Marketing Management

MANAGEMENT STUDIES

Instructional Material

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MBA
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UNIT-I

In writing the first edition of this self instruction material, I was motivated by a concern to help improve the effectiveness of marketing learning among MBA students. In doing this, I have sought to address a number of key questions that logically follow each other in the context of strategic marketing management:

1 Where are we now?
2 Where do we want to be?
3 How might we get there?
4 Which way is best?
5 How can we ensure arrival?

The themes of planning, implementing and controlling marketing activities are reflected in the answers to these questions – as offered in the eighteen chapters which follow. The structure of the book is designed to take the reader through each of the questions in turn. The sequencing of the chapters is therefore significant. We have sought to build the book's argument in a cumulative way such that it will provide guidance in generating effective marketing performance within a strategic framework – once the reader has worked through each chapter in turn. Against this background we can specify the book's aims as being:

- To make the readers aware of the major aspects of the planning and controlling of
- marketing operations
- To locate marketing planning and control within a strategic context
- To demonstrate how the available range of analytical models and techniques might
- be applied to marketing planning and control to produce superior marketing performance
- To give full recognition to the problems of implementation and how these problems might be overcome.

Since the appearance of the first edition in 1992, the marketing environment – and therefore the challenges facing marketing planners and strategists – has changed in a variety of often dramatic ways. Amongst some of the most significant of these changes has been the emergence of what within this book we refer to as 'the new consumer' and 'the new competition'. This new consumer is typically far more demanding, far more discriminating, much less loyal and more willing to complain than in the past, whilst the new competition is frequently far less predictable and often more desperate than previously. At the same time, the marketing environment has also been affected by a series of unpredictable events (SARS and the Iraq war are just two of the more recent of these), and by the emergence of new technologies and delivery systems. Together, these changes have led to a new type of marketing reality which has major implications for the marketing planning and strategy processes. The question of how marketing planners might respond or, indeed, have responded to the new marketing reality is therefore an underlying theme of this book. In practice, many marketing planners have responded by focusing to an ever greater degree upon short-term and tactical issues, arguing that during periods of intense environmental change, traditional approaches to marketing planning and management are of little value. Instead, they suggest, here is the need to develop highly sensitive environmental monitoring systems that are capable of identifying trends, opportunities and threats at a very early stage, and then an organizational structure and managerial mindset that leads to the organization responding quickly and cleverly. Within this book we question these sorts of assumptions and focus instead upon the ways in which the marketing planning process can be developed and managed effectively and strategically. We therefore attempt to inject a degree of rigour into the process, arguing that rapid change within the environment demands a more strategic approach rather than less. We have also introduced a considerable amount of material designed to reflect some of the areas that have emerged over the past few years and that currently are of growing importance. The most obvious of these are e-marketing, branding, the leveraging of competitive advantage and CRM. It is not intended that this should be used as an introductory text: we have deliberately assumed that readers will have had some prior exposure to marketing principles, if not to marketing practice. The intended market of the book comprises the following segments:

- Students reading for degrees involving marketing (especially MBA candidates and senior undergraduates following business studies programmes)
- Students of The Chartered Institute of Marketing who are preparing for the Marketing Planning paper in the CIM's Diploma examinations
- Marketing practitioners who will benefit from a comprehensive review of current thinking in the field of strategic marketing planning, implementation and control

Learning objectives

When you have read this chapter you should be able to:
(a) define marketing in strategic terms;
(b) understand the basic structure of the book and how this chapter establishes the context for what follows;
(c) specify the characteristics of strategy and strategic decisions;
(d) understand the nature of the debate about the future role of marketing and its contribution to management;
(e) appreciate the changing emphases within marketing and the implications of these changes for the ways in which marketing strategies are developed.

1.2 The nature of marketing

The question of what marketing is and what it entails has been the focus of a considerable amount of work over the past 40 years. From this, numerous definitions have emerged, with differing emphases on the process of marketing, the functional activities that constitute marketing, and the orientation (or philosophy) of marketing. The Chartered Institute of Marketing, for example, defines it as:

". . . the management process for identifying, anticipating and satisfying customer requirements profitably."

A slightly longer but conceptually similar definition of marketing was proposed by the American Marketing Association (AMA) in 1985:

"Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."

Although this definition, or variations of it, has been used by a variety of writers (see, for example, McCarthy and Perreault, 1990; Kotler, 1991; Jobber, 2003), Littler and Wilson (1995, p. 1) have pointed to the way in which 'its adequacy is beginning to be questioned in some European textbooks' (e.g. Foxall, 1984; Baker, 1987). It could be said that the AMA definition is more of a list than a definition and is therefore clumsy and inconvenient to use; that it cannot ever be comprehensive; and that it fails to provide a demarcation as to what necessarily is or is not 'marketing'. They go on to suggest that the AMA definition presents marketing as a functional process conducted by the organization's marketing department, whereas the general thrust of the more recent literature on marketing theory is that marketing is increasingly being conceptualized as an organizational philosophy or 'an approach to doing business'. This strategic as opposed to a functional approach to marketing is captured both by McDonald (1989, p. 8):

"Marketing is a management process whereby the resources of the whole organization are utilized to satisfy the needs of selected customer groups in order to achieve the objectives of both parties. Marketing, then, is first and foremost an attitude of mind rather than a series of functional activities."

and by Drucker (1973), who put forward a definition of marketing orientation:

"Marketing is so basic that it cannot be considered a separate function on a par with others such *as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customers' point of view."*

A significant shift in emphasis since Drucker wrote this is to be found in the importance that is now attached to competitive position in a changing world. Thus, the marketing concept is that managerial orientation which recognizes that success primarily depends upon identifying changing customer wants and developing products and services which match these better than those of competitors (Doyle, 1987; see also Wilson and Fook, 1990). The contrasting emphases on customers and competitors can be highlighted as in Figure 1.1. If an enterprise is managed a little better than customers expect, and if this is done in a slightly better way than competitors can manage, then the enterprise should be successful. Within Figure 1.1 the customer-oriented and competitor-centred categories speak for themselves. The self-centred category is characterized by an introspective orientation

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The Marketing Management Process The Marketing Management Process This chapter provides an overview of the marketing management process. It focuses on the tasks marketers must perform to manage the marketing activities of their organizations and the environment of

marketing decisions. First, we will review the definition of marketing, the marketing concept, and the focus of effective marketing before turning our attention to these tasks.
WHAT IS MARKETING? The American Marketing Association defines marketing as follows: “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.”1 Several key ideas are expressed in this definition. First, marketing is a managerial function involving both planning and execution. Thus marketing is not a group of unrelated activities but tasks that are planned and executed to attain identifiable objectives. Second, marketing involves the management of specific elements or functions: product, pricing, promotion, and distribution. These functions constitute the work or substance of what marketing is all about. To be involved in marketing means being involved in the planning, execution, and/or control of these activities. Third, marketing is goal oriented. Its aim is to create exchanges that satisfy individual and organizational objectives. Marketing’s concern is with customers and meeting a need in the marketplace. However, its concern is not just with any customers or all customers but those preselected by management as the market segment(s) on which the company will concentrate. Thus, specific customers with their specific needs become the focal point of an organization’s marketing activities.

THE MARKETING CONCEPT

The marketing concept is a business orientation that focuses on satisfying customers’ needs at acceptable levels of revenues and costs. In for-profit organizations, acceptable levels of revenues and costs are defined in terms of a target return on investment; in not-for-profit organizations, the focus is on achieving a balance between revenues and costs. Organizations having a true “marketing orientation” focus on addressing the needs and wants of one or more targeted segments of the market. However, other business philosophies may be put into practice by managers with marketing titles, which in reality do not reflect authentic marketing thought. Table 1.1 shows five different business orientations that have been used as the operating philosophies behind management decision making. The term dominant in the table identifies the core objective which gives the orientation its name. Present means that the orientation includes that objective but does not use it as the centrally controlling goal in orienting the manager’s thoughts about his or her company, its products, or its customers. Not pertinent means that objective has no relevance, pertinence, or connection with the orientation described. This table makes it clear that the production, product, and selling orientations are internally driven. Managers using such orientations determine what they want to dictate to the market. Only the last two orientations—marketing and societal marketing—contain the elements of an “outside-in,” “market-driven,” or “customer-oriented” philosophy which stresses discovery of market opportunities, marketplace input regarding the organization’s claim of a competitive advantage, and the integration of effort across all aspects of the organization to deliver customer satisfaction. These two orientations reflect the competitive realities facing organizations of all types as a new millennium begins. The societal marketing orientation is particularly well suited to internal and external environmental forces currently facing managers. It includes all of the positive contributions of the other four philosophies but adds concern for the long-term effects of the organization’s actions and products on its customers, as well as the desire to consider the effects of the organization’s actions on society at large. In other words, it recognizes the sovereignty of the marketplace and uses as ethical framework both deontological (rights of the individual)

and teleological (impact on society) views in the decision-making process. Putting this philosophy into practice requires a planning procedure that transforms the consumer orientation into marketing activities. The societal marketing orientation believes that the only social and economic justification for the existence of a business enterprise is the satisfaction of customer needs, at a profit, and with due diligence for the long-term welfare of the customer and of society. A firm's existence is justified socially in meeting customer needs—directly through provision of goods and services, and indirectly through being a good citizen of its operating environment. In the U.S. economy, this philosophy is exactly why businesses were given the right by society to own and use resources to produce goods and services. A firm finds economic justification by making a profit. Profit rewards the owners' investment
in the organization and assures continued availability of funds. Customer needs become the focus of firms that operate under this philosophy. Managers adopting the marketing philosophy must continually survey the environment to detect changes in consumer needs or other related variables that warrant altering their marketing activities. Sales revenues, in effect, become votes to help management judge the effectiveness of its efforts in meeting market needs compared to those of competitors; profits serve to judge the efficiency of management in this attempt.

MARKETING MANAGEMENT IN THE NEW MILLENNIUM

In recent years, marketing management has increasingly focused on four key elements to enhance market share, profits, and efficiency. These elements are quality, value, relationships, and customer satisfaction. Product Quality and Value-Based Marketing Strategy One of the most significant trends in recent marketing practice has been the emphasis on value—the right combination of product quality, service support, and timely delivery at a reasonable price. This concern with value by customers has forced many firms to reconsider their views of product quality and customer service in order to meet the demands of a global marketplace. For example, consider the differences between the traditional view of product quality and the total quality management (TQM) approach (see Table 1.2). Marketing plans must reflect the emphasis on value demanded by the market
with respect to the quality of product and level of customer service. Firms adopting a societal marketing orientation are interested in understanding how their customers perceive and define quality as well as making sure that their products are fully capable of generating customer satisfaction in both the short- and long-terms. Thus, product quality is not primarily internally determined but is rather centered around customer perceptions and evaluative criteria. The Strategic Planning Institute's procedure for assessing perceived quality may
be instructive:

1. A group of managers from different functional areas of the business meet to identify the nonprice attributes of the product or service that influence consumer choice.
2. The group assigns weights to the attributes to reflect the importance each attribute plays in consumer decision making. The weights must sum to 100 percent. This is done on a market segment by market segment basis when the weights differ by consumer segment.
3. A quality score is created for the company's product as well as its major competitors by multiplying the product's rating (determined by the management team) on the attribute by the importance weight and summing for all attributes.
4. The quality score along with other competitive comparison measures (e.g., pricing, share of market) and financial performance measures, i.e., return on investment, return on sales,

and internal rate of return (ROI, ROS, IRR, respectively), are validated by comparing them with benchmarked data for similar business.

5. Finally, the team develops budgets and plans for improving quality relative to competition and to marketplace needs and perceptions, and calculates the financial payoff.

Whenever possible, the team's judgments are compared to and modified by information collected from customers. The key to successful implementation of a quality strategy is teamwork and cooperation. Everyone should see his or her job, whatever the functional area, as a "value-added" role in the delivery of a quality product. Team members must be cognizant of what constitutes quality in the customer's mind, feel that the quality is everyone's responsibility, and be empowered to make decisions which affect the value delivery chain. Keys to successfully achieving world-class quality include the following:

1. Top management must provide unequivocal support for the quality effort.
2. Close contact must be maintained with customers in order to fully understand their needs.
3. To avoid untimely delays, reaction time must be reduced when definitions of quality change over time.
4. People should be empowered to utilize their best talents
5. Reward systems should be assessed and adjusted to recognize efforts that are consistent with quality objectives.

6. The total quality program has to be viewed as an ongoing concern by everyone in the organization.

Service Quality Strategy

Companies have been concerned with delivery of a satisfactory level of customer service for decades, but it is safe to say that the level of concern has increased. Competitive forces and the more demanding nature of customers have combined to put customer service at, or near, the top of most marketers' lists of important issues. Research has revealed five dimensions used by customers to define perceived quality of service (see Table 1.3). Further research has revealed that while respondents rank all five dimensions toward the "important" end of the scale in defining service quality, when asked, they said that reliability was the most critical. This suggests that firms must accomplish the following tasks with regard to their service strategy:

1. Determine the specific service expectation of the target market.
2. Design a service strategy grounded in meeting or exceeding those expectations.
3. Deliver on those promised service levels consistently when dealing with customers.
4. If steps 1 through 3 are performed better than competitors, a competitive advantage exists in the area of customer service and should be exploited as such.

Improving Customer Perceptions of Service Quality

The most vexing problem for management, given the importance of reliability in defining service quality, is to close any gap that exists between expectations and ultimate delivery of service to customers. However, four service-related gaps should be of concern to marketing planners:

1. Gap between the customer's expectations and the marketer's perceptions—Research into what customers are actually thinking is needed. Marketers cannot assume that without such research they know with clarity what those expectations are.
2. Gap between management perceptions and service quality specifications—Knowledge of customer expectations is the first link in a chain of steps leading to customer satisfaction with service delivery. Specifications of policies and tasks of service delivery must be developed based on that knowledge and communicated to employees. Employees must understand that their job performance will be based in part or in whole on meeting those specifications.
3. Gap between service quality specifications and service delivery—Highly motivated, well-trained, and well-informed employees are needed to actually perform the tasks specified as necessary for delivery of quality service. Control systems that are capable of measuring any gap between desired and actual service delivery should be in place to indicate where excellence or shortfalls are occurring.
4. Gap between service delivery and external communications— excellent delivery of service specifications can still disappoint customers if marketers have caused those customers to have unrealistically high expectations of service. For example, promotional photos that suggest the accommodations at a resort are more spacious or luxurious than they really are will likely raise expectations higher than can be delivered, resulting in disappointed customers.

Product quality and customer service decisions should be the cornerstone of product decisions in the marketing plan Relationships. Another key element of effective marketing is relationship management. The word relationship means connection or closeness, and marketers must develop relationships with suppliers, intermediaries, other colleagues, and customers. The focus of relationship management is on building and maintaining long-term relationships with all the parties that contribute to the success of the organization. The power of strong relationships can be seen in moves made by General Motors to revitalize and update their dealerships. GM has been slowly trying to remake its distribution system, including relocating dealerships to reflect shifts in population and merge dealerships from 9,500 to 7,000. This $1 billion dollar project has already shown signs of paying off. In Bergen County, New Jersey, sales rose 42 percent after half of the dealerships were upgraded or moved. In addition to new and larger dealerships, consumer amenities such as playrooms for children and Internet access are available in some waiting rooms. Not all dealers are happy with the changes, however. A move or merger that helps one dealer may hurt another, and this could result in broken relationships, i.e., lawsuits. Most industry experts feel that this is a move they must make to catch up to what other automakers have already done. Customer Satisfaction An organizational emphasis on quality should result in increased customer satisfaction. Customer satisfaction is the result of a company's ability to meet or exceed the expectations of the buyer. Increased customer satisfaction results in retention of existing customers.
Since it is cheaper for a company to retain an existing customer than attract a new one, customer satisfaction becomes a focal point for maintaining sales and improving profitability.
Organizations who want to improve customer satisfaction must implement systems to, first, measure current levels of satisfaction against established customer satisfaction goals, and, second, develop action plans to alter operations if goals are not being met. For example, a bank may have a goal that customers should wait no more than five minutes before accessing a teller for a transaction. Studying waiting times within the bank and at drive-through operations could provide measures of the bank's performance. If the goal is not being met, the bank might

implement changes to reduce waiting time such as increasing the number of open teller windows, changing operating hours, or improving ATM accessibility. The overall process used to improve customer satisfaction is shown in the following list:

1. Determine relevant attributes and characteristics of customer satisfaction based on consumers' perspectives.
2. Establish customer satisfaction goals for each of these attributes.
3. Develop the measurement processes to assess performances on each of the attributes.
4. Analyze differences in goals and performance to determine where improvements need to be made.
5. Develop and implement an action plan to bring performance into alignment with goals.

Developing and implementing such a process leads to continuous quality improvements (CQI). This means the organization is always in the process of analyzing and implementing policies and procedures to improve service quality and customer satisfaction. Meeting these challenges in the new millennium requires effective marketing management processes.

FOUR ERAS IN THE HISTORY OF MARKETING

The essence of marketing is the exchange process, in which two or more parties give something of value to each other to satisfy perceived needs. Often people exchange money for tangible goods such as groceries, clothes, a car, or a house. In other situations, they exchange money for intangible services such as a haircut or a college education. Many exchanges involve a combination of goods and services, such as dinner in a restaurant—where dinner represents the good and the wait staff represents the service. People also make exchanges when they donate money or time to a charitable cause such as Habitat for Humanity. Although marketing has always been a part of business, its importance has varied greatly. Figure 1.1 identifies four eras in the history of marketing: (1) the production era, (2) the sales era, (3) the marketing era, and (4) the relationship era.

THE PRODUCTION ERA

Before 1925, most firms—even those operating in highly developed economies in western Europe and North America—focused narrowly on production. Manufacturers stressed production of quality products and then looked for people to purchase them. The prevailing attitude of this era held that a high-quality product would sell itself. This production orientation dominated business philosophy for decades; in fact, business success was often defined solely in terms of production successes. The production era reached its peak during the early part of the 20th century. Henry Ford's mass-production line exemplifies this orientation. Ford's slogan, "They [customers] can have any color they want, as long as it's black," reflected the prevalent attitude toward marketing. Production shortages and intense consumer demand ruled the day. It is easy to understand how production activities took precedence. However, building a new product is no guarantee of success, and marketing history is cluttered with the bones of miserable product failures despite major innovations. In fact, more than 80 percent of new products fail. Inventing an outstanding new product is not enough. That product must also fill a perceived marketplace need. Otherwise, even the best-engineered, highest-quality product will fail. Even Henry Ford's horseless carriage took a while to catch on. People were afraid of motor vehicles, which spat out exhaust, stirred up dust on dirt roads, got stuck in mud, and tied up horse traffic. Besides, at the speed of seven miles per hour, they caused all kinds of accidents and disruption. It took savvy marketing by some early salespeople—and eventually a widespread perceived need—to change people's minds about the product. Today, most of us could not imagine life without a car and have refined that need to preferences for certain types of vehicles, including SUVs, convertibles, trucks, and hybrids.

THE SALES ERA

As production techniques in the United States and Europe became more sophisticated, output grew from the 1920s into the early 1950s. As a result, manufacturers began to increase their emphasis on effective sales forces to find customers for their output. In this era, firms attempted to match their output to the potential number of customers who would want it. Companies with a sales orientation assume that customers will resist purchasing nonessential goods and services and that the task of personal selling and advertising is to persuade them to buy. Although marketing departments began to emerge from the shadows of production and engineering during the sales era, they tended to remain in subordinate positions. Many chief marketing executives held the title of sales manager. But selling is only one component of marketing. As marketing scholar Theodore Levitt once pointed out, "Marketing is as different from selling as chemistry is from alchemy, astronomy from astrology, chess from checkers."

THE MARKETING ERA

Personal incomes and consumer demand for goods and services dropped rapidly during the Great Depression of the 1930s, thrusting marketing into a more important role. Organizational survival dictated that managers pay close attention to the markets for their goods and services. This trend ended with the outbreak of World War II, when rationing and shortages of consumer goods became commonplace. The war years, however, created only a pause in an emerging trend in business: a shift in the focus from products and sales to satisfying customer needs. Emergence of the Marketing Concept The marketing concept, a crucial change in management philosophy, can be linked to the shift from a seller's market—one in which there were more buyers for fewer goods and services—to a buyer's market—one in which there were more goods and services than people willing to buy them. When World War II ended, factories stopped manufacturing tanks and ships and started turning out consumer products again, an activity that had, for all practical purposes, stopped in early 1942. The advent of a strong buyer's market created the need for consumer orientation by businesses. Companies had to market goods and services, not just produce and sell them. This realization has been identified as the emergence of the marketing concept. Marketing would no longer be regarded as a supplemental activity performed after completing the production process. Instead, the marketer played a leading role in product planning. Marketing and selling would no longer be synonymous terms. Today's fully developed marketing concept is a company-wide consumer orientation with the objective of achieving long-run success. All facets—and all levels, from top to bottom—of the organization must contribute first to assessing and then to satisfying customer wants and needs. From marketing manager to accountant to product designer, every employee plays a role in reaching potential customers. Even during tough economic times, when companies tend to emphasize cutting costs and boosting revenues, the marketing concept focuses on the objective of achieving long-run success instead of short-term profits. Because the firm's survival and growth are built into the marketing concept, company-wide consumer orientation should lead to greater long-run profits. Consider Apple Computer. Named first in a list of the top 20 innovative companies worldwide in a poll by

Boston Consulting Group, respondents said Apple "delivers great consumer experiences with outstanding design."12 Apple's popularity has surged with the introduction of its iPod line. Every teen wants one. Every college student wants one. Even baby boomers, who are close to retirement, want one. And where do they download songs? Apple's iTunes Music Store. In a deal with Disney, Apple now offers ABC shows such as Lost and Grey's Anatomy on its video iPod. And Disney's purchase of Pixar Animation Studios should increase the offerings. Many industry watchers credit Apple's co-founder and CEO Steven Jobs. Jobs, who left the company for twelve years, came back in a big way. Jobs has always been viewed as an innovator, and even his critics concede that he knows how to make what consumers want. And he won't compromise on quality. "I'm as proud of what we don't do as I am of what we do," says Jobs.13 A strong market orientation—the extent to which a company adopts the marketing concept— generally improves market success and overall performance. It also has a positive effect on new-product development
and the introduction of innovative products. Companies that implement market-driven strategies are better able to understand their customers' experiences, buying habits, and needs. Like Apple, these companies can, therefore, design products with advantages and levels of quality compatible with customer requirements.

THE RELATIONSHIP ERA

The fourth era in the history of marketing emerged during the final decade of the 20th century and continues to grow in importance. Organizations now build on the marketing era's customer orientation by focusing on establishing and maintaining relationships with both customers and suppliers. Relationship marketing involves developing long-term, value-added relationships over time with customers and suppliers. Strategic alliances and partnerships among manufacturers, retailers, and suppliers often benefit everyone. It took a decade and more than $13 billion from four countries to launch the world's largest passenger plane, the Airbus380. To develop the new aircraft, Airbus merged its partner companies into one large firm. Then it worked with more than 60 airports during the design phase to make sure that they could accommodate the aircraft. By the time Singapore Airlines conducted the first test flight, thirteen other airlines had already placed orders for the Airbus 380.

SEGMNENTION, TARGETING AND POSITIONING

<u>The nature and purpose of segmentation</u>

During the past 30 years, market segmentation has developed and been defined in a variety of ways. In essence, however, it is the process of dividing a varied and differing group of buyers or potential buyers into smaller groups, within which broadly similar patterns of buyers' needs exist. By doing this, the marketing planner is attempting to break the market into more strategically manageable parts, which can then be targeted and satisfied far more precisely by making a series of perhaps small changes to the
marketing mix. The rationale is straightforward and can be expressed most readily in terms of the fact that only rarely does a single product or marketing approach appeal to the needs and wants of all buyers. Because of this, the marketing strategist needs to categorize buyers on the basis both of their characteristics and their specific product

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TARGETING/POSITIONING STRATEGIES IN EMERGING MARKETS—BOP OR NO BOP?

Just as with developed markets, choosing the right target markets is one of the key strategic issues multinationals grapple with in emerging markets. As income levels in most of these countries tend to be low, MNCs doing business in this part of the world have typically focused on the wealthy consumers and businesses while ignoring the rest of the population. These days, however, several MNCs realize that there could also be huge market opportunities at the so-called ‘‘bottom of the pyramid.’’ The bottom of the pyramid (BOP) is defined as the 4 billion people living on less than $2 per day. C. K. Prahalad, a management guru and professor at the University of Michigan, popularized the concept in his 2004 book, Fortune at the Bottom of the Pyramid. The BOP paradigm can be summarized as follows:

First, there is a lot of untapped money at the BOP. The poor represent a substantial reservoir of pent-up demand.

Second, the BOP offers a new growth opportunity for value creation and a forum for innovation.

Third, BOP markets must become an integral part of the firms’ core businesses. They will be critical for the long-term growth and vitality of MNCs. Catering to the BOP in EMs can be very rewarding for MNCs. Some of the benefits include the following:

1. Some BOP markets are large and attractive as stand-alone entities.
2. Many local innovations can be leveraged across other BOP markets, thereby creating a global opportunity for such innovations.
3. Some innovations that originate in BOP markets can also be launched in the MNC’s developed markets.
4. The learning experience from the BOP markets can also benefit the MNC. Pursuing the BOP forces an MNC to deliver value for money - which requires relentless cost discipline.

Cost discipline goes beyond cost cutting techniques. To succeed in a BOP market, the MNC should pursue cost innovation, meaning, innovation efforts that focus on re-engineering cost structures (instead of new functions or features) so that the firm can offer the same or even much more value at a lower cost for consumers. Nokia’s experience in China illustrates how an MNC can thrive in a BOP market environment. Nokia views China’s less-developed regions as a major driving force behind its future growth: while mobile phone subscription growth in China’s big cities is slowing, the country’s smaller cities and rural area still offer tremendous market opportunities. Most new users from these regions buy handsets for the first time. To tap into China’s BOP, Nokia has developed a wide variety of ultra-cheap handsets that can be sold for as little as $30. As a result, Nokia was able to outmanoeuvre domestic handset manufacturers and prevail in the low-end segment, while still maintaining
dominance in the upper-end of China’s mobile phone market. One fallacy marketers often make is that value for the BOP consumers means low price. Low-income consumers have similar perceptions and needs as their richer neighbours. They are often attracted to international brands due to their perceived quality image. One market researcher in the region notes: ‘‘A low-income mother sending her child to school may see the fact that he or she has a very clean white shirt as

the only way she can express love. So she will choose her soap powder brand in a much more considered way than a middle-income mother who can afford to express her love in other ways.'' Although the case for marketing to the BOP sounds compelling, some scholars find the BOP proposition to be too good to be true. In particular, professor Karnani, incidentally a colleague of C. K. Prahalad, argues that the whole concept of marketing to the BOP is a mirage. Karnani claims that the BOP market (1) is very small and (2) are unlikely to be profitable for most MNCs as they overestimate the buying power of poor people. Instead of viewing the poor as consumers, the best antidote to poverty according to the critics of the BOP premise is to focus on them as producers. Private firms can help here by upgrading the skills and productivity of the poor and creating more job opportunities for them.

One fundamental difference between developed countries and the EMs is that segments are usually much coarser in the latter markets. Most categories in developed countries are highly segmented catering to a wide variety of preferences or tastes. Such high level of product differentiation tends to be very costly for most product categories. Given the low incomes in most EMs, such finely refined level of segmentation is not effective. Also, the targeted media (e.g., niche cable channels) that enable highly refined segmentation simply do not exist in many EMs. Global Perspective 18-1 discusses some of the strategies being used by Hindustan Lever to conquer India's BOP market.

UNIT-II

Product Classifications

In addition to understanding a product's position in the hierarchy, the marketer also must understand how to classify the product on the basis of three characteristics: durability, tangibility, and consumer or industrial use. Each product classification is associated with a different marketing-mix strategy.

1. Durability and tangibility. Nondurable goods are tangible goods that are normally consumed in one or a few uses (such as beer and soap). Because these goods are consumed quickly and purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference. Durable goods are tangible goods that normally survive many uses (such as refrigerators). These products normally require more personal selling and service, command a higher margin, and require more seller guarantees. Services are intangible, inseparable, variable, and perishable products (such as haircuts or cell phone service), so they normally require more quality control, supplier credibility, and adaptability.

1. Consumer-goods classification. Classified according to consumer shopping habits, these products include: convenience goods that are usually purchased frequently, immediately, and with a minimum of effort, such as newspapers; shopping goods that the customer, in the process of selection and purchase, characteristically compares on the basis of suitability, quality, price, and style, such as furniture; specialty goods with unique characteristics or brand identification, such as cars, for which a sufficient number of buyers are willing to make a special purchasing effort; and unsought goods that consumers do not know about or do not normally think of buying, such as smoke detectors. Dealers that sell specialty goods need not be conveniently located but must communicate their locations to buyers; unsought goods require more advertising and personal sales support.

2. Industrial-goods classification. Materials and parts are goods that enter the manufacturer's product completely. Raw materials can be either farm products (e.g., wheat) or natural products (e.g., lumber). Farm products are sold through intermediaries; natural products are generally sold through long-term supply contracts, for which price and delivery reliability are key purchase factors. Manufactured materials and parts fall into two categories: component materials (iron) and component parts (small motors); again, price and supplier reliability are important considerations. Capital items are long-lasting goods that facilitate developing or managing the finished product. They include two groups: **installations** (such as factories) and **equipment** (such as trucks and computers), both sold through personal selling. Supplies and business services are short-lasting goods and services that facilitate developing or managing the finished product.

Product Mix

A product mix (also called product assortment) is the set of all products and items that a particular marketer offers for sale. At Kodak, the product mix consists of two strong product lines: information products and image products. At NEC (Japan), the product mix consists of communication products and computer products. The product mix of an individual company can be described in terms of width, length, depth, and consistency. The width refers to how many different product lines the company carries. The length refers to the total number of items in the mix. The depth of a product mix refers to how many variants of each product are offered. The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. These four product-mix dimensions permit the company to expand its business by (1) adding new product lines, thus widening its product mix; (2) lengthening each product line; (3) deepening the product mix by adding more variants; and (4) pursuing more product-line consistency.

PRODUCT-LINE DECISIONS

Especially in large companies such as Kodak and NEC, the product mix consists of a variety of product lines. In offering a product line, the company normally develops a basic platform and modules that can then be expanded to meet different customer requirements. As one example, many home builders show a model home to which additional features can be added, enabling the builders to offer variety while lowering their production costs. Regardless of the type of products being offered, successful marketers do not make product-line decisions without rigorous analysis.

Product-Line Analysis

To support decisions about which items to build, maintain, harvest, or divest, product line managers need to analyze the sales and profits as well as the market profile of each item:

1. Sales and profits: The manager must calculate the percentage contribution of each item to total sales and profits. A high concentration of sales in a few items means line vulnerability. On the other hand, the firm may consider eliminating items that deliver a low percentage of sales and profits—unless these exhibit strong growth potential.
2. Market profile: The manager must review how the line is positioned against competitors' lines. A useful tool here is a product map showing which competitive products compete against the company's products on specific features or benefits. This helps management identify different market segments and determine how well the firm is positioned to serve the needs of each. After performing these two analyses, the product-line manager is ready to consider decisions on product-line length, line modernization, line featuring, and line pruning.

Product-Line Length

Companies seeking high market share and market growth will carry longer lines; companies emphasizing high profitability will carry shorter lines of carefully chosen items. Line stretching occurs when a firm lengthens its product line. With a downmarket stretch, a firm introduces a lower price line. However, moving downmarket can be risky, as Kodak found out. It introduced

Kodak Funtime film to counter lower-priced brands, but the price was not low enough to match the lower-priced competitive products. When regular customers started buying Funtime—cannibalizing the core brand—Kodak withdrew Funtime. With an upmarket stretch, a company enters the high end of the market for more growth, higher margins, or to position itself as a full-line manufacturer. All of the leading Japanese automakers have launched an upscale automobile: Toyota launched Lexus; Nissan launched Infinity; and Honda launched Acura. (Note that these marketers invented entirely new names rather than using their own names.) Companies that serve the middle market can stretch their product lines in both directions, as the Marriott Hotel group did. Alongside its medium-price hotels, it added the Marriott Marquis to serve the upper end of the market, the Courtyard to
serve a lower segment, and Fairfield Inns to serve the low-to-moderate segment.5 The major risk of this two-way stretch is that some travelers will trade down after finding the lower-price hotels have most of what they want. But it is still better for Marriott to capture customers who move downward than to lose them to competitors. A product line can also be lengthened by adding more items within the present range. There are several motives for line filling: reaching for incremental profits, trying to satisfy dealers who complain about lost sales because of missing items in the line, trying to utilize excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors.

Line Featuring and Line Pruning

The product-line manager typically selects one or a few items in the line to feature; this is a way of attracting customers, lending prestige, or achieving other goals. If one end of its line is selling well and the other end is selling poorly, the company may use featuring to boost demand for the slower sellers, especially if those items are produced in a factory that is idled by lack of demand. In addition, managers must periodically review the entire product line for pruning, identifying weak items through sales and cost analysis. They may also prune when the company is short of production capacity or demand is slow.

BRAND DECISIONS

Branding is a major issue in product strategy. On the one hand, developing a branded product requires a huge long-term investment, especially for advertising, promotion, and packaging. However, it need not entail actual production: Many brand-oriented companies such as Sarah Lee subcontract manufacturing to other companies. On the other hand, manufacturers eventually learn that market power comes from building their own brands. The Japanese firms Sony and Toyota, for example, have spent liberally to build their brand names globally. Even when companies can no longer afford to manufacture their products in their homelands, strong brand names continue to command customer loyalty.

NEW PRODUCT DEVELOPMENT

STANDARDIZATION VERSUS CUSTOMIZATION

Behr, headquartered in Stuttgart, Germany, is one of the leading manufacturers of radiators and air-conditioning systems for cars.16 To adapt its products to satisfy tastes in local markets, the firm relies on a $6 million design lab at its headquarters in Germany. By blowing air at the vehicle at different wind speeds and changing the temperature, its lab can simulate driving conditions in any part of the world. Design is also influenced by local preferences: Germans prefer warm legs, Japanese like air being blown at their face, and Americans favor air that is directed over their entire bodies. Working closely with its carmaker customers and based on the lab findings, Behr is able to design air-conditioning units that give maximal comfort. A recurrent theme in global marketing is whether companies should aim for a standardized or country-tailored product strategy. Standardization means offering a uniform product on a regional or worldwide basis. Minor alternations are usually made to meet local regulations or market conditions (for instance, voltage adjustments for
electrical appliances). However, by and large, these changes only lead to minor cost increases. A uniform product policy capitalizes on the commonalities in customers' needs across countries. The goal is to minimize costs. These cost savings can then be passed through to the company's customers via low prices. With customization, on the other hand, management focuses on cross-border differences in the needs and wants of the firm's target customers. Under this regime, appropriate changes are made to mat h local market conditions. While standardization has a product-driven orientation— lower your costs via mass-production—customization is inspired by a market-driven mindset—increase customer satisfaction by adapting your products to local needs. Forces that favor a globalized product strategy include:

1. Common customer needs. For many product categories, consumer needs are very similar in different countries. The functions for which the product is used might be identical. Likewise, the usage conditions or the benefits sought might be similar. One example of a product that targets a global segment is Apple's iPhone. Since Apple launched iPhone in early 2007, Apple has sold about 13 million by October 2008. Apart from offering the features and benefits that competing smart phones offer, the iPhone's emotional benefit of ''coolness'' is also a major reason for its popularity worldwide, especially among young audiences. Many product categories also show a gradual but steady convergence in consumer preferences. Growing similarities in consumer preferences have also been observed in the car industry.18 The 2008 DuPont Automotive Color Popularity Report, for example, revealed that color preferences are converging around the world, but with subtle differentiation between markets (see also Exhibit 10-2).19 White is a popular choice globally gaining top spotinNorthAmerica, India and Japan.Other popularchoicesinclude black (China, Mexico, and Europe) and silver (Brazil, China,Europe, India,Russia, and South Korea). One trend that the report observes is the growing popularity of blue worldwide, especially among consumers looking for more environmental themes.

2. Global Customers. In business-to-business marketing, the shift toward globalization means that a significant part of the business of many companies comes from MNCs that are essentially global customers. Buying and sourcing decisions are commonly centralized or at the least regionalized. As a result, such customers typically demand services or products that are harmonized worldwide.

3. Scale Economies. Cost savings from scale economies in the manufacturing and distribution of globalized products is in many cases the key driver behind standardization moves. Savings are also often realized because of sourcing efficiencies or lowered R&D expenditures. These savings can be passed through to the company's endcustomers via lower prices. Scale economies offer global competitors a tremendous competitive advantage over local or regional competitors. In many industries though, the ‘‘economies of scale’’ rationale has lost some of its allure. Production procedures such as flexible manufacturing and just-in-time (JIT) production have shifted the focus from size to timeliness. CAD/CAM techniques allow companies to manufacture customized products in small batch sizes at reduced cost. Although size often leads to lower unit costs, the diseconomies of scale should not be overlooked. Bureaucratic bloat and employee dissatisfaction inlarge-scale operations often create hidden costs.
4. Time-to-Market. In scores of industries, being innovative is not enough to be competitive. Companies must also seek ways to shorten the time to bring new product projects to the market. This is especially true for categories with shortening product life cycles. By centralizing research and consolidating new product development efforts on fewer projects, companies are often able to reduce the time-tomarket cycle. For example, Procter & Gamble notes that a pan-European launch of liquid laundry detergents could be done in 10 percent of the time it took in the early 1980s, when marketing efforts were still very decentralized.21 Likewise, the Swedish engineering group Alfa Laval has been able to speed its time-to-market by streamlining its global new product development process.

5. Regional market agreements. The formation of regional market agreements such as the Single European Market encourages companies to launch regional (e.g., pan European products or redesign existing products as pan-regional brands. The legislation leading to the creation of the Single European Market in January 1993 sought to remove most barriers to trade within the European Union. It also provided for the harmonization of technical standards in many industries. These moves favour pan-European product strategies. Mars, for instance, now regards Europe as one giant market. It modified the brand names for several of its products, turning them into pan European brands. Marathon in the United Kingdom became Snickers, the name used in Continental Europe. The Raider bar in Continental Europe was renamed Twix, the name used in the United Kingdom. Whether firms should strive for standardized or localized products is a bogus question. The issue should not be phrased as an either-or dilemma. Instead, product managers should look at it in terms of degree of globalization: What elements of my product policy should be tailored to the local market conditions? Which ones can I leave unchanged? At the same time, there are strategic options that allow firms to modify their product while keeping most of the benefits flowing from a uniform product policy. Two of these product design policies are the modular approach and the core-product or common platform approach.

Modular Approach. The first approach consists of developing a range of product parts that can be used worldwide. The parts can be assembled into numerous product configurations. Scale economies flow from the mass-production of more-or-less standard product components at a few sites. Vaillant, a French company that is Europe's biggest maker of heating boilers, exemplifies this approach. A wide variation in consumer tastes and building standards within the pan-European market means that Vaillant has to offer hundreds of different boiler models. However, lately, the firm has tried to minimize the costs of customization without narrowing customer offerings. The trick is to develop boilers that meet local requirements but with as many common features (e.g., burners, controls) as is doable.

Core-Product (Common Platform) Approach. The core-product (common platform) approach starts with the design of a mostly uniform core-product or platform. Attachments are added to the core-product to match local market needs. Savings are achieved by reduced production and purchasing costs. At the same time companies adopting this approach have the flexibility that allows them to modify the product easily. The model design procedures of the French carmaker Renault exemplify this approach. More than 90 percent of Renault's sales revenues come from the European market. The body, engines, transmissions, and chassis of a given model are the same in the different markets. Minor changes, such as stronger heaters in Nordic countries or better air-conditioning for cars sold in Southern Europe, are easily implemented.26 The common platform approach has emerged as a favored means for lots of other global carmakers.27 Jaguar's S-Type marque shared a platform with Lincoln LS, Ford's other luxury brand. Volkswagen's Golf platform is also used for certain variants of Audi, Seat, and Skoda—some of the other brands that belong to Volkswagen's stable. Swedish Saab, owned by General Motors, uses platforms that were originally developed for Opel, GM's other European brand. Global Perspective 10-2 describes how Deere and Electrolux use the core product approach in designing their products. On the surface, the standardize-versus-customize conundrum could be settled via some straightforward cost-benefit type of analysis. In this section we introduce a very basic framework that allows you to look into the economics of the standardization/ customization issue. The analytical tool that we discuss here in this section is known as incremental break-even analysis (IBEA). The term sounds fancy but the thinking behind it is very straightforward. We illustrate the tool with a simple hypothetical example.
Suppose a U.S.-based MNC developed a new yogurt drink. To keep matters simple, at this stage the company is planning to introduce the new beverage in two markets—its home market (say the United States) and the host market (say Brazil). The base case scenario is a uniform strategy for the two countries with just minor changes that are absolutely necessary (e.g., adding subtitles to the U.S. TV-commercial for Brazil, translating the bottle label from English into Portuguese). The other scenario is to adapt the marketing mix that was devised for the United States when launching the drink in Brazil. On the product front, adaptations proposed by the Brazilian country subsidiary include the flavors and the packaging. With regard to the communication strategy, the MNC ponders to develop an entirely new commercial for Brazil.
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NEW PRODUCT DEVELOPMENT

DEVELOPING NEW PRODUCTS FOR GLOBAL MARKETS

For most companies, new products are the bread-and-butter of their growth strategy. Unfortunately, developing new products is a time-consuming and costly endeavor, with tremendous challenges. The new product development process becomes especially a major headache for multinational organizations that try to coordinate the process on a regional or sometimes even worldwide basis. The steps to be followed in the global new product development (NPD) process are by-and-large very similar to domestic marketing situations. In this section, we will focus on the unique aspects that take place when innovation efforts are implemented on a global scope. Global Perspective 10-3 describes the development of so-called vitamin-fortified beverages that target youngsters in developing nations.

Identifying New Product Ideas Every new product starts with an idea. Sources for new product ideas are manifold. Companies can tap into any of the so-called 4 C's—company, customers, competition and collaborators (e.g., distribution channels, suppliers)—for creative new product ideas. Obviously, many successful new products originally started at the R&D labs. Other internal sources include salespeople, employees, and market researchers. Multinational companies often capitalize on their global know-how by transplanting new product ideas that were successful in one country to other markets. A good example of this practice is the Dockers line of casual slacks. This product was introduced in Japan by Levi Strauss Japan in 1985. The line became incredibly successful in Japan. As a result, Levi Strauss subsequently decided to launch the line also in the United States and Europe as well. A good source to spot new product ideas is the competition. The Global New Product Database (GNPD) set up by the Mintel International can be useful resource in this regard (http://www.gnpd.com/sinatra/gnpd/frontpage/). This database monitors new product introductions for 39 consumer packaged goods categories42 in 48 countries worldwide. The service sends out regular e-mail alerts to its clients about products launched by competitors around the world. These days many MNCs create organizational structures to foster global (or regional) product development. Unilever set up a network of worldwide innovation
centers (ICs) for personal care and food products. Each IC unit consists of marketing, advertising agency, and technical people and is headed by the company chairman of the
country subsidiary where the IC is based. The centers are responsible for developing product ideas and research, technology, and marketing expertise. Black & Decker sets up business teams to develop global products. Each team is headed by a Product General Manager and has representatives from the various geographic regions. The charter of the teams is to develop new products with ''the right degree of commonality and the right amount of local market uniqueness.'' Project leadership is assigned to that country or region that has a dominant category share position.

Idea Screening

Clearly not all new product ideas are winners. Once new product ideas have been identified, they need to be screened. The goal here is to weed out ideas with little potential. This filtering process can take the form of a formal scoring model. One example of a scoring model is NewProd, which was based on almost two hundred projects from a hundred companies.44 Each of the projects was rated by managers on about 50 screening criteria and judged in terms of its commercial success. The model has been validated in North America, Scandinavia, and the Netherlands. According to the NewProd model the most important success factor is product advantage (superiority to competing products, higher quality, and unique features), followed by a good fit between the project requirements and the company's resources/skills, and customer needs. Studies that interviewed Chinese46 and Japanese47 product managers reinforced the major role of product advantage in screening new product winners from losers. However, the study done in China also showed that:

- Competitive activity was negatively correlated with new product success.

- Being first in the market (pioneer entry) was an important success factor.
- Product ideas derived from the market place were much more likely to be successful than ideas that came from technical work or in-house labs.

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A large-scale research study conducted by researchers at the University of North Carolina looked at the key drivers of first-year consumer acceptance of new packaged. The researchers analyzed a database that covered 301 new products launched in Germany, the U.K., France, and Spain. Some of the main findings include:

- Consumer acceptance is greater when the product is introduced by a brand with more market power (e.g., market support, distribution coverage, shelf space amount and quality) and when marketed as a brand extension.
- There is a U-shaped relation between newness and consumer acceptance. Products with incremental or major newness are more successful than products of medium newness.
- New product acceptance is also highly influenced by the competitive environment: it is higher in less concentrated, less heavily promoted, and less advertised categories and in categories with more intense innovation rivalry.
- Competitive conduct (e.g. price competition), however, is more important than competitive structure (e.g. market concentration).
- Further, the firm’s brand reputation and product newness can buffer against negative competitive effects.
- Consumer characteristics also matter: acceptance is higher among consumers who are more predisposed to buy new products, younger consumers, and larger households.

Concept Testing

Once the merits of a new product idea have been established in the previous stage, it must be translated into a product concept. A product concept is a fairly detailed description, verbally or sometimes visually, of the new product or service. To assess the appeal of the product concept, companies often rely on focus group discussions. Focus groups are a small group of prospective customers, typically with one moderator. The focus group members discuss the likes and dislikes of the proposed product and the current competing offerings. They also state their willingness to buy the new product if it were to be launched in the market (see Chapter 6 for a more detailed discussion of focus group research). Other more sophisticated tools exist to test out and further refine new product concepts. One such tool that has gained wide popularity in the last few decades is conjoint analysis(sometimes also referred to astradeoff analysis).49The appendix in this chapterillustrates the use of conjoint analysis in global new product development with a hypothetical example. Clearly, the results of product concept testing should be treated with the same amount of caution as the predictions of a fortune teller (if not even much more). Prior to launching Red Bull, Dietrich Mateschitz, the beverage brand’s founder, tested out the concept: ‘‘People didn’t believe the taste, the logo, the brand name . . . a disaster

TEST MARKETING

In many Western countries, test marketing of new products before the full-fledged rollout is the norm for most consumer goods industries. Test marketing is essentially a field experiment where the new product is marketed in a select set of cities to assess its sales potential and scores of other performance measures. In a sense, a test market is the dress rehearsal prior to the product launch (assuming the test market results support a ‘‘GO’’ decision). There are several reasons why companies would like to run a test market before the rollout. It allows them to make fairly accurate projections of the market share, sales volume, and penetration of the new product. In countries where household scanning panels are available, firms can also get insights into likely trial, repeat purchase, and usage rates for the product. Another boon of test marketing is that companies can contrast competing marketing mix strategies to decide which one is most promising in achieving the firm’s objectives. Despite these merits, test markets also have several shortcomings. They are typically very time-consuming and costly. Apart from the direct costs of running the test markets, there is also the opportunity cost of lost sales that the company would have achieved during the test market period in case of a successful global rollout. Moreover, test market results can be misleading. It may be difficult to replicate test market conditions with the final rollout. For instance, certain communication options that were available in the test market cities are not always accessible in the entire final target markets. Finally, there is also a strategic concern: test markets might alert your competitors and thereby allow them to pre-empt you. In light of these drawbacks, MNCs often prefer to skip the test market stage. Instead they use a market simulation or immediately launch the new product (one survey done in the 1990s indicated that pan-European financial institutions conducted test markets less than 20 percent of the time51). One alternative to test marketing is the laboratory test market. Prospective customers are contacted and shown commercials for the new item and existing competing brands. After the viewing, they are given a small amount of money and are invited to make a purchase in the product category in a simulated store setting (‘‘lab’’). Hopefully, some of the prospects will pick your new product. Those who purchase the new product take it home and consume it. Those who choose a competing brand are given a sample of the new product. After a couple of weeks the subjects are contacted again via the phone. They are asked to state their attitude toward the new item in terms of likes and dislikes, satisfaction, and whether they would be willing to buy the product again. Such procedures, although relatively cheap, still give valuable insights about the likely trial and repeat buying rates, usage, and customer satisfaction for the new product, price sensitivities, and the effectiveness of sampling. The collected data are often used as inputs for a marketing computer simulation model to answer ‘‘what if’’ questions. Another route that is often taken is to rely on the sales performance of the product in one country, the lead market, to project sales figures in other countries that are considered for a launching decision. In a sense, an entire country is used as one big test market. One practitioner of this approach is Colgate-Palmolive. For example, it used Thailand as a bellwether for the worldwide introduction of Nouriche, a treatment shampoo.52 Thailand was chosen as a springboard because of the size and growth potential of its hair-care market. BMW used Australia as a global test market for a chain of BMW Lifestyle concept stores selling accessories (e.g., wallets, garments) under the BMW brand name. The concept is a way of keeping in touch with BMW customers to build a long-term relationship.53 McCafe, McDonald’s chain of upmarket coffee shops, is another good example. The first McCafe was launched in Australia in 1993. Restaurants with a McCafe generated 15 percent more revenue than regular ones. By 2003

McCafe had become the largest coffee shop brand in Australia and New Zealand. In light of the concept's success, the company introduced it in other countries around the world including the United States (2001) and Japan (2007). By 2008 there were 1,300 McCafe outlets worldwide.54 Other recent instances of the use of an entire
country as a test market are summarized in Exhibit 10-4. Using a country as a test market for other markets raises several issues. How many countries should be selected? What countries should be used? To what degree can sales experience gleaned from one country be projected to other countries? Generally speaking, cross-cultural and other environmental differences (e.g., the competitive climate) turn cross-country projections into a risky venture. The practice is only recommendable when the new product targets cross-border segments.

COMMERCIALIZATION

If the company goes ahead with commercialization, it will face its largest costs to date. The company will have to contract for manufacture or build or rent a full-scale manufacturing
facility. Plant size will be a critical decision. The company may choose to build a smaller plant than called for by the sales forecast, to be on the safe side. Quaker Oats did this when it launched its 100 Percent Natural breakfast cereal. Unfortunately, demand so exceeded the company's sales forecast that for about a year it could not supply enough product to the stores. Although Quaker Oats was gratified with the response, the low forecast cost it a considerable amount of profit. In addition to promotional decisions, other major decisions during this stage include:

1. When (timing). Marketing timing is critical. If a firm learns that a competitor is nearing the end of its development work, it can choose: first entry (being first to market, locking up key distributors and customers, and gaining reputational leadership; however, if the product is not thoroughly debugged, it can acquire a flawed image); parallel entry (launching at the same time as a rival may gain both products more attention from the market); or late entry (waiting until after a competitor has entered lets the competitor bear the cost of educating the market and may reveal problems to avoid).
2. Where (geographic strategy). The company must decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. Smaller companies often select one city for a blitz campaign, entering other cities one at a time; in contrast, large companies usually launch within a whole region and then move to the next region, although companies with national distribution generally launch new models nationally. Firms are increasingly rolling out new products simultaneously across the globe, which raises new challenges in coordinating activities and obtaining agreement on strategy and tactics.
3. To whom (target-market prospects). Within the rollout markets, the company must target its initial distribution and promotion to the best prospect groups. Presumably, the company has already profiled the prime prospects—who would ideally be early adopters, heavy users, and opinion leaders who are able to be reached at a low cost.16 The company should rate the various prospect groups on these characteristics and then target the best prospect group to generate strong sales as soon as possible, motivate the sales force, and attract further prospects.
4. How (introductory market strategy). The company must develop an action plan for introducing the new product into the rollout markets. To coordinate the many activities involved in launching a new product, management can use network planning techniques

such as critical path scheduling (CPS), which uses a master chart to show the simultaneous and sequential activities that must take place to launch the product. By estimating how much time each activity takes, the planners can estimate the project's completion time. A delay in any activity on the critical path will delay the entire project

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Product Life Cycle

The Concept of the Product Life Cycle

To say that a product has a life cycle is to assert four things: (1) Products have a limited life; (2) product sales pass through distinct stages with different challenges, opportunities, and problems for the seller; (3) profits rise and fall at different stages of the product life cycle; and (4) products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each stage. Most product lifecycle curves are portrayed as a bell-shape (Figure 3-11). This PLC curve is typically divided into four stages:20

1. Introduction: A period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses incurred with product introduction.
2. Growth: A period of rapid market acceptance and substantial profit improvement.
3. Maturity: A period of a slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. Decline: The period when sales show a downward drift and profits erode. Table 3.7 summarizes the characteristics, objectives, and strategies associated with each stage.

Marketing Strategies: Introduction Stage Because it takes time to roll out a new product and fill dealer pipelines, sales growth tends to be slow at this stage. Buzzell identified several causes for the slow growth: delays in the expansion of production capacity, technical problems ("working out the bugs"), delays in obtaining adequate distribution through retail outlets, and customer reluctance to change established behaviors.21 Sales of expensive new products are retarded by additional factors such as product complexity and fewer buyers. Profits are negative or low in the introduction stage because of low sales and heavy distribution and promotion expenses. Much money is needed to attract distributors. Promotional expenditures are high because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution. Firms focus their selling on those buyers who are the readiest to buy, usually higher-income groups. Prices tend to be high because costs are high due to relatively low output rates, technological problems in production, and high required margins to support the heavy promotional expenditures. Companies must decide when to enter the market with a new product. Most studies indicate that the market pioneer gains the most advantage. Such pioneers as Amazon.com, Cisco, Coca-Cola, eBay, Eastman Kodak, Hallmark, Microsoft, Peapod.com, and Xerox developed sustained market dominance. However, the pioneer advantage is not inevitable. Schnaars studied 28 industries in which the imitators surpassed the innovators and found several weaknesses among
the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering

lower prices, improving the product more continuously, or using brute market power to overtake the pioneer.22 As one example, Apple's Newton, the first handheld personal digital assistant, failed because it could not decipher the handwriting of users consistently. In contrast, imitator Palm Pilot's smaller, more advanced product was enormously successful because it allowed users to input information with a few standardized strokes of the stylus.23

Still, the pioneer knows that competition will eventually enter the market and charge a lower price, which will force the pioneer to lower prices. As competition and market share stabilize, buyers will no longer pay a price premium; some competitors will withdraw at this point, and the pioneer can then build share if it chooses.

Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales, as DVD players are currently experiencing.25 Early adopters like the product, and additional consumers start buying it. Attracted by the opportunities, new competitors enter with new product features and expanded distribution. Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain or increase their promotional expenditures to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion-sales ratio. Profits increase during this stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the producer learning effect. During this stage, the firm uses several strategies to sustain rapid market growth as long as possible: (1) improving product quality and adding new product features and improved styling; (2) adding new models and flanker products; (3) entering new market segments; (4) increasing distribution coverage and entering new distribution channels; (5) shifting from product-awareness advertising to product-preference advertising; and (6) lowering prices to attract the next layer of price-sensitive buyers.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages, and poses formidable challenges to marketing management. Most products are in the maturity stage of the life cycle, an Three strategies for the maturity stage are market modification, product modification, and marketing-mix modification:

a) Market modification. The company might try to expand the market for its mature brand by working to expand the number of brand users. This is accomplished by (1) converting nonusers; (2) entering new market segments (as Johnson & Johnson did when promoting baby shampoo for adult use); or (3) winning competitors' customers (the way Pepsi-Cola tries to woo away Coca-Cola users). Volume can also be increased by convincing current brand users to increase their usage of the brand.

b) Product modification. Managers try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement. Quality improvement aims at increasing the product's functional performance—its durability, reliability, speed, taste. New features build the company's image as an innovator and win the loyalty of market segments that value these features; this is why America Online regularly introduces new versions of its Internet software. However, feature improvements are easily imitated; unless there is a permanent gain from being first, the feature improvement might not pay off inthe long run.26

c) Marketing-mix modification. Product managers can try to stimulate sales by modifying other marketing-mix elements such as prices, distribution, advertising, sales promotion, personal selling, and services. For example, Goodyear boosted its market share from 14 to 16 percent in 1 year when it began selling tires through Wal-Mart, Sears, and Discount Tire.27 Sales promotion has more impact at this stage because consumers have reached an equilibrium in their buying patterns, and psychological persuasion (advertising) is not as effective as financial persuasion (sales-promotion deals). However, excessive sales-promotion activity can hurt the brand's image and long-run profit performance. In addition, price reductions and many other marketing-mix changes are easily imitated. The firm may not gain as much as expected, and all firms might experience profit erosion as they step up
their marketing attacks on each other.

Marketing Strategies: Decline Stage

The sales of most product forms and brands eventually decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All of these factors lead ultimately to overcapacity, increased price cutting, and profit erosion. As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budget and reduce their prices further. In a study of company strategies in declining industries, Harrigan identified five possible decline strategies:

1. Increasing the firm's investment (to dominate the market or strengthen its competitive position);
2. Maintaining the firm's investment level until the uncertainties about the industry are resolved;
3. Decreasing the firm's investment level selectively, by dropping unprofitable customer groups, while simultaneously strengthening the firm's investment in lucrative niches;
4. Harvesting ("milking") the firm's investment to recover cash quickly; and
5. Divesting the business quickly by disposing of its assets as advantageously as possible. The appropriate decline strategy depends on the industry's relative attractiveness and the company's competitive strength in that industry. Procter & Gamble has, on a number of occasions, successfully restaged disappointing brands that were competing in strong markets. One example is its "not oily" hand cream called Wondra, which came packaged in an inverted bottle so the cream would flow out from the bottom. Although initial sales were high, repeat purchases were disappointing. Consumers complained that the bottom got sticky and that "not oily" suggested itwould not work well. P&G carried out two restagings for this product: First, it reintroduced Wondra in an upright bottle, and later, it reformulated the ingredients so they would work better. Sales then picked up. If the company were choosing between harvesting and divesting, its strategies would be quite different. Harvesting calls for gradually reducing a product's or business's costs while trying to maintain its sales. The first costs to cut are R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures. It would try to cut these costs without letting customers, competitors, and employees know what is happening. Harvesting is an ethically ambivalent strategy, and it is also difficult to execute. Yet harvesting can substantially increase the company's current cash flow.

Critique of the Product Life-Cycle Concept

The PLC concept is best used to interpret product and market dynamics. As a planning tool, this concept helps managers characterize the main marketing challenges in each stage of a product's life and develop major alternative marketing strategies. As a control tool, this concept helps the company measure product performance against similar products launched in the past. The PLC concept is less useful as a forecasting tool because sales histories exhibit diverse patterns, and the stages vary in duration. Critics claim that life-cycle patterns are too variable in their shape and duration. They also say that marketers can seldom tell what stage the product is in: A product may appear to be mature when it is actually only in a plateau prior to another upsurge. One final criticism is that the PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow. For example, when Borden owned Eagle Brand Sweetened Condensed Milk, its marketing positioned this mature product as a key ingredient in favorite holiday recipes. When the brand was sold to Eagle Family Foods, however, the new brand manager was able to boost sales with an ad campaign educating consumers on the wider range of uses for condensed milk.30 Savvy marketers are therefore careful when using the PLC concept to analyze their products and markets.

PACKAGING AND LABELLING

PACKAGING AND LABELING

Most physical products have to be packaged and labeled. Some packages—such as the Coke bottle—are world famous. Many marketers have called packaging a fifth P, along with price, product, place, and promotion; however, packaging and labeling are usually treated as an element of product strategy.

Packaging

Packaging includes the activities of designing and producing the container for a product. The container is called the package, and it might include up to three levels of material. Old Spice aftershave lotion is in a bottle (primary package) that is in a cardboard box (secondary package) that is in a corrugated box (shipping package) containing six dozen boxes of Old Spice. The following factors have contributed to packaging's growing use as a potent marketing tool:

➢ Self-service: The typical supermarket shopper passes by some 300 items per minute. Given that 53 percent of all purchases are made on impulse, an effective package attracts attention, describes features, creates confidence, and makes a favourable impression.

➢ Consumer affluence: Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages.

➢ Company and brand image: Packages contribute to instant recognition of the company or brand. Campbell Soup estimates that the average shopper sees its red and white can 76 times a year, the equivalent of $26 million worth of advertising.

➢ Innovation opportunity: Innovative packaging can bring benefits to consumers and profits to producers. Toothpaste pump dispensers, for example, have captured 12 percent of the toothpaste market because they are more convenient and less messy.

Developing an effective package for a new product requires several decisions. The first task is to establish the packaging concept, defining what the package should basically be or do for the particular product. Then decisions must be made on additional elements—size, shape, materials, color, text, and brand mark, plus the use of any "tamperproof" devices. All packaging elements must be in harmony and, in turn, must harmonize with the product's pricing, advertising, and other marketing elements. Next come engineering tests to ensure that the package stands up under normal conditions; visual tests, to ensure that the script is legible and the colors harmonious; dealer tests, to ensure that dealers find the packages attractive and easy to handle; and, finally, consumer tests, to ensure favorable response.

Tetra Pak, a major Swedish multinational, provides an example of the power of innovative packaging and customer orientation. The firm invented an "aseptic" package that enables milk, fruit juice, and other perishable liquid foods to be distributed without refrigeration. This allows dairies to distribute milk over a wider area without investing in refrigerated trucks and facilities. Supermarkets can carry Tetra Pak pack aged products on ordinary shelves, which aves expensive refrigerator space. The firm's motto is "the package should save more than it costs."

Labeling Every physical product must carry a label, which may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. Labels perform several functions. First, the label identifies the product or brand—for instance, the name Sunkist stamped on oranges. The label might also grade the product, the way canned peaches are grade labeled A, B, and C. The label might describe the product: who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely. Finally, the label might promote the product through attractive graphics. Labels eventually become outmoded and need freshening up. The label on Ivory soap has been redone 18 times since the 1890s, with gradual changes in the size and design of the letters. The label on Orange Crush soft drink was substantially changed when competitors' labels began to picture fresh fruits, thereby pulling in more sales. In response, Orange Crush developed a label with new symbols to suggest freshness and with much stronger and deeper colors. Legal concerns about labels and packaging stretch back to the early 1900s and continue today. The Food and Drug Administration (FDA) recently took action against the potentially misleading use of such descriptions as "light," "high fiber," and "low fat." Meanwhile, consumerists are lobbying for additional labeling laws to require open dating (to describe product freshness), unit pricing (to state the product cost in standard measurement units), grade labeling (to rate the quality level), and percentage labeling (to show the percentage of each important ingredient). Some tangible products that incorporate packaging and labels also involve some service component, such as delivery or installation. Therefore, marketers must be skilful not only in managing product lines and brands, but also in designing and managing services—the subject of the next chapter.

EXECUTIVE SUMMARY

Planning the product portion of a market offering calls for coordinated decisions on the product mix, product lines, brands, and packaging and labeling. The marketer needs to think through the five levels of the product: core benefit (the fundamental benefit or service the customer is really buying), basic product, expected product (a set of attributes that buyers expect), augmented product (additional services and benefits that distinguish the company's offer from the competition), and potential product (all of the augmentations and transformations the product might ultimately undergo). Products can be classified in several ways. In terms of durability and reliability, products can be nondurable goods, durable goods, or services. In the consumer-goods category are convenience goods, shopping goods, specialty goods, and unsought goods. In the industrial-goods category are materials and parts, capital items, and supplies and business services. A product mix is the set of all products and items offered for sale by the marketer. This mix can be classified according to width, length, depth, and consistency, providing four

dimensions for developing the company's marketing strategy. To support product decisions, product-line managers first analyze each product's sales, profits, and market profile. Managers can then change their product-line strategy by line stretching or line filling, by featuring certain products, and by pruning to eliminate some products. Branding is a major product-strategy issue. High brand equity translates into
high brand-name recognition, high perceived brand quality, strong mental associations, and other important assets. In creating brand strategy, firms must decide whether or not to brand; whether to produce manufacturer brands, or distributor or private brands; which brand name to use, and whether to use line extensions, brand extensions, multibrands, new brands, or co-brands. The best brand names suggest something about the product's benefits; suggest product qualities; are easy to pronounce, recognize, and remember; are distinctive; and do not carry negative meanings or connotations in other countries or languages. Many physical products have to be packaged and labeled. Well-designed packages create convenience value for customers and promotional value for producers. Marketers start by developing a packaging concept and then testing it functionally and psychologically to make sure it achieves its desired objectives and is compatible with public policy and environmental concerns. Physical products also require labeling for identification and possible grading, description, and product promotion.

BCG and GE

Establishing Strategic Business Units

A business can be defined in terms of three dimensions: customer groups, customer needs,
and technology.6 For example, a company that defines its business as designing incandescent lighting systems for television studios would have television studios as its customer group; lighting as its customer need; and incandescent lighting as its technology. In line with Levitt's argument that market definitions of a business are superior to product definitions,7 these three dimensions describe the business in terms of a customer-satisfying process, not a goods-producing process. Thus, Xerox's product definition would be "We make copying equipment," while its market definition would be "We help improve office productivity." Similarly, Missouri-Pacific Railroad's product definition would be "We run a railroad," while its market definition would be "We are a people-and-goods mover." Large companies normally manage quite different businesses, each requiring its own strategy; General Electric, as one example, has established 49 strategic business units (SBUs). An SBU has three characteristics: (1) It is a single business or collection of related businesses that can be planned separately from the rest of the company; (2) it has its own set of competitors; and (3) it has a manager responsible for strategic planning and profit performance who controls most of the factors affecting profit. Assigning Resources to SBUs The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding to the entire business portfolio. Senior managers generally apply analytical tools to classify all of their SBUs according to profit potential. Two of the best-known business portfolio evaluation models are the Boston Consulting Group model and the General Electric model.8

The Boston Consulting Group Approach

The Boston Consulting Group (BCG), a leading management consulting firm, developed and popularized the growth-share matrix shown in Figure 1-5. The eight circles represent the current sizes and positions of eight business units in a hypothetical company. The dollar-volume size of each business is proportional to the circle's area. Thus, the two largest businesses are 5 and 6.

The location of each business unit indicates its market growth rate and relative market share. The market growth rate on the vertical axis indicates the annual growth rate of the market in which the business operates. Relative market share, which is measured on the horizontal axis, refers to the SBU's market share relative to that of its largest competitor in the segment. It serves as a measure of the company's strength in the relevant market segment. The growth-share matrix is divided into four cells, each indicating a different type of business:

- ➢ Question marks are businesses that operate in high-growth markets but have low relative market shares. Most businesses start off as question marks as the company tries to enter a high-growth market in which there is already a market leader. A question mark requires a lot of cash because the company is spending money on plant, equipment, and personnel. The term question mark is appropriate because the company has to think hard about whether to keep pouring money into this business.
- ➢ Stars are market leaders in a high-growth market. A star was once a question mark, but it does not necessarily produce positive cash flow; the company must still spend to keep up with the high market growth and fight off competition.
- ➢ Cash cows are former stars with the largest relative market share in a slow-growth market. A cash cow produces a lot of cash for the company (due to economies of scale and higher profit margins), paying the company's bills and supporting its other businesses.
- ➢ Dogs are businesses with weak market shares in low-growth markets; typically, these generate low profits or even losses.

After plotting its various businesses in the growth-share matrix, a company must determine whether the portfolio is healthy. An unbalanced portfolio would have too many dogs or question marks or too few stars and cash cows. The next task is to determine what objective, strategy, and budget to assign to each SBU. Four strategies can be pursued:

1. Build: The objective here is to increase market share, even forgoing short-term earnings to achieve this objective if necessary. Building is appropriate for question marks whose market shares must grow if they are to become stars.
2. Hold: The objective in a hold strategy is to preserve market share, an appropriate strategy for strong cash cows if they are to continue yielding a large positive cash flow.
3. Harvest: The objective here is to increase short-term cash flow regardless of long-term effect. Harvesting involves a decision to withdraw from a business by implementing a program of continuous cost retrenchment. The hope is to reduce costs faster than any potential drop in sales, thus boosting cash flow. This strategy is appropriate for weak cash cows whose future is dim and from which more cash flow is needed. Harvesting can also be used with question marks and dogs.
4. Divest: The objective is to sell or liquidate the business because the resources can be better used elsewhere. This is appropriate for dogs and question marks that are dragging down company profits. Successful SBUs move through a life cycle, starting as question marks and becoming stars, then cash cows, and finally dogs. Given this life-cycle movement, companies should be aware not only of their SBUs' current positions in the growth-share matrix (as in a snapshot), but also of their moving positions (as in a motion picture). If an SBU's expected future trajectory is not satisfactory, the corporation will need to work out a new strategy to improve the likely trajectory.

The General Electric Model

An SBU's appropriate objective cannot be determined solely by its position in the growth-share matrix. If additional factors are considered, the growth-share matrix can be seen as a special case of a multifactor portfolio matrix that General Electric (GE) pioneered. In this model, each business is rated in terms of two major dimensions— market attractiveness and business strength. These two factors make excellent marketing sense for rating a business. Companies are successful to the extent that they enter attractive markets and possess the required business strengths to succeed in those markets. If one of these factors is missing, the business will not produce outstanding results. Neither a strong company operating in an unattractive market nor a weak company operating in an attractive market will do well.

Using these two dimensions, the GE matrix is divided into nine cells, as shown in Figure 1-6. The three cells in the upper-left corner indicate strong SBUs suitable for investment or growth. The diagonal cells stretching from the lower left to the upper right indicate SBUs of medium attractiveness; these should be pursued selectively and managed for earnings. The three cells in the lower-right corner indicate SBUs low in overall attractiveness, which the company may want to harvest or divest.9 In addition to identifying each SBU's current position on the matrix, management should also forecast its expected position over the next 3 to 5 years. Making this determination involves analyzing product life cycle, expected competitor strategies, new technologies, economic events, and so on. Again, the purpose is to see where SBUs are as well as where they appear to be headed. Critique of Portfolio Models

Both the BCG and GE portfolio models have a number of benefits. They can help managers think more strategically, better understand the economics of their SBUs, improve the quality of their plans, improve communication between SBU and corporate management, identify important issues, eliminate weaker SBUs, and strengthen their investment in more promising SBUs. However, portfolio models must be used cautiously. They may lead a firm to overemphasize market-share growth and entry into high-growth businesses or to neglect its current businesses. Also, the models' results are sensitive to ratings and weights and can be manipulated to produce a desired location in the matrix. Finally, the models fail to delineate the synergies between two or more businesses, which mean that making decisions for one business at a time might be risky. There is a danger of terminating a losing SBU that actually provides an essential core competence needed by several other business units. Overall, though, portfolio models have improved managers' analytical and strategic capabilities and allowed them to make better decisions than they could with mere impressions.
