



## **CAREERS IN MARKETING**

### **SPRINT CORPORATION**

The Brown Telephone Company was formed in 1899 to provide local telephone service to communities in Kansas. It became Sprint Corporation in 1992. Over the years, the company has focused on being a technology leader. Sprint was a pioneer in the use of fiber-optic cable and digital switches.

Sprint's Asia Business Development Manager is responsible for product expansion in assigned countries. The manager gathers competitive intelligence, checks the economic, technological, and operational feasibility of ideas, and develops partnership relationships with other businesses.

The Manager needs a college degree in business, management, or engineering and five years' experience in the telecommunications industry. Financial and business analysis skills are essential as well as leadership, entrepreneurial, and negotiation skills. The manager needs to be fluent in English and the languages of the assigned countries.

#### **THINK CRITICALLY**

1. How do you think Sprint has been able to maintain its success?
2. What would you find interesting and challenging about the position of Business Development Manager?

# **CHAPTER**

# **3**

## **PLAN PRODUCTS AND SERVICES**

### **LESSONS**

### **3.1 THE PRODUCT**

### **3.2 PRODUCT PLANNING**

### **3.3 PRODUCT LIFE CYCLES**

### **3.4 EFFECTIVE SERVICES**



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# CHAPTER 2

- 23.** Why do businesses often continue to use the same supplier to buy products and services? What might cause them to change suppliers?

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## MAKE CONNECTIONS

- 24. RESEARCH** Outline the procedure a marketing researcher would follow in determining the most effective brand name for a new product. Try to organize the procedure within the five steps of the scientific decision-making process. Does it appear that the scientific decision-making process is an effective procedure for marketing research? Why or why not? Prepare your outline and answer using word-processing software.
- 25. BUSINESS MATH** A purchasing agent has been given the following information to complete an order. Enter the information into a spreadsheet. Determine the cost of each product and the total cost of the order.

Product	Price/Unit	Numbered Ordered	Cost
Plastic tubes	\$1.20/doz.	88 doz.	<hr/>
Glassware	\$33.50/case	22 cases	<hr/>
Paper	\$4.65/ream	350 reams	<hr/>
Blank CDs	\$18.00/hundred	6,000 CDs	<hr/>
Manuals	\$3.80 each	135 units	<hr/>
Total Cost			<hr/>

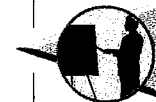
- 26. ART** Select a product to analyze. Determine the marketing mix that is being used by the company for the product. Using poster board or a graphics programs on a computer, create a picture or collage that illustrates each of the elements of the marketing mix. Present your graphic in class.
- 27. TECHNOLOGY** The Internet is used as a way for businesses to conduct customer surveys as a part of their marketing research. Find an example of an online marketing research survey. Print a copy of the survey. Review the survey to determine the type of information the business is collecting. Discuss with your class how you think the information collected can be used by the business to improve marketing decisions.

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# VIDEO

The Chapter 3 video for this module introduces the concepts in this chapter.

## PROJECT

# Develop Products

### PROJECT OBJECTIVES

- Identify how customer needs influence product development
- Describe sources of new product ideas
- Analyze a new product to determine factors influencing its success
- Identify ways to provide effective services

### GETTING STARTED

Read through the Project Process below. Make a list of materials and information you will need. Decide how you will get the needed materials or information.

### PROJECT PROCESS

- Part 1 LESSON 3.1** Work in small groups to develop a questionnaire. The purpose of the questionnaire is to obtain feedback from customers on a company's products. Prepare at least 10 questions that help to determine what the customer likes and dislikes about the product, how it compares to other products, and what improvements they would like to see.
- Part 2 LESSON 3.2** In your groups, brainstorm ideas for improvements to existing products. Then brainstorm ideas for brand new products. After you complete the lists, share them with the other groups in your class. As a class, use a ranking procedure to identify the five product improvement ideas and five new product ideas you think have the greatest chance for success.
- Part 3 LESSON 3.3** Use the Internet to identify a new consumer product that has been introduced within the past two years. List two competitive brands for the new product. List the similarities and differences among the three brands. Identify advantages you think the new product offers to consumers compared to existing brands.
- Part 4 LESSON 3.4** Identify a service provided by a business in your community that you think is provided very well. Then identify another service that you think is not provided well. Compare the two and develop a list of factors that justify your decision about the quality of the services.

### CHAPTER REVIEW

**Project Wrap-up** Discuss product and service development with other class members. Prepare a list of recommendations you would provide to companies to help them develop successful new products and services.

## LESSON 3.1

# THE PRODUCT

## GOALS

DESCRIBE business and customer views of products

IDENTIFY the components of the product mix element



## WHAT IS A PRODUCT?

**A** product or service is usually the focus of exchange activities between customers and businesses. It is the marketing mix element that most businesses consider first when planning a marketing strategy. It also is the first consideration for consumers as they determine what they plan to purchase.

A product is all the attributes, both tangible and intangible, that a business offers to customers in exchange for their money. Businesses produce products and services they think customers will want to buy in order to make a profit. Customers exchange money with businesses in order to obtain the products and services they want. Businesses and consumers have very different views of this important mix element.

## ON THE SCENE

**T**he Geofase Company is a small manufacturer of specialty athletic footwear. It makes and sells footwear for wrestlers, gymnasts, fencers, and swimmers. Other athletic shoe manufacturers are selling their products to the general public as "designer" footwear by changing designs, fabrics, and colors. Designer shoes often sell for a much higher price than traditional athletic shoes. The Geofase Company wonders if it can compete in this new market. It will cost money to develop and produce the new designs. But the higher prices and broader market could result in greater profits for the company. What information do you think Geofase needs to make the decision? What factors will influence its success with the new products?

## BUSINESS AND CONSUMER VIEW OF PRODUCTS

Businesses tend to focus on the physical characteristics of the products they sell. They use people and resources to produce products. They want to produce a good product that will be competitive and result in a profit when sold. They are concerned about how their product differs from the products of competitors, how they can improve it, or how to produce it more efficiently.

Consumers are most concerned about their wants and needs. They view products as solutions. A CD or movie provides entertainment. A new clothing purchase enhances self-image. Consumers are seldom concerned about how the product is produced or whether the seller will make a profit.

A good definition of **product** is anything offered to a market by the business to satisfy needs. That definition includes the business view of product—anything offered to a market by a business. It also includes the consumer view of a product—anything that satisfies needs. Businesses will be able to make a profit if they consider customer needs as they develop products.

## PRODUCT DECISIONS

Some customer needs are obvious and easy to identify, while others are difficult for businesses to recognize. Because of the variety of customer needs, the uses for products, and the number of competing companies producing and selling products, companies must plan products carefully. If companies produce the wrong products in the wrong quantities without the features and services customers need, they will have invested a great deal of time and money with no chance to sell the products at a profit. They will quickly lose out to competitors who make better product decisions.

Product planning for businesses involves deciding which customers to serve, determining their needs, and developing a satisfying product for that market. Because many companies compete to sell their products to the same customers, the business will need to offer a product that is different from—and better than—other choices available to the customer. It will need to be affordable and available at a time and location convenient for the customer. It should be accompanied by information that will help the customer understand why the company's product is the best choice.

## did you KNOW?

During the period of 1986 to 1996, the number of new products introduced in supermarkets grew from 12,500 to 26,000 per year. However, only about 8 percent were truly new. The rest were improvements to existing products.

## BUSINESS MATH CONNECTION

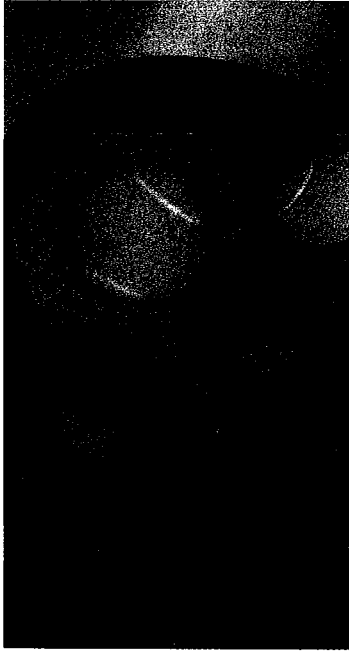
**B**usinesses calculate the *breakeven point* to determine the number of products they need to sell to cover their costs before they start making a profit. One product has fixed costs of \$83,500, no matter how many units are produced. It has variable costs of \$10.50 for each unit produced. The company plans to sell the product for \$54.00. How many products will it have to produce and sell to break even?

### SOLUTION

To find the breakeven point, divide the fixed costs by the selling price minus the variable costs. The breakeven point is 1,920 units.

Fixed costs ÷ (Selling price – Variable costs) = Breakeven point

$$\$83,500 \div (\$54.00 - \$10.50) = 1,919.54, \text{ or } 1,920 \text{ units}$$



## LEVELS OF PRODUCTS

In planning a product, businesses consider three levels—a basic product, an enhanced product, and an extended product. The *basic product* is the physical product in its simplest form. The basic product of one company will usually be very much like that of its competitors. The basic product must clearly meet a consumer need. An example is a tennis racket. Many companies produce and sell them, and it is obvious what the product is and what it is used for.

To make their product different from competitors' products and to meet specific needs of consumers, companies develop an enhanced product. An *enhanced product* adds features and options to the basic product. The tennis racket can be constructed of different materials, sizes, and weights. It may be strung or unstrung and offer choices of grips.

An *extended product* includes additional features that are not part of the physical product but increase its usability. Examples are customer service, guarantees, and information on effective use, and additional products that improve the use of the product. People who purchase a tennis racket may need bags, balls, wristbands, or instructional videos. The choices allow customers to get just the right products to meet specialized needs.

## CHECKPOINT

What are the levels of product a company considers when planning a new product?

## COMPONENTS OF THE PRODUCT

**D**ecisions about what to offer customers will potentially differ each time product planning decisions are made. They are based on what the customer wants and what the company is able to offer. In some cases, consumers in the target market want just the basic product. At other times they want a number of product features, services, and support in using the product.

**Basic Product** The basic product is the first factor considered in deciding whether or not to purchase. If the basic product is not viewed as need satisfying, the consumer will not consider it as a reasonable alternative. Services also can be the basic product in a marketing mix. Hair stylists, catering services, and accounting businesses all offer a basic service.

**Features** After the basic product or service is identified, businesses can add features. Most basic products are sold with a number of additional features. **Features** are added to improve the basic product. Consider all of the possible features on a product as simple as a wristwatch. It can display the month and day as well as times in multiple time zones. Some watches have a built-in calculator or stop-watch function. Watches can be waterproof and



shockproof. The cases and bands are made from various materials designed to make them more attractive, lightweight, or durable.

**Packaging** The primary purpose of *packaging* is to provide protection and security for the product during distribution. The package also can provide information about the product. Packages are used to promote the product through the use of color, shape, images, and information. Packaging can even make the product more useful for the consumer as with children's drink boxes with attached straws and window cleaners that attach to a garden hose.

**Support Services** If you purchase a computer, cellular telephone, or home entertainment system today, the salesperson will probably offer you a maintenance contract. The *maintenance contract* is a support service that will pay for repair work if the product fails to operate properly. Many times the services provided with a product make the product easier to use. Customers will want to purchase support services if they are concerned they will be unable to assemble or operate a product or if they want assistance in its use.

**Brand and Image** A **brand** is a name, symbol, word, or design that identifies a product, service, or company. A brand is very important to a company because it provides a unique identification for it and its offerings. There may be a few items that you will refuse to purchase unless you can find the brand you want. With other products you aren't even aware of the brand or are satisfied with one of several available brands.

One of the major reasons for brand loyalty is the image of the brand. The brand's **image** is a unique, memorable quality of a brand. Some brands have an image of quality, others of low price, and still others as innovative. Brand image must match the important needs of the consumer to be effective.

### INCREASE IN PRODUCT VALUE

When customers purchase products or services, they want to receive a good value. If the product is poorly constructed, will not work properly, or may wear out quickly, consumers may be unwilling to purchase it. Companies offer guarantees or warranties as insurance that the product will be repaired or replaced if there are problems. If a customer thinks a company will stand behind its products, they are more likely to purchase from that company.

Another way to add value is to increase the number of ways a product can be used. A classic example of expanding markets through new product uses is baking soda. Very few consumers bake their own bread today, so a baking soda manufacturer saw sales declining. The company conducted a consumer behavior study and found that consumers use baking soda for many other purposes. Some use it to freshen refrigerators, garbage disposals, and litter boxes for pets. Others use it to brush their teeth. Through promoting those and other uses, the company increased its sales dramatically.



Work in small groups to analyze three different products—one that costs less than \$5, one that costs between \$25 and \$100, and one that costs more than \$10,000. Prepare a chart for each product that identifies the basic product, features and options, related services, packaging features, brand and image, guarantees or warranties, and uses of the product. Compare your charts with those of other groups.

## CHECKPOINT

What are the components of the product mix element?



**THINK CRITICALLY**

1. Why is the product component usually the first to be considered by companies when they are developing a marketing mix?

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2. Why is an extended product important for some products but not for others?

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3. Why would a company add features to a product?

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4. For what types of purchases would a warranty be very important? Why?

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**MAKE CONNECTIONS**

5. **ADVERTISING** Use word-processing software to write an advertisement for a new brand of breakfast cereal bar. The product name is "All Day Energy" and the target market is 15- to 30-year-old males and females who are active, concerned about their fitness, yet have difficulty finding time to eat a complete breakfast.
6. **DEBATE** Some fast-food restaurants and cereal manufacturers give small toys and games to children with a food purchase. The purpose is to have children encourage their parents to buy the company's brand. Some people suggest that this results in purchases made for the wrong reasons. Organize a debate in your class using the following statement.

Companies should not be able to use unrelated products (games and toys) as an incentive to encourage the purchase of fast food and cereal for children.

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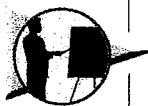
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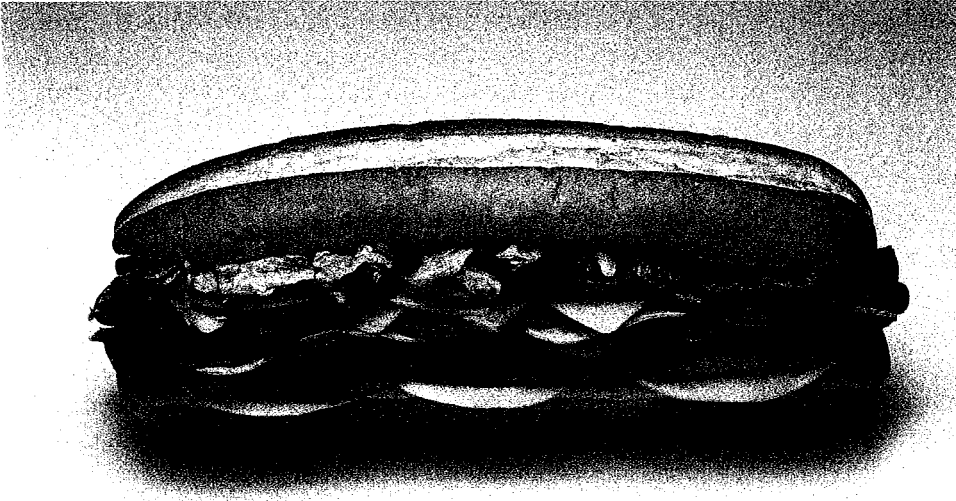


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## LESSON 3.2

## PRODUCT PLANNING



## GOALS

DESCRIBE ways that marketing is involved in new product development

IDENTIFY the steps in the product planning process

## THE PRODUCT PLANNING FUNCTION

**H**ow do new products get developed in a business and who is responsible? You may imagine inventors, engineers, or scientists working in laboratories. Certainly those people are actively involved in developing new product ideas. But they do not work alone. Companies that have a marketing orientation involve marketing personnel in the planning process.

One of the seven marketing functions is **product/service planning**, or assisting in the design and development of products and services that will meet the needs of prospective customers. The key parts of that definition are

## ON THE SCENE

**F**ast-food restaurants compete with each other and with full-service restaurants, delis, and supermarkets that sell prepared or ready-to-cook meals. Fast-food businesses are constantly searching for new products that will attract new customers or bring current customers into the restaurant more frequently. The foods must be relatively low cost and meet the tastes of many people. What new food items have fast-food restaurants successfully introduced in the past few years? What items have been introduced that were not successful? What do you think were the differences between the successful and unsuccessful products? How do you think the restaurants can identify new products that will be successful?

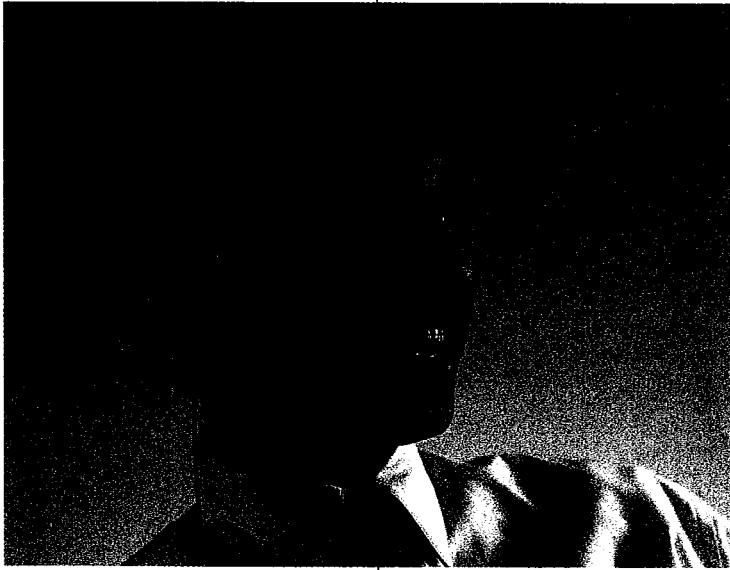
*assisting*, meaning that marketers work cooperatively with others in product development, and *meet the needs*, meaning that the products of a company are designed to satisfy customers.

### THE ROLE OF MARKETING

Put yourself in the position of a salesperson of a product for which the consumer does not see a need or a product that does not appear to be better than competing products. Your success depends on selling the product. You must

try to convince the customer the product is needed or that it is better than the competitors, even if it is not. That certainly is not easy and is probably not the right thing to do.

To avoid that problem, a company uses marketing as the eyes, ears, and mouth of the customer in a business. Marketing is the direct link between a business and its customers. Marketers work with customers every day, whether in selling, promotion, product distribution, marketing research, or the many other marketing activities that occur in a business. Because of that close contact, marketers are in a good position to understand customers. They know what they like and do not like, how they view competing products, and whether they are satisfied with current products.



### MARKETING AND PRODUCT PLANNING

Marketers represent the consumer in the business as products are designed and developed. There are three important roles for marketers in the product development process.

**Conduct Research** The most important role for marketing in product development is market research. Gathering market information, studying it, and providing the results to scientists, engineers, and others involved in new product development keeps the focus on consumer needs and competition rather than the perceptions of the people involved in planning. Through research, marketers can study the competition, identify target markets, review alternative product designs and features, and analyze several product choices.

Marketing departments that are actively involved in product planning usually develop and use a *marketing information system*. It allows the information from many sources to be collected, stored, and analyzed when needed to improve new product decisions. Sales data, salesperson and customer feedback, customer requests and complaints, and other information are included in a marketing information system.

**Develop the Marketing Mix** A new product is a part of a marketing strategy developed to achieve specific objectives. If the company's goal is to increase its share of a specific market, it might develop a different product than if the goal is to enter a market it has never competed in before. A new company that cannot risk failure with a new product may approach product development in a very different way than an experienced and profitable company.



A marketing strategy combines decisions about a target market and an appropriate marketing mix. The actual product is only one part of the strategy. Marketers participate in developing an effective strategy by helping identify possible target markets, determining company strengths and weaknesses, evaluating market positions, and suggesting alternative marketing mixes.

**Conduct Market Tests** After a product and the remaining parts of the marketing mix have been designed, marketers conduct tests to determine if the new product will be successful. There are several ways to test a new marketing mix. Some companies use test markets. A *test market* is a small, representative part of the total market. Companies introduce the new product in test markets before investing in the cost of entering the entire market.

Test marketing is very expensive, so other types of market tests are used. Companies form focus groups and other consumer panels to review product ideas and marketing mix choices. There are sophisticated computer programs that allow companies to simulate the marketing of products and determine expected levels of sales and profits.

## CHECKPOINT

Why is it important for marketers to be involved in new product development?

## NEW PRODUCT PLANNING

**M**ost companies follow a very careful process to identify and develop new products. The process is used to eliminate products that are not likely to be successful before the company spends too much money for production and marketing. The process also is used to make sure that the products meet an important market need, can be produced at a reasonable price, and will be competitive with other products in the market. There are six steps in the new product development process.

### IDEA DEVELOPMENT

Companies need an ongoing process to create and consider ideas for new products or product improvements. It is very difficult to find ideas for products that are really new. Developing new product ideas can be a very creative process. Tools such as brainstorming, creative thinking exercises, and problem solving are used to identify product ideas for testing.

Because products are developed to meet consumer needs, gathering information from consumers may generate ideas for new products. New product ideas can be developed from problems customers are having, what they don't like about current products, or the complaints they make to the company.

### IDEA SCREENING

The second step is to carefully screen all new product ideas to select those that have the greatest chance of being successful. Businesses ask specific questions to test the ideas, such as the following.

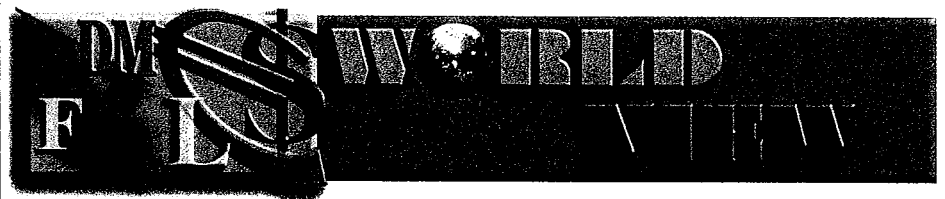
- Is there a specific market and adequate demand for the product?
- Is competition in the market favorable for the company?
- Does the company have resources to produce the product?
- Is the product legal and safe?
- Do the costs of producing and marketing the product present an opportunity for profitable sales?

### STRATEGY DEVELOPMENT

After determining that the product idea seems reasonable, the business creates and tests a sample marketing strategy. In this step, research is done to clearly identify an appropriate target market and insure that customers exist with the need and money for the product. Next, several alternative marketing mixes are analyzed to determine the possible combinations of product, distribution, price, and promotion. Based on that study, the best mix is selected. It is possible that the research in this step will determine that an effective mix cannot be developed, in which case the product idea would be dropped.

### FINANCIAL ANALYSIS

If research determines that a new product idea meets a market need and can be developed, the company will complete a detailed financial analysis. It will calculate costs of production and marketing, sales projections for the target market, and potential profits. Companies use computer models to help with financial analysis. The results of the analysis are matched against company goals and profit objectives to determine if the product should be developed and marketed.



### International Product Leadership

**C**ompanies must be cautious in recognizing the type of competition they face as they move into international markets. Often, businesspeople and consumers alike think businesses in their own countries are their primary competitors. However, specific countries have developed reputations as leaders in producing and marketing certain categories of products. The U.S. is recognized worldwide for its entertainment and movie industries. Japan has a reputation for producing quality automobiles. Argentina exports agricultural products. France is a leading headquarters for airplane production.

**THINK CRITICALLY** Why do businesspeople and consumers often fail to recognize the strong competition provided by businesses from other countries?



### PRODUCT DEVELOPMENT AND TESTING

Following this careful research and planning, the company develops the product. For a manufacturer, that means designing the production process, obtaining the needed equipment and materials, and training the production personnel. For very expensive or very risky products, the company may decide to develop a **prototype**, or sample, of the product. The prototype can be used to test quality and costs before moving to full-scale production.

### PRODUCT INTRODUCTION

After the product has been developed, the company prepares for its full-scale introduction. All of the marketing mix elements must be planned and implemented. Cooperating companies such as wholesalers, retailers, transportation companies, and advertising agencies need to be involved. Production levels must be high enough to have an adequate supply of the product available to meet the target market needs. Marketing personnel need to be prepared for their responsibilities. All of the activities must be coordinated and controlled by managers.

The company needs to be very cautious when preparing for the product introduction. It is possible that conditions will have changed, competitors may have anticipated the new product, or consumers will not respond in exactly the way predicted. Adjustments in the marketing strategy may be needed.



Identify a new product that might appeal to a target market of students in your school. Conduct a focus group of students outside your class to determine their interest in the new product. Based on their responses, outline a marketing mix that would meet the needs of the target market. Decide how you would determine whether the product could be successfully produced and marketed.

## CHECKPOINT

What are the six steps in the new product planning process?

## THINK CRITICALLY

1. Why is there a greater likelihood of new product failure if marketers are not involved in the planning process?

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2. Why do companies continue to develop new products if there is such a high failure rate?

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3. Other than consumers, what are some other sources of new product ideas?

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4. What are advantages and disadvantages of using a test market for a new product?

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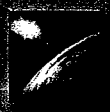
## MAKE CONNECTIONS

5. **SCIENCE** Research completed at universities and in government agencies has resulted in many new consumer products. Examples of those products include drugs to treat illnesses and diseases, improvements in computers and communications, and agricultural products. Use the Internet to identify current research that has the potential to result in new products. Prepare an oral report for your class that describes the research, the anticipated products and their uses, and the university, organization, or business that is conducting the research.



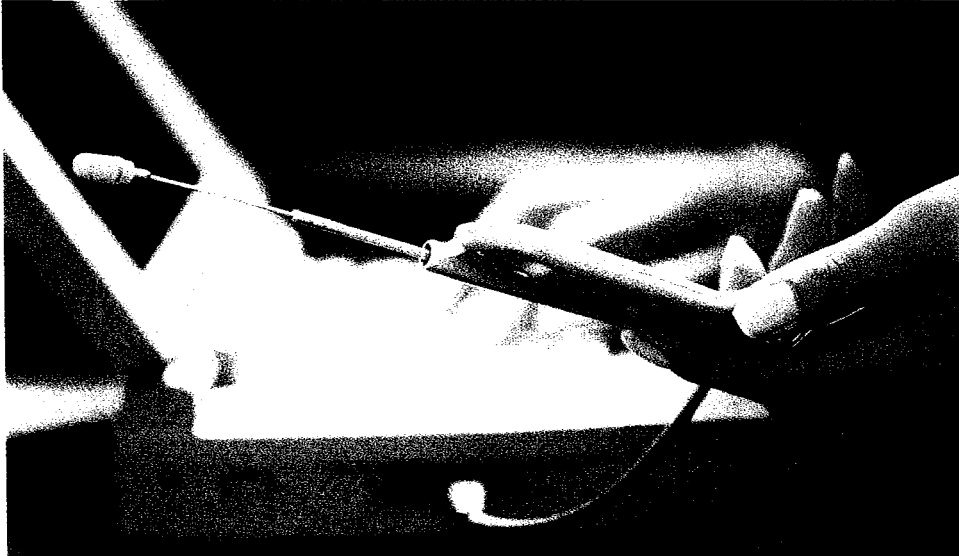
6. **BUSINESS LAW** Businesses and individuals can protect new product ideas through the use of patents and copyrights. Use library resources to research U.S. patent and copyright laws. Use a word-processing program to prepare a three-page report that describes the laws, how the laws provide protection, and the process for receiving a patent and a copyright.





## LESSON 3.3

# PRODUCT LIFE CYCLES



## GOALS

IDENTIFY the stages of the product life cycle

DESCRIBE how life cycles help businesses plan a marketing strategy

## THE PRODUCT LIFE CYCLE

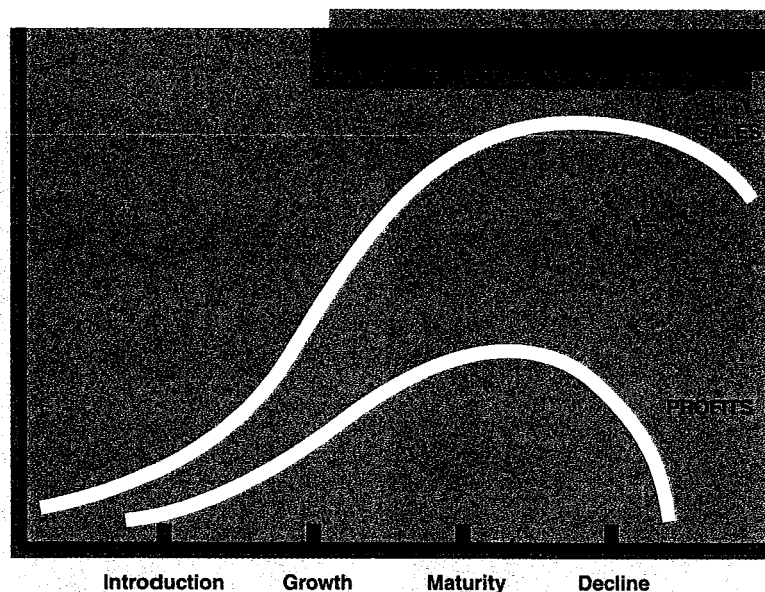
Successful products move through a set of predictable stages throughout their product lives. Those stages show how profits and sales change as competition increases. The **product life cycle** describes the stages of sales and profit performance through which all brands of a product progress as a result of competition.

### INTRODUCTION

In the introduction stage, a brand new product enters the market. Initially, there is only one brand of the product available for consumers to purchase.

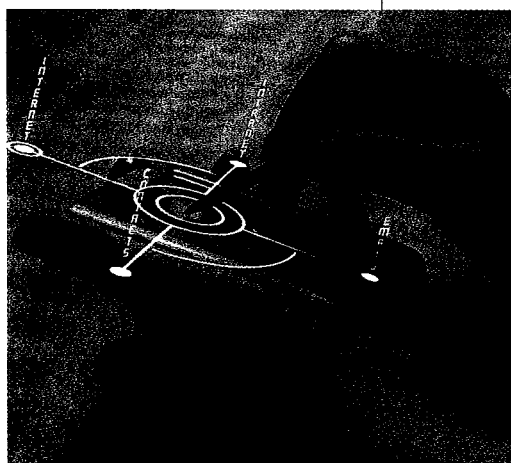
## ON THE SCENE

Daisy Dairy always had a door-to-door delivery service for milk and other dairy products. Using small, air-conditioned trucks, the company's salespeople made weekly deliveries to customers. Customers would place their next order when the weekly delivery was made. The delivery business had been very profitable for 40 years, but in the last 10 years the number of customers and size of the orders had declined, resulting in losses for the company. While three dairies originally competed for the business, Daisy Dairy was the only company left. Why do you think demand has fallen for the dairy delivery service? What recommendations would you make to Daisy Dairy about whether to continue the delivery service?



The new product is quite different from, and hopefully better than, products customers are currently using. While every product has gone through the introduction stage, examples of products recently in that stage are web-ready cellular telephones, high-definition television (HDTV), and MP3 audio players that can download digital music files from the Internet. The costs of producing and marketing a new product are usually very high, resulting in a loss or very low profits for the firm initially. The company is counting on future sales to make a profit. If a product is introduced successfully, an increasing number of consumers will accept the new product, sales will start to grow rapidly, and profits will emerge.

### GROWTH



When competitors see the success of the new product, they want to get into that market. They try to copy the new product as closely as possible and make improvements. When several brands of the new product are available, the market moves into the *growth stage* of the life cycle. If customers like the new product, they begin buying it regularly and telling others about it, so the market experiences rapid sales growth. As initial costs are recovered, the industry experiences growth in profits. Examples of products that have been in the growth stage recently are digital video cameras, personal digital assistants (PDAs), and sports utility vehicles (SUVs).

### MATURITY

As the market for a new product moves through the growth stage, the product is purchased by many more customers and becomes very profitable. That results in many companies in the market selling their own brand of the product. In the *maturity stage*, the product has many competing brands with very similar features. Customers have a hard time identifying differences among the brands and so have much less brand loyalty. Competition gets very intense as businesses compete for the same customers with very similar products. Products in the maturity stage include automobiles, desktop computers, cereal, toothpaste, fast food, and many others.

### DECLINE

Although many products stay in the maturity stage of the life cycle for many years, sooner or later products move into a decline stage. The *decline stage* occurs when a new product is introduced that is much better or easier to use, and customers switch from the old product to the new product. As more customers are attracted to the new product, companies selling the old product see declines in profits and sales. The companies may not be able to

improve the older products enough to compete with the new products, so they drop them when declining profits no longer support their existence. Examples of products that have moved through the decline stage are push lawnmowers and three-speed bicycles.

## CHECKPOINT

How do sales and profits change in the stages of a product life cycle?

## MARKETING ACROSS THE LIFE CYCLE

The marketing strategy needs to be adjusted at each stage of the product life cycle. The competition, target markets, and marketing mixes may change at each stage. The following suggestions describe how companies change their approach to marketing at each life cycle stage.

### INTRODUCE A NEW PRODUCT

When a company introduces a new product, it needs to inform prospective customers about the product and its uses. Customers are using other products, so the company must show customers how the new product is better. Initially, only a few customers buy the product. Their experience determines whether other people want to buy it. Major marketing activities are distribution and promotion. Because the product is new, prices are likely to be high.

### MANAGE PRODUCT GROWTH

In the growth stage, new companies enter the market. Each company is trying to attract customers to its brand. Companies try to improve their brands by adding features, options, and services. They also add to their channels of distribution to make the product more readily available to the growing number of customers in the market. Promotion emphasizes differences among the brands and is directed to the specific target markets the company wants to satisfy. Prices may start to decline, although customers may pay more for preferred brands or for unique features and special services. Profits are likely to increase for a time as companies sell larger quantities of products. Over time, additional marketing costs begin to reduce profits for many companies.

### MOVE THROUGH MATURITY

In maturity, there are fewer new customers. Companies increase competition to gain a greater market share. Because there are so many customers, each business has to distribute the product widely, which adds to its costs. Because customers have many choices and see few differences among brands, companies spend a lot



Review magazines and newspapers to identify new products that have been introduced recently. For each product, identify the target market, competing products, and the important marketing mix elements described. Based on the information, decide which life cycle stage the product fits. Discuss your decision.

## TECH TALK

**NET CHATS YIELD CONSUMER INFORMATION** Companies have a new tool for keeping up with consumer ideas and opinions. Online chat rooms and bulletin boards on the Internet are places where groups with common interests meet to talk with each other about their experiences and opinions. Businesses can tap into those conversations to gain valuable insights that help them improve current products and develop new offerings. Hallmark Cards developed an "Idea Exchange" web site to hold online conversations with 200 selected consumers. Hallmark employees usually let the discussion develop around any topics the consumers choose. From time-to-time, the company asks chat room participants to answer questions or discuss how they use Hallmark products.

**THINK CRITICALLY** How can a chat room provide better information than a more traditional method such as a focus group? Why might a consumer choose to participate in a company-sponsored Internet chat room?

on promotion. They also reduce prices by offering sales, coupons, and rebates. Sales may increase for a time using these methods, but profits usually fall. One way businesses respond to the maturity stage is to look for new markets. Businesses often begin to move into international markets.

### AVOID DECLINE

When a company sees sales and profits declining in the market, immediate changes must be made. If the declines continue it usually means that customers no longer value the product and are looking for newer and better alternatives. Some companies have been able to move old products out of the decline stage by finding new uses for them. For example, baby oil is now being used as a suntan product. If companies cannot save a product from the decline stage, they will attempt to sell their remaining inventory to the customers who still prefer it.

### USE A MARKETING ORIENTATION

Companies that use a marketing orientation are in a better position to adjust to each life cycle stage. Those companies study their customers. They recognize when customer needs are not being satisfied and how customers view competitive products. Marketing-oriented companies also study the economy and the competition so they can predict when competition is increasing and are more aware if a competitor is planning a new product introduction.

## CHECKPOINT

How does marketing in the growth stage of a life cycle differ from marketing in the maturity stage?



## THINK CRITICALLY

1. Why does the introductory stage of a product life cycle present difficult marketing challenges?

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2. How can profits begin to decline in the maturity stage even while sales may still be increasing?

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3. Why is promotion important at the maturity stage of the life cycle?

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4. Why do companies often wait until late in the maturity stage or even until the decline stage to look for new markets in which to sell their products?

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## MAKE CONNECTIONS

5. **HISTORY** Identify a major national or international company that has operated for more than 50 years. Use the Internet or other information sources to study the company. Determine how the products produced and marketed have changed over the life of the company. Identify other companies that competed with the business during its history that have gone out of business and others that have become competitors recently. Use a computer graphics program to develop a timeline that illustrates the information you collected. Present your timeline in class.
6. **BUSINESS** Work in a team with other students. Write the name of each of the four stages of the life cycle on a separate sheet of paper. Brainstorm a list of products that your team members think will fit within each of the stages. When you have finished, prepare a chart showing your results. As a group, present your chart in class and compare your lists with those developed by other teams. Discuss any of the products on which teams disagree to identify the reasons for the decisions made.

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## LESSON 3.4

**EFFECTIVE SERVICES****GOALS**

**IDENTIFY** important differences between services and products

**DESCRIBE** how to plan marketing mixes for services

**THE EMERGING SERVICE ECONOMY**

**T**he number of businesses providing services as their primary activity is growing faster than any other type of business. More than two thirds of all employees in the U.S. now work in service businesses or service jobs. More than half of all purchases made by consumers today are services. The U.S. is changing from the world's leading manufacturing economy into the leading service economy. Companies need to recognize the differences between services and products and how those differences affect marketing decisions.

**ON THE SCENE**

**J**acob was upset with his Internet Service Provider (ISP). He had just been notified that the provider, whose service had been free, was going to start charging \$15 per month. Jacob was willing to pay that amount because he had shopped around and saw that other ISPs were charging as much as \$30 a month. However, he felt the level of service from his current provider did not meet his expectations if it wasn't free. He often had difficulty connecting, especially in the evening and on weekends. If he was downloading a big file, his connection frequently terminated, requiring him to start the download over. Finally, when he needed technical assistance, the company's help desk staff seemed to know less than he did. Why was Jacob willing to accept a lower level of service before the price increase? What is likely to happen to the ISP based on Jacob's experience?



## WHAT ARE SERVICES?

**Services** are activities of value that do not result in the ownership of anything tangible. Traditional service businesses include movie theaters, insurance companies, banks, car washes, and moving services. However, there are many new types of services such as Internet service providers (ISPs) that connect you to the Internet, personal shoppers, financial planners, and businesses that manage the human resources activities for other businesses.

Services have important characteristics that make them different from products and affect the way they are planned and marketed. Services differ from products in their form, availability, quality, and timing.

**Form** Services are intangible. They do not include a physical product. They cannot be seen or examined before purchase. They do not exist after they are purchased and used. If you want to go on a Caribbean cruise, you must rely on the descriptions in brochures and videotapes, the advice of a travel agent, or the experiences of friends to select the best cruise. If you get your car washed, you will need to return for the service each time the car needs to be cleaned.

**Availability** A service cannot be separated from the person or business supplying it. Medical treatment requires a nurse or doctor, a basketball game requires two teams and coaches, and web management services require a webmaster. The availability and the skill of the person providing the service is very important to the customer. You will be quite dissatisfied if the person providing an important service is not able or motivated to complete the job on time. If the person cannot provide the service when you want it, you must go without or find another source. If your cable service does not operate due to an electrical outage, you will not be able to view your favorite television program during the scheduled time.

**Quality** The quality of the service depends on who provides it as well as on where and when that service is provided. An accountant who is not aware of the latest tax laws may have errors in tax returns that are prepared. A pizza delivery service that takes too long or does not have temperature-controlled delivery bags will bring cold pizza to your door. If you rent an automobile at an airport, you expect it to be clean and in good operating condition. An effective service business needs to be able to control the quality of services and insure that customers get the same quality time after time.

**Timing** A service cannot be stored or held until the consumer needs it. After a movie starts in a theater, it is no longer available in its complete form until it is replayed. If the tables at a restaurant are filled, no one else can be seated at that time. Likewise, a city bus service runs its buses on a regular schedule even if there are not enough customers to fill the bus at a specific time.



In small groups, identify one service business that primarily serves other businesses and one that primarily serves individual consumers.

Develop a chart for each business that describes its target market and marketing mix. Discuss the form, timing, availability, and quality of service offered by each business to its customers.

## CHECKPOINT

What are the four ways in which services differ from tangible products?

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## MARKETING SERVICES

**B**y understanding the unique characteristics of services, managers in charge of planning and marketing services can do a better job of meeting customer needs. Consider the planning that must be done by the manager of a service business such as a fitness center to make sure the business offers the best level of customer service possible for its customers.

### THE MARKETING MIX FOR SERVICES

Each of the attributes of a service must be considered when developing the marketing mix. Those attributes can be matched to each of the mix elements—product, distribution, promotion, and price. Each mix element is an important part of marketing services. The company must offer an important service and make sure it is understandable to the customer. It must distribute the service conveniently to the target market. Promotion must effectively communicate the unique qualities of the service in understandable ways. Finally, the price must meet customers' expectations of a good value.

### CHANGES IN SERVICE BUSINESSES

Successful service businesses are constantly searching for better ways to provide services. Some of those ways include more careful hiring and training of employees, identifying service quality standards and determining ways to maintain those standards, and using technology to improve the delivery and availability of services. The Internet is providing both opportunities and challenges for service businesses. It is easier to get information to customers using the Internet. Pizzas, CDs, and videotapes can now be ordered online. Consumers can download movies and can even place grocery orders and have products delivered to their door.

*Franchising* allows a service to be provided in a variety of locations while maintaining a consistent image and level of quality. A person buys a franchise and gets the help and expertise of the parent company in planning and managing the service business. Examples include video rentals, tax preparation and legal services, and home repair and home cleaning franchises.

Managers of service businesses are learning that the marketing orientation is just as meaningful to their companies as it is to businesses that produce and sell products. Extended hours, more locations, customized services, and follow-up activities with customers to ensure satisfaction are all ways that businesses are attempting to meet customer needs.

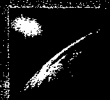
## CHECKPOINT

Why is communication so important to service businesses?

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## THINK CRITICALLY

1. Why does the fact that most services are intangible create difficulty in developing a marketing mix?

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2. Why do service businesses frequently have difficulties providing an adequate supply of the service to meet customer demand?

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3. What are some examples of service businesses that have developed as a result of the growth of the Internet?

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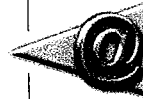
## MAKE CONNECTIONS

4. **CAREER PLANNING** There are an increasing number of career opportunities in service business for people with varying amounts of education and with different skills and interests. Use career-planning resources in your school's career center, library, or the Internet. Identify at least three service jobs that appeal to you. Locate one job that requires a high school diploma, one that requires a college degree, and one that requires a high level of technical skill. Prepare a short, written description of each job and share the information with other students in your class.

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5. **RESEARCH** Work with a small group of students to complete this activity. A local auto repair business has asked your group to develop a set of five service standards that will help the company meet customer expectations. An example of a standard is "All repairs will be completed at the time promised to the customer or the customer will be notified at least three hours in advance of a delay." To help develop the standards, gather information from several car owners about their experiences with auto repair businesses. Using word-processing software, prepare a one-page document that lists and explains the five service standards.

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# REVIEW

## CHAPTER SUMMARY

### LESSON 3.1 The Product

- A.** The product is the mix element that most businesses consider first when planning a marketing mix. It also is the first consideration for consumers as they determine what they plan to purchase.
- B.** The product or service as a marketing mix element includes anything offered to the customer by the business that will be used to satisfy needs.

### LESSON 3.2 Product Planning

- A.** Companies can reduce the rate of product failure by improving their understanding of consumer needs and competition.
- B.** Businesses need a process to identify and develop new products. The process should eliminate products that are not likely to be successful. It should ensure that the products meet an important market need, can be produced at a reasonable price, and will be competitive.

### LESSON 3.3 Product Life Cycles

- A.** Analyzing a product life cycle aids marketers in understanding its competition and developing an effective marketing mix.
- B.** Successful products move through predictable stages that show how profits and sales change as competition increases.

### LESSON 3.4 Effective Services

- A.** The number of businesses providing services as their primary activity is growing faster than any other type of business.
- B.** Services differ from products in form, availability, quality, and timing.

## VOCABULARY BUILDER

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

- |   |                                    |
|---|------------------------------------|
| _____ 1. Anything offered to a market by the business to satisfy needs  | <b>a.</b> brand                    |
| _____ 2. A name, symbol, word, or design that identifies a product, service, or company                                       | <b>b.</b> feature                  |
| _____ 3. Assisting in the design and development of products and services that will meet the needs of prospective customers   | <b>c.</b> image                    |
| _____ 4. The stages of sales and profit performance through which all brands of a product progress as a result of competition | <b>d.</b> product                  |
| _____ 5. Activities of value that do not result in the ownership of anything tangible   | <b>e.</b> product life cycle       |
| _____ 6. A unique, memorable quality of a brand, such as quality, low price, or innovation                                    | <b>f.</b> product/service planning |
| _____ 7. Added to improve the basic product   | <b>g.</b> prototype                |
| _____ 8. Sample developed for expensive or risky products   | <b>h.</b> services                 |

# CHAPTER 3



## REVIEW CONCEPTS

9. What are consumers most concerned about when they purchase a product?

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10. Why must businesses be careful in planning new products?

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11. What are the three levels of product planning for businesses?

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12. What are the five components of the product mix element?

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13. Why are marketers in a good position to understand customers?

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14. What are three roles for marketers in the product development process?

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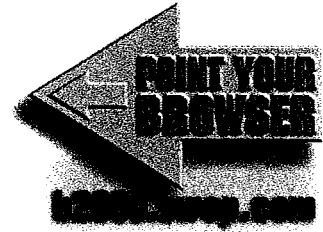
15. Describe the steps in the new product planning process.

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# REVIEW

- 16.** How do sales and profits change over the four stages of the product life cycle?

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- 17.** How does the amount and type of competition differ between the introduction and maturity stages of the product life cycle?

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- 18.** How is the U.S. economy changing in terms of the types of businesses and jobs?

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- 19.** What are four ways that services differ from products?

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## **APPLY WHAT YOU LEARNED**

- 20.** Provide an example of a basic, enhanced, and extended product.

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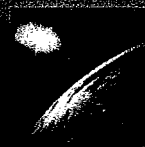
- 21.** What are some ways that businesses can get ideas for new products from customers without actually talking to the customers?

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# CHAPTER 3



- 22.** How is a business that has strong brand loyalty from its customers able to compete more effectively in the maturity and decline stages of the product life cycle?

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## MAKE CONNECTIONS

- 23. ADVERTISING** Select four print advertisements from magazines and newspapers that advertise a service. Choose two ads that have copy and images that you think are effective in helping customers understand what they will receive when they purchase the service. Choose two others that you think are ineffective. Using a computer and word processing software, write a two-page paper that explains why the first two ads were effective and why the other two were ineffective.
- 24. PROBLEM SOLVING** Work with a team of three other students. Select a product that the team agrees is not as effective as it could be. Make a list of the product's problems. Then brainstorm to develop a new product that improves on the problems of the selected product. Create a model or an illustration of the new product to show to other class members. Present your team's model in class, explaining the improvements your team has made and the problems you were solving.
- 25. BUSINESS MATH** A company has determined that one of its products has moved into the maturity stage of the product life cycle and is facing more intense price competition. The company is analyzing several possible price reductions to determine the effect of each on profits. Using the following table and spreadsheet software, calculate the total revenue and the profit or loss for each possible price.



Sale Price	Estimated units sold	Total Revenue	Expenses	Profit or Loss
\$20.50	8,530		\$180,000	
\$19.25	11,860		\$230,400	
\$18.00	15,620		\$275,120	
\$16.70	18,240		\$301,200	

- 26. ANALYTICAL SKILLS** Large businesses often allow their customers to choose the product that best meets their needs by offering a product line. A product line may include an inexpensive choice with few features and options, a mid-priced choice with more features and options, and a full-featured, expensive choice. Surf the Internet to find an online consumer electronics store, appliance store, or furniture store. Identify a product for which the business offers at least three levels of choice in a product line. Gather information from the web site. Based on the information you gather, prepare a chart that describes the following elements of the marketing mix for each level of the product line: the basic product, features, options, services, brand name, image, price.

