**CHAPTER FIVE: MANAGING PRODUCTS**

**5.1.**

**PRODUCT PLANNING**

**5.1.1. Meaning of a product**

We define a product as anything that is offered to a market for attention, acquisition, use or consumption and that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, persons, places, organizations, ideas or mixes of these entities. Other names for a product would be the offer, value package, or benefit bundle. The business education being given in our college is a product (service). A famous football player like Cristiano Ronaldo, is a product (person) bought by many countries and clubs.

Services are products that consist of activities, benefits or satisfactions that are offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, haircuts and home repair services.

**5.1.2. Level of Product**

Product planners need to think about products on three levels. Each level adds more customer value. The most basic or fundamental level is the core product, which addresses the question: what is the buyer really buying? As Figure 5.1 illustrates, the core product stands at the center of the total product. It consists of the core, problem-solving benefits that consumers seek. When designing products, marketers must first define the core of benefits that the product will provide to consumers.

At the second level, product planners must build an actual product around the core product. Actual products may consist of five characteristics: quality level, features, design, a brand name and packaging and other attributes that combine to deliver core product benefits.

Finally, product planners must build an augmented product around the core benefit and actual products by offering additional customer service and benefits. This may include: delivery and credit, after sale service, warranty and installation.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the core customer needs the product will seek to satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will provide the most satisfying customer experience.

***Installation***

***Delivery & Credit***

***Packaging***

***brand name***

***Features***

***Warranty***

***After sale service***

***Quality level***

***Design***

***Augmented product***

***Actual product***

***Core product***

Figure-5.1.Three levels of product

**5.1.3. Classification of a Product**

Products can be classified according to their durability and tangibility. Non-durable products are goods that are normally consumed quickly and used on one or a few usage occasions, such as beer, soap and food products. Durable products are products used over an extended period of time and normally survive for many years. Examples are refrigerators, cars and furniture.

Based on the purpose that products are acquired (the types of consumers that use them), products have traditionally been classified into two broad categories: consumer products and industrial products. Consumer products are products bought by the final consumers for personal consumption while industrial products are products bought by individuals and organizations for further processing or for use in conducting business. Each of these broad categories is further classified into different groups.

**5.1.3.1. Consumer products**

Based on the shopping habit, consumer products are classified into four groups.

1. **Convenience products**: are products that consumers usually buy frequently, immediately with a minimum of comparison and buying effort. E.g. soap, tobacco, fast foods etc. generally, these are a kind of products with low price and hence are available in many locations by companies to sell when customers

need them. Convenience goods can be further divided.

* **Staples:** these are goods consumed regularly such as Butter, Teff, Toothpaste, Salt, Cooking oil
* **Impulse goods:** are goods purchased suddenly, for example, Soft Drinks, Magazines, etc.
* **Emergency goods:** goods that are purchased in unexpected or urgent needs. For example, tablets at the time of sickness, and umbrella during a rain storm.

1. **Shopping products:** Shopping products are less frequently purchased consumer products that consumers compare carefully on suitability, quality, price and style. When buying shopping products, consumers spend much time and effort in gathering information and making comparisons. Example includes furniture, clothing, used cars major appliances and hotel and airline service. Marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in the comparison efforts.
2. **Specialty products:** Specialty products are consumer products with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high priced photographic equipment, designer clothes, and the services of medical or legal specialists. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.
3. **Unsought products:** They are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, cemetery plots, gravestones and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling and other marketing efforts.

**5.1.3.2. Industrial products**

Industrial products are those bought for further processing or for use in conducting a business. Thus the distinction between a consumer product and an industrial product is based on the purpose for which the product is purchased. These are also further divided in to three groups.

1. **Materials and parts**: refer to products that become part of the final product. They are basic inputs in the

production of other products. They include raw materials and manufactured materials and parts.

* **Raw materials:** are the major inputs that should be further processed in order to be parts of the final product. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables etc.) and natural products (fish, timber, crude petroleum, iron ore etc.).
* **Manufactured materials and parts:** these include component materials – that are further processed and component parts – that enter the finished product without any physical or chemical change. For example, pig iron is made into steel, and yarn is woven into cloth.

1. **Capital items**: are fixed assets of an organization that facilitate developing or manufacturing the finished product. They are not part of the finished product. They include two groups:
2. **Installations:** arelong lasting, usually non-movable and expensive assets of the firm. E.g. factory plants, office buildings, elevators and huge machineries.
3. **Accessory equipment:** areportable equipment and tools (such as hand tools) and office equipment (PC’s, fax machines and desks).

**3. Supplies and services**: supplies refer to those products that are consumed in the production process or operation of buyers. E.g. lubricants, oil, paper, pencil, repair and maintenance items etc. Services refer to maintenance and repair services that the firm purchases from outsiders or services supplied by outsiders such as legal, management counseling, advertising etc.

**5.1.4. Product Life Cycle**

The product life cycle (plc) depicts graphically a product’s sales volume from introduction to the market to its withdrawal from the market.

Like human beings, products also have their own life-cycle. From birth to death human beings pass through various stages e.g. birth, growth, maturity, decline and death. A similar life-cycle is seen in the case of products. The product life cycle goes through multiple phases, involves many professional disciplines, and requires many skills, tools and processes. The stages include introduction, growth, maturity and decline.

Like living beings, products have life cycle. The Product Lifecycle (PLC) is depicted by the sales curve of

the product since its introduction. A product normally passes through (i.e., a PLC has) four different stages,

namely; introduction, growth, and maturity and decline.

Sales and Profit (Birr)

Sales volume

Profit trend

Time

Figure: Product life – Cycle

Stage I

Introduction

Growth

Maturity

Decline

Stage IV

Stage III

Stage II

**1st. Introduction Stage**

The introduction stage of PLC, which starts with the launching of the new product, is characterized by:

1. Low sales because it generally takes some time for a new product to get wide acceptance by consumers and it also takes time to expand the marketing of the product.
2. High costs per unit because of the low sales and high promotional expenditure.
3. Absence of or low competition if the product is entirely new.
4. Loss or negligible profits because of low sales and high costs

**2nd. Growth Stage**

The growth stage, which follows the introduction stage, is characterized by:

1. Fast growth in sales because of increasing consumer acceptance and expansion of marketing.
2. Growing profits because of growing sales and fall into incidence of fixed production cost and marketing cost per unit.
3. Increasing competition.
4. Market segmentation and the introduction of different versions (models) of the product.

**3rd. Maturity stage**

The maturity stage is characterized by:

1. Saturation of sales (in the early part of this stage, sales continue to increase but at a decreasing rate). While sales are leveling, profits are declining.
2. Intense competition
3. Failing profits because of high promotional expenditure and falling margins

**4th. Decline stage**

The last stage is characterized by:

1. Entry of new products, which compete with the product.
2. Decline in sales
3. Decline in profits: profits may even become negative
4. Exit of some of the firms

*Note: Not all products follow all four stages of the PLC. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning. It seems that a well-managed brand could live forever.*

**5.1.5. New Product Development**

A company has to be good at developing and managing new products. Every product seems to go through a life cycle: it is born, goes through several phases, and eventually dies as newer products come along that better serve customer needs. This pattern presents two major challenges to a firm. First, because all products eventually decline, a firm must be good at developing new products to replace aging ones (the problem of new product). Second, the firm must be good at adapting its marketing strategies in the face of changing tastes, technologies, and competition as products passes through life cycle stages (the problem of product life cycle). A firm can obtain new products in two ways: by acquisition- by buying the whole company, patent or license and the other is through new product development. Here by new products we mean original products, product improvements, product modifications and new brands the firm develops through its research and development efforts. A product may be developed by the following three methods:

1. Imitation
2. Adaptation or Improvement and
3. Innovation or Invention.
4. **Imitation:** It is done by copying the other popular or best-selling products already existing in the market. For example the introduction of king-size cigarettes.
5. **Product Improvement:** Product improvement consists of modification and improvement in the existing quality, size, form or design of the existing product so that it may look almost a new product. It involves the following:

* Improvement in quality
* Feature improvement
* Style improvement
* Packaging improvement.

**3. Product Innovation:** Product innovation is the development of a new product resulting in an increase in the product line. It refers to the incoming of an altogether new product which is based on research and which has been unknown so far. To face market changes, technological changes, the change in customer’s needs and styles and profitless competition and to reap the fruits of changes in demand and fashions it is imperative to develop new products. Product innovation is essential also to diversify the risk of the business.

There are some sequential steps that companies need to pass through in developing new product.

**1. Idea generation**: refers to the systematic search for new product ideas. The company should develop a framework (clearly defining new product development strategy) through which new product ideas that correlates with its operation can be generated in order to make the search for ideas systematic.

A company has to generate many ideas in order to find one that is worth pursuing. The major sources of new product ideas include internal sources (such as employees, sales people, R&D, etc.) and external sources (such as customers, competitors, distributors and suppliers). Other sources are trade magazines, shows and seminars, market research firms, government reports, advertising agencies and new product consultants.

**2. Idea Screening**: - The purpose of idea generation is to create a large pool of ideas. The purpose of this stage is to pare these down to those that are genuinely worth pursuing. Companies have different methods for doing this from product review committees to formal market research. It is helpful at this stage to have a checklist that can be used to rate each idea based on the factors required for successfully launching the product in the market place and their relative importance. Against these, management can assess how well the idea fits with the company’s marketing skills and experience and other capabilities. Finally, the management can obtain an overall rating of the company’s ability to launch the product successfully.

**3. Concept Development and Testing** – An attractive idea has to be developed into product concepts. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms.

This is different again from a product image, which is the consumers’ perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient; however, a physical presentation will increase the reliability of the concept test. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the company decide which concept has the strongest appeal. The company can then project these findings to the full market to estimate sales volume.

**4. Marketing Strategy Development** – This is the next step in new product development. The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product’s planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and the marketing mix strategy.

**5. Business Analysis** – once the management has decided on the marketing strategy, it can evaluate the attractiveness of the business proposal. Business analysis involves the review of projected sales, costs and profits to find out whether they satisfy a company’s objectives. If they do, the product can move to the product development stage.

**6. Prototype (product) Development** – Here, R&D or engineering develops the product concept into a physical product. This step calls for a large investment. It will show whether the product idea can be developed into a full-fledged workable product. First, R&D will develop prototypes that will satisfy and excite customers and that can be produced quickly and at budgeted costs. When the prototypes are ready, they must be tested. Functional tests are then conducted under laboratory and field conditions to ascertain whether the product performs safely and effectively.

**7. Test Marketing** – If the product passes the function tests, the next step is test marketing: the stage at which the product and the marketing program are introduced to a more realistic market settings. Test marketing gives the marketer an opportunity to tweak the marketing mix before the going into the expense of a product launch. The amount of test marketing varies with the type of product. Costs of test marketing can be enormous and it can also allow competitors to launch a “me-too” product or even sabotage the testing so that the marketer gets skewed results. Hence, at times, management may decide to do away with this stage and proceed straight to the next one.

**8. Commercialization** – introducing the product to the market-it will face high costs for manufacturing, advertising and promotion. The company will have to decide on the timing of the launch (seasonality) and the location (whether regional, national or international). This depends a lot on the ability of the company to bear risk and the reach of its distribution network.

Today, in order to increase speed to market, many companies are dropping this sequential approach to development and are adopting the faster, more flexible, simultaneous development approach. Under this approach, many company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

* + 1. **The concept of Product Mix and Product Line**

**Introduction to Branding, Packaging and Labeling**

**5.1.6.1 Product Mix/Product Assortment**

The product mix (a product portfolio) is the set of all product lines and items that a particular seller offers for sale to buyers. Product line is a group of products that are closely related because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same types of outlets, and of fall within given price ranges. A specific version of a product that has a separate designation in the seller’s list is known as a product item. The product mix has certain width, length,

depth and consistency.

* **Width**: refers that how many different product lines the company is carrying in its product mix. E.g. hair care products, health care products, food, beverage, etc.
* **Length**: refers to the total number of items the company carries within its product lines.
* **The depth of product mix**: refers to how many variants are offered of each product in the line.
* **The consistency of the product mix:** refers to how closely relate the various product lines are in end use, production requirement, distribution channels, or some other way.

**5.1.6.2. Branding, Packaging and Labeling**

**Branding**

The most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands for their products & services. A brand is a name, term, sign, symbol, or design, a combination of these that identifies the maker or seller of a product or service or intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Consumers view a brand as an important part of a product. Brand gives products & services a personality that consumer can relate to & can add value to a product. Thus branding is the management process by which a product is named or branded. Branding helps buyers in many ways.

* Brand names help consumers to identify products that might benefit them.
* Brands also tell the buyer something about product quality.
* A brand is a seller’s promise to consistently deliver a specific set of features, benefits, and services to buyers.
* The best brand conveys a warranty of quality.

**Brand name**: is part of a brand consisting of a word, letter, groups of words or letters comprising a name which is intended to identify the goods or services of a seller to differentiate them from those of competitors. It is nothing but a combination of letters, words or numbers.

**Brand mark**: is that part of the brand which appears in the form of symbols, design or distinctive coloring or lettering. It is designed for easy identification of products. For instance the symbol of FIFA world cup.

**Trade mark**: is "any sign, mark, word which indicate the origin or ownership of a product as distinguished from its quality and which others haven’t the equal right to employ for the same purpose". When a brand name or a brand mark is registered and legalized it becomes a trade mark. So, registered brand is trade mark. Therefore, all trademarks are brands, but all brands are not trade marks.

Branding also gives the seller the following advantages:

* Brand names become bases on which the whole story can be built about the product’s special qualities.
* Provides legal protection for unique product features that otherwise might be copied by competitors.
* Help a seller to segment a market.

**Packaging**

Packaging means wrapping of goods before they are transported or stored or delivered to a consumer. It is the activities of designing and producing container or wrapper for a product. Packaging is an activity which is concerned with protection, economy, convenience and promotional considerations. Many marketers have called packaging as the 5th P along with the other 4P's. Traditionally, the primary function of the package was to contain and protect the product. In recent times, however, numerous factors have made packaging an important marketing tool. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks-from attracting attention, to describing the product, to marketing the sale.

Innovative packaging can give a company an advantage over competitors. Consumer packaged-goods firms have recently upped their investments in packaging research to develop package designs that grab more shelf attention or make life easier for customers. In contrast, poorly designed packages can cause headaches for consumers and lost sales for the company.

The packaging of a consumer product is an important part of marketing plan. There are many factors to be considered while designing a package. A good number of companies adopt squire packaging in place of round packages that save space. Lipsticks and eye brow cosmetics are designed as pencils to be carried in hand bags. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, many companies have gone “green” by reducing their packaging and using environmentally responsible packaging materials.

**Functions of packaging:**

1. Product protection: It prevents breakages, contamination, pilferage, chemical change, insect attack etc.
2. Product containment: To contain the product till it is used by the consumer.
3. Product attractiveness: The size and shape of the package its colors printed matter makes it attractive.
4. Product identification: Packages differentiate similar products. Packaging and labeling are inseparable and are closely related to branding.
5. Product convenience: The purpose of packaging is not merely confirmed to consumer service. The design and the size of the package must be in accordance with the contents i.e. product must be convenient to the ultimate customer.
6. Effective sales tool: a good package stimulates sale. A well designed and attractive package invites customers. As is the product so is the package. Many people think that a good package, taller in size contains bigger products.

**Labeling**

Label is a part of the product which carries verbal information about the product or the seller. It involves the printed information appearing on or with the package. It may range from simple tags attached to products to complex graphics that are part of the package. Labeling has been affected in recent times by unit pricing (stating the price per unit of standard measure), open dating (starting the expected shelf life of the product), and nutritional labeling (starting the nutritional values in the product). The Nutritional Labeling and Educational Act of 1990 requires sellers to provide detailed nutritional information on food products, and recent sweeping actions by the Food and Drug Administration regulate the use of health-related terms such as low-fat, light, and high-fiber. Sellers must ensure that their labels contain all the required information.

1. **Types of Labels**
2. A brand label: is popularly called the brand name of the product.
3. A grade label: Identifies or empathize the quality standards or grades. It identifies the quality.
4. A descriptive label: gives or illustrates objective information about the use, care, performance and other features of the product.
5. **Functions of labeling:**

* It enables the producer to give clear instructions about the uses of the product
* It avoids price variations caused by the middlemen because price is printed and maintained
* It establishes manufacturer-buyer relations
* It encourages producers to make only standard products.
* It helps buyers easily identify the products.

**5.1.7. Managing Services**

**5.7.1. Nature and Classification of Service**

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product.

**Categories of Service Mix**

Services are often part of a company’s total offering in the marketplace. Five categories of an offering’s service mix can be distinguished:

1. **Pure tangible good:** The offering is a tangible good such as soap; no services accompany the product.
2. **Tangible good with accompanying services:** The offering consists of a tangible good accompanied by one or more services. General Motors, for example, offers repairs, maintenance, warranty fulfillment, and other services along with its cars and trucks.
3. **Hybrid:** The offering consists of equal parts of goods and services. For example, people patronize restaurants for both food and service.
4. **Major service with accompanying minor goods:** The offering consists of a major service along

with additional services or supporting goods. E.g., airline passengers are buying transportation service, but they get food and drinks, as well.

**5. Pure service:** The offering consists primarily of a service; examples include baby-sitting & psychotherapy.

**5.7.2. Characteristics of Services and their Marketing** **Implications**

Services have four major characteristics that greatly affect the design of marketing programs.

1. **Intangibility:** Pure services cannot be seen, tasted, felt, heard, or smelled before they are bought. Rather a service is a deed, performance or effort, not an object. This may mean that a customer may find difficulty in evaluating a service before purchased. e.g., it is virtually impossible to judge how enjoyable a music concert will be before taking it because the concert can’t be shown before consumption.
2. **Inseparability :** Unlike physical products, services are produced and consumed at the same time & can’t be separated from their providers, whether the providers are people or machines. e.g., a haircut, a medical operation, psychoanalysis & a music concert are produced and consumed at the same time.
3. **Variability:** The quality of service may vary greatly, depending on who provides them & when & where they are provided. E.g., quality of service varied from banks to banks airlines to airlines etc.
4. **Perishability:** Service can’t be stored for the future. A hotel room or an airline seat that is not occupied today represents lost income that cannot be gained tomorrow. If a physical good is not sold, it can be stored for sale later.

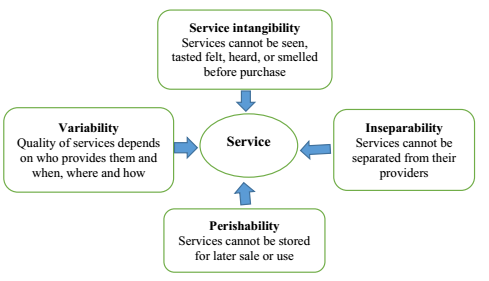


Fig.: Summary on characteristics of service