city water supply scheme. They alter the scale of operations in a firm. Normally, installations are directly sold to the industrial user and middlemen are not involved. Pre-sale and post-sale servicing is required for these products.

Accessory Equipment

They are used to aid production operations of an industrial buyer, and does not have an influence on scale of operations of the buyer. It does not form part of the finished product.

Operating Supplies

They are low priced, short-lived items purchased with minimum effort and could well be termed as convenience goods of industrial field. They aid in the firm's operations without becoming part of the end product e.g., lubricating oil, stationery, etc.

It may be added that the demand for industrial products is derived, inelastic and widely fluctuating. The buyer is knowledgeable and their number is limited. Because of large size of demand, an industrial buyer can influence the market to a large extent.

5.2.3 Durable Goods and Non-durable Goods

Tangible products with a long life and lasting many years of active service to owner are termed as durable goods. Television, fan, refrigerator, pressure cooker, etc., may be cited as examples of durable goods. A durable product would require a lot of personal selling, and pre-sales and post-sales service. Such products provide a higher Margin to seller but require an assured after-sales guarantee. Therefore, in case of refrigerators, the number of years of guarantee (particularly for the compressor) is an important consideration when a consumer makes his final selection.

If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by peons' who may not know how to use it. This results in poor duplication and copies look unattractive and the consumer impression that the fault lies with the machine. So, while marketing such a Product, it is important to guide the actual uses of the machine.

Products which consumed in one go or last a few uses and get depleted on consumption are termed as non-durable goods. Soap, tooth paste, cigarette, soft drink, etc. are some examples of non-durable goods. For drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the good are consumed very fast. The advantage of these goods is that they are purchased very often and therefore, there are many repeat purchases once the customer is satisfied. With one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty. In view of the fact that such products are consumed fast and require frequent purchases, they need to be made available in a large number of sales points.

5.5.4 Services

Services are specially mentioned here because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. *Services are the separately identifiable, essentially intangible activities which provide want satisfaction and which are not necessarily tied to the sale of a product or another service.* For example, courts offer a service. So are hospitals, the fire department, the police and the post office offer a service. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals the perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building up its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which include airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners, etc. need marketing.

Check Your Progress C

1) Distinguish between consumer goods and industrial goods.
2) Distinguish between durable and non-durable goods.
3) What is a service?
4) State whether the following products are consumer goods or industrial goods
   - i) Electricity
   - ii) Shoes
   - iii) Petrol
   - iv) Car
   - v) Mango
   - vi) Toys
   - vii) Electricity Generator
5) Which one of the following are durable goods and which are non-durable goods ?
   - i) Television

ii) Tooth Paste
iii) Bath Soap
iv) Refrigerator
v) Desert Cooler
vi) Hair Oil

5.6 PRODUCT DIVERSIFICATION

A single product company can hardly expect to provide satisfaction to many consumers for a long time. On the other hand, a multi-product company can offer an alternative product to meet the changing needs and tastes of the consumers. It is for this reason that most companies, as a matter of policy, offer a variety of products in product-mix. This phenomenon is called product diversification. The firm would strive to add something new, it may be a new product or it may be entry into a new market or it may be inducting some new technology. For example, Brooke Bond have diversified from Tea/Coffee market into the business of selling spices. Hindustan Machine Tools Ltd (HMT) started with machine tools but later on diversified into such areas as watches, tractors, printing machinery and electric bulbs. Thus, *product diversification means adding a new product to the existing product line or product mix.* Product diversification is applicable not only to production, but to selling or distribution as well. A seller dealing in watches may diversify by selling toys.

Generally, diversification is categorised into two types: 1) related diversification and 2) unrelated diversification.

5.6.1 Related Diversification

Where the new products introduced in the product mix are similar to the existing products, it is described as 'related diversification'. Related diversification is the most common form of diversification, inexpensive and easier. For example, Hindustan Lever offers a variety of toilet soaps such as Lifebuoy, Lux, Pears, etc., and also other brands of soaps or cleaning materials such as Vim, Surf or Rin as part of related diversification strategy. So far, the relatedness of the products is quite clear. However, this relatedness is sometimes stretched to include other similar items. For example, in case of Hindustan Lever, toiletries would also be included under related diversification. For example, Hindustan Lever produces Signal and Close Up tooth Pastes.

Do you know why Gillette Company launched their razor? Surprisingly, the answer was not just to make more profits through this extra product namely the razor, but to increase the sale of their blades.
Some of the probable reasons for companies undertaking related diversification are :

1) to make a more effective use of the existing selling and distribution facilities,

2) to use its under-utilised production capacity,
3) to meet varied customer needs,
4) to take advantage of its existing reputation in a particular type of products, and
5) to increase the sale of existing products.

How far should a company venture to diversify into related product line depends upon whether :

1) diversification reduces the unit cost of selling and distributing to middlemen
2) the existing sales force can effectively sell the proposed products
3) it can meet the competitive threats or who the possible competitors are, what their cling strategies, strength and limitations are
4) there are additional expenses involved in promoting the new product, the company on meet such additional cost
5) the new product will improve the organisational image and reputation
6) the company can undertake manufacturing of the new product at a reasonable cost
7) the proposed new product can be effectively differentiated to attract potential buyers.

If the answers to most of these questions are yes, affirmative, the company would be well advised to launch such a diversification.

5.6.2 Unrelated Diversification

When the new products offered or introduced are quite different from the existing one, company is said to have adopted the strategy of unrelated diversification. For example, if a manufacturer of consumer products diversities into the manufacture of raw materials such as chemicals or industrial products, such diversification is described as unrelated diversification. This naturally involves heavier costs and managerial challenges. This is the reason why related diversification is more popular.

For example, Hindustan Lever was basically a consumer product company. It was forced into unrelated diversification because of its desire to grow in the case of Foreign Exchange Regulation Act and Industrial Licensing Policy. Today this company is a leading manufacturer of sodium tripoly phosphate (STPP), glycerine, nickel catalyst and fine chemicals. It is also producing a plant-growth nutrient a product of its own research, branded ‘Paras'. It is supported to increase cereals and vegetable yields considerably. Thus, this company has now diversified into unrelated products. Take Godrej Company, another well known company which has a varied product mix. It makes not only cosmetics, but also steel furniture, animal feed and locks. It can be seen that this company has also adopted unrelated diversification as its product mix strategy.

Unrelated diversification is 'new product-new market' strategy. Diversification into unrelated product line aims at increasing company profitability through increased sales volume by addition of new products in new markets, i.e., by selling unrelated product lines to entirely different markets. This is also called conglomerate strategy and is normally achieved through making acquisitions and affecting mergers. It can also be brought into being by an unexpected scientific research breakthrough or by coincidence finding an opportunity unfolding itself.

This strategy entails considerably greater risk than any other product-market strategy. It is a situation where the company is new both to the product and to the target markets. In view of this, it is essential that the company should assess the pros and cons of such product/market entry very carefully. As a matter of policy, this strategy should be embarked upon only after all other strategies have been fully filed-up i.e., present product lines do not provide any further scope of diversification.

5.6.3 Advantages of Diversification

Diversification has a number of advantages to the seller:

1) It helps the company to increase overall profitability,
2) Addition of new products helps in attracting new dealers.
3) Sometimes additional products help in spreading over-head costs, thereby reducing unit cost of all products.
4) Diversification helps to level off production and effectively reduce seasonal fluctuations in production and sales.
5) If the additional products are based on the raw materials presently being used, , the cost of the raw materials may be reduced because of the advantages of large purchases.
6) A small scale firm suffers from the weaknesses of low-level production e.g. high per unit cost, low level of standardisation, lack of specialisation, etc. These can be overcome through diversification.

It may, however, be stated that product diversification is a strategy, and not a panacea for all ailments of the firm. Diversification is useful if the company can afford to practise the multi-product multi-market posture. The company should have the needed financial and managerial resources to practice diversification. The management should do a detailed analysis of the company's product-market posture.

Check Your Progress D

1) What is product diversification?

2) Differentiate between related diversification and unrelated diversification

3) State whether the following can be treated as related diversification or unrelated diversification.

i) A refrigerator manufacturer started the production of air conditioners.

ii) Producer of washing powder started the production of washing machines.

iii) Cycle producer started the production of cycles for kids.

iv) A company selling toilet soaps entered into the market of washing soaps. v) A cement company diversified into iron and steel.

vi) TV manufacture started manufacturing of VCRs.

5.7 LET US SUM UP

A product is any offering to the market for possible purchase or use. It encompasses physical objects, services, places, organisations, persons and ideas. Essential attributes of a product include tangibility or intangibility, associated with some attributes for being identified and accepted, should have exchange value and should provide satisfaction.

A product line is an expression generally used to describe a group of closely related products. Product mix refers to all the products offered by a firm and has three components, viz., depth, breadth and consistency. Product line strategies are: 1) contraction of product line, 2) expansion of product line, 3) changes in quality standards, 4) trading up and trading down, 5) changes in model and style of an existing product, (6) product positioning, and 7) new products.

Products may be classified in many ways. Based on the user status, products can be classified as consumer goods and industrial goods. The goods which are bought by the households or ultimate consumers for their non-business personal consumption goods are called consumer goods. Consumer goods may be further classified as convenience s, shopping goods and speciality goods. Industrial goods are those products which are meant to be used by the buyers as inputs in production of other products. They can be classified into raw materials, fabricating materials and parts, installations, accessory equipment, and operating supplies.

We can also categorise tangible products into durable and non-durable goods depending upon the period during which a product is used by a consumer. Services are those separately identifiable, intangible activities which provide want satisfaction, and which are necessarily tied to the sale of a product or another service.

When a manufacturer offers more than one product, it is described as product diversification. Where the new products introduced in the product mix are similar to the existing product, it is described as related diversification. When a company introduces new products which are very different from the existing products, the diversification is called unrelated diversification.

5.8 KEY WORDS

Accessory Equipment: A category of industrial goods that aid production operations of an industrial buyer and does not have an influence on the scale of operations the buyer.

Consumer Goods: Products bought by the individuals or households for their personal non-business use.

Contraction of Product Line: Dropping a product from the product line

Convenience Goods: A class of consumer goods that people buy frequently with least possible time and effort.

Durable Goods: Tangible products with a long life and lasting many years of active service to owners.

Fabricating Materials and Parts: A category of industrial goods that have received some processing and will undergo further processing as they become a part of another product.

Industrial Goods: Products bought by the individuals or institutions for use in production of other goods or for rendering some service.

Installation: Manufactured industrial products that directly affect the scale of operation of an industrial user.

Non-durable Goods: Tangible products that are consumed in one go or last a few uses and get depleted on consumption.

Product: A set of tangible and intangible attributes including packaging, colour, price, manufacturer's and retailer's services which buyer may accept as offering for satisfaction of wants or needs.

Product Differentiation: Differentiating the product from the competitor's product or products offered by the same company by highlighting quality or design.

Product Diversification: Adding a new product to the existing product line or product mix.

Product Item: An individual product offered by a seller.

Product Line: Refers to a group of closely related products offered by a particular seller.

Product Mix: Refers to all the products offered by a particular seller.

Raw Materials: A class of industrial goods that have not been processed in any way and that will become part of another product.

Related Diversification: Adding a new product that is similar to the existing products.

Services: Essentially intangible and separately identifiable activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.

Shopping Goods: A class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., alternative products in competing stores.

Speciality Goods: A class of consumer goods with perceived unique characteristics such that consumers are willing to spend special effort to buy them.

Trading Down: Adding a low priced product to the existing high priced prestigious product line.

Trading Up: Adding a high priced prestige product to the existing low priced product line.

Unrelated Diversification: Adding a new product which is different from the existing products.

5.9 ANSWERS TO CHECK YOUR PROGRESS

A 2 i) False ii) True iii) False iv) True

B 6 i) d ii) c iii) e iv) a v) b

C 4 i) It can be a consumer product or an industrial product.

ii) It is a consumer product.

iii) It can be a consumer product or an industrial product.

iv) It is a consumer product.

v) Consumer product. But when used by a company which sells fruit juice, it can be an industrial product.

vi) Consumer product.

viii) It can be a consumer product or an industrial product.

vii) Non-durable

5 i) Durable ii) Non-durable iii) Non-durable

iv) i) Durable v) i) Durable vi) Non-durable

D 3 Related diversification - i, iii, iv & vi

Unrelated diversification - ii & v

5.10 TERMINAL QUESTIONS

1) How would you distinguish between a consumer good and an industrial good? Is this distinction important? Why?
2) Can a firm follow concurrently product line contraction and expansion strategy in Product mix? Discuss.
3) What are the different methods of diversification? How would you plan Diversification performance for the firm?
4) What is a product? Explain how the classification of products is helpful to marketers?
5) Distinguish between product item, product line, and product mix. Describe various product line strategies.

Note: The questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.