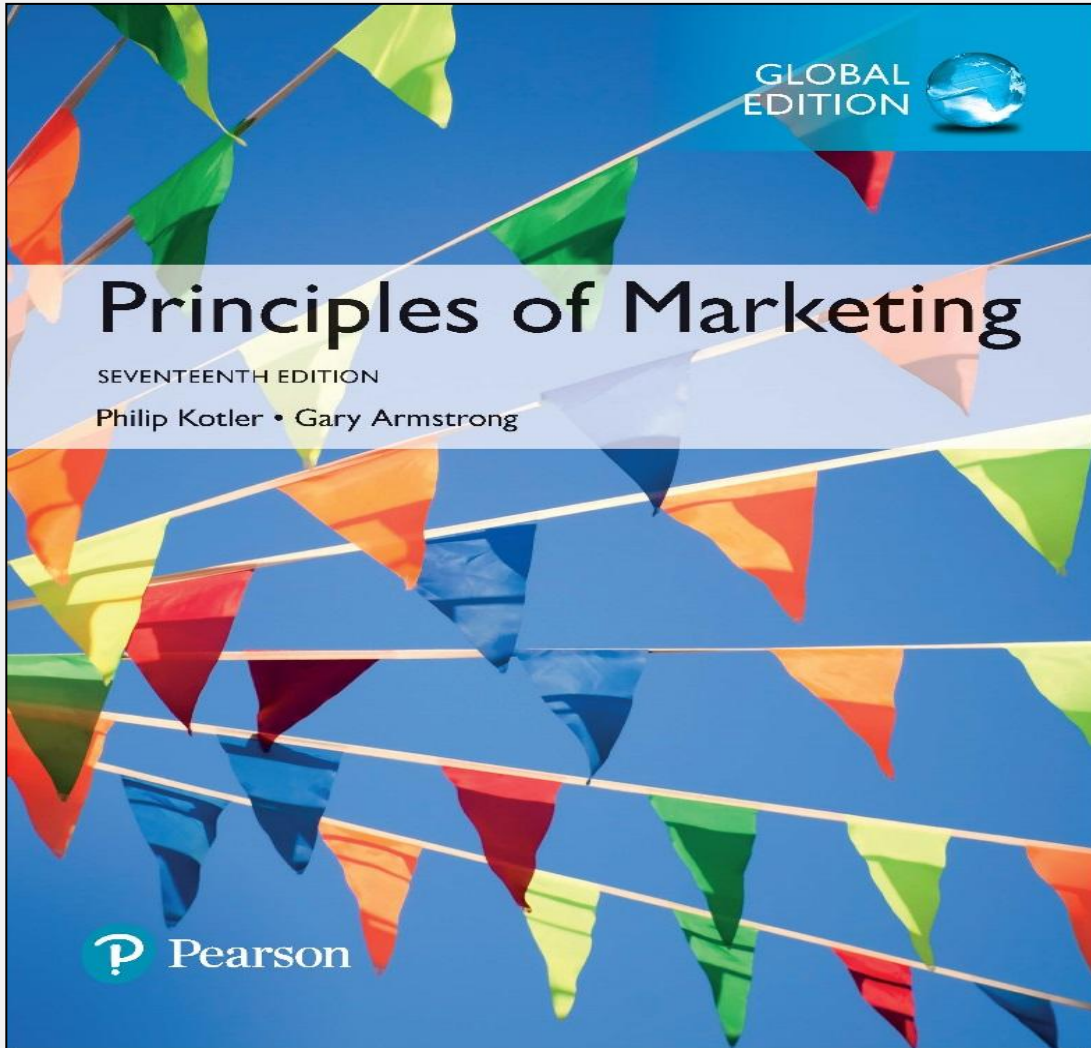


Principles of Marketing

Seventeenth Edition



Chapter 8

Products, Services, and Brands: Building Customer Value

Learning Objectives

- 8-1 Define *product* and describe the major classifications of products and services.
- 8-2 Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.
- 8-3 Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require.
- 8-4 Discuss branding strategy—the decisions companies make in building and managing their brands.

Learning Objective 1

Define *product* and describe the major classifications of products and services.

What is a Product?

Product is anything that can be offered in a market for attention, acquisition, use, or consumption that might satisfy a need or want.

Service is a product that consists of activities, benefits, or satisfactions and that is essentially intangible and does not result in the ownership of anything.

What Is a Product?

Products, Services, and Experiences

Products and **services** are becoming more commoditized.

Companies are now creating and managing customer **experiences** with their brands or company.

A company's market offering often includes both tangible goods and services. At one extreme, the market offer may consist of a ***pure tangible good***, such as soap; no services accompany the product. At the other extreme are ***pure services***, for which the market offer consists primarily of a service. Examples include a doctor's exam and financial services.

Between these two extremes, however, many goods-and-services combinations are possible.

What Is a Product?

Product planners need to think about products and services on three levels (see Figure 8.1). Each level adds more customer value.

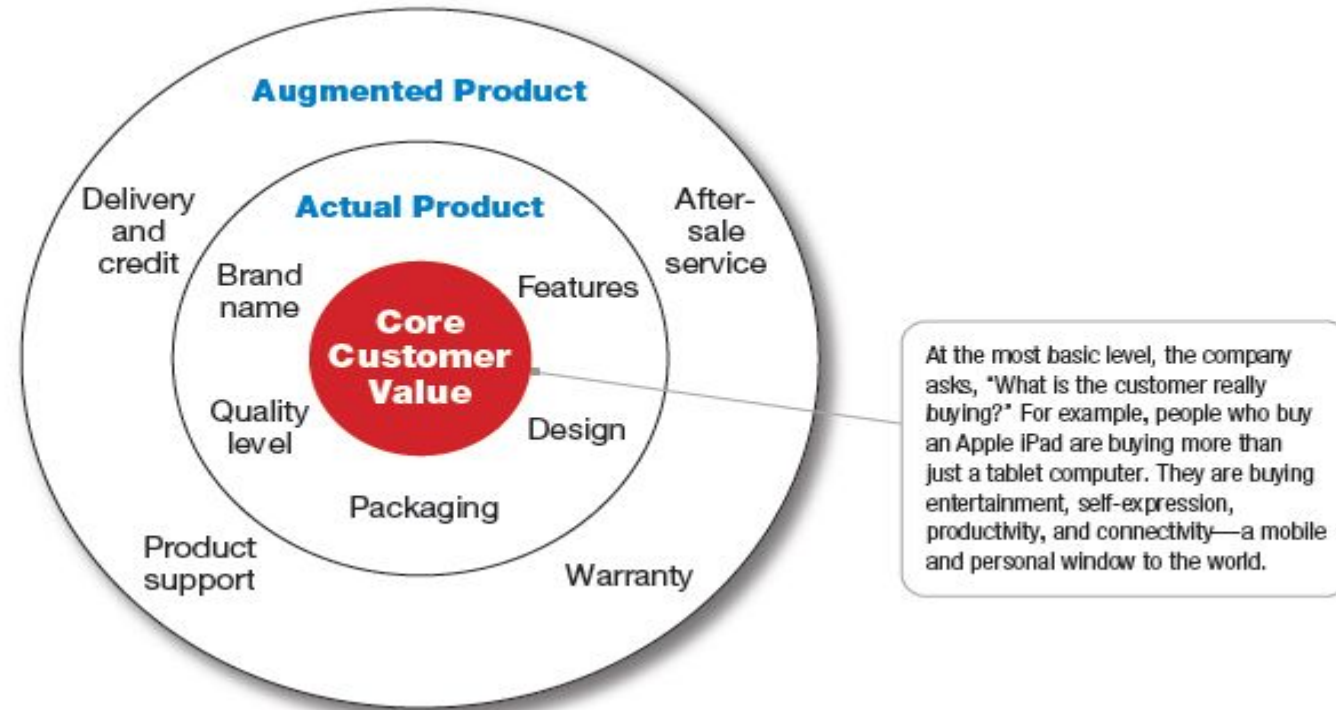
The most basic level is the **core customer value**, which addresses the question: *What is the buyer really buying?*

At the second level, product planners must turn the core benefit into an **actual product**. They need to develop product and service features, a design, a quality level, a brand name, and packaging.

Finally, product planners must build an **augmented product** around the core benefit and actual product by offering additional consumer services and benefits.

What Is a Product?

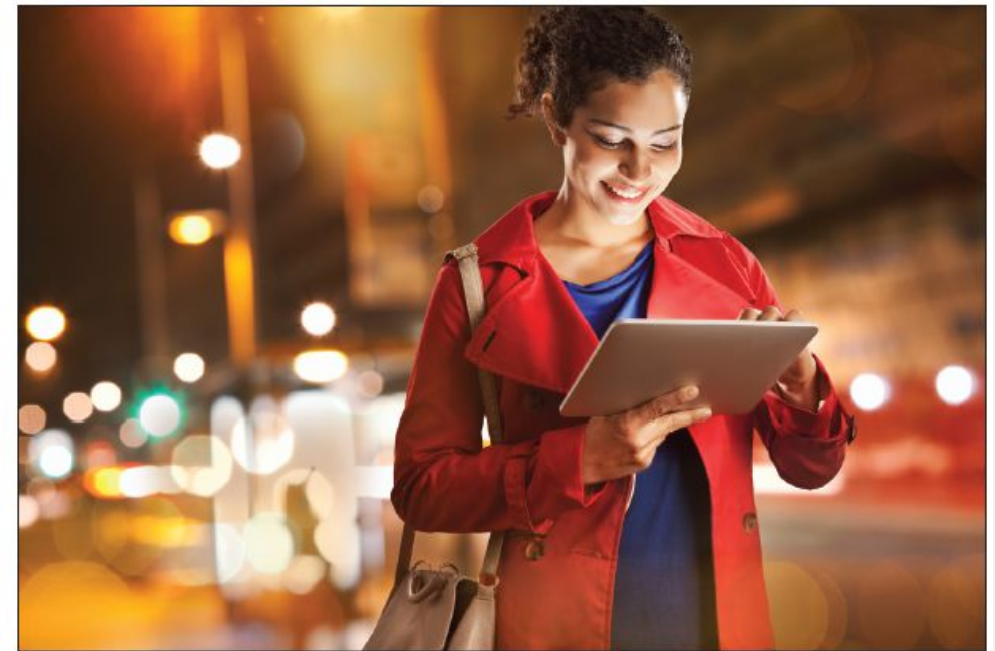
● FIGURE | 8.1
Three Levels of Product



What Is a Product?

Product and Service Classifications

Core, actual, and augmented product: People who buy an iPad are buying much more than a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity—a mobile and personal window to the world.



● Core, actual, and augmented product: People who buy an iPad are buying much more than a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity—a mobile and personal window to the world.

Betsie Van der Meer/Getty Images

What Is a Product?

Product and Service Classifications

Two broad classes of products are based on the types of consumers that use them.

Broadly defined, products also include other marketable entities such as experiences, organizations, persons, places, and ideas.

Consumer products

Industrial products

What is a Product?

Table 8.1 | Marketing Considerations for Consumer Products

Marketing Considerations	Type of Consumer Product			
	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

What is a Product?

Product and Service Classifications

Consumer products are products and services bought by final consumers for personal consumption.

- Convenience products
- Shopping products
- Specialty products
- Unsought products

What Is a Product?

Product and Service Classifications

Convenience products are consumer products and services that the customer usually buys frequently, immediately, and with a minimum comparison and buying effort.

- Newspapers
- Candy
- Fast food

What Is a Product?

Product and Service Classifications

Shopping products are less frequently purchased consumer products and services that the customer compares carefully on suitability, quality, price, and style.

- Furniture
- Cars
- Appliances

What Is a Product?

Product and Service Classifications

Specialty products are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

- Medical services
- Designer clothes
- High-end electronics

What Is a Product?

Product and Service Classifications

Unsought products are consumer products that the consumer does not know about or knows about but does not normally think of buying.

- Life insurance
- Funeral services
- Blood donations

What Is a Product?

Product and Service Classifications

Industrial products are those products purchased for further processing or for use in conducting a business.

- Materials and parts
- Capital items
- Supplies and services

What Is a Product?

Product and Service Classifications

Materials and parts include raw materials and manufactured materials and parts.

Capital items are industrial products that aid in the buyer's production or operations including installations and accessory equipment

Supplies and services include operating supplies, repair and maintenance items, and business services.

Price and service are the major marketing factors; branding and advertising tend to be less important.

What Is a Product?

Product and Service Classifications

Organizations, Persons, Places, and Ideas

- Organization marketing
- Person marketing
- Place marketing
- **Social marketing**
- All include activities undertaken to create, maintain, or change attitudes or behavior



• **Organization marketing:** GE's long-running Imagination at Work campaign markets the industrial giant as a company whose imaginative products and technologies are making a difference in the world.

GE

What Is a Product?

Product and Service Classifications

Organization marketing consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization.

Organizations often carry out activities to “sell” the organization itself. Both profit and not-for-profit organizations practice **organization marketing**. Business firms sponsor public relations or *corporate image marketing* campaigns to market themselves and polish their images.

What Is a Product?

Product and Service Classifications

Person marketing consists of activities undertaken to create, maintain, or change the attitudes or behavior of target consumers toward particular people.

People can also be thought of as products.

What Is a Product?

Product and Service Classifications

Place marketing consists of activities undertaken to create, maintain, or change attitudes and behavior toward particular places.

Social marketing Ideas can also be marketed. In one sense, all marketing is the marketing of an idea

we narrow our focus to the marketing of social ideas. This area has been called **social marketing**.

Social marketing uses commercial marketing concepts to influence individuals' behavior to improve their well-being and that of society.

Learning Objective 2

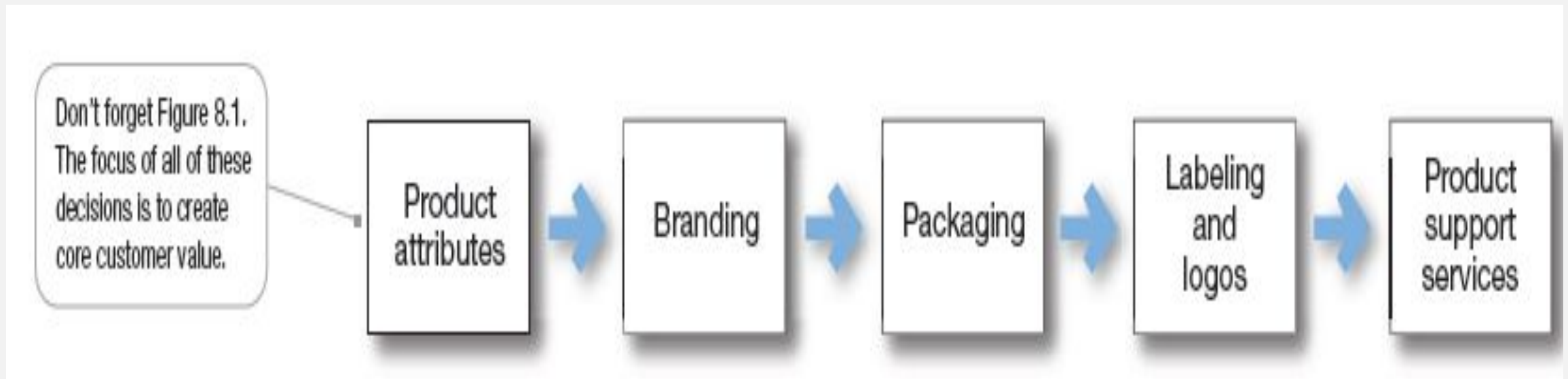
Describe the decisions companies make regarding their individual products and services, product lines, and product mixes.

Product and Service Decisions

- Figure 8.2 shows the important decisions in the development and marketing of individual products and services. We will examine decisions about *product attributes, branding, packaging, labeling, and product support services*.

Product and Service Decisions

Figure 8.2 Individual Product Decisions



Product and Service Decisions

Individual Product and Service Decisions

Developing a product or service involves defining the benefits that it will offer.

Communicate and deliver benefits by **product and service attributes**.

- Quality
- Features
- Style and design

Product and Service Decisions

Individual Product and Service Decisions

Product quality refers to the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

- Total quality management
- Return-on-quality
- Quality level
- Performance quality
- Conformance quality



• Five Guys has kept a strong focus on making better quality burgers, and this has earned them a loyal following of burger fans who want superior quality and don't mind paying a little extra for it.

British Retail Photography/Alamy Stock Photo

Individual Product and Service Decisions

Total quality management (TQM) is an approach in which all of the company's people are involved in constantly improving the quality of products, services, and business processes..

Today, companies are taking a **return-on-quality** approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.

Product quality has two dimensions: level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's positioning. Here, product quality means **performance quality**—the product's ability to perform its functions.

Beyond quality level, high quality also can mean high levels of quality **consistency**. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality.

Product and Service Decisions

Individual Product and Service Decisions

Product Features

- Competitive tool for differentiating a product from competitors' products
- Assessed based on the value to the customer versus its cost to the company

A product can be offered with varying **product features**. A stripped-down model, one without any extras, is the starting point. The company can then create higher-level models by adding more features. Being the first producer to introduce a valued new feature is one of the most effective ways to compete.

Product and Service Decisions

Individual Product and Service Decisions

Style describes the appearance of the product.

Design contributes to a product's usefulness as well as to its looks.

- Style is more concerned with visuals or outer look of a product. It creates important aesthetic value for consumers. On the other hand, design is more concerned with the basic layout of a product with its core functionality and user experience in mind.
 - Good design doesn't start with brainstorming new ideas and making prototypes. Design begins with observing customers, understanding their needs, and shaping their product-use experience.
 - Design is a larger concept than style.

Product and Service Decisions

Individual Product and Service Decisions

Brand is the name, term, sign, or design or a combination of these, that identifies the maker or seller of a product or service.

Consumers view a brand as an important part of a product, and branding can add value to a consumer's purchase.

Branding also gives the seller several advantages.

Product and Service Decisions

Individual Product and Service Decisions

Packaging involves designing and producing the container or wrapper for a product.

Labels identify the product or brand, describe attributes, and provide promotion.



● Distinctive packaging may become an important part of a brand's identity. An otherwise plain brown carton imprinted with only the familiar curved arrow from the Amazon.com logo—variously interpreted as “a to z” or even a smiley face—leaves no doubt as to who shipped the package sitting at your doorstep.

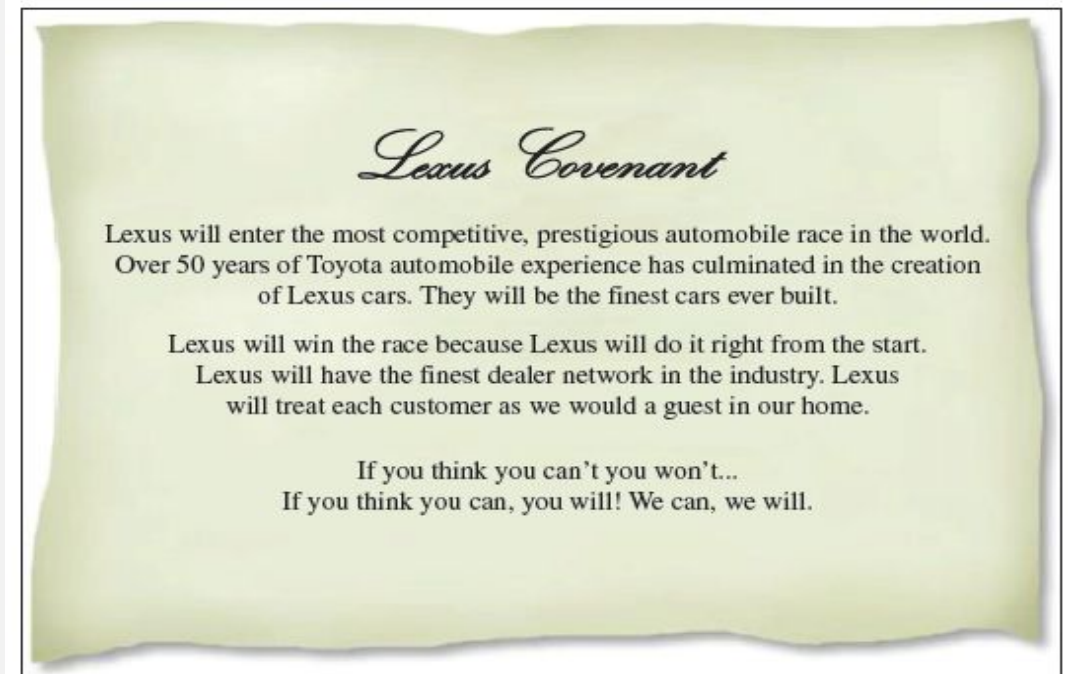
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Product and Service Decisions

Individual Product and Service Decisions

Product support services augment actual products.

Many companies now use a sophisticated mix of phone, e-mail, online, social media, mobile, and interactive voice and data technologies to provide support services that were not possible before.



● **Customer service:** From the start, under the Lexus Covenant, Lexus's high-quality support services create an unmatched car ownership experience and some of the world's most satisfied car owners.

Toyota Motor Sales, USA, Inc.

Product and Service Decisions

Product Line Decisions

Product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

The major product line decision involves *product line length*—the number of items in the product line.

Product and Service Decisions

Product Line Decisions

Product line length is the number of items in the product line.

A company can expand its product line in two ways: by

- Line stretching
- Line filling



● **Product line stretching and filling:** Through skillful line stretching and filling, BMW now has brands and lines that successfully appeal to the rich, the super-rich, and the hope-to-be-rich.

BMW of North America

Product Line Decisions

Product line filling involves adding more items within the present range of the line for earning extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalization and customer confusion.

Product line stretching occurs when a company lengthens its product line beyond its current range – downward, upward, or both ways.

Product and Service Decisions

Product Mix Decisions

Product mix consists of all the product lines and items that a particular seller offers for sale.

- Width
- Length
- Depth
- Consistency



● The product mix: Colgate-Palmolive's nicely consistent product mix contains dozens of brands that constitute the “Colgate World of Care”—products that “every day, people like you trust to care for themselves and the ones they love.”

Bloomberg/Getty Images

Product Mix Decisions

Product mix width is the number of different product lines the company carries.

Product mix length is the total number of items the company carries within its product lines.

Product mix depth is the number of versions offered of each product in the line.

Consistency is how closely the various product lines are in end use, production requirements, or distribution channels.

These product mix dimensions provide the handles for defining the company's product strategy and increasing business.

From time to time, a company may also have to streamline its product mix to pare out marginally performing lines and models and to regain its focus.

Learning Objective 3

Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require.

Services Marketing

Types of Service Industries

Service industries vary greatly:

Governments offer services through courts, employment services, hospitals, military services, police and fire departments, the postal service, and schools.

Private not-for-profit organizations offer services through museums, charities, churches, colleges, foundations, and hospitals.

Business organizations offer services such as airlines, banks, hotels, insurance companies, consulting firms, medical and legal practices, entertainment and telecommunications companies, real estate firms, retailers, and others.

Services Marketing

Four Service Characteristics

Intangibility refers to the fact that services cannot be seen, tasted, felt, heard, or smelled before they are purchased.

Inseparability refers to the fact that services cannot be separated from their providers.

Variability refers to the fact that service quality depends on who provides the services as well as when, where, and how the services are provided.

Perishability refers to the fact that services cannot be stored for later sale or use.

Services Marketing

Figure 8.3 Four Service Characteristics



Services Marketing

Marketing Strategies for Service Firms

In a service business, the customer and the front-line service employee *interact* to co-create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees.

Thus, successful service companies focus their attention on *both* their customers and their employees.

They understand the **service profit chain**, which links service firm profits with employee and customer satisfaction.

Services Marketing

Marketing Strategies for Service Firms

In addition to traditional marketing strategies, service firms often require additional strategies.

- Service-profit chain
- Internal marketing
- Interactive marketing

Services Marketing

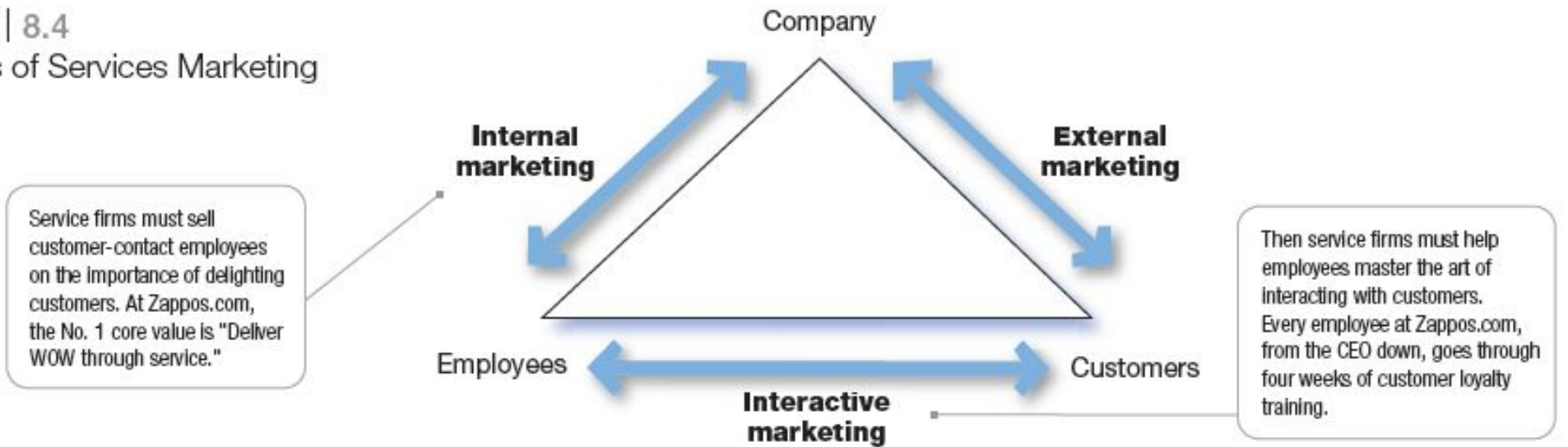
Marketing Strategies for Service Firms

Service-profit chain links service firm profits with employee and customer satisfaction.

- Internal service quality
- Satisfied and productive service employees
- Greater service value
- Satisfied and loyal customers
- Healthy service profits and growth

Services Marketing

● FIGURE | 8.4
Three Types of Services Marketing



Services marketing requires more than just traditional external marketing using the four Ps. Figure 8.4 shows that services marketing also requires internal marketing and interactive marketing.

Services Marketing

Marketing Strategies for Service Firms

Internal marketing means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction.

With **internal marketing**, marketers must get everyone in the organization to be customer centered.

In fact, internal marketing must ***precede*** external marketing.

Services Marketing

Marketing Strategies for Service Firms

Interactive marketing means that service quality depends heavily on the quality of the **buyer-seller interaction** during the service encounter.

- Service differentiation →
- Service quality →
- Service productivity →

Services Marketing

Marketing Strategies for Service Firms

Managing service differentiation creates a competitive advantage.

- The ***offer*** can include innovative features that set one company's offer apart from competitors' offers.
- Service companies can differentiate their service ***delivery*** by having more able and reliable customer-contact people, developing a superior physical environment in which the service product is delivered, or designing a superior delivery process.
- **Image**

Services Marketing

Marketing Strategies for Service Firms

Managing service quality enables a service firm to differentiate itself by delivering consistently higher quality than its competitors provide.

- Service quality is harder to define and judge than product quality. Customer retention is perhaps the best measure of quality.
- Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service—they strive for 100 percent defect-free service.
- Service quality will always vary, depending on the interactions between employees and customers, yet even the best companies will occasionally deliver services which fall short of customer expectations.
- However, good **service recovery** can turn angry customers into loyal ones and can win more customer purchasing and loyalty than if things had gone well in the first

Services Marketing

Marketing Strategies for Service Firms

Managing service productivity refers to the cost side of marketing strategies for service firms. A service provider can harness the power of technology to make service workers more productive.

- Employee hiring and training
- Service quantity and quality

Learning Objective 4

Discuss branding strategy—the decisions companies make in building and managing their brands.

Brand Strategy: Building Strong Brands

Brand Equity and Brand Value

- **Brand equity** is the differential effect that knowing the brand name has on customer response to the product or its marketing.
- A powerful brand has high brand equity.
- It's a measure of the brand's ability to capture consumer preference and loyalty.
- A brand has positive brand equity when consumers react more favorably to it than to generic or unbranded products.

Brand Strategy: Building Strong Brands

Brand Equity and Brand Value

- **Brand value** is the total financial value of a brand.
- A brand with high brand equity is a very valuable asset. Brand valuation is the process of estimating the total financial value of a brand. Measuring such value is difficult.
- However, according to one estimate, the brand value of Apple is a whopping \$185 billion, with Google at \$113.6 billion, IBM at \$112.5 billion, McDonald's at \$90 billion, Microsoft at \$70 billion, and Coca-Cola at \$78.4 billion

Brand Strategy: Building Strong Brands

Brand Equity and Brand Value

High brand equity provides a company with many competitive advantages:

- high level of consumer brand awareness and loyalty
- more leverage in bargaining with resellers
- easier launch of line and brand extensions
- defense against fierce price competition

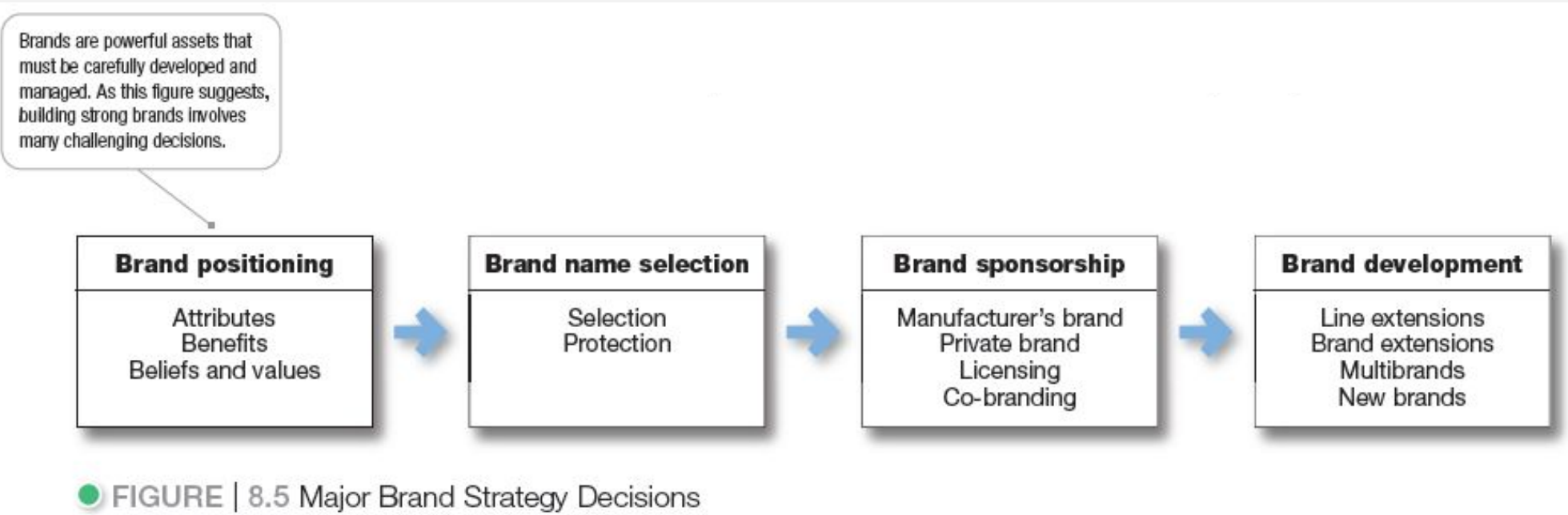
A powerful brand forms the basis for building strong and profitable customer relationships. The fundamental asset underlying brand equity is ***customer equity***—the value of customer relationships that the brand creates. Companies need to think of themselves not as portfolios of brands but as portfolios of customers.

Brand Strategy: Building Strong Brands

Branding poses challenging decisions to the marketer.

Figure 8.5 shows that the major brand strategy decisions involve *brand positioning, brand name selection, brand sponsorship, and brand development.*

Brand Strategy: Building Strong Brands



Brand Strategy: Building Strong Brands

Building Strong Brands

Brand Positioning

Marketers can position brands at any of three levels.

- At the lowest level, they can position the brand on **product attributes**. Attributes are the least desirable level for brand positioning because competitors can easily copy attributes. Customers are not interested in what the attributes are—they are interested in what the attributes will do for them.
- A brand can be better positioned by associating its name with a desirable **benefit**.
- The strongest brands are positioned on strong **beliefs and values**, engaging customers on a deep, emotional level.

Brand Strategy: Building Strong Brands

Building Strong Brands

Brand Name Selection

Suggests benefits and qualities

Desirable qualities for a brand name include the following.

- (1) It should suggest something about the product's benefits and qualities: Beautyrest, Lean Cuisine, Snapchat, Pinterest.
- (2) It should be easy to pronounce, recognize, and remember: iPad, Tide, Jelly Belly, Twitter, JetBlue.
- (3) The brand name should be distinctive: Panera, Swiffer, Zappos, Nest.
- (4) It should be extendable—Amazon.com began as an online bookseller but chose a name that would allow expansion into other categories.
- (5) The name should translate easily into foreign languages. Before changing its name to Exxon, Standard Oil of New Jersey rejected the name Enco, which it learned meant a stalled engine when pronounced in Japanese.
- (6) It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.

Brand Strategy: Building Strong Brands

Brand Sponsorship

*A manufacturer has four **brand sponsorship** options.*

- **National brands** (or **manufacturers' brands**) have long dominated the retail scene.
- **Store brands or Private brands**
- Licensed brand
- Co-brand

Brand Strategy: Building Strong Brands

Brand Sponsorship

Licensing: Some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name.

Co-branding occurs when two established brand names of different companies are used on the same product. Co-branding offers many advantages. Because each brand operates in a different category, the combined brands create broader consumer appeal and greater brand equity. Examples include Benjamin Moore and Pottery Barn, Taco Bell and Doritos.

Co-branding can take advantage of the complementary strengths of two brands. It also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone.

Brand Strategy: Building Strong Brands

● FIGURE | 8.6
Brand Development Strategies

		Product category	
		Existing	New
Brand name	Existing	Line extension	Brand extension
	New	Multibrands	New brands

This is a very handy framework for analyzing brand development opportunities. For example, what strategy did Toyota use when it introduced the Toyota Camry Hybrid? When it introduced the Toyota Prius? The Scion?

Brand Strategy: Building Strong Brands

A company has four choices when it comes to **brand development** (see Figure 8.6). It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

Line extensions occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category.

Brand extension extends a current brand name to new or modified products in a new category. For example, Starbucks has extended its retail coffee shops by adding packaged supermarket coffees

Brand Strategy: Building Strong Brands

Multibrands: Companies often market many different brands in a given product category. For example, in the United States, PepsiCo markets at least eight brands of soft drinks (Pepsi, Sierra Mist, Mountain Dew, Manzanita Sol, Mirinda, IZZE, Tropicana Twister)

New brands: A company might believe that the power of its existing brand name is waning, so a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of its current brand names are appropriate. For example, Toyota created the separate Lexus brand aimed at luxury car consumers and the Scion brand, targeted toward Millennial consumers.

Brand Strategy: Building Strong Brands

As with multibranding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands, with too few differences between them.

Thus, P&G, PepsiCo, Kraft, and other large consumer-product marketers are now pursuing *megabrand* strategies—weeding out weaker or slower-growing brands and focusing their marketing dollars on brands that can achieve the number-one or number-two market share positions with good growth prospects in their categories.