

# Product

*The aim of the lecture is to explain the core ideas around product its typology and how the product delivers value to the customers.*



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Principles of Marketing

Subject code

# Outline of the lecture

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- Definition of a product and its layers and levels
  - Differences between goods and services
  - Service characteristics
  - Product lifecycle and brand portfolio management
  - Product assortment
  - New product development
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# Product characteristics

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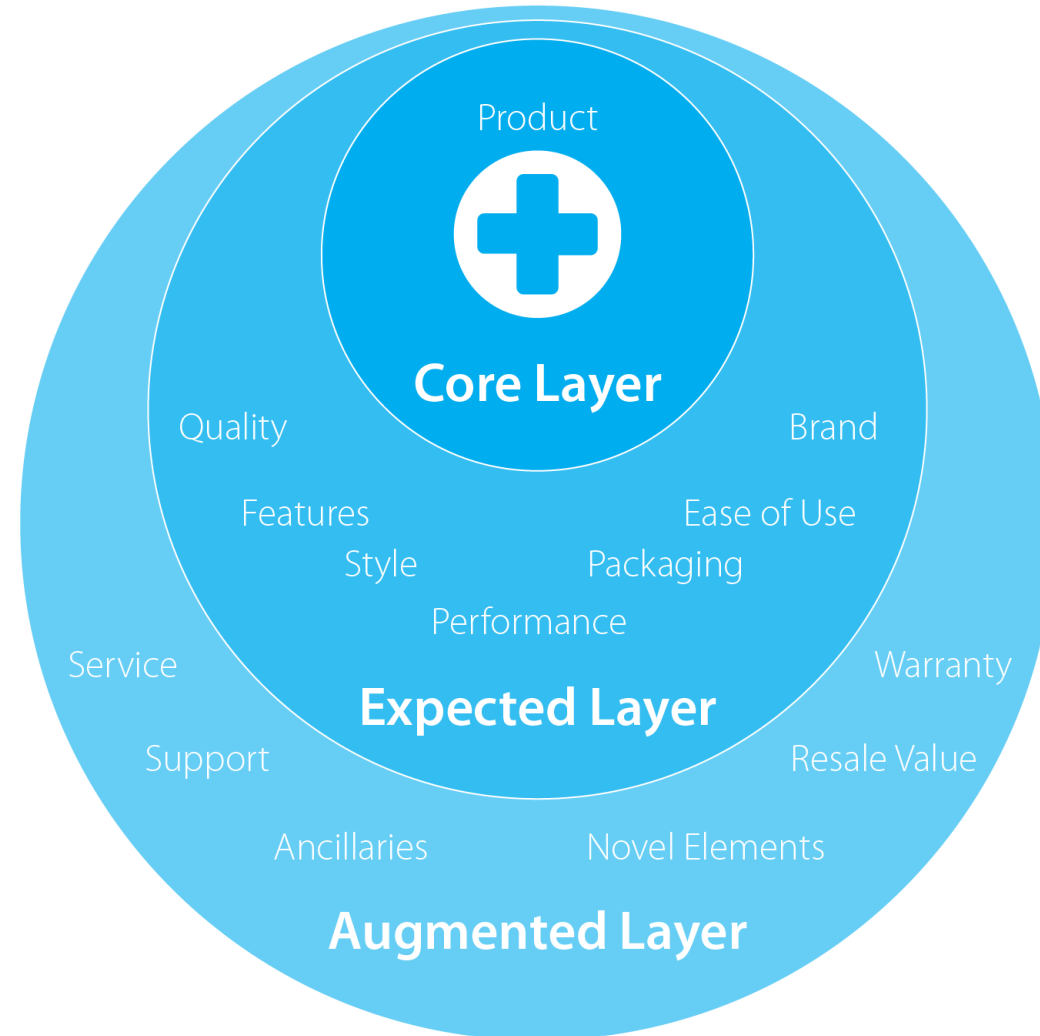


- The goal of the marketer is to help customers to meet their own goals.
  - Means for meeting customers needs and goals are products.
  - If the customer's goal is to move from point A to point B, he can own a car (goods) or use public transport or a taxi (service).
  - Both products achieve our customer's goal.
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# Product layers



- Core
- Expected
- Augmented



# Product levels

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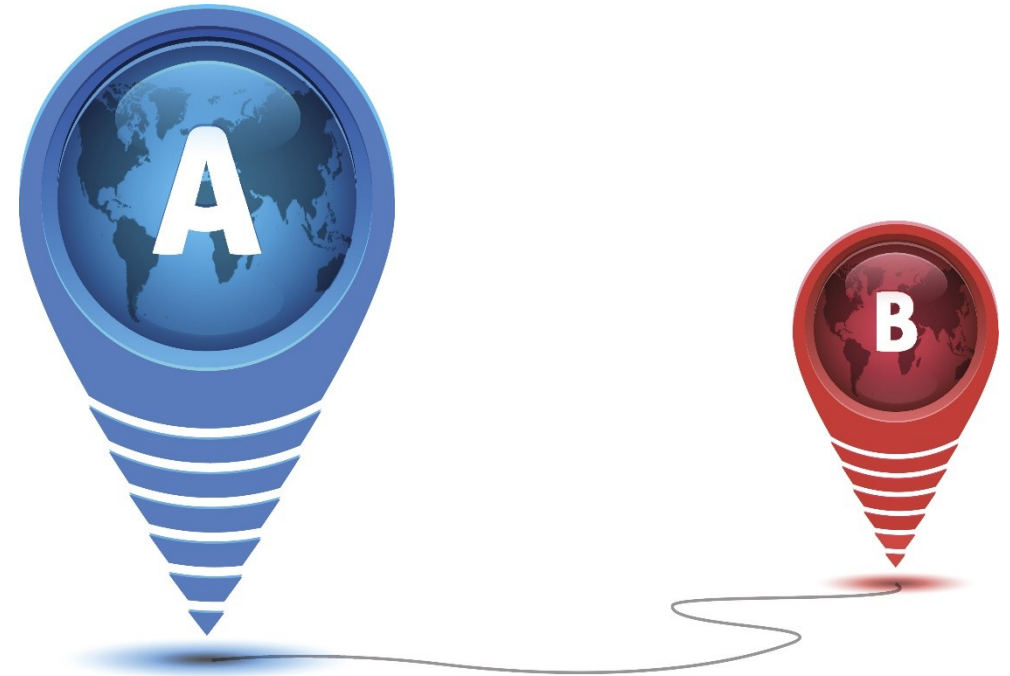
- CORE PRODUCT
    - The service or benefit the customer is really buying.
  - BASIC PRODUCT
    - The core benefit transformed into a basic product.
  - EXPECTED PRODUCT
    - Set of attributes and conditions buyers normally expect when they purchase this product.
  - AUGMENTED PRODUCT
    - That exceeds customer expectations.
-

# Product layers – bike example

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- **Core benefit**
- Basic product
- Expected product
- Augmented product



# Product layers – bike example

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- Core benefit
- **Basic product**
- Expected product
- Augmented product



# Product layers – bike example

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- Core benefit
- Basic product
- **Expected product**
- Augmented product





# Product layers – bike example

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- Core benefit
- Basic product
- Expected product
- **Augmented product**



# Product Classification

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- **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as beer and shampoo. Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
  - **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. Durable products normally require more personal selling and service, command a higher margin, and require more seller guarantees.
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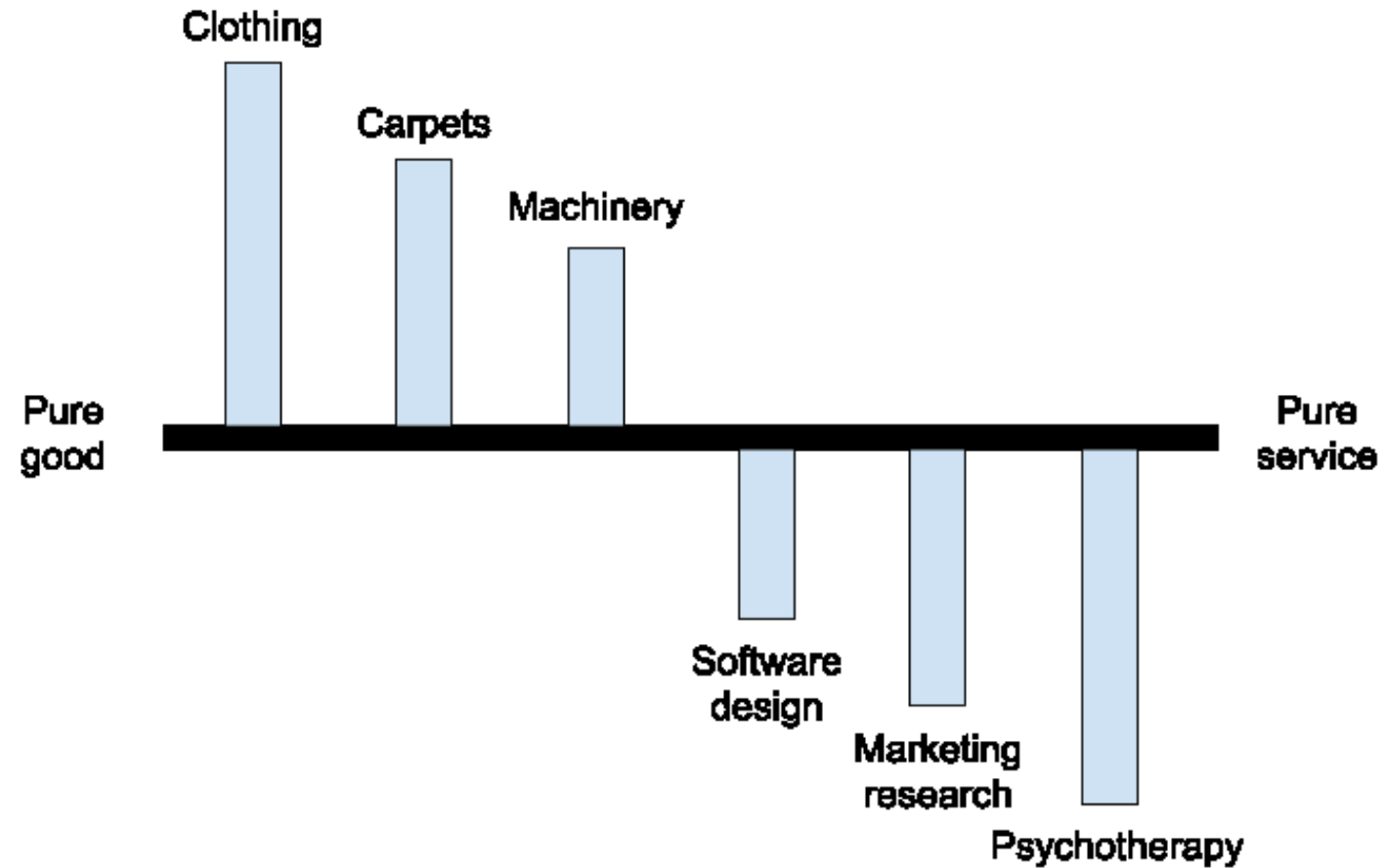
- **Services are intangible, inseparable, variable, and perishable products that normally require more quality control, supplier credibility and adaptability. Examples include haircuts, legal advice, and appliance repairs.**
  - **Goods are tangible, can be stored for later sell, do not differ piece by piece very much, and can be sold second hand. Production is separated from consumption. Examples include toys, smartphones, and fast-moving consumer goods.**
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# Two types



Goods	Services
A physical commodity	A process or activity
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution are separated from the consumption	Production, distribution and consumption are simultaneous processes
Can be stored	Cannot be stored
Transfer of ownership is possible	Transfer of ownership is not possible

# Good-service continuum



# Service examples

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- Health care – hospital, medical practice, dentistry, eye care.
  - Professional services – accounting, legal, architectural.
  - Financial services – banking, investment advising, insurance.
  - Hospitality – restaurant, hotel, bed & breakfast, ski resort, rafting.
  - Travel – air lines, travel agencies, theme park
  - Others – hair styling, pest control, lawn maintenance, counseling services.
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# Service differences

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- Intangibility
  - Heterogeneity
  - Inseparability
  - Perishability
-

# Intangibility:

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- Services are intangible and do not have a physical existence.
  - Hence services cannot be touched, held, tasted or smelt.
  - This is most defining feature of a service and that which primarily differentiates it from a product.
  - Also, it poses a unique challenge to those engaged in marketing a service as they need to attach tangible attributes to an otherwise intangible offering.
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## Heterogeneity/Variability:

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- Given the very nature of services, each service offering is unique and cannot be exactly repeated even by the same service provider.
  - While products can be mass produced and be homogenous the same is not true of services. e.g.: All burgers of a particular flavor at McDonalds are almost identical.
  - However, the same is not true of the service rendered by the same counter staff consecutively to two customers.
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## Inseparability:

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- This refers to the fact that services are generated and consumed within the same time frame. E.g.: a haircut is delivered to and consumed by a customer simultaneously unlike, say, a takeaway burger which the customer may consume even after a few hours of purchase.
  - Moreover, it is very difficult to separate a service from the service provider. E.g.: the barber is necessarily a part of the service of a haircut that he is delivering to his customer.
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## Perishability:

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- Services cannot be stored, saved, returned or resold once they have been used.
  - Once rendered to a customer the service is completely consumed and cannot be delivered to another customer. e.g.: A customer dissatisfied with the services of a barber cannot return the service of the haircut that was rendered to him.
  - At the most he may decide not to visit that particular barber in the future.
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# Extension of marketing mix for services:

- Product,
- Price,
- Place,
- Promotion,
- Processes,
- People,
- Physical evidence.



# Consumption differences goods and services



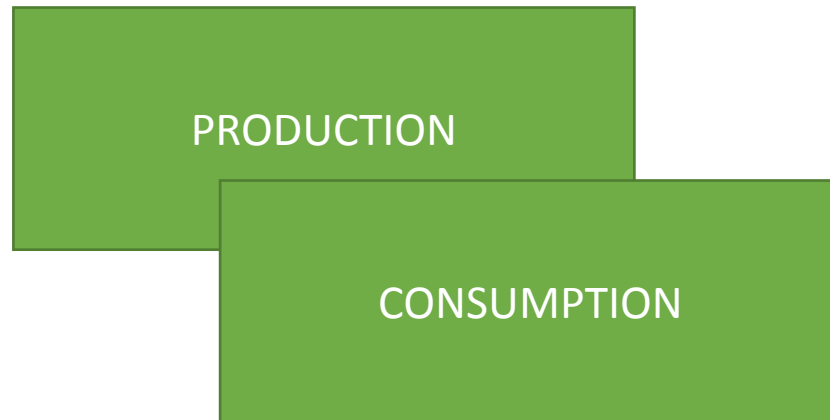
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OUTCOME CONSUMPTION

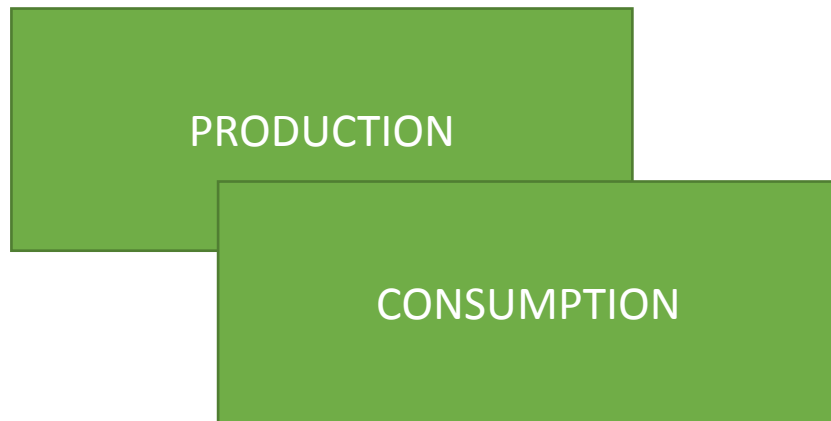
PROCESS CONSUMPTION



# What is the role of marketing in services?



- Matching the production (service) process with consumption process
- Result is that consumers perceive good service quality and value
- Than they are willing to continue he relationship with the service provider

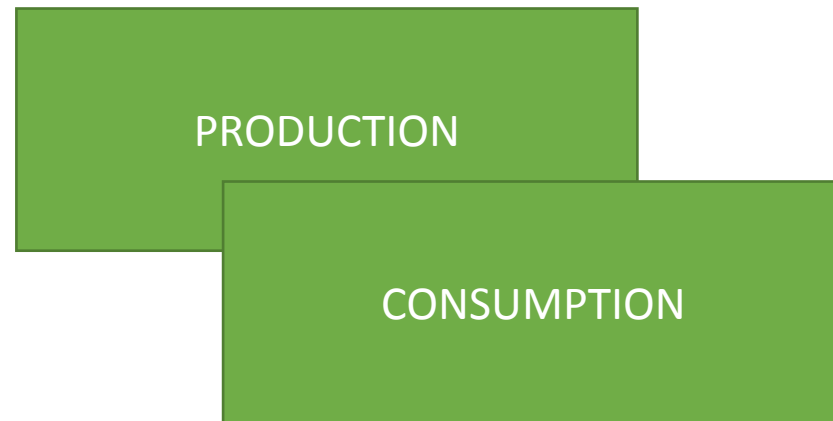


# What remains?

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- Market research
- Pricing
- Advertising
- Marketing communication

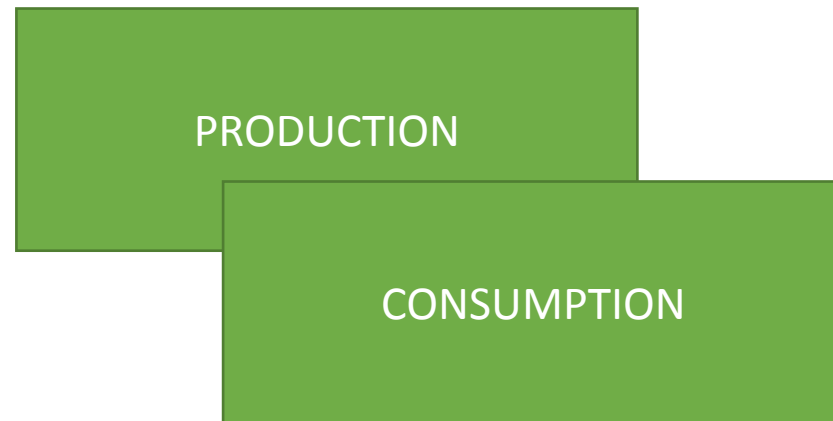


# What is new?

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- Relationship management
- Customer processes analysis
- Customer databases
- Feedback



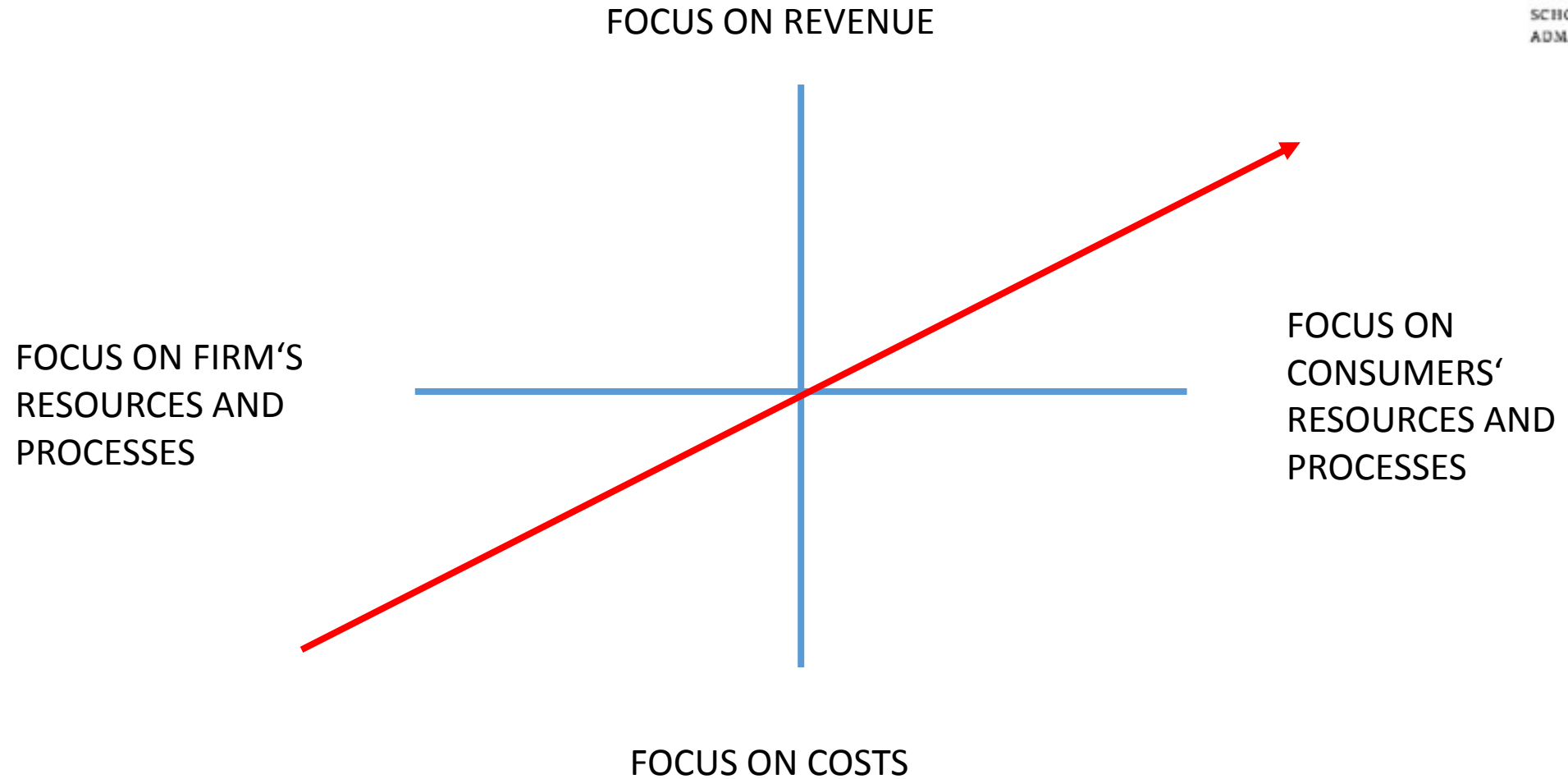


- YOU ARE RICE MERCHANT IN CHINA COUNTRYSIDE
- The city you operate is located in distant area, so expansion to other cities is not possible.
- You basically cannot improve anyhow the rice, all farmers have the same conditions and type of seed available.
- Price reduction brings only short term sales however in a long run it brings price wars leaving all the farmers bleeding financially.
- What can you do to beat your competition?

(Grönroos, Ch. 2015. Service management and marketing)

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# Excercise – where your solution falls?



# From goods dominant do service dominant

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- Changing the economic ratios and the advanced economies' orientations towards the service sector is coming up with a series of assessments of product thinking effectiveness.
  - In theory, we have two approaches:
    - Goods-dominant logic
    - Service-dominant logic
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- Tangible products do not exist
  - The product is always strongly connected to the benefit
  - This tangible product only generates the benefit
  - We say "This product has made us a service"
  - The logic of service helps businesses perceive the true value that product generates.
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# Service dominant logic



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Logic	Goods-Dominant	Service-Dominant
Main Idea	Goods	Service
Focus	Product	Experience
Improvement	Product features	Solution
Means for the transaction	Price	Value proposition
Communication style	Promotion	Dialogue
Marketing goals	Market	Co-create value

# Case study: Hilti



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## Case study

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- The Swiss firm Hilti is a manufacturer of high quality professional electronic tools.
  - Customers are mainly construction companies.
  - Thanks to the fierce competition, which was able to produce at a lower cost, large orders were dropping significantly.
  - Hilti responded by changing the business model from product to service thinking.
  - Providing large developers and construction companies with rental of machinery.
  - Ensured delivery of the specified quantity and type of tools directly to the construction.
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# Case study

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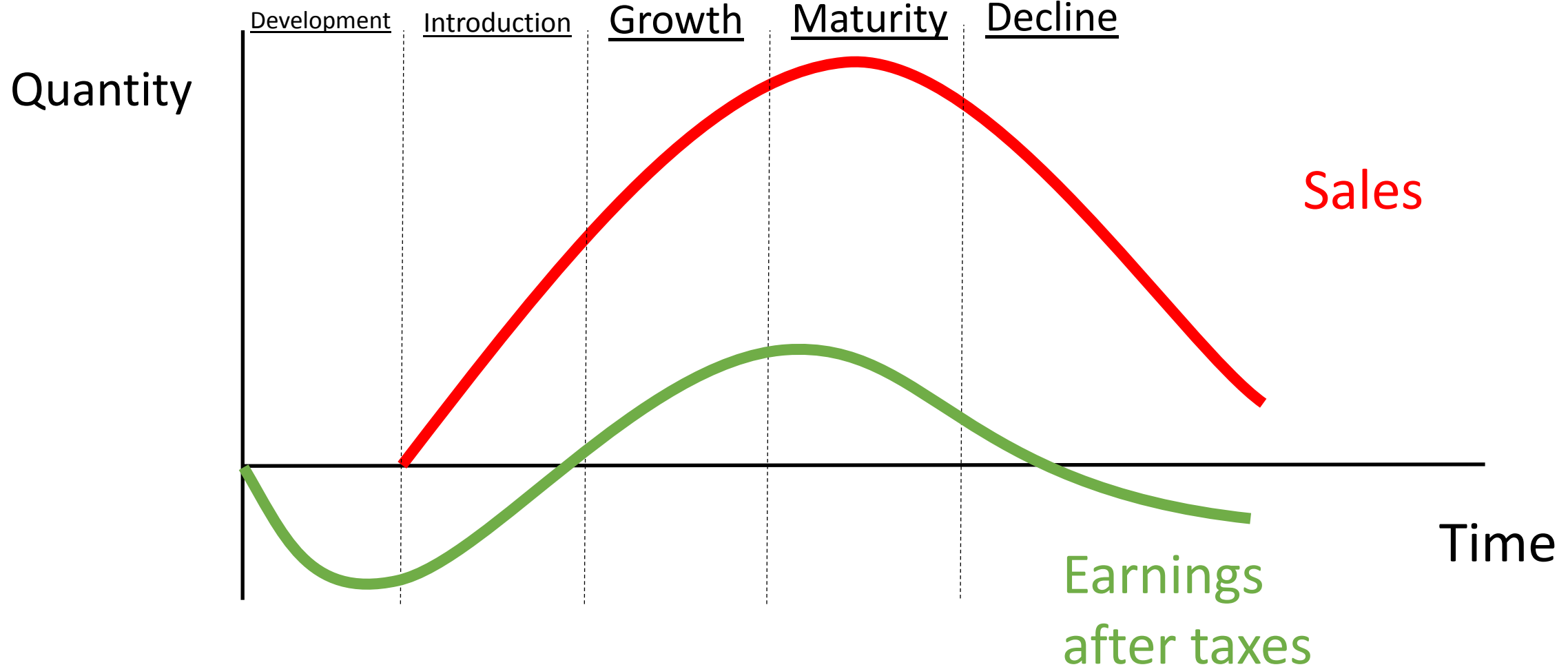
- Construction companies do not have to buy, own and maintain tools.
- The client's need is access to tools rather than tool ownership.
- Clients can concentrate on what they do best and that's building and not caring for tools.
- Set up a regular company income from contracts for rental of tools.
- Hilti also provides service and that machines are always functional and available.
- For this added value, the customer is willing to pay - he is sure that the construction will not be blocked due to machine failures.
- No delay mean no fine for delayed constructions.
- [https://www.youtube.com/watch?time\\_continue=11&v=VxSObyUhqNY](https://www.youtube.com/watch?time_continue=11&v=VxSObyUhqNY)



# Product Lifecycle



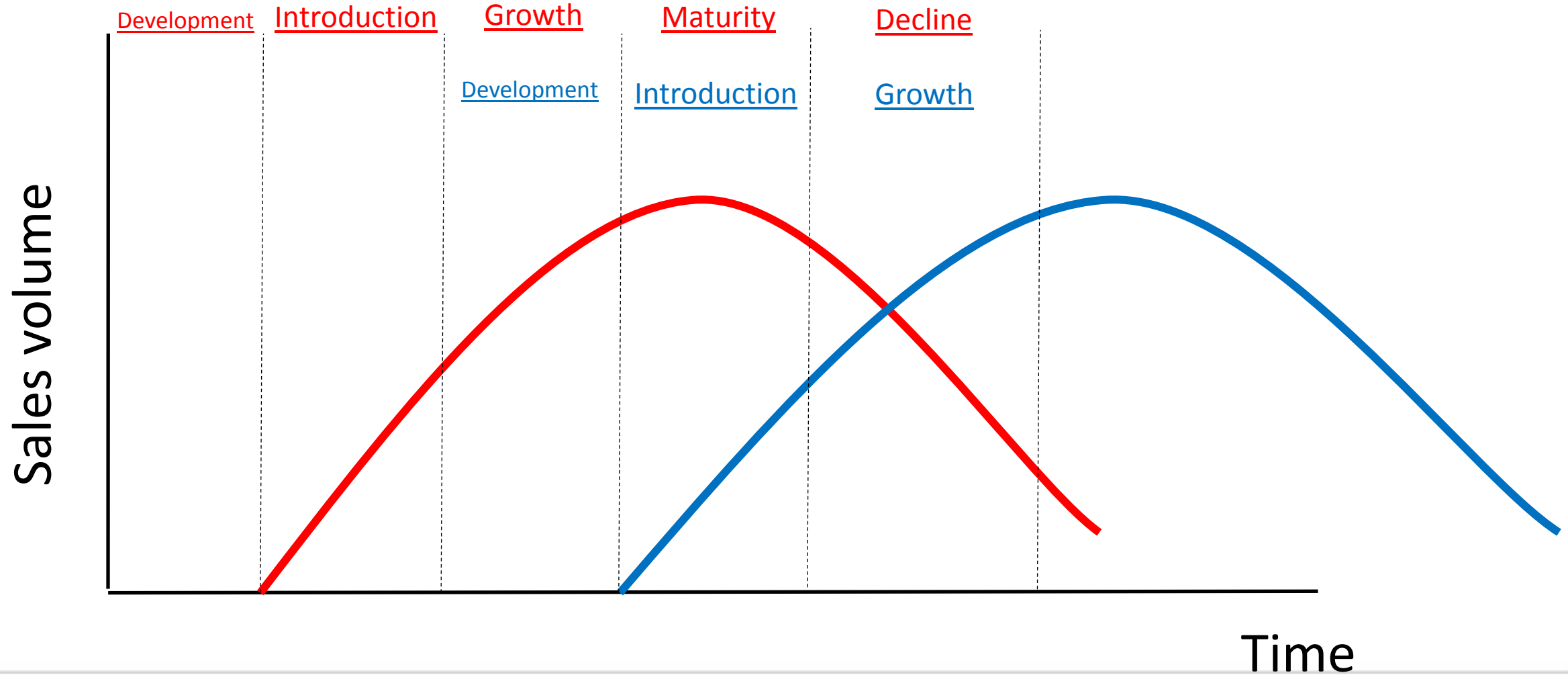
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# Product Lifecycle and Product Portfolio Management



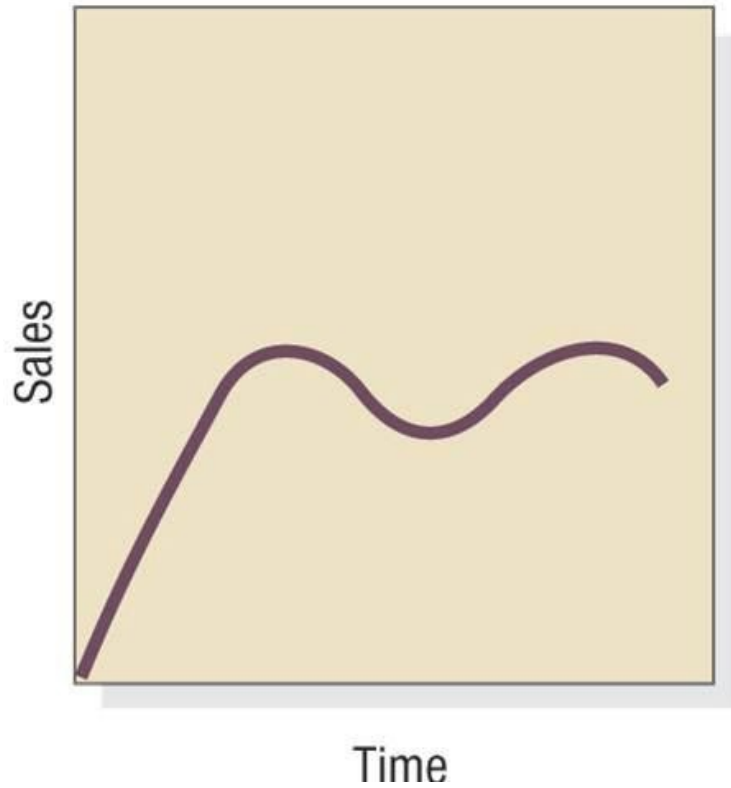
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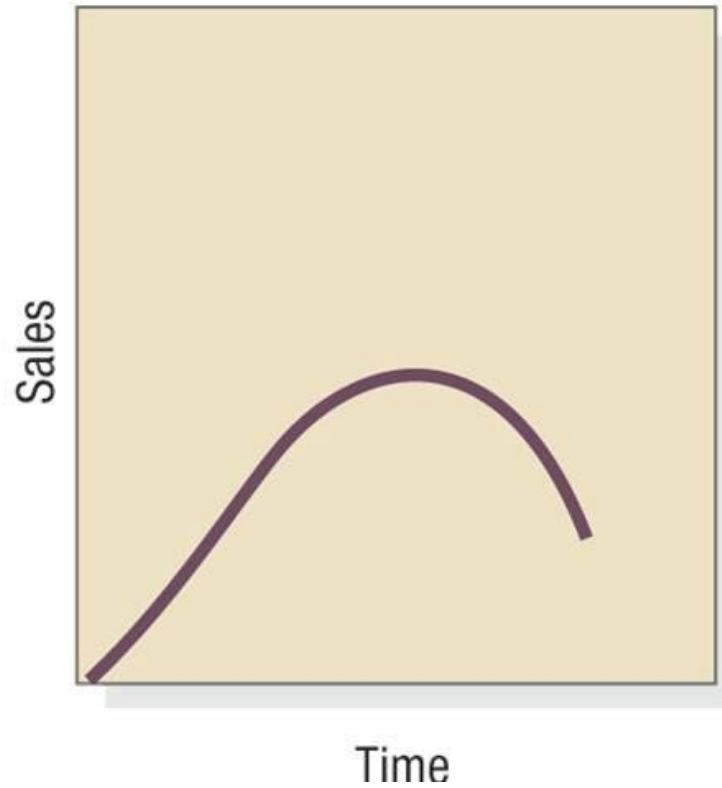
# Non-standard product lifecycles



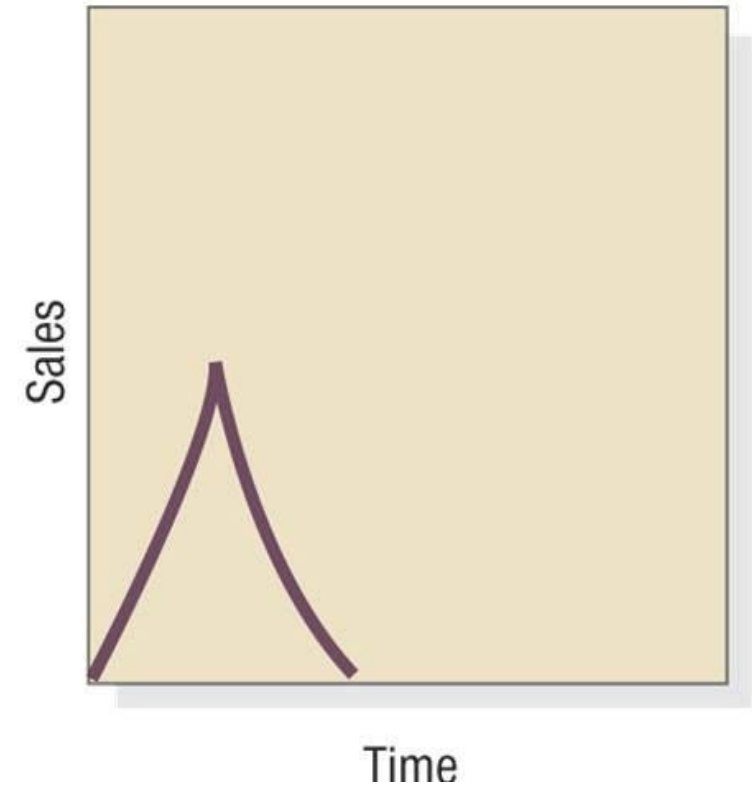
**Style**



**Fashion**



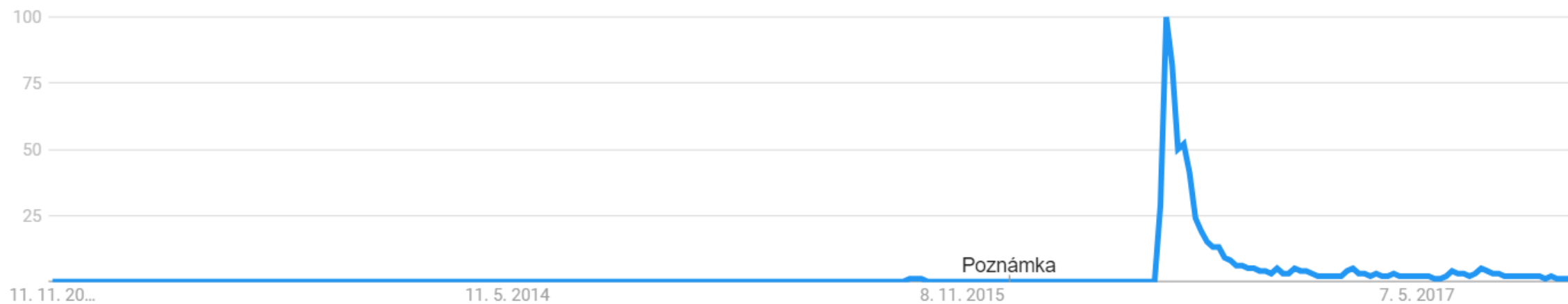
**Fad**



# Could you guess a fad?



Zájem v průběhu času ?



# Stages and strategies (Fad was Pokemon Go)



Strategy	Introduction	Growth	Maturity	Decline
Marketing emphasis	Create product awareness	Establish high market share	Fight off competition	Minimize marketing expenditure
	Encourage product trial		Generate profits	
Product strategy	Introduce basic products	Improve features of basic products	Design product versions for different segments	Rationalize the product range
Pricing strategy	Price skimming or price penetration	Reduce prices enough to expand the market and establish market share	Match or beat the competition	Reduce prices further
Promotional strategy	Advertising and sales promotion to end-users and dealers	Mass media advertising establish brand image	Emphasize brand strengths to different segments	Minimal level to retain loyal customers
Distribution strategy	Build selective distribution outlets	Increase the number of outlets	Maintain intensive distribution	Rationalize outlets to minimize distribution costs

# Product portfolio / assortment



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- Width of product portfolio
  - How many product categories we offer
- Depth of product portfolio
  - How many brands are in product categories



## Product portfolio / assortment

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In the food store, the breakdown of meat and sausages, milk and dairy products, pastries, fruits and vegetables etc. is the **width of the assortment**.

The division of milk and dairy products into milk, cheese, yoghurt, etc. is still the **width of the assortment**.

The division of yoghurts according to flavours, brands, etc. is the **depth of the assortment**.



# Brand portfolio



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The Milka logo, written in a dark blue, cursive script.

The Mondelēz International logo, with 'Mondelēz' in a purple, rounded font and 'International' in a smaller, dark blue font below it.

The Toblerone logo, featuring a golden mountain peak icon to the left of the word 'TOBLERONE' in a bold, red, outlined font.

The Snickers logo, with the word 'SNICKERS' in a bold, blue, italicized font inside a red and white border.

The Mars Incorporated logo, with 'MARS' in a large, blue, serif font and 'incorporated' in a smaller, black, sans-serif font below it.

The Twix logo, with the word 'TWIX' in a bold, red, outlined font with a 3D effect.

The Orbit logo, with the word 'Orbit' in a blue, sans-serif font on a black background, where the 'O' is a blue circle.

The Wrigley logo, with 'WRIGLEY' in a large, blue, sans-serif font and 'A Subsidiary of Mars, Incorporated' in a smaller, blue, sans-serif font below it.

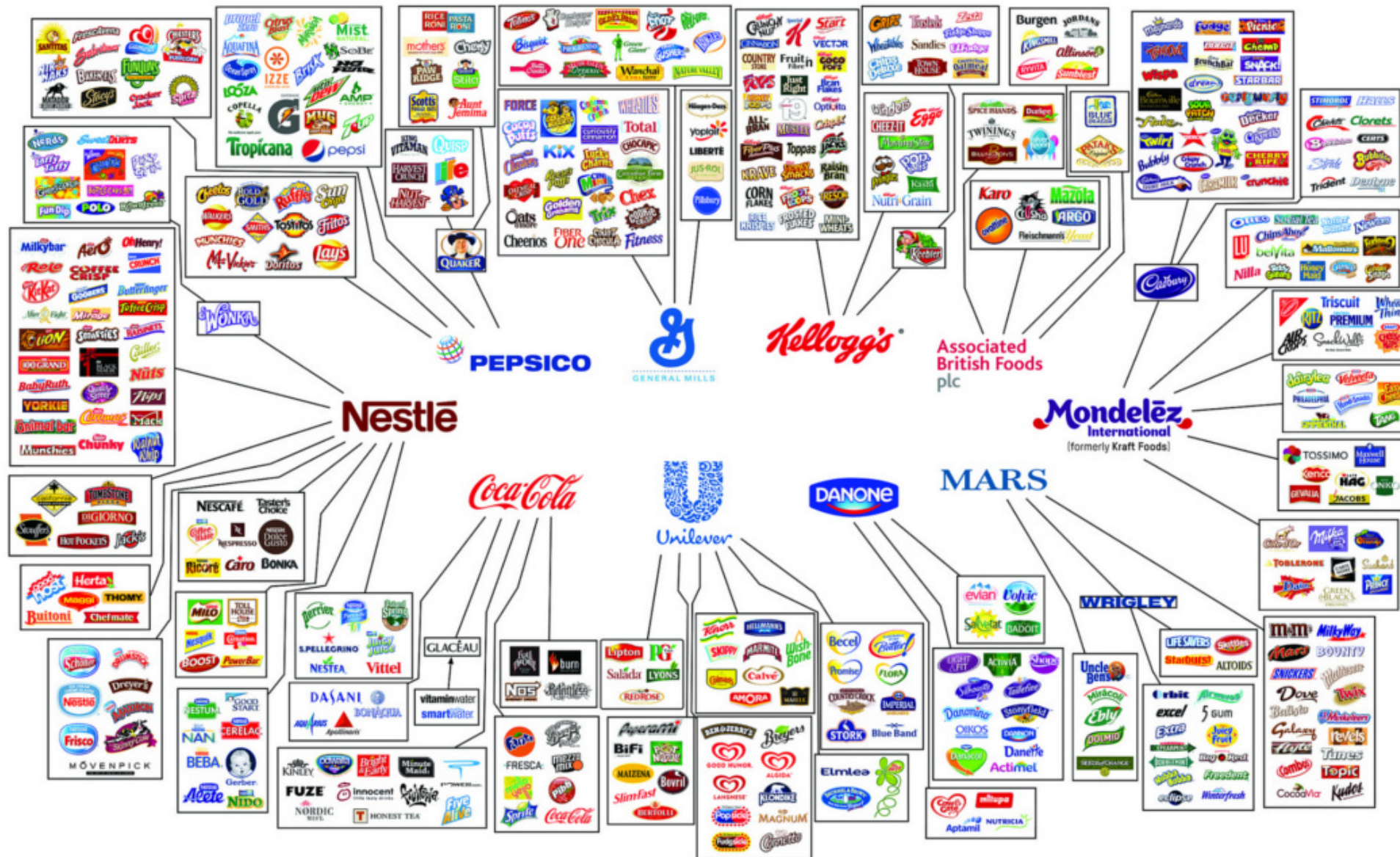
The Wrigley's Spearmint logo, with 'WRIGLEY'S' in red, 'SPEARMINT' in white on a green arrow, and 'THE PERFECT GUM' in red below it.



# Brand portfolio



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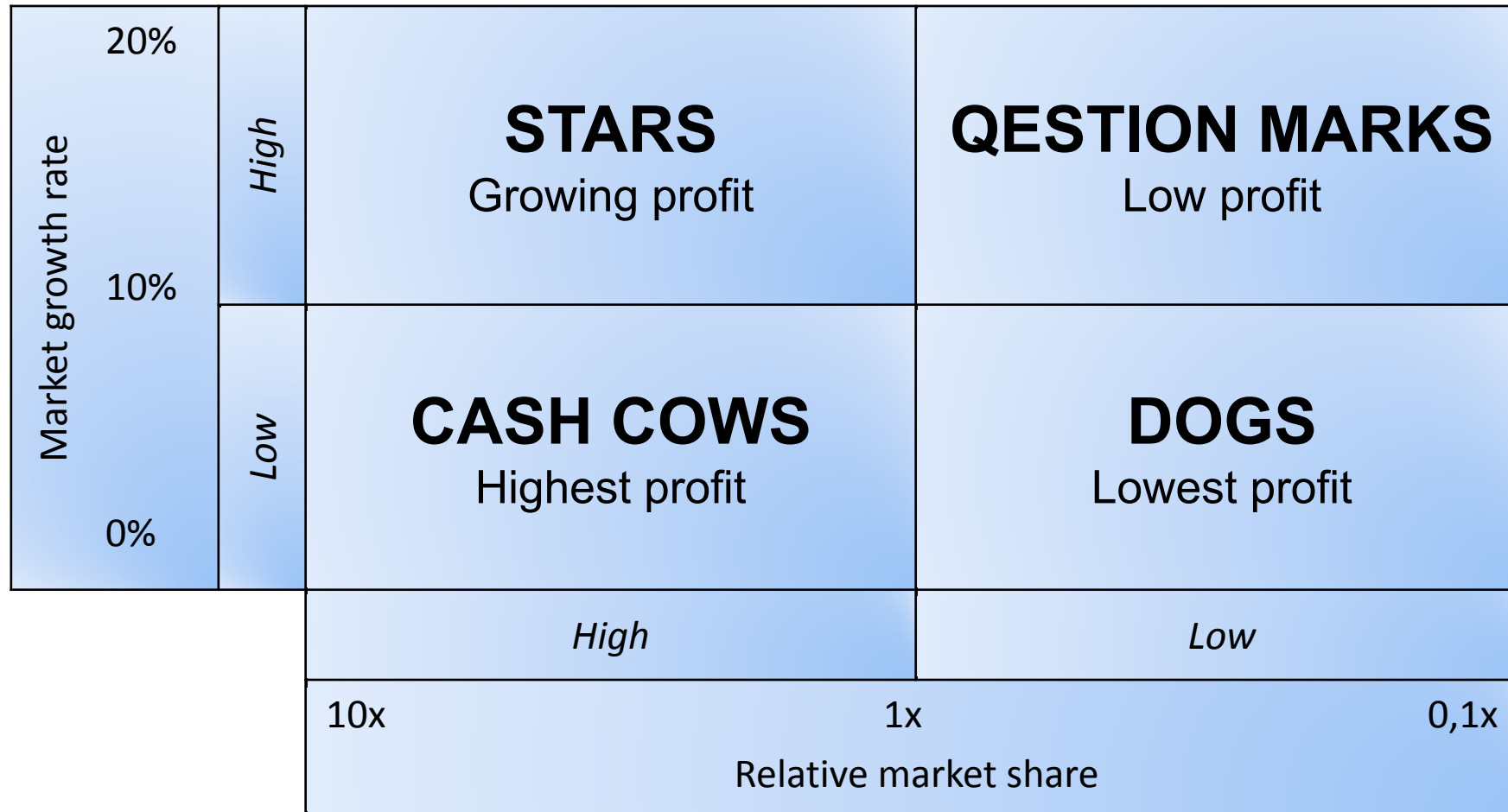
# BCG Matrix



- Most famous portfolio analysis is Boston Consulting Group Matrix .
- Logic: profitability of different strategic business units (brands or products) is aligned with share and growth.
- Result: Model BCG which sort brands



# BCG Matrix



$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

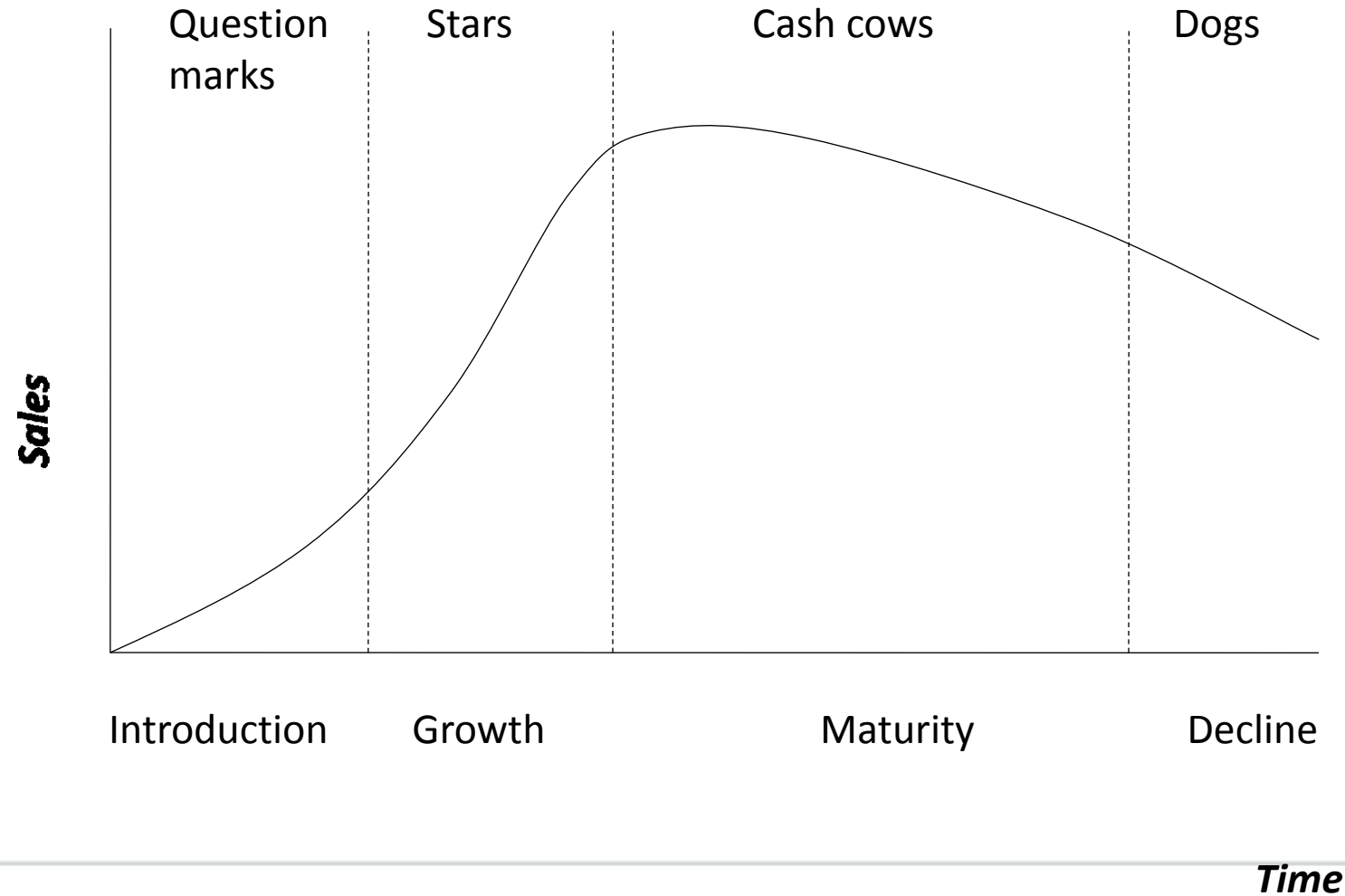
# BCG Model

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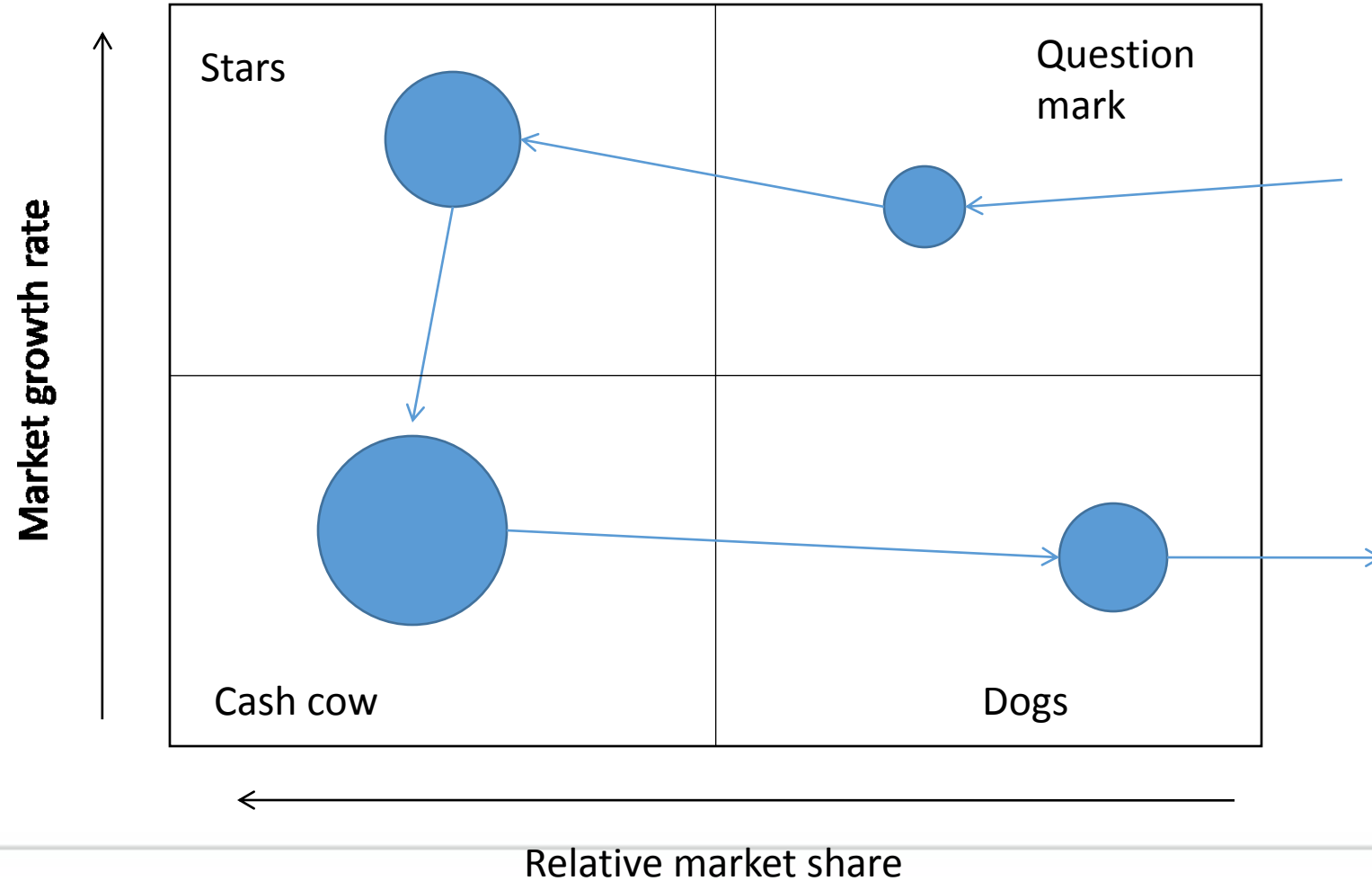


- **Stars**
    - Requires lots of investments and managing effort
    - Strong competition in the segments
  - **Cash Cows**
    - Established well functioning units.
    - Generates valuable profits for other units.
  - **Question marks**
    - Requires extensive investments to maintain market share.
    - Management have to decide which of these will progress to Stars.
  - **Dogs**
    - Can generate sufficient amount of profits to survive.
    - Has no bright future ahead of them.
-

# BCG Model

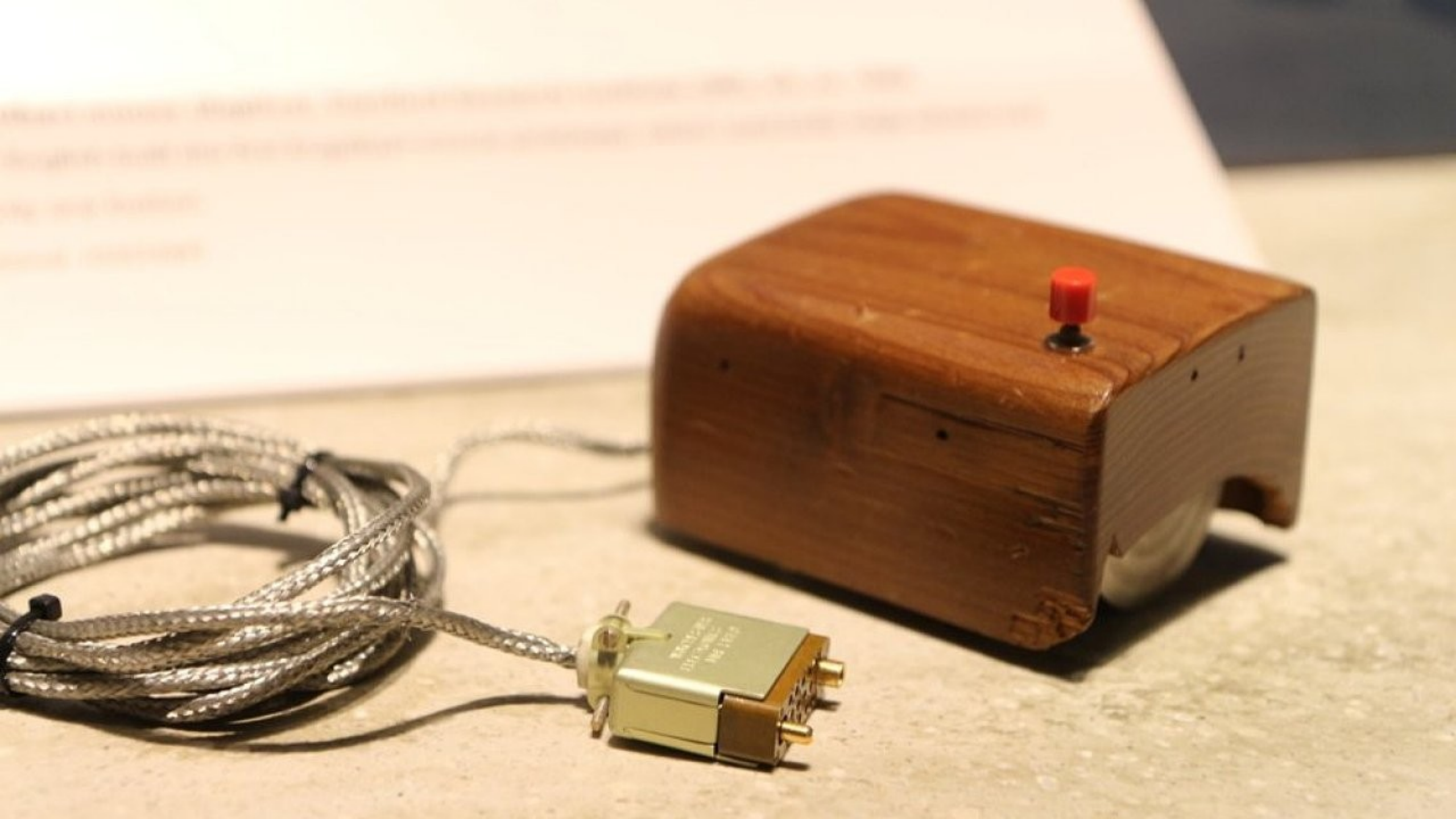


# BCG Model



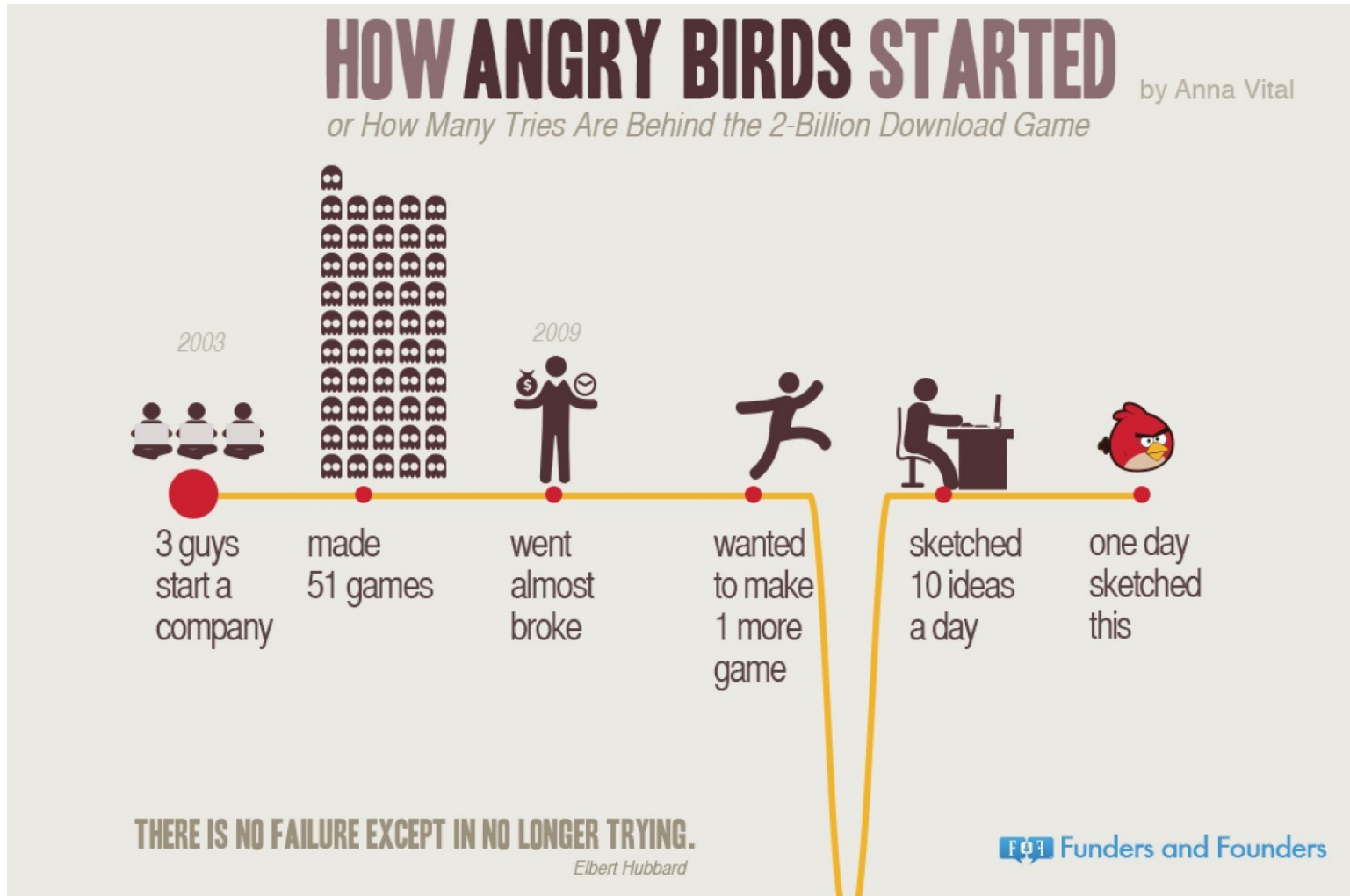


- It is obvious that the company's range is not static, but the products need to be changed purposefully.
  - Companies need to develop new products and services due to rapid changes in consumer consciousness, technology and competition.
  - In addition, the products have a limited life and the company has to look for new products to replace the older ones.
  - The result is product innovations.
-





- Product innovation includes various activities - product improvement, new product development, product expansion, or product line upgrades.
  - New products can be established by the company in two ways:
    - acquisition - purchase of an entire company, patent or production license from someone else,
    - development of new products in its own development department.
  - These are the make or buy decisions.
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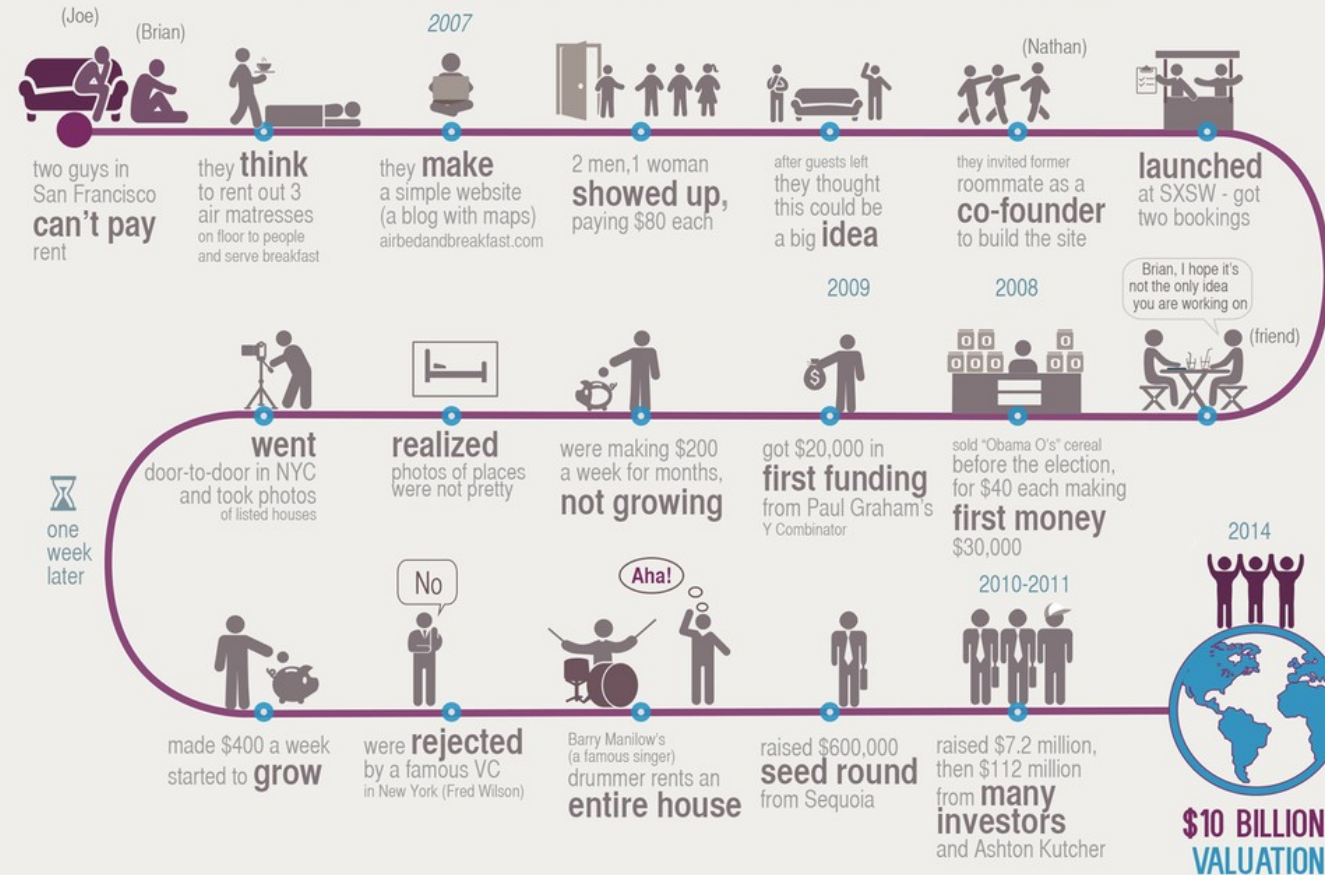
# Product development



## HOW AIRBNB STARTED

BY ANNA VITAL

Or How 3 Guys Went From Renting Air Mattresses To A 10 Billion Dollar Company



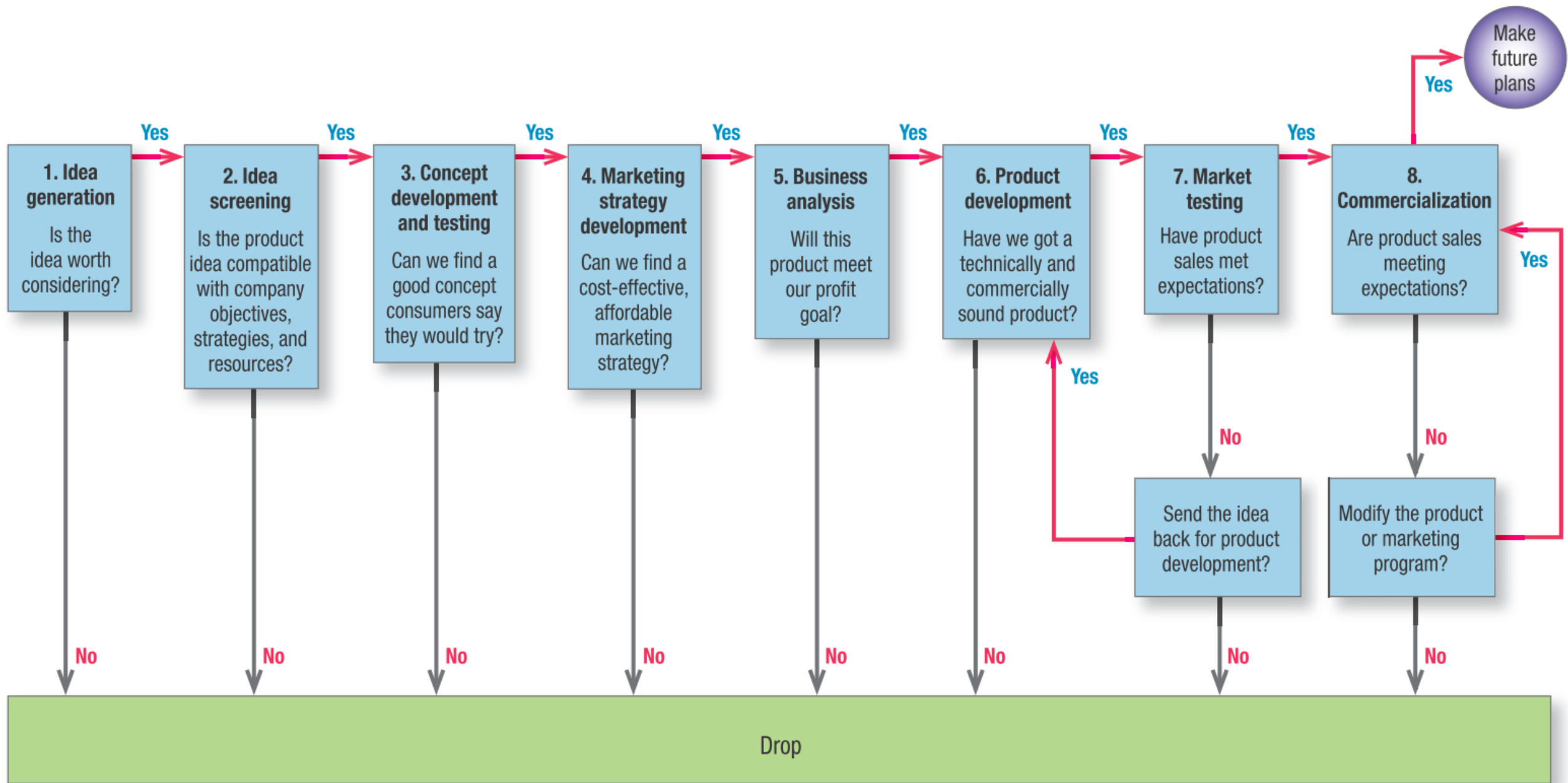
# New product development process

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1. Generate ideas
  2. Idea screening
  3. Creating a concept or prototype
  4. Creating a marketing strategy
  5. Business analysis
  6. Product development
  7. Test Marketing
  8. Commercialization
-



# New product development costs



**TABLE 15.1**

Cost of Finding One Successful New Product  
(Starting with 64 New Ideas)

<b>Stage</b>	<b>Number of Ideas</b>	<b>Pass Ratio</b>	<b>Cost per Product Idea</b>	<b>Total Cost</b>
1. Idea screening	64	1:4	\$ 1,000	\$ 64,000
2. Concept testing	16	1:2	20,000	320,000
3. Product development	8	1:2	200,000	1,600,000
4. Test marketing	4	1:2	500,000	2,000,000
5. National launch	2	1:2	<u>5,000,000</u>	<u>10,000,000</u>
			\$5,721,000	\$13,984,000



- At the center of attention is man, not technology or product.
  - Active engagement of a company to create a product with customers.
  - Empathy
  - User testing
  - Innovation is understood as applied creativity to a problem where results can be measured - market share, profitability
-

- **Crowdsourcing**
    - Drawing an idea from people
    - Customers or fans
    - This form of product development has been enabled thanks to technological development
  - **Crowdfunding**
    - Financing development
    - Product launch financing
    - Kickstarter or Indiegogo
    - A relatively safe way combining market validation and product introduction
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# Summary

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- Products include more than just tangible goods. Broadly defined, products include physical objects, services, events, persons, places, organizations, ideas or mixes of these entities. Throughout this presentation, we use the term product broadly to include any or all of these entities. Thus, an Apple iPad, a Toyota Avensis and a tin of Dulux paint are products. But so are a skiing holiday, HSBC banking services and advice from your doctor. Because of their importance in the world economy, services are given our special attention. Services are a form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, retail, accounting and home repair services.
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# End of presentation

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**THANKS FOR YOUR ATTENTION.**

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