

Strategic Marketing Management

Lecture 8 – Product and Brand Strategy with Pricing Techniques

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Explain the nature of a product in consideration to its degree of tangibility and intangibility and the difference between product mix and product line.
2. Apply the New Product Planning and Development process to improve the brand equity of the newly introduced product/service
3. Associate branding strategies in crafting new products and services that deliver great buying or shopping experience.
4. Discuss on how to manage product mix and product line
5. Distinguish between product life cycle and product life cycle management
6. Explain the categories of new product strategy

Nature and Definition of Product. Product may take into various forms and the kind of reception that the company has for the latter has parallel implications to its continued existence and profitability. This is because there are products that may possess a bundle of both tangibility and intangibility. This depends on the decision of the company as to where they would like to put much of their concentration, either offering a product which possesses a higher degree of tangibility or offering a product with a mixture of both.

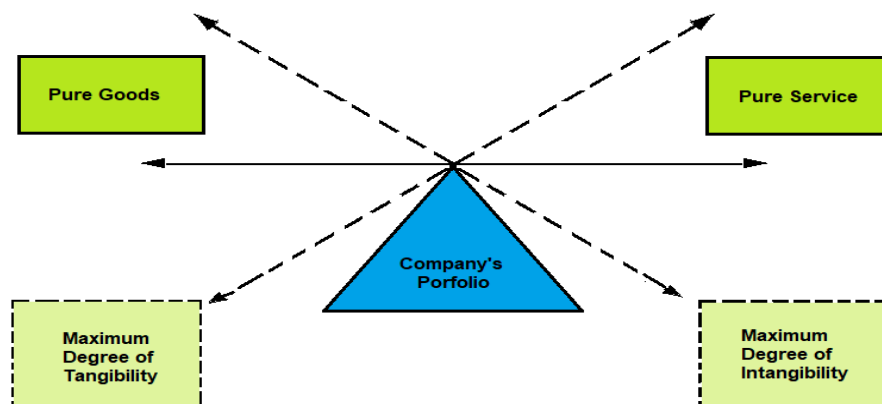


Figure 5.1 Tangibility-Intangibility Continuum
Source: Miller, D. and Foust, J. (2003)

In positioning products to the market, company may consider solidifying the strengths of the product's attributes or characteristics by taking the diligence to decide whether adding a service component to a product item could become a means where they would become closer to attaining their objectives. After taking a look into the concept of tangibility and intangibility, which are all controllable factors, we can now define what a product is on the standpoint of a marketing concept philosophy. A **product**, either goods or services, is a total set of physical and non-physical attributes in which the targeted buyer intends to acquire, alongside with his/her satisfaction

criteria, in exchange of a specified amount. From this premise, a **company** has the options to bundle the object with other accessories, packaging and services.

Classification of Products. The purpose with which the product shall be used by the customer and the intention of the customer whether to further transform or process the object based on the customer's frame of reference, make up the classification of product into **two (2) main categories:** (a) *consumer goods* and (b) *industrial goods*.

1. **Consumer Goods.** Consumer goods also known as **final goods** are commodities subsequently bought for final or personal use addressing current needs or wants with no tinge of intention to further process or transform the object with the purpose of reselling or earning profit. Consumer goods are **grouped** accordingly as follow:
 - a. **Convenience Goods.** These are food items, newspaper, medicines, etc., which are frequently purchased consumer items that are widely available in various retail outlets in which the buyer could acquire with less or minimum effort.
 - b. **Shopping Goods.** These are consumer goods like that of a pair of sneakers or an appliance, in which the customer, before acquiring them, undergoes a process of evaluation such as comparing the product's quality, cost, features and other attributes to other store outlets or brands; hence exerting much time and energy aiming to acquire product items that would exceed one's expectation.
 - c. **Specialty Goods.** This classification refers to consumer goods that may possess exceptional or unique characteristics that the consumers who would like to acquire them shall need to exert extra purchasing effort like going to a limited number of retail outlets or even exclusive outlets where products are made available, say for instance, imported or first-class wines, high fashion clothes, etc.
2. **Industrial Goods.** Industrial goods are goods purchased for business use under different circumstances with the primary purpose of reselling the output to target industrial buyers. These are **industrial goods** that are bought either for the purpose of using them as an important part or component in the installation of machine or equipment; or it could take a form of an important accessory, machine parts or raw materials or ingredients in the production of a finished product.

Managing Product Mix and Product Line

Product mix is a group of everything a company sells. It consists of a wide range or a mixture of product lines that a multi-brand organization wishes to offer their target customers. Needless to say, then, a **product line** refers to a unique product category or brand within the company's product mix. With the advent of diversification strategy due to unyielding and highly competitive business market, most companies have realized the importance of having multiple products. Even top companies in the country or all over the world have wide product portfolio. **For example,** Nestlé's product portfolio consists of baby foods, bottled water, cereals, chocolates and confectionery, coffee, culinary and frozen products, dairy, ice cream products and a lot more.

As mentioned, product line is a subset of the company's product mix¹. It generally refers to the classification of products under similar class that an organization offers to their targeted market segment. **For example**, Samsung maintains similar number of product lines such as air conditioners, television, smart phones, home appliances and so on. Why would companies increase their number of product offerings? Doing so will definitely maximize their reach and, because they have built a reputation already, it would be smarter to capitalize on their customers' trust and confidence. Basically, **people** respond affirmatively to brands which they have previously acquired; hence, when the same company attempts to expand the number of product items they are currently selling in the market, most likely their patrons might become interested to try the brand. It can be considered that half of the company's battle in winning customers is already won when the brand was able to establish a positive impact in every customer's mind while another half is for the new brand to prove its worth.

Addition of new items to a company's product lines is referred to as **product line extension**. This marketing strategy being used by many companies allows them to experiment plunging into new market segments which may range from their current market going to a bunch of young urbans, or a group of middle-class professionals or perhaps to even mature markets like the aging populace". Dealing with this diversity will be a lot easier for companies who have sustained a well- thought-of status quo.

The Product Life Cycle and Product Life Cycle Management

Products are biological organisms. When they are introduced in the market, they grow, mature and eventually decline. This life cycle concept could be sudden to a number of products but could also be gradual to some depending on the amount of company support and strategy given to each product.

During the **introduction phase of the cycle**, a new product may capture the interests of an overly interrupted market, through the use of massive marketing campaigns and promotional activities. Companies should consider producing quite a number of products to make them highly visible in almost major channels or outlets. In this phase, **profit** is expected to be basically low since the product is just beginning to gain market recognition. As consumers gradually try and adopt the product, so as **growth** in sales could be expected; this is the second phase of the cycle. Therefore, companies may loosen up a little in their conduct of marketing and promotional activities while anticipating an increase in their profit margin. The challenging phase of the product life cycle is the **maturity stage**. As the product matures and gains favorable consumer acceptance and market share, it becomes an attractive brand amidst the highly competitive environment.

Thus, the entrance of competing brands may start thriving and this may signal the company to initiate remarketing the brand. Some strategies may include price reductions, increasing product quality or adding product features, intensifying product promotions and the like. This may prevent immediate **decline** and may save the product from its early demise. Sad to consider yet product may weaken, in terms of sales and its potential to attract more reliable customers. This is the last phase of the cycle. This is very true when the product has several substitutes and that new product entrants with better value have started to mushroom in the market. Given this situation, the company may embark such careful actions including dropping

the product in the company's product mix and altering the product thru value addition or increasing market coverage. Selection of possible action should be after the management's cautious evaluation of the anticipated costs and benefits in any of the option stated.

The product life-cycle concept is of no doubt very useful to the sustainability of the product and the management in general. The use of this concept may influence the general perspective of the management in terms of marketing planning. When applied with sound judgment, product life cycle concept may be used by managers as a powerful guide in forecasting, pricing, promotions and product planning and development.

Market-driven Product Planning and Development Process

In a competitive environment, a climate of innovation and development should remain an absolute consideration if the management wanted to stay relevant to their customers whose needs and preferences are never static. Planning initiatives for new products is a glaring concern of innovation.

Product planning and development poses numerous benefits to a firm.

First, it is a competitive weapon in boosting the company's growth rate because of its attempts to introduce additional products in the company's current product lines or modify an existing brand regarding its quality, size, design, color, packaging, shape, price, etc.

Second, it serves as a starting point of marketing planning. Product planning is a prelude in the successful preparation of the entire marketing program of the firm.

Third, it is indeed a strong indicator of the company managers' managerial prowess. It is from careful product planning that managers could draw sound decisions from several arising matters such as whether the product could really address the expectations of the target market; whether it will ever satisfy or exceed that expectation requirements; whether their target market will be willing to pay the price for the product; and most importantly, a question whether the company could reach their desired profits from this undertaking? These are just few concerns that have to be validated before coming up with an affirmative decision whether to proceed with marketing new product or not.

Fourth, product planning is an important way to fulfil the social responsibilities of the business. In Carroll's Pyramid of Corporate Social Responsibility, the lowest level of the pyramid represents the first responsibility of a company, which is termed as economic responsibility. This means that as a legal, profit-oriented entity, they are expected to be profitable. In the case a firm shall remain profitable, the society will benefit from it, in general because it is from there that the source of livelihood of the employees is derived; and when many people are earning from their employment, imagine the bountiful affirmative effects it will bring to the entire nation. Hence, the lucrateness of the company's operation lies in the deliberate decisions of the managers more particularly in the areas of product planning and development.

Categories of New Product Strategy

Experts were able to develop useful definition of what new product means using **different categories**":

1. ***New-to-the-world products.*** These are products that came from recent inventions. They are basically from the breakthrough of technologies and the science of knowledge that the company has to painstakingly study where and to whom they will market such. **Examples** of this category are polaroid cameras, iPod and iPad, laser printer, Nike's self-lacing shoes and so on.
2. ***New-to-the-firm products.*** These products are no longer new to the world but are anticipated to bring the company into new category. This is one form of diversification which is commonly decided by the management in order to boost profitability and gain sustainable competitive advantage.
3. ***Additions to existing product lines.*** It is when a well-known brand brings out a variation of its product in terms of its size, color, scent, flavor and so on. One good **example** of this is Coca Cola, a worldwide giant manufacturer of soft drink and is also a manufacturer of other related beverages: energy drink, bottled water, tea and coffee products, fruit-based beverages and so on.
4. ***Improvements and revisions of existing products.*** These are existing products in the marketplace where one or two of the product features are modified or enhanced making them more competitive, appealing to customers and deliver better value. Typical **example** is an ordinary body lotion which is improved with ingredients that give UVA, UVB or SPF protection.
5. ***Repositioning.*** Every product has a positioning statement that is unique for each of them. This is what the company likes to convey in the minds of customers often placing emphasis in the superior attribute of the product. For **example**, sales of Zonrox bleach increased after the company educates the public by promoting the idea that other than using it as a laundry bleach for white clothes, it is now a multi-purpose bleach for home and laundry. Even more when they added and positioned it as *Zonrox Color Safe Bleach* that is gentle in cleaning-colored clothes.
6. ***Cost reductions.*** These are products that have replaced existing ones in a product line but have given customers an assurance of similar performance but at a much lower cost.

New Product Planning and Development Process

The planning and development team has to craft a good story pertaining to what, where, why, when, who and how of the new product. This part should not be rushed, if not consequences might be severe. It is as if the team is trying to fill in a certain void and once certain, they may begin to understand and figure out the supposed potential of the product. Figure 5.2 illustrates how planning team could begin figuring out new product's potential.

A thorough product planning and development must be done following the significant steps below before a company could design an effective marketing program and a successful product launch:

1. **Customer needs analysis.** Understanding what requirements, the customers have for a product or service is one important approach so as not to derail the whole plan. This research-based technique will help companies to identify customer's true needs and wants and this will make them meet customer's expectations and design product or service that will solve their needs.
2. **Idea generation.** This is basic brainstorming where all ideas, no matter how small or big, brilliant or silly, should be entertained. From these raw ideas, either from internal or external sources, may sprout one most potential and feasible idea which the planning and development team may miss should they screened ideas early this stage.
3. **Screening ideas.** This is the stage where the team has to carefully eliminate ideas that have been gathered for new products that maybe are not in line with the expertise of the company; or it may not be profitably marketed or ideas that will entail many resources of the company.

In the screening phase prior to reaching a decision, the planning and development team may consider evaluating certain risks that may be associated with picking the not-so-potential new product idea.

- a. **Strategic risk.** This classification pertains to picking a new product idea that may jeopardize the organization later on because the team failed to consider the specific strategic priorities of the organization. Hence, going on with the ideal may require the organization necessary resources for one radical new product innovation.
 - b. **Market risk.** The risk attached to new product wherein the value-added or any differentiation attributes are not marketable, not matched with customer requirements. This may be due to the sudden shift in technology and changes in the social environment.
 - c. **Internal risk.** This risk pertains to the possible limitations of the organization to transform the new product idea into a fully- commercialized item within the desired time and budget. Level of commitment, managerial capacity and the like are some of the reasons for this occurrence.
4. **Evaluation of Prototype.** After the most potential new product idea is selected, the team translates this into its tangible form through what is referred to as **prototype**. A **prototype** takes the form of the original piece which will undergo testing and evaluation both by its designer and the clients to confirm the viability of the design, attributes and so on; and to assess whether further refinement is still necessary. A **Focus Group Discussion (FGD)** may be done to gather information from participants on issues regarding the product's functionality, safety, government regulations and the like.

5. **Business Analysis.** A new product idea that has survived the screening phase needs to undergo a thorough business analysis. This phase covers the determination of the costs involved in developing the new product and forecast the profits the organization is supposed to make in the future. Important part of the analysis is the determination of sales volume, possible break-even point and scope of the company's marketing strategy.
6. **Product Development.** This is the engineering stage of the NPD wherein after the product has meet all the expectations of both the designer and the clients, it becomes a candidate for further research, testing and conversion into finished good.
7. **Market Tests.** The company's top secret now goes outside and be subjected to customer approval using the test marketing approach. The company selects a controlled environment- a contained geographical area. This selective approach is cost-effective since the company monitors feedback and results from selected sample respondents at least costs. Another good outcome from this phase is the chance of identifying appropriate marketing mix for the new product's future use.
8. **Commercialization.** The final stage of NPD wherein the company boldly reveals the brand or item into the marketplace. This is the launching step that will test the planning and development team's exerted effort in perfecting the new product's design, attributes, packaging, and commercialization and so on.

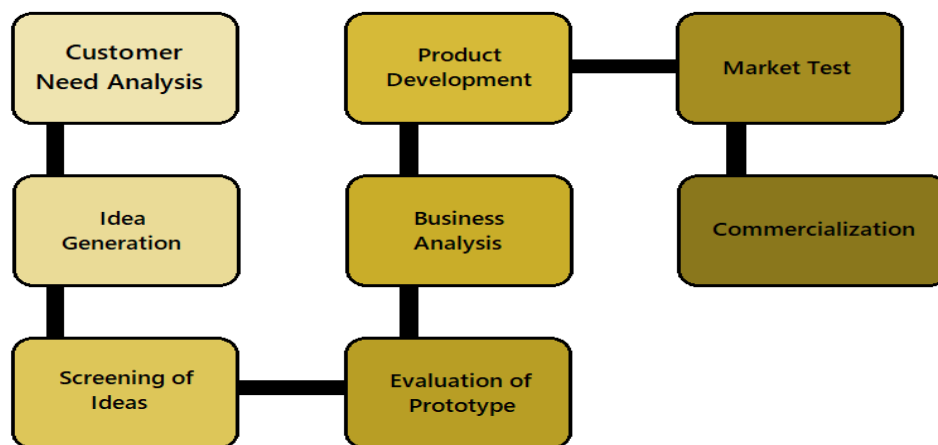


Figure 5.2 New Product Planning and Development Process
 Source: Claessens, M. (2015)

Table 5.1 presents the case of McDonald's Corporation, an American fast-food company. This will give justification on the significance of new product planning and development initiative in creating a good product story. This process could also bring out product strengths and potentials leading to the organization's effective marketing program and product launch.

**Table 5.1. The New Product Development
A Case Study: The McDonald's Way**

A company that consistently excels at product planning is McDonald's. They're motivated by the "Five P's" People, Product, Promotion, Place and Price. Travel the world, and you'll find McDonald's is different in nearly every country. They have some core products, but they understand that, for instance, Turkey is a Muslim country and pork doesn't sell there. Breakfast offerings there include a platter that has cucumbers, olives, cheese and bread, which is a very traditional Turkish day-starter. Whereas in Portugal, they don't even open for breakfast. Both of these are thanks to their research on "people" and "place". "Then there's "price," and no one goes to McDonald's looking to spend what a meal would cost elsewhere, so that forms parameters under which they can offer their products. It's got to be a bargain. As for "promotion," McDonald's has mastered that the world over for more than five decades now. They make their products fun, accessible, affordable and convenient.

By combining the five P's, they solve the big "p" product. It's why Australia has a sandwich the U.S. doesn't, the Big Brekkie Burger, which includes bacon, a round hash brown, a burger patty, egg and cheese, all between two buns, and it's a favorite Down Under. There's arguably no company on the planet that better understands how to offer a product based on audience, place and time like McDonald's does, and that's due to their product planning and development phase. They do their homework on every level, in every country.

Source: Steffani Cameron, S. (2018)

Why new Product Fails?

Organizations should be mindful of the agonizing truth that 80% of the new products introduced annually in the market suffer product failure, and even products who have been in the market for five years, 56% of them are still in the brink of failures". Let us study some of the reasons why there were new products that were not able to create a spark in the sight of the customers.

1. ***The product offers no point-of-difference at all.*** Certainly, incentives drive customers' enthusiasm about a product. Anything that is ordinary and usual to them bores them. Hence, if a newly launched product does not possess any difference from other products that are already out in the marketplace, then there is no point that they will need to shift from their old brand to the new one.
2. ***Limited retailer support.*** Retailers are among the company's most significant business allies. Once loyalty was established between a brand and its retailers, companies may worry less as regard to the in-store movement of their items. Yet, in the event that the brand was not able to gain its full retailer's support, this may be one of the reasons of its failure.
3. ***Poor product design.*** The team had perhaps done well all the necessary planning documents; however, during the development phase and when decisions for the final design were made, it had not turned out as planned, producing a poorly designed output.

4. ***Weak or poorly executed new product launch.*** The degree of promotional support should be intense or high for every new product launch because the product is trying to create noise and appeal from a highly interrupted market; yet, if the organization fails to consider providing enough or reasonable amount of promotional support, then the growth of the new product is less likely to happen.
5. ***Aggressive competitors' actions.*** One of the threats being hurdled by industrialists in a free-enterprise economy is the unrelenting aggressive actions of competitors. Their aims are to maintain their guard on new entrants or any product substitutes and to topple competing brands using varied marketing tactics. When the NPD team did not ready themselves with necessary measures, new product launch could be a failure.
6. ***Small target market.*** As the market gets overly crowded, most businesses have learned to appreciate the idea of finding their own niche markets as part of the modern strategic marketing moves. Yet, one of the drawbacks of niche market is the size of the market which is relatively small. Clearly a small target will generate less sales volume and is less financially viable.

Textbook:

- Strategic Marketing Management, Naval, Girly H. Mind shapers Co, Inc. 2021