



## **Part 4: Designing Value**



Chap 11: Setting Product Strategy

# Product Characteristics & Classifications

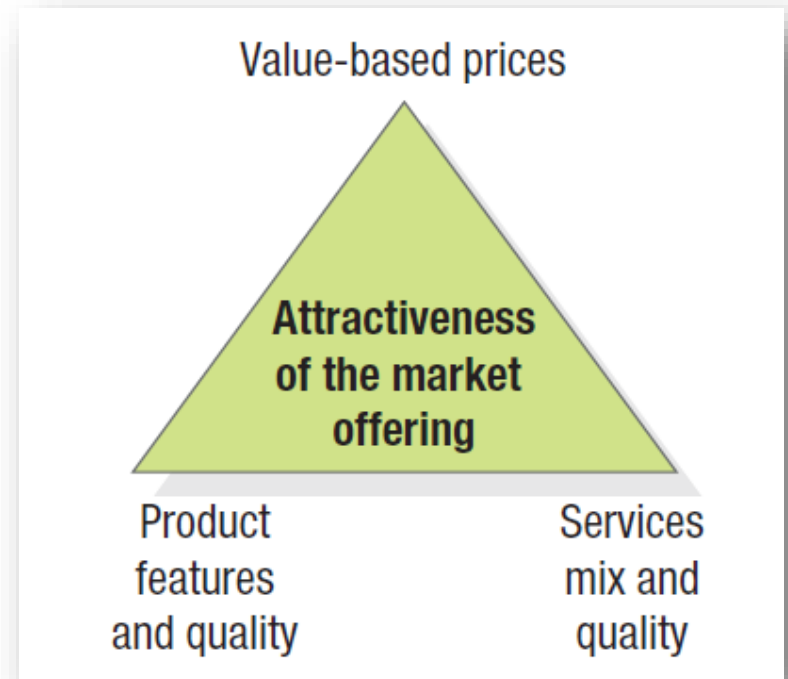
## *Product Levels: The Customer value Hierarchy*

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### What is a Product?

- ▶ Anything that can be offered to a market to satisfy a want or a need

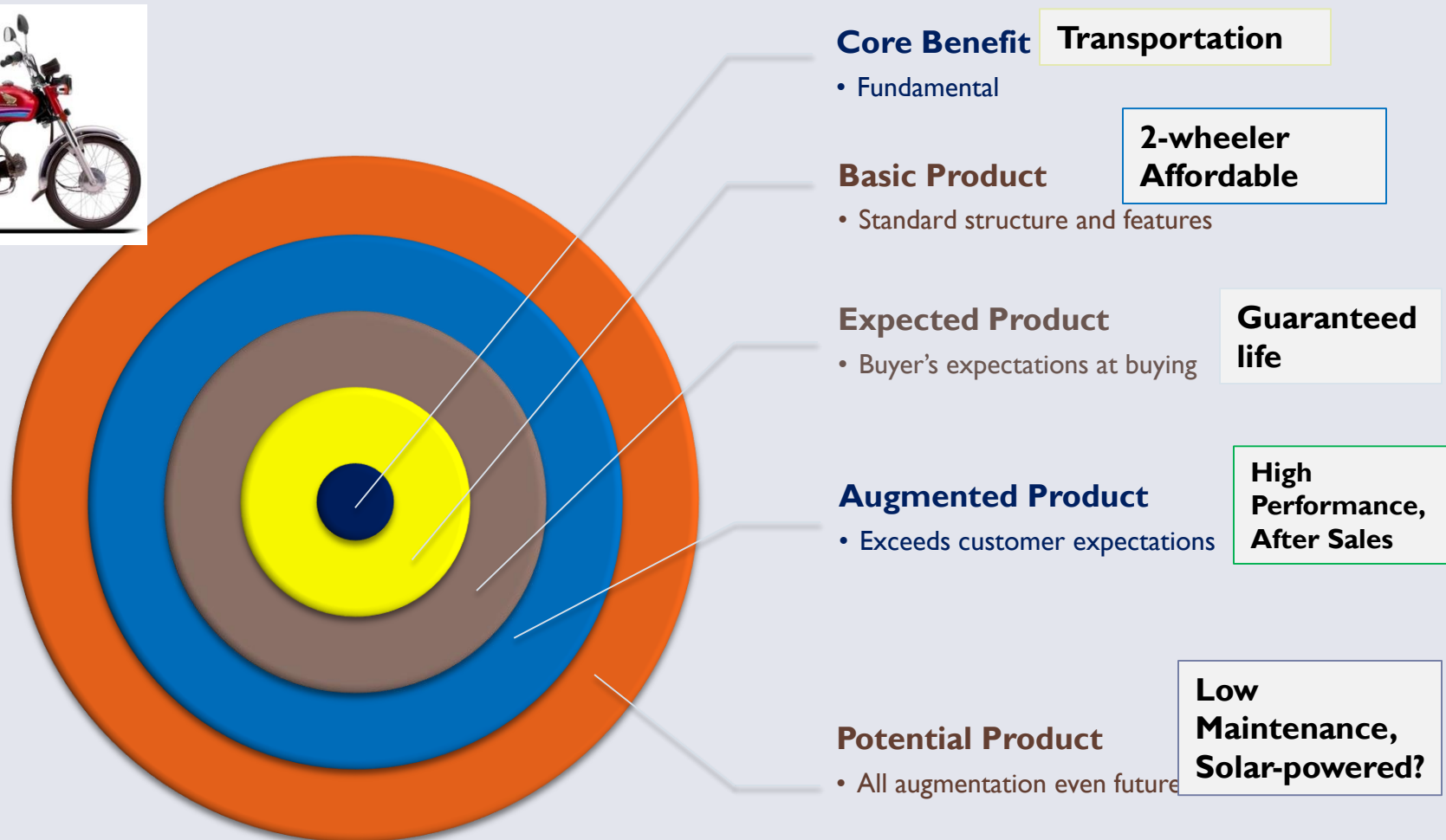
- ▶ What makes Products attractive?  
>>



# Product Characteristics & Classifications

## *Product Levels: The Customer value Hierarchy*

Example:

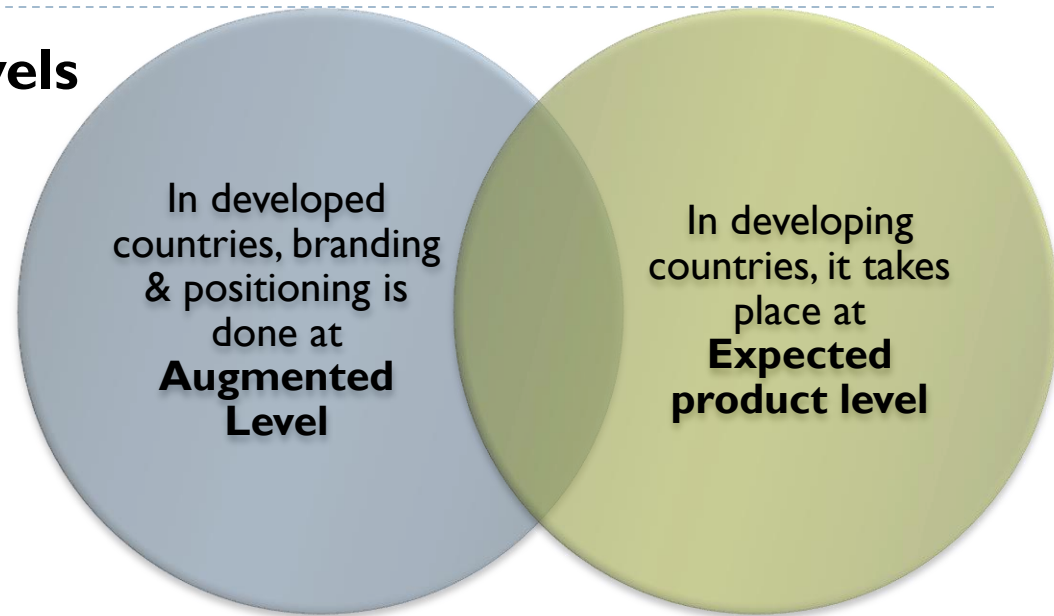


# Product Characteristics & Classifications

## *Product Levels: The Customer value Hierarchy*

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### Competing at different levels



### Important points related to Product Augmentation Strategies

- ▶ Each Augmentation adds costs
- ▶ Augmented benefits soon become expected benefits (necessary POPs)
- ▶ As companies raise the price of their augmented products, some companies go for simple, stripped-down versions at very low costs

# Product Characteristics & Classifications

## *Product Classification*

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### Three Key areas/basis of Classifying products

- ▶ Durability
- ▶ Tangibility
- ▶ Usage:
  - ▶ Consumer-Goods Classification OR
  - ▶ Industrial-Goods Classification

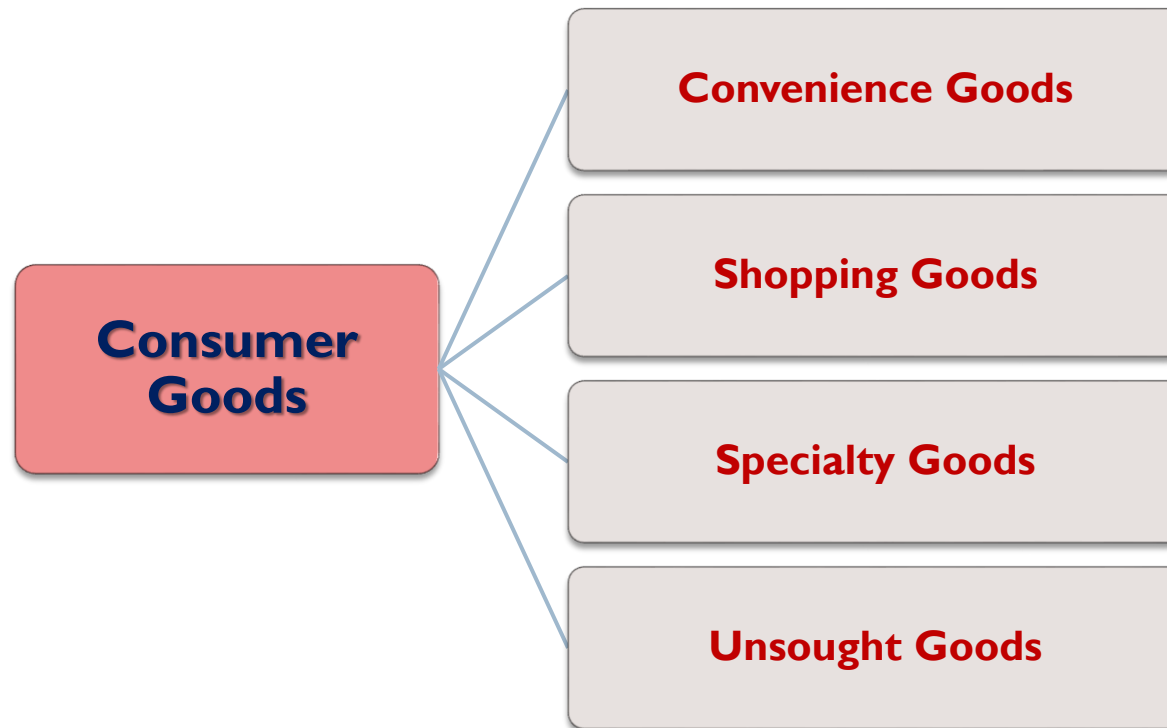
### Based On **Durability & Tangibility**

- ▶ Non-durable Goods
  - ▶ Durable Goods
  - ▶ Services
- 
- ▶ Based on **Usage** discussed ahead (CONSUMER / INDUSTRIAL)

# Product Characteristics & Classifications

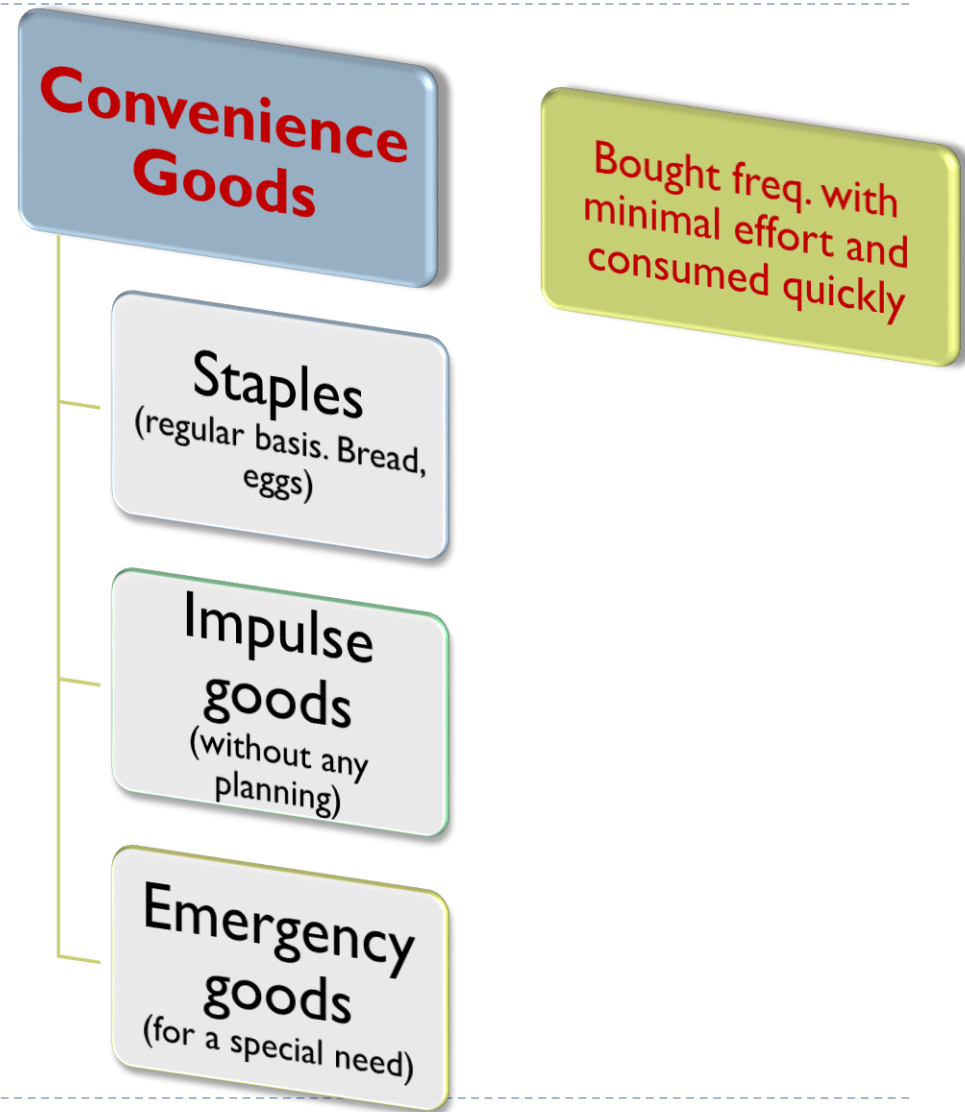
## *Product Classification*

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# Product Characteristics & Classifications

## *Product Classification*



### Convenience Goods

Shopping Goods

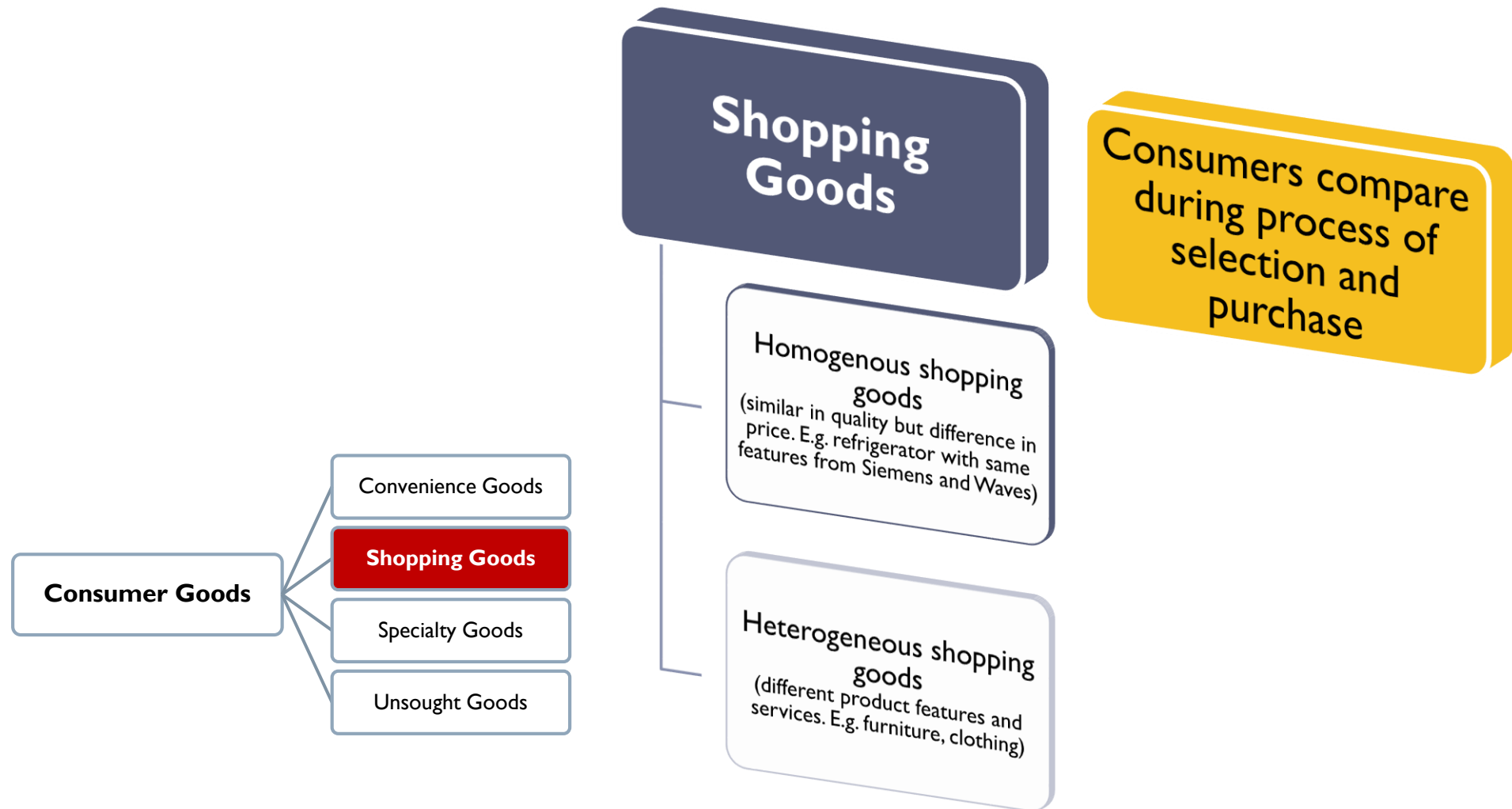
Specialty Goods

Unsought Goods

Consumer Goods

# Product Characteristics & Classifications

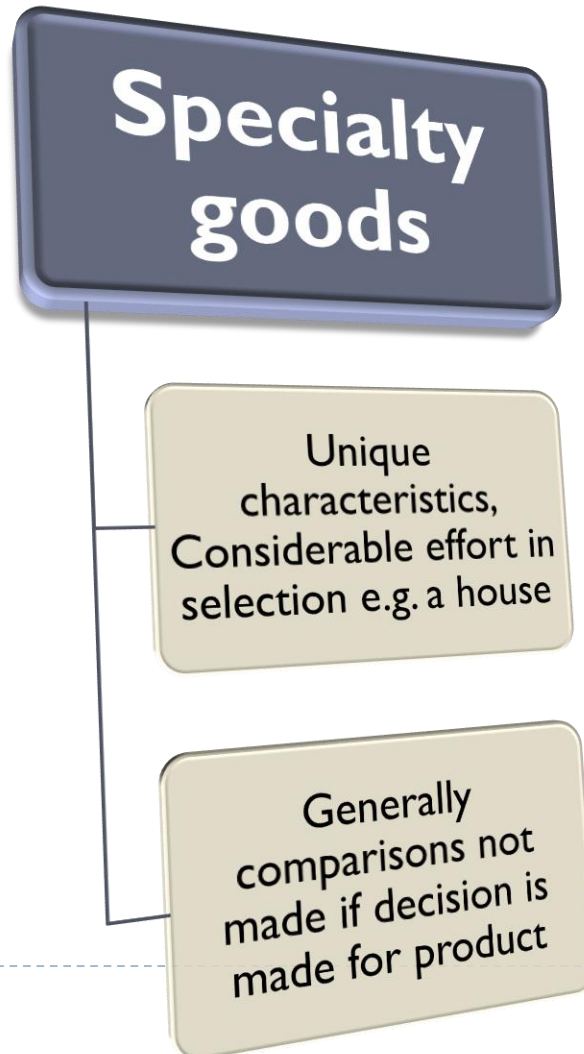
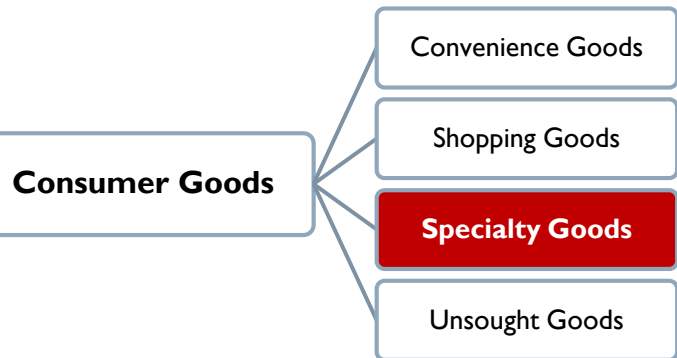
## *Product Classification*





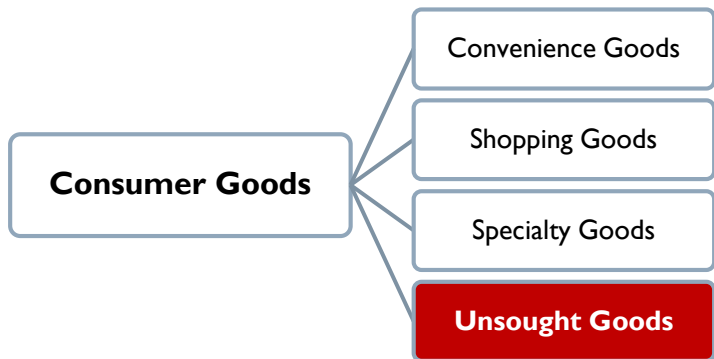
# Product Characteristics & Classifications

## *Product Classification*



# Product Characteristics & Classifications

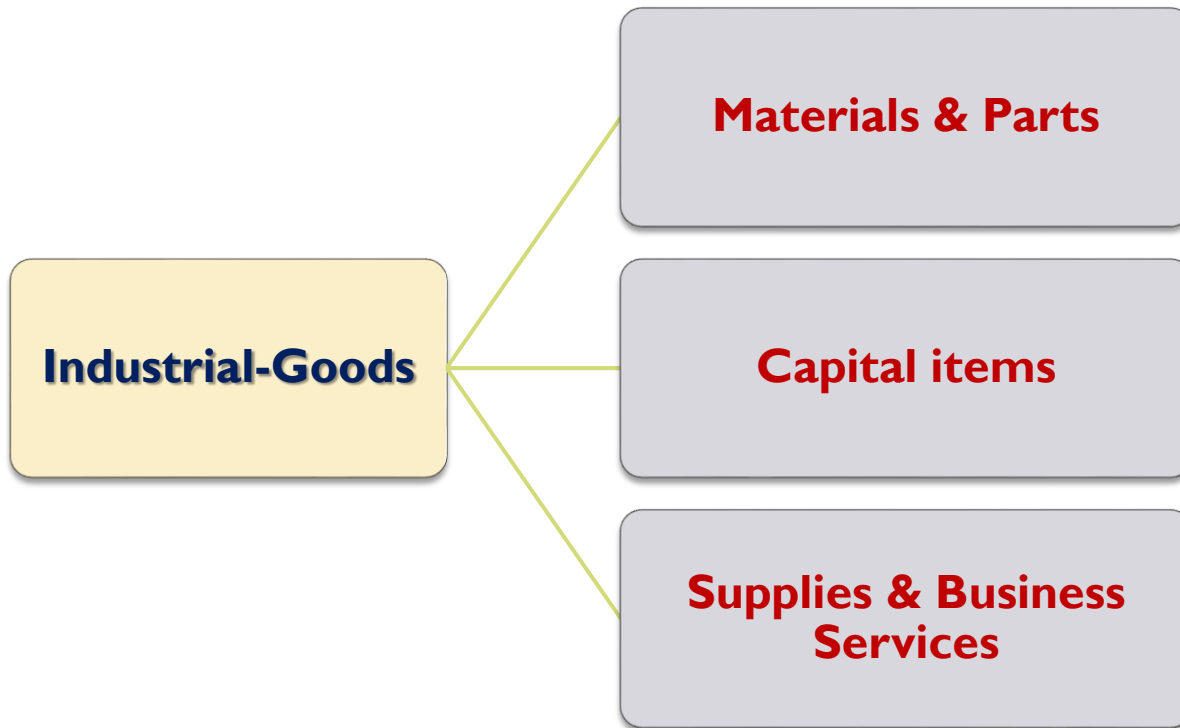
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# Product Characteristics & Classifications

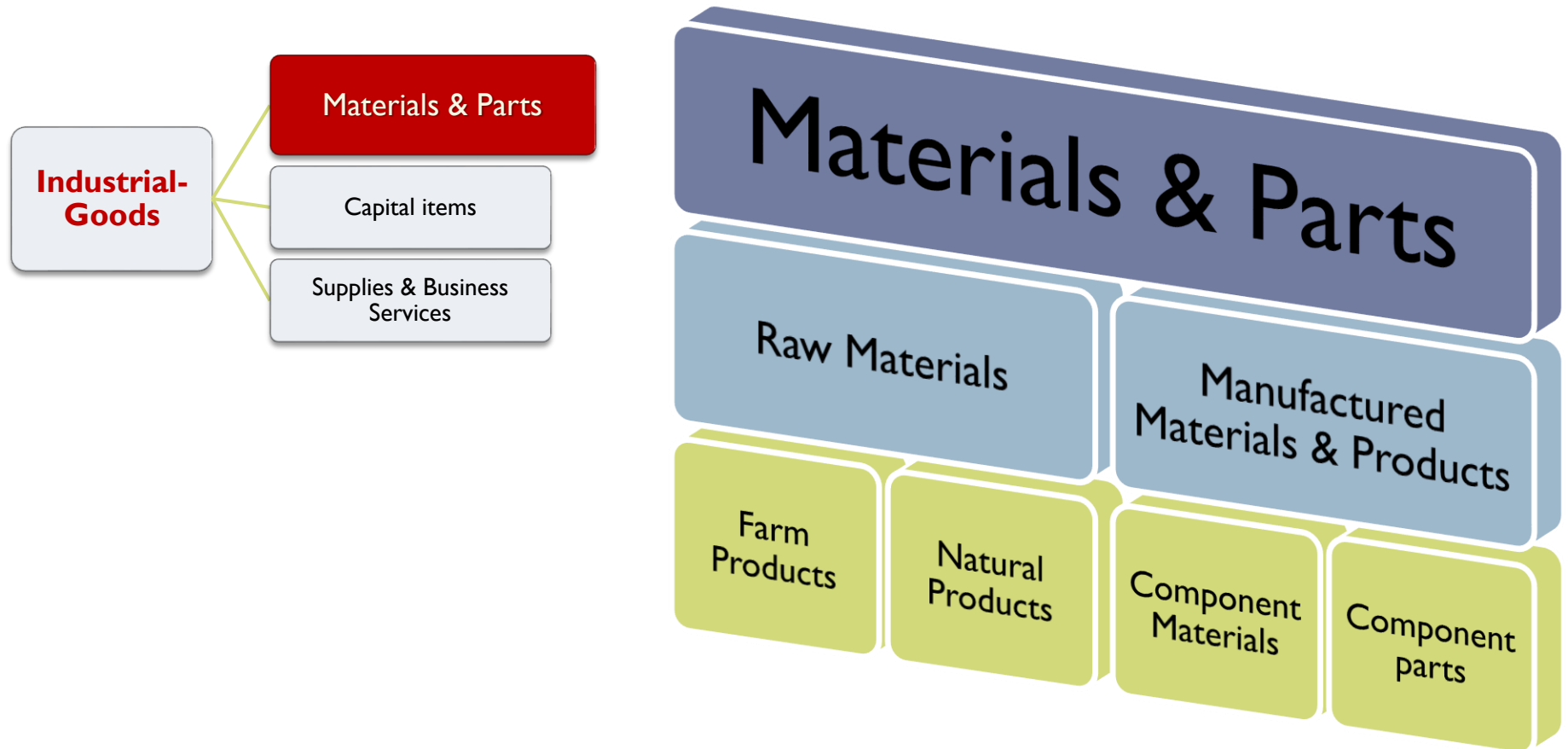
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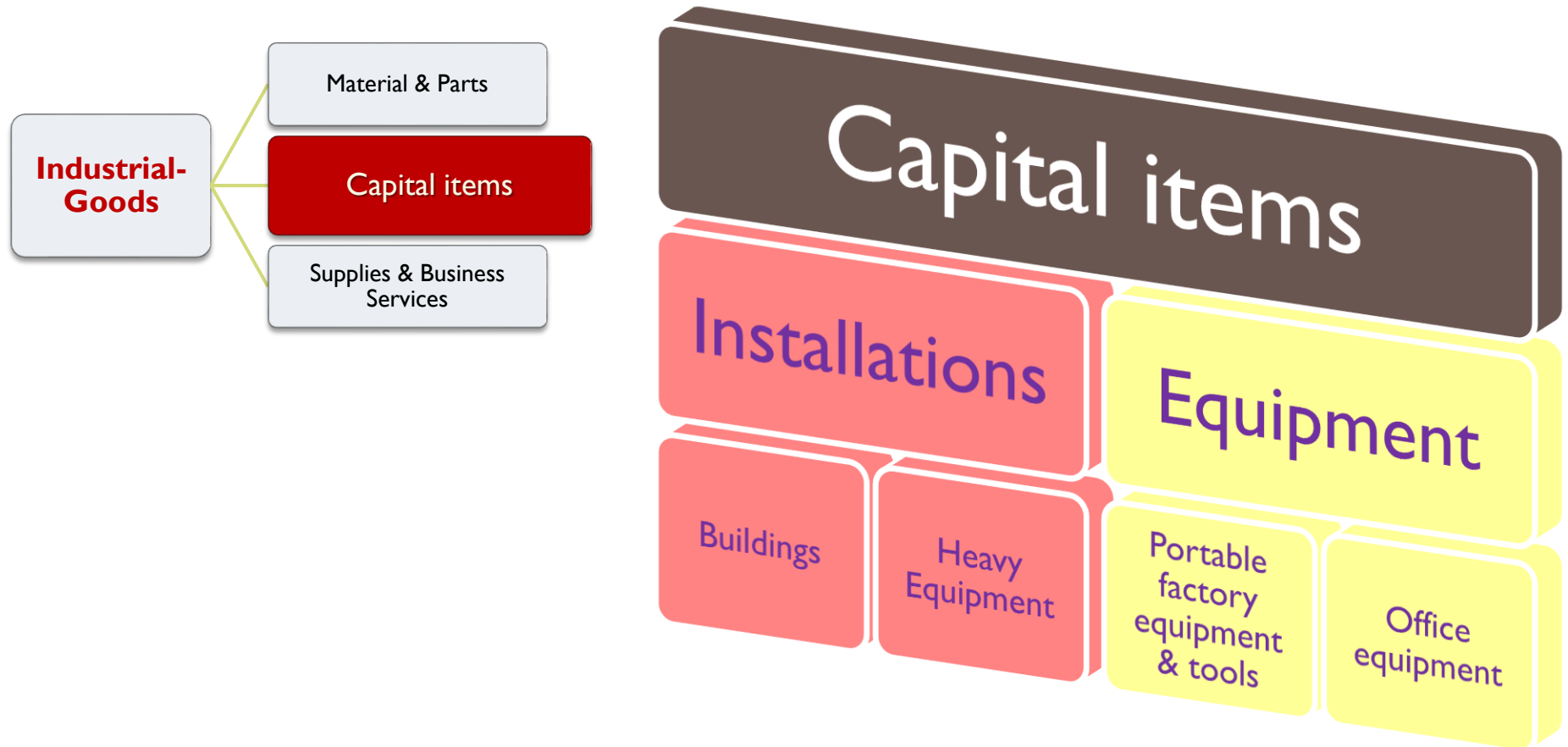
# Product Characteristics & Classifications

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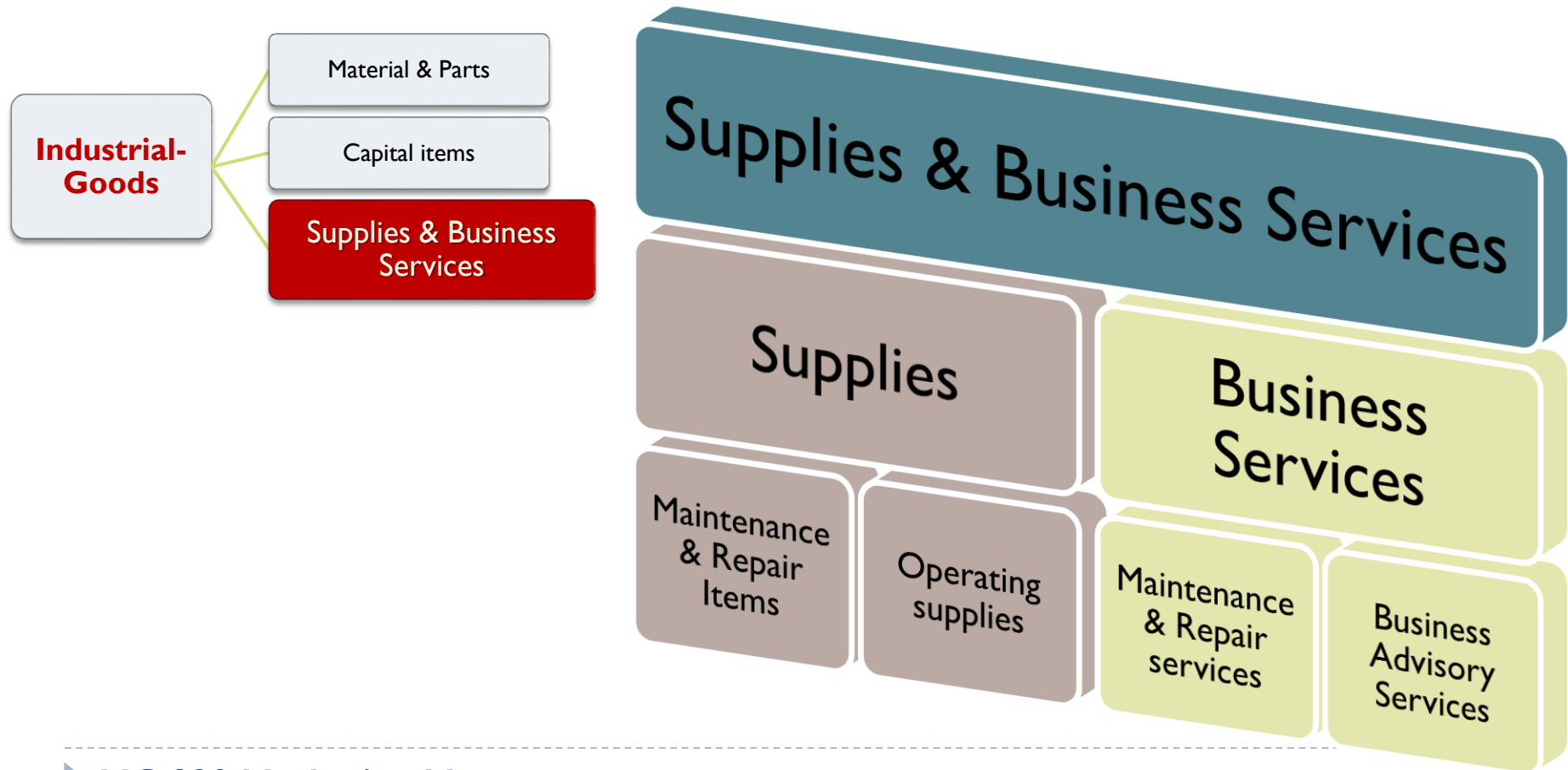
# Product Characteristics & Classifications

## *Product Classification*



# Product Characteristics & Classifications

## *Product Classification*



# Product & Brand Relationships

## *Product Systems and Mixes*

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### Product System

- ▶ A group of diverse but related items that function in a compatible manner

### Product Mix

- ▶ Also called product assortment. Set of all products and items a particular seller offers for sale. Product mix consists of various product lines
- ▶ A company's product mix has certain:
  - ▶ **Width:** Number of product lines a company has
  - ▶ **Length:** Number of items in mix (overall).  
*Avg Length: Total products/number of lines*
  - ▶ **Depth:** Number of variants for each product in a line  
*Avg depth: Average of number of variants for all items*
  - ▶ **Consistency:** How closely related various product lines are in end use, production requirements, distribution channels, or some other way.

# Packaging, Labeling, Warranties & Guarantees

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## Packaging

- ▶ All activities of designing and producing the container for a product

### Packaging as a Marketing Tool

- ▶ Self-Service
  - ▶ Consumer Affluence
  - ▶ Company and brand image
  - ▶ Innovation opportunity
- 
- ▶ *To achieve marketing objectives of brand, and satisfy desires of customer, the aesthetics and functional components of packaging must be chosen correctly.*
- 
- ▶ After designing, packaging is tested with:
    - ▶ Engineering tests
    - ▶ Visual tests
    - ▶ Dealer tests
    - ▶ Consumer tests



# Packaging, **Labeling**, Warranties & Guarantees

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- ▶ Labels perform several functions:
  - ▶ Identifies the product or brand
  - ▶ Grade the product
  - ▶ Describe the product
  - ▶ Promote the product
- ▶ Labels eventually become outdated and need freshening up

# Packaging, Labeling, Warranties & Guarantees

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## Warranties & Guarantees

- ▶ Legal responsibility of seller: Fulfilling a buyer's normal or reasonable expectations
- ▶ **Warranties** are formal statements of expected performance by manufacturer
- ▶ Products under warranty can be replaced, repaired or even refunded
- ▶ **Guarantees** reduce a buyer's perceived risk and suggest that product is of high quality and company and its services are dependable.
- ▶ Two situations where guarantees are highly effective:
  - ▶ Where company is a new entrant
  - ▶ Where product quality is superior to the competition

# Marketing in Practice

## Product System & Mixes

Calculate:

- ▶ **Width:** ?
- ▶ **Length:** ?  
Average Length: ?
- ▶ **Depth:** ?  
**Consistency:** ?  
Analyze it for
  - Distribution
  - Production

### Proctor & Gamble

TABLE 12.1

PRODUCT-MIX WIDTH AND PRODUCT-LINE LENGTH FOR PROCTOR & GAMBLE PRODUCTS  
(INCLUDING DATES 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)				

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## **Part 4: Designing Value**



Chap 12: Designing and Managing Services

# The Nature of Services

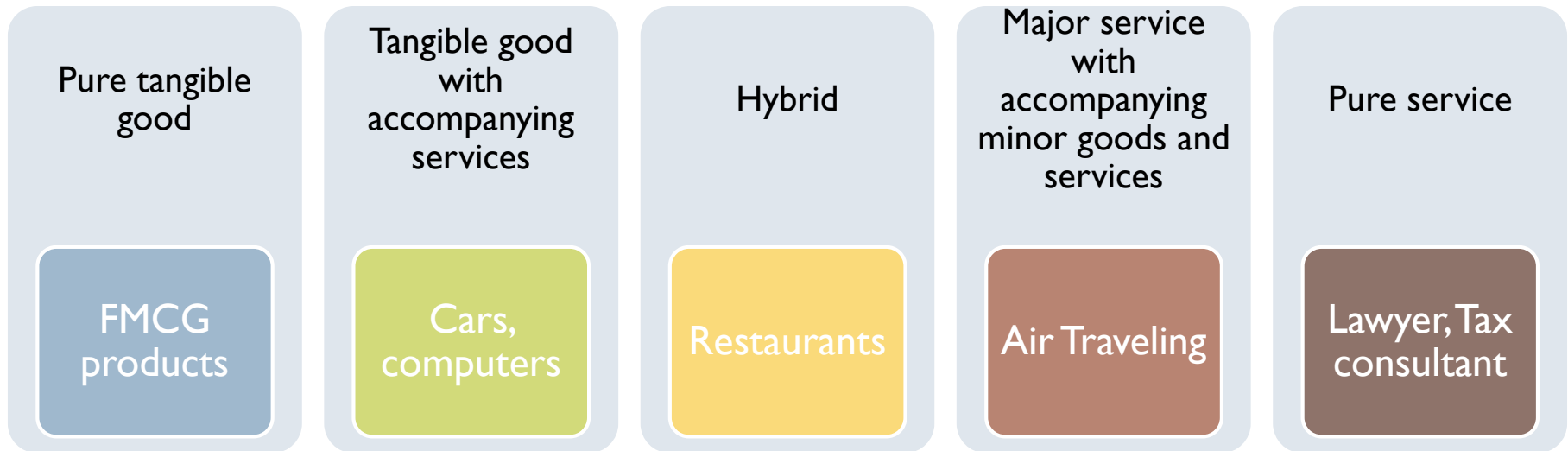
## Overview

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### What is a “service”

- ▶ Any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied up with a physical product

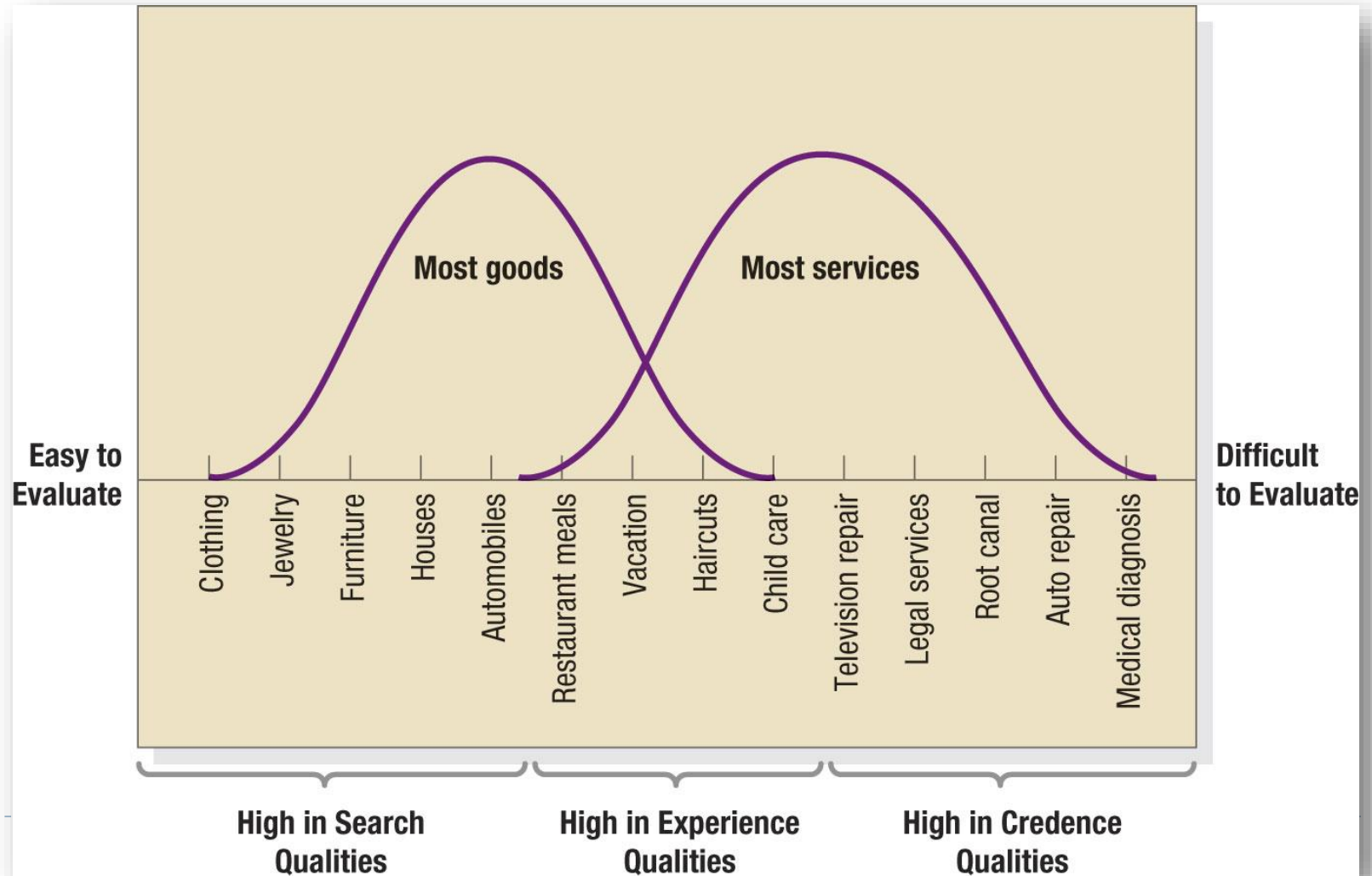
### ▶ Categories of Service Mix



# The Nature of Services

## Overview

Evaluating services – comparing to products



# The Nature of Services

## Distinctive Characteristics of Services

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### Intangibility

To reduce uncertainty because of intangibility, buyers look for evidence of quality

Service provider's task is to: **manage the evidence** and **tangibilize the intangible**

### Inseparability

Produced and consumed simultaneously

Provider is part of service

Service is considered to be provided specifically by a certain provider

### Variability

Invest in good hiring and training procedures

Standardize the service-performance process throughout the organization

Monitor customer satisfaction

### Perishability

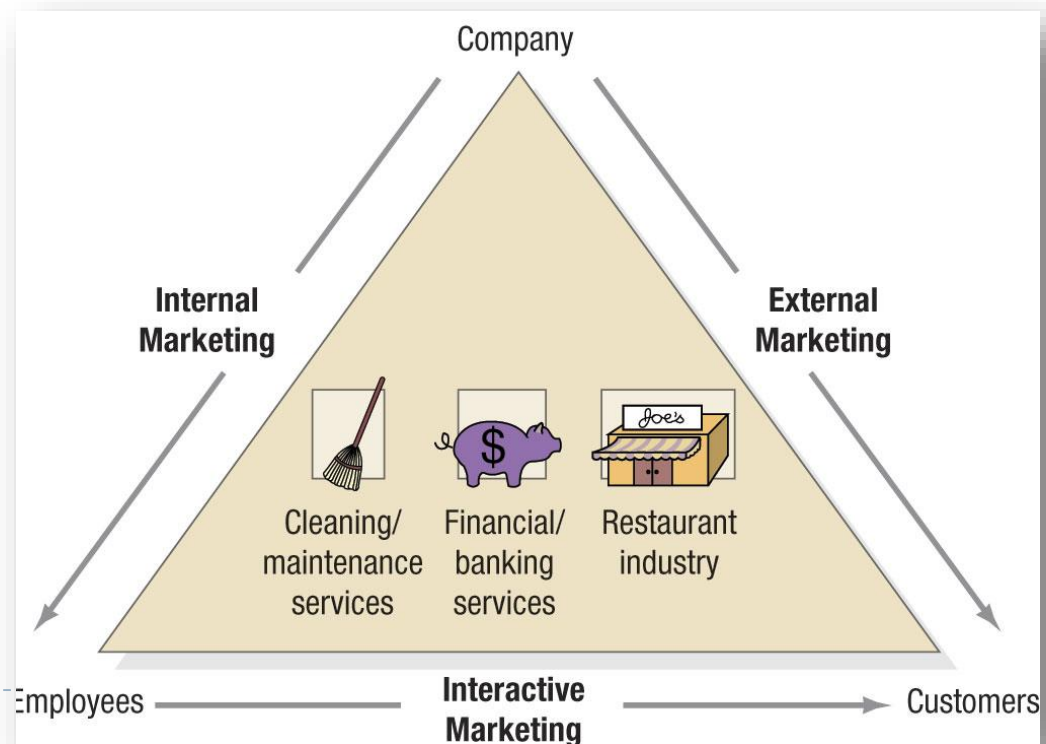
Services cannot be stored: thus due to demand fluctuations, service providers can face problems

They need to come up with alternates to respond to these fluctuations

# Marketing Strategies for Service firms

## Holistic Marketing for Services

- ▶ **External marketing** describes the normal work of preparing, pricing, distributing and promoting the service to customers
- ▶ **Internal marketing** describes training and motivating the employees to serve customers well
- ▶ **Interactive marketing** describes employees' skills in serving the client i.e. delivering the service.  
It has two key components:
  - ▶ Technical quality
  - ▶ Functional quality



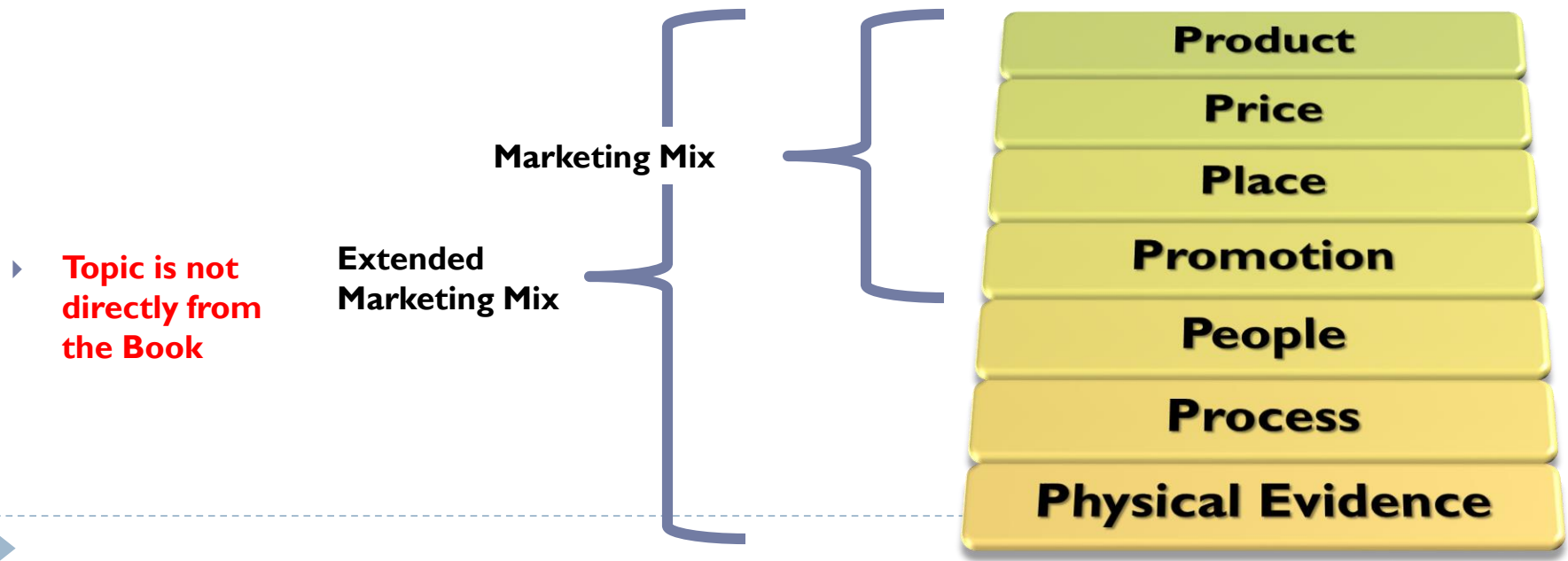


# Marketing Strategies for Service firms

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## Extended Marketing Mix for Services

- ▶ To cater to the unique requirements of 'services':  
Marketing mix is extended to 7Ps





## **Part 4: Designing Value**



Chap 12: Developing Pricing Strategy and Programs

# Understanding Pricing

## Consumer Psychology & Pricing

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**Price is the only revenue-producing “P”**

*Rest all are costs*

## How Companies Price?

### Large Companies:

- ▶ Pricing is handled by Product Manager, Line Managers, Marketing team etc.

### Small Companies:

- ▶ Top Management decides
- ▶ Even in Large companies, price is based on some important objectives

# Understanding Pricing

## Consumer Psychology & Pricing

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Economists' have traditionally considered consumers to be “price-takers”

i.e. they do not have much influence and accept whatever price is given to them

Marketers take it differently

**they appreciate and accept consumers' role** to be able to influence and also that consumers get pricing cues from different sources

**Setting Pricing Strategy & Objectives requires understanding of Consumer Psychology**

# Understanding Pricing

## Consumer Psychology & Pricing

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### ▶ Reference Prices

- ▶ Consumer's own knowledge of prices
- ▶ Generally a range and not exact number
- ▶ Consumers compare observed prices with both internal and external reference prices
- ▶ When these references are evoked:
  - Unpleasant surprises* (if ref. price is lower than observed)
  - can impact more than**
  - pleasant surprises* (if ref. price is higher than observed)

# Understanding Pricing

## Consumer Psychology & Pricing

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### ▶ Price-Quality Inferences

- ▶ Many consumers use price as an indicator of Quality
- ▶ Example of Perfumes
- ▶ Price acts a signal of quality particularly when there is no other indicator or information about quality is available.

# Understanding Pricing

## Consumer Psychology & Pricing

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### ► Price Cues

- Many sellers believe price **should end in an odd number**
- Also using **299 instead of 300** gives a different cue
- Using **“Sale”** can also give a perception about price - But should be used very carefully

# Setting the Price

## Process Review

### Steps in Setting the Price

**Step 1:**  
Setting the  
Price  
Objective

**Step 2:**  
Determining  
Demand

**Step 3:**  
Estimating  
Costs

**Step 4:**  
Analyzing  
Competitors'  
costs, prices  
& offers

**Step 5:**  
Selecting a  
pricing  
method

**Step 6:**  
Selecting the  
final price



# Setting the Price

## Step 1: Setting the Price Objective

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### Key Price Objectives

- ▶ Survival
  - ▶ Short-term
- ▶ Maximum Current Profit
- ▶ Maximum Market Share
  - ▶ Setting lowest price to stimulate demand
- ▶ Maximum Market Skimming
  - ▶ Price start high and are reduced gradually
- ▶ Product-Quality Leadership
  - ▶ Being premium, quality product yet just within reach of consumers - “Affordable luxuries”

# Setting the Price

## Step 2: Determining Demand

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### Key considerations in determining demand

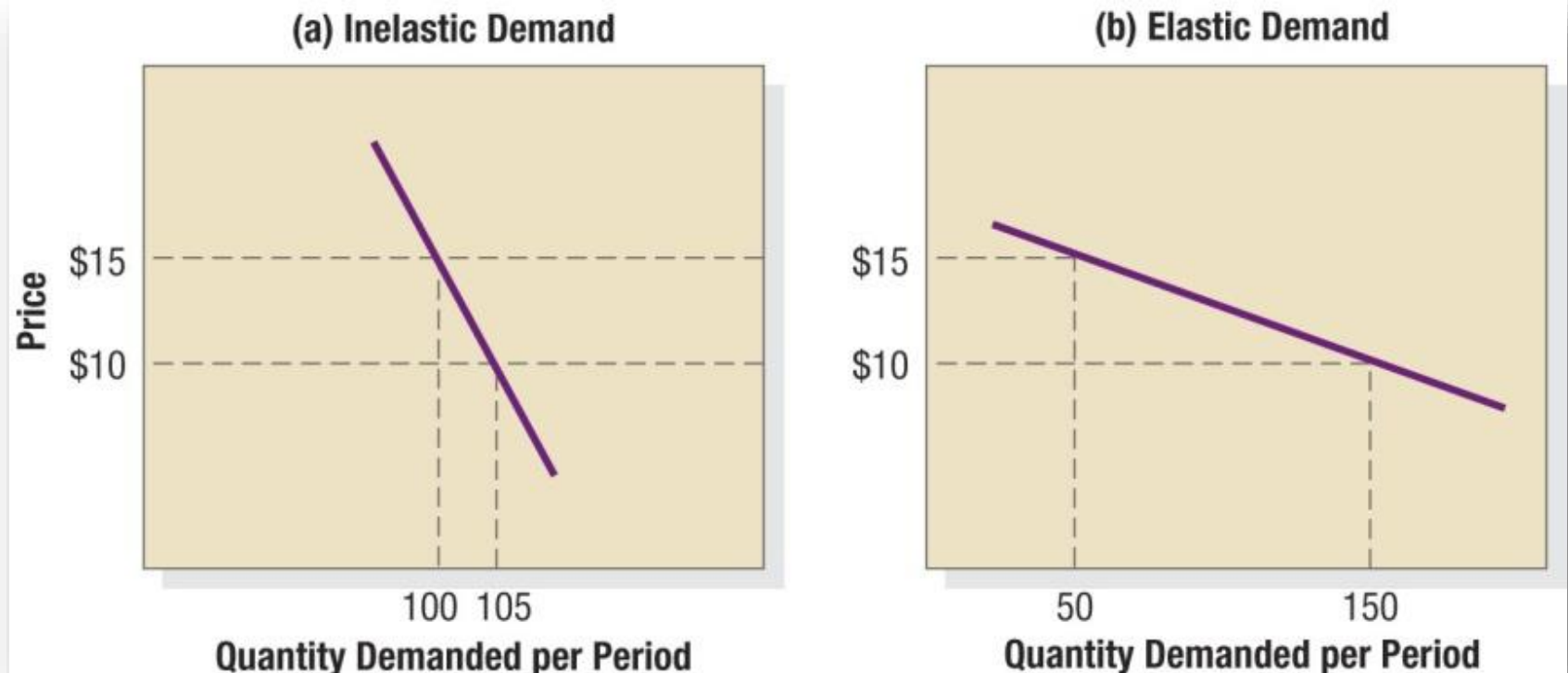
- ▶ Price Sensitivity
  - ▶ Companies need to understand price sensitivity of their consumers
  - ▶ Also trade-offs people are willing to make between price and product characteristics
- ▶ Price Elasticity of Demand
  - ▶ Responsiveness of consumers to price – Elasticity can determine how much effect will be on total revenue
  - ▶ E.g. More elastic means, lower price will produce more total revenue
- ▶ Estimating Demand curves: Statistical analysis, Price experiments and Surveys etc. are used

# Setting the Price

## Step 2: Determining Demand (contd.)

### Key considerations in determining demand (contd.)

- ▶ Basic Understanding of the Demand Curves



# Setting the Price

## Step 3: Estimating Costs

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### Types of Costs

- ▶ **Fixed Costs** – costs that do not vary with level of production
- ▶ **Variable Costs** – costs that vary with level of production
- ▶ **Total Costs** – sum of fixed and variable costs at any level of production
- ▶ **Average Costs** – cost per unit at that level of production

### ▶ Target Costing

- ▶ Establishing product functions and price at which it will sell using market research
- ▶ Then, target costing with production team(s) to achieve that level

# Setting the Price

## Step 4: Analyzing Competitors' costs, Prices & Offers

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### Review & Analyze Competitors' costs

### Competitors' Prices & Offers

# Setting the Price

## Step 5: Selecting a Pricing Method

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### Three Cs

- ▶ Customers' Demand schedule
- ▶ Cost Function
- ▶ Competitors' prices
- ▶ **Floor & Ceiling prices**
  - ▶ FLOOR                      Costs
  - ▶ CEILING                      Customers' assessment
  - ▶ STARTING POINT      Competitors' prices (& prices of substitutes)
- ▶ **Methods**
  - ▶ Six different methods used (discussed ahead)

# Setting the Price

## Step 5: Selecting a Pricing Method (contd.)

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### Six Pricing Methods

#### ▶ 1. Markup pricing

- ▶ Add markup to costs | Most simple
- ▶ Ignores several key factors like:
  - ▶ Competitors, Perceived image

#### ▶ 2. Target-Return Pricing

- ▶ ROI target is established and is used to achieve at a price
- ▶ Break-even level has to be established
- ▶ ***Review Book's example: Self Read exercise***

#### ▶ 3. Perceived Value Pricing

- ▶ Companies base their price on customer's perceived value
- ▶ Key is to deliver more value than competitors and demonstrate it

# Setting the Price

## Step 5: Selecting a Pricing Method (contd.)

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### Six Pricing Methods (contd.)

#### ▶ 4. Value Pricing

- ▶ Lowering pricing on high-quality offerings
- ▶ Requires re-engineering to become a low-cost producer

#### ▶ 5. Going-Rate Price

- ▶ Prices are based largely on competitors' prices

#### ▶ 6. Auction-type Pricing

- ▶ Types:
  - ▶ English (Ascending)
  - ▶ Dutch (Descending)
  - ▶ Sealed bid



# Setting the Price

## Step 6: Selecting the Final Price

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### Impact of other Marketing Activities

- ▶ Studies showed that brands with higher advertising budgets were able to charge premium
- ▶ Consumers paid more for 'known' brands than 'unknown' ones

### Impact of Price on other parties

- ▶ Reaction of other stakeholders
- ▶ Particularly distributors, dealers as their profits (earnings) are dependent on company's pricing
- ▶ How will competitors react?