

The product decision

*This is the first in a series of articles by **Peter Stimpson** on the marketing mix, an important concept in all AS specifications. The article considers the significance of the product decision within the mix*

The four Ps

The product is usually considered to be the most important component of the marketing mix. With low introductory prices and heavy promotion, it may be quite easy to encourage consumers to buy most products once. But repeat purchases leading to long-term profits will only be achieved when the design, performance and value offered by a product meet the demand of a sufficient number of consumers. Before considering how businesses make the product decision, it will be useful to explain what is meant by the term and the different categories into which products may be classified.

What is a 'product'?

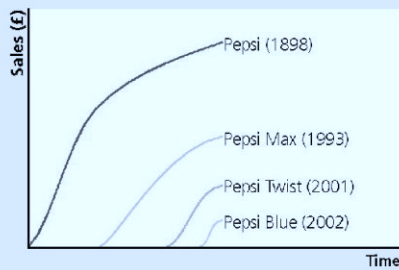
A product is something that is offered to customers at a price. It can be a tangible object (e.g. a drink), or a service (e.g. a bank account). It can be sold to consumers, as with washing machines, or to industrial customers, as with trucks. Or it can be something that is sold in both markets, as with computers. Consumer products can be categorised further into 'shopping goods' or 'convenience goods'. Shopping goods, or 'consumer durables', are bought infrequently, for example televisions, and consumers often devote a lot of time and effort into making their

Case study

Pepsi and Coca-Cola

The battle between the world's two major cola producers has never been more intense. They are both suffering from mature markets for their core products. Emerging markets offer new opportunities for growth, but there is reluctance in many of these to embrace cola products as 'symbols of US freedom' as had been hoped. New cola brands have been created by other companies and one, Mecca-Cola, is targeted specifically at Muslim consumers.

Of the two giants, Pepsi has a better reputation for new product development than Coca-Cola. 'Although Coca-Cola created the market in the first place, Pepsi now has around 15 brands worth £630 million which provides a balanced portfolio' said a Pepsi advertising agency executive.



Pepsi has a balanced portfolio of products — as the core brand hits maturity, other products are launched to expand sales

purchasing decision. Convenience goods, often referred to as 'fast moving consumer goods' (FMCGs), are mainly non-durable goods, and are regular or impulse buys. Chocolate and soap are two examples.

Sources of new product ideas

Thousands of new products are launched in the UK every year. Many fail, some succeed, and a few go on to become household names for many years. Where do these new product ideas come from? There are four main sources of new product innovations.

(1) Inventions

Scientific research and technical development (or R&D) results in a continuous flow of new ideas. Many of these never reach the marketplace as they are screened out for a variety of reasons. A few make it to the launch phase and become successful, innovative products. Some firms do more R&D than others, and some industries are particularly heavy investors in this field. Smiths, the aerospace and medical equipment group, has just launched a unique insulin pump onto the UK market. The product results from extensive R&D into a system that will automatically administer insulin to diabetics using programmable pump technology. There are already 7,000 users in the USA. The tiny pumps cost \$2,000 each.

(2) Market research

Focus groups and other forms of qualitative research can help firms identify

VW's Touran, now available with five or seven seats and, according to publicity, over 500 different seating combinations

untapped areas for new product developments, or suggest adaptations to existing ones. VW launched its Touran people carrier in 2003, 2 years later than expected. On the prototype model, focus groups had reported back that the seating arrangements were not flexible enough and lacked a third row of seats like the Vauxhall Zafira. VW decided to redesign the interior in response to research results and this delayed the product launch.

(3) 'Me-too' developments

Firms that spend little on R&D are often dependent on developing adaptations of innovative products produced by other firms. The mobile phone firm O2 recently launched its own stand-alone music player that replicates Apple's iPod. By following a successful product, O2 may have reduced the chance of

Table 1 The top FMCG launches in 2002

Rank	Product	Estimated annualised sales (£m)
1	Walkers Sensations	65
2	Diet Coke with Lemon	35
3	Dove shampoo and conditioner	25
4	Wrigley's Extra Thin Ice	20
5	Cadbury Dream	20
6	Maltesers Ice Cream	20
7	Nestlé Double Cream	20
8	Nestlé Smarties Bar	15
9	Pedigree Chunks in Jelly pouch	15
10	Winalot Vitality Plus	15

Source: Marketing, 28 August 2003

new product failure. However, these developments must always steer clear of patent and copyright laws. Hoover's decision in 2002 to launch a new vacuum cleaner with 'cyclone technology', led to a very expensive court ruling against the company for infringing Dyson's patented design.

(4) Extensions of existing products

Using an existing successful brand and extending its appeal with 'spin-off' products is very common (see case study). Diet Coke now outsells the standard Coca-Cola drink. Launching from a core brand such as this also gives the new product a 'halo-effect'. Table 1 lists the FMCG launches in 2002. Note how many of them are adaptations of existing core products.

Preparing the product for market

Most new inventions fail to reach the market as innovative and successful products. New ideas must pass through screening processes that include market research, technical testing and product research before even reaching the test-marketing stage. It would be far too expensive for pharmaceutical companies, the leading spenders on R&D in the UK, to risk launching new drugs onto the market without the most exhaustive testing and patient-reaction analysis possible. The legal costs of drugs with dangerous but

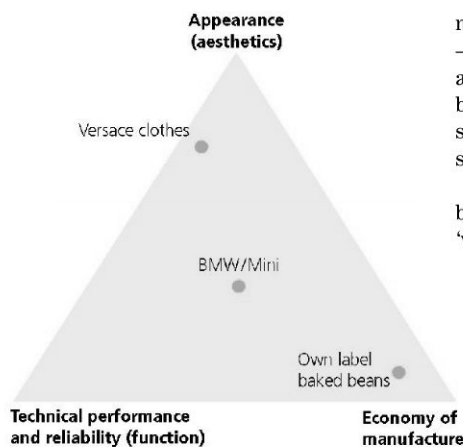


Figure 1 Value analysis triangle

undiscovered side-effects could ruin even these wealthy businesses.

In other industries, just because an idea is new does not mean that it can be produced and marketed profitably. As well as technical testing of the product, market research will be undertaken to establish answers to question such as:

- Who are likely to be the main customers?
- What do consumers want from products in this segment?
- Are there gaps in the market?
- How are rival products performing?

The importance of design

The design of a new product is often crucial to its ultimate success. By design, we do not just mean the product's appearance, although in markets such as designer clothing and fast cars, this factor can be vital. Successful product designers must also consider the cost of making the product, and the performance and reliability of the product.

The original Mini car, launched in 1959, took the motoring world by storm with its unique design and appearance. Sir Alec Issigonis, the engineering genius who designed it, was always disappointed that the car never made a profit for its manufacturer — it cost too much to produce and it proved unreliable on the road. The first production models leaked when it rained. When BMW launched the

new Mini in 2001, all three design factors — appearance, economy of manufacture and technical performance — were blended with care. It is profitable, a huge sales success and comes high up in consumer satisfaction ratings for reliability.

A useful way of considering the balance between these three factors is to apply the 'value analysis triangle' (see Figure 1). The relative importance of the three factors will vary from product to product.

Usually, a compromise must be made as they could conflict. Absolute reliability and performance could come at such a high price that the product could never make a profit, for example. Figure 1 illustrates three possible product positions.

Existing products are important too

The product decision is not just about researching and introducing new products to market. Existing products need to be managed and refreshed from time to time and this is a classic extension strategy. A redesigned range of Teenage Mutant Ninja Turtle toys was one of the big sellers last Christmas, despite first being launched 10 years ago. Such extension strategies can be remarkably successful when, as was the case with the Ninja toys, there are no great new product ideas around at the same time. The lack of a mega-selling new toy or game product in Christmas 2003 also led to success for two other revitalised designs from yesteryear, My Little Pony and the Incredible Hulk.

However, there are dangers to tinkering with well-established consumer favourites. Despite massive promotion, the failure of Coca-Cola's new recipe for its core product several years ago confirms the need for extensive qualitative research before taking radical steps to extend the life of a mature product.

Product differentiation

Mass markets can be profitably exploited by businesses that are able to differentiate their products from those of major rivals. Virgin Bank's 'One' account was a genuine attempt to offer a current account, savings account and mortgage in one package. Customers' savings can be offset against a mortgage and reduce interest costs. Virgin's example has been copied by many other banks but it still has the prestige of being the 'first mover' in this segment of the market. BT is trialling 'Blue Phone' which will be truly distinctive. It will allow mobile phone subscribers to use their mobiles through a fixed landline when at home, making significant savings on call charges. Clearly, such examples of product differentiation need supporting promotion and other marketing activity. But without a distinctive product to offer, differentiation becomes much more difficult.

Different products — different marketing mix

Although the product is usually the most important component of the marketing mix, it is still just one part of the overall strategy to win customers profitably. Price, promotion and place are key features of successful products, but their relative importance will differ from product to product. For example, in a price-sensitive market, such as petrol, the pricing decision will be of paramount importance. In fashion-conscious markets, such as perfume or jewellery, promotion and exclusive retail outlets can play a major role in the success of the product.

Conclusion

No one element of the marketing mix can be considered in isolation from the others. A balanced and integrated mix is essential, but without a product that offers customers real and distinctive benefits, even the best-laid marketing plans can be wasted.

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