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The Product as an Economic Variable

Introduction

The product is the *raison d'être* of every company. In general, every economic activity revolves around products. A product can be either tangible or intangible. In the case of tangible products we refer to goods, whereas intangible products are usually called services.

Every product reflects the efforts of the company to match its resources with the demands of the market. Although the success or failure is the result of various factors, matching resources with market demands is crucial.

The product is the starting point for the majority of the planned marketing activities of a company. It is impossible to decide about pricing, promotion or distribution channels if the nature and the characteristics of the product are not properly defined. In the long run, the strategic and tactical marketing decisions revolve around the product because this is the main source of revenue for the company.

In this chapter, we address the following questions:

- How does the economics and marketing literature treat the product concept?
- Which are the main product-related concepts?
- Which are the various product classification schemes on the basis of tangibility, durability and use?

Historical overview of the product concept

When reviewing the history of economic activity it becomes apparent that the idea that the product itself was a planned variable, while its sales administered by the seller is of quite recent origin.

This idea is rooted to the concept of differential (competitive) advantage which in turn – being the belief of a consumer that one seller's offering possesses more want satisfaction ability than other sellers' offerings – is rooted in the competition and in the varied needs and wants that exist in the market place.

Up to 1930s, the concept of differential (competitive) advantage in terms of 'product' is absent in the literature of Economics. Until that time, the price is the basis for competition in the economic system and the consumer has no choice preference for different products under the assumption of homogeneity on both demand and supply side, made by the classical and marginalist economists.

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These assumptions remained partially valid until the end of the nineteenth century. By virtue of the mass production techniques brought by the industrial revolution, product homogeneity was probably more of a reality in the eighteenth and nineteenth centuries, when producers had to compete on the basis of price, emphasizing quantity rather than quality or choice.

With the advent of the twentieth century these assumptions were no longer valid. The economic system witnessed a number of changes which brought different bases for competition: variety both in materials and in means of production had started to be introduced at an increasing rate; improved forms of transportation has largely eliminated the security of locational monopolies and has broadened market opportunities which would support more sophisticated production systems; improved means of communication with the market disperse information about the sellers' products and also provided strong incentive for the inclusion of the product in the sellers' 'total offering' (marketing plan).

These concurrent revolutions in production, communication and transportation coupled with the fact that industries become oligopolistic (namely, the supply of products was concentrated in the hands of relatively few sellers) and brought forward other non-pricing bases of competition. In the beginning of the twentieth century the more percipient economists had recognized that such changes had taken place and that product differentiation was more typically the basis of competition than was price. This view was crystallized by Robinson (1932) and Chamberlin (1933). Abandoning the assumptions of a homogeneous product, both authors developed the theory of 'monopolistic competition' under which the seller's sales are limited and defined by two more variables in addition to price, namely the nature of the product and advertising outlays.

In Chamberlin's monopolistic competition theory the product is defined as a 'bundle of utilities' in which the physical offering is but one element, and becomes the basis on which a seller can differentiate his offering from that of his competitors. Chamberlin (1957) argues that buyers in the market have a real freedom to differentiate, distinguish, or have specific preferences among the competing outputs of the sellers. This view led to the development of the differential advantage concept, one of the most important concepts in the marketing theory.

Alderson (1965) has attempted to provide the link between the concept of differential advantage and the economy as it actually exists. Alderson has noted that differentiation in a product's characteristics gives a seller control over the product with that exact identity and configuration, supporting the view that 'the seller offering a product different from others actually does occupy a monopoly position in that limited sense'. However, product differentiation can be based on product characteristics such as patented features, trademarks, packaging (for example, design, colour, style) (Alderson, 1965).

It is, however, the existence of varied wants and needs in the market place that allows competition through product differentiation and a policy of differential advantage to be pursued. Alderson asserts that, behind the acceptance of differentiation are differences in taste desires, income, location of the buyers, and the uses of commodities. Smith (1956) also notes that, the seller pursues a policy of differential advantage in general, and product differentiation in particular, in order to meet both competitive activities and the various needs and wants in the market place. However, the seller can pursue a policy of product differentiation, either by offering the same product throughout the whole market and secure a measure of control over the product's demand by advertising and promoting differences between his/her product and the product's of competing sellers, or by viewing the market as a number of small homogeneous markets (market segments) each having different product differences and adjusting the product and the elements surrounding its sale according to the requirements of each market segment.

The seller who adopts the latter method in pursuing a policy of product differentiation, is actually pursuing a policy of market segmentation.

However, a policy of differential advantage must be dynamic in nature since the seller must continually adjust his/her 'total offering', to match the ever changing competitive activities and customers' 'motivation mixes' in the market place. Naturally, such adjustments alter the seller's cost structure and profitability. The seller therefore must be constantly engaged in creating a 'total offering' from all the elements under his/her control, in a way that will give differential advantage and profitability. This 'axiom' has led to the development of the marketing mix concept.¹

Despite the fact that the product variable is central in the marketing literature, the competitive theory of the firm based on the theory of microeconomics emphasizes the price as the predominant variable under the seller's control.

Undell (1968) was the first to carry out research to test the hypothesis that non price-related facets of competitive strategy are at least as important as pricing from the seller's point of view. According to his findings, the sales effort or marketing communication including advertising and other promotional programs was perceived first in importance, product effort including product planning. Product R&D and the services accompanying the product was perceived second, while pricing ranked third.

In the light of Undell's research results, it could be wise to agree with Wentz, Eyrich and Stevenson (1973) who argue that 'prior to the twentieth century price was the main instrument of competition and the primary weapon for the destruction of competing firms. Today the product play this role ...'.

A different version of the importance of product variable is given by Thompson (1962) who asserts that, 'the two most important factors in Marketing are a) the product and b) the ultimate consumer (people) ... the obvious objective is to get these two in perfect harmony ... if this situation does not exist which of the two major elements is the easiest to change: product or people?' He then proceeds to state that, although companies can rather easily change products, they cannot change people, but simply influence them. It is actually easier to identify 'what people want and to supply it than it is to influence them to want what you make'. The author's conclusive remark is that, the most important controllable factor in marketing is the product.

Main product-related concepts

The recognition of the importance of the 'product' variable in the Marketing literature has driven many marketing scholars in the development of a number product-related concepts as well as various product classifications.

In the reminder of the chapter we turn our attention to these concepts and classifications.

Product levels

Levitt (1980) has proposed that the product can be analyzed in five distinct levels:

- *Core benefit* – refers to the main benefit the customer buys (for example, the buyer of a vehicle purchases 'transportation').
- *Basic product* – refers to the basic characteristics or attributes of the product, without which there is no product (for example, tyres of a car).
- *Expected product* – refers to the characteristics of the product that the customer takes for granted (for example, tyres in a good condition).

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- *Augmented product* – refers to the product characteristics that surpass the customer's expectations (for example, road assistance).
- *Potential product* – refers to those characteristics that could be added to the product in the future and offer customer delight.

Nowadays, companies are competing at the augmented product level. In other words, they try to differentiate their offerings by providing product characteristics that are beyond the expected functional features. An extensive discussion of the augmented product is provided in Chapter 2.

Product hierarchy

According to Kotler (2003), product hierarchy comprises the following five categories:

- *Need family* – the basic need underlying the existence of a product family (for example, security).
- *Product family* – all the product classes that can satisfy a basic need effectively (for example, savings and income).
- *Product class or category* – a group of products within a product family (for example, investment products).
- *Product line* – a group of products within a product class, which are closely related because they are targeted to the market, through the same distribution channels or are priced within a specific range (for example, investment accounts).
- *Product type* – a group of items within a product line that function in a similar manner (for example, capital guaranteed accounts).
- *Brand* – the name of a product (for example, Dunbar Bank).
- *Item* – a unit within a brand or product line which is distinguished by size, price, or some other characteristic of element (for example, the FTSE 100 index).

Product hierarchy provides the different levels at which a product should be managed. For example, product line management is associated with different decisions compared to brand management. In Chapter 2, we address such product-related issues in more detail.

Product life cycle

One of the most important product-related concepts is the product life cycle (PLC). This concept can be illustrated as a curve in a diagram in which the horizontal axis represents time, while the vertical axis portrays sales/profits of the product. Typically, the product life cycle curve is S – shaped, as presented in Figure 1.1.

This curve is divided into four successive stages namely, introduction, growth, maturity and decline. The PLC model is useful mainly as a framework for developing effective marketing strategies in different stages of the life cycle of both physical goods and services. Some leading experts who view the PLC model as the foundation of marketing strategy have made a number of suggestions regarding the marketing implications that each stage has for marketing action. Their suggestions for each stage can be summarized as follows:

Introduction stage

During the introduction stage of the product life cycle the product is relatively unknown, sales volume rises slowly but the expenses involved in communicating the availability

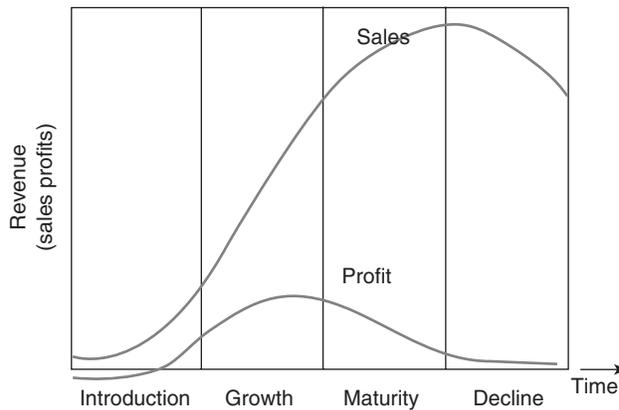


Figure 1.1 The product life cycle concept

		Promotion	
		<i>High</i>	<i>Low</i>
Price	<i>High</i>	High profile strategy	Selective penetration strategy
	<i>Low</i>	Pre-emptive penetration strategy	Low profile strategy

Figure 1.2 Introductory marketing strategies

of the product as well as the expenses of establishing channels of distribution are high and consequently little or no profits are realized despite the fact that price is on the high side.

In introducing a new product (line), management should offer a limited number of models with modular design to permit the flexible addition of variants to satisfy new segments as soon as they are identified. Quality and quality control is highly important during this stage. If price and promotion are considered together management has to select between four alternative strategies at this stage (Figure 1.2): first, a high profile strategy which consists of introducing a new product with a high price and a high promotion level, secondly, a low profile strategy which consists of introducing the new product with a low price and low level of promotion, thirdly, a selective penetration strategy which consists of high price and low promotion and fourthly, a pre-emptive penetration strategy which consists of low price and heavy promotion. The basic factors that management has to consider in selecting any of these four strategies are: first, the market size,

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secondly, the market awareness about the product, thirdly, the degree of price sensitivity in the market, fourthly, the type and nature of competition, fifthly, the company's cost structure.

As far as distribution is concerned it should be intensive and extensive with introductory deals and logistics weighted heavily toward customer service and heavy inventories at all levels.

Growth stage

If the product gains acceptance, it moves into a stage of more rapid sales, known as the *growth stage*, because of the cumulative effect of introductory promotion, distribution and word-of-mouth influence. During this stage, the company's profits increase.

At this stage, management should focus on best selling versions, the addition of few related models, the improvement of the product, and the elimination of unnecessary specifications with little market appeal. As far as pricing is concerned management should focus on the market broadening and promotional pricing opportunities. Promotion should shift the emphasis from building product awareness to nurturing product preference. Distribution should be intensive and extensive with the addition of new distribution channels to gain additional product exposure.

Maturity stage

If the product has achieved the market acceptance associated with the growth stage, it might be expected that competition would enter the market. If price was not crucial at the beginning the advent of competition would lead to a reduction of prices. During the *maturity stage* sales cease to grow exponentially and they tend to stabilize and the gross margin may be reduced.

During this stage, which lasts much longer than previous stages, management is facing the most formidable challenges. Most products are in the maturity stage of the life cycle and most of the product decisions (changes in the product's physical configuration and in the augmented product) discussed in the previous section are made at this stage. Management should try to break out of a stagnant sales picture by initiating changes in the product's tangible and intangible characteristics that will attract new users and/or more usage from the current users. Attention should be paid to possibilities for product improvement and cost reduction through changes in the quality features and style of the product. Proliferation of packages, private brands and product services could also bring positive results for the company at this stage.

Price should be reduced as a way of drawing new segments into the market as well as attracting customers of competitive products. Management should also search for incremental pricing opportunities including private branding contracts. Promotion should maintain consumer and trade loyalty and a search for new and brilliant advertising appeal that wins the consumer's attention and favour should be pursued. Another way to attract the consumer's attention at this stage is through heavy incentives programs and many short-term promotions, deals and contests. Distribution should be intensive and extensive as in the previous stages.

When a high proportion of the potential buyers of the product have purchased it and sales settle at a rate governed by the replacement purchases of satisfied buyers, the market may be said to be saturated. Gross margins tend to decline since prices begin to soften as competitors struggle to obtain market share in a saturated market.

Decline stage

Finally, the product reaches the *stage of decline* during which it ceases to be profitable. This may occur because technologically advanced products become available and/or because of changes in the buyers' economic environment and habits.

As the sales of the product decline at this stage, management should either eliminate the product or in the case that it is offered in a number of versions, sizes and models, should eliminate those items, which are not returning a direct profit. However, there are a number of strategies that management could follow to eliminate the product. For instance, it could adopt a concentration strategy in which case it concentrates its resources only in the strongest markets while phasing out promotional and distribution activities as they become marginal and maintaining profit level pricing with complete disregard of any effect on market share. Alternatively, management could follow a milking strategy in which case it sharply reduces its marketing expenses to increase its current profits, knowing that this will accelerate the rate of sales decline and the ultimate demise of the product. If a hard-core loyalty remains strong enough at this stage the product may be marketed at the old or even a higher price, which means good profits.

Product positioning

The term 'positioning' belong to two advertising executives Al Ries and Jack Trout (1982) and refers to the development of a destined image/position of the product in the mind of the customer. In other words, it has to do with the perceived personality of the product by the customer. In order to understand better the concept of positioning, just wonder how different is the perception you have about a Ferrari and a Daewoo, or Chanel clothes compared to Zara. Product positioning can be based on various dimensions. The perceived position of a product in the customer's mind can be represented graphically in the so-called perceptual map through a process, which is known as perceptual mapping.

Perceptual maps can be designed with multidimensional scaling techniques using empirical data about customer perceptions. More specifically, the process initiates with the identification of the most important dimensions that differentiate products (or brands) from one another. Usually, the positions of products in a market are depicted in two-dimensional or three-dimensional maps, depending on the number of dimensions used (two or three, respectively).

In Figure 1.3 we present a hypothetical perceptual map from the car market, where Ferrari is perceived as high priced and sporty looking, while Peugeot is medium priced and less sporty looking.

Perceptual mapping has various applications, such as:

- 1 *Identification of important attributes*: which attributes does the customer use for evaluating a specific product class?
- 2 *Identification of close substitutes-main competitors*: which brands are positioned relatively closely in the perceptual map? To put it differently, which brands are perceived as similar by the customer?
- 3 *Identification of differentiated brands*: which brands are positioned in relatively isolated parts of the map? In other words, which brands are perceived as different by the customer?

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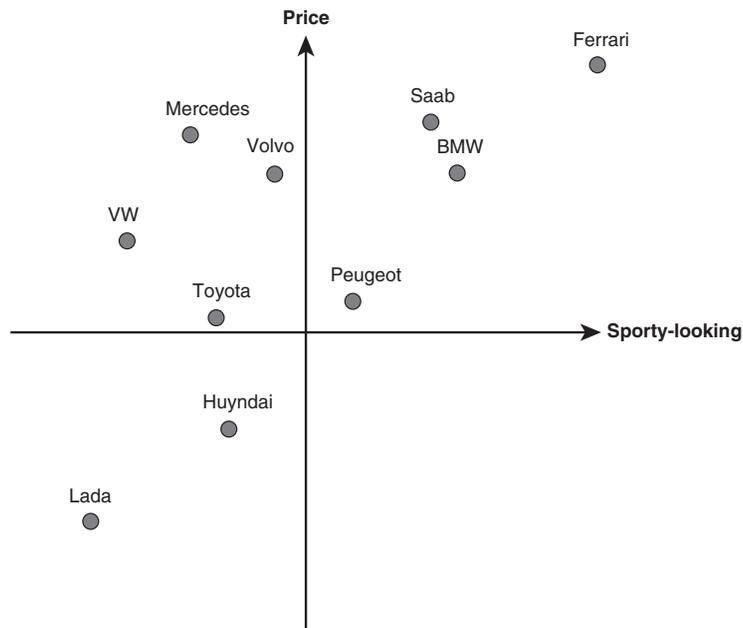


Figure 1.3 Hypothetical perceptual map from the car market

- 4 *Market segmentation*: in a perceptual map different market segments can be illustrated based on the desired combinations of product attributes (for example, car style and performance).
- 5 *Identification of gaps in the market new product opportunities*: a gap in the market is identified when there is no brand with the desired combination of product attributes. In this case, a company could fill this gap with a new product.

It is apparent that, perceptual mapping is directly related to the positioning strategy of the company.

The positioning strategies that can be implemented by a company in order to create a distinct product position in the mind of the customer are as follows (Aaker and Shansby, 1982; Wind, 1982):

- Positioning by *attribute*: a specific product characteristic or attribute is emphasized, for example, 'Think small' of the Volkswagen 'Beetle'.
- Positioning by *benefits*: emphasis is given to the benefit provided to the customer, for example, Dentyne Ice: 'Nothing is cooler than ice'.
- Positioning by *price/quality*: the value of money paid by the customer is stressed, for example, 'Good food costs less at Sainsbury's'.
- Positioning by *competitor*: differentiation from competitive offerings is emphasized, for example, 'You have tasted the German beer that's the most popular in America (namely, Lowenbrau). Now taste the German beer that's the most popular in Germany (namely, Beck's)'.
- Positioning by *application*: emphasis is given to the product use, for example, 'Volkswagen announces a bus you really can take anywhere' (for VW Bus Syncro).
- Positioning by *product user*: the profile of the target market is stressed, for example, 'Motrin-for people who don't fool around with pain'.

- Positioning by *product class*: emphasis is given to the creation of a distinct product class, '7UP – The Uncola'.
- *Hybrid* positioning: combination of more than one strategy as long as they act complimentary and they do not create confusion to the customer.

In case a product is totally to the market, without intense competition, the company can more easily choose among the aforementioned positioning strategies. In contrast, when there are other competitive products in the market, the company has to study carefully the positioning of the competition and make sure that it creates a unique position for its product in the mind of the customer.

Despite the efforts of companies to differentiate their products, on in many occasions the following mistakes can be made (Kotler, 2003):

- Underpositioning: buyers do not understand any difference between the company's brand and competitive brands.
- Overpositioning: buyers may have a narrow image of the brand.
- Confused positioning: buyers may be confused as to what a brand stands for, usually because of the existence of many different communication messages or the changes of positioning strategies.
- Doubtful positioning: buyers may doubt about the claims in view of the product's features, price of distribution, etc.

Sometimes, a company may decide to reposition a product in the market. Repositioning may result from changes in:

- competitors' activities
- customers' needs and wants
- the environment (for example, legislation).

There are two main repositioning strategies, namely:

- Repositioning in existing customers, for example, a recent change in the packaging of Pampers, which make them a more modern brand.
- Repositioning in new customers, for example, the classic example of Johnson's baby shampoo for adults who wash their hair on a daily basis or the repositioning of Lucozade which was first positioned as a children's health drink, then it was repositioned as a mid-day 'pick-me-up' drink for mothers and more recently as an energy drink.

Finally, a company may attempt to direct a competitive brand to a worse position. This is called *depositioning*. An increasing number of companies use comparative advertising in order to deposition competitive products. For instance, Tylenol tried to deposition aspirin by running advertisements explaining the negative side effects of aspirin. A more recent example from Greece of such a strategy is provided below.

Ariel v. Skip: the battle of the 'tumblers'

Two major brands of detergents try to deposition one another. The battle started when the advertisement of Skip (a Procter & Gamble detergent) was 'on air' as an answer to an advertisement of Ariel (a Unilever brand).

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More specifically, in the Ariel advertisement, the presenter (a popular TV personality) in an attempt to prove that Ariel is superior to competitive products, took two tumblers, filled one with water and a small quantity of Ariel, while the other was filled with water and a competitive product. Next, he added a small piece of cloth, stained with chocolate ice cream in each tumbler and shook both. When the two pieces of cloth were presented on a counter, it became obvious that the stain on the cloth washed in the Ariel mixture had vanished, while the other stain washed with the competitive detergent had not been removed completely.

In attempt to deposition Ariel in the minds of the customers, the Skip advertisement shows a person with a tumbler in his hand saying: 'In the tumbler you can shake whatever you like, but in the washing machine only Skip'. In order to minimize any negative effect, in Ariel's recent advertisement tumblers have been replaced by a washing machine! And the battle goes on.

Product innovativeness

Another important product-related concept refers to the product's degree of innovativeness. Products can be classified in different categories depending on how innovative or new they are. Newness either to the firm and/or to the market can be used, while new product projects may be more or less innovative on a number of dimensions, for example market, technology, managerial practices.

The most popular classification of new products belongs to the consulting firm Booz et al. (1982). Specifically, the following six categories of products have been identified:

- *New-to-the-world products*: products that are first of their kind and they create a new market, for example, Sony Walkman, 3M, post-its.
- *New product lines*: products that are not new to the market, but they are new to the company and they allow it to enter a new market for the first time, for example, the IBM Laserjet printer.
- *Additions to existing product lines*: products that are new to the company, and are added to an existing product line, for example, Coca-Cola Vanilla.
- *Revisions/improvements to existing product lines*: products that replace existing company products, offering better performance or increased perceived value to the customer, for example, Detergents with a 'new and improved' formula.
- *Repositionings*: existing company products that are targeted to a new market for example, Johnson's Baby Shampoo for adults.
- *Cost reductions*: products that replace existing ones, offering the same benefits at a lower cost.

On the basis of market newness and product newness, Ansoff (1987) identified four different business opportunities that can be pursued using four different types of product development respectively, ranging from new products or markets, through new product lines and product line extensions, to product improvements.

More than twenty years ago, Wheelwright and Clark (1992) proposed a typology of development projects, or a development map, based on two dimensions first, the degree of change in the product, and secondly, the degree of change in the manufacturing process. Five distinct types have emerged:

- 1 Breakthrough projects imply fundamental changes to existing products and processes. These projects often incorporate radically new technologies or materials and require revolutionary manufacturing processes.
- 2 Platform projects refer to the creation of new product lines. They symbolize the degree of product-market differentiation and diversification the company aims at.
- 3 Derivative projects are characterized by incremental changes, both from a product and a process perspective. They range from cost-reduction versions of existing products to improvements of an existing production process.
- 4 Research and advanced development projects lie outside the development map, and refer to the creation of know-how and know-why of new materials and technologies that could ultimately be translated into a commercial offering.
- 5 Alliances and partnership projects are also not included in the development map. They can be formed to pursue any type of project, R&D, breakthrough, platform or derivative.

The authors conclude that all five development categories are very important if the organization is to respond to the market. Each projects plays its role in creating and/or sustaining a competitive advantage. Therefore, companies must create a balanced product portfolio that includes a mixture of these different project types.

Based on the typology of Booz et al. (1982), Cooper and Kleinschmidt (1993) seven classes of new product types can be distinguished, namely:

- True innovations: a totally new product for the world that created an entirely new market.
- Totally new products for the world, but for which there was an existing market.
- Totally new products for the company, but which offered new features vs. competitive products in an existing market.
- New product lines for the company, but which competed against fairly similar products in the market.
- New items in an existing product line for the company which were sold into an existing market.
- Significant modifications of existing company products.
- Fairly minor modifications of existing company products.

Finally, combining the degree to which technology is new to the company or it is applied in a new way and the extent to which the innovation is based on an existing product, Crawford (1997) described three types of innovations, which are first, pioneering, that refers to first-to-market products, secondly, adaptation that is product improvement, and thirdly, imitation or emulation that refer to me-too products.

The categories of innovativeness do not differ considerably in the case of services. More specifically, Gadrey et al. (1995) have observed four types of financial service innovations, namely:

- innovations in service products which refer to totally new-to-the-market services;
- architectural innovations which bundle or un-bundle existing service products;
- innovations which result from the modification of an existing service product, and;
- innovations in processes and organization for an existing service product.

Recently, the authors of this book combined fourteen dimensions of innovativeness and constructed a typology of new service innovativeness that consists of six types of financial service innovations (Avlonitis et al. 2001). These six types could be conceptualized as representing a continuum depending on the degree of innovativeness that characterizes each type (Figure 1.4). At the most innovative extreme of the continuum

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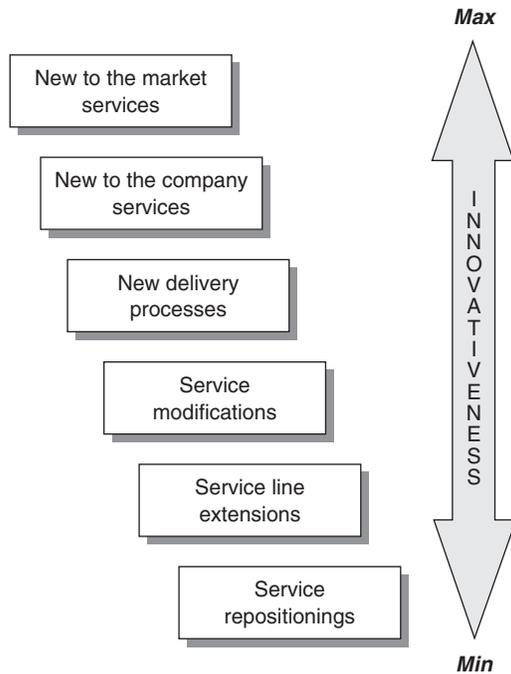


Figure 1.4 Service innovativeness categories

Source: Avlonitis et al. (2001)

the new-to-the-market services are placed; at the least innovative end, the service repositionings can be found. In between, the remaining four types could be classified (starting from the most to the least innovative type) as follows: new-to-the-company services, new delivery processes, service modifications, and service line extensions.

Product classification schemes

The existence of millions of different products in the market has led to various classification schemes, just like biology classifies all living creatures. The classification of products is essential because of the different categories of products aiming at different target markets and the fact that the marketing strategy for each market depends on how the product is classified.

The classification schemes that have been proposed in the literature are based on a number of basic characteristics, such as tangibility (tangible vs. durables) and use (consumers vs. industrial).

Product tangibility

Depending on their degree of tangibility/intangibility products are classified as tangible or intangible. Tangible products are also called goods, while intangible product are referred to as services.

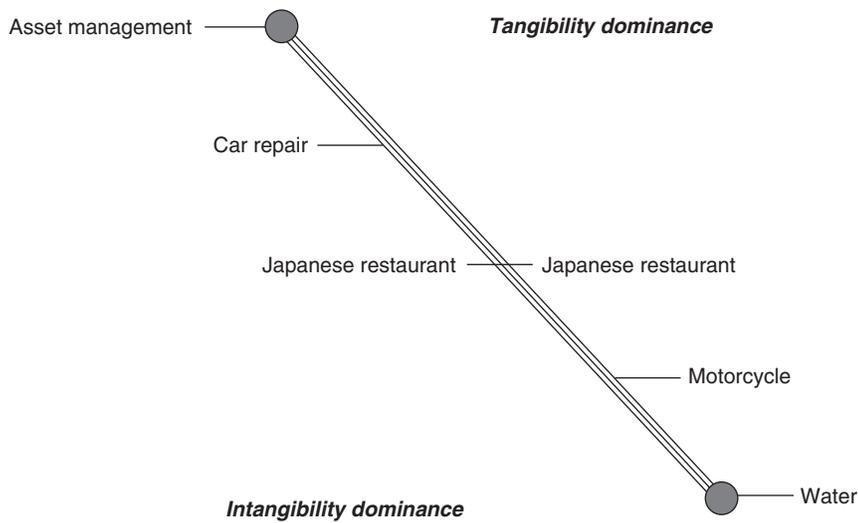


Figure 1.5 Intangibility versus tangibility dominance

Apart from intangibility, services as opposed to goods have three more distinct characteristics:

- Inseparability of service: production and consumption. For example, the 'production' of a trip on the train which cannot be separated from its 'consumption' by the customer.
- Heterogeneity of service: for example, room service in a hotel is offered somewhat differently depending on the person providing service.
- Perishability of service: for example, a free seat on a flight from Amsterdam to Glasgow cannot be added to the seats available on the next flight to the same destination. It is lost forever.

It is apparent that the basic characteristic of services is intangibility, while the degree to which the other three characteristics exist stems from intangibility per se. In Figure 1.5 we present examples of products on the basis of tangibility or intangibility dominance. For example, water is highly tangible, whereas asset management is highly intangible.

Product durability

Depending on their durability, products can be classified as durables and non-durables. Durables are products that satisfy a certain need for a long period of time (for example, refrigerators, machine tools). Non-durables or fast moving consumer goods (FMCG) are products that satisfy a need once (for example, refreshments, pasta).

Product use

One of the most common and widely used classification of products is between consume (B2C) and industrial (B2B). Consumer products are bought from individuals in

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order to satisfy personal and family needs, while industrial products are bought from companies or organizations in order to be used as an input for the production of other products (for example, raw materials), for the functioning of sale to other companies.

Certainly, many products can be seen as consumer as well as industrial. Let us take, for example, a car. When a car is bought from an individual for personal or family use, then it is a consumer product. On the contrary, when it is bought as a company car, then it is an industrial product. This is to say that, characterizing a product as consumer or industrial depends on who buys it and for what reason.

Types of consumer products

Historically, one of the most widely accepted classification of products has been proposed by Copeland back in 1923. He proposed a three-fold classification: *convenience goods*, *shopping goods* and *specialty goods*, based on consumer buying habits. Although his concern was with consumer goods his scheme may be easily generalized to include industrial goods as well.

Convenience goods are those for which the consumers will not spend much money or time in purchasing them nor does the customer perceive significant levels of risk in making a selection. Examples of consumer goods that fall into the convenience category include fresh produce and grocery staples, umbrellas, chewing-gum and batteries. Supplies and raw materials, which are commodities could be classified as convenience items for industrial buyers.

Shopping goods as the name implies are those for which the buyers are willing to spend a significant amount of time and money in searching for and evaluating these products. Increased levels of risk are also perceived for these high involvement products. Example of shopping goods include vehicles, clothing and furniture for end consumers and equipment and component parts for industrial users.

Specialty goods are 'unique' in some regard and require special effort in terms of both money and time for their acquisition. Comments such as '[I would] wait for weeks' 'not settle for anything else' are goods indicators of the time and effort that distinguishes specialty products. Examples of specialty products include rare vintage imported wines, expensive sports cars and paintings by well-known artists. In the industrial sector, installations (buildings) would be specialty products because their location, cost and furnishings require great organizational effort and risk.

Holbrook and Howard (1976) made a major contribution to the study of goods classification by proposing a fourth category, *preference goods*, which involve low shopping effort and low ego involvement, but high brand preference. This four-product category classification was adopted by Murphy and Enis (1986). Building on the works of Copeland and Holbrook and Howard, they developed an integrated product classification scheme consisting of the four aforementioned product categories defined in terms of the effort and risk dimensions of price as perceived by both organizational and ultimate consumers. According to the authors, their proposed product classification scheme provides a managerial road map for strategy development: buyers' perceptions, marketers' objectives and basic strategy and specific strategies for each element of the marketing-mix. Table 1.1 presents certain marketing implications of the scheme proposed by Murphy and Enis.

The product classification schemes suggested in the literature and the one discussed here, indicate that the classification of products, can form the foundation for building a meaningful marketing strategy. However, the managers who attempt to devise a

Table 1.1 Marketing implications examples of Murphy and Enis's product classification

Product category	Marketing issue			
	Buyer behaviour	Marketer's objective	Product strategy	Promotion strategy
Convenience	impulse or habit	move to preference, or shopping, or dominate via low cost	standard grades and quantities, quality control, innovations copied quickly	point-of purchase, some sales promotion
Preference	routine	brand loyalty	standard grades and quantities, quality control, some R&D	mass advertising, sales promotion, some personal selling
Shopping	limited	source or store loyalty	standard base, many options, much R&D, warranties	personal selling, some advertising
Specialty	extensive	source and brand loyalty	custom design, much R&D, warranties, personalised service	publicity, personal selling, testimony

Source: Adapted from Murphy and Enis (1986)

workable marketing strategy as a function of product classification should be aware of certain deficiencies inherent in this approach.

First, neither every product nor every marketing variable fits precisely into the suggested framework since the classification of products in the suggested groups will vary between different individual customers, groups of customers, and even geographical markets. This indicates how important it is to analyse market opportunities and target markets before developing a marketing strategy to appeal to that particular market. Second, the classification of products is, like all marketing, dynamic and, therefore, a product once considered in a particular group may not stay in that group indefinitely. This is because of changes that occur in the buyer's economic environment and habits, in the performance of basic marketing variables, and in other environmental conditions. These changes in turn affect the market demand of the product as well as the composition of the marketing mix that supports it.

The fact that the product's position, and even its concept, can be expected to change over time, led to the development of the product life cycle model as a framework for the selection of meaningful marketing strategies.

Types of industrial products

Depending on how they enter the production process, as well as the cost structure of the buying organization, individual products and services can be classified in various categories.

According to Kotler (1997), industrial products and services can be classified into three distinct groups:

- 1 *Entering goods*: they comprise raw materials and manufactured materials and parts that enter the manufacturer's product completely. Raw materials can be either farm products (for example, cotton, fruit) or natural products (for example, crude oil). Manufactured materials and parts are further divided into two groups: component

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materials (for example, yarn, cement) which are processed further, and component parts (for example, batteries, engines) which enter the finished product with a slight or even no further change in form.

- 2 *Foundation goods*: they refer to capital items that are long-term investments facilitating the development and management of finished products. There are two types of foundation goods, namely installations and equipment. Installations are major purchases and comprise buildings and large mechanical equipment, while equipment consists of portable factory equipment and tools (for example, lift trucks) and office equipment (for example, notebooks, printers, desks).
- 3 *Facilitating goods*: They consist of supplies and business services, which are necessary for the smooth operation of every company. Supplies, which are not part of the product, can be further divided into first, operating supplies such as stationery and lubricants, and secondly, maintenance and repair items, like for instance, detergents and nails. Moreover, business services fall into two main classes: maintenance and repair services (for example, photocopier repair), which are usually provided on a contractual basis, and business advisory services (for example, accountancy legal).

Another useful classification of industrial product is provided by Shapiro (1977), who divides industrial products into the following four types:

- *Proprietary of catalogue products*: these products are offered with certain specifications, are standardized and are produced to satisfy future orders.
- *Custom-built products*: these products are offered as a group of basic units with a large number of extras, which are customized to the buying needs of the customer. For example, a weighting system can have certain standard units (for example, weights) and a number of optional units (for example, electronic indicators), which are custom-made.
- *Custom-designed products*: these products are designed to meet the needs of just one or a limited number of customers. Sometimes, such products are unique, for example a certain type of machine tool or an energy production factory. In other occasions, products are produced in batches, as in the case of aircraft for example, Boeing 757s which were specially designed for Easyjet.
- *Industrial services*: as discussed earlier, these services comprise maintenance, repair, consulting services, and so on.

Summary

- Products are central assets in creating leading enterprises. They can be either tangible or intangible. In the case of tangible products we refer to goods, whereas intangible products are usually called services.
- The product idea is rooted in the concept of differential competitive advantage, which recognizes that customer demand is not homogeneous and thus, price is not the only basis for competition.
- Differentiation in a product's characteristics can take various forms such as functional features, trademarks, packaging, quality, style or product services.
- There exist four important product related concepts, namely levels of product, product hierarchy, product life cycle, product positioning.
- Products can be classified on the basis of tangibility, durability and use.

Questions

- 1 Give one example for each of the five levels of a product from the fast food market.
- 2 Select four products that you have used during the last month and try to identify their type of product innovativeness.
- 3 Think of three brands from the beverages industry and describe their positioning strategy.
- 4 Select two products, one convenience and one specialty and describe three differences in terms of their marketing strategy.

Notes

The idea can be traced to James Culliton (1948) who described the marketing administrator as a 'decider' or 'artist' – 'a mixer of ingredients'.

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