

AECON 311: Agribusiness Management
MANAGING PRODUCTS AND PRODUCT
RELATED DECISIONS

Outline

- Concept of a product
- Concept of product mix
- Product levels and dimensions
- Classification of products
- Individual product decisions
- Product mix decisions
- Concept of product life cycle
- New product development

Product Management

CONCEPT OF A PRODUCT

CONCEPT OF PRODUCT

- ❖ **Purpose of business is to create and keep a customer**
- ❖ **Purpose of marketing is to create and deliver superior value to the customer**

- **MARKETING CONCEPT**

- Identify consumer needs / wants
- Create an offering that satisfies consumers
- Generate company profits through customer satisfaction

- Buyer has a need – implies that a buyer has a problem that he is attempting to find a solution to.

- **OFFERING is the PRODUCT that solves the buyer's problem.**

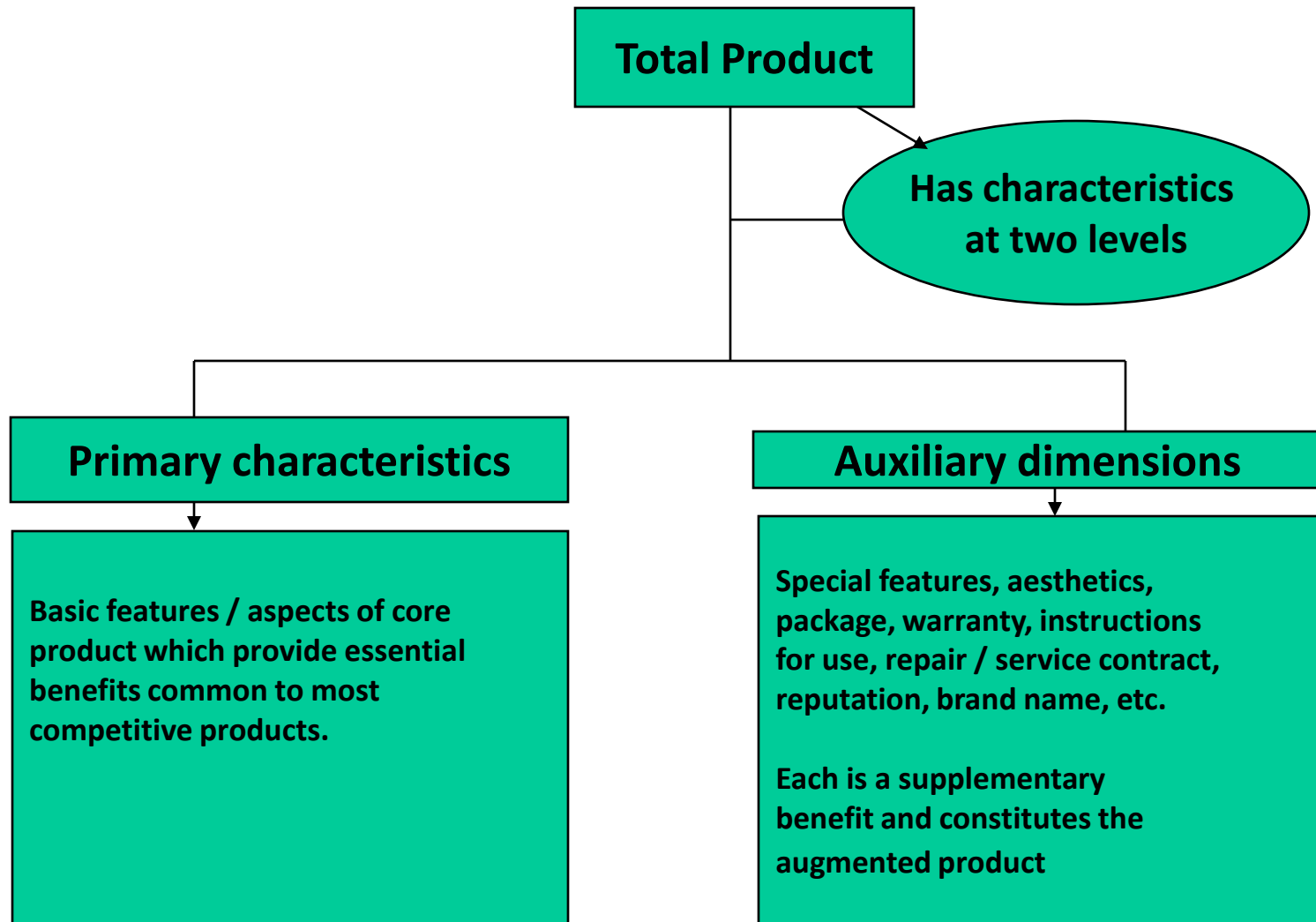
- **Kotler defines a PRODUCT as:**

Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a need or a want

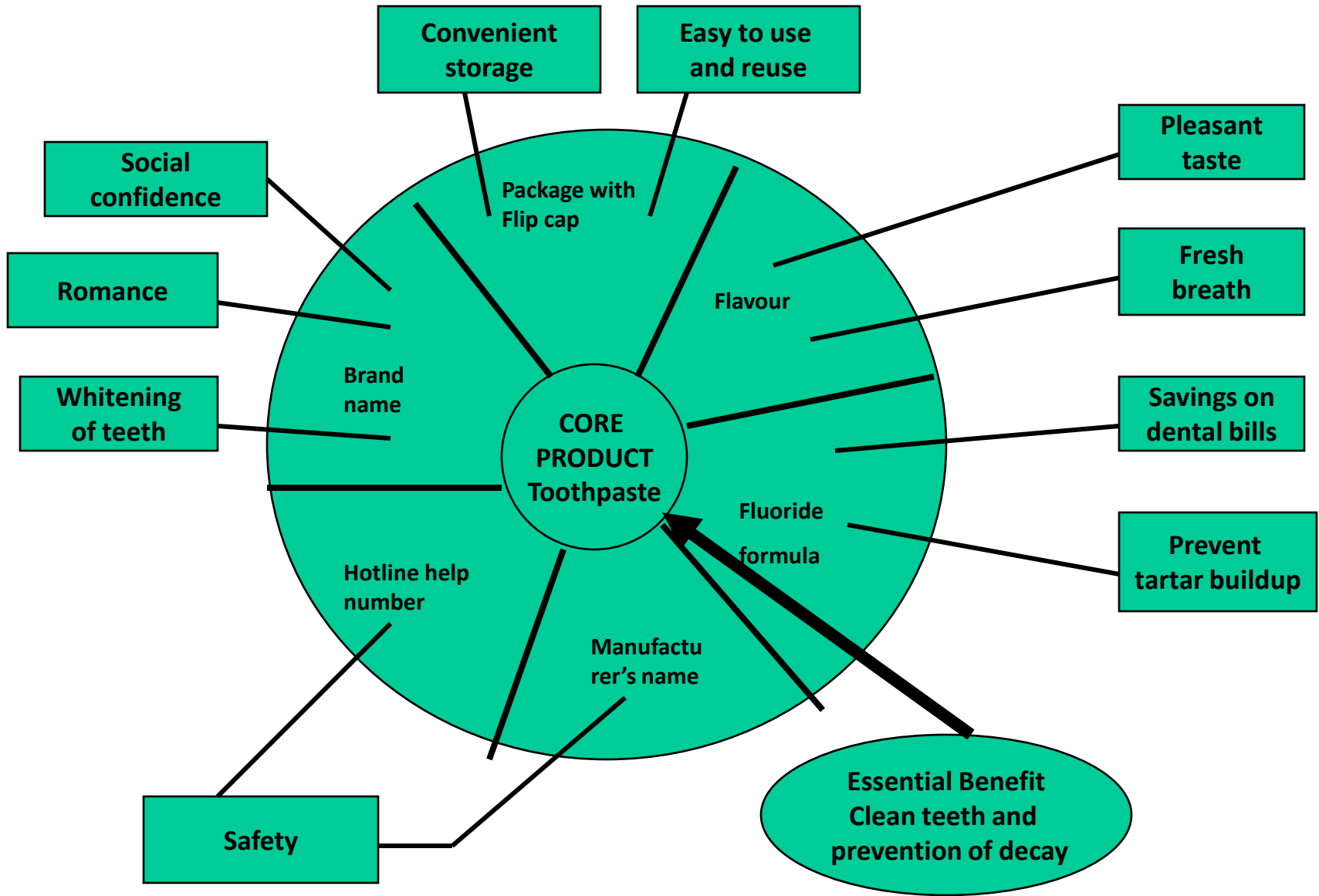
CONCEPT OF PRODUCT ... contd.

- **Theodore Levitt: Products are almost always combinations of the tangible and the intangible ... The generic thing by itself is not the product.. The customer never just buys the generic product... the product is the total package of benefits the customer receives when he buys it..."**
- **Product thus means a wide range of tangible and intangible benefits that a buyer might derive after buying it.**
- **Thus people associate meanings with products and derive satisfaction from non-utility aspects of the product too.**

Dimensions of Total product



THE CORE AND AUGMENTED PRODUCT



Levels of Product and Services

Marketers plan about products at three levels

➤ **Basic level** – Core customer value

This is the level of product that addresses the question: What is the customer buying? This is the fundamental good or service offered to the consumer. E.g. hospital services

Marketers must first define the core, problem solving benefits that consumers are seeking and design products / services accordingly

Also referred to as the Generic product: This is the basic version of the product. E.g. Hospital having doctors, nurses, beds and laboratories

Product levels ...

- **Actual product** - The minimum attributes consumer expects in the product. E.g. Hospital should have qualified doctors, good service and proper amenities

The core benefit being sought has to be converted into an actual product which possesses some features, design, style, quality, brand name, packaging, etc.

- **Augmented product:** created by adding value to the core and expected product to distinguish it and generate competitive advantage. E.g. online or tele-medical services, 24 hour emergency service

- **Potential product:** these are future products provided by the company which customer didn't anticipate. Ultimately consumer will be delighted by this product. E.g. Medical insurance from the hospital, after service care, etc.

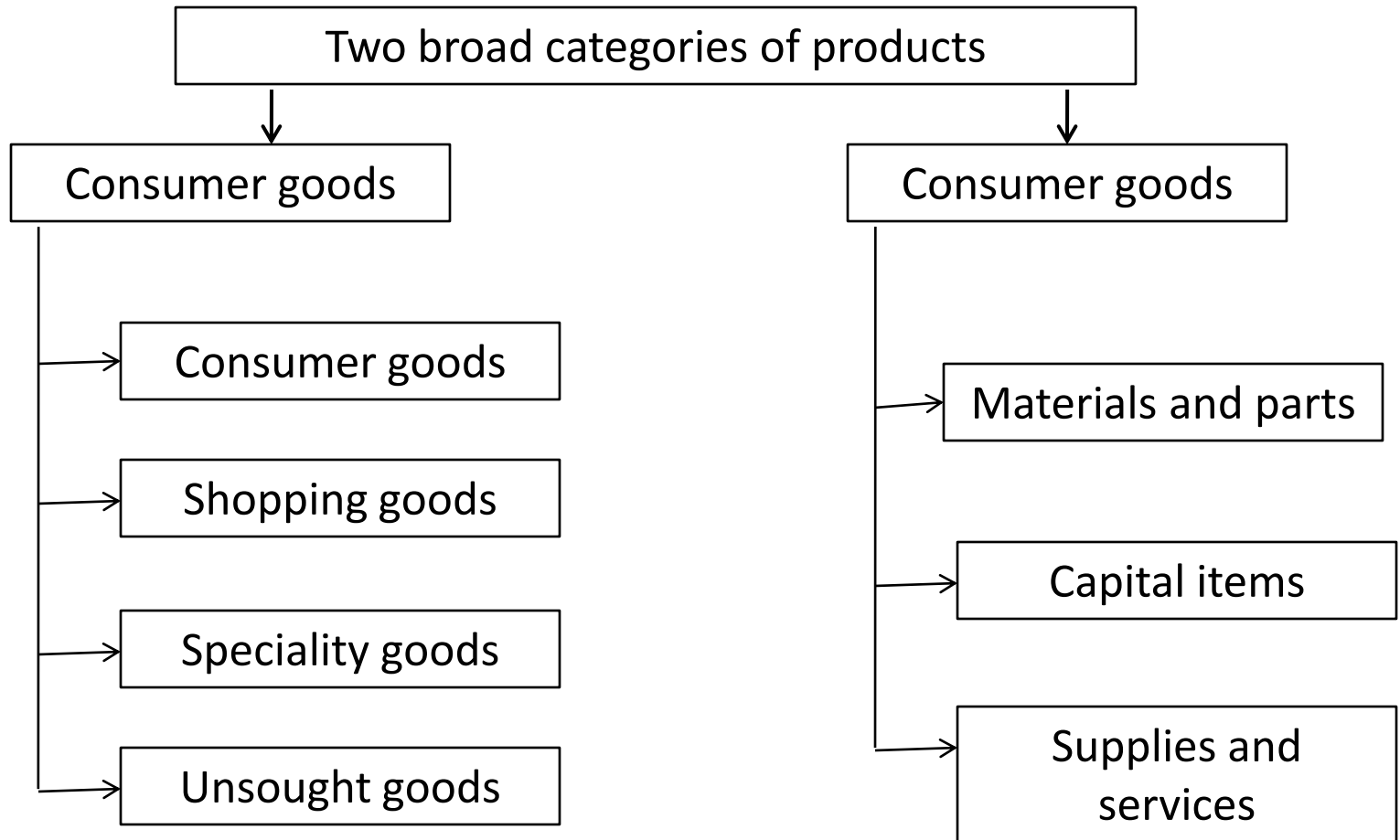
Product Dimensions

- **Product personality** – made up of several components like the physical product, brand name, package, label, etc.
- Various **dimensions** of the product are:
 - **GENERIC PRODUCT:** the unbranded, undifferentiated product like rice, bread, wheat, etc.
 - **BRANDED PRODUCT:** product that has an identity through a name (good harvest bread, modern bread, etc.)
 - **DIFFERENTIATED PRODUCT:** product that is distinct from other similar products or brands in the market.
 - **CUSTOMISED PRODUCT:** customer's specific requirements kept in mind while producing the product (mostly industrial products)

Product Dimensions... contd.

- **Product dimensions ...**
 - **AUGMENTED PRODUCT:** product resulting from voluntary improvements made by manufacturer to enhance value of product.
 - **POTENTIAL PRODUCT:** future product that incorporates all possible improvements and features possible under given technological, economic and competitive conditions.

Product classification



Product Classification

- **Consumer goods and industrial goods**
 - **Basis of distinction** – ultimate use of product in present form
 - **Consumer goods:** products intended for use by ultimate household consumers for non-business purposes
 - **Industrial goods:** products intended for use in producing other goods or for rendering services in a business.
 - Overlapping: Cornflakes for sale to households are consumer goods while those sold to restaurants are industrial goods.
 - Classification is important because manufacturer can develop appropriate marketing plans for the markets. In case of a two-way classification, separate marketing plans and strategies need to be developed for the two markets.

Product Classification ... contd.

- All consumer goods cannot be clubbed as one class of products. Further classification is done on basis of consumer buying habits
- **Convenience goods**: consumer willing to buy any of the several brands available; therefore, buys one that is most accessible (greeting cards, hardware items such as bulbs and batteries, grocery products, sundry cosmetics like toothpaste).
 - Consumer has complete knowledge of the product to be purchased prior to shopping;
 - Product is purchased with minimum effort;
 - Products have low unit prices;
 - Products are not greatly affected by fashion and fads;
 - Generally the products are frequently purchased.
- **Marketing Considerations**
 - Distribution – must be widely distributed
 - Promotion – mainly by manufacturer as retailer generally carries several brands of the convenience product and will thus not promote a brand extensively.

Product Classification ... contd.

Shopping goods: consumer compares quality, price, style, etc of different manufacturers / sellers prior to purchase (clothes, appliances, used cars, furniture)

- Consumer seeks information on products and compares
 - Products may be relatively expensive
 - Products are affected by fashion and fads
- **Marketing Considerations**
- Distribution – fewer retail outlets are required as consumers are willing to look around for the desired product
 - Since comparisons are made, to increase consumer convenience, manufacturer may place their products in locations / stores close to others selling competitive products
 - Retail outlets have to be carefully selected as often, store name may be more important than brand name

Product Classification ... contd.

Specialty goods: products for which consumers have strong brand preferences (expensive clothes, electronic items such as music systems, cameras, cars)

- Consumer willing to spend time and effort in the purchase;
 - Consumer willing to forego more accessible options for wanted product.
- **Marketing Considerations**
- Distribution – fewer retail outlets are required as consumers are willing to spend time and make effort to search out desired product
 - Retailers are important as they affect sales.
 - Brand management and promotion are important

Classification of Industrial Products

- Based on broad uses of the product, industrial products may be classified as:
 - Raw materials
 - Fabricating materials and parts
 - Installations
 - Accessory equipment
 - Operating supplies

Product Management

CONCEPT OF PRODUCT MIX

The multi-product firm

- Most firms do not manufacture / market a single product but a range of different products
- Why?
 - To reduce dependence on a single product and spread risks
 - To cope with the dynamic market place
 - To cater to different types of customers (varying needs)

Product Mix

- The product mix is the sum total of all products and variants offered by an organization
- Product Mix: the combination or basket of all goods produced (sold / carried) by a manufacturing company (retailer).
- Hence it is the set of all product lines and items that a seller offers for sale to buyers

Example

- Philips products
 - Bulbs
 - TVs
 - Radios
 - Recording systems
 - Food processors
 - Mixer grinders
 - Toasters
 - DVD Players
 - Public address systems
 - Etc.
- Hindustan Unilever Ltd
 - Food and drink
 - Brook Bond, Bru, Kissan, Kwality Walls, Lipton, Annapurna, Knorr
 - Home care
 - Rin, Surf, Comfort, Wheel, CIF, Domex
 - Personal care
 - Dove, Clinic, Ponds, Lakhme, Lux, Rexona, Tresemme, Elle 18, Pepsodent, Axe, Fair & Lovely
 - Water purifier
 - Pure it

Product line

- The various products can be grouped together on the basis of how closely related they are in terms of
 - Functions
 - Benefits
 - Production
 - Manner of marketing
 - Etc.
- A group of products produced / marketed by a company which are similar in the way in which they are produced or marketed is called a **PRODUCT LINE**

Product Mix

- Product Mix comprises several product lines
- Product Line: a group of products that are closely related to one another because they serve the same function or are sold to the same customer group or are marketed through the same type of outlets or fall within a given price range.
- Philips case: Different product lines are
 - Lighting devices (bulbs, fluroscent tubes, etc.)
 - Audio equipments
 - Home appliances
 - TVs
 - .
 - .

Product mix characteristics

- **WIDTH:** the different product lines that a company carries
- **LENGTH:** the total number of items in the company's product mix
- **DEPTH:** the number of variants of each product in a product line
- **CONSISTENCY:** how closely related the different product lines are in end use, production requirements, distribution channels, etc.

Product Management

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 - For developing appropriate marketing plans
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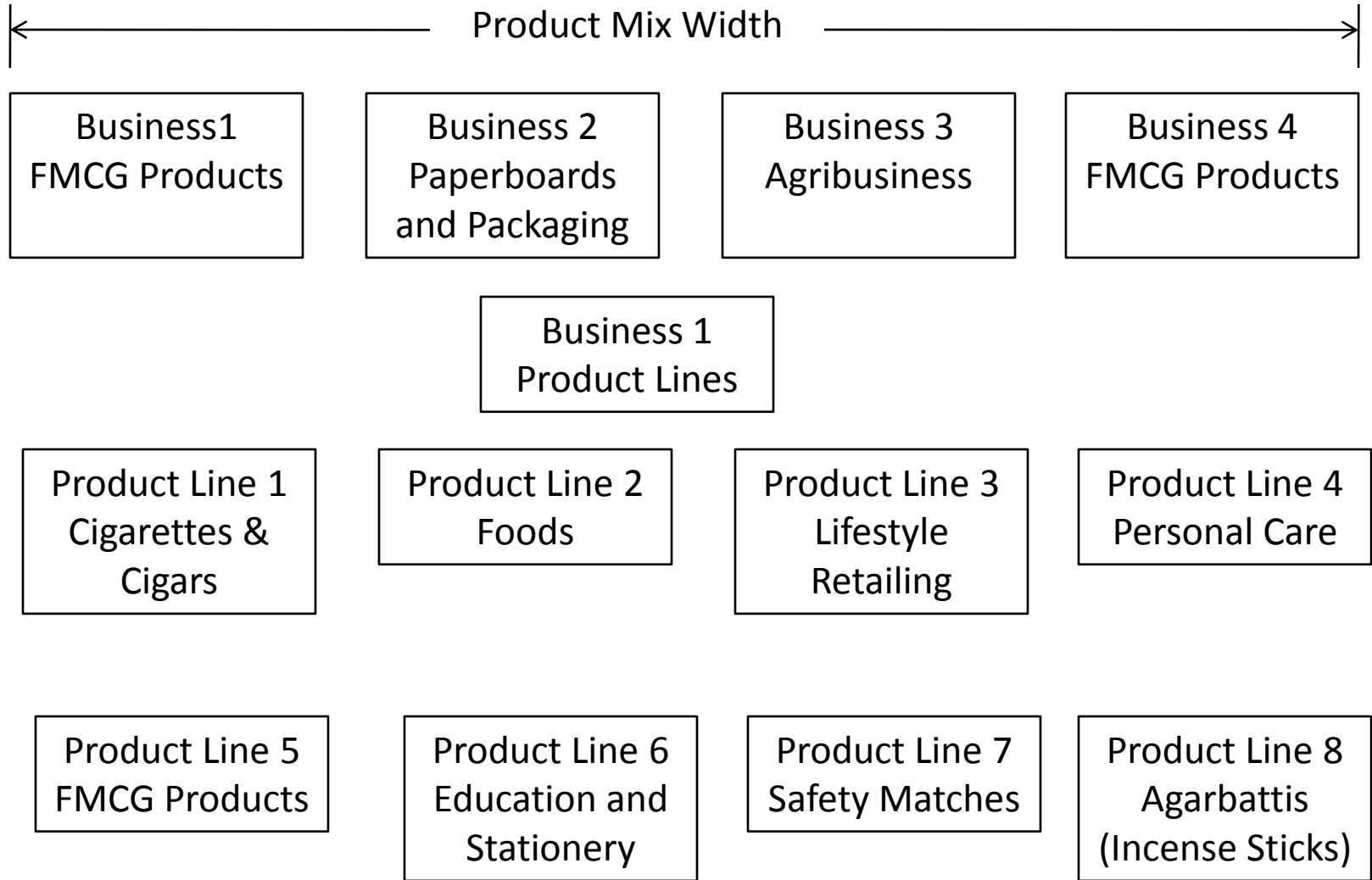
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Product Management

PRODUCT MIX DECISIONS

ITC's Product Mix



ITC's Product Mix

Product Line 1
Cigarettes & Cigars

Insignia
India Kings
Lucky Strike
Classic
Gold Flake
Navy Cut
Players
Scissors
Capstan
Berkeley
Bristol
Flake
Silk Cut
Duke
Royal



Product Line Length

ITC's Product Mix

Product Item
(Cigarettes & Cigars)
Gold Flake

Gold Flake

King size Filter

King size Non-filter

Regular size Filter

Regular size Non-filter

King size tetra pack (10s)

King size tetra pack (20s)

Tin pack (50s)



Product Line Depth



Product Mix Decisions ... contd.

- **Product Mix decisions and strategies will focus on these four dimensions of the product mix.**
- **The company can:**
 - **Widen** its product mix (add new product lines)
 - **Lengthen** product lines (add more items in a line)
 - **Deepen** product mix (add more variants to each product)
 - **Increase or decrease consistency** (depending upon whether the company wants to follow a strategy of being reputed in one field / product or several.

Product Mix Decisions ... contd.

- **Product Mix decisions and strategies will depend upon an analysis of product lines:**
 - **Product line sales and profits (contribution to total sales and profits of the company)**
 - **Product line market profile (company X's product line vis-à-vis competitors' product lines)**
- **Based on sales and profits of a product line and its market profile, product line decisions will be taken**
 - **Major decision issue relates to optimal product line length**
 - **If profits can be increased by reducing the length, product line is too long**
 - **If profits can be increased by increasing length, product line is too short.**

Product Line Decisions

- **Product lines are influenced by company objectives**
- **Companies looking for high market shares and growth tend to carry longer product lines. Those looking for high profitability keep product lines shorter.**
- **Product lines tend to lengthen over time**
- **As items are added costs increase – thus decision on product length are required.**

- **Enlarging product lines:**
 - **Line stretching**
 - **Line filling**

Product Line Decisions ... contd.

- **Line stretching**
 - **Downward stretch – initially selling high end products then extending to lower end products.**
 - **Strategy adopted when:**
 - **Competition increases at higher end and company counter attacks competitor's low end.**
 - **Growth declines at higher end**
 - **Company initially wanted to establish quality and eventually roll back**
 - **To plug a market position that may attract competition**
 - **Upward stretch – lower end companies entering higher end.**
 - **Strategy adopted when:**
 - **Profits are attractive at higher end**
 - **Customers do not trust quality of lower end products**

Product Line Decisions ... contd.

- Two way stretch – initially serving markets and then extending line in both directions.
- Strategy adopted when:
 - Company wants to capture a larger share of market
- **Line Filling: lengthening product line by adding more items within the present range**
 - Strategy adopted when:
 - Company wants to increase profits
 - Dealers complain of lost sales on account of missing items in range
 - Excess production capacity needs to be utilised
 - Company wants to be a leading full line company
 - Company wishes to keep away competition

Product Line Decisions ... contd.

- **Line Modernization Decisions**
 - Required to keep with the times in a dynamic and rapidly changing consumer market.
 - Helps to encourage “customer migration” from low to high priced, high value items
 - Decisions relate to:
 - Whether modernization is to be done gradually in a piece meal fashion or at one go
 - Timing – modernization if done early will destroy existing lines; if too late competition may have already established itself.
- **Line Featuring Decisions**
 - Done to enhance image of product lines
- **Line Pruning Decisions**
 - Done to remove unprofitable items or when capacity is short