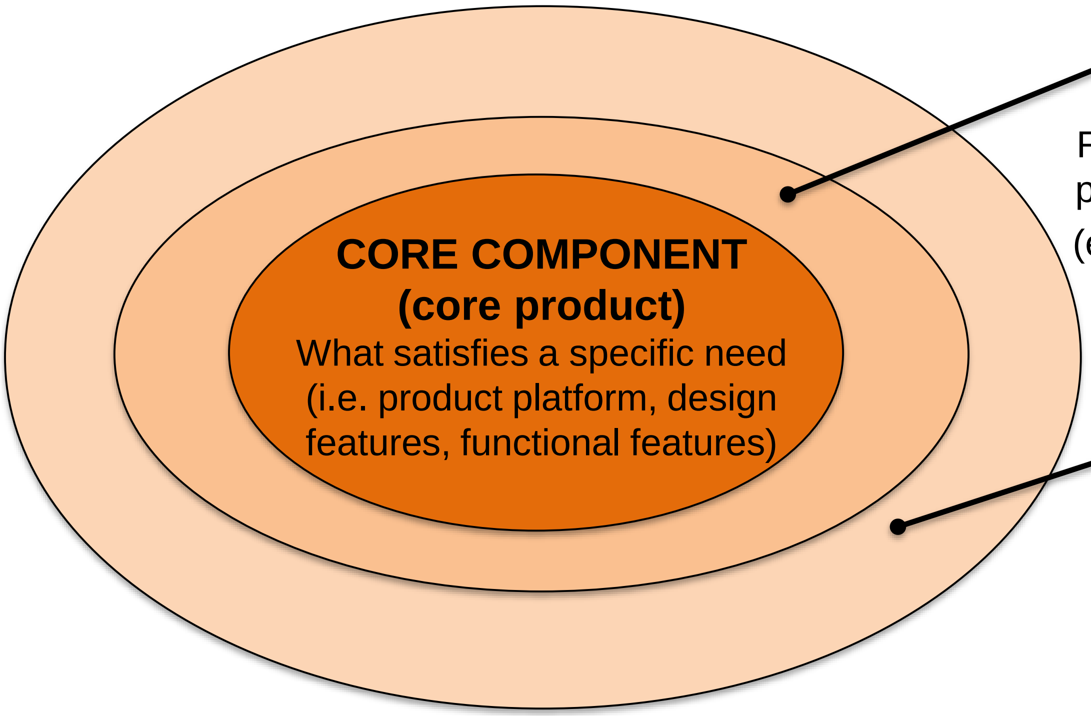
# Lecture 6

- Product classification
- Product mix decisions
- International product strategy
- Standardization toward adaptation
- Branding strategy

# Product Component Model (Levels of the product)




**PACKAGING COMPONENT**
**(intangible benefits)**

Related to the way of feeling by having the product, like prestige, status, comfortability
(e.g. quality, styling, brand name, package)

**SUPPORT SERVICES COMPONENTE**
**("augmented product")**

Everything "around" the product
(e.g. post-purchase services, warranty, customer service)

*The competitive advantages is mostly built up by developing the intangible and augmented levels of a product, since the core level is often very basic and it can be easily imitated by competitors*

# Product classification

- Products can be classified according to their *durability* and *tangibility*:

**Non-durable products** – normally consumed quickly and used on one or a few usage occasions, such as beer and food products in general.

**Durable products** – used over an extended period of time and normally survive for many years, such as refrigerators, cars and furniture.

- Products can be classified according to their *use/target*:

**To customers - Consumer goods** – they are bought by final consumers for personnel consumption and they can be classified in base of consumer shopping habits.

**To companies - Industrial goods** – they are bought for further processing or for use in conducting a business; the difference from consumer goods is on the *purpose* for which the product is purchase.

# Consumer products

**Convenience goods** – bought frequently, immediately and with a minimum of comparison and buying effort (e.g. soap, newspapers, fast-food); they can divided in *staples* (e.g. milk, toothpaste and bread), *impulsive goods* (like chocolate bar, magazines) and *emergency goods* (like umbrellas during rainstorm).


**Shopping goods** – bought less frequently and consumers spend considerable time and effort gathering information and comparing alternative brands carefully on suitability, quality, price and style (e.g. furniture, clothing and household appliances).

**Specialty goods** – they have unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort (e.g. certain types of car, high-price home entertainment systems, designer clothes, luxury goods); buyers know exactly the product to purchase.

# Industrial products

**Materials and parts** – they become a part of the buyer's product, through further processing or as components:

- **raw materials**: they may be *farm products* (e.g. cotton, fruits, vegetables) and *natural products* (e.g. crude petroleum, iron, fish).
- **manufactured materials and parts**: they include *component materials* (e.g. iron, cement) and *components parts* (e.g. small motors, tyres).

**Capital items** – they are industrial products that help in the buyer's production or operation, such as *installations* (e.g. factories, offices) and *accessory equipment* (e.g. lift trucks, fax machines, printers).

**Supplies and services** – they do not enter the finished product, but contribute to its manufacture (e.g. computer paper, pencils, management consulting).

# Product requisites for international markets

- Able to satisfy needs and expectations of consumer-target in the foreign market (it may be easier for industrial goods than for consumer products!)
- Reliable and innovative (not necessary totally new!)

  Innovation: intrinsic and extrinsic elements of the product; marketing mix tools; launch time to market
- Internationalization of the product in the right moment of its cycle of life
  - in the "development stage" - more business opportunities and less probabilities to have the product imitated
  - in the "mature stage" – decreasing profit in the home-country and possible growth in the foreign markets
- Compatible to the foreign market's development
- Respondent to quality, quickly and safely delivered, provided with customer care and pre/after technical services

# The main product elements

**QUALITY** – it is one of the major positioning tools; it has two dimensions:

- **level**: it will support the product's position (durability, reliability, precision)
- **consistency**: it means conformance quality, freedom from defects and effective in delivering a targeted level of performance

**DESIGN** – it is connected to firm's image and can show an outstanding style (Bose, Ikea, BMW, Apple).

**BRAND** – it can deliver up to four levels of meaning:

- **attributes**: product attributes, e.g. Mercedes – well done, high prestige, expensive
- **benefits**: product attributes must be translated into functional and emotional benefits
- **values**: brand expresses something about buyers' values
- **personality**: brand projects personality (wealthy, middle-age business man) – connection between desired self-image and brand's image

**PACKAGING AND LABELLING** – packaging 'contains' the product and improves its visibility; labelling informs buyers about product features, such as producer's location, use and nutritional information.

# Measuring the company's product mix

Product mix needs to be measured in order to manage the life cycle of products, the product innovation and the overall marketing strategies both at local and international level.

**Depth**

(number of versions/models offered for each product)

***DIFFERENTIATION***

**Length**

(total numbers of products offered)

***DIVERSIFICATION***

| | |
|---|---|
| **Product A** | **A1, A2, A3, A4** |
| **Product B** | **B1, B2** |
| **Product C** | **C1, C2, C3, C4, C5, C6** |
| **Product D** | **D1** |

**Consistency**

(how closely related the various product lines are in end of use, production requirements, distribution channels)

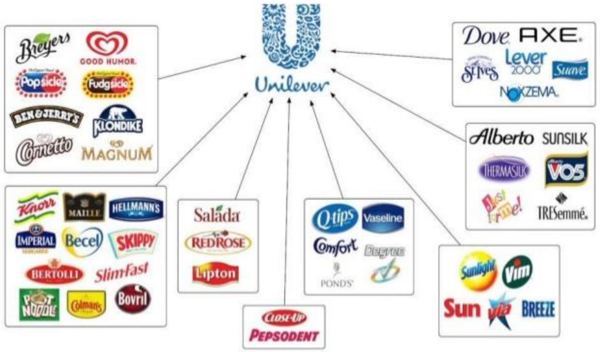
# Products and lines

**Product mix** (or product assortment): the all products/lines offered by a firm (e.g. personal care products, food products, home cleaners)

**Line**: group of products of the same category (e.g. shower soap, deodorant, body lotion)

**Subline**: part of line for specific products (e.g. baby care products)

Unilever products





# Diversification strategy

***DIVERSIFICATION can regard***

***production***

diverse industrial sectors/products
(e.g. cars and furniture)

***brand***

products belonging to the same category and offered with different brands
(e.g. Tide in USA e Dash in Italy)

***place***

diverse geographical countries/areas

Advantages:

- Brand diversification avoids negative influences over the all product mix if one product/brand fails in the market.
- Focused communication and advertising.
- Development of brand loyalty.

## Diversification

It is a growth strategy and implies that the company enters in new businesses/industrial sectors.

When the new business is related to the core business, the diversification is called 'related' (i.e. the sector is somehow connected to the one where the company already operates; e.g. clothes and shoes).

When the new business is remarkably divergent from the core business, the diversification is called 'unrelated' (i.e. it does not have anything in common with the core business; e.g. clothes and insurance services).

## Differentiation

It is a growth strategy within the sector where the company operates.

It implies to expand in the same industry by covering more segments, thus offering more models and variations of the same product (i.e. the product is basically the same, but customers can choose among different types, which respond to different tastes).

By increasing the degree of differentiation of a product the company satisfies differentiated needs expressed by differentiated customers.

Differentiation strategy means also that the company produces a good 'different' from its competitors (e.g. higher quality, better performance, strong brand image).

# Deciding on the global marketing program

The marketing programme for each foreign market must be carefully planned. Marketers have to decide the precise customer target to serve and whether it is necessary to adapt the firm's marketing to local conditions.

**STANDARDIZATION MARKETING MIX** ⟷ **ADAPTATION MARKETING MIX**

(many strategic options in the middle)

By standardizing a company can

- keep *strong brand power*
- create a common 'marketplace' (same product sold in the same way to all consumers worldwide)
- achieve economies of scale
- focus on volumes and improve the market share

By adapting a company can

- *customize* in relation to specific needs of each targeted consumer group
- enhance different *cultural* backgrounds
- consider different level of income and therefore spending power
- develop brand image through differentiation

# Products for foreign markets

Planning a product for a foreign market requires attention in relation to the following issues:

**INNOVATION**

- A product can be innovative for the company but not for the market (the product already exists in the market)
- A product can be innovative for the market but not for the company (the product is already part of the firm's product portfolio)
- A product can ben innovative for both company and market (it may be a radical innovation for the entire industry)

**TIME**

- Degree of obsolescence
- Time to market
- Lead time for imitation by competitors

**DEGREE OF NEWNESS**

- New product
- Product partially modified (e.g. in technical features, packaging, promotion)

# International product strategy

## STRAIGHT PRODUCT EXTENTION

The firm markets a product in a foreign country *without any change.*

*(e.g. Coca-Cola, Kellogg cereals, Heineken beer, and Black&Decker; it involves no additional product-development costs, manufacturing changes or new promotion; but it can be costly in the long run if products fail to satisfy foreign consumers)*

## PRODUCT ADAPTATION

It involves *changing* the product to meet local conditions or wants.

*(e.g. Philips had to reduce the size of its coffee makers to make them fit into smaller Japanese kitchens; Nokia customized its cellular phones for Asian markets with very high ring volume so the phone could be heard on crowded Asian streets)*

## PRODUCT INVENTION

It consists of creating *something new* for the foreign market; it can be very costly but the pay-offs are worthwhile

*(e.g. Quaker Oats researched the nutrition needs of less developed countries, creating new high-protein foods)*

# Branding

Companies use brands to be able to convey their marketing strategy and positioning to the market.

Brands are now the most valuable assets companies have (e.g. Apple, Coca-Cola, Ferrari, Sony).

Brands have a profound impact on society, nation/country and customer emotions, thus awarding the brand owner a great responsibility. From a marketer's point of view, the most important impact of brands is that they lead to customer satisfaction and loyalty.

- **BRAND LOYALTY –** It leads to resistance to switching to another company's product (the more satisfied a customer is, the less inclined he or she will be to buy or even try a competing product)
- **CUSTOMER LOYALTY –** It creates barriers to entry for competitors (to take market shares away from an stablished brand would require excessive effort and resources)

# Characteristics of brands

Brands include several levels of meaning that a brand is able to deliver:

1. **Attributes** (products attributes)
2. **Benefits** (what the customer is interested in about the product)
3. **Image** (coherent with the values of the customer)
4. **Personality** (able to express the self-concept dimension)
5. **Consistency** (reliability and level of quality)
6. **Differentiation** (different from other offers)
7. **Equity** (the value is provided by the firm and its stakeholders)

# The Country-of-origin Effect

The country of origin of a product, typically communicated by the phrase "Made in (country)", has a considerable influence on the quality perception of a product. The manufacture of products in certain countries is affected by a built-in positive or negative stereotype of product quality. These stereotypes become important when important dimensions of a product category are also associated with a country's image.

When the country of origin does not matter to consumer, it is the exporter's best interest to monitor consumers' perception.

When the country's image is positive, it can become *source for competitiveness* for those companies manufacturing in that country and, therefore, for their product worldwide (e.g. fashion clothing Made in Italy, cars Made in Germany, wine Made in France).

*Problem: as companies change their bases to manufacture products through delocalization, it becomes more difficult to identify the "real" origin of a product ("hybrid products").*

# Branding strategy

Brand development strategy should follow seven steps:

1. Analyse the competition (who are the competitors and how do they behave?)
2. Identify your target customer (what elements of the product/service are the particular customers looking for?)
3. Decide on the positioning in the particular market
4. Develop a consistent marketing communication strategy (can brand be globalised? How much does it need to be localised?)
5. Decide on global versus local content mix
6. Create a balance between brand elements (how to combine the brand's contents with the other elements of the brand?)
7. Stablish an international brand equity measurement system (how to control branding worldwide and its consequences on a company's success or failure in a foreign market?)

# Branding choices for foreign markets

## SAME BRAND FOR ALL PRODUCTS

(*e.g. Coca-Cola; Apple; Nike)*

It enhances brand image and company image.

It is risky: if a product fails in the market it damages the image of all others.

## DIFFERENT BRANDS FOR DIFFERENT PRODUCTS

(*e.g. P&G, Unilever)*

It gives identity to the product and not to the producer, so the company image is not involved.

It is costly: it implies to develop specific marketing strategies for each product.

## COMPANY NAME + PRODUCT NAME

(*e.g. Ferrero Nutella/Roches; Netlè Nesquik, Kellogg Cereals)*

It enhances the connection between company image and its products.

# Brand strategy

A company must define its overall branding strategy, which affects all of its products.

| | | Product category: Existing | Product category: New |
|---|---|---|---|
| **Brand name** | **Existing** | **Line extension** (additional items under the same brand) | **Brand extension** (use brand name to launch new or modified products in a new category) |
| | **New** | **Multibrands** (individual brand for each product; finer segmentation; in contrast with corporate branding) | **New brands** (to differentiate a new product or give it a different positioning compared with the other products) |

# Class exercise

We have discuss about stereotypes, ethnocentrism, degree of economic development and fads as the basis for generalizations about country-of-origin effect on product perception.

1. Explain the meaning of each issues
2. Give an example for each