Chapter 8
Elements of Product Planning for Goods and Services

You may not realize it, but new products and services are hitting the market every day! Think about all the new technology products we are seeing nowadays:

- Cell phones
- Digital cameras
- Hand held black berries
- I-Phones and I-Phone updates
- I-Pads

and all the innovations to make them better and better. All of these things just keep coming, rendering new products obsolete that came out just a few years ago!

Then think of all the new food items we see:

- New snack items
- New beverages
- New coffees

And now with our health conscious consumer…. Low cal, low carb, fat free, sugar free, hi-energy and high-protein everything!

Think about clothing:

- New styles
- New colors and designs
- New casual wear
- New athletic clothing
- New footwear

And services! Restaurants will deliver:

- Pizza
- Chinese food
- Just about anything else you can think of.

New consulting services to:

- Manage your finances and pay your bills
- Help you start a business
- Show you how to work your computer

We could go on and on with these because we continue to be bombarded with new products and services and ideas in the market place. But the reason I chose to mention all of these to start this discussion is because I want to emphasize to you the huge task
that marketers have as they develop products and plan marketing strategy to try to make them successful in the market place. It’s a demanding job and it requires a lot of strategic marketing planning to move them successfully through their product life cycle. So, let’s look at the kinds of things marketers have to do in order to develop new products and services and introduce them into the market place.

First of all they/we need to clearly understand what a product is. When we think of a product, perhaps, many things come to mind such as:

- A piece of furniture
- A food item
- A pair of shoes
- Maybe some tool item

There are thousands of these generic items that ARE truly products that are common to all of us. But oftentimes, we refer to things like

- Snicker Bars
- Kleenex
- Levi’s
- Handi-Wipes
- Coca-Cola
- Frigidaire

as products. And that’s where we could get stumped because in reality these are brand names! Right off the bat you see the job that marketers have done to us, where we are using brand names to refer to generic items! That’s what they want us to do! So, a product is not a brand name, it is anything offered for sale that satisfies a want or need on both sides of the exchange process.

Tangible products have their own unique marketing challenges dependent on their:

- Physical characteristics
- Their target markets
- What their marketing teams’ and companies’ objectives are.

Same way with intangible services.

- What they are?
- Who they’re targeted for?
- What the company hopes to achieve with them?

These present unique market challenges as well. But there is something that marketers know that any product or service has in common, and that is every product means
something more than just its basic self. Marketers know that customers expect more. *Customers expect benefits from the product features they are paying for.* Maybe you can already see how involved it can get for marketers to develop new products and some of the many things they have to think about.

In order to develop effective marketing strategies marketers group their product into categories of like items. *A group of related products is called a product line.* Say for example, you manufacture tires. It stands to reason that your product line would be tires of all sizes for most any vehicle because they satisfy a class if needs, they’re sold to the same customer group, and they’re distributed and sold similarly.

Then we have the *product item*, which is each *individual product within the product line aka stock keeping unit (SKU).* Back to our tire example, our product item or SKU would be:

- Car tires
- Truck tires
- Snow tires
- Broken down to sizes, etc.

And then there is the *product mix.* The product mix is *the collection of all product lines* that may be in a company’s portfolio.

Some companies may choose to vertically integrate their product lines within their product mix, such as:

- Cameras
- Camera accessories
- Film
- Developing, etc.

They do this, primarily, due to the similarity of the markets. They know:

- Where they are
- Who they are
- And that their purchasing patterns for these items are similar.

While other companies may elect to diversify their product lines in order to spread risk. GE found success in doing this as have the major tobacco companies, and I think you can see why they would do it.

So, right away you start to see how marketers think in terms of new product development. When they keep these categories in mind then they can better focus their marketing strategies. Take a look at how that might work. They can ride the coat tails of
an existing product item, such as Coke-Lite did with the lead product item in their product line…..Coca-Cola! Again they knew:

- Their similar customer groups
- Distribution is similar
- Pricing is similar

*And it allows them to use a similar marketing strategy!

But now, what about diversified product lines? Marketers know this is a much different approach. Companies are learning that it is wise to set up separate business lines associated with their diversified product lines; strategic business units (SBU’s). When they do this they utilize specialized marketing expertise associated with each independent business units. That way they can put a special focus on the product line, which then becomes a business line and the individual product items within it. Some companies even go so far as to establish each business line under its own corporate identity.

Now let’s look at another way to classify products; but still within the basic categories of:

- Product line
- Product item
- Product mix

Marketers can classify items as:

- **Consumer goods**
- **Business goods**

*Consumer goods* can be just about anything that is easy for consumers like you and me to buy, i.e.

- Convenience goods; such as we might buy frequently, with minimum effort, maybe 7/11 where price is not a real issue.
- Shopping goods; such as we might take the time and effort to compare price and quality and style, i.e.
  - Clothing
  - Furniture and appliances, on up to
  - Automobiles, etc.
- Specialty goods; such as items we really seek out because we know what we want, i.e.
  - Jewelry
  - A painting
  - Maybe some fancy dinner ware for a special occasion
• Unsought goods; this is my favorite because it really does emphasize the expertise of marketing. This is where demand is created for something we don’t know we need. How did we know we needed a pager until someone invented one or
  o A cell phone
  o Even a light bulb (how did we know we needed one before somebody invented one?)
  o I didn’t think I needed a computer until some good marketers created that need for me!

The next classification of goods is business goods. These are the kind of goods that are sold to commercial and industrial markets. The real distinguishing characteristic is that sales are the result of derived demand. Very simply that means that business goods are usually tied to the demand for consumer goods. See what I mean when you look at the sub-categories of business goods:

• Production goods; raw materials used in production of a final product.
• Support goods; includes plant, machinery, accessories and supplies.

Most of the time marketers are going to know their markets well enough to be able to categorize and classify their products. And they need to be able to do that because it helps them to devise the most strategic marketing mix. And, as I have said before, the heart of the marketing plan is the marketing mix.

Marketers understand these things. They know what a product is; what a product line, product item, and product mix is; and they know the difference between consumer goods and business goods. These are fundamental concepts in marketing, but nevertheless, crucial to the ability of a marketer to develop new products and services because it helps them to think systematically as to what product should be, how it will satisfy demand, and what they have to do to get it off the ground.

These are the things they need to keep in mind in The “New Product Development Process.” The “New Product Development Process” is a sequence of activities used to identify business opportunities and optimize their probability for success in the marketplace.

Let’s look at the steps in that:

1. Generate ideas. Any new product starts with this. New ideas can come from anywhere:
   • From customers
   • From the sales force
   • From competitors
- From creative marketers who are in touch with the needs of marketing environments!

Some companies have been known to put together teams of experts just to try to come up with some new idea. 3M Company is famous for this with their idea generation teams.

2. **Screen and evaluate product ideas.** This step involves determining whether the product idea will help achieve the objectives of the marketing dept, and those of the organization. A good question to ask here is “does the new idea make use of the organ’s strengths?” and “does it meet the objectives defined in the new product strategy?” Here marketers are going to look at legal, safety and ethical issues and they’ll certainly check with their marketing research group to get an idea of the sales potential of the item.

3. **Conduct a business analysis.** The business analysis brings in all aspects of cost against sales/profit potential. This is the last checkpoint before making a capital investment to produce the product. We look at all the economics associated with taking the product to the market, the soundness of the marketing strategy, and how it ties to other product items and product mix, and the necessity to protect it with a patent or copyright.

4. **Development of the product.** We get into final lab and consumer tests here to ensure that the product meets standards. Some investment is made into prototypes. We look to get a good feel for customer needs and demand. This stage may also be called “concurrent engineering,” where marketers learn everything from “can it be done?” to the efficient use of production resources to keep product in the market place.

5. **Market testing.** Test markets not only give rise to evidence of potential demand in the marketplace but they support “causal research.” In causal research marketers try to find out the reasons why marketers act and react as they do. This can be a time consuming and expensive part of new product development and introduction, especially when reliable results are the objective. Marketers try to find out:
   - The best location
   - Profile of the target markets
   - Which are the highest potential segments
   - Optimum distribution channels
   - The ideal marketing mix

6. **Commercialization.** Now we’re ready to introduce the product into the marketplace. Marketers are ready to implement the **launch strategy**, and that represents the beginning of taking the product thru its life cycle. When the product is finally commercialized the organ commits to selling the product and start full scale production, distribution, and promotion. Marketing’s job is just really starting here
because it is their responsibility to manipulate the marketing mix and manage the product as it moves to maturity and keep it there.

Now you may get the impression that if marketing and the rest of the organization do everything right, then products are going to be successful. Not so! In fact, a large percentage fail and that’s even when the firm does all they can to ensure its success. There are so many unknowns and so little room for error. So, let’s take a look at just a few of the reasons why products fail:

1. **Insignificantly differentiated.** Product differentiation is a basic strategy in strategic marketing planning and it can be crucial to success of the product. But it often can be difficult to do. Think of paper and beer products, for example. We logically see these as very basic products, yet marketers put a lot of effort into differentiating them among the competition. If consumers are not able to perceive a difference in the product it will likely fail.

2. **Poor product quality.** This is an easy one. Remember the Ford Pinto? Poor quality. It didn’t last long. Remember the smokeless cigarette? It didn’t taste good to smokers. Marketers know that consumers are looking for quality in terms of value and performance.

3. **Poor execution of the marketing mix.** I touched on this already. As I said, the marketing mix is the heart of the marketing plan. Marketers build their marketing strategy around it and they have to monitor product performance, and manipulate and execute the marketing mix strategically as the product moves through its life cycle.

4. **No access to markets.** Especially in the area of consumer goods like convenience and shopping products. Just because you introduce a new product, maybe cereal, there’s nothing that says it will have space on the grocery shelves. It may have to knock somebody else out to get shelf space and exposure to the retail customer.

5. **Bad timing.** A product simply might be introduced too soon, or too late. Consumer tastes shift so dramatically and they’re hard to keep up with. And technology is advancing so quickly. A manufacturer may be developing a new techy item but by the time they get it to the market place it may already be outdated or outdone by a competitor.

In conclusion, you can see how all of these things emphasize the importance of marketing and marketing planning.