Increasing *frequency* of consumption, on the other hand, requires either (1) identifying additional opportunities to use the brand in the same basic way or (2) identifying completely new and different ways to use the brand.

Additional Opportunities to Use the Brand A marketing program can communicate the appropriateness and advantages of using the brand. Clorox ads stress the many benefits of its bleach, such as that it eliminates kitchen odors.

Another opportunity arises when consumers' perceptions of their usage differs from reality. Consumers may fail to replace a short-lived product when they should because they overestimate how long it stays fresh.[6] One strategy is to tie the act of replacing the product to a holiday, event, or time of year. Another might be to provide consumers with better information about when they first used the product or need to replace it, or (2) the current level of product performance. Gillette razor cartridges feature colored stripes that slowly fade with repeated use, signaling the user to move on to the next cartridge.

New Ways to Use the Brand The second approach to increasing frequency of consumption is to identify completely new and different applications. Food product companies have long advertised recipes that use their branded products in different ways. After discovering that some consumers used Arm & Hammer baking soda as a refrigerator deodorant, the company launched a heavy promotion campaign focusing on this use and succeeded in getting half the homes in the United States to adopt it. Next, the company expanded the brand into a variety of new product categories such as toothpaste, antiperspirant, and laundry detergent.

Protecting Market Share

While trying to expand total market size, the dominant firm must actively defend its current business: Boeing against Airbus, Staples against Office Depot, and Google against Yahoo! and Microsoft.[7] How can the leader do so? The most constructive response is *continuous innovation.* The front-runner should lead the industry in developing new products and customer services, distribution effectiveness, and cost cutting. Comprehensive solutions increase its competitive strength and value to customers.

PROACTIVE MARKETING In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing, and creative marketing. A *responsive* marketer finds a stated need and fills it. An *anticipative* marketer looks ahead to needs customers may have in the near future. A *creative* marketer discovers solutions customers did not ask for but to which they enthusiastically respond. Creative marketers are proactive *market-driving* firms, not just market-driven ones.[8]

Arm & Hammer has expanded its classic baking soda product line to encompass many new products and uses.

Many companies assume their job is just to adapt to customer needs. They are reactive mostly because they are overly faithful to the customer-orientation paradigm and fall victim to the "tyranny of the served market." Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game.[9]

A company needs two proactive skills: (1) *responsive anticipation* to see the writing on the wall, as when IBM changed from a hardware producer to a service business and (2) *creative anticipation* to devise innovative solutions, as when PepsiCo introduced H2OH! (a soft drink–bottled water hybrid). Note that *responsive anticipation* is performed before a given change, while *reactive response* happens after the change takes place.

Proactive companies create new offers to serve unmet— and maybe even unknown— consumer needs. In the late 1970s, Akio Morita, the Sony founder, was working on a pet project that would revolutionize the way people listened to music: a portable cassette player he called the Walkman. Engineers at the company insisted there was little demand for such a product, but Morita refused to part with his vision. By the 20th anniversary of the Walkman, Sony had sold over 250 million in nearly 100 different models.[10]

Proactive companies may redesign relationships within an industry, like Toyota and its relationship to its suppliers. Or they may educate customers, as Body Shop does in stimulating the choice of environmental-friendly products.

Companies need to practice "uncertainty management." Proactive firms:

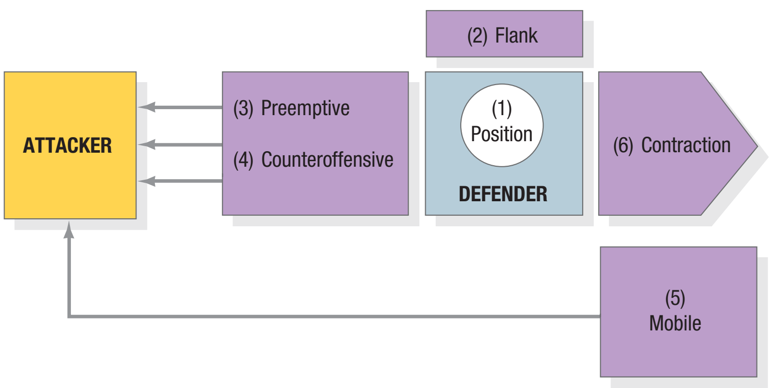
- Are ready to take risks and make mistakes,
- Have a vision of the future and of investing in it,

- Have the capabilities to innovate,
- Are flexible and nonbureaucratic, and
- Have many managers who think proactively.

Companies that are *too* risk-averse won't be winners.

DEFENSIVE MARKETING Even when it does not launch offensives, the market leader must not leave any major flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less-threatened areas, and lessen their intensity. Speed of response can make an important difference to profit. A dominant firm can use the six defense strategies summarized in Figure 11.2.[11]

- ***Position Defense.*** Position defense means occupying the most desirable market space in consumers' minds, making the brand almost impregnable, as Procter & Gamble has done with Tide detergent for cleaning, Crest toothpaste for cavity prevention, and Pampers diapers for dryness.
- ***Flank Defense.*** The market leader should erect outposts to protect a weak front or support a possible counterattack. Procter & Gamble brands such as Gain and Cheer laundry detergent and Luvs diapers have played strategic offensive and defensive roles.
- ***Preemptive Defense.*** A more aggressive maneuver is to attack first, perhaps with guerrilla action across the market—hitting one competitor here, another there—and keeping everyone off balance. Another is to achieve broad market envelopment that signals competitors not to attack.[12] Bank of America's 18,500 ATMs and 6,100 retail branches nationwide provide steep competition to local and regional banks. Yet another preemptive defense is to introduce a stream of new products and announce them in advance.[13] Such "preannouncements" can signal competitors that they will need to fight to gain market share.[14] If Microsoft announces plans for a new-product development, smaller firms may choose to concentrate their development efforts in other directions to avoid head-to-head competition. Some high-tech firms have been accused of selling "vaporware"—announcing products that miss delivery dates or are never introduced.[15]
- ***Counteroffensive Defense.*** In a counteroffensive, the market leader can meet the attacker frontally and hit its flank, or launch a pincer movement so it will have to pull back to defend itself. After FedEx watched UPS successfully invade its airborne delivery system, it invested heavily in ground delivery through a series of acquisitions to challenge UPS on its home turf.[16] Another common form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for the vulnerable product with revenue from its more profitable products, or it may prematurely announce a product upgrade to prevent customers from buying the competitor's product. Or the leader may lobby legislators to take political action to inhibit the competition.
- ***Mobile Defense.*** In mobile defense, the leader stretches its domain over new territories through market broadening and market diversification. *Market broadening* shifts the company's focus from the current product to the underlying generic need. Thus, "petroleum" companies such as BP sought to recast themselves as "energy" companies. This change required them to research the oil, coal, nuclear, hydroelectric, and chemical industries.



|Fig. 11.2|

Six Types of Defense Strategies

By introducing ground delivery, FedEx challenged UPS on its home turf.

Market diversification shifts the company's focus into unrelated industries. When U.S. tobacco companies such as Reynolds and Philip Morris acknowledged the growing curbs on cigarette smoking, instead of defending their market position or looking for cigarette substitutes, they moved quickly into new industries such as beer, liquor, soft drinks, and frozen foods.

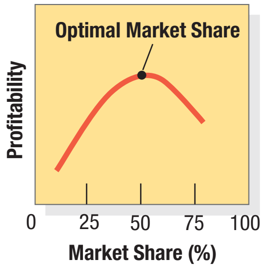
- ***Contraction Defense.*** Sometimes large companies can no longer defend all their territory. In *planned contraction* (also called *strategic withdrawal*), they give up weaker markets and reassign resources to stronger ones. Since 2006, Sara Lee has spun off products that accounted for a large percentage of its revenues—including its strong Hanes hosiery brand and global body care and European detergents businesses—to focus on its core food business.[17]

Increasing Market Share

No wonder competition has turned fierce in so many markets: one share point can be worth tens of millions of dollars. Gaining increased share does not automatically produce higher profits, however—especially for labor-intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.[18]

Because the cost of buying higher market share through acquisition may far exceed its revenue value, a company should consider four factors first:

- ***The possibility of provoking antitrust action.*** Frustrated competitors are likely to cry "monopoly" and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous lawsuits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power.
- ***Economic cost.*** Figure 11.3 shows that profitability might *fall* with market share gains after some level. In the illustration, the firm's *optimal market share* is 50 percent. The cost of gaining further market share might exceed the value if holdout customers dislike the company, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. And the costs of legal work, public relations, and lobbying rise with market share. Pushing for higher share is less justifiable when there are unattractive market segments, buyers who want multiple sources of supply, high exit barriers, and few scale or experience economies. Some market leaders have even increased profitability by selectively *decreasing* market share in weaker areas.[19]
- ***The danger of pursuing the wrong marketing activities.*** Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product



|Fig. 11.3|

The Concept of Optimal Market Share

quality, and marketing expenditures.[20] Companies that attempt to increase market share by cutting prices more deeply than competitors typically don't achieve significant gains, because rivals meet the price cuts or offer other values so buyers don't switch.

- ***The effect of increased market share on actual and perceived quality.***[21] Too many customers can put a strain on the firm's resources, hurting product value and service delivery. Charlotte-based FairPoint Communications struggled to integrate the 1.3 million customers it gained in buying Verizon Communications's New England franchise. A slow conversion and significant service problems led to customer dissatisfaction, regulator's anger, and eventually bankruptcy.[22]

Other Competitive Strategies

Firms that occupy second, third, and lower ranks in an industry are often called runner-up or trailing firms. Some, such as PepsiCo, Ford, and Avis, are quite large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share as *market challengers*, or they can choose to not "rock the boat" as *market followers*.

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader. Toyota today produces more cars than General Motors, Lowe's is putting pressure on Home Depot, and AMD has been chipping away at Intel's market share.[23] A successful challenger brand in the beverage business is SoBe.

SoBe

SoBe One of the most competitive aisles in any supermarket, grocery store, or convenience store is the beverage aisle. SoBe's successful launch in 1996 was a result of shrewd planning and creative execution. Positioning against the established Snapple and Arizona brands, founder John Bello wanted to create a smart fruit juice and iced tea alternative that was fun and innovative and offered added value. The first successful product was SoBe Black Tea 3G with ginseng, guarana, and ginkgo. The lizard character on the packaging, from an iconic South Beach hotel, became an integral part of SoBe's brand imagery. SoBe's explosive growth was based on a combination of functional benefits (the 3 Gs), colorful packaging, a powerful sales force establishing strong shelf presence in the store, and a steady stream of new products. The slogan "SoBe Yourself" captured the brand's challenger ethos and supported its nontraditional, guerilla marketing appeals. SoBe Love Buses created product sampling opportunities, and sponsorship of iconoclastic athletes like skier Bode Miller and golfer John Daly created buzz. SoBe was purchased by PepsiCo in January 2001 and now offers exotic teas, fruit juices and blends, elixirs, vitamin- and antioxidant-enhanced water (Lifewater), and sports drinks. Its name is also licensed for gum and chocolate.[24]

Challengers set high aspirations while market leaders can fall prey to running business as usual. Now let's examine the competitive attack strategies available to challengers.[25]

DEFINING THE STRATEGIC OBJECTIVE AND OPPONENT(S) A market challenger must first define its strategic objective, usually to increase market share. The challenger must decide whom to attack:

- ***It can attack the market leader.*** This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. Xerox wrested the copy market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers. This strategy often has the added benefit of distancing the firm from other challengers. When Miller Lite attacked Bud Light on product quality during the mid 2000s, Coors Light was left out of the conversation.

- ***It can attack firms its own size that are not doing the job and are underfinanced.*** These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways.
- ***It can attack small local and regional firms.*** Several major banks grew to their present size by gobbling up smaller regional banks, or "guppies."

CHOOSING A GENERAL ATTACK STRATEGY Given clear opponents and objectives, what attack options are available? We can distinguish five: frontal, flank, encirclement, bypass, and guerilla attacks.

- ***Frontal Attack.*** In a pure *frontal attack,* the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says the side with the greater resources will win. A modified frontal attack, such as cutting price, can work if the market leader doesn't retaliate, and if the competitor convinces the market its product is equal to the leader's. Helene Curtis is a master at convincing the market that its brands—such as Suave and Finesse—are equal in quality but a better value than higher-priced brands.
- ***Flank Attack.*** A *flanking* strategy is another name for identifying shifts that are causing gaps to develop, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. In a geographic attack, the challenger spots areas where the opponent is underperforming. Although the Internet has siphoned newspaper readers and advertisers away in many markets, Independent News & Media, a 102-year-old Irish media company, sells a majority of its 175 newspaper and magazine titles where the economy is strong but the Internet is still relatively weak—countries such as Ireland, South Africa, Australia, New Zealand, and India.[26] The other flanking strategy is to serve uncovered market needs. Ariat's cowboy boots have challenged long-time market leaders Justin Boots and Tony Lama by making boots that were every bit as ranch-ready, but ergonomically designed to feel as comfortable as a running shoe—a totally new benefit in the category.[27]
- ***Encirclement Attack.*** *Encirclement* attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources. In making a stand against archrival Microsoft, Sun Microsystems licensed its Java software to hundreds of companies and thousands of software developers for all sorts of consumer devices. As consumer electronics products began to go digital, Java started appearing in a wide range of gadgets.

Combining comfort with rugged wear, Ariat is taking on the market leaders in the cowboy boot market.

- ***Bypass Attack.*** *Bypassing* the enemy altogether to attack easier markets instead offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies. Pepsi has used a bypass strategy against Coke by (1) rolling out Aquafina bottled water nationally in 1997 before Coke launched its Dasani brand; (2) purchasing orange juice giant Tropicana in 1998, when it owned almost twice the market share of Coca-Cola's Minute Maid; and (3) purchasing the Quaker Oats Company, owner of market leader Gatorade sports drink, for $14 billion in 2000.[28] In *technological leapfrogging,* the challenger patiently researches and develops the next technology, shifting the battleground to its own territory where it has an advantage. Google used technological leapfrogging to overtake Yahoo! and become the market leader in search.
- ***Guerrilla Attacks.*** Guerrilla attacks consist of small, intermittent attacks, conventional and unconventional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds. A guerrilla campaign can be expensive, although less so than a frontal, encirclement, or flank attack, but it typically must be backed by a stronger attack to beat the opponent.

CHOOSING A SPECIFIC ATTACK STRATEGY Any aspect of the marketing program can serve as the basis for attack, such as lower-priced or discounted products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies. A challenger's success depends on combining several, more specific, strategies to improve its position over time.

Market-Follower Strategies

Theodore Levitt argues that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.[29] In "innovative imitation," as he calls it, the innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it probably will not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Pepsi has used a bypass approach to battle Coke by finding new markets to enter.

S&S Cycle

S&S Cycle

S&S Cycle is the biggest supplier of complete engines and major motor parts to more than 15 companies that build several thousand Harley-like cruiser bikes each year. These cloners charge as much as $30,000 for their customized creations. S&S has built its name by improving on Harley-Davidson's handiwork. Its customers are often would-be Harley buyers frustrated by long waiting lines at the dealer. Others simply want S&S's incredibly powerful engines. S&S stays abreast of its evolving market by ordering a new Harley bike every year and taking apart the engine to see what it can improve upon.[30]

Many companies prefer to follow rather than challenge the market leader. Patterns of "conscious parallelism" are common in capital-intensive, homogeneous-product industries such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is comparable, and price sensitivity runs high. The mood in these industries is against short-run grabs for market share, because that only provokes retaliation. Instead, most firms present similar offers to buyers, usually by copying the leader. Market shares show high stability.

That's not to say market followers lack strategies. They must know how to hold current customers and win a fair share of new ones. Each follower tries to bring distinctive advantages to its target market—location, services, financing–while defensively keeping its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. The follower must define a growth path, but one that doesn't invite competitive retaliation. We distinguish four broad strategies:

1. ***Counterfeiter***—The counterfeiter duplicates the leader's product and packages and sells it on the black market or through disreputable dealers. Music firms, Apple, and Rolex have been plagued by the counterfeiter problem, especially in Asia.
2. ***Cloner***—The cloner emulates the leader's products, name, and packaging, with slight variations. For example, Ralcorp Holdings sells imitations of name-brand cereals in look-alike boxes. Its Tasteeos, Fruit Rings, and Corn Flakes sell for nearly $1 a box less than the leading name brands; the company's sales were up 28 percent in 2008.
3. ***Imitator***—The imitator copies some things from the leader but differentiates on packaging, advertising, pricing, or location. The leader doesn't mind as long as the imitator doesn't attack aggressively. Fernandez Pujals grew up in Fort Lauderdale, Florida, and took Domino's home delivery idea to Spain, where he borrowed $80,000 to open his first store in Madrid. His Telepizza chain now operates almost 1,050 stores in Europe and Latin America.
4. ***Adapter***—The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into a future challenger, as many Japanese firms have done after improving products developed elsewhere.

What does a follower earn? Normally, less than the leader. A study of food-processing companies showed the largest averaging a 16 percent return on investment, the number two firm, 6 percent, the number three firm, –1 percent, and the number four firm, –6 percent. No wonder Jack Welch, former CEO of GE, told his business units that each must reach the number one or two position in its market or else! Followership is often not a rewarding path.

Telepizza adapted Domino's pizza delivery concept to Spain with much success.

Market-Nicher Strategies

An alternative to being a follower in a large market is to be a leader in a small market, or niche, as we introduced in Chapter 8. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. But even large, profitable firms may choose to use niching strategies for some of their business units or companies.

ITW Illinois Tool Works (ITW) manufactures thousands of products, including nails, screws, plastic six-pack holders for soda cans, bicycle helmets, backpacks, plastic buckles for pet collars, resealable food packages, and more. Since the late 1980s, the company has made between 30 and 40 acquisitions each year that added new products to the product line. ITW has more than 875 highly autonomous and decentralized business units in 54 countries employing 65,000 people. When one division commercializes a new product, the company spins the product and people off into a new entity. Despite tough economic times, ITW experienced an increase in revenue in 2008.[31]

Firms with low shares of the total market can become highly profitable through smart niching. Such companies tend to offer high value, charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision. Family-run Tire Rack sells 2 million specialty tires a year through the Internet, telephone, and mail from its South Bend, Indiana, location.[32] Houston-based VAALCO Energy decided that its odds of striking it rich were better in foreign territory than at home where it faced hundreds of wildcatters. Drilling in an oil field off the coast of Gabon in West Central Africa, it has met with a lot less competition and a lot more revenue.[33]

Return on investment for businesses in smaller markets exceeds that in larger markets on average.[34] Why is niching so profitable? The market nicher knows the target customers so well, it meets their needs better than other firms selling to them casually. As a result, the nicher can charge a substantial price over costs. The nicher achieves *high margin,* whereas the mass marketer achieves *high volume.*

Nichers have three tasks: creating niches, expanding niches, and protecting niches. The risk is that the niche might dry up or be attacked. The company is then stuck with highly specialized resources that may not have high-value alternative uses.

Zippo With smoking on a steady decline, Bradford, Pennsylvania–based Zippo Manufacturing is finding the market for its iconic metal cigarette lighter drying up. Its marketers need to diversify and broaden their focus to "selling flame." Although its goal of reducing reliance on tobacco-related products to 50 percent of revenue by 2010 was sidetracked by the recession, the company is determined to broaden its brand meaning to encompass "all flame-related products." It introduced a long, slender multipurpose lighter for candles, grills, and fireplaces in 2001; acquired W.R. Case & Sons Cutlery, a knife maker, and DDM Italia, known throughout Europe for its fine Italian leather goods; and plans to sell a line of outdoor products in outlets such as Dicks, REI, and True Value.[35]

Zippo has expanded its brand meaning to encompass "all flame-related products" to ensure its long-term growth prospects.

Because niches can weaken, the firm must continually create new ones. "Marketing Memo: Niche Specialist Roles" outlines some options. The firm should "stick to its niching" but not necessarily to its niche. That is why *multiple niching* can be preferable to *single niching.* With strength in two or more niches, the company increases its chances for survival.

Firms entering a market should initially aim at a niche rather than the whole market. The cell phone industry has experienced phenomenal growth but is now facing fierce competition as the number of new potential users dwindles. An Irish upstart company, Digicel Group, has successfully tapped into one of the few remaining high-growth segments: poor people without cell phones.

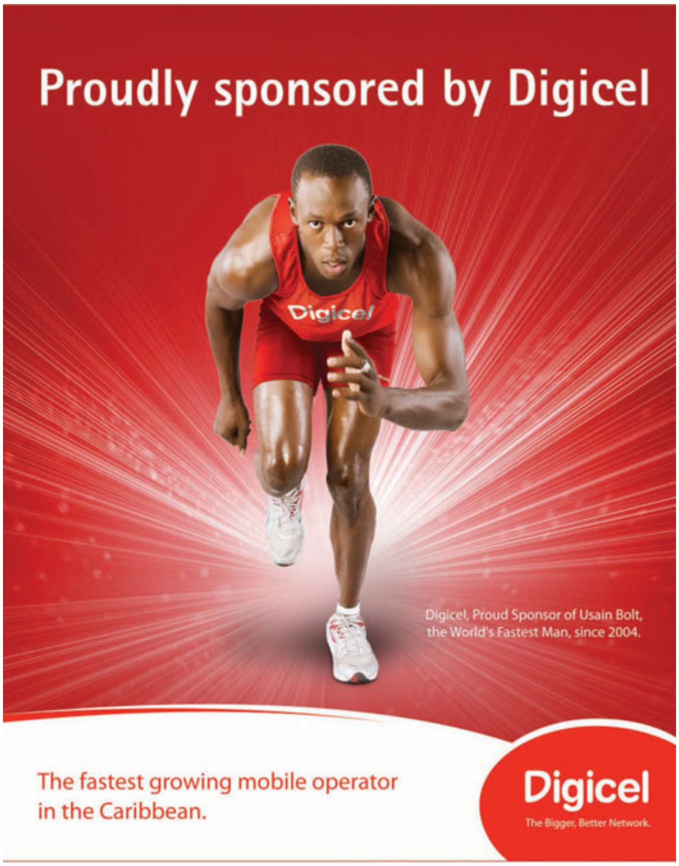
Digicel Group In 2001, Digicel CEO Denis O'Brien heard that the government of Jamaica was opening its local phone market, long monopolized by British telecom giant Cable & Wireless. O'Brien spent nearly $50 million for a license, using money from the sale of his first telecom venture, Esat Telecom Group PLC. O'Brien took the plunge because he knew Jamaicans had to wait over two years for a landline, and only 4 percent of the population had cell phones. Within 100 days, Digicel had signed on 100,000 subscribers, luring them with inexpensive rates and phones and

marketing Memo

Niche Specialist Roles

The key idea in successful nichemanship is specialization. Here are some possible niche roles:

- *End-user specialist.* The firm specializes in one type of end-use customer. For example, a *value-added reseller (VAR)* customizes computer hardware and software for specific customer segments and earns a price premium in the process.
- *Vertical-level specialist.* The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products.
- *Customer-size specialist.* The firm concentrates on either small, medium-sized, or large customers. Many nichers serve small customers neglected by the majors.
- *Specific-customer specialist.* The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Walmart or General Motors.
- *Geographic specialist.* The firm sells only in a certain locality, region, or area of the world.
- *Product or product line specialist.* The firm carries or produces only one product line or product. A manufacturer may produce only lenses for microscopes. A retailer may carry only ties.
- *Product-feature specialist.* The firm specializes in producing a certain type of product or product feature. Zipcar's car-sharing services target people who live and work in seven major U.S. cities, frequently use public transportation, but still need a car a few times a month.
- *Job-shop specialist.* The firm customizes its products for individual customers.
- *Quality-price specialist.* The firm operates at the low- or high-quality ends of the market. Sharp AQUOS specializes in the high-quality, high-price LCD television and component screen market.
- *Service specialist.* The firm offers one or more services not available from other firms. A bank might take loan requests over the phone and hand-deliver the money to the customer.
- *Channel specialist.* The firm specializes in serving only one channel of distribution. For example, a soft drink company makes a very large-sized serving available only at gas stations.



Digicel has captured a large segment of the mobile market in the Caribbean, using Jamaican world-record sprinter Usain Bolt as a spokesperson.

improved service. After eight years, Digicel has more than 8 million customers across its Caribbean and Central American markets, earning a reputation for competitive rates, comprehensive coverage, superior customer care, and a wide variety of products and services. Digicel has also moved into the Pacific in Fiji, Samoa, Papua New Guinea, and other markets. Back in Jamaica, it has become an active sponsor of sports and supporter of causes, befitting for its ascendance as a market leader in the region.[36]

Product Life-Cycle Marketing Strategies

A company's positioning and differentiation strategy must change as the product, market, and competitors change over the *product life cycle* (PLC). To say a product has a life cycle is to assert four things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

Product Life Cycles

Most product life-cycle curves are portrayed as bell-shaped (see Figure 11.4). This curve is typically divided into four stages: introduction, growth, maturity, and decline.[37]

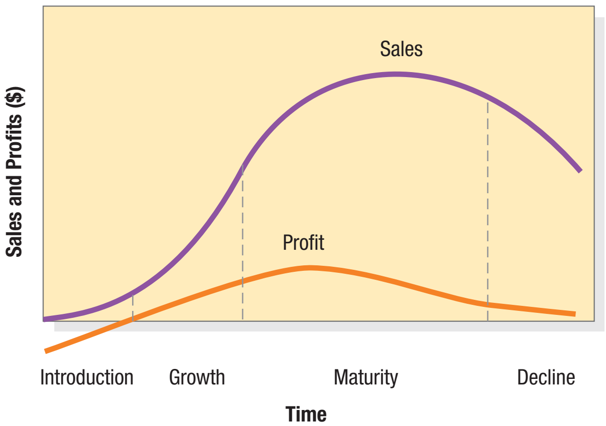
1. ***Introduction***—A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses of product introduction.
2. ***Growth***—A period of rapid market acceptance and substantial profit improvement.
3. ***Maturity***—A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. ***Decline***—Sales show a downward drift and profits erode.

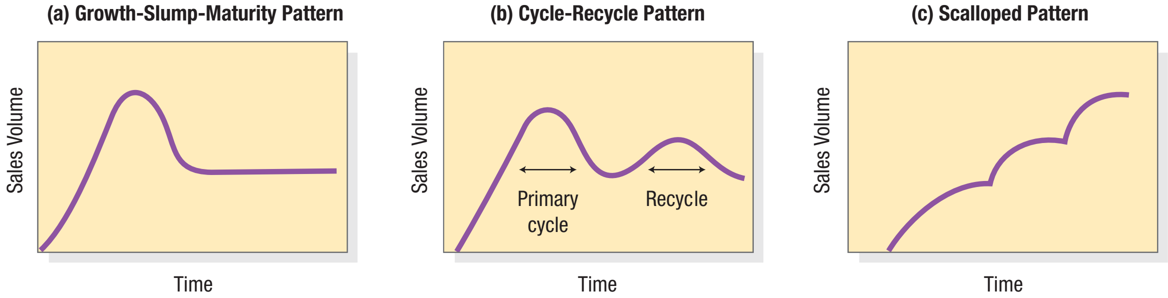
We can use the PLC concept to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff). Not all products exhibit a bell-shaped PLC.[38] Three common alternate patterns are shown in Figure 11.5.

Figure 11.5(a) shows a *growth-slump-maturity pattern*, characteristic of small kitchen appliances, for example, such as handheld mixers and bread makers. Sales grow rapidly when the product is first introduced and then fall to a "petrified" level sustained by late adopters buying the product for the first time and early adopters replacing it.

|Fig. 11.4|

Sales and Profit Life Cycles





|Fig. 11.5|

Common Product Life-Cycle Patterns

The *cycle-recycle pattern* in Figure 11.5(b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, producing the first cycle. Later, sales start declining, and another promotion push produces a second cycle (usually of smaller magnitude and duration).[39]

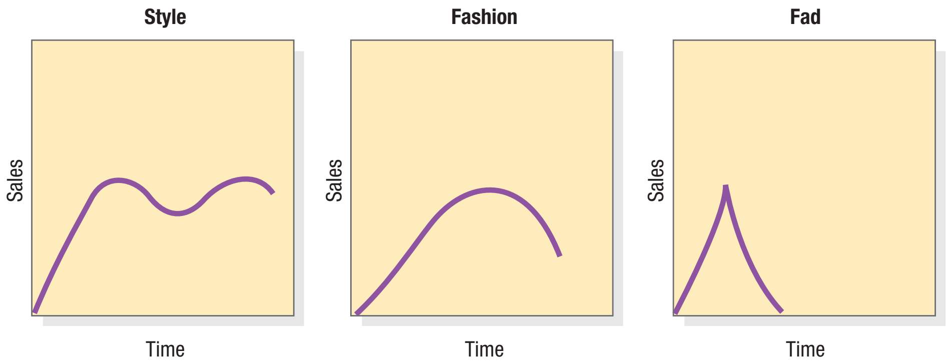
Another common pattern is the *scalloped PLC* in Figure 11.5(c). Here, sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses, or users. Sales of nylon have shown a scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—discovered over time.[40]

Style, Fashion, and Fad Life Cycles

We need to distinguish three special categories of product life cycles—styles, fashions, and fads (Figure 11.6). A *style* is a basic and distinctive mode of expression appearing in a field of human endeavor. Styles appear in homes (colonial, ranch, Cape Cod), clothing (formal, business casual, sporty), and art (realistic, surrealistic, abstract). A style can last for generations and go in and out of vogue. A *fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.[41]

The length of a fashion cycle is hard to predict. One view is that fashions end because they represent a purchase compromise, and consumers soon start looking for the missing attributes.[42] For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Another explanation is that too many consumers adopt the fashion, thus turning others away. Still another is that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in the society, satisfies societal norms and values, and keeps within technological limits as it develops.[43]

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following who are searching for excitement or want to distinguish themselves from others. Fads fail to survive because they don't normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power. Here's a success story of a company that managed to take a fad and make it a long-term success story.



|Fig. 11.6|

Style, Fashion, and Fad Life Cycles

Trivial Pursuit Since its debut at the International Toy Fair in 1982, Trivial Pursuit has sold 88 million copies in 17 languages in 26 countries, and it remains one of the best-selling adult games. Parker Brothers has kept it popular by making a new game with updated questions every year. It also keeps creating offshoots—travel packs, a children's version, Trivial Pursuit Genus IV, and themed versions tapping into niches tied to various sports, movies, and decades—23 different versions in all. The game is available in a variety of platforms: as an interactive CD-ROM from Virgin Entertainment Interactive, online at its own Web site (www.trivialpursuit.com), and in a mobile edition accessible via cell phone. If you're having trouble making dinner conversation on a date—no problem: NTN Entertainment Network has put Trivial Pursuit in about 3,000 restaurants.[44]

Through countless variations, Trivial Pursuit has proven to be more than a passing fad.

Marketing Strategies: Introduction Stage and the Pioneer Advantage

Because it takes time to roll out a new product, work out the technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow in the introduction stage.[45] Profits are negative or low, and promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.[46] Firms focus on buyers who are the most ready to buy. Prices tend to be higher because costs are high.

Companies that plan to introduce a new product must decide when to enter the market. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength to create a market advantage.

Speeding up innovation time is essential in an age of shortening product life cycles. Being early has been shown to pay. One study found that products coming out six months late—but on budget—earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget cut their profits by only 4 percent.[47]

Most studies indicate the market pioneer gains the greatest advantage.[48] Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance. Nineteen of twenty-five market leaders in 1923 were still the market leaders in 1983, 60 years later.[49] In a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years, versus 48 percent of early followers.[50]

What are the sources of the pioneer's advantage?[51] Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess.[52] It normally aims at the middle of the market and so captures more users. Customer inertia also plays a role; and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and other barriers to entry. Pioneers can spend marketing dollars more effectively and enjoy higher rates of repeat purchases. An alert pioneer can lead indefinitely by pursuing various strategies.[53]

But the advantage is not inevitable.[54] Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers) were market pioneers overtaken by later entrants. First movers also have to watch out for the "second-mover advantage."

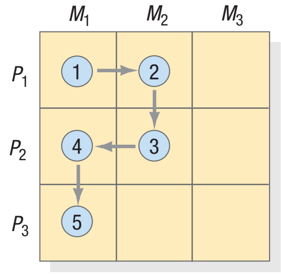
Steven Schnaars studied 28 industries where imitators surpassed the innovators.[55] He found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously, or using brute market power to overtake the pioneer. None of the companies that now dominate in the manufacture of personal computers—including Dell, HP, and Acer—were first movers.[56]

Peter Golder and Gerald Tellis raise further doubts about the pioneer advantage.[57] They distinguish between an *inventor,* first to develop patents in a new-product category, a *product pioneer,* first to develop a working model, and a *market pioneer,* first to sell in the new-product category.

They also include nonsurviving pioneers in their sample. They conclude that although pioneers may still have an advantage, a larger number of market pioneers fail than has been reported, and a larger number of early market leaders (though not pioneers) succeed. Later entrants overtaking market pioneers include IBM over Sperry in mainframe computers, Matsushita over Sony in VCRs, and GE over EMI in CAT scan equipment.

Tellis and Golder more recently identified five factors underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.[58] Other research has highlighted the importance of the novelty of the product innovation.[59] When a pioneer starts a market with a really new product, like the Segway Human Transporter, surviving can be very challenging. In the case of incremental innovation, like MP3 players with video capabilities, survival rates are much higher.

The pioneer should visualize the product markets it could enter, knowing it cannot enter all of them at once. Suppose market-segmentation analysis reveals the product market segments shown in Figure 11.7. The pioneer should analyze the profit potential of each product market singly and in combination and decide on a market expansion path. Thus, the pioneer in Figure 11.7 plans first to enter product market P_1M_1, then move the product into a second market (P_1M_2), then surprise the competition by developing a second product for the second market (P_2M_2), then take the second product back into the first market (P_2M_1), then launch a third product for the first market (P_3M_1). If this game plan works, the pioneer firm will own a good part of the first two segments and serve them with two or three products.



|Fig. 11.7|

Long-Range Product Market Expansion Strategy (P_i = product i; M_j = market j)

Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales. Early adopters like the product and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution.

Prices stabilize or fall slightly, depending on how fast demand increases. Companies maintain promotional expenditures or raise them slightly, to meet competition and continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion–sales ratio. Profits increase as promotion costs are spread over a larger volume, and unit manufacturing costs fall faster than price declines, owing to the producer-learning effect. Firms must watch for a change to a decelerating rate of growth in order to prepare new strategies.

To sustain rapid market share growth now, the firm:

- improves product quality and adds new features and improved styling.
- adds new models and flanker products (of different sizes, flavors, and so forth) to protect the main product.
- enters new market segments.
- increases its distribution coverage and enters new distribution channels.
- shifts from awareness and trial communications to preference and loyalty communications.
- lowers prices to attract the next layer of price-sensitive buyers.

By spending money on product improvement, promotion, and distribution, the firm can capture a dominant position. It trades off maximum current profit for high market share and the hope of even greater profits in the next stage.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. Most products are in this stage of the life cycle, which normally lasts longer than the preceding ones.

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first, sales growth starts to slow. There are no new distribution channels to fill. New competitive forces emerge. In the second phase, sales per capita flatten because of market saturation. Most potential consumers have tried the product, and future sales depend on population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products.

This third phase poses the most challenges. The sales slowdown creates overcapacity in the industry, which intensifies competition. Weaker competitors withdraw. A few giants dominate—perhaps a quality leader, a service leader, and a cost leader—and profit mainly through high volume and lower costs. Surrounding them is a multitude of market nichers, including market specialists, product specialists, and customizing firms.

The question is whether to struggle to become one of the big three and achieve profits through high volume and low cost, or pursue a niching strategy and profit through low volume and high margins. Sometimes the market will divide into low- and high-end segments, and market shares of firms in the middle steadily erode. Here's how Swedish appliance manufacturer, Electrolux, has coped with this situation.

Electrolux AB In 2002, Electrolux faced a rapidly polarizing appliance market. Low-cost Asian companies such as Haier, LG, and Samsung were applying downward price pressure, while premium competitors like Bosch, Sub-Zero, and Viking were growing at the expense of the middle-of-the-road brands. Electrolux's new CEO Hans Stråberg decided to escape the middle by rethinking Electrolux customers' wants and needs. He segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumers. Electrolux now successfully markets its steam ovens to health-oriented consumers, for example, and its compact dishwashers, originally for smaller kitchens, to a broader consumer segment that washes dishes more often. To companies stuck in the middle of a mature market, Stråberg offers this advice: "Start with consumers and understand what their latent needs are and what problems they experience . . . then put the puzzle together yourself to discover what people really want to have. Henry Ford is supposed to have said, 'If I had asked people what they really wanted, I would have made faster horses' or something like that. You need to figure out what people really want, although they can't express it."[60]

Electrolux uses an elaborate segmentation plan and an expansive product line to make sure its brand is not stuck in the middle of a shrinking market.

Some companies abandon weaker products to concentrate on new and more profitable ones. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found ways to offer customers new value. Three ways to change the course for a brand are market, product, and marketing program modifications.

MARKET MODIFICATION A company might try to expand the market for its mature brand by working with the two factors that make up sales volume: Volume = number of brand users × usage rate per user, as in Table 11.1, but may also be matched by competitors.

PRODUCT MODIFICATION Managers also try to stimulate sales by improving quality, features, or style. *Quality improvement* increases functional performance by launching a "new and improved" product. *Feature improvement* adds size, weight, materials, supplements, and accessories that expand the product's performance, versatility, safety, or convenience. *Style improvement* increases the product's esthetic appeal. Any of these can attract consumer attention.

MARKETING PROGRAM MODIFICATION Finally, brand managers might also try to stimulate sales by modifying nonproduct elements—price, distribution, and communications in particular. They should assess the likely success of any changes in terms of effects on new and existing customers.

Marketing Strategies: Decline Stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All can lead to overcapacity, increased price

TABLE 11.1 Alternate Ways to Increase Sales Volume

Expand the Number of Users	Increase the Usage Rates Among Users
• *Convert nonusers.* The key to the growth of air freight service was the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.	• *Have consumers use the product on more occasions.* Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows.
• *Enter new market segments.* When Goodyear decided to sell its tires via Walmart, Sears, and Discount Tire, it immediately boosted its market share.	• *Have consumers use more of the product on each occasion.* Drink a larger glass of orange juice.
• *Attract competitors' customers.* Marketers of Puffs facial tissues are always wooing Kleenex customers.	• *Have consumers use the product in new ways.* Use Tums antacid as a calcium supplement.

cutting, and profit erosion. The decline might be slow, as for sewing machines and newspapers, or rapid, as for 5.25 floppy disks and eight-track cartridges. Sales may plunge to zero or petrify at a low level. These structural changes are different from a short-term decline resulting from a marketing crisis of some sort. "Marketing Insight: Managing a Brand Crisis," describes strategies for a brand in temporary trouble.

As sales and profits decline over a long period of time, some firms withdraw. Those remaining may reduce the number of products they offer, withdrawing from smaller segments and weaker trade channels, cutting marketing budgets, and reducing prices further. Unless strong reasons for retention exist, carrying a weak product is often very costly.

Besides being unprofitable, weak products consume a disproportionate amount of management's time, require frequent price and inventory adjustments, incur expensive setup for short production runs, draw advertising and sales force attention better used to make healthy products more profitable, and cast a negative shadow on company image. Failing to eliminate them also delays the aggressive search for replacement products, creating a lopsided product mix long on yesterday's breadwinners and short on tomorrow's.

Unfortunately, most companies have not developed a policy for handling aging products. The first task is to establish a system for identifying them. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance who, based on all available information, makes a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.[61]

Some firms abandon declining markets earlier than others. Much depends on the height of exit barriers in the industry.[62] The lower the barriers, the easier for firms to leave the industry, and the more tempting for the remaining firms to stay and attract the withdrawing firms' customers. Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew.

The appropriate strategy also depends on the industry's relative attractiveness and the company's competitive strength in it. A company in an unattractive industry that possesses competitive strength should consider shrinking selectively. A company in an attractive industry that has competitive strength should consider strengthening its investment. Companies that successfully restage or rejuvenate a mature product often do so by adding value to it.

Strategies for harvesting and divesting are quite different. *Harvesting* calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures, ideally without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute, yet many mature products warrant this strategy. It can substantially increase current cash flow.[63]

When a company decides to divest a product with strong distribution and residual goodwill, it can probably sell the product to another firm. Some firms specialize in acquiring and revitalizing

Marketing Insight

Managing a Brand Crisis

Marketing managers must assume a brand crisis will someday arise. Whole Foods, Taco Bell, JetBlue, and toy and pet food brands have all experienced potentially crippling brand crises, and AIG, Merrill Lynch, and Citi were rocked by investment lending scandals that eroded consumer trust. Widespread repercussions include (1) lost sales, (2) reduced effectiveness of marketing activities for the product, (3) increased sensitivity to rivals' marketing activities, and (4) reduced impact of the firm's marketing activities on competing brands.

In general, the stronger brand equity and corporate image are—especially credibility and trustworthiness—the more likely the firm can weather the storm. Careful preparation and a well-managed crisis management program, however, are also critical. As Johnson & Johnson's nearly flawless handling of the Tylenol product-tampering incident suggests, the key is that consumers see the firm's response as both *swift* and *sincere.* They must feel an immediate sense that the company truly cares. Listening is not enough.

The longer the firm takes to respond, the more likely consumers can form negative impressions from unfavorable media coverage or word of mouth. Perhaps worse, they may find they don't like the brand after all and permanently switch. Getting in front of a problem with PR, and perhaps ads, can help avoid those problems.

Consider Perrier. In 1994, Perrier was forced to halt production worldwide and recall all existing product when traces of benzene, a known carcinogen, were found in excessive quantities in its bottled water. Over the next weeks it offered several explanations, creating confusion and skepticism. Perhaps more damaging, the product was off shelves for over three months. Despite an expensive relaunch featuring ads and promotions, the brand struggled to regain lost market share, and a full year later sales were less than half what they had been. With its key "purity" association tarnished, Perrier had no other compelling points-of-difference. Consumers and retailers had found satisfactory substitutes, and the brand never recovered. Eventually it was taken over by Nestlé SA.

Second, the more sincere the firm's response—a public acknowledgment of the impact on consumers and willingness to take necessary steps—the less likely consumers will form negative attributions. When consumers reported finding shards of glass in some jars of its baby food, Gerber tried to reassure the public there were no problems in its manufacturing plants but adamantly refused to withdraw products from stores. After market share slumped from 66 percent to 52 percent within a couple of months, one company official admitted, "Not pulling our baby food off the shelf gave the appearance that we aren't a caring company."

Sources: Norman Klein and Stephen A. Greyser, "The Perrier Recall: A Source of Trouble," Harvard Business School Case #9-590-104 and "The Perrier Relaunch," Harvard Business School Case #9-590-130; Harald Van Heerde, Kristiaan Helsen, and Marnik G. Dekimpe, "The Impact of a Product-Harm Crisis on Marketing Effectiveness," *Marketing Science* 26 (March–April 2007), pp. 230–45; Michelle L. Roehm and Alice M. Tybout, "When Will a Brand Scandal Spill Over and How Should Competitors Respond?" *Journal of Marketing Research* 43 (August 2006), pp. 366–73; Michelle L. Roehm and Michael K. Brady, "Consumer Responses to Performance Failures by High Equity Brands," *Journal of Consumer Research*, 34 (December 2007), pp. 537–45; Alice M. Tybout and Michelle Roehm, "Let the Response Fit the Scandal," *Harvard Business Review*, December 2009, pp. 82–88; Andrew Pierce, "Managing Reputation to Rebuild Battered Brands, *Marketing News*, March 15, 2009, p. 19; Kevin O'Donnell, "In a Crisis Actions Matter," *Marketing News*, April 15, 2009, p. 22.

"orphan" or "ghost" brands that larger firms want to divest or that have encountered bankruptcy such as Linens n' Things, Folgers and Brim coffee, Nuprin pain reliever, and Salon Selective shampoos.[64] These firms attempt to capitalize on the residue of awareness in the market to develop a brand revitalization strategy. Reserve Brands bought Eagle Snacks in part because research showed 6 of 10 adults remembered the brand, leading Reserve's CEO to observe, "It would take $300 million to $500 million to recreate that brand awareness today."[65]

If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide how much inventory and service to maintain for past customers.

Evidence for the Product Life-Cycle Concept

Table 11.2 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the product life cycle. The PLC concept helps marketers interpret product and market dynamics, conduct planning and control, and do forecasting. One recent study of 30 product categories unearthed a number of interesting findings concerning the PLC:[66]

- New consumer durables show a distinct takeoff, after which sales increase by roughly 45 percent a year, but they also show a distinct slowdown, when sales decline by roughly 15 percent a year.
- Slowdown occurs at 34 percent penetration on average, well before most households own a new product.

- The growth stage lasts a little over eight years and does not seem to shorten over time.
- Informational cascades exist, meaning people are more likely to adopt over time if others already have, instead of by making careful product evaluations. One implication is that product categories with large sales increases at takeoff tend to have larger sales declines at slowdown.

Critique of the Product Life-Cycle Concept

PLC theory has its share of critics, who claim life-cycle patterns are too variable in shape and duration to be generalized, and that marketers can seldom tell what stage their product is in. A product may appear mature when it has actually reached a plateau prior to another upsurge. Critics also charge that, rather than an inevitable course, the PLC pattern is the self-fulfilling result of marketing strategies, and that skillful marketing can in fact lead to continued growth.[67]

Market Evolution

Because the PLC focuses on what's happening to a particular product or brand rather than the overall market, it yields a product-oriented rather than a market-oriented picture. Firms also need to visualize a *market's* evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments and change product and brand positioning to keep pace.[68] Like products, markets evolve through four stages: emergence, growth, maturity, and decline. Consider the evolution of the paper towel market.

TABLE 11.2 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak products
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Communications	Build product awareness and trial among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits and encourage brand switching	Reduce to minimal level needed to retain hard-core loyals

Sources: Chester R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles* (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," *Long Range Planning* (October 1976), pp. 12–29; Peter Doyle, "The Realities of the Product Life Cycle," *Quarterly Review of Marketing* (Summer 1976).

Paper Towels

Paper Towels Homemakers originally used cotton and linen dishcloths and towels in their kitchens. Then a paper company looking for new markets developed paper towels, crystallizing a latent market that other manufacturers entered. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced "absorbent" towels and increased its market share. Competitors produced their own versions of absorbent paper towels, and the market fragmented again. One manufacturer introduced a "superstrength" towel that was soon copied. Another introduced a "lint-free" towel, subsequently copied. The latest innovation is wipes containing a cleaning agent (like Clorox Disinfecting Wipes) that are often surface-specific (for wood, metal, stone). Thus, driven by innovation and competition, paper towels evolved from a single product to one with various absorbencies, strengths, and applications.

Marketing in an Economic Downturn

Given economic cycles, there will always be tough times, such as 2008–2010 in many parts of the world. Despite reduced funding for marketing programs and intense pressure to justify them as cost effective, some marketers survived—or even thrived—in the recession. Here are five guidelines to improve the odds for success during an economic downturn.

Explore the Upside of Increasing Investment

Does it pay to invest during a recession? Although the severity of the recent downturn took firms into uncharted territory, 40 years of evidence suggests those willing to invest during a recession have, on average, improved their fortunes when compared with those that cut back.[69]

The amount of investment isn't all that matters. Firms that received the most benefit from increasing marketing investments during a recession were often those best able to exploit a marketplace advantage such as an appealing new product, a weakened rival, or development of a neglected target market. With such strong evidence, marketers should consider the potential upside and positive payback of an increased investment that seizes market opportunities. Here are two companies that made such a decision.

- General Mills increased marketing expenditures for the 2009 fiscal year by 16 percent, increased revenues by 8 percent to $14.7 billion, and increased its operating profit by 4 percent. As CEO Ken Powell explained, "In an environment where you have consumers going to the grocery store more often and thinking more about meals at home, we think that is a great environment for brand building, to remind consumers about our products."[70]
- UK supermarket giant Sainsbury launched an advertising and in-store point-of-sale campaign called "Feed Your Family for a Fiver" that played off its corporate slogan, "Try Something New Today," to encourage shoppers to try new recipes that would feed families for only £5.

Sainsbury's no-nonsense value appeal was just the right message to send to UK customers in the midst of a recession.

Get Closer to Customers

In tough times, consumers may change what they want and can afford, where and how they shop, even what they want to see and hear from a firm. A downturn is an opportunity for marketers to learn even more about what consumers are thinking, feeling, and doing, especially the loyal customer base that yields so much of a brand's profitability.[71]

Firms should characterize any changes as temporary adjustments versus permanent shifts.[72] In explaining why it is important to look forward during a recession, Eaton CEO Alex Cutler noted, "It is a time when businesses shouldn't be assuming that the future will be like the past. And I mean that in virtually every dimension whether it is economic growth, value propositions, or the level of government regulation and involvement."[73]

At the peak—the bottom—of the recession, a Booz & Company survey of 1,000 U.S. households found 43 percent were eating at home more and 25 percent were cutting spending on hobbies and sports activities. In both cases, respondents said they would likely do so even when the economy improved.[74] With consumer confidence at its lowest in decades, spending shifted in many ways. As one retail analyst commented, "Moms who used to buy every member of the family their own brand of shampoo are buying one big cheap one."[75]

The potential value and profitability of some target consumers may change. Marketers should evaluate this factor to fine-tune their marketing program and capitalize on new insights. After unsuccessfully chasing twenty-somethings with trendier clothing, Old Navy refocused its message to target a budget-conscious mom shopping for herself and the family.[76]

Review Budget Allocations

Budget allocations can be sticky and not change enough to reflect a fluid marketing environment. We've seen repeatedly that the vast penetration of the Internet, improved functionality of the cell phone, and increased importance of events, experiences, and emotions as marketing opportunities have dramatically changed the marketing communications and channels environment in just five years.

A recession provides an opportunity for marketers to closely review how much and in what ways they are spending their money. Budget reallocations can open up promising new options and eliminate sacred-cow approaches that no longer provide sufficient revenue benefits. Underperforming distributors can be weeded out and incentives provided to motivate the more effective product sellers.

Marketing communications allow much experimentation. In London, T-Mobile created spontaneous, large-scale, interactive "happenings" to convey its brand positioning that "Life's for Sharing" and generate massive publicity. Its "Dance" video, featuring 400 dancers getting the whole Liverpool tube station to dance, was viewed millions of times on YouTube.[77]

Firms as diverse as Century 21 realtors and Red Robin gourmet burgers increased their Internet marketing activities during the recession.[78] The 120,000 U.S. dental practices were not immune to the economic downturn, as patients chose to postpone dental work and even skip routine cleanings. Many dentists turned to marketing and increased personal communications with patients via e-mail newsletters, calls to set up appointments, and even Twitter messages to share new product or service developments.[79]

Put Forth the Most Compelling Value Proposition

One mistake in a recession is to be overly focused on price reductions and discounts, which can harm long-term brand equity and price integrity. Marketers should increase—and clearly communicate—the value their brands offer, making sure consumers appreciate all the financial, logistical, and psychological benefits compared with the competition.[80] The more expensive the item, the more important this value framing becomes. In the recent recession, GE changed its ad messages for the $3,500 Profile washer-and-dryer set to emphasize its practicality—it optimizes the use of soap and water per load to reduce waste and saves customers money by being gentle on clothes, extending their life.[81]

Marketers should also review pricing to ensure it has not crept up over time and no longer reflects good value. Procter & Gamble adopted a "surgical" approach to reducing prices in specific categories in which its brands were perceived as costing too much compared with competitive products. At the same, it launched communications about the innovativeness and value of its many other brands to help

To reflect more challenging economic times, GE Profile changed its ad strategy to emphasize practicality.

ensure consumers would continue to pay their premium prices. Ads for Bounty claimed it was more absorbent than a "bargain brand" of paper towels; headlines in print ads for Olay Professional Pro-X's Intensive Wrinkle Protocol proclaimed, "As Effective at Wrinkle Reduction as What the Doctor Prescribed. At Half the Price."[82]

Fine-tune Brand and Product Offerings

Marketers must ensure they have the right products to sell to the right consumers in the right places and times. They can review product portfolios and brand architecture to confirm that brands and sub-brands are clearly differentiated, targeted, and supported based on their prospects. Luxury brands can benefit from lower-priced brands or sub-brands in their portfolios. Take Armani as an example.

Armani

Armani Armani differentiates its product line into three tiers distinct in style, luxury, customization, and price. In the most expensive, Tier I, it sells Giorgio Armani and Giorgio Armani Privé, custom-made couture products that sell for thousands of dollars. In Tier II, it offers Emporio Armani—young, modern, more affordable styles—and Armani jeans that convey technology and ecology. In lower-priced Tier III are more youthful and street-savvy translations of Armani style, AIX Armani Exchange, sold at retail locations in cities and suburban malls. The brand architecture has been carefully devised so each extension lives up to the core promise of the Armani brand without diluting the parent's image. But clear differentiation also exists, minimizing consumer confusion and brand cannibalization. In tough economic times, the lower end picks up the selling slack and helps maintain profitability.

Because different brands or sub-brands appeal to different economic segments, those that target the lower end of the socioeconomic spectrum may be particularly important during a recession. Value-driven companies such as McDonald's, Walmart, Costco, Aldi, Dell, E*TRADE, Southwest Airlines, and IKEA are likely to benefit most. Spam, the oft-maligned gelatinous 12-ounce rectangle of spiced ham and pork, found its sales soaring during the recession. Affordably priced and requiring no refrigeration, Spam is, its maker Hormel claims, "like meat with a pause button."[83]

Bad times also are an opportunity to prune brands or products with diminished prospects. In the recession following the 9/11 tragedy, Procter & Gamble divested many stagnant brands such as Comet cleanser, Folgers coffee, Jif peanut butter, and Crisco oil and shortening, to concentrate on higher-growth opportunities with much success.

Summary

1. A market leader has the largest market share in the relevant product market. To remain dominant, the leader looks for ways to expand total market demand and attempts to protect and perhaps increase its current share.
2. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. There are five types of general attack; challengers must also choose specific attack strategies.
3. A market follower is a runner-up firm willing to maintain its market share and not rock the boat. It can play the role of counterfeiter, cloner, imitator, or adapter.
4. A market nicher serves small market segments not being served by larger firms. The key to nichemanship is specialization. Nichers develop offerings to fully meet a certain group of customers' needs, commanding a premium price in the process.
5. As important as a competitive orientation is in today's global markets, companies should not overdo the emphasis on competitors. They should maintain a good balance of consumer and competitor monitoring.
6. Because economic conditions change and competitive activity varies, companies normally must reformulate their marketing strategy several times during a product's life cycle. Technologies, product forms, and brands also exhibit life cycles with distinct stages. The life cycle stages are usually introduction, growth, maturity, and decline. Most products today are in the maturity stage.
7. Each product life cycle stage calls for different marketing strategies. The introduction is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. There follows a maturity stage in which sales

growth slows and profits stabilize. Finally, the product enters a decline stage. The company's task is to identify the truly weak products, develop a strategy for each, and phase them out in a way that minimizes impact on company profits, employees, and customers.

8. Like products, markets evolve through four stages: emergence, growth, maturity, and decline.
9. In a recession, marketers must explore the upside of possibly increasing investments, get closer to customers, review budget allocations, put forth the most compelling value proposition, and fine-tune brand and product offerings.

Applications

Marketing Debate

Do Brands Have Finite Lives?

Often, after a brand begins to slip in the marketplace or disappears altogether, commentators observe, "All brands have their day," implying brands have a finite life and cannot be expected to be leaders forever. Other experts contend brands *can* live forever, and that their long-term success depends on marketers' skill and insight.

Take a position: **Brands cannot be expected to last forever *versus* There is no reason for a brand to ever become obsolete.**

Marketing Discussion

Industry Roles

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, and nicher. How would you characterize the nature of competition? Do the firms follow the principles described in this chapter?

Marketing Excellence

>>Samsung

Korean consumer electronics giant Samsung has made a remarkable transformation, from a provider of value-priced commodity products that original equipment manufacturers (OEMs) sold under their own brands, to a global marketer of premium-priced Samsung-branded consumer electronics such as flat-screen TVs, digital cameras, digital appliances, semiconductors, and cell phones. Samsung's high-end cell phones have been a growth engine for the company, which has also released a steady stream of innovations, popularizing the PDA phone, the first cell phone with an MP3 player, and the first Blu-ray disc player.

Samsung initially focused on volume and market domination rather than profitability. However, during the Asian financial crisis of the late 1990s, when other Korean *chaebols* collapsed beneath a mountain of debt, Samsung took a different approach. It cut costs and reemphasized product quality and manufacturing flexibility, which allowed its consumer electronics to go from project phase to store shelves within six months. Samsung invested heavily in innovation and focused intently on its memory-chip business, which established an important cash cow and rapidly made the company the largest chip maker in the world. The company continued to pour money into R&D during the 2000s, budgeting $40 billion for 2005–2010. Its focus on R&D and increasing digital convergence have let Samsung introduce a wide range of electronic products under its strong brand umbrella. The firm also partnered with longtime market leader Sony to create a $2 billion state-of-the-art LCD factory in South Korea and signed a milestone agreement to share 24,000 basic patents for components and production processes.

Samsung's success has been driven not only by successful product innovation, but also by aggressive brand building over the last decade. From 1998 to 2009, the company spent over $7 billion in marketing, sponsored six Olympics, and ran several global ad campaigns themed “Imagine,” “Quietly Brilliant,” and “YOU,” all which included brand messages such as “technology,” “design,” and “sensation” (human). In 2005, Samsung surpassed Sony in the Interbrand brand ranking for the first time and continues to outperform Sony today.

The economic downturn during 2008 and 2009 significantly affected the semiconductor industry, overall consumer electronics sales, and Samsung’s bottom line. To survive, Samsung slashed profit margins, decreased production, and cut inventories. As a result, the company emerged at the end of 2009 with record-high quarterly profits despite significantly smaller profit margins.

Today, Samsung is the global leader in flat-panel TVs and memory chips, and the number two player in mobile phones. It is focused on growing technologies such as smart phones and has partnered with both Microsoft’s Windows Mobile and Google’s Android software. In addition, Samsung has formed a green partnership with Microsoft to help create energy-efficient computers.

Unlike rival firms, Samsung has become a global leader by making both components for electronics products and the actual devices sold to consumers, and without acquiring major competitors. It has more than doubled its employees from a decade ago to over 164,000 around the world. With record sales of $110 billion in 2008, the company’s CEO, Lee Yoon-woo, announced the firm hopes to hit $400 billion in revenue by the year 2020. To accomplish this aggressive goal, Samsung will explore areas like health care and home energy products.

Questions

1. What are some of Samsung’s greatest competitive strengths?
2. Samsung’s goal of $400 billion in sales by 2020 would bring it to the same level as Walmart. Is this feasible? Why or why not?

Sources: Moon Ihlwan, “Samsung Is Having a Sony Moment,” *BusinessWeek,* July 30, 2007, p. 38; Martin Fackler, “Raising the Bar at Samsung,” *New York Times,* April 25, 2006; “Brand New,” *Economist,* January 15, 2005, pp. 10–11; Patricia O’Connell, “Samsung’s Goal: Be Like BMW,” *BusinessWeek,* August 1, 2005; Heidi Brown and Justin Doeble, “Samsung’s Next Act,” *Forbes,* July 26, 2004; John Quelch and Anna Harrington, “Samsung Electronics Company: Global Marketing Operations,” *Harvard Business School,* January 16, 2008; Evan Ramstad, “Samsung’s Swelling Size Brings New Challenges,” *Wall Street Journal,* November 11, 2009; “Looking Good? LG v. Samsung,” *Economist,* January 24, 2009.

Marketing Excellence

>>IBM

International Business Machines Corporation (IBM) manufactures and sells computer hardware and software, offers infrastructure services, and provides global consulting services. It dates to the 1880s but became known as IBM only in 1924, under the leadership of then-president Thomas J. Watson Sr. Watson led IBM for four decades and helped establish some of its most successful and continuing business tactics, such as exceptional customer service, a professional and knowledgeable sales force, and a focus on large-scale, custom-built solutions for businesses. Watson also created the company’s first slogan, “THINK,” which quickly became a corporate mantra.

From the 1910s to the 1940s, IBM’s growth exploded, led primarily by sales of tabulating machines, which helped underpin the Social Security system in the 1930s, and of war-related technologies developed for the military during World War I and World War II.

IBM evolved in the 1950s when Watson’s son, Thomas J. Watson Jr., took over as CEO. It was under his management that the company paved the way for innovations in computation. IBM worked with the government during the Cold War and built the air-defense SAGE computer system at the price of $30 million. In 1964, the firm launched a revolutionary large family of computers called the System/360, which used interchangeable software and peripheral equipment. For it to succeed, however, IBM had to cannibalize its own computer product lines and move its current systems to the new technology. Fortunately the risk paid off, and IBM architecture became the industry standard. By the 1960s, IBM was producing approximately 70 percent of all computers, beating out early competitors General Electric, RCA, and Honeywell.

The 1980s—the beginning of the personal computing era—were pivotal for IBM. In 1981, the firm launched the first personal computer, which offered 18KB of memory, floppy disk drives, and an optional color monitor. IBM also opened up new channels of distribution through companies like Sears and ComputerLand. However, its decision to outsource components of the PC to companies like Microsoft and Intel marked the end of IBM's monopoly in computing. During the 1980s, its market share and profits eroded as the PC revolution changed the way consumers viewed and bought technology. IBM's sales dropped from $5 billion in the early 1980s to $3 billion by 1989. The dip continued into the early 1990s when IBM felt pressure from Compaq and Dell and attempted to split the company into smaller business units to compete. The results were disastrous, and IBM posted net losses of $16 billion between 1991 and 1993.

Things turned around when a new CEO, Louis Gerstner, refocused the company in a new strategic direction. Gerstner reconnected the company's business units, shed its commodity products, and focused on high-margin businesses like consulting and middleware software. IBM then introduced the iconic ThinkPad, which helped regain lost share. To rebuild its brand image, the firm consolidated its marketing efforts from 70 advertising agencies to 1 and created a consistent, universal message. In 1997, IBM's chess-playing computer system, Deep Blue, also helped lift IBM's brand image by defeating the world's reigning chess champion in a historic event that captured the attention of millions.

At the turn of the 21st century, IBM's newest CEO, Samuel Palmisano, led IBM to new levels of success in the wake of the dot-com bust. He moved the company further away from hardware by selling its ThinkPad division to Lenovo and exiting disk drives. In addition, Palmisano embraced global consulting and data analytics by acquiring close to 100 firms, including PricewaterhouseCoopers.

IBM now focuses on solving the world's most challenging high-tech problems, such as better water management, lower traffic congestion, and collaborative health care solutions. Its most recent campaign, entitled "Smarter planet," highlights a few of the company's accomplishments to date and explores IBM's ideas for the future. Palmisano explained, "We are looking at huge problems that couldn't be solved before. We can solve congestion and pollution. We can make the grids more efficient. And quite honestly, it creates a big business opportunity."

Today, IBM is the largest and most profitable information technology company in the world, with over $103 billion in sales and 388,000 employees worldwide. It employs scientists, engineers, consultants, and sales professionals in over 170 countries and holds more patents than any other U.S.-based technology company. From 2000 to 2008, IBM spent over $50 billion on R&D; and approximately 30 percent of its annual R&D budget goes toward long-term research.

Questions

1. Few companies have had such a long history of ups and downs as IBM. What were some of the keys to its recent success? Can its plans to solve some of the world's most challenging problems succeed? Why or why not?
2. Who are IBM's biggest competitors today, and what risks do they face with their current strategy?

Sources: Steve Lohr, "IBM Showing That Giants Can Be Nimble," *New York Times,* July 18, 2007; Jeffrey M. O'Brien, "IBM's Grand Plan to Save the Planet," *Fortune,* April 21, 2009; "IBM Archives," *IBM,* www.ibm.com; Louis V. Gerstner Jr., Who Says Elephants Can't Dance? *Inside IBM's Historic Turnaround* (New York: Harper Business, 2002).

Chapter 12

This trade show debut in Shanghai, China, in April 2009 was part of the global launch of the highly anticipated Ford Fiesta world car.

In This Chapter, We Will Address the Following Questions

1. What are the characteristics of products, and how do marketers classify products?
2. How can companies differentiate products?
3. Why is product design important and what factors affect a good design?
4. How can a company build and manage its product mix and product lines?
5. How can companies combine products to create strong co-brands or ingredient brands?
6. How can companies use packaging, labeling, warranties, and guarantees as marketing tools?

Setting Product Strategy

At the heart of a great brand is a great product. Product is a key element in the market offering. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value.

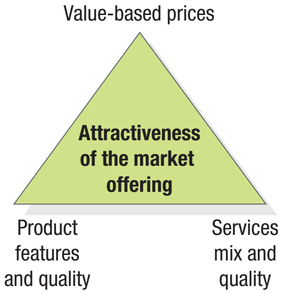
Ford Motor Company endured some tough times at the beginning of the 21st century. A safety controversy about its best-selling Ford Explorer and high gas prices that hurt sales of its trucks and SUVs put the company in deep financial straits. Perhaps the biggest concern was public perception that Ford products were not high quality. A new CEO, Alan Mulally, arrived in 2006 determined to set Ford on a different path. Rejecting government bailouts during the subsequent recession created some goodwill, but Mulally knew reliable, stylish, and affordable vehicles that performed well would make or break the company's fortunes. A redesigned high-mileage Ford Fusion with innovative Sync hands-free phone-and-entertainment system and an environmentally friendly hybrid option caught customers' attention, as did the hip, urban-looking seven-seat Ford Flex SUV with a center console mini-refrigerator.

Mulally felt it was critical to use Ford's vast infrastructure and scale to create vehicles that, with small adjustments, could easily be sold all over the world. The result of extensive global research, the Ford Fiesta hatchback was a striking example of this world-car concept. The rear of the car resembled a popular small sport-utility, its giant headlights were typical of more expensive cars, and dashboard instruments were modeled after a cell phone keypad. The company knew it had a winner when the Fiesta won a uniformly positive response in Chinese, European, and U.S. showrooms. Ford also relied on experiential and social media in marketing. Before its U.S. launch, 150 Fiestas toured the country for test drives and 100 were given to bloggers for six months to allow them to share their experiences. Ford's product and marketing innovations paid off. While the rest of the U.S. auto industry continued to tank, the Fiesta garnered thousands of preorders and Ford actually turned a profit in the first quarter of 2010.[1]

Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price (see Figure 12.1). In this chapter we examine product, in Chapter 13, services, and in Chapter 14, price. All three elements must be meshed into a competitively attractive offering.

Product Characteristics and Classifications

Many people think a product is tangible, but 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.



|Fig. 12.1|

Components of the Market Offering

Product Levels: The Customer-Value Hierarchy

In planning its market offering, the marketer needs to address five product levels (see Figure 12.2).[2] Each level adds more customer value, and the five constitute a **customer-value hierarchy**.

- 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 is where companies search for new ways to satisfy customers and distinguish their offering.

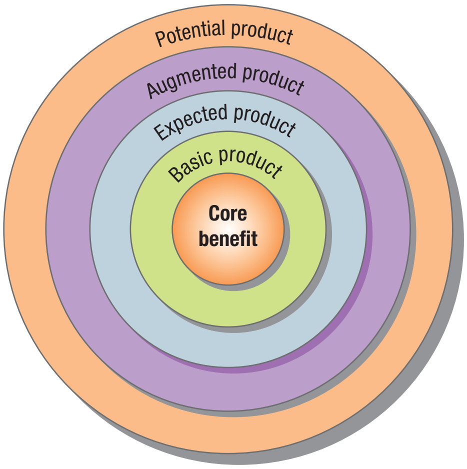
Differentiation arises and competition increasingly occurs on the basis of product augmentation, which also leads the marketer to look at the user's total **consumption system**: the way the user performs the tasks of getting and using products and related services.[3] Each augmentation adds cost, however, and augmented benefits soon become expected benefits and necessary points-of-parity in the category. If today's hotel guests expect satellite television, high-speed 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 fine hotels such as Four Seasons and Ritz-Carlton, we see lower-cost hotels and motels emerge such as Motel 6 and Comfort Inn, catering to clients who want simply the basic product. Striving to create an augmented product can be a key for success, as Jamestown Container has experienced.

Jamestown Container Companies What could be harder to differentiate than corrugated containers? Yet Jamestown Container Companies, a leading supplier of corrugated products for companies such as 3M, has formed strategic partnerships with area manufacturers to provide every part of the shipping system. It offers not only boxes

|Fig. 12.2|

Five Product Levels



but also tape, shrink-wrap, and everything else needed to display or ship a customer's final product. "It's a combination for survival," says the company's chief operating officer. "More customers want to call one place for everything. We have to keep reinventing ourselves and form these kinds of relationships to remain competitive."[4]

Jamestown Containers is offering additional packaging features to provide more value to customers.

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. Durable products 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, stereo 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, although 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. Classic examples of known but unsought goods 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 how 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* 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. Their perishable and seasonal nature gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity, with some exceptions. 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 delivery reliability 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 include 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 personnel, 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 (personal 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, although 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 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.

Product and Services 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, including form, features, customization, performance quality, conformance quality, durability, reliability, repairability, and style.[6] Design has become an increasingly important means of differentiation and we will discuss it in a separate section later.

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.[7]

To avoid "feature fatigue," the company must prioritize features and tell consumers how to use and benefit from them.[8] Companies 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.

CUSTOMIZATION Marketers can differentiate products by customizing them. As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. **Mass customization** is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.[9]

Levi's and Lands' End were among the first to introduce custom jeans. Other firms have introduced mass customization into other markets. 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. Customers must know how to express their personal product preferences, however, or be given assistance to best customize a product.[10]

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 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.

When Mercedes-Benz's quality ratings took a dive, the automaker instituted a number of significant changes to bring them back up.

Mercedes-Benz

From 2003 to 2006, Mercedes-Benz endured one of its most painful stretches in its 127-year history. Its stellar quality reputation took a beating in J.D. Power and other surveys, and BMW surpassed it in global sales. To recoup, a new management team reorganized the company around functional elements—motors, chassis, and electronic systems—instead of by model lines. Engineers begin testing electronic systems a year earlier and put each new model through 10,000 tests that ran 24 hours a day for three weeks. Mercedes 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 cars dropped 72 percent from their 2002 peak and warranty costs decreased by 25 percent. As a side effect, Mercedes-Benz dealers have had to contend with a sizable drop in their repair and service businesses![11]

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.

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 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. It creates distinctiveness that is hard to copy. Car buyers pay a premium for Jaguars because of their extraordinary looks. Aesthetics play a key role in such brands as Apple computers, Montblanc pens, 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.

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 45 airlines through live satellite feeds. Under its TotalCare program, airlines pay Rolls a fee for every hour an engine is in flight, and Rolls assumes the risks and costs of downtime and repairs.[13]

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

Cemex guarantees cement delivery as fast as placing a pizza order.

ORDERING EASE **Ordering ease** refers to 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. It includes speed, accuracy, and care throughout the process. Today's customers have grown to expect speed: pizza delivered in one-half hour, eyeglasses made in one hour, 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. Cemex, a giant cement company based in Mexico, has transformed its business by promising to deliver concrete faster than pizza. It equips every truck with a *global positioning system* (GPS) so dispatchers know its real-time location. If your load is more than 10 minutes late, you get up to a 20 percent discount.[14]

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 buyers of complex products like heavy equipment and for technology novices.

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 extensive training to users. 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. Firms such as Hewlett-Packard offer online technical support, or "e-support," for customers, who can search an online database for fixes or seek online help from a technician. Even retailers are getting into the act.

Best Buy

Best Buy As consolidation and competitive pricing among electronics retailers continue, companies are increasingly looking for new ways to stand out in the crowd. That's why Best Buy contracted with the Geek Squad, a small residential computer services company, to revamp the chain's in-store computer repair services. Best Buy used to send PCs to regional repair facilities, a time-consuming process that contributed to a high degree of consumer dissatisfaction. Now about half of all repairs are made in Best Buy stores. But the real differentiator is the Geek Squad's ability to make house calls (at a higher fee) using its signature fleet of VW Beetles. Geek Squad employees even dress differently for house calls—they wear a distinctive "geek" look instead of the traditional Best Buy blue they wear at the in-store service centers.[15]

RETURNS A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially with online purchases. Although the average return rate for online sales is roughly 5 percent, return and exchange policies are estimated to serve as a deterrent for one-third to one-half of online buyers. The cost of processing a return can be two to three times that of sending an outbound shipment, totaling an average of $30 to $35 for items bought online.

We can think of product returns in two ways:[16]

- *Controllable returns* result from problems or errors 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 through any of these means.