
UNIT 11 PRODUCT DECISIONS AND STRATEGIES

Objectives

After going through this Unit, you should be able to:

- understand the difference between consumer and industrial products
- identify various product line decisions
- understand the concept of product line and mix
- appreciate the concept of product diversification

Structure

- 11.1 Introduction
- 11.2 What is a Product?
- 11.3 Types of Products
- 11.4 Marketing Strategy for different types of Products
- 11.5 Product Line Decision
- 11.6 Diversification
- 11.7 Summary
- 11.8 Key Words
- 11.9 Self-assessment Test
- 11.10 Further Readings

11.1 INTRODUCTION

Product related decisions form one of the 4Ps of marketing mix. These decisions include introduction of new products, improvement of existing products, planned elimination of obsolete products and, packaging and branding. In this unit, we will discuss the framework within which these decisions are taken. Starting with identifying various types of products, we will introduce new terms like product line and mix. Most product decisions are taken in the context of the overall strategy of an organisation. This strategy may also include important areas of diversification. We will discuss some of the important alternatives for diversification.

11.2 WHAT IS A PRODUCT?

In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product, or how it should be viewed from a marketing perspective. You may like to think a little deeply on what is meant by the word 'product'. Let us understand this with the help of an illustration.

Whilst conducting seminars for experienced salesmen who had been in the field for 10 to 12 years, salesmen were asked a question,

“What are you selling ?”

Different answers were received from different groups. One group answered, **“Soaps”**. When asked, **“What? What did you say?”** the salesmen would immediately answer back, **“Soaps, soaps, soaps”**. They even tried to help the seminar leader by putting forward their right hand with the first finger and the thumb holding something rectangular, thereby assisting him to visualise soap.

In case of another consumer products organisation, the salesmen's answer was, **“Bulbs”**. When seminar leader frowned and asked them, **“What did you say?”** the answer came back, **“Bulbs, bulbs, bulbs, Sir”**. They even put out their right hand and moved the fingers of their hand to show something blinking, so that instructor understand what they were selling.

The third group answered, "Drills". When asked again, in the same way, they replied, "Drills, drills, drills..... brr... brr... brr". Thus they tried to explain, as if the instructor was deaf and could not understand the meaning of drills even by making those funny noises.

Now the question is, "Were the salesmen correct in their answers?"

Activity 1

In the above example, if you think that the salesmen's answers are wrong, then please write down below, against each item, what these salesmen were really selling, instead of what they said they were selling.

- 1) Soaps
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- 2) Bulbs
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- 3) Drills
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Before we analyse the answers, let us give you another question. You may like to fill in the blank or complete the following sentence.

"A good salesman does not sell goods. He sells"

If your answer to this question was something like the word 'satisfaction' or 'benefits', then you are on the right track.

Please remember that the customer is not interested in your goods. He is interested in himself and what 'benefits' he will get, and not in you or your organisation. Thus a product is the bundle of benefits or satisfactions offered to a customer. This is the meaning which must be accepted in a marketing sense, so that you become 'consumer-oriented'. Now you can modify your answers about what they were selling in connection with soaps, bulbs and drills as given above.

Let us take the example of soaps. Is a salesman selling some chemicals put together in the form of a rectangle or any other shape called soap? Why not think of some of the advertisements that you have come across in connection with soaps. Take Hindustan Lever's LUX soap. What are they selling? You must have noticed the film actress in the advertisement for LUX. Are they selling the film actress? Obviously not! They are selling a "good beautiful complexion" or a "lovely skin".

Now perhaps you can answer regarding bulbs and drills yourself. Very briefly, in case of bulbs, your answer should be something like good illumination, large number of hours of light or durability, etc. In case of drills, the answer may sound strange to you, but it is really "holes". After all, these industrial drills are sold on the basis of the quality, etc. of the holes that they promise to drill for the user of the drill.

Activity 2

Question: What is a motor car manufacturer selling? Put a check-mark (✓) against the correct answer. If you feel the answer is something different, put a check-mark in the 'any other' portion and then write what you mean.

- Answers:** () assembled pieces of metal, rubber, paint and other material;
 () a mass of molecules
 () a symbol of economic and social status
 () transportation
 () any other, please specify:

A motor car in terms of marketing is something more than merely assembled pieces of metal, rubber, etc. It certainly provides 'transportation' and that is one of the important

benefits provided by a car. However, this is not the only reason why motor cars are bought. Why some people move about in expensive foreign cars? The expensive cars obviously provide a sort of 'image' or a 'status symbol' for the purchaser.

So it can be said that a product is a combination of several characteristics—**physical and psychological**. How people personally feel about, or perceive the product is just as important as the actual physical characteristics of it.

Product Differentiation: You must have understood now that a product is really a bundle of potential benefits offered to a purchaser. However, there are certain products which basically look alike. Take toothpastes, for example. These are offered by different manufacturers and were it not for the tube and the branding, the customer would not even be able to distinguish between the products of most different manufacturers. To make their product distinct from others the manufacturers identify them to the customer, that is, 'differentiate', by using different packaging, colouring etc. and by emphasising different benefits or advantages in their promotion.

Product Positioning: You know that all products do not appeal to all income groups or age groups, unless they are meant to satisfy basic necessities. A manufacturer can thus use the need-oriented segmentation. For example, a toothpaste manufacturer may appeal to prevention of 'tooth decay', while another might offer 'sociability' in the sense of preventing bad breath. Still another may provide the need to be 'attractive' by emphasising the whiteness of the teeth which his product, toothpaste, gives. This is the concept of product positioning. In the case of soft drinks, positioning can be done in terms of pricing, calorie contents and in many other ways. Thus positioning is used for bringing about differentiation in a manufacturer's product.

11.3 TYPES OF PRODUCTS

Let us now analyse the different types of products we come across. Generally products are classified into two types, namely

- 1) Consumer Products and
- 2) Industrial Products.

Consumer Products or Goods

Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can be divided into

- 1) Convenience Goods,
- 2) Shopping Goods,
- 3) Durables or Durable Goods, and
- 4) Non-durables or Non-durable Goods.

Convenience Goods

These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, toiletries, cigarettes, etc. Often convenience goods are bought impulsively or spontaneously. For example, when a person goes shopping around and see a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis.

Shopping Goods

These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, emphasis on quality, price, fashion, style, etc. are of great importance. A common example, in the Indian context, would be the purchase of sarees by ladies. Generally, ladies go looking around from shop to shop before they make their final selection. Hence, the expression 'shopping' goods. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.

Durable Goods

These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection.

In case of certain types of durables, after sales service is very essential. If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to do so. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual user of machine.

Non-durable Goods

These are goods which get depleted on consumption. For example a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

Services

Services are specially mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners etc. need marketing.

Industrial Products

These are products which are sold primarily for use in manufacturing other goods or for rendering some service. These include items like machinery, components and raw materials which form the bulk of industrial goods. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling. Raw materials on the other hand require a certain amount of technical knowhow on the part of the seller. The same would apply to component parts also.

Machinery is also sold generally through the salesforce, particularly if it is of the heavy type. It is obvious that the latter cannot be stocked in retail outlets. The type of product determines the type of marketing mix which has to be adopted.

Industrial goods also include supplies and services. Supplies may be like lubricant and oil or typing paper in connection with the office. Supplies are similar to convenience goods. They are purchased with very little effort and repurchased once the consumer is satisfied. They are also marketed through retail outlets. Industrial services include maintenance and repairs. For example, persons having typewriters naturally want them to be looked after on a regular basis generally by the same (regular) maintenance person who is normally an outsider. Similarly, after purchasing a computer, service is necessary. These services are often provided by small producers or by the manufacturer of the original equipment itself.

Activity 3

- a) Write down the types of products which come to your mind or the ones which you are selling:

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- b) Identify the customers in each case.

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- c) How do they differ from one another?

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11.4 MARKETING STRATEGY FOR CONSUMER AND INDUSTRIAL PRODUCTS

Let us briefly analyse the difference in marketing strategies which might be required for the two types of products namely consumer and industrial products.

This understanding is important for product line decisions. Industrial products are generally subject to greater standardisation, as against certain consumer products which require frequent changes in fashion and style. Advertising normally is an important promotional tool for consumer products, but may not be so in the case of industrial products. Personal selling and after sales service is generally more important for industrial products. Industrial products generally involve high value purchases and this involves competitive bidding based on price competition. Selling is done on the basis of quality or tangible attributes. As against this, consumer products are very often sold for psychological satisfaction. For example, in case of soaps, Lux soap offers you a complexion like that of a film star. (This is on the presumption that film stars do have lovely complexions, as they appear to have on the screen.)

Consumer products require elaborate channels of distribution, but industrial products are sold through fewer outlets and often directly by the organisation itself. These are some of the salient features of marketing of consumer products as against industrial products. A more detailed treatment will follow in subsequent units on promotion and physical distribution.

11.5 PRODUCT LINE DECISIONS

Let us now understand terms like product item, product line and product mix frequently used in managing products.

A Product or Product Item

The 'Product Item' refers to a specific product or brand like Hamam or Moti soap. There are companies with only one product and there are others having several products for various reasons, may be higher market share or higher profits or both or any other reasons.

Product Line

It is a part of the product strategy to determine whether an organisation will have a single product or more than one product. A 'Product Line' is an expression used to describe a group of closely related products. Examples of these would include the Usha line of fans or the Lakme line of cosmetics.

In case of product line, very often a product manager or a product line manager is appointed to look after a particular product line. Generally, he tries to enlarge his product line because he wants a higher market share, or growth in volume of sales resulting in more profit. The latter aspect must always be remembered, and the product line manager should be willing to eliminate any product which is found to be unprofitable, or not required to complete the line of products offered.

Product line decisions have to be taken about how long or short the line should be. The basic considerations being the capacity of the organisation in terms of availability of production facilities, finance, etc. and the profitability of the items in the product line.

A line of product is often meant to meet various segments of customers.

Consider the soap line of Hindustan Lever, as an example. 'LIFEBUOY' is described as the soap that washes away dirt and is aimed at the lower income level.

For the middle priced market, this company offers LUX soap advertised as the beauty soap of film stars. Recently, as you must have noted, it was relaunched with a new perfume and a smart new look. For the 'premium market', Hindustan Lever offers 'PEARS'. Primarily positioned for upper class the soap is supposed to take care of tender skin. An interesting point in this illustration is that each product item is marketed under different brand names, because a brand preferred by lower social classes will not be bought by higher classes.

Activity 4

Identify product items in case of the following product lines of various organisations or brands.

Brand/Organisation	Product Line	Product Item
MRF	Tyres
GODREJ	Soaps
Taj Mahal	Tea Bags
BPL	Colour TVs
TELCO	Light Commercial Vehicles

Product Mix Strategy

The expression 'product mix' is used to refer to a set of all the products offered for sale by a particular company. The 'Product Mix Strategy', includes all product lines and product items offered by a company. An organisation has various options to improve its product mix. It can add new products in a particular product line, or add new product lines, thus widening its product mix. This brings us to the more important question of product diversification.

11.6 DIVERSIFICATION

The meaning of the word diversification is very simple. As soon as a manufacturer offers more than one product, it is described as product diversification. Generally, diversification is categorised into two types:

- 1) Related Diversification and
- 2) Unrelated Diversification.

Where the new products introduced in the product mix are similar to the existing product, diversification is described as 'related'. When a company accepts new products which are very different from the existing products, the diversification is said to be 'unrelated'.

Related Diversification

Related diversification is the commonest form of diversification, inexpensive and easier. As part of activity 4 you have really recorded the cases of closely related

diversification in each Product Line. These also constitute a Product Line. However, in our earlier illustration of Hindustan Lever we can also include other brands of soaps or cleaning materials such as Vim, Surf or Rin, manufactured by this company as part of related diversification strategy. So far, the relatedness of the products is quite clear. However, this relatedness is sometimes stretched to include other similar items. For example, in case of Hindustan Lever, toiletries would also be included under related diversification. For example, Hindustan Lever produces Signal and Close-up Toothpastes.

Some of the probable reasons for companies undertaking related diversification are:

- 1) to make a more effective use of the existing selling and distribution facilities,
- 2) to use its under-utilised production capacity,
- 3) to meet varied customer needs,
- 4) to take advantage of its existing reputation in a particular type of products, and
- 5) to increase the sale of existing products.

Do you know why Gillette company launched their razor? Surprisingly, the answer was not just to make more profits through this extra product namely the razor, but to increase the sale of their blades.

Unrelated Diversification

When the new products offered or introduced are quite different from the existing ones, the company is said to have adopted the strategy of unrelated diversification. For example, if a consumer products' manufacturer diversifies into the manufacture of raw materials such as chemicals or industrial products, such diversifications would be described as unrelated diversification. This naturally involves heavier costs and management challenges. This is the reason why related diversification is more popular.

Hindustan Lever was basically a consumer products company. It was forced into unrelated diversification because of its desire to grow in the face of Foreign Exchange Regulation Act and Industrial Licensing Policy. Today this company is a leading manufacturer of sodium tripoly phosphate (STPP), glycerine, nickel catalyst and fine chemicals. It is also producing a plant-growth nutrient, a product of its own research innovation, branded 'Paras'. It is supposed to increase cereals and vegetable yields considerably. Thus, this company has now diversified into unrelated products. Take another well known company which has a varied product mix-Godrej; it not only makes cosmetics, but also steel furniture, animal feeds and its popular locks. It can be seen that this company has also adopted unrelated diversification as its product mix strategy.

Integrated Diversification or Integration

Backward Integration is a term applied where a company diversifies and manufactures products which it previously purchased, that is, industrial products. For example, a company may start manufacturing what it uses as raw materials for its final products. Previously this raw material was purchased from outside. Now the company has decided to be independent of outsiders and so indulges in backward integration.

Activity 5

You may like to correspond with officials of Reliance Industries Limited (address: Maker Chambers IV, 222, Nariman Point, Bombay-400021) to find the details of their backward integration strategy and record the summary below.

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The term **Forward Integration** applies when a company decides to go forward into starting its own distribution system from mere manufacturing. In this way, it gains independence with regard to retail outlets. Bata brand of shoes are largely retailed through company controlled outlets.

At times the expression “**Horizontal Integration**” is also used. This is where the company starts buying up and getting control over its competitors.

However, it must be remembered that any type of integration or diversification involves several questions, the most important of which concern cost, the possibility of profits, the extent of competition and the ability to meet it and the risk involved. These aspects will be discussed in the next unit while discussing the issue of product development strategies. In the final analysis, the product-mix strategy or the diversification strategy of an organisation must fit into the organisation’s long-term objectives in terms of profit, growth and sales stability.

11.7 SUMMARY

Every product or service must offer certain benefit or benefits to the prospective or likely customer either to satisfy some need or solve his problems. Different types of products require different marketing strategies. Personal selling is an important input in marketing of industrial products, whereas promotion and distribution are of critical importance in case of consumer products. You were then introduced to the concept of product line decisions. These involve having more products of the same type, but positioning them differently as shown in example of Hindustan Lever’s soaps. You also have read that there are basically two types of diversifications, related and unrelated. Related Diversification involves going in for similar products. These products generally require the use of the same production, selling and distribution facilities. However, for continued growth of an organisation, it may be necessary to undertake unrelated diversification.

It should be appreciated that whatever has been discussed in terms of the private sector, equally applies to public sector enterprises. Take the example of a public sector enterprise—Bharat Heavy Electricals Limited (BHEL). Whilst it has retained the core-business of power, it is diversifying or planning to diversity into other areas like oil, fertilisers, electronics and transportation.

11.8 KEY WORDS

Consumer Goods are goods which are purchased by the ultimate consumer or user and require no further commercial processing.

Diversification implies that a company has moved from one product item to marketing more than one product.

Product or Goods is a composite of the characteristics and features—physical and psychological—which are offered for purchase by a customer, whether it is a consumer or an industrial purchaser. (In the marketing sense, a product is a bundle of **benefits**—physical or psychological—offered to a customer.)

Product Item refers to a specific product or a brand.

Product Line refers to a group of products which are closely related as satisfying a class of need.

Product Mix is a composite of products which are offered for sale by an organisation and may consist of different types of products—related and unrelated.

11.9 SELF-ASSESSMENT TEST

Write down the answers to the following questions for the purpose of revision. If you want, you can refer back before answering the questions.

1) Explain the following:

“People do not buy a product. They buy benefits”

- 2) Explain the meaning of the expression 'Product Mix'. State the reasons why companies or organisations generally diversify their range of products.
- 3) Explain the meaning of Product diversification, particularly distinguishing between related and unrelated diversifications.

11.10 FURTHER READINGS

Davar Rustom, S. 1969. *Modern Marketing Management in Indian Context*, Progressive Corporation Private Limited: Bombay.

Kotler, Philip, 1987. *Principles of Marketing*, Prentice-Hall of India Private Limited: New Delhi.