Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Marketing** - **Ch. 3: Plan Products & Services**

**3.1 – The Product**

What is a product/service?

* Focus of exchange activities between customers and business.
* It is the marketing mix element that most businesses consider first when planning their marketing strategy.
* It is also the first consideration for consumers as they determine what they plan to purchase.

Business & Consumer View of Products

Businesses focus on the physical characteristics of their products.

* 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 products differ from the products of competitors,
  + how they can improve their product,
  + or how to produce it more efficiently.

Customers focus on their needs & wants.

* They view products as solutions.
  + Ex. A movie provides entertainment.
* A customer is seldom concerned about how the product is produced or whether the seller will make a profit.

Product Decisions

* Companies must plan products carefully because of
  + variety of customer needs,
  + many uses for products,
  + number of competing companies.
* If companies fail and
  + produce the wrong products in the wrong quantities,
  + provide products without features and services customers need,
  + they will lose out to competitors who make better product decisions.

Product Planning for a Business

* Companies compete for the same customers so they need to offer a product that is different from and better than other choices available.
* Products must be affordable and available at a time and location convenient for the customer.
* The product should be accompanied by information that will help the customer understand why the product is the best choice.

Levels of Products

* Basic product
* Enhanced product
* Extended product

Basic Product

* The physical product in its simplest form.
* Basic product of one company will usually be similar to that of its competitors.
* Basic products must clearly meet customer need.
* For example: A tennis racket.
  + Many companies produce and sell them.
  + It is obvious what the product is and what it is used for.

Enhanced Products

* Developed to make their products different from competitors’ products and to meet specific needs of consumers.
* Adds features and options to the basic product.
* Tennis Racket Example
  + It can be constructed of different materials, sizes, and weights.
  + It may be strung or unstrung and offer choices of grips.

Extended Product

* Additional features not part of the physical product but increase usability.
* Examples: customer service, guarantees, and information on effective use, and additional products that improve the use of the product.
* The choices allow customers to get just the right products to meet specialized needs.
* Tennis racquet example
  + People may need bags, balls, wristbands or instructional videos

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

Components of the Product

* Decisions about what to offer customers will differ each time product planning decisions are made.
* Consumers in the target market may want the basic product.
* Consumers may want other product features, services, and product support in using the product.

Basic Product

* 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 can also be the basic product in a marketing mix.
  + Hair stylists, catering services & accounting businesses all offer basic service.

Features

* After the basic product or service is identified a 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…

Packaging

* Primary purpose of packaging to provide protection & security for the product during distribution.
* The package can provide information about the product.
* Used to promote the product through the use of color, shape, images, and information.
* It can even make the product more useful for the consumer as with children’s drink boxes.

Support Services

* Customers purchase support services if they will be unable to assemble or operate a product or if they will want assistance.
* If you purchase a computer, cell phone or home entertainment system the salesperson will try to sell you a maintenance contract.
  + A support service that will pay for repair work if the product fails to operate properly.
* Services provided with a product often make it easier to use.

Brand Image

* Brand – a name, symbol, word, or design that identifies a product, service or company.
* Very important to a company because it provides a unique identification for it and its offerings.
* One of the main reasons for brand loyalty is the image of the brand.
* The brands image is a unique, memorable quality of a brand.
  + Some brands have an image of quality, others of low price, and others as innovation.

Increase in Product Value

* Customers want to receive a good value.
* Customers will not want to purchase a product if it
  + is poorly constructed, will not work properly, may wear out quickly
* Guarantees/warranties are offered 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.

Adding Value to a Product

* Increase the number of ways a product can be used.
* Expanding markets through new product uses.
* For example; baking soda.
  + Very few consumers bake their own bread today, so a baking soda manufacturer saw sales declining.
  + They conducted a consumer behavior study & found that consumers use baking soda for many other purposes.
    - Freshen refrigerators, garbage disposals, litter boxes, & brush teeth
  + Through promoting those and other uses the company increased its sales dramatically.

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* What are the components of the product mix element?

**Lesson 3.2 - Product Planning**

The Product Planning Function

* How do products get developed?
* Who do you think is responsible?
* Many are involved:
  + Inventors
  + Engineers
  + Scientists
  + Many others too

Product/Service Management/Planning

* One of the 7 Marketing Functions, pg. 5
  + Product/Service Management
  + Distribution
  + Selling
  + Marketing-Information Management
  + Financing
  + Pricing
  + Promotion

Product/Service Management/Planning

* Assisting in the design & development of products & services that will meet the needs of prospective customers
* Key parts of the definition
  + assisting – marketers work cooperatively with others in product development
  + meet the needs – products of the company are designed to satisfy customers

The Role of Marketing

* Marketers work in close contact with the customer every day, putting them in a good position to understand them.
* Helping the marketer know:
  + What they like and do not like.
  + How they view competing products.
  + If they are satisfied with current products.

Marketing & Product Planning

* Marketers represent the consumer in the business as products are designed and developed.
* There are 3 important roles for marketers in the product development process:
  + Conduct Research
  + Develop the Marketing Mix
  + Conduct Market Tests

Conduct Research

* The MOST important role for marketing in product development is to conduct research.
* Gathering marketing information, studying it and providing results to scientists, engineers and others involved in product development
  + keeps the focus on consumer needs & competition
  + rather than perceptions of the people involved in planning.

Through research marketers can

* Study Competition
* Identify Target Markets
* Review alternative product designs and features
* Analyze several product choices

Marketing Information System

* Allows information from many sources to be collected, stored and analyzed when needed to improve new product decisions.
* Included in Marketing Information System
  + Sales data
  + Salesperson & customer feedback
  + customer requests & complaints.

Developing the Marketing Mix

* If the company’s goal is to increase its share of a specific market, it might develop a new product.
* 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 product is only part of the strategy.
* Marketers participate in developing an effective strategy by helping identify:
  + Possible target market strengths & weaknesses.
  + Evaluating market positions.
  + Suggesting alternative marketing mixes.

Conducting Market Tests

* After a product & the remaining parts of the marketing mix have been designed, marketers conduct tests to determine if the new product will be successful.
* Testing a new marketing mix
  + Test Market – 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.

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

New Product Planning

* Most companies follow a very careful process to identify and develop new products.
* Used to eliminate products unlikely to be successful before the company spends too much money on production and marketing.
* Also, used to make sure that the products:
  + Meet an important need,
  + Can be produced at a reasonable price,
  + Will be competitive with other products in the market.

6 Steps in the New Product Development Process

* Idea Development
* Idea Screening
* Strategy Development
* Financial Analysis
* Product Development and Testing
* Product Introduction

Idea Development

* Difficult to find ideas for products that are truly new.
* Developing new product ideas can be a very creative process.
* Ways companies identify new product ideas:
  + Brainstorming
  + Creative thinking exercises
  + Problem solving

Products are developed to meet consumer needs, so gathering information from consumers helps to generate ideas.

* New product ideas may be developed from
  + Problems customers are having.
  + What customers don’t like about current products.
  + Complaints customers make to the company.

Idea Screening

* Carefully screen all new product ideas to select those that have the greatest chance of success.
* Businesses ask specific questions to test ideas.
  + Is there a specific market & adequate demand for the product?
  + Is competition in the market favorable for the product?
  + Does the company have resources to produce the product?
  + Is the product legal & safe?
  + Do the costs of producing and marketing the product present an opportunity for profitable sales?

Strategy Development

* After choosing a reasonable product idea the business creates and tests a sample marketing strategy.
* 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 and the product idea must be DROPPED.

Financial Analysis

* A detailed financial analysis will be completed for a new product if research shows that there is a realistic need in the market.
* The company will calculate:
  + Costs of production and marketing.
  + Sales projections for the market.
  + Potential profits.
* Computer models are used to help with financial analysis.
* Analysis results are compared to other company goals and profit objectives to determine if the product can be developed and marketed successfully.

Product Development & Testing

* Manufacturers
  + Design the production process.
  + Obtain needed equipment and materials .
  + Train the production personnel.
* Protypes (sample of a product) are often developed for very expensive or very risky products.
  + Prototypes are used to test quality and costs before moving to full-scale production.

Introduction of a New Product

* Once a product has been developed the company prepares for its full-scale introduction to the marketplace.
* The Marketing Mix Elements must be planned and implemented.
  + product, price, place (distribution), promotion
* All cooperating companies must be involved.
  + wholesalers, retailers, transportation companies and ad agencies, etc.
* Enough product must be made available to meet the needs of the target market.

The company must be cautious when preparing for the product introduction.

* All activities must be coordinated and controlled by managers.
* It is possible that:
  + Conditions could have changed.
  + Competitors may have anticipated the new product.
  + Consumers will not respond in exactly the way you had predicted.
* Adjustments in the marketing strategy may be needed.

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* What are the 6 steps in the new product planning process?

**Lesson 3.3 - Product Life Cycles**

The Product Life Cycle

* Successful products move through a set of predictable stages throughout their product lives.
* These stages show how profits and sales change as competition increases.
* Brand new products start in the Introduction Stage.
  + They then move to the Growth Stage,
  + then on to the Maturity Stage
  + and finally into the Decline Stage.

Introduction Stage

* A brand new product enters the market.
* Initially there is only one brand of the product available for the consumer to purchase.
* The new product is quite different from, and usually better, than what consumers have been using.
* Every product starts out in the Introduction Stage.

In the Introduction Stage

* Costs of producing and marketing a brand new product are usually very high, resulting in a lower initial profit.
* 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.
  + Causing sales to grow rapidly and profits will emerge.
* Product Examples?

Growth Stage of the Product Life Cycle

* 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 a new product are available the market moves into the growth stage of the product lifecycle.

In the Growth Stage

* If the customers like the new product they begin buying it regularly and telling others about it.
  + The market then experiences a rapid sales growth.
* As initial costs are recovered the industry experiences growth in profits.
* Product Examples?

Maturity Stage of the Product Life Cycle

* As the market for a new product moves through the growth stage, the product is purchased by many more customers and becomes very profitable.
* Many companies in the market develop and sell their own brand of a successful product.
* In the maturity stage the product has many competing brands with very similar features.

In the Maturity Stage

* Customers have a very hard time identifying differences among brands and have much less brand loyalty.
* Competition gets very intense as businesses compete for the same customers with their very similar products.
* Examples?
  + cars, computers, cereal, toothpaste, pop, etc.

Decline Stage of the Product Life Cycle

* Many products remain in the maturity stage of the product life cycle for many years.
  + Sooner or later they do fall into the decline stage.
* The decline stage occurs when a new product is introduced that is much better or easier to use.
  + Customers switch from the old to the new product.
* As more customers are attracted to the new product, companies selling the old product see a decline in profits and sales.

In the Decline Stage

* The company may not be able to improve the older products enough to compete with the new products so they may drop them with their declining profits.
* Examples?
  + push lawn mowers, 3 speed bicycles

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

Marketing Across the Product Life Cycle

* Marketing strategy needs to be adjusted at each stage of the product life cycle.
* What may change at each stage.
  + Competition
  + Target Market
  + Marketing Mix
    - Product
    - Price
    - Place
    - Promotion

Introducing a New Product

* Inform prospective customers about the product and its uses.
* Show the customer how this new product is better than the old products they already use.
* Initially only a few customers will buy the new product.
* Their experience will determine if others will want to buy it.
* Distribution and promotion are major marketing activities to be used when introducing a new product.
* Prices are likely to be high because the product is new.

Managing Product Growth

* Each company is trying to attract customers to its brand.
* A company does:
  + Try to improve their brands by adding features, options and services.
  + Add to their channels of distribution to make their product more readily available to the growing number of customers in the market.

Promotion

* Emphasizes the differences among the brands .
* Focuses on the specific target markets the company wants to satisfy.
* Customers may pay more for preferred brands or unique features or special services.
* Companies start selling larger quantities and profits are likely to go up for a time.
* Additional marketing may cost more and reduce profits.

As a product moves through Maturity

* Fewer new customers in the Maturity Stage.
* Companies increase competition to gain a greater marketing share.
* Costs increase because there are so many customers and companies must distribute products across such a wide area.
* Much money is spent on promotion now, because customers have many choices and see very few differences among brands (advantage is key).

In the Maturity Stage

* They reduce prices by offering sales, coupons and rebates.
* Sales may increase for a time using these methods, but profits usually fall.
* A business could respond to the maturity stage by looking for new markets or by moving into international markets.

Avoiding Decline

* When sales and profits stat declining, immediate changes must be made.
* If the decline continues, it usually means that the 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.
  + Ex. Baby oil is now used as a sun tan product
* If a company cannot save a product from the decline stage they will attempt to sell their remaining inventory to the customers who still prefer it.

Marketing-Oriented Companies

* Companies that utilize a marketing orientation in the beginning 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.
* 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.

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

**Lesson 3.4 - Effective Services**

The Emerging Service Economy

* More than 2/3 of all employees in the US work in service businesses or service jobs.
* More than ½ of all purchases made by consumers today are services.
* The US is changing from the world’s leading manufacturing economy into the leading service economy.

What are Services?

* Services – activities of value that do not result in the ownership of anything tangible.
* Traditional service businesses – movie theatres, insurance companies, banks, etc.
* New types of service businesses – Internet service providers, financial planners, etc.
* 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
* Timing

Form of Services

* Services are intangible, they do not include a physical product.
* They cannot be seen or re-examined before purchased.
* They do not exist after they are purchased and used.
* For example:
  + If you get your car washed, you will need to return for the service each time the care needs to be cleaned.

Availability of Services

* Services cannot be separated from the business or person supplying it.
  + For example
    - Medical treatment requires a nurse or doctor.
    - A basketball game requires two teams and coaches.
* The availability and the skill of the person providing the service is very important to the customer.
* You will be 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.

Quality of Services

* The quality of the service depends on who provides it, as well as where and when that service is provided.
* For example:
  + 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.
* 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 of Services

* Services cannot be stored or held until the consumer needs it.
* For example.
  + After the movie starts in a theatre it is no longer available in its complete form until it is replayed.
  + If the tables in a restaurant are filled no one can be seated at that time.

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

The Marketing Mix for Services

* All attributes of a service must be considered when developing the Marketing Mix.
  + They must be matched to the marketing mix elements
    - product, price, place, promotion.
* Product - offer an important service and make sure it is understandable to the customer.
* Place - distribute the service conveniently to the target market.
* Promotion - effective communicate the unique qualities of the service in understandable ways.
* Price - price must meet customers’ expectations of a good value.

Changes in Service Business

* Successful service business are constantly searching for better ways to provide services.
* The focus must be on:
  + Quality standards and ways to maintain those standards .
  + Using technology to improve the delivery and availability of services.
  + Careful hiring and training of employees.
* For example:
  + The internet is providing both opportunities and challenges for service businesses.
  + It is easier to get information to customers using the internet.

Franchising

* Franchising allows a service to be provided in a variety of locations while maintaining a consistent image and level of quality.
* A person buys into a franchise and gets the help and expertise of the parent company in planning and managing the service business.
* Examples: McDonalds, Subway

Continuing to Meet Customer Needs

* Extended hours
* More locations
* Customized services
* Follow-up activities to ensure satisfaction

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* Why is communication so important to service businesses?