Product Policy

The determination of product policy is central to an organization's marketing effort. A firm's choice of products influences all other elements of its marketing program and has significant implications for such other functional areas as finance, production and operations, and human resources management. So important is product policy that many firms structure their organizations around products, with individual product managers responsible for the marketing and profitability of each product or product line.

The word *product* connotes a physical good; however, in its marketing sense it also includes intangible services offered before, at, or after the time of sale. The entire package is sometimes referred to as the augmented product. The mix of tangibles and intangibles in the augmented product varies from one product or service to another. A manufacturer of canned vegetables is required to deliver few incremental services to the consumer beyond the physical product. On the other hand, a passenger airline's reason for being is the delivery of the service; its planes are tangible goods that permit it to do so and act as visual symbols of the service organization. Although this chapter emphasizes product policy formulation from the standpoint of profitmaking private firms, nonprofit and government organizations are faced with similar decisions.

The following issues are typical of the varied product policy decisions faced by managements of different organizations.

- A major automobile producer considers dropping its line of large luxury sedans and broadening its small-car line.
- A well-known ski equipment firm debates purchase of a company that makes scuba and diving gear.
- A liberal arts college reviews the feasibility of adding a professional degree program to its curriculum.
- A manufacturer of high-quality electric motors considers developing an inexpensive utility model with lower performance characteristics.
- A manufacturer of private-label socks wonders whether to introduce its first branded line.

Professor John A. Quelch prepared this note as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

- A toy company evaluates whether to withdraw a recently introduced product after a safety hazard is uncovered.

- A manufacturer of health and beauty aids examines the implications of altering package sizes in its line of denture adhesives.

For many companies, appraising the need for changes in the product line is a continuing process, reflecting the dynamic nature of the marketplace as well as changes in the nature and resources of the firm itself. One objective should be to eliminate or modify products that no longer satisfy consumer needs or fail to contribute significantly (directly or indirectly) to the well-being of the firm. Another set of objectives relates to the addition of new products or product features that will better meet consumer needs, enhance the company's existing product line, or improve utilization of resources.

Product Decisions

Most companies are multiproduct organizations, often producing a variety of different product lines. This means that policy decisions may be made at the level of individual products, product lines, or the company's entire product mix.

Individual product items have separate designations on the seller's list and include different flavors or colors, different forms of the same product, and different sizes.

Product lines are a group of different products that are related in the sense that they satisfy a particular class of need, are used together, and possess common physical or technical characteristics. They are sold to the same customer groups through the same channels, and fall within specific price ranges.

The product mix is the composite of products offered for sale by a firm. Although a particular product item—or even an entire product line—may not be profitable in itself, it may contribute to the well-being of the firm by enhancing the overall product mix, particularly among customers who wish to deal with a full-line supplier. Some large corporations produce several thousand product items, grouped into a wide variety of different product lines, which together constitute the firm's product mix.

Closely associated with these three levels of product decisions are the concepts of breadth, depth, and consistency of product mix. Breadth of product mix refers to the number of different product lines marketed by the company. Depth of product mix designates the average number of items (e.g., sizes, weights, colors) offered in each product line. Consistency of product mix alludes to the degree of similarity between product lines in end use, technology and production techniques, distribution channels, and so forth.

Product-mix decisions tend to reflect not only the nature of the market and the resources of the firm, but also the underlying philosophy of company management. Most firms are faced with several options over time. Some pursue a policy of diversity, while others prefer to concentrate efforts on a narrow product mix, offered in a limited number of sizes and varieties.

A firm's choice of product strategy should be determined by management's long-run objectives for profit levels, sales stability, and growth, as modified by personal values and attitudes toward risk. Market opportunities for the firm's product mix determine the upper limits for potential corporate profitability, while the quality of the marketing program tends to determine the extent to which this potential is achieved.

While the ideal product mix is likely to vary from firm to firm and may be hard to define, certain situations suggest a suboptimal mix:

1. Chronic or seasonally recurring excess capacity in the firm's production, storage, or transportation facilities.

2. A very high proportion of profits coming from a small percentage of product items.

3. Inefficient use of the sales force's contacts and skills.

4. Steadily declining profits or sales.

When the product line is narrower than optimum, there is a loss in economies of scale. On the other hand, when the product line is broader than optimum, the firm suffers from excessive costs in manufacturing changeovers, order processing, and inventory management.

Adjustments to the Product Mix

Changes in product policy designed to correct any of the above situations or otherwise enhance the firm's ability to meet established objectives can take one of three basic forms.

Product abandonment This step involves discontinuing either individual items or an entire line. Candidates for elimination include products for which demand is so low that uneconomically short production runs or uneconomically frequent price and inventory adjustments are required; products that absorb excessive management time relative to their profit contribution; and products that are out of date and, therefore, detract from the company's image.

Product modification Changes may involve either tangible or intangible product attributes and may be achieved by reformulation, redesign, changing unit sizes, and adding or removing features.

New-product introduction Besides developing, test marketing, and commercializing new products or product lines, this might include an addition or extension to one of the company's existing product lines or a me-too imitation of a competitor's product line. In all cases, management must decide what brand name the new item(s) should carry. Frequently, there is a trade-off between the advertising economies of scale associated with extending an existing brand name and the higher costs of cannibalization--when new products "steal" sales from existing products.

The New-Product Development Process

New-product development is widely viewed as a six-stage process:

1. Idea generation
2. Concept screening
3. Business analysis
4. Prototype development
5. Test marketing
6. Commercialization

The purpose at each stage is to increase the information available to management to reduce the risk of a wrong decision—to either continue or abandon a product. Note, however, that the process described here is highly stylized. In practice, steps overlap, are skipped or repeated, or are performed in a different order, depending on the realities of the situation, the urgency of the opportunity, competitive pressures, the judgment and whims of managers, and luck. In addition, the farther a new product moves through the process, the harder it is to cancel, because management develops a commitment to its success.

At the idea-generation stage, creativity is paramount, and the most frequent error is to generate too few ideas, not too many. Typical sources of new ideas are competitive products, implicit or explicit customer requests, ideas from salespeople and distributors, and special idea-generation meetings and committees including marketing, R&D, and manufacturing personnel. Once generated, ideas must be screened to reject clear losers. A set of screening criteria consistent with the company's goals must be established. It is important to identify the highest-priority projects and speed them through the process with special attention and extra resources.

Business analysis requires the development of a preliminary product description. The analysis should specify the target market, financial impact on existing items, opportunity for market development, likelihood of technical success, impact on manufacturing and service operations, and projected financial performance.

If prototype development is warranted, the concept must be carefully transferred from the marketing people to the technical developers. This is often a difficult transfer, as the cultural difference between the marketing department and the laboratory is often great. Each side must understand the other's role, perspective, and limitations.

The product emerges from the laboratory or engineering department as a prototype ready for test marketing. Consumer–packaged-goods test marketing is a precise art. The product is distributed in selected markets supported by the marketing program management expects to use in a national launch. Often, elements of the marketing program, such as the advertising and promotion budget, are the object of experimentation in the test markets. Because test marketing is expensive and broadcasts a company's intentions, a competitor may reach national distribution with an imitation product before an innovator has even finished analyzing its test-market data.

In the industrial arena, test marketing is different. Products are often shown to a few selected friendly customers for evaluation. These customers, known as beta test sites in electronics and related industries, report their experiences with the prototype. Good marketers send personnel to the test sites to monitor the units' performance and ensure that all relevant test data are carefully gathered and analyzed.

Toward the end of the test-market phase, a revised marketing program is developed. Volume and price forecasts are refined so that production and service capacity can be added.

Finally, the product is introduced into the commercial marketplace in a major national or international launch, a region-by-region rollout in the case of consumer goods, or a customer-by-customer or market-segment-by-market-segment rollout for industrial goods.

Few concepts that are generated in the first step of the process make it to prototype development. Fewer still reach commercialization, and even fewer succeed as established products.

The nature and length of the process and of each step and the relative importance of the steps vary by type of product, degree of newness, and the size of the company. A new flavor added to a line of food products may require more marketing investment than R&D effort and be executed within a year. Such a line extension is easily understood, fits into the established product line, and involves little risk. On the other hand, a new drug might require over a decade to be developed and to receive necessary government approval, and marketing costs would be much less than the R&D investment.

Such a discontinuous process of new-product development involves a great many risks: technological risk (Can we make a prototype?); marketing risk (If we can, will anyone buy it?); manufacturing and operating risk (Can we make it in volume?); and financial risk (Can we sell it at a price that will generate enough revenue to amortize the development process?).

Smaller companies with more limited resources tend to be more entrepreneurial and to commercialize an idea much more quickly than larger companies. In the latter, projects require many layers of executive approval in corporate cultures that generally discourage risk taking. Since the 1970s, large companies have attempted to foster more entrepreneurship and faster product development through new-product venture teams, while smaller companies have often been better funded because of the development of the venture capital marketplace. In addition, industries accustomed to rapid technological change tend to be more adept at managing the process. For example, electronics companies of all sizes innovate more quickly and easily than steel companies.

A good product-development process leads to successful products, while a poor one is unlikely to generate success. Unfortunately, the lag time between idea generation and commercialization is often so long that monitoring the process is a difficult task. Perhaps the best insurance a company can have is a portfolio of products at various stages of development. It is also worth noting that a process that produces few failures is probably too conservative and will not lead to major new-product successes. More than likely it will produce only safe but minor product modifications.

Product Positioning

Positioning is management's concept of where a product or service should stand in the marketplace relative to competitive products and services. An organization's ability to compete effectively in any given market is determined in large measure by its ability to position its product(s) appropriately relative to (1) the needs of specific market segments, and (2) the nature of competitive entries. Product positioning therefore requires a synthesis of consumer analysis and competitor analysis.

In developing a position for a new product, management first discovers the range of benefits or attributes consumers use to make choices in the product category. Second, it identifies key consumer segments within the overall market for the product. Third, management evaluates, on the basis of experience and/or market research data, the relative importance of each benefit to each segment.

In addition to this consumer analysis, management must consider how existing products perform in each area of interest to consumers. In choosing a position for a new product, management matches an appropriate package of benefits, clearly differentiated from competitive offerings on important dimensions, with a specific target segment whose needs are not fully satisfied by existing products. Positioning permits a firm to finesse the competition instead of competing head on.

Product positions often reflect not only intrinsic product characteristics but also the image created by promotional strategies, pricing decisions, and choice of distribution channels. Selective use of alternative brand names in multibrand companies may also help to achieve the desired image. For instance, the Mercury name, owned by Ford, carries different connotations for car buyers than does the Ford brand itself.

Effective positioning is essential to a product's success. If management does not consciously position a product, consumers will be confused, and competitive products that are precisely positioned will enjoy an advantage. At the same time, a product's positioning must be flexible enough to adjust to changes in competitive products and consumer needs.

Repositioning

Instead of physically modifying an existing product, firms sometimes elect to reposition the product by revising such elements of the marketing mix as advertising and promotion, distribution strategy, pricing, or packaging. However, a revision of the entire mix, including product features, may also accompany a repositioning strategy.

Sometimes repositioning represents a deliberate attempt to attack another firm's product and eat into its market share. In other instances the objective is to avoid head-to-head competition by moving into alternative market segments with good potential whose needs are not presently well served.

Analysis of competitive offerings involves not only a review of product features and other marketing-mix strategies but also an evaluation of competitive advertising content. The image generated by advertisements and the nature of the slogans employed may constitute a major positioning tool, especially for such image-intensive products as cosmetics, liquor, and apparel.

Repositioning along price and quality/functionality dimensions is generally referred to as "trading up" or "trading down." However, repositioning may also involve sideways moves in which price and quality remain basically similar but modifications are made to a product's tangible benefits or image to enhance its appeal to different types of consumers or for alternative end uses.

Examples of repositioning existing products include advertising a deodorant formerly promoted only to men as "the deodorant for all the family"; reducing the price of a felt-tip pen to take advantage of a perceived market need for a cheaper model; modifying the assortment at a supermarket chain to improve its appeal to family groups; and giving an airline a more exciting image through changes in aircraft color schemes and uniforms and addition of on-board service frills—then promoting these in a glamorous advertising campaign.

Evaluating Product/Company Fit

The fact that good opportunities exist in the marketplace for a new or repositioned product does not necessarily mean that the organization should proceed with such a product. Unless there is a good fit between the proposed product and the firm's needs and resources, the net result of a decision to proceed might be harmful, or at best, suboptimal.

Among the dimensions to consider when evaluating product/company fit are

1. Technological skills of labor and management
2. Size of work force
3. Financial resources
4. Production resources and capacity
5. Logistics facilities
6. Feasibility of using existing sales force and distribution channels
7. Needs and behavior of existing consumers
8. Impact on the market position of the firm's other products
9. Consistency with the organization's existing image
10. Seasonality of demand patterns for existing products. (Will the new product exaggerate existing fluctuations, or will it counterbalance them?)

If a proposed product is not consistent with one or more of the above dimensions, the company should not necessarily drop the idea. Companies in maturing markets, under pressure to diversify, often find that product options with a good product/company fit lack the necessary market-growth potential, and vice versa. In such cases, product/company fit may be sacrificed for the need to diversify. However, the poorer the fit, the larger the financial resources that may be needed either to purchase or to develop internally the requisite skills, production facilities, and market relationships.

Ethical Issues in Product Policy

Product policy decisions often require subtle and rigorous analysis of ethical issues. There may be side effects during the production, delivery, and use of a product that create costs and risks for the customer or for society at large. A few common questions that can be used to surface potential ethical issues include:

- Does the product function as promised? Does it adequately and reliably meet the needs it was designed to satisfy? (Diet plans and self-help seminars are two examples of familiar product categories where unethical practices may result in customers not getting what they paid for.)
- Have the product and its usage instructions been developed with a strong emphasis on consumer safety? (This is particularly important if the product is intended for use by children, or by consumer segments with low literacy rates who may be unable to read or follow product usage instructions.)
- Does the positioning of the product encourage customers to abuse the product in ways that may be dangerous for themselves or others?
- Are the product and its packaging environmentally friendly? Does either lead to toxic environmental impact or waste that is not biodegradable?
- If the product is a food, drug, or personal care item, does its packaging adequately protect consumers from the threat of tampering?
- Does the process used to produce or distribute the product threaten the ecology through water or air pollution, endangering wildlife, toxic rain, damage to the ozone layer, or other harmful side effects?

Ethical analysis involving questions like these is important to insure that principles are not sacrificed for profits in product policy decisions.

Conclusion

Product policy determination as an on-going task reflects the changing nature of the marketplace. Because an organization's choice of products has such important implications for every facet of the business, it tends to be of great concern to top management.

Key considerations in the formulation of product policy are the skills, contacts, and other resources of the firm, its existing product mix, the corporate objectives established by management, the characteristics of existing and potential markets, the nature of the competition, and ethical considerations. The process of evaluating product-policy decisions, therefore, involves all the analytical modes employed in marketing—namely, environmental, market, consumer, trade, competitive, economic, and ethical analyses.