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2 Types of Product Decisions

Introduction

We define product decision as every conscious decision made by a company for a product. There are many different such decisions. At one extreme there are such things as a minor modification of the label or colour of the package. At the other extreme, there are such things as diversification into new business fields, either through internal R&D or mergers and acquisitions.

In Figure 2.1, there is a three-fold classification of product decisions:

- What are the decisions that a company should make about the product types?
- What are the decisions that a company should make about the tangible/physical product?
- What are the decisions that a company should make about the intangible/augmented product?

The chapter is concluded with a special section about the product decisions made by service providers.

Decisions about the product types

The decisions about the product types to be offered represent the most critical decisions in determining the future of a company. The management must first decide what products to offer in the market place before other intelligent product decisions pertaining to the product's physical attributes, packaging branding, and so on, can be made.

There are two distinct levels at which such changes take place, namely:

- the product-mix level and
- the product-line level.

The Committee on Definitions of the American Marketing Association has defined product-mix as 'the composite of products offered for sale by a firm or business unit'. The same committee has defined product-line as 'a group of products that are closely related either because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same type of outlet or fall within given price range' (Alexander, 1980).

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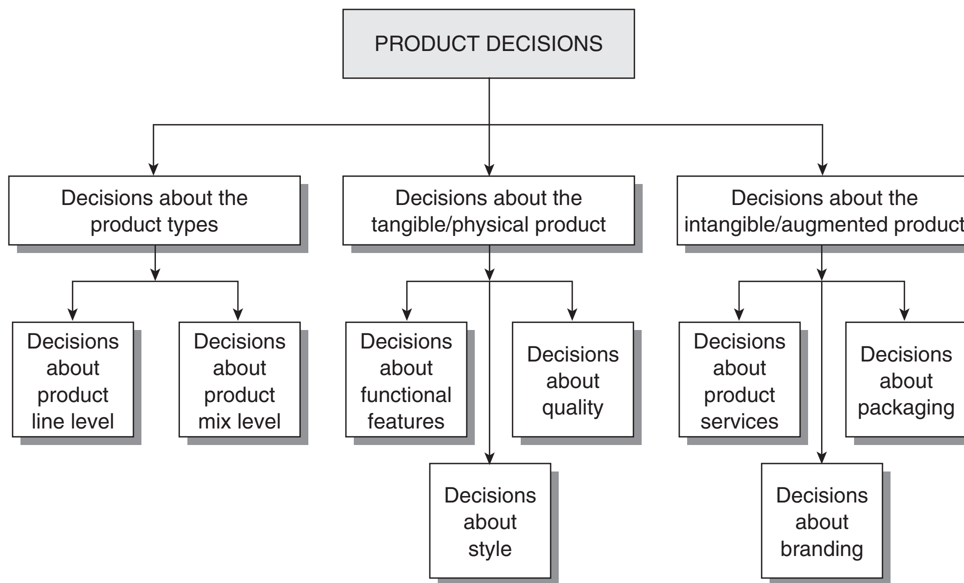

Figure 2.1 **Types of product decisions**

Decisions at the product-mix level represent the highest order decisions made by the company constraining all the subsequent lower order decisions and identifying the business that the company operates.

A company's product mix refers to the total number of products that are offered for sale. The product mix has certain width, length, depth and consistency (Kotler, 2003).

- The *width* of a product mix refers to the total number of different product lines of the company. For example, width = 2 (pasta and pasta sauces).
- The *length* of a product mix refers to the total number of brands in all of the company's product lines. For example, length = 5 (three pasta brands and two brands of pasta sauce).
- The *depth* of a product mix refers to the average number of variants of the company's products. For example, depth = 4 (three pasta brands, each marketed in two sizes: $3 \times 2 = 6$ and 2 pasta sauce brands, each marketed in 1 size: $2 \times 1 = 2$ means $6 + 2 = 8/2 = 4$).
- The *consistency* of a product mix refers to how closely related are the company's product lines in terms of characteristics, production process, distribution channels to name just a few.

Decisions on a product-mix level

Product decisions at the product-mix level tend to determine the *width* of a company's product-mix. The basic product-policy/strategy issues at the product-mix level cluster around the following questions:

1. Which product categories should we offer? Will we function primarily as a supplier of materials and components or as a manufacturer of end products?
2. What are the groups and classes of customers for which our products are intended to serve?

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3 Do we seek to serve our markets as full-line suppliers or limited line specialists? Closely allied to this is the degree of custom manufacturing to meet the needs of individual buyers versus quantity production of a limited range of product types.
4 Will we attempt to take a position of technical leadership or will we achieve greater success as a follower?
5 What are the business characteristics (criteria) such as target rate of profit, payback period on investment, minimum sales volume, etc., that each product line must meet in order to be included in the product mix (portfolio)?

The answers to the foregoing questions tend to form the company's general product policy, which will guide management in making decisions pertaining to the *addition or elimination of product-lines* from the company's product mix. In adding new product-lines management has to decide about the type and the nature of the product lines as well as the ways that these lines should be added to the mix. The decision to add new product-lines to the mix is ordinarily described as *diversification* and it can be materialized through internal R&D, licensing, merger and acquisitions, joint ventures or alliances.

We may distinguish between related and unrelated diversification (Aaker, 1992). Related diversification provides the potential to obtain synergies by the exchange or sharing of skills or resources associated with any functional area such as marketing, production or R&D. Delta, a large Greek dairy products company, successfully introduced a new line of beverages exploiting synergies in distribution, marketing, brand name recognition and image.

Unrelated diversification lacks commonality in markets, distribution channels, production technology or R&D. The objectives are therefore mainly financial, to manage and allocate cash flow, to generate profit streams that are either larger, less uncertain or more stable than they would otherwise be. For example, tobacco firms like Philip Morris and Reynolds have used their cash flows to buy firms like General Foods, Nabisco and Del Monte, in order to provide alternative core earning areas in case the tobacco industry is crippled by effective anti-smoking programmes.

However, companies are also involved in contracting their product-mixes through the elimination of product lines. Decisions are made about identifying, evaluating and specifying which product lines are to be removed from the market. If a company continues to devote time, money and effort to a product line that no longer satisfies customers, then the productive operations of marketing are not as efficient and effective as they should be. The procedure of eliminating product lines from the company's product-mix is called *divestment* or *divestiture* and unlike the addition of product lines (diversification) is final with no alternatives.

However, there are various ways that a product line can be eliminated. For instance, a company may decide to harvest the product line by cutting back all support costs to the minimum level that will optimize the product-line performance over its foreseeable limited life, or it may decide to continue manufacturing the product line, but agree with other companies to market it or the company may sell or license the product line to someone else or it may abandon it completely. An extensive discussion of these strategies are provided towards the end of Chapter 3.

Decisions on a product-line level

Important and complex decisions are also made at the product line level, which tend to determine the length of a company's product mix. The basic product policy strategy issues at the product line level cluster around the following questions:

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1 What is the limit beyond which no product should be added?
2 What is the number of different products to be offered in the line and to what extent should they be differentiated?
3 What is the number of different versions (models) to be offered for each product in the line?
4 What are the business criteria (for example, minimum profitability, minimum sales volume) that each product must meet in order to be included in the line?
5 In how many segments should we compete in order to maintain a secure overall cost and market position vis-à-vis competitors?
6 Should we keep in the line unprofitable products in order to keep a customer happy or should we let the competitors have them?

In close relation to the company's product-line policy is the company's design policy. The formulation of a design policy may aim at:

1 Giving attention to innovation, high quality and reliable performance, to allow each product in the line to be differentiated from its competitors.
2 Making the products compatible with the needs, emotional and rational, of the customer.
3 Achieving variety reduction of the range of product types in the line, and a simplification of the design and construction, to secure reduction in overheads and inventories.
4 Replacing expensive materials and those production processes requiring skilled labour to bring about savings in production costs.

The number and the types of products, which comprise a product line, are the result of decisions at this particular level. Decisions at the product-line level imply either the extension of the line through the addition of new products (for example, Coca-Cola with lemon, Baileys with coffee), or the contraction of the line through the elimination of products, or the replacement of existing products with new and improved ones. The products that are added, eliminated or replaced in the product line might be either versions of existing products, models, sizes and the like – or product types that make up the product line.

In particular, product line extension can be made in two forms (Kotler, 2003):

- *Line stretching* occurs when the company stretches its product line beyond its current range. In this respect, when a company serves the upper market, it can stretch its line *downward* by offering a new product in a lower price/quality (for example, Mercedes Benz in cooperation with Swatch launched Smart). By contrast, companies that serve the lower end of the market can make an *upward* stretch of their line by offering a new product in a higher price/quality (for example, Toyota introduced Lexus). Alternatively, when a company targets its products in the middle market, it can stretch its line both ways.
- *Line filling* occurs when new products are added to a company's present line for reasons like establishing an image of a full-line company, taking advantage of excess capacity, filling gaps in the market and discouraging competitive actions. For instance, there are various Kinder chocolate products in the market, such as Kinder Milk Chocolate, Kinder Bueno, Kinder Delice, Kinder Chocolate Eggs and Kinder Happy Hippo. Keeping both products in the company's portfolio can be quite successful, as long as they are targeted to different segments and do not result in customer confusion and product cannibalization.

Product cannibalization can be caused when a new product introduced by a company in the market takes sales out of an existing company product. According to McGrath (2001), cannibalization is unfavourable, particularly for market leaders, when, first the

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new product will contribute less to profits, secondly, the economics of the new product might be unfavorable, thirdly, the new product will require significant retooling, fourthly the new product has greater technical risks.

Despite the aforementioned negative aspects of cannibalization, it can well be a planned action as part of an attacker's product strategy. Deliberate cannibalization can be implemented using two main strategies:

1 Cannibalizing an existing market to attack the market leader: This strategy is suitable for attacking an entrenched market leader. In this case, the attacker can introduce its product using a different distribution channel (for example, offer a new bank loan through the Internet, instead of the traditional bank branch). Although the attacker cannibalizes its own product, it also erodes the position of the dominant company. Since the attacker has less to lose than the leader, it hopes to compensate for its losses with increased market share in the redefined market.
2 Introducing a new technology first: this strategy is common in high-technology industries where the market leader has an increased interest in maintaining the existing technology as long as possible. Using this strategy, the attacker can leapfrog the market leader by motivating the existing customers to replace their brand with a superior brand (namely, new technology).

Decisions about the tangible/physical product

The decisions about the product types offered at the product-mix and product-line levels imply mainly the addition or elimination of products, and represent as we have already seen, the extreme and most complex types of product decisions.

However, companies are also engaged in relatively less complex decisions, which imply the addition, elimination and modification of the products' specifications and physical attributes.

Since products have a multitude of specifications and physical attributes there is almost an unlimited number of ways that products can be changed. Nevertheless, *quality, functional features*, and *style*, are the typical dimensions along which changes occur. These types of product changes may result in new and improved products, which are either added to the product line, or replace existing products in the line and consequently they are intimately tied up with the product line decisions.

Product quality

In formulating a product quality policy, management must answer the following questions:

1 What level of quality should the company offer compared with what is offered by the competitors?
2 How wide a range of quality should be represented by the company's offerings?
3 How frequently and under what circumstances should the quality of a product (line) be altered?
4 How much emphasis should the company place on the quality in its sales promotion?
5 How much risk of product failure should the company take in order to be first with some basic improvements in product quality?

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Quality stems from manufacture, design or processing, and its basic dimensions are reliability and durability. Altering the materials from which the product is made and/or changing the way the materials are configured can vary both reliability and durability. A company may realize that it can make a real gain from its competitor by increasing the quality of its product and launching the new and improved product. Decisions of offering products with a higher quality may also be linked to a policy of trading up.

However, an increase in the quality usually means higher costs and although the relationship between level of quality and cost can usually be reflected in the company's cost function, the explicit relationship between demand and quality is far more elusive. The estimation of the elasticity of demand with respect to quality is a difficult exercise. In addition, the more durable the product is, the longer the time before it must be replaced.

The importance of the replacement market has suggested to some companies the intentional design and manufacture of less durable products. In this instance, a company decreases the quality of the product so it will wear out physically (physical obsolescence) within a reasonably short period of time. It follows, therefore, that a company's product quality policy is clearly related to its design and induced obsolescence policies.

The functional features of a product

Another set of decisions revolves around the functional characteristics of the product. The selection of functional features depends very much on the company's design policy, which should give answers to the following questions:

1. What specific product features should be developed and made ready for the next product change?
2. Which of our competitors' product changes should we copy?
3. Should we hold back certain new product features – and which ones – for possible slowdown in sales?
4. What product features should our company emphasize?

Functional features can make the product more attractive to customers. Functional features modification has several competitive advantages and may assist the company, among other things, to find new applications for its product. The rate at which new functional features are adopted depends on the ability of the customer to discern differences in performance as well as on the company's induced obsolescence policy. Significant improvements as measured by technical standards create functional or technological obsolescence.

The style of the product

Finally, another set of decisions relating to a product's physical configuration involves style decisions, which aim at improving the aesthetic appeal of the product rather than its functional performance. Decisions about style may render a product 'different' in terms of its functional capacity and quality level. Style decisions again depend on the company's design and induced obsolescence policies. For example, frequent changes in style can make a product out of date and thus increase the replacement market. This is called style or psychological obsolescence and intends to make a person feel out of date if he/she continues to use it. However, despite the fact that style changes can be

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extremely effective for a company, they contain a significant element of risk. To start with, style decisions are usually thoroughgoing; companies tend to eliminate the old style by introducing the new one and therefore they risk losing some of the customers who liked the old style in the hope of gaining a large number of customers who like the new one. Moreover, styling is usually not as flexible as functional features. Style can be adopted or dropped quickly but it usually cannot be made optional as easily as functional features. With functional features it is often possible to fit features to satisfy the requirements of specific market segments; with styling it is usually more difficult to predict what kind of people will prefer the new style.

Decisions about the intangible/augmented product

Customers usually seek more from a product than the performance of some specific tangible function. The tendency to attach a lot of emphasis to the physical product as a basis for customer appeal might have severe consequences for the manufacturer. Management has become more cognizant in recent years of the fact that distinction between the physical characteristics of competing products and their performance efficiency has diminished, and the period of exclusive advantage in the product's physical qualities has been shortened, and as such seeks to develop innovations in areas external to the physical product. The recognition of the fact that characteristics other than the physical ones assist a company to gain a comparative advantage led to the development of the 'augmented product' concept. Augmented product is the physical product along with the whole cluster of services that accompany it. Put another way, it is the totality of benefits that the buyer receives or experiences in obtaining the physical product. It is more the development of the right augmented product rather than the development of the right physical product that distinguish a company's product from those of competitors. According to Levitt (1969) the competition of product augmentation is not competition between what companies produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer advice, finance, delivery arrangements, and other things that people value.

In the same context, Blois (1990) argues that 'in an attempt to ensure that their product is not regarded as a "commodity" undifferentiated from their competitors' products, firms will seek ways of augmenting their product – that is adding goods or services to the product over and above what the customer had come to expect'.

As far as the product variable is concerned, the key characteristics external to the physical product that offer a company means of achieving a competitive plus are:

1. branding,
2. packaging and
3. product Services.

Branding

A brand is a name, sign, symbol or design or a combination of them which is intended to identify the goods or services of one manufacturer or group of manufacturers and to differentiate them from those of competitors.

Branding has its roots in ancient times. According to Nilson (2000) the first example of branding is found in the manufacture of oil lamps on the Greek islands thousands of years ago. Apparently it was impossible to distinguish between a good and a bad lamp at the

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time of purchase. However, craftsmen on one Greek island produced a better, more long-lasting lamp as they were either more efficient, or had better clay. So, they started to mark their lamps with a special symbol to differentiate it from competitive oil lamps. However, 'brand' as a term is originated in the Old Norse word *brandr*, which means 'to burn'; this was how owners of livestock marked their animals to identify them (Vaid, 2003).

The more the products in the market have reached a plateau of similarity, the greater is the need for branding to achieve distinction; this applies equally to both industrial and consumer goods. Branding decisions can be either strategic or tactical.

Strategic branding decisions

Management should make some more fundamental policy or strategic decisions pertaining to branding. Some of the questions to be answered in formulating a branding strategy include the following:

First, should we establish our own brand names or should we engage exclusively in reseller brands (private labels or own label brands)?

This question is considered highly by medium-sized companies, which due to limited resources and specialized knowledge, prefer in many cases to sell their products without their own brand. However, it is important to bear in mind, that notwithstanding the increased resources needed for establishing a brand in the market, there are also considerable benefits such as (Kotler, 2003):

- Branding gives the seller the opportunity to attract a loyal and profitable set of customers. Brand loyalty gives sellers some protection from competition and greater control in planning their marketing programme.
- Strong brands help build the corporate image, making it easier to launch new brands and gain acceptance by distributors and consumers.
- Branding helps the seller to segment markets. Instead of Lever Brothers selling a simple detergent, it offers many detergent brands, each formulated differently and aimed at specific benefit-seeking segments.
- The seller's brand name and trade mark provide legal protection of unique product features, which competitors are otherwise likely to copy.
- The brand name makes it easier for the seller to process orders and track down problems.

Ideally, a successful brand name becomes identified with the product category, like for instance Aspirin headache reliever, Post-It notes, Jeep vehicles and Tefal pans. However, this is not desirable when the customer refers to this specific brand but s/he prefers a competitive one (for example, s/he wants to buy a Jeep-type of car, but at the end of the day s/he chooses a Land Rover).

A concept, which is quite important in evaluating a brand's success, is the so-called brand equity (Aaker, 1991). This concept is related to a brand's strength in the market, that is, its acceptability, preference and loyalty.

In the 2004 *Business Week/Interbrand's* annual ranking of the 100 most valuable global brands, Coca-Cola is at the top of the list with a brand equity of $67.4 billion, followed by Microsoft ($61.4 billion) and IBM ($53.8 billion). It is worth noting that US brands claimed eight out the top ten spots, with the exception of Finnish Nokia and Japanese Toyota.

The Interbrand method in which the aforementioned ranking is based, is considered as one of the most established methods of evaluating the equity of a brand. It uses various information including market leadership, stability, global reach and profitability.

Secondly, should we make products for reseller brands similar to those bearing our own brand?

For many years now, various stores, especially supermarket chains worldwide offer products with their own label, also called store brands or private label products (for example, Tesco, Sainsbury, Carrefour). Most store brands are not produced from the retailer. In many cases, they are produced from manufacturers of branded goods. For instance, Heinz has been a major producer of private-label baby food (Quelch and Harding, 1996). Also, Unilever and Nestlé do so on a selective basis.

A recent A.C. Nielsen survey in thirty-six countries revealed that own labels have an average share of 15 per cent, while their growth rate is comparable to that of national brands. More specifically, in Europe the store brands' market share is 22 per cent and their annual growth rate is 6 per cent. In Switzerland, these products have the highest market share (38 per cent), followed by Great Britain (31 per cent), whereas in Sweden, store brands present the highest annual growth rate (25 per cent). At the other side of the Atlantic, their market share reaches 16 per cent, while their sales remain stable. Finally, in Asia and the Pacific Rim and Latin America, although their market share remains relatively low (1 per cent), their growth rate increases rapidly.

At an international level, the highest market shares of store brands are reported in paper products, aluminium foil, plastic wrap and rubbish bags. However, two-thirds of the first twenty product categories with the highest market shares are food-related categories.

The same survey found that store brands are less expensive compared to national brands. The average price difference is 31 per cent. The maximum difference is reported to personal care products (45 per cent), while the minimum price difference appears in frozen food products (18 per cent).

There are many arguments as to the advantages of producing store brands by manufacturing companies (Baltas, 1999). More specifically, manufacturing store brands can create economies of scale in production and distribution, as they are usually related to increases in the production volume. In addition, it can achieve utilization of excess production capacity or simply increase sales without bearing any marketing costs. Further, if the producer already has its own brand in the same product category, producing own label products can be viewed as well as price discrimination because of image differentiation between branded and private-label products. Furthermore, production of store brands can exploit the heterogeneity in consumer demand and offer an opportunity to compete on price against other branded products. In this respect, the consumers who prefer the national brands usually pay a higher price, while the rest of the market prefers the store brands. Private-label contracts may also allow manufacturers to keep overall production costs low enough on their national brands to compete more vigorously with retailers on price. Moreover, retailer products help to increase the category's share of shelf space, which in turn increases the product category's salience and motivates impulse purchases. Finally, store brands' production helps build up and maintain a good relationship with retailers who have control over distribution.

However, there are also certain negative aspects in producing store brands (Baltas, 1999). First, the producer is given tight product specifications from the retailer, without being able to make alterations. Consequently, the producer's effort focuses on cost minimization and production efficiency. Market share growth through supply of private label may come at the expense of profitability as price sensitivity rises. In fact, the additional profits from store brands may not compensate for the declining sales, lower unit prices and reduced margins in the branded business. Disclosing information about production costs and know-how, can give retailers considerable advantage in negotiations. Furthermore, production store brands may be inconsistent with the producer's corporate image and give consumers the impression that the producer's brand and the store brand

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are comparable, since they are produced from the same company. Hence, it becomes really difficult to account for price premiums over competing store brands. This is a major reason why leading manufacturers such as Kellogg's, Colgate, and Coca-Cola, do not supply store brands and often state this policy on product packages and advertisements. For instance, Colgate uses the logo 'We don't make toothpaste for anybody else'. Finally, when a company produces store brands, while marketing its national brand in the same product category, it must manage a quite complex manufacturing and distribution process.

All in all, the decision to produce store brands in a product category where the manufacturer already has branded products depends on many company as well as market-related factors. According to Baltas (1999), firms that are quite strong in production may favour the store brand production, while firms with a marketing and distribution advantage may prefer to market under their own brand name. At the same time, the very existence of store brands represents a merging of the retailing and branding functions and, to a certain degree, a disconnection of the manufacturing and branding at the level of the firm. It can be assumed that the own labels serve a corrective role, in that they help the market to adjust by sorting out firms that are not efficient in marketing or innovating products, and assigning to them the task of producing tightly specified goods whose distribution and marketing is left to retailers.

Thirdly, should we establish a 'family' brand (multiproduct brand) over all types of products offered or should we create a special brand for each type of product (multibrand product)?

A 'family' or 'umbrella' brand can take the following three forms:

- Corporate/house trade name (for example, United Colors of Benetton).
- A combination of a corporate/house trade name with individual product names; these are brand names with strong company endorsement (for example, Vodafone 60 Promo, Vodafone SMS 150).
- A combination of a common trade name with individual product names (for example, Nescafé Classic, Nescafé Select, Nescafé Gold Blend from Nestlé).

An alternative branding strategy is the development of individual brand names (for example, Ariel, Bold, Tide) for a specific product (Procter & Gamble's detergents). These are brand names with no company endorsement whatsoever.

Deciding the appropriate branding strategy depends on the company's resources, how strong the brand is and how related the products are to one another or to put it differently whether they belong to the same product category (for example, foodstuff, electronics).

Fourthly, should we use our existing brand name to introduce additional items in the same product category?

Companies usually decide to use an existing brand name to launch additional items in the same product category. For example, a sugar confectionery brand (for example, Halls) is can be further extended into new flavours (for example, Halls Cherry, Halls Fruit Breezers).

The prerequisites of introducing successfully additional items in the same product category with the same brand are as follows: first, the company has a strong brand name in the category, which can be further exploited by entering a new market segment, secondly, the company follows a full-line policy.

Fifthly should we use a new brand name for launching products in a new category?

The use of an existing brand name for entering a new product category is called brand extension. This strategy has gained much attention by the research community in the last decade.

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Whirlpool launches Pret-à-Porter 'dry-cleaning' cubicle

Whirlpool, the white goods brand, has been extended to a new product category, namely fabric-freshening. More specifically, the company has developed a new laundry product in the form of a cubicle called the Whirlpool Pret-à-Porter that helps to remove creases, wrinkles and odours from clothes. The company's brand extension works on a number of fabrics including silks, wool, synthetics and dry-clean only garments.

The brand extension decision is particularly important for medium-sized companies that do not have the necessary resources to support many different brands. Thus, it is worth reviewing the major results of the relevant studies, which have appeared in the literature from early 1990s onwards[1]. More specifically:

1 Brand extensions:

   (a) have lower start up and maintenance advertising costs compared to brands introduced with a new name, although they usually enter more competitive markets.
   (b) achieve higher sales.
   (c) have higher chances of surviving in the market, as only 30 per cent of new brands was found to survive more than four years, while this percentage rises to more than 50 per cent for brand extensions.

2 The above results refer mainly to 'experience' goods (Nelson, 1974), whose quality cannot be visually inspected, as well as products that are introduced after the early stage of the product category's life cycle (among others Smith and Park, 1992; Sullivan, 1992). These positive results for brand extensions can be attributed to the following facts. First of all, there is higher probability of trial, systematic use and loyalty by consumers, when the product's name brings to mind an existing brand name. Further, the retailers will provide more shelf space to a known brand compared to a new one.
3 The evaluation of brand extensions by consumers is influenced mainly from. the quality of the parent brand and the fit between this brand and its extensions. Fit refers to the perceived applicability of the skills and assets of a competent manufacturer in the original product class for making the product extension, the perceived product class complementarity, and the perceived product class substitutability. These dimensions of fit are very important. Actually, the first two are more important than the third one. Thus, a fit on either transfer of skills or complementarity may be adequate. A good fit on both is not necessary.
4 The harder the brand extension is, the more positive is its evaluation.
5 The positive perceptions are usually related to brand extensions that do not refer so much to functional attributes, for example, taste, but more to 'abstract' – 'symbolic' attributes, for example, style, quality.
6 The positive reactions of consumers take place when there is consistency with the brand idea and high similarity as far as product attributes are concerned. Certainly, brands that are prestige oriented have higher possibilities of being extended to products with lower similarities, than brands that are function oriented.
7 Previous successful brand extensions enhance the positive evaluations of a proposed brand extension.

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8. There is high risk of hurting a well-established brand name by extensions that contain attributes that are incompatible with the perceptions that hold for the original brand. This risk is reduced when:

   - brand extensions are perceived to be different from products offered under the family brand name.
   - the perceptions refer to more global and less distinctive attributes (for example, quality) than very specific and distinctive attributes (for example, taste).

   In order to avoid running this risk, the company can place more 'distance' between the extension and the parent brand through packaging, or decrease joint promotion campaigns, or alternatively, supporting the parent brand or the corporate image.

9. When consumer knowledge of the brands is high, the attributes and benefits of a brand that differentiate it from competing brands (for example, Apple = user friendliness) are more important compared to brand affect and product category similarity.
10. The number of products affiliated with a brand per se does not harm it, and it may even strengthen it as long as there is no quality variance between these brands, which can very well belong to different product categories.
11. A sub-branding strategy (namely, a new name in conjunction with a family brand name) may mitigate the negative effects of brand extension and improve consumer evaluations of extensions belonging to dissimilar product categories. This strategy creates a distance (differentation), which diminishes any negative evaluations.
12. The existence of consistency between the positioning of existing brands and its extensions influence the evaluations of these extensions. In particular, if the extension is risky in terms of brand category fit, product quality, or end-user acceptance a different positioning strategy can be followed for the extension. This, of course, leads to a mediocre increase in the influence of both the brand and the product category.
13. The risks associated with brand extensions are much lower than those associated with line extensions, especially in the case of flagship products. For instance, any extension of Johnson & Johnson's flagship brand, Johnson's Baby Shampoo, in other product categories, like mouth wash (brand extension), may not influence it, but Johnson's Baby Shampoo with Wheat and Vitamin E (line extension) can have a negative influence on the brand, when there is no compatible information for this extension.
14. Brand extension is more accepted in the market, when it is perceived by consumers as being associated with the parent brand relatively to attributes or image.
15. Unsuccessful brand extensions have a negative impact on the parent brand. The degree of this impact depends on the equity of the parent brand. The higher the brand equity, the higher the consequences, irrespective of how close the brand extension is to the parent brand.

Sixthly, should we follow a co-branding strategy in cooperation with other enterprises/organizations?

A co-branding strategy is followed when a product's brand bears two or more well-known brand names. This strategy is increasingly popular in the packaged consumer goods industry (for example, Ruffles chips with Heinz ketchup), while it is quite common for credit cards. An example of a co-branded credit card is the Citi/AAdvantage® Visa gold card which was created with the cooperation of Citibank and American Airlines,

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and particularly the bank's Visa gold card with one of the most popular travel reward programmes in the world – the American Airlines AAdvantage® programme. When a company is engaged in co-branding, it aims at taking advantage of the strong image of the cooperating company in a specific market. The benefits sought include an increase in market share and improvement in the company's corporate image. The latter is particularly true for profit-seeking companies, which co-brand their products in cooperation with a non-profit organization. This alternative strategy is called cause-branding. A specific 'cause' is supported by the profit-seeking company, usually by offering a percentage of the product's sales to the non-profit company. Cause-branding is also common in credit cards.

WWF. Eurobank Visa: a successful cause branded credit card

WWF Eurobank Visa is co-sponsored by the World Wild Fund and EFG Eurobank Ergasias – a leading Greek bank. Apart from offering considerable benefits to its holders, EFG Eurobank Ergasias offers 1.5 euros for every annual subscription, while 3 euros are donated to WWF Hellas for every transaction made with the card.

Tactical branding decisions

Tactical issues to be considered by management about brands include selecting the brand name, selecting the brand symbol/logo, registering a trademark and finally monitoring brand acceptance. We will take a closer look at these tactical issues in the following paragraphs.

Selecting a brand name Creating a successful brand seems to depend heavily on the selection of the appropriate brand name or mark:

Further down, we provide a list of guidelines associated with brand name success:

- Use many vowels that makes its pronunciation easier (for example, Ikea).
- Brand names must be preferably short (for example, Fiat).
- Brand names should not carry negative or offensive meanings (for example, Seat's Málaga series could not be used in the Greek market because it sounds very much like an offensive Greek word).
- Artificial brand names ensure that they are not used by another company (for example, Kodak).
- Brand names may describe certain product characteristics or uses (for example, Everyday).
- Brand names may suggest the impact they have on people (for example, EasyJet).
- Brand names should not be similar to competitive brands for avoiding customer confusion (for example, B.F. Goodrich and Goodyear tyre manufacturers usually cause confusion).

The brand name must fully support the product's positioning, otherwise inconsistencies may create confusion in the customer's mind.

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Creative branding: Matching brand name with product positioning

Compact Disc Club is the leader in the market of music products through direct sales. Its activity in the Greek market started in 1992 and during the last three years reached the Cyprian, as well as the US and Canadian markets, aiming to the Greek communities.

Compact Disc Club's products cannot be found on the selves of any record store. They are only available directly to the final consumer through the corporate e-shop and call center.

The company's music compilations are more than 75. They all include four cds in a special case with inset printed informational material. These compilations fall into three major categories: a) Artists' Portraits (Carlos Santana-The Very Best, Maria Callas, etc), b) Thematic (Blue Café, Electric Dreams, etc), c) Special Editions (Children's Fairytales, etc)

The positioning strategy of direct sales companies in the music market is usually built on low prices and average quality. By contrast, Compact Disc Club's strategy depends on unique compilations in premium prices.

In order to support this positioning, the company has chosen to differentiate itself from competition in terms of product and supporting services standards. As far as the product is concerned, Compact Disc Club is very careful in the selections for the repertory, branding and packaging to ensure that it is the best possible. In terms of services the company aims to provide the highest standards of service, through its call center and all other customer contact channels, continuous stock availability, swift courier delivery, efficient resolving of complaints and problems, etc.

Branding varies in every new compilation release. Major elements are its title and artwork. The aim is to support corporate positioning in order to differentiate its offerings from competition. Here are some interesting examples:

1. Compact Disc Club recently put together a compilation of opera music. One would expect – according to the mainstream practice – a slide of an opera house for the cover artwork and a title such as. 'THE BEST OPERAS EVER'. In its attempt though to reach a wider audience than the opera music fans, the company selected a concept based on the mental images created while listening to this music genre. The compilation title selected was 'VOICES OF HARMONY' and the artwork was based on a slide of an imaginary landscape with floating nautili shells in harmonious motion.
2. In another case, where the repertory in question contained Cuban and Latin tracks, the chosen title was 'MOJITO'. The Mojito is currently among the most favourite drinks originated from Cuba. This name served the purpose of attributing freshness and trendiness to the product.
3. In the case of a pop-lounge-chill out compilation, 'YACHTING' was selected as the title and a slide of a luxurious yacht for the cover with the promise that this music takes one on a journey. The concept for this compilation was ideal music for a glamorous ambience.

For all compilations developed by the Compact Disc Club, the decision on a concept comes first the search for repertory revolves around it. All decisions regarding product branding orginate from the selected concept of every compilation.

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Selecting a brand symbol/logo A symbol/logo is a visual expression of a brand. Choosing a brand symbol/logo is extremely important in establishing a brand in the market, especially when there exist many different competitive brands. A brand's symbol is an appropriate vehicle for differentiation, brand awareness and loyalty. Brand symbols can be classified in three groups (Murphy, 1990):

- Corporate names or trade names rendered in a distinctive typographic form (for example, Coca-Cola, Mars).
- Visual devices divorced from the corporate name, but with a close and obvious association with the name or the activities of the business (for example, the 'dough boy' of Pillsbury).
- Abstract logos that have no obvious relation to the corporate or product name (for example, the Peugeot lion). Instead, such logos reflect the brand's values (namely, Peugeot vehicles have the strength of a lion).

Registering a trade mark A **trade mark** is a word, phrase, symbol or design, or a combination of them, that identifies and distinguishes the source of the goods of one party from those of others. Similarly, a **service mark** is the same as a trade mark, except that it identifies and distinguishes the source of a service rather than a product.[2]

A company must decide whether to register a trademark for a brand or not. Registering a trademark is not compulsory by law, with the exception of medicines. In this respect, a company can register a trademark in order to avoid certain commercial or legal risks.

Commercial risks occur when a company uses an un-registered mark and another product in the same or different product category appears in the market under the same brand. This can cause customer confusion, which, most probably, will lead to reduced sales. In this case, the company that used the brand name first can do nothing to prevent the other company from using it too.

Legal risks arise when a company chooses, intentionally or not, to use a brand name, which is already registered as a trade mark by another company. In such an occasion, the company can be sued for infringement under trade mark law, with no chances of winning the case, thus, wasting significant resources, valuable time, and jeopardizing business and goodwill.

By and large, registered trade marks are followed by the symbol ™('trade mark'), or ℠ ('service mark'). These signs can be used even if the trademarks are not registered, with the purpose of alerting the public to the company's claim, regardless of whether it have filed an application with the Trade marks Office. The sign.® ('registered') can only be used only after the mark is actually registered, and not while an application is pending. Also, the registration symbol can be used only on or in connection with the goods and/or services listed in the trade mark registration.

All in all, companies can register:

- A national trade mark: the standard procedure involves filing an application to the Ministry of Commerce or Trade.
- A European trade mark: an application should be submitted to the Office for Harmonization in Internal Market (OHIM), which is based in Alicante, Spain.
- An international trade mark: an application should be filed to the World Intellectual Property Organization (WIPO) based in Geneva, Switzerland. This registered trademark is valid in more than 150 member states, except the USA. which requires a different application.

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Apart from brand names of products and services, also domain names can be registered. A domain name works like a company name and is a name by which a company or organization is known on the Internet. There are many registrars prepared to register domain names. Each country has a central registry to store unique names and addresses on the Internet. To register a domain name one must apply to an accredited registrar.

Monitoring brand acceptance The ultimate level of brand acceptance is usually referred to as brand loyalty, that is a repetitive selection of a specific brand over competitive brands. In the last decade, a rising number of studies have examined brand loyalty (for example, Dick and Basu, 1994; Dekimpe et al., 1997; Yim and Kannan, 1999; Oliver, 1999; Thiele and Mackay, 2001; Gounaris and Stathakopoulos, 2004).

Brand loyalty can be monitored in various ways. First, it can be examined through *brand switching sequence* in the product category. For instance, in a product category with three competitive brands (A, B and C), we can observe the following brand switching sequences (Mowen and Minor, 1998):

- Perfect single-brand loyalty — AAAAAAAAAAAA
- Single brand loyalty with occasional switching — AAAAABBBBCCC
- Divided loyalty — ABCABCABCABC
- Indifference — ABACBCACBCBA

Additional ways for monitoring brand loyalty, and through this brand acceptance, include:

1 Consumers' spending for purchasing the brand as a percentage of the total spending in the product category.
2 Consumers' repurchases of the brand as a percentage of the total number of repurchases.
3 Consumers' future attitude towards the brand by replying to the following scaled questions (usually 1–5, where 1 = totally unlikely, 5 = absolutely certain):
   - How likely would you say it is to purchase the brand again?
   - How likely would you suggest the brand to a friend/acquaintance?
   - How likely would you purchase another product under the same brand?

It is vital for companies to monitor the degree of their brands' loyalty, so that they trace customer migration soon enough and take all the necessary action to avoid losing market share.

Packaging

Packaging is often the key element in assisting mainly consumer goods companies to achieve a comparative advantage.

The critical decisions that must be made on the package are concerned with the functions the product pack will perform as well as with the mix of packaging components best able to perform in different degrees, the particular functions of the packaging. The functions of packaging can be grouped into six categories:

1 Containment and protection, concerns the state of goods on arrival to the customer.
2 Transportation and distribution is concerned with efficiency in handling at all stages in the marketing channel and covers utilization and pack-size.
3 Management refers to efficiency in stock-listing, pricing and ordering and covers some aspects of labelling (for example, bar-codes).
4 Sale covers the aesthetic value and sales power to the consumer as well as labelling for recognition, information and product description.

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5 Use concerns transportation, storage, opening and possible re-shutting by the customer as well as unit size.
6 Disposal refers to the positive or negative rest-value of the packaging after its content has been used.

It is obvious that management expects a package to perform different functions and meet diverse requirements. Whenever a single element has so many functions to perform and demands to meet, the possibility of conflict emerges. However, the conflict that emerges in packaging becomes obvious at the time management has to decide about the packaging components that perform the packaging functions. The packaging components for which management must take a decision are the following:

1 packaging materials,
2 package size,
3 package shape,
4 package colour, texture and graphic art, and
5 other packaging components such as 'ease of opening', 'ease of use', 're-usability', and so on which are incorporated into the package design.

One of the most important decisions pertaining to packaging components is the package-size decision, which is ultimately tied up with the product-line decisions. Changes in the size of the package may create an illusion of a new product. Companies tend to add to their lines either 'king' or 'giant economy' package sizes or 'small' package sizes. The packaging size decision evolves from appraisals of several factors, but the most important are the consuming unit and the rate of consumption. So important is the package-size/consumption-rate relationship that a major base for market segmentation is that of product usage which, of course, has special meaning for package size. For instance, companies tend to segment markets on the basis of heavy, moderate and light user characteristics, and to develop package sizes accordingly.

Similarly, the shape of the package can be used for segmentation purposes. For instance, Hellman's has recently launched 'Mayonito', which contains the same type of mayonnaise with its classical product. The difference is in the shape of the package, which looks like a little man called 'the tasty man' for children to spread in their sandwiches.

Generally, packaging can be a powerful competitive tool as well as a major component of a marketing strategy. A better box or wrapper, a secondary use package, a unique closure or a more convenient container size, may give a company a competitive advantage. The following example is quite indicative of how companies can take advantage of an innovative packaging to gain a differential advantage over competitors.

3-D Packaging for Fruit by the Foot®

In early 2005, General Mills created a 3-D packaging in the USA. for its fruit snacks brand Fruit by the Foot. The 3-D promotion features glasses designed into the package itself, as well as newly created backing paper on the product that features 3-D images.

Designed to drive baseline growth, the promotion grew out of earlier work looking at putting 3-D glasses inside a package.

(Continued)

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(Continued)

General Mills' objective was to provide an extra dimension that would help the packaging stand out from others on the shelf. Through the glasses on the box, the consumer can see the Fruit by the Foot pouches inside.

Further, the content of the backing paper is linked to movement, such as following a skydiver jumping and landing, and kayakers on a river. The goal was to bring the consumer into the brand experience and lead them through the various dimensions.

However, companies in designing their packaging should also pay attention to the growing environmental and safety concerns. Yet, while some companies, which practise green marketing, design packages that are more friendly to the environment, the responses on the part of the consumers are not always positive. It appears that for some consumers, the lack of convenience could well be a barrier in actually purchasing an environmentally friendly packaged product.

Product services

Finally, one more intangible characteristic through which a company may achieve a comparative advantage is product services. Product services tend to expand a product's utility and the buyers associate them with the physical product when considering alternative offers. For many industrial products, service policies are indispensable; for some consumer products, they are important elements in marketing programms. However, companies do, and can, offer an almost infinite range of services. However, the product-connected services are rather limited and can be classified, using the type of value they add to the product as a basis for classification, into:

1 product performance enhancing services
2 product life prolonging services and
3 product risk reducing services.

The product performance enhancing services are more important for industrial goods and include installation, application engineering and the training of operators.

The product life prolonging services are equally important for both consumer and industrial products and intend to keep the product operating satisfactorily for a long period of time, and therefore, increase the customer's satisfaction. These services are primarily concerned with maintenance and repair.

The product risk reducing services intend to reduce the risk associated with the uncertainty about a product and include product warranties. A warranty whether expressed or implied represents a seller's obligation for certain services such as free repair, full and partial refund of the purchase price, or replacement of the product.

However, since every type of service is associated with different cost structures and customer perception, a company should combine services into a total 'service offering' in such a way as to minimize cost on the one hand and maximize favourable customer responses on the other. This means that each time a company changes its product service policies, such change (product decision) should lead towards an 'optimum' product service offering. This, of course, presupposes that the company knows very well the services that customers value most and their relative importance.

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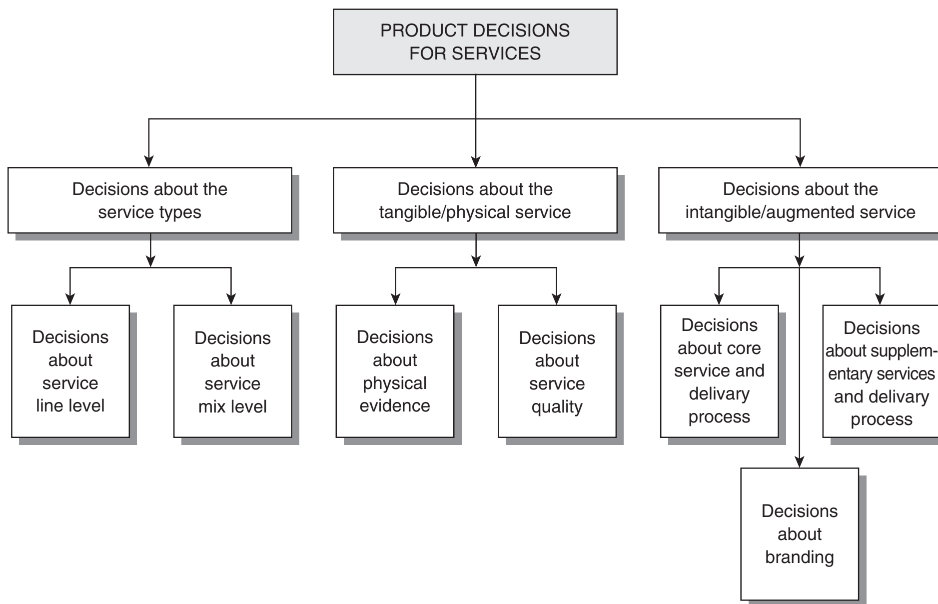

Figure 2.2 Types of prduct decisions for service companies

Product decisions for services

The types of product decisions, which were described in the previous sections, require certain adjustments for service companies (see Figure 2.2). In particular, while the decisions for the products to be offered at the product mix and the product line levels remain the same, there are significant differences as to the decisions for the tangible/physical and intangible/augmented product of the service providers (for example, packaging or style have no meaning). In the remainder of this chapter, we are going to take a closer look at these service-specific decisions.

Decisions about the tangible/physical service

Given the intangible nature of services, the decisions regarding the tangible/physical service aim at reducing this inherent intangibility of services, and thus, helping customers perceive the service more easily. In general, this effort is assigned to marketers and it is considered so critical that it is recognised as the fifth p of the marketing mix (namely, physical evidence), along with product, price, place and promotion. Physical evidence includes the following elements (Hoffman and Bateson, 1997):

- facility exterior (for example, car park, signing);
- facility interior (for example, lighting, temperature, interior design);
- tangibles (for example, brochures, business documents, personnel uniforms).

The pertinent decisions a service company has to make include:

1 How tangible should the service be?
2 What elements should they be used to make a service more tangible?

What is more, service providers should have to make decisions relating to service quality.

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For measuring service quality, Parasuraman et al. (1985) have developed a survey research instrument called SERVQUAL, which identifies five broad dimensions of service quality, namely:

- tangibles (for example, modern-looking equipment, visually appealing);
- reliability (for example, showing a sincere interest in solving customers' problems);
- responsiveness (for example, willingness to help customers);
- assurance (for example, knowledge to answer customer questions);
- empathy (for example, to give customers individual attention).

The SERVQUAL model is based on the comparison of customers' perceptions of a service and their respective expectations. Despite the serious concerns that have been raised regarding the suitability of the SERVQUAL instrument,[3] its value lies in identifying some key underlying dimensions of service quality. To measure service quality in a B2B context, building on previous research, Gounaris and Venetis (2002) have developed the INDSERV model. According to this model, service quality comprises four underlying dimensions, namely:

- potential quality (for example, offers full service, has required facilities);
- hard process quality (for example, keeps time schedules, honours, looks at details);
- soft process quality accepted enthusiastically (for example, listening to our problems, open to suggestions/ideas, argue if necessary);
- output quality (for example, reaches objectives, contributes to our sales/image).

Potential quality relates to the search attributes that customers use in order to evaluate the provider's ability to perform the service before the relation has actually begun (Bochove, 1994).

Hard quality pertains to what is being performed during the service process, while soft quality pertains to how the service is performed during the service process (Szmigin,1993). Both dimensions describe the service process itself with the former referring to the service blueprint the provider uses, the accuracy with which the service is delivered and so on. The latter pertains to the front-line personnel and the interaction they develop with the client's employees. Output quality refers to the client's evaluation of the end-results of the hard and soft parameters (Szmigin, 1993).

All in all, service companies must make the following decisions in relation to service quality:

1 Which service quality dimensions should the company focus on?
2 How often and under which conditions should the company change the quality of its services?
3 How much emphasis should the company give to service quality during sales promotion?

Decisions about the intangible/augmented service

Decisions about the intangible/augmented service refer to the core service/delivery process, the supplementary services/delivery process and branding. The core service refers to the basic functional characteristics or to put it differently, to the core benefit delivered to the customer (for example, transportation, car repair).[4] Due to its inherent intangibility, a service can be viewed as an 'experience' that the customer lives through a specific delivery process. Designing the appropriate delivery process is an essential decision, which includes how and when the service is going to be offered, as well as the degree of involvement and

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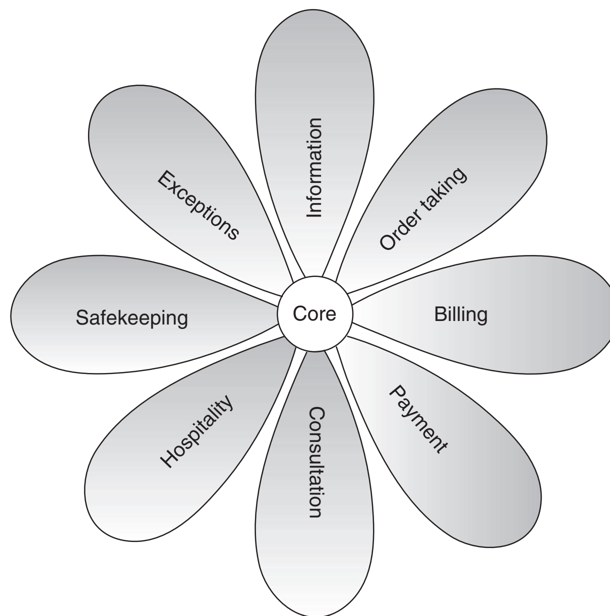

Figure 2.3 The flowers os services

Source: adapted from Lovelock (1992)

interaction of frontline personnel and customers. For designing a service delivery process better, a '*service blueprint*' is used, which represents graphically the whole delivery system.[5] In total, a service company must decide:

1 Which are the basic functional characteristics of its services.
2 Which functional characteristics must be emphasized.
3 How differentiated should these characteristics be from competition?
4 Which processes should be designed for delivering its services.

Furthermore, the supplementary services (and their pertinent delivery process) can be classified into eight clusters, which are listed as either facilitating, or enhancing supplementary services (Lovelock, 1992). These eight clusters are represented as petals of the so-called 'flower of service'.

Facilitating supplementary services ensure the smooth delivery of the core service. These include:

- Information about service details such as service characteristics, delivery time, delivery points, price list, and so on: information should be fast, accurate and complete, and it can be provided by the customer-contact personnel, as well as through brochures, call centres and the Internet.
- Order taking such as applications or reservations: the process of order taking must be as fast, polite and reliable as possible.
- Billing: in when a service is not free of charge, bills should be correct, clear and complete without 'hidden' charges and a detailed analysis of the services offered and their prices.
- Payment: when a price is charged to a service, payment can be made using a variety of alternative methods (for example, cash, credit and debit cards, cheques).

Enhancing supplementary services increases value for customers. These include:

- Consultation, which goes beyond mere information and provides customers with advice regarding the optimum use of the company's services (for example, which banking services fit customer needs better).
- Hospitality, which makes customers' stay (or wait) more pleasant (for example, comfortable lobby areas, magazines, newspapers, coffee/water/refreshments).
- Safekeeping, which provides security for customers during their stay in the company (for example, convenient parking for their cars) or the use of its services (safekeeping services in hotels for valuable belongings).
- Exceptions, including special requests (for example, non-smoking hotel rooms), problem solving, handling of complaints/suggestions/compliments and restitution in case of low satisfaction from the service offered.

A service company must decide:

1 Which supplementary services would accompany the core service.
2 How much emphasis should be given to these supplementary services.
3 How differentiated will they be from competition.
4 Which processes should be designed for better delivering these supplementary services?

Finally, the branding decisions of a service company are similar to those of a manufacturing company.

Summary

- The types of product decisions that a manufacturing company has to take differ from those of a service company.
- The product related decisions of a manufacturing company include: first, decisions about the product types to be offered, secondly, decisions about the physical/tangible product, and thirdly, decisions about the intangible/augmented product.
- The decisions about the product types to be offered are taken on a product mix and a product line level.
- The decisions pertaining the tangible/physical product refer to functional characteristics, quality, and style.
- Intangible/augmented product-related decisions comprise branding, packaging and product services.
- Product decisions are the same for manufacturing and service companies as far as the types of products/services to be offered, but they differ considerably as to the tangible and intangible service.
- Decisions about the tangible/physical service refer to physical evidence and service quality, whereas decisions for the intangible/augmented service comprise the core and supplementary services and their delivery processes.

Questions

1 Select a fast moving consumer goods company by surfing the Internet, and describe its product mix in terms of width, length and depth.
2 What could be the most desirable results from the introduction of a new mobile phone, although it might cannibalize an existing company product?

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3 Give examples of various types of family brands in the services industry and try to guess the rationale behind their selection.
4 If you were to decide whether to use brand extension for a convenience product, what information would you base your decision upon?

Notes

1 See for example, Aaker and Keller (1990); Park et al., (1991); Sullivan (1992); Keller and Aaker (1992); Sunde and Brodie (1993); Barwise (1993); Loken and Roedder (1993); Broniarcyk and Alba (1994); Dacin and Smith (1994); Milberg et al. (1997); Ambler and Styles (1997); Sheinin (1998); Roedder et al. (1998); Kapferer (1998); Serra et al. (1999); Chen and Chen (2000); Bottomley and Holdren (2001).
2 In the remainder of the book, the word 'trade mark' also implies a service mark.
3 See, among others, Buttle (1996); Mels et al. (1997); Lam and Woo (1997).
4 For a presentation of product levels, see Product levels, p.00.
5 A more detailed discussion of blueprinting is provided in Chapter 7.

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